

Cooperation of developed economies and international organizations with developing economies

Majerová, Ingrid

Slezska Univerzita-Obchodne podnikatelska Fakkulta University of Silesia-School of Business Administration

 $6 {\rm ~August~} 2008$

Online at https://mpra.ub.uni-muenchen.de/11884/ MPRA Paper No. 11884, posted 03 Dec 2008 06:21 UTC

Cooperation of Developed Economies and International Organizations with Developing Economies

Ingrid Majerová

Key words

history of development aid, development cooperation, programs of development aid, Official Development Assistance, foreign development cooperation

Introduction

The Developing world suffers from the economic delay behind developed economies which is allied with poverty, a high pace of population growth, illiteracy, malnutrition and the degradation of environment. This fact requires more and more international development aid that should lead to sustainable development, to a larger participation of dwellers on public decisions and to a deceleration of increase of population. However, the reality is often different. Since nearly half a century poor countries are smothered by big financial gifts and resources, banked by a lot of advisors, experts and administrators but the living standard in these countries has almost not increased. Development projects of various countries and international organizations are often failing in the phase of realization and financial resources are disappearing in the hands of political representatives of these states. The efficiency of development aid is in reality debatable as the level of these states is almost not changing and the question whether international aid stimulates economic growth and instigates an efficiency of the economy of receiver remains.

Definition and History of Development Aid

We understand the notion "international aid" as a set of political steps towards the countries which have a delay compared to the developed states because of various political, geographic, historic and other reasons. The aid is focused on amelioration of economic and social conditions and on convergence of these states towards the level of developed countries¹. The creation of development aid is closely linked to the increasing tendency of globalization that involves progressive connection between the states and continents and increase of knowledge of the people in developed countries about the way of life in less developed parts of the world.

The conception of development aid has been changing during few decades:

• In the 60s, the importance was given to the support of economic growth and to the application of the scientific-technologic knowledge which has deepen the interior unbalance in many of the developing countries instead of contributing to the better conditions.

¹ See Ministry of Foreign Affaires, library.muni.cz/toCP1250.eng/EU/html/21310t.htm

- During the 70s, the international aid gains a larger form than economic and social one and the topics like environment or utilization of natural resources have appeared.
- The 80s were characterized by deceleration of growth and degradation of structural situation that was given by stagnation periods of whole world economy and has quickly touched the developing countries.
- The conditions have changed in 90s. The process of globalization together with liberalization caused the extension of production, trade and international flow of capital. On the other hand, this process has been also creating uncertain conditions because of the sudden defects and crisis. By the end of this period, the growth of the GDP in developing countries was reaching around 4 % which was positively evaluated (the rate of growth was higher than in the developed countries)².

The general view is that the stage of contemporary developing economies is caused by colonialism, neocolonialism and unequal position of these countries in the international division of labor and that is why it is necessary that help comes from previous colonial metropolis. The efficiency of this development aid is however disputable as it is proved that the countries that obtained the most of the economic help (e. g. India or African countries) belong still to the group of the poorest states in the world while the countries as Hong Kong, Singapore or Thailand have extricated more or less from poverty on their own³, mainly thanks to the quick economic growth. Negative point about the development aid is also the fact that the constant providing of financial resources is maintaining the dwellers of these countries in the illusion that the breaking out from poverty is depending on the amount of provided international resources and on the international aid that leads to the loss of motivation, to the apathy and therefore keep in the trap of the poverty.

Another negative impact of the international help is weakening of competitiveness of the domestic manufacturers as the help does not contain only financial resources but also the provisions of medicaments and food for free that make national food and pharmaceutical industry uncompetitive and at the end lead to their exclusion from the market. For example in Tanzania national farmers stopped the production of food as a consequence of availability of gifts of food for free that made their production unsalable⁴. Furthermore, the wheat help from the U.S. to India has even caused the collapse of production of wheat in India that led to the great deficit of food and to the famine⁵.

International organizations, such as the UNO, the World Bank, the IMF or the WTO are big participants on development cooperation.

 $^{^2}$ This is not telling anything about the situation in the respective economies, mainly in LDC.

³ To this growth helped likewise "The Green Revolution" from 40th to 60th years of the last century.

