

# ADVANTAGES AND DISADVANTAGES OF FOREIGN ASSISTANCE IN ALBANIA

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## Abstract

Albania is known as one of the country with the fastest progress among transition economies. Growth of Gross Domestic Product (GDP) since 1992 was highest from all Central and Eastern European countries including and those countries joined European Union in the recent years. The economic development model along the transition period is characterized by a resources redistribution, dedicating them to efficient activities. In this paper I would like to describe the “road” of foreign assistance during one year in Albania showing the positive and negative side of foreign assistance in developing country and identifying a main tool and instrument that make it efficient and effective.

**Key words:** foreign assistance, instrument, support, development country.

## Introduction

If we refer to Albanian INSTAT data's, we will note that Albanian economy during the years 1999-2010 has noticed a sustainable growth. It is important to notice that Albanian economy despite the global economic situation has recognized a modest growth in the last years and concretely the annual growth rate on real GDP referring to the year 2009 was 3,3% and for the year 2010 was 3,8% ([www.instat.gov.al](http://www.instat.gov.al)). Also referring to the Ministry of Finance, the real GDP on year 2011 was 5% (Ministry of Finance, MFF 2012-2014). Despite economic growth that Albania has known during the transition years it is clearly identified the withdrawal of foreign aid from multilateral and bilateral donors.

Albania has received a commitment of foreign aid for the period 1991-2004 of about 4,86 billion USD. These include various types of assistance, based on country needs and donor funding policies in different periods.

In years before 90s, foreign aid to Albania was dominated by food aid and humanitarian support to the balance of payments. Over the years, the nature of the assistance has changed being dominated by technical assistance, development aid and goods in nature.

As noted above, the form of external assistance has changed over years, but recently the assistance is decreasing.

## **1. Definition of Foreign Aid**

A common tool for the definition and measurement of foreign aid is official development assistance, which is used by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Official development assistance consists of grants and loans, which a government or multilateral organizations give a developing country to promote economic development and welfare. This assistance can be provided in concessional terms, which means at least 25% of loan must be in the form of a grant. The data on official development assistance also includes technical cooperation, such as farmers ought to learn new techniques or advising in making economic reforms, they exclude military assistance, political development programs, credit exports and debt forgiveness for military loans. OECD also uses a wider concept called official development finances, which combines official development assistance and other official flows – that is, financial flows from government organizations in developed countries and multilateral organizations into developing countries. Other official flows usually include loans in or near the market interest rate.

All incomes that benefit a developing country in the form of grants, concessional loans or unconcessional loans by government organizations is considered as foreign aid. A loan from the International Monetary Fund is excluded from the study.

There are different reasons in which the assistance is given and certainly has different effects on development. The assistance is designed to promote economic reforms or to improve production methods to have a greater effect on development rather than military assistance. These sources can influence the development process, for example: military aid, which is not considered a development assistance but can enable a country to devote a greater percentage of its resources to development programs than if it would not have received military assistance. Although, it is most probable that military assistance would enable him simply a place to build powerful arms when we could lack the effective assistance.

Gross and net flows of aid have their advantages and disadvantages in the analysis on the effects of foreign aid in development. Gross aid flows

include all resources that a developing country receives in loans and grants from the donor countries and organizations. Net inflows include the same sources but exclude loan repayments. Gross flows show how great is the presence of foreign aid in a special place, but excluding repayments of loans they represent a distorted view of current resources that a country takes in a year. For example, the gross inflow of aid can be more useful for understanding how aid can contribute in the dialogue of policies and reforms in a developing country, because the gross assistance flows illustrates better the effect of leverage that can have a donor in comparison with what may represent net flows, but if the objective is to calculate the macroeconomic effects of aid flows the net figures are appropriate.

