

# Economic Benefits to Ireland of Official Development Assistance

---

Jim Fitzpatrick and Andy Storey

---

*Ireland makes significant economic gains from overseas aid particularly through the sale of goods and services, and the generation of employment. The authors, economists with Jim Fitzpatrick and Associates, argue that these benefits reduce the real costs to Ireland of overseas aid, but not that they equal or exceed them. This means that the primary case for ODA remains the altruistic or humanitarian one, but that the economic costs of such altruism are less than they may appear. The article is based on research commissioned by Trocaire.*

## **Introduction**

The Official Development Assistance (ODA) budgets of many donor countries have recently been under increased scrutiny as governments attempt to control public spending. Third World support groups, including voluntary agencies, naturally oppose any cutbacks in overseas aid. In addition to the traditional humanitarian case for aid, this opposition has involved arguments based on the economic self-interest of the donor countries. ODA, it is argued, brings the donor country many economic benefits. To reduce it, it is claimed, amounts to "cutting off one's nose to spite one's face".<sup>1</sup>

Despite the increased use of such arguments, the economic benefits of aid to the donor country have been the subject of relatively little systematic scrutiny. The purpose of this article is to undertake a preliminary examination of the issue with reference to one relatively small donor country, namely the Republic of Ireland.

The approach adopted is to examine the issue in a broad cost/benefit framework. This means that as far as possible the costs of ODA to the Irish economy, and any benefits accruing to the economy from it, are compared with each other. A cost/benefit ratio of more than one means that ODA involves a net cost to the economy. Were the cost/benefit ratio to be less than one this would imply that the economic benefits of ODA are greater than its cost. The objective of the article is therefore to examine, within the

limitations of available data, whether for different types of ODA this ratio is likely in practice to be greater or less than unity.

In the article, the emphasis is placed on economic costs and benefits. This means that it does not examine only financial costs and benefits in the form of exchequer outlays and contract earnings by Irish companies. Instead it considers broader issues such as the purchase of Irish skills by the ODA programme and the opportunity cost to the economy that such purchases represent. Such opportunity costs must be set against the financial benefits of aid to the economy.

Part 1 of the article summarises the present status and recent history of Ireland's ODA programme. Part 2 identifies and examines any direct benefits this programme may have for the Irish economy. Part 3 looks at the more indirect impact of ODA on Irish economic interests. Part 4 discusses some conclusions and implications.

## **1. Ireland's Official Development Assistance**

### **(a) Overview**

Ireland's Official Development Assistance (ODA) refers to the annual government or exchequer contribution to Third World countries. Total ODA is disbursed through two channels:

- (i) "Multilateral" assistance is given to international development agencies such as the World Bank, United Nations agencies, and the EC European Development Fund.
- (ii) "Bilateral" assistance is given directly to recipient countries in the Third World. The major portion of this expenditure has been going to the bilateral aid programme, principally the official government-to-government aid from Ireland to four target countries in Africa (Lesotho, Sudan, Tanzania and Zambia). Other parts of bilateral assistance are the Agency for Personal Service Overseas (APSO) which supports Irish voluntary and other development workers in Third World countries, and the disaster relief fund used to relieve short-term emergencies.

Table 1 shows the trend and breakdown in Ireland's budgeted ODA for 1987 and 1988. Total budgeted ODA was reduced in 1988 to £32.3m from £43.3m in 1987—a fall of £11m or 26 per cent in current price terms. This reduction is equivalent to 29 per cent in real terms when account is taken of domestic inflation.

