Overseas Development Institute

Reassessing aid to middle-income countries: the implications of the European Commission's policy of differentiation for developing countries

Siân Herbert

Working Paper 349

Results of ODI research presented in preliminary form for discussion and critical comment

Working Paper 349

Reassessing aid to middle-income countries: the implications of the European Commission's policy of differentiation for developing countries

Siân Herbert

June 2012

Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD
www.odi.org.uk

---

* Disclaimer: The views presented in this paper are those of the author and do not necessarily represent the views of ODI. This working paper is part of ODI's European Development Cooperation Strengthening Programme (EDCSP), funded by DFID: http://international-development.eu

The author would like to thank Simon Maxwell, Mikaela Gavas, Annalisa Prizzon, Matthew Geddes and Jonathan Glennie for their helpful comments.

ISBN 978-1-907288-76-0
Working Paper (Print) ISSN 1759 2909
ODI Working Papers (Online) ISSN 1759 2917

Contents

Tables, figures and boxes

Abbreviations and acronyms

DAC	Development Assistance Committee
DCI	Development Cooperation Instrument
EC	European Commission
EDF	European Development Fund
EIB	European Investment Bank
ENI	European Neighbourhood Instrument
EU	European Union
GDP	Gross domestic product
GNI	Gross national income
GSP	Generalised System of Preferences
HDI	Human Development Index
ICI+	Instrument for Cooperation with Industrialised and Other High-income Countries and Territories, and with Developing Countries
LDC	Least-developed country
LMIC	Lower-middle income country
MFF	Multi-Annual Financial Framework
MIC	Middle-income country
ODA	Official development assistance
OECD	Organisation for Economic Cooperation and Development
OLIC	Other low-income country
PI	Partnership Instrument
PINCI	Pakistan, India, Nigeria, China and Indonesia
TA	Technical assistance
UMIC	Upper-middle-income country

Executive summary

The new European Commission (EC) policy of 'differentiation' aims to recalibrate its development cooperation with middle-income countries (MICs). The policy responds directly to recent changes in global economic flows, geopolitical realities and poverty patterns, and will influence the allocation of significant amounts of aid.

This working paper explains the EC's new policy and looks at its implications for developing countries. The first section defines the features of the new policy, while the second section shows how it impacts on what countries receive in grant-based aid from the EC. The third section analyses six key challenges that the EC should consider in the design and implementation of the new policy: (1) poverty focus; (2) how to measure poverty in the light of debates over country poverty, people poverty and multidimensional poverty; (3) transparency in aid allocation; (4) the predictability of flows; (5) the reallocation of funds; and (6) aid darlings and orphans. These six challenges are not particular to the EC, but also apply to other donors undergoing similar policy changes.

The fourth section concludes by suggesting that a stronger evidence base is necessary in designing the policy, including specific country impact assessments and a detailed explanation of the new aid allocation criteria. The EC's new 'differentiated development partnerships' could indeed provide innovative ways to tackle some of the challenges facing MICs; however, the current allocation of financial resources to new-style partnerships is limited.

1 A new development strategy and differentiation

> We cannot work with India or Brazil in the same way we work with the Democratic Republic of Congo or Mali. Some countries can now afford to fight poverty themselves and, as a result, this will allow us to focus on places that need more of our help.
>
> Andris Piebalgs, European Commissioner for Development (2012)

The EC's policy of 'differentiation' introduces two significant changes: (1) new aid allocation criteria; and (2) differentiated development partnerships for different categories of countries. 'Differentiation' is a technical term used by the EC to mean the policy of identifying different policy mixes and cooperation arrangements for different developing countries. However, its introduction does not mean that different country contexts were not previously taken into account; in fact, 'differentiation' has been part of EC development policy for many years (Council of the EU, 2005).

Differentiation has gained more prominence since 2011, however, as it is now a key feature of the EC's new development strategy – An Agenda for Change. This strategy states that

> the EU must seek to target its resources where they are needed most to address poverty reduction and where they could have greatest impact … there is a spectrum of situations requiring different policy mixes and cooperation arrangements. A differentiated EU approach to aid allocation and partnerships is therefore key to achieving maximum impact and value for money (European Commission, 2011a: 9).

An Agenda for Change emerged following an EC public consultation in 2010 into EC development policy, in a bid to update the vision established by the European Consensus on Development (Council of the EU, 2005).

In May 2012 An Agenda for Change was approved by ministers in the Foreign Affairs Council. The strategy will now underpin the direction of EU development policy for the next decade, as it will guide decisions on EU development funding over the next budget period – the Multi-Annual Financial Framework (MFF) – which runs from 2014 to 2020.

At the end of 2011 the EC released legislative proposals for the financial instruments, which give more detail on how the new strategy will be implemented (see Box 1 for details of current financial instruments).

Officially, under current plans, differentiation will be applied 'first' to two instruments: the Development Cooperation Instrument (DCI), and the European Neighbourhood Instrument (ENI) (European Commission, 2011b) (see Box 1). It is important to note that the type of differentiation that will be applied to the ENI (which covers the neighbourhood area) is based on political commitments to democracy and rights (the so-called 'more for more' principle) rather than on the needs and capacities criteria that this working paper discusses. Therefore, this paper analyses what differentiation means for the DCI and what it may mean for the other instruments, if we accept this as a precedent for future aid allocation decisions.

However, unofficially discussions are currently under way looking at whether differentiation can be applied to the European Development Fund (EDF) (see Box 1). The EDF is funded separately to the central development budget, is based on an intergovernmental agreement (the Cotonou Agreement), and its resources are allocated and managed in a different way to the other development instruments.

1.1 A new aid allocation model

The overarching principles set out in An Agenda for Change propose that EU development assistance should be allocated according to: needs, capacities, commitments and performance, and potential EU impact. This updates the vision established in the 2005 European Consensus on Development, which only focused on: needs and performance (Council of the EU, 2005).

The new focus on 'capacities' allows for aid allocation decisions to take into account a country's ability to generate and access financial resources. Meanwhile, 'potential EU impact' will be assessed according to: (1) how aid could promote reform (political, economic, social and environmental); and (2) how aid could leverage, or crowd-in, other sources of development finance.

The new aid allocation criteria mean that select countries will 'graduate' from receiving grant-based bilateral aid from 2014. In the DCI, this form of aid is administered through its geographic envelopes. However, these countries could still receive funding under thematic programmes and through 'differentiated development partnerships' (this is discussed further below). Differentiation will be applied in two stages of aid allocation: firstly, in terms of eligibility to bilateral development aid (this is new), and secondly, in terms of aid allocation at the programming stage.

In the first stage of aid allocation, countries will now graduate from grant-based bilateral aid if they are (European Commission, 2011c):

- upper-middle-income countries (UMICs) according to the OECD-DAC[1] classification; and
- countries with more than 1% of the world's gross domestic product (GDP).

However, other factors will be considered, including the Human Development Index (HDI), the Economic Vulnerability Index, aid dependency, economic growth levels and foreign direct investment.

This differs from the 'needs criteria' used for the current DCI (2007-2013) in the second stage of aid allocation, which allocates according to:

- an indicator of country size, i.e. population;
- needs in terms of poverty, i.e. gross national income (GNI) per capita at purchasing power parity and the percentage of the population living below the poverty line; and

Box 1: The financial instruments for EU external action

Budget:

Geographic:

- Development Cooperation Instrument (DCI, €16.9 billion, 2007-2013): Asia, Latin America, Central Asia, the Middle East and South Africa. This instrument also contains thematic programmes covering specific activities in all developing countries.
- European Neighbourhood and Partnership Instrument (ENPI, €11.2 billion, 2007-2013): European neighbourhood and Russia.
- Instrument for Pre-Accession (IPA, €11.5 billion, 2007-2013): EU accession countries.
- Instrument for Cooperation with Industrialised Countries (ICI, €172 million, 2007-2013).

