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Foreign Finance aid for Development Assistance

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ABSTRACT. This article is devoted to the foreign finance aid. It introduces purposes, volumes and conditions of providing additional financial resources. The success of aid depends on steps which are implemented in the recipient country. Also there are many bilateral and multilateral donor organisations transferring monetary resources to developing countries.

Keywords: foreign finance aid; development assistance (ODA); developing countries.

INTRODUCTION.

Foreign Aid means those additional resources which are used to raise the performance of the recipient country above the existing level. It's financial aid given by governments and other agencies to support the economic, environmental, social and political development of developing countries and can be defined as the debt which is given by a country to another country on the concessional rates. The concessional elements may be:

- a) Lower rates of interest than the prevailing rate of interest in the international commercial money market.
- b) Longer period for repayment.
- c) Grants which don't entail payments of other principal or interest, in other words, a free gift.

Countries which give loans are called donor. Countries which receive loans are called recipient countries.

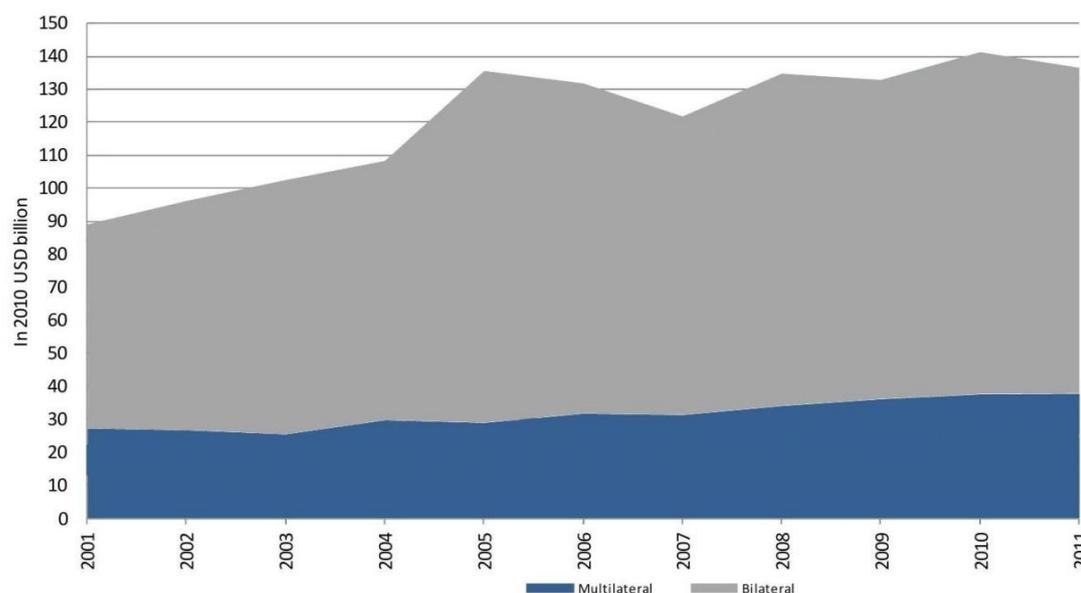
Types of Foreign Aid:

There are two types of foreign aid, according to their source:

a) Bilateral Aid: Bilateral aid is the aid which is given from the government of the donor country to the recipient country. It depends upon political and economic relationships of various countries and it also depends on the will of donor country.

b) Multilateral Aid: Multilateral aid is the aid given by certain financial institutions, agencies or organisations to the government of developing country. It's distributed in a fair manner in order to raise the pace of economic development. So it's better than bilateral aid which is given on the basis of political considerations and the fear of the domination of a donor country is also removed in the case of multilateral aid which may be helpful in raising the pace of economic development. It's given by the donor country to an international organisation such as the World Bank or the United Nations Agencies (UNDP, UNICEF, UNAIDS, etc.) which then distributes it among the developing countries. [7]

The proportion of aid is currently about 70% bilateral and 30% multilateral.

Gross ODA provided by DAC member countries, 2001-2011, in constant 2010 prices

[4]

Forms of Foreign Aid:

Financial Aid is the simplest form of capital inflow is the provision of convertible foreign exchange, but very little foreign capital indeed comes to the underdeveloped world so conveniently. Financial aid is further divided into various sub-forms, i.e.:

I. Tied Aid: Tied aid is of two types:

- **Nation Tied Aid:** is given to the recipient country on the condition that it will spend it in the donor country to solve the Balance of Payment problems of that country and to stimulate exports. For example, if Egypt is given aid by EU and is asked to import raw materials or machinery from EU then it's 'nation tied aid' or 'resource tied aid'.

