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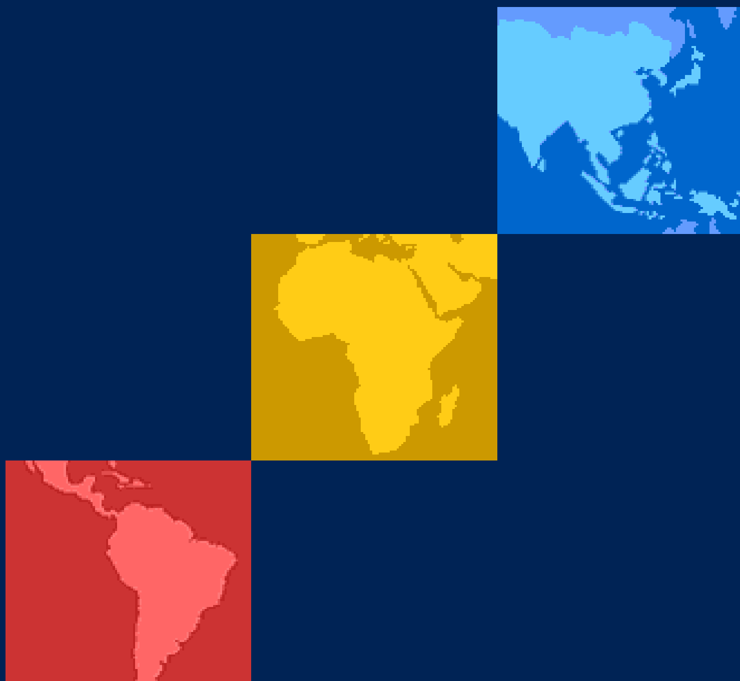

Development cooperation with middle-income countries

DAC Development Debates

June 2012

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Introduction

- Context: government´s desire to better articulate Belgium´s geographical priorities in bilateral aid
  - Within the confines of present (2003) list of 18 partner countries, of which 9 are MICs
  - Background study (Verbeke and Renard 2011)
  - Some of questions addressed:
    - Is balance of LICs and MICs (numbers/ODA) right
    - Is more differentiation in aid modalities desirable in MICs
    - Is more differentiation in channels of delivery desirable in MICs
- Focus of the presentation: how did the controversy over the "old" (Collier) and "new bottom billion" (Sumner) influence our analysis

Allocating aid between LICs and MICs

Some facts (2008-10 data, DAC statistics and table 1):

- 84% of Belgian bilateral ODA goes to LDCs and other LICs
- Half of the partner countries are MICs
- Partner countries receive less than half of bilateral ODA
- Less than half of bilateral ODA to partner countries is CPA
  - Average annual CPA per MIC \$10 million, per LIC \$32 million

Belgian CPA is fragmented

"1/ Does the donor provide a higher percentage of this recipient's aid than it provides of total global aid?
2/ Is the donor among the larger donors that together account for at least 90% of this recipient's aid?" (DAC 2009)

	Yes to Question 1	No to question 1
Yes to Question 2	**A. Concentrated and important**	**C. Important**
No to question 2	**B. Concentrated**	**D. Non-significant**

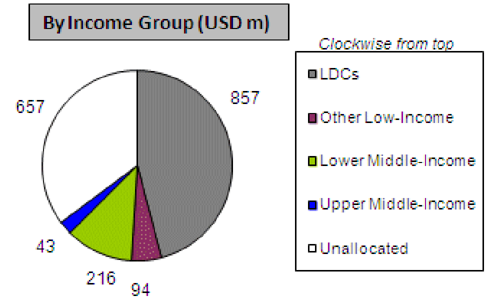
	Yes to Question 1	No to question 1
Yes to Question 2	**A: Benin, Burundi, DRC, Mali, Niger, Rwanda, Ecuador, Peru,**	**C:**
No to question 2	**B: Senegal, Uganda, Vietnam, Algeria, Bolivia, Morocco, Palestine, South Africa**	**D: Mozambique, Tanzania,**