**TABLE 1**  
**IRELAND'S OFFICIAL DEVELOPMENT ASSISTANCE BUDGET, 1987**  
**AND 1988**  
 (£m, budgetary allocation)

		1987	1988
A.	<b>1. Departmental administration</b>	0.763	0.760
	Sub-Total	<u>0.763</u>	<u>0.760</u>
B.	<b>European Community</b>		
	2. EC budget for development cooperation	11.400	7.800
	3. EC Development Fund (Lome Convention)	3.735	3.900
	4. EC – Turkey Protocol	0.417	0.417
	Sub-Total	<u>15.552</u>	<u>12.117</u>
C.	<b>World Bank and United Nations</b>		
	5. International Development Association	1.620	3.103
	6. World Bank	3.120	1.494
	7. International Finance Corporation	0	0.060
	8. Food Aid Convention	0.768	0.400
	9. International Fund for Agricultural Development	0	0.300
	10. Food and Agriculture Organisation (FAO)	0.524	0.056
	11. United Nations agencies	1.778	0.578
	12. United Nations Industrial Development Organisation	0	0.090
	13. World Food Programme	1.453	0.001
	14. Miscellaneous voted expenditure	0.586	0.785
	Sub-Total	<u>9.849</u>	<u>6.867</u>
D.	<b>Bilateral Assistance</b>		
	15. Bilateral Aid Programme	14.000	10.065
	16. Agency for Personal Service Overseas (APSO)	2.425	2.363
	17. Disaster relief	0.505	0.001
	18. Advisory Council on Development Cooperation	0.110	0.075
	19. Refugee Resettlement Committee	0.075	0.056
	20. Intergovernmental Committee for Migration	0	0.003
	21. Gorta	0.060	0
	Sub-Total	<u>17.175</u>	<u>12.563</u>
	<b>TOTAL</b>	<u>43.339</u>	<u>32.307</u>
	As % of GNP	0.25	0.18

Source: Department of Foreign Affairs

The reduced ODA also means that Irish aid fell as a percentage of national income (GNP). Over the 1980s Ireland was moving slowly towards its declared objective of the UN target contribution level—0.7 per cent of GNP. An annual increase equivalent to 0.05 per cent of GNP was established in 1975. This trend has now been reversed.

(b) *Bilateral aid*

Spending on Irish bilateral assistance to developing countries amounted to £17.29m in 1987 (44 per cent of total ODA). The bilateral aid programme is the major element of this bilateral assistance, accounting for over 80 per cent of all such expenditure. Bilateral funding under the programme in 1987 was £13.9m. The distribution of bilateral aid expenditure is shown in Table 2: the largest element is assistance given to the four "priority countries" — Lesotho, Sudan, Tanzania and Zambia. Expenditure on bilateral aid projects in these four countries amounted to over £7.8m in 1987.

**TABLE 2**  
**BILATERAL AID PROGRAMME, SUMMARY OF EXPENDITURE, 1987**  
(£m actual expenditure)

Priority countries	
Lesotho	2.632
Sudan	1.347
Tanzania	1.805
Zambia	2.066
Project aid to other countries	0.555
SADCC	0.291
Co-financing with NGOs	1.928
Co-financing with multilateral agencies	0.350
Education and training	
Fellowship programme	0.724
Grants to organisations	0.478
Grants to courses	0.351
Promotion of trade of developing countries	0.248
Research	0.567
Development education	0.447
Review and evaluation	0.125
Miscellaneous	0.013
Total	13.928

*Source: Department of Foreign Affairs*

Other elements of the bilateral aid programme include co-financing schemes with Irish non-governmental organisations (NGOs) and with multilateral organisations such as the World Bank. Education, training and research activities are also funded.

(c) *Multilateral aid*

In 1987, £21.036m (54 per cent of total ODA) was channelled through international organisations. The breakdown of this expenditure is shown in Table 3: over 50 per cent of multilateral assistance is channelled through the EC and most of the remainder through UN agencies, including the World Bank. All the EC payments, and most of those to the UN, are an obligatory part of Ireland's membership of these organisations.

**TABLE 3**  
**MULTILATERAL ASSISTANCE EXPENDITURE IN 1987**  
(£m, actual expenditure)

	1987	
	£	%
EC	10.676	50.8
UN Agencies:		
World Bank Group	4.580	21.8
Development programmes/funds	1.778	8.4
Agriculture & food agencies	2.798	13.3
UNIDO	0.080	0.4
Other multilateral ODA	3.000	5.3
<b>TOTAL</b>	<b>21.036</b>	<b>100.0</b>

*Source: Department of Foreign Affairs*

## 2. Direct Economic Impact of Official Development Assistance

### (a) *Introduction*

Part 1 outlined the exchequer costs of ODA. This section examines the extent to which this expenditure may also involve some benefits for the Irish economy, thus helping to offset the costs involved. There are three ways in which the costs of ODA might be offset in this fashion.

