Strategy Paper

The Belgian Development Cooperation in middle-income countries
SUMMARY

1. The Belgian Development Cooperation starts with the capacities and needs that are typical of middle-income countries, or MICs) in comparison with low income countries (LICs). The human development level is higher in MICs. The countries have more financial and human capacities to deal with their development challenges. But there are still many development needs at the social-economic, political and ecological levels.

2. Coming from a human rights’ perspective of development, the challenges in the MICs arise in essence from insufficient inclusive government institutions and policies and a lack of social cohesion. The policy choices in this paper take advantage of the capacities and needs in the MICs as well as the political economy of underdevelopment in these countries. The Belgian Development Cooperation strives, through the selective cooperation domains and forms, to improve the fate of those who do not share in the increasing prosperity in the MICs. In doing so, the best possible use is made of the local institutional, financial and human potential as a lever.

3. Priority cooperation domains in MICs: the redistribution of prosperity through social protection and the tax system; the political and social empowerment of underprivileged, vulnerable, left out civilians; more inclusive and sustainable growth; the climate and environment. As far as the forms of cooperation in the MICs, the Belgian Development Cooperation opts for a shift from financial help and service provision to a transfer of knowledge, technology and skills, to the support of societal power that work for fairer social-political power relations and for more supranational cooperation.

4. In the future, the relations between Belgium and the middle-income partner countries will be expanded to broader relations that surpass the cooperation development policy area. In this context, the Belgian development policy will prepare for the end of the donor-receiver relationship with MICs, which is both unavoidable and desirable.
There are various ways to define and classify development countries. The OECD uses a list, according to certain criteria, of countries that are eligible for official development aid. The UN designates countries a Least Developed Countries based on a number of indicators of human development (e.g. level of compulsory education). The World Bank groups countries based on the GNI/capita in Low Income Countries (LICs), Middle-income Countries (MICs) or High Income Countries (HICs). The Bank further splits the middle group, with a GNI/capita between USD 1,025 and USD 12,275, into Lower and Higher MICs.

The division by the World Bank allows for evolutions in development country, in a positive sense particularly, to be better seized. Numerous development countries have indeed seen strong economic growth in past years. Several countries have evolved from an LIC to an MIC. In 2012, nine of the eighteen partner countries of the Belgian Governmental Development Cooperation MICs: Algeria, Bolivia, Ecuador, Morocco, the Palestinian Territories, Peru, Senegal, Vietnam and South Africa.

Many donors, including Belgium and the European Union, have questioned this: do middle-income countries have other development needs and possibilities than low income countries? How can a donor present added value for the MICs’ development process?

This paper wants to provide an answer to these questions, and is set up as follows:

1) context and challenges for development in MICs;
2) policy vision: cooperation from a human rights approach to development;
3) priority cooperation domains and forms customised for MICs;
4) towards broad, bilateral relations;
5) tracks for implementation.

This paper goes in search of general principles that apply within the majority of MICs, without mistaking the great diversity behind the MIC label. Naturally, we will focus on the nine middle-income partner countries of the Belgian Governmental Development Cooperation.

The paper provides a policy framework for the many Belgian cooperation actors active in MICs and is placed within the European Union’s changing development policy with regard to MICs. This paper is part of a series of strategy papers by the Belgian Development Cooperation. The strategy papers are all imbued with the objectives and basic principles in the 2012 Law on Belgian Development Cooperation.

Lastly, the paper is part of the cornerstone of the long-term strategy for the entire Belgian development policy. The proposals made for the MICs must apply, in time, for all partner countries that reach a higher income level.
1. Context and challenges for development in MICs

11. MICs differ from each other strongly regarding income level, scope, population, political system, natural resources, regional context, etc. A number of MICs are (post-)conflict countries or fragile states. MICs can therefore only be considered as a single category with many nuances.

12. However, MICs share a number of characteristics that clearly distinguish them from low income countries. A comparison of the Belgian Governmental Development Cooperation’s middle-income partner countries to the low income partner countries, based on a series of criteria and indicators (Annex 1), shows that they, apart from Senegal, which is balanced on the border between LICs and MICs, clearly have the capacities to deal with their own development challenges:

- MICs experience, by definition, a higher economic prosperity level.
- The middle-income partner countries, with the exception of the Palestinian Territories, are much less dependent upon foreign aid: official development aid (ODA) makes up much less than 1% of their GNI. A number of MICs also experience self-development aid.
- Fighting poverty through an alternative allocation or re-allocation of prosperity is definitely feasible in the middle-income partner countries, from an economic standpoint. In the vast majority of MICs, therefore also in the middle-income partner countries, with the exception of Senegal, less than 1% of the GNP is needed to bring the poor in these countries above the poverty line of USD 1.25. Furthermore, the highest levels of poverty in MICs, as well as in many of the middle-income partner countries, could be ended by levying very limited taxes on the richer part of the population. This is not the case in the majority of LICs, and not in the low income partner countries.¹
- The effectiveness of the government is bigger in the majority of middle-income partner countries, even though this is often still suboptimal.
- The middle class, measured both based on income and based on the number of internet users and students, is noticeably larger in MICs than in LICs, including in the middle-income partner countries.