- **Project Tied Aid:** is given only for specific projects and the recipient country can't shift it to other projects.

II. Untied Aid: Untied aid is the aid which is not tied to any project or nation. It's better than the tied aid because it offers more efficient use of foreign resources. It's much desired because in the case of untied aid the recipient country is not bound to spend the foreign resources on specific projects or in the donor country which may charge higher prices than international market.

The proportion of aid is currently about 40 % untied and 60% tied.

III. Grants: A grant is the form of foreign aid which doesn't entail either the payment of principal or interest. It's a free gift from donor to recipient. It's given on the basis of humanitarian principles, especially in days of emergencies, cataclysms, wars, etc.

IV. Loans: It's the borrowing of foreign exchange by the poor country from the rich country to finance short-term or long-term projects. They are further sub-divided into two types:

- **Hard Loans:** Hard loans are also called short-term loans. In order to finance industrial imports they are given usually for a period less than 5 years, and they are paid in the currency borrowed. It contains no concessional element but interest rate is usually lower than the prevailing rate of interest in the international market.

- **Soft Loans:** Soft loans are also known as long-term loans. Soft loans are made for 10-20 years and it's repaid in the currency of recipient country. Concessional elements are comparatively greater, the interest rate is the lowest. [7]

About 80–85 % of developmental aid comes from government sources as official development assistance (ODA). The remaining 15–20 % comes from private organisations such as "Non-governmental organisations" (NGOs), foundations and other development charities (e.g. Oxfam).

Foreign aid, as an integral part of foreign policy, began in 1941 during WW II with lend-lease from the USA. U.S. foreign aid programs have included at least **three different objectives**:

- rehabilitate the economies of war-devastated countries,
- strengthen the military defenses of allies and friends of the US,

- promote economic growth in underdeveloped areas.

After the War, Western European countries had shattered economies. And attention turned to the provision of immediate disaster relief to these countries.

In the postwar world, the USA hoped the international balance would gradually be restored, and long-term reconstruction projects would be financed by loans from the International Bank for Reconstruction and Development (or the World Bank) and the International Monetary Fund (IMF). US and the UN Relief and Rehabilitation Administration (UNRRA), established in 1943 by the Allied governments, provided a broad range of services to the war-devastated Allies. They spent \$4 billion, but the actual dimensions of postwar reconstruction had been greatly underestimated.

In the early 1950s the USSR began a program of technical and economic aid to the underdeveloped nations. Soviet aid, over \$6 billion by 1966, was generally low-interest loans, technical assistance, and long-term commodity purchase agreements.

Many nations in Europe have significant aid programs; in the mid and late 1990s, were the world's largest foreign aid donors. [6]

Even though it's the 21st century, many developing countries still face the issue of serious resource problems. A large portion of these countries are in the ongoing battle with severe debts and are strictly dependent on their financial aid inflows. Given the importance of foreign aid to the economies of developing countries, it's important to understand its contribution to economic growth of developing countries. [1]

The Development Assistance Committee (DAC) of the OECD and the World Bank defined **basic objectives of member countries in giving aid:**

- reduce material poverty through economic growth and provision of public infrastructure and basic social services
- promote good governance in effective, honest and democratic institutions;
- strengthen civil and political rights;
- reverse the negative environmental trends.

In 2004 the UNO began the Millennium Challenge aid program, which is intended to target aid toward poorer nations with good governance and open economies; the program places fewer restrictions on how participating nations use the aid. Recently, there was an EU pledge to spend 0.56% of GNI on poverty reduction by 2010, and 0.7 % by 2015.

For example, the US is the largest donor in dollar terms, but ranks amongst the lowest in terms of meeting the stated 0.7 % target. In 2010, U.S. foreign aid amounted to \$30 billion; the share of the gross national income (GNI) for foreign aid dropped from 2.75 % in 1949 to 0.2% in 2010. [3]

In 2011, OECD DAC member countries on average allocated just 0.31 % of GNI, or a total of 133.5 billion dollars to help achieve development goals. Furthermore in 2011, total assistance in real terms was 2.7 % lower than that seen in 2010, the first fall since 1997.

