


The EU in the Global Economy

Online learning

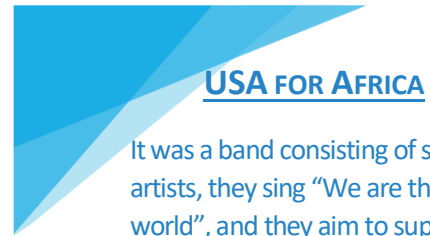
Document identifier				
Lesson	Title	How to proceed?	Time need	
#9	Developing countries and the EU II.	<ol style="list-style-type: none">1) <u>Reading material (Intro to aid)</u>2) Video 1 (Intro to EU's aid)3) Video 2 (EU's aid in numbers)4) Homework: together with the previous lesson	cc. 15 mins.	





1 INTRODUCTION

There is a global need to support developing countries. There are more international attempts to support developing countries. One tool can be providing aid to them. This process is called **international development cooperation**. The 17th SDG (see lesson 1) details global cooperation and states that aid provided by developed countries needs to be at least 0.7% of their GNI, and at least 0.15% of their GNI needs to be allocated to least developed countries. Subjects of international development cooperation are developing countries – they are called as **recipient countries** or – shortly – **recipients**. Aid is dominantly provided by developed countries. They are considered **donors**.



USA FOR AFRICA

It was a band consisting of several artists, they sing “We are the world”, and they aim to support Africa. USA stands for United Support of Artist. Its members were such famous people like Lionel Richie, Stevie Wonder, Tina Turner, Michael Jackson, Diana Ross, Bruce Springsteen, or Bob Dylan.

The EU also draws huge attention to the bad situation of developing countries and supports them in the framework of its international development cooperation policy. **International development cooperation policy** does not



EUROPEAN YEAR FOR DEVELOPMENT

2015 was addressed for the European Year for Development. This means that the EU aimed to inform the public about this policy and how successful it is. The success of this activity is that the development policy was the first external policy which received “one-year attention”.

exist at community level in a common term, that means that member states of the EU have their own international development cooperation policy and the EU-law says that they have to harmonize their own policies with each other and with international standards and aims. The EU has, of course, its own development policy but it is not as significant as the activity of the member states.

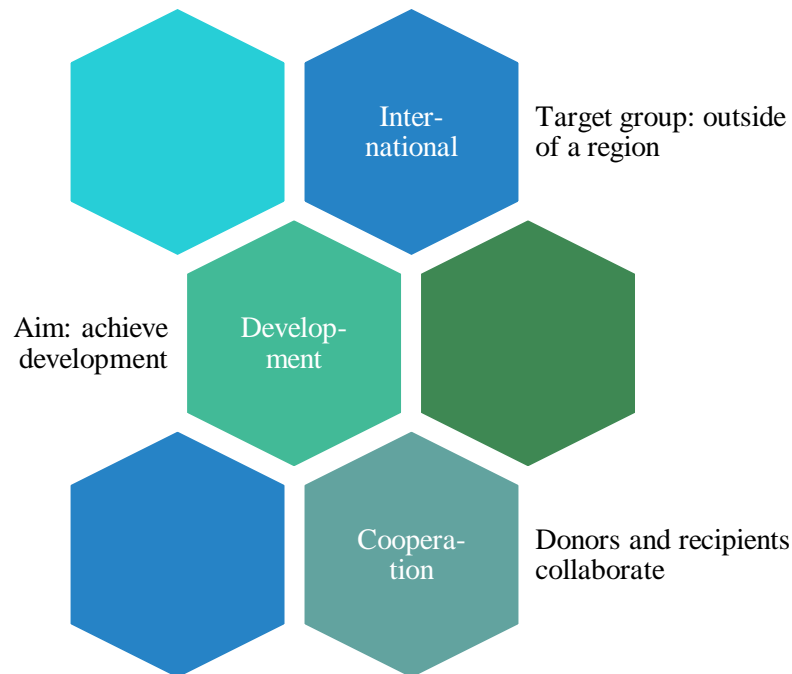
In this lesson we define aid and describe donors. We also learn about the OECD’s development committee. In the related videos we learn about the EU’s international development cooperation.



