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## **THE ROLE OF THE EUROPEAN UNION IN INTERNATIONAL DEVELOPMENT SUPPORT SYSTEM**

### **1. Introduction**

One of the most important problems of global economy and society is poverty of one sixth of the world's population (over 1.1 billion people). To overcome poverty and danger connected with it, the policy supporting underdeveloped countries is carried out from the fifties of the 20<sup>th</sup> century. At the beginning, it was based on neo-liberal conceptions – development would have been initiated through leading in the solutions which functioned successfully in developed countries. The most important paradigm was Washington Consensus but its results on growth, employment and poverty reduction in many countries were very disappointing. Nowadays, the international policy is based on Millennium Development Goals. The paper's goal is to show the key role of EU in international development assistance system at the background of comparison with other donors' activities and global policy efficiency.

### **2. Intergovernmental aid as the key factor of poor countries development**

The main features of Washington Consensus were: belief in market mechanism efficiency, consequent reduction of protectionism and of active state intervention as well as the restrict policy-mix. At the beginning, in few countries the realization of the consensus requirements turned out to be successful. It mainly referred to South-East Asia – Indonesia, Thailand and South Korea, where the growth rate was high in the first half of the 1980s. Monetary and financial crises and the economic decline of the second half of the 1990s illustrate neo-liberal strategies as not always

sufficient. Implemented solutions considered, in too small extent, social, cultural, religious, geographical factors and specific problems of particular countries. According to J. Stiglitz an important disadvantage was too fast pace of the reforms (“shock therapy”), a lack of proper sequence of the reforms stages, passing over the time factor [Stiglitz 2004, p. 40]. It resulted in many negative social consequences – impoverishment of societies, incomes inequality, unemployment growth [Bukowski, Zięba 2009, p. 30]. The situation of Third World countries worsened as the result of debt crises.

The insufficiency of realized activities was the stimulus for searching the way of changes in international policy. Within the Millennium Declaration from 2000, it was pointed out that the increasing of non-repayable development aid is necessary. Theoretical justification could be contemporary reinterpretation of Nurkse “Poverty Trap” conception presented by J. Sachs. The main factor of long term perspective poverty is decreasing level of capital *per capita*. It is the result of higher population growth rate than accumulation growth rate. Consequently, there is a lack of investment financing sources and low state-budget revenues. Low level of public and private investments decreases economic growth. Low level of GDI is not enough to fulfil the basic needs so the level of domestic savings is very low. The effect is decreasing level of capital *per capita*.

According to J. Sachs there are six kinds of capital necessary for development: human capital, infrastructure capital, material capital, natural capital, knowledge capital and institutional capital [Sachs 2006, p. 263]. Supposing that the main factor of Nurkse “Poverty trap” is a lack of these kinds of capital, foreign governmental aid is necessary to stimulate the development of Third World countries. It should be transferred through three streams: little value humanitarian aid for households, little value support for private enterprises for specific initiatives (such as micro-credits) and the biggest value support for public investments building the 6 kinds of capital for state public budget. If the support is continued during long-term perspective and the aid is being sufficiently absorbed by recipient countries, it should influence the increase of capital *per capita* and investments level. Thanks to that, economic growth rate is higher and family income goes up to the level which is sufficient to fulfil basic needs. Consequently, domestic savings grow what enables the accumulation of capital and development takes place. By means of it foreign aid takes on investment character. To efficiently absorb development support public sector should invest resources into building the six kinds of capital which are mentioned above [Sachs 2006, pp. 257-266].

In the 1970s the United Nations took on an obligation to increase the value of support for poor countries to 0.7% GNI of developed countries associated in the Organization of Economic Cooperation and Development (OECD). Together with its establishment the Development Assistance Committee (DAC/OECD) was set up. It functions as the consultation and cooperation forum gathering the most

important donor countries. It has a great importance in establishing priorities and strategies as well as in leading in programmes and multilateral projects. Nowadays global development policy is based on the Millennium Development Goals (MDG) described in UN Millennium Declaration from 2000:

Goal 1: Eradicate extreme poverty and hunger.

Goal 2: Achieve universal primary education.

Goal 3: Promote gender equality and empower women.

Goal 4: Reduce child mortality.

Goal 5: Improve maternal health.

Goal 6: Combat HIV/AIDS, malaria and other diseases.

Goal 7: Ensure environmental sustainability.

Goal 8: Develop a global partnership for development [*The Millennium...* 2008, p. 3].

