



Development cooperation with middle-income countries

Karel Verbeke and Robrecht Renard

Outline

1. Definition MICs
2. How do MICs differ from LICs
3. Why give aid to MICs
 - Poverty reduction
 - Global Public Goods and Bads
 - Spillover effects of knowledge
4. How give aid to MICs
5. Donor strategies

1 Definition MICs

- Poverty reduction is major justification of ODA
- GNI per capita (WB Atlas method) widely used proxy, but makes abstraction of inequality
- and may not capture all dimensions of poverty:
 - Fragility: 26 LICs, 16 LMICs and 1 HIC
 - Least Developed Countries: 30 LICs, 17 LMICs and 1 HIC
 - Human Development Index

2 How do MICs differ from LICs

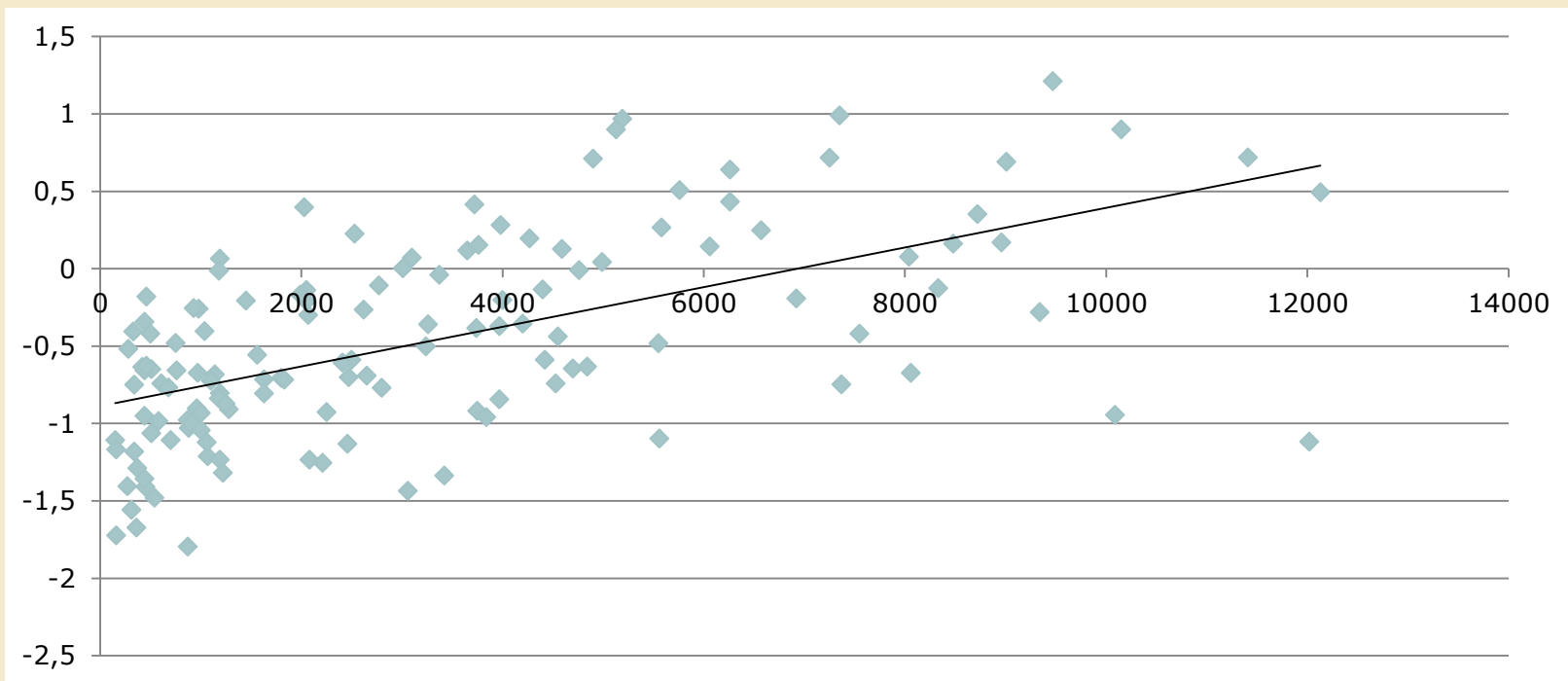
- Higher average personal consumption per capita per day (2009, PPP, World Bank)
 - LICs: \$2.61
 - MICs: \$9.77