- (i) Expenditure from the bilateral aid programme on the purchase of Irish goods, services and personnel. This involves the initial retention of expenditure within the economy rather than its use to purchase goods and services

abroad. However, it must be noted that the use of these purchases is put at the disposal of the recipient government. There is no suggestion but that a real resource transfer from Ireland occurs. At most, its net cost to the donor economy may be reduced the higher the proportion spent "at home" in Ireland.

- (ii) Sale of goods, consultancy and other services by Irish companies and organisations to multilateral agencies such as the World Bank and European Development Fund. These earnings are directly related to ODA since, without membership of these agencies, firms and organisations in Ireland would not be eligible to compete for such contracts. These earnings represent a net transfer of resources to Ireland. Consultancy earnings are equivalent to "invisible" or service earnings in such sectors as tourism and transport, while sales of goods and supplies are equivalent to conventional merchandise exports.
- (iii) Other less tangible economic benefits of ODA, both bilateral and multilateral, including the establishment of an overseas "track record", development of overseas contacts and goodwill, and staff experience and development.

This part of the article deals with categories (i) and (ii), while category (iii) is discussed in Part 3.

(b) *The impact of bilateral assistance*

A total of £17.29m was provided by Ireland in 1987 as bilateral assistance to developing countries. Approximately 70 per cent of this total (over £12m) was spent either on goods and services in Ireland, or as payment to Irish personnel working with the bilateral aid programme and APSO, (see Table 4). This expenditure is examined below under two headings:

- (i) Employment of Irish personnel
- (ii) Purchase of Irish goods and materials.

(i) *Employment*

The Department of Foreign Affairs estimates that approximately 600 people were directly employed on a full-time basis in 1987 as a result of bilateral assistance, i.e. their salaries or allowances came directly from the bilateral assistance budget. This total is made up of the following: 80 people employed abroad on the bilateral aid programme; 25 employees of the Department of Foreign

TABLE 4

## EXPENDITURE IN IRELAND OF BILATERAL ASSISTANCE, 1987

(£m, actual expenditure)

Salaries and related expenditure	2.4
Consultancy and other external services	5.5
Procurement of supplies	1.0
APSO	2.0
Other	1.2
Total	12.1
As % of all bilateral assistance	70%

Source: Department of Foreign Affairs

Affairs in Dublin who administer the programme; 455 people on voluntary and other assignments abroad through APSO; 20 people employed in the Dublin headquarters of APSO and a further 25 employed by other smaller bodies in Ireland (e.g. in development education work).

In addition, 58 consultants were employed by the bilateral aid programme on an occasional basis for particular projects during that year. However, not all consultants are employed by the programme on a full-time basis. Some further employment may arise in Irish voluntary agencies that receive ODA co-funding, but this is not quantified here.

The fact that ODA creates employment for Irish personnel cannot, however, be regarded as an unqualified benefit to the Irish economy. Indeed, the traditional economic approach to such employment is to regard it as a cost because it involves the loss of people who would otherwise be producing goods and services. One author has commented in the context of Irish missionaries working abroad that:

“the absence from Ireland of trained personnel, either temporarily or permanently, represented a loss of potentially productive units of human capital and therefore reduced Ireland’s potential economic output”.<sup>2</sup>

There is therefore a legitimate concern about the resource costs to Ireland of this employment. However, any output

loss which occurs as a result of Irish personnel working abroad, or being diverted to development cooperation activity at home, is reduced by the existence of high unemployment in Ireland. It is likely that many of these people would have been unemployed, or their jobs in Ireland are filled in their absence by people from the "live register" of the unemployed. There is thus a considerably limited loss of output in a situation of unemployed resources.

Suggestive evidence regarding the effect of unemployment in reducing output loss comes from an analysis by APSO of its overseas register of development workers — the proportion not fully employed in Ireland prior to departure abroad rose from 34 per cent in 1985 to 62 per cent in 1987.<sup>3</sup> For those employed before departure, some at least of the job vacancies created may not now be filled (e.g. in the case of public sector workers). But even in these cases output may still be maintained by increased productivity from those remaining.

It might be argued that the quality of the labour (i.e. usually skilled and experienced) drawn away on Third World development work will not be compensated for by mere replacement with another person. On the other hand, the opportunities this replacement presents to increase staff mobility and to remove other people from the live register mean that there may be compensations also in terms of morale improvement and training.

