

Meeting Ireland's Aid Commitments at a time of Economic Recession



"Were we to abolish entirely our overseas aid budget, it would have no effect on the Irish economy but it would be a very retrograde step, in my view."¹

Minister for Finance Brian Lenihan, November 2010

"The economic crisis is in fact another reason to meet the targets, not another excuse to miss them."²

European Commission President José Manuel Barroso on the Millennium Development Goals, October 2009



Key Points

- The Government should recognise the impact of the disproportionate aid cuts (27% since 2008) on the lives of the world's most vulnerable people.
- It is critical that in December's budget the government shows visible progress towards meeting the EU/UN 2015 target of 0.7%, as per the commitments of Minister Martin in September's Millennium Development Goals summit.
- The opportunity of the four year budgetary framework should be used to set out realistic annual targets for ODA spending, to get on track for meeting our target of 0.7% of GNP by 2015.
- Short-term cuts to the aid budget will result in damage to the country's reputation as a progressive donor. The significance of this reputation was clear in Ireland's leading role at the recent Millennium Development Goals summit in New York.
- Ireland should work with its counterparts in other EU countries to ensure that poor countries are not hit by uncoordinated and simultaneous cuts in overseas aid.
- Measures to ensure predictable delivery of aid and to maximise transparency and accountability on achievement of aid spending commitments should be part of the next programme for government.

Introduction³

As a country, Ireland has a long and proud tradition of international solidarity. The government aid programme is a very important part of this tradition which sets Ireland apart on the global stage. In the current economic climate, it is paramount that we do not lose sight of the bigger picture and work to maintain current aid levels. It is essential that we also keep our international responsibilities towards those less fortunate.

Ireland is currently experiencing the deepest crisis in public finances in recent memory. Following a period of sustained economic growth and budget surpluses, the country now has a projected general government deficit of 32% of GDP, the highest of any western country since World War Two.⁴ This crisis means that very difficult decisions need to be made around levels of public spending across all government departments over the coming years.

The crisis throws into question the levels of spending on overseas aid – an area which has seen substantial growth in recent years (Table 1), in line with the government's commitment to meet the EU/ UN target of spending 0.7% of national income (GNP) on overseas aid (ODA) by 2015.⁵ Until 2008, Ireland was

on track to meet this international target. We are still the 7th most generous donor in terms of per capita donations within the OECD on overseas aid. Given the pressing concerns on the domestic front: bank sector reform, growing unemployment, public sector reform – is it still advisable to be 'giving away' substantial sums of money in overseas aid?

The forthcoming budget in December is a critical moment for Ireland in terms of the future of its overseas aid budget. Since 2008, Ireland's aid budget has been reduced by 27%. A further cut, no matter how small, would have a major impact on the lives of the poorest people. It would also tarnish Ireland's reputation, further bringing into question the long-term sustainability of the aid programme.

A Global Perspective

At times of severe economic downturn, it is only to be expected that countries look inwardly to protect their own economic and social interests. It is critical, however, that we do not lose sight of the fact that the current downturn is *global* and is having a disproportionate impact on the poorest people in the world. Despite our current problems, Ireland remains one of the richest countries in the world.

Table 1: Levels of Irish Aid Spending

	2005	2006	2007	2008	2009	2010*
€ million	557	794	871	920	696	671
% GNP	0.41	0.53	0.55	0.59	0.48	0.52

Source: *Aidwatch Reports*, 2006, 2007, DFA Audited Report 2008, Budget April 2009, Irish Aid Annual Report 2008

*2010 figures are estimates: Budget 2010, ESRI 2010 Autumn quarterly report

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¹ Minister for Finance Brian Lenihan speaking in the Dáil, 10/11/10, <http://debates.oireachtas.ie/DIndexB.aspx?F=DAL20101110.xml>

² Introductory remarks of President Barroso at the opening session of the European Development Days, October 2009 http://ec.europa.eu/development/services/events/EDD2009/event_coverage/speeches_en.htm

³ Trócaire is grateful to Brendan Riordan for research that fed into this briefing.

⁴ Department of Finance (2010) 'Minister's Statement on Banking' <http://www.finance.gov.ie/viewdoc.aspx?DocID=6515&CatID=1&StartDate=1+January+2010&m=n>

⁵ This pledge was originally made at the UN General Assembly in 2000, when then Taoiseach Bertie Ahern pledged to spend 0.7% of GNP on ODA by 2007. Given the rapid levels of economic growth, the speed of increases proved unsustainable and the revised target of 2012 was announced at the UN in 2005 and included in the Programme for Government in 2006. In line with the recommendations of the 2008 McCarthy Report, the target has since been pushed back to 2015.

