EFFECTIVE FOREIGN AID, ECONOMIC INTEGRATION AND SUBSIDIARITY: LESSONS FROM EUROPE[4]

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INTRODUCTION

More than fifteen years after the end of the Cold War, the world seems poised to fall into another deep seated polarization: the one between the developed and the developing world. The fracture is not only economic and social, linked to the persisting gaps in standards of living and opportunities, but above all political, with the risk of becoming "ideological" and providing support to radicalism, extremism and civilisation clashes. We see this new bipolarism at play in the stalled Doha negotiations, in the aborted reforms of global institutions, in the confrontations concerning human rights, and even in the different approaches to fighting terrorism and building peace and security.

Development assistance is at the heart of this new polarization. The growing distrust and antagonism in the developing world against the rich countries is fed by the widespread persuasion that the developed countries are not doing what they should do, and are not even living up to what they promised to do: sharing opportunities with the less fortunate, supporting development and fighting poverty. This calls into question shared values and builds frustration, a sense of betrayal, sometimes disillusion and despair.

Public opinion in the developed world is also reacting in an "ideological" way: development assistance is nothing else than a way to finance corruption and waste, to instigate a culture of dependency, to buttress undemocratic regimes and unsustainable economic policies. It is not surprising then that, faced with hard public expenditures choices in the context of ever tighter budgets, governments give low priority to official development assistance (ODA) and public awareness and support for ODA eclipse. Moreover the poor of the world do not vote, and in particular they do not vote in advanced industrial democracies.

These polarized views find an echo in the scientific literature, which itself is becoming polarized between the ODA preachers and the ODA bashers. However, there is a growing number of contributions which do not take sides in the political controversy and explore possible "third ways", dwelling in particular on the conditions under which ODA can produce its desired outcomes.

This paper intends to propose another third way approach to development assistance policies, based on a synthesis view, and a new view, of the factors that explain the effectiveness of ODA. The conditions under which ODA produces higher rates of economic growth on a sustainable basis can be summed up in two basic factors: economic integration and subsidiarity. ODA is growth inducing only to the extent that development assistance (i) stimulates and supports the integration of national and local economies at the international level, both globally and regionally, (ii) determines institutional reforms and sound economic policies at the appropriate level of government (global, regional, national and local), and (iii) leaves the private sector to play its fundamental role. This approach is proposed based on a review of the literature and by drawing on the experience of European economies, particularly in the last two decades.

I. TRENDS IN DEVELOPMENT ASSISTANCE: A CONTROVERSIAL PICTURE

Official development assistance: the betrayal of donors?

Are rich countries withdrawing from their commitments? Is the gap in ODA undermining the achievement of the policy commitments of the international community, notably the Millennium Development Goals (MDGs)?

These are some of the questions that are being raised in the development circles. In order to set the stage for understanding the implications of these questions, we begin with a look at the current trends in ODA and other forms of aid flowing from the donor to the recipient countries.

[4] This is a shortened version of a paper presented at the March 2007 meeting organized in Kiev by the Centre for Social and Economic Research (CASE), Poland.

According to the estimates of the United Nations Millennium Project, achieving the MDGs requires an increase of aid flows to at least $150 billion per year. This would also be consistent with the commitments the donors have made under the Monterrey Consensus of the International Conference on Financing for Development to work towards reaching the United Nations target of 0.7 per cent of gross national income (GNI).

Following the promises made by the European Union and by the G8 at its summit in Gleneagles to increase aid by some $50 billion by 2010, the ODA from the countries of the Organisation for Economic Co-operation and Development (OECD) to developing countries rose to a record high of $106 billion in 2005. This total represents 0.33 per cent of the Development Assistance Committee (DAC) countries' combined GNI, up from 0.26 per cent in 2004. In order to achieve the target ODA levels, the donors will have to keep increasing aid by an average of over 8 per cent per year, a rate comparable to the 2005 surge of 8.7 per cent in real terms. This means that for most DAC countries, ODA will have to rise at a rate above that of total government expenditure, year after year, which is a challenge at a time when OECD countries' budgets are under considerable pressure.

Chart 1 reports the ODA from the major OECD donors during 1990-2005. In 2005, 22 rich countries ran development programmes, sending overseas more than $100 billion in development aid. In dollar terms, this was fairly high – up from a low of $48 million in 1997, but still less as a percentage of rich-country GDP than the levels of the late Cold War period. The money went to about 180 countries. Seven of them received over $1 billion: China and India, drawing most of their aid from Japan, were at the top; the others were Indonesia, Egypt, Serbia, Mozambique and the Russian Federation. Top recipients of United States aid are usually countries of high security concern, including Israel, Egypt, Pakistan, Jordan, Colombia, and the Russian Federation in recent years. Most aid from Japan, Republic of Korea, Australia, and New Zealand, by contrast, goes to neighbouring Asian and Pacific island nations. Europe's recipients are mixed: Greece's $200 million goes mainly to Balkan-peninsula neighbours such as The former Yugoslav Republic of Macedonia, Albania, Bosnia and Herzegovina, and Serbia; most of Ireland's $400 million goes to Uganda, Ethiopia and other low-income countries in Africa. None of this tells us how well donors choose their priorities, or how well recipients use the money. But underlying all such debates is the suggestion that there really isn't very much foreign aid. The $106 billion for 2005, high by historical standards, was less than 1.0 per cent of the $12 trillion world GDP for low and middle-income countries (excluding India and China). It was about 7 per cent of the $1.5 trillion in developing-country export earnings (again excluding Chinese and Indian exports, as well as oil sales by Persian Gulf states); and perhaps most striking, probably less than the $150-$200 billion in remittances sent home to developing-country families by overseas workers.

