TRÓCAIRE
Working for a Just World

# *Meeting Our Aid Commitments:*
# *Analysis of the challenge for Ireland*

Research Report

by

Brendan Riordan

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**Contents**



***Note***

This research report was commissioned by Trócaire. The report was researched and written by Brendan Riordan. The views expressed are those of the author and do not necessarily coincide with those of Trócaire.

The author may be contacted by email to: Brendan@briordan.org

TRÓCAIRE
Working for a Just World

Trócaire, Maynooth, Co. Kildare, Ireland
Tel: 00353 1 629 3333, Fax: 00353 1 629 0661, www.trocaire.org

**Executive Summary**

This Report reviews the amounts of money allocated to Official Development Assistance (ODA) in the light of the Government's ODA commitments and the economy's performance and prospects. Particular attention is given to government revenue and expenditure and to the resulting deficit. This calls into play our obligation to other EU Member States to manage our economy in a non-inflationary way. To achieve this stability all Member States have to implement the agreed rules in the Stability and Growth Pact. This requires the Commission to assess whether any Member State has an 'excessive deficit'. However one of the mitigating considerations is the budgetary cost of contributions towards fostering international solidarity, including ODA.

Points arising from this review of ODA include:

1. The Government made a commitment in the United Nations General Assembly that by 2012 ODA would be equivalent to 0.7 percent of the Gross National Product (GNP), an indicator of the country's income. For 2010 the commitment was to provide ODA at 0.6 percent of GNP.
2. Allocations to ODA were increased considerably and by 2008 provided €921 million in aid, which actually achieved the interim target set for 2010.
3. Funding for ODA in 2009 was then cut to €696 million, down €225 million, or 24 percent, relative to aid spending in 2008. This was a far more severe cut than that applied to any other major area of government expenditure, even though ODA at the time only accounted for just over one percent of the total.
4. For 2010 ODA has been cut further to €671 million, now just one percent of gross public expenditure.
5. Correction of continuing massive deficits in the public finances will enforce downward pressure on government spending, until at least 2014, along with pressure to widen and deepen taxation.
6. Exceptional increases in ODA would be required to raise it to a level equivalent to the target of 0.7 percent of national income by 2012. Indeed the Government, in December 2009 has said that its commitment is now to achieve this target by 2015. However, the level of Ireland's ODA in 2010 is likely to meet the individual EU Member State target for 2010 of 0.51 percent of national income.

Best practice is for ODA to be embedded in multi-year programmes agreed with development partners. This was done by Irish Aid but does require multi-year ODA commitments to be

embedded in government expenditure budgeting. All these programmes and their ODA funding commitments are stated, and need to be stated, in money terms, not relative to GNP or any other measure of donor income. This latter GNP percentage measure only seems to be appropriate for encouraging effort-sharing between donor nations. An example would be the EU target for all Member States to provide ODA equivalent to 0.7 percent of national income by 2015.

Achieving the United Nations and EU target by 2015 will require a notable effort in the face of continuing pressure on the Government to reduce expenditure. However this report does provide projections for levels of ODA that would achieve the 0.7 percent target by 2015.

A second challenge is to find ways to ensure that aid programmes are delivered as promised, even when this involves guaranteeing to provide specific amounts of money in each year of their planned life.

**1. Context**

Transition from a small surplus of tax receipts over public expenditure in 2007 to a massive deficit in 2008 was as brutal as it was swift. The deficit was far larger again in 2009 despite widespread and severe cuts in government spending, especially in aid allocations.

**Fig. 1: General Government Revenue, Expenditure and Budget Balance 2000 to 2010**

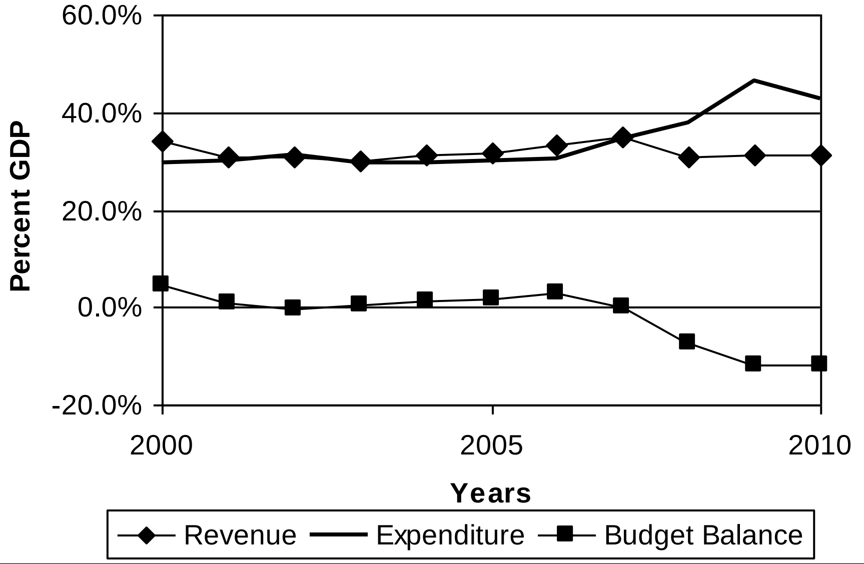



Figure 1 shows this reversal in the General Government Balance (GGB) from a slight surplus in 2007 to a projected deficit of over 11 percent of GDP in 2009 and 2010. Worse still, official projections for the course of the economy and public finances to 2014, in Section 3, show that in every year there would be a major deficit. With these deficits the national debt would grow to a larger and larger proportion of the national income and the cost of servicing this debt would also soar. Clearly the public finances have to be rectified. The Government is also obliged to show how the General Government Deficit will be reduced to less than 3 percent of GDP to conform with the EU Stability and Growth Pact.

