Poverty Focus in EU Support to Middle-Income Countries

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with

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Preface

The objective of this report is to analyse the poverty focus of EU assistance to Middle-Income Countries (MICs). It was commissioned by the European Commission (EC) and the UK Department for International Development (DFID) under the European Community's Poverty Reduction Effectiveness Programme (EC-PREP). We define EU assistance as comprising both bilateral Official Development Assistance (ODA) from the European Unions' Member States and ODA from the European Community. EU Member states in the context of this study are the DAC Members, so essentially the EU-15 states, not including the new EU Member States. European Community aid is ODA managed by the European Commission.

The report consists of three main components.

- Cross-country statistical analysis. This assesses whether EC and Member States' (MS) aid allocations are targeted on those MICs with greater proportions of poor people.
- Detailed literature review. This identifies the special features of MICs compared to low-income countries (LICs), and their implications for the appropriate amount and form of development assistance.
- Analysis of four case-study MICs: Brazil, the Philippines, Morocco, and South Africa. This will identify the main features of EC and MS Country Strategy Papers (CSPs) in those 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.

Based on the results of these research components, the report ends by providing an assessment of the extent to which, and how, EC and MS development assistance could be improved to better target the poor in MICs.

The report was carried out by the Overseas Development Institute (ODI) in London. The team consisted of Edward Anderson (ODI), Sven Grimm (ODI), and Carlos Montes (Development Strategies).

Executive summary

The European Union Member States and the European Commission provided US$7.7bn of official development assistance to MICs in 2002. This was a third (30%) of the total amount of assistance provided to all developing countries.

MICs are estimated to be home to approximately 140 million people living of less than $1 a day, and 600 million people living on less than $2 a day. However, the allocation of EU aid allocation across MICs is not highly correlated with measured levels of 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 between aid allocations to MICs and poverty levels is higher for some EU donors than others, but in no case can it be said to be high.

MICs are a diverse group; their GNI per capita ranges between $726 and $9,075 (World Bank definition of 2004, based on 2002 data). However, there are certain important dimensions in which they differ from LICs. 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 social and political institutions. Those MICs in which the proportion of the population in poverty is high also have high levels of inequality.

These characteristics have two broad implications for donors. First, donors should in general aim at giving less aid (in relation to the GNI) to MICs than to LICs. Second, donors have to pay particular attention to the most appropriate form of assistance to MICs. Targeting the poor in many MICs either requires channelling assistance through local non-governmental organisations, or increasing the recipient government's ability and/or willingness to implement redistributive policies. Ways to achieve the latter might be the promotion of democracy, the support of civil society groups, and the dissemination of policy advice.

Our case study of four MICS shows that the Country Strategy Papers (CSPs) of EU donors vary in their focus on poverty reduction. Our sample was taken from EU donors' strategies towards Brazil, Morocco, South Africa and the Philippines, a total of 14 CSPs including those of the EC and the EU Member States. The papers were set up at different times and covered different periods. They generally did not explicitly discuss the Millennium Development Goals, nor achievements in the partner countries in attaining the goals. The use of certain indicators established a link to the MDGs in some cases. However, clearer links to the MDGs were not seen as important by Commission delegation staff in three of the four countries, and were described as being of limited importance in the fourth case.

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, few the majority of aid projects from the EU to the case study countries do not report poverty markers at all – either for lack of time or incentives to provide the necessary information. One can calculate the proportion of commitments going to CRS sectors likely to provide most direct benefits to the poor, such as basic education, basic health, and employment. For assistance from the Member States, this proportion was highest in South Africa (21%), followed by Morocco

(17%), Philippines (13%) and Brazil (6%). For assistance from the EC, it was highest in Morocco (33%), followed by South Africa (21%), Brazil (4%) and the Philippines (0%). However, the actual extent to which aid is targeted to the poor will vary according to the precise nature of projects financed in these and in other sectors.

Support for governance and civil society accounted for a considerable proportion of EU assistance to South Africa. EU Member States also made large commitments to this sector in Brazil, while the EC made large commitments to the sector in Morocco. In the Philippines, commitments to this sector were smaller in absolute terms, although they accounted for 30% of total commitments from the EC. Regarding the allocation of funds within this sector, the EC aid tended to provide more support to public sector financial management and legal/judicial development, while the Member States tended to provide more support to human rights and strengthening civil society. In no cases, however, did the Commission or the Member States provide substantial amounts of assistance directly to local or regional NGOs.

I. Middle-Income Countries' development assistance and poverty

This report analyses the poverty focus of EU interventions in Middle-Income countries. We use the classification of countries into low-income, middle-income and high-income which is done each year by the World Bank. The basis for the classification is countries' GNI per capita, measured in US dollars, and calculated using the World Bank Atlas method. The list of aid recipients published by the OECD Development Assistance Committee (DAC) also uses these definitions. The current (2004) classification, based on GNI data for 2002, is as follows:

- low-income country (LIC), US$735 or less;
- middle-income country (MIC), US$726-9,075;
- high-income country (HC), US$9,076 or more.

A list of current MICs is contained in Table A1 of the Appendix. The World Bank also distinguishes between lower and upper middle-income countries. The current classifications in this case are: lower middle-income countries (LMICs), US$726-$2,935, and upper middle-income countries (UMICs), $2,936-$9,075.

Box 1: MICs in world poverty statistics

There are currently 88 MICs, accounting for approximately 45% of the world's population, compared to 64 LICs, accounting for 40% of the world's population. It is estimated that MICs are home to around 140 million poor people, using the US$1-a-day poverty line (DFID 2001), equivalent to 11% of the world's poor population. Using the US$2-a-day poverty line, it is estimated that MICs are home to around 600 million of the world's poor, or 20% of the total.

These estimates are based on 1998 data. The number of poor people is likely to be much higher in 2004 (in both absolute and proportional terms), as China – with an enormous number of people living below the poverty line – is now categorised as an MIC.

The values of GNI per capita used by the World Bank to define MICs and LICs overlap closely, although not exactly, with the values used to determine eligibility for concessional aid and non-concessional aid.[1] There are, as we will show, good reasons to vary eligibility for both concessional and non-concessional aid by level of GNI per capita. However, one might still question the specific threshold values chosen by the World Bank are the most appropriate ones (the World Bank does not justify the choice of these values over any others in its official documentation). One might also question the rationale for having threshold values at all, as opposed to a sliding scale. We will not consider these wider issues here, but believe that they merit further research.

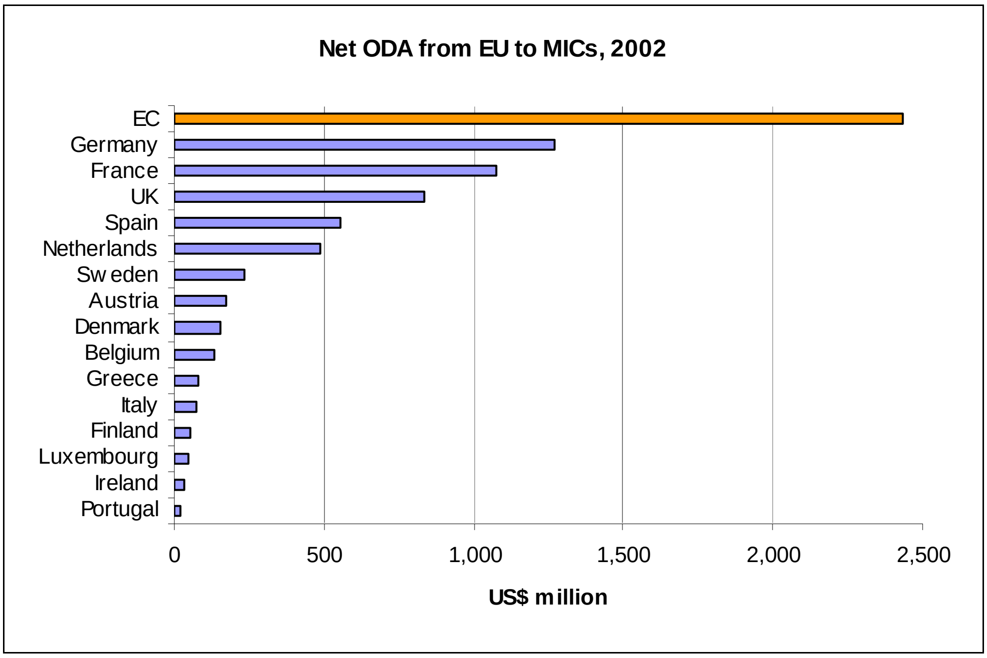
[1] Countries with per capita GNI below US$735 are permitted by the World Bank to give preference to bids for works contracts funded by the World Bank from eligible domestic contractors. The aim is to encourage the development of domestic industries. Those with per capita GNI below $865 are eligible for concessional funding from the International Development Administration (IDA), the arm of the World Bank which receives contributions from developed countries and then gives grants and interest-free loans, and technical assistance to poor countries. Those with per capita GNI below US$2,935 are eligible to pay back any loans from the International Bank for Reconstruction and Development (IBRD) over a 17-year, as opposed to a 15-year, period. Graduation from IBRD eligibility takes place for countries with per capita GNI above US$5,295. The upper cut-off point for MICs (US$9,075) is the point above which countries are no longer included in Part 1 of the DAC list of aid recipients.

1.1. *EU assistance to MICs*

Volume of assistance from the EU to MICs

Net official development assistance (ODA) to MICs from the EU amounted to US$ 7.7bn in 2002.[2] Of this overall sum, the EC's share amounts to about one third (32%). The next largest EU donors to MICs were Germany (16% of the overall EU figure), France (14%), the UK (11%), Spain, and the Netherlands (see Figure 1).

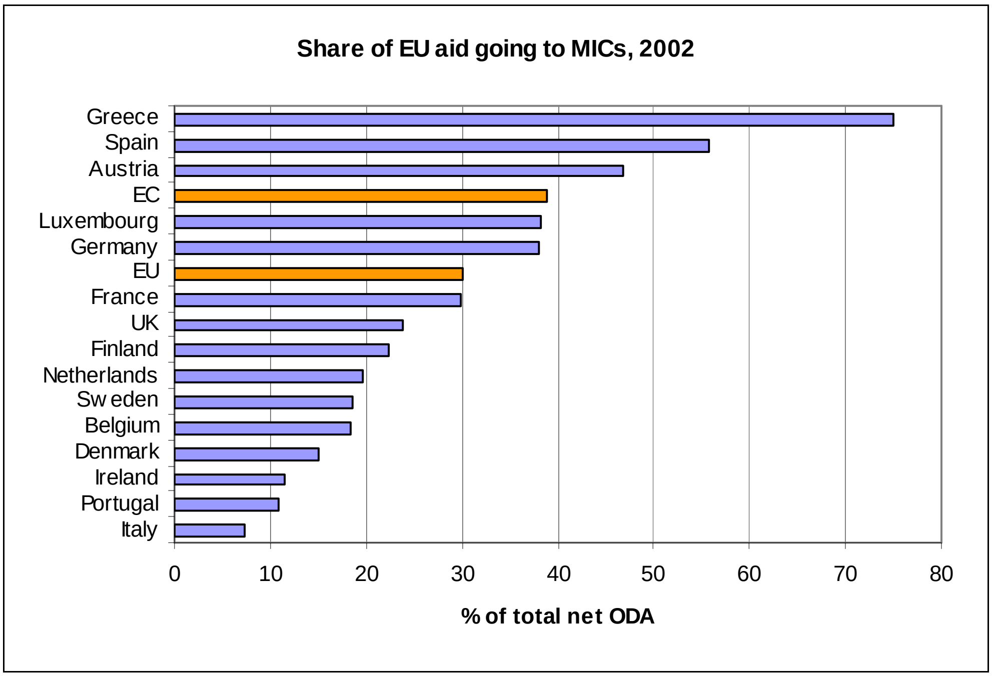
Figure 1



The proportion of all net ODA which went to MICs in 2002 was, for the EU as a whole, a little below one third (30%). Among individual EU donors, the share ranged from 7% in Italy to 56% in Spain and 75% in Greece. The share of the EC was 39% (see Figure 2).

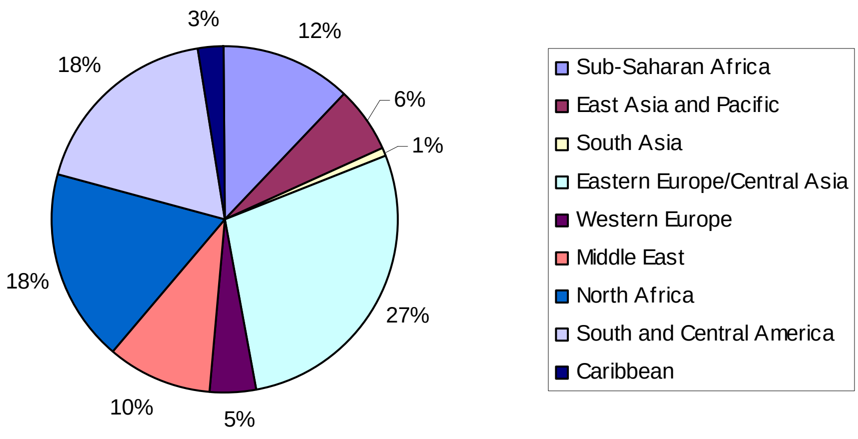
[2] ODA includes grants or Loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms. In addition to financial flows, Technical Co-operation is included. Grants, Loans and credits for military purposes are excluded. Data for 2002 are the latest included in the most recent edition (2004) of the OECD International Development Statistics CD-ROM, published by the OECD.