Whatever view may exist about resource costs, the financial and tax savings arising from this employment are clear — increased income tax and social insurance receipts, reduced government spending on unemployment benefit or assistance, and higher indirect tax revenues resulting from increased consumer spending. These gains may be low in certain cases — volunteers will pay no income tax and much of the spending will take place abroad — but there are definite gains, especially to the exchequer, in this regard.

It should be pointed out that there may also be a resource cost arising from the need to pay interest on money borrowed abroad in order to finance aid expenditure. However, this is a somewhat difficult argument — is aid expenditure specifically financed by borrowing, or is the borrowing principally for other purposes? Would ODA persist if borrowed money was not available? If this latter is the case, then the resource cost is

the alternative use of government funds — perhaps in the education or health area — which would have been possible in the absence of ODA.

(ii) *Purchase of Materials and Supplies*

The extent of material procurement in Ireland is small under the bilateral aid programme, approximately £1m in 1987. As with the previous topic of employing Irish personnel, there is an extent to which this represents a resource cost to the Irish economy — the factors of production utilised in the manufacture of these goods are unavailable for productive use within Ireland. This resource cost is certainly real in the case of imported production inputs — foreign exchange is needed to purchase these inputs.

The existence of unemployment in Ireland again limits the size of such resource costs. It is probable that some Irish factors of production (including labour) would not otherwise have been fully employed were they not engaged in producing goods for the aid programme — the real resource cost is therefore reduced. There is also the social benefit inherent in increased levels of Irish employment and any consequent boosts to consumption and government revenue.

(c) *Benefits of multilateral assistance*

The discussion above has identified and discussed ways in which bilateral assistance may give rise to some economic benefits for the Irish economy. However, it suggests that such benefits will, at most, offset only somewhat the costs of bilateral assistance. There is no evidence that benefits might equal or exceed costs, i.e. the cost/benefit ratio of bilateral assistance exceeds unity. This is an unsurprising conclusion. A bilateral aid programme which had a cost/benefit ratio for the donor of less than unity would in effect not be an aid programme at all.

It is easier in principle to conceive of a situation in which a small donor country's contributions to multilateral agencies might be exceeded by the benefits of its earnings from these agencies. In other words a country could, in theory, be a net gainer from its contributing to the aid budgets of particular bodies such as the UN and the EC. This could arise because these bodies would not source expenditure in a country such as Ireland if it did not contribute multilateral aid. In effect, multilateral contributions can be interpreted as a "membership

fee" without which companies and individuals would not be eligible to compete in this market. The main recipients of Irish multilateral funds are the EC, the World Bank Group, and the other UN agencies (see Table 3 above). The way in which direct benefits to Ireland can arise from these contributions are examined below.

(i) *EDF funding*

Funding for European Community development activities involves three mechanisms, — the European Development Fund (EDF), the General Budget of the European Communities, and the European Investment Bank (EIB). Figures on the extent to which Irish firms win contracts under the EDF (which is the source of financing for assistance under the Lome Convention) are presented in Table 5. Irish firms have won relatively few "works" (construction) contracts but they have performed better in the case of "supply" and "technical cooperation" contracts, i.e. the supply of materials and personnel respectively.

**TABLE 5**  
**CUMULATIVE EDF EXPENDITURE ON IRISH GOODS AND SERVICES,**  
**DECEMBER 1987**

	£m <sup>1</sup>	%
Works contracts	1.2	5
Supply contracts	8.6	34
Technical cooperation contracts	15.3	61
<b>Total</b>	<b>25.1</b>	<b>100</b>

<sup>1</sup> Converted at average 1987 exchange rate: 1R£1 = ECU 1.29

*Source: Supplement to the Official Journal of the European Communities, various issues*

Since 1976, under the 4th and 5th EDF, the value of these contracts to Ireland was 32.4m Ecu (£25.1m at 1987 exchange rates). This compares with a cumulative Irish contribution to the EDF over this period of £27.7m at historical prices.

At first glance this suggests that the cost of Irish

contributions to the EDF was nearly offset by earnings from it. However, similar reasoning must be applied to these earnings as to bilateral aid spending in Ireland. Purchases of Irish materials and use of personnel cannot be regarded as a "pure" benefit because of the resource costs of production and personnel provision. Purchases of this sort make a significant contribution to levels of employment and expenditure in Ireland in the same way as would normal export orders, but they also involve costs as does the fulfilling of normal export orders. Labour and other resources are diverted away from other activities. Again, a "saving grace" is that many of these resources would not otherwise have been fully employed in Ireland. The high labour content of Irish aid in the case of services also means that domestic value added is high, and import content is low.