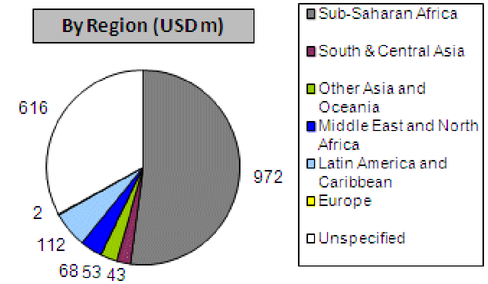
BELGIUM

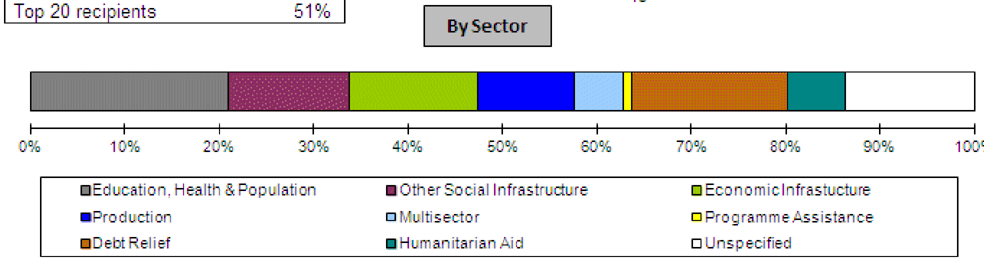
Gross Bilateral ODA, 2009-10 average, unless otherwise shown

Net ODA	2009	2010	Change 2009/10
Current (USD m)	2 610	3 004	15.1%
Constant (2009 USD m)	2 610	3 113	19.3%
In Euro (million)	1 874	2 268	21.0%
ODA/GNI	0.55%	0.64%	
Bilateral share	61%	68%	

Top Ten Recipients of Gross ODA (USD million)	
1 Congo, Dem. Rep.	413
2 Rwanda	76
3 Burundi	56
4 Congo, Rep.	35
5 Togo	34
6 Niger	31
7 Mozambique	29
8 Benin	28
9 Uganda	25
10 Vietnam	24
Memo: Share of gross bilateral ODA	
Top 5 recipients	33%
Top 10 recipients	40%
Top 20 recipients	51%







Source: OECD - DAC ; www.oecd.org/dac/stats

	Table 1	Income category	LDC	GNI/cap $ PPP 2010[a]	HDI[b] 2011	ODA/GNI % DAC 08-10 avg	Net ODA Belgium[c]	CPA Belgium[c]
1	DRCongo	LIC	Y	320	0.399	22.86	328.38	90.69
2	Niger	LIC	Y	720	0.311	11.34	26.99	21.32
3	Burundi	LIC	Y	400	0.412	42.20	54.14	37.00
4	Mozambique	LIC	Y	930	0.325	21.01	26.95	14.04
5	Mali	LIC	Y	1030	0.366	11.70	19.95	15.54
6	Benin	LIC	Y	1590	0.456	10.11	24.82	18.41
7	Rwanda	LIC	Y	1150	0.477	18.77	70.53	60.52
8	Uganda	LIC	Y	1250	0.506	11.13	21.96	16.01
9	Tanzania	LIC	Y	1440	0.523	12.61	20.16	14.05
10	Senegal	LMIC	Y	1910	0.488	7.76	18.74	11.73
11	Morocco	LMIC	N	4600	0.606	1.27	18.93	14.18
12	Vietnam	LMIC	N	3070	0.662	3.34	23.99	13.53
13	Palestinian Territory	LMIC	N	*2710*	0.750	na	25.01	14.05
14	Bolivia	LMIC	N	4640	0.742	3.93	20.57	9.70
15	South Africa	UMIC	N	10360	0.604	0.37	17.53	7.03
16	Algeria	UMIC	N	8100	0.739	0.18	10.25	5.79
17	Ecuador	UMIC	N	7880	0.776	0.34	13.44	5.83
18	Peru	UMIC	N	8930	0.775	0.19	21.64	11.04

notes:
a: for Palestinian Territory 2005 data
b: HDI minus income
c: $ million, average 2008-10, 2010 prices

