Poverty Focus in EU Support to Middle-Income Countries

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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, 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.

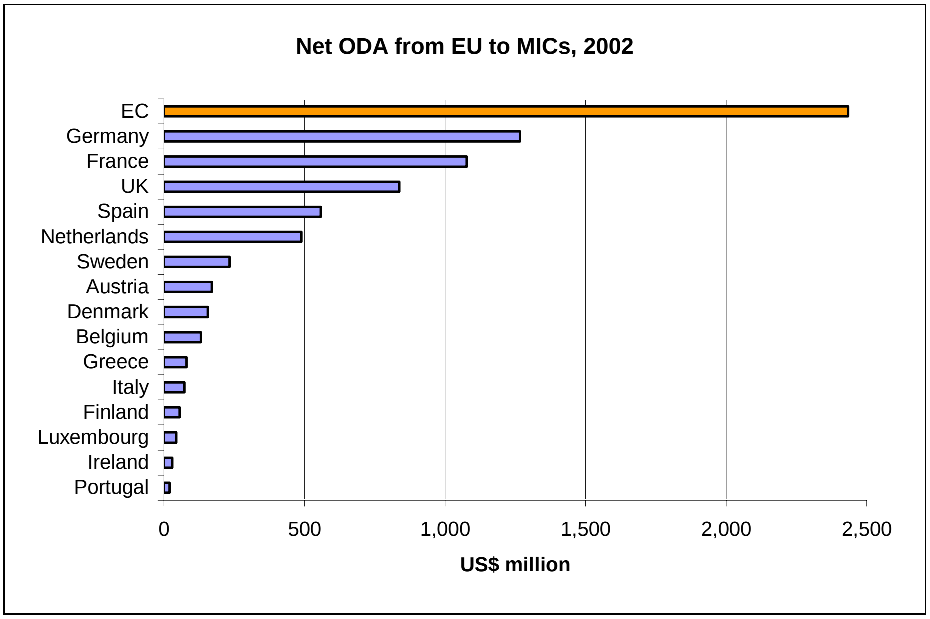
[1] Countries with per capita GNI below US$735 are permitted by the World Bank to give preference to bids for works contracts funded by the World Bank from eligible domestic contractors. The aim is to encourage the development of domestic industries. Those with per capita GNI below $865 are eligible 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).

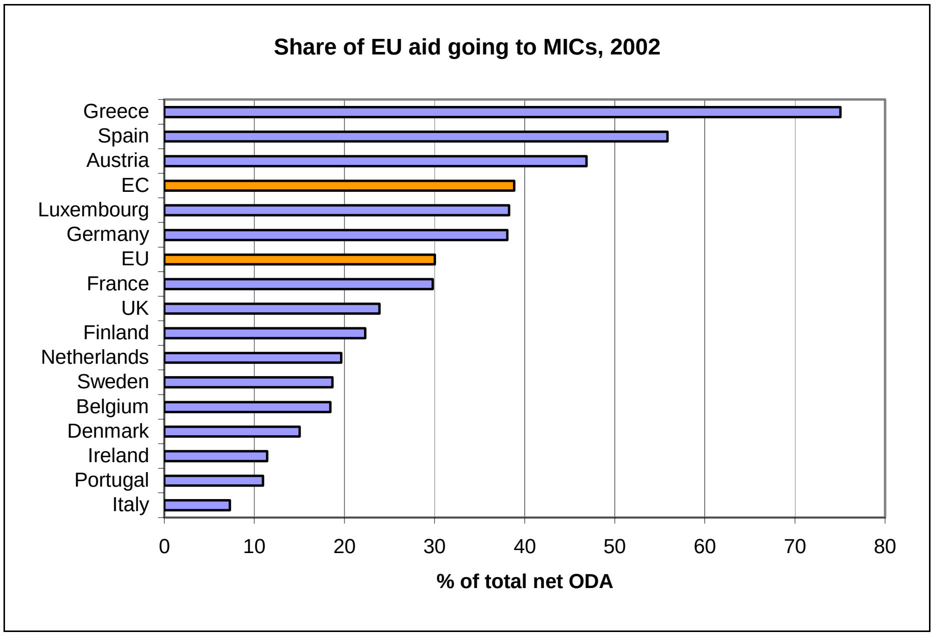
Figure 1



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).

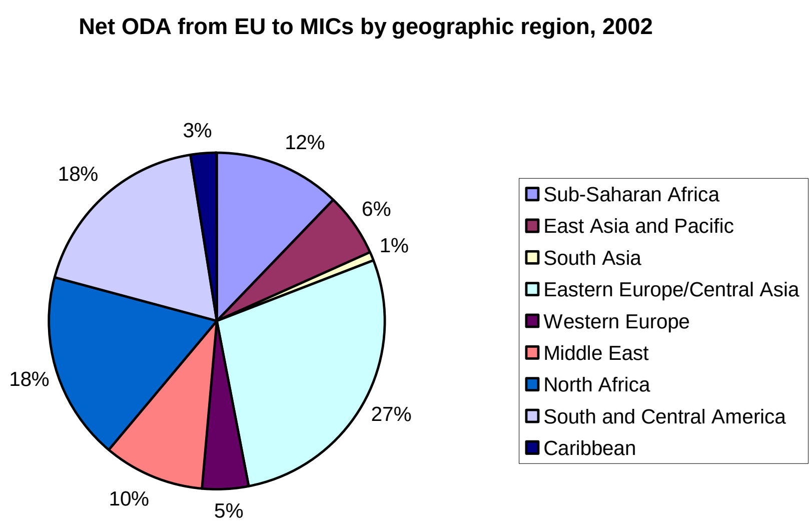
[2] ODA includes grants or Loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms. In addition 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

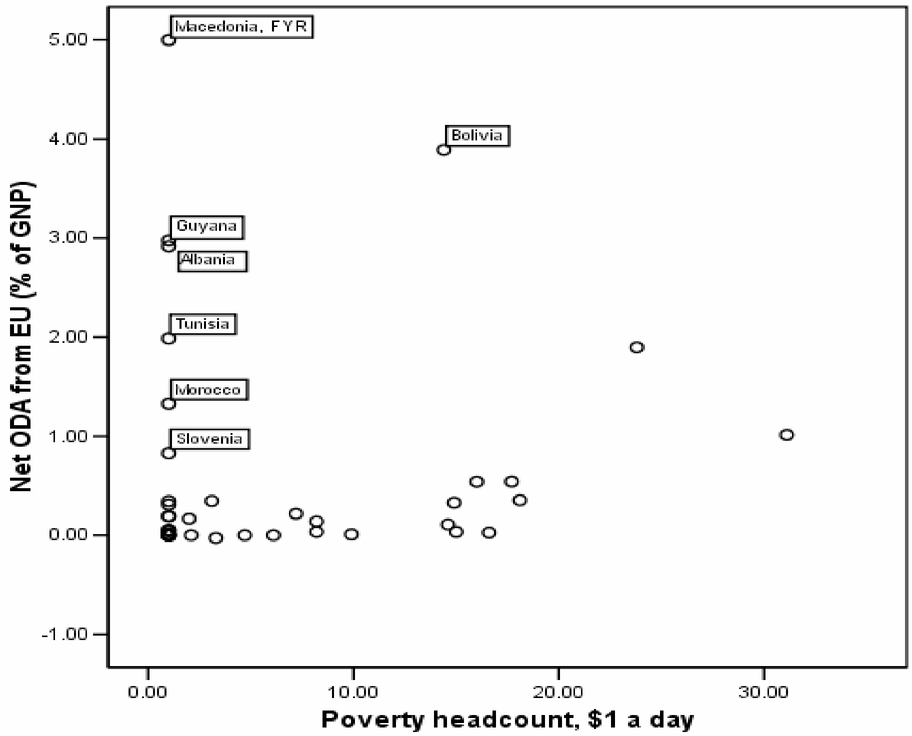
	Poverty headcount, US$1 a day	Poverty gap, US$1 a day	Poverty headcount, US$2 a day	Poverty gap, US$2 a day	Positive and statistically significant for at least two measures of poverty
Austria	0.10	0.04	0.18	0.12	**No**
Belgium	0.54	0.59	0.40	0.47	**Yes**
Denmark	0.37	0.32	0.39	0.37	**Yes**
Finland	0.43	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, about average for 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 UMICs 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, an 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.

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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.

<u>Volume of assistance</u>

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.

<u>Form of assistance</u>

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 make 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

EU donors’ objectives

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. The Swedish assistance is limited to demands for technical assistance from the Philippine partner, in particular in infrastructure programmes. Other Swedish assistance – partly from NGOs – goes to support for the Philippine civil society.

[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

Annex I: South Africa

I. South Africa MIC specificities

South Africa is a Lower Middle Income Country.[18] However, the average per capita income is somewhat misleading, as income is distributed extremely unequal. Parts of the South African society have a living standard comparable to OECD level, while large parts of the population live in extreme poverty. As a consequence of the Apartheid regime, the income groups still largely follow racial lines.

Democratic institutions and governance

Political system

South Africa is a quasi-federal Republic; there are nine provinces with legislative and executive powers in certain policy areas. South Africa's current constitution has come into force in 1997. Freedom House rates South Africa as 'free', with a maximum score of 1 in political rights and 2 in civil liberties.
Electoral turnout is high, with over 66%. The African National Congress (ANC) is the overwhelming political force with a two-third majority in both Houses of Parliament. Below the national level, the ANC is also the major political force in all provinces since the elections in April 2004. All regional heads of executive are ANC affiliates. However, the ANC is not as dominant in some of the regions as on the national level (e.g. in Western Cape, KwaZulu-Natal, and Gauteng) and has to form coalition governments in some of the provinces.

Challenges of government's legitimacy / armed conflicts

Since the end of Apartheid, election results are generally accepted and the legitimacy of government is not fundamentally challenged. Political violence occurred in the Province of KwaZulu-Natal during the transition to democratic governance; however, there have been no major challenges to the government or sustained armed conflicts since the introduction of democratic rule in 1994.

Rule of law

The legal system of South Africa is based on Roman-Dutch law and English common law. As with the other indicators, South Africa performs well above the regional average with respect to the rule of law. In this category, however, it is slightly below the income group average (WBI 2003). A particular problem for South Africa is the high crime rate; e.g. the city of Johannesburg has one of the highest rates of violent deaths in the world.

Government effectiveness

Government effectiveness and the regulatory quality are highly above the regional average for Sub-Saharan Africa and slightly above the income group average. Implementation of government policy therefore is quite good, at least on the national level. Some donors report difficulties on the provincial level with regard to policy implementation.
South Africa's ranking, however, is different in the case of political stability: the country is below the income group average on this parameter in 1996 to 2002. Political violence and uncertainties during the transition period in 1996 will have influenced the scoring in this category negatively – particularly in KwaZulu-Natal. Consequently, the score in this category has considerably improved in 2002.

Corruption

Corruption is relatively well contained when compared to the Sub-Saharan average. The country is in position 48 of 133 countries in the Transparency International corruption survey (2003), along with Mauritius. Its control of corruption is much higher than the regional average, but only slightly higher than the income group average.

[18] The GNI per capita was at US$ 2,500 in 2002. It is at the upper level of the LMIC category, which embraces countries up to a per capita income of US$ 2,935. The average per capita income in this group is at US$ 1,400.

II. Role of EU aid and Millennium Development Goals

The EU (including the EC, Member States and the EIB) accounts for 70% of all ODA to South Africa; the EC alone gives one quarter of all ODA. The EU – if coordinated – therefore has a very dominant role in assistance to South Africa. It has be kept in mind, however, that South Africa is not aid dependent: overall aid only accounts for 0.6% of the South African GDP.

With the end of Apartheid, the government committed itself to poverty reduction and improved livelihood for the majority of the population. The government programmes, both RDP and GEAR, however, had only a limited impact in the poverty reduction. Many donors support the delivery capacity of government (on the national and sub-national level).

The South African context for poverty reduction is particularly difficult, given the political framework. One core condition of the peaceful transition to democracy was the maintenance of property rights. Challenges to the South African government – albeit not questioned in its legitimacy – are manifold.

As a legacy of Apartheid, income groups are largely cut across racial lines; pro-poor policy will therefore have an underlying current of racial policy. Thus, government is pressured by activists of the poor population to deliver economic benefits quickly, and, on the other hand, tries to reassure domestic and international investors, hence maintain macroeconomic stability and keep property rights unchallenged.

The EU Member States have focused their interventions in South Africa in the following sectors (3 digit DAC):

Government and civil society	15.7
Banking and rural services	10.4
Basic education	9.0
General environmental protection	7.5
Basic health	5.3

In South Africa, the largest proportion of EU Member States' assistance is given to the sector government and civil society. The aid interventions in this case reflect the prioritisation of the country strategy papers. About two thirds (61%) of all projects/programmes in this sector have reported poverty marker, one third of which with values of 1 or 2. 'Banking and rural services' has a higher pro-poor impact: in this sector, 65% of all projects/ programmes report poverty markers (45% of which of 1 or 2).

Poverty

South African figures on absolute poverty only give the figure for 1995: According to the World Development Indicators database of April 2004, 7% of the population had to live of less than US$1 a day in 1995 (measured by consumption). Data on progress could not be found, but with regard to other Millennium Development Goals, the South African situation has stagnated between 1990 and 2002.

The statistic does not tell any major improvement with regard to the MDGs. Basic education seems to be justified as area of donors' support: net primary enrolment ratio has even decreased by almost 10%.[19] 45% of the projects in this area have reported a poverty marker (half of which with a value of 1 or 2).

Particularly worrying is the HIV prevalence among 15 to 24 year old women. HIV/AIDS does not only mean a considerably loss of life, but will negatively affect the entire society and economy. Government

[19] NB: quality of the education is not accounted for – in 1990, the schooling system was Apartheid shaped with huge gaps in quality between education (and spending per) for white and black pupils.

policy in the area of HIV/AIDS – which interpreted the pandemic predominantly as the accumulation of symptoms of poverty[20] – was highly criticised internationally.

