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DIRECTING EU DEVELOPMENT AID TOWARDS RESILIENCE BUILDING

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DIRECTING EU DEVELOPMENT AID TOWARDS RESILIENCE BUILDING*

LINO BRIGUGLIO**

Introduction

The brief paper argues that although the provision of EU aid to satisfy basic needs, such as feeding mouths and curing the sick, is essential in emergency cases and in impoverished developing countries, it is of paramount importance that medium-term and long-term aid be aimed at enabling developing countries, particularly African ones, solve their own economic problems, notably through improved economic governance and economic resilience building.

In addition, because of country peculiarities, the recipient countries themselves should be enabled to identify their vulnerabilities and to determine and implement policies in order to attain their development goals.

Economic Vulnerability and Resilience

Various studies associate vulnerability with a high degree of exposure to forces outside the control of countries, arising from as a high dependence on external trade and export concentration (as is the case of studies carried out by the University of Malta studies in Briguglio and Galea, 2003) or from structural factors such a high degree of dependence on agriculture and remoteness (as is the case of the Vulnerability Index used by the United Nations index for classifying countries as LDCs).[1] Although small states tend to be especially vulnerable due to their high dependence on international trade and their narrow range of exports, larger developing ones could also be economically vulnerable due to their unbalanced economic structure. These are inherent features which are impossible or difficult to alter through policy inducements. Manifestations of vulnerability include high degree of instability in agricultural production, in export earnings and in GDP.

In spite of their economic vulnerability, many developing countries, especially the small and most vulnerable ones, manage to generate a relatively high GDP per capita. The present author called this reality the 'Singapore Paradox' (Briguglio, et al, 2009) with reference to the fact that Singapore, though highly exposed to external shocks, is economically well-governed and therefore tends to cope well in the face of such vulnerability.

One can explain this paradox by juxtaposing economic vulnerability with economic resilience, as shown in Figure 1. In the Figure, the risk of being harmed by external shocks is the outcome of inherent vulnerability features and policy-induced resilience building. The higher the vulnerability the higher is the risk of being harmed by external shocks, but this can be mitigated by economic resilience – hence the negative sign in from the resilience component.

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[1] http://www.un.org/esa/policy/devplan/profile/criteria.html#evi . See also Guillaumont (2009).

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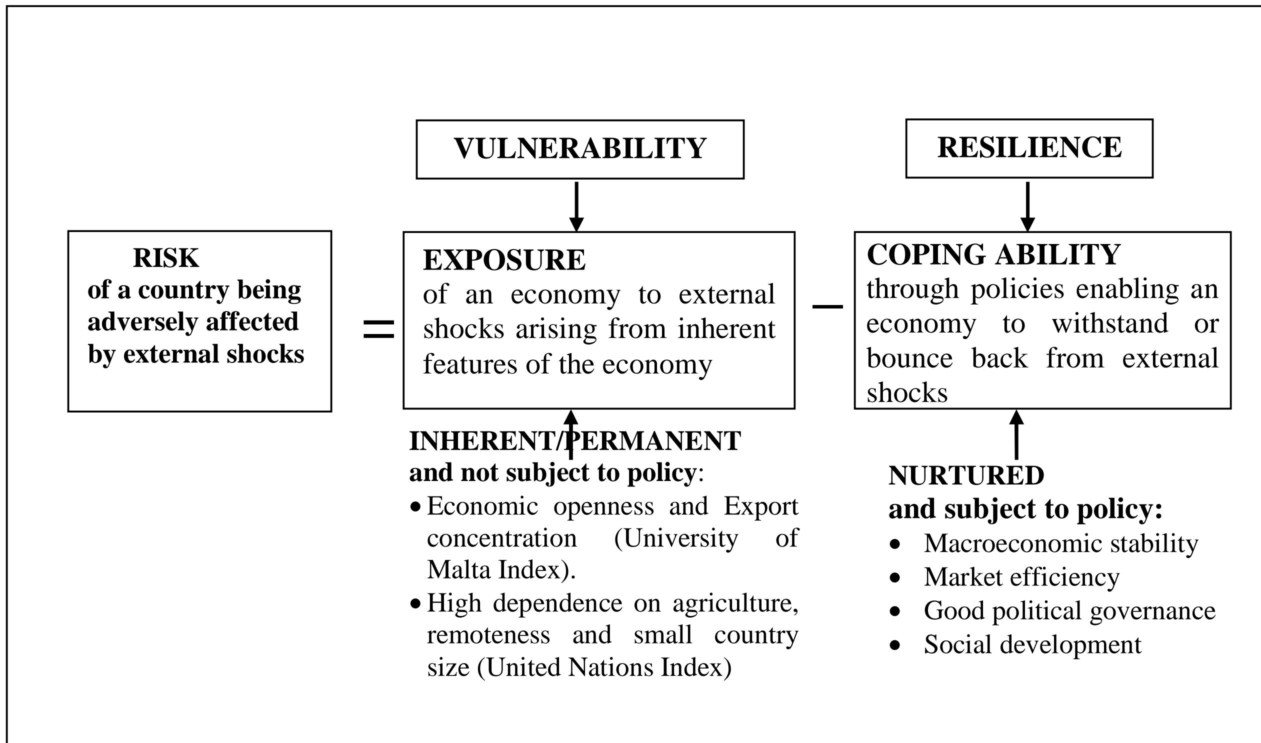
Figure 1
Risk of a Country being Harmed by External Economic Shocks