Figure 2



In terms of geographical distribution, 27% of all EU assistance to MICs goes to Eastern Europe and Central Asia, 18% goes to South and Central America, and 18% goes to North Africa. South Asia only accounts for 1% of all assistance to MICs (see Figure 3).

Figure 3



The geographical pattern of assistance to MICs, however, varies significantly among the EU donors. Some EU donors are focused on particular regions (and countries). For example, nearly 70% of Portuguese net ODA to MICs went to Sub-Saharan Africa, nearly 60% of UK net ODA to MICs went to Eastern Europe and Central Asia, while over half of Italian and Spanish net ODA to MICs went to the Middle East and South and Central America respectively. The proportion of EC and French net ODA going to North Africa (30% and 40% respectively) was much higher than in the remainder of the EU.

The middle-income country receiving the most aid in absolute terms was – by far – Serbia and Montenegro, followed by South Africa, Morocco and Tunisia (see Table 1). However, EU assistance clearly has a different importance to these countries. It makes up 12% of the GNI of Serbia and Montenegro, a lower-middle income country, which can thus be considered highly dependent on EU aid. EU assistance to Morocco - also a lower middle-income country - accounts for 1.3% of this country's GNI. In the case of South Africa, the share of EU aid in GNI is 0.4%. These two countries cannot be considered dependent on EU assistance, at least in overall macroeconomic terms.

Table 1: The major 20 MIC recipients of EU aid in 2002 (million US$)

Country	**Net ODA from EU (US$ million)**	GNI per capita, In 2000 (US$, Atlas)	Net ODA from EU (% of GNI)
Serbia and Montenegro	**1.379**	940	12,1
South Africa	**510**	3.020	0,4
Morocco	**460**	1.180	1,3
Tunisia	**387**	2.100	2,0
West Bank and Gaza	**358**	1.660	10,0
Egypt, Arab Rep.	**338**	1.490	0,3
Turkey	**337**	3.100	0,2
China	**317**	840	0,0
Bosnia – Herzegovina	**308**	1.230	5,7
Bolivia	**308**	990	3,9
Algeria	**198**	1.580	0,4
Peru	**191**	2.080	0,4
Macedonia, FYR	**174**	1.820	5,0
Brazil	**167**	3.580	0,0
Jordan	**152**	1.710	1,7
El Salvador	**137**	2.000	1,0
Albania	**133**	1.120	2,9
Mayotte	**125**	.	13,2
Honduras	**120**	860	1,9
Guatemala	**114**	1.680	0,5

Source: OECD 2004.

When listed by the importance of EU aid (expressed in percentage of EU aid in the GNI), the list of top 20 MICs changes. Top of the list is Mayotte (a French dependency), followed by Serbia and Montenegro, and the Palestine Autonomous Territories. MICs with a high proportion of EU aid are typically either small (e.g. Cape Verde, Djibouti), or were in 2002 involved in post-conflict reconstruction (e.g. Serbia and Montenegro, Bosnia and Herzegovina). However, there are exceptions: net ODA from the EU accounted in 2002 for a significant fraction of GNI in Bolivia, Namibia, Tunisia and Morocco, which possess neither of these characteristics.

Allocation of EU assistance across MICs

If EU development assistance to MIC is predominantly driven by a poverty reduction rationale, we would expect net ODA from the EU to be greater to those MICs in which poverty is higher. We examine the extent to which this is the case by calculating the correlation coefficient between the net amount of ODA MICs received from the EU in 2002 (as a share of their GNI) and recent (1998 or later) estimates of levels of poverty.[3] We do this separately for four different measures of poverty: the US$1-a-day poverty headcount, the US$1-a-day poverty gap, the US$2-a-day poverty headcount, and the US$2-a-day poverty gap.[4] We also show, for comparative purposes, equivalent results for net ODA from all DAC donors. Note, however, that no recent estimates of US$1-a-day and US$2-a-day poverty are available for 45 MICs. These include some MICs which received very large amounts of EU aid, such as Bosnia-Herzegovina, Serbia and Montenegro, and West Bank and Gaza. For this reason the results should be treated with caution.

The results are shown in Table 2. They show that there is a positive correlation between the amount of net ODA MICs received from the EU and each of the four measures of poverty. However, the correlation is in each case weak. Values of the coefficient are in the range 0.20 to 0.26 and are therefore closer to zero (indicating no correlation) than they are to unity (indicating a perfect correlation). This indicates that although the level of poverty was one factor in the choice of EU aid volumes to MICs, it cannot be seen as the overall predominant selection criterion. The same conclusion applies when considering aid to MICs from other DAC donors, which also shows only a weak correlation with levels of poverty.

[3] The correlation coefficient is a number between -1 and +1 indicating the direction and strength of correlation between two variables: -1 indicating a perfect negative correlation, +1 indicating a perfect positive correlation, and 0 indicating no correlation. We calculate the Spearman-rank, rather than the Persson, version of this coefficient as it is less sensitive to the existence of outliers in either variable, although the results are in fact similar when using the Persson version. We identify those instances where the coefficient is statistically significant (at the 5% level): this is where we can reject the hypothesis that the true value of the coefficient is zero (with 95% confidence).

[4] The poverty headcount is the proportion of the population living below the poverty line. The poverty gap is the average amount by which levels of income or consumption lie below the poverty line (taking this amount to be zero for the non-poor). The former is purely a measure of the incidence of poverty, while the latter measures the depth as well as the incidence of poverty.

Table 2: Correlation coefficients between EU aid to MICs (as a proportion of recipient country GNI) and poverty, 2002

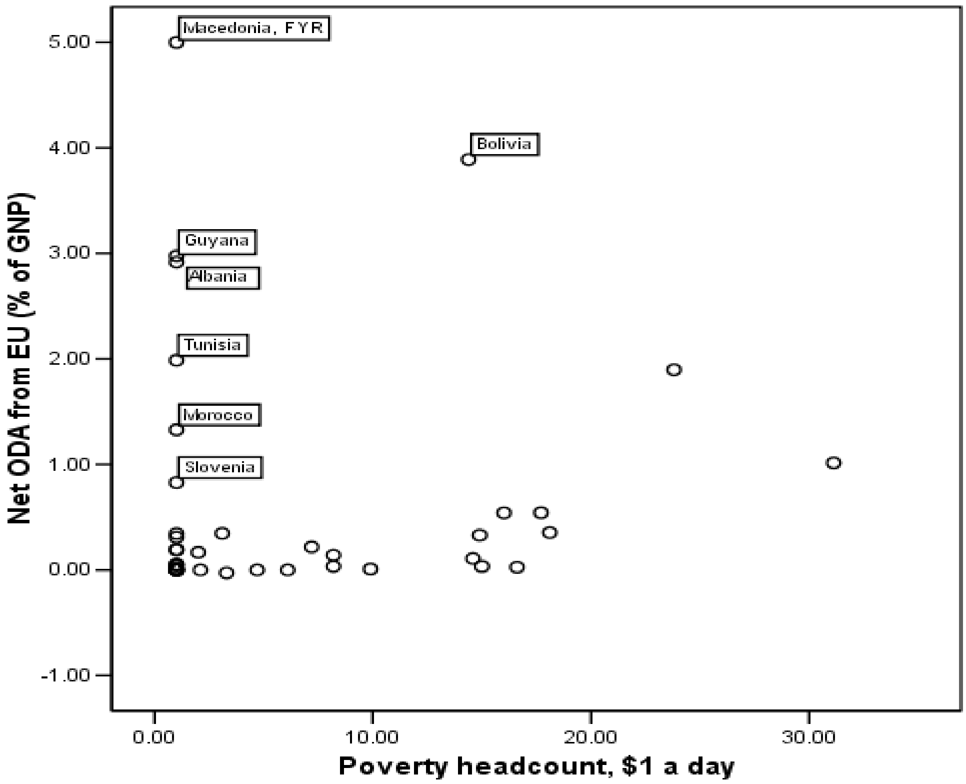
	Poverty headcount, US$1 a day	Poverty gap, US$1 a day	Poverty headcount, US$2 a day	Poverty gap, US$2 a day	Positive and statistically significant for at least two measures of poverty
Austria	0.10	0.04	0.18	0.12	**No**
Belgium	0.54	0.59	0.40	0.47	**Yes**
Denmark	0.37	0.32	0.39	0.37	**Yes**
Finland	0.43	0.37	0.55	0.51	**Yes**
France	0.08	0.06	0.03	0.04	**No**
Germany	0.44	0.41	0.40	0.40	**Yes**
Greece	-0.30	-0.37	-0.10	-0.20	**No**
Ireland	0.51	0.46	0.55	0.53	**Yes**
Italy	0.33	0.33	0.32	0.31	**Yes**
Luxembourg	0.30	0.32	0.29	0.30	**No**
Netherlands	0.40	0.39	0.42	0.43	**Yes**
Portugal	-0.08	-0.08	-0.08	-0.06	**No**
Spain	0.53	0.54	0.51	0.52	**Yes**
Sweden	0.37	0.36	0.43	0.42	**Yes**
UK	0.26	0.22	0.29	0.27	**No**
EC	0.06	0.06	0.09	0.07	**No**
EU	0.15	0.16	0.17	0.17	**No**
All donors	0.24	0.21	0.29	0.26	**No**

There are some significant differences between individual EU donors however. Among the larger donors, the correlation between net ODA and poverty levels is higher than the EU average for Belgium, Denmark, Germany, Netherlands, Spain, Sweden and the UK, and lower than the average for France and the EC. Nevertheless, even for the former group the correlation coefficients in most cases remain below 0.5, indicating that aid was directed only to a moderate extent towards those countries with higher poverty.

Figure 4 plots the correlation between EU aid as a proportion of recipient country GNI and the US$1-a-day headcount measure of poverty. If aid from the EU was greater to those MICs with higher levels of poverty, we would expect most points in the graph (each of which represents a separate MIC) to lie close to an upward-sloping line. This is clearly not the case. The MICs which stand out most in Figure 3 are those in which aid from the EU represents a significant fraction of GNI (more than 1%), but in which the US$1-a-day headcount measure of poverty is close to zero (less than 2%). There are six such countries: FYR Macedonia, Guyana, Albania, Tunisia, Jordan and Morocco. Bolivia also stands out, in terms of having one of the highest ratios of EU aid to GNI, despite having an average (for MICs) level of US$1-a-day poverty.[5]

[5] The same countries also stand out when considering the US$2-a-day poverty measure, so it is not a reflection of the particular poverty measure. They also stand out when considering aid from all DAC donors relative to GNI, so high levels of EU aid are not simply compensating for low levels of aid from other DAC donors.

Figure 4: Correlation between EU aid to MICs (as a proportion of recipient country GNI) and poverty



Source: OECD (2004); World Bank (2004).

Overall therefore, we find only a weak correlation between levels of EU assistance in 2002 and poverty levels in MICs, indicating that that assistance was not strongly focused towards MICs with higher levels of poverty. However, this does not necessarily imply that donors are not allocating aid in a 'poverty efficient' manner. Poverty efficient allocations also require that donors give more aid to countries in which average income is lower and in which the effectiveness of aid in terms of reducing poverty is higher.

1.2 Differences between MICs and LICs

MICs are a very diverse group, as has been recognised elsewhere (e.g. World Bank 2001). There are significant differences among them in their economic, political and social characteristics, and in the development challenges they face. However, there are certain important dimensions in which they differ at least on average, even if not in every specific case, from LICs. We focus here on differences in those dimensions which have implications for donors when deciding either the volume or the form of their assistance to MICs. These are grouped as follows: poverty and inequality; democratic institutions and governance; and economic policy and domestic resources, and access to capital markets and openness. Differences between the average values of these dimensions in MICs and LICs are shown in Table 3. Information for each specific MIC and LIC is contained in Appendix Table A2. In the text we also highlight those few cases where differences between LMICs and LMICs are as large as or larger than they are between LMICs and LICs.

Table 3 Differences between MICs and LICs

Dimension	Measure	Average, LICs	Average, MICs	Statistically significant?
Poverty	Headcount, $1 a day	33	7	Yes
	Poverty gap, $1 a day	13	2	Yes
	Headcount, $2 a day	68	22	Yes
	Poverty gap, $2 a day	33	8	Yes
Inequality	Gini coefficient	42	42	No
	Income share of poorest 20%	6	6	No
Access to private capital	Eligibility for IBRD funding*	14	84	Yes
	FDI per capita (US$ PPP)	67	294	Yes
Domestic revenues	Tax revenues per capita (US$ PPP)	274	1,423	Yes
Institutions and	Political rights index (Freedom House)**	3	30	Yes
governance	Rule of law index	-75	-9	Yes
Economic policies	Sachs and Warner index***	51	90	Yes
	Inflation (% per year)	19	9	No
	Budget balance (% of GDP)	-2	-2	No
Aid inflows	Aid (% of GNI)	14	5	Yes
	Aid (% of central government expenditures)	38	4	Yes

Notes: The difference between the average (or mean) value of any one indicator between MICs and LICs is statistically significant (at the 5% level) when the null hypothesis that there is no difference can be rejected with a 95% level of confidence. * Figures show the percentages of countries below the upper GNI per capita limit of US$5,295 eligible for IBRD funding. ** Figures show the percentages of countries with the highest level of political freedom. *** Figures show the percentages of countries with an open trade policy stance.