For the poorest countries, the global recession is the perfect storm, with the macroeconomic consequences of the crisis threatening progress made in combating poverty, hunger, health and education. The World Bank estimates that by the end of 2010, more than 64 million additional people will have fallen into extreme poverty due to the crisis.⁶ Zambia has already lost 8,100 of its 30,000 mining jobs due to falling global demand.⁷ Children are particularly vulnerable due to the difficult choices which families need to make around food, health and education. The World Bank recently estimated that an average of 200,000 – 400,000 additional infants could die per year as a result of the financial crisis.⁸

Over 1 billion people, one in six people on the planet, are now going hungry for the first time in history.⁹ Ireland has taken a leadership role in urgently acting to address this trend, co-hosting a forum on hunger at the recent Millennium Development Goals (MDGs) summit in September 2010. Meanwhile, due to the nature of their economies, the poorest countries are largely reliant on external finance streams including export earnings, remittances and direct inward investment, all of which are experiencing significant reductions.

These are worrying trends which reverse key improvements in the past decade as a result of a concerted effort to meet the Millennium Development Goals.

Aid is important now more than ever

If rich countries now simultaneously reduce overseas aid as a result of their domestic concerns, the impact will be devastating. A reduction in aid could be considered a pro-cyclical measure in the current downturn, which would exacerbate already fragile situations. Sudden cutbacks in aid are already resulting in agencies having to make life and death decisions.¹⁰ For the people directly affected in the poorest countries, any expected resumption in an aid programme when the donor country's economy recovers may come too late. Good practice shows that investment in development requires long-term commitments. Withdrawing funding to well established partners, programmes and beneficiaries at short notice is a highly inefficient means of protecting a substantial investment over the course of an aid programme.

This unpredictability also undermines governments' ability to plan how they will use the aid they receive directly from Ireland.¹¹

The tragedy is that whilst having an irreversible impact on the lives of poor people, the impact of these cuts on addressing the fiscal imbalance in Ireland's government spending will be minimal. The aid budget accounts for less than 2% of overall government spending.¹² Cutting such a small portion of our spending will have a negligible impact on our financial stability here in Ireland, but it is having and will continue to have a devastating impact on those in the developing world. These same partners and programmes will require an even larger investment when and if they are restarted.

Notwithstanding the importance of aid in tackling poverty and securing the rights of people in developing countries, aid is also increasingly becoming recognised as a long-term investment in a more stable world which would benefit poor and rich alike. Economic inter-dependence also provides an impetus to maintain levels of aid, which has a key role to play in the global recovery from recession.¹³ Indeed, any further erosion of Ireland's or the EU's commitments to aid would be against Ireland's own interests and a denial of the global reality we live in.

Thankfully, some rich countries facing budget deficits have exempted aid from substantial reductions. Currently other EU governments, which also have large deficits, are continuing to meet and exceed their promises on aid, most notably in the UK where, in the recent budget, spending on aid was ring fenced from cuts. EU governments including Ireland reaffirmed their commitment to increase aid at the recent MDG summit in New York. In emphasising Ireland's commitment to the "ideals, aspirations and specific targets" of the Millennium Development Goals, Minister Micheál Martin recognised overseas development assistance as an "essential element" of the fight against poverty and hunger.¹⁴ This commitment must now be realised in the upcoming budget.

Recommendations:

- *The Government should recognise the impact of the disproportionate aid cuts (27% since 2008) on the lives of the world's most vulnerable people.*
- *It is critical that in December's budget there are no further cuts to the aid budget.*

⁶ World Bank (2010) The MDGs after the crisis p. 6 <http://siteresources.worldbank.org/INTGLOMONREP2010/Resources/6911301-1271698910928/GMR2010WEB.pdf>

⁷ ODI (2009) The Global Financial Crisis & Developing Countries, Apr. p. 22 & 28 <http://www.odi.org.uk/resources/download/3251.pdf>

⁸ World Bank. 2009. "The Global Financial Crisis: Assessing Vulnerability for Women and Children" <http://www.worldbank.org/financialcrisis/pdf/Women-Children-Vulnerability-March09.pdf>

⁹ FAO (2009) 1.02 Billion People Hungry, June Report. <http://www.fao.org/news/story/en/item/20568/icode/>

¹⁰ For examples of cuts made see Record of the Joint Committee on Foreign Affairs, 3/09/09. <http://debates.oireachtas.ie/DDebate.aspx?F=FOJ20090903.xml&Node=H3#H3>

¹¹ For further information on the damaging impact of unpredictability on aid, see Riordan, B. (2010) *Towards More Reliable Delivery of Aid* commissioned by Trócaire

¹² Based on projected ODA for 2010 and projected overall Government expenditure for 2010.

