Spyros Roukanas – Szabolcs Pásztor

# The Political Economy of International Development Cooperation

The outbreak of the Covid-19 pandemic has impacted the prospects of European as well as world economy. Almost 14 months after the manifestation of the pandemic, European economy and world economy are facing a more severe economic crisis in comparison with the financial crisis of 2007–2009. The aim of this article is to analyse the political economy of international development cooperation under the prism of the Covid-19 pandemic. The negative economic growth rates that the developed countries are facing have negative effects on international development cooperation. At the same time, the negative economic growth rates of developing economies are creating urgent challenges for certain developing countries. The analysis focuses on the tools that are available to both developed and developing countries in order to face the main challenges of international development cooperation under the prism of the Covid-19 pandemic, with a special focus on European Union security related issues.

*Keywords:* political economy, International Development Cooperation, Covid-19, EU security

## Acronyms

| | |
|---|---|
| ACP | African, Caribbean and Pacific |
| AU | African Union |
| DAC | Development Assistance Committee |
| DCI | Development Cooperation Instrument |
| EC | European Council |
| EDF | European Development Fund |
| EEC | European Economic Community |
| EIB | European Investment Bank |
| EUI | EU Institutions |
| GNI | Gross National Income |
| GSP | Generalised Scheme of Preferences |
| LDC | Least Developed Country |
| MFF | Multiannual Financial Framework |
| NDICI | Neighbourhood, Development and International Cooperation Instrument |
| OACPS | Organisation of African, Caribbean and Pacific States |
| OCT | Overseas Countries and Territories |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |

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## Introduction

The aim of this article is to analyse the political economy of international development cooperation under the prism of the Covid-19 pandemic. First, we analyse the concepts of international development cooperation, development cooperation, and official development assistance (ODA). Later we briefly introduce the establishment of the international development policy of the European Union and how it takes part in international development today. The study of these concepts reveals the importance of international development cooperation for the prospects of developing countries, but at the same time highlights the role of developed countries in mitigating the social and economic challenges of developing countries. Then we analyse the concept of international development cooperation historically, in comparison with other types of resource flows. Compared with other types of flows, official development assistance represents a fixed cash flow, intended to confront the fluctuations of the world economic environment. Moreover, we study the implications of the Covid-19 pandemic on official development assistance and the main challenges for developed and developing countries in the near future. Finally, we reconsider the conclusions of the study.

## International Development Cooperation under the prism of the Covid-19 pandemic

Development cooperation is the cooperation among developed and developing countries with a focus on covering the urgent needs of developing countries. The actions of developed countries should be subject to internationally agreed concepts and this enhances the definition of the term "international development cooperation" (Alonso–Glennie 2015: 1). According to José Antonio Alonso and Jonathan Glennie, development cooperation should meet the criteria below:

1. "Aims explicitly to support national or international development priorities
2. Is not driven by profit
3. Discriminates in favour of developing countries
4. Is based on cooperative relationships that seek to enhance developing country ownership" (Alonso–Glennie 2015: 1–2)

As can be observed from Table 1 that development cooperation has certain purposes, characteristics and types. The purposes of development cooperation focus on the improvement of social protection and standards of living at a global level, and more specifically on promoting the active participation of developing countries in the provision of public goods. It is evident that the purposes of development cooperation at an international level are socio-economic and seek to reduce social and economic inequalities. The analysis of the characteristics of development cooperation underlines nonprofit actions and the importance of developing countries for the design and the expected results of development cooperation. Moreover, the study of the types of development cooperation highlights three different types with qualitative and quantitative goals.

*Table 1: What is development cooperation?*

| Purposes | Characteristics | Types |
|---|---|---|
| Guaranteeing universal basic standards of social protection | Explicitly intended to support national or international development priorities | Financial (and in-kind) transfer |
| Promoting convergence among countries' standards of living | Not driven by profit | Capacity support |
| Supporting efforts of developing countries to actively participate in the provision of international public goods | Discriminates in favour of developing counties | Policy change |
| | Based on cooperative relationships that seek to enhance developing country ownership | |

*Source:* Alonso–Glennie 2015: 3

## The history and role of the European Union in International Development Cooperation

There are historical, moral, and strategic reasons for the establishment of the international development cooperation of the European Union. As for the historical reasons, the legacy of colonialism is to be mentioned. Countries like France and Spain, Portugal and, until the departure of the United Kingdom from the European Union, the U.K. as well were linked to the developing world with political and economic ties. The European Union, being the most developed economic integration in the world, feels a kind of moral duty to help the peripheral countries of the world economy. Finally, the European Union member states regard many former colonies and developing countries as prime markets and resource bases.