Poverty and Inequality

The most obvious difference between MICs and LICs is that observed levels of income poverty tend to be higher in the latter. This is not surprising, as there is a close correlation between levels of per capita income and income poverty. Nevertheless, some MICs have higher levels of poverty than some LICs, despite their higher average income, because income is distributed more unequally. For instance, the US$1-a-day poverty headcount in 1998 was 15% in Venezuela – an upper-middle income country with an unequal income distribution – but 13% in Pakistan – a low income country with a more equal income distribution.

Not all MICs have higher levels of income inequality than LICs. Differences between the average Gini coefficient and share of the poorest quintile in national income in LICs and MICs are small in size and are not statistically significant.[6] However, levels of inequality are substantially higher in those MICs in which levels of poverty are high. This is because MICs have, by definition, higher average incomes than LICs, so that high levels of income poverty must be accompanied with higher levels of inequality.

[6] The Gini coefficient is a number which varies between 0, indicating complete equality of incomes, and 100, indicating complete inequality of incomes (all income accrues to one individual only). The poorest quintile consists of the poorest 20% of households when ranked by average household expenditure or income. Their share of total national income varies from 0% (indicating complete inequality of incomes) to 20% (indicating complete equality of incomes).

Access to Capital Markets and Domestic Resources

Another important difference between MICs and LICs is that governments and firms in the former tend to have greater access to private, non-concessional and typically international capital. For instance, the vast majority (84%) of MICs are eligible for IBRD funding (or have graduated from IBRD funding on account of exceeding the upper GNI per capita limit of US$5,295), while the vast majority (86%) of LICs are not eligible.[7] Similarly, the average inflow of foreign direct investment (FDI) per capita in 2000 was four times higher in MICs than in LICs.

There are, however, exceptions. Fourteen MICs are currently (as of July 2004) not eligible for IBRD funding (for reasons other than being above the upper GNI per capita limit): Albania, Armenia, Cape Verde, Cuba, Djibouti, Guyana, Honduras, Kiribati, Maldives, Samoa, Sri Lanka, Tonga, Vanuatu and West Bank and Gaza. Nine LICs are currently (again as of July 2004) eligible: Azerbaijan, Equatorial Guinea, India, Indonesia, Nigeria, Pakistan, Papua New Guinea, Uzbekistan and Zimbabwe. Some LICs receive substantial inflows of private capital (e.g. Angola, with US$421 of inward FDI per capita in 2000), while some MICs receive very little (e.g. Morocco received less than US$5 of inward FDI in 2000). There is in fact no statistically significant difference between average levels of inward FDI in LMICs and LICs.

MICs also have a greater volume of domestic resources for tackling poverty. This can be illustrated most starkly by calculating the proportion of total national income a government would have to collect each year from the non-poor in order to eradicate poverty, assuming it could obtain that income and redistribute it in a lump-sum way. In the case of Botswana, and upper middle-income country, this proportion is 2%; in Tanzania, a low-income country, it is 24%.[8] One can also calculate the volume of resources governments actually have at their disposal for tackling poverty. Average tax revenues per capita were five times higher in MICs than in LICs in 2000, indicating substantially higher domestic resources for tackling poverty.

Democratic Institutions and Governance

Social and political institutions differ also between MICs and LICs. MICs tend to be ranked higher than LICs in terms of political rights they offer their citizens: for example, free and fair elections, and decentralised political power. For example, 30% of MICs are accorded the highest grade of political rights by the group Freedom House International, as opposed to only 3% of LICs. However, there is a much smaller difference between LICs and LMICs, only 13% are accorded the highest grade of political rights by Freedom House International, as opposed to 58% of UMICs.

MICs also differ from LICs in terms of the various indices of the quality of social and political institutions. One such measure is the rule of law index calculated by Kaufman *et al.* (2003), designed to reflect "the success of a society in developing an environment in which fair and predictable rules for the basis for economic and social interactions" (p.6).[9] The

[7] The IBRD is the arm of the World Bank which raises funds in the world's financial markets and then makes loans to developing countries under more favourable terms than if they were to borrow from a commercial bank (e.g. longer repayment periods, grace periods before the repayment of principal begins). Eligibility for IBRD funding is assessed by staff in the World Bank Corporate Finance Department (SFRCF) on a country-by-country basis.

[8] A 'lump-sum' redistribution is one which has no adverse effects on the behaviour of donors or recipients. The actual numbers would be much larger than those in the Table, because such adverse effects are typically significant in practice (e.g. declining hours worked by high-income earners, capital flight). These calculations are based on data for 1993, and the US$2-a-day measure of poverty.

[9] The index is based on the perceptions of foreign analysts and domestic business-people of the incidence of both violent and non-violent crime, the effectiveness and predictability of the judiciary, and the enforceability of

average value of this index, which ranges approximately from -250 to +250, is 66 points higher in MICs than LICs, and a similar difference holds for other the indices constructed by Kaufman *et al.*, including those measuring voice and accountability, political stability, regulatory quality, government effectiveness, and the control of corruption. However, differences in this index are in fact as large between UMICs and LMICs as they are between LMICs and LICs. This suggests that many LMICs are characterised by the same weak or ineffective social and political institutions found in many LICs.

Economic Policy

A greater proportion of MICs have what the World Bank (1998) would describe as a good policy environment – meaning stable macroeconomic policies and openness to foreign trade. The proportion of countries classified in 1998 as being open to trade, according to the criteria specified by Sachs and Warner (1995), was 90% among MICs but only 51% among LICs.[10] The average rate of inflation in MICs over the period 2000-20002 – one indicator of the stability of macroeconomic policy – was half the average in LICs over the period 2000-2002, although average values of the budget deficit (as a % of GDP), another indicator of the stability of macroeconomic policy, were over the same period broadly similar between MICs than LICs.

Aid inflows

Finally, average aid flows to MICs are much smaller, relative both to the size of the recipient economy and recipient government expenditures, than they to LICs. The average ratio of aid to GNI was in 2002 approximately three times higher in MICs than in LICs, while the average ratio of aid to recipient government expenditures was according to most recent estimates nearly ten times higher.

Summary

- MICs are a diverse group, and include countries with very different economic, social and political characteristics. However, they differ from LICs, at least on average, in terms of levels of poverty (lower), access to private capital markets (higher), domestic resources for tackling poverty (higher), macroeconomic policies (generally better), and aid inflows (lower, relative to the size of the economy or public spending). They are also ranked higher in the various measures of the quality of political institutions and governance.
- They do not differ in terms of income inequality, as measured by the Gini coefficient or the share of the poorest 20% in national income. However, those MICs in which the proportion of the population in poverty is high have significantly higher levels of inequality than LICs.
- Despite often large differences in the average value of each indicator between MICs and LICs, there is typically a significant amount of overlap between the distributions.

contracts. In empirical work, the rule of law has been found to be one of the most important determinants of long-run economic performance (e.g. Rodrik et al., 2002).

[10] The criteria are as follows: average tariff rates below 40%; average quota and licensing coverage of imports of less than 20%; a black market exchange premium of less than 20%; no extreme controls (taxes, quota and state monopolies) on exports, and a non-socialist country. The original study provided data up to 1992; the source has been updated recently by Easterly et al. (2003). It is possible that the true proportion in each case is lower than that shown in the Table, because those countries for which data are lacking are, in all likelihood, less open than those for which data are available. It is possible that this tendency also causes us to over-estimate the differences in policy between, because the proportion of middle-income countries which lack data (65%) is higher than the proportion of low-income countries (42%) (this is mainly because the Sachs and Warner (1995) dataset, and the Easterly et al. (2003) update, do not contain data for countries in Eastern Europe and Central Asia).

> There is a particularly large amount of overlap between LMICs and LICs in terms of access to international private capital and the quality of social and political institutions.

1.3 Implications for donors' strategies in MICs

MICs are a diverse group. Donor strategies in MICs will need to vary in order to reflect this diversity. However, the optimal strategy for the 'average' MIC will differ from the optimal strategy for the 'average' LIC. In this section we describe these differences, which are in terms of both the volume and types of donor interventions.

Volume of assistance

If donors wish to maximise the amount of poverty reduction from aid, they should allocate more aid, as a proportion of recipient country GNI, to countries with higher levels of poverty, with lower levels of income per capita, and in which aid is more effective in reducing poverty (Collier and Dollar 2001). The higher average level of GNI per capita in MICs and the lower average levels of poverty therefore favour a lower average amount of aid, as a proportion of GNI, in MICs. By contrast, the higher average quality of policy in MICs favours a higher average amount of aid, because there is evidence that the quality of policy raises the effectiveness of aid in raising economic growth (e.g. Burnside and Dollar 2001). However, given what we currently know about the size of this latter effect – which some people question whether it exists at all (e.g. Easterly 2003) – it is unlikely to offset the first two effects. This does not imply that all MICs should receive less aid as a proportion of their GNI than all LICs.

Other factors may affect the amount of aid that MICs should receive relative to LICs. One might argue that many MICs (as might be true for post-conflict countries irrespective of their level of economic development) are at a stage of development such that small amounts of aid can potentially have very large gains, by setting in motion a virtuous circle development or by avoiding a vicious circle of decline. Additionally, one might argue that aid to MICs has positive spill-over effects on economic growth and poverty reduction in LICs. For example, higher rates of growth in South Africa in all likelihood benefit the poor in Lesotho, Zimbabwe, and Mozambique. These arguments would favour higher levels of aid to MICs relative to LICs. Unfortunately however, there is as yet no empirical evidence on whether the effect of aid on growth does vary by per capita income level, or on whether (and if so by how much) aid to MICs benefits LICs.

Form of assistance

Following Collier and Dollar (2004), we distinguish between three broad forms of assistance, referred to as working *with* the government, working *through* the government, and working *around* the government. We then ask whether the most appropriate form of assistance differs between the average LIC and the average MIC.

Working with the government is where the aid donor does not try either to change or to go against government intentions. In practice, this means that the donor is prepared for aid to be allocated across sectors in line with existing government allocations. An example of this approach is General Budget Support (GBS). The main advantage of GBS is that it reduces the need for donors to manage large numbers of individual aid projects, with the possibility of reducing overall transaction costs. The disadvantage is that donors may not regard the government's intentions to be sufficiently in line with their own.

Working through the government is where the aid donor gets the government to implement the projects which it, the donor, chooses. For example, if the objective of the donor is to reduce poverty, it might require that aid is used to finance projects which provide the most benefits to poor people. These might include investments in primary school education, rural electrification, social protection, and so on. The problem with this approach is that aid resources are fungible. Even if donors allocate resources to projects which provide significant benefits to the poor, governments can respond by reducing their own expenditures in those areas, leaving overall spending unchanged (see Box 2).

Working around the government is where the aid donor avoids the government, and instead finances local non-governmental organisations (NGOs) which do share its intentions. The advantage of this approach is that it ensures that aid provides direct benefits to the poor, even in an environment in which the domestic government does not see poverty reduction as high priority and aid resources are fungible. The main drawback is that such an approach can undermine democratic accountability.

If none of these forms of assistance are deemed appropriate, a fourth option available to donors is to try to bring the intentions of the government more in line with their own. This might be done in three main ways. First, they can seek to promote democracy, which may increase the influence of the poor on public expenditure priorities and allocations. Second, they can support civil society groups (e.g. faith-based organisations, NGOs) which serve to strengthen the voice and influence of the poor in national policy formulation. Third, they can provide and/or disseminate technical advice and know-how about the relative costs and benefits of alternative poverty-reducing policies, which may persuade national governments and elites to implement such policies.

Box 2 The targeting of aid and fungibility

To what extent can donors 'target' aid toward particular sectors (e.g. basic education) within recipient countries? The question relates to the fungibility of aid. The basic and well-known problem for donors is that, although they can require that a given amount of aid is spent on a particular sector, they cannot prevent a recipient government responding by reducing the amount of its own resources devoted to that sector, leaving the overall amount unchanged.

Aid is not always fungible. If the amount of aid provided to a particular sector exceeds the amount which the recipient government is currently spending, total spending on that sector must increase. This is more likely in countries which are heavily dependent on aid, and in cases where aid is provided for to entirely new types of spending (e.g. judicial reform). However, for most countries, and for most types of aid, aid is likely to be highly fungible. The World Bank, in its report *Assessing Aid* (1998), concluded that "the safest assumption for donors is that they are, more or less, financing whatever the government chooses to do" (p.74).

What are the implications for donors? The recommendations of the World Bank report are, broadly speaking, are to first form an opinion about the recipient government's priorities, as evidenced in the allocation of public expenditure, the national development plan, and so on. If the donor feels that these priorities are not in line with their own (assumed to be poverty reduction), the recommended course of action is to limit the overall volume of assistance, and support policy reform instead.

Does the most appropriate form of assistance differ between the average LIC and the average MIC? Three considerations are relevant. The first is that those MICs of most interest to donors have on average higher levels of inequality than LICs. High levels of inequality suggest that poverty reduction may not be very high among the government's priorities, or at least that the government is prevented from making it a high-priority by local elites. This need not necessarily be the case. Existing levels of inequality might be a poor reflection of the priorities of governments which have come into power only recently (as for example in Brazil). Alternatively, governments might tolerate high levels of inequality if they felt that a substantial redistribution of income or assets would have a negative effect on economic growth (as for example in South Africa). However, where high levels of inequality do indicate that poverty reduction is not high among the government's priorities, the strategy of working with the government will be less appropriate (for donors concerned with poverty reduction).