(ii) *World Bank funding*

In 1987 Irish firms and organisations earned \$12.1m (£8.1m) from the World Bank, including the International Development Association (see Table 6). This total compares with a 1987 contribution from Ireland to the World Bank of £4.6m. Again, the expenditure in Ireland is not cost-free. Consequently, it is not valid to simply compare total World Bank expenditure in Ireland with Ireland's contribution and claim a positive ratio of benefits to costs from a national point of view.

TABLE 6

IBRD AND IDA EXPENDITURE ON IRISH GOODS AND SERVICES, 1987

	£m <sup>1</sup>	%
Equipment	1.1	13
Civil works	—	—
Consultants	1.8	22
All other goods	5.2	64
Total	8.1	100

<sup>1</sup> Converted at average 1987 exchange rate: IR£1 = \$1.49

(iii) *UN funding*

In both 1985 and 1986 the gross value of United Nations Development Programme (UNDP) project expenditures sourced in Ireland was more than three times the value of Ireland's voluntary contribution. This greatly exceeded the comparable ratio for all other contributory countries. But the dangers of misusing this ratio should be obvious from the discussion above. It does not indicate that Ireland "got back over three times more than it put in". As emphasised already, there are costs involved in supplying Irish goods and personnel. There is also a likelihood that figures from international agencies on their gross expenditure on Irish firms exaggerate the earnings of the Irish economy. Some of these earnings are likely to be spent abroad by the recipient firms, while more will be devoted to international transport and other expenses.

What this relatively favourable ratio in the UNDP case means is that Ireland is receiving relatively large economic benefits from this source as a result of its aid programme. The absolute value of UNDP expenditure in Ireland in 1986 is shown in Table 7. It totals £3.6m, compared to an Irish contribution of £1.2m in that year.

**TABLE 7**  
**UNDP EXPENDITURE ON IRISH GOODS AND SERVICES, 1986**

	£m <sup>1</sup>	%
Experts and consultants	2.2	61
Equipment ordered	0.1	2
Sub-contracts awarded	0.3	8
Fellowships (training)	0.3	9
Agency overheads and staff costs	0.7	19
Total	3.6	100

<sup>1</sup>Converted at average 1986 exchange rate IR£1 = \$1.34

Source: UNDP

Another consequence of multilateral funding is that Irish nationals are employed abroad by these agencies. No statistics are readily available on this, but the number is likely to be in the hundreds. Irish technical staff employed directly on UNDP-funded projects totalled 86 in 1986.

(d) *Links between bilateral and multilateral aid*

Bilateral and multilateral aid have been treated as separate categories in the discussion above. However, there is also an economic link between a donor country's bilateral assistance and its ability to attract expenditure from multilateral agencies. As the then Irish Minister for Foreign Affairs, Michael O'Kennedy, commented in 1979:

“The involvement of Irish concerns, from both the public and private sectors, in the country's bilateral aid programme provides them with a track record and experience which they would otherwise lack, but which is nonetheless necessary for them to have a realistic chance of participating in multilateral aid programmes.”<sup>4</sup>

The crucial element in this link is that companies and personnel may gain expertise under a bilateral programme, and also gain an opportunity to demonstrate that expertise to prospective multilateral clients. This is at its most formalised in the case of co-funding between the Irish bilateral programme and multilateral agencies.

An example of this economic linkage is the experience of HEDCO (Higher Education for Development Cooperation), the umbrella body promoting links between Irish third level colleges and developing countries. Over the period 1982-86 HEDCO received approximately £500,000 of bilateral aid funding as a fee for administering Irish projects abroad. As a result of this “seed capital” it generated revenue of £2.5m for project work overseas from multilateral agencies over this period, principally from the EC for work in Jordan. This sum represents external earnings used to fund Irish staff overseas, as well as fellowships in Ireland.

Apart from the expertise and openings created for companies by direct bilateral spending, bilateral assistance can also provide an entrée into multilateral funding in a more general sense. Officials in developing countries and multilateral agencies are more likely to be favourably disposed towards a country seen to be “doing its bit” in a bilateral sense, and administratively allocated contracts are heavily influenced by the intangible factor of “goodwill”.