13. Many MICs also have a clear advantage over LICs when it comes to human development. All nine middle-income partner countries of the Belgian Governmental Development Cooperation have an average or high level of human development according to the UNDP definition (based on income, educational level and life expectancy).

¹ See Summer (2012) and Ravallion (2010). Annex 3 provides a concise overview of these scientific studies and their application in the Belgian Development Cooperation’s partner countries. It should be noted that the findings for Algeria are uncertain due to the outdated poverty figures for that country. It is therefore possible that, e.g. the redistribution through taxation is also economically feasible in Algeria.
14. At the same time, MICs show the same remaining development needs as LICs in many regards, despite and sometimes as a result of fast economic growth (Annex 2):

- There are still many poor people in relatively prosperous countries. There are approximately 40 million poor people, as categorised by the UNDP’s definition of multidimensional poverty, living in the middle-income partner countries. This is about one fifth of all the poor in the Belgian partner countries. Today, 70% of people living under the poverty line of USD 1.25/day, or approximately 1 billion people, live in MICs. Some predict that by 2025 poverty will be a problem for LICs, quasi exclusively, and particularly in fragile African states. But others put the majority of the poor in MICs in the coming decades. There is at least a portion of the poor in MICs that are at a risk of not being able to take advantage of the economic growth in their country, like those already headed in this direction because of, e.g. the isolated area in which they live or because their voice is insufficiently counted in society or has little weight upon the policies in their country.

- The middle-income partner countries are having, just like the low income partner countries, difficulties in achieving the Millennium Development Goals.

- The inequality between the richest and the poorest levels of the population, measured using the Gini coefficient, is of the same order of magnitude. This holds true for all the partner countries as well. Inequality between rich and poor, as well as between men and women, between urban and rural, etc., shows that economic growth does not trickle down to all levels of the population.

- Just like LICs, MICs are dealing with a democratic deficit. The Economist Intelligence Unit’s Index of Democracy (2011), e.g., does not categorise any of the Belgian middle-income partner countries as a democracy. Many MICs are also riddled with corruption. According to Transparency International, our middle-income partner countries only score a mediocre to very poor in this category. Furthermore, the Freedom House organisation has found that human rights do not get enough respect in many MICs.

- In many MICs, there is an ecological price attached to the achievement of fast economic growth. Urbanisation and industrialisation are putting an ever increasing pressure on the environment. MICs are simultaneously confronted with the consequences of climate change and extreme weather. Furthermore, the management of natural resources is insufficient in many MICs.

15. Moreover, Lower MICs are at risk of falling back to the level of an LIC. Economic growth is fragile within the fastest growing countries, primarily to the extent that this often rests on income from raw materials with volatile prices on the market and that their industry produces half-finished products or low-quality goods without creating much added value. Many MICs are in a perilous competition position between low-wage countries on the one hand and more sophisticated economies on the other, known as the middle-income trap. The risk of stagnation or falling back to a lower development level is high for all of these reasons. The remaining development needs in MICs are additional destabilising factors for continued progress.

16. Given that the line between an MIC and an LIC is comparative concerning needs, the majority of MICs continue to welcome cooperation with donors. The increasing resources and capacities in MICs does however prompt amended policies tailor-made for the MICs.
2. Policy vision: cooperation from a human rights approach to development

17. Respect for human rights is a legally determined goal and a priority theme of the Belgian Development Cooperation. Belgium is a proponent of a rights-based approach to development. Such an approach means that underdevelopment is recognised as a problem of uneven power relations as well as being a question of those who hold the rights and those who bear the duty. Looking at it like this, development cooperation can increase the capacity of the duty bearers and promote the empowerment of rights holders. A rights-based approach to development also recognises the major human rights principles (equality, non-discrimination, participation, accountability, etc.) as conditions for development.

18. A rights-based approach to development justifies a continuous yet adjusted commitment in MICs and also helps to better understand the remaining development needs in these countries.

2.1. Continuous yet adjusted commitment

19. Is development cooperation still sensible for MICs? Their remaining development challenges impact just a minority of their population. They also have the financial means and human capacities to deal with these challenges themselves.

20. The remaining development needs of these countries and their populations make up the main reason why the Belgian Development Cooperation wants to remain active in the MICs. But there are other reasons:

- Belgium and the MICs have shared bilateral and global interests. MICs can have a major influence on global public goods like climate, energy and international trade, energy intensive economies and the presence of natural resources. At the same time, the fragility of maturing institutions in many MICs poses a challenge to insuring global public goods like health. Development cooperation can help safeguard global public goods.

- It is likely that development cooperation from Belgium provides better results with MICs than cooperation with LICs because these are utilised in a climate of relatively better functioning government institutions, more infrastructure, higher capacity, more financial resources to guarantee the sustainability of interventions, etc. In this same sense, an increase in income could have a more positive effect on the lives of poor people in a country with better social services.

- Cooperation with MICs is also important for LICs because increasing prosperity and stability in MICs can ensure investments, markets, transfers of technology and knowledge, and “South-South” cooperation (spill-over effect).

