

## **Assessment of Budget 2018**

**March 2018**

*At first glance, Budget 2018 tells a good story for sustainable development. The government will invest \$2 billion in new money over the next five years in its Feminist International Assistance Policy and in promoting gender equality. This is the second highest investment after pay equity in the federal budget. It is also the biggest long-term investment since the 8% annual increase initiated by the Liberals in 2003, and maintained by the Conservatives until 2010. We felt that it was important to acknowledge this small victory in our [press release](#) in response to the Budget. We especially welcome that the downward trend in the International Assistance Envelope has been halted. But we still have a long way to go.*

*Budget 2018 also disclosed, for the first time since 2010, the actual International Assistance Envelope figure. It allocated funding for the implementation and monitoring of the SDGs, albeit not new money. And it provided more predictability by announcing six specific streams for international assistance funding, with respective baselines.*

*However, when we break down the numbers, and divide up the \$2 billion over five years, the International Assistance Envelope will only see an average compound annual growth rate of slightly over three percent. In some years, after inflation, the budget won't actually grow in real dollar terms. And this will mean that by 2022/23, at the end of the five-year increase, Canada's ODA to GNI ratio will remain at around 0.26 – or even lower.*

### **International Development and Humanitarian Assistance**

#### What we like about Budget 2018

##### *A gender focus in Budget 2018*

- As with the rest of the budget, Budget 2018 maintains a strong focus on gender equality, including in the government's work overseas. It included a focus on pay equity, gender-based violence, and funding for women's organizations, among other things.
- In fact, Budget 2018 went through a full gender-based analysis plus – representing the most thorough gender analysis in a Canadian public budget to date, with benchmarks to measure progress.

##### *New money for international development and humanitarian assistance*

- Of significance for the international development and humanitarian community, Budget 2018 finally includes an investment of \$2 bn in new money over five years in Canada's Feminist International

Assistance Policy and the different action areas. This was the second largest investment in Budget 2018, after legislation to require proactive pay equity in the federal public service.

- To a new “baseline” for the International Assistance Envelope (IAE) of \$5,356 mn in FY2018/19 (up from roughly \$5,100 mn in FY2017/18), the government will invest an additional \$200 mn, \$300 mn, \$400 mn and \$500 mn and \$600 mn over the next five years.<sup>1</sup> (See table below and footnote.)
- This means that beyond the additional \$200 mn in 2018/19, there appears to be a one-time bump to the IAE in the coming year (relative to FY2017/18). This is welcome. This bump likely captures a (one-time or multi-year) new investment, or a renewal of an existing investment, that hasn’t yet been announced in FY2018/19.

#### *A timetable of predictable annual increases*

- This is the first time since 2002 that the government has provided a timetable of predictable annual increases.

#### *The International Assistance Envelope is public ex-ante*

- Budget 2018 also disclosed the actual total international assistance envelope figure (\$5,556 mn) for the coming year, for the first time since Budget 2012. The IAE constitutes the main portion of overseas programmable aid, and is the basis for calculating official development assistance.

#### *Predictable targets within the IAE*

- Budget 2018 has also created six streams to which resources from the IAE will be allocated. This includes (with amounts for FY2018/19) core development (\$3,104 mn), humanitarian assistance (\$738 mn), the crisis pool (\$200 mn), peace and security (\$401 mn), International Financial Institutions (\$717 mn) and the strategic priorities fund (\$136 mn). These establish a sort of baseline for funding looking forward.
- Each year new resources (\$300 mn, \$400 mn etc.) will be allocated into one or more of these streams – and possibly announced in the budget. Allocation and distribution may be subject to review and approval by Treasury Board or the full Cabinet. It will be important to ensure that whatever decisional process is adopted does not cause delays or interruptions in programming. Ideally new resources should be channelled directly into the core development stream.
- Having published a “baseline” of sorts for each stream, it is hard to imagine that there will be major changes to the funding allocated to each. (This is something to monitor in future budgets, as major changes otherwise defeat the purpose of predictability.) But we do at least know that among these streams is a dedicated pool of funding for core development assistance – to some extent ring-fencing this funding. This brings advantages in terms of ensuring the availability of funding in key areas, but may also further silo various types of development and humanitarian programming – at a time of efforts to build more holistic and integrated programming.
- One winner from the budget is humanitarian funding, which now also has a dedicated pool of \$738mn (plus the crisis pool), a substantial increase from its previous baseline of \$300 mn. This will add greater predictability to humanitarian funding, which will presumably give greater space for multi-year humanitarian funding and rapid-onset emergency response. Amidst growing humanitarian need, it will be important to ensure that this baseline is just that – a floor, and not a ceiling, particularly in the context of a growing IAE.

