The Politics of the Millennium Development Goals: Contributing to Strategies for Ending Poverty?

Part Three:

Canada and the Global Partnership for Development (Goal Eight)

CCIC CCCI

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TABLE OF CONTENTS

THE POLITICS OF THE MILLENNIUM DEVELOPMENT GOALS: CONTRIBUTING TO STRATEGIES FOR ENDING POVERTY?

A Policy Background Paper by Brian Tomlinson, Policy Team, Canadian Council for International Cooperation[1]

PART THREE: CANADA AND THE GLOBAL PARTNERSHIP FOR DEVELOPMENT (GOAL EIGHT)

1.0 OVERVIEW

The Millennium Declaration urges all countries to "spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty". Canada, along with other Northern donors, signed on to the *Millennium Declaration* and the Millennium Development Goals (MDGs). Many civil society organization (CSOs) have argued for a holistic human rights approach to eliminating global poverty not present in the MDGs, and many question the scope and vague commitments of Goal Eight as a basis for a new global partnership for development to achieve these purposes. Nevertheless, this Goal provides some very modest objectives and indicators to measure developed countries' progress in support of the MDGs.[2]

Among the objectives for Goal Eight are to "further an open, rules-based, predictable, non-discriminatory trading and financial system", to provide "more generous ODA for countries committed to poverty reduction", and to contribute to "enhanced debt relief". These objectives, and their related targets (net ODA to least developed countries, proportion of bilateral ODA to basic social services, untied ODA, and debt relief committed under HIPC), unlike other MDGs, have little specificity and no timelines. With respect to trade and market access indicators, CSOs have been critical of Goal Eight for its narrow focus on market access as the sole measure of the contribution of trade policy to reducing poverty. The indicators fail to cover areas of international trade and investment policy reform and ODA reform essential to the achievement of the Goals.

1 This paper reflects the author's analysis and views alone. It is written in his capacity as a Policy Officer for CCIC, but does not necessarily reflect the view of the Council or its members. Earlier drafts benefited from the comments of colleagues at CCIC, KAIROS, the North South Institute, Rights and Democracy and drew from rich discussions on these themes at a conference sponsored by the North South Institute and the World Federation of United Nations Associations for the *We the People…* project in December 2004.

This Part Three paper is one of three Parts for an overarching paper on *The Politics of MDGs Contributing to Strategies for Ending Poverty?* A Summary of all three parts is available on the Aid Policy page of CCIC's web site a www.ccic.ca. Also on the site is Part One which deals with the politics inherent in the promotion of the MDGs. Part Two examines a range of issues in the financing of MDGs. Each Part can be read on its own.

2 See Part One and Part Two of this paper for a discussion of the limitations of the MDGs and issues in donor financing.

This paper examines Canada's performance on Goal Eight brings together some observations on this country's current trade agenda, its commitment to more and better aid, and its proposals for more comprehensive debt cancellation.[3] In the absence of timelines, it is assumed that the same time period (1990 to 2015), established by the MDGs for measuring the performance of developing countries, is relevant. When set against 1990 as the benchmark year, Canada's performance is a mixed record in each of these areas, with this country still far off the mark in meeting international commitments set out in the *Millennium Declaration.* The government has so far not contributed its fair share of resources for the achievement of the MDGs and poverty eradication. In its obligations to international human rights covenants and the UN's Right to Development, Canada has committed to an equitable, non-discriminatory system of international cooperation. To live up to these commitments, Canada, along with all donors, must implement more far-reaching reform of policies and practices.

2.0 ASSESSING CANADA'S TRADE PERFORMANCE

Canadian CSOs have asserted that the global trading system must be judged ultimately by its contribution to the elimination of poverty and the promotion of human rights and sustainable development worldwide. International trade is not an end in itself, but a means for countries to achieve broader public and social ends. The international community launched a unique Development Round of trade negotiations at Doha in 2001 in which they are committed to give substantial priority to address the needs and interests of developing countries. In December 2005 negotiations on several tracks – agriculture, services, special and differential treatment for developing countries, industrial tariffs, among others – will come together once more at the Hong Kong Ministerial meeting of the World Trade Organization. Unfortunately progress in the negotiations since then has not been true to this purpose. CCIC concluded following an agreement in July 2004 on a negotiating framework (i.e. what is on the table for negotiation) that "there is little in the way of positive development innovation in trade rules envisaged".[4]

Nevertheless, Canada has taken some recent initiatives that address issues raised by developing countries and the benchmarks set out for trade in Goal Eight of the MDGs[5],

- ❑ Canada removed all tariffs and quotas on all imports from 49 least developed countries, except dairy products, poultry and eggs, in January 2003, with fairly generous rules of origin;

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3 At the time of writing the Canadian government had not submitted its own national report to the United Nations on its performance on Goal Eight.