When shedding light on the policies of the European Union, we usually refer to the Rome Treaty as a number of core initiations were mentioned in 1957 already. However, at the dawn of the European integration, international development cooperation was not regarded as a key area. The treaty mentioned the overseas countries and territories (OCT) only and gave a legal framework for (re)defining the relationship between these territories and the then member states. Later, in 1975 the Lomé Convention was created, which was a trade and aid agreement between the predecessor of the European Union, the European Economic Community (EEC) and 71 African, Caribbean and Pacific (ACP) countries. The signature took place in February 1975 in Lomé, Togo (Horváth 2012).

International development cooperation became institutionalised in the Maastricht Treaty in 1992. The treaty clearly defined the aims of the international development policy of the European Union: 1. sustainable economic and social development; 2. smooth and continuous integration into the world economy; and 3. fight against poverty. In addition, the Maastricht Treaty stated that the actions of the European Union have to contribute to the consolidation of the rule of law, democracy, human and basic rights in the developing countries (Horváth 2012).

In the 1990s, international development policy was built on 5 principles:

- Complementarity: the actions of the European Union have to supplement the actions of the member states.
- Coordination: there is a need for coordinating the actions of the member states and the European Union with a special emphasis on the international institutions.
- Coherence: the aim of international development policy is to be integrated into the other policies of the European Union.
- Geographical weighting: the most underdeveloped countries are to be prioritised.
- Political condition: aid is conditional on whether there are democratic governmental structures in the recipient countries.

Almost from the very beginning there have been two tools of international development policy: the aid instruments and the trade instruments. The development aid given by the European Union member states covers many different and diverse fields (macroeconomic policies, institutional structures, healthcare and education systems, environmental projects, gender equality, etc.) The European Union in general shoulders an active role and gives help in two different ways. First of all, the cooperation agreements provide an institutional background. Secondly, the countries in need may get instant help in every corner of the world. Funding was provided by the European Development Fund (EDF), European Investment Bank (EIB) and by the special chapters of the budget of the European Union (Horváth 2012).

When it comes to trade, the preferential instruments like the Generalised Scheme of Preferences (GSP) are to be mentioned. These are one-sided tariff reductions for the developing countries. Apart from them, there are other instruments which give special market access and preferences to the former colonies and developing countries (Molnár 2018).

Currently the European Union and its institutions have been trying to eradicate poverty and achieve sustainable development in many developing countries. Taken together, the countries and the institutions of the EU are the world's leading donors of development assistance and cooperation. The legislation and the policies of the EU are clustered around good governance, economic and human development, fighting hunger and preserving natural resources. The European Union dedicates almost 10 percent of its budget to external actions. Among the forms of the funding, there are budget supports, contracts and grants to the partner countries. In the hope of increasing the support of the European Union, the member countries and the institutions alike work with the international organisations and private bodies.

In line with the Sustainable Development Goals of the United Nations, the EU institutions work together and provide funding to address the following five aspects of sustainable development: 2. People: ending poverty and hunger in all forms and ensure dignity and equality; 2. Planet: protecting future generations from environmental destruction and resource depletion; 3. Prosperity: ensuring prosperous and fulfilling lives in harmony with nature; 4. Peace: Creating peaceful, just and inclusive societies; 5. Partnership: implementing development work through global partnership (EC 2002).

The European Union cooperates with over 150 countries in the regions of Africa, Latin America, the Caribbean, Asia and the Pacific. Apart from these states, there is intensive cooperation with international organisations and civil society, as well. The European Union not only provides financial aid and engages dialogues with partner countries but conducts research and evaluation in the hope of ensuring the effective usage of foreign aid.