Concern about the size of this deficit in Ireland is indeed shared with other EU Member States and particularly with those in the euro zone. In fact the Treaty, Article 99, enjoins Member States to coordinate their economic policies in the Council (European Union, 2006). In Article 104 section (1) the Treaty states that 'Member States shall avoid excessive government deficits'. This has provided the foundation for subsequent regulations. A key development, spurred by planning for monetary union, was agreement on a Stability and Growth Pact. Its main elements were settled at the Dublin meeting of the European Council in December 1996. It was then established in 1997 by resolution of the Council at Amsterdam and the passing of two Council Regulations, numbers 1466 and 1467 of 1997. In its resolution:

‘*The European Council underlines the importance of safeguarding sound government finances as a means to strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation. It is also necessary to ensure that national budgetary policies support stability oriented monetary policies. Adherence to the objective of sound budgetary positions close to balance or in surplus will allow all Member States to deal with normal cyclical fluctuations while keeping the government deficit within the reference value of 3 % of GDP.*’

(European Council, 1997)

These objectives are repeated in its Regulation 1467 ‘on speeding up and clarifying the implementation of the excessive deficit procedure’. This regulation will be reviewed in succeeding paragraphs as its provisions are of immediate relevance to Ireland, especially as it specifies the considerations to be included in any assessment of whether the deficit is excessive. This includes the wording that ‘special consideration shall be given to budgetary efforts towards increasing or maintaining at a high level contributions to fostering international solidarity’ and this would include Official Development Assistance.

Current rules for the Stability and Growth Pact date from its review and refinement by the European Council in 2005, following some years of experience with the euro. The amended Regulation 1467 of 1997 specifies the considerations that the Commission should include in its assessment of whether a Member State has an excessive deficit that is one exceeding the ‘reference level’ of three percent of its Gross Domestic Product (GDP). The Commission’s findings will then inform the Council’s decision on whether the deficit is excessive and if so what requirements, and ultimately what sanctions, would be imposed on the Member State.

Turning to the situation in Ireland, the contraction of the economy exceeded 11 percent in 2009 and is a decline far more adverse than any envisaged in the Stability and Growth Pact. By Contrast, even a 2 percent fall in the GDP in a year is termed a ‘severe contraction’, in the Regulations. Likewise the scale of the General Government Deficit is extreme.

In making its assessment of whether the deficit is excessive the Commission, and the Council acting on its report, is obliged to take account of all relevant factors including:

1. Whether the level of deficit or national debt is due to ‘a negative annual GDP growth rate’ or prolonged under-performance of the economy;
2. The potential rate of growth and prevailing cyclical conditions;
3. The level of investment and whether this exceeds the deficit;

4. Implemention of policies to enhance competitiveness (the Lisbon Agenda) and promotion of research and development;
5. The overall quality of public finances, including their reform and pension reforms too;
6. Financial contributions towards fostering international solidarity.

(European Council Regulation, Number 1467 of 1997, Article 2)

As ODA is essentially an expression of international solidarity it is appropriate to quote the relevant wording of Article 2 point 3 of this Regulation:

> *'Furthermore, the Commission shall give due consideration to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value and which the Member State has put forward to the Commission and to the Council. In that context, special consideration shall be given to budgetary efforts towards increasing or maintaining at a high level financial contributions to fostering international solidarity.'*
> (European Council, 2005).

What is more, funding of international solidarity, particularly through ODA, would be unlikely to add to inflation in the EU as the funds are spent elsewhere.

Should the Council decide that an 'excessive deficit' exists, as it did on 27th April 2009, then it makes recommendations with a view to bringing an end to this situation, as it did that day, in both cases on the recommendation of the Commission. In this case the 'relevant factors' were not considered as the indications were that the deficit was not close to the 3 percent of GDP threshold, neither was it temporary. In addition, in view of the special circumstances the Council was able to allow correction of the deficit in a 'medium term' framework. The Council subsequently set 2014 as the end point for a programme of annual steps to cut the General Government deficit to less than 3 percent of GDP. The Government's proposed Stability Programme to achieve this target was accepted and updates will continue to be provided for the Commission.