- Belgium has comparative advantages in a number of middle-income partner countries in comparison to other donors because of the history of its presence and the high amount of knowledge gained because of this, through a high aid volume, and through highly efficient programmes in specific domains. It is worthwhile to continue utilising these advantages, when these are significant. From a human rights approach to
development, the Belgian Development Cooperation wants to remain committed in MICs. After all, every individual is entitled to a dignified existence, even if he or she is part of the minority in a country with a fairly high level of prosperity, generally speaking. A number of remaining development challenges in MICs also affect their entire population, specifically ecological degradation and shortcomings in democracy and respect for human rights.

21. But a human rights approach to development also means that those in charge, in the first place national governments, are made aware of their obligations and accept accountability with regard to their entitled citizens. From this perspective, a donor like Belgium must refrain from doing what the governments of MICs can and must do themselves as the primary responsible party. From this reasoning, the Belgian Cooperation Development will remain active in the MICs in the future, but the cooperation will be more selective. The Belgian Development Cooperation opts for a limited number of specific cooperation forms and domains in which Belgium can still provide added value as a donor.

2.2. The political economy of underdevelopment in MICs

22. From a human rights approach to development, it is striking that the remaining underdevelopment in MICs is primarily a problem for vulnerable, left-out or slower-developing people. Governments in MICs do not succeed in letting their entire population benefit from the increasing prosperity and citizens cannot sufficiently enforce their rights.

23. The cause of the problem is often economic. Growth in MICs is often situated in a limited number of regions or sectors, which ends up excluding a portion of the population. Growth in MICs is also often unstable, which makes people vulnerable to the consequences of economic shocks. Many MICs have insufficient expertise to effectively deal with the often fast economic growth and the problems related to this. But the cause can also be political because MICs have a great deal of capacity and resources to deal with the economic challenges. In many MICs, it appears to be a shortage of political and social willingness to let each citizen share in the increasing prosperity, and there is also insufficient empowerment of citizens and their interest groups. After all, fast economic growth in MICs is rarely paired with an equally fast building up of a mature democratic culture and the social cohesion related to this culture.

24. A charitable or merely technical approach by the donors would pass by the political economy of underdevelopment in MICs. The Belgian Development Cooperation recognises the necessity of taking advantage of the political dynamic in MICs.
3. Priority cooperation domains and forms customised for MICs

25. From the above developed context analysis and policy vision, the Belgian Development Cooperation opts for a limited number of priorities in MICs, both intrinsically (which cooperation domains?) and process-related (which cooperation forms?).

3.1. Cooperation domains tailor-made to MICs

26. Development cooperation with MICs is the most sensible for Belgium in three domains where the root cause of underdevelopment in MICs can be corrected: redistribution of national prosperity through social protection and taxation; empowerment of underprivileged citizens; inclusive, stable and sustainable economic growth. An additional cooperation domain of importance in MICs, from a shared global interests perspective, is the climate and environment. Belgium wants to continue to build upon the financial and human potential in these domains in the MICs and thus create leverage.

3.1.1. Redistribution of natural resources: social protection and taxation

27. Through social protection and the tax system, prosperity can be more equally distributed and poverty and vulnerability can be dealt with structurally.

Redistribution through social protection systems

28. Social protection systems can correct inequality and vulnerability of certain groups of the population. Social protection provides people with a buffer against shocks that are frequent occurrences in MICs with unstable economic growth. The right to social protection is explicitly recognised in the Universal Declaration of Human Rights and in the conventions of the International Labour Organisation. Social protection is also one of the four pillars of the social protection floors that the UN Member States endorse, in addition to employment, the right to work and social dialogue.

29. Social protection within the MICs is currently insufficiently broad and not deep enough, despite the successful introduction of benefit payments and safety nets in numerous countries. The development of the social protection floors would only cost a small percentage of the GNI in many countries, however. The share of formal employment in MICs is generally greater than in LICs, which simplifies the collection of contributions.

30. Thanks to its own social model, Belgium has expertise in developing social protection, in developing countries as well. From this experience, the Belgian Development Cooperation wants to cooperate with MICs in the following:

- the development of institutions and institutional capacity to guarantee a social protection floor for every citizen. In MICs where the number of people covered by social protection is already high, efforts will be put into expanding the guaranteed social rights and covered risks;
- better collection of data as a necessary condition for effective and reasonable social protection. Particular attention will be given to birth registration, as an access key for social rights;
- the promotion of social dialogue, for broadly supported social protection systems.
Redistribution through taxation

31. The collection and use of taxes allows governments to provide goods and services to the population. This ensures social contact between the state and the citizens and strengthens the legitimacy of a state. Tax collection and spending is also a good channel for the redistribution of natural resources. All UN Member States have endorsed the importance of reasonable and effective tax systems, including in the Monterrey Consensus of the International Conference on Financing for Development.

32. The majority of MICs have well developed tax systems, but these insufficiently redistribute the wealth. The tax pressure is low here, in comparison with High Income Countries. The share of income taxes in the MICs’ tax systems is also limited, although these taxes have the highest potential for redistribution. Furthermore, a great deal of potential tax revenues are lost through an informal economy, suboptimal functioning tax administrations, tax evasion and corruption.

33. A levy of 1 to 10% on the upper and middle classes would be sufficient to end a great deal of poverty in the majority of the middle-income partner countries. In addition to this socio-economic potential, MICs usually also have the institutional infrastructure and capacity for a redistributive tax system. The Belgian Development Cooperation wants to work together with the MICs to help further develop this potential:

- reform of the income tax systems to increase the redistributive effect;
- better capacity of the tax administrations to collect tax revenues, including combating fraud;
- support from local governments in levying taxes, particularly in regions with underprivileged groups of the population.

