Middle-Income Countries in the New International Landscape: Challenges for Aid Policy

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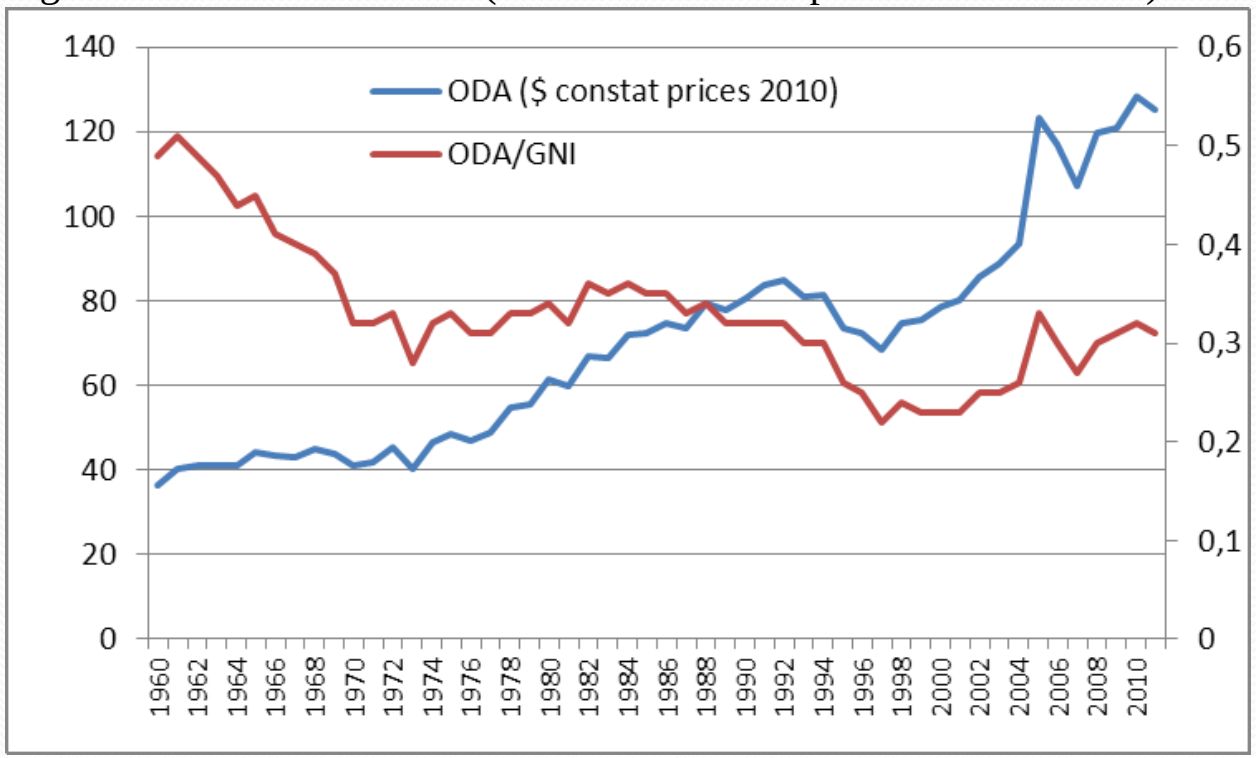
Main messages

- The development cooperation system has significantly changed during the last fifteen years, but international reality has evolved even more quickly and more intensively
- The new role of MICs is at the core of most of these changes: the implication of MICs into global responses to our common problems is now crucial
- The international cooperation system should maitain its support to some MICs, in order to guarantee that these countries are able to keep up a sustained process of development and to participate in global responses
- Some MICs are obligues to assume new resposibilities in building cooperative responses to common problems (a new vision of the common-but-differentiated principle)
- But traditional powers (and donors) should be ready to review their previous commitments and structures of global governance to allow MICs assume their new role in the international arena

I.- Evolution of aid: is aid condemned to irrelevance?