An overall impression from this review of the current situation is that great efforts are being devoted to building and maintaining cohesion between Member States. In the present context it is cohesion within the euro zone that is of special importance to ensure that the behaviour of no group destabilises the value of the euro. In addition, it is clear that Member States have Treaty obligations to cooperate in the promotion of financial stability so as to achieve growth in their economies. This has been tested and proven by the current crisis. What a contrast to the 'beggar my neighbour' policies that marked nations' responses to the 'Great Depression' from

1929. For Ireland the crisis has been more acute than in most countries and their support more important.

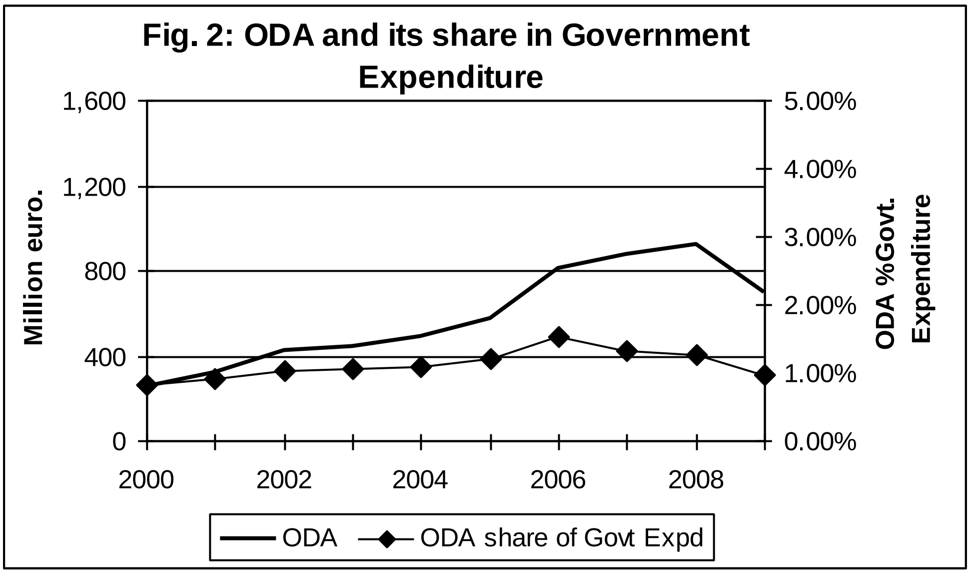
In terms of ODA there has also been a notable show of solidarity in response to the crippling impact of this crisis on many poor countries. For instance the G-20 grouping of all the large economies of the world supported the resolution of the OECD Development Assistance Committee (DAC) to maintain the level of aid in this time of crisis for developing as well as developed countries. The example of the UK is particularly pertinent as it increased its allocation of funds to ODA for 2009 despite a General Government Deficit of five percent of GDP in 2008 and a higher level forecast for 2009. This also reflects the intent of EU resolutions and regulations that aim to avoid 'pro-cyclical' actions. Cutting ODA in a downturn would be 'pro-cyclical' in its effects, particularly on aid recipient countries.

Subsequent sections in this report will review prospects for the economy and, in particular, provide scenarios for government spending on ODA. Before this attention will focus on public spending and the cuts that have been made.

**2. Government Expenditure 2008-10**

Gross voted current expenditure now accounts for four out of every five euro of public expenditure and is thus the main focus of this section. Each of the 41 major headings of expenditure is subject to a vote in Dáil Éireann and features in the annual book of Estimates for the Public Services. Thus International Co-operation is Vote 29 and comprises by far the largest part of Official Development Assistance (ODA). These 41 votes are often amalgamated into 14 groups according to Ministerial responsibilities. Thus Vote 29 falls into the Minister of Foreign Affairs group and is actually the major item in this group.

In 2008 ODA was at an all time high of €921 million reflecting progressive increases in aid, though even then it was just over one percent of total government expenditure. At this level ODA was equivalent to 0.60 percent of Gross National Product (GNP), thus well on the way to meeting the commitment to provide 0.7 percent of GNP by 2012. Then came the cuts as the government reined in public spending. By the time the 2009 Revised Estimates were adopted in April 2009 the cut in aid amounted to €225 million, Figure 2.




Thus, instead of aid going up, as expected, the allocation of €696 million was down by 24 percent. For 2010 ODA of €671 has been projected, that is 27 percent below the 2008 figure (**Table 1: Changes from 2008 in Government Gross Voted Expenditure**). These cuts reflect cuts in the amounts voted to the Foreign Affairs group and it will be noted that over the two years the cumulative percentage cut, at 27 percent, has far exceeded that in any other Ministerial Vote Group.