⁴ Boward, J.: The Continuing Failure of Foreign Aid. Cato Institute, 31.1.1986, www.cato.org

⁵ Kamath, S. J.: Foreign aid and India: Financing the Leviatan State. Cato Institute 19.3.2003, www.cato.org

The United Nations Organization

The most known program engaged in the support of development in the world is *the United Nations Development Program* $(UNDP)^6$. The UNDP offers counseling in the area of development, helps in building of necessary institutions for economic growth and participates on solving such problems as democracy implementation, poverty control, protection of environment, renewal of economy after the armed conflicts and natural disasters and halting the spread of AIDS etc. The majority of financial resources of the found (which are voluntary) are distributed to the poorest countries in the world through 166 affiliates.

During the Millennium Summit in New York in September 2000 the representatives of 147 states accepted Millennium declaration that identifies the concrete goals in the area of development and poverty removing and on which all of the 191 member states agreed to deliver before 2015. These goals were named *Millennium Development Goals* (*MDGs*).

The package of these millennium goals contains eight main goals, eighteen partial tasks and more than forty indicators. First seven goals are focused on amelioration of situation in developing countries and the eighth one is concerning also developed countries that should make effort in the building of the global partnership in the area of development cooperation. In addition to specifically defined goals, the MGDs should lead to the debtcutting, increase of development help, gains from the trade and transfer of technologies.

The concrete goals are:

- 1. Eradicate extreme poverty and hunger
- 2. Achieve universal primary education
- 3. Promote gender equality and empower women
- 4. Reduce child mortality
- 5. Improve maternal health
- 6. Combat HIV/AIDS, malaria and other diseases
- 7. Ensure environmental sustainability
- 8. Develop a global partnership for development

When we look at the global observance of the goals, at the first view we may be satisfied: the worldwide average longevity has increased from 60 to 70 years, the child mortality has been reduced from 100 to 50 from thousand of newborns, the number of undernourished has decreased from 900 to 800 million and the number of literate adults has increased from 60 to 80 %. The proportion of rural families with access to the hygienic water in developing countries is more than five times higher than 30 years ago and the expansion of contraception in developing countries reached almost the level of 50 %.

However, the delivering of the goals differ region from region. While China and the South-East Asia are getting better in many of the indicators, Africa, the Near East and the Central Asia are falling. The poverty ratio in the East Asia decreased from 28 % in

⁶ Exept this also the other organisations of UNO help the developing countries in their development, like FAO, ILO, WHO or UNCTAD.

1990 to 15 % at the end of the millennium (e. g. in Vietnam the poverty ratio decreased of 50 %) – the number of poor people in this area decreased in the same period from 418 to 267 million⁷. On the other hand, the poverty ratio in the Sub-Saharan Africa is about 48 % and stayed flat during the first decade. The absolute number of poor people increased from 220 to 300 million which means the annual growth of 10 million. Based on the economic calculations Africa needs to maintain the year-on-year growth of GDP in range of 8 % per anno in order to reduce the poverty.

In 1990, there was a goal *The Education for all* indicated for the year 2000. The reduction of differences in the access to the education between the genders was decreased by half but the goal was achieved only by its' tenth. The progress in reduction of child and maternal mortality, malnutrition and access to the adequate hygienic equipment have been decelerated in 90s as result of AIDS epidemic and other diseases or bad state of repair of some of the health systems.

The UNICEF, the World Bank and the World Health Organization (WHO) estimate that in order to achieve the majority of the developing goals until the year 2015 the development aid needs to be increased each year by additional fifty billion dollars which means doubling the aid (up to 100 billion USD). Though this amount seems to be high it represents just about 0.2 % of the revenues of the states – donators.

In the year 2006 UNDP has drawn up a visionary proposal that has been endorsed by a range of figures including Gordon Brown and Joseph Stiglitz (its accepting could take years or even decades indeed). This proposal says rich countries should build on this and go further. It proposes six schemes to harness the power of the markets:

- 1. Reducing greenhouse gas emissions through pollution permit trading net gain should be 3.64 trilion USD.
- 2. Cutting poor countries' borrowing costs by securing the debts against the income from stable parts of their economies net gain 2.90 trilion USD.
- 3. Reducing government debt costs by linking payments to the country's economic output net gain 600 bilion USD.
- 4. An enlarged version of the vaccine schneme net gain (including benefits of lower mortality) 47 bilion USD.
- 5. Using the vast flow of money from migrants back to their home country to guarantee net gain 31bilion USD.
- 6. Aid agencies underwriting loans to market investors to lower interest rates net gain 22bilion USD⁸.

