THE ROLE OF EUROPEAN UNION IN FINANCING INTERNATIONAL DEVELOPMENT USING BUDGET SUPPORT

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Abstract: The European Union, represented by the European Commission, is the world’s biggest aid donor. The primary objective of EU development policy is the eradication of global poverty, which includes the achievement of the Millennium Development Goals (MDGs). The current EU aid architecture builds upon a variety of approaches: from direct project or sector support to general or sector budget support provided to the recipient government. For many years, the European Commission has promoted the use of budget support as a way of delivering aid, as a modality of financing international development.

JEL classification: F30, F35

Key words: European Union, Millennium Development Goals, budget support, international development aid.

1. The current european union aid architecture- methods for development aid distribution

One of the core external actions of the European Union’s (EU) is development. The primary objective of EU development policy is the eradication of global poverty, which includes the achievement of the Millennium Development Goals (MDGs). In order to be able to translate development policies into concrete aid actions that would benefit those who are most in need, a number of methods for development aid distribution need to be put into operation. The current EU aid architecture builds upon a variety of approaches: from direct project or sector support to general or sector budget support provided to the recipient government. According to the EU Consensus on Development, several different methods of delivering aid are available - project, sector arrangement, general or sector budget support to recipient government - all based on country’s individual needs and performance. Aid modalities can be conceived as on a spectrum, according to how much ownership/leadership they give to the recipient country - moving from project aid through sector budget support to general budget support. According to the latest figures, 44% of financial resources assigned to European Development Fund (EDF) - a fund to grant technical and financial assistance to developing countries - is planned to be allocated through budget support (BS). This transfer is most welcome, taking into account that until recently it accounted for a
relatively small proportion of global aid (5%). As much as 25-50% of aid was given to
donor-driven technical assistance.

For many years, the European Commission has promoted the use of *budget support* as a way of delivering aid, as a modality of financing development in the context of achieving the Millennium Development Goals (MDGs). EU action in the field of development is based on the European Consensus for Development (2005) whereby EU Member States (MS), the European Parliament (EP) and the European Commission (EC) agreed to a common vision for global development and the EU’s role in it. Before the *EU Consensus for Development* was signed, a number of other preceding global agreements had been made - with probably the most important one the 2002 Monterrey Consensus, which established the partnership between developed and developing countries to find ways of financing development that would meet the MDGs. In 2008 the follow-up International Conference on Financing for Development in Doha (Qatar) extended the above-mentioned commitments with good governance in the tax area, customs cooperation, the fight against corruption and illegal financial flows, the development impact of remittances and the financing of new, especially environmental challenges, namely climate change.

The European Commission defines *budget support* as the transfer of financial resources of an external financing agency to the national treasury of a partner country. These financial resources form part of the partner country’s global resources, and are consequently used in accordance with its public financial management system. *Budget support (BS)* in this context involves three key elements. *Firstly*, the transfer of foreign exchange from a donor to the partner country’s central bank takes place. *Secondly*, the central bank credits the country’s national treasury with an equivalent amount of local currency. *Finally*, transfers to the central bank are made only after agreed conditions for payment are met. Once the transfer is made, these resources are used, along with other government resources, in accordance with the partner government’s public financial management systems. The EC requires that the following be in place in order to qualify for *budget support*: a well-defined national or sector policy and strategy; a stability-oriented macroeconomic structure; a credible and relevant strategy to improve public financial management. There are two types of *budget support (BS)*: general and sector. *General Budget Support (GBS)* is Official Development Aid (ODA) given directly to the treasury of a partner country to pursue its national poverty reduction strategy. Funds are used for country-led priorities, and are funnel through partners’ own budgetary processes. *Sector Budget Support (SBS)* is provided for specific sector plans such as health, education or infrastructure.