4 For a detailed analysis see Gauri Sreenivasan, "The WTO August 1st, 2004 Framework: What's in it for Development", CCIC, November 2004, accessible at http://www.ccic.ca/e/docs/002_trade_wto_framework_briefing_note.pdf. For a more comprehensive analysis of the relationship between trade policies and poverty reduction see the series of papers, "Global Trade / Global Poverty: NGO Perspectives on Key Challenges for Canada", March 2002 to September 2003, on the "trade and poverty" page of CCIC's web site at http://www.ccic.ca/e/002/trade.shtml.

5 This analysis has drawn from Ann Weston and Bill Morton (North South Institute), "Canada and MDG 8 on Trade", prepared for the 2005 edition of the *Canada Development Report*, forthcoming, The North South Institute, and commentary by Gauri Sreenivasan in "The WTO August 1st Framework" [note 4].

- Under the Uruguay Round Agreement, on January 1st, 2005, Canada was obliged to remove all quotas from imports of textiles and clothes from developing countries, including those for countries that are not yet WTO members;
- In May 2004, Canada was the first country to amend its drug patent legislation (Bill C-9) to permit developing country access to cheap drugs, although the amendment did not go as far as was permitted by the pre-Cancun WTO agreement on this issue; and
- Canada has contributed about $280 million to trade-related technical assistance (TRTA) and capacity building since 2001. While there has been some emphasis in Canada's TRTA on issues that are development oriented such as gender equality, a review of Canadian TRTA by CCIC concluded that "current trade related capacity building falls far short of an approach that supports truly independent capacity that can effectively serve developing country interests" and the linkages between trade policy and poverty eradication in particular.[6]

On the other hand, Canadian CSOs, following the WTO and regional bilateral trade negotiations, generally conclude that Canada's trade proposals are largely consistent with the narrowing of the Doha "Development" Round so that substantial issues of concern to developing countries are largely off limits in the negotiations. CCIC has pointed to several major gaps in the 2004 July Framework Agreement for the Doha Round that will significantly affect the capacities of developing countries to realize the MDGs and reduce poverty during the life of any agreement from this Round. Contrary to the stated purpose of the Round there is nothing in the Agreement that **privileges** negotiating priority to global development goals.[7]

- On agriculture the emphasis remains on further opening borders rather than managing agriculture for development. There is virtually no opportunity for developing countries to negotiate simplified border measures to block entry of dumped agricultural imports, while at the same time the timeframe and extent of subsidy reductions in the North are quite uncertain. Although proposals to allow developing countries to designate certain crops as key for food security remain, there are still expectations that tariffs will be lowered on these, just by less. Moreover new "flexibilities" for key crops will be available to **both** developing and developed countries. A future agreement on agriculture along these lines will likely further damage the livelihoods of the vast majority of poor and marginalized people in rural areas who are the target population for MDGs.
- Developed countries insisted that industrial tariffs in the South continue to be on the negotiating table despite repeated firm rejection of these negotiations by developing countries. Such measures will further compromise the ability of developing countries, particularly the poorest, to protect nascent industry that is so essential to an integrated and diversified economy that provides jobs in both the formal and informal sectors. Again these measures could have serous consequences for the livelihoods of poor, particularly, urbanized populations.

[6] See "Trade-Related Capacity Building (TRCB) and Technical Assistance (TRTA): Capacity Building for Whose Agenda?", a CCIC paper in the Global Trade / Global Poverty: NGO Perspectives on Key Challenges for Canada paper series, September 2003, for an assessment of Canadian programs in Trade Related Technical Assistance and Capacity Building accessible at http://www.ccic.ca/e/docs/002_global_trade_paper_6.pdf.

[7] Gauri Sreenivasan, "The WTO August 1st, 2004 Framework", *op. cit*., page 2.

- Developed countries, including Canada, are approaching issues in Special and Differential Treatment for developing countries in the outcomes of the trade negotiations in ways that limit flexible policy space for the latter to carve out their own unique development path, and not simply to be held to a slower timetable. Without such flexibility developing countries are not likely to have the development tools (that were available to developed countries in the past) to forge policies that respond to circumstances that sustain or even deepen poverty among their populations.

Consequently on balance, Canada's trade performance in relation to achieving the MDGs will hinge on new development friendly initiatives in relation to ongoing negotiations in agriculture (reducing pressure for forced liberalization, and expanding support for border measures), special and differential treatment (assuring policy space for new development strategies in support of the MDGs), and leadership in promoting democratic governance in trade negotiations where developing countries are given the opportunities to shape trade policies in a "development" Round that will affect the livelihoods of millions of impoverished people in the South.

3.0 ASSESSING CANADA'S AID PERFORMANCE

An assessment of Canadian policies for more and better aid must take into account a range of issues and indicators that are not addressed by Goal Eight. Has increased aid since 2002 focused on the broad objective of poverty reduction and the MDGs? Or has it been redirected to Canada's foreign policy interests in the "war against terrorism" and conflict management in countries that are selected for their foreign policy relevance? How is increased aid being delivered? Is increased Canadian aid targeted for MDGs increasing the capacities of citizens and governments of developing countries to set their own strategies for poverty reduction? Or is this new aid accompanied by increased and inappropriate policy influence by the donor countries?