The EU is one of the most active players in the field of international development, as in 2019 only it gave 75.2 billion euros in the form of Official Development Assistance (ODA) which represented 55.2% of the total global assistance. The focus has been on good governance, human and economic development, tackling global issues (poverty, hunger, misusing natural resources). The development efforts try to be as effective, comprehensive and coherent as possible. As a sign of complexity, international development and partnerships are coordinated with the member countries of the European Union. The relevant stakeholders are involved in the development efforts. Also partnerships are fostered with developing countries to achieve common ambitions. The development cooperation of the European Union is built on transparency, mutual accountability and results.

The European development policy tries to reach sustainable development and stability in a number of developing countries and the ultimate goal is the eradication of extreme poverty. The external action of the European Union is built on three pillars: development assistance, foreign security and trade policies. As the European Union and its member countries give over half of the overall development aid, it is one of the world's leading donors, placing much emphasis on peace and security all over the world. The European development policy is embedded in the European treaties, strategies and agreements and it is based on a number of fundamental principles. The United Nations 2030 Agenda for Sustainable Development is a programme where the international objectives of the European Union are represented and the member countries are committed to achieving them. At the same time, 17 concrete Sustainable Development Goals are reflected in the new European Consensus on Development.

As it was highlighted before, among the international partnerships of the European Union, the cooperation with the ACP countries has been deeply rooted and shows no sign of weakening. Under the first Lomé Convention (signed in 1975) the ACP–EU partnership has proved to be a success story. Currently the relationship is framed by the ACP–EU partnership agreement (2000), also known as the Cotonou Agreement. This incorporates over 100 partner countries and more than 1.5 billion people. As of today, this is the most comprehensive partnership agreement between the European Union and third countries. At the beginning the following principles represented the building blocks for the Cotonou Agreement: 1. partner's equality; 2. global participation; 3. dialogue. Later, in 2005 and in 2010, the agreement was revised and supplemented with new focus points: 1. regional integration; 2. security and political stability; 3. the growing challenge of climate change; and 4. inclusiveness and sustainability; 5. aid effectiveness.

In April 2020 there were fundamental changes in the ACP–EU relations as the Organisation of African, Caribbean and Pacific States (OACPS) was formulated based on the former countries of the ACP group. Also, as the Cotonou Agreement was about to expire, there was a need to transform and strengthen the relationship between the European

Union and the OACPS countries. Negotiations lasted for almost three years and they were concluded on 15 April 2021. The aims are clear: 1. a comprehensive political agreement, supporting commitment to sustainable development and climate action, building on the UN 2030 Agenda, the European Consensus on Development, and the Paris Agreement; 2. more flexible, targeted and coherent relations between the European Union and the OACPS countries, thanks to a renewed partnership agreement which allows to act at various levels to protect people's lives and the planet.

Apart from these aims, the (future) partnership tries to foster inclusive growth, climate action and resilience to natural disasters, peace and security, migration management, democracy, the rule of law, human rights. The European Union countries try to increase the development dynamics and they are committed to build an even stronger relationship among the participants. The OACPS and European Union member countries represent more than half of the UN members. The Cotonou Agreement was supposed to expire in February 2020 but owing to the outbreak of the Covid-19 pandemic, they extended the agreement until 30 November 2021.

When it comes to the ODA funding trends in the European Union, it is to be mentioned that the European Union Institutions' (EUI's) total ODA was 19.4 billion USD in 2020. With this number, the European Union is the third-largest donor of the OECD DAC. The European Union and its 27 member countries together spent 0.5 percent of the gross national income (GNI) of the European Union representing 46 percent of the global ODA.

In the financial framework of 2014 and 2020, the EUI built on two key instruments for ODA: the European Development Fund (EDF), capped at 30.5 billion EUR (34.1 billion USD) and the Development Cooperation Instrument (DCI), capped at 19.7 billion EUR (22.1 billion USD). The EUI's ODA for 2020 was expected to remain stable at these levels (OECD 2021d).