3.1.2. Political and social empowerment of underprivileged citizens

34. A structural improvement of the fates of underprivileged groups of citizens in MICs can only take place once those who are vulnerable or left out can actually have a say in the policy. But the institutions and the political culture in the majority of MICs are insufficiently democratic. Furthermore, there are still socio-cultural obstacles to social inclusion at the societal level, which interferes with the respect and promotion of human rights.

35. Nevertheless, the extensive, higher educated and well informed middle class in the majority of MICs are in a good position to expose political or societal exclusion and human rights violations. Furthermore, there are extremely strong non-governmental actors (NGOs, unions, etc.) in a number of MICs that play an important supervisory, advisory and lobbying function with regard to society and the government.

36. The Belgian Development Cooperation wants to positively stimulate actors and organisations in MICs that work towards democratic governance, social inclusion, dignified work and combating discrimination and marginalisation, both in the government (parliament, ombudsmen, etc.) and in civil society. In this, Belgium supports the Universal Declaration of Human rights and the International Covenants on Political and Civil Rights and Economic, Social and Cultural Rights, which are also endorsed by the MICs, and the dignified work agenda of the International Labour Organisation:
• advocacy among policy-makers and politicians for more room for civil society to function within the public arena;
• financing of independent studies necessary for a social and political debate based on facts;
• building up capacities of non-governmental actors in the fields of policy analysis and advocacy;
• supporting of organisation that give a voice to underprivileged groups.

3.1.3. Inclusive, stable and sustainable economic growth

37. Economically speaking, the challenge in MICs consists primarily of connecting the entire population to the sustainable economic growth. Because the economy in the majority of MICs is not diversified enough, the growth is concentrated in a limited number of sectors and regions. This prevents many people from finding a job and national consumption is halted. Due to a lack of sufficiently well-educated professionals, MICs have a hard time transforming their industry. This is primarily why growth in MICs is fragile. There is often an ecological price linked to the fast growth in MICs.

38. In order to let more people share in the economic growth of their country, it is primarily important to work on increased, dignified employment. This can be done on the one hand by employing people in existing centres of growth, and by developing new centres of growth on the other.

39. The Belgian Development Cooperation want to help make the growth in MICs more inclusive and more stable by:

• encouraging entrepreneurship at the SME level through improved access to financing at an acceptable interest rate and through the support of incubators for innovative companies;
• providing the stimulus for SMEs to open up new local and international markets through technological innovations, e.g. as concerns quality improvement and monitoring (a form of aid for trade);
• supportive measures for the training of professional employees and regarding business management;
• investing in infrastructure and basic services, especially concerning (renewable) energy and access to natural resources

40. In this regard, the Belgian Development Cooperation is concentrating on slower developing sectors or regions, on corporate social responsibility, and on the realisation of a green economy founded on sustainable, climate-friendly production and consumption.

3.1.4. Climate and the environment

41. The Belgian Development Cooperation wants to work together with MICs to deal with ecological challenges that benefit their own development process and out of concern for the climate and the environment as global public goods. In this regard, Belgium starts with the international agreements that it has approved with the MICs, such as the agreements made within the UN’s Climate Treaty.
42. First and foremost, attention here will be paid to:

- the sustainable management of vulnerable natural resources;
- the limitation of carbon emissions through a more diversified energy consumption and through more energy efficiency, together with guarantees for inclusive access to energy;
- the quality of life in urban environments, including sustainable water usage and dealing with the waste issue;
- prevention of natural disasters

3.2. Cooperation forms tailor-made to MICs

43. The situation of the MICs requires specific forms of cooperation. MICs have less need of financial resources and service provision from a donor, and more need of exchanging knowledge, technology and skills, and of levelling out the moral ground for fairer social-political power relations. The supranational level also gains influence in the cooperation with MICs.

3.2.1. Decreasing importance of development aid

44. Approximately one third of the total Belgian official development aid (ODA) currently goes to MICs\(^2\). The middle-income partner countries currently receive a larger portion of the Belgian ODA per poor person than the lower income partner countries\(^3\). But ODA loses its importance in MICs because these countries have many alternative sources of income (foreign investments, migrant transfers, etc.) or could have them (taxes). The needs are primarily concerning a better and fairer utilisation of national resources. A donor cannot meet these needs through a transfer of financial resources. Other forms of cooperation are needed. Financial aid for measures that actors in developing countries can themselves perfectly gain can in itself be counterproductive. This removes the responsibility and undermines the local control and solidarity systems. Moreover, the need for ODA is greater in LICs, where the global needs are greater, where there are far fewer alternatives for development than financial aid from donors, and where the prospects are much more sombre.

45. This is why the Belgian Development Cooperation wants to decrease its ODA to MICs in order to benefit the LICs. 73% of the ODA allocated in the Belgian Development Cooperation’s budget for governmental cooperation already goes to LICs. By the end of 2015, 80% of the available resources in the budget for governmental cooperation goes to LICs.\(^4\)

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2 For the Belgian ODA: 27.7% in 2009-2010 and 34.6% in 2008-2009; these figures do not take into account the LDCs that are MICs (DAC, 2011, Statistics on Resource Flows to Developing Countries, table 26: Distribution of ODA by Income Group). For European aid: 40.9% in 2008-2009, see Jonathan Glennie, “The role of aid to middle-income countries: a contribution to evolving EU development policy”, ODI working paper 331, 2011: p. 9.