ODA is a financial flow with rather limited dynamism

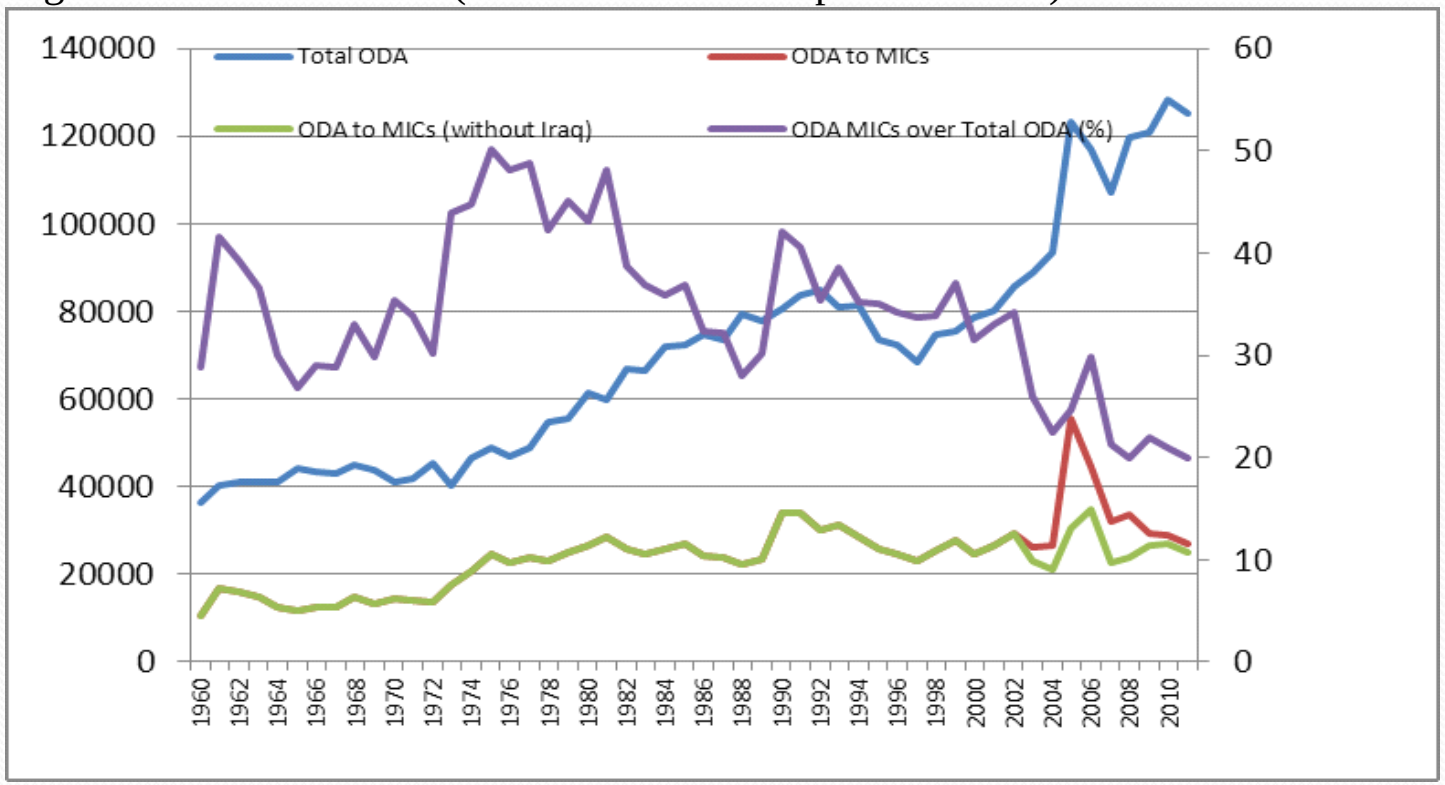
Figure 1: Evolution of ODA ($ billions constant prices and over GNI)



Source: DAC (OECD), DAC Statistical Tables

This is particularly true in the case of ODA oriented to MICs

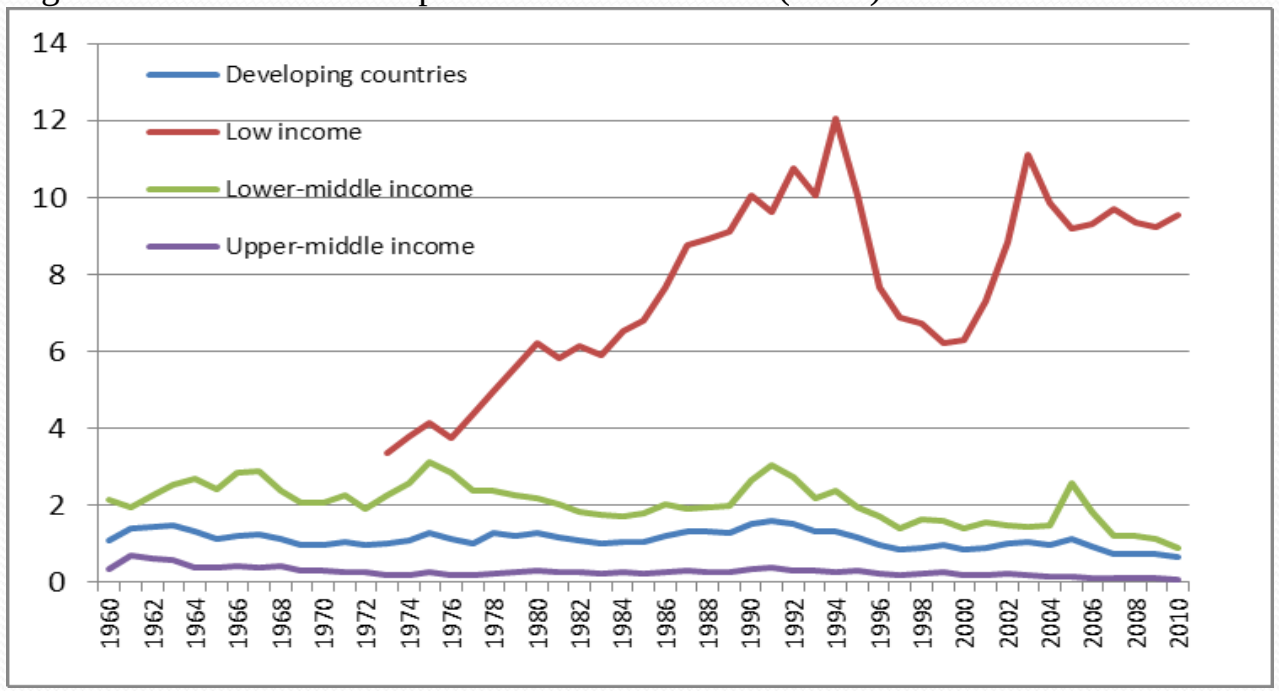
Figure 2: ODA to MICs ($ Million constant prices and %)