The second relevant consideration is that aid makes up on average a much smaller proportion of total public expenditure in MICs compared to LICs. This means that fungibility of aid is much more likely to be a problem in MICs. The main way in which donors can avoid the problem of fungibility is by providing an amount of resources to a sector which is greater than the amount the government is already spending: that way, total spending on the sector must increase. However, since governments in MICs are already spending significant amounts of resources in most sectors, it is difficult for donors to do this. This means that the strategy of working through the government is also less appropriate in the average MIC than it is in the average LIC.

The third relevant consideration is that levels of democratic accountability are on average higher in MICs than in LICs. This means that anything which undermines that accountability will tend to be a more serious problem in MICs than in LICs. On these grounds one can also argue therefore that the strategy of working around the government is less appropriate in the average MIC than it is in the average LIC. Because all three types of assistance have limitations in the average MIC, the implication is that in the average MIC donors concerned with poverty reduction need to think about ways of bringing the intentions of the government more in line with their own, through the promotion of democracy, the support of civil-society, and the dissemination of knowledge about the costs and benefits of poverty-reducing policies.

II. EU Aid: Targeting poor populations?

Having examined the differences between the characteristics and most appropriate level and forms of assistance between MICs and LICs on average, we now turn to a more detailed examination of four specific MICs. These are Brazil, Morocco, Philippines and South Africa. We first describe the characteristics of these countries, and in particular the extent to which they fit the average characteristics of MICs described above. We then examine the strategies of EU donors in each country, on the basis of information contained in their Country Strategy Papers (CSPs) (discussed in Section 2.2), including responses to questionnaires from EU donors in the countries, and information in the OECD-DAC Creditor Reporting System (CRS) (discussed in Section 2.3).

2.1 Special characteristics of MICs – four case studies

Quantitative information on the characteristics of the four countries is shown in Table 4. All are *lower middle-income countries* according to the current (2004) World Bank classification, which is based on GNI per capita data for 2002. Brazil and South Africa are close to the upper limit of this category however, and both have been classified relatively recently as upper middle-income countries (Brazil in 2003, South Africa in 2001).

All the countries have a significant proportion of the population living under either the World Bank $1-a-day or $2-a-day *poverty* line. According to the most recent World Bank estimates, the share of the population living on less than $1-a-day is less than 2% in Morocco (1999), but 7% in South Africa (1995), 8% in Brazil (2001), and 15% in the Philippines (2000 data). Estimates of the share of the population living on less than $2-a-day in each of these years is 14% in Morocco, 22% in Brazil, 24% in South Africa and 46% in the Philippines. Two of the case studies, Brazil and South Africa, have very high levels of *inequality* by developing country standards. According to the most recent World Bank estimates, the Gini coefficient is 58 in Brazil (2001 data) and 59 in South Africa (1995 data), while the shares of the poorest quintile in total income are just 2% in each country. Levels of inequality are also higher than the low and middle-income country averages in the Philippines, but not to such a large extent. Levels of inequality in Morocco, by contrast, are somewhat lower than the low and middle-income country averages.

With regard to the *Millennium Development Goals (MDGs)*, Brazil has made progress in most indicators – considerably so in some, such as the mortality rate of children under 5 or the immunisation against measles. Also successful, albeit not to an equal degree, was Morocco, especially in the health sector (see Annex III). The picture for South Africa and the Philippines is less bright; the patchy available evidence indicates stagnation in most areas. With regard to educational indicators, the Philippines were already at a relatively high level at the beginning of the decade (as opposed to Morocco), so that leaps of improvement were not to be expected. The different situation in the case study countries is reflected in the respective ranking with regard to the *Human Development Index (HDI)*, with Brazil being on HDI rank 72, and Morocco being situated in position 125 in the HDI. While Brazil has made considerable progress in poverty reduction, South Africa and the Philippines have largely stagnated in this respect – the latter after some initial success – and Morocco is even facing a rise of poverty again after initial improvements in the 1980s.

The four countries have mixed records in terms of *political institutions and governance*. South Africa was in 2003 given by Freedom House International the highest possible rating in its index of *political rights*, while Brazil and the Philippines were awarded the second highest rating, indicating democratic and accountable systems of government. Morocco, by contrast, was in 2003 awarded a score of 5 on this index, indicating less-democratic or unaccountable systems.[11] However, in terms of the *rule of law* index constructed by Kaufman et al. (2003), Morocco received in 2001 the highest score of the four countries, and significantly above the MIC average. The scores for Brazil and South Africa were close to the MIC average, but the Philippines was substantially below, indicating lower effectiveness and predictability of the judiciary, less enforceability of contracts, and or higher rates of violent or non-violent crime (although still above the LIC average). The capacity for policy formulation was considered to be good in the four case studies. However, measures of *government effectiveness*, i.e. policy implementation, lagged behind OECD countries in all four cases; in the case of the Philippines, the country's performance was worse than the regional average. This had negative impact on e.g. the government's tax collection capacity and thus on the availability of domestic resources. More detailed information about governance and political institutions in each country is contained in the individual country Annexes.

[11] According to Freedom House International, countries that receive a rating of 1 (the highest rating) for political rights have free and fair elections. Those who are elected rule, there are competitive parties or other political groupings, and the opposition plays an important role and has actual power. Minority groups have reasonable self-government or can participate in the government through informal consensus. In countries rated 2, factors as political corruption, violence, political discrimination against minorities, and foreign or military influence on politics may be present and weaken the quality of freedom. In countries rated 3,4 or 5, other damaging elements can include civil war, heavy military involvement in politics, lingering royal power, unfair elections, and one-party dominance. However, states and territories in these categories may still enjoy some elements of political rights, including the freedom to organize quasi-political groups, reasonably free referenda, or other significant means of popular influence on government.

Each country possesses a relatively good record in terms of *macro-economic policy*. Brazil, Morocco and the Philippines were all classified in 1998 as having an open trade policy stance according to the Sachs and Warner (1995) criteria, although this information is by now somewhat out of date (South Africa is not given a score). All four countries currently have access to IBRD funding. They differ, however, in the amount of *private capital flows* they receive. Brazil received (in 2000) a large inflow of FDI per capita relative to other MICs, but South Africa and the Philippines received (in the same year) both received less than the MIC or even the LMIC average, and only slightly above the LIC average. Morocco received a negligible amount by any standards. However, each country has significant *domestic resources* for tackling poverty, as evidenced by the large amount by which tax revenues per capita in each country exceed the LIC average in 2000. Average inflation during 2000-2002 was less than 10% per year in all four, indicating broadly sound macro-economic management. The most recent estimates of the government *budget deficit* are below 3% of GDP in South Africa and Morocco, also indicating sound macro-economic management. However, they are 4% of GDP in the Philippines and 5% of GDP in Brazil, levels which most economists believe will lead to macro-economic instability if left unchecked.

Table 4: Characteristics of the four case study countries

	Brazil	Morocco	Philippines	South Africa
GNI per capita (US$, Atlas method), 2002	2,830	1,170	1,030	2,500
Population (million), 2002	174.5	29.6	79.9	45.3
Headcount, $1 a day	8.2	<2	14.6	7.1
Poverty gap, $1 a day	2.1	<0.5	2.7	1.1
Headcount, $2 a day	22.4	14.3	46.4	23.8
Poverty gap, $2 a day	8.8	3.1	17.2	8.6
Gini coefficient	58	40	46	59
Income share of poorest 20%	2.4	6.5	5.4	2.0
- year of poverty/inequality data	*2001*	*1999*	*2000*	*1995*
Political rights index, Freedom House, 2003	2	5	2	1
Rule of law index, 2001	-26	46	-49	-5
Aid (% of GNI), 2002	0.1	1.8	0.7	0.6
Aid (% of central government expenditures), latest estimate	0.2	5.9	4.2	1.3
- year	*1998*	*1999*	*2001*	*2001*
Eligibility for IBRD funding, 2004	1	1	1	1
FDI per capita (US$ PPP), 2000	420	1	108	72
Tax revenues per capita (US$ PPP)	1,574	866	583	2,433
Sachs and Warner index, 1998	1	1	1	..
Inflation (% per year), average 2000-2002	8.6	1.3	5.9	7.8
Budget balance (% of GDP), latest estimates	-5	-2	-4	-2
- years	*1996-98*	*1997-99*	*1999-2001*	*1999-2001*

To summarise, all share some, if not all, of the characteristics of the average MIC discussed in the previous section: in particular higher levels of inequality, greater access to private or non-concessional sources of finance, greater domestic resources for tackling poverty, greater macroeconomic stability and a more open trading regime, higher levels of democracy and accountability, greater rule of law, and a much smaller proportion of government expenditure accounted by aid, than the average LIC.

Potential impact of EU assistance

Aid accounts for only a small share of GNI in each country. In 2002, total net ODA from all DAC accounted as a proportion of GNI was 0.1% in Brazil, 0.6% in South Africa, 0.7% in the Philippines and 1.8% in Morocco. The share of EU aid in this total ranged from 16% in the Philippines to 44% in Brazil, 72% in Morocco and 78% in South Africa. The most recent estimates of aid as a share of government expenditure are 0.2% in Brazil (1998 data), 1.3% in South Africa (2001), 4.2% in the Philippines (2001), and 5.9% in Morocco (1999).

Development practitioners were asked for their perception of the EC's impact on poverty and governance in the partner country. Commission delegation staff in Brazil describe their impact as "very limited" in the area of poverty reduction: "In a country the size and with the characteristics of Brazil, there is no possibility to a significant contribution [to poverty reduction and good governance] in quantitative terms." Despite the absence of "benchmark/baseline information" on poverty reduction and governance contribution of EC aid, the EC delegation to the Philippines refers to positive evaluations of EU projects in rural development, "especially at the local level". The EU, however, is not seen as too successful in its attempt to establish a dialogue with the Philippine government. The Moroccan delegation refers to changes that have opened up possibilities, and emphasises the "relevance of programming to identifying [and] helping [to] launch new reforms". De-concentration of responsibilities since 2002 is also mentioned as having improved the EC's impact on poverty reduction and good governance. EC delegation personnel in South Africa saw a significant impact of their work on issues in governance and (however, less so) on poverty reduction. EC aid has given "significant support to civil society activities, with tangible success", the delegation stated. New EC projects with poverty reduction goal have shifted away from social services and towards employment generation. The delegation calls for closely monitoring these projects in regard to this objective.

2.2 Evidence from Country Strategy Papers (CSPs)

The practice of publishing national CSPs differs among EU donors; some donors however, the EC in particular, make their CSPs publicly available on the Internet. Several Member States' staff at headquarters referred to the CSPs as 'internal documents', mainly so with regard to partner governments in developing countries.

The analysis of the EU CSPs in the four country case studies covers a total of 14 documents: seven for South Africa, three for the Philippines and two each for Brazil and Morocco (see box 3). The EC is the only donor for which all CSPs are publicly available on the Internet. Of our case studies, South Africa is the only country which has a large number of country strategies from Member States (6) plus one from the European Commission; the CSPs on South Africa accounts for half of our sample. Ten out of the 14 CSPs were written after 2000 – among them all EC papers (see box 3).

The CSPs give a broad framework for the cooperation with partner countries[12], as confirmed by the Commission's delegations in their responses to our questionnaire. The CSPs were

[12] We need to note that our sample only covered Country Strategy Papers. German development assistance, for instance, also refers to sectoral strategy papers, e.g. a paper of July 2003 on good governance in the cooperation with South Africa. Serving a purpose different to CSPs, these papers are not included in our study.

referred to as the 'blueprint' for cooperation; all respondents reported that they consult the strategy regularly and in particular when taking in-country decisions on projects or programmes. EC delegations also stated that they are aware of existing Member States' CSPs in our case study countries. Some delegations also referred to strategy papers of other donors, such as the World Bank, and AusAid, CIDA and others, particularly so where EU assistance accounts for a small share of aid (e.g. Brazil and the Philippines).

Box 3: Sample of Country Strategy Papers

Our selection of case studies gave us 14 country strategy papers. Half of them were written for cooperation with South Africa. Donors with CSPs on South Africa are: the EC, Belgium, France, Germany, Ireland, Sweden, and the UK (the latter provided for a regional paper for SACU with one section dedicated to each of the SACU member states). The other half of our CSP sample covers the three remaining case study countries. In the case of Brazil, only the EC and the UK had country strategy papers. For the Philippines, CSPs were established by the EC, Germany, and Sweden. Of the active donors in Morocco, only the EC and Germany had CSPs available. Other donors, e.g. France, are currently establishing CSPs, but those were not yet available by the time of writing this study.

	Available CSPs of EU donors (and resp. time of writing)
Brazil	EC (2001), UK (1998)
Philippines	EC (2002), Sweden (2000), Germany (2004*)
Morocco	EC (2002), Germany (2002)
South Africa	EC (2003), Belgium (2002), Germany (1999), France (2001), Ireland (2001), Sweden (1998), UK (2002)

* under revision at the time of analysis

<u>*EU donors' objectives*</u>

In many cases the CSPs in the four selected case studies have a poverty focus. For the European Commission's documents, however, only the South Africa CSP identifies poverty reduction as it main objective (directly linked to the development policy statement of November 2000). The objectives in Brazil are closely linked to the Mercosur process, while the CSPs for the Philippines and Morocco explicitly refer to respective regulation on the Asia-Latin America (ALA) and the Mediterranean (MEDA) programme. In the latter three case studies the emphasis is on trade policy. The link to the EU development policy statement of 2000 and its declared main objective to "reduce and, eventually, eradicate poverty" remain unclear in the cases of Brazil, the Philippines, and Morocco. To give one example of a CSP in the case of a LIC (within the ACP context), the Senegal strategy paper refers to all relevant EC documents, plus the poverty reduction strategy, and regional efforts (New Partnership for African Development, NEPAD).