**Table 1: Changes from 2008 in Government Gross Voted Current Expenditure**

| Ministerial Vote Group | 2008 | Change 2008 to 2009 | Change 2008 to 2010 |
|---|---|---|---|
| | € million | percent | percent |
| Social and Family Affairs | 17,706 | *20%* | *19%* |
| Health and Children | 15,468 | *1%* | *-4%* |
| Education and Science | 8,464 | *2%* | *-3%* |
| Justice Group | 2,565 | *-1%* | *-9%* |
| Agriculture, Fisheries and Food | 1,418 | *2%* | *-8%* |
| Enterprise, Trade and Employment | 1,473 | *-2%* | *5%* |
| Finance Group | 1,264 | *3%* | *1%* |
| Defence | 1,054 | *-3%* | *-11%* |
| Environment, Heritage and Local Government | 954 | *-8%* | *-14%* |
| **Foreign Affairs** | **1,007** | ***-20%*** | ***-26%*** |
| Transport | 733 | *-4%* | *-7%* |
| Arts, Sport and Tourism | 434 | *-7%* | *-15%* |
| Communications, Energy and Natural Resources | 360 | *-1%* | *-5%* |
| Community, Rural and Gaeltacht Affairs | 388 | *-12%* | *-20%* |
| Taoiseach's (including Legal Votes) | 187 | *3%* | *-2%* |
| Unallocated Current Expenditure Adjustments | 0 | | |
| **Total Voted Gross Current Expenditure including carryover of capital** | **53,475** | ***6%*** | ***3%*** |
| *Memorandum note on the composition of Official Development Assistance (ODA)* | | | |
| Vote 29 International Co-operation | 769 | | |
| ODA in other Votes and a contribution to the EU budget | 152 | | |
| **Official Development Assistance (ODA)** | **921** | ***-24%*** | ***-27%*** |

Sources of data: 2008 - 2010, Ireland, Estimates for Public Services.

**3. Trends in the economy: Projections 2009 to 2015**

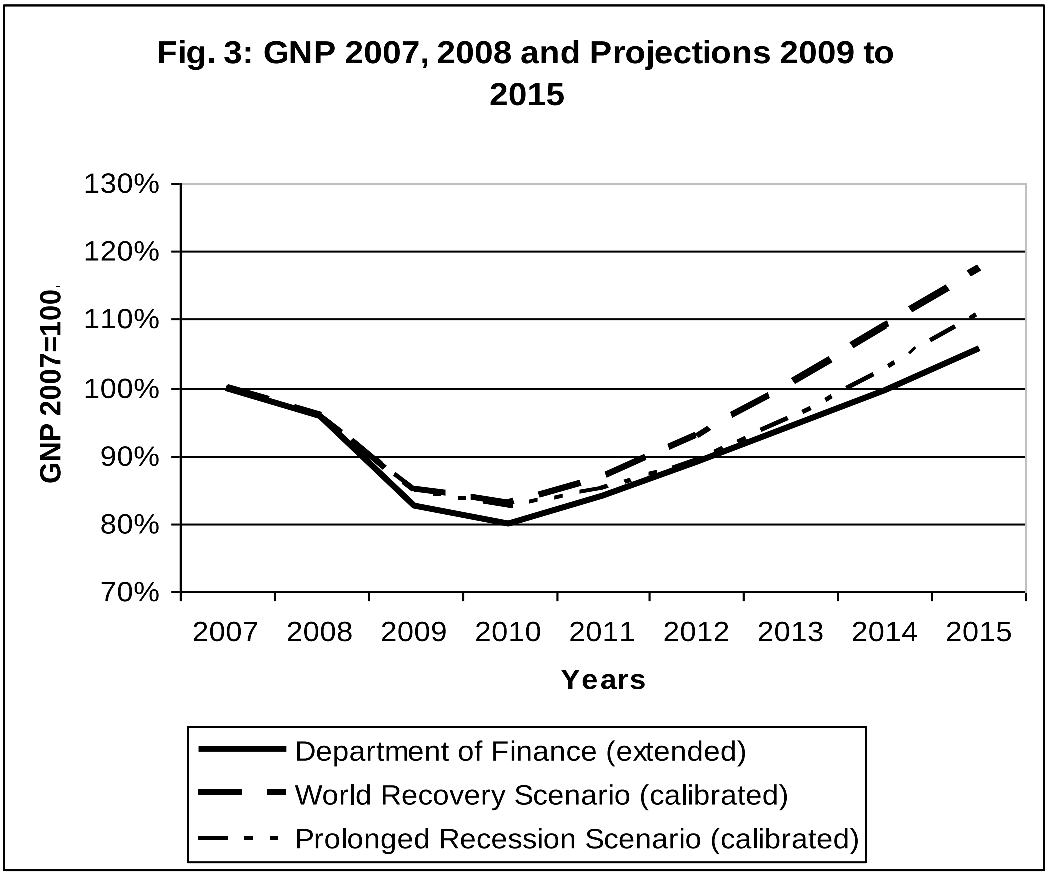
Just as government policies over recent years and a global recession account for the severe contraction of the economy in 2009, so too can domestic policies and external developments promote its regeneration. Indeed, projections of the course of the economy over the coming years largely differ in their assumptions about the pace of global recovery and about the government's budgetary policies.

Before delving into the details of these projections and becoming immersed in numbers, it is well to do a 'reality check'. One number that seems to sum up the difficulties of these times in Ireland is the number of people unemployed. This was 100,000 in mid-2007, was 271,000 in mid-2009 and is likely to approach 300,000 people in 2010[1]. This would amount to 14 people unemployed out of every hundred in the workforce. In poor countries it is hunger that reveals how people are being hit by the recession. In 2007 hunger afflicted an estimated 835 million people in the world. This now exceeds 1,000 million and for every one of these there would be many more in great distress.