¹³ UNCTAD (2009) Keeping ODA afloat: No Stone Unturned www.unctad.org/en/docs/presspb20092_en.pdf

¹⁴ National Statement by Mr Micheál Martin, T.D. Minister for Foreign Affairs, Ireland to the 2010 United Nations General Assembly High Level Plenary Meeting on the Millennium Development Goals <http://www.dfa.ie/home/index.aspx?id=84290>

The Disproportionate Pain of Aid Cuts: An example from Trócaire and its partners

The immediate impact of reducing the aid budget is already stark. For Trócaire, the cut in funding from Irish Aid and a downturn in public donations have had a significant impact. In 2010, Trócaire ended work in Zambia, Nigeria, Peru and Indonesia, and closed an office in Angola. Planned withdrawals from Brazil, Tanzania, the Philippines and Sri Lanka have been accelerated. Planned programmes in countries including Bolivia, Uganda, Malawi, India and Afghanistan have been cancelled due to lack of funding to carry them out.

Two meals instead of one: One example of work that has ended is the Livelihoods Programme in Angola. This programme helped approximately 67,000 people, at an annual cost €300,000. Working with local organisations, Trócaire has achieved many positive impacts. As a result of war most families lost all their seeds for planting. With Trócaire's assistance families have been provided with seed banks to enable them to be self reliant in seeds for future harvests. Trócaire has also helped to introduce a blight resistant variety of cassava. Families have been provided with goats which become an asset which can be sold if needed to provide much needed money. Better agricultural practices have been introduced, enabling families to increase their yields, allowing them to sell their surplus stock and giving them increased income. This income was in turn used for children's education, clothing and house maintenance. Many families are now in a position to put iron roofs on their houses, and most importantly families are now eating two or more meals a day. For these families, the assistance they receive from Trócaire is their only support as the government is not currently reaching them. This work has now stopped, with the closure of Trócaire's office in Angola, endangering important gains made by some of the poorest people in Southern Africa.

Undermining our international reputation

"As a result of the commitment in 2000, Ireland gained a seat on the UN Security Council, and played a leading role at the MDG summit, co-hosting a major conference on hunger."

The aid cuts, moreover, are seriously undermining our international reputation at a time when the country needs to be projecting a positive image externally. Over the past decade, Ireland's track record on international cooperation has been hard earned. International bodies such as the OECD and UN have rated the programme very highly and commended the government on its long-term approach to aid.¹⁵

Politically, the commitment to aid has allowed Ireland to punch well above its weight in international forums. Ireland is routinely praised for its good practice – and many other countries in the EU followed our lead on aid following Ireland's EU Presidency in 2004. As a result of the commitment in 2000, Ireland gained a seat on the UN Security Council. In September of this year, Ireland played a leading role at the Millennium Development Goals summit, co-hosting with the US a major conference on hunger, on the sidelines of the summit.

In a highly interdependent world, the 'soft power' wielded in international arenas is becoming increasingly important. As a small country without a significant defense budget, the ability to extend our political reach through international cooperation is key.

The aid programme is a very important part of that. However, the speed, scale and manner of the cuts to the aid budget over the past two years have already led to this reputation being damaged.

Any further erosion of Ireland's or the EU's commitments to aid would be against Ireland's own interests and a denial of the global reality we live in.

Recommendation:

- *In the light of the damage to the country's reputation through short-term cuts to the aid budget, no further cuts should be made to Ireland's aid programme.*

Cuts have been disproportionate

Since 2008, the aid budget has been cut by €249 million. This represents a 27% cut relative to ODA in 2008. The average reduction across other areas of government spending affected by cuts was 9%. It is difficult to make comparisons across government departments, but this table would seem to demonstrate that the aid programme is politically a soft target when it comes to cuts.