Although many of the EU country strategy papers refer to poverty reduction, the only CSP to discuss the Millennium Development Goals (MDGs) is the Belgian country strategy document for South Africa, even if only in its introduction. However, three out of four EC delegations did not see a need for more explicit links to the MDGs and other poverty and governance indicators. The Philippine delegation saw advantages in relating back to the MDGs for both the EC and the Philippine government. Some areas, however, are not related to MDGs, the delegation argued (e.g. trade, investment, human rights and governance); "in other cases MDG [indicators] are not the most appropriate ones", the delegation stated. Comparing this with the example of Senegal (as a LIC), the MDGs are not individually listed, but indicators are used to assess the actions to be taken in specific sectors (e.g. education).

MICs do not necessarily set up Poverty Reduction Strategy Papers (PRSPs) as they cannot qualify for the debt relief initiative for Highly Indebted Poor Countries (HIPC) which requires the establishment of a national PRSP. All CSPs refer to national development plans of the partner countries: in this sense they can be thought of as representing, using the Collier and Dollar (2004) terminology, a strategy of donors working *with* recipient governments. However, although the poverty impact of these national plans is at times touched on, it is not analysed thoroughly. The possibility that the objectives of recipient government differ from those of the donors, and problems arising from the fungibility of aid, are not systematically addressed.

Poverty is mentioned as a challenge and its reduction as an objective in the case of the German paper for the Philippines. Both UK strategy papers, however, show a very strong focus on poverty. The two Swedish country strategies in our sample have a broader focus on development and democracy. Only Germany and France do not share poverty as their explicit key objective in the cooperation with South Africa. In two of Germany's three *'Länderkonzepte'* (country strategies), no specific donor objectives are mentioned; the papers instead refer to partner government's objectives.

With regard to coordination among EU donors (i.e. among Member States and with the Commission), information was obtainable only from the Philippines and provided via the EC delegation. Because of staff turnover, Member States' development counsellors did not recall the setting up of the previous CSP. However, the one counsellor present with historic memory "said that Member States had been informed but barely been consulted; […] no serious discussion had taken place". This situation, it was noted, had changed in the last year, as "consultation by the Commission over new projects and programmes [have become] a standard pattern".

Arguing the case of the poor in CSPs?

The CSPs aim at identifying priorities and formulate the donor's intentions on future areas for cooperation. The general selection of priorities in the cooperation with partners differs among EU donors. Since 1999, Germany focuses on four areas in its aid interventions in so-called 'focal partner countries'). Among these are the Philippines, Morocco and South Africa, but not Brazil. Belgian development cooperation law prescribes five focal sectors and three cross cutting areas, as well as favouring interventions in rural areas. Swedish emphasis is slightly different in making the cause for sustainable development it its overall development policy (with strong emphasis on environmental issues), and in the South African case focussing on democracy, gender equality and handicap issues.

All country strategy documents include a country analysis section and a reflection on past interventions. The CSPs are comprehensive but with a maximum length of about 30 pages, there is limited scope for describing the dynamics of poverty and how aid interventions might reduce poverty or improve governance. Yet, the section on the assessment of past interventions could potentially provide some 'lessons learnt' with regard to the poverty impact of interventions or give indicators of progress, e.g. discuss the MDGs. In the country assessment sections, the CSP could provide a brief discussion on outcomes (e.g. how did government policies affect poverty and how did assistance contribute to this?) or on outputs (e.g. which reforms do governments promote and how do they propose to reduce poverty?). This should contribute to the sections on identifying the most binding constraints to development and defining strategies to overcome obstacles. In most documents, however, the assessment of past assistance to the partner country could be improved by including more substantial assessment of past intervention, and consequently providing detailed information on poverty and questions of governance.

Brazil

The European Commission's CSP for Brazil argues much less in a pro-poor rationale, although poverty is identified in first place by EC delegation staff when asked about the key challenges Brazil faces. However, the delegation staff notes that there is no need to amend the CSP. In the case of EC cooperation, only one of the three identified focal sectors in Brazil has explicit links to and potentially immediate impact on the poor population (23% of the programme for social development). Another focal sector on public administration also included some small support for human rights; the practice of human rights is identified by Commission delegation staff as one key challenge facing Brazil. The UK strategy document for Brazil, by contrast, tries to ensure that all its focal sectors are explicitly targeted to poverty reduction. Environment/sustainable development should respond more directly to the needs of the poor and work with civil society to strengthen government institutions and identify opportunities to improve the position of indigenous peoples.

Table 5: Priorities of EU country strategies in Brazil

EC	▪ Economic reform ▪ Environment ▪ Social programme	MERCOSUR as framework
UK	▪ Natural resources ▪ Urban environment ▪ Good governance	Possibly also trade or investment-related areas, but not as main focus[13]

The Philippines

In the Philippines, the European Commission's strategy paper shows more focus on poverty reduction than in other case studies. The country planning allocates 82% of the indicative budget to poor sections of society both in rural sector and health sector assistance. The focus is argued very clearly to be on "the poorest sectors of society, those living in remote areas and living below the poverty threshold." A further 11% of the budget is aimed at good governance: strengthening the judiciary and support for anti-corruption activities. This intervention is seen as cross-cutting and bridging the two main areas of EC assistance to the Philippines. Germany's four focal sectors do not make explicit links to poverty reduction. However, the focal sectors include HIV/AIDS as well as water, sanitation and waste management, all of which potentially immediate impact on poor populations. A clear focus is on the region of the Visayas; possible extension to Mindanao is explicitly provided for. These areas are significant for the reduction of poverty in the Philippines – either because the sector benefit poor people most, or they are targeting particularly poor regions.

[13] NB: the CSP dates from before the International development act of 2001, which prescribes poverty reduction as the objective for British development cooperation.

Table 6: Priorities of EU country strategies in the Philippines

EC	▪ Assistance to the poorest sector of society, – rural sector interventions, – health sector ▪ Assistance to trade and investment	ASEAN as framework Cross-cutting sector: ▪ Governance
Germany	▪ Economic reform and establishment of a market economy ▪ Health, family planning and HIV/AIDS ▪ Environment and sustainable resource management ▪ Water/sanitation/waste management	Regional focus: ▪ Visayas Region (possible extension to Mindanao)
Sweden	Comparative advantages of Swedish assistance are: ▪ Sustainable use of resources ▪ Support for Civil Society Organisation (also to include aiming at good governance)	Limited to technical cooperation, projects (e.g. in infrastructure) to be identified by the partner

Morocco

The EC's country strategy for Morocco emphasises governance issues. In its argument for aid interventions, however, the pro-poor rationale is not very strong in the case of Morocco (see box 4). This might be because the constraint in Morocco is governance rather than poverty, but this argument is not made explicitly in the CSP. Trade is a prominent issue in the CSP. Even if the association agreement with the EU may have a positive impact on poverty in Morocco – and this point is not made in the EC country strategy[14] – the key rationale in country planning of the EC with Morocco is that of partnership (participation in EU educational programmes) and neighbourhood (migration issues) rather than explicitly poverty reduction. A good example for governance argumentation is also the German CSP on Morocco: the analysis of the country situation is quite comprehensive and the lines for future aid interventions well argued. Again, however, links to the proposed programmes are not systematically argued in a pro-poor rationale.

The European Commission gives two major lines of intervention in Morocco (see box 4), each of which account for half of the National Indicative Programme (NIP). One comprises economic and commercial focal sectors. The other area covers the social, cultural and human realm, and is not focused explicitly on poverty reduction. Similarly, the German CSP does not explicitly argue for its focal sectors following a poverty reduction rationale, but the areas chosen have potentially strong links to poor populations (e.g. water and sanitation, environment and economic support-professional training).

Table 7: Priorities of EU country strategies in Morocco

EC	▪ Judicial environment and rules (50%) – public administration reform – transport sector – technical support for the association agreement ▪ Social, cultural and human realm (50%) – training and participation in TEMPUS – management of migration – environment (largely via the EIB)	MEDA as framework Agrarian and fiscal reforms are possible future areas of intervention once the conditions are right.
Germany	▪ Water and sanitation ▪ Environment, resource management (including renewable energy) ▪ Economic support (incl. professional training)	

[14] The German CSP for Morocco discusses both potential and risks of the Moroccan association agreement with the EU and notes a considerable danger for almost all Moroccan enterprises; they are seen as not fit for the competition in a free trade area with the EU.

Box 4: The EC's strategy paper for Morocco

The country analysis embraces roughly 8 pages in the EC's strategy paper for Morocco. It refers mostly to the "*Plan de developpement économique et social 2000-2004*" and identifies two major challenges: (a) the high unemployment rate in urban areas and the increasing poverty as well as (b) the bad integration of Morocco into the world market. Areas of the Moroccan government's development plan looked at more closely under separate headings are (i) economic development, (ii) institutional development, (iii) special development and regional integration, and (iv) social issues and poverty. The latter is making up about 20% of the section and is evenly split into human resource building, i.e. mainly literacy, and basic needs, better social protection and reduction of inequality.

The country analysis begins with a positive review of the association process of Morocco (1 page). Migration, particularly 'illegal migration', is an issue throughout all sections of the country analysis. The political situation is reviewed and positive reforms are noted, particularly significant progress in fundamental rights and individual liberties. Restricted media rights are a negative point in the Moroccan situation. Illegal migration is dealt with under the sub-section of 'external situation'. About 25% of the analysis is on the economic and social situation. Only a short part of this section is dedicated to poverty. Modest (but too weak) economic growth and macroeconomic stability are noted in some detail, as are – generally – improvements in governance.

The two large priority areas are identified as (i) the area of growth/unemployment/poverty/migration, and (ii) the association agreement. Both reflect the points of the country analysis.

In its programming, the EU dedicates half of its funds to the economic and commercial realm. This also covers the "juridical environment and rules" that impact on foreign investment. Three programmes are established in this area:
- *reform of public administration* (as it is named as one serious handicap for development in Morocco; the aim is a rationalisation of expenses and subsequent funding of priority sectors)
- *reform of the transport sector* (which is seen as crucial for the integration into the Euro-Mediterranean area, so as to create growth and competitiveness)
- *technical support for the implementation of the EU association agreement* (aiming at the legal framework for the agreement, which should be made compatible with the EU framework).

The fourth bullet point names
- *support for the Moroccan industrial sector*, so that it can be made fit for competition with European enterprises.

Reforms of public administration are argued for, in order to improve the business environment. This might ultimately also benefit the poor, via its effect on economic growth, but this is not stated explicitly.

The other 50% of the National Indicative Programme is dedicated to the "social, cultural and human realm". This section gives three avenues for interventions (a) *development of human resources* (training programmes and Morocco's participation in the TEMPUS programme); (b) *emigration* (support for management of migration and special support for the Northern region); (c) *environment* (largely driven by financing from the EIB).

None of these sectors explicitly refer to pro-poor reforms. The CSP also mentions agrarian and fiscal reforms for possible areas of support. These areas would match interventions identified in the first section of this study and have a potentially high pro-poor impact. However, the CSP finds that the conditions in these two sectors are not adequate for further EC support, even though some discussions have started in the Moroccan government. The Commission states that the door for future support in these areas remains open; EC support is (not yet) offered in these sectors.

South Africa

For cooperation with South Africa, the European Commission focuses strongly on a poverty reduction rationale. EU Member States are equally arguing for pro-poor activities in the South Africa – in particular Ireland and the UK (Ireland critically mentioning that the government has not focussed sufficiently on poverty in the past). Other donors, such as France, also include commercial considerations in their discussion. By contrast the German country strategy document is more comprehensive and covers the wider political and governance context but relatively little on past evaluations. EU donors by and large have selected focal sectors that are likely to have an impact on poor populations, governance and HIV/AIDS, some with additional emphasis on poor regions. The focus on sectors which are presumably relevant to poverty reduction is practised in particular in the programming of the EC, the UK and Ireland. Even if not focused on poverty reduction in its analysis, France has selected focal sectors that are somewhat linked to poverty and inequality – with additional emphasis on French language and culture beyond these potentially pro-poor areas.

Table 8: Priorities of EU country strategies in South Africa

Donor	**Focal sector**	**Other/Cross-cutting issues/ regional focus**
EC	▪ Equitable access to and sustainable provision of social services (40-–50%) ▪ Equitable & sustainable economic growth (20-30%) ▪ Deepening democracy (15–20%) ▪ Regional co-operation and integration (10%)	Cross-cutting issues: ▪ HIV/AIDS ▪ Capacity building ▪ Civil Society ▪ Governance ▪ Gender ▪ Environment
Belgium	▪ Basic health care (incl. reproductive health) ▪ Training and education ▪ Agriculture and food security ▪ Basic Infrastructure ▪ Consolidating society Regional focus on rural areas	Cross-cutting issues: ▪ Rights & gender equality ▪ Environment ▪ Social economy
France	▪ Modernisation of the institutional framework ▪ Training and Research & Technology ▪ Social and economic development ▪ Promotion of the French language and culture	Principally targeting the South African elite
Germany	▪ Government-delivery and capacity-building ▪ Qualification, education & training ▪ SMME and science/technology ▪ Basic needs ▪ Community development ▪ Sustainable resource management Not yet regionally focused	Cross-cutting issues: ▪ Gender ▪ Capacity building ▪ Resource management ▪ Transfer of technology
Ireland	▪ Education and training ▪ Health / HIV/AIDS ▪ Water and Sanitation ▪ Good Governance, democracy & human rights	Regional focus: ▪ Northern Province/ Limpopo (education) ▪ Free State Province (health care)
Sweden	▪ Education ▪ Human rights/democracy ▪ Public administration / good governance ▪ Urban development and housing ▪ Cultural development ▪ Private sector support	Cross-cutting issues: ▪ Gender issues ▪ Handicapped people ▪ Environment ▪ Research & technology
UK	▪ Poverty analysis and strategy ▪ Economic growth, employment and equality ▪ Democracy, governance and service delivery ▪ HIV/AIDS	Regional focus on: ▪ Eastern Cape ▪ Limpopo ▪ Kwa-Zulu/Natal (if possible)

EC Country Strategies for LICs

Some comparative insight might be gained by consulting the CSPs for LICs. Two countries were chosen as LIC-references for the four MIC case studies: Senegal and Bangladesh (both classified as least developed countries). Both have a clear poverty focus. It is noteworthy that in both cases, EC cooperation identifies indicators for the cooperation; in both cases, these are Human Development Indicators rather than the MDGs. Additionally, governance aspects feature very prominently in the two LIC chosen and reference to the PRSP is explicit. However, given the number and diversity of LICs, this reference to one country of the ACP group and one covered by the Asia-Latin America programme (ALA) only provides very limited evidence. More comprehensive work on LICs is required.