To achieve the goals the Millennium Project was established in the structure of UN agendas with the leading role of UNDP and wider cooperation with the governments of recipient countries. The philosophy reorientation took place – from development aid policy to development cooperation policy. The approach of searching a new development formula was connected with the globalization influence on the situation of poor countries. They did not take profits from the process but were more endangered by an economic crisis [Obstfeld 2009, pp. 8-11].

To characterize international policy supporting development there is a need to describe such important categories as *Official Development Assistance (ODA)* and *Official Assistance OA*. ODA was defined in 1969 by DAC/OECD as aid offered by countries (bilateral) and international organizations (multilateral) in a form of financial, material or technical-advisory support for underdeveloped countries. OA was created in the end of the eighties after the collapse of so called real socialism system and it refers to the transition countries. Nowadays these countries are EU member states and play a role of ODA donors. They are classified as Non-DAC Countries. OA has the same features as ODA. Financial assistance of ODA and OA involves donations, debt relief of credits, transferring consumption and production goods, trainings advisory and expertise. The examples of initiatives are independent media building, setting up NGOs, education development, water supply investments, support for health services (mainly to combat HIV/AIDS and malaria), promoting effective land use methods. The main goals of ODA are: poverty reduction, sustainable development, democratic reforms, keeping human rights, civil society building, conflicts prevention, global security promotion. The assistance excludes military aims financing. The list of countries supported by ODA is established by OECD/DAC (mainly south Asia, sub-Saharan countries).

### **3. Main problems of development aid system functioning**

The value of annual support necessary to achieve the goals is 152 billion dollars in 2010 (including 89 billion dollars directly for MDG) and 195 billion

dollars in 2015 (including 135 directly for MDG) what is at least 0.7% GNI of high developed countries (the DAC – donors). Important fact which has to be taken into consideration is that only 58% of ODA is destined for Millennium Goals. 19% of ODA is spent for debt relief initiatives and the rest of financial resources is allocated in humanitarian aid and programmes in Iraq and Afghanistan. ODA did not involve transfers from private sources and from NGOs (7 billion dollars). The data referring to the value of ODA in the first decade of the 21<sup>th</sup> century is presented in Table 1.

Table 1. The Official Development Assistance (ODA) in the years 2001-2008 (in USD billions)

	2001	2002	2003	2004	2005	2006	2007	2008
DAC Countries (in current prices)	52.4	58.3	69.1	79.5	107.1	104.4	103.5	119.8
DAC Countries (in constant prices – 2007)	76.5	82.0	85.2	90.0	117.8	112.7	103.5	114.0
Non-DAC Countries (in current prices)	1.2	3.2	3.5	3.7	3.9	5.2	5.6	1.6
Non-DAC Countries (in constant prices – 2007)	1.8	4.6	4.3	4.4	4.4	5.7	5.6	1.6
Total (in current prices)	53.6	61.5	72.6	83.2	111.0	109.6	109.1	121.4
Total in (constant prices – 2007)	78.3	86.6	89.5	94.4	122.2	118.4	109.1	115.6

Source: based on OECD data on line: <http://stats.oecd.org>.

The value of assistance is not enough and the disadvantage results in another problem – the way and form in which development strategies are prepared. IMF and WB determine with donors what value of aid could be spent and inform recipients. They are projected and being adjusted to available allocation – not vice versa. Consequently there are no possibilities of investments building wide comprehended capital necessary for development. The recipient countries willingly absorb too little subsidies but only pretend reforms programmes and consequently activities aimed at Millennium Goals achievement are insufficient.

To ensure allocations needed for Millennium Goals international society took and partly realized many commitments. It had place where important development events were organized: the conference in Monterrey in 2002 or G-8 Summit in Gleneagles in 2005. Besides initiatives aimed at the improvement of development assistance sufficiency was undertaken. In that context key documents are *The Paris Declaration on Aid Effectiveness* and *The Accra Agenda for Action* from 2008. One of the results of G-8 summit in Gleneagles in 2005 was the declaration of doubling until 2010 the sum of annual aid offered by developed countries from 80 in 2004 to 160 billion dollars in 2010 (130 billion dollars at constant 2004 prices) including the increase of support for Africa from 25 billion dollars in 2004 to 50 billion dollars in 2010. Another solution agreed during the summit was *Multilateral Debt Relief Initiative* (MRDI) – the debts of the least developed countries (involved in HICP) which they had towards IMF and WB had been cancelled. The sum of relief was 55 billion dollars. Unfortunately wealthy countries did not present any concrete