Thematic:

- Common Foreign and Security Policy (CFSP, €2 billion, 2007-2013).
- European Instrument for Democracy and Human Rights (EIDHR, €1.1 billion, 2007-2013): promoting democracy and human rights worldwide.
- Food Facility Instrument (FFI, €1 billion, 2009-2011): enabling a response to problems caused by soaring food prices in developing countries.
- Humanitarian Aid Instrument (HAI, €5.6 billion, 2007-2013): providing funding for emergency and humanitarian aid relief and food aid.
- Instrument for Nuclear Safety (INS, €524 million, 2007-2013): ensuring nuclear safety.
- Instrument for Stability (IfS, €2.1 billion, 2007-2013): tackling crises and instability in third countries and trans-border threats.
- Macro-Financial Assistance (MFA, €791 million, 2007-2013): promoting macroeconomic stabilisation and structural reforms.

Non-EU budget:

- European Development Fund (EDF, €22.7 billion, 2008-2013): Africa, Caribbean and Pacific and Overseas Countries and Territories.

Source: Gavas (2010)

[1] Organisation for Economic Cooperation and Development-Development Assistance Committee.

- social development indicators, i.e. the HDI and the Gini index (European Parliament and the Council, 2006).

Crucially, the proposed rules governing the DCI (known as the ‘DCI regulation’) do not explain how the indicators included in the criteria are weighted. So, although the aid allocation criteria are explained, the formula for country selection is not clear; this will be examined in greater depth below.

In practice, it is proposed that grant-based bilateral aid, funded through geographic programmes in the DCI,[2] be cut for 19 countries from 2014: 17 UMICs (Argentina, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Kazakhstan, Iran, Malaysia, Maldives, Mexico, Panama, Peru, Thailand, Venezuela and Uruguay); and two lower-middle income countries (LMICs) with more than 1% of the world's GDP (India and Indonesia). Two exceptions have been made: South Africa and Cuba, both of which are UMICs.

1.2 Differentiated development partnerships

The second aspect of the EC’s proposed policy - ‘differentiated development partnerships’ will offer different types of funded partnerships to some or all of the countries that graduate from grant-based bilateral aid (European Commission, 2011d). In fact, some of the countries that will graduate may receive the same amount of EC funding as before; however, it will be administered through different instruments and will have different objectives.

Differentiated development partnerships differ from the previous development relationships in that they will be based primarily on ‘loans, technical cooperation or support for trilateral cooperation’ (European Commission, 2011a). They are also expected to include any of the following: thematic cooperation on global public goods, trade agreements, directing funds to civil society, knowledge sharing, technological cooperation, cultural cooperation, public-private partnerships, capacity development for individuals and organisations, and consultancy and dialogue measures.

The new partnerships will also allow the EC to pursue mutual interest policies with the selected countries. However, as they are rooted in development, they are expected to differ from the EU Strategic Partnerships – currently signed with ten countries[3] – which are foreign policy partnerships. The new partnerships ultimately aim to modernise traditional asymmetrical aid-donor relationships with the wealthier developing countries and to give them opportunities to forge more-symmetrical relationships.

To date, the EC has provided little detail on exactly what these differentiated development partnerships will involve, the quantity of funds allocated to them, and what percentage of the funding will qualify as official development assistance (ODA). However, as the EC already provides loans, technical cooperation and support for trilateral cooperation, we have an idea what these partnerships could look like.

[2] The DCI funds 46 countries from Latin America, Asia, Central Asia and the Middle East, as well as South Africa.
[3] Brazil, Canada, China, India, Japan, Mexico, Russia, South Africa, South Korea and the United States.

Firstly, in terms of loans, An Agenda for Change asserts that a higher share of EU aid should be provided through innovative financial instruments, including through facilities for blending grants and loans. Loans will be administered through the European Investment Bank (EIB)[4] in combination with grants that will be financed through the EC's development instruments. The potential range of instruments includes technical assistance (TA), feasibility studies, investment co-financing, equity participation, risk capital, interest rate subsidies, on-lending, guarantees, insurance subsidies and incentive payments. TA, feasibility studies and interest rate subsidies provide for the largest number of projects (Gavas et al., 2011).

Secondly, regarding trilateral cooperation, EC initiatives vary by country. In 2008 the EC published a 'Communication' on trilateral cooperation between the EU, Africa and China that proposed objectives for cooperation in peace and security, support for infrastructure, sustainable management of the environment and natural resources, and agriculture and food security (European Commission, 2008). This trilateral cooperation strategy aims to foster shared responsibility for global governance and development. Meanwhile, the EU–Brazil Strategic Partnership proposes promoting triangular cooperation with Brazil in developing countries (including Portuguese-speaking Africa and Timor-Leste) in sectors such as health, energy, agriculture, education, justice and security sector reform (Council of the EU, 2011).

Differentiated development partnerships will be funded through the Partnership Instrument (PI) (see Box 2) (European Commission, 2011e; 2011f) and could also be funded through thematic envelopes in the DCI, the European Instrument for Democracy and Human Rights, the Instrument for Stability and external components of internal instruments (see Box 1). The new partnerships will not be directly financed by the funds freed up from differentiation, as this money has to remain in the geographic envelopes of the DCI.

The new partnerships may not be DACable (i.e. considered as ODA), as only the DCI has an ODA benchmark. The DCI regulation stipulates that its geographic programmes will be 100% ODA eligible, while the thematic programmes (which could fund the new partnerships) will have a 10% flexibility to cover non-ODA activities (European Commission, 2011c: 8). Meanwhile, the EC has proposed no ODA target for the new PI (Box 2).

Box 2: The Partnership Instrument (PI)

The PI replaces the Instrument for Cooperation with Industrialised and Other High-Income Countries and Territories, and with Developing Countries (ICI+) (European Commission, 2009). While the PI does not detail which countries will be eligible for funding, the ICI+ regulation covers 63 countries – 17 industrialised countries and high-income territories in North America, the Asia-Pacific region and the Gulf, plus the 46 countries in the DCI. The EC has proposed €1.13 billion for the PI for the next MFF (2014-2020). Compared to the other Heading 4 instruments, this is a small budget; however, it is a 230% increase on the ICI+'s funding in the current MFF (Gavas, 2012).

The PI is designed to 'advance and promote EU and mutual interests … with a particular focus on strategic partners and emerging economies'. It outlines three objectives: (1) implementing the international dimension of the 'Europe 2020' document; (2) improving market access and developing trade, investment and business opportunities for European companies; and (3) enhancing widespread understanding and visibility of the EU (European Commission, 2011e).

In terms of thematic areas, the PI will support the external dimensions of internal EC policies (i.e. competiveness, research and innovation, migration, trade promotion, investment, and regulatory convergence) and will address global challenges of mutual interest (i.e. energy security, climate change, environmental protection, intellectual property rights, organised crime and piracy) (European Commission, 2011d).

[4] EIB lending is governed by a series of mandates from the EC in support of EU development and cooperation policies in partner countries.

1.3 Timeline

Negotiations are already well under way on the total budget for the next MFF and the budget ceilings for each policy area in the MFF. An agreement on the total numbers is planned for the end of 2012, but this may well slip into 2013, depending on how difficult it is for member states to reach an agreement. The seven-year structure of the budget means that the outcome of these negotiations will determine development funding until 2020. Negotiations between the member states, the European Parliament and the EC on the detail of the financial instruments and their regulations are ongoing.