---

<sup>1</sup> The \$100mn, \$200, \$300, \$400, \$500 and \$600mn increases shown in Chart 4.1, *Equality + Growth: A Strong Middle Class*, represent gross increases to the envelope. The net increases each year are in fact \$160 million, \$327 million, \$400 million, \$500 million and \$613 million – due to certain reallocations in different years.

### *New innovative financing*

- In parallel to the \$2 bn that will be invested in the IAE, the government also announced the establishment of \$1.5 bn over five years and \$492.7 mn thereafter to support innovation. This will occur through two programs – the International Assistance Innovation Program and the Sovereign Loans Program.
- This is NOT new money, but will be drawn from existing unallocated funds (or “free base”) in the IAE over the next five years. Unallocated funding exists every year in the budget, and this adds a little more transparency and predictability to where these funds will be allocated.
- Through these programs, GAC can now offer sovereign loans (i.e. loans to governments) to countries, and make long-term equity investments in companies or in innovative financing mechanisms working in international development.
- These investments may accrue net revenues (which may eventually return to GAC) or incur net losses (which GAC will write off).
- The impact on Canadian Official Development Assistance will be determined by new rules currently being developed by the Organization for Economic Cooperation and Development for accounting for such investments, but GAC Finance is clearly hoping these will have a net positive impact on Canadian ODA.
- More information is still needed to better understand the allocation process and intentions of this new pool of funding, or how it will interact with and differ from FinDev Canada (the new Development Finance Institution). But this does add a new tool to Global Affairs Canada’s (and Finance Canada’s) development financing toolbox.
- More details may follow in the Budget Implementation Act. CCIC will follow up on this area of the budget with government in order to provide members with more information in the coming months.

### What we missed in Budget 2018

#### *No real increases to the aid envelope*

- The \$2 bn in new funds obscures the fact that essentially after FY2018/19, the IAE will only see an annual increase of roughly \$100 mn. As of FY2020/21, this is equivalent to a 1.3-1.9 percent increase year-on-year. Taking into account the fact that inflation is around 2 percent, and 2 percent of \$5 bn is \$100 mn, as of FY2019/20 there will be no increase in real dollars to the IAE.
- In Year 5 of the five-year framework, the IAE is scheduled to reach \$5,956 mn. If the IAE remains at this level in subsequent years, aid will actually decline in real terms as a percentage of GNI as the economy grows.
- Finally, it is worth noting that the IAE peak of \$5.29 bn from FY2014/15 represents \$5.66 bn in 2018 dollars, surpassing the Budget 2018 commitment of \$5.52 bn. And the ODA peak of \$5.53 bn in 2011/12 would be \$6.19bn in 2018 dollars, surpassing even the 2022/23 figure of \$5.97bn.

#### *ODA to GNI ratio will remain historically low*

- In terms of ODA to GNI ratio, it will hover at around 0.26 and 0.27 during this time-period. Against this metric, this will leave the current Liberal government with the worst track record of any Canadian government in five decades in terms of international assistance.
- Furthermore, there is a good chance that this ratio will be even lower, since these calculations assume that Canadian contributions to refugees (which is included in the ODA calculation) will remain high in the coming years. It is not clear that this will be the case. It is also possible that along with reduced refugee contributions, the potential reallocation of ODA-able IAE funds to non-ODA-able "innovation" funding could further reduce the ODA-to GNI ratio.