From 1990 to the present, Canada's has a mixed record in meeting its aid obligations for MDGs. CIDA and the government have asserted the central importance of the MDGs in setting overarching goals and priorities for Canadian aid. But at the same time, outside of a rhetorical framework, it is unclear how this stated commitment has specifically affected aid policies. On a positive note, there has been a noticeable improvement in Canadian aid focus on poverty since CIDA's adoption of social development priorities in 2000. In September 2002, the government published *Canada making a difference in the world*, which was result of a comprehensive policy review to strengthen aid effectiveness.[8] This policy set in motion greater country focus on the poorest countries in Africa as well as new aid modalities for greater coherence and donor coordination. Minister Carroll, in early 2005, has promised further sectoral focus on health, including HIV / AIDS, basic education, governance and development of the private sector.

Overall aid levels are rebuilding after precipitous declines in the late 1990s. Canada's leadership in the G8 to focus on the needs of Sub-Saharan Africa in 2002 has been taken up by the United Kingdom in 2004. Finance Minister Ralph Goodale, as an individual, signed onto the many progressive recommendations in UK's Commission on Africa Report and his 2005 Budget more than doubles Canadian aid resources for Africa between 2002 and 2008.

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[8] CIDA, *Canada making a difference in the world: A policy statement on strengthening aid effectiveness*, Ottawa, Supply and Services Canada, September 2002, accessible at http://www.acdi-cida.gc.ca/aideffectiveness.

While recent aid increases are certainly welcome and long overdue, Canada continues to under-perform as a donor, relative to its growing wealth and healthy government fiscal situation. At an expected 0.33% of Gross National Income (GNI) by 2010, planned aid increases will not reach even half of Canada's long-standing commitment to 0.7% of GNI.[9] The government has consistently refused to set out a timetable to achieve the UN aid target.

The quality of Canadian aid, its effectiveness in reaching the poor and marginalized, remains a concern, despite some positive re-orientation since the 2002 policy statement on this subject. The current Minister for International Cooperation, despite her commitment to strengthening support for the private sector, seems to be downgrading its recent commitment to give greater attention and resources to agriculture and rural development, so important to livelihood for the rural poor. Rhetorical support for local ownership of development strategies is accompanied by continued high levels of aid tying. Positive support for program-based approaches, coordinated with donors and recipient government, is accompanied by high levels of donor-imposed policy conditions and "undertakings" in exchange for MDG aid dollars. The government has not given any indication that it is considering a more flexible approach to conditionality, such as the one adopted recently by DFID and reflected in the Report of the Commission for Africa.

3.1 Canadian ODA failing to meet the UN 0.7% target

Since 2002 the government has reversed the sharp decline in Canadian ODA disbursements that occurred between 1994 and 2000. Annual increases of 8% have been locked-in to 2010. Yet, Canada's ODA has fallen from 0.45% of Gross National Income in 1990 to a projected 0.33% in 2010. Projecting the 8% increases to 2015, Canadian aid would reach 0.37% of our GNI, well short of the UN target of 0.7%. Indeed at this rate this target would not be achieved until 2027.

Recent aid increases still fall short of Canada's fair share of new resources required for the MDGs. Based on Canada's fair share (3%) of the additional aid resources (US$50 billion) needed globally, Canada will still short by more than $7 billion in our fair share by 2010.[10] CCIC calculates that increases of 15% each year to 2015 are needed to meet the UN 0.7% target by that year. This will provide the predictable resources required for long term planning to achieve the MDGs and accelerate progress in poverty reduction.

Fifteen percent (15%) annual increases are consistent with recent actual aid disbursements from 2001 and 2005 and the government's concern for fiscal responsibility. In each of these fiscal years actual increases in ODA budgetary disbursements has averaged 13%. The government has exceeded its 8% committed increases through one-off additions during the fiscal year through supplementary estimates presented to Parliament for unforeseen emergencies. There have been additions at the end of a fiscal year to cover major new funding announcements such as the

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[9] These are calculations by the author based on projections from information in the 2005 Federal Budget. See Brian Tomlinson, "Budget 2005: Mixed Messages for Canada's Commitment to Ending Global Poverty, A CCIC Analysis and Commentary" February 2005 and Brian Tomlinson "CIDA Estimates 2005/2006, Part III: Report on Plans and Priorities, A CCIC Review of Highlights", April 2005, accessible on the aid policy page of CCIC's web site at http://www.ccic.ca/e/002/aid.shtml.

[10] Canada's fair share is based on the share of Canada's Gross National Income as a proportion of total donor Gross National Income.

Global Fund for AIDS, Tuberculosis and Malaria or the Global Alliance for Vaccines and Immunization, or for urgent humanitarian emergencies such as the Tsunami, or for large aid packages to Afghanistan. The February 2005 Budget made provisions for $640 million in increases to Canada's aid in the 2004/05 fiscal year, a month before the end of the fiscal year. This Budget also restructured the International Assistance Envelope to create a special $75 million Crisis Pool which the government can draw upon for unforeseen emergencies each year (which might reduce the need for supplementary estimates during a given year).