2 The DCI and differentiation: country analysis

This section provides data on the countries funded through the DCI and quantifies how the EC's new policy of differentiation will impact on developing countries. This information then supports analysis of six key challenges that the EC should consider in the design and implementation of the new policy.

The DCI funds 46 countries from Latin America, Asia, Central Asia and the Middle East, as well as South Africa, through geographic and thematic programmes. The total budget for the DCI in the current MFF is €17.25 billion in 2011 prices. In 2011 the EC proposed a 19% increase in the DCI's funds, taking the budget up to €20.6 billion (Gavas, 2012).

Tables 1a and 1b look at these countries in greater depth, detailing various income and human development indicators, and the percentage share of EC ODA allocation for the current MFF (2007-2013) and disbursements for the most recent year for which data are available (2010). Table 1a details the 19 countries (DCI-19) that will have grant-based bilateral aid cut from 2014. Table 1b examines the 27 countries (DCI-27) that will continue to receive aid as before.

In 2010 the DCI-19 detailed in Table 1a and Table 3 received around €307 million in ODA[5] – which made up 25% of the ODA budget allocated through the DCI's geographic programmes that year. So, if we assume a similar percentage saving of 25% in the geographic envelope in the next MFF, a figure of around €3,139 million[6] could be potentially be freed up from 2014 to 2020, if the budget increase for the DCI is approved.

[5] Calculated as total ODA administered through the geographic programmes minus humanitarian aid; see Table 1a for calculations.
[6] The DCI budget ratio is 60% for geographic programmes: 40% for thematic programmes.

Table 1a: Country analysis of the DCI-19 (DCI countries that will have grant-based bilateral aid cut)

Country[7]	**DAC list** (2011+ flows)	**GNI per capita** (Atlas current $, 2010)	**% of EC ODA allocated** (DCI geographic, 2007-2013)[8]	**% EC ODA disbursed** (DCI geographic, 2010)	**% of DCI poor people** (2009)[9]	**% of global GDP** (2010)	**Headcount poverty ratio** (% of population under $1.25 per day, 2010)	**HDI rank** (2010)	**Malnutrition – underweight** (% of children under 5, 2010)
India	LMIC*	1,330	6.30	5.16	50.3	2.74	32.67	119	42.5$^{=}$
Indonesia	LMIC	2,500	6.62	6.24	4.7	1.12	18.06	108	18.4^{+}
Ecuador	UMIC*	3,850	1.84	1.41	0.1	0.09	4.61	77	6.2^{ч}
Thailand	UMIC*	4,150	0.23	0.71	0.0″	0.5	0.37°	92	7.0$^{=}$
China	UMIC*	4,270	2.32	2.67	21.5	9.39	13.06$^{\sim}$	89	3.8$^{\sim}$
Iran	UMIC*	4,520°	–	0.07	0.1	n/a	1.45^{z}	70	n/a
Peru	UMIC*	4,700	1.77	1.45	0.2	0.25	4.91	63	4.2
Colombia	UMIC*	5,510	2.15	2.13	0.8	0.46	8.16	79	3.4
Maldives	UMIC**	5,750	0.13	0.35	0.0″	n/a	n/a	107	17.3°
Costa Rica	UMIC	6,810	0.46	0.26	0.0″	0.06	3.12°	62	1.1°
Panama	UMIC	6,970	0.51	0.09	0.0″	0.04	6.56°	54	3.9$^{\sim}$
Kazakhstan	UMIC*	7,590	0.99	1.03	0.0″	0.24	0.11°	66	3.9$^{=}$
Malaysia	UMIC	7,760	0.23	0.08	n/a	0.38	0	57	12.9$^{=}$
Argentina	UMIC	8,620	0.87	0.49	0.0″	0.58	0.92	46	2.3$^{=}$
Mexico	UMIC	8,890	0.74	0.47	0.2	1.64	1.15$^{\sim}$	56	3.4$^{=}$
Brazil	UMIC*	9,390	0.82	1.33	0.8	3.31	6.14°	73	1.7$^{=}$
Chile	UMIC	10,120	0.55	0.75	0.0″	0.34	1.35°	45	0.5
Uruguay	UMIC	10,590	0.42	0.44	0.0″	0.06	0.2	52	5.4^{n}
Venezuela	UMIC	11,590	0.54	0.33	0.1	0.62	6.63$^{=}$	75	3.7^{+}
Subtotal DCI-19 (%)			**27**	**25**	**79**				

Sources: OECD-DAC aggregate aid statistics; OECD (2011); World Bank (2011); European Commission (2011g); UNDP (2010); UNICEF (2012)

[7] The latest data available on EC aid disbursements is from 2010, therefore this table uses data from 2010, unless unavailable. Where data is unavailable, the appropriate year is marked as follows: 2009 ($^{\circ}$), 2008 ($^{\sim}$), 2007 ($^{+}$), 2006 ($^{=}$), 2005 (^{z}), 2004 (^{ч}), 2003 ($^{(}$) and 2002 (^{n}). Fragile and conflict-affected states are marked (^{f}) - the categorisation is based on lists from 2009, published by OECD in 2011. Countries that have moved up one OECD-DAC income group since the period of initial aid allocation in 2006/07 are marked (*); those that have moved from LDC status to UMIC status are marked (**). See appendix for full data.

[8] Data provided by the EC by email.

[9] Calculations based on World Bank World Development Indicators (net ODA and population data) and PovCal (poverty headcount ratio) (both World Bank, 2011). Where 2009 data is unavailable, data from the most recent year is used. Countries with less than 0.1% of the DCI's poor are marked (″).

Table 1b: Country analysis of the DCI-27 (DCI countries that will receive aid as before)[10]

Country	**DAC list** (2011+ flows)	**GNI per capita** (Atlas current $, 2010)	**% of EC ODA allocated** (DCI geographic, 2007-2013)	**% EC ODA disbursed** (DCI geographic, 2010)	**% of DCI poor people** (2009)	**% of global GDP** (2010)	**Headcount poverty ratio** (% of population under $1.25 per day, 2010)	**HDI rank** (2010)	**Malnutrition – underweight** (% of children under 5, 2010)
Afghanistan[f]	LDC	410	13.81	14.45	n/a	0.03	n/a	155	32.9[q]
Nepal[f]	LDC	440[°]	1.61	2.41	1.7	n/a	24.82	129	38.6[=]
Bangladesh[f]	LDC	700	5.40	10.19	7.7	0.16	43.25	129	41.0[+]
Cambodia	LDC	750	2.04	1.47	0.4	0.02	22.75[~]	124	28.3
Tajikistan[f]	OLIC	800	1.72	2.06	0.2	0.01	6.56[°]	112	15.0[+]
Kyrgyz Republic	OLIC	840	1.42	1.14	0.0″	0.01	6.23[°]	109	2.2[=]
Dem Rep. Korea[f]	OLIC	n/a		0.92	n/a	n/a	n/a	n/a	18.8[°]
Myanmar/Burma[f]	LDC	n/a	0.87	2.15	n/a	n/a	n/a	132	22.6
Laos	LDC/LMIC*	1,050	0.55	0.80	0.2	0.01	33.88[~]	122	31.1[=]
Pakistan[f]	LMIC*	1,050	5.34	2.22	4.0	0.28	21.04[~]	125	31.3[n]
Yemen[f]	LDC/LMIC*	1,070[°]	1.74	1.85	0.4	n/a	17.53[z]	133	43.1[±]
Nicaragua	LMIC	1,110	2.87	0.88	0.1	0.01	11.91[z]	115	5.5[+]
Viet Nam	LMIC*	1,160	4.08	2.34	1.2	0.17	16.85[~]	113	20.2[~]
Uzbekistan[f]	LMIC*	1,280	1.00	0.30	1.4	0.06	n/a	102	4.0[=]
Bolivia	LMIC	1,810	3.34	3.92	0.1	0.03	15.61[~]	95	4.3[~]
Bhutan	LDC/LMIC	1,870	0.19	0.11	0.0″	n/a	10.22[+]	n/a	12.7
Honduras	LMIC	1,870	2.99	3.44	0.2	0.02	17.92[°]	106	8.1[=]
Mongolia	LMIC	1,870	0.39	0.71	0.1	0.01	n/a	100	5.0[z]
Philippines	LMIC	2,060	1.74	1.89	2.2	0.32	18.42[°]	97	21.6[~]
Sri Lanka[f]	LMIC	2,240	1.50	0.75	0.2	0.08	7.04[+]	91	21.1[+]
Iraq[f]	LMIC	2,340	0.79	2.44	0.1	0.13	2.82[+]	n/a	6.4[=]
Paraguay	LMIC	2,710	1.57	1.83	0.0″	0.03	7.16	96	3.4[z]
Guatemala	LMIC	2,740	1.81	1.95	0.2	0.07	13.53[=]	116	13.0[°]
El Salvador	LMIC	3,380	1.62	3.09	0.0″	0.03	8.97[°]	90	5.5[~]
Turkmenistan	LMIC	3,790	0.71	0.34	0.1	0.03	n/a	87	8.2[z]
Cuba	UMIC	5,520[~]	0.27	1.30	n/a	n/a	n/a	n/a	n/a
South Africa	UMIC	6,090	13.14	9.59	0.9	0.58	13.77[°]	110	8.7[~]
Subtotal DCI-27 (%)			**73**	**75**	**21**				