3 Robrecht Renard, “Development Cooperation with Middle-Income Countries”, Presentation at the DAC Development Debates, June 2012: slides 7-8. The Belgian expenditures at country level (country programmable aid; largely coincides with the expenditures of the governmental cooperation), split up per poor person, allocate almost as much ODA to a poor person in a middle income partner country as to a poor person in a low income partner country. The larger proportion of ODA/poor person in MICs must therefore be explained by the NGOs and the universities that apparently allocate more ODA/poor person in MICs than in LICs.

4 In 2010, 73% of the DGD budget went to governmental cooperation in LICs and 14% went to MICs (of which 1% went to UMICs and 13% to LMICs). 13% was regionally or universally distributed. If, from now on, 80% must go to LICs, this means that the portion for MICs must be roughly halved.
46. This drop in governmental ODA for MICs does not have to be paired with less ODA through non-governmental, regional or multilateral partners. After all, civil society fulfils an extremely important role in the development process of MICs. Regional and multilateral organisations are also important vectors for the safeguarding of regional or global public goods in MICs, the benefits of which surpass these countries (see below: 3.2.4.).

47. However, all partners of the Belgian Development Cooperation must give up financial gifts as the main component of cooperation in MICs. ODA must be maximally utilised in MICs as either seed money for the experimental or exemplary initiation of activities that a cooperation partner can continue independently within a short period of time, or as leverage for alternative forms of cooperation that need little or no donor financing after a short period of time, or as the catalyst for other sources of development financing (such as tax revenues). Moreover, it is more sensible that the gift component of what donors provide gradually declines in MICs, and that cooperation in the MICs is significantly and upwardly co-financed by the beneficiary country (matching budgets) or the beneficiary population. ODA can also move from gifts to loans. In time, a partner country could even pay for the expertise it wants on its own. The regulating framework of the Belgian Development Cooperation currently only allows for a limited number of mixed tool forms between gifts and loans (blending) from the own budget, and no paid assistance. However, Belgium does participate in the reflection process on blending at the EU level, with a view to a possible amendment of the national policy.

3.2.2. Exchanges of knowledge and skills through various actors

48. MICs usually have the institutions and the financial space to deal with development challenges. But they often have to deal with a lack of capacity and expertise in a number of domains. This is often the case in the cooperation domains in the MICs that are a priority for Belgium (the tax system, social protection, political-social empowerment, inclusive and sustainable growth, the climate and environment). External stimuli could provide and build up the missing capacity in these areas, and in doing so, level out the playing field for a supportive, political dynamic. Belgium can also meet these needs, both at the level of the local and national governments and at the level of civil society and the private sector. Knowledge can be exchanged in both directions here.

49. Such cooperation can be carried out government to government, through non-governmental organisations or through multilateral partner organisations, with two or three parties (triangular cooperation). But the exchanges of knowledge, skills and people and “twinnings” between non-traditional cooperation actors, e.g. tax administrations, national health services, women’s organisations, etc. are particularly sensible in Belgium’s priority intervention domains.

50. Educational and research institutions play a key role in the creation and distribution of knowledge. There are more possibilities in the MICs than the existing, valuable cooperations between Belgian universities and universities in developing countries that are currently supported by the Belgian Development Cooperation. Belgian educational and research institutions can also be utilised in MICs as centres of expertise to provide both policy advice and project-related advice to third parties, including the private sector. In this regard, the Belgian institutions can work together with universities and research centres in developing countries, which have reached a sufficiently high level of management capability and experience in many MICs. Multiplier effects can be achieved through such multi-stakeholder projects.
51. Project-related cooperation will be sufficient for the exchange of knowledge and skills in a number of cases. The Belgian Development Cooperation study and expertise funds can serve this purpose. In other cases, a longer-term, programmed approach through long-range cooperation programmes is recommended (e.g. development of social security). The capacities present in MICs require in any case national implementation through a partner in a developing country rather than a directed implementation or through co-management. Furthermore, the support of knowledge exchanges and capacity building through basket funds together with other donors is particularly recommended in MICs because this modality increases the room to manoeuvre and decreases the transaction costs for the partner in the developing country, while simultaneously allowing a form of earmarking by donors. Sectoral, budgetary aid is much less suitable for MICs, where financing is not so lacking and where the remaining needs are more specific.

52. The Belgian Development Cooperation is willing to experiment with the exchange of knowledge and capacity building through triangular cooperation, in which Belgium supports a transfer of knowledge or skills between two developing countries or two non-governmental organisations from a developing country. For sponsoring and facilitating the exchanges between non-traditional cooperation actors from the developed world and developing countries for the benefit of development, the BTC can act as a mediator in a number of cases and a new fund will be established.

3.2.3. Support from civil society

53. Local actors (NGOs, ombudsmen, unions, etc.) are capable of stimulating forces in middle-income countries for democracy, social inclusion and human rights. The Belgian Development Cooperation will raise the support of these local organisations in MICs and increase the financial resources for this. In this regard, the budget allocation “direct support of local civil society organisations” will be applied. More strategic support of policy analysis and advocacy by the most professional organisations will thus be made possible.