Source: DAC (OECD), DAC Statistical Tables

Similar conclusions are obtained when aid is seen in relation to the recipient´GNI

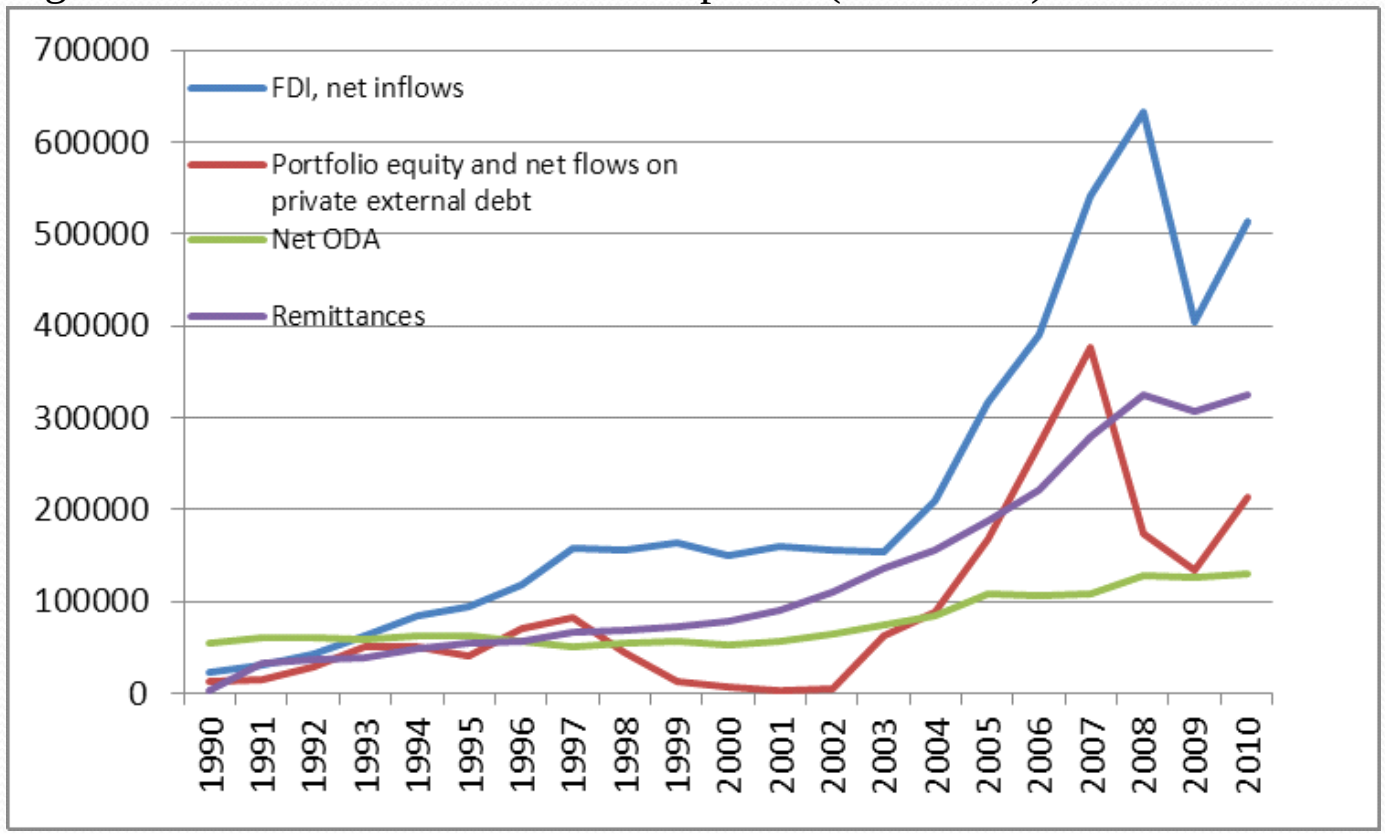
Figure 3: ODA over recipient countries´ GNI (in %)



Source: World Bank, World Development Indicators

The limited dynamism of ODA is in contrast to the expansion in private financial flows to developing countries

Figure 4: Financial sources for development ($ Millions)