[10] Sources are same as Table 1a; see appendix for full data.

3 Key challenges

The EC should consider six challenges in the design and implementation of the new policy: (1) poverty focus; (2) how to measure poverty in the light of debates over country poverty, people poverty and multidimensional poverty; (3) transparency in aid allocation; (4) the predictability of flows; (5) the reallocation of funds; and (6) aid darlings and orphans. These six challenges are not particular to the EC, but also apply to other donors undergoing similar policy changes.

3.1 A declining poverty focus?

Over the course of the current MFF the poverty focus of the DCI has declined, according to country poverty analysis. The EC is sometimes criticised for having a low poverty focus in its international development cooperation. The DCI, principally because of its geographic mandate, has particularly faced criticism for having a low poverty focus. Cutting aid to MICs could go some way to addressing this, depending on where funds are reallocated. However, questions over how to measure poverty remain important.

The total funding allocated to the DCI is decided during the later stages of MFF negotiations. Within the DCI, aid allocation per country is re-evaluated every year. The current formula includes a correction factor to give preference to least-developed countries (LDCs), other low-income countries (OLICs) and LMICs. Table 2 examines the total amount and percentage of funds allocated to different income groups – the 'poverty focus' – within the DCI geographic envelope.

Table 2: Where the money goes: the poverty focus of the DCI[11]

Income groups[12]	**EC ODA allocation** (2007-2013, € mn)[13]	**EC ODA disbursement** (2010,[14] € mn)[15]	**No. of poor people** (2009, mn)
LDCs and OLICs	3,689 **50%**	516 **43%**	164 **17%**
MICs (excl. LDCs)	3,768 **50%**	690 **57%**	790 **83%**
• LMICs (excl. LDCs)	2,467 **33%**	448 **41%**	771 **81%**
• UMICs (excl. LDCs)	1,301 **17%**	195 **16%**	19 **2%**
• MICs (excl. LDCs, PINCIs)	2,233 **30%**	494 **41%**	23 **2%**
PINCIs[16]	1,535 **21%**	196 **16%**	768 **81%**

If we look at the country aid allocation made in 2006/07 for the current MFF against the OECD-DAC income groups for the year of allocation, we see that 50% was allocated to LDCs[17] and OLICs, and

[11] Sources same as Table 1a; see appendix for full data.
[12] The DAC list for 2006 (DAC, 2006) is used in analysis of initial aid allocation for the MFF 2007-2013. The DAC list for reporting on 2009 and 2010 (DAC 2009) flows has been used in the analysis of disbursements for 2010.
[13] Information provided by the European Commission.
[14] As aid disbursements can be volatile from year to year, for further robustness, this analysis could be strengthened by checking disbursements over multi-year periods.
[15] European Commission (2011g: 184).
[16] The term PINCIs refers to five large populous countries that are now all MICs – Pakistan, India, Nigeria, China and Indonesia. Due to population size, these countries can skew the data.

50% to MICs. However, in 2010, 43% was disbursed to LDCs and OLICs, and 57% to MICs. Considering that the MIC band covers a wide income group,[18] when further disaggregated we see that disbursements to LMICs in 2010 (41%) were higher as a percentage than the initial allocation in 2006/07 (33%), while disbursements to UMICs in 2010 (16%) declined marginally from the share that was initially allocated (17%).

So, it is evident that the country poverty focus of the DCI has declined over the course of the MFF compared to the initial aid allocation, with LMICs benefiting. This is probably because of the graduation of three countries from 2007 to 2010 from OLIC to LMIC status (India, Nicaragua and Mongolia), and of three countries from LMIC to UMIC status (Brazil, Kazakhstan and Cuba). To date, data on EC aid disbursements are only available until 2010, hence the DAC list from 2010 is used in this analysis. However, when looking at the 2011 DAC list we see that a further three countries have graduated from OLIC to LMIC status from 2010 to 2011 (Pakistan, Vietnam and Uzbekistan); six countries have graduated from LMIC to UMIC status (Ecuador, Thailand, China, Iran, Peru and Colombia); and one country has graduated from LDC to UMIC status (the Maldives). So, the country 'poverty focus' of 2011 EC aid disbursements may well decline further. As more OLICs graduate to MIC status, all donors face a potential decline in the country poverty focus of their development spending.

3.2 Poverty focus is affected by how it is measured

People poverty statistics, however, reveal that the DCI has a high poverty focus – an estimated 71% (954 million) of the world's poor lived in the 46 DCI countries in 2009 (Table 3). Table 2 reveals that 17% of these (164 million) lived in LDCs or OLICs, and only 2% lived in UMICs (19 million), while 81% lived in LMICs (771 million). Table 3 details the estimated number of poor people in both DCI groups: (1) the DCI-27 group, which will receive aid as before; and (2) the DCI-19 group, which will have grant-based bilateral aid cut.

Table 3: How the EC's policy will affect the poverty focus of the DCI[19]

DCI groups	**EC ODA allocation** (2007-2013, € mn)	**EC ODA disbursement** (2010, € mn)[20]	**No. of poor people** (2009, mn)
DCI-27 countries (which will receive aid as before)	5,408 **73%**	899 **75%**	203 **21%**
DCI-19 countries (which will lose aid)	2,049 **27%**	307 **25%**	751 **79%**
Total poor in DCI			954
Total poor in world			1,335

The EC's new policy relies on country poverty analysis and therefore does not address the people poverty debate. The 19 countries that will receive less aid after 2014 had an estimated 79% (751 million) of the DCI's poor in 2009. Meanwhile, 21% (203 million) of the DCI's poor lived in the 27 countries that will continue to receive support.

While analysis of people poverty is revealing, it is also important to use these figures with caution in allocation decisions at the country level. For example, while the data show that €62 million were disbursed to India in 2010, which had 480 million of the world's poor (in 2009) (see Table 4a), the

[17] It is important to note that three of these LDCs were also LMICs in 2006/07.
[18] $1,005-$12,275 per capita GNI for reporting on 2011, 2012 and 2013 flows (DAC, 2011).
[19] Sources same as Table 1a; see appendix for full data.
[20] European Commission (2011g: 184).

figures alone do not reveal if the funds were actually directed to poor people. If donors use people poverty figures, it may be important to disaggregate countries by region according to poverty levels,[21] similar to the way in which EC structural funds are allocated.[22] However, in countries where poverty is not geographically located, this could be problematic.