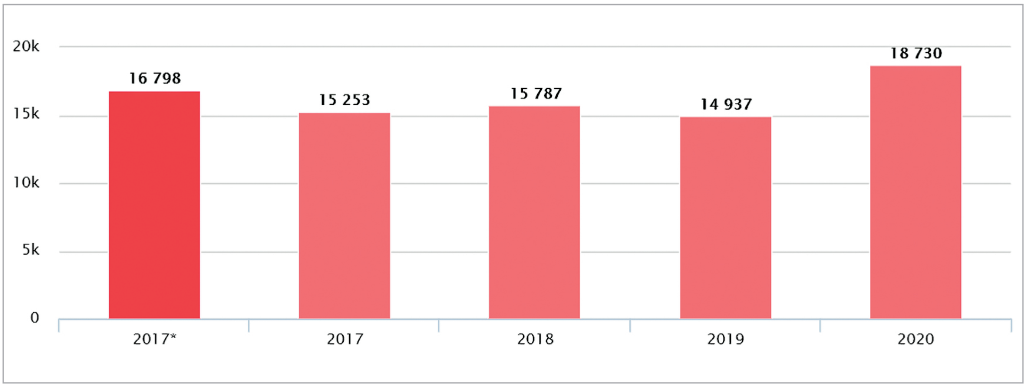



*Figure 1: Total official development aid of the European Union institutions (millions of USD, 2019 prices)*
*Source:* OECD 2021d

In December 2020, the EU adopted its new long-term budget (2021–2027 Multiannual Financial Framework (current MFF). The current MFF makes 1.07 trillion EUR (1.20 trillion USD) available for the EU budget during the next seven years. When it comes to the latest priorities, it must be highlighted that the institutional focus in the European Union is on interlinked and interlinking sectors (development, peace, humanitarian assistance among others). The effectiveness of development assistance is to be increased by increasing partner country ownership of development strategies and combining traditional financing with private sector and domestic resources (DT 2021).

In July 2019, the President of the European Commission, Ursula von der Leyen, outlined her priorities for 2019 and 2014: 1. further investments in research and innovation; 2. renewed focus on climate change; 3. increased investments in development cooperation focused on health, education, sustainable growth and security; and 4. strengthened EU global leadership. A year later, in March 2020, the European Union unveiled a roadmap for its new strategy with Africa to serve as the basis for negotiations on a new partnership between the two continents. The priorities of the European Union include the following ones: 1. green transition and energy access; 2. digital transformation; 3. sustainable growth and jobs; 4. peace and governance; and 5. migration and mobility (DT 2021).

When it comes to the new financial framework of the European Union, the 2021–2027 MFF allocates 70.8 billion EUR (79.3 billion USD) for the "Neighbourhood, Development and International Cooperation Instrument – Global Europe" (NDICI – Global Europe), which is the new instrument for EU cooperation and development with partner countries.

The EUI's ODA from 2021 onwards is expected to decrease because of the U.K.'s exit from the EU ('Brexit'). The EU has not yet decided (nor have member states agreed on their position) on whether and how non-EU countries can contribute to future EU development instruments (European Commission 2021).

At the EU–AU Summit, currently planned for early 2022, the EU hopes to agree on a joint EU – African Union (AU) strategy. The EU and the AU have converging interests in a number of areas including climate change, sustainability, and the promotion of job creation and economic growth in Africa. However, they still have to find common ground on other issues including migration and security management (DT 2021).

Like in the previous years, the European Union was the world's leading donor of ODA in 2019. The European Union and its member states contributed to global assistance by 75.2 billion EUR representing 55.2 percent of the collective ODA (OECD-DAC 2020). The amount represents 0.46 percent of the gross national income (GNI) of the European Union which almost equals the value of 0.47 percent a year before. In order to better understand the impact of the contribution of the European Union and its members, it has to be mentioned that the non-EU members allocated 0.21 percent of their GNI on average. Despite the fact that the contribution of the EU and its member states is significant, it is also true that, since 2016, the collective effort in comparison with the GNI has been at its lowest level. It has to be mentioned that in 2019 only three European Union member states met the ODA commitments and provided 0.7 percent or even more of their GNI. These countries were Denmark, Luxembourg and Sweden. The United Kingdom also met commitments but the country no longer belongs to the European Union. In nominal terms 17 member countries of the European Union increased their ODA commitments in 2019 in comparison with 2018. These countries are as follows: Austria, Croatia, Cyprus, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Latvia, Luxembourg, Malta, Romania, Slovenia, Spain as well as the U.K. The following ones made an even more visible effort because they increased their ODA/GNI ratio by at least 0.01 percentage points: Austria, Cyprus, Finland, France, Luxembourg and Malta. The ODA to GNI ratio decreased in 8 member states by 0.01 percentage points or more. These countries are as follows: Belgium, Estonia, Germany, Lithuania, the Netherlands, Poland, Portugal and Sweden (European Commission 2021).