Source: World Bank, World Development Indicators

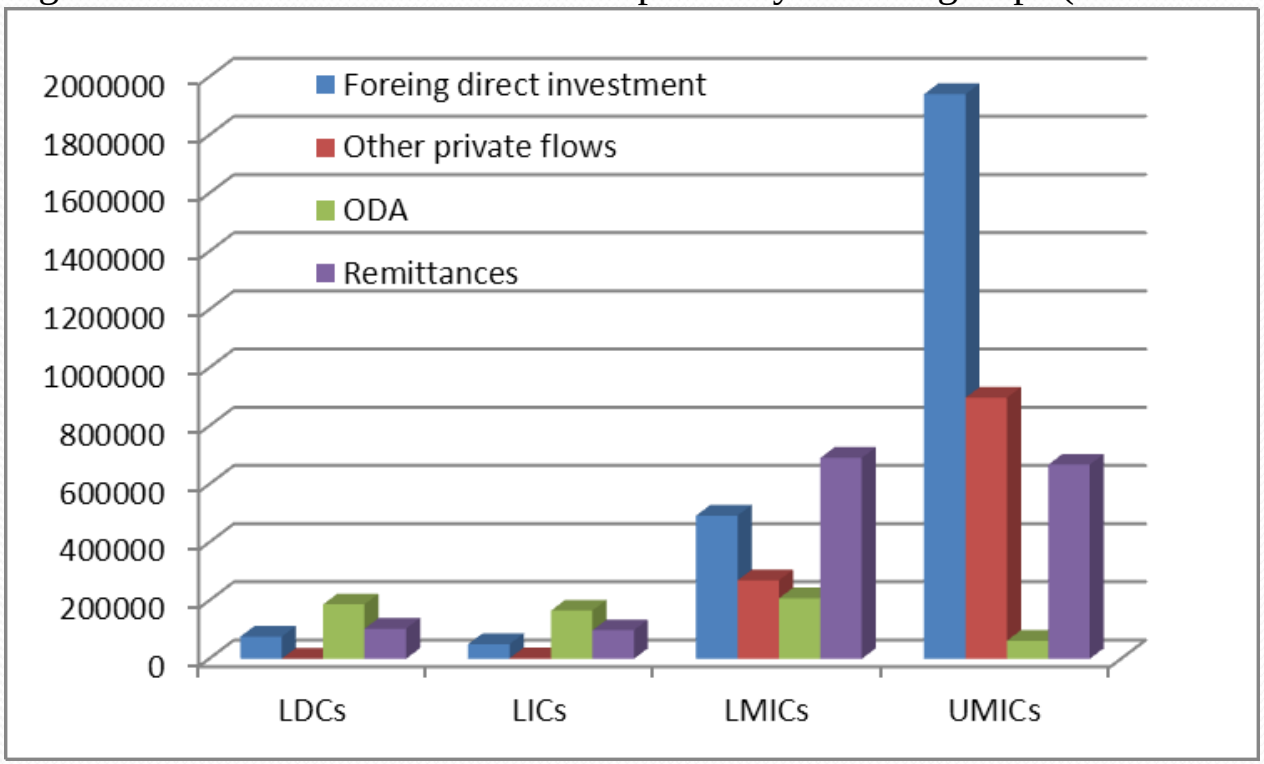
A question

- Is aid condemned to become increasingly irrelevant in a world of derregulated flows?

- Three factors to be taken into account
  - The overall picture presents a version of the fallacy of composition
  - Not only volume of funding sources is important, but also flow predictability
  - For many countries (particularly most of MICs) the aid′ main role is a catalytic one (as an incentive to promote changes)

Ais is no significant for UMICs, but is the main financial source for LDCs

Figure 5: Financial sources for development by income groups ($ Millions 2006-2010)



Source: World Bank, World Development Indicators

The necessity of new sources of financing

- The historical aid ressistance to growth
- The effects of the crisis in ODA budgets
- The emergence of new global issues (poorly provided)

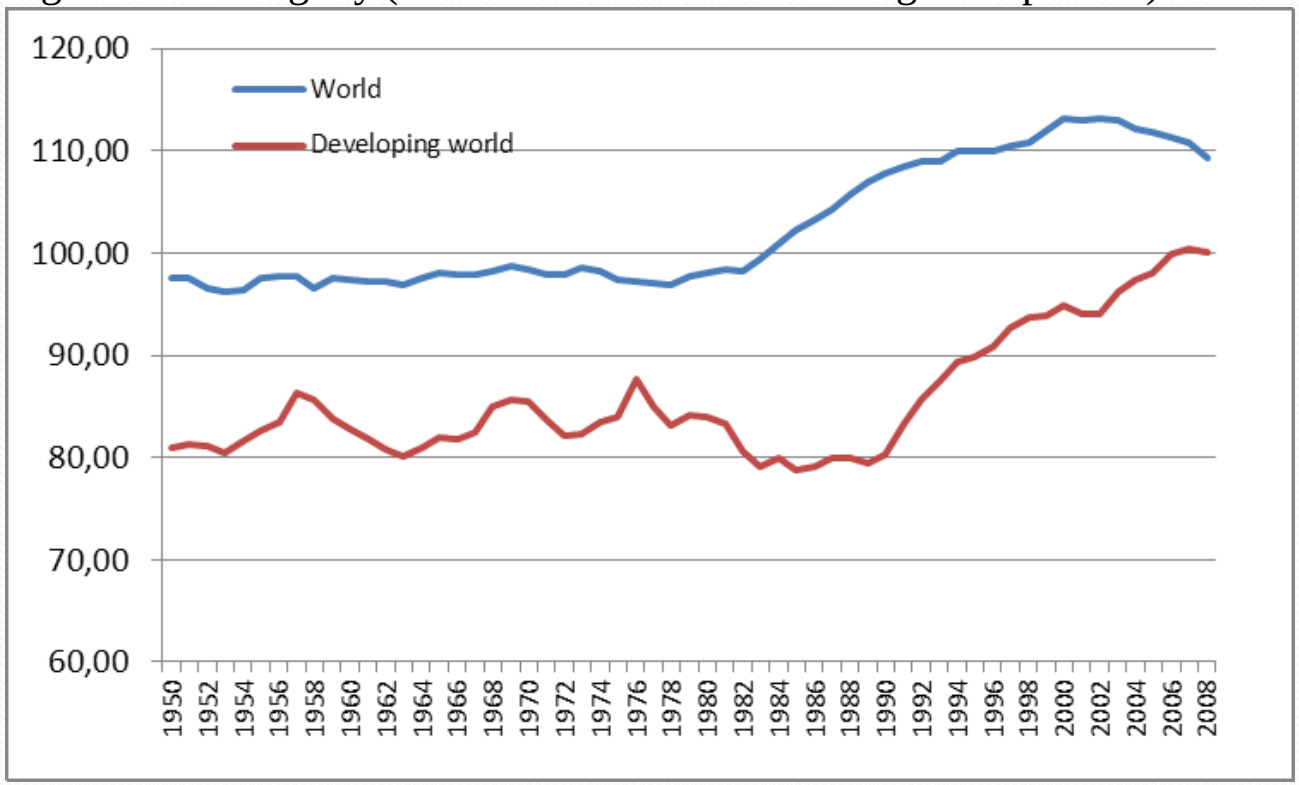
- All these factors bring up the necessity to open the cooperation system to new sources of financing

