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Notes on the Case for European Aid

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This brief note concerns the first of the seminar’s three questions: why European aid? This question has, of course, been discussed for decades. Rather than covering familiar territory I here focus on three arguments for European aid which have received relatively attention.

First, recipient countries are increasingly hostile towards the burden imposed by numerous donors. While donor rhetoric promises far-reaching coordination, donors often do not practice what they preach: the reality, particularly in Africa, is very different from what was agreed in the Paris Declaration. There certainly is progress in donor coordination but it is tantalizingly slow. Not surprisingly, recipient countries are beginning to show signs of impatience. As African governments grow more confident and less aid dependent they may well follow the example of India and refuse to deal with more than a small number of donors. This would threaten the viability of all but the largest bilateral programs of EU member countries. There is therefore a case for European aid, not as the 28th donor, but as the channel through which much of the aid of most member countries will eventually have to flow.

Secondly, transforming bilateral aid into European aid can improve donor credibility. The original case for aid: that it helps a poor country to overcome a capital market imperfection, is still relevant for the group of countries that already have reasonable governments and policies, but not yet access to international capital markets. For those countries aid can play a modest but useful role.[1] However, to minimize the perverse incentive effects emphasized by the critics of aid, aid cannot continue to be perceived as quasi-permanent: it is essential that it is seen as temporary. Only then will the recipient have an incentive to prepare for a post-aid period in which he will have to rely largely on tax revenue as a source of government finance. This presents

[1] It is often suggested that this class is empty, *i.e.* that countries with reasonable governments and policies will ipso facto have capital market access. It is worth recalling that a country like Ghana had already been in this category for many years before it was able (in 2008) to float a bond.

a serious problem for bilateral aid: the recipient country will rationally expect that if one donor terminates aid, another donor will be willing to step in his place. Since the government therefore does not see aid in aggregate as temporary, domestic accountability and the associated quality of public services may remain compromised. In this context donor pronouncements on when aid will end are largely "cheap talk". This is a strong argument for providing general or sector budget support through multilateral rather than bilateral channels. European aid can play this role but only if the EU can credibly commit to ending aid. (To achieve such credibility will be a major task in view of the EU's current reputation. The evidence on EU-ACP relations shows that the EU is as reluctant as other donors to turn off the tap.[2])

Finally, at present the only multilateral institution in development which is widely recognized as a "knowledge bank" is the World Bank. This monopoly position is undesirable. While it is not sensible to attempt to stake out a European position on development, it does make sense to build up a concentration of expertise in an EU institution. To be seen as a viable alternative source of knowledge a European knowledge bank must be committed to the highest quality standards unlike previous initiatives in this area.

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[2] The EU has stated that "joint EU approaches in the implementation of aid effectiveness will collectively leverage more progress than can be achieved individually by Member States and the Commission" but does not seem to have a clear vision on such collective leverage. Council Conclusion on an Operational Framework on Aid Effectiveness, November 17, 2009.