MDGs	1990	1995	2001	2002
Population below US$1 a day		7.1		
Prevalence of child malnutrition		9.2		
Net primary enrolment ratio	98.9	98.2	89.5	
Percentage of cohort reaching g 5	75.3			
Ratio of girls to boys in primary and secondary ed	102.9	103.0	100.7	
Under 5 mortality rate (per 1000)	60.0	59.0	63.0	65.0
Immunisation, measles (% of children under 12m)	79.0	76.0	72.0	78.0
Births attended by skilled health staff		82.0		
Prevalence of HIV female			25.6	
Forest area (% of total land area)	7.4		7.3	
National protected areas (% of total land area)		5.4	5.4	5.5
Access to an improved water source (% of pop)	86.0		86.0	
Access to improved sanitation (% of pop)	86.0		87.0	

III. EU Country Strategy Papers

3.1 European Community

The latest European Community CSP, 2003-2005, was signed in July 2003.[21] The previous CSP was prepared in 1996-97, focussed on: basic social services –particularly health and education, good governance and democracy, private sector development and regional cooperation.

The CSP 2003-2005 provides the rationale for the EC programme (MIP 2003-2005). It is consistent with the SA Government national and sector priorities. However, the CSP does not explicitly discuss the Millennium Development Goals.

EC Objectives

The CSP notes the European Community's general objectives (Treaty and Development Policy Statement) as well as the objectives included in the Trade, Development and Cooperation Agreement (October 1999). The main objective is fighting poverty in the context of sustainable development, insertion into the world economy and the rule of law.

Country Analysis: challenges

The majority of the section describing the political and economic situation, the sustainability of current policies and medium term challenges focuses strongly on poverty and inequality and good governance (about 60%). The analysis notes the Government success in achieving macro-economic stabilisation, establishing new institutions -particularly at local level- and the Bill of Rights and promoting foreign relation initiatives (NEPAD, African Union, SADC, Great Lakes).

[20] In its extreme, the discussion explained the debate on HIV/AIDS prevention with conspiracy theory; "the West" is allegedly trying to avoid addressing the "real" reasons for the disease, i.e. international injustice and inequality.

[21] As a consequence of the timing, the CSP recognised that it might have to be revised "It should not be excluded that it might be necessary to revise the EC response strategy in the course of 2003 in function of the new government's priorities".

The section also notes the progress in social service provision to the poor and the targeting of sector policies and budgetary allocations to poverty. However, there is no linkage to the MDGs.

The CSP notes that SA has the "third most unequal society in the world" and "57% of Africans live below the poverty line and only 2% of Whites". Overall the poverty rate is still 45%[22] with nearly 20 million South Africans living below the poverty line poverty level. Eastern Cape, Limpopo and KwaZulu Natal are the regions where more than 60% of the poor live. And HIV/AIDS is identified as the major threat to the sustainability of current policies. The key challenges for the medium term are: widening income inequality, slow growth, high and rising unemployment and the HIV/AIDS pandemic.

The CSP concludes that participation by communities and civil society is necessary "to ensure that policies respond to the needs of beneficiary populations". It also recommends agreeing on outcomes to "be achieved in a range of policy interventions, and regular monitoring and evaluation of their direct impact on poverty" as to improve the reach of EC programmes to the poor and very poor.

The country analysis focuses strongly on poverty and suggests key ways to tackle poverty. However, the analysis of the dynamics of poverty and its sector linkages is somewhat limited.

Past Interventions: Assessment

The CSP notes that an independent study found that ODA is a small proportion of SA budget, but it is well suited to contribute knowledge on best practices models to improve service delivery to the poor. However, the study also noted that the Government needed to improve its coordination of donors, its information management systems and to adopt an overall poverty reduction strategy. This assessment refers to a considerable number of evaluations and it is strongly focused on poverty and civil society assessments (although there is limited reference to interventions by other donors).

It notes that the MIP 2000-2002 followed many of the recommendations of the CS Evaluation 1999 and focused in fewer sectors and adopted sector approaches. While the CSE 2002 concluded that the EC strategy was in line with the government strategy. Moreover, the CSE identified ways to improve the poverty effectiveness of EC aid (as recommended by a Civil Society consultative process). It also identified the importance of focusing on policy implementation, the capacity of provincial and local governments, monitoring and evaluation (particularly, poverty impact) and encouraging the participation of the poor (as recommended in a study by the Centre for Policy Studies).

The CSP notes that since 1994, 65% of the EC assistance has been targeted to poverty reduction and 17% has been allocated to the consolidation of democracy, human rights and the rule of law. Moreover, 27% of the 2000-2002 EC programme has been channelled to non-government partners.

This section relies significantly in past evaluations and focuses strongly in drawing important conclusions to improve the design of pro-poor EC interventions.

EC Cooperation Response: Focal Sectors

This section argues that the EC response strategy should strengthen political cooperation and focus in reducing inequality and poverty (including AIDS related issues).

This section takes into account EC objectives, country analysis and assessment and proposes an EC programme of 515 million euro for the 2000-2006 period focusing in 4 focal sectors/objectives:

1) equitable access to and sustainable provision of social services: to increase poor people's access to health (HIV/AIDS); human resource development (skills), water services and sanitation and the integration of orphans and children in vulnerable situations into social life.
2) equitable and sustainable economic growth: to improve competitiveness at national level and local development aims at stimulating pro-poor growth.

[22] R353 per Month. Human Development Report 2000.

3) deepening democracy: support social capital and democratic values with a focus on supporting local democratic processes and community participation to fight crime and violence against women and children (which affect most severely the poor). Also supports the advocacy role of civil society in favour or accountability and the interests of poor and vulnerable groups
4) regional integration and cooperation, including support for NEPAD in the area of capacity building good governance and conflict prevention and resolution..

The CSP response also includes support to cross-cutting issues on: HIV/AIDS, capacity building, civil society and other non state actors involvement, governance, environment and gender. The response strategy proposes a focus on the 3 most deprived provinces: KwaZulu Natal, Eastern Cape and Limpopo.

The programme also proposes the definition of an active pro-poor policy including the selection of poverty indicators to improve impact monitoring. Sector approaches are also endorsed. The EC strategy proposes a programme that strongly focussed on poverty interventions and best practice. It also strongly supports civil society partnerships for pro-poor development.

Multi-Annual Indicative Programme: the Programme

The indicative allocation of the EPRD is of € 515m.

1) *Equitable access to and sustainable provision of social services: 40-50%*
    a) Health Care with emphasis on HIV/AIDS. Public primary health care services and first referral systems and public/CSO partnerships. In 3 focus regions.
    b) Human Resource Development to reduce backlog in school infrastructure in targeted areas, improve quality of Further Education and Training bands, addressing the impact of HIV/AIDS in the education sector.
    c) Water and Sanitation in under-served areas in 3 focus areas (performance based budget support)
    d) Orphans and children in vulnerable situations (especially HIV/AIDS related)

2) *Equitable and sustainable economic growth: 20-30%*
    a) National support to the Integrated Manufacturing Strategy
    b) National support to Second Risk Capital programme (subject to evaluation)
    c) Local economic development programme in Eastern Cape
    d) Urban renewal programme in Eastern Cape (previous programme in KwaZulu-Natal)

3) *Deepening democracy: 15-20%*
    a) Policing in Eastern Cape (crime prevention and violence against women and children)
    b) Capacity building to key stakeholders in local democratic processes
    c) Call for proposals to fund civil society advocacy initiatives critical to SA and the Regional development agenda.
    d) Support to Courts

4) *Regional and co-operation and integration: 10%*
    a) Regional component of the Integrated Manufacturing Strategy (SADC Trade protocol)
    b) SADC Regional Water Resources Management
    c) Regional pharmaceuticals policies (improve access and quality control of essential pharmaceuticals)
    d) Regional conflict prevention and resolution- consolidate peace and democracy in SSA
    e) Assist SACU countries to deal with the implications of the Trade and Development Cooperation Agreement.

3.2 Sweden

The Swedish Country Strategy Paper is set up for the period of January 1, 1999 to December 31, 2003. The paper is based on a Memorandum of 18 December 1997 and several studies carried out by the embassy in Pretoria. It predates the MDG and hence no mention of them.

Swedish objectives

Swedish government directives include further development, broadening and deepening of relations in a long-term sustainable way.

Country analysis: Challenges

Half the population is classified as poor, even though RSA is a MIC. “Poverty is strongly linked to geographical domicile, ethnic group and gender”. Unemployment is estimated to be at around 30 per cent. Illiteracy is wide spread (7m people), 3m people are physically or mentally handicapped. In addition to these socio-economic issues, government faces reform of the public administration, criminality and corruption, lack of water, and HIV/AIDS.

The analysis describes the Reconstruction and Development Programme (RDP) of the GoSA (established for the period of 1994-1999). The programme is classified as ambitious. Measures to address income inequality have been mixed. “To date, success can be primarily noted in areas such as electrification, water and sanitation, and health care”. Unemployment is “a gigantic problem”; the GoSA wants to create employment mainly by economic growth, but also through support for SME and infrastructure projects.

The educational system is very unequal, even though over 20% of the budget is allocated to education and some (increased but still insufficient) attempts have been made to re-shift the budget allocations o the poorest provinces. In most cases, schools are sub-standard.

The plan to build 1m housing units until 1999 has proven unrealistic. Major obstacles to the programme have been red tape and lack of willingness on the construction market and on part of the banks to become involved in housing for the poor. Progress, however, is noted. Unwillingness and inability among poor people to pay for services is a big problem, but “even here, he situation is being gradually normalised”.

The macro-economic strategy “Growth, Employment and Redistribution” (GEAR), despite its title is less radical than RDP. It emphasises budget and monetary discipline, liberalisation and privatisation, export-led growth and increased employment. The targets, however, are questioned if they are realistic. Administrative reform is on the way and has led to “far reaching change” with regard to composition of staff, efficiency, decentralisation, and new policies, “often of high quality”. Civil Society has changed greatly and is re-orientating itself “combating poverty instead of the Government”.

“In conclusion, it is unlikely that foreign investment and economic growth will be sufficient during the coming five-year period for a dramatic improvement to take place in the form of increased employment and reduced poverty”.

Past interventions: Assessment

Results consider the work achieved during July 1995 to December 97, i.e. the first 2.5 years of bilateral cooperation. Cooperation has been concentrated on education, democracy and human rights, culture and media, public administration and urban development. Support has been given to private sector development (SEK 28.2m) and NGOs (SEK 52.1m) outside the country frame. Total disbursement in that period was at SEK 592.1m, of which SEK 511.8m within the country frame.

In the education sector (SEK 154.7m), assistance has been channelled through the Ministry of Education, addressing “long-term reform work”, and the Northern Cape Province, addressing pedagogical work. NGOs have been supported in adult education. Around 30,000 people have been reached p/a by the programmes, and 5,000 university students have received grants from SIDA-supported funds.

Major parts of the aid to human rights/democracy (SEK 146.3m) are now channelled through the NGOs, such as e.g. Diakonia, the Olof Palme International Centre, and the Raoul Wallenberg

Foundation. Rather limited support is to the government (human rights training for the police, support for the Truth and Reconciliation Commission). Evaluation has shown "a good result".

Public Administration has received SEK 70.3m, and largely aimed at reshaping administration and "creating the prerequisites for good governance". Participation has involved long-term cooperation with the provincial administration in Northern Cape, cooperation in statistical agencies, local governments in Northern Cape and the tax agencies. Evaluation shows that the assistance "has been strategically targeted".

Urban development and housing assistance (SEK 80.1m) aimed at combating poverty and integrating the cities segregated by apartheid. Aid was targeted – besides national NGOs – at the towns of Port Elisabeth and Kimberley. Mainly aiming at the urban landscape, "the projects also have significant side-effects such as creating employment and promoting local democracy".

Support in culture aimed at unprivileged children and young people (SEK 29m). Assistance to private sector development (SEK 28.2m) aimed at SME support among disadvantaged groups and was given through training (10,000 people) and micro-credits (20,000 people), "not infrequently women entrepreneurs with families to support". It was mainly channelled through NGOs, but since 1997 also includes the Government's body for small enterprise financing.

This section also contains a paragraph on the donor environment in SA. Since 1994, Scandinavian countries, NL, UK and the USA are prominently active. "Among the multilateral donors, it is only the EU that can be said to have initiated more extensive co-operation". Areas of cooperation are education, democracy, health, environment, and SME. Donor cooperation with SA was slow to start due to the fundamental changes in 1994. Many experienced NGO people were recruited by the ANC government. Long experience in the support for "the freedom struggle" have resulted in Scandinavians and Dutch to be selected for cooperation in sensitive areas, e.g. administrative reform, democracy and human rights.

Swedish Cooperation Response: Focal Sectors

The section starts with summing up South Africa's priorities. SA requested support from Sweden in the areas of "Democracy and Good Governance", and for two cross-cutting areas, namely gender equality and handicap issues. With regard to the labour market, other donors' activities in this area, namely the EU, are listed. This should not be Swedish priority; expertise might be channelled through the EU.

Donor assistance is 0.3% of GDP and 1% of Government budget. The volume of Swedish aid is comparatively small, so it should rather focus on capacity building than aid transfers. It should aim at sector important to address injustices of the previous apartheid regime with a strong focus on improving the situation for the poor. Swedish engagement should be complemented by NGO support. Support to both reform of public bodies and projects targeted directly to the poor through NGOs shall continue. This shall strengthen CSOs and give particular attention to the police/armed forces.