terms – no tables (under pressure of the USA. Admittedly the operation of debt relief was carried out, but apart from that support in 2005-2006 it increased only by 2%. Taking into account the fact that there is a need for additional allocations for infrastructure, climate change reduction, other environmental measures or rebuilding the countries destroyed by wars, the aid should increase to the previously supposed level – 0.7 PKB until 2015. Until now only 5 from 22 states of DAC/OECD achieved the goal so at least 10-15 billion dollars must be still added to current forward spending plans if donors are to meet their current 2010 commitments. Besides, the support plan still runs improperly, there is a lack of clearly defined competence division, especially from USA side where there is no insight into African countries. It means the transfers are unpredictable what could bring serious problems for poor countries' budgets. In some of them the value of foreign support equals 20-30% of financial sources distributed by the government. During Third High Level Forum on Aid Effectiveness, hosted by the Government of Ghana and organized by OECD and the World Bank, developed and developing countries agreed to take bold steps to reform the way in which the aid is given and spent and endorsed the Accra Agenda for Action. Key points are the continuation of *The Paris Declaration on Aid Effectiveness*: predictability (donors will provide 3-5 year forward information on their planned aid to partner countries), country systems (partner country systems will be used to deliver aid as the first option, rather than donor systems), conditionality (donors will switch from reliance on prescriptive conditions about how and when aid money is spent to conditions based on the developing country's own development objectives), untying (donors will relax restrictions that prevent developing countries from buying the goods and services they need from whomever and wherever they can get the best quality at the lowest price).

Another important Millennium programme problem is overcoming the weakness of recipient countries institutions. There was introduced the requirement of obligation to the countries using the policy which will ensure the efficient realization of development activities. It means the decentralization of projects management, involved staff training, introduction of e-techniques as well as the audits and control systems. These conditions are aimed at excluding improperly governed countries from the assistance (dictators, corruption, a lack of basic civil liberties). They should also enable the right direction of the transfers absorption. It will influence disadvantageously social situation in excluded countries but it can effectively prevent from the wastage of international aid what is often the accusation of policy which is carried out. Every recipient country has to prepare own development strategy built with the required wide range of society participation (including NGOs) and accepted and financed by organizations representing the donors. It is called ownership principle which is aimed at increasing the role of local authorities and societies as partners in cooperation. They have the most adequate knowledge on specific poor countries situation and priority initiatives which should be

implemented. Domestic strategy based on Millennium goals should contain proper diagnosis of needs and problems, investments plan adjusted to its financial plan, plan of aid offered by donors and plan of public investments management. The last element should consider the practical aspect of administration functioning what should ensure the effectiveness of public investments projects [Sachs 2006, pp. 273-275]. In that context an important task is to allocate a part of support in projects of capacity building – developing institutions and organizations necessary to effective absorption – (education, back migrations of experts).

Sufficient realization of development policy faces many other problems such as tying of aid and its dependence on particular political interests. Because of the limited capacity of the paper they will not be precisely described. Global solutions mentioned above were established for diminishing the difficulties but until now we cannot observe successful practical results.

#### 4. European Commission and EU member states as leading actors of international development assistance

The most important actors of development assistance system are: United Nations agendas (UNDP, FAO, UNICEF, UNCTAD, UNEP, ILO, WHO, WTO and others), *Bretton Woods* organizations (International Monetary Fund – IMF, World Bank Group – WB), European Commission, OECD/DAC (Development Assistance Committee), the donors and the recipient countries. The data referring to the value of ODA given by the main groups of donors are presented in Table 2.

Table 2. The Official Development Assistance (ODA) by the main groups of donors in the years 2001-2008 (in USD billions)

	2001	2002	2003	2004	2005	2006	2007	2008
G7 (in current prices)	38.2	42.7	49.9	57.6	80.8	75.5	69.5	80.8
G7 (in constant prices – 2007)	51.2	56.3	59.5	63.7	87.4	80.5	69.5	77.7
European Commission (in current prices)	5.9	5.5	7.2	8.7	9.4	10.3	11.6	13.4
European Commission (in constant prices – 2007)	10.3	8.7	9.4	10.2	10.8	11.4	11.6	12.4
EU – DAC Countries (in current prices)	26.3	29.9	37.1	42.8	55.7	59.0	61.5	70.2
EU – DAC Countries (in constant prices – 2007)	45.1	47.5	48.8	50.1	64.1	65.9	61.5	66.8
USA (in current prices)	11.5	13.3	16.3	19.7	27.9	23.5	21.7	26.0
USA (in constant prices – 2007)	13.4	15.3	18.4	21.6	29.6	24.2	21.7	25.4
Other Donor Countries (in current prices)	0.09	0.13	0.11	0.5	0.7	0.8	0.9	–
Other Donor Countries (in constant prices – 2007)	0.13	0.19	0.14	0.6	0.7	0.8	0.9	–

Source: based on OECD data on line: <http://stats.oecd.org>.

