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Does the European Union's development aid policy require a major policy rethink?

Abstract

This essay attempts to establish whether the current development aid policy of the European Union would need a major policy rethink. In fact, in a period of austerity, fiscal consolidation is prima facie understandable, and hence cuts on foreign aid funds. However, is it really about cutting on aid? Or is it about aid effectiveness and the challenges posed by the new emerging economies? Scholars have been pointing out the need for a cohesive aid structure, because at present the shared competence between the EU and the member states is creating a fragmented European aid agenda. For the purpose of this essay, I will strictly consider the impact that the European development aid policies have on its image abroad. I will answer the abovementioned questions by asserting that a major rethink of the EU development aid policies should be accompanied by a win-win situation for donor and recipient countries by investing in the private sector. This new approach will solve the lack of effectiveness of the current patchy European aid projects, and also the challenges posed to the EU aid regime by the emerging economies. Moreover, this essay argues that cutting on aid could be perilous for the future of the EU, especially when such cuts will affect African recipients.

Keywords: *European Union, Development, Foreign Aid, China, Peace-building*

Introduction

The 2012 Nobel Prize for Peace has acknowledged the key role of the European Union (EU) in development, and its capacity to be an international actor. Peace and stability were and are the cornerstones of European aid policies. This led Nugent (2010) to define the EU as a very important actor in development policies. Such a prestigious prize reveals that the EU has been capable to being a normative power. In particular, also the EU's development aid has been a crucial tool in the final decision to grant the prize.

The EU is unquestionably a major donor in foreign aid with 60% of world aid funds coming from its institutions and the member states. In 2007 alone, the EU spent something like €93 per EU citizen in development aid, almost double that of the USA and Japan.¹

However, the current debate is still focusing on cutting aid expenditures. This is especially so since the decisional phase of the 2014-2020 EU Multi-Annual Financial Framework - the multi-annual budget that establishes resources and means for the development policies – which has stimulated a highly contentious debate on aid reduction.² In 2012-2013 there were whispers that Brussels would have cut foreign aid up to 20%. In a period of austerity, fiscal consolidation is *prima facie* understandable, and hence cuts on foreign aid funds. But, is it really about cutting aid? Or is it about aid effectiveness and the challenges posed by the new emerging economies? Scholars have been pointing out the need for a cohesive aid structure,

¹ Debrat J.M., European Development Policy: A response to the crisis affecting globalisation? *Fondation pour l'innovation politique*. 2009 June: 1.

² Munoz Galvez E., European Development Aid: How to be more effective without spending more?. *Notre Europe* 2012; Policy Paper, 57:2.

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because at present the shared competence between the EU and the member states is creating a fragmented European aid agenda. Nevertheless, fragmentation also provides advantages, such as by offering a “diversified range of technical and financial services”.³ However, this is an internal political matter that involves sovereignty and national interests. For the purpose of this essay, I will strictly consider the impact that the European development aid policies have on its image abroad. I will answer the abovementioned questions by asserting that a major rethink of the EU development aid policies should be accompanied by a win-win situation for donor and recipient countries by investing in the private sector. This new approach will solve the lack of effectiveness of the current patchy European aid projects, and also the challenges posed to the EU aid regime by the emerging economies. Moreover, this essay argues that cutting on aid could be perilous for the future of the EU, especially when such cuts will affect African recipients.

The EU: an economic peace-building machine

“Europe’s vocation today is to be an economic peace-building machine outside its borders”⁴, says Debrat. There is perhaps some sarcasm here. How can the EU be an economic peace-building machine, when its image, hitherto, has been undermined by its incapacity to solve the internal financial problems and the imbalances between its “rich” north, and its “poor” south? The image of Spanish and Greek protesting against austerity had definitely shown that peace and stability are not perceivable since the financial crisis started. However, the core values of peace and stability were enshrined in the fate

³ Debrat J.M., op. cit. p. 11.