Suggesting that internal redistribution offers possibilities in MICs, but much less so in LICs

- Better PFM systems (PEFA)
- Better governance indicators
 - Government effectiveness
 - Voice and Accountability

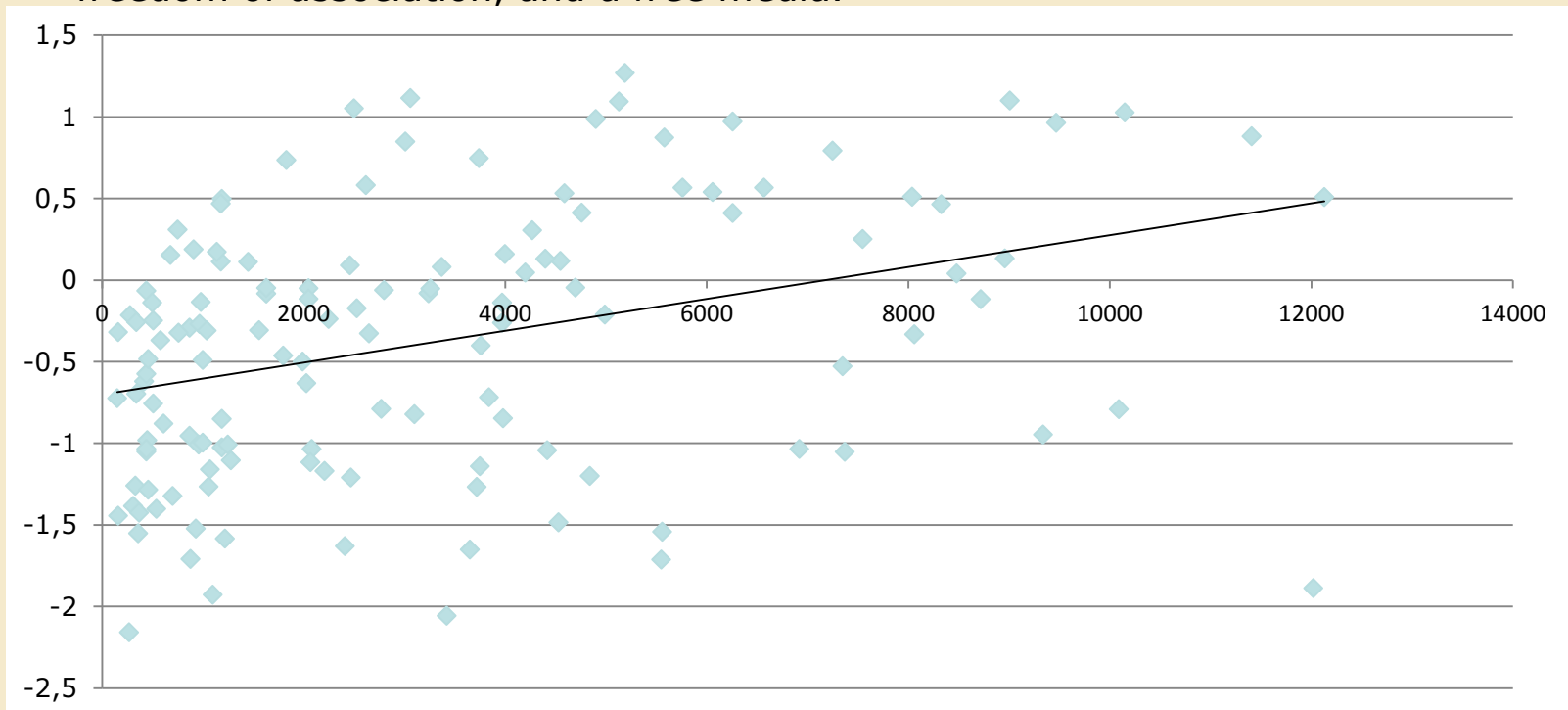
2 How do MICs differ from LICs

- **Government effectiveness** (Worldwide Governance Indicators, World Bank). Captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.



