TRÓCAIRE Working for a Just World

September 2009

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

Introduction[1]

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 at least 11% of GDP.[2] This crisis means that very difficult decisions need to be made around levels of public spending across all government departments over the coming years.

This 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 UN target of spending 0.7% of National Income (GNP) on Overseas Development Assistance (ODA) by 2012.[3] Until 2008, Ireland was on track to meet this international target. We are the 6th 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 24%. 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 inward 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.

For the poorest countries, the global recession is the perfect storm. The financial and economic crisis has come on the back of a food and fuel crisis in early 2008. The latest statistics reveal some extremely worrying trends. Over 1 billion people are now going hungry for the first time in history: one in six people on the planet. [4] Unemployment across the developing world is rising fast. As many as 59 million people could lose their jobs in 2009.[5] Zambia, for example, has already lost 8,100 of its 30,000 mining jobs due to falling global demand.[6]

Table 1: Levels of Irish Aid Spending

	2005	2006	2007	2008	2009
Amt € millions	557	794	871	920	696
% GNP	0.41	0.53	0.55	0.59	0.48

Source: Aidwatch Reports 2006, 2007, 2008, Irish Aid Annual Report 2008 & projected aid spend for 2009 from April 2009 Budget

Key points:

- The Government should recognise the disproportionate impact of the rapid aid cuts on the lives of vulnerable people.
- The aid budget has been disproportionately cut already (by 24%) and it is critical that in the December budget there are no further cuts.
- The short-term cuts to the aid budget have resulted in damage to the country's reputation as a progressive donor.
- 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.
- The government should use the 'international solidarity' clause, within the Stability and Growth Pact, as a factor in maintaining aid, despite Ireland's deficit.
- In light of the current crisis, the government should freeze spending on aid at current levels for the next year and set out a realistic programme for getting on track for meeting our target of 0.7% of GNP by 2012.
- Legislation to ensure reliable delivery of aid and to limit the degree of year to year changes in the size of the aid budget should be part of the next programme for government.

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1 Trócaire is grateful to Brendan Riordan for research that fed into this briefing.
2 Department of Finance (2009). 'Macroeconomic and Fiscal Framework 2009 – 2013', [April].
3 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.
4 FAO (2009) 1.02 Billion People Hungry, June Report. http://www.fao.org/news/story/en/item/20568/icode/
5 ILO (2009) Global Employment Trends Update, May http://www.ilo.org/global/About_the_ILO/Media_and_public_information/Press_releases/lang—en/WCMS_106525/index.htm
6 ODI (2009) The Global Financial Crisis & Developing Countries, Apr, p. 22 & 28 http://www.odi.org.uk/resources/download/3251.pdf

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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.[7] Globally, 89 million additional people are estimated to join the ranks of those living in extreme poverty, on less than $1.25 per day, by 2010.[8] 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.

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.

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 cut backs in aid are already resulting in agencies having to make life and death decisions.[9] 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.

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 1% of overall government spending.[10] 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.

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 their promises on aid. The G20 agreed in April to increase aid to the developing world.

Recommendations:

- *The Government should recognise the disproportionate impact of the rapid aid cuts on the lives of vulnerable people.*
- *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.*

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. By the end of 2010, Trócaire will end work in Zambia, Nigeria, Peru and Indonesia and close its office in Angola. As well as this, planned withdrawals from Brazil, Tanzania, the Philippines, Sri Lanka and Haiti will be 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 will end is the Livelihoods Programme in Angola. This programme helps approximately 45,000 people, at an annual cost of €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 is used for children's education and clothing, house maintenance with many families 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 many families the assistance they receive from Trócaire is their only support as the government is not currently reaching them. This work will now stop.

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

8 World Bank. 2009. **Press Release No:**2010/064/EX.C http://go.worldbank.org/W725NIA7R0

9 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

10 Based on projected ODA for 2009 and projected overall Government expenditure for 2009.

Undermining our International Reputation

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.[11]

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 and then Minister for Foreign Affairs, Dermot Ahern was appointed as the UN Secretary General's Special Envoy on UN Reform in 2005.

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 within the current financial year have already led to this reputation being damaged.

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.

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.*

Aid and the Budget Deficit

Of course, our international reputation within the financial markets and economic circles also needs to be protected. The impact of transition from a budget surplus in 2007 to a projected General Government deficit of at least 11% in 2009 on this reputation cannot be understated. There is widespread agreement that the country's public finances need to be rectified.

A key factor in this is our commitments under the Stability and Growth Pact to get our deficit back to less than 3% of GDP.

It could thus be argued that Ireland can no longer afford to spend money on aid.