Programs of the World Bank, IMF and WTO

Provision of higher amount of capital to the developing countries that are in the lack was one of the main reasons of creation of the World Bank. It turned out that the supply of money is not sufficient and that the investment structure needs to be solved,

⁸http://www.independent.co.uk/news/world/politics/un-unveils-plan-to-releaseuntapped-wealth-of7-trillion-and-solve-the-worlds-problems-at-a-stroke-525173.htm

⁷ http://www.osn.cz/zpravodajstvi/zpravy/zprava.php?id=1063

liberalization of trade, privatization and macroeconomic stability settled, corruption exterminated (this one means the obstruction of development in many of the countries) and longevity and literacy of dwellers in developing countries increased.

The World Bank provides economical, financial, technical and expert assistance via *the International Bank for Reconstruction and Development (IBRD)* to more than one hundred developing economies and so is one of the biggest resources of the aid in the world. It offers the loans in two ways. There are loans for 15 to 20 years (with 3 or 5 years holiday) for richer developing economies that can afford paying interests. These loans are provided for the financing of programs reducing poverty, assurance of social services, and support of environment or economic growth. In 2003 there were 11.2 billion USD provided to 99 projects in 37 economies.

The second type of loan is a loan for the world's poorest via *the International Development Association (IDA)* that is the biggest donator of finance in the world for these economies⁹. Practically interest-free loans for 35 to 40 years with 10 years holiday are used for the investments in agriculture, health service, education and hygienic water. In 2003 7.3 billion USD were borrowed on 141 projects in 55 countries¹⁰.

Recent years, the activity of the World Bank, IMF and WTO are criticized, these institutions are charged with assertion of interests of multinational companies in detriment of working people in developing countries. Big companies pay minimum salaries, offer minimum of free time, exploit child work and act on the limitation of public services (education and health service) and on the deregulation of prices leading to the price jumps of basic commodities and services.

One of the most criticized programs of the World Bank and WTO is privatization of public services, mainly water resources. We can take Philippines as an example, concretely Manila - the capital. The water supply companies were sold to the foreign entrepreneurs that committed to invest millions of dollars to the grid, to decrease the price of water by more than a half and to avoid the enormous losses caused by the rusting and damaged pipes by which the half of the distributed water was irrecoverably escaping. Privatization brought running water to the richer dwellers so they do not need to buy it on the market. Nevertheless the situation of poor people living in slums got even worse as they do not have enough money to pay the distribution of the water to their inhabitance. There are no more dealers of water coming to these districts so people need to go daily few hours to distant public water well and queue long hours. Companies did not invest all the committed money due to the Asian financial crisis and so did not decrease the big losses during the distribution of the water. Instead of the half pricing the companies are charging four times more than before the privatization. The poorer households are using about one sixth of their expenses on the water or they cannot afford in at all.

⁹ Thanks to this, there could be more than 6 millions of books distributed between the african pupils. There are more that 6 billions USD yearly given from IDA for the projects of social development that are utilised for the investments in agriculture, public health, education and hygienic water.

¹⁰ http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA

With the regard to the trade, for example the preference import quotas on textile provided by USA since 1999 to Cambodia were stopped after the accession of Cambodia to WTO and caused massive redundancy and reducing the salaries by many of small and middle textile factories in Cambodia¹¹.

On the other hand, there are some projects that are negligible by their amount but bring a huge benefit for developing economy. They are a kind of alternative to the projects of WB, IMF or WTO but much more successful. They offer brand new types of development aid, mainly a support of new forms of entrepreneurship and banking tailored to the needs of developing countries and an understanding of their ecologic wealth.