Equity principles in allocating ODA (table 2)

- Principle 1: give aid to poor countries
  - Application: less ODA per capita to MICs than to LICs, equalize within both groups
  - Verification[a]: Belgium provides $3 per person in LICs, against $0.9 in MICs, but considerable in-group variation
- Principle 2: give aid to poor people (Sumner)
  - Application: same ODA per poor person everywhere
  - Verification[a] (1.25$/day): Belgium provides $5 per poor person in LICs, against $11 in MICs
  - Verification[a] (2$/day): Belgium provides $3.61 per poor person in LICS, against $4.27 in MICs

- *a: averages excluding Palestinian Territory*

	Table 2	Income category	DAC 2008-2010 averages ODA per capita $	DAC ODA/pcap[a] 1.25$/day	DAC ODA/pcap[a] 2$/day	Belgium 2008-2010 averages ODA per capita $	Belgium ODA/pcap[a] 1.25$/day	Belgium ODA/pcap[a] 2$/day
1	DRCongo	LIC	23.0	26.2	24.2	5.1	5.8	5.4
2	Niger	LIC	20.1	46.0	26.7	1.8	4.2	2.4
3	Burundi	LIC	32.7	40.2	35.0	6.8	8.4	7.3
4	Mozambique	LIC	58.1	97.6	71.1	1.2	2.0	1.5
5	Mali	LIC	39.9	79.2	50.8	1.4	2.8	1.8
6	Benin	LIC	37.6	79.4	49.9	3.0	6.2	3.9
7	Rwanda	LIC	49.0	77.6	59.5	7.0	11.1	8.5
8	Uganda	LIC	31.4	82.7	48.5	0.7	1.8	1.1
9	Tanzania	LIC	33.9	50.0	38.6	0.5	0.7	0.5
10	Senegal	LMIC	44.2	131.8	73.2	1.6	4.8	2.7
11	Morocco	LMIC	20.2	802.0	144.0	0.6	24.6	4.4
12	Vietnam	LMIC	21.5	127.6	49.6	0.3	1.7	0.7
13	Palestinian Territory	LMIC	388.2	na	na	6.4	na	na
14	Bolivia	LMIC	49.2	315.3	197.8	2.2	13.8	8.7
15	South Africa	UMIC	17.3	125.8	55.3	0.4	2.7	1.2
16	Algeria	UMIC	5.6	82.8	23.8	0.3	4.4	1.3
17	Ecuador	UMIC	11.2	243.4	105.9	1.0	21.0	9.2
18	Peru	UMIC	4.9	99.8	38.5	0.8	15.9	6.1

notes:
a: ODA $ per poor person (1.25$/day or 2$/day) (Povcal, most recent survey)

Some partial implications

- Allocation of DAC ODA to 18 Belgian partner countries is biased against the poor living in LICs
- On this account, Belgium should shift more resources towards LIC partner countries
- But individual exceptions
  - A transfer of ODA from Senegal to Peru would be equitable on both poverty measures

Additional arguments in favour of MICs

- The efficiency of aid is higher in countries that are well governed
  - Relevant in view of the fact that considerable part of aid is directed at public and collective goods provision
  - There is indeed some correlation between average income levels and governance, although it is not very strong
  - Situation is not homogenous across MICs (or LICs)
- Efficiency: effect of income increase to the poor on their utility is higher in countries with better social provisions
  - A theoretical argument that reinforces previous point, and also applies if aid is directly to the poor, e.g. through conditional cash transfers (Dasgupta and Kanbur 2005)

Are these data appropriate for equity analysis?