Development aid is financed by the donors, WB and regional development banks (for example African Bank of Development) and it is transferred in the frame of multilateral and bilateral initiatives. The multilateral ones are organized

by international organizations. Their value equals approximately 30% of ODA. The highest allocation is designed by the European Commission (EC) – about 30% of the entire multilateral support. The other important organizations are UN agendas (25%), International Development Assistance which is a member of World Bank group (20%) and regional banks (10%). The largest donors of gross bilateral ODA which is financed by developed countries were the United States (26.9 billion dollars), Japan (17.4 billion dollars), Germany (15.9 billion dollars), France (12.4 billion dollars) and the United Kingdom (11.8 billion dollars). The share of the most important donors could be compared according to data from Table 3.

Table 3. The most important donors percentage share in total value of the Official Development Assistance (ODA)

	2001	2002	2003	2004	2005	2006	2007	2008
DAC countries	97.7	94.7	95.1	95.5	96.4	95.2	94.8	98.6
Non-DAC countries	2.3	5.3	4.9	4.5	3.6	4.8	5.2	1.4
Total including:	100	100	100	100	100	100	100	100
USA	21.5	21.6	18.2	23.6	25.1	21.4	19.8	21.4
EU – DAC countries	49.0	48.6	51.1	51.4	50.1	53.8	56.3	57.8
Japan	18.2	15.6	12.2	10.8	11.8	10.0	7.0	7.7
Canada	2.7	3.2	2.7	3.1	3.4	3.3	3.7	3.8
Australia	1.4	1.4	1.6	1.8	1.5	1.9	2.4	2.6
Arab countries	1.3	4.4	3.7	2.5	1.3	2.2	2.3	*
Other countries	5.9	5.2	10.5	6.8	6.8	7.4	8.5	*
European Commission**	11.0	8.9	9.9	10.4	8.4	9.3	10.6	11.0

\* No data available.

\*\* The support managed by EC is included in the value of UE-DAC countries assistance.

Source: based on OECD data on line: <http://stats.oecd.org>.

In the presently functioning system the most important role is played by IMF and World Bank group including International Bank for Reconstruction and Development (IBRD) and IDA. IBRD and IDA are not donors of international aid. They grant low interest rate loans for primary education, health services and water delivery systems. IMF – except for granting the loans – creates recommendations and requirements which are a base of reforms strategies prepared and led in by developing countries. An important initiative of the organizations is HICP – *Heavy Indebted Poor Countries*. Thanks to it the debts of 27 states included in the programme were reduced from 77 billion dollars to 26 billion dollars.

Bretton Wood's organizations cooperate in too small extent with UN agendas – more specialized in solving specific underdeveloped countries problems. It is the result of political will of the most important donors – mainly the USA which have much stronger influence on IMF and WB functioning than on UN. Owing to that fact, they have better control over the allocated funds and can direct them in a way

adjusted to their political interest. Consequently, the system is incoherent. Its improvement aimed at the assurance of efficient transfers flow and their proper destination should be based on the transmission of competence to one UN agenda (for example UNDP). Otherwise, the system will remain incoherent – it will function as a set of weakly coordinated projects realized by particular organizations.

The data presented in Tables 2 and 3 show how important role in international development aid system is played by the European Union, including European Commission (EC) and Directorate General for Development (DGD). Formally, the person responsible for the activities is a UE Commissioner of Development and Humanitarian Aid. They have much stronger political will than other donors and dispose the highest financial sources among all international organizations. The EC funds are mainly directed into technical co-operation activities and humanitarian aid and are donated by EU member states. In spite of that, EU-15 countries organize support individually, in their own scope, which means that EU development aid is granted by combined multilateral and bilateral assistance. DGD's goal is creating the global and sectoral development policies in such activities as connections between trade and development, regional integration and cooperation, support for macro economical policy, access to public goods, transport, rural development, and capacity building. Important issues are also: human rights (including children), gender equity and environment protection [Szczyckiński 2009, p. 108]. The aid is mainly directed to sub-Saharan Africa and the regions of Caribbean, Pacific and India Ocean.

