

## Economic Commentary

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### *Thinking Strategically about Overseas Assistance*

May 2013

#### Synopsis

Ireland gives generously to the developing world and has done so over many years. Independently from official assistance from the government, a little known fact is that no other developed country gives more in private funds to developing countries, relative to gross national income, than Ireland. These funds originate from individuals and businesses, channelled through non-governmental organisations (NGOs), and are done so by people's choices. Ireland's generosity – from official and non-official sources – can be interpreted as part of the country's international openness and may yield longer-term benefits in terms of new trade and investment opportunities over the years and decades to come, as the world economic order changes during the century and a more mature relationship between developed and developing countries unfolds. The traditional donor-recipient model is coming under review and greater recognition is being given to partnership-based approaches based on economic impacts at home as well as abroad.

## Introduction

The 2006 White Paper on Irish Aid placed the fight against world poverty at the heart of Ireland's foreign policy and set out the guiding principles of the overseas assistance programme. The government's Review of the White Paper was announced in June 2011 and its terms of reference included examination of the progress made by Irish Aid, and the changing national and international contexts.<sup>1</sup>

There are a number of strands to the debate on overseas assistance – including whether such a small, heavily indebted nation as Ireland should be devoting apparently so much money to the developing world in these times of unprecedented economic challenges at home.

It is therefore instructive to step back and take a dispassionate view, with an eye on the facts, and to consider the bigger, longer-term picture of Ireland's role in overseas assistance and the potential benefits as the world economic order changes during the century ahead. For example, some of the fastest growing economies in the world are located in sub-Saharan Africa.<sup>2</sup>

## Overseas Development Assistance (ODA)

The form of overseas assistance most commonly discussed in the media is Overseas Development Assistance (ODA). This is official assistance to developing countries channelled through government (i.e. from taxpayers). ODA forms the basis of the United Nations' target for developed countries to donate 0.7% of their gross national income to developing countries by 2015. However, of the 23 largest overseas assistance donating countries in the world, which include Ireland, only five achieved this threshold in 2011 – Sweden (1.02%), Norway (1%), Luxembourg (0.99%), Denmark (0.86%) and The Netherlands (0.75%).

The corresponding figure for Ireland was 0.51%, ahead of the figure for all developed countries (0.31%) but still some way short of the 0.7% target in 2015. In absolute terms, Ireland's ODA amounted to €639m last year, or less than 1% of general government expenditure. The amount is down substantially on the figure in 2008, reflecting the severity of the economic crisis.

It seems unlikely that Ireland, or most other developed countries, will meet the 0.7% target by 2015, which might be pushed back to a later year (again) or re-considered (the UN Millennium Development Goals were recently discussed at the world hunger conference in Dublin).

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<sup>1</sup> The government's Review and Policy on International Development were published recently and can be found at <http://www.dci.gov.ie/about-us/policy-for-international-development/>.

<sup>2</sup> According to the International Monetary Fund's (IMF's) Regional Economic Outlook Report for sub-Saharan Africa (October 2012), economic conditions in this part of the African continent have remained generally robust despite a sluggish global economy. The IMF considers that the near-term outlook for the region remains broadly positive, and growth is projected at 5.25% this year. Most low-income countries are projected to continue to grow strongly, supported by domestic demand, including from investment. At the same time, however, PMCA considers that longer-term challenges for the region, which include political and institutional stability, and more integrated international trade.

## Another Form of Overseas Assistance – Gross Outflow from Private Sources

Nevertheless, there is another form of assistance to the developing world and one which no other developed country comes close to Ireland relative to gross national income – a little-known and therefore little-appreciated fact. The specific overseas assistance in question is termed by the Organisation for Economic Cooperation and Development (OECD) (who compiles the data) as ‘Gross Outflow from Private Sources’ and basically constitutes assistance from Irish residents (of their own free will) to the developing world, in which non-governmental organisations (NGOs) play a key role in the channelling process.