- Margin of error of data is considerable
- Poverty is multidimensional
- Collier: take into account psychological effect of life-time perspective on poverty
- Climate change may well provoke cataclysmic changes in the fortunes of people, but with very unequal impact across countries
- The very same reason that made for the rather spectacular increase in the poor that live in MICs – high economic growth – will make this a temporary phenomenon

National redistribution (table 3)

Equity also requires us to look at where the rich live in developing countries

- The Gini coefficients tell us something about inequality of income in countries
- We use Ravallion´s (2009) Implicit Marginal Tax Rate that calculates how much the non-poor (by US standards) would have to be taxed to lift their poor compatriots above the 1.25$/day level
- Morocco and Peru seem to be able to address poverty without much pain to the non-poor, and redistributive taxation could also be effective in Ecuador, Bolivia and South-Africa

Table 3	Income category	ec. growth[a] 2005-10	GINI	IMTR[b,c]	Fragile DAC	Collier[d]
DRCongo	LIC	2.74	44.4	na	Y	Y
Niger	LIC	1.30	34.6	100.00	Y	Y
Burundi	LIC	0.61	33.3	100.00	Y	Y
Mozambique	LIC	4.91	45.7	100.00	N	Y
Mali	LIC	1.76	33.0	100.00	N	Y
Benin	LIC	0.86	38.6	na	N	N
Rwanda	LIC	4.85	50.8	100.00	N	Y
Uganda	LIC	4.33	44.3	100.00	N	Y
Tanzania	LIC	3.96	37.6	100.00	N	Y
Senegal	LMIC	1.06	39.2	100.00	N	Y
Morocco	LMIC	3.47	40.9	1.16	N	N
Vietnam	LMIC	6.09	35.6	100.00	N	N
Palestinian Territory	LMIC	na	35.5	na	Y	N
Bolivia	LMIC	2.84	56.3	7.19	N	Y
South Africa	UMIC	2.32	63.1	10.55	N	N
Algeria	UMIC	1.48	35.3	27.94	N	N
Ecuador	UMIC	2.37	49.3	4.96	N	N
Peru	UMIC	5.95	48.1	1.47	N	N

notes:
a: annual average per capita economic growth
b: implied marginal tax rate (Ravallion 2009)
c: 100 = 100 or more
d: List of Bottom Billion

Further qualifications

- The low structural prospects of growth in some countries must also be brought into the equity debate
  - We use the DAC list of fragile countries and Collier´s list of Bottom Billion countries
  - Of the 9 MICs, the Palestinian Territory is listed as fragile by the DAC, and Senegal and Bolivia by Collier
- The analysis must be further qualified in two important respects:
  - ODA also finances global public goods, and this generates a different logic for geographical priority setting
  - The existence of non-ODA policy instruments raises the issue of the best mix of instruments

Global public goods

- Equity dictates that developed countries contribute proportionally more
  - Some of this financing is ODA eligible
- Some of this financing concerns country-focused programmes
  - Fighting HIV/AIDS, other contagious diseases
  - Bio-diversity and climate change related actions
  - Fostering cross-border knowledge transfers
  - Preventing state failure and regional conflict,…
- This analysis does not suggest that in general MICs should be favoured over LICs

Which aid modalities to MICs

- Compared to LICs, on average MICs have
  - Access to larger private international sources of finance (table 4), and thus
    - international finance less of a constraint
  - Stronger public sector capacity, and thus
    - weak governance may not be the binding constraint
    - better ability to absorb fragmented project aid
  - Less aid dependent, and thus
    - limited donor leverage
  - Emerging private sector and middle class, and thus
    - need to focus on ways to strengthen their role in development
- Paris Declaration agenda based on a different development diagnostic