## **2. In favor and against Aid**

Foreign aid is subject to a strong debate among academics as well as among members of Congress and among the American people. To understand the role of foreign aid in promoting development, we must first understand the history and objectives of the Foreign Assistance of USA – as well as other bilateral and multilateral donors. Sources of bilateral aid donors, including USA, tend to follow the donors strategic and political priorities rather than those of countries who need more from the development perspective. Although, the amount of money given by multilateral donors is less than that given by bilateral donors, the aid tends to go more towards poor countries. At the same time the international private capital flows to developing countries have a growing importance in the context of development, surpassing the influx of foreign aid in total volume since the early 90-s.

### **In many times aid was effective**

Foreign aid has been effective in achieving its goals. Assistance was effective in rebuilding Europe after Second World War. Regarding development assistance has helped in reduction of smallpox disease, increase the life age and reduce the fertility rate in the whole world.

### **Foreign Aid helps in delivering public goods in developing countries**

Many developing countries does not have sufficient funds to provide public goods, such as education and transportation systems or network of drinking water and wastewater. Although, such goods are necessary for the development, their return economic rate is so uncertain that private investors are not willing to provide them in large-scale. Foreign aid can be a substitute for private capital in these cases, providing funds for investment in public goods that the international capital market of these developing countries will not provide or to offer a higher interest rate.

**Sometimes aid is effectiveness**

One argument is that foreign aid does not contribute in significant way to the economic development of developing countries. The aid which was supposed to promote development may give the opportunity for some of regimes to spend money in unproductive activities. Aid is lost in countries that have no technical or administrative skills and use it inappropriately. Moreover, aid beneficiaries can use it to fund projects that are conceived and poorly planned. Examples of roads built and unused, or other projects that destroy more than they create, unproductive resources, are not uncommon. Critics argue that the development should be left to market forces. According to their private sector in developing countries it will be more efficient in promoting economic growth and development rather than specialists.

**Sometimes Aid damages developing countries**

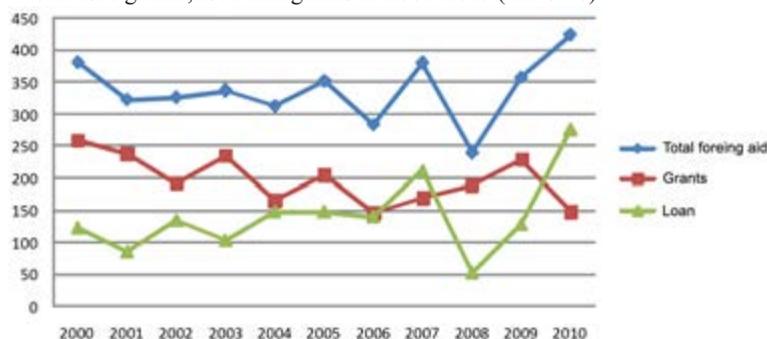
In generally aid is transferred to the governments of developing countries, which tend to increase the power and government resources, relative protection to the rest of society as it strengthens its position in the fight for control of the government. People will spend more of their time focusing on achievement of policy and administrative decisions, avoiding attention, energies and resources from productive economic activities. This may trigger the disorder and tension leading to civil unrest and conflicts.

In many cases, foreign aid has supported governments in their pursuit of economic and political policies economically unproductive. These policies include special bad treatment groups, restrictions on private trade and the flow of private capital and enterprises, assets confiscation, price policies that discourage agricultural production and expropriation of foreign capital and enterprises. Pursuing such policies worsens the country's economic performance and aid beneficiary and the country will continue to be classified as the one, which is requesting the assistance because its situation is getting worse.

**3. Foreign Aid in Albania**

Total foreign aid during 2000-2010 was about 3,71 billion Euro, of which about 17,2 billion Euro (about 58%) were in grants form and 1,54 billion Euro in loans form (about 42%). Since 2000, aid levels have stayed within the limits of 240 to 405 million € per year. Figure 1. shows the distribution of foreign aid during this period (2000-2010). As shown in the figure below, in the past 3 years, the increase in concessional loans (commercial) offset a steady decline in grants.

Figure 1. Total foreign aid, loan and grants in 2000-2010 (million €)



Source: OECD/DAC for the period 2000-2005, the database of donors DSDC for 2006-2010.