54. Support of local organisations by Belgian, non-governmental actors (NGAs) is still justifiable in certain situations. This is the case when capacity or room to manoeuvre is lacking within the local civil society organisations, or when Belgian NGAs can link local actors to international networks through which joint policy influence can take place. This can be done through project or programme subsidies, through the “Actions in synergy with governmental cooperation” budget line, and through the budget for society building and good governance, making financing Belgian and local organisations complementary.

3.2.4. Regional and global cooperation

55. Many of the challenges in MICs have a regional or global dimension. For example, the economic vulnerability of MICs is linked to volatile, international markets and the endangered biodiversity in MICs is a global problem. At the same time, with their growing role and interwovenness with the global economy, MICs have an increasingly important impact at the international level, and they can fulfil a pioneering role in the development of other countries.

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5 For several years now, the BTC has been concluding cooperation agreements with government services to utilise on an ad-hoc basis the Belgian government expertise (Federal Police, Belgian National Service for Medical and Disablement Insurance, the Belgian Federal Agency for the Safety of the Food Chain, the Departments of Justice and Defence).
In this regard, the Belgian Development Cooperation will take into account as much as possible the regional context and possibilities for international cooperation that surpass the bilateral relations in the policy with regard to MICs. This means that the integration of MICs into regional organisations and markets and the participation of MICs in global institutions will be supported and promoted to the benefit of the MICs themselves as well as to the benefit of LICs in the region and finally to the benefit of the entire global community. From now on, the Belgian Development Cooperation will be more strongly focussing its efforts on the support of normative work by international organisations concerning global public goods. Furthermore, Belgium aims for more explicit, positive regional repercussions in the support of the local private sector in MICs (promoting buying and selling in neighbouring countries). In addition to this, the Belgian Development Cooperation will delegate, more than previously done, the implementation of governmental cooperation programmes in MICs to the regional and multilateral institutions where these have comparative advantages. Finally, Belgium advocates for a greater role and more responsibility for MICs in the decision-making bodies of international organisations.
4. Towards broad, bilateral relations

57. Above, choices were made for the future development policy in MICs. But Belgium and a large number of MICs already have increasingly broader and more symmetrical bilateral relations between all manner of actors in domains such as commerce, investments, research, migration, climate, etc. in which they have mutual interests. The relations with MICs surpass in this way the pure donor-receiver contacts and the development cooperation policy domain.

58. Strong and broad international relations serve sustainable, human development because they can bring solidarity, investments and exchanges of knowledge with them. Building further on the long relations with partner countries, the Belgian Development Cooperation will facilitate this transition:

- by cooperating on the safeguarding of global public goods;
- by developing a policy, together with BIO and BTC, on the stimulation of the development-oriented and corporate social responsibility from Belgium;
- by aiming for win-win situations for developing countries and for Belgian actors, both public and private, as well as a combination thereof, based on the needs of an MIC, through the building of capacity and the exchange of knowledge. This can be done by, e.g. supporting training in important sectors for trade relations with Belgium;
- by using FINEXPO in the best possible way to simultaneously promote economic and development interests in the lower MICs, in accordance with agreements made within the OECD;
- by using the still-to-be-created mechanism linked to a fund for North-South exchanges between divers actors.

59. At the same time, the Belgian Development Cooperation aims to make a positive impact on development in all international relations with MICs. In accordance with the new Law on Development Cooperation and with the prospect of improving the relevance and the effectiveness of its cooperation, Belgium wants to promote the coherence of all its relations with the middle-income countries. Striving toward policy coherence for development with regard to MICs will gain concrete form through the involvement of other Belgian government agencies, at the federal level and the regional and community levels, in the creation of cooperation programmes with middle-income partner countries. Therefore, it can possibly be decided to add additional cooperation forms from other government services that tie in well with the cooperation programmes of the Belgian Development Cooperation. Furthermore, we will more closely follow up on the discussions within the World Trade Organisation and the EU on the curtailment of trade preferences of MICs, bearing in mind the relative needs and capacities in these countries. The Belgian development policy will remain involved in the discussion on a fair, global distribution of climate efforts in which all countries will undertake actions suited to them, as well as in the debate on climate financing from the principle of a common, yet differentiated responsibility.

60. The evolution towards broader and more balanced bilateral relations also means that the end of development cooperation in MICs is in sight. There comes a point at which donors can better invest their scarce resources somewhere else. This paper invites reflections to be made on the phasing out of development cooperation in MICs, at least as concerns the governmental cooperation, whereby three factors must be taken into account:
• the capacity to be independent in terms of financial and human resources (see Annex 1);
• the remaining development needs, with a view to the country context (including GNI/capita), as well as the - sometimes contrasting - development needs of (portions of) the population; in addition to income poverty, account must certainly be taken of the inequality, the denial of political and civil rights, and ecological vulnerability (see Annex 2);
• the impact to be expected of Belgian cooperation, weighed on the basis of: (a) the comparative advantages of Belgium as a donor (in terms of the historical relationship, aid volume and the particular added value of certain cooperation programmes); (b) the performance of the existing cooperation programmes and the political dialogue linked to these; (c) the willingness of the partner to work together in the intervention domains that Belgium has selected within the MICs; (d) the strength of the bilateral relationship in policy domains that can contribute to development (commerce, investments, security, migration, etc.); and (e) the influence of the partner country on global or regional public goods

61. Where it appears that a phasing out of the governmental cooperation is needed, non-governmental or multilateral cooperation will remain justified in many cases. However, the non-governmental actors and multilateral agencies that are actively using the Belgian Development Cooperation’s resources in the MICs must put thought into the opportunity of phasing this out.