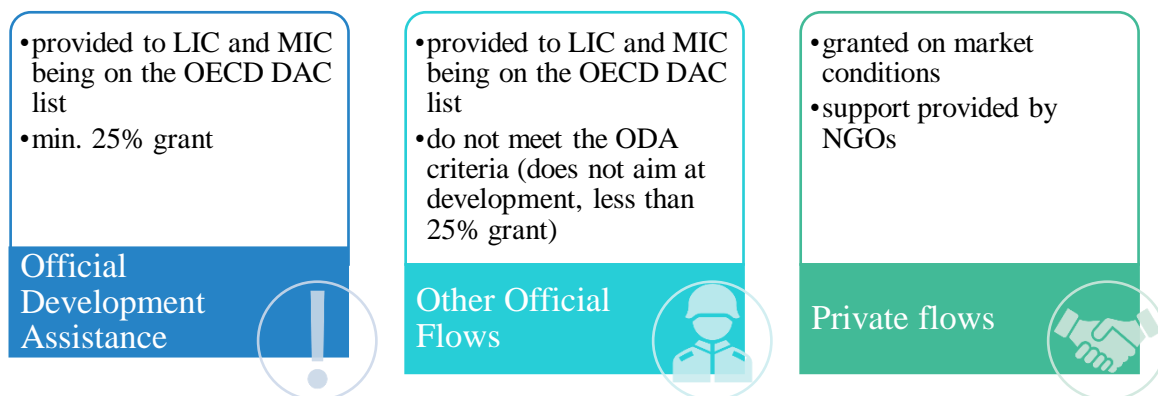


2 WHAT IS AID?

People speak about aid activity in general, but its official name is **international development cooperation**. These three words refer to the followings:



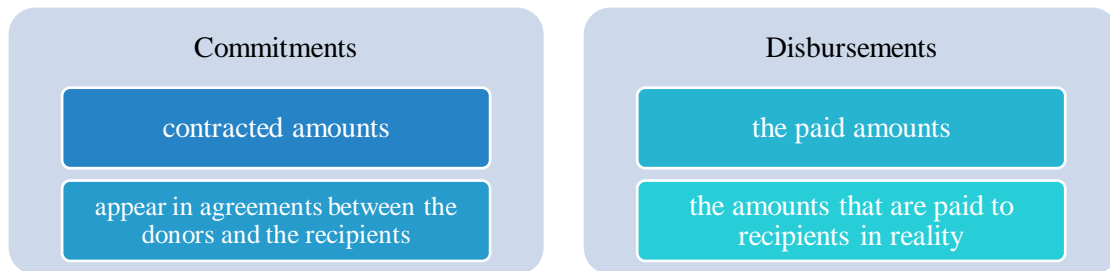
There are a lot of forms of foreign aid, and the OECD defines aid as follows: all official flows that aim at development and an increase in standard of living and has at least 25% grant element.



The OECD determines 3 types of aid flows: official development assistance (ODA); other official flows; and the private flows. In the followings we focus on ODA and when speaking about aid, we refer to ODA. ODA is provided to low- and middle-income countries being on the list of OECD DAC and contains at least 25% grant element.



In aid statistics we can speak about two types of aid amounts: commitments and disbursements. In general, disbursements are lower than commitments: less money are provided to developing countries in reality than the amounts which are laid down in contracts. The reason for this can be numerous things: economic problems in the donor country; bad performance in the recipient country; shift in aid policy; crisis in other countries and re-allocation of aid is needed, etc.



3 BILATERAL AND MULTILATERAL AID

Aid can be provided in two ways: bilateral or multilateral way (Figure 1). **Bilateral aid** is directly provided by a donor country to a recipient. Its **advantage** is that a donor can strictly

Bilateral aid: “a donor can strictly control how aid is used”

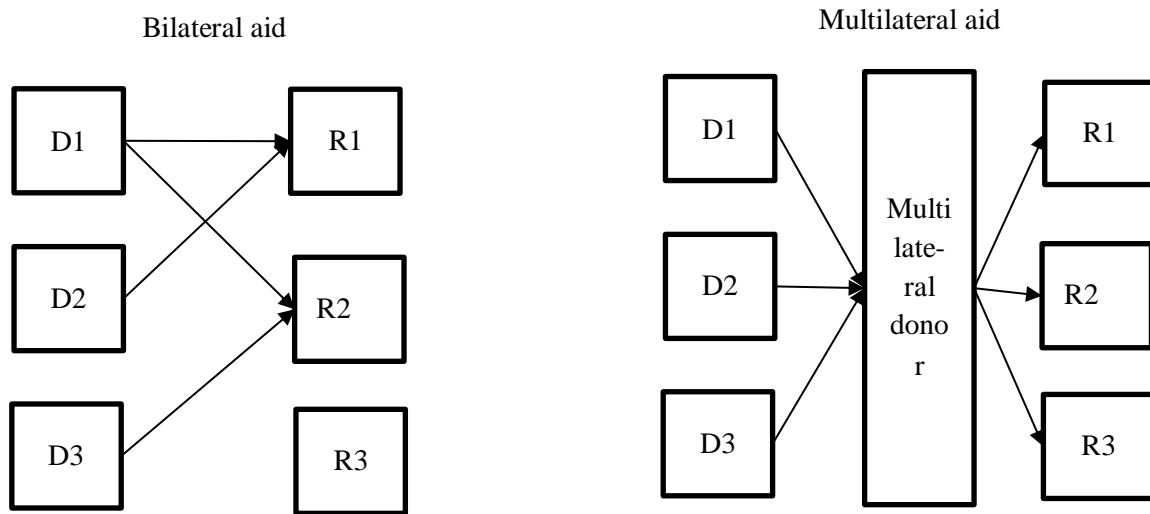
control how aid is used and a donor can provide it according to its interest. Its **disadvantage** is the fragmentation of aid – a donor may support more recipients (according to its own interest), so