3.2 Reduced concentration of Canadian aid on Least Developed Countries

Canada has not improved its aid concentration on least developed countries (LDCs) since 1990. In 2003, approximately29% of Canadian aid was devoted to these countries, compared to 31% in 1990.[11] The 2001 UN Conference on the Least Developed Countries reaffirmed the aid target of 0.15% of GNI for these countries. Canada's disbursements in 2003 represented a mere half of this target – 0.08% of Canadian GNI, a slight improvement from 0.07% in 1990. Canada ranked 10th among 22 donors in the degree to which its aid is concentrated in LDCs in 2002. Approximately 41% of Canadian aid in 2003 was directed to low income countries, including the least developed, with an additional 15% for lower middle income countries.

In December 2002, the government announced that it was focusing new aid resources in nine priority countries – Honduras, Bolivia, Bangladesh, Ethiopia, Tanzania, Mozambique, Ghana, Mali and Senegal, with all but Honduras and Bolivia classified as low income countries. The emphasis on these nine countries has increased, from 18% of bilateral disbursements in 2001/02 to 25% in 2003/04, in less than two years after the announcement of the priority countries. The government's 2005 International Policy Statement is expected to adjust the choice of priority countries for international cooperation. The Statement's criteria for determining country priorities, within the overall context of Canadian foreign policy, will indicate the importance of the MDGs. Will these criteria continue to centre Canada's aid program on the poorest countries and the rights of people living in poverty?[12]

3.3 Greater concentration of Canadian aid in Sub-Saharan Africa

Sub-Saharan Africa is the region in which those living in absolute poverty continue to expand as a proportion of the population. It is the region that is least likely to achieve the MDGs. Total Canadian aid to Sub-Saharan Africa is increasing significantly as a proportion of total Canadian ODA, from 25% in 2000 to 32% in 2003. According to budgetary projections for CIDA for 2005/06, Canadian bilateral aid for Africa and the Middle East will be more than 50% of bilateral aid in this year. Consistent with the recommendation of the UK-sponsored Commission for Africa, for which Finance Minister Goodale was a Commissioner, Canadian aid to Africa will more than double by 2008, when it is expected to be about 50% of Canadian aid disbursements.

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[11] In 2003/04, India repaid $429.8 million in loans. This proportion for LDCs for 2003, is the proportion to total ODA, not including the repayment of the Indian loan, as this distorts aid performance for that year.

[12] This paper was written prior to the publication of the government's International Policy Statement. For a review of the Statement and its implications for Canadian aid, visit CCIC's web site, www.ccic.ca, following its publication.

A portion of this dramatic expansion in Canadian aid to the region is the result of one-off bilateral debt cancellation for Cameroon, Cote d'Ivoire and the Democratic Republic of the Congo (see below). But overall, Canada will be placing significant new priority on countries in Sub-Saharan Africa, a move that is consistent with a focus on poverty reduction in our aid program and its contribution to achieving the MDGs.

The sectoral distribution of aid in Sub-Saharan Africa has also become more focused on sectors affecting poverty reduction. Disbursements for education, health and agriculture, for example, rose rapidly from 37% of total African disbursements in 2000 to slightly less than 50% in 2003. These shifts in sectoral priority were the result of CIDA's adoption of financial targets for social development priorities in 2000 and greater contributions to Sector-Wide Approaches (SWAps) for these sectors.

3.4 Improving sector allocations towards basic social services

An indicator of Canada's commitment to the MDGs is the degree to which its aid program is concentrated on basic social services within an overall strategy for poverty reduction. Alison van Rooy in 1995 calculated that CIDA's allocations in the early 1990s for sustainable basic human needs were only about 13% of CIDA's ODA disbursements.[13] Unfortunately there is little comparable data to the present. But by 2002, its disbursements to the four social development priorities (a major component of basic human needs spending) amounted to more than 25% of its disbursements in that year. Funding for basic education from CIDA's bilateral Branches and Canadian Partnership Branch more than doubled between 1996 and 2002, matched by increases for primary health of 40%. In 2004 and 2005 the government has made significant and proportionately very large contributions to Global Funds for HIV / AIDS, malaria, tuberculosis and polio eradication.

3.5 Less emphasis on civil society in implementing CIDA's aid

Governments play a central role in realizing the MDGs and poverty reduction. But civil society organizations are also crucial for strengthening development innovation, in public accountability, and in assisting the poor and marginalized to claim their rights. Civil society is essential to participatory approaches in sectors vital to poverty reduction and governance. However, CSOs are playing a diminishing role in Canadian aid, particularly in relation to new programmatic approaches designed to improve aid effectiveness in CIDA's priority countries (see below). According to CCIC calculations, CIDA disbursements in partnership with CSOs have decreased from 29% to 22% of total CIDA disbursements in the four years between 1999/00 and 2003/04. This reduction has been particularly pronounced in the Bilateral Branches, with an overall reduction of 10% during these years. Civil society organizations implement a larger proportion of international humanitarian assistance and food aid programs for CIDA (from 16.5% to 19% over these four years).[14] Conversely, CIDA bilateral disbursements directly to government

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[13] Alison van Rooy, *A Partial Promise? Canadian Support to Social Development in the South*, Ottawa: North South Institute, 1995.