Apart from the mixed results and achievements, there are promising signs as well. The ODA of the European Union to the group of the Least Developed Countries (LDCs) increased both in 2018 and 2019 (0.125 percent of the GNI and 19.8 billion EUR in absolute terms). In the year 2018, the ODA of the 28 countries of the European Union increased by 4.3 percent and reached 25 billion EUR.

ODA is only one of the instruments of help, apart from this, the member countries of the European Union try to find other ways of supporting the implementation of the Sustainable Development Goals. Domestic resource mobilisation, aid and investment are used effectively to reach the full potential of all financial flows available. The Integrated National Financing Frameworks were created with the aim of financing strategies for sustainable development from different sources of finance. The European Union plays a crucial role in creating it. The European External Investment Plan is about leveraging over 47 billion EUR in investment for the African continent and European Union neighbourhood. In addition, the European Fund for Sustainable Development guarantee shoulders a lion's share in finding additional finance for certain partner countries. The European Union helps partner countries improve tax collection and public finance.

The collective ODA of the European Union is built on the spending of the EU member states and the institutions of the European Union. According to the Addis Ababa Action Agenda, the international community trajectory of development financing was outlined in the hope that it will help the 2030 Agenda for Sustainable Development.

In 2015, the European Council (EC) showed its commitment to increase the collective ODA of the European Union to 0.7 percent of the GNI of the EU before 2030. It is true that, since 2015, the ODA by the European Union and its 28 member countries has increased by 10 percent to 7 billion EUR on a flow basis, but in nominal terms the ODA/GNI ratio has declined by 0.01 percentage points. In the year 2016, there was a spike in the ODA commitments (0.52 percent of the GNI of the European Union) but since then we have seen a quite constant decrease. To be more exact, the in-donor refugee spending has decreased by 4.4 billion EUR since 2016 and the decrease experienced in 2019 was mostly due to the drop in the European Investment Bank loans to the private sector. When it comes to the commitments towards the Least Developed Countries, the European Union is determined to give somewhere between 0.15 and 0.20 percent of the European Union GNI in the short term and increase it to 0.20 percent by 2030. Since 2015 ODA by the EU and its member states to the Least Developed Countries has increased by 25 percent (4.0 billion EUR) in nominal terms, and the ODA/GNI ratio has increased by 0.02 percentage points.

**The latest data on Official Development Assistance by the EU**

On a grant equivalent basis, ODA provided by the European Union and its 27 member countries have reached almost 67 billion EUR, which represents 0.50 percent of the GNI. Non-European Union countries which are also members of the Development Assistance Committee (DAC) represent 0.26 percent on average. In the light of the latest data as well, the European Union and its member states are still leading providers of ODA in 2020. 46 percent of global ODA is provided by the member states and other ODA donors. In comparison with 2019, the collective ODA of the 27 countries increased by 15 percent (8.9 billion EUR). The ODA/GNI ratio has risen by 0.09 percentage points in two years. It is to be mentioned that the increase is partly due to the fact that the collective GNI of the European Union member countries decreased by 4.7 percent in nominal terms (European Commission 2021).

As it was mentioned before, the European Union is committed to providing 0.7 percent of GNI as ODA within the timeframe of the 2030 Agenda. There are four member countries already which exceed the target of 0.7 percent of ODA/GNI. These are as follows: Denmark, Germany, Luxembourg and Sweden.

In nominal terms, ODA from the institutions of the European Union has risen by 27 percent (having reached 17 billion EUR) in 2020 in comparison with 2019. The part of the ODA which is managed by the European Commission increased by 22 percent and reached 15.8 billion EUR. One billion EUR is for special macro-financial assistance loans on a grant equivalent basis. The ODA managed by the European Investment Bank increased by 830 million EUR and reached 1.2 billion EUR.