It is important to note that the data are somewhat skewed by the PINCIs,[23] which were estimated to be home to 81% of the DCI's poor in 2009 and received 16% of the funds in 2010 (see Table 2). The DCI covers four of the PINCIs – Pakistan, India, China and Indonesia. Of these four countries, three will receive less bilateral aid after 2014 – India, China and Indonesia. In order for the EC to make allocation decisions based on people poverty figures, it is important to evaluate where the poor will live from 2015 to 2020. Forthcoming research by Homi Kharas and Andrew Rogerson suggests that the current phenomenon – where the majority of the world's poor people live in MICs – may just be a transitory phase as MICs continue to grow and reduce poverty.

The EC's new policy also appears not to address the multidimensional poverty debate, as the criteria heavily favour income indicators. It is clear that the OECD-DAC income categories mask significant differences in poverty levels, need and capacity.

Finally, issues over the reliability and suitability of the data – especially regarding how up to date the data are – have recently emerged as a key point of debate (Chandy and Kharas, 2012; Ravallion, 2012). There is a lengthy discussion to be had about whether the OECD-DAC list and the World Bank's $1.25 and $2 per day indicators are still fit for purpose – issues that this paper does not explore.

3.3 Transparency in the aid allocation model

Transparency in aid allocation is important, especially to ensure that the criteria are fit for purpose and to reduce risks of politicisation of funds. As mentioned above, neither An Agenda for Change nor the DCI regulation explain how the different measures included in the criteria are to be weighted. So, although the aid allocation criteria are outlined, the formula for country selection is not clear. Furthermore, while the EC states that various factors will be assessed in the aid allocation process, the 19 countries currently selected appear to have been chosen predominantly according to the OECD-DAC income category list and share of global GDP – indicators that do not measure inequality and poverty. This raises questions over transparency and whether the criteria are fit for purpose.

The example of India is pertinent. Out of all 46 countries in the DCI, India has the third highest percentage of poor living on under $1.25 per day, with 33% of its population in this category (2010),[24] which is lower only than the 43% in Bangladesh and the 34% in Laos.[25] Table 1a reveals that India comes ninth worst out of the 46 DCI countries in the HDI with a score of 119; of the eight countries considered to have a lower HDI score than India, seven are LDCs.[26] In terms of child malnutrition, India has the worst figures of all 46 countries, with 43% of children under five registered as underweight in 2005/06 (the most recent year for which data are available). India became a LMIC in 2008, and with $1,330 GNI per capita in 2010, it is at the lower end of the LMIC category ($1,006-$3,975). Despite this, India is going to receive less grant-based bilateral aid from

---

[21] Eight of India's 28 states are home to 65% of India's poor – Bihar, Madhya Pradesh, Orissa, Uttar Pradesh, Rajasthan, Jharkhand, Chhattisgarh and West Bengal (DFID, 2011).

[22] EC structural funds aim to reduce disparities in development, and promote economic and social cohesion in the region. They are allocated according to the NUTS classification ('Nomenclature of territorial units for statistics'), which is a hierarchical system dividing up the economic territory of the EU into three levels of regions: 97 regions (NUTS level 1), 270 regions (NUTS level 2) and 1,294 regions (NUTS level 3) (http://epp.eurostat.ec.europa.eu/portal/page/portal/nuts_nomenclature/introduction).

[23] PINCIs = Pakistan, India, Nigeria, China and Indonesia.

[24] It is important to note that the reliability of the data underpinning these calculations has provoked much debate recently from Chandy and Gertz (2011) and Ravallion (2012), among others.

[25] The data used for Laos is from 2008 – the latest year for which data are available.

[26] Afghanistan, Nepal, Bangladesh, Cambodia, Myanmar/Burma, Laos, Pakistan and Yemen.

2014. With 2.74% of global GDP in 2010, it meets the arbitrary criteria for differentiation. This indicator does not evaluate country need, but the size of a country's economy.

Meanwhile, the decision to exempt South Africa and Cuba – both UMICs – from differentiation has not been explained and the process is therefore not transparent. In 2010 South Africa registered a 0.58% share of global GDP – seventh highest of the 46 DCI countries, although falling beneath the 1% graduation level set by the EC.

3.4 Scope, time frame and predictability of flows

Uncertainty over scope and time frame could impact on the predictability of aid flows. The potential scope of differentiation is currently unclear, as there is little information explaining when and how this policy could be extended to other countries in the DCI and other EC instruments. The potential extension of differentiation could also impact on the predictability of aid flows. This raises three particular issues.

Firstly, the DCI regulation stipulates that delegated acts will allow for flexibility in amending certain 'non-essential elements of the regulation' such as 'annexes on eligible countries', which implies that eligibility could be revised throughout the course of the MFF. However, it does not clarify at what point the recipient country list will be reviewed with a view to expanding differentiation, with what frequency and what the process for negotiating this is. This is especially relevant for countries that are close to the LMIC/UMIC threshold and for those currently exempted.

Secondly, informal discussions are currently under way as to whether or not differentiation could also apply to the EDF,[27] even though the 'Communication on the European Development Fund' (December 2011) did not mention this (European Commission, 2011h). It is unclear if this would be possible under the legal framework of the Cotonou Agreement, and if it were possible, it is uncertain if the same type of differentiation could be applied as for the DCI. Although Article 2 of the Cotonou Agreement discusses differentiation based on needs, performance and a country's long term development strategy,[28] the model proposed in An Agenda for Change includes two extra factors: country capacity and potential EU impact.

Thirdly, if differentiation were applied to the EDF (see Box 1), many Caribbean countries would see their grant-based aid funds cut. Considering that budget support is a very important implementation modality in the region, accounting for 78% of all new programmes approved in 2010, this could have a significant impact.

3.5 Reallocation of funds

Differentiation could free up a significant amount of EC funds – €3,139 million (see above). It is important that the absorptive capacity of recipient countries be evaluated in the reallocation of these funds. It is currently unclear where these funds will be reallocated. The DCI regulation proposes maintaining its budget ratio at 60% for geographic programmes and 40% for thematic programmes (this is the same as the current MFF). Therefore, the funds saved through differentiation (grant-based bilateral aid administered through geographic programmes) cannot be reallocated to fund the differentiated development partnerships, because these may only be funded through the thematic envelopes in the DCI. Differentiation could free up 25% (€3,139 million) of funds in the geographic envelope of the DCI from 2014 to 2020 (see Table 3).

[27] The EDF funds 78 countries from Africa, the Caribbean and the Pacific region and is governed by the Cotonou Agreement.

[28] Cotonou Agreement, Article 2: 'Differentiation and regionalisation: cooperation arrangements and priorities shall vary according to a partner's level of development, its needs, its performance and its long-term development strategy. Particular emphasis shall be placed on the regional dimension. Special treatment shall be given to the least-developed countries. The vulnerability of landlocked and island countries shall be taken into account.'

The proposed DCI regulation stipulates that LDCs, OLICs, and countries in crisis, post-crisis, fragile and vulnerable situations will be given ‘priority in the resource allocation process’ (European Commission, 2011c: 19). However, there is no precise detail on what ‘priority’ means. It is worth noting that the 2005 European Consensus on Development also prioritised LDCs, OLICs and fragile states, but additionally stated that ‘appropriate attention will be given to MICs, particularly to lower-middle-income countries many of which face similar problems to OLICs’ (Council of the EU, 2005: 11). It is significant that An Agenda for Change does not make this point.