Given its broad mandate, Swedish aid should concentrate on (i) economic co-operation, (ii) deepened/expanded contacts in ongoing co-operation programmes, and (iii) other non-commercial contacts. There are also possibilities for cooperation in areas like the environment or R&T. New projects should be limited to research and university co-operation. Funds for exchange and dialogue in other areas are suggested. Given SA's considerable own funds, "projects of model character with high content of knowledge-related transfer" are of particular interest. The aim is to gradually phase-out development assistance in favour of other forms of co-operation; support for media is to be ended in 1998.

The CSP suggests a number of relatively detailed possible support projects in previous cooperation areas, i.e. education, democratic governance, urban development, etc (5.5 pages). The focal areas are as given in the past interventions.

Administrative resources include 7 expatriate officials in Pretoria and 6.5 staff at SIDA in Stockholm for cooperation with South Africa. On additional staff has already been employed at HQ on economic cooperation, another person is working in Johannesburg to foster trade contacts.

3.3 United Kingdom

The UK Strategy Paper embraces the area of SACU, i.e. South Africa, Namibia, Botswana, Lesotho and Swaziland. Four of them are middle-income countries; Lesotho is a low income country. The paper is dated to October 2002. An annex is dedicated to each of the countries. The paper also contains statistical tables of progress towards the MDGs for all countries.

The regional section addresses poverty and inequality in a separate section (about 30% of the regional section). This summary, however, will focus on the Country Annex South Africa, which is structured similar to CSPs in other regions.

UK objectives

The key aim of assistance to SA is to strengthen partnership in promoting a pro-poor agenda internationally. The UK "will encourage, support and develop strong partnerships between Britain and South Africa, particularly those which contribute to positive change and to reducing poverty" (Mission statement, signed by all UK government offices in SA)

SA plays a vital role in addressing poverty reduction (i) within the Doha round, (ii) within the AU, NEPAD, and SADC, (iii) in addressing conflict issues in Africa and (iv) as host of the World Summit on Sustainable Development in Johannesburg in 2002.

Country Analysis: Challenges

The paper starts with noting the overall importance of the ANC within SA and SA within SADC. Unemployment is stated to be at 38%. "Growth in employment in the formal and informal sector is the key to reduction of poverty and inequality", although in some parts of the country, livelihood can be improved through self-employment in small agriculture or enterprise.

The paper discusses macro-economic policy, judged favourably on the GEAR strategy. Constraints to growth are named, e.g. strong dependence on the formal economy [sic!], small domestic market. Other constraints are attributed to the legacy of the apartheid regime, e.g. low skills, and infrastructure insufficiencies. Among the inheritance are results of the 'homeland' and migrant labour policy. Particular constraint to poverty elimination is the legacy of the education policy. Many of the unemployed lack the skills to access the formal labour market or to succeed as entrepreneurs.

As a result, SA is "one of the most unequal countries in the world. The poorest 10% of the population is responsible for 1% of total expenditure; the poorest 40% are responsible for less than 10% of the expenditure…". Poverty is heavily concentrated in the former homelands, the peri-urban areas and townships. Women are more likely to be poor than men; levels of gender violence show the disempowerment of women. Good trend data on poverty is not yet available, however, provincial data are given.

The review of the policy environment focuses on pro-poor policy, such as water and electricity supply and housing. Governments HIV/AIDS policy is criticised. The size of the non-state sector is positively stressed as key to development.

Donor support for SA represents about 2% of the government budget. The range for international donors is comparatively small, as SA has not significantly borrowed from the World Bank, the ADB or Japan. Resources of UN agencies are small. Active bilateral donors include the USA, Germany, the UK, Sweden, the Netherlands and Norway. The largest donor is the EU.

Assessment of past interventions

DfID will focus on working with the EU, and cites the Union's four areas of cooperation: (i) equitable and sustainable access to and use of social services, (ii) equitable and sustainable economic growth, (iii) deepening democracy, and (iv) regional integration and co-operation. The UK is providing technical co-operation for sector programmes in water, health, and trade issues (through DTI).

Past interventions were too numerous and should be streamlined. The focus had been mainly on supporting transformation in government; “there was a case for paying greater attention to the promotion of pro-poor growth”.

The section consists only of one rather short paragraph. Reference to the EU is made in a previous section, titled “scope for working with others”. No figures are given in this section.

UK Co-operation response: Focal sectors

Considering the overall donor activities, the UK wants to “prioritise those initiatives which will have the strongest strategic impact on policy and implementation, which will help promote a holistic response to poverty, and which will offer scope for strong partnership with South African counterparts”.

Identified desired outcomes are:

(i) strengthening poverty analysis and strategy (on the international, provincial and local level, and with non-state actors),

(ii) promoting growth, jobs and equality (restructuring public enterprises, enabling environment for business, “making markets work for the poor”, including finance, commodities, land and labour markets)

(iii) strengthening democracy, governance and service delivery (public service reform on all levels; services in education (emphasis is here), health, water, sanitation, and social welfare; key institutions of democracy; improved safety, security and access to justice for the poor)

(iv) tackling HIV/AIDS (strengthening policy capacity in government, civil society and the private sector).

Regional focal areas will be Eastern Cape and Limpopo Province, “both because of their high numbers of poor people, and because of the extent of DFID’s current investment there”. If there is more capacity, KwaZulu-Natal as the third poorest province and with high HIV/AIDS prevalence is the next in line. Co-operation shall increasingly be focused on local rather than provincial level.

The programme will amount to GBP 30m annually. The UK’s share in EU programmes in South Africa will be at GBP 16m annually.

3.4 France

[The French CSP was only available as a summary of 5 pages; the original document has 17 pages. The content of the French CSP as reported here has to be taken with care; fragments might lead to false conclusions]

French CSPs are prepared under the direction of France’s Ambassador to the respective country and are subsequently considered by the *Comité Interministériel de la Coopération internationale et du Développement* (CICID). The South African CSP is dated of June 2001 and is valid for three years.

The paper is strategic with a predominating understanding of “geo-strategy”. The introduction indirectly questions the “African character” of SA and considers it to be a “vivid democracy and developed economy”, but “also a developing country with considerable needs. And finally, it is by far, the first African power.” The introduction sums up (and deplores) France’s (secondary) position as investor and aid donor. There are important improvements to be made “economically, because our enterprises can benefit directly and indirectly from our aid”. Poverty is not mentioned, neither are the MDGs.

French Objectives

Two main objectives of French cooperation with South Africa are named: (i) participating in the South African potential, and (ii) establishing a [positive] image of France.

Country Analysis: challenges

Cooperation with South Africa has to take into account several factors, such as the "dual character of the South African society". This will have to translate into partnership relations which consider the South African government's efforts to restructure SA's institutions, and the primary needs (*'besoins prioritaire'*) of the South African population. Interventions in the health sector, urban management, water, housing, transport and services in general may benefit from (*'tier parti de l'existance'*) 'centres of excellence' in science and technology. These centres can be assisted in adjusting their approaches to the conduct/implementation of development projects. Training of civil servants will also be needed for democracy to take roots and for the facilitation of economic growth.

The second factor is the regional dimension of development. Cooperation with SADC cannot ignore the regional powerhouse that is key to the region's finance, investment and health. Projects should assist in the regional synergy in the areas of Public Services [FSP] in resource management, environment, investment in infrastructure (transport, energy), rural development, and health (AIDS). The French strategy has to take into account the developing relations of South Africa to the rest of the continent beyond the linguistic barriers. Generally, French cooperation should offer the interface between Anglophone Southern and Eastern Africa and the francophone West Africa. The promotion of and training in French is therefore essential.

French cooperation: Focal areas

Four main axes of intervention are defined:

(i) Modernisation and adaptation of the institutional framework (all government levels, justice and security)

(ii) Training of civil servants and technicians plus R&T (university sector: exchange programmes, joint research; private sector: management and engineer training; agriculture: training of agricultural engineers, producer associations)

(iii) Support to social and economic development (basic services: education, water, health, housing; transport; SME support and industrial investment)

(iv) Promotion of French language and culture should be attached to the above mentioned.

The strategy defines goals in the mid-term (5 years) and in the long-term (10 years). In the mid-term, it is aimed at catching up inequalities of Apartheid times. In the long-term, a close partnership is envisaged (with civil servants who have knowledge about France and, possibly, in French). With regard to the visibility of intervention, the CSP states that the official discourse systematically favours the fight against poverty and deprived regions. Reality, however, is different: first concern is the creation of a black middle-class for future stabilisation. The strategy clearly aims at the future elite.

3.5 Belgium

The Belgian Country Strategy Paper was set up in July 2002. It has a very comprehensive introduction, touching on virtually all issues in the international debate. MDGs and PRSP processes are mentioned and Belgian CSPs are put into context. In all, 33 Belgian strategy papers exist, as there are CSPs and Sector Strategy Papers (like in the German case). The entire list of MDGs and the 48 targets is reproduced before the actual CSP.

Belgian objectives

Overall goals of Belgian development cooperation are poverty alleviation and sustainable development. Three objectives are given in the CSP: (i) poverty reduction via improvement of service delivery to the poor, economic democratisation, and support for civil society, (ii) cooperation with South African partners so as to play a role in the region's conflict management and democratisation, and (iii) transition to a democratic society.

Country analysis: Challenges

The “country description” gives a historical perspective on the human and economic costs of apartheid. It touches on the homeland policy and the destruction of a “culture of learning” (human costs), as well as on “disproportionate infrastructure” for white population and large-scale reliance on unskilled work (economic costs). Areas skewed by apartheid and thus due to reform are: the economy, the administration, the judiciary and police, education and health care.

A section within this analysis looks at the recent political evolution, mentioning *inter alia* the fight against corruption as part of good governance endeavours, President Mbeki’s negatively judged HIV/AIDS policy and NEPAD. This is followed by a comprehensive description of the administrative system (including affirmative action legislation and administrative reform) and South Africa’s regional role and importance (foreign policy, partly being “the voice of the poor”, and NEPAD).

The fourth section in the country analysis deals with the “social and human situation” (approx. 3 pages), emphasising the inequality in SA. One page is titled: “Who are the poor and where do they live?”, giving statistical material on ethnic groups and touching on rural poverty, gender, employment and crime. It concludes that poverty in SA is racially and geographically determined.

The economic section (roughly two pages) gives a general overview (re-stating the inequalities), touches on productivity, unemployment and the RDP and GEAR programmes. RDP has officially been ended in 1996, but the structure still exists to channel donor funds. One page is dedicated to “good governance”, indicating the fight against corruption and the 3-years “rolling budget”. Other issues touched on are the cross-cutting issues of HIV/AIDS, gender, and environment, all of which illustrated with statistical data.

Past interventions: Assessment

Before assessing the Belgian past interventions, the CSP comprehensively deals with the South African political environment for development cooperation, looked at by sector (approx. 8 pages). It is stated that Belgian assistance is in accordance with GoSA White Papers. Sectors looked at are health care, police and security, agriculture and rural development (agrarian reform), and civil society (donor support is more directed towards government now, which results in financing problems for NGOs).

Half of the section is dedicated to GoSA’s response to donor engagement, looking also into donor coordination by the South African government departments and among donors. As the World Bank is not operating an important programme in SA, there is no PRSP. Donor funding is not used for core functions of the state and not budgetised, but additional to national funding. Aid represents only a small proportion of the general budget. The CSP lists 11 donors and their overall contribution between 1994 and 1999 (Belgium is by far the smallest – the EU contributes more than 40 times as much, while Denmark assistance amount to more than six times the Belgian aid).

Past interventions of Belgium in SA covered

- (i) democratisation of the South African police (€4.06m), touching on training, the fight against crime and on administrative issues
- (ii) grant for the national department of Health (€ 3.97m), touching on STD, vaccination programmes, Tbc and basic sanitation; and
- (iii) land restitution (€ 0.29m), mostly an information campaign.

Other activities cover student scholarships and cooperation with NGOs (direct aid to South African NGOs amounted to € 6.29m; however, no period indicated). An additional € 3.85m was spent since 1998 on Belgian NGOs’ activities in South Africa. This particular section lists Belgian activities and amounts spent on them. No assessment of their success or impact is conducted.

This is followed by a section that looks at South African strategies for development and SA government action. It is touching rather on progress made on RDP and GEAR (without naming them). However, it is not quite clear how this differs from the section on the political environment for development cooperation. The areas listed are:

- (i) Eradication of poverty and amplifying the access to social services
- (ii) Educating the population
- (iii) Improve public health
- (iv) Fighting against crime and corruption
- (v) Reconstructing Africa

Belgian Cooperation Response: Focal Sectors

In accordance to the overall goal of Belgian development cooperation, assistance should be limited to five sectors and three cross-cutting issues. The five sectors are:

(a) basic health care (including reproductive health)
(b) training and education
(c) agriculture and food security
(d) basic infrastructure
(e) consolidating the society

The three cross-cutting issues are: (i) re-equilibrating rights and gender equality, (ii) respect for the environment, and (iii) social economy.

Other than focal sectors, the CSP identifies the main channels of aid (government agencies, NGOs, multilateral aid, humanitarian assistance etc.). As justification for the Belgo-South African cooperation, the CSP names the poverty gap within the country, the recentness of democracy in South Africa, and South Africa's role as the regional economic motor.

Belgian assistance should focus on certain geographical areas, namely in rural provinces. However, the main partner shall be the central government. With regard to the sectors of intervention, Belgian assistance targets

- the health sector
  in (i) long-term delivery of services in the combat against HIV/AIDS, (ii) creation of infrastructure and services, and (iii) exchange on expertise
- agrarian reform and economic development
  via (i) assistance to small farmers, (ii) juridical assistance in obtaining property and provision of basic infrastructure, and (iii) assistance to the restitution of land to the poor in rural areas.
- (re)building the society, security, democratisation, and conflict prevention,
  particularly addressing (i) capital and organised crime, (ii) fight against crimes against women and children, (iii) public order, (iv) improvement of services by police commissariats, (v) strategic interventions in the region; and
- horizontal issues
  such as education and training, local government, basic infrastructure, gender equality, environment, and social economy.