Particular reference will be made to projections from the Department of Finance and those from the Economic and Social Research Institute (ESRI) published in May 2009.
Projections for the economy that will be examined are:

1. The projection for 2009-2014, published by the Department of Finance in December 2009 (2009c);
2. The 'World Recovery Scenario' projection for 2009 to 2015 published by the ESRI in May 2009 (Bergin et al., 2009a) and;
3. The 'Prolonged Recession Scenario' projection also included the ESRI May publication to show the effect of delay in the emergence of the global economy from recession relative to the evolution of the national economy projected in the 'World Recovery Scenario'.

[1] Seasonally adjusted data from the CSO Quarterly National Household Survey which are internationally comparable. These data show that 12.4 percent of the labour force were unemployed in the July to September quarter and data from the Live Register indicates that by January 2010 this unemployment rate had risen to 12.7.




All three projections, Figure 1, show the results from simulations of the performance of the economy using comprehensive econometric models. A number of ESRI publications describe their work in this area based on the HERMES model, including the Working Paper on 'The Behaviour of the Irish Economy: Insights from the *HERMES* macro-economic model' (Bergin et al., 2009b).

Comparison of projections from the Department of Finance and the ESRI's 'World Recovery Scenario' shows that while they both show growth in the economy after 2010 they differ in the pace of recovery. The faster recovery projected by the ESRI shows a level of Gross National Product (GNP) in 2014 well above that in 2007, while that level will only just be achieved in 2014 according to the Department of Finance's projection.

Recovery in the public finances is projected to be notably slower than the pick-up in the economy. Projections for the years following those in Figure 1 show that even by 2014 the General Government Balance will still be in deficit, **Table 2.** The projected deficit in 2014, at just under 3 percent of Gross Domestic Product (GDP), would be within that tolerated under the EU Growth and Stability Pact. However, achieving this outcome would require a combination of major increases in tax receipts and reductions in public expenditure. The scale of these changes is indicated by the row of figures for the “net adjustment from ‘Additional Measures’” in Table 2. These figures come from the ‘Ireland – Stability Programme update’ prepared by the Department of Finance (2009c) as required by the EU Council recommendations on ending the ‘excessive deficit’, noted in Section 1.

**Table 2: Government Receipts, Gross expenditure and Balances 2008-2014**

| | 2008 | 2009 F'cast | 2010 Project. | 2011 Project. | 2012 Project. | 2013 Project. | 2014 Project. |
|---|---|---|---|---|---|---|---|
| | € million | | | | | | |
| Total receipts | 56,410 | 51,519 | 50,362 | 49,827 | 52,484 | 55,202 | 57,872 |
| Total gross expenditure | 69,124 | 76,160 | 69,142 | 69,842 | 71,334 | 73,002 | 73,677 |
| *of which* | | | | | | | |
| *Gross voted current expenditure* | *53,475* | *55,957* | *54,940* | *55,183* | *54,854* | *54,910* | *54,971* |
| **Exchequer balance** | **-12,714** | **-24,641** | -18,780 | -20,015 | -18,850 | -17,800 | -15,805 |
| net adjustment from 'Additional Measures' | | | | 2,000 | 4,000 | 5,500 | 6,500 |
| Projected Exchequer Balance (EB) | | | **-18,780** | **-18,015** | **-14,850** | **-12,300** | **-9,305** |
| Net adjustment EB to GGB | -323 | 5,381 | 60 | 985 | 1,880 | 2,850 | 3,295 |
| **General Government Balance (GGB)** | -13,037 | -19,260 | -18,720 | -17,030 | -12,970 | -9,450 | -6,010 |
| **Percent GDP** | **-7.2%** | **-11.7%** | **-11.6%** | **-10.0%** | **-7.2%** | **-4.9%** | **-2.9%** |

Sources of data: Department of Finance (2009c), Monthly Economic Bulletin and other official sources.

Notes:

The Exchequer Balance is the traditional domestic budgetary aggregate which measures Central Government's net surplus or borrowing position. It is the difference between total receipts into and total expenditure out of the Exchequer Account of the Central Fund.

The General Government Balance (GGB) measures the fiscal performance of all arms of Government. The General Government measure also includes elements of accrual accounting while the Exchequer Balance is a cash-based measure.

Figures for General Government receipts and expenditure are calculated in accordance with European standard statistical accounting rules and include Imputed Social Contributions (ESA 95 R63).

A major element in the adjustment of Exchequer Balance figures to figures for the General Government Balance is the adding back of the contribution to the National Pension Reserve Fund that is included in Central Government expenditure. This contribution of pension prefunding was introduced in 1999 at an annual contribution rate of 1% of GNP.

## Government Expenditure 2011 and 2012

Projections to 2014 from the Department of Finance (2009c) show allocations of the total gross voted expenditure between Ministerial Vote Groups for 2011 and 2012, in addition to overall projections. However, these figures do not allow for the 'Additional Measures' needed to achieve the target of a General Government deficit of less than three percent of GDP. One guide as to how these measures might cut expenditure in each Department is provided in the 'Report of the Special Group on Public Services Numbers and Expenditure Programmes', (Department of Finance, 2009b, Volume 1, p. 5, Table 1.4). This Group, 'an bord snip nua', chaired by Colm McCarthy, identified savings amounting to €5,310 million relative to the Revised Estimates for 2009 (Ireland, 2009a).