instead 1-2 countries would receive more focused aid, more recipients get less support. Furthermore, developing countries in real need would be left out from aid activity (see R3 recipient on Figure 1). In addition, more donors determine more conditions in a recipient country, and they can be conflicting. In case of **multilateral aid**, an international organization (e.g. World Bank, IMF or other development banks) is integrated between donors and recipients. This donor allocates aid among recipient countries. As a result, the control of bilateral donors significantly decreases, and their interests cannot be taken into account. The recipients are in the foreground.

Multilateral aid: donor’s interests at the background



Figure 1 Bilateral and multilateral aid



Note: D: donor; R: recipient

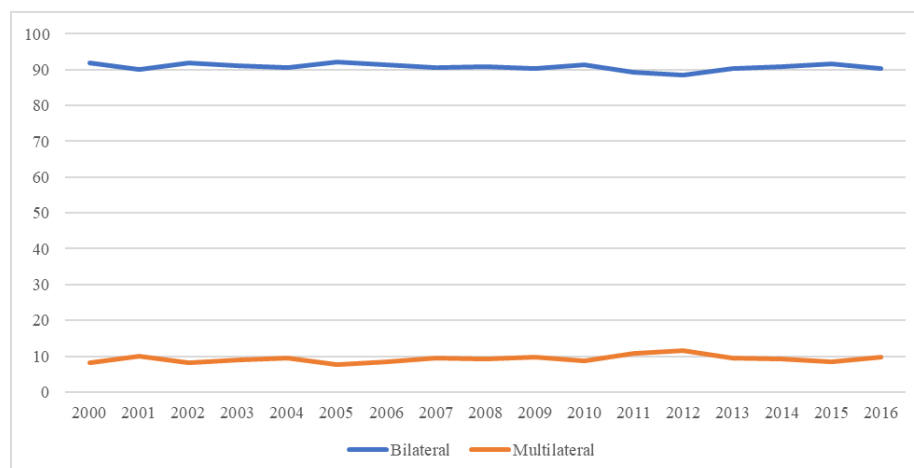
Source: own construction

The above detailed factors unambiguously reflect that bilateral aid appears to larger extent than multilateral aid owing to the own interests of the donor countries (Figure 2). In 2016, the total aid amounted 176,566.48 million USD, only 17,106.4 million USD was allocated in a

90-10% difference between bi- and multilateral aid

multilateral way, and around 90% of the total aid was bilateral aid. This 90-10% difference between bi- and multilateral aid has been existing for decades.

Figure 2 Bilateral and multilateral aid, 2000-2016 (share of total aid)



Source: own construction based on OECD QWIDS data



4 HARMONIZATION OF AID ALLOCATION?

The **OECD Development Assistance Committee (DAC)** plays a crucial role in international development cooperation. The organization is the club of the Western donors with consisting of the largest donors in the world. The membership is not automatic: members of the OECD are not going to automatically be

DAC: club of Western donors

members of the OECD DAC. There are **five conditions on being a member**:



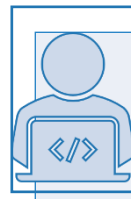
1. A to-be-donor has appropriate institutions on aid.



2. A to-be-donor has aid strategy.



3. A to-be-donor is going through a peer-review process done by the other donors.



4. A to-be-donor regularly provides statistics on its aid activity.



5. ODA is more than 100 million USD (or at least 0.2% of the to-be-donor's GNI).

The OECD established in 1961 currently has 36 members, out of which 29 countries are also members of the OECD DAC. Although the European Union is not an OECD member, it is a member of the OECD DAC. Hungary became a member in 2016. All in all, currently, **there are 30 countries in the DAC** (Figure 3).