2.3 Evidence from the OECD-DAC Creditor Reporting System

In this section we use data from the OECD-DAC Creditor Reporting System (CRS) to examine the extent to which EU interventions are targeting the poor. This is based first on analysis of the DAC poverty markers, and second on analysis of the pattern of EU assistance across the 3-digit and 5-digit DAC sector codes.

Poverty markers

In principle, each aid project listed in the CRS database should contain a 'poverty marker', indicating the extent to which the objective of the project is to provide direct assistance to poor people. Three values are provided: 2, indicating that direct assistance to poor people is the principal objective of the project; 1, indicating that this is a significant objective; and 0, indicating that this is not an objective of the project (see Table A3 in the Appendix). One possible measure therefore of the extent to which aid is targeted to the poor – either from the EU as a whole or an individual EU Member States – is the proportion of expenditure on projects which list direct assistance to the poor as either the principal or a significant objective.

Information on this measure is shown in Table 9, column 2 (see below). Only in the case of South Africa do we have a considerable level of expenditure – about one quarter – on projects that were classified as poverty oriented. In the case of the Philippines and Brazil, around one tenth of all expenditure (10% and 9% respectively) was classified as poverty oriented, but only 2% of all assistance to Morocco had this classification. The problem, however, is that the majority of aid projects from the EU to our case study countries do not report poverty markers at all – either for reasons of time or incentives to provide the necessary information.[15] For example, almost three-quarters of commitments to Brazil (US$ 283m), and the vast majority of commitments to Morocco (US$ 874m), were to projects which were not classified in terms of their poverty-orientation at all.[16] This limits the usefulness of the DAC poverty markers as guides of the extent to which aid commitments are targeted to the poor.

EU aid to 'pro-poor' sectors

It is difficult to say whether spending of foreign aid in any one particular sector provides more direct benefits to the poor than spending in others. The answer will ultimately depend on the nature of the projects financed, and on the characteristics of the poor population in the recipient country (their location, assets and so on). However, spending in some sectors is at least more likely to provide more direct benefits to the poor than spending in others. These

[15] There are, however, large differences between EU donors in the proportion of projects which do report poverty markers. EC aid from the budget is not reported in the CRS (reporting begins in 2004) and EC aid from the EDF (to ACP countries, i.e. beyond the scope of this study) does not include poverty markers. Austria, Denmark, Netherlands, Portugal and Sweden report markers for the great majority of their projects. France, Ireland, Germany, Italy, and Spain report markers only for a small minority of their projects (analysis based on 2000-2002 commitments).

[16] France was by far the largest single EU donor to Morocco; no French expenditure is classified in terms of its poverty-orientation, while only a small minority (around 5%) of Spanish and Italian expenditure is. The proportion of German expenditure which is classified is higher (18%), but still only 6% of expenditure is classified as poverty-oriented.

include sectors which provide public services likely to be important to poorer groups (e.g. primary education, health care, clean water), spending which is targeted toward particular groups (e.g. women), spending which boosts demand for unskilled labour (e.g. rural works projects), and support to NGOs which work with particular groups of poor people. As a first approximation therefore, we define 'pro-poor' sectors as consisting of the following the 3-digit sectors reported in the OECD-DAC aid database:

- Basic education (112)
- Basic health (122)
- Population programmes and reproductive health (130)
- Other social services (163)
- Women in development (420)
- Water supply and sanitation (140)
- Employment (161)
- Housing (162)
- Food aid (520)
- Support to NGOs (920).

We note however, that this definition is necessarily only a first approximation: much spending in these sectors will provide direct benefits to the non-poor, while much spending in other sectors will provide direct benefits to the poor. Moreover, an inflow of aid to a 'pro-poor' sector does not necessarily imply that total spending in the sector increases, because of the fungibility of aid (see Box 2).

Notwithstanding these limitations, information on the proportion of aid commitments from the EU Member States to each case study country between 2000 and 2003 which fall into these sectors is shown in column 3 of Table 9. The proportion of the total volume of commitments which were allocated to these sectors was highest in South Africa, at 21% of the total, followed by Morocco (17%), the Philippines (13%), and Brazil (6%). There were also some large differences between individual EU donors. For example, among the largest EU donors to South Africa, the proportion of commitments allocated to the above sectors was 38% in the Netherlands, and 35% in the UK, but only 5% in Germany and 1% in France.

Similar information on EC commitments is shown in Table 10. In this case the data are in Euros and refer to the period 2001-2003. The proportion of commitments going to sectors most likely to benefit the poor directly (as defined above) was highest in Morocco (33%), followed by South Africa (21%) and Brazil (12%). There were no commitments from the EC to the Philippines in these sectors. The figure of 33% for Morocco corresponds mainly to spending on water supply and sanitation, which we have categorised as a pro-poor sector. However, in this case as in all others, more detailed information on the nature of these commitments is necessary to assess their actual impact on poverty.

Table 9: EU Member States' aid to MICs: comparison of four case study countries

	Total commitments, 2000-2002 (US$m)	% of expenditure classified as poverty-oriented	% of expenditure classified as not poverty-oriented	% of expenditure on pro-poor sectors
Philippines				
- All MS	366	10	50	13
- Germany	118	16	29	16
- Netherlands	87	8	92	9
- Spain	60	7	0	13
- Austria	30	0	100	<1
Brazil				
- All MS	393	9	19	6
- Germany	177	13	16	4
- France	74	0	0	2
- UK	54	2	48	15
- Italy	26	0	8	8
Morocco				
- All MS	942	2	5	17
- France	550	0	0	10
- Germany	193	6	13	35
- Spain	133	4	0	15
- Italy	27			
South Africa				
- All MS	708	24	37	21
- UK	242	14	71	33
- Germany	163	16	40	5
- Netherlands	78	71	29	38
- France	67	0	0	1

Source: CRS data; the EC is not included.

Notes: Figures are shown for all EU member states and for the four largest EU donors to each country. Definition of pro-poor sectors is explained in the text, and includes the following DAC sector codes: basic education, basic health, population programmes, water supply and sanitation, employment, housing, women in development, development food aid, and support to NGOs.
Source: OECD (2004)

Table 10: EC Commitments to Brazil, Morocco, Philippines and South Africa, 2001-2003

	Total commitments, 2000-2002 (€ million)	% of expenditure on pro-poor sectors
Philippines	26	0
Brazil	29	4
Morocco	395	33
South Africa	348	21

Source: Data supplied by EuropeAid.

EU assistance to governance and civil society

Section 1.3 highlighted the important link between good governance and poverty reduction in MICs. The CRS data report different types of aid interventions under the heading of 'government and civil society' (DAC 3-digit code 150; see Table A4 in the Appendix). Information on EU Member States' and EC commitments to this sector is shown in Table 11.[17]

Support to government and civil society is an important component of EU Member States' assistance to South Africa, where it amounted to US$110m over the period (16% of total commitments). One third of this was allocated to government administration; other important areas were legal and judicial development and strengthening civil society, each with about a quarter of total aid to the sector. The largest individual contributors to this sector were Germany (US$25m), followed by the UK (US$23m), Netherlands (US$16m), Sweden (US$14m) and Denmark (US$12m). Commitments from the EC were also large (€53m), and consisted mainly of support to government administration, strengthening civil society and human rights monitoring and evaluation.

Support to government and civil society was also an important component of EU Member States' assistance to Brazil, where it amounted to US$36m over the period (9% of total commitments). The majority of commitments were allocated to human rights (49% of the total) and to government and civil society (37% of the total). The largest individual MS contributing to the sector was Germany, accounting for 76% of the total. Commitments from the EC were however much smaller (€3m) than those from the Member States, and consisted of support for public sector financial management and human rights monitoring and evaluation.

In the case of the Philippines, support to government and civil society was a less important component of Member States' assistance, amounting to $12m over the period, just 3% of total commitments. Of this, over half was allocated to strengthening civil society, and about one quarter was allocated to economic and development policy. As in Brazil, the vast majority (82%) of these contributions were from Germany. Commitments to the sector from the EC were not large in absolute terms (€8m), but did make up a large proportion of total commitments (30%). Of this amount, the majority (78%) was allocated to legal and judicial development.

In Morocco, support to government and civil society was also a less important component of Member States' assistance, amounting to $8m over the period, and just 1% of total commitments. This is perhaps surprising given that Morocco is awarded the lowest score of the Freedom House political rights index of the four countries (Table 4). Of this total, the largest components were allocated to strengthening civil society (29%) and economic and development policy (27% of the total). Support to the sector was much larger from the EU however (€41m), almost all of which was allocated to legal and judicial development.

Section 1.3 also highlighted the potential link between support for NGOs and poverty reduction in MICs. However, during 2000-2002 the Member States provided very little direct assistance to NGOs. The OECD CRS data reports donor support to regional and local NGOs (5-digit code 92030). In South Africa, the value of commitments under this category was

[17] The list reflects the 5-digit DAC coding for aid interventions. The DAC data currently does not include interventions of the European Commission; data for the Commission were provided directly from EuropeAid, and refer to the period 2001-2003.

$0.4m, in Brazil it was $0.3m, in the Philippines it was $0.5m, and in Morocco no commitments were made at all. These commitments came entirely from two single Member States, Belgium and Ireland. The EC made no commitments to this category over the period 2001-2003.

Table 11: ***EU commitments to government and civil society in Brazil, South Africa, Morocco and the Philippines, 2000-2002***

	EU Member States				**European Commission**			
	Brazil	***SA***	***Moro-cco***	***Phili-ppines***	***Brazil***	***SA***	***Moro-cco***	***Phili-ppines***
Commitments to government and civil society (US$m*)	36	110	8	12	3	53	41	8
- % of total commitments	8	16	1	3	11	15	10	30
By sector (%)								
Demobilisation	-	-	-	4	-	-	-	-
Economic & development policy/planning	2	5	27	23	-	15	-	-
Elections	-	4	-	-	-	-	-	-
Free flow of information	-		0.1	1	-	-	-	-
Government administration	0.1	33	10	0.2	-	27	-	-
Human rights monitoring and evaluation	49	6	6	13	27	21	1	4
Legal and judicial development	1	23	8	2	-	14	98	78
Post-conflict peace building	-	1	18	1	-	-	-	-
Public sector financial management	10	5	3	-	73	-	-	-
Strengthening civil society	37	24	29	56	-	25	1	18
Commitments to local and regional NGOs (US$m)	0.3	0.4	-	0.5	-	-	-	-

Source: CRS DAC and data transmitted from EuropeAid. * Data for European Commission are in Million Euros. Blank cells indicate zeros (no reported commitments).

III. Conclusions and Recommendations

1. MICs are an important group. They include 45% of the world's population and account for 11% of the world's poor people using the US$1-a-day poverty line, or 20% using the US$2-a-day poverty line. They are also a diverse group, including countries with per capita GNI of as little as US$735 and poverty levels as high as 35% (using the US$1-a-day poverty line) or 56% (using US$2-a-day poverty line) of the population.

2. There are some important dimensions in which MICs differ, at least on average, from LICs. They have lower levels of poverty, greater access to international capital markets, more domestic resources for tackling poverty, better macroeconomic policies, and higher quality social and political institutions. Those MICs in which the proportion of the population in poverty is high also have, by definition, high levels of inequality. In addition, aid makes up a much smaller proportion of both GDP and domestic government expenditure in MICs than it does in LICs.

3. These differences have two broad implications for donors. The first is that donors should in general aim at giving less aid (in relation to the GNI) to MICs than to LICs. This general rule, however, has to be qualified in the light of special circumstances, such as MICs emerging from conflict, spill-over effects from economic growth in MICs, and so on. The second is that donors should pay careful attention to the most appropriate form of assistance in MICs. General budget support will not provide substantial benefits to the poor in those MICs with high levels of inequality and in which the recipient government is either unwilling or unable to implement redistributive policies. Even if aid is targeted to pro-poor sectors in such cases, overall spending in those sectors may change little if aid is fungible, as it is when the volume of aid is small relative to government expenditure. One alternative is to channel assistance through local non-governmental organisations, although this can undermine democratic accountability. Another alternative is to increase the recipient government's ability or willingness to implement redistributive policies, through the promotion of democracy, the support of civil society groups, and the dissemination of policy advice. Evidence on the impacts of donor efforts in these areas remains limited however.