Peacekeeping and humanitarian intervention as a complement to development aid

It is well known and widely recognized that without peace and security there can be no development. Conflict is among the major factors affecting poverty and underdevelopment. Another major factor is natural disasters: while they hit both

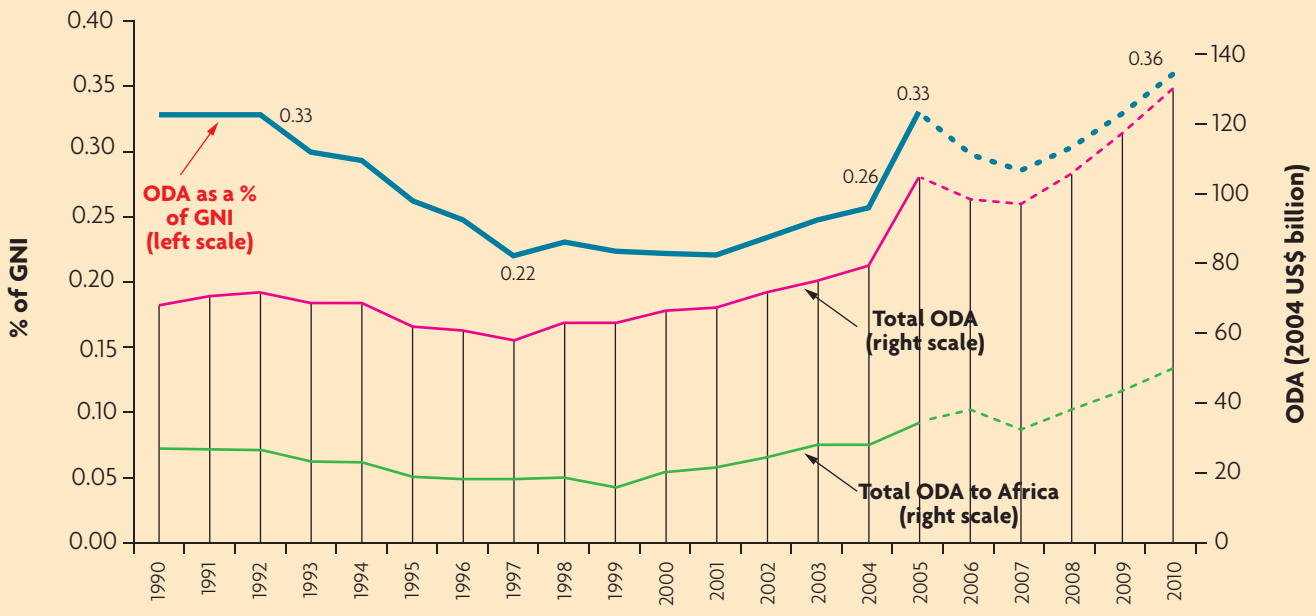
rich and poor countries, they leave a permanent scar in countries and regions where development opportunities are lacking and undermine profoundly efforts made to overcome obstacles and barriers to economic growth and prosperity. A recent example would be the impact of the tsunami on a number of Asian countries including, but not limited to, Indonesia, the Philippines, Sri Lanka, and Thailand. It is therefore appropriate to consider the trends in ODA in connection with those in aid and intervention for peacekeeping, and peacebuilding and for disaster relief and other humanitarian intervention. If we take an integrated approach to development aid, peacekeeping and humanitarian intervention, the picture of trends in assistance related to development changes significantly. Recent years have seen an exponential increase in the peacekeeping budget and humanitarian contribution around the world. The budget for United Nations peacekeeping operations from July 2005 to June 2006 was a record $5 billion – climbing past the previous peak of $4.6 billion in 2004-2005. Some 70,000 soldiers, military observers, and police were serving in 16 peacekeeping missions at the end of 2005. Including international and local civilian staff and volunteers, total personnel came to about 85,000. The United Nations also maintains 10 smaller "political and peacebuilding" missions, with a mostly civilian staff of 2,349 as of late 2005. The largest of these are in Afghanistan (set up in March 2002), Iraq (August 2003), and East Timor (May 2005). Chart 2 provides time series figures for peacekeeping expenditures and peacekeeping personnel and shows the exponential growth in both expenditures and personnel in recent years.

Humanitarian aid has also seen a significant increase in recent years. According to estimates of the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), contributions and commitments for humanitarian aid in 2006 exceeded $7 billion. Figures for 2006 classified by donors are given in Chart 3 while the table shows the aggregate trend in global humanitarian aid during 2000-2006. As the table shows, the global humanitarian contribution has increased in every year since 2000 and the magnitude in increase has been more than fourfold during this six year period. However, contributions in 2005 following the tsunami disaster increased to more than $13 billion from $4.7 billion in 2004.