It is interesting to see that the ratio of the ODA of EU27 member countries on global ODA rose from 43 percent in 2019 to 46 percent in 2020. When it comes to the LDCs, the collective ODA of the 28 member countries of the European Union fell by 4.3 percent in nominal terms in comparison with 2019. The 2019 value amounts to 19.0 billion EUR representing 0.12 percent of GNI. In 2019, the GNI/ODA EU collective ratio (0.10 percent) to LCDs is well above the average GNI ratio (0.07 percent) for ODA to LDCs of non-EU DAC members. In nominal terms collective EU ODA to LDCs decreased by over 4 percent in comparison with 2018 and amounted to 13.8 billion EUR. Within the timeframe of the 2030 Agenda, the European Union is committed to meeting the target of providing 0.15–0.20 percent of GNI as ODA to LDCs in the short term and reaching 0.20 percent. There are already three member states which not only meet but exceed the 0.15 percent threshold of ODA to LCDs and GNI ratio. These countries are as follows: Luxembourg (0.47 percent), Sweden (0.32 percent) and Denmark (0.22 percent). The United Kingdom is the fourth country with 0.21 percent, but the U.K. is no longer a European Union member country (European Commission 2021).

Before the Covid-19 pandemic, collective EU28 ODA to African countries went up by 3.6 percent in nominal terms if we compare it with 2018. The absolute number reached 25.9 billion EUR. 35 percent of the ODA to developing countries went to Africa before the coronavirus pandemic (2020 data will be released in 2022 only). In nominal terms, EU27 collective ODA to Africa increased by over 5 percent in comparison with 2018 and reached 19.9 billion EUR. This is equivalent to 35 percent of total EU collective ODA to developing countries (European Commission 2021).

After having shown the development and importance of international development cooperation and under the prism of the above theoretical analysis concerning international development cooperation, we can now focus on the financial aspect of the above-mentioned term. Official development assistance is the term that has been adopted by the Development Assistance Committee (DAC) since 1961 (OECD 2021a). More specifically, the definition of official development assistance, according to the OECD, is the following:

"Special attention has been given to the official and concessional part of this flow, defined as 'official development assistance' (ODA). The DAC first defined ODA in 1969, and tightened the definition in 1972. ODA is the key measure used in practically all aid targets and assessments of aid performance" (OECD 2021a).

Moreover, the Organization for Economic Cooperation and Development analyses ODA as follows:

Official development assistance (ODA) is flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions that are:

- provided by official agencies, including state and local governments, or by their executive agencies
- concessional (i.e. grants and soft loans) and administered with the promotion of the economic development and welfare of developing countries as the main objective

The DAC list of countries eligible to receive ODA is updated every three years and is based on per capita income. ODA data is collected, verified and made publicly available by the OECD. OECD statistics are the only source of official, verified and comparable data on aid reported by 30 members of the OECD Development Assistance Committee (DAC) and about 80 other providers of development cooperation, including other countries, multilateral organisations and private foundations (OECD 2021b).

As we can understand from the analysis above, ODA is the most official and inclusive tool for measuring the impact of development cooperation on developing economies. The Development Assistance Committee is a 30-member committee of the OECD, which deals with issues related to development cooperation (OECD 2021c). In order to understand the impact of official development assistance on the objectives of the developed economies and the results for the developing economies, we should analyse the structure of official development assistance. Figure 1 analyses the total net resource flows from DAC countries to developing countries. We can see that official development assistance has been steadily increasing in comparison to other resource flows that are interdependent with world economic prospects. The second category of flows with great impact is the private flows at market terms. The analysis shows that the prospects of these investments are affected by the economy and market conditions at any given time. Official development assistance seeks to confront the urgent challenges of developing countries, with a lower impact in relation to economic fluctuations.