⁴ Ibidem, p. 4.

of the EU since the Marshal Plan, which is considered the beginning of the development aid regime. Nevertheless, there is a subtle difference here. Europe after WWII still had the know-how to restart. In this case the “Big Push” given by the Americans in 1947 was very effective in creating a peaceful and stable Europe. The mission of the Marshal Plan was reconstruction and not development. Development involves capacity building that many developing countries do not have. Therefore, Big Pushes - the injection of foreign aid and economic advice that should turn underdeveloped countries into prosperous ones – did not work with many recipients of European aid because they lacked the know-how. Furthermore, the EU misunderstood the changes that were affecting developing countries, including cultural, political, religious and technical barriers. Palestine is an example. From 1994 the EU transferred up to €5 billion to Palestine in aid, and “what the EU got to show in return? The answer is very little – except more Palestinian terror, corruption and a stagnant peace process”⁵. Nevertheless, the EU planned to double its aid to Palestine and its authority in 2012, at €200 million.⁶ The article, although contentious, posed an interesting question as to whether aid, instead of promoting democracy, human rights, peace, stability, and growth, actually does the opposite. It seems like if Easterly (2006, p.1) were right in claiming that foreign aid brought about “so much ill and so little good”. Looking at the outcome of the European aid plans in Palestine (and other developing countries), some may argue that funds, instead of benefiting the

⁵ Ostrovsky A., Time for the EU to rethink its Palestinian aid policy. *The Commentator* [Internet]. 2012 Sep 24. Available from: http://www.thecommentator.com/article/1691/time_for_the_eu_to_rethink_its_palestinian_aid_policy

⁶ Ibidem.

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poor, bringing water and sanitation, health facilities, and infrastructure, went directly into the pocket of Hamas, a terrorist organization. A major rethink, therefore, is necessary, because the effectiveness of European aid is quite disappointing.

The focus of EU development aid in promoting peace and stability is narrow in scope and outdated. A global view updated with the possibilities of establishing effective partnerships with the developing countries is needed. "Aid [in fact] cannot achieve the end of poverty. Only homegrown development based on the dynamism of individuals and firms in free markets can do that."⁷

Rethinking Aid Policies: development through the private sector

Something changed during the 2012 European Development Days (EDD) in Brussels. Barroso acknowledged that the private sector has a strong role in promoting inclusive and sustainable growth. He also mentioned the importance of social protection, which "will actually enable people to contribute to wealth and job creation".⁸ Such a shift towards the private sector had already been paved for in the "Agenda for Change" in October 2011. The Agenda undoubtedly states that the EU development policies should aim at fostering a competitive local private sector, promoting small and medium enterprises and cooperatives.⁹ This is also in line with the view shared by Bony Yayi, president of Benin, who sees development not just through

⁷ Easterly W., *The White Man Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill And So Little Good*. New York: Penguin Press; 2006, p. 368.

⁸ Durao Barroso J.M., Opening Address by President Barroso on the occasion of the European Development Days, 2012. Brussels, *European Development Days*, 2012 Oct 16. Available from:

http://europa.eu/rapid/press-release_SPEECH-12-730_en.htm

the promotion of peace, stability and the rule of law, but also by investing in the agricultural sector.¹⁰ Africa has one fifth of the arable soil of the world, and by investing in its development, it would definitely solve the problem of food securitization. Moreover, the EU is caught in the “Big Push trap”, which has lead its projects to fail like in the Sahel. In recent years, an extra big push of €40 million has been given to implement feeding programs for children, and distribution of food to the poorest.¹¹ But wouldn't it have been better for the EU to focus its aid strategy in developing the agricultural capacity of the Sahel? Distributing food just patches-up the problem for some time, it does not solve it. A more succinctly focused strategy is needed, one which invests in the agricultural sector for creating sustainable long term growth. By doing this, the private sector will increase its strength and new jobs will be available for local people. This is in line with Easterly, and with Romney, who argue that the US aid outcomes over the decades are disappointing and that they need a change: “spurring private development and enhancing trade partnership”¹².