A small part of the savings proposed by the Group comprise items that are not part of voted Current Gross Expenditure[2]. When these items are removed, the Group's proposal amounts to a reduction of €5,085 million relative to figures in the Revised Estimates for 2009. The result was to bring the gross total of all voted current expenditure down to €51,863, that is very close to €3,000 million below the uncut projection for 2012 in the Department of Finance paper (2009c). It also accounts for three quarters of the €4,000 million deficit reduction to be achieved by 'Additional Measures' projected for 2012.

This seems to be a reasonable scenario in that the Government's announced strategy is to make larger cuts in voted expenditure than it adds to receipts from taxation. In addition, decisions to increase taxation are usually slow to bring in additional revenue, thus it seems reasonable to assume that by 2012 the 'Additional Measures' are likely to reduce public expenditure by €3,000 million and to bring in an additional tax revenue of €1,000 million. The proposals from the Special Group thus seems to provide a basis for projecting allocations to Ministerial Vote Groups and to ODA within the reduced level of Gross Current Expenditure in 2012.

Results from this exercise are given in **Table 3: Gross Expenditure by Ministerial Vote Group after cuts proposed by the Group Chaired by Colm McCarthy**.

[2] These amount to capital savings of €196 million and savings by the Houses of the Oireachtas Commission of €8 million.

**Table 3. Gross Current Expenditure by Ministerial Vote Group after cuts proposed by the Group Chaired by Colm McCarthy**

| **Expenditure headings** | **2009** | ***2012*** | ***Change 2009 to 2012*** |
|---|---|---|---|
| | € million | € million | ***percent*** |
| **Gross Voted Current Expenditure** | **56,838** | **54,854** | |
| Assumed cut in expenditure from 'Additional Measures' | | -3,000 | |
| **Adjusted Gross Voted Current Expenditure** | 56,838 | 51,854 | ***-9%*** |
| *of which:* | | | |
| Social and Family Affairs | 21,258 | *19,409* | *-9%* |
| Health and Children | 15,607 | *14,375* | *-8%* |
| Education and Science | 8,642 | *7,906* | *-9%* |
| Justice Group | 2,534 | *2,398* | *-5%* |
| Agriculture, Fisheries and Food | 1,451 | *1,146* | *-21%* |
| Enterprise, Trade and Employment | 1,450 | *1,280* | *-12%* |
| Finance Group | 1,307 | *1,224* | *-6%* |
| Defence | 1,019 | *966* | *-5%* |
| Environment, Heritage and Local Government | 875 | *745* | *-15%* |
| **Foreign Affairs** | **805** | ***763*** | ***-5%*** |
| Transport | 705 | *578* | *-18%* |
| Arts, Sport and Tourism | 405 | *319* | *-21%* |
| Communications, Energy and Natural Resources | 355 | *332* | *-6%* |
| Community, Rural and Gaeltacht Affairs | 343 | *247* | *-28%* |
| Taoiseach's (including Legal Votes) | 193 | *175* | *-9%* |
| Unallocated Current Expenditure Adjustments | -110 | | |
| **Voted Total Gross Current Expenditure** | **56,838** | ***51,863*** | ***-9%*** |
| *Memorandum note on the composition of Official Development Assistance (ODA)* | | | |
| Vote 29: International Co-operation | 570 | *555* | *-3%* |
| From other Votes and contribution to EU development funds | 126 | *126* | |
| **Total Official Development Assistance (ODA)** | **696** | **681** | ***-2%*** |
| ODA as percentage of GNP | 0.52% | | |

Sources of data: 2009: Department of Finance (2009a). Proposed cuts: Department of Finance (2009b) 'Report of the Special Group on Public Service Numbers and Expenditure Programmes'.

Sources for Memorandum note in addition to the books of estimates:
2007: Irish Aid (2008). Annual Report
2008: Irish Aid (2009). Annual Report
2009: Martin, M (2009). 'Statement on Overseas Development', (7th April).

One result from these calculations was that the allocation for the Department of Foreign Affairs Group came out as €763 million in 2012. This reflects the recommendation in the McCarthy report of a saving in the International Co-operation Vote of €15 million relative to its much reduced level of €570 million in the 2009 Revised Estimates. The corresponding figure for ODA in 2012 would be around €680 million. Expressing this as a percentage of the projected GNP indicates that this level of ODA would be equivalent to 0.47 percent of GNP. The corresponding figure for 2008 was 0.60 percent and for 2010 it is likely to be 0.52 percent of GNP. The text of the McCarthy group report also talks of holding the level of Vote 29 at the same percentage of GNP as in 2009, implying a larger allocation than indicated by applying the recommended €15 million cut.

**Government Expenditure 2013 and 2014**

These years are at the end of the projections provided by the Department of Finance (2009c). That paper gives far less detail for 2013 and 2014 than for previous years and really goes no further than a target for the General Government Balance and indications of the size of the required 'Additional Measures'.