II.- New Trends in the International System

a) Increasing heterogeneity in the developing world

The coefficient of variation of countries' GDP per cápita (in PPP) has increased

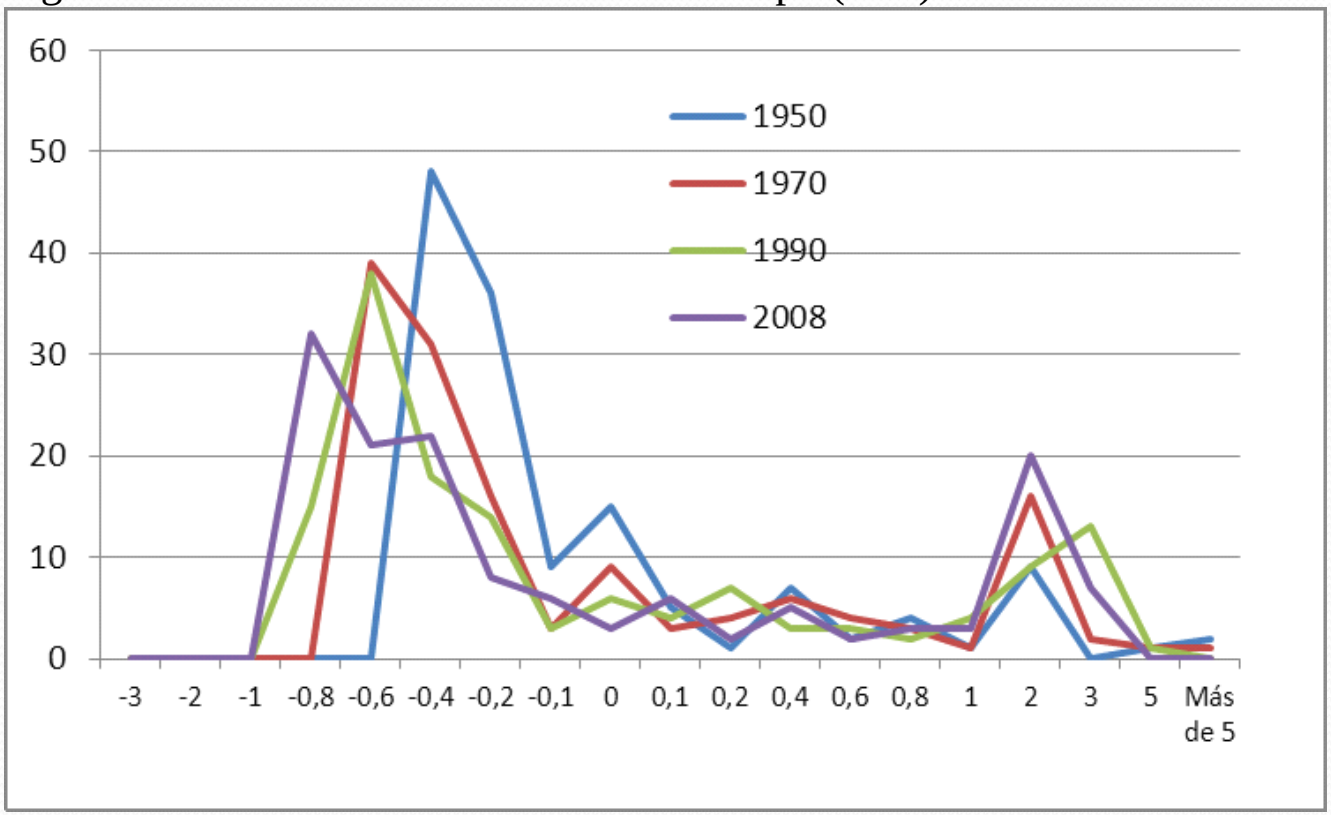
Figure 6: Heterogeity (coefficient of variation among GDP pc PPP)



Source: Maddison (www.ggdc.net/MADDISON/oriindex.htlm)

The standardized density function of the countries´ GDP confirm this idea

Figure 7: Standardized distribution of GDP pc (PPP)



Source: Maddison (www.ggdc.net/MADDISON/oriindex.htlm)

Finnaly, World Bank´s classification confirms that the majority of the population of developing countries live in MICs