⁹ *Increasing the impact of the EU Development Policy: an Agenda for Change*. [Internet] 2011. Available from:

http://ec.europa.eu/europeaid/what/development-policies/documents/agenda_for_change_en.pdf

¹⁰ Yayi B., Speech by Boni Yayi, President of Benin. Brussels, *European Development Days*, 2012 Oct 16. (French). Available from:

<http://eudevdays.eu/node/5081>

¹¹ Last Big Push Before Crisis Peaks – another €40 million for the Sahel food crisis. *European Commission* [Internet]. Available from:

http://ec.europa.eu/echo/news/2012/20120618_en.htm

¹² Murray S., Reddy S., Romney Says Change Needed in Foreign Aid. *The Wall Street Journal* [Internet]; 2012 September 25. Available from:

<http://blogs.wsj.com/washwire/2012/09/25/romney-says-change-needed-in-foreign-aid/>

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The new European aid focus should consider the local private sector of the developing countries as the new source of development and growth both for the EU and for the recipient countries. Developing countries need to open their markets by removing barriers; the EU in exchange will raise investment and increase jobs. This view undermines the moral perspective that dominated European aid up until now. For once, in half a century of European foreign aid, the real outcome of aid should be in creating a for-profit structure that would benefit both donors and recipients, a win-win situation.

Challenges to the EU aid regime: China in the foreign aid industry

Another issue is why several member states and the EU continue to give aid to China, when China is the second biggest economy, and has a consistent current account surplus. Only in 2009-2010 - summing up the money given by the member states – China received 1.2 billion dollars in aid.¹³ The same debate shook the political life of the American people: “the United States is borrowing money from China only to give some of it right back as foreign aid”¹⁴, lawmakers say. Nevertheless, in the EU we arrived at a paradox! The EU spent €309 million in aid projects in China between 2002 and 2010, while China is currently considering giving aid to the EU. Therefore, the EU needs to change its development aid policy, focusing first towards those countries that are in real need of help and still in

¹³ China, Top Ten Donors of Gross ODA 2009-2010, *OECD* [Internet]. Available from: <http://www.oecd.org/dac/aidstatistics/1880034.gif>

¹⁴ Pennington M., Lawmakers criticize US aid to creditor China. *Associated Press* [Internet]; 2011 Nov 15. Available from: http://www.boston.com/news/nation/washington/articles/2011/11/15/lawmakers_scrutinize_us_foreign_aid_to_china/

the interests of the Union. China and some other Asian countries that have run long-term current account surpluses, need to be phased out of EU development policies.¹⁵

The EU needs to understand that with the rise of China, the foreign aid regime set up by the DAC donors is in danger. Such regimes - defined by Krasner as a “set of implicit or explicit principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue-area of international relations”¹⁶ - has been based on promoting good governance, democratic liberalism, and poverty reduction. On the contrary Chinese aid relies on different norms: self-reliance, mutual benefit, and non-interference.¹⁷ Different norms and approaches that are understood by recipients as an alternative to the EU foreign aid model. However, the story of mutual benefit is an interesting one. It seems as though China, as a donor of foreign aid to Africa, establishes a win-win situation. But isn't it what Barroso said in the recent EDD? Maybe not as clearly as China did, but it is still clear across the line of promoting an inclusive and sustainable growth through investment in the private sector of developing countries. For the EU, investing in Africa, “is to prepare the future of Europe. The continent moves, experiencing a significant growth, it provides more interesting economic opportunities. The Chinese are not

¹⁵ Kaczmarek F., Decrease EU aid to China and direct it elsewhere. *PublicService Europe* [Internet]; 2011 Oct 24. Available from: <http://www.publicserviceeurope.com/article/1028/decrease-eu-aid-to-china-and-direct-it-elsewhere>

¹⁶ Krasner S.D., editor. *International Regimes*. Cornell University: Ithaca, NY; 1983. pp. 1-2

¹⁷ Brant P., Is China challenging traditional donors' development policy?, *WhyDev* [Internet], 2011 Oct 14. Available from: <http://www.whydev.org/is-china-challenging-traditional-donors-development-policy/>

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mistaken.”(Translation)¹⁸ This is why Europe must rush in promoting local private development; otherwise its soft power position and the economic opportunities in Africa will be shattered by the Chinese aid regime.