Integrating development aid with aid linked to peacekeeping operations and humanitarian assistance may look politically controversial. One may object that the latter is most often driven by political considerations and strategic foreign policy interests of donor countries. However, this objection does not stand, as development aid is also mostly driven by the strategic interests of donor countries. It suffices to note the strong preference given by countries to tied aid and bilateral arrangements, and the reluctance of donor countries to relinquish control of technical cooperation activities in the multilateral institutions and arrangements. Besides, generosity and altruism should themselves correspond to longer term strategic interests of the developed world in maintaining international peace and security.

We can conclude then that the recent period has seen both a relative stagnation of the resources allocated to development assistance, but at the same time an exponential increase of the resources made available for intervention linked to peacekeeping and humanitarian relief. The experience of the tsunami, when under the impression made by the international media, public opinion mobilized and managed to collect an impressive amount of donations in a short time, is instructive of the kind of response that one can have from the citizens of the rich world when a convincing appeal is made to the need for international solidarity and support. The crisis of ODA therefore cannot be simply explained away by ethical considerations, and corrected by more effective campaigning or preaching or political confrontation. A more structural approach is needed starting from the experience gained from some success stories.

Chart 1. DAC members' net ODA 1990-2005 and DAC Secretariat simulations of net ODA to 2006 and 2010