Such links between bilateral and multilateral aid are in effect a sub-set of the wider possible indirect effects of bilateral assistance, i.e. the fact that a country's bilateral aid can lead in a variety of ways to increased exports of goods and services to developing countries. This is the subject of Part 3.

### 3. The Indirect Benefits of Aid

#### (a) *“Dynamic” benefits*

Part 2 referred to the linkages between bilateral and multilateral aid in terms of the former helping companies to penetrate the latter market. Such dynamic, “knock-on” effects of bilateral aid are not necessarily limited to the multilateral agencies only; bilateral aid can also help companies compete in international markets generally. There are a variety of ways in which this can occur, as outlined in the following sections with specific reference to the Irish case.

#### (b) *Experience and expertise*

Initial contracts with the Irish bilateral aid programme can help companies to develop the expertise, experience and confidence to compete in the aid and Third World market generally. It can give hitherto inexperienced firms and organisations a “leg-up” the learning curve, allowing them to progress to other overseas markets. Examples of this include:

- *Bord na Mona* (the Peat Development Authority), whose initial experience of peat development in Burundi was financed by the bilateral aid programme, and which subsequently attracted support from USAID.
- *The Agricultural Institute* “cut its consultancy teeth” on bilateral aid, subsequently winning contracts from the EC and from Middle East governments.

The government’s bilateral aid programme, APSO, and Irish voluntary agencies have also served as a training ground for personnel for commercial organisations. Many personnel, including senior management, in state and private organisations active in developing countries gained their first overseas experience on Irish aid projects.

#### (c) *Track record*

Many Irish consultants operating successfully in the overseas market also had their initial overseas experience on the bilateral aid programme. In this way there is a parallel between an aid programme’s ability to assist companies at the early stage of their involvement overseas, and the traditional economic “infant industry” argument in favour of protection for new firms in international trade. An example is the Irish Industrial Development Authority which now earns nearly £1m annually in the overseas market. This currently involves the employment abroad of 18 Irish personnel.

However, the usual dangers emphasised by economists also apply to this particular "infant industry" argument: the firm which does well in a "protected" market may lack the incentive to become competitive and win contracts elsewhere.

(d) *Contacts and presence*

Suitable expertise and experience are necessary preconditions for companies wishing to penetrate the overseas consultancy market, but they alone are not sufficient. The other vital ingredient is "contacts". While a highly competitive market, this is also a highly imperfect one. Even where structured tendering procedures exist, contracts cannot be won without contacts; it is necessary to be aware of forthcoming contracts, it is necessary to be asked to tender, and it is necessary to be short-listed, before there is a chance of being awarded such contracts.

Here bilateral aid can help in a variety of ways:

- (i) presence on the ground in Third World countries of bilateral aid programme personnel can provide "early warning" of upcoming business potential;
- (ii) a development cooperation office provides an official presence which can perform both the early warning and an active marketing function;
- (iii) bilateral aid supports public sector and voluntary personnel who can progress to professional positions in international organisations, and in these positions they are usually happy to be supportive of the business interests of their country of origin;
- (iv) successful training and fellowship programmes result in links with large numbers of personnel in developing countries, often in relatively senior public and private sector positions, who can provide important subsequent business contacts.

(f) *The results*

A variety of mechanisms therefore exists through which ODA can, in principle, have indirect spin-off effects on the donor economy. However, the practical results of the combined impact of these various indirect effects are not especially clear-cut in the Irish case. In 1987, members of DEVCO (State Agencies' Development Cooperation Organisation) earned an estimated £86m in developing country markets, up from £23m in 1980. Direct bilateral aid funding constituted only 2.6 per cent of total DEVCO members' turnover in these markets in 1987.

The majority represents commercial earnings by the national airline, Aer Lingus, and by the Electricity Supply Board (ESB). However, it is likely that much of this activity would proceed irrespective of the existence of ODA.