Comparing with the most region countries, Albania has received foreign aid per capita in growth (Table 1).

Table 1. Foreign Aid (€<sup>1</sup>) per capita in 2006-2009

State	NZZh neto per capita (€)				Population (million) 2009
	2006	2007	2008	2009	
Albania	81,9	71,3	78,7	81,6	3,2
Bosnia and Herzegovina	103,4	87,5	83,9	79,3	3,8
Kosovo	-	-	-	314,3	1,8
Ex-Jugoslav and Macedonia republic	80,3	71,9	68,6	68,2	2
Montenegro	122,5	124,3	115,3	87,0	0,6
Serbia	169,6	82,9	90,6	59,8	7,3

Source: OECD/DAC (2010) and World Development indicators (WDI) (2010)<sup>2</sup>.

### 3.1. Foreign aid by type of assistance

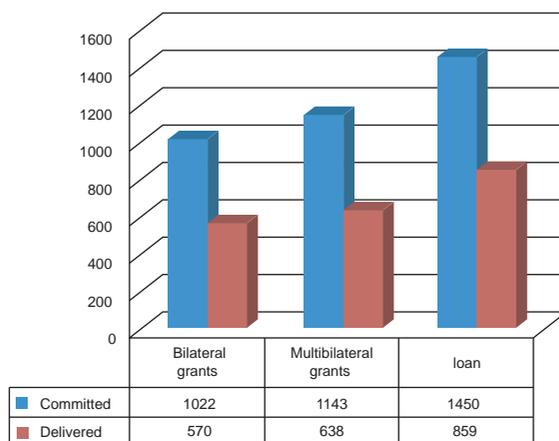
During the period 2000-2010, assistance is provided in the form of bilateral or multilateral grants, concessional loan and bilateral loans (figure 2). In 2000, the bulk of foreign aid were engaged grants, representing 68% of total commitments, while in the going years this type of financing is reduced by 10%. Bilateral grants decreased the past two years and is expected to decline further as some bilateral donors are gradually removed. Most of the loans are provided by multilateral donors and are directed towards the sectors of infrastructure, energy, health, education.

<sup>1</sup> Values Conversion from USD to EUR is done with annual exchange rate of the OECD in the Euro area (17 countries).

<sup>2</sup> <http://data.worldbank.org/sites/default/files/wdi-final.pdf>; dhe <http://data.worldbank.org/indicator/DT.ODA.ODAT.PC.ZS>

The collapse of bilateral grants is offset by the increase of bilateral concessional loans, resulting in relatively stable support from bilateral partners. Multilateral grants and concessional loans have been different, but continue to exhibit strong growth trend. During the last years an increase of concessional and non-concessional bilateral sources, marking the highest levels.

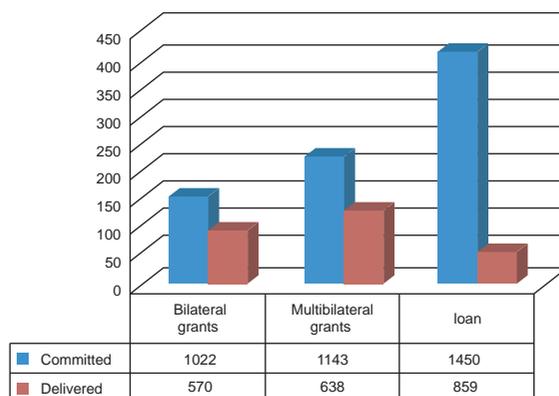
Figure 2. Bilateral and multilateral grants and loans in 2000-2010 (million €) (committed and delivered)



Source: Donors data base 2011.

As is shown in figure 3, during the period from 2009 to 2010 foreign aid in loans is higher than that in grants. Much of the assistance provided by multilateral donors in loans and aid given by bilateral donors continues to be dominated by grants.

