Poverty Focus in EU Support to Middle-Income Countries

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In cooperation with

Background and Objectives of the Commissioned Study

Middle Income Countries (MICs) are an important group. They account for 11% of the total number of people living on less than $1-a-day and 20% of the total number of people living on less than $2-a-day. Nevertheless, they differ in certain important dimensions from LICs, with implications for both the total amount and form of development assistance. This research asks whether current approaches of the European Commission (EC) and EU Member States (MS) to development co-operation with MICs are sufficiently targeted towards poverty reduction. If the answer is yes, current levels of support to MICs can be justified, at least in principle. If the answer is no, such support cannot be justified without substantial changes in its design.

The research consists of three main components:

- **Cross-country statistical analysis**, which assesses whether EC and MS aid allocations are targeted on those MICs with the highest income poverty;

- **A review of the special features** of MICs, and their implications for the amount and form of development assistance which should be provided;

- **Case-study analysis** of Brazil, the Philippines, Morocco, and South Africa, which summarises the main features of the EC and MS Country Strategy Papers (CSPs), in these countries, the channels through which aid is thought to benefit poorer groups, and an analysis of the extent to which EU and MS aid commitments to each country, as reported in the Creditor Reporting System (CRS) of the Development Assistance Committee (DAC) of the OECD, are sufficiently targeted on poorer groups.

Research Findings

- The allocation of EU development assistance across MICs is currently not strongly correlated with income poverty. For instance, six MICs (Albania, Guyana, Macedonia, Morocco, Slovenia and Tunisia), received in 2002 large volume of assistance from the EU (close to or above 1% of gross national income), despite low measured levels of poverty (less than 2% of the population living on less than $1 a day). The correlation is particularly low for EC and French development assistance.

- MICs have a number of important features. On average, they have lower levels of poverty, greater access to international capital markets, more domestic resources for tackling poverty, lower dependence on aid, better macroeconomic policies, and higher quality institutions. These characteristics have two broad implications for donors: first, they should in general aim at giving less aid (in relation to the GNI) to MICs than to LICs, and second, they should pay particular attention to the most appropriate form of assistance to MICs. Targeting the poor requires channelling assistance through local non-governmental

organisations, or increasing the recipient government's ability and/or willingness to implement redistributive policies.

■ The analysis of the EC's CSPs in the four case study countries shows a lack of a clear rationale for choosing different objectives in different countries. Only the EC country strategy paper for South Africa shows a strong poverty focus. They generally did not explicitly discuss the Millennium Development Goals, nor achievements in the partner countries in attaining the goals.

■ Evidence regarding aid commitments to projects and sectors most likely to benefit the poor is limited. In principle, each project listed in the OECD-DAC Creditor Reporting System (CRS) database receives a 'poverty marker', indicating the extent to which direct assistance to poor people is the primary or a significant objective of the project. Unfortunately, EU donors are not consistent in their reporting of the poverty markers of their aid commitments to the OECD-DAC.

Main Conclusions

■ There is need for a detailed study which asks whether the existing allocation of EU Member States and EC aid can be justified by considerations other than income poverty, including geo-political factors, special transitional circumstances, non-income measures of poverty, and so on.

■ The EU CSPs would benefit from clearly linking aid activities to objectives, including the use of benchmarks such as the Millennium Development Goals or national poverty reduction strategy targets.

■ The poverty focus of EU interventions would benefit from better information on all EU aid commitments, disbursements and forecasts. It is important that all donors improve the accuracy of their reporting to the CRS. Peer Reviews of the quality of CRS reporting could help improve the quality of these important data.

For further information on this research project, please visit:

EC-PREP website: www.ec-prep.org
ODI website: www.odi.org.uk

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EC-PREP is supported by the UK Department for International Development (DFID). In 2001, DFID, in collaboration with the European Commission, launched the European Community's Poverty Reduction Effectiveness Programme (EC-PREP). The main objective of this research initiative is to produce findings and policy recommendations that support and contribute to improving the European Community's effectiveness in attaining poverty reduction targets via its external assistance programmes. The programme has funded 13 Research Projects and 10 Commissioned Studies, which relate to one or more of the six focal areas of EC's development policy. More information about the research funded by EC-PREP can be found on www.ec-prep.org.

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