The ratio of Gross Outflow from Private Sources to gross national income (a similar measure of national income to gross national product, GNP, and used for international benchmarking and comparison) was highest among the world’s principal assistance donating countries in Ireland, where the country attained a ratio of 0.22% in 2011, equivalent to roughly €300m. The corresponding figure for the total of the overseas assistance donating (DAC or Development Assistance Committee) countries was 0.07% (there is no UN target for this form of overseas assistance). As the table of analysis below reveals, Ireland has led the international league table in this regard for many years and the 0.22% figure achieved in 2011 represented an increase on the 0.18% and 0.16% in 2010 and 2009 respectively, in turn illustrating the generosity of the Irish people even in these most austere times and remembering that this non-official form of overseas assistance is given by choice.

**Table 1: Ireland’s International Standing in Overseas Development Assistance (ODA) and Gross Outflow from Private Sources (2002-2011)**

International Development Variable	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<i>Gross National Income (GNI)</i>										
DAC Total (USDm)	25,387,417	28,462,964	31,602,070	33,198,422	35,057,497	38,227,032	40,438,100	38,482,578	40,141,090	43,121,582
Ireland (USDm)	98,863	127,604	156,186	171,340	188,888	216,152	224,880	184,655	171,260	178,394
<i>Official Development Assistance (ODA)</i>										
DAC Total (USDm)	58,575	69,432	79,854	107,838	104,814	104,206	121,954	119,787	128,466	134,038
Ireland (USDm)	398	504	607	719	1,022	1,192	1,328	1,006	895	914
DAC Total (% GNI)	0.23%	0.24%	0.25%	0.32%	0.30%	0.27%	0.30%	0.31%	0.32%	0.31%
Ireland (% GNI)	0.40%	0.39%	0.39%	0.42%	0.54%	0.55%	0.59%	0.54%	0.52%	0.51%
<i>Gross Outflow from Private Sources</i>										
DAC Total (USDm)	10,105	11,760	13,372	16,559	16,743	20,482	26,241	24,186	32,341	31,951
Ireland (USDm)	134	357	329	438	439	450	450	300	300	400
DAC Total (% GNI)	0.04%	0.04%	0.04%	0.05%	0.05%	0.05%	0.06%	0.06%	0.08%	0.07%
Ireland (% GNI)	0.14%	0.28%	0.21%	0.26%	0.23%	0.21%	0.20%	0.16%	0.18%	0.22%

Source: OECD data, PMCA analysis.

Note: DAC refers to the Development Assistance Committee countries made up of the 23 largest overseas assistance donating countries in the world, including Ireland.

## Potential Strategic Value of Overseas Assistance

Looking at the bigger picture, Ireland's commitment to overseas assistance over many years (from both official and private sources) can be viewed as further illustration of the country's openness, which has earned for Ireland significant 'goodwill' internationally. Through its overseas assistance networks across the developing world, Ireland is well-positioned in respect of realising new trade and investment opportunities likely to emerge in the years and decades to come, as the world economic order changes and newly emerging markets become more apparent.

These opportunities are being recognised by the Department of Foreign Affairs and Trade, and by NGOs, who together are beginning to lay the foundations for a more economically mature relationship between Ireland and developing countries having the potential to benefit all concerned. The traditional donor-recipient model of the past is coming under review and greater recognition is being given to partnership-based approaches based on economic impacts at home as well as abroad.

Initiatives include the Africa-Ireland Economic Forum and Winning Business in Africa, which estimates opportunities totalling €12 billion for Irish firms over the next five years. The most significant opportunities for Ireland are expected to occur in agri-food, consumer products and infrastructure – sectors in which Ireland possesses comparative advantages internationally and which can help Irish entrepreneurs to create and sustain jobs at home.

The business case for a more mature relationship between Ireland and the developing world is strong. The generosity of Ireland and its residents puts it in a strong position to realise the opportunities now presenting themselves. Reducing assistance, whether official or private, in the short-term may prove myopic and counter-productive when the bigger, longer-term picture of the changing world economic order suggests otherwise. Perhaps this is what Microsoft founder and philanthropist Bill Gates had in mind on his recent visit to Ireland when he expressed hope that EU countries would not cut their overseas assistance budgets.

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