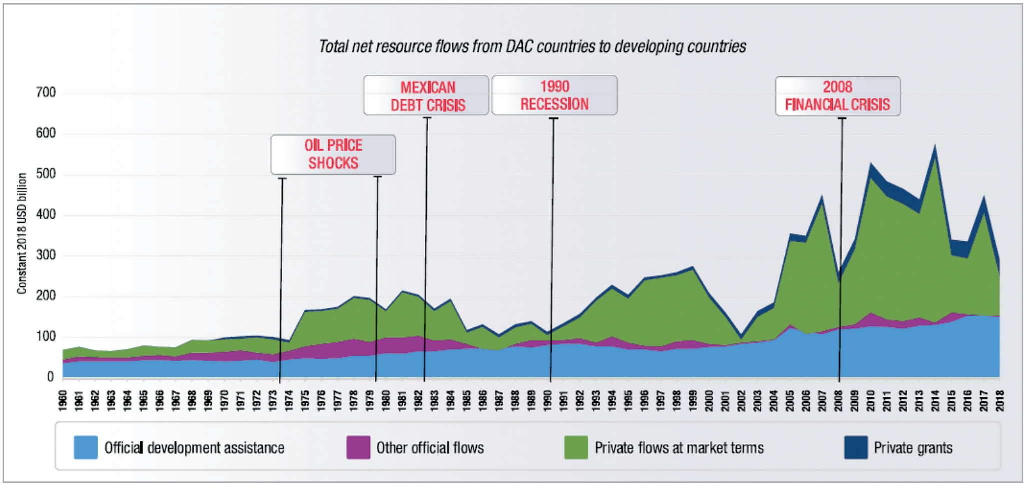



*Figure 2: Total net resource flows from DAC countries to developing countries*
*Source:* OECD 2020a: 6

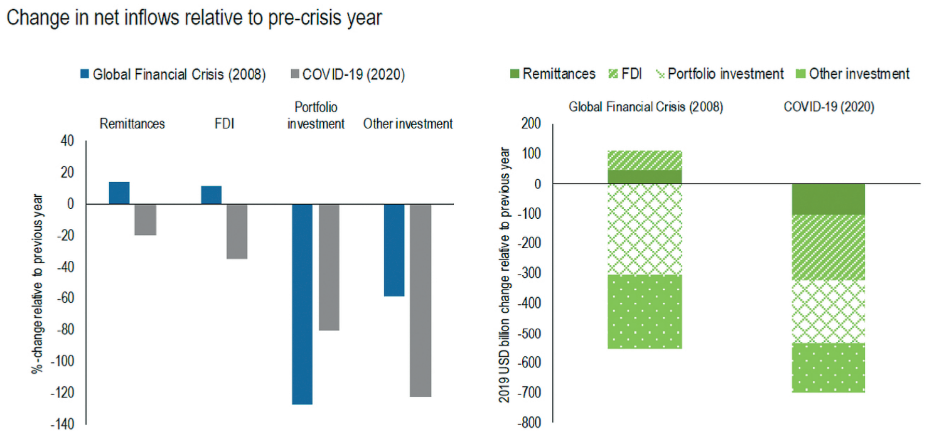
In order to understand the current situation in the field of international development assistance, we can analyse the overall world economic environment and the implications of the Covid-19 pandemic. According to Spyros Roukanas and Angelos Kotios (2021), Covid-19 has much more severe negative impacts in comparison with the world economic crisis of 2007–2009.

The Covid-19 pandemic[1] affected the global economy more severely than the global economic crisis of 2007–2009. According to the International Monetary Fund, in 2009, the year with the most negative consequences as a result of the global economic crisis that first manifested itself in August 2007, real GDP growth stood at –0.1% for the world, –3.3% for the advanced economies, and 2.8% for the emerging markets and developing economies. In comparison, the corresponding percentages for the same group of countries in 2020 are estimated at –4.4%, –5.8% and –3.3% respectively. These are the most negative real GDP growth rates of the last 40 years, according to the IMF (2020). It is obvious from the above data that the world economy is facing a completely unique economic phenomenon that has to do with the depth of the crisis but also with its initial cause. During the economic crisis of 2007–2009, the initial cause was related with the U.S. subprime mortgage lending market and the securitisation of subprime mortgages (Roukanas 2016), an economic phenomenon that occurred within the functioning of the international economic system. This time, though, we had the manifestation of the Covid-19 pandemic as a public health issue with global repercussions. In 1918, the outbreak of the great flu also had economic impacts (Vinet 2020). At that time, the global economy was at the end of World War I and the extent of economic globalisation was much lower. As a result, we

[1] *"COVID-19 is the infectious disease caused by the coronavirus, SARS-CoV-2, which is a respiratory pathogen. WHO first learned of this new virus from cases in Wuhan, People's Republic of China on 31 December 2019"* (World Health Organization, 2020).

cannot compare the economic implications of the two pandemics (Roukanas–Kotios 2021).