We can name ApproTec as an example of successful entrepreneurship. This company was founded in 1991 and is financially supported by donators and foundations. A big achievement of this company was production and sale of an irrigation system Money Maker for 38 USD for small farmers. This system helped to start up the business of about 33 thousand small companies and the estimations tell that the profits from the irrigation constitute 5 % of GDP of Kenya and 0.1 % of GDP of Tanzania¹².

Activities of banks that are providing small loans in poor countries are persuaded very positively. The father of the idea of microloans or microcredit is Bangladesh professor of economics Muhammad Junus who decided to solve the problem of poor people, especially women. In 1976, he founded Grameen Bank in Bangladesh which started to borrow small amount of approximately 100 USD to the people in the villages and distant part of the country for their business. Until now 2.4 million people got the loan from this bank of which 95 % were women and loans were from 98 % recovered¹³. The interest makes 20 % which seems to be high but not when we are comparing to the traditional more than 100 %. Nowadays, the microcredits are successfully used in more than 130 countries in Asia, Latin America and Africa. Although the loans start at the very small amount such as 20 USD and only the successful repayment authorize a client to get a bigger loan they may have a big effect on the lives of individuals in the developing world.

The Official Development Assistance (ODA)

One of activities of OECD is the policy of development cooperation therefore the activity of developed countries whose aim is to support the socio-economic development in less developed parts of the world. The International Monetary Fund defines ODA as "Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount). By convention, ODA flows comprise contributions of donor

¹¹ The average wage in Cambodia is today 0.32 USD per hour while in the nearby Thailand it is three times higher.

¹² eldar.cz/honza/articles/rozvojova_spoluprace.doc

¹³ eldar.cz/honza/articles/rozvojova_spoluprace.doc

government agencies, at all levels, to developing countries ("bilateral ODA") and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions."¹⁴ The committee of OECD in charge of this policy is called *the Development Assistance Committee (DAC)*. DAC exists since the creation of OECD in 1961 and exerts huge activities of which the prove are the frequent sessions – approximately once a month on the level of Parisian delegates and once a year on the level of ministers responsible for development co-operation respectively chiefs of the development agencies (so called High Level Meeting).

The target of ODA in the politics of development cooperation is the endeavor on the best possible cooperation, the increase of efficiency and of the development effort of the OECD members. DAC associates countries that are providing 95 % of the development aid in the world. There are 22 states nowadays (old 15 member states of EU, Norway and Switzerland, from non-European ones U.S., Canada, Japan, Australia and New Zeeland). European Commission is also a member of OECD/DAC and acts as an independent donator. Other member states of OECD (including Czech Republic) are not the formal members of DAC but they are allowed to participate on its sessions. The representatives of three international organizations: the World Bank, IMF and UNDP have the observer status.

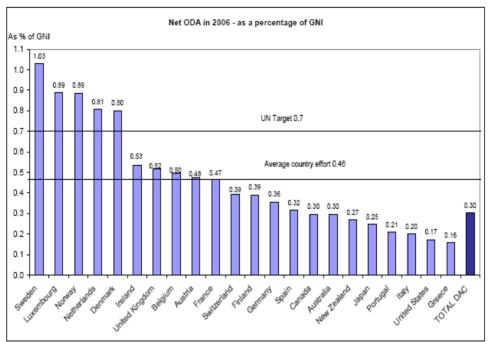
DAC unlike to the World Bank or agencies of UNO does not execute any project directly in the developing countries but holds dialogue between the donators how to provide the help in the best way. This dialogue is of course not hold just in the closed circle of developed countries of OECD but also with other international organizations and even with the developing countries (for example cooperation between OECD and African countries associated in NEPAD¹⁵).

The activities of development cooperation themselves concur also on some other areas such as trade policy (e. g. duty preferences on import to developing countries), protection of environment (see the concept of sustainable development), science and technologies (utilization of informatics and other technologies in the process of development) and others.

ODA is divided into more that 130 developing countries, Africa receives about 40 % of resources, Asia and Latin America 22 % each, 6.6 % of help is going to the Europe and 6 % to the West Asia. Though developed countries engaged in 1980 to give 0.7 % of their GDP for the purposes of ODA, this obligation is being delivered just by few of them: Denmark, Netherlands, Luxembourg, Norway and Sweden. The yearly average in 90s was about almost 60 billion USD which was about 0.25 % of GDP. Current average is around 0.46 % (see Graph 1).