Prospects for the aid budget would vary from the minimalist approach of aiming to keep it at same percentage of GNP as in the EU commitment for 2010, namely 0.51 percent, or raising it so as to meet 0.7 percent by 2012 or by 2015. This later aim was proposed by the McCarthy Group and has been adopted by the Government and is in line with the EU wide commitment. The implications of these different degrees of delivery on aid commitments are explored in the next Section.

## 4. What level of ODA is needed to meet aid commitments?

Answers to this question seem to depend on:

1. What is the degree of 'aid commitment' and
2. Performance of the national economy

**1. Differing degrees of aid commitment**

The Government's 2005 commitment at the UN General Assembly was to increase Official Development Assistance (ODA) to 0.7 percent of Gross National Product (GNP) by 2012. In addition, the Government initially indicated that ODA in 2009 would amount to €914 million. Had that been delivered it would have come close to 0.7 percent of GNP. In fact the ODA budget was set at €696 million for 2009 and €671 for 2010. With these as a starting point a trajectory to reach a projected 0.7 percent of GNP by 2012 is provided in the top rows of **Table 4: Trajectories for ODA under various assumptions**.

A second view of allocations to aid comes from proposals in the McCarthy Report (Department of Finance, 2009c), and the Government's subsequent decision to delay achievement of a level of ODA equivalent to 0.7 percent of GNP until 2015. The projected outcome for ODA of this view is shown in the (b) rows of data in Table 4. The level of ODA in 2012 reflects that taken from the McCarthy Report with a rise in the level of ODA in subsequent years set to achieve the target of 0.7 percent of GNP by 2015.

The third scenario is that the budget for ODA will be set at no lower than 0.51 percent of the projected GNP in any year, hence fulfilling the EU minimum target for 2010. It is a scenario that also seems to reflect the essence of the wording on Irish Aid in Volume II of the McCarthy Report (Department of Finance, 2009b). The results, set (c) in the lowest rows of Table 6, show levels of ODA in 2011 and 2012 above those for scenario (b). In 2012, for example, ODA would be up by €52 million to €733 million. However, relative to Scenario (a) with its 2012 date for ODA at 0.7 percent of GNP, the total amount of ODA over the period 2010 to 2015 would be down from €5,872 million to €5,120 million in Scenario (c), a cumulative drop of €752 million.

**Table 4: Trajectories for ODA under *various commitment scenarios***

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **1. Department of Finance projections for GNP** | | | | | | | | |
| **GNP € Million** | 154,59 | 133,175 | 129,100 | 135,375 | 143,750 | 152,275 | 160,700 | 170,342 |
| **ODA commitment Scenarios** | | | | | | | | |
| **a) ODA target of 0.7 percent of GNP by 2012** | | | | | | | | |
| Percentage of GNP allocated to ODA | 0.60% | 0.52% | 0.52% | 0.60% | **0.70%** | 0.70% | 0.70% | 0.70% |
| ODA € Million | 921 | 696 | 670 | 812 | 1,006 | 1,066 | 1,125 | 1,192 |
| **b) ODA target of 0.7 percent of GNP by 2015** | | | | | | | | |
| Percentage of GNP allocated to ODA | 0.60% | 0.52% | 0.52% | 0.50% | 0.47% | 0.55% | 0.62% | **0.70%** |
| ODA € Million | 921 | 696 | 670 | 680 | 681 | 838 | 996 | 1,192 |
| **c) ODA constrained to be at least 0.51 percent of GNP and to achieve 0.7 percent of GNP by 2015** | | | | | | | | |
| Percentage of GNP allocated to ODA | 0.60% | 0.52% | 0.52% | 0.51% | 0.51% | 0.55% | 0.62% | 0.70% |
| ODA € Million | 921 | 696 | 670 | 690 | 733 | 838 | 996 | **1,192** |

Notes

**Gross National Product (GNP)**

Department of Finance nominal GNP projection for 2014 extended to 2015 at an unchanged 6 percent rate of g

**Official Development Assistance (ODA)**

ODA: 2007 and 2008: Irish Aid Annual Reports

ODA: 2009 & 2010 from the 'Estimates for Public Services'.

ODA 2011 onwards derived from the assumptions shown for each scenario. In Scenario (b) the assumption is that the Government's expenditure projection is reduced through implementation of the recommendation of the Special Group (Department of Finance, 2009c), as shown in Table 3: 'Gross Current Expenditure by Ministerial Vote Group after cuts proposed by the Group Chaired by Colm McCarthy', and then increases to achieve 0.7 percent of GNP by 2015. In Scenario (c) the additional constraint is that ODA is no less than the EU target for 2010 of 0.51 percent of GNP.

### 2. Differing projections for the national economy

This sub-section examines the effect of differing projections for GNP on the amount of ODA when the amount allocated to aid is adjusted so as to achieve annual targets set in terms of percentage of the GNP. For this exercise it is assumed that the ODA percentage of GNP rises gradually from its level in 2009 to achieve 0.7 percent of GNP in 2015. The percentages used are those that emerged from the third view of aid commitments examined above. The results from this third or (c) scenario with GNP from the Department of Finance GNP projections are repeated at the top of **Table 5: Trajectories for ODA with various projections of GNP**. These provide a baseline for comparison with results from applying the same percentage allocations to ODA to the two sets of GNP projections from the ESRI (Bergin et al, 2009a).