Another less obvious positive impact on the economy occurs through Irish voluntary agencies. Because of Ireland's membership of multilateral aid organisations, and their own high reputation, some of these agencies are in receipt of substantial co-funding from international aid programmes — multilateral, bilateral and voluntary. In the year to February 1988 Trócaire received a total of £2.7m in international co-funding, out of a total income of £7.9m. Concern had a total income of £5.3m in 1987, of which £1.9m was raised from international sources. Concern had a total of 112 personnel abroad in February 1988, while the other main voluntary sending agencies had a further 212. From an economic viewpoint this aspect of the voluntary agencies' activity has similarities with that of a non-profit service export organisation.

#### 4. Conclusions and Implications

##### (a) *Conclusions*

The objective of this article was to undertake a preliminary examination of the extent to which Official Development Assistance can give rise to economic benefits for the donor country, in this case Ireland. Three main conclusions suggest themselves:

- (i) The largest proportion of Irish bilateral aid is spent on Irish goods and services (70%). This creates economic costs as well as benefits for Ireland. There is, in particular, a real resource cost involved in using Irish personnel and materials for overseas aid purposes when they could be used to produce goods for use by Ireland.

A mitigating factor is that these resources would, in many cases, have otherwise been unemployed so that the loss to the Irish economy is limited. There are also social benefits involved in increased levels of Irish employment and consequent boosts to consumer spending and government revenue.

- (ii) The Irish economy also enjoys employment and other economic gains from the sourcing of multilateral aid agencies' expenditure in Ireland. Such gains arise as a direct result of Ireland's ODA contribution to these agencies. However, there are also economic costs involved

in the diversion of resources away from other activities in the same way as any export order diverts resources. It is therefore invalid to speak, for example, of a 1:3 cost:benefit ratio if expenditure by a multilateral agency in Ireland is three times the level of Irish contributions to that agency.

- (iii) ODA can also generate indirect benefits to the donor economy by helping companies to build up business in developing countries. ODA allows such companies to develop an overseas track record, contacts and goodwill, and it also provides a means of staff training. However, there is relatively little hard evidence in the Irish case of significant commercial business arising as a spin-off from Irish companies' involvement with ODA. It must of course be recognised that many of the relevant factors are, by their nature, intangible and unquantifiable.

(b) *Implications*

This article was written against a background of ODA reductions in Ireland, and increasing reference by Third World support groups to national economic self-interest as a reason for maintaining the level of Ireland's overseas aid. The article has examined in a preliminary way the nature and extent of the benefits to the Irish economy of ODA. It has concluded that significant economic benefits do indeed exist, but that these are unlikely to outweigh the economic costs of aid, i.e. the cost/benefit ratio of ODA for the donor exceeds unity.

This conclusion has important implications for those who oppose aid cuts in Ireland or elsewhere. It suggests that traditional humanitarian and altruistic arguments in favour of overseas aid are the soundest ones. Moving the case for ODA on to purely self-interest grounds involves major dangers to the Third World case. This danger arises because the self-interest argument implies that aid expenditure is akin to export promotion. Apart from the important implications this could have for the quality of aid, implications which run counter to most voluntary agencies' philosophies, it also suggests direct comparisons between the economic results of ODA and those of public expenditure on export promotion. The evidence of this article, in common with some other studies<sup>5</sup>, is that aid is inefficient as a trade promotion device. The economic benefits will seldom outweigh the costs.

The more valid case in favour of overseas aid, and the one which does not overstate the economic arguments, is that the economic benefits of aid to the donor reduce its cost to the

economy, but not that they equal or exceed it. This in turn means that the primary case for ODA remains the altruistic or humanitarian one, but that the economic costs of such altruism are less than they may appear. The economic benefits of ODA do not mean that the donor country gets back more than it gives, but rather that it costs the donor less to be generous than is sometimes supposed.

### References

1. See, for example, 'Why Third World Aid Should Not Be Cut', Trócaire Position Paper, Dublin, May 1988
2. Quinn, R., *The Missionary Factor in Irish Overseas Aid*, p.49, Dublin, Dominican Publications, 1980
3. APSO, *The Employment-Creation Dimension of APSO's Overseas Register between 1981 and 1987*, Dublin, mimeo, 1988.
4. Quoted in O'Brien, D., *Ireland and the Third World — A Study of Government Aid*, p.65, Dublin, Irish Commission for Justice and Peace, 1980.
5. Report of the Independent Group on British Aid, *Real Aid: A Strategy for Britain*, p.13, London, Real Aid Group, 1982