	FY2017/18	FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23
IAE amount (mn) assuming a baseline of \$5,356 mn	\$5,100 (estimated)	\$5,516	\$5,683	\$5,756	\$5,856	\$5,969
Net new resources (mn)		\$160	\$327	\$400	\$500	\$613
Year-on-year increase (mn)		\$416	\$167	\$73	\$100	\$113
Increase as a percentage (year-on-year)		8.2	3.0	1.3	1.7	1.9
Compound annual growth rate (over the five years)		3.2	3.2	3.2	3.2	3.2
<i>Estimated ODA to GNI ratio</i>	0.26	0.27	0.27	0.26	0.26	0.26

#### *Still no long-term predictability on the IAE baseline?*

- The above figures make one major assumption – that there is a new IAE baseline of \$5,356 mn. All we definitively know is that the planned IAE for FY2018/19 is \$5,516 mn, and that there will be new resources allocated each year to the IAE.
- There is no figure nor statement to signal what the IAE will be in the next five years, whether the baseline will be consistent over that time, or if the baseline and/or IAE will remain at the Year Five level after that. The baseline could in fact decrease (generating further drops in our ODA), remain flat (resulting in no real increases to our ODA), or increase (creating a bigger increase in ODA than Budget 2018 would suggest).
- The government is currently exploring how to “enhance[e] its international assistance reporting, including consideration of legislative updates as appropriate. Over the coming year, the Government will determine how it can better communicate international assistance efforts [...] from a historical perspective as well as the size and distribution of assistance planned for the coming year.” (Budget 2018, p. 162.)
- This means that a forward-looking IAE may be reported in next year’s Budget, or in one of the other reporting tools that the government produces (like the Statistical Report on International Assistance, or the ODA Accountability Report) – and that legislation will be amended accordingly. It also means that the government may only publish the planned IAE for a given year, but not a range of years.

#### *Will the new funding windows divert from development?*

- While the new funding windows represent a new possibility for development financing, civil society will need to monitor its use rigorously to ensure that these funds demonstrate positive sustainable development and financial additionality, and are consistent with the ambitions of the Feminist International Assistance Policy and aligned with the ODA Accountability Act.

### **The Sustainable Development Goals**

#### What we like about Budget 2018

- The government reaffirmed its commitment to the Sustainable Development Goals and their universal nature, and its focus on SDG 5 on gender equality. It flagged areas where it is already contributing to the SDGs, including through new provisions in Budget 2018.
- To support these efforts, the government announced \$49.4 mn over 13 years to establish an SDG unit at Statistics Canada, to support monitoring and reporting activities on the Goals (and presumably establish a national and sub-national monitoring and reporting framework).

- The government will also provide \$59.8 mn over 13 years from existing departmental resources for programming to support the implementation of the Sustainable Development Goals. These funds will be drawn from the five government departments leading on implementation (Aboriginal Affairs and Northern Development Canada, Employment and Social Development Canada, Environment and Climate Change Canada, Global Affairs Canada and Status of Women Canada). Details on what these funds will be used for exactly are still to come.

#### What we missed in Budget 2018

- Four months before the government reports to the UN’s High Level Political Forum on how it is implementing the SDGs in Canada, the government has still not released any national framework for SDG implementation, nor initiated any public process around developing its Voluntary National Review. The expectation is for something to be announced before late April, when the Commissioner for the Environment and Sustainable Development will release an audit report on Canada’s SDG preparedness.

### **Charities**

#### What we missed in Budget 2018

- Budget 2018 remained deafeningly silent on charities, and in particular the results of the Canada Revenue Agency consultations on the public policy (“political”) activities of charities. Nearly a year since the panel report was released, the Budget stated simply that “The Government has pledged to allow charities to do their work on behalf of Canadians free from political harassment, and promised to clarify the rules governing political activity. [...] The Government will provide a response to this report in the coming months.” (Budget 2018, p. 189.) A recent Access to Information request revealed that the Privy Council Office briefed the Prime Minister on the panel report at the time of its release and offered recommendations, but no action has been taken since then.

### **Ombudsperson**

#### What we liked in Budget 2018

- The government announced modest funding for the new Canadian Ombudsperson for Responsible Enterprise – \$6.8 mn over six years beginning in 2017-18, with \$1.3 mn per year afterwards. This is not new money; some will reportedly come from the Corporate Social Responsibility Counsellor office scheduled to close in May. The ombudsperson office will ultimately be funded through the existing budget at Public Services Canada.