In addition to these points, a strategy on the cooperation with NGOs is formulated (in a box of the length of about 1 page), cutting across the sectors identified above. The programme, however, does not give any figures on the attribution of funds to these areas of cooperation.

The paper finishes with a short look at coherence and complementarity of Belgian assistance. Five "overcrowded" areas of intervention are given (HIV/AIDS, agrarian reform, security, education, and South Africa's regional role). For each, brief information on the specific added-value of Belgian aid and the cooperation with other donors in this area are given.

3.6 Germany

The German Country Strategy Paper (Länderkonzept) for South Africa dates to June 1999. It quotes Nelson Mandela on the front page and reminds us of the rare case of peaceful and democratic transition. No specific mention is made of the Millennium Development Goals, as the CSP predates the Millennium Declaration.

The paper is currently being revised. A new CSP is expected to be elaborated by autumn 2004.

German objectives

No specific German objectives are explicitly named. There is an indirect reference to the main goals of German development policy (poverty reduction and education). The CSP pre-dates the MDGs.

Support for the economic, social and political transformation is given as a "justification" for the German engagement. The limited range of manoeuvre for domestic changes justifies the external cooperation ("considerateness on diverse interest groups and inherent necessities prevent a fundamental change in budget allocations in the short-term").

Country analysis: Challenges

The German CSP stresses the 'extreme structural heterogeneity'; South Africa unites features of a western industrialised nation and of a developing country. The poverty profile reflects the heritage of Apartheid: poverty is extreme, structural, black and female. Statistical data is quoted from the HDI, Gini-Index, rural prevalence of poverty, and unemployment. "The central question for South African development efforts therefore is, how unemployment and mass poverty can or cannot be reduced by applying an approach which differentiates between target groups / regions / sectors."

Acute core problems of South Africa are listed as "jobless growth"; lack of international competitiveness; unequal distribution of land as obstacle to rural growth; lack of physical infrastructure in rural areas and townships; severe environmental risks and damages; insufficient educational system and lack of skilled labour; particular insufficiencies of service provision in the public and rural health sector and the spread of HIV/AIDS; unbalanced economic and financial structure at the expense of SME; deficiencies in capacity in the public administration; target conflict between growth and redistribution; and a high crime rate. All these points are illustrated with a short paragraph giving statistical background.

Having elaborated on the problem of South African development endeavours, the German CSP turns to the potential of SA with regard to its geographical, economic and social assets. The wealth in minerals is noted, and the tourism potential; less so agriculture, due to lack of water and only average quality of soil. The potential is particularly small in former homelands. Producing industries and services are rated as being a large potential for SA, from the point of view of both given assets and policy of the GoSA. The legal system is praised ('South Africa's constitution is among the most modern of the world') and a striving civil society offers good potential. Also important is the expected large increase in human resources and the good conditions of the tertiary education sector.

Consequently, the CSP considers the conditions by sector.

- *Political framework:*
  notes the consolidation of democracy and the rule of law, but also the dominance of the ANC. Administrative problems in the provinces are reported, which have a negative impact on the transparency and predictability of state action. In the region, SA is an anchor of stability.
- *Economic framework:*
  GEAR is examined. The expected growth rate of 5-6% and the creation of 400.000 jobs annually could not be obtained. Growth has considerably slowed down in 1997 and 1998; GAER is politically "not undisputed". Reasons for the downwards trend are the much too low saving and investment rates, technological deficits due to previous sanctions, and too low productivity. Investors complain about the high crime rate, currency controls, widespread willingness to strike and relatively high wages, combined with low productivity and regressing quality of the administration.
- *Ecological framework:*
  Economic growth, industrialisation and urbanisation, as well as population growth and poverty have put a heavy burden on the environment. Severe problems are to be observed in the former homelands. South African environmental policy has been concentrated in the area of game conservation reserves and is now re-directed.
- *Socio-cultural framework:*
  Socio-cultural conditions are very complex and carry a heavy historical burden. Ethnic conflicts and traditional rules have an important impact on public life; however, ethnic conflicts play less of a role than previously. Women are usually marginalised, but are key players in social and economic development of families. Affirmative action is desirable for reasons of equality, but has a negative impact on the quality of administration and the level of corruption. Also mentioned is the work of the Truth and Reconciliation Commission.
- *External framework:*
  External conditions are "hard, but positive". The policy of import substitution (motivated by sanctions) is shifted towards liberalisation of trade and integration into the world market. Uncompetitive industries suffer, but on the other hand, new markets were opened in Africa, Asia, Latin America and Eastern Europe. The trade balance is positive only with Africa and relatively balanced with Latin America. Hugh trade deficits prevail with regard to Europe, also

due to modernisation of the economy. As of the regional cooperation, South Africa is not taking over the role necessary to foster regional integration within SADC. External debts are moderate; worrying are rather internal debts of the administration.

Past interventions: Assessment

The pressure for reform has considerably increased in South Africa. German development aid aims at assisting the South African government in developmentally sensible reforms. International assistance is relatively small (1-2% of the annual budget), but quite considerable in absolute terms. The importance of other donors and the relative position of German aid is assessed in a first paragraph. In 1997, a ‘bi-national commission’ was created; a similar institutional arrangement exists only with the USA.

Assistance in education and training has been provided since 1975. Before 1992, assistance was given through NGOs and the German Political Foundations. Financial and technical cooperation since 1993 each amount to DM 316.6m (€ 161.9m), both directed by the RDP of South Africa’s government. Five focal areas have been agreed upon:

- (i) Education and training
- (ii) Promotion of the private sector, in particular small enterprises
- (iii) Low-cost housing construction and development of infrastructure
- (iv) Rural development and resource management
- (v) Consultancy for government and administration, in particular on the provincial level.

Regionally most important are: Eastern Cape, Mpumalanga, Northern Province and KwaZulu-Natal. Activities also take place in Gauteng, Western Cape and the Free State (i.e. throughout SA).

German engagement should aim at supporting the SA government in the following areas: (i) growth and employment, (ii) justice in distribution (equity), (iii) human resources, (iv) transfer of technology, (v) infrastructure, (vi) effective governance and (vii) sustainable use of resources. Target groups should be the unemployed, women, and the youth.

South Africa is also focal country for a number of other German foundations, ‘parastatels’ (DED, CIM, CDG, DSE) and NGOs. The private sector founded an organisation (‘SAFRI’) to promote market opportunities for middle sized German enterprises.

The projects are overall “positively evaluated”. No financial share is indicated. Financial cooperation focuses (iii). Projects with NGOs are judged as generally not yet sustainable and should in the future favour consultancy over financial support. Consultancy on the national level was excellent, but had deficiencies on the regional level, due to lack of capacity on the SA side. The major problem for the South Africans is ‘delivery’ of their programmes. The emphasis should therefore be on the ‘output’ rather than the ‘input’. The results of the South African programme RDP are judged as ‘humbling’, “not surprisingly so with regard to the complexity of implementation”.

German Cooperation Response: Focal Sectors

The focal points for German cooperation have been established in a series of workshop in 1998. Strategic field of intervention should be (i) government-delivery and capacity building, (ii) qualification, education, training, (iii) SMME and science/technology, (iv) basic needs, (v) community development, (vi) sustainable resource management.

The German development cooperation with South Africa is to be newly positioned. The project range should be more oriented towards the GoSA programme.

In the mid-term, German cooperation should focus on support for

1. local development (with the goal: social, economic and sustainable development)
2. public administration and decentralisation (on all three levels of administration)
3. education (in particular: training and basic education)
4. employment and economic activities, in particular with regard to SME.

These focal areas can justify activities in their own right, but can also be cross-cutting. Other cross-cutting issues are gender, capacity building, resource management and transfer of technology. Areas 1 and 4 are particularly important for financial cooperation. Each of the four areas should receive about a quarter of the means. All four of them are presented in more detailed analysis of the problems and challenges in these particular sectors (about 1 page each), discussing the use of either technical or financial assistance and possible links to other German cooperation (foundations, the Länder, 'parastatals'…).

Environmental and resource protection will become more important in the long-term development, but is no focal areas for the mid-term. Health should not be a focal area of German cooperation, as a number of other donors are active in this sector.

On coordination, the CSP suggests a distribution of negotiation protocols through the EU. Coordination of German donors is regarded as good; country offices of several agencies (GTZ, DED and DEG) helped in this respect. "The South African partners, however, have difficulties in perceiving German assistance - given the structures of cooperation – as one".

3.7 Ireland

Irish Cooperation had an aid plan with South Africa 1997 to 1999, with which it was trying to concentrate on "a smaller number of bigger projects".

The revised paper is for the period of 2001 to 2003. The Country Strategy Planning was undertaken jointly with National Treasury. Planning and reviewing took place from 4 to 11 December 2000 and was conducted by the Pretoria Office of Ireland Aid and Dublin HQ staff (the paper gives a list of people involved). The preliminary findings were presented to the GoSA on 12 December 2000.

No reference is made to the MDGs.

Irish objectives

The overall objective is: "To support the Government of the Republic of South Africa in the implementation of its policies aimed at achieving poverty reduction and human development."

"[This strategy] is consistent with the principles of poverty alleviation, gender, partnership and sustainability, which guide Ireland Aid's development aid objectives".

Country analysis: Challenges

The CSP starts with a general section on ODA to South Africa, summing up the GoSA Development Cooperation Report and the RDP and GEAR goals. The Medium Term Expenditure Framework is another reference document; it does not include an explicit poverty elimination framework or strategy. The CSP criticises the "lack of government guidance in this area". The share of government support is 75%. Main areas of donor activities have been education (22%), government & civil society (18%), social infrastructure and services (13%), water and sanitation (11%), business and other services (10%), and health (6%). Donors thus "fall in line" with GoSA priorities, only 7% of aid was directly to provinces. Demographics are given, citing the census of 1996 and making projections on the population 'by race'. The focus is on HIV/AIDS, health statistics and illiteracy.

The summary of the political situation (1.3 pages) identifies major challenges in the area of traditional rural communities, land distribution, capacity and policy delivery. Criticism of the government prevails in the areas of job creation, education, crime reduction, HIV/AIDS, and corruption.

The analysis of the social and economic context covers roughly 3 pages. While SA is classified as a MIC due to its GDP per capita, "this average figure does not capture the true picture". The strong income inequalities – and thus the high Gini coefficient and the poor GDP/HDI index – are stressed. The HDI is also regarded by province. Reference is made to the RDP and GEAR. Some economic growth, however, has not created jobs. Saving rates, particularly among the poor black population, are "practically non-existent". Unemployment is stressed as one of the major problems and illustrated by statistics of the SA October household survey of 1999. Formal employment is decreasing, while the informal sector is expanding. The Medium Term Budget Policy Statement states that the ultimate goal of economic policy is poverty reduction and human development. “Unfortunately, measures to achieve this ambitious goal remain to be fleshed out”. The debt burden could be reduced and the budget deficit is projected to decline from 2.6% to 2.1% (2001-2004). The SA government is now “in a position to substantially increase public expenditure”. Planned areas of further expenditure are: (i) the juridical system, (ii) social services at provincial and local level, (iii) education and training, (iv) R1.5bn are directly aimed at relieving poverty, (v) investment in infrastructure. Payroll costs will be controlled and shall not exceed inflation.

Some cross-cutting areas are analysed in detail (overall 6 pages). Analysis is quite evenly split between the following areas:

(i) Poverty
(ii) HIV/AIDS
(iii) Gender
(iv) Environment and
(v) Capacity building.

Poverty is looked at by gender, race and province. Northern Province, Eastern Cape and Mpumalanga have the highest poverty rates. Poverty is also occurring among the labour force – there is no legal minimum wage (some 26% earning less than R500 a month). HIV/AIDS is expected to wipe out gains made in the HDI through policy initiatives. The economic costs of HIV/AIDS are illustrated in detail. With regard to gender, large legal improvements are reported, but their practical value is relativised. Environmental damage is estimated have a negative impact on the GDP of 6% annually (source: Development Bank). The GoSA Department of Environment and Tourism has seen the second largest budget increase (17.8% between 98/99 and 00/01). With regard to skills, there is a capacity and quality question. Government institutions ignored traditional knowledge and had ‘destroyed the culture of learning’. Delivery and implementation remain difficult due to a capacity gap.

Past interventions: Assessment

To date, Ireland’s interventions aimed at (i) support for the development and implementation of Government policies, (ii) facilitation of equitable access to essential services, (iii) participation of the people in the development of SA, and (iv) support for capacity building at all levels.

Aid has been targeted at four sectors: (i) education and training, (ii) health, (iii), human rights and democratisation, and (iv) rural and community development.

Irish intervention in the education sector covered assistance to curriculum reform (particularly in the Northern Province), a bursary support programme, assistance to the Water and Sanitation Training Institute and support to restructure the Industrial training board. Support for the health sector was mainly targeted at primary health care in the Free State Province. It also addressed the development of a policy for HIV/AIDS – with limited success. Support for Human Rights and democracy flows to advice desks in Durban, Pretoria and Johannesburg and the Centre for the Study of Violence and Reconciliation. Sector support is considered in this area, following the example of Dutch SWAps. Rural and Community development have also been concentrated in the Free State Province; further support is not envisaged for a University/training project. Aid is also given to the National Land Committee and the Department of Land Affairs.

Ireland Cooperation Response: Focal Sectors

The future programme shall concentrate on specific aspects of the South African programme. Support shall in crease over three years. The programme shall continue to support the process of transition and ‘maintain a strong poverty focus’. It will assist in redressing imbalances of the past Apartheid regime, support decentralisation, and target pilot interventions. Financial support will be channelled through the RDP. The original paper provides for an exit from SA in 2004. This will be revised in 2003.