**Table 5: Trajectories for ODA under *various projections for GNP***

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Scenario (c): ODA constrained to be at least 0.51 percent of GNP and to achieve 0.7 percent of GNP by 2015** | | | | | | | | |
| **1. Department of Finance projections for GNP** | | | | | | | | |
| GNP € Million¹ | 154,596 | 133,175 | 129,100 | 135,375 | 143,750 | 152,275 | 160,700 | 170,342 |
| Percentage of GNP allocated to ODA | 0.60% | 0.52% | 0.52% | 0.51% | 0.51% | 0.55% | 0.62% | 0.70% |
| ODA € Million | 921 | 696 | 670 | 690 | 733 | 838 | 996 | **1,192** |
| **2. ESRI 'World Recovery' scenario** | | | | | | | | |
| GNP € Million ² | 154,596 | 137,136 | 133,675 | 139,970 | 149,905 | 162,173 | 175,404 | 189,361 |
| Percentage of GNP allocated to ODA | 0.60% | 0.50% | 0.51% | 0.51% | 0.51% | 0.55% | 0.62% | 0.70% |
| ODA € Million | 921 | 696 | 682 | 714 | 765 | 892 | 1,088 | **1,326** |
| **3. ESRI 'Prolonged Recession' scenario** | | | | | | | | |
| GNP € Million² | 154,596 | 137,131 | 133,157 | 137,326 | 144,138 | 153,997 | 165,802 | 179,157 |
| Percentage of GNP allocated to ODA | 0.60% | 0.50% | 0.51% | 0.51% | 0.51% | 0.55% | 0.62% | 0.70% |
| ODA € Million | 921 | 696 | 679 | 700 | 735 | 847 | 1,028 | **1,254** |

Notes

**Gross National Product (GNP)**

¹ Department of Finance nominal GNP projection for 2014 extended to 2015 at an unchanged 6 percent rate of

² ESRI projection calibrated to CSO figure for 2008.

**Official Development Assistance (ODA)**

ODA: 2007 and 2008: Irish Aid Annual Reports

ODA: 2009 & 2010 from the 'Estimates for Public Services'.

ODA 2011 onwards: derived from applying the assumptions in Scenario (c) to GNP projections from the sources shown for each block of results.

Projections of GNP from the ESRI 'World Recovery' scenario show that by 2015 an 0.7 percent allocation to ODA would amount to €1,326 million. This would be €133 million higher than the amount derived from the level of GNP indicated by the Department of Finance projections extended to 2015. The corresponding result from the ESRI 'Prolonged Recession' scenario would be €62 million higher than that from the extended Department of Finance projections.

In practice, setting annual ODA budgets according to a year's target for their percentage of GNP would make it difficult to provide dependable support for multi-annual programmes. In contrast, best practice is for ODA to be embedded in three to five year programmes agreed with development partners (OECD, 2008). This was done by Irish Aid but does require multi-year ODA commitments to be embedded in government expenditure budgeting as these programmes in developing countries are stated in money terms, not relative to GNP or any other measure of donor income. This later percentage measure only seems to be appropriate for encouraging effort sharing between donor nations, an example would be the EU target for all Member States to provide ODA equivalent to 0.7 percent of national income by 2015.

## 5. Conclusions

Development, as a process stretching over many years, requires support to be predictable to achieve optimal results. For many years Ireland, particularly Irish Aid, provided dependable and increasing levels of development assistance through funds allocated to ODA. In fact the level of ODA was well on the way to fulfilling the commitment to allocate 0.7 percent of GNP to ODA by 2012. However when tax receipts fell the government abruptly cut ODA, as a result the 2009 allocation was 24 percent below that for 2008. The cut bore down on the poor countries just as they were hit by reduced receipts from trade, from emigrants' remittances and from direct inward investment, due to severe contraction in the global economy.

The cuts in ODA in 2009, continued to a lesser extent in 2010, have sparked protests and focussed attention on the unpredictability of Irish aid. This report has demonstrated two particular sources of concern:

1) Absence of any guarantee that commitments on the amount of money to be allocated to ODA, and to its development projects stretching over several years, will actually be delivered in full and on time.

2) Weaknesses in implementing a target for ODA equivalent to 0.7 percent of GNP.

    a) Firstly a commitment in the UN to reach this target by 2012 was just recently deferred to 2015 (December 2009). A conservative estimate of the cumulative impact of this decision on our development partners was a reduction in ODA of €752 million over the period 2010 to 2015, according to projections in Table 4.

    b) Secondly even with a dependable progression in the percentage of GNP allocated to ODA to 0.7 percent of GNP, the amounts of money actually provided each year would be hostage to forecasts of the levels of GNP. In 2015 the difference between levels of ODA indicated by the highest and lowest levels of GNP projected for that year would amount to €133 million, Table 5.

Thus ways need to be found to make aid more dependable so that Ireland can once more be a valued and reliable supporter of the development efforts of people in our partner countries who lack so much of what we take for granted.

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