Table 3: Changes in World Bank Country Classification

	Number of countries			Population (in %)			GDP PPP (in %)			Top/bottom GNI per capita (PPP) intra-group relation		
	1990	1998	2010	1990	1998	2010	1990	1998	2010	1990	1998	2010
LICs	52	63	35	57.8	59.6	11.6	10.3	20.4	1.3	8.4	8.2	6.8
LMICs	55	57	56	11.9	15.4	36.0	8.7	10.1	11.7	5.0	2.6	5.3
UMICs	38	37	54	8.6	9.9	35.8	19.2	12.6	32.1	2.9	1.9	3.0
MIC	93	94	110	20.6	25.4	71.8	20.0	22.8	43.9	14.4	4.5	15.9
HICs	40	30	70	15.4	14.5	16.4	60.8	56.8	54.9	2.1	2.2	2.9
Total	175	187	215	100	100	100	100	100	100	93.9	75,2	178.4

b) The new patterns of global poverty

1.-There has been a significant decrease in the number of poor people

	Chandy and Gertz (2011)		Ravallion (2012)	
	Million	%	Million	%
East Asia	53,4	2,7	159,3	7,7
Europe and Central Asia	4,3	0,9	1,4	0,3
Latin America and Caribbean	27,3	4,5	33,6	5,5
Middle East and North Africa	5,4	1,9	9,7	2,7
South Asia	145,2	8,7	418,7	23,9
Sub-Saharan Africa	349,2	39,3	397,2	41,2
World	585,5	9,9	1019,9	16,3

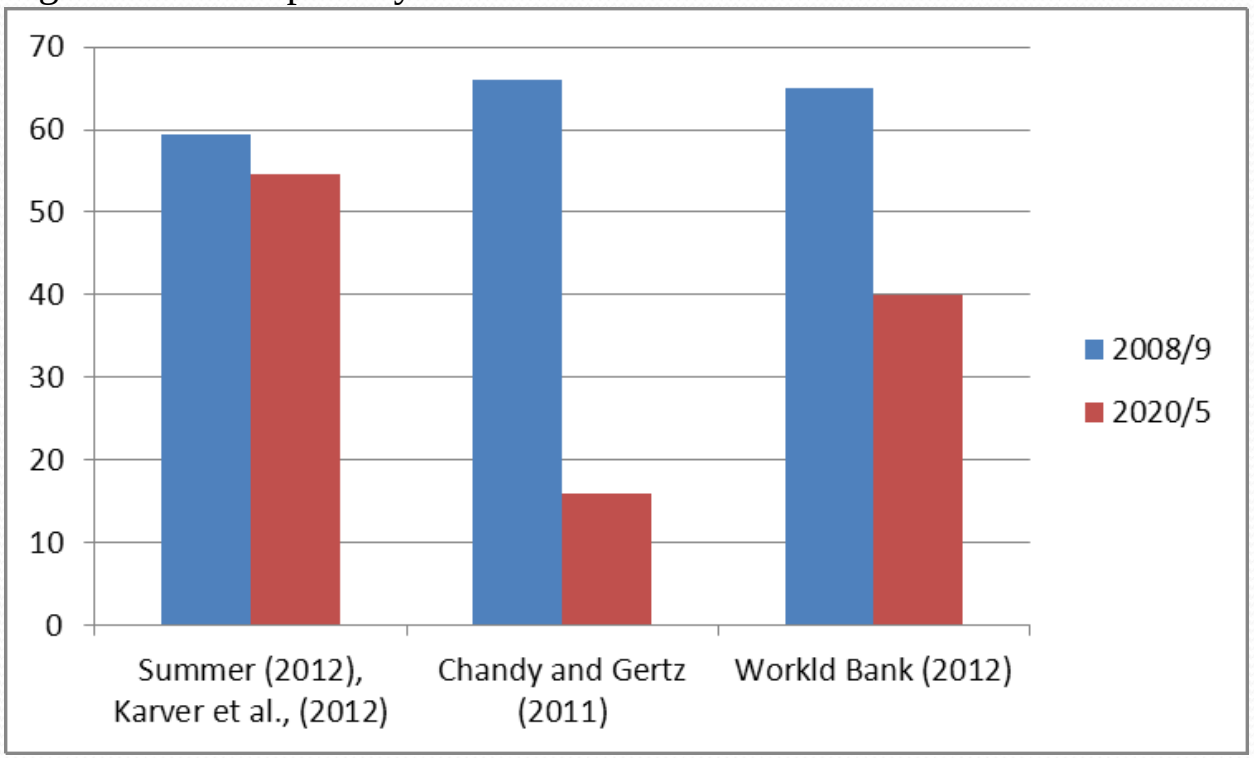
2.- Poverty is no longer concentrated in LICs (Sumner, 2011)

Table 5: Distribution of global poverty ($ 1.25 per day) 1990 vs 2007

	Non-adjusted base years				Adjusted base years			
	1990		2007		1990		2007	
	Millions	%	Millions	%	Millions	%	Millions	%
LICs	1,596.1	94.5	305.3	24.1	1,632.5	93.1	342.7	29.1
MICs	93.2	5.5	960.4	75.9	121.4	6.9	836.0	70.9
Total	1,689.3	100	1,265.7	100	1,753.9	100	1,187,7	100
China and India	1,137.9	67.4	673.0	53.2	1,123.6	64.1	561.3	47.6
MICs minus China and India	-		287.4	22.7			274.6	23.3
LICs minus China and India	458.2	27.1			509.0	29.0		

Under prudent assumptions, the high concentration of global poverty in MICs is likely to continue at least for a decade