62. In this way, Belgium looks for a tie-in with the European development policy, where a discussion on the exclusion, starting in 2014, of a number of high middle-income countries from the country-specific aid in the European budget is being held, with possible exceptions where the remaining development challenges and the added value of the EU are still significantly high.

63. In anticipation of a political decision on the phasing out of the governmental cooperation in MICs, it is extremely important to already start developing a exit strategy in the upper MICs, both at the macro-level (development cooperation in a country in its entirety) and the micro-level (each individual project and programme). Success factors for such an exit strategy are: communication at a high level, timely warnings, participation in the planning process and the implementation by all parties involved (governmental and non-governmental), meeting the commitments made, flexibility, and sufficient capacity on both the donor and receiver sides. After all, a possible exit can only go well if thorough preparations are made in partnership with one another.

64. The phasing out of governmental development cooperation does not mean an abrupt stop in bilateral relations. An exit can be paired with a parallel in-phasing of other forms of cooperation from various actors, which the Belgian Development Cooperation will facilitate, as mentioned above. The Belgian government will also continue the dialogue on development with MICs for as long as the population is experiencing development needs. In addition, Belgium will also advocate, in a European and multilateral context, for conclusive transitional measures to consolidate the progress in MICs before stopping the development aid, and for continued cooperation on a non-concessional basis thereafter.
5. Tracks for implementation

65. This strategy requires further development based on specific and extremely diverse country contexts, which will possibly themselves require adapted or supplementary policy choices. This last chapter already lays down a number of concrete implications for the Directorate-General for Development Cooperation and Humanitarian Aid (DGD) and the other channels and actors in the Belgian Development Cooperation (BTC, non-governmental actors, multilateral partner organisations, BIO).

5.1. Differentiation by all cooperation actors

66. The DGD will encourage all actors of the Belgian Development Cooperation to use a nuanced differentiation policy with regard to MICs, in line with this strategy paper. This is how country or context analyses, upon which governmental, non-governmental or multilateral cooperation programmes are based, must expose the political economy of underdevelopment in MICs (How inclusive is the political system? Who are the underprivileged, vulnerable and ostracised?). Furthermore, cooperation programmes must become more selective and contain at least one priority cooperation domain for MICs (see chapter 3, first section) and must progress according to the priority cooperation forms for MICs as much as possible.

67. In this regard, all cooperation actors will be encouraged to become aware of and use their own comparative advantages, in striving towards synergy and complementarity. In this way, the political dialogue linked to governmental cooperation programmes can be systematically utilised to advocate for more room for the local civil society to function, or the multilateral organisations will be expected to fully carry out their normative role with regard to global public goods.

5.2. New procedures

68. In addition to this, innovative procedures are implemented to take better advantage of the needs and possibilities in MICs. For example, many MICs, and the higher MICs in particular, are requesting ad-hoc, punctual cooperation with various actors based on their own needs, which can suddenly change. This is why the DGD will no longer let the cooperation with higher MICs take place through the traditional, long-range cooperation programmes. A fund for cooperation with higher MICs will be set up in its place, through which fast and flexible advantage can be taken with regard to these countries’ demands for diverse, as well as non-traditional, forms of cooperation.

69. The Belgian Development Cooperation is also prepared to meet the partners’ demands for trilateral cooperation.

70. The DGD will further evaluate in the short term the opportunity for a new mechanism linked to a fund that proactively stimulates and facilitates North-South exchanges between various actors who strive for development-relevant, win-win situations at their own initiative. Inspiration for such a mechanism can be found in the form of other donors. This could be done as a database, an advice counter, a training offer and/or competitively allocated financing on the developing side of the partnership.
71. In addition to this, the DGD is working on new procedures for direct financing of local civil society in MICs in order to make more strategic support of policy analysis and advocacy by capable organisations possible. In order to limit transaction cost and increase the impact, financing of the local civil society will now be done long-term and programmed, and where possible through delegated cooperation and/or jointly with other donors.

72. Finally, the legislation on BIO will be amended so that BIO can, in addition to the commercial market, invest in higher MICs from now on because of the remaining development needs in these countries and because of the potential for positive spill-overs into other countries.

73. An evaluation of the Belgian development policy with regard to MICs in 2015 will analyse the suitability of the Belgian Development Cooperation procedures in the context of MICs.

5.3. Adjusted financing

74. The amended policy with regard to MICs will have repercussion for the DGD budget. Within the budget for governmental cooperation, less ODA will go to MICs, thus benefiting LICs. Other budgets, particularly “regional cooperation”, “support of the local civil society” and “society-building and good governance”, will remain stable or increase where possible in order to face the remaining development challenges in MICs.