Four focal areas are indicated:

(i) Education and Training (ca. 40% in 2001, 25% in 2002, 20% in 2003)
(ii) Health / HIV / AIDS (ca. 25% in 2001, 20% in 2002, 20% in 2003)

(iii)	Water and Sanitation	(ca. 07% in 2001, 25% in 2002, 30% in 2003)
(iv)	Good Governance, Democracy and Human Rights.	(ca. 20% in 2001, 25% in 2002, 30% in 2003)

(remaining % are admin costs and ending programmes, only rough estimates)

Particular emphasis is laid on mainstreaming HIV/AIDS. Activities in all sectors will engage closely with the SA government departments. NGO contacts shall be strengthened.

Educational cooperation will continue to focus on the Northern Province. Some planning is quite detailed on particular programmes (details down to IEP£40,000). The CSP gives an indicative budget for Irish aid.

Annex II: The Philippines

I. The Philippines MIC specificities

The Philippines are a lower middle income country with a per capita income below the average of this group of countries.[23] Its per capita GNI, however, is slightly above the regional average.

Democratic institutions and governance

Political system

The Philippines are a constitutional republic and are classified as 'free' by Freedom House with a score of 2 in political rights and 3 in civil liberties[24] in 2004.
The latest elections took place in May 2004. Elections were held for the President, Vice-Presidential, 12 Senators, Congress and for local government entities. The elections were the forth after the end of the 21-year rule of Ferdinand Marcos in 1986. Between 1999 and 2001, government politics were erratic, with weak economic growth and poor performance in poverty reduction (World Bank CAS). In 2001, the Supreme Court impeached President Joseph Estrada and brought then Vice-President (and current President) Gloria Macapagal-Arroyo as his constitutional successor into office. Politics are dominated by few influential families; some donors classify the political culture as 'feudal'.

Challenges of government's legitimacy / armed conflicts

President Arroyo was confirmed in office in the elections in May 2004; however, her legitimacy is questioned by political rivals and the legitimacy of the government is therefore shaky. The government continues to struggle with armed groups, particularly in the Muslim parts of Mindanao (at the same time the poorest region of the Philippines); these groups refer to kidnapping. The new government changed its policies towards the conflict regions from confrontation with rebel groups to peace negotiations ("peace and development" rather than the previous government that pursued a policy of "first peace through military victory, then development").

Rule of law

Its legal system is based on Spanish and Anglo-American law. The criminal justice system is reported to have weaknesses and torture is occasionally occurring; a moratorium on executions for convicted kidnappers and drug traffickers was lifted (2004). The implementation of the rule of law is judged as below average in the regional context (WBI database 2002).

Government effectiveness

The World Bank noted a widening 'governance deficit' in 1999 and 2000, understood as a widening of the fiscal deficit to more than double of its planned level and growing accusation of corruption against national leadership. Since 2001 – i.e. the impeachment of President Estrada – the government's ability to manage the economy has improved, e.g. the budget deficit target was met. The Philippine government's effectiveness and regulatory quality are well below OECD countries. When compared to the regional and the income group, they rank around average, but show a declining tendency in the last six years (WBI database 2002). The capacity for policy implementation is weak; particularly land reform is very slow.

[23] The GNI per capita was at US$1,020, whilst the average of LIC was at US$ 1,390 in 2002.
[24] The score ranges from 1 to 7, with 1 representing the ideal case and 7 the worst performance.

Corruption

Corruption is a serious problem in the Philippines. The country is in position 92 of 133 countries in the Transparency International corruption survey (2003), along with Albania, Argentina, Ethiopia, Gambia, Pakistan, Tanzania and Zambia. The Philippines' control of corruption is lower than the regional average and slightly below the Income group average (WBI database 2002). The President has created an anti-graft committee to combat corruption and graft of high ranking officials.

II. Role of EU aid and Millennium Development Goals

The EU (including the EC, Member States and the EIB) account for 8.2% of the overall ODA to the Philippines (1992-2000). The EU as a whole is in fourth position as a donor. If looked at only the grant element of ODA, Japan is the largest donor by far, followed by the USA (19%). The EU accounts for 20% if one sums up the shares of the EC, Member States and the EIB. Given that the total ODA makes up 2% of GDP, the influence of the EC and individual EU Member States and their impact on poverty is very limited in the Philippines.

The Philippine government commits itself to poverty reduction programmes. The impact of these programmes, however, has been negligible in the past. Poverty is reduced only very slowly; yet some donors are active in rural areas with very high number of poor people and governance has gained more attention by donors (the UNDP and ADB leading in this issue).

In the Philippine context, the poverty impact of aid could be enhanced by improving governance. This would mean a serious engagement in political dialogue and support for administrative implementation capacity, e.g. in the case of land reform. Government's will to address corruption and economic oligopolies is crucial with regard to implementation capacity.

The EU Member States have focused their interventions in the Philippines in the following sectors (3 digit DAC):

Transport and storage	20.7
Water supply and sanitation	6.0
Agriculture	5.8
Fishing	5.4
General environmental protection	5.2

Projects in relation to governance account for just 3% of all EU Member States' assistance; the sector does not feature among the five most important sectors of EU aid interventions (which account for around 43% of the overall EU assistance to the Philippines). Transport and storage are not declared priority sectors in the country strategies – the Swedish cooperation, however, had positively discussed the possibility of projects in infrastructure that should come on the request of the Philippine government. None of the projects in this area have reported poverty markers with a value of 1 or 2.

Water supply and sanitation is a sector with clear impact on Millennium Development Goals and with potential benefits to the poor population; however, less than a third (30%) of the programmes/projects in this sector have poverty markers 1 or more. The assistance to environmental protection reacts to one of the problematic areas of the Philippines (also with regard to the Millennium Development Goals). The assistance to agriculture potentially targets the poorest regions in the Philippines. The pro-poor impact of these programmes/ projects is not self-evident, but higher than in the area of water supply and sanitation: half of them have poverty markers; and 44% of these have poverty markers with the value of 1 or 2.

Poverty

Poverty reduction in the Philippines has stagnated after initial success. Between 1991 and 1997, the poverty rate fell from 34% to 25%.[25] Data suggest that the incidence of poverty has slightly risen again. The poverty head count US$ 1-a-day stagnated around 12-13%, while the US$ 2-a-day was still between 45 and 46%. The income inequality (measured by the Gini index) has not significantly changed between 1997 and 2000 and is at 46.1%. Poverty is much higher in rural areas than in the national average (37% as opposed to 12% of the US$ 1-a-day).

The data on the MDGs for the Philippines is rather patchy. The available data, however, confirms the statement about slow – if at all – progress. The rate of child mortality decreased in the first half of the 1990s. Environmental problems are inter alia reflected in the figures for the forest area. A high population growth rate means additional efforts are necessary to improve the living conditions of the population; population growth was at 2.1% in 2000 and one of the highest in the region.

MDGs	1990	1995	2001	2002
Population below US$1 a day	..	..	14.6	..
Prevalence of child malnutrition	33.5	29.6	..	..
Net primary enrolment ration	97.5	100	93	..
Percentage of cohort reaching grade 5	..	..	79.3	..
Ratio of girls to boys in primary and secondary ed (in %)	97.2	98.8	102.3	..
Under 5 mortality rate (per 1000)	63.0	50.0	40.0	37.0
Immunisation, measles (% of children under 12 months)	85.0	72.0	75.0	73.0
Births attended by skilled health staff	..	52.8	58.0	..
Prevalence of HIV female	..	..	< 0.05	..
Forest area (% of total land area)	22.4	..	19.4	..
National protected areas (% of total land area)	..	4.9	4.9	5.7
Access to an improved water source (% of pop)	87.0	..	86.0	..
Access to improved sanitation (% of pop)	74.0	..	83.0	..

Source: World Development Indicators database, April 2004

III. EU Country Strategy Papers

3.1 European Community

The EC's Country Strategy Paper for the Philippines (2002-2006) was signed in March 2002. The CSP 2002-2006 provides the rationale for EC cooperation with the Philippines (NIP 2002-2004). It refers to the Philippine Government's Medium Term Development Plan (MTDP) 1999-2004, which was under revision when the CSP was written. The MTDP is seen as ambitious; EC assistance aims at supporting the Philippine Government to implement the plan and increase chances to achieve its goals. The Millennium Development Goals (MDGs) are not mentioned.

EC objectives

The CSP refers to the overall goal for cooperation as given by the EC treaty ("sustainable development") and in the ALA regulation of 1994. Reference is made to the cooperation agreement with ASEAN (May 1980). Listed priorities for the relations with the Philippines are (i) peace and security, (ii) trade and investment, (iii) sustainable development and poverty alleviation, (iv)

[25] The figures shown in the table refer to a UNDP report and differ from the data of the World Bank Country Assistance Strategy of April 2002.

democracy, good governance and the rule of law, (v) partnership and alliance, and (vi) raise the EU's profile in Asia.

Country Analysis: Challenges

The section with reference to poverty can be found in the analysis the political situation (poverty as a root cause of violent conflicts, ca. one tenth of the sub-section) and social developments (ca. 15 % of the overall analysis section).

The CSP notes that peace in the Philippines, particularly in Mindanao, "depends – inter alia – on the Government's capacity to address poverty". The analysis of economic policies notes the difficulties in export industries, very low saving rates, and decreasing FDI. Prices for some domestic food products exceeded world market prices, thereby "harming, in particular, the poorest families".[26] Noted is high income inequality even by regional standards. Poverty is a rural problem, and access to social services such as health care is a problem. Positive aspects are a relatively good public education system and gender equality. No explicit reference is made to the MDGs.

The paragraph on sustainability of current policies stresses the importance of economic growth for poverty reduction, along the need for greater elasticity (liberalisation and enforcement of competition rules). Infrastructure is one priority of the Philippine government; upgrading is recommended. The key challenges for the medium term are: rural development, the provision of basic social services, macroeconomic stability, infrastructure development and governance (concerns are voiced about corruption).

Overall, the country analysis focuses mainly on macroeconomic policies and government programmes. It rarely draws direct lines from the macroeconomic cooperation to poverty alleviation efforts.

Past interventions: Assessment

This section sums up lessons learnt from EC cooperation with the Philippines. Paragraphs briefly touch on financial and technical cooperation projects, environmental cooperation, NGO projects, human rights and good governance, humanitarian assistance, economic cooperation and S&T cooperation projects. There has been "no specific good governance projects have been funded up to now" (but: death penalty projects). Scant attention is given to poverty reduction (in financial and technical cooperation).

The sub-section on other EU donors' activities gives a comprehensive overview. The assessment of other donors makes up about half of the section. The CSP also contains an annex on other donors' activities in improving governance (2 ½ pages). In the assessment of other donors, poverty reduction features more often. Poverty reduction is one point among several others of Japanese assistance (e.g. loans for training of sailors). Noted is the poverty focus of the ADB, which takes poverty reduction as criteria for support (Mindanao is priority). Good governance is also an area of ADB interventions, as with other donors (US, World Bank and Canada). 60% of Canadian resources go into poverty alleviation.

EC Cooperation Response: Focal Sectors

The CSP names two main areas of cooperation: (a) assistance to the poorest sectors of society, and (b) assistance to trade and investment. The general EC's treaty objectives, i.e. dialogue, human rights, stability and security, are mentioned as "non-focal areas" for cooperation.

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[26] The CSP takes poverty figures from the Philippine government (32.1% of the population below the poverty line in 1997). These figures differ from World Bank statistics (25.1 % in 1997), as the Philippine national poverty line is higher, due to the more expensive food bundle.

(a) The CSP states that poverty reduction is the overall priority. In EC-Philippine dialogue meetings, it was acknowledged that the Philippines "could no longer be considered priority country". Aid would concentrate on poorer countries in Asia. Three points are made: Support for the poorest regions in the Philippines shall be maintained. While the geographical focus shall be narrowed down (naming Mindanao as priority), sectoral approaches are proposed.

(b) Aid should focus more on economic cooperation for mutual benefit, given the past progress. The CSP names four priority areas for assistance in the trade sector. An integrated trade-sector programme is suggested. In this field, governance and institutional reforms are named as factors for the sustainability of growth. Particular emphasis is laid on competition policy and the labour and social protection policies. The governance section makes up about 50% of the focal point on trade and investment. Other areas are targeted investments and business-to-business contacts.

Other areas of cooperation are (i) human development and rights (named here are good governance, consequences of armed conflicts, and death penalty), (ii) stability and security (particularly in Mindanao and the Cordillera), (iii) cooperation in education, culture and S&T. Three sections (half a page each) on the coherence, complementarity within the EC and with other donors sum up the section on the EU's focal points.

National Indicative Programme

The interventions on assistance to the poorest sectors of society (42 million Euros, 82% of the indicative budget) almost evenly split between consolidation of the rural sector and health sector assistance. Rural sector interventions are justified by high incidence of poverty in rural areas. NGOs, "People's organisations" and local government units are named "as the prime vehicles for reaching the poor". Result of previous programmes has been limited (capital intensive and small number of beneficiaries). Post-project support is seen as necessary for enhanced ownership. The health projects (on HIV/AIDS and on women's health needs) are justified by catering "the poorest sectors of society, those living in remote areas and living below the poverty threshold". The Health Sector Reform Agenda of the GoP is given as framework for possible interventions of the EC (Germany is already supporting elements of the Philippine programme). The focal point 2, trade and investment, accounts for ca. 6% of the indicative budget. There is no mention of poverty reduction, rather of "mutual benefits".

11% (6 million Euros) of the indicative budget is aimed at good governance as a cross-cutting sector. Governance is seen as a link between "improving the quality of life for the poorest sectors of society and creating a business environment favourable to enhancing EU-Philippines economic relations". Suggested key areas of intervention are: support for decentralisation, strengthening the judiciary, support for anti-corruption activities and support for good corporate governance. Key areas of intervention in governance are listed in Annex C (ca. 5 pages). This part particularly refers to the poorest sectors of the society in its justification of intervention in the first three areas (ca. 60 per cent of the annex).