Figure 8: Global poverty in MICs



Three partial conclusions

- Eliminating absolute poverty is today more affordable than ever before: we could confirm this idea through the poverty gap or through the marginal tax rate required to eliminate poverty
- Eliminating poverty could likely very difficult if MICs are left alone to tackle their own pockets of poverty
- We are obliged to address relative poverty and not only absolute poverty

c) A multi-polar world

The poles of global economic growth are located in emerging and developing countries

	2010		2030	
Country (or Group)	GDP (in $ at exchange rates	GDP (in $ at PPP)	GDP (in $ at exchange rates	GDP (in $ at PPP)
United States	23.5	16.8	17.2	11.8
UE-27	26.1	18.7	17.3	11.9
Japan	8.7	6.3	5.3	3.6
China	9.4	17.4	16.1	23.5
India	2.5	5.3	6.0	9.8
Brazil	3.3	3.7	3.3	3.3
Russia	2.3	3.8	1.5	2.3
Emerging and developing countries	34.2	52.5	53.0	68.2

Some key MICs have become important poles of growth in their regional areas

Table 6: New powers

	Numer of countries	Percentage in regional population (%)	Percentage in regional GDP(PPP)	Weight in regional growth
Latin America and Caribbean				
Brazil		33	32,3	33
Mexico		19,2	23,5	14,7
Total	*33*	*52,3*	*55,8*	*47,7*
North Africa				
Egypt				
Total	*5*	*40,9*	*42,6*	*44,9*
Western Africa				
Nigeria		45,8	53,8	60,2
Total	*23*	*45,8*	*53,8*	*60,2*
Eastern Africa				
	11			
Southern Africa				
South Africa		30,3	66,9	55,9
Total	*14*	*30,3*	*66,9*	*55,9*
Western Asia				
Iran		35,6	32,2	32,9
Total	*13*	*35,6*	*32,2*	*32,9*
Southern Asia				
India		74,9	82,5	85,4
Total	*8*	*74,9*	*82,5*	*85,4*
Eastern Asia				
China		62,7	55,7	77,5
Indonesia		10,7	5,2	4,9
Total	*17*	*73,4*	*61,1*	*82,4*
Central Europe				
Rusia		40,4	52,9	50,8
Turquia		20,9	24,9	22
Total	*12*	*61,3*	*77,9*	*72,8*

d) Wider scope for international public goods

Some international public goods

Main Objective	*Area*
Configuration of Social Order	International Justice
	International Norms
	International Institutions
Preservation of Life	Control of Contagious Diseases
	Global Common Goods (Climate Change, Biodiversity, Ozone Layer, International Fisheries..)
	Protection From Crime And Drug-Trafficking
	Peace And Security
Wealth Promotion	Financial Stability and Macroeconomic Coordination
	Knowledge Diffusion
	Trade Insertion

III.- Development cooperation with MICs

Development cooperation with MICs: main reasons

- *Fighting poverty*: supporting anti-poverty policies and establishing incentives to put fighting inequality among public priorities
- *Preventing relapses*: reducing volatility and external vulnerability
- *Regional anchors*: taking advantage of the regional externalities of some MICs
- *Providing global and regional public goods*: supporting the crucial role that MICs play in the provision of IPG
- *Assuring an incentive-compatible system*: supporting not only the failures but also the successes

- *Avoiding aid dependence*

The agenda: facing MIC traps

- The trap of governance:
  - Weak institutional framework; fragmented society (inequality); fragile nature of the taxation pact
- The financial trap:
  - Financial needs in foreign currencies; deregulation of capital flows; limited space for counter-cyclical policies; high volatility
- The structural change trap:
  - Difficulties to increase productive disversification and to move to a productive specialization based on dynamic technological capacities

The role of aid: an approach based on incentives

- The role of aid is not so much to finance directly changes but providing the incentives to make these changes a reality
- Aid should be defined in relation to:
  - Its catalytic effect
  - Its capacity to leverage new resources or capacities
  - Its role as a means to relax restrictions on national policies
  - Its function as a mechanism of insurance against vulnerability and volatility
- Its limited weight in the recipient countries´ public budgets makes those intrusive mechanisms of aid little appropriate
- Importance of those financial instruments that are only partially registered as ODA (development cooperation "beyond ODA")
- Improvements in policy coherence could be crucial
- The importance of global rules and governance structures