Cutting on aid? Cutting on the Future of Europe

Most likely in the long run the EU's development aid will be cut. However, the EU Development Commissioner, Piebalgs, is fighting “his corner on aid”, *The Guardian* states. Unfortunately, it seems that Europe is more concerned with other areas of investment such as the Common Agricultural Policy (CAP), and regional funds, rather than in foreign aid.¹⁹ This may raise doubts that in Brussels some politicians believe that foreign aid in a period of crisis is a waste of money - a zero-sum game where donor loses and recipient gains – above all if aid is given on the base of compassion, without having a return. This would probably challenge the view of Lumsdaine, who argued that “the strongest source of support for promoting the economic development of poor countries has been a sense of justice and compassion”.²⁰ It seems that foreign aid is in the third or fourth place in the list of EU priorities, particularly in comparison to

¹⁸ “[...] c’est préparer le future de l’Europe. Le continent bouge, connait une croissance importante, offre des débouchés économiques de plus intéressants. Les Chinois ne s’y trompent pas”. Source: Andris Piebalgs: Investir en Afrique, c’est préparer le future de l’Europe, interview, *Le Croix* [Internet], 2012 Oct 14. Available from: http://www.la-croix.com/Actualite/S-informer/Monde/Andris-Piebalgs-Investir-en-Afrique-c-est-preparer-le-future-de-l-Europe-_EP_-2012-10-14-864476.

¹⁹ EU Development Commissioner Andris Piebalgs Fights his Corner on Aid, PovertyMattersBlog [Internet], *The Guardian*, 2012 Oct 18. Available from: <http://www.guardian.co.uk/global-development/poverty-matters/2012/oct/18/eu-commissioner-andris-piebalgs-aid>

such a cornerstone as the CAP. However, the risk is to underestimate the consequences of cutting on aid. If the EU does not take a clear stance on Africa, a real scenario would see Europe flooded by illegal African migrants. Some African countries experience violence, terrorism, instability and demographic pressure; therefore in such a context without any hope of local development, those young Africans will look for an illegal future in Europe. Raising the budget, or at least maintaining the same amount of foreign aid to Africa will be extremely important, but only if such money will go towards investment in the private sector. Entering the African market will be an opportunity for the EU, and could also prove to be a win-win situation.

Conclusion

In conclusion, the EU needs a major rethink of its development aid policies. In many contexts the EU aid projects have proved to be ineffective, such as in Palestine. Big pushes, as in the case of the Sahel, only contributes to temporarily patching-up the problem, but it doesn't solve it. When countries lack capacity, aid goes all over the place. A new strategy requires investment in the private sector. Africa has 20% of the arable soil of the world; therefore by investing in the agricultural sector, the EU would contribute to food securitization and poverty reduction. Africa is definitely a major challenge for Europe, but its proximity is also a lucrative opportunity. It is there that the new Chinese aid regime is undermining the norms established by the EU in more than 60 years of development policies. The cornerstones of peace and stability are not enough

²⁰ Lumsdaine D.H., *Moral Vision in International Politics: The Foreign Aid Regime, 1949-1989*. Princeton: Princeton University Press; 1993, p. 283.

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to fulfill the hopes of developing countries. A new partnership between the EU and the recipient countries is needed that pushes forward a win-win situation. One in which aid money is invested in the private sector of developing countries. Something along those lines transpired in the 2012 EDD. Such a view can counterbalance the role of Chinese aid in Africa, and strengthen the soft power image of the EU. At the same time, European politicians in Brussels must bear in mind that by cutting on aid to Africa, this would possibly pose a tremendous risk for the future of the EU. Such an instable continent without growth and development can become a source of illegal migration and conflict for Europe.

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