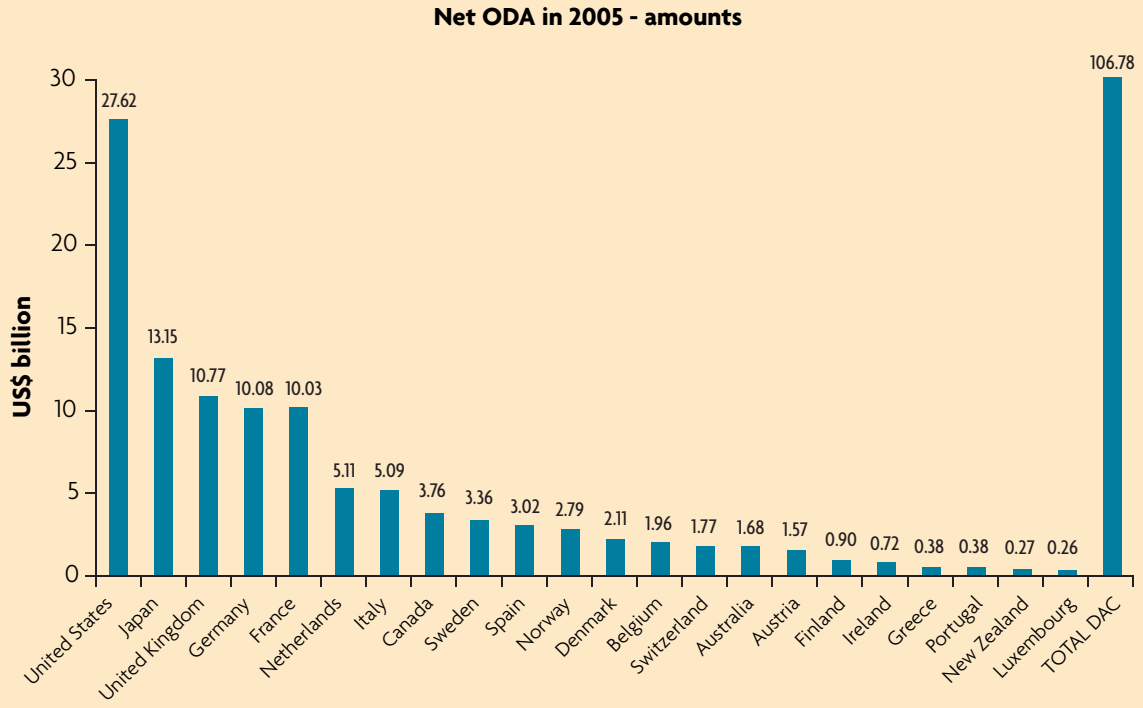
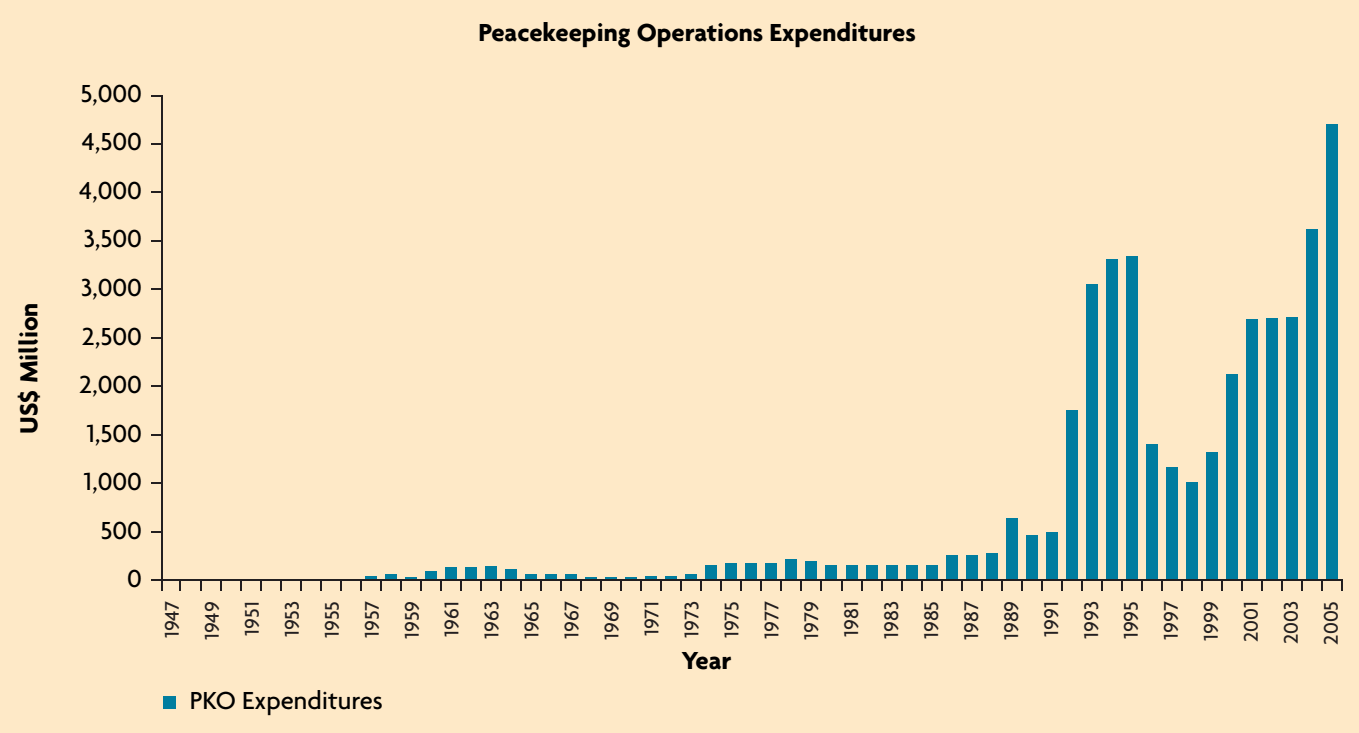
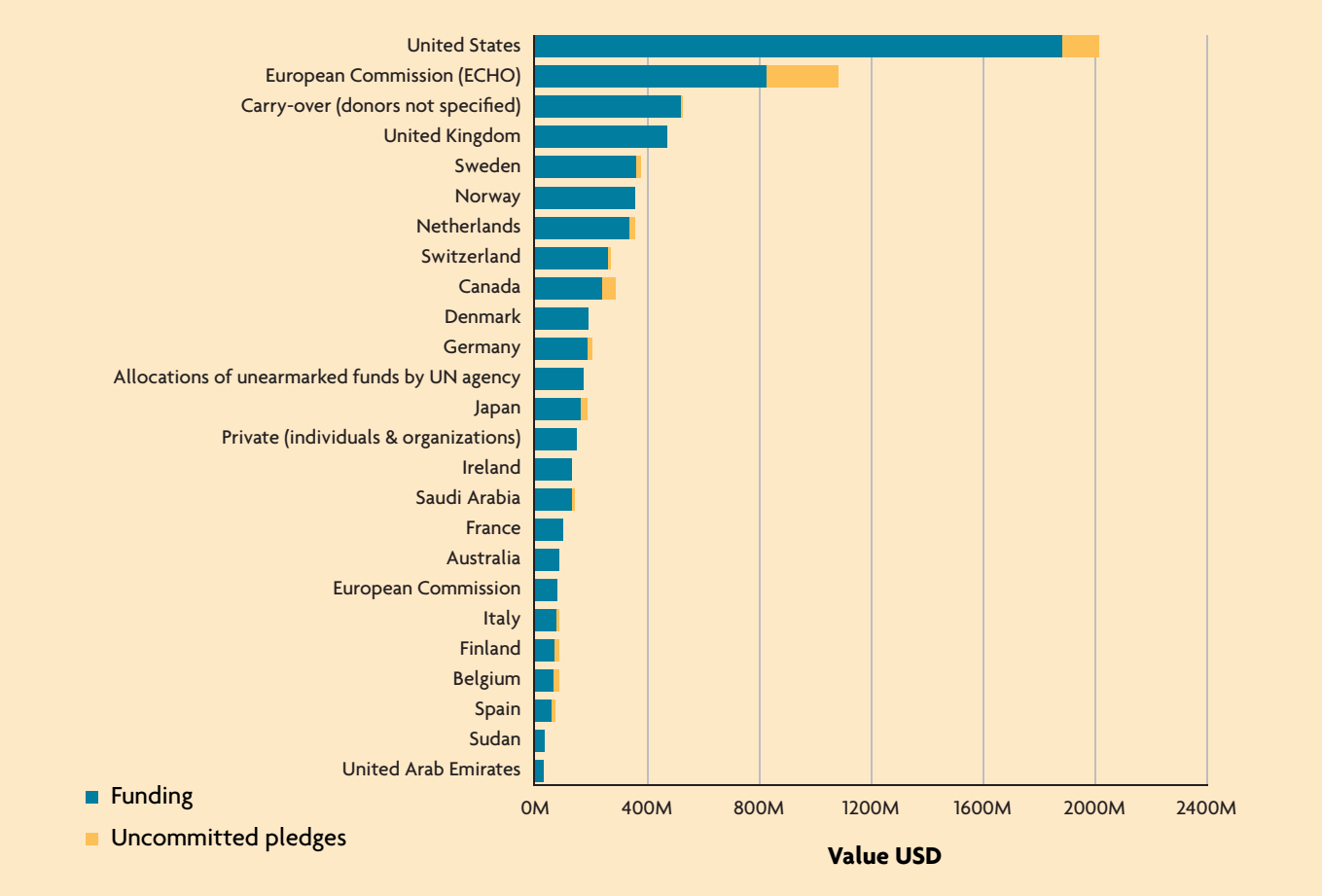