Figure 3. Bilateral and multilateral grants and loans in 2009-2010 (million €)

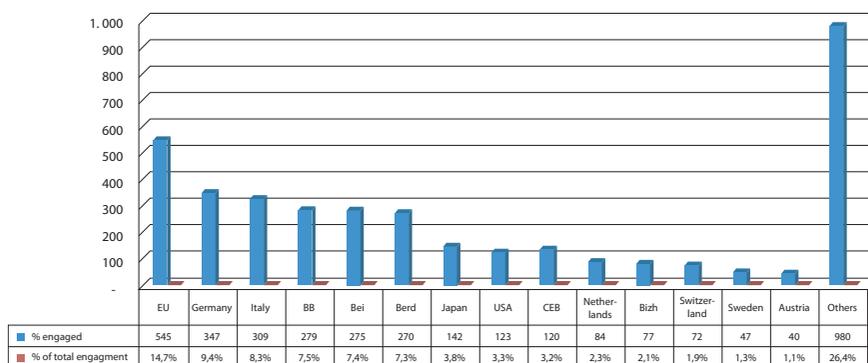


Source: donators database in 2011.

### 3.2. Foreign Aid by donors

In Albania operates 10 multilateral donors (whose assistance constitutes around 49% of foreign aid) and 26 bilateral donors (about 51%). Six largest multilateral donors during the period 2000-2010 were the European Commission (grants worth over € 545 million) and EIB, WB, EBRD, CEB and IDB (with over € 1,021 billion in loan form), which together constitute 42% of foreign aid. During the same period, five bilateral donors have been Germany (with over € 347 million in grants and loans), Italy (with over € 309 million in grants and loans), Japan (with over € 142 million in grants and loans), USA (with over € 123 million in grants) and the Netherlands (with over € 84 million in grants), which together account for slightly more than 27% of total foreign aid during 2000-2010.

Figure 4. Foreign Aid by donors 2000-2010 (million €;%)



### 3.3. Foreign aid disbursement in 1991-2004

The cumulative level of foreign resources disbursed from 1991 to 2004 was 3,195 billion USD, including disbursements in food and humanity aid.

– level of disbursements to GDP and State budget spending.

Since 1999 there has been the higher level of disbursement (7,6%) to GDP. The lowest level was recorded in 2002 (3,7%). The year 1999 has also seen the highest level of disbursement of foreign assistance to the state budget spending (22,5%). The lowest level was recorded in 2002 (11,7%).

Figure 5. % of disbursement on GDP and state budget spending

Item/Year	1999	2000	2001	2002	2003	2004
% of Disbursement to GDP	7,6	5,1	5,7	3,7	4,2	3,5
% of Disbursement to State Budget Spending	22,5	16,4	18,4	11,7	16,2	10,7

Source: Ministry of Economy, Foreign Assistance report in 2004.

## Conclusions & recommendations

### For the period 1991-2004

- Regarding to the effectiveness of foreign aid in our country we can say that there is not an analytical study of the real impact and the role of foreign aid in the Albanian economy by the donor as well as by the government.
- In general it can be said that the role of foreign aid has been positive in some sectors and contribution of some donors effective. Multilateral donors are those, who are flexible and quick in their actions, especially in infrastructure investments.
- Foreign assistance in Albania is also directed at those sectors where the state budget could not assist and that their impact felt in the long term good governance and state administration. One of such areas was the technical assistance and capacity building of the Albanian institution as well as raising awareness of civil society in the country.

### For the period 2004-2011

- Donors are reluctant to use the Albanian public procurement systems. Strategic agreements between donors and government, as well as the new Sector Working Groups provide positive effects on adjustment of aid flows.
- Increased leadership ministries in SWG; Increased number of joint missions and joint analytic work; Implementation of the Fast Track Initiative on Division of Labour and extend it not only to the European donors but in all the donor community. The creation of Sector Working Group (SWG) contributes to the coordination of donor missions and analytical work, especially in the education sector.
- In the frame work of integrated planning system to draft a harmonized action plan between the government and donors should support the IPS function to form a “loop” that narrows the scope of donor fragmentation. Activity Harmonized Plan that increases individual and collective responsibility of the government and donors can improve coordination at the sector level.

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