[14] These calculations have been made by CCIC based on detailed project information provided by CIDA and CIDA's official statistical reports for these two years.

ministries or through programs managed by the World Bank tripled for the nine priority countries in these years. The emphasis on program approaches is a welcome innovation for CIDA, but according to Canadian CSOs, CIDA has not put sufficient attention on roles for civil society in its programs and policies for aid effectiveness. The Agency is urged to engage with Canadian and Southern civil society partners to clarify how CIDA and civil society organizations can work together to achieve shared goals for poverty reduction and the MDGs.

3.6 Canadian aid tying remains high

In 2003, the proportion of Canadian bilateral aid tied to purchases of Canadian goods and services puts Canada 17th among 18 reporting donors to the Development Assistance Committee (DAC) of the OECD. The proportion of tied Canadian aid, however, has improved from 60% in 1990 to 47% in 2003. Canada has implemented the 2002 DAC agreement on untying aid to the least developed countries. Also in 2002, the Minister for International Cooperation was given greater discretionary power in determining the tying status for Canadian aid. The big exception is food aid, which remains tied at 90% of purchases. The UK Commission for Africa estimates that the additional cost from tied food aid is more than 40%. The Canadian Foodgrains Bank, a coalition of Canadian churches and farmers working with food aid, has called on the government to substantially untie Canadian food aid, allowing local purchases, particularly in emergency situations.

It is important to note that all donors exclude their considerable use of technical assistance when reporting bilateral aid tying. For Canada, like many other donors, including technical assistance would raise the level of tying, in the case of Canada from 47% to 67% in 2003. Untying aid does not necessarily benefit developing country partners and their local businesses. Donors untie their aid by putting their aid contracts up for international tender, under liberalized procurement regulations. Often developing country businesses are not able to compete with highly specialized northern firms for the delivery of these goods and services, thus reducing the economic benefits in the poorest countries. Aid untying should be accompanied by measure that allow developing country partners the option to give priority to open and transparent local procurement.

Beyond tied aid, there seems to be significantly reduced local ownership by local partners over the allocation of aid dollars since 1990. Much less Canadian bilateral aid is now under the direct control of developing country partners. Using a methodology set out in the 2002 *Reality of Aid Report*, an estimated 60% of Canadian bilateral aid in 1990 was under developing country partner control, but this had shrunk to 45% in 2003. For donors as a whole, *The Reality of Aid* estimated that 37% was under the ownership of developing country partners in 1999.[15]

[15] The calculation is made by CCIC, based on total bilateral aid for the given year, less technical cooperation, support for refugees in their first year, imputed student costs in Canada, debt forgiveness, the cost of Canadian tied aid (@25%), emergency relief, and interest received by Canada. The original outline of this calculation comes from *The Reality of Aid 2002 Report*, Manila: IBON Publishing, www.realityofaid.org, page 157. The data source is the DAC Development Cooperation Report, various years. See also page 9, Part II of this paper, for a further elaboration of this point.

3.7 Improving the quality of Canadian ODA: Program-based approaches

In 2002 the government set out a number of reforms to improve aid effectiveness, particularly moving away from project-oriented aid modalities and adopting program-based approaches.[16] Since then, there has been a dramatic increase in directing Canadian aid through joint programs with other donors. This support has taken the form of general budget support to developing country governments as well as sector programs (SWAps) with Ministries in health, education and agriculture, all important areas for achieving the MDGs. Fully 60% of CIDA's aid to Africa, for example, will be channeled through these mechanisms by 2006. Canada, along with other major donors, has been committed to improving country direction for these programs by aligning assistance with the country's Poverty Reduction Strategy Papers (PRSPs).

The jury is still out in assessing the effectiveness of program approaches for aid delivery for sustained poverty reduction (see Part II).[17] Many southern and northern CSOs have been very critical of PRSPs as means for determining appropriate strategies for poverty reduction that are "owned" by poor and marginalized people. Macro-economic conditionality and other policy prescriptions largely developed and imposed by the International Financial Institutions remain at the heart of PRSPs. By adopting a programmatic approach for MDG-related aid, CIDA largely accepts the "gatekeeper role" of the IMF and World Bank, and the dozens of policy conditions, "prior actions" and results that those institutions attach to budget support and SWAp funding mechanisms. CIDA has little independent capacity to assess the impact of these conditions on the attainment of the programs' stated goals or the MDGs.

For example, Canada contributes to the Tanzania General Budget Support Program. This joint donor initiative with the Government of Tanzania contains 50 donor-imposed prior actions, which require progress before the release of donor funds, and 60 additional results related to Tanzania's PRSP that are systematically reviewed with the Tanzanian government. While delivering more coordinated aid to Tanzania, donors are largely engaging in technocratic discussions with government officials and political elites. Canada and other donors should be commended for renewed efforts to strengthen the capacities of governments to deliver services to their population, after a decade of donor policies that undermined these same governments. However, the continued uncritical complicity with myriads of conditions attached to such programs may in the end undermine domestic political accountability of government to their citizens, so necessary to sustain progress on poverty reduction.