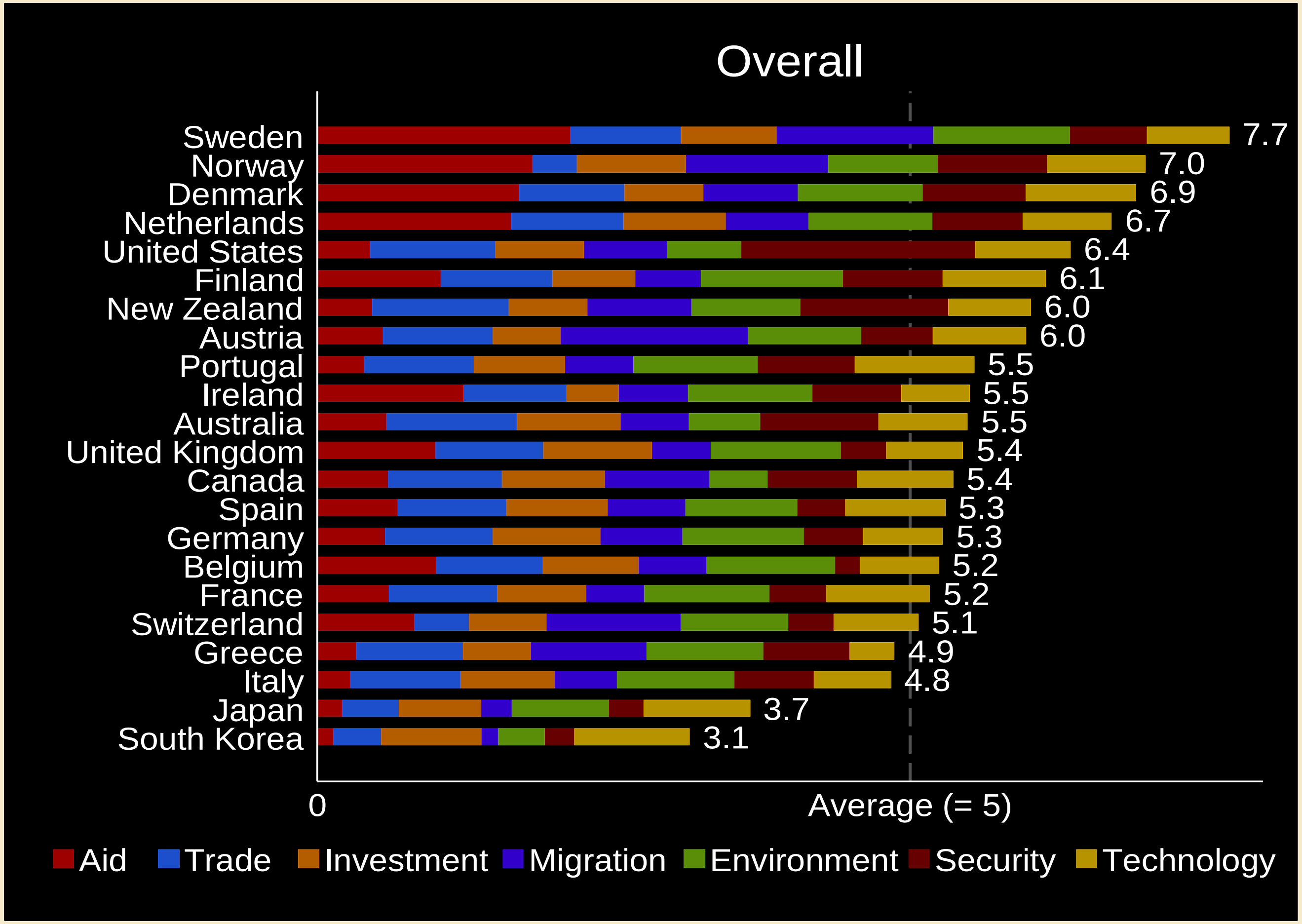
	Table 4	Income category	Worker remittances[a]	FDI and equity[a]	Loans[a]	Net ODA[b]	Total flows
1	DRCongo	LIC	0.00%	41.12%	-0.24%	59.12%	100%
2	Niger	LIC	6.57%	50.37%	-0.47%	43.52%	100%
3	Burundi	LIC	3.38%	0.28%	0.00%	96.34%	100%
4	Mozambique	LIC	4.13%	26.19%	1.04%	68.64%	100%
5	Mali	LIC	24.70%	18.54%	-0.01%	56.77%	100%
6	Benin	LIC	23.56%	13.25%	0.00%	63.18%	100%
7	Rwanda	LIC	7.34%	8.31%	0.00%	84.35%	100%
8	Uganda	LIC	24.23%	24.15%	-0.01%	51.63%	100%
9	Tanzania	LIC	0.68%	12.88%	2.17%	84.26%	100%
10	Senegal	LMIC	50.28%	10.47%	3.07%	36.18%	100%
11	Morocco	LMIC	66.17%	20.11%	2.32%	11.40%	100%
12	Vietnam	LMIC	36.05%	46.36%	1.81%	15.77%	100%
13	Palestinian Territory	LMIC	29.83%	3.37%	0.00%	66.80%	100%
14	Bolivia	LMIC	49.24%	23.23%	-2.71%	30.24%	100%
15	South Africa	UMIC	7.83%	73.53%	9.75%	8.89%	100%
16	Algeria	UMIC	46.62%	56.54%	-9.39%	6.23%	100%
17	Ecuador	UMIC	101.68%	19.26%	-28.52%	7.58%	100%
18	Peru	UMIC	19.30%	52.38%	26.62%	1.69%	100%