2 How do MICs differ from LICs

- **Voice and accountability** (Worldwide Governance Indicators, World Bank). Captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.



2 How do MICs differ from LICs

- Less aid dependent

- LDC: 27.42 ODA \$/cap/yr; 5.20% ODA/GNI
- Non-LDC LICs: 13.02 ODA \$/cap/yr; 1.43% ODA/GNI
- LMIC: 6.29 ODA \$/cap/yr; 0.26% ODA/GNI
- UMIC: 7.76 ODA \$/cap/yr; 0.10% ODA/GNI

Meaning donors have much less leverage

- ODA to MICs not less fragmented

- In fact more donor fragmentation in MICs

- MICs have more access to other flows: remittances, FDI, private finance

3 Why give aid to MICs?

- While not often emphasized, more than 40% of ODA goes to MICs
- Three valid arguments:
 1. poverty reduction
 2. global public goods
 3. knowledge spillover effects
- Other less prominent/convincing arguments :
 - country vulnerability, historical relationships, accumulated country expertise, regional importance of MICs, commercial and political interests...

3.1 Poverty Reduction

- Where do the poor live (Sumner 2010)?
 - 1.3bn poor people (\$1.25 per capita per day, 2007-2008, household surveys)

		1988-1990	2007-2008
MICs	Total (101 countries)	7%	72%
	Fragile and Conflict Affected (FCAS, 16 countries, OECD)		11%
	Non-FCAS		61%
LICs	Total (43 countries)	93%	28%
	FCAS (26 countries)		12%
	Non-FCAS		16%
FCAS (43 countries)			23%
SSA		13%	27%

3.1 Poverty Reduction

- Is a focus on monetary poverty (US\$1.25 per capita/day) not too restrictive?

Global Distribution of different poverty measures:

	GNI per capita, per day <US\$1.25	Multi-dimensional poverty index (UNDP)
MIC	72%	72%
LIC	28%	28%

Source: Sumner, 2010; Alkire et al., 2011

Poverty Reduction

- Whose Bottom Billion ?