3.2 Germany

The Philippines are one of the focus countries for German development assistance since 2000. However, the *Länderkonzept* (Country Strategy Paper) dates back to 1998 and is only recently under revision. German cooperation identifies four focal areas of assistance with focus countries. Detailed focal area strategy papers are established for the topics of market reform and water/sanitation/waste management. They are similarly structured to CSPs.

The old CSP was unavailable, so this brief summary relies mainly on the *Länderbericht* (Country Report) of 2003, which reflects the usual format of a CSP.

Germany's objectives

Poverty reduction is named as the overarching goal of German development cooperation with the Philippines. “Promotion of employment-oriented growth is supposed to contribute to the achievement of this objective. This approach corresponds to the objectives in the Philippine development agenda”. Strengthening the regional and communal planning and decision-making processes is also named as a goal, as is conflict resolution in Mindanao.

Country Analysis: Challenges

The core problems of the Philippines are identified as (i) poverty, (ii) macro-economic problems, (iii) environmental degradation and (iv) internal conflict.

(i) Impermeable social structures and consequently highly unequal income distribution is named as one area of one core problem of the Philippines. Poverty is mostly spread in rural areas, most highly so in Mindanao (poverty rate of roughly 80 %) and in Visayas (around 50 % below the poverty line). For reasons for the high rate of poverty, the World Bank is cited, giving high dependence on agriculture, the dragging implementation of the agrarian reform, absent social security provisions, as well as the deficient education and training system.

(ii) Under economic problems, the low FDI and saving rates are mentioned, plus the high unemployment rate (of 11-18%). Given the high population growth, increased economic growth and new employment are necessary. The unemployment rate is lowered by widespread migration, both internally and internationally.

(iii) Environmental problems are having an impact on large proportions of the population. Deforestation has lead to erosion and the lowering of the groundwater level. In the maritime areas, mangroves, coral reefs and fish stock are reduced, particularly the latter negatively affecting the livelihood of the population. Fresh water and soil pollution are increasing problems in the urban centres. Natural disasters (volcanoes, earthquakes and typhoons) are quite frequent.

(iv) In Mindanao, Moslem extremists are fighting the government for 30 years now. The peace deal with the Moro National Liberation Front (MNLF) in 1996 led to a split in the organisation; one part is continuing the fight as Moro Islamic Liberation Front (MILF). Peace talks with the MILF have led to a shaky ceasefire in 2001 (renewed in 2003). The group of Abu Sayyaf is qualified as a criminal group, devoid of ideological motives, and financed by kidnapping. In many parts of the country, the Communist Party is leading an armed fight. The government is also struggling with parts of the army, an important force in the county.

Germany’s Cooperation Response: Focal Sectors

German focal sectors in the cooperation with the Philippines are (i) economic reform and establishment of a market economy, (ii) Health, family planning and HIV/AIDS prevention, (iii) environmental protection and sustainable resource management, and (iv) water/ sanitation/ waste management.

The regional focus of German cooperation is on the Visayas Region (with possible extension to Mindanao, if security permits). The programme on poverty reduction in Samar is covered by a special fund on the Action Plan to 2015. The special fund on the fight against terror provided for a project in Mindanao in 2002, which was carried through in 2003.

The sectoral focus “is directed towards the Philippine focal areas, which are identical with focus areas of German cooperation”. A highly diverse civil society offers good cooperation conditions for German NGOs. The Philippines are also a focus country for German Church Cooperation.

3.3 Sweden

Swedish cooperation with the Philippines goes back to the 1980s both in the areas of public sector cooperation and NGO engagement. There is no indication on when the CSP was set up. Its period is given as January 1 2001 – December 31 2005.

Sweden's objectives

Two goals are identified. Swedish cooperation aims to contribute (i) to the sustainable use of natural resources from a poverty perspective, and (ii) to the strengthening of democratic governance and the civil society. These objectives are developed against a strategic background and Sweden's overall development cooperation objectives. The latter objective is predominately set up for cooperation of Swedish NGOs.

Country Analysis: Challenges

The section is subdivided into (i) political developments (1 page), (ii) development problems (2 ½ pages), and (iii) Mindanao (1 page). While the political development section restrains itself largely to politics with some criticism of the domination of the traditional elite, the development section picks up more on the personalised political culture. It notes the lack of an autonomous civil service culture and the relative economic position of the Philippines in the region. Corruption, inefficient tax collection and dependence on foreign capital are named as problems and improvements in governance are demanded, so as to create internal confidence and competitiveness. The Philippines' lag behind the regional poverty reduction is attributed to poor macro-economic policy, the deficient political system and the high inequality in income distribution. "The growth structure means that poverty levels decline in Greater Manila during periods of intensive growth, while remaining relatively unaffected in rural areas". The agrarian reform was attempted within a framework of democratic regulations and has proven to be "long", "expensive", and "complicated". Gender equality is legally achieved, practice is different, though. HIV/AIDS is not yet an epidemic in the Philippines.
On Mindanao, the CSP states that so far, self-rule has lead to 'misrule'. In the Mindanao context, other donor activities are cited (World Bank, EC, UNDP, USAID) that target re-integration of ex-guerrillas.

The section is drawing a larger picture. It focuses very much on the political and economic framework, with little or no explicit reference on the particular interests of or challenges to poor people or pro-poor interventions.

Assessment of Past Interventions

Past cooperation has had pretty similar goals to the current paper, but included also the aim to contribute to "strengthening the exchange between Sweden and the Philippines". Principle forms of support were technical cooperation, NGOs, international courses and credits. Planning was at SEK 25 million annually (excl. credits and NGOs). Private sector support was phased out during the previous CSP period (1997-99).

Critical points mentioned: Goals were defined too broadly (lack of priority sectors) and conflicts of interests were an issue, primarily between goals and cooperation forms. It has been difficult to combine long-term and reactive approaches.
Swedish aid is too limited to make an assessment of the overall impact it has had. Some topics are revised, though: (i) *environment* – acquired considerable significance, with partners in Manila and Mindanao, (ii) *human rights/democracy* – largely left to NGOs, which made valuable interventions, the assessment claims, (iii) *poverty* – only indirectly addressed, as "most projects have had other goals than directly helping to alleviate poverty among the poorest groups", (iv) *conflict-management in Mindanao* – support directed via UNDP. So far, "there has been no demand for contract-finance technical cooperation that combines the conflict and poverty perspectives".

"Because of inadequately formulated goals and measurable monitoring indicators it has not been possible to evaluate the extent to which the goals have been achieved. The problem is serious since it means that an important assessment factor is missing". Poverty reduction does not feature high on the list.

Sweden's Cooperation Response: Focal Sectors

The broad outline of the two Swedish focal sectors can be found under "objectives". The section on the response to the challenges commences with the Philippine Development Plan 1999-2004. Its overall long-term goal is "poverty reduction through sustainable development and wider income distribution". For its achievement, tax collection, savings and social security systems will have to be addressed. Also crucial is peace and stability in Mindanao.

The CSP evaluates the GoP Programme hesitantly, pointing out that previous obstacles in the pursuit of the formulated policy remain in place. Future conflicts over resources are seen as possible.

Under the heading "Strategic issues", Swedish reaction to the Philippine endeavour is dealt with. It stresses the limited influence of Swedish assistance in the generally well coordinated donor community. No sectoral responsibility should be taken, as the scope of development assistance is not broad enough. Focus should be on selected areas and instruments, in accordance with the Asia strategy, i.e. "enabling the development of mutually interesting co-operation". Instruments should be contract-financed technical co-operation and credits, "both forms require the Philippine partner to identify problems and solutions without Swedish interference".

Comparative advantages of Swedish assistance are seen in "such areas as the sustainable use of natural resources". Support for good governance is a long-term engagement, as impediments are largely rooted in a feudal system, insufficient competence and capacity. Restricted Swedish resources should be used in the administrative sector, and CSO support via NGOs. The support for the Mindanao peace process – if the process is successfully continued – should be considered. Infrastructural projects of the Philippine government could lead to more contract-financed technical co-operation, "not least in the environment sector".

Sweden's Programme

There is no particular programme other than responding to GoP requests (see above). Administrative resources are named (1/3 of a SIDA post for contract-financed technical co-operation, approx. one full time person for the overall development cooperation).

Annex III: Morocco

I. Morocco MIC specificities

Morocco is a Lower Middle-Income Country with a per capita income below the average of this group of countries and considerably below the average for the region.[27]

Democratic institutions and governance

Political system

Morocco is a constitutional monarchy with strong powers attributed to the King. Hassan II (on the throne since 1961) died in 1999 and was succeeded by his son who became King Mohammed VI. The last years of King Hassan's reign already showed some liberalisation of the political system, while the overriding power of the monarchy was to be maintained. Hopes for more liberalisation were expressed with the accession of Mohammed VI, who expressed a commitment to the 'modernisation of monarchy'. However, his modernisation has to take into account strong conservative forces in the Moroccan establishment; Mohammed VI does not seem to be inclined to reduce the role of the monarch in the political system. The role of the king, the policy on Western Sahara and the role of Islam are taboo topics for public debate. Morocco is considered to be 'partly free' by Freedom House, with a score of 5 in both political rights and civil liberty in 2003.
Both political stability and voice/accountability are ranked below the averages; the latter, however, with a clear positive tendency (WBI 2003). In 1998, the left-wing opposition was appointed Prime Minister for the first time by then King Hassan II. Mohammed VI sacked the long-serving Minister of the Interior as a highly symbolic rupture with past governments. The new government made improvements with regard to the human rights situation and democratic reform, but faces severe challenges in economic policy. The elections of September 2002 were seen as the first free and fair elections.

Challenges of government's legitimacy / armed conflicts

The legitimacy of government is not seriously endangered. The conflict in Western Sahara is one notable exception: the Polisario Front fought against the incorporation of the former Spanish colony into Morocco in 1975. Settlers from the Moroccan heartland created a power basis for the Moroccan government. The issue of a UN-led referendum – agreed upon in 1988 – is still pending. The region is relatively calm since the ceasefire in 1991.
Islamist terrorist attacks in Casablanca in May 2003 shook the official Moroccan self-perception as an open and tolerant society. Moroccan national have also committed terrorist acts outside Morocco. Nevertheless, radically politicised Moslems, albeit a growing political force, do not endanger the legitimacy of government. A large number of Islamist radicals were arrested and severely sentenced (in some cases, the death penalty was applied). Government keeps a dialogue with the moderate Islamists (PJD).

Rule of law

The legal system is based on Islamic law and French and Spanish civil law system. The major opposition party, the *Parti de la justice et du dévéloppement* (PJD), demands the introduction of the Sharia as a long-term goal. In January 2004, a highly debated new personal and family law was passed which gives women equal rights in marriage and *de facto* restricts polygamy.

Government effectiveness

Morocco's rank with regard to government effectiveness is well above average for the region and for the income group. It ranks even slightly higher than Eastern Europe. The Prime Minister is seen as an able and efficient technocrat.

[27] The GNI per capita was at US$ 1,170 in 2002, as opposed to an average of US$ 1,400 for LMICs and an average of US$ 2,240 for North Africa and the Middle East.

Corruption

With regard to corruption, Morocco is ranked 70 of 133 countries by Transparency International (along Bosnia-Herzegovina, Dominican Republic, Egypt, Ghana, and Thailand). In the World Bank data, the country is perceived as less corrupt than the regional average and performing above the income group in this area. The new King triggered a campaign against corruption, including trials against allegedly fraudulent civil servants.

II. Role of EU aid and Millennium Development Goals

The overall amount of ODA makes up 1.8% of GNI; albeit it being the most important donor, the influence of the EU via financial flows is therefore limited. Much more important is the EU's position as a trading partner for Morocco.

The Moroccan King is committed to social and economic reform as well as poverty reduction, as is the government since 1998. Morocco has seen some considerable changes and improvements in the human rights situation in the last decade. Governance has improved and society became more diverse. The reform process, however, has limits and is slow.

In the Moroccan context, the poverty impact of aid could be enhanced by promoting the improvement of governance. The slowing down of decision making in partly due to the more complicated government coalition; implementation, however, is partly also slowed down by high centralisation of government. It may well be that endeavours to improve governance will reach a 'glass ceiling' very quickly, as the overruling and untouchable position of the King in the political system determines the high degree of centralisation.

The EU Member States have focused their interventions in Morocco in the following sectors (3 digit DAC):

Post-secondary education	20.8
Water supply and sanitation	13.9
Action relating to debt	7.8
Energy generation and supply	4.4
Transport and storage	4.3

EU donors spend only 1% of their overall aid on governance, i.e. in the DAC sector 'government and civil society'. A little less than one quarter (23%) of the projects in post-secondary education have reported poverty marker, about one fifth of which (21%) with a value of 1 or 2. The rate of projects/programmes with poverty marker is higher in the area of water supply and sanitation. Here, 37% of projects are attributed poverty marker, 30% of which with a value of 1 or 2. None of the action relating to debt or the energy projects have poverty marker above the value of 1.

Poverty

Poverty had declined substantially in the 1980s. However, it increased again in the 1990s, mainly due to very slow economic growth. With the economic difficulties, inequality raised again. Poverty is predominantly rural and has seen a particular increase in rural areas. Mounting population pressure on the cities is a result.

Access to basic services, however, increased in the last decade. This is visible in the rate of access to water, to sanitation and the immunisation rate for measles. Net primary enrolment also increased considerably from 58.2% in 1990 to 88.4% in 2001.

MDGs	1990	1998	2001	2002
Population below US$1 a day	..	..	2.0	..