4. The allocation of EU development assistance across MICs is currently not strongly correlated with poverty, both for EU and non-EU donors. The correlation is particularly low (below the EU average) for EC and French aid. In this context, there is need for more detailed study of the extent to which the existing allocation of EU Member States and EC aid can be justified by other considerations, including geo-political factors, special transitional circumstances, alternative non-income measures of poverty, and so on.

5. Any study of the allocation of EU development assistance across MICs would need to consider that EU donors work particularly closely with particular regions, most likely for historical or geopolitical reasons. In 2002, over half of Spanish net ODA to MICs went to Latin America, while 60% of UK net ODA to MICs went to Eastern Europe and Central Asia. In addition, special vulnerabilities and possible spill-over effects could explain the importance of some top recipients of European Union ODA to MICs, such as Serbia and Montenegro, South Africa, Morocco, Tunisia and West Bank and Gaza.

6. The EU Country Strategy Papers would benefit from clearly linking ODA activities to objectives, including the use of benchmarks such as the Millennium Development Goals or – if present – national poverty reduction strategy targets. This could be relatively straightforward as the Commission has already committed itself to benchmark its results by

reporting regularly in all countries 10 core indicators of the Millennium Development Goals. The choice of focal sectors for development cooperation could be linked more closely to the achievement of poverty or governance benchmarks, including an action plan and an indicative timing of interventions.

7. The analysis of European Commission's CSPs in our four 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. Other choices of objectives (e.g. governance issues and EU 'integration' in Morocco) are possibly valid but the choice of key objectives is not derived from a framework identifying key characteristics of each country; e.g. poverty, governance, economic stabilisation, etc. The use of a common framework for deriving development policy objectives would facilitate the justification of different options in the EC aid policy mix, and would provide more consistency to the EC development policy.

8. In many cases EU donors might have different objectives in a given country. However, whenever EU donors have similar objectives (as for most EU Member States in South Africa) there could potentially be considerable benefit in carrying out a *joint* country analysis (including poverty and governance issues, and considering MIC specificities) and a *joint* evaluation of the success of previous interventions. The synchronisation of Country Strategy Papers appears to be a first useful step in the achievement of joint analysis and evaluation, so that EU donors have a common reference point in time. Synchronisation could remove one practical obstacle to better 'co-ordination' and 'complementarity' of EU donors' actions in partner countries. However, this may be of limited relevance in countries where only a small number of EU donors are active, and where resources may well be too scarce for the additional workload increased co-ordination would require.

9. The poverty focus of EU interventions could benefit from better information on all EU aid commitments (MS and EC), disbursements and forecasts. Some of this information will soon be available from the Credit Reporting System of the DAC. However, it is important that all donors improve the accuracy of their reporting to the CRS, and do not see information sharing as a task for the centre or as a one-way street. Peer Reviews of the quality of CRS reporting could help improve the quality of this important data. This would reduce the need of expensive and time consuming in-country donor mapping exercises. The results could be presented in the annual Delegation report on EU aid (as in Vietnam).

10. At the moment, it is difficult to assess the poverty and good governance impact of EU interventions in MICs (or LICs) as there are very few impact evaluations and EU donors are not consistent in their reporting of the poverty markers of their ODA commitments to the CRS DAC. Joint EU evaluations of ODA to MICs and an improved reporting of poverty and governance markers are necessary (EC aid from the general budget is beginning to report to the CRS DAC beginning this year). The assessment of the poverty and governance impact of EU ODA to MICs should focus on a few large MIC donors such as the European Community, Germany, France, the UK, Spain and the Netherlands.

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Appendix

Table A1: List of Middle Income Countries in 2004

Region	*Country*	*Upper-middle income (UMIC) or lower-middle income (LMIC)*
Sub-Saharan Africa	Djibouti	LMIC
	Namibia	LMIC
	Swaziland	LMIC
	South Africa	LMIC
	Cape Verde	LMIC
	Botswana	UMIC
	Mauritius	UMIC
	Mayotte	UMIC
	Seychelles	UMIC
	Gabon	UMIC
East Asia and Pacific	China	LMIC
	Fiji	LMIC
	Micronesia, Fed. Sts.	LMIC
	Kiribati	LMIC
	Marshall Islands	LMIC
	Philippines	LMIC
	Thailand	LMIC
	Tonga	LMIC
	Vanuatu	LMIC
	Samoa	LMIC
	American Samoa	UMIC
	Northern Mariana Islands	UMIC
	Malaysia	UMIC
	Palau	UMIC
South Asia	Sri Lanka	LMIC
	Maldives	LMIC
Eastern Europe and Central Asia	Albania	LMIC
	Armenia	LMIC
	Bulgaria	LMIC
	Bosnia and Herzegovina	LMIC
	Belarus	LMIC
	Kazakhstan	LMIC
	Macedonia, FYR	LMIC
	Romania	LMIC
	Russian Federation	LMIC
	Turkmenistan	LMIC
	Ukraine	LMIC
	Serbia and Montenegro	LMIC
	Czech Republic	UMIC
	Estonia	UMIC
	Croatia	UMIC
	Hungary	UMIC
	Lithuania	UMIC
	Latvia	UMIC
	Poland	UMIC
	Slovak Republic	UMIC

Table A1 (cont.): List of Middle Income Countries in 2004

Region	*Country*	*Upper-middle income (UMIC) or lower-middle income (LMIC)*
Western Europe	Turkey	LMIC
Middle East	Iran, Islamic Rep.	LMIC
	Iraq	LMIC
	Jordan	LMIC
	Syrian Arab Republic	LMIC
	West Bank and Gaza	LMIC
	Lebanon	UMIC
	Oman	UMIC
	Saudi Arabia	UMIC
North Africa	Algeria	LMIC
	Egypt, Arab Rep.	LMIC
	Morocco	LMIC
	Tunisia	LMIC
	Libya	UMIC
Latin America	Bolivia	LMIC
	Brazil	LMIC
	Colombia	LMIC
	Ecuador	LMIC
	Guatemala	LMIC
	Guyana	LMIC
	Honduras	LMIC
	Peru	LMIC
	Paraguay	LMIC
	El Salvador	LMIC
	Suriname	LMIC
	Argentina	UMIC
	Chile	UMIC
	Costa Rica	UMIC
	Mexico	UMIC
	Panama	UMIC
	Uruguay	UMIC
	Venezuela, RB	UMIC
Caribbean	Cuba	LMIC
	Dominican Republic	LMIC
	Jamaica	LMIC
	St. Vincent and the Grenadines	LMIC
	Belize	UMIC
	Dominica	UMIC
	Grenada	UMIC
	St. Kitts and Nevis	UMIC
	St. Lucia	UMIC
	Trinidad and Tobago	UMIC

Table A2: Characteristics of individual Middle-Income Countries

Key: gnppc=GNI per capita (US$, Atlas method), 2002; pop=population (million), 2002; ph1=poverty headcount ($1-a-day),latest estimate; pg1=poverty gap ($1-a-day), latest estimate; ph2=poverty headcount ($2-a-day), latest estimate; pg2=poverty gap ($2-a-day), latest estimate; pyear=year of latest poverty/inequality estimate; gini=Gini coefficient, latest estimate; q1=income share of poorest 20%, latest estimate; ibrd=eligibility for IBRD funding (1=yes, 0=no), 2004; ibrdgrads=graduates from IBRD eligibility (1=yes, 0=no), 2004; fdi=FDI per capita (US$ PPP), 2000.

country	*gnppc*	*pop*	*ph1*	*pg1*	*ph2*	*pg2*	*pyear*	*gini*	*q1*	*ibrd*	*ibrdgrads*	*fdi*
Albania	1450	3.2	<2	<0.5	11.8	2	2002	28	9.1	0	0	134
Algeria	1720	31.3	<2	<0.5	15.1	3.6	1995	35	7.0	1	0	1
American Samoa	.	0.1	.	.	.	.	.	.	.	0	1	.
Argentina	4220	36.5	3.3	0.5	14.3	4.7	2001	52	3.1	1	0	507
Armenia	790	3.1	12.8	3.3	49	17.3	1998	38	6.7	0	0	187
Belarus	1360	9.9	<2	<0.5	<2	0.1	2000	30	8.4	1	0	23
Belize	2970	0.3	.	.	.	.	.	.	.	1	0	121
Bolivia	900	8.8	14.4	5.4	34.3	14.9	1999	45	4.0	1	0	215
Bosnia and Herzegovina	1310	4.1	.	.	.	.	.	26	9.5	1	0	0
Botswana	3010	1.7	23.5	7.7	50.1	22.8	1993	63	2.2	1	0	41
Brazil	2830	174.5	8.2	2.1	22.4	8.8	2001	58	2.4	1	0	420
Bulgaria	1770	8.0	4.7	1.4	23.7	10.1	2001	32	6.7	1	0	477
Cape Verde	1250	0.5	.	.	.	.	.	.	.	0	0	87
Chile	4250	15.6	<2	<0.5	9.3	2.5	2000	57	3.3	1	0	491
China	960	1280.4	16.6	3.9	46.7	18.4	2001	45	4.7	1	0	141
Colombia	1820	43.7	8.2	2.2	22.6	8.8	1999	58	2.7	1	0	183
Costa Rica	4070	3.9	2	0.7	9.5	3	2000	47	4.2	1	0	223
Croatia	4540	4.5	<2	<0.5	<2	<0.5	2000	29	8.3	1	0	394
Cuba	.	11.3	.	.	.	.	.	.	.	0	0	.
Czech Republic	5480	10.2	<2	<0.5	<2	<0.5	1996	25	10.3	1	0	1263
Djibouti	850	0.7	.	.	.	.	.	.	.	0	0	0
Dominica	3000	0.1	.	.	.	.	.	.	.	1	0	.
Dominican Republic	.	8.6	<2	<0.5	<2	<0.5	1998	47	5.1	1	0	292

country	*gnppc*	*pop*	*ph1*	*pg1*	*ph2*	*pg2*	*pyear*	*gini*	*q1*	*ibrd*	*ibrdgrads*	*fdi*
Ecuador	1490	12.8	17.7	7.1	40.8	17.7	1998	44	3.3	1	0	167
Egypt, Arab Rep.	1470	66.4	3.1	<0.5	43.9	11.3	2000	34	8.6	1	0	45
El Salvador	2110	6.4	31.1	14.4	58	29.7	2000	53	2.9	1	0	63
Estonia	4190	1.4	<2	<0.5	5.2	0.8	1998	37	6.1	1	0	784
Fiji	2130	0.8	.	.	.	.	.	.	.	1	0	0
Gabon	3060	1.3	.	.	.	.	.	.	.	1	0	190
Grenada	3530	0.1	.	.	.	.	.	.	.	1	0	683
Guatemala	1760	12.0	16	4.6	37.4	16	2000	48	2.6	1	0	46
Guyana	860	0.8	<2	<0.5	6.1	1.7	1998	43	4.5	0	0	373
Honduras	930	6.8	23.8	11.6	44.4	23.1	1998	55	2.7	0	0	117
Hungary	5290	10.2	<2	<0.5	7.3	1.7	1998	24	7.7	1	0	460
Iran, Islamic Rep.	1720	65.5	<2	<0.5	7.3	1.5	1998	43	5.1	1	0	2
Iraq	.	24.2	.	.	.	.	.	.	.	1	0	.
Jamaica	2690	2.6	<2	<0.5	13.3	2.7	2000	38	6.7	1	0	224
Jordan	1760	5.2	<2	<0.5	7.4	1.4	1997	36	7.6	1	0	265
Kazakhstan	1520	14.9	<2	<0.5	8.5	1.4	2001	31	8.2	1	0	403
Kiribati	960	0.1	.	.	.	.	.	.	.	0	0	.
Latvia	3480	2.3	<2	<0.5	8.3	2	1998	32	7.6	1	0	401
Lebanon	3990	4.4	.	.	.	.	.	.	.	1	0	78
Libya	.	5.4	.	.	.	.	.	.	.	0	1	.
Lithuania	3670	3.5	<2	<0.5	13.7	4.2	2000	32	7.9	1	0	238
Macedonia, FYR	1710	2.0	<2	<0.5	4	0.6	1998	28	8.4	1	0	250
Malaysia	3540	24.3	<2	<0.5	9.3	2	1997	49	4.4	1	0	168
Maldives	2170	0.3	.	.	.	.	.	.	.	0	0	105
Marshall Islands	2380	0.1	.	.	.	.	.	.	.	1	0	.
Mauritius	3860	1.2	.	.	.	.	.	.	.	1	0	607
Mayotte	5920	0.2	.	.	.	.	.	.	.	0	1	.
Mexico	1970	100.8	9.9	3.7	26.3	10.9	2000	55	3.1	1	0	209
Micronesia, Fed. Sts.	2240	0.1	.	.	.	.	.	.	.	1	0	.
Morocco	1170	29.6	<2	<0.5	14.3	3.1	1999	40	6.5	1	0	1
Namibia	1790	2.0	34.9	14	55.8	30.4	1993	71	1.4	1	0	.
Northern Mariana Islands	.	0.1	.	.	.	.	.	.	.	0	1	.
Oman	7830	2.5	.	.	.	.	.	.	.	0	1	.