¹⁴ http://stats.oecd.org/glossary/detail.asp?ID=6043

¹⁵ NEPAD (*The New Partnership for Africa's Development*) is a program of economic development of the African Union.



Graph 1: Net ODA in 2006 (percentage of GNI)

Source: http://en.wikipedia.org/wiki/Official_Development_Assistance

Development Aid from European Union

The European Union is also keen on avoiding poverty, unbalance and conflicts in the world. For this reason, the development aid for the Third World countries is one of the important policies of European Union and is provided via various supporting programs paid from EU budget or from so called *the European Development Found (EDF)* in form of association of developing countries to EU or in form of concrete development programs.

The notion "association" was used for the first time in the Treaty of Rome establishing the ECC that came into force on the January 1st 1958. It was a matter of creation of "special relations" especially between France, Italy, Belgium and Netherlands with oversea regions that were previously a part of their colonial empire. The association got more concrete in 1963 by so called *the Treaty of Yaoundé 1*¹⁶. In 1968 *the Treaty of Arusha 1*¹⁷ there should have been signed based on which association would be enlarged by three east-African English-speaking states (Kenya, Uganda and Tanzania). The treaty did not come into force because it was not ratified. After the expiry of the Treaty of Yaoundé I in 1969, there were *the Treaty of Yaoundé II* and *the Treaty of Arusha II* signed, both with the five years validity. The Hearth of both treaties was the

¹⁶ Yaounde is the capital of Cameroon.

¹⁷ Arusha is the capital of Tanzania.

liberalization of circulation of goods, persons and capital (creation of free trade zone). The system of reciprocal preferences needed to be established supplemented with the creation of the European Development Found that needed to be used to finance the selected projects in the associated countries.

The validity of two treaties expired in 1975 and they were replaced by so called *the Treaty of Lome I*¹⁸ that is considered as a new phase of association. The signers of this treaty were 9 member states of EC and 46, later 58 developing countries of Africa, Caribbean and Pacific (ACP) – previous British, Belgian, Netherlands and French colonies. It was a matter of duty-free opening of EEC market for export of agriculture products and raw materials from ACP. There was a STABEX system established in order to avoid the fluctuation of prices of these commodities on the world markets which was providing the favorable credits to the affected economies in case of decrease of prices of 5 % versus the previous year.

The Treaty of Lome II was signed in 1979 and added the SYSMIN system to the association mechanism. It was again a matter of stabilization mechanism this time for the mineral resources market (bauxite, copper, tin and so on). The purpose was to help the countries with the mentioned mineral resources as the main export commodities. The intervention came in case of 10 % decrease of export of one of the commodities under the condition that this commodity was representing minimum 15 % of export structure of the country.

The Treaty of Lome III was signed in 1984 between 12 EC member states and 66 states of ACP¹⁹ with the 5 years validity. The main target of the treaty was the support of economic, cultural and social growth of the ACP countries and the consolidation of their relations with EC. The content of the treaties of the Lome I to the Lome III in the substantial areas did not differ a lot. Despite few positive elements the execution of the Lome III was not evaluated as a very successful. Economic situation of majority of the ACP countries at the end of the 80s did not look better than before signing this treaty.

The most extensive and detailed *the Treaty of Lome IV* was signed in 1989 between 12 EC member states and 66 countries of ACP^{20} . Balance between the economic targets, maintenance of environment and appreciation of natural and human resources including protection of human rights were stressed. These targets and principles were setup by taking various countries-specific conditions into account and cooperation was focused on the development of states, (sub)regions and integrations. The Lome IV was unlike to previous treaties signed for 10 years and the biggest part of financial resources was provided for the structural changes in developing countries. A special part of this treaty was devoted to the least developed continental and island countries of ACP that were constituting more than 60 % of signatory developing countries (44 of 69, respectively 71 countries). However, there were no satisfying results reached – economic situation of

¹⁸ Lomé is the capital of Togo.

¹⁹ New signators of treaties of Lome were developing countries of pacific - Kiribati, Saint Kitts and Nevis, Tuvalu and Vanuatu.