In the program approach, CIDA should be improving its own capacities to make niche investments, in areas such as gender equality, basic education, support for civil society, or agricultural livelihoods. Canada, through CIDA and the Department of Finance, should also join

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16 CIDA, *Canada making a difference in the world: A policy statement on strengthening aid effectiveness.* Ottawa: Supply and Services Canada, September 2002, accessible at http://www.acdicida.gc.ca/aideffectiveness.

17 For an assessment of CIDA's objective to improve local ownership in its shift to program based approaches see, Brian Tomlinson and Pam Foster. *At the Table or in the Kitchen? CIDA's New Aid Strategies, Developing Country Ownership and Donor Conditionality*, CCIC / Halifax Initiative Briefing Paper, September 2004, www.ccic.ca/e/docs/002_aid_2004/09_at_the_table.pdf. See page 7ff for further information on current conditions in budget support programs.

with DFID and the recent Commission for Africa Report in questioning the efficacy of policy conditionality in its aid relationships and in particular in its representations at the World Bank and the IMF.[18]

3.8 Improving the quality of Canadian ODA: Diverting aid to foreign policy considerations

Diversion of Canadian aid increases towards foreign policy considerations, particularly the "war on terrorism", instead of sustained poverty reduction, is a reality. Almost 25% of the aid increases between 2001 and 2003 were allocated to Afghanistan and Iraq. These two countries have taken up 37% of new Canadian aid resources managed by CIDA's Bilateral Branches between these same years.[19] Canada has committed $916 million to Afghanistan and Iraq reconstruction between 2002 and 2008. On the other hand, Africa is emerging as a significant priority for Canada, with the commitment in the 2005 Budget to increase its share of aid to $2.8 billion in 2008/09 from less than $800 million in 2001/02.

Canada has joined with some donors at the DAC to try to stretch the criteria for what can be counted as aid. In this security-centric world, some donors want resources earmarked for military and security aspects of peace operations to count as aid. In this regard, how much of the $500 million "peace and security" initiative set out in the 2005 Budget will be considered Canadian ODA? Increased attention to security sector reform may provide for human security at the local level for poor people; but it may also be directed to areas that relate to security interests of the North – airport and port security or improved computer based tracking of citizens in countries with potential "terrorist" threats, for example.

The Canadian campaign to Make Poverty History is looking for legislation from the government to establish **poverty reduction** as the exclusive mandate for Canadian ODA. This mandate would direct the delivery of aid in a manner consistent with Canada's human rights obligations and respectful of the perspectives of those living in poverty. A human rights framework for Canadian aid would give priority to strengthen the capacities of civil organizations and governments alike for maximum effort to realize social, economic and cultural rights for citizens in the poorest countries. The MDGs are but one indicator of success.

18 See Department for International Development, Foreign and Commonwealth Office, and HM Treasury, "Partnerships for poverty reduction: rethinking conditionality, A UK policy paper", March 2005, accessible at http://www.dfid.gov.uk/pubs/files/conditionality.pdf.

19 CCIC calculation, based on CIDA's Statistical Reports, for various years. The total disbursements to Afghanistan and Iraq from 2002 to 2004 were $396 million. In addition Canada has spent $1.5 billion between 2002 and 2004 in incremental defence spending costs associated with DND missions related to Afghanistan and the war on terrorism.

4.0 ASSESSING CANADA'S COMMITMENT TO DEBT CANCELLATION

Goal Eight has a broad and vague commitment to "deal comprehensively with developing countries debt problems through national and international measures to make debt sustainable in the long term". Debt obligations continue to be a major barrier to the governments of the poorest countries in fulfilling their human rights obligations to maximize investments in services and programs to reduce poverty for their citizens. Debt payments to international creditors not only take precedence in government finances for the poorest countries; they also significantly reduce the impact of international aid from the creditor countries and international financial institutions for these same countries.

Sub-Saharan Africa, for example, in 2003, paid out to creditors US$13.3 billion in debt servicing, while receiving US$20.7 billion in aid, for a net gain of only US$7 billion for the year. According a 2004 UNCTAD Report[20], this debt overhang has created over the past three decades a reverse transfer of resources from the world's poorest continent. Between 1970 and 2002, Sub-Saharan African countries, received $294 billion in loan disbursements, paid out $298 billion in debt services, and yet still remained straddled with a debt stock of some $210 billion. They conclude that even a full debt write off would only be a first step towards restoring African growth prospects and meeting the MDGs.