Chart 2. Peacekeeping Operations Expenditures 1947-2005



Source: Global Policy Forum

Chart 3. Global Humanitarian Contributions in 2006: Total by Donors

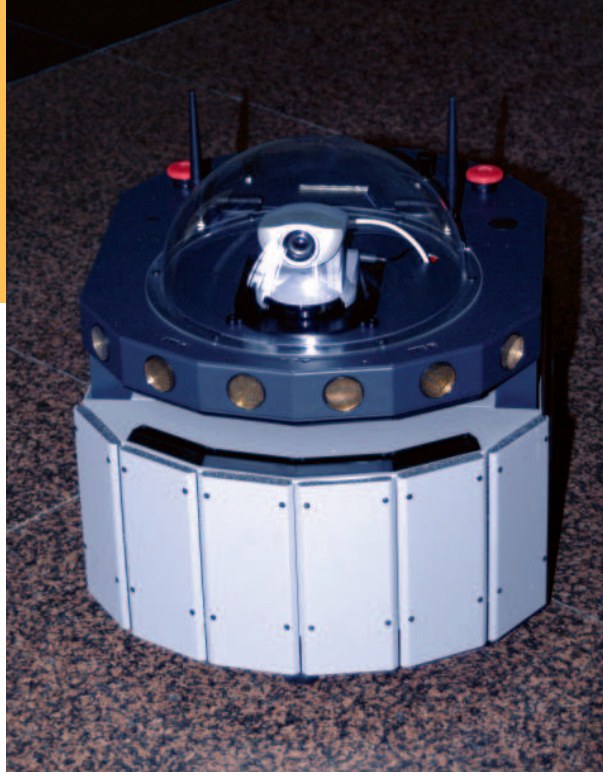


Source: http://www.reliefweb.int/fts

Global Humanitarian Contribution in Recent Years :
Total by Donors

Year	Funding in US$ ('000)
2006	7 201 717
2005	13 140 287
2004	4 732 381
2003	7 531 467
2002	5 116 713
2001	3 798 718
2000	1 772 120

Note: Funding means Contributions plus Commitments.
Compiled by OCHA based on the information provided by donors and appealing agencies.
Source: http://www.reliefweb.int/fts



II. THE EUROPEAN EXPERIENCE: WHAT ARE THE MAIN LESSONS

There are two basic stories concerning the European experience of ODA and economic growth. One is the experience of Europe as a main donor and source of funding to support development in other parts of the world and in its neighbourhood; the other is the support provided by the EU for integrating successive waves of new member countries, and promoting economic reforms in the policies of its members at the community, national and regional levels. The two stories have opposite endings: the first story is one of mixed results in line with the evidence on the impact of ODA in all other contexts; the second is the most extraordinary success story of the last 50-60 years. The EU is the main provider of development assistance in the world (see the table and Charts 1 and 3). However, the track record of this considerable financial effort has come under renewed attack from policy analysts. It has been argued that European development assistance is in disarray, lacking political thrust, strategic purpose and institutional support. This has created perverse incentives inhibiting the innovation and boldness that is required to promote sustainable development and democratic governance in poor countries.

If we consider instead the aid provided by the EU to support the economic integration of its member countries, particularly those relatively disadvantaged, or of acceding new members, as in the case of the EU enlargement of the early 2000s, it has to be recognized that these measures have been quite effective in supporting the integration of European economies and in creating the conditions for sustainable development and growth.

We will focus then on the latter assistance policies, to draw lessons of wider applicability. There are several experiences that can be considered emblematic of the European success in supporting economic integration. Here are the main ones:

1. EU enlargement: support for candidate countries

In order to accelerate the EU enlargement process and to support candidate countries in their accession, EU has provided considerable material assistance and technical support and advice through programmes such as Accession Partnership, Instrument for Pre-accession Assistance (IPA), etc. The Phare programme also channels financial and technical assistance. Community assistance for reconstruction, development and stabilization (CARDS, 2000-2006) is the EU policy framework aimed at helping recipient countries to participate in the stabilization and association process with the EU. Another success story is the Technical Assistance and Information Exchange Programme (TAIEX, started in 1996) which is an institution-building framework for providing short term assistance to candidate countries. Poland received a huge amount of financial aid during its accession period. For instance, the 2002 Phare programme allocated more than a billion Euros to Poland. Another candidate country, Croatia, also received about half a billion Euros under the CARDS for investment and institution building programmes.