²⁰ Untill the end of 1990, the number of members raised to 69 after the accession of Haiti, Dominican Republic and Namibia, the 70th member was Eritrea, South Africa became the last member in 1996.

associated countries was not getting better, their financial situation was getting worse due to the evolution of the prices of agricultural goods on world markets and STABEX was not compensating this evolution fast enough. That is why the revised the Treaty of Lome IV was signed in 1995 in Mauritius and implemented the political dialogue into the relations between EU and the ACP countries including its extension of questions regarding the foreign policy and security.

*The Treaty of Cotonou*²¹ was signed in 2000 with the twenty-year validity. 78 countries of Caribbean, Africa and Pacific have a claim to receive development aid from the European Union in condition of opening their markets to the EU's goods.

Between 1999 and 2006, there was 13.5 billion Euros earmark from the EU budget for the development aid^{22} . Between 2007 and 2013, the ACP countries will be allowed to spend two billion Euros yearly. During the previous financial period Union gave one billion Euros for the solution of problems with the water and in 2005 it gave 817 million Euros for the development of traffic and infrastructure in the poor countries. In the same time, there were just 185 million going for the education and 239 million for the public health. During next period, EU will distribute 255 million Euros between so-called states of one commodity – these are the countries with one farming product composing more than 20 % of their economy and in which the deviations of prices of this product on the world markets are creating economic problems.

Nowadays is getting more and more popular a one kind of development aid– it is via *Direct Budget Support*²³. One of the main sustainers of this method is the Great Britain that is giving one forth of the development founds directly to the budgets of the partnership countries. The principle of this support is that financial aid from EU is flowing to the budgets of developing countries that can decide about their utilization on their own. The condition is the willingness of the partnership government to respect the principal rules – fight against corruption, build the quality state institutions and combat the poverty. Great Britain has decreased the financial donations to Ethiopia and Uganda immediately after the persecutions of dissidents in 2006.

The question which governments can be trusted remains but there is one thing clear – the good-governed countries can count on the regular financial inflow enabling long-term planning. Sending money to the account of African, Latin American and Asian governments was at the beginning raising the worries about their movements to the private accounts of governors, however it has not happened. Only the future will show whether the poor governments are able to decide freely on their policy or whether the pressure of the strong donators finally wins.

Summary

Despite provided financial or other development aid there is a major opinion that developing countries should stop counting on the help from others and take their

²¹ Cotonou is a capital of Benin.

²² www.evropskaustava.cz/index.php?dok=0069000000059

²³ It is a modification of General Budget Support (for example in Marshall Plan).

economic development in their own hands. Instead of offering huge financial resources and donations, the trade barriers should be eliminated so that these countries could participate on the international trade. The possibility to export to the developed countries markets, especially agricultural goods, clothes and textile, could outweight the risks from loss of preference advantages and immensely speed up the growth and the creation of new jobs and so support the development and decrease the poverty.

JEL Classification

F35,O19

List of literature

- (1) Boward, J.: The Continuing Failure of Foreign Aid. Cato Institute, 31.1.1986
- (2) eldar.cz/honza/articles/rozvojova_spoluprace.doc
- (3) http://en.wikipedia.org/wiki/Official_Development_Assistance
- (4) http://www.independent.co.uk/news/world/politics/un-unveils-plan-to-releaseuntapped-wealth-of7-trillion-and-solve-the-worlds-problems-at-a-stroke-525173.htm
- (5) http://www.osn.cz/zpravodajstvi/zaber/?i=205
- (6) http://www.osn.cz/zpravodajstvi/zpravy/zprava.php?id=1063
- (7) http://www.rozvojovka.cz/download/skripta_rozvojovka_student.pdfOECD
- (8) http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA
- (9) Kamath, S. J.: Foreign aid and India: Financing the Leviatan State. Cato Institute19.3.2003, www.cato.org
- (10) library.muni.cz/toCP1250.eng/EU/html/21310t.htm
- (11) Pazderka, J.: Cíle rozvojové spolupráce, Rozvojovka, www.rozvojovka.cz
- (12) RAHN, R.: Turn off Foreign Aid? Cato Institute, 17.9.2003, www.cato.org
- (13) www.evropskaustava.cz/index.php?dok=0069000000059