Under current proposals, what is certain is that these funds will be reallocated to the 27 countries that are still eligible for grant-based bilateral aid within the geographic programmes of the DCI. Of these 27, eight are LDCs, three are OLICs, 14 are LMICs and two are UMICs (according to DAC, 2011). Of these 27, eleven are classified as fragile states (four are LMICs, the rest are OLICs). Three of the eight LDCs are LMICs.

If one of the objectives of differentiation is to improve the poverty focus of the DCI, and if LDCs, OLICs and fragile states are prioritised in the allocation of funds, then it is logical to assume that these 15 LDCs/OLICS/fragile states may see a significant increase in funds. At the same time, the absorptive capacity of these countries would need to be carefully examined, especially considering that these same OLICs/LDCs/fragile states could have development funds increased by other donors at the same time.

If current growth patterns in developing countries continue, then in the near future there could be even more MICs and fewer OLICs. If we look at the DCI countries in Table 1b, we see that Turkmenistan and El Salvador are already close to the upper LMIC limit with $3,790 and $3,380 GNI per capita, respectively, in 2010 (the UMIC category starts at $3,976). However, this is not to say that it is only a one-way process: data for all developing countries show that between 1978 and 2003, 25 countries fell back from MIC to OLIC status (Glennie, 2011).

3.6 Aid darlings and orphans – joint programming

With potentially more aid for OLICs, LDCs and fragile states, and less for MICs, there is a risk of creating aid darlings and orphans, which can reduce the efficiency of development activities. The impact assessment for An Agenda for Change recognises this risk and explains the evaluations made in designing the new policy. Option 3, ‘geographical focus’ and Option 4, ‘sectoral and geographical focus’ look at differentiation, noting:

> A basic assumption of this option is that Commission-managed aid would be complemented by other donors or other instruments. This implies reinforced coordination and division of labour among the Commission, Member States and other donors to ensure that the demands and needs of partner countries are met.

This should be combined with a ‘well-informed and coordinated exit and entry strategies’ (European Commission, 2011i: 31, 36).

In An Agenda for Change, the EC also proposes joint programming – for the member states and the EC jointly prepare strategies and programmes, and better divide labour among themselves in order to increase aid effectiveness. The idea is that the EC would take a more active leadership role in coordinating and harmonising donor activities. Some member states, however, see this as a bid by the EC to have a greater say over national development aid. An Agenda for Change’s proposal actually goes beyond coordination, proposing that the EU, together with member states, should develop a single programming document for each recipient country, laying down a division of labour and financial allocations to guide member states' aid as well. So, even though the EC’s impact assessment recommends that differentiation should go hand in hand with joint programming, it is unlikely that member states will support this.

4 Conclusion

As the six challenges explored in the paper demonstrate, the EC has many factors to consider in the design and implementation of this new policy; all suggest that a stronger evidence base is necessary in designing this policy. In order to better assess the implications of differentiation for developing countries, it would be useful for the EC to publish a detailed explanation of the new aid allocation criteria, including the quantitative model used in weighting the various criteria. Without this level of transparency, differentiation risks increasing the politicisation of development funding.

The EC should also publish specific country impact assessments, like those included in the UK Department for International Development's 2011 Bilateral Aid Review, to explain how decisions to include and exclude certain countries have been made. These country impact assessments should also assess the impacts facing MICs from multiple levels of differentiation (Herbert, forthcoming). These include, for example, the EC's proposed reform of the Generalised System of Preferences (GSP), which could see the number of countries eligible for GSP trade concessions fall from 175 to about 80. This would affect all UMICs that do not have free-trade agreements with the EU (Stevens et al., 2011). Other examples include climate change differentiation, which will increase commitments for emerging economies to reduce carbon emissions, as agreed in principle at the Durban COP17 in 2011, and differentiation in eligibility for shock facilities (Herbert, forthcoming).

As debates over country versus people poverty continue, it is important to recognise that MICs still face serious challenges in meeting the Millennium Development Goals and in eliminating poverty in particular areas. Many can also play key roles in the provision and protection of global public goods. The EC's proposed differentiated development partnerships could provide new and innovative ways to tackle some of the challenges facing MICs; however, the current allocation of financial resources to these partnerships is limited and they will only work if they are adequately funded.

5 Bibliography

Chandy, L. and Gertz, G. (2011) 'Poverty in numbers: the changing state of global poverty from 2005 to 2015' (www.brookings.edu/~/media/research/files/papers/2011/1/global%20poverty%20chandy/01_global_poverty_chandy.pdf).

Chandy, L. and Kharas, H. (2012) 'The contradictions in global poverty numbers' (www.brookings.edu/research/opinions/2012/03/06-contradictions-poverty-numbers-kharas-chandy).

Council of the EU (2005). Joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy: 'The European Consensus' (http://ec.europa.eu/development/icenter/repository/european_consensus_2005_en.pdf).

Council of the EU (2011) 'EU Strategic Partnership with Brazil. Factsheet' (http://consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/124831.pdf).

DAC (2006) 'DAC list of ODA recipients – as at 1 January 2006' (www.oecd.org/dataoecd/23/34/37954893.pdf).

DAC (2009) 'DAC list of ODA recipients. Effective for reporting on 2009 and 2010 flows' (www.oecd.org/dataoecd/32/40/43540882.pdf).

DAC (2011) ' DAC list of ODA recipients. Effective for reporting on 2011, 2012 and 2013 flows' (www.oecd.org/dataoecd/9/50/48858205.pdf).

DFID (2011) 'Operational Plan 2011-2015. DFID INDIA' (www.dfid.gov.uk/Documents/publications1/op/india-2011.pdf).

European Commission (2008) 'The EU, Africa and China: towards trilateral dialogue and cooperation' (http://ec.europa.eu/development/icenter/repository/COMM_PDF_COM_2008_0654_F_COMMUNICATION_en.pdf).

European Commission (2009) 'Proposal for a Council Regulation amending Regulation (EC) No 1934/2006 establishing a financing instrument for cooperation with industrialised and other high-income countries and territories' (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52009PC0197:EN:NOT).

European Commission (2010) 'Multiannual Financial Framework 2014-2020: Heading IV – External relations "The EU as a global player"' (http://ec.europa.eu/commission_2010-2014/piebalgs/multimedia/pdf/20111208_mff_extrel_technical_briefing_en.pdf).

European Commission (2011a) 'Increasing the impact of EU development policy: An Agenda for Change' (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0637:FIN:EN:PDF).

European Commission (2011b) 'Multiannual Financial Framework 2014-2020: strengthening Europe's place in the world' (http://ec.europa.eu/europeaid/how/finance/mff/financial_framework_news_en.htm).

European Commission (2011c) 'Proposal for a regulation of the European Parliament and of the Council establishing a financing instrument for development cooperation' (http://ec.europa.eu/europeaid/how/finance/documents/prop_reg_instrument_dev_coop_en.pdf).

European Commission (2011d) 'Global Europe: a new approach to financing EU external action' (http://ec.europa.eu/europeaid/how/finance/documents/joint_communication_global_europe_en.pdf).

European Commission (2011e) 'The Multiannual Financial Framework: the proposals on external action instruments' (http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/878&format=HTML&aged=0&language=EN&guiLanguage=en).

European Commission (2011f) 'Proposal for a regulation of the European Parliament and of the Council establishing a partnership instrument for cooperation with third countries' (http://ec.europa.eu/europeaid/how/finance/documents/prop_reg_partnership_instrument_en.pdf).

European Commission (2011g) *Annual Report 2011 on the European Community's Development and External Assistance Policies and Their Implementation in 2010* (http://ec.europa.eu/europeaid/multimedia/publications/publications/annual-reports/2011_en.htm).