There is increasing acknowledgement, not just from civil society debt campaigners, but now from major creditor governments, that current multilateral debt cancellation policies, the Heavily Indebted Poor Countries Initiative (HIPC), have largely failed to resolve the debt crisis for the poorest countries. Finance Minister Goodale, at the Blair Commission for Africa, acknowledged that 6 of the 11 African countries that completed the HIPC process still have unsustainable debts. He observed that "many HIPC and non-HIPC debt payments (especially to the IFIs) are too high relative to servicing capacity and social needs".[21]

Initiated in 1996 and enhanced in 1999, the World Bank and IMF launched the HIPC Initiative to provide some of the world's most indebted countries with sustained debt relief. Relief is only available following a lengthy process of meeting IMF / World Bank conditionalities that many argue adversely affect the situation of the poor majorities in these countries. And following completion of this process, the Canadian Ecumenical Coalition, KAIROS, calculates that:

> In 1996, the total debt of the 42 countries on the list of potential beneficiaries was US$189billllion. By the end of 2002, their total debts were still US$188 billion, a very small decrease. In fact, since most of the debt relief granted under HIPC was on bilateral debts, their debts to the Bank and the Fund actually grew from US$43 billion to US$57billion over that period." [22]

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[20] UNCTAD, Economic Development in Africa: Debt Sustainability: Oasis or Mirage? 2004, accessible at http://www.unctad.org/Templates/webflyer.asp?docid=5457&intItemID=3246&lang=1&mode=downloads.

[21] Finance Minister Goodale, "Submission to the Addis Ababa Meeting of the Commission for Africa, October 7-8, 2004", accessible at http://www.fin.gc.ca/activty/consult/Af_ovr_e.html., paragraph 21.

[22] Global Economic Justice Report, KAIROS, October 2004, p. 8.

HIPC has been a terrible failure with many of the poorest countries remaining terribly indebted. New mechanisms are needed for assessing and unconditionally canceling 100% of bilateral and multilateral debts owned by impoverished countries.

Canada has made considerable progress in the past 15 years in canceling bilateral debt owned to Canada.[23] Since 1978 Canada has forgiven $1.3 billion in ODA debt to 46 developing countries, including $900 million owed by 22 highly indebted poor countries. Canadian ODA is provided entirely on a grant basis. In the late 1990s the Canadian government demonstrated leadership among the creditor countries in pressing for comprehensive debt relief. In March 1999 Canada was the first country to offer 100% debt cancellation for bilateral debt (mainly debt owed to the Export Development Corporation and the Canadian Wheat Board) for the 16 highly indebted poor countries, which owed Canada $1.6 billion. However this cancellation is conditional. This bilateral debt is cancelled once the country completes its policy reforms set out in the HIPC process. Up to January 2005, Canada has provided $155.6 million in debt relief for 8 countries that completed HIPC and has placed a moratorium on debt payments for an additional 5 countries while they undergo HIPC reforms. These latter countries own Canada an additional $378.7 million. By the end of 2005/06 it is expected that much of this debt will also be cancelled, leaving approximately $214 million owed by the Democratic Republic of Congo, Cote d'Ivoire and the Sudan.

Canada's Finance Minister at the time, Paul Martin, played an important role among G7 finance ministers in 1999 and 2000 to enhance the terms of the HIPC initiative, which despite its major shortcomings, have provided modest debt relief to a number of countries. During the debates on HIPC Canada unsuccessfully argued at the time that the resources to cover HIPC debt cancellation owned to the World Bank and IMF should come from resources at the Bank and Fund. While IMF debt was covered by a modest conversion of IMF gold, the Board of the Bank created the donor-funded HIPC Trust Fund and the Poverty Reduction and Growth Facility-HIPC Trust Fund to cover debt owed to the Bank and the African Development Bank. To date, Canada has contributed $346 million as its share of this Trust Fund.[24] While Minister Goodale has recently acknowledged the limits of HIPC to achieve "sustainable" debt burdens for these countries, at no point has Canada examined critically the macro-economic conditions and liberalization policies that the Bank and the Fund have required as a basis for eligibility and final debt relief. What have been the implications of these conditions for poverty reduction and the achievement of the MDGs?

Under heavy pressure from the United States and Great Britain, at the end of November 2004, the creditor countries agreed to write off 80% of Iraqi debt. The U.S. has cancelled 100% of the $4.1 billion it says it is owed by Iraq, contingent on the completion of a three-ear IMF reform program. Canada is also committed to this plan and is expected to forgive a total of $570 million over the next three years, about equal to the bilateral debt owed to Canada by countries that are benefiting from Canada's 1999 debt initiative.

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23 For a comprehensive overview of Canadian debt relief to date see Department of Finance, "Helping the Poorest – An Update on Canada's Debt Relief Efforts", January 2005, accessible at http://www.fin.gc.ca/toce/2005/cdre0105_e.html.

24 Department of Finance, "Helping the Poorest", *op. cit*.

At the end of December 2004, in the aftermath of the Asian tsunami, Canada was the first country to announce an immediate moratorium on debt payments owed by those countries affected by the disaster. Since then, Group of Seven (G-7) members have agreed to defer debt payments up to the end of 2005. If all eligible countries participate, up to $110 million in debt payments owing to Canada could be deferred in 2005.