The analysis above clearly explains the negative impacts of the Covid-19 pandemic on developing economies in terms of external private finance, as we can see in Figure 2. The global economic turmoil has a negative effect on the main categories of private finance and the impact is higher in comparison with the financial crisis of 2007–2009 in three out of four categories, with the exception of portfolio investment. As we can see, the negative effects are stronger in comparison with the financial crisis of 2007–2009 in remittances, foreign direct investments and other investment. According to the estimation, the total loss stands at approximately USD 700 billion and could be higher in comparison with the financial crisis for 2007–2009.




*Note:* All data refer to ODA-eligible countries as of April 2020. The sudden stop of capital flows in 2015 is not shown here, as it would have included a USD 556 billion drop relating only to the People's Republic of China. For details on the estimated COVID-19 impact on external private finance, the interested reader is referred to the Methodology.
*Source:* Historical remittance data based on KNOMAD Remittances Inflows (2020[13]). Historical foreign direct investment, portfolio investment and other investment are from IMF Balance of Payments (IMF, 2020[14]) and national central bank data, and refer to net incurrence of liabilities. World Bank World Development Indicators (2020[15]) are used to impute missing data on foreign direct investment. COVID-19 projections are based on combining historical data with projections from World Bank (2020[38]) (remittances and FDI) and IIF (2020[36]) (portfolio and other investment).

*Figure 2: Change in net inflows relative to pre-crisis year*
*Note: The overall Covid-19 impact on external private finance in developing economies is estimated to be USD 700 billion and could exceed the impact of the 2008 financial crisis by 60%.*
*Source:* OECD 2020b: 9

Under the prism of the above-mentioned analysis, we should examine the role of international development cooperation and official development assistance in confronting the urgent challenges that certain developing countries are facing as a consequence of the Covid-19 pandemic. The European Union remains, according to the latest available data, the leading donor worldwide. The total amount of EU ODA for 2019 stood at €75.2 billion, representing 55.2% of total ODA (European Commission 2020). The European Union's commitment to development cooperation reveals the importance it attaches to the achievement of Sustainable Development Goals and, in a broader view, this commitment enhances European Union Security. Finally, the OECD has developed certain scenarios concerning the path of ODA for 2020 in relation to the impact of the Covid-19 pandemic. More specifically, the OECD analyses the prospects of ODA for 2020 as follows:

1. Many countries have signalled political commitment in support of a global sustainable recovery. The Covid-19 crisis has exposed the interdependence of countries and the importance of global public goods. Increased solidarity could lead to increases in total ODA levels and would, in turn, increase ODA as a share of gross national income (GNI).
2. As highlighted in its statement, DAC members have expressed their will to protect ODA levels. In fact, OECD DAC Peer Reviews have previously found that protecting aid budgets against short-term shocks to public finance is an established practice. If ODA levels were to be maintained at 2019 levels, the ratio of DAC members' ODA over GNI would increase from 0.29% in 2019 to about 0.32% in 2020.
3. Given DAC members' own budget pressure in 2020, the overall level of ODA could decline in 2020. The OECD calculates that if DAC members were to keep the same ODA to GNI ratios as in 2019, total ODA could decline by USD 11 billion to USD 14 billion, depending on a single- or double-hit recession scenario on member countries' GDP (OECD 2020b: 9–10).

## Conclusions

This brief study tried to highlight the impact of the Covid-19 pandemic on international development cooperation. First, we studied the basic concepts of international development cooperation, development cooperation and official development assistance, in order to understand the theoretical background of our analysis. Then we studied development cooperation under the prism of the Covid-19 pandemic. The conclusions of the study are the following:

The unexpected outbreak of the Covid-19 pandemic had a much more severe negative economic impact in comparison with the financial crisis of 2007–2009. These negative implications are coming after a tough decade of slow economic recovery, and there are fewer tools available to states, international economic organisations and monetary authorities for confronting the economic consequences.

Development cooperation is a steady financial flow for developing countries no matter the world economic fluctuations in comparison with other types of flows. The Covid-19 pandemic affects both the prospects of developed and developing economies, while, at the same time, the uncertainty caused by the pandemic affects the developed countries' economic policies concerning ODA to developing economies. Sustaining ODA levels for 2020 is going to determine the main challenges for developing economies in 2021. Finally, the continuation of ODA in 2020 will also set the direction of ODA for the upcoming years.

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