Prevalence of child malnutrition	9.5	9.0	..	..
Net primary enrolment ration	58.2	72.3	88.4	..
Percentage of cohort reaching grade 5	75.1	75.0	83.7	..
Ratio of girls to boys in primary and secondary ed	..	..	85.1	..
Under 5 mortality rate (per 1000)	85.0	61.0	46.0	43.0
Immunisation, measles (% of children under 12m)	80.0	88.0	96.0	96.0
Births attended by skilled health staff	31.0	39.6	..	..
Prevalence of HIV female	..	..	..	..
Forest area (% of total land area)	6.8	..	6.8	..
National protected areas (% of total land area)	..	0.7	0.7	0.7
Access to an improved water source (% of pop)	75.0	..	80.0	..
Access to improved sanitation (% of pop)	58.0	..	68.0	..

III. EU Country Strategy Papers

1. European Commission

The period of the CSP for Morocco is 2002 to 2006. It includes the PIN for the years 2002 to 2004. It carries the “Partenariat Euro-Med” on its cover page and repeatedly refers to the Barcelona Process and the MEDA programme, as well as the conclusions of the Marseille conference.

1.1 EC objectives

Reference is made to the objectives of the Barcelona Process and the MEDA programme. Prime goals are the creation of a zone of peace and stability and a zone of prosperity (by the creation of an FTA by 2010), and mutual understanding.

Besides that (“En outre”), the CSP refers to the development policy statement of November 2000, which gives the reduction and ultimate eradication of poverty as goal for EU development policy. The MDGs are not explicitly mentioned.

1.2 Country analysis: Challenges

The country analysis refers mostly to the “Plan de developpement économique et social 2000-2004”. Two major challenges are identified: (a) the unemployment rate in urban areas and the increasing poverty and (b) the bad integration of Morocco into the world market. Areas more closely looked at are (i) economic development, (b) institutional development, (iii) special development and regional integration, and (iv) social issues and poverty. The latter is making up about 20% of the section (0.5 pages) 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 proper 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. Media rights are a negative point. Illegal migration is particularly dealt with under the sub-section of ‘external situation’. About 25% of the analysis is on the economic and social situation. The first one-tenth of the section (0.3 pages) is dedicated to poverty. Modest (but too weak) economic growth and macroeconomic stability are noted in some detail, as are – generally – improvements in governance.

Consequently, weaknesses in the medium-term are named (on roughly 2 pages) as weak economic growth which “sustains unemployment and poverty”. The social question remains pressing, particularly so with regard to gender inequality (both 0.5 pages). The rest of this sub-section touches on the vulnerability of agriculture, the necessary improvement of efficiency in the public sector, the business environment, and the necessity of increased investment.

1.3 Past interventions: Assessment

The assessment of past interventions looks at MEDA I (1996-99) and MEDA II (2000-2001). MEDA I financed an overall of € 630m, 19% of which was spent on economic reforms, 29% on support for economic transition and 52% on strengthening the socio-economic balance. Payments are lagging behind commitments, partly due to the slow Moroccan administration. MEDA II has a volume of planned € 261m, of which 20% is on the adjustment of the financial sector, roughly 20% on adjustment of the health sector, 10% on juridical reforms. Roughly half of the interventions (€ 120m) shall be spent on adjustment of the water sector.

A separate subjection focuses on interventions of the EIB, which gave € 867m in loans to Morocco (between 1996-July 2001). The money was predominantly spent on infrastructure, environmental projects and support for the private sector (e.g. via provision of risk capital). Other, smaller budget lines embrace support for democracy, environmental interventions, HIV/AIDS, co-financing of NGOs, and the fight against drugs. The summary of Member States’ interventions takes 1.5 pages, as does the review of IFI and other donors’ activities.

In a sub-section on “lessons of the past” – to be found after the focal sectors – the CSP states that the EC has an undisputable lever for the support of reforms and their implementation. Reference is made to several past evaluations of MEDA programmes (i.e. on the regulation, the structural adjustment facilities, the democratisation programme, and budget support). A subsequent risk assessment names uncertainties for the success of Moroccan development policy, among others the elections of 2002 and possible consequences of 11 September 2001. With regard to the latter, possible effects on the migration to Europe are named, as is the increase of social tension due to high unemployment and resulting political instability.

1.4. EC Cooperation Response: Focal Sectors

Two large priority areas are identified as (i) the area of growth/unemployment/poverty/migration, and (ii) the association agreement.

The PIN 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:

- (i) 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)
- (ii) 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)
- (iii) technical support for the implementation of the association agreement (aiming at the legal framework for the agreement, which should be made compatible with the EU framework).

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

The other 50% of the PIN are dedicated to the “social, cultural and human realm” and also gives three avenues for interventions:

- (i) development of human resources (training programmes in Morocco and its participation in the TEMPUS programme)
- (ii) emigration (support for management of migration and special support for the Northern region)
- (iii) environment (largely driven by financing from the EIB).

Also mentioned are agrarian and fiscal reforms. However, the conditions in these two sectors are seen as not yet given for further EC support, even though discussions have started in the Moroccan government. However, the door for future support in these areas remains open.

2. Germany

The German Country Strategy Paper (Länderkonzept) for Morocco dates of September 2002. The paper – as well as sectoral strategy papers – will be updated for the intergovernmental meeting in Rabat in June 2004.

2.1 German objectives

German development assistance claims to support the goals of the Moroccan government. No particular donor goals are explicitly given apart from that.

2.2 Country analysis: Challenges

The CSP names several core problems for Moroccan development: clientelism is named as one of the “main reasons for insufficient progress, pent up reforms [Reformstau] and slowed down development orientation”. The paper names stifling elite groups and stifled groups, e.g. young entrepreneurs, unemployed academics, women, and the trade unions. Further reasons for a lack of development are Morocco’s foreign policy which inhibits the creation of a regional market (territorial quarrels with almost all neighbours, particularly so Spain). The creation of an FTA in 2010 holds large risks due to insufficient competitiveness of a part of the 6300 enterprises in Morocco. In addition, the country lacks employment opportunities (20% unemployment, 30% among people with university degrees). There are large deficits in the Human development with regard to comparable countries; particularly disadvantaged are rural areas and women.

Poverty has decreased between 1980 and 1990 from 21% to 13%, but has risen again to 19% in 1999. Equally risen has the number of people with an income on the or up to 50% above the poverty line (35% to 44% in the last decade). Illegal employment is a vast phenomenon: the informal sector [sic!] employs half a million people full time, a large number of children (girls under 13 as household aid), and about 600.000 people are in smuggling and drug production (cannabis). “The administration and security forces tolerate the production of drugs, which hints at a coalition of interests”. The environment, particularly so water supply and quality, is increasingly becoming a problem. Debt service is binding a huge part of the budget (85%) and is inhibiting the range of manoeuvre of the government which is claiming to be dedicated to a social programme. The conflict potential within the country is rising.

Developmental potential lies in the creation of urban centres, which help in the creation of reform oriented social groups. The Barcelona Process with the EU creates economic pressure to overcome political disputes in the region. The manufacturing sector could gain from the FTA with the EU. Services, in particular tourism, also hold a considerable potential. Other potential for economic activities and growth are fishing (after the end of the fishery agreement with the EU in 1999), improved market access for agricultural products, and renewable energy (water and wind energy plus photovoltaic).

The political situation has improved (already under Hassan II, but particularly under Mohammed VI). However, the reforms are stifled by an old-fashioned bureaucracy and flickering public policy in the wake of parliamentary elections (subsidies with negative long-term effects). The de facto absolute monarchy is not questioned by the new king. Islamic groups gain influence. Positively noted is the decentralisation: the communal level has been strengthened by having been attributed 15% of VAT. Regions shall be reduced from 16 to 9. Civil rights are enshrined in the constitution, but practice “does not always follow Western patterns”. There are three political taboos: (i) the untouchable king, (ii) Western Sahara is a part of Morocco, and (iii) the holiness of Islam. Morocco is a market economy; property rights, freedom of enterprise etc are guaranteed. Slow administrative procedures, relatively high labour costs and taxes, plus lack of investment into human capital inhibit a stronger economic dynamism.

2.3 Past interventions: Assessment

ODA is at 1.3% of GNP (in 2000), as compared to 4.1% in 1990. France and the EU are by far the largest donors (each above € 220m), followed by Japan (€ 97m) and Germany (€ 55m).

Until the end of the 1980s, the focal areas of cooperation were the agriculture, energy, tourism, infrastructure, support for the phosphate production and education and training. The focus has been narrowed down to the water/sanitation, agriculture, environment/resource management, and training. Other areas were phased out. Some areas saw important structural changes that can be attributed to German cooperation, e.g. a participative approach in the water sector. With regard to training, Morocco adopted the 'dual training system' of Germany. Also active in Morocco are all German political foundations; their areas of particular intervention are indicated. Economic relations, however, are below the expected level. The German-Moroccan Chamber of Commerce, opened in Casablanca in 1997, shall help to improve this.

Due to a lack of central overall coordination of the government, the assessment is conducted within sectors; its results are mixed. The water authority (ONEP) is judged positively. It is, however, slowed down by the political framework beyond its influence. Other areas, such as the health or energy ministry, lack "ownership". Consequently, there is little structural change from smaller successful cooperation.

No precise figures are given. No assessment of the movement towards (or lack of such) the MDGs are undertaken.

2.4 German Cooperation Response: Focal Sectors

The CSP states that Morocco's actions are overall directed towards development; the human rights situation has improved and economic policy tries to prepare the country for the FTA with the EU. The government has decided on wide-ranging reforms; implementation, however, is dragging its feet. The framework for a speeding up of social reforms is seen as particularly unfavourable, also due to costs of the occupation of Western Sahara and the high debt service. Average annual growth of 6% would be needed. Reality is at 2.1%. In 2000, the government has presented a 5-year-plan for development, including: poverty reduction, support for women and the youth, improvements for economic activities and employment, education, and development of the rural area. These priorities address the crucial issues of Morocco. German development cooperation tries to provide funding for these focal areas.

Three major areas for German-Moroccan cooperation are:

- (i) water and sanitation
- (ii) environment / resources management incl. renewable energy
- (iii) economic support (incl. professional training)

There are no figures attributed to the focal sectors. More detailed description relate to past interventions, such as legislative acts that have been drafted or already been approved by Parliament and need implementation. Interaction is concentrated on the government.

Annex IV: Brazil

I. Brazil MIC specificities

Brazil is a lower middle income country[28] with a per capita income very close to that of upper middle income countries.

Democratic institutions and governance

Political system

Brazil is a constitutional federal republic composed of 26 states and the Federal District. The latest elections for president, senate and deputies took place in October 2002.
Brazil was rated 'free' in 2003 (Freedom House). The rating was 2 with regard to political freedom and 3 in the areas of civil liberties.[29] The 2002 elections were free and fair and were the fourth consecutive elections since the end of military rule in 1985. Privately owned media vigorously reported and commented on government performance.

Challenges of government's legitimacy / armed conflicts

Rural violence, including the killings of land reform and rural labour activists, persisted. Large landowners control nearly 60 percent of arable land, while the poorest 30 percent share less than 2 percent. However, the state as such and its institutions are not put into question.

Rule of law

The legal system is based on the Roman code. Organised crime related to drugs is very high and Brazil has the highest rate of homicides caused by firearms of any country not at war. The efficiency of the judicial system in resolving conflicts is low. The 2003 US State Department Brazil country report notes that the Federal Government generally respected the human rights of its citizens; however, there continued to be numerous serious abuses; the human rights record of several state governments was poor.

Government effectiveness

Government effectiveness compares well in the region but lags behind OECD countries and the region's best performers (World Bank database 2002). Brazil ranks 50 among 199 countries on the WBI government effectiveness indicator. Brazil has strong budget systems and uses transparent and inclusive decision-making processes, i.e. participatory budgeting and involvement of community associations and local councils in budget and policy decisions. In general, government capacity is stronger for policy than for implementation. The country has strong fiduciary systems. The CFAA rated the country's financial accountability system and institutions as well

[28] GNP per capita is $2,830 in 2000. Upper middle income countries, $2936-$9075. It is eligible for 17 year IBRD terms.
[29] The score ranges from 1 to 7, with 1 representing the ideal case and 7 the worst performance.

designed and reliable in tracking budget expenditures, with a high degree of transparency (CAE, p. 26). Similarly, the Country Procurement Assessment (CPAR) rated federal procurement systems and institutions as satisfactory and among the strongest in the region.

Corruption

Corruption is an important issue; Brazil ranks 54 of 133 countries in the TI Corruption survey (along the Czech Republic and Bulgaria).

II. Role of EU aid and Millennium Development Goals

Brazil received less than $ 350 mill of net ODA from all donors -average 2000-2002),[30] less than 0.1% of its GDP. This compares to about $ 10 billion in net private flows,[31] and $2 billion in government revenues. Thus, the role of donors and EU aid is limited.

The Brazilian economy is large, almost $ 500 billion, and 10-25% of 175 million Brazilians live in poverty. In this context the impact of the EU aid on poverty is modest. Measurement of this impact is also complicated by the fact that the EU country strategies (EC and UK) do not refer explicitly to the MDGs.[32]

In the Brazilian context, the poverty impact of aid could be enhanced by:

a) Providing knowledge and technical assistance to support equitable and sustainable growth.
b) Innovative, well-performing pro-poor investments that can be replicated
c) Support government's political will to tackle inequality and poverty.[33]

The EU Member States have focused their interventions in Brazil in the following sectors (3 digit DAC):

	(%)
General environment protection	14
Other Social Infrastructure	11
Energy generation and supply	10
Forestry	8
Post-secondary education	8

The environment and forestry sectors have received 22% of the bilateral aid from Member States. They are also priority sectors in the EC and UK country strategies. Environmental issues are key challenges in Brazil but it is not clear how much donor programmes in this area contribute to poverty reduction. [34]

The main sectors receiving EU aid do not include basic social services which are often strongly linked to poverty reduction strategies and the MDGs.[35]

Brazil has made important progress in reducing poverty, particularly through health and education interventions and interventions in the Northeast (WB CAE). This has been made through government programmes, with limited donor support. These programmes have made important contributions towards meeting the MDGs. However, success in other sectors, including governance, regulatory reforms and environment has been more limited (WB CAE).