In 2011, the greatest rise in development assistance in real terms was seen in Italy, New Zealand, Sweden and Switzerland. By comparison, help from 16 other DAC members went down, with Austria, Belgium, Greece, Japan and Spain imposing the biggest cuts. And only 5 countries – Denmark, Luxemburg, the Netherlands, Norway and Sweden – reached the pledged level of the 0.7 % of GNI. [8]

Dynamics of DAC Members' Net ODA in 2010–2011

Country	2011		2010	
	ODA USD million current	ODA/GNI, %	ODA USD million current	ODA/GNI, %
Australia	4 044	0,35	3 826	0,32
Austria	1 036	0,27	1 208	0,32
Belgium	2 605	0,53	3 004	0,64
Canada	4 930	0,31	5 202	0,34
Denmark	2 803	0,86	2 871	0,91
Finland	1 275	0,52	1 333	0,55
France	12 195	0,46	12 915	0,50

Germany	13 746	0,40	12 985	0,39
Greece	308	0,11	508	0,17
Ireland	867	0,52	895	0,52
Italy	3 987	0,19	2 996	0,15
Japan	9 829	0,18	11 054	0,20
Korea	1 242	0,12	1 174	0,12
Luxembourg	381	0,99	403	1,05
Netherlands	5 950	0,75	6 357	0,81
New Zealand	379	0,28	342	0,26
Norway	4 197	1,0	4 580	1,10
Portugal	630	0,29	649	0,29
Spain	4 007	0,29	5 949	0,43
Sweden	5 008	1,02	4 533	0,97
Switzerland	2 604	0,46	2 300	0,40
United Kingdom	12 951	0,56	13 053	0,57
United States	30 086	0,2	30 353	0,21
TOTAL DAC	125 060	-	128 492	-

At the same time, DAC statistics do not include data on countries outside the Committee, such as the BRICS states (Brazil, Russia, India, China, South Africa), that have been boosting their ODA spending recently.

For more than ten years following the disintegration of the USSR, Russia was a foreign aid recipient. [8]

Russia as recipient, 2010-2011

Year	Donor	Title	Commitment
2011	World Bank - International Bank for Reconstruction and Development	Past Environmental Liabilities Program	24 305 211USD
2011	World Bank - International Bank for Reconstruction and Development	Russia Energy Efficiency Financing Project	486 104 225USD
2011	World Bank - International Bank for Reconstruction and Development	Russia - Financial Sector Development and Strengthening Project	38 888 338USD
2010	World Bank - Carbon Finance Unit	Carbon Finance Project 1: Danilovsk Gas Flaring	5 943 625USD
2010	Slovenia	Education on child rights	26 241USD
2010	World Bank - International Bank for Reconstruction and Development	Financial Education and Financial Literacy	24 765 105USD
2010	Global Environment Facility	Mainstreaming Biodiversity Conservation into Russia's Energy Sector Policies and Operations	7 304 355USD
2010	World Bank - International Bank for Reconstruction and Development	North Caucasus Local Initiatives Support	19 812 084USD
2010	World Bank - International Bank for Reconstruction and Development	RUSSIA CULTURAL HERITAGE	99 060 422USD

2010	Global Environment Facility	RUS: Standards and Labels for Promoting Energy Efficiency	7 885 210USD
2010	Global Environment Facility	RUS: Transforming the Market for Efficient Lighting	7 092 726USD

In 2006 in St Petersburg the country used the G8 platform to pledge its own contribution to international development assistance.

According to a Russian report on participation in international ODA in 2011, Russia increased its international foreign aid allocations by 8.8%, i.e. to 514 million dollars against 472 million dollars in 2010. The Russian Ministry of Finance stated that in 2012, Russian aid to international development would be maintained at the level of 550 million dollars. Currently, the proportion of Russia's bilateral and multilateral contributions is about 40 % to 60 %, with key recipients being countries of the former Soviet Union, also African, Latin American and South Asian countries. [8]

CONCLUSION. To conclude, from 2011, the general trend to lower ODA packages due to the economic recession will impact the developing countries and threaten the Millennium Development Goals. During the past 20 years, the global development assistance architecture has changed dramatically, with new actors emerging onto the arena and assistance vectors shifting.

As a member of the new donors club, i.e. BRICS, Russia is well placed to establish a new development assistance program.

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УДК 33

Иностранные финансы в помощь развивающимся странам

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Аннотация. В статье рассматривается иностранная финансовая помощь. Раскрываются цели, объемы и условия обеспечения дополнительными финансовыми ресурсами. Успех финансовой помощи зависит от шагов, которые осуществлены в стране - получателе. Также рассматриваются двусторонние и многосторонние организаций страны, передающих денежно-кредитные ресурсы развивающимся странам.

Ключевые слова: финансы; помощь; развитие; развивающиеся страны.