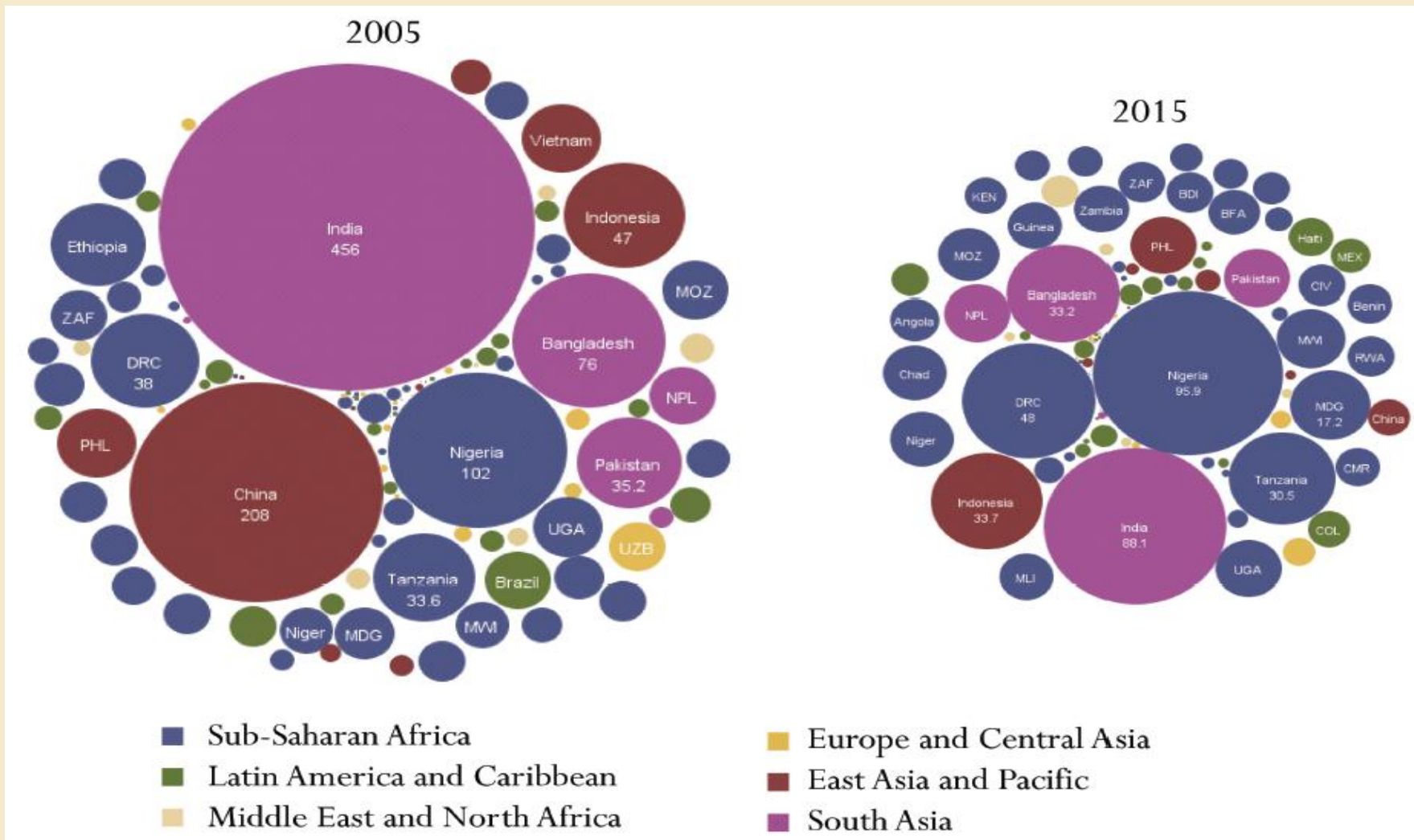
Target the poor, not poor countries



Target the poor in countries with poor prospects

- » Need
- » Effectiveness of aid
- » Using a long-term perspective: focus reshifts towards LICs, SSA, fragile

World poverty dynamics



3.2 Global Public Goods and Bads

- Actions of MICs might have an impact on development and poverty in LICs
- Development interventions in MICs could have spillovers towards LICs:
 - Vertical single issue programs intervening in MICs can have a positive spillover towards LICs: AIDS in South Africa
- Intervene in MICs to achieve progress in LICs:
 - Helping MICs to cut greenhouse gases

3.3 Knowledge Transfer

- Specific case of global public goods argument
- Indirectly:
 - by engaging in MICs, donors gain knowledge which can then be usefully transferred to LICs
- Directly:
 - trilateral coöperation
 - e.g. SADC

4 How give aid to MICs

- Other aid-framework, in contrast to LICs:
 - Less aid dependence, and thus limited donor leverage in policy dialogue and conditionalities
 - But higher levels of fragmentation
 - Stronger institutional capacity in recipient public sector
- Complete Paris Declaration package may not be necessary or even desirably
 - The emphasis on higher aid modalities (SBS and GBS) associated with TA and policy dialogue might not be appropriate
 - “New style projects” that are as much as possible aligned and SWAps might be more appropriate
 - Knowledge transfer, pilot projects

5. Donor strategies

- As MIC is a diverse group, tailoring within MICs is needed
- A differentiated approach across LIC-MIC divide
 - MIC-cooperation similar to LIC: Senegal, Bolivia
 - Fragile MICs: West Bank and Gaza
 - ODA as a stepping stone towards a post-aid relationship: South Africa, Vietnam
- Specific for multilateral donors:
 - The IFIs have the possibility of differentiating the grant element through blending of gifts and loans of varying concessionality
 - This also allows them to increase their financial leverage with MICs

Friday-update

- By O*Platform Aid Effectiveness (VLIR)
- A regular/weekly Newsletter on aid and development related topics
- Similar to IHP Newsletter
- Register by mail: karel.verbeke@ua.ac.be

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Thank you

Karel.verbeke@ua.ac.be

robrecht.renard@ua.ac.be