[30] 500 mill USD in gross ODA
[31] DAC Aid at a Glance data.
[32] UK CSP predates the MDGs.
[33] This is precisely the chosen strategy for the UK in Brazil (see section on the UK CSP).
[34] The UK country strategy noted that "there was still need to improve the links between the environment programmes and poverty". Some other donors, e.g. World Bank, noted satisfactory results.
[35] Indicator 34 for monitoring progress of MDGs, as reviewed in May 2002.

Poverty

The poverty rate in Brazil was reduced from 40.7% in 1990 to 33.6% in 2000; this is a better record than other countries in the region (UN-ECLAC 2002). In the Northeast poverty was reduced from 68.6% to 57.4%, partly as a result of the 1994 stabilisation programme and also because of the introduction of rural pensions and health and education pro-poor programmes.

Brazil achieved a significant increase in net enrolment rate in basic education: from 84% in 1991 to more than 95% in 1999 and in the Northeast, from 72 to 93%. However, the quality of teaching is still weak. In health, infant mortality declined from 48 per 1000 live births in 1990 to 31 per 1000 in 2000, particularly in the Northeast, and life expectancy increased. There was also a decline in the transmission of HIV/AIDS and deaths from communicable diseases. (World Bank, Table 9, CAE page 32) and success in expanding access of the population to basic services, such as improved water source (rose from 73 percent of the population in 1986 to 87 percent in 2000), electricity and sanitation.

In the 1990s Brazil made significant progress in all areas of the MDGs and is likely to meet all national targets by 2015, although some monitoring on child nutrition and maternal mortality is necessary (World Bank).

MDGs	1990	1995	2001	2002
Population below 1 a day			8.2	
Prevalence of child malnutrition	7.0	5.7		
Net primary enrolment ration	86.4	89.7	97	
Percentage of cohort reaching grade 5	71.7	70.8		
Ratio of girls to boys in primary and secondary ed			103.1	
Under 5 mortality rate (per 1000)	60	48	36	35.7
Immunisation, measles (% of children under 12m)	78	90	99	
Births attended by skilled health staff	75.6	91.5		
Prevalence of HIV female			0.5	
Forest area (% of total land area)	65.6		63	
National protected areas (% of total land area)		4.2	4.4	
Access to an improved water source (% of pop)	83		87	
Access to improved sanitation (% of pop)	71		76	

III. EU Country Strategy Papers

3.1 European Community

The latest European Community CSP, 2001-2006, was approved in August 2002, only 2 months before the Brazilian general elections.[36] The previous CSP covered the period 1998-2000 and focussed on: modernisation of the economy, public administration, social development and *the* environment.

[36] As a consequence of the timing, the CSP recognised that it might have to be revised “It should not be excluded that it might be necessary to revise the EC response strategy in the course of 2003 in function of the new government’s priorities”.

The CSP 2001-2006 provides the rationale for the EC programme as described in the National Indicative Programme and in the Memorandum of Understanding (Commission and Government of Brazil). However, the Brazilian CSP also notes that it needs to be consistent with the draft memorandum of Understanding[37]. The MoU (November 2002) notes that the focal sectors are consistent with the priorities established on the "Orientacoes pluriannuais indicatives para o Brasil" (OPIN-approved in October 1998).

The timing of the CSP 2001-2006 and the fact that the MOU refers to the 1998 OPIN strongly indicate that the CSP could not have taken into account the priorities of the incoming Lula administration - January 2003. For example, the new government has made more explicit its commitment to reducing poverty reduction and inequality and to meeting the Millennium Development Goals. However, unlike the World Bank Country Assistance Strategy –approved in December 2003- the EC CSP does not refer to the MDGs. Below we analyse the poverty focus of different sections of the EC CSP:

EC Objectives

The CSP specifies the European Community's general objectives as well as its objectives in Latin America. It also notes EC objectives concerning Mercosur and Brazil – particularly in the context of the EU-Brazil Framework Co-operation agreement (ratified in 1995). Here, there is an important emphasis on trade, investment, finance and technology cooperation. The focus on poverty is lower.

Country Analysis: challenges

The largest part of the CSP's analysis section (about 40%) describes the economic and commercial importance of Brazil for EU investment and EU trade and the importance of achieving an Association Agreement -including a Free Trade Area agreement. However, this section also includes a discussion on poverty and inequality (about 25% of the section). The CSP notes the pervasive dichotomy of Brazil where the GDP PPP of Brasilia DF is close to that of Portugal while the GDP of Maranhao State is close to that of Pakistan, " Brazil contains both the First World and the Third World".

The CSP also briefly notes that "Approximately 50 million Brazilians (…) live below poverty level" and that inequality is related to land distribution and race. However, the CSP does not present a systematic analysis of the profile or dynamics of poverty or how Brazilian poverty and inequality compares to that of other countries. The CSP notes regional disparities but it does not provide further analysis. Similarly, no analysis is provided of the recent positive evolution of education and health indicators and the MDGs. Instead, the CSP identifies some general weakness in Brazil's social programmes, e.g. paternalism, poor coordination and global strategy and insufficient follow up on the ground, and notes the importance of more effective redistribution mechanisms. The contribution made by this section of the CSP to the understanding of poverty in Brazil and to the design of effective pro-poor interventions is limited.

Past Interventions: Assessment

[37] "response strategy should also be consistent with the draft Memorandum of Understanding." The Memorandum of Understanding was signed on 19 November 2002. (Two months before the inauguration of the new Government).

This section includes a brief assessment of past EC projects in Brazil (about 20% of the section), paragraphs on economic cooperation, social cooperation, administrative reforms, science and research and the environment. This section also includes a relatively comprehensive discussion of programmes from other donors, e.g. it notes that DFID focuses strongly on poverty and inequality and the MDGs, Denmark focuses on indigenous peoples and Finland, Ireland and Sweden only work through NGOs.

Only the assessment of social cooperation programmes make some reference to poverty,[38] e.g. projects show good results and should be replicated but NGO co-financing should give more priority to poverty reduction.

EC Cooperation Response: Focal Sectors

This section argues that EC policies are coherent and again focuses considerably on trade but also on science, environment, information society, etc. "Our policies towards Brazil form part of the framework of EC policies towards Mercosur as a whole and are linked to the EC policies towards the other members of Mercosur". The CSP justifies the focus on trade issues by noting that "…, the Council and the Commission have adopted a joint statement in 2000 on development policy, which clearly links trade and development and recognizes the need for technical assistance in this area".

This section takes into account EC objectives, country analysis and assessment and proposes an EC programme of 64 million euro for the 2000-2006 period focusing in 3 focal sectors: economic reform, social development and the environment.[39] [40] Only the programmes in the social development focal sector are explicitly targeted to the poor (15 million euro or 23% of the total indicative budget). These include a) poverty programmes in the Northern and North-Eastern Regions and (7.5 million euro) b) Social programme for rural areas and urban shanty towns (7.5 million euro).

As noted, about a quarter of the EC programme is directly targeted to the poor. The Brazil EC CSP notes that normally EC cooperation with a middle income country would focus on economic and trade issues rather than on poverty. However, the Brazil CSP argues that the levels of poverty and inequality in Brazil are so high that the programme had to address poverty issues.[41]

[38] The CSP mentions that the conclusions are based on the mid-term and final evaluation of the project b7-310/94/107 "Programa Infancia Desfavorecida no Meio Urbano" and the mid-term evaluation of B7-310/95/115 "Programa de Apoio as Poplulacoes Desfavorecidas" and the mission report regards budget line B7-6000 for NGO co-financing.

[39] Note that in practice public sector reform is also a focal sector for the 2000-2006 period (see below). The country programme is also a result of the Memorandum of Understanding , negotiated with the Brazilian authorities.

[40] This programme of 64 million euro excludes horizontal programmes for co-operation in Latin America such as AL-INVEST, URB-AL, ALFA; @LIS; in science; in energy; environment and cofinancing; human rights, drugs, etc.

[41] "In the case of Brazil there is a paradox. On the one hand co-operation with a middle-income country like Brazil…should in principle not be based on the same criteria as development cooperation with poorer countries. On the other hand, due to wide-spread social problems, often related to poverty, EC cooperation is unavoidably drawn towards social needs".

The interventions on *economic reform* (22 million euro, 35% of the indicative budget) are intended to support structural reform and the integration of Brazil into the world economy ("activities of mutual interest" as defined in the Memorandum of Understanding). These interventions are mostly Trade Related Technical Assistance and Capacity Building -trade facilitation and standards, intellectual property, trade and investment, etc. The CSP does not suggest an explicit link between these activities and poverty reduction. The indicative projects include support to Information Society Cooperation, Chambers of Commerce, EU exchanges with the Labour Relations Secretary in Sao Paolo and Sanitary measures in agriculture. This focal sector also includes programmes on science and technology designed to contribute to innovation and competitiveness, (8 million euros, 12% of the indicative budget)[42][43].

The interventions on the focal sector *environment* (6 million euros, 9% of the indicative budget)–second phase of the Pilot Programme for the Conservation of Brazilian Tropical Forests (PPG7)- also do not present explicit links with poverty reduction.

On the *social programme*, (23% of the indicative budget), however there is an explicit link to poverty. The NIP argues that given the limited resources of the EC it is particularly important to focus EC programmes on well defined issues and communities, in order to achieve local impact and develop successful intervention models. Two programmes are proposed targeting poverty in Northern and North Eastern Brazil (7.5 million euro) and in rural areas and shanty towns (7.5 million euro). However, the NIP does not describe the interventions to be chosen clearly. The MOU, however, suggests that these projects include support to local handicrafts, community development in the shanty towns of Rio de Janeiro (support for micro-enterprises) and Rural and Social Development, exchange of EU experiences in agricultural development.

Finally, while the CSP and the NIP do not mention Public Administration as a focal sector, the MoU explains that the NIP funds committed in 2000-2001 (13 million euro) supported public administration reform. Again, an explicit rationale describing how the modernisation of the state might contribute to poverty reduction is not provided. Projects in this area include: Institutional Support to the Human Rights Secretary; Support to State Modernisation and TA to the Escola Superior de Administracao Fazendaria.

3.2 United Kingdom

The UK Country Strategy paper was approved in December 1998, two months after the second Cardoon government was inaugurated in October 1998.

[42] The MOU mentions support to the Technological Centres Network.

[43] The NIP notes that one expected result of this programme is "improve the disparities between centres in the North and South of Brazil". However, this objective is not mentioned in the signed Memorandum of Understanding.

UK Objectives

The UK objectives are included in the summary of the CSP and refer to the targets on poverty reduction and Brazil's own priorities.

Country Analysis: Challenges

This section includes a discussion on poverty and inequality, macro-economic management, social services, governance, indigenous peoples and environment. In all these sections (except macro-economic management) the analysis is focussed on the links with poverty, i.e. on governance "much more needs to be done to ensure that the interest of poor people are properly reflected in government", on environment: "support needs to be given for the participation of the poorer and more vulnerable groups (…) in resource management decision-making, both to improve the opportunities available to them and to benefit the national environment".

The CSP notes that Brazil has one of the highest income inequality distribution in the world, the highest number of absolute poor in South America and rising expectations. It also notes that the Cardoon administration has not adopted a coherent over-arching strategy to address poverty. The CSP presents the Brazilian International Development Targets and progress to date and prospects. In this section the discussion of poverty has a central place. However, only in environment, the analysis is sufficiently detailed as to contribute to the rationale of effective pro-poor interventions.

Assessment of Past Interventions

This section presents a brief assessment of DFID interventions in the environment, public sector reform and human rights. The environment assessment appears to be realistic and provides a good summary of the successes of the DFID programme while noting that "there is also scope for the programme to reflect the White Paper criteria more closely by placing greater emphasis on promoting sustainable livelihoods of poor people within the Amazonian".

The assessment of public sector reform, both in the health sector and administrative reform with the Ministry for Federal Administration and State Reform –MARE, notes that the programme has supported public sector delivery but it recognises that it the projects only had an indirect link to poverty. This section is also focused on poverty and contribute to improve the pro-poor focus of future interventions.

UK Cooperation Response: Focal Sectors

The UK CSP argues that the major constraint to poverty reduction in Brazil is not external funding but the political will to tackle inequality. As such, the UK's most effective contribution to tackle poverty is at the level of policy dialogue and in strengthening UK links with key multilateral agencies.

The UK CSP proposes to increase the programme to 11 million GBP by 00/01 (from 6 m. GBP) and include more direct links to poverty reduction. It proposes that the main focal sector environment/sustainable development will a) respond more directly to the needs of the poor with field level programmes to improve livelihoods (models to replicate) b) work more with Ministries and institutions responsible for environmental and rural poverty issues c) work with civil society to strengthen government institutions d) identify opportunities to improve the position of indigenous peoples. On public sector and health reform the CSP proposes that further interventions should be more “clearly targeted on the improvement of services for poverty reduction”. Some limited support to Land Reform is also considered.

The UK CSP notes the possibility of collaboration in more trade-investment related areas but recognises that these areas are not the main focus of the UK programme.

UK Programme 00/01

(binding commit)	
Natural Resources	2
Urban Environment	0.2
Good Governance	0.2
(other plans)	
Forest Management	0.6
Forest/Agriculture	1.4
Conservation	0.6
Floodplains/Fisheries Mg	1.2
Other Livelihoods	2.2
Good government	0.5
Health	0.6
Others	
Total	11