European Commission (2011h) 'Preparation of the Multiannual Financial Framework regarding the financing of EU cooperation for African, Caribbean and Pacific states and overseas countries and territories for the 2014-2020 period (11th European Development Fund)' (http://ec.europa.eu/europeaid/how/finance/documents/comm_european_development_fund_en.pdf).

European Commission (2011i) 'Impact assessment accompanying the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions: "Increasing the impact of EU development policy: An Agenda for Change"' (http://ec.europa.eu/europeaid/what/development-policies/documents/impact_assesment_en.pdf).

European Commission (n.d.) 'Summary of the European Commission's proposed instruments' (http://ec.europa.eu/europeaid/how/finance/mff/myths-eu-budget_financial-instruments_en.htm).

European Parliament and the Council (2006) 'Regulation (EC) No. 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation'. OJ L 378, 27 December (http://eur-lex.europa.eu/lex/LexUriServ/LexUriServ.do?uri=OJ:L:2006:378:0041:0071:EN:PDF).

FRIDE (2011) 'Mapping EU strategic partnerships' (www.fride.org/publication/956/mapping-eu-strategic-partnerships).

Gavas, M. (2012) 'The European Commission's legislative proposals for financing EU development cooperation' (www.odi.org.uk/resources/docs/7569.pdf).

Gavas, M., Geddes, M., Massa, I. and te Velde, D.W. (2011) 'European Union (EU) blending facilities: implications for future governance options' (www.odi.org.uk/resources/details.asp?id=5394&title=european-union-eu-blending-facilities-implications-future-governance-options).

Gavas, M., (2010) 'Financing European development cooperation: the Financial Perspectives 2014-2020' (http://www.odi.org.uk/resources/docs/6238.pdf)

Glennie, J. (2011) 'The role of aid to middle-income countries: a contribution to evolving EU development policy' (www.odi.org.uk/resources/docs/7189.pdf).

Glennie, J. (2012) 'What if three quarters of the world's poor live (and have always lived) in low aid countries?' (www.odi.org.uk/resources/details.asp?id=6576&title=glennie-poor-people-aid-dependency).

Herbert, S. (2012 forthcoming) 'The different approaches to differentiation'.

Herbert, S. and Greenhill, R. (2011) 'Submission to the Inquiry on EU development assistance' (http://www.odi.org.uk/resources/docs/7544.pdf)

International Development Committee (2012) 'Uncorrected transcript of oral evidence taken before the International Development Committee, Brussels. EU Development Assistance. Mr Andris Piebalgs, Mr Antti Karhunen, Mr Christopher Jones and Mr Peteris Ustubs' (www.publications.parliament.uk/pa/cm201012/cmselect/cmintdev/uc1680-ii/uc168001.htm).

OECD (2011) 'Ensuring Fragile States Are Not Left Behind: 2011 Factsheet on Resource Flows in Fragile States' (http://www.oecd.org/dataoecd/5/11/49108935.pdf)

Piebalgs, A. (2012) 'Aid has to be modernised; EU is not pulling out from middle income countries (MICs)' Andris Piebalgs blog, January (http://blogs.ec.europa.eu/piebalgs/aid-has-to-be-modernised-eu-is-not-pulling-out-from-middle-income-countries-mics/).

Ravallion, M. (2012) 'New Brookings study is overly optimistic on progress against poverty' (http://blogs.worldbank.org/developmenttalk/new-brookings-study-is-overly-optimistic-on-progress-against-poverty).

Stevens, C., Bird, K., Keane, J., Kennan, J., te Velde, D.W. and Higgins, K. (2011) 'The poverty impact of the proposed graduation threshold in the Generalised System of Preferences (GSP) trade scheme' (www.odi.org.uk/resources/docs/7341.pdf).

Sumner, A. (2010) 'Global poverty and the new bottom billion: what if three-quarters of the world's poor live in middle-income countries?' (www.ids.ac.uk/files/dmfile/GlobalPovertyDataPaper1.pdf).

Sumner, A. (2011) 'Where do the poor live?' *World Development* 40(5), May: 865-877 (www.sciencedirect.com/science/article/pii/S0305750X11002294).

World Bank (2011) 'World Development Indicators' (http://data.worldbank.org/data-catalog/world-development-indicators).

UNDP (2010) 'UNDP releases 2010 Human Development Index' (http://hdr.undp.org/en/media/PR3-HDR10-HD1-E-rev4.pdf).

UNICEF (2012) 'Child nutrition: tracking progress towards MDG 1' (www.childinfo.org/undernutrition_mdgprogress.php).

6 Appendix

Table 4a: Full country analysis of the DCI-19 (DCI countries that will receive aid as before)

Country[29]	GNI per capita, (Atlas current $, 2010)	DAC list (2011+ flows)	% of global GDP (2010)	Gini (2010)	HDI rank (2010)	HDI ranking of DCI (1 = high, 45 = low, 2010)	Poverty headcount (% poor under $1.25, 2010)	No. of poor people (2009, mn)	% of DCI poor people (2009)[30]	Malnutrition – underweight (% of children under 5, 2009, UNICEF)	EC ODA allocation (DCI geographic, 2007-2013, € mn)[31]	% allocated to each country (DCI geographic, 2007-2013)	EC ODA disbursement (DCI geographic, 2010, € mn)	% disbursed to each country (DCI geographic, 2010)
India	1,330	LMIC*	2.74	33	119[z]	36	32.67	480.0	50.3	42.5[=]	470	6.30	62.21	5.16
Indonesia	2,500	LMIC	1.12	34	108[z]	29	18.06	44.5	4.7	18.4[+]	494	6.62	75.2	6.24
Ecuador	3,850	UMIC*	0.09	49	77	12	4.61	0.6	0.1	6.2[ч]	137	1.84	16.97	1.41
Thailand	4,150	UMIC*	0.5	40	92	19	0.37[˚]	0.2	0.0[″]	7.0[=]	17	0.23	8.59	0.71
China	4,270	UMIC*	9.39	42	89[z]	17	13.06[˜]	204.7	21.5	3.8[˜]	173	2.32	32.15	2.67
Iran	4,520[˚]	UMIC*	n/a	38	70[z]	15	1.45[z]	1.1	0.1	n/a	n/a	–	0.79	0.07
Peru	4,700	UMIC*	0.25	49	63	11	4.91	1.7	0.2	4.2	132	1.77	17.44	1.45
Colombia	5,510	UMIC*	0.46	57	79	14	8.16	7.3	0.8	3.4	160	2.15	25.71	2.13
Maldives	5,750	UMIC**	n/a	37	107[ч]	23	n/a	0.0[ˉ]	0.0[″]	17.3[˚]	10	0.13	4.2	0.35
Costa Rica	6,810	UMIC	0.06	51	62	9	3.12[˚]	0.0[ˉ]	0.0[″]	1.1[˚]	34	0.46	3.11	0.26
Panama	6,970	UMIC	0.04	52	54	6	6.56[˚]	0.0[ˉ]	0.0[″]	3.9[˜]	38	0.51	1.05	0.09
Kazakhstan	7,590	UMIC*	0.24	29	66	8	0.11[˚]	0.0[ˉ]	0.0[″]	3.9[=]	74	0.99	12.45	1.03
Malaysia	7,760	UMIC	0.38	46	57	7	0	n/a	n/a	12.9[=]	17	0.23	0.91	0.08
Argentina	8,620	UMIC	0.58	46	46	2	0.92	0.3	0.0[″]	2.3[=]	65	0.87	5.9	0.49
Mexico	8,890	UMIC	1.64	48[˜]	56	5	1.15[˜]	2.0	0.2	3.4[=]	55	0.74	5.67	0.47
Brazil	9,390	UMIC*	3.31	55	73	13	6.14[˚]	7.3	0.8	1.7[=]	61	0.82	16.08	1.33
Chile	10,120	UMIC	0.34	52	45	1	1.35[˚]	0.0[ˉ]	0.0[″]	0.5	41	0.55	9.05	0.75
Uruguay	10,590	UMIC	0.06	46	52	3	0.2	0.0[ˉ]	0.0[″]	5.4[n]	31	0.42	5.36	0.44
Venezuela	11,590	UMIC	0.62	45[=]	75	10	6.63[=]	0.8	0.1	3.7[+]	40	0.54	3.94	0.33