2. EU regional policies aimed at supporting industrial restructuring, entrepreneurship, innovation and competitiveness

In the context of globalization and international integration, the EU has established many regional policies in supporting industrial restructuring, entrepreneurship, innovation and competitiveness that are essential for the region's development. In October 2005, the European Commission launched a new industrial policy to create better working conditions for manufacturing industries. With seven new cross-sectoral initiatives, such as intellectual property rights, better regulation, industrial research and innovation, market access, etc., the policy aims at supporting adaptability and structural change to boost the competitiveness of EU manufacturing, especially in the light of the increasing competitive pressure from China and other Asian countries.

In addition, the Lisbon Strategy aims to make the EU an attractive place for investors by promoting entrepreneurship, innovation and competitiveness. For example, the "European Agenda for Entrepreneurship" action plan was created to help entrepreneurs fully realize their ambitions, gear them towards growth and competitiveness, improve the flow of finance by creating more equity and provide them with a user-friendly regulatory and administrative framework. Entrepreneurs are also supported by the Community Financial Instruments in order to encourage the creation of new businesses, the establishment of some special venture funds owned by informal investors or business angels to support innovative activities. There are also other EU regional policies which have been introduced to improve the business environment. These include, but are not limited to, the policy to reduce administrative costs (roughly 25 per cent throughout the EU within five years), the Innovation policy or ICT (Information and Communication Technologies) policy which helps to promote activities necessary for the region to strengthen their position in the international market.

3. The single market: policies aimed at supporting the elimination of barriers, the adoption of standards, the better regulation of markets so that there can be a level playing field across the whole European economic space

The EU single market created in 1993 has generated numerous benefits in terms of prices, employment, exports, FDI inflow, etc. for EU citizens as well as the region's economy. The EU has continued to remove non-tariff barriers to trade, reduce cross border bank charges, apply common standards like allowing for free movement of people, goods, service and capital, or offer better regulation of markets like the EU's robust competition policy, EU company law, etc.

4. Policies aimed at giving a role to private players, the social partners, the voluntary sector, the research community, opinion makers, etc. including the role of Public Private Partnerships

In order to promote the role and the capacity of private players, non-governmental organizations (NGOs) or Public Private Partnership (PPP), some policies and actions have been implemented by the European Community, such as the programmes on PPP, Europe INNOVA and some other programmes supporting NGOs, voluntary organizations, etc. One of the programmes promoting NGOs' activities in the field of environmental protection is the Community action laid down by the European Parliament and Council, with a budget of 32 million Euros for the period 2002-2006. The programme encourages the systematic participation of NGOs in protecting the environment and contributing to the development and implementation of community environment policy in all regions of Europe.

In Europe, PPP is present in most sectors including transportation, public health, education, waste management, water and energy distribution, etc. At the regional level, PPP helps implement the Trans-European Transport Networks. At the country level, Hungary's Ministry of Education, for instance, is using PPP to develop university infrastructure.

5. Policies giving a role to regional and local governments, local communities and stakeholders (devolution)

Since regional and local government and communities are the closest sphere of governance to people and have a vital role to play in the creation, delivery and implementation of national, regional and international policies, the Council of Europe and many European governments have enacted policies as well as programmes giving roles to their local bodies.

6. Policies transferring responsibilities from national governments to the community (European) level, as in the case of trade, and the Euro

Because the EU has a common trade policy (Common commercial policy) where the European Commission negotiates on behalf of the Union's 27 member states, it plays an active role in the World Trade Organization (WTO) and is one of the key driving forces behind most of the multilateral trade negotiations in the WTO. The European common commercial policy implies uniform conduct of trade relations with the rest of the world, in particular by means of a common tariff and common import and export regimes. Under this policy, all European member states transfer responsibilities related to external trade to a Community, where the Community speaks with one voice at the global level. The European Commission negotiates and concludes international agreements on behalf of the Community at the bilateral and multilateral levels, ensures that common rules are actually applied, tackles trade barriers, promotes competitiveness, jobs and growth, creates favorable trade environment, etc.

Another case is the use of a single currency, the Euro, in thirteen of the member states. This calls for a single monetary institution at the regional level to manage that system. In order to monitor the whole Euro area, the European Central Bank (ECB) took over full responsibility for monetary policy that includes setting benchmark interest rates and managing the Euro area's foreign exchange reserves. Its responsibilities encompass developing the framework for monetary and exchange rate policy, operating rules and procedures, and the statistical database; preparing the groundwork for issuing EU banknotes; and promoting efficient payments across countries' borders. Therefore, with the establishment of the European Monetary Union and ECB, each individual European country could release or lighten its response to all issues related to monetary such as exchange rate, interest rate, inflation rate, budget deficit or debt to GDP ratio, etc.