country	*gnppc*	*pop*	*ph1*	*pg1*	*ph2*	*pg2*	*pyear*	*gini*	*q1*	*ibrd*	*ibrdgrads*	*fdi*
Palau	6820	0.0	.	.	.	.	.	.	.	1	0	.
Panama	4020	2.9	7.2	2.3	17.6	7.4	2000	56	2.4	1	0	366
Paraguay	1170	5.5	14.9	6.8	30.3	14.7	1999	57	2.2	1	0	48
Peru	2020	26.7	18.1	9.1	37.7	18.5	2000	50	2.9	1	0	61
Philippines	1030	79.9	14.6	2.7	46.4	17.2	2000	46	5.4	1	0	108
Poland	4570	38.6	<2	<0.5	<2	<0.5	1999	32	7.3	1	0	536
Romania	1870	22.3	2.1	0.6	20.5	5.2	2000	30	8.2	1	0	179
Russian Federation	2130	144.1	6.1	1.2	23.8	8	2000	46	4.9	1	0	91
Samoa	1430	0.2	.	.	.	.	.	.	.	0	0	0
Saudi Arabia	8530	21.9	.	.	.	.	.	.	.	0	1	.
Serbia and Montenegro	1400	8.2	.	.	.	.	.	.	.	1	0	0
Seychelles	6780	0.1	.	.	.	.	.	.	.	1	0	.
Slovak Republic	3970	5.4	<2	<0.5	2.4	0.7	1996	26	8.8	1	0	1207
South Africa	2500	45.3	7.1	1.1	23.8	8.6	1995	59	2.0	1	0	72
Sri Lanka	850	19.0	6.6	1	45.4	13.5	1996	34	8.0	0	0	37
St. Kitts and Nevis	6540	0.0	.	.	.	.	.	.	.	1	0	3824
St. Lucia	3750	0.2	.	.	.	.	.	43	5.2	1	0	395
St. Vincent & the Gren.	2820	0.1	.	.	.	.	.	.	.	1	0	467
Suriname	1940	0.4	.	.	.	.	.	.	.	1	0	.
Swaziland	1240	1.1	.	.	.	.	.	61	2.7	1	0	-133
Syrian Arab Republic	1130	17.0	.	.	.	.	.	.	.	1	0	23
Thailand	2000	61.6	<2	<0.5	32.5	9	2000	43	6.1	1	0	176
Tonga	1440	0.1	.	.	.	.	.	.	.	0	0	.
Trinidad and Tobago	6750	1.3	12.4	3.5	39	14.6	1992	40	5.5	1	0	797
Tunisia	1990	9.8	<2	<0.5	6.6	1.3	2000	40	6.0	1	0	246
Turkey	2490	69.6	<2	<0.5	10.3	2.5	2000	40	6.1	1	0	34
Turkmenistan	.	4.8	12.1	2.6	44	15.4	1998	41	6.1	1	0	.
Ukraine	780	48.7	2.9	0.6	45.7	16.3	1999	29	8.8	1	0	71
Uruguay	4340	3.4	<2	<0.5	3.9	0.8	2000	45	4.8	1	0	137
Vanuatu	1070	0.2	.	.	.	.	.	.	.	0	0	265
Venezuela, RB	4080	25.1	15	6.9	32	15.2	1998	49	3.0	1	0	215
West Bank and Gaza	1110	3.2	.	.	.	.	.	.	.	0	0	.

Table A2 (cont.): Characteristics of individual Middle-Income Countries

Key: tax=tax revenues per capita (US$ PPP), 2000; prights=political rights index (Freedom House), 2000; rlaw=Rule of law index, 2001; sw=Sachs and Warner index (1=open, 0=closed), 1998; inf=inflation (% per year), average 2000-2002; bbal=budget balance (% of GDP), average 2000-2002; aidgnp=net ODA (% of GNI), 2002; aidgovexp=net ODA, % of central government revenues, latest estimate.

Country	*tax*	*prights*	*rlaw*	*sw*	*inf*	*bbal*	*aidgnp*	*aidgovexp*
Albania	520	4	-71	.	1.9	.	6.9	.
Algeria	1409	6	-97	0	9.2	7.0	0.7	1.3
American Samoa	.	.	.	.	.	.	0.0	.
Argentina	1567	2	22	0	10.2	-2.8	0.0	0.2
Armenia	.	4	-35	.	1.6	.	12.1	.
Belarus	2022	6	-81	.	102.3	-0.6	0.0	1.3
Belize	.	1	74	.	0.2	.	3.0	.
Bolivia	351	1	-41	1	2.9	-5.0	8.6	23.8
Bosnia and Herzegovina	.	5	-75	.	5.7	.	10.9	.
Botswana	1059	3	68	1	6.9	.	0.7	.
Brazil	1574	3	-26	1	8.6	.	0.1	.
Bulgaria	1574	2	2	.	5.8	1.2	0.0	7.0
Cape Verde	.	1	15	.	1.1	.	16.1	.
Chile	1778	2	119	1	2.8	-0.1	0.0	0.3
China	256	7	-19	0	0.6	.	0.1	.
Colombia	665	4	-77	1	8.1	.	0.6	.
Costa Rica	1575	1	61	1	8.2	-1.3	0.0	0.3
Croatia	3307	4	29	.	3.5	-3.8	0.8	0.7
Cuba	.	7	-32	.	2.6	.	.	.
Czech Republic	4455	1	64	.	3.3	-2.4	0.0	2.3
Djibouti	.	4	-19	.	2.3	.	13.2	.
Dominica	.	1	.	.	0.3	.	13.8	.
Dominican Republic	931	2	1	1	7.7	1.0	.	2.0
Ecuador	.	2	-76	1	10.1	.	1.1	.
Egypt, Arab Rep.	602	6	21	1	4.6	.	1.3	.
El Salvador	568	2	-65	1	2.6	0.7	1.7	8.1
Estonia	2909	1	78	.	5.3	1.4	0.0	4.0

Country	*tax*	*prights*	*rlaw*	*sw*	*inf*	*bbal*	*aidgnp*	*aidgovexp*
Fiji	994	2	-52	.	2.8	.	1.9	.
Gabon	.	5	-44	.	7.5	.	1.8	.
Grenada	.	1	.	.	2.1	.	2.6	.
Guatemala	.	3	-100	1	7.4	.	1.2	.
Guyana	.	2	13	1	3.4	.	9.8	.
Honduras	.	3	-106	1	8.0	.	6.9	.
Hungary	4082	1	76	.	9.7	-3.5	0.0	1.3
Iran, Islamic Rep.	721	6	-39	.	20.8	-0.6	0.1	0.2
Iraq	.	7	-164	.	.	.	.	.
Jamaica	837	2	-38	1	9.4	-2.0	0.3	0.3
Jordan	742	4	66	.	0.1	-2.2	5.9	21.0
Kazakhstan	565	6	-60	.	11.1	-0.5	0.8	7.2
Kiribati	.	1	.	.	3.6	.	22.9	.
Latvia	1933	1	36	.	3.0	-2.1	0.0	4.0
Lebanon	592	6	-5	.	0.9	.	2.6	.
Libya	.	7	-89	.	.	.	0.0	.
Lithuania	1722	1	29	.	0.2	-0.8	0.0	3.2
Macedonia, FYR	.	3	-33	.	5.1	.	7.9	.
Malaysia	1717	5	34	1	2.0	.	0.1	.
Maldives	682	6	.	.	0.5	-5.3	4.4	8.3
Marshall Islands	.	1	.	.	2.1	.	49.5	.
Mauritius	1830	1	100	1	4.5	-0.2	0.5	2.0
Mayotte	.	.	.	.	.	.	13.2	.
Mexico	1082	3	-41	1	7.8	-1.3	0.1	-0.1
Micronesia, Fed. Sts.	.	1	.	.	1.3	.	40.9	.
Morocco	866	5	46	1	1.3	.	1.8	.
Namibia	1923	2	124	.	10.8	-3.5	3.8	12.3
Northern Mariana Islands	.	.	.	.	.	.	0.0	.
Oman	.	6	106	.	4.5	-4.5	0.2	0.8
Palau	.	1	.	.	2.9	.	22.9	.

Country	*tax*	*prights*	*rlaw*	*sw*	*inf*	*bbal*	*aidgnp*	*aidgovexp*
Panama	1062	1	-12	.	1.1	0.3	0.3	0.6
Paraguay	.	4	-83	1	9.4	-2.4	0.9	5.5
Peru	673	5	-53	1	1.8	-1.8	0.9	3.9
Philippines	583	2	-49	1	5.9	-4.0	0.7	4.0
Poland	2700	1	55	.	5.7	-2.0	0.0	2.6
Romania	1700	.	-2	.	36.2	-3.5	0.0	3.4
Russian Federation	1587	4	-87	.	23.6	3.7	0.0	2.6
Samoa	.	2	49	.	2.9	.	15.0	.
Saudi Arabia	.	7	19	.	3.1	.	0.0	.
Serbia and Montenegro	.	5	-94	.	68.5	.	16.9	.
Seychelles	.	3	.	.	3.8	-14.1	1.4	5.3
Slovak Republic	3501	1	36	.	5.2	-3.1	0.0	1.4
South Africa	2433	1	-5	.	7.8	-1.6	0.6	1.3
Sri Lanka	518	3	-31	1	9.8	-9.6	2.1	6.6
St. Kitts and Nevis	.	1	.	.	2.1	.	9.5	.
St. Lucia	.	1	.	.	2.1	.	5.6	.
St. Vincent & the Gren.	1488	2	.	.	1.8	-1.6	1.5	5.4
Suriname	.	3	-59	.	40.1	.	1.4	.
Swaziland	1269	6	15	.	11.2	-0.9	1.8	3.2
Syrian Arab Republic	559	7	-52	.	4.8	.	0.4	.
Thailand	905	2	44	1	1.4	-2.9	0.2	3.2
Tonga	.	5	.	.	3.8	.	15.3	.
Trinidad and Tobago	.	1	41	1	6.9	.	-0.1	.
Tunisia	1652	6	81	1	2.8	-2.6	2.4	3.6
Turkey	1476	4	-16	.	49.5	-15.5	0.4	0.4
Turkmenistan	.	7	-102	.	12.5	.	.	.
Ukraine	842	3	-63	.	12.1	-0.8	0.0	6.1
Uruguay	2338	1	63	1	9.3	-4.0	0.1	0.3
Vanuatu	600	1	.	.	2.5	.	12.5	.
Venezuela, RB	717	4	-81	1	22.3	-3.0	0.1	0.3
West Bank and Gaza	.	.	30	.	11.4	.	45.1	.

Table A3: The DAC Poverty Markers

Definition	An activity should be classified as poverty-oriented (score principal or significant) if a) the poor have been identified as the primary target group of the activity, and b) the activity includes specific action to remedy causes of poverty (e.g. structural reforms favouring the poor), or to deal with the consequences of poverty (e.g. direct poverty reduction).
Criteria for eligibility	a) the objective is explicitly promoted in the activity documentation; and b) the poor have been explicitly identified through poverty assessment or the activity documentation explains the reasons why the target group is considered to be poor.
Examples of typical activities	*Social infrastructure and services*: provision of basic subsistence goods and public services for the poor; improvements in social infrastructure designed to enhance the income earning potential of the poor; provision of safety nets; direct employment creation; assistance to strengthen the recipients' capacity to formulate and monitor poverty reduction strategies; aid to NGOs working in favour of the poor. *Production sectors*: micro-enterprise development programmes; informal sector programmes; legal changes to give the poor improved access to productive assets (e.g. land); agricultural extension; social forestry. *Structural reforms*: Political reforms designed to encourage the participation of the poor to improve their livelihood security; economic and institutional reforms in favour of the poor (e.g. employment creation).
Notes	Poverty is defined as having an income level with which a minimum nutritionally adequate diet plus essential non-food requirements are not affordable.

Source: OECD (2004)

Table A4: Categories of assistance in the area of government and civil society reported in the OECD-DAC Creditor Reporting System (CRS)

Government and civil society	
Economic & development policy/planning	Macroeconomic, fiscal and monetary policy and planning; social planning; economic and social analysis and forecasting; structural reforms; development planning; organisational development; support to ministries involved in aid co-ordination; other ministries
Public sector financial management	Strengthening financial and managerial accountability; public expenditure management; improving financial management systems; tax assessment procedures; budget drafting; field auditing; measures against waste, fraud and corruption.
Legal and judicial development	Constitutional development, legal drafting; institutional strengthening of legal and judicial systems; legal training and education; legal advice and services; crime prevention.
Government administration	Systems of government including parliament, local government, decentralisation; civil service and civil service reform.
Strengthening civil society	Community participation and development; cooperatives; grassroots organisations; development of other participatory planning and decision making procedures and institutions.
Post-conflict peace-building (UN)	Participation in the post-conflict peace-building phase of United Nations peace operations (activities such as human rights and elections monitoring, rehabilitation of demobilised soldiers, rehabilitation of basic national infrastructure, monitoring
Elections	Electoral assistance and monitoring, voters' education [other than in connection with peace building].
Human rights	Monitoring of human rights performance; support for national and regional human rights bodies; protection of ethnic, religious and cultural minorities [other than in connection with peace building].
Demobilisation	Integration of demobilised military personnel into the economy; (micro)-disarmament; conversion of production facilities from military to civilian outputs [other than in connection with peace building].
Free flow of information	Uncensored flow of information on public issues, including activities that increase the professionalism, skills and integrity of the print and broadcast media (e.g. training of journalists).
Land mine clearance	Explosive mine removal for developmental purposes [other than in connection with peace building].
Support to non-governmental organisations	Official funds to be paid over to national and international private voluntary agencies for use at the latter’s discretion.
Support to local and regional NGOs	In the recipient country or region.

Source: OECD 2004