Recognizing the limitations of HIPC, Canada, along with several other G7 countries, in February 2005 set out a proposal for further multilateral debt relief. Finance Minister Goodale's proposal follows quite closely the UK initiative for donor countries to pay their share of 100% debt servicing owed by 19 HIPC countries and 3 additional non-HIPC poor countries. Similar to a British proposal, Canada would contribute $172 million over the next five years to pay its 4% share of debt servicing for 15 HIPC countries that have completed the HIPC process as well as 4 other indebted poor countries. The British government has committed to pay 10% of debt servicing for a similar set of countries.

While CSOs have welcomed a new initiative on debt as well as the recognition that creditors should not limit debt relief to HIPC countries, the Canadian (and UK) proposal is limited in a number of respects[25]:

- The Canadian proposal, linked to the flawed HIPC process, is highly conditioned assistance. It covers only countries that have completed HIPC conditionalities along with several other low income countries that the Bank / IMF have assessed to have comparable policies in place. A further 37 countries might benefit when the Bank / IMF certify that they have completed this conditionality regime.
- Canada and the UK have made a firm commitment to pay debt servicing up to 2015, as a contribution to achieving the MDGs. It is estimated that between 60% and 70% of debt stock will remain for these countries after 2015 (assuming that all creditors participate prior to 2015). Most highly indebted countries are to be found in Sub-Saharan Africa, where the numbers of people living in absolute poverty continue to grow and where the MDGs are least likely to be achieved by 2015. These proposals leave the poor countries, which may be unable to achieve the MDGs within the ambitious timeframe of 10 years, highly vulnerable to diminished resources in the post-2015 period.

Canadian CSOs have urged the government to extend its proposal by committing to pay full debt servicing for these countries beyond 2015 until the debt is fully cancelled (with a mutually agreed cut off for eligible debt). Canada should resume its leadership role of the late 1990s by brokering among its G7 partners a multilateral debt cancellation package that is fully 100% unconditional debt cancellation for the poorest countries. CSOs note Goodale's comments in the 2004 Addis Ababa meeting of the Commission concerning how the IMF and the World Bank "need to become more sensitive to local conditions, especially with respect to structural

[25] For an analysis of the Canadian debt proposal see Halifax Initiative (www.halifaxinitiative.org) or KAIROS (www.kairoscanada.org). A summary of a Canadian CSO coalition response see Halifax Initiative, Africa Canada Forum, Canadian Council for International Cooperation, "Letter to Minister Goodale, January 28, 2005", accessible at http://www.halifaxinitiative.org/updir/Letter_to_Minister_Goodale_Jan282005-Eng.pdf.

adjustment conditions".[26] Yet as noted earlier, there is little evidence that basic macro-economic conditions imposed on debtor countries are changing. Achieving the MDGs requires responsible economic policies; but equally important, developing countries must be free to implement their own national development priorities for effective and sustained poverty reduction.

Minister Goodale, in signing the UK Commission on Africa Report as finance minister and as an individual, acknowledged the fundamental importance of achieving 100% debt cancellation as well as the limits of imposed creditor conditions to address the policies needed to achieve the MDGs in Africa.[27] These are critical policy benchmarks that CSOs will apply to Goal Eight's commitment to "deal comprehensively with developing countries debt problems".

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[26] Goodale, "Submission to the Addis Ababa Meeting of the Commission for Africa", *op. cit*.

[27] For an analysis of the UK Commission for Africa, see CCIC's Africa Canada Forum membership meeting, April 2005. Documents for this meeting will be accessible at http://www.ccic.ca/e/003/acf.shtml.

APPENDIX ONE
The Millennium Development Goals and Targets

1. ***Eradicate extreme poverty and hunger***
   - Halve between 1990 and 2015 the proportion of people whose income is less than $1 a day; and
   - Halve between 1990 and 2015 the proportion of people who suffer from hunger.

2. ***Achieve universal primary education***
   - Ensure that by 2015 all boys and girls complete a full course of primary schooling.

3. ***Promote gender equality and empower women***
   - Eliminate gender disparity in primary and secondary education by 2015.

4. ***Reduce child mortality***
   - Reduce by two thirds, between 1990 and 2015, the mortality rate among children under five.

5. ***Improve maternal health***
   - Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.

6. ***Combat HIV / AIDS, malaria and other diseases***
   - Halt and begin to reverse the spread of HIV / Aids, malaria and other major diseases by 2015.

7. ***Ensure environmental sustainability***
   - Integrate the principles of sustainable development into country policies and programs and reverse loss of environmental resources;
   - Reduce by half the proportion of people without sustainable access to safe drinking water by 2015; and
   - Achieve significant improvement in lives of at least 100 million slum dwellers by 2020.

8. ***Develop a global partnership for development***
   - Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory (including a commitment to good governance, development and poverty reduction – nationally and internationally);
   - Address the least developed countries' special needs. This includes tariff and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; and more generous official development assistance for countries committed to poverty reduction;
   - Address the special needs of landlocked and small island developing States;
   - Deal comprehensively with developing countries debt problems through national and international measures to make debt sustainable in the long term;
   - In cooperation with developing countries, develop decent and productive work for youth;
   - In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries; and
   - In cooperation with the private sector, make available the benefits of new technologies – especially information and communications technologies.