a: average 2008-10 (Global Development Finance)
b: average 2008-10 (DAC)

Non-ODA policy instruments

- "Policy Coherence for Development" (PCD)
  - See also CGD Commitment to Development Index
- Given the political trade-off in improving these separate instruments for development, what is the optimal mix of instruments?
- A Collier-inspired argument
  - Many countries where poor live are presently unable to profit from international economic opportunities favoured by PCD instruments
  - ODA can help overcome government failures that keep those countries trapped in low levels of development

Commitment to Development Index 2011 (CGD)



Which aid channels to MICs

- DAC complains about lack of coherence in Belgian ODA between
  - Bilateral direct
  - Indirect through in particular NGOs and universities
- As a result of this criticism Belgium tries to streamline indirect actors, but
  - Complementarity can also mean geographical division of labour
  - Indirect actors (NGOs that focus on strengthening local civil society, and universities) have a comparative advantage in MICs
- How best to support private sector
  - PCD instruments should take precedence
  - Belgium should absolutely avoid relapsing into procurement tying

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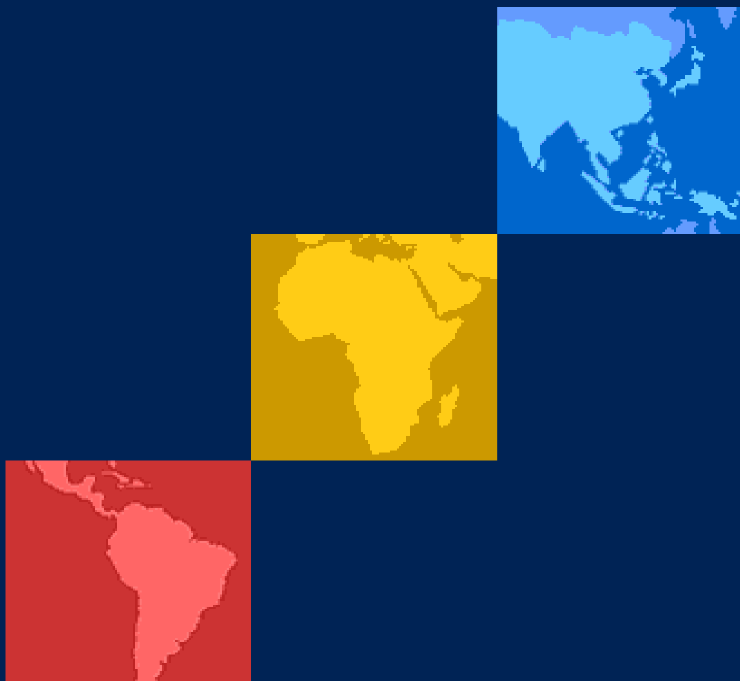

Thank you

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