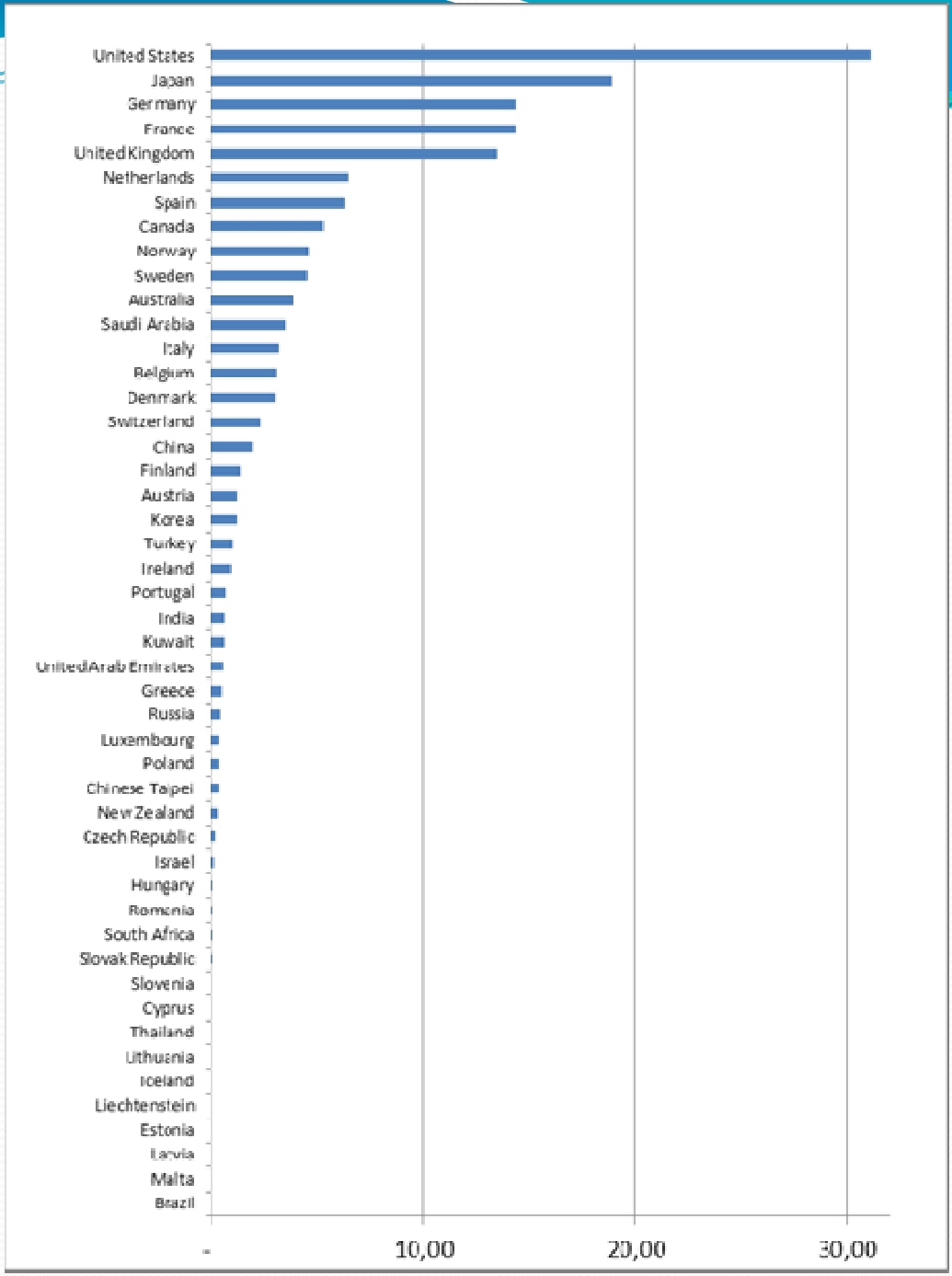
A comment

- A classification based on GDP per capita seems to be a very poor mechanism for defining eligible countries to receive aid
  - BUT the solution is not to define a new (more complete) system of country classification (because whatever system we could think will be limited to capture the diversity of country situations and will create a binary logic –inside vs. outside- that is source of inappropiate incentives): Donors should be ready to tackle with diversity
- Recipient country´s GDP per capita could be a criterion (but not the only one criterion) in aid allocation
  - BUT it is important that additional criteria do not promote perverse incentives. Two factors should be taken into account; i) structural handicaps that are partly out of control of govenments; and ii) factor connected with effort and performance of recipient countries
  - In any case, it is not reasonable to think that an algorithm (a mechanical combination of criteria) can donors to exempt of the responsibilty to decide on aid allocation

IV.- South-South Cooperation

South-South Cooperation as an expression of the MICs´ new role

- The exact volume is not well known: $10 billion in terms of DAC; $15 billion in a more accurate estimation; and it is expected to rise to $50 billion in 2025
- Different models:
  - EU members: Poland, Slovak R., Czech R., Hungary, Slovenia, Romania, Bulgaria, Cyprus, Malta and Baltic countries
  - (non-EU) OECD members: Turkey, Chile, Mexico
  - Arab countries: Saudi Arabia, Kuwait, U.A. Emirates
  - "Non-aligned" (heterogeneous) group: Brazil, Argentina, Venezuela, Cuba, India, South Africa, Egypt, Malaysia, Thailand
  - China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Turkey
Ireland
Portugal
India
Kuwait
United Arab Emirates
Greece
Russia
Luxembourg
Poland
Chinese Taipei
New Zealand
Czech Republic
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Effects of SSC

- Interesting elements
  - More horizontal and with double dividend
  - Based on the exchange of experience and technical skills
  - Tends to diversify the range of cooperation models
  - Enlarge recipients' room of maneouver
  - Spread a sense of shared responsibility
- Some shortcomings:
  - Limited level of transparency and accountability
  - Limited evaluation
  - Presence of undesirable practices (that traditional donors had used before)
- Implications
  - Two options: a) to try to preserve the consensus on which traditional aid has been built; to open up debate on new (and differentiated) aid standards
  - The necessity of new (more inclusive) structures of governance

Final remarks

- The international development aid system is undergoing a period of change
- The international landscape has changed more intensively; and as a result of these changes MICs have a more prominent role in the international
- Donors should maintain their support to some MICs, but the agenda, instruments and procedures should adapt to MICs conditions
- MICs should participate more actively in building a cooperative response to common problems (including those related to global poverty and inequality)
- Both factors will produce new changes in the international cooperation system; a system that is called to operate in a field wider than ODA and with more inclusive governance structures than those defined by the DAC