Economic resilience refers to the extent to which an economy can withstand or bounce back from the negative effects of external shocks. It can refer to the ability of an economy to recover quickly following adverse shocks (shock counteraction) or to the ability of an economy to withstand shocks (shock absorption).

Briguglio et al (2009) proposed an index to measure economic resilience, with four components assumed to capture shock-absorbing and shock-counteracting elements. These are:

1. Macroeconomic stability, measured by the fiscal balance, inflation, unemployment and external debt to GDP ration).
2. Microeconomic market efficiency, measured by the extent to which markets operate competitively and efficiently.
3. Good political governance, which is measured by judicial independence, impartiality of courts, protection of intellectual property rights, military interference in the rule of law and political system, integrity of the legal system.
4. Social development, leading to well developed social relations and effective social dialogue, measured by an index of education and health.

Implications for EU Development Aid

The foregoing discussion has important implications for EU development aid. If economic vulnerability is inherent and therefore permanent or quasi-permanent, very little can be done about it.

On the other hand, aid aimed at resilience building is likely to have major long-term beneficial effects, not only because this would mitigate the adverse effects of economic vulnerability but also because such policies are conducive to good economic governance. The promotion of good economic governance could also generate self-confidence in the recipient country itself, as this is likely to have spill-over beneficial effects on political governance.

This is not of course an argument against aid aimed at satisfying basic needs, including the provision of food and health care, especially for impoverished developing countries. The argument that is being proposed here is that aid would be more fruitful if it is aimed at helping developing countries to reduce economic instability, improve the workings of their markets, enhance their political governance and upgrade their social and environmental management.

One-Size does not Fit All

Because of country peculiarities and diversities in culture, size and political structures, the recipient countries themselves should be enabled to determine their development policies and to implement them in order to attain their development goals. For this reason, assessments regarding the need for ODA to identify policy and institutional weaknesses (through for example vulnerability and resilience profiling[2]), should be carried out by the recipient countries themselves, in collaboration with the donors. EU development aid can then be directed towards the identified policy and institutional gaps, so as to enable the recipient country to enhance its economic governance capacity, with the ultimate aim of improving the possibilities for the country to generate growth and development.

Conclusion

The main message of this short paper is that EU aid aimed at promoting and supporting economic stability, market efficiency and social development is likely to have a lasting effect on recipient countries, not only because this improves aid effectiveness but also because it is likely to foster the belief in that country itself, that it can climb the development ladder through improved economic governance.

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[2] Such profiling has been carried out by the Commonwealth Secretariat in collaboration with the Islands and Small States Institute of the University of Malta. So far three small states have been so profiled, namely St Lucia, Seychelles and Vanuatu . (see http://www.thecommonwealth.org/files/183786/FileName/FMM_08__INF_6.pdf)