An important EU role is that it initiates assistance and exerts pressure on international society. It can be stated that EU tries to be a leader of creating the global policy – in a similar way as in relation to international environment protection. It is worth stressing that as a result of Monterrey declaration, EU member states pledged to increase till 2006 an average level of aid by 0.39% of their GNI with minimal ratio 0.33% GNI for particular countries. The indicator's value was achieved by 2005 (0.44% GNI) and sustained by 2008 (0.42% GNI). After the next event which was important for Millennium Goals policy improvement – UN Summit in New York in 2005, the UE Council made a decision on increasing the support for poor countries by 0.56% of GNI till 2010 and 0.7% by 2015 with minimal ratio 0.51% GNI for particular member states. Among five countries that exceeded until now the United Nations target of 0.7% of GNI, there are four UE member states (Denmark, Luxembourg, the Netherlands, Sweden) and Norway. Table 4 contains data illustrating a practical aspect of present situation at the matter.

In 2008 the allocation of DAC-UE development assistance was 70.2 billion dollars and it made 57.8% of entire ODA. The allocations of UE-DAC countries and the share of ODA in their GNI systematically grow up. These indicators are much higher than in the other great world donors – the USA and Japan. It proves growing importance of EU for Millennium Goals' achievement. Unfortunately it cannot

Table 4. The Official Development Assistance (ODA) as a percentage of the most important donors' Gross National Income (GNI)

	2001	2002	2003	2004	2005	2006	2007	2008
<b>DAC Countries</b>	<b>0.22</b>	<b>0.23</b>	<b>0.25</b>	<b>0.26</b>	<b>0.33</b>	<b>0.31</b>	<b>0.28</b>	<b>0.3</b>
USA	0.11	0.13	0.15	0.17	0.23	0.18	0.16	0.18
EU – DAC Countries	0.33	0.35	0.35	0.35	0.44	0.43	0.39	0.42
G7	0.18	0.2	0.21	0.22	0.3	0.27	0.23	0.25
Great Britain	0.32	0.31	0.34	0.36	0.47	0.51	0.35	0.43
Germany	0.27	0.27	0.28	0.28	0.36	0.36	0.37	0.38
France	0.31	0.37	0.4	0.41	0.47	0.47	0.38	0.39
Norway	0.8	0.89	0.92	0.87	0.94	0.89	0.95	0.89
Australia	0.25	0.26	0.25	0.25	0.25	0.3	0.32	0.34
Japan	0.23	0.23	0.2	0.19	0.28	0.25	0.17	0.18

Source: own calculations based on OECD data, <http://stats.oecd.org>.

be stated in relation to the policy of the USA. However, in 2008 we can observe the growth of the adequate allocation but in 2005-2007 the value of support declined. One of the reasons is that the amount in 2005 was high, when the USA reduced all debts of Iraq. The development transfers of the USA could be compared to the subsidy for American company AIG in the age of world's financial crisis – 180 billion dollars. Another point of reference could be US federal budget expenditure for military aims – 600 USD billion per year (including the cost of Iraq war – 100 billion per year). It is worth stressing that one of the most crucial reasons of growing importance of terrorist movements (mainly in Muslim countries) is a wide range of extreme and moderate poverty. Opinions about that effective war against terrorism should not concentrate on military activities but should be based on poverty reduction which seems to be justified. In the world crisis age we should take into account that the financial sources spent on investments in less developed countries would bring much stronger multiplier effects than in developed countries. It means that development assistance could cause much better consequences for the world's economy than other instruments used against crisis.

## 5. Conclusions

Taking into account presented data it can be stated that EU plays nowadays the most important role in creating and implementing global policy supporting developing countries. The discussed indicators show considerable EU advantage in the value of financial assistance in relation to the other great donors – especially the USA and Japan. It refers both to the entire bilateral support of EU member states and the multilateral one (EC). Regardless of that, the results of global policy can be perceived as disappointing. The main factors making the policy inefficient are: too little worth of international financial support, incoherence of international

development support system, development strategies adjusted to support value – not vice versa, high costs of debt handling, the transfers unpredictability, tying of aid, the aid dependence of particular political interests, recipient countries state institution weakness. There are some international initiatives aimed at diminishing such difficulties but so far they are not used in a sufficient range.

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