In all these cases there is thus evidence that aid and assistance played an important role in stimulating adjustment and translated itself into sustainable economic growth. For example, between 2000 and 2005 public expenditure at the local and regional levels increased annually by 3.6 per cent, faster than GDP (1.7 per cent) and total public expenditures (2.4 per cent).As a result, the share of local and regional authorities in public investment increased from 25.4 per cent to 26.8 per cent. In some countries, such as Spain, Finland and Denmark, this proportion has increased by 10 percentage points over the last decade.

III. THE SECRET OF EUROPEAN SUCCESS: TOWARDS A NEW SYNTHESIS

Why has European aid been successful in all these cases and relatively unsuccessful in the other cases? There are two common threads that can be seen at work in all cases of success, and that can be spelled out in the argument as the main factors explaining the effectiveness of aid in relation to growth.

1. the fact that aid promotes economic integration, i.e. the elimination of barriers to economic activity, the enlargement of the market and its smooth functioning;

2. the application of the subsidiarity principle, in that aid stimulates more role by private players (business and civil society), devolving responsibility towards the lower level of government, and the transfer of power towards the European level for decisions that are to be taken at that level. Subsidiarity implies "institutional assignment", i.e. taking policy decisions at the level that is appropriate for that decision.

We can now elaborate on these factors, applying them to the wider context.

IV. ECONOMIC INTEGRATION AND SUBSIDIARITY – THE CONDITIONS OF AID EFFECTIVENESS

In this section, we will identify a few conditions where aid could promote growth:

Economic integration

Global economic integration is not a new phenomenon. Over centuries, integration through trade, factor movements, and communication of economically useful knowledge and technology has been on a generally rising trend. Three factors have affected the process of economic integration and are likely to be its driving force in the future. First, improvements in the technology of transportation and communication have reduced the costs of transporting goods, services and factors of production and of communicating economically useful knowledge and technology. Second, individuals and societies have favoured taking advantage of the opportunities provided by declining costs of transportation and communication through increasing economic integration. Third, public policies have significantly influenced the character and pace of economic integration.

Countries need to promote regional economic integration to overcome the constraints of small market size and to reap the full benefits of economic specialization. Since the developing countries tend to export more to distant developed countries than to developing countries, the potential for regional integration among developing countries is tremendous. For example, to promote intraregional trade, countries should continue to reduce tariffs and invest in trade facilitation by simplifying and automating customs procedures, promoting the mutual recognition of norms and standards, and encouraging trade in services. In some cases, regional currency unions can further aid intraregional trade by reducing the cost of exchange rate fluctuations and further deepening economic integration.

A second dimension of economic integration focuses on sharing the high fixed costs of setting up key institutions for development. Universities, research centres, and standards bodies are critical for generating growth, but frequently impossible for small countries to afford. Many small developing countries also require regional institutions to help them overcome the constraints of small markets and population.

Third, the example of the European Union, which speaks with one voice in international negotiations over trade, shows that regional economic cooperation can strengthen the international voice of developing countries. By agreeing on common positions and objectives, small countries can reduce the cost of international negotiations and increase the likelihood of successful outcomes on issues like trade and debt relief.

These priorities require strong institutions to coordinate the alignment of customs procedures, the harmonization of standards, and the development of joint infrastructure. The European Union has been a good example of promoting economic cooperation in Europe.

Foreign aid helps economic integration in at least three ways. First, aid helps to accelerate knowledge sharing among countries. Second, aid helps in allowing poorer countries to participate in setting standards and in convergence of standards. In other words, aid helps to bring a sense of ownership in the developing countries by providing for an inclusive process. Third, aid helps to compensate the losers from economic integration. It helps to soothe the interest groups who resist economic integration the most.

Providing sizeable financial assistance has historically been of considerable importance in helping persuade countries of the benefits of economic integration. Liberalization measures under the regional integration of Europe significantly helped to create a favourable economic environment that contributed to the growth and welfare of the weaker member states. These policies were combined with substantial economic assistance and helped to shape positive popular perception of integration. The post-war Marshall Plan was instigated in large measure to neutralize the forces moving Western Europe permanently away from multilateral trade and to thereby facilitate global economic recovery.

What we need now is to bring these trends together and have a pan-European approach to economic integration. Foreign aid can play an important role in helping this trend to succeed.

Global public goods

Many developing countries need new technologies to address specific needs. There are realistic prospects for developing new vaccines and medicines for malaria, HIV/AIDS, tuberculosis and other killer diseases in poor countries. Improved agricultural varieties and cropping systems can increase the food productivity of rainfed agriculture. Accurate environmental monitoring and forecasting can help focus interventions for the greatest positive impact. Many other examples abound for such public goods that, once developed, could be shared broadly to help all countries.

Peacekeeping is another important public good. The last two decades have seen at least several dozen major armed conflicts in different locations, most of them civil wars. Although the number of conflicts has fallen from its peak in the 1990s, the last few years have seen a major international escalation of the conflict in Afghanistan, Iraq, etc. Meanwhile, longstanding conflicts continue to rage in Colombia, the Democratic Republic of Congo, and Sudan, to name but three. And others are in reconstruction from earlier civil wars, including Bosnia and Herzegovina, Guatemala, and Mozambique. In order to reduce the intensity of conflict as well as maintain the post-conflict stability peacekeeping by an international force is required. The affected countries are in no position to fund these peacekeeping activities. So foreign aid is essential in providing for peacekeeping forces and maintaining stability around the globe.