¹⁵ OECD Development Assistance Committee (2009). *Peer Review of Ireland* <http://www.oecd.org/dataoecd/50/1/42704390.pdf>

Table 2: Cuts in Different Areas of Government Spending, 2009-2010

Area of Voted Expenditure	% Change from 2008
Taoiseach's (including Legal Votes)	-2%
Finance Group	+1%
Justice Group	-9%
Environment, Heritage and Local Government	-14%
Education and Science	-3%
Community, Rural and Gaeltacht Affairs	-20%
Foreign Affairs	-26%
Communications, Energy and Natural Resources	-5%
Agriculture, Fisheries and Food	-8%
Transport	-7%
Health and Children	-4%
Enterprise, Trade and Employment	+5%
Arts, Sport and Tourism	-15%
Defence	-11%
Social and Family Affairs	+19%
Unallocated Current Expenditure Adjustments	n/a
Total Voted Gross Current Expenditure (including carryover of capital)	+3%
Total Official Development Assistance	-27%

Source: Riordan, B. (2010) *Meeting Our Aid Commitments: Analysis of the challenge for Ireland* <http://www.trocaire.org/aid-accountability>

Recommendation:

- It is critical that in the December budget there are no further cuts to the aid budget as it has already contributed its fair share.

Meeting our international commitments

The Government has now pushed back its target for reaching 0.7% of spending on ODA to 2015. The Minister for Foreign Affairs has repeatedly stated the Government's commitment to meet this target, most recently at the Millennium Development Goals summit in September of this year.¹⁶ In the current economic climate, meeting this goal should paradoxically become more attainable as GNP has declined so dramatically and limited growth is expected over the coming year. Ironically, if the government had retained spending at 2008 levels, it would most likely have surpassed its interim target of spending 0.6% of GNP in ODA by 2010!¹⁷ Having made unprecedented, disproportional cuts of 27% since 2008, meeting this target, even by the revised deadline of 2015, now looks even more difficult.

With four years to go until 2015, it is critical that visible progress towards the 0.7% target be demonstrated in budget 2011, without which the long-term sustainability of the aid programme would become uncertain.

A four-year budgetary framework must be used to set out a multi-annual plan for moving towards target 0.7% by 2015. A multi-year plan setting out incrementally increasing spending targets would provide reassurance and planning capacities to aid agencies, Irish aid and partner governments.

Recommendations:

- The opportunity of the four year budgetary framework should be used to set out realistic annual targets for ODA spending, to get on track for meeting our target of 0.7% of GNP by 2015.
- The government should demonstrate in December's budget consistent and visible progress towards the 2015 target of 0.7% as per the commitments of Minister Martin in September.

Moving forward: ensuring Ireland's aid is more reliable, and more effective

The unprecedented cuts to the aid budget since 2008, and their impact has demonstrated an underlying problem stemming from the yearly allocation of money to aid and the annual Dáil vote on its level for just the coming year. This leads to a lack of predictability in funding patterns and seriously undermines the impact of Ireland's aid programme on long-term poverty reduction

A serious debate is needed to look carefully at ways in which Ireland can remain committed to the goal of meeting the UN and EU target of allocating 0.7% of national income to overseas aid in more sustainable and predictable ways. Consideration must be given to minimising fluctuations from year to year in the amount of aid which is disbursed, and ensuring transparency and accountability on the percentage of the aid commitments made by the government which are delivered.

Options to achieve greater levels of predictability of aid flows might include;

- Prompt publication of payment schedules of Irish Aid's multi-year commitments;
- Annual publication of statistics on the performance of Ireland in meeting its financial commitments within ODA;
- Publication of annual assessments of the performance of Irish Aid in meeting its objectives;
- Use of contracts to ensure delivery of aid commitments within multi-year programmes;
- Legislation to oblige the government to provide comprehensive and timely reports on its delivery of aid;
- Legislation to ensure commitments on the level of ODA are met.¹⁸

Such measures would enable core programmes to be shielded from very damaging fluctuations in the delivery of aid, and would better allow partners to plan their own programmes effectively.

Recommendation:

- Measures to ensure predictable delivery of aid and to maximise transparency and accountability on achievement of aid spending commitments should be part of the next programme for government.

¹⁶ National Statement by Mr Micheál Martin, T.D. Minister for Foreign Affairs, Ireland to the 2010 United Nations General Assembly High Level Plenary Meeting on the Millennium Development Goals <http://www.dfa.ie/home/index.aspx?id=84290>

¹⁷ If aid levels had been maintained at pre-cut levels of €920 million, or 0.59% of GNP, this would have translated into 0.64% in 2010. Based on projected GNP figures from Department of Finance (2009) Macro Economic and Fiscal Framework: 2009:13

¹⁸ Greater detail on the issue of how to make Irish aid more predictable can be found in Riordan, B. (2010) *Towards a more reliable delivery of aid, commissioned by Trócaire*