Figure 3 Members of the OECD DAC (as of 24 March 2020)

EU-15 (14)	EU-10 (5)	Other Europe (5)	Overseas (6)
<input type="checkbox"/> Austria	<input type="checkbox"/> Czechia	<input type="checkbox"/> United Kingdom	<input type="checkbox"/> Australia
<input type="checkbox"/> Belgium	<input type="checkbox"/> Poland	<input type="checkbox"/> <u>EU Institutions</u>	<input type="checkbox"/> South Korea
<input type="checkbox"/> Denmark	<input type="checkbox"/> <u>Hungary</u>	<input type="checkbox"/> Iceland	<input type="checkbox"/> Japan
<input type="checkbox"/> Finland	<input type="checkbox"/> Slovak Republic	<input type="checkbox"/> Norway	<input type="checkbox"/> Canada
<input type="checkbox"/> France	<input type="checkbox"/> Slovenia	<input type="checkbox"/> Switzerland	<input type="checkbox"/> USA
<input type="checkbox"/> Greece			<input type="checkbox"/> New-Zealand
<input type="checkbox"/> Netherlands, the			
<input type="checkbox"/> Ireland			
<input type="checkbox"/> Luxemburg			
<input type="checkbox"/> Germany			
<input type="checkbox"/> Italy			
<input type="checkbox"/> Portugal			
<input type="checkbox"/> Spain			
<input type="checkbox"/> Sweden			

Source: own construction

5 THE EU INSTITUTIONS ON AID

In the European Union, two main institutions deal with international development cooperation: DEVCO (a Directorate-General in the European Commission) and Humanitarian Aid and Civil Protection. In the European Union, there are two main financial sources for international development cooperation: EDF and the EU’s budget. There are additional financial resources, as well, but their importance is much lower.



European Development Fund

- Financial assistance to ACP countries
- The budget of the EDF: €30.5 billion in the current financial period (2014-2020)



EU’s own budget

- A budget line in the EU’s budget (Global Europe)
- The available budget in this budget line: €51.5 billion in the current financial period (2014-2020).

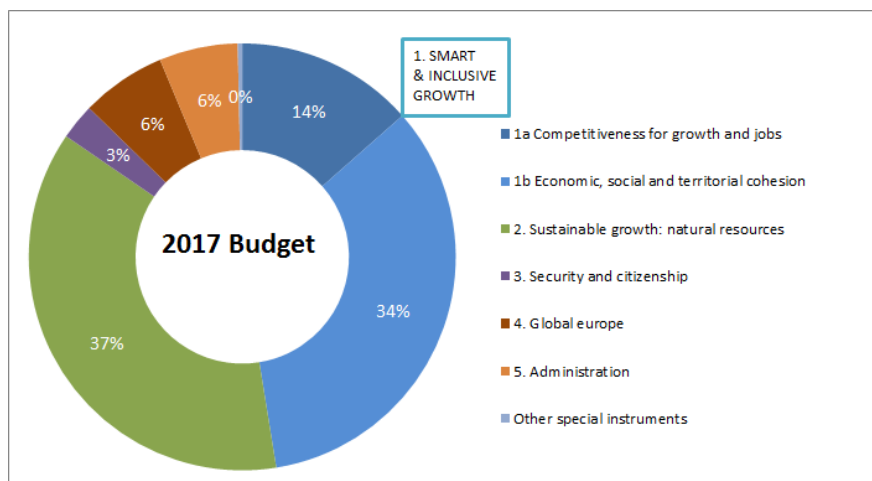


These amounts come from the contributions of the member states of the EU. Regarding the EDF, **all member states have to pay a certain amount based on their GNI to the fund** and this amount is laid down in a regulation. Similar principle appears in the case of the own budget.

The states have revenues from taxes and this money is allocated on different policies.

Since the money comes from the own contributions of the member states, this money originally comes from the taxpayers. As a result, it is completely understandable why the European Union addressed 2015 as the European Year for Development.

Figure 4 The EU's budget



Source: https://europa.eu/european-union/about-eu/eu-budget/expenditure_en

6 FURTHER READING

<https://op.europa.eu/en/publication-detail/-/publication/54e701cf-9aba-11e8-a408-01aa75ed71a1/language-en>

https://ec.europa.eu/info/sites/info/files/devco_aar_2018_final.pdf

<https://www.oecd.org/eu/aid-at-a-glance.htm>



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