Likewise, health R&D is limited for diseases affecting the poor, with only 10 per cent of global funding used for research into 90 per cent of the world's health problems. The Commission on Macroeconomic and Health of the World Health Organization recommends that annual funding for R&D on global public goods in health should be increased to $3 billion by 2007 and $4 billion by 2015, compared with roughly $0.3 billion annually today. The situation is similar in other areas of global public goods which are critical to the needs of developing and transition countries.

The relative nature of growth of a country could also be improved through the development of the knowledge economy. International policy dialogue could help global knowledge sharing. This could also be assisted by developing norms and standards for countries in different sectors and then helping to implement them. Implementation of these norms and standards requires capacity development in the developing and transition countries.

Global public goods are often overlooked and underprovided in most developing and transition economies, despite their critical role in promoting development as well as the fact that developed countries stand to benefit directly. Two main reasons can be cited for this. First, the cost of coordination among different countries is extremely high, requiring strong regional institutions that do not exist in most parts of the developing world. Second, the attribution of responsibility is a problem. This relates more to the way donors operate. Bilateral and multilateral agencies tend to allocate funds on the basis of individual country performance and needs. This approach

doesn't work for global public goods since it is extremely difficult to assign the investment benefit to individual countries. As a result, it is often very difficult to obtain loan guarantees for regional projects from individual countries. To overcome similar problems, regional infrastructure projects in the European Union are justified by their benefits to the entire community and financed from the EU's core budget (comparable mechanisms could be established among developing countries).

Link between normative and operational activities

"Normative" work implies standard setting, the formulation of policy, the articulation of what people ought to be doing, their rights and obligations, etc. "Operational" work, on the other hand, implies not only the developmental activities leading to the implementation of actual programmes of technical assistance, but also the execution of policy and the application of standards and guidelines. A successful link between these two types of activity is necessary for development assistance to be effective. The adoption of norms and standards in specific areas or sectors often requires operational activities for the full implementation in practice of the principles they embody. Indeed, technical cooperation is increasingly seen as an essential contribution to the application of standards. At the same time, operational activities contribute to a country's substantive knowledge of issues and can provide essential input to the development of new standards.

Aid for trade

This stands out as a special case of economic integration. In undertaking trade reform and to participate effectively in the global trading system, poorer countries are faced with a gamut of concerns and issues. For some there will be adjustment costs to preference erosion, and others may face a loss in terms of trade (notably for net food importers). Countries where tariff revenues make up a significant proportion of total fiscal resources may well need to undertake tax reform. Another fundamental issue is that many developing countries are ill equipped to take full advantage of new trade opportunities because of significant supply side and human and institutional constraints. Improved market access without the capacity and transportation to sell isn't of much use. Gains from trade liberalization are conditional on an environment that allows the mobility of labour and capital to occur, that facilitates investment in new sectors of activity and also can provide the vulnerable with some assurance that they will be assisted, if necessary.

Seen in this context, supporting trade adjustment and integration requires a shift towards more efficient transfer/assistance mechanisms with support directed at priority areas defined in national development plans and strategies. Allocation of foreign aid to support trade integration can help gradually to eliminate the current system of discriminatory trade preferences.

V. CONCLUSIONS

The current debates on poverty reduction, debt relief and, more broadly, the efficacy of development assistance have shed renewed light on foreign aid. Development assistance is at the heart of a new bipolarism that is evident in both the donor and the recipient countries. On the one hand, there is a growing perception in the recipient countries that the donors are not sharing opportunities and wealth in supporting economic growth and fighting poverty in the developing world. On the other hand, public opinion in the donor countries increasingly considers development assistance as nothing more than a way to sustain undemocratic regimes and support unsustainable economic policies.

Questions have also been raised regarding the magnitude of development assistance. Our initial analysis, however, shows that once we add to the ODA expenditures the recent surge in spending for peacekeeping and humanitarian intervention, the picture of the donor countries' commitments changes significantly.

The question that is, therefore, relevant for the debate on the efficacy of development assistance is not so much an issue of how much, but rather for what. In view of the growing awareness of ODA's inefficiency in achieving intended aims, this paper proposes an alternative approach to development assistance policies – economic integration and subsidiarity provide the conditions necessary for ODA to produce higher rates of economic growth on a sustainable basis. Europe is an excellent case in point, in this context. Europe has in the last decades experienced a number of success stories in moving out of poverty and on to sustainable economic growth. The secret of success has been the push towards economic integration, and the adoption of economic reforms at the local, national, and regional level conducive to economic growth.

The recipient countries of development assistance have much to learn from the European experience. The need for a political thrust, strategic purpose, institutional support and bold reform initiatives to supplement the receipt of development assistance cannot be overemphasized. Efforts to successfully integrate into the global economic system are also a pre-condition for these countries to better enjoy the fruits of foreign economic assistance.