Yet, according to the EU Regulation on the Stability and Growth Pact,[12] maintaining or increasing money for international solidarity, including aid, will be given special consideration, potentially even gain credit, in relation to the Stability and Growth Pact. So when a country exceeds the 3% reference point, the Council will take into account certain components of government spending, such as ODA, when deciding if this deficit is excessive and if so, what the implications and sanctions of this will be. Aid, moreover, has minimal impact on domestic inflation – one of the key underlying concerns in the Stability and Growth Pact and of international financial markets.

The EU Council of Ministers has ruled that Ireland has an excessive deficit. Yet, as the deficit is reduced, this clause on international solidarity could be used by Ireland as it goes back to the EU on the implications of its deficit. However the strength of using this clause will depend on how Ireland protects international solidarity, i.e. aid, while tackling the deficit.

Recommendation: *The government should maintain ODA spending at current rates and should use the 'international solidarity' clause if this is raised as a factor in discussions at EU level within the Stability and Growth Pact.*

Cuts have already been disproportionate

In the current year, the aid budget has been cut by €224 million. This represents a 24% cut relative to latest figures for ODA spend in 2008. The average cut across other areas of government spending was 6%. It is difficult to make comparisons across government departments, but Table 2 would seem to demonstrate that the aid programme is politically a soft target when it comes to cuts.

11 OECD Development Assistance Committee (2009). Peer Review of Ireland. http://www.oecd.org/document/38/0,3343,en_2649_34603_42592230_1_1_1_1,00.html

12 European Council Regulation 1467, 1997, Article 2. " The Council shall give 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... In that context, special consideration shall be given to budgetary efforts towards increasing or maintaining at a high financial level financial contributions to fostering international solidarity." http://eur-lex.europa.eu/LexUriServ/site/en/consleg/1997/R/01997R1467-20050727-en.pdf

Table 2: Cuts in Different Areas of Government Spending in 2009

Area of Voted Expenditure	% Change from '08
Taoiseach's (including Legal Votes)	0
Finance Group	-2
Justice Group	-5
Environment, Heritage and Local Government	-8
Education and Science	+2
Community, Rural and Gaeltacht Affairs	-12
Foreign Affairs	**-20**
Communications, Energy and Natural Resources	-1
Agriculture, Fisheries and Food	+6
Transport	-4
Health and Children	0
Enterprise, Trade and Employment	-2
Arts, Sport and Tourism	-7
Defence	-4
Social and Family Affairs	+20
Unallocated Current Expenditure Adjustments	
Total Voted Gross Current Expenditure	+6
Total Official Development Assistance	**-24**

Source: Department of Finance (2009) Macroeconomic and Fiscal Framework 2009-2013.

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 repeatedly stated its intention to meet the UN target of spending 0.7% of GNP on ODA by 2012. In the current economic climate, meeting this goal should paradoxically become more attainable as GNP has declined so dramatically and growth is not expected to resume for at least one more year. Ironically, if the government had retained spending at 2008 levels, it would have most likely surpassed its interim target of spending 0.6% of GNP in ODA by 2010![13] Having made unprecedented, disproportional cuts of 24% in 2009, meeting this target by 2012 now looks even more difficult.

However, if aid is frozen at current levels in the next budget, Ireland will be in a better position to meet the 0.7% target as the economy begins to recover. If the aid budget is frozen in the December budget for 2010, ODA in monetary terms would remain at projected 2009 levels, €696 million, while ODA as a percentage share of GNP would increase to 0.5%[1] as the economy declines further, as predicted, over the coming year. When the economy and our GNP improve in 2011, Ireland should be in a position to incrementally increase its 2011 and 2012 ODA levels to reach the 0.7% target by 2012.

Recommendation: *In the light of the current crisis, the government should freeze spending on aid at its current levels in the next budget and set out a realistic programme for getting on track for meeting the EU aid target of 0.7% by 2012.*

Legislation to ensure reliable delivery of aid

The unprecedented cuts to the aid budget this year, 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. In addition, when the aid allocation is based on its percentage of predicted national income, it is very susceptible to changes in the rate of economic growth – both in boom times and bust. 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.

Ireland cannot unilaterally abandon the internationally agreed commitment to 0.7% without a new agreement being in place. At the same time, however, 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 predicable ways. Serious consideration should be given to reforming the present way in which aid is voted on annually, through setting limits on the degree to which the amount of aid is changed in any given year. Such a measure would enable core programmes to be shielded from very damaging fluctuations in delivery of aid.

Recommendation: *Legislation to ensure reliable delivery of aid and to limit the degree of year to year changes in the size of the aid budget should be part of the next programme for government.*

13 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

14 Based on projected GNP figures from Department of Finance (2009) Macro Economic and Fiscal Framework: 2009:13