[29] The latest data available on EC aid disbursements are from 2010, which this table uses, unless unavailable. Where data are unavailable, the appropriate year is marked as follows: 2009 (˚), 2008 (˜), 2007 (+), 2006 (=), 2005 (z), 2004 (ч), 2003 (̊) and 2002 (n). Fragile and conflict-affected states are marked (f) - the categorisation is based on lists from 2009, published by OECD in 2011. Countries that have moved up one OECD-DAC income group since the period of initial aid allocation in 2006/07 are marked (*); those that have moved from LDC to UMIC status are marked (**).

[30] Calculations based on World Bank World Development Indicators (net ODA and population data) and PovCal (poverty headcount ratio) (both World Bank, 2011). Where 2009 data are unavailable, data from the most recent year are used. Countries with under 100,000 poor people are marked (ˉ). Countries with less than 0.1% of the DCI's poor are marked (″).

[31] Data provided by the EC by email.

Subtotal DCI-19								**750.4**	**78.7**		**2,049**	**27.47%**	**306.78**	**25.44%**
Subtotal (%)								**78.7%**			**27.5%**		**25.4%**	
Total DCI-46			**23.91**					**953.4**			**7,457**		**1,206**	

Sources: OECD-DAC aggregate aid statistics; OECD (2011); World Bank (2011); European Commission (2011g); UNDP (2010); UNICEF (2012)

Table 4b: Full country analysis of the DCI-27 (DCI countries that will have grant-based bilateral aid cut) [32]

Country	**GNI per capita,** (Atlas current $ 2010)	**DAC list** (2011 + flows)	**% of global GDP** (2010)	**Gini** (2010)	**HDI rank** (2010)	**HDI ranking of DCI** (1 = high, 45 = low, 2010)	**Poverty headcount** (% poor under $1.25, 2010)	**No. of poor people** (2009, mn)	**% of DCI poor people** (2009)	**Malnutrition – underweight** (% of children under 5, 2009, UNICEF)	**EC ODA allocation** (DCI geographic, 2007-2013, € mn)	**% allocated to each country** (DCI geographic 2007-2013)	**EC ODA disbursement** (DCI geographic, 2010 € mn)	**% disbursed to each country** (DCI geographic, 2010)
Afghanistan[f]	410	LDC	0.03	28[˜]	155	45	n/a	n/a	n/a	32.9[¶]	1,030	13.8	174.23	14.45
Nepal[f]	440[°]	LDC	n/a	33	129	44	24.82	16.2	1.7	38.6[=]	120	1.61	29.06	2.41
Bangladesh[f]	700	LDC	0.16	32	129	41	43.25	73.0	7.7	41.0[+]	403	5.40	122.86	10.19
Cambodia	750	LDC	0.02	38[˜]	124	38	22.75[˜]	4.0	0.4	28.3	152	2.04	17.77	1.47
Tajikistan[f]	800	LIC	0.01	31	112	31	6.56[°]	1.5	0.2	15.0[+]	128	1.72	24.85	2.06
Kyrgyz Republic	840	LIC	0.01	36	109	30	6.23[°]	0.1	0.0 ″	2.2[=]	106	1.42	13.76	1.14
Dem Rep. Korea[f]	n/a	LIC	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18.8[°]	n/a		11.15	0.92
Myanmar/Burma[f]	n/a	LDC	n/a	n/a	132	42	n/a	n/a	n/a	22.6	65	0.87	25.96	2.15
Laos	1,050	LDC/ LMIC*	0.01	37[˜]	122	37	33.88[˜]	2.0	0.2	31.1[=]	41	0.55	9.65	0.80
Pakistan[f]	1,050	LMIC*	0.28	30[˜]	125	40	21.04[˜]	38.5	4.0	31.3[n]	398	5.34	26.76	2.22
Yemen[f]	1,070[°]	LDC/ LMIC*	n/a	38	133[z]	43	17.53[z]	4.0	0.4	43.1[∔]	130	1.74	22.28	1.85
Nicaragua	1,110	LMIC	0.01	40	115[z]	33	11.91[z]	0.9	0.1	5.5[+]	214	2.87	10.61	0.88
Viet Nam	1,160	LMIC*	0.17	36[˜]	113	32	16.85[˜]	11.2	1.2	20.2[˜]	304	4.08	28.25	2.34
Uzbekistan[f]	1,280	LMIC*	0.06	37[∔]	102	26	n/a	12.9	1.4	4.0[=]	74.8	1.00	3.58	0.30
Bolivia	1,810	LMIC	0.03	56[˜]	95	22	15.61[˜]	1.3	0.1	4.3[˜]	249	3.34	47.3	3.92
Bhutan	1,870	LDC/ LMIC	n/a	38[+]	n/a	39	10.22[+]	0.2	0.0″	12.7	14	0.19	1.34	0.11
Honduras	1,870	LMIC	0.02	57	106	27	17.92[°]	1.7	0.2	8.1[=]	223	2.99	41.49	3.44
Mongolia	1,870	LMIC	0.01	37[˜]	100	24	n/a	0.6	0.1	5.0[z]	29	0.39	8.54	0.71
Philippines	2,060	LMIC	0.32	43	97	25	18.42[°]	20.7	2.2	21.6[˜]	130	1.74	22.78	1.89

[32] Sources same as Table 4a.

Sri Lanka[f]	2,240	LMIC	0.08	40[+]	91	16	7.04[+]	1.5	0.2	21.1[+]	112	1.50	9.03	0.75
Iraq[f]	2340	LMIC	0.13	31[+]	n/a	35	2.82[+]	1.2	0.1	6.4[=]	58.7	0.79	29.4	2.44
Paraguay	2710	LMIC	0.03	51	96	21	7.16	0.3	0.0[″]	3.4[z]	117	1.57%	22.12	1.83%
Guatemala	2740	LMIC	0.07	56[=]	116	34	13.53[=]	1.6	0.2	13.0[°]	135	1.81%	23.56	1.95%
El Salvador	3380	LMIC	0.03	48	90	20	8.97[°]	0.3	0.0 [″]	5.5[˜]	121	1.62%	37.26	3.09%
Turkmenistan	3790	LMIC	0.03	n/a	87	18	n/a	0.7	0.1	8.2[z]	53	0.71%	4.12	0.34%
Cuba	5520	UMIC	n/a	n/a	n/a	4	n/a	n/a	n/a	n/a	20	0.27%	15.68	1.30%
South Africa	6090	UMIC	0.58	63	110	28	13.77[°]	8.6	0.9	8.7[˜]	980	13.14%	115.6	9.59%
Subtotal DCI-27								**203.0**	**21.3**		**5,408**	**72.51%**	**899**	**74.54%**
Subtotal (%)								**21.3**			**72.5%**		**74.6%**	
Total DCI-46			**23.91**					**953.4**			**7,457**		**1,206**	

Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD
UK

Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399
Email: publications@odi.org.uk
Website: www.odi.org.uk

ISBN 978 1 907288 76 0
Working Paper (Print) ISSN 1759 2909
ODI Working Papers (Online) ISSN 1759 2917