The European Commission established guidelines for according general budget support. These guidelines are focused on the requirements that must be fulfilled by the receptor countries of the aid. The EU - already providing approximately 60% of global development aid - has uniformly committed itself to increase its Official Development Aid (ODA) to 0.56% of its Gross National Income (GNI) by 2010. The 12 newest MS were assigned with an individual target of 0.17% and the old MS with a target of 0.51% of GNI. By 2015 - in accordance with UN commitments - the EU’s collective ODA has to reach 0.7% of its GNI. The EU is still the biggest donor in the world, with Official Development Assistance amounting to € 93 per citizen (Japan: €44, US: €53). With € 8.6 billion in 2007, the European Commission is the second largest individual donor in the 22 member strong group of donors organized in the OECD, in the so called Development Assistance Committee (DAC). At the European Council in 2005, Member
States pledged to increase the volume of aid to 0.56% of GNI in 2010 and 0.7% in 2015. The EU Code of Conduct on the Division of Labour, adopted in 2007, fosters an increasing use of developing countries’ own system for managing aid.

2. The European Union - the world’s biggest aid donor

The European Union, composed of the Member States, represented by the European Commission, is the world’s biggest aid donor. The Commission’s Europe Aid co-operation office manages EU external aid projects and ensures that development assistance is delivered worldwide. Europe Aid’s main mission is to implement the Commission’s external aid instruments, both those funded by the Union’s budget and the European Development Fund.

To ensure coherence, complementarities and coordination in implementing external assistance projects worldwide, Europe Aid works in close collaboration with its various partners. The overall aim is to make external aid more effective. Civil society, international organizations and governments of EU Member States are all important actors in this field.

Europe Aid is the Directorate-General of the European Commission that is responsible for implementing external aid projects across the world. It works closely with EU neighbors countries, Russia, the African, Caribbean and Pacific (ACP) regions, Latin America and Asia. Europe Aid aims to deliver development aid in an efficient and effective way. The focus is on maximizing the value and impact of aid funding by making sure support is provided in a speedy and accountable fashion. Europe Aid is responsible for all the steps of an aid delivery project: after identifying needs, it carries out feasibility studies and prepares all the necessary financial decisions and controls. It then moves on to drawing up the required tendering, monitoring and evaluation procedures. When implementing projects, Europe Aid takes account of EU strategies and long-term programmes for the delivery of aid. Europe Aid is responsible for translating policies into practical actions and for developing new ways of delivering aid, such as budget support and through sector approaches. It also issues guidelines and makes evaluations of aid implementation.

In addition, it is responsible for the proper management of funds and must use clear and transparent tendering and contracting procedures. Despite the complexities of its work, Europe Aid aims to keep procedures as simple and harmonized as possible. In order to achieve all this, Europe Aid develops and manages areas of information, accounting, control, reporting and auditing systems. Europe Aid, together with the delegations, adapts to changing circumstances. It trains staff to be able to take up new challenges, and liaises with other bilateral and multilateral donors, such as the United Nations. It works closely with member states’ development agencies and with international financing institutions, such as the World Bank. Europe Aid also maintains a dialogue with NGOs, consultancies and other non-state actors both in the EU and in the beneficiary countries. The results of Europe Aid’s work allow the European Commission, and the EU as a whole, to formulate better policies and strategies, which, in the long run, should lead to a world free of poverty as defined by the Millennium Development Goals (MDGs).

3. Conclusions

As the global economy slows down, the climate and food crises threaten to affect those already most vulnerable to poverty, the achievement of the MDGs around
the world will require more and better spent money. It has been agreed therefore that implementation of innovative financing mechanisms for development are necessary - for example Carbon Emission Tax. This additional new money could be used to improve key development areas such as health and education. For the EU to put into operation its development policy and to reach its development goals, financial means are necessary. Each EU MS has committed itself to channel a specific proportion of its GNI to international development aid. Even though all EU MS employ a common vision for development, the partnerships made are still bilateral. This means that a single developing country could have 27 separate agreements plus a significant number of partnerships with the rest of the world and additional number of region-to-region commitments. Budget support - general and sector - seem an interesting initiative but a more unified and better communicated cooperation between EU MS has to come in order to avoid repeating past mistakes.

REFERENCES