5.4. Anticipation of phasing out

75. The DGD will provide the Minister for Development Cooperation with a file containing an analysis of the opportunities in phasing out the bilateral, governmental cooperation when a partner country has continuously surpassed the threshold of “upper-middle-income country” (UMIC) for a period of three years. This creates the impetus to start reflecting on the situation. The final decision to phase cooperation out is really a political decision, based on the Law on Belgian Development Cooperation. Based on such a decision, the DGD will develop an exit strategy, whereby they will also enter into a dialogue with non-governmental actors on the phasing out of bilateral, governmental cooperation and on the remaining and changing role of non-governmental actors in MICs.
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### Bijlage 1: capaciteit in de 18 partnerlanden

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Economische welvaart</th>
<th>Hulp(on) afhankelijkheid</th>
<th>Capaciteit tot hervordering</th>
<th>Capaciteit overheidsapparaat</th>
<th>Sterkte middenklasse</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GNI/capita (World Bank; * Planningsministerie Palestijnse Gebieden)</td>
<td>ODA/GNI (World Bank; * Planningsministerie Palestijnse Gebieden)</td>
<td>Implied marginal tax rate &lt;Ravallion 2009</td>
<td>WBI governance indicator: Government Effectiveness</td>
<td>Internet gebruikers/100 inwoners (World Bank 2010)</td>
</tr>
<tr>
<td>Burundi</td>
<td>170</td>
<td>42%</td>
<td>100</td>
<td>-1,09</td>
<td>2,10</td>
</tr>
<tr>
<td>Congo, Dem. Rep.</td>
<td>180</td>
<td>23%</td>
<td>na</td>
<td>-1,72</td>
<td>0,72</td>
</tr>
<tr>
<td>Niger</td>
<td>370</td>
<td>9%</td>
<td>100</td>
<td>-0,71</td>
<td>0,83</td>
</tr>
<tr>
<td>Mozambique</td>
<td>440</td>
<td>21%</td>
<td>100</td>
<td>-0,47</td>
<td>4,17</td>
</tr>
<tr>
<td>Uganda</td>
<td>500</td>
<td>12%</td>
<td>100</td>
<td>-0,55</td>
<td>12,50</td>
</tr>
<tr>
<td>Rwanda</td>
<td>520</td>
<td>18%</td>
<td>100</td>
<td>-0,05</td>
<td>13,00</td>
</tr>
<tr>
<td>Tanzania</td>
<td>540</td>
<td>14%</td>
<td>100</td>
<td>-0,50</td>
<td>11,00</td>
</tr>
<tr>
<td>Mali</td>
<td>600</td>
<td>11%</td>
<td>100</td>
<td>-0,88</td>
<td>2,70</td>
</tr>
<tr>
<td>Benin</td>
<td>780</td>
<td>10%</td>
<td>na</td>
<td>-0,54</td>
<td>3,13</td>
</tr>
<tr>
<td>Senegal</td>
<td>1.080</td>
<td>8%</td>
<td>100</td>
<td>-0,51</td>
<td>16,00</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1.160</td>
<td>4%</td>
<td>100</td>
<td>-0,31</td>
<td>27,85</td>
</tr>
<tr>
<td>Bolivia</td>
<td>1.810</td>
<td>4%</td>
<td>10,55</td>
<td>-0,45</td>
<td>20,00</td>
</tr>
<tr>
<td>Occupied Palestinian Territories</td>
<td>1.975*</td>
<td>31%*</td>
<td>7,19</td>
<td>-0,42</td>
<td>38,72</td>
</tr>
<tr>
<td>Morocco</td>
<td>2.850</td>
<td>1,03%</td>
<td>1,16</td>
<td>-0,17</td>
<td>49,00</td>
</tr>
<tr>
<td>Ecuador</td>
<td>3.850</td>
<td>0,41%</td>
<td>4,96</td>
<td>-0,68</td>
<td>29,00</td>
</tr>
<tr>
<td>Algeria</td>
<td>4.390</td>
<td>0,23%</td>
<td>27,94</td>
<td>-0,56</td>
<td>12,50</td>
</tr>
<tr>
<td>Peru</td>
<td>4.700</td>
<td>0,37%</td>
<td>1,47</td>
<td>-0,21</td>
<td>34,30</td>
</tr>
<tr>
<td>South Africa</td>
<td>6.090</td>
<td>0,39%</td>
<td>na</td>
<td>0,34</td>
<td>12,33</td>
</tr>
</tbody>
</table>

**Legenda:**
- Lichtgroen = lower MIC
- Donkergroen = upper MIC
- Groen = < 1%
- Lichtgroen = < 10,55
- Donkergroen = ≥ 20
- Lichtgroen = < 0
- Donkergroen = < 5
- Lichtgroen = ≤ 0,5
### Bijlage 2: Noden in de 18 partnerlanden

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Armoede</th>
<th>Menselijke ontwikkeling</th>
<th>MDGs</th>
<th>Ongelijkheid</th>
<th>Democratie en mensenrechten</th>
<th>Ecologische kwestbaarheid</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Poverty headcount ratio at $1.25 a day (PPP; % of population; World Bank)</td>
<td>Population in multidimensional poverty (UNDP; 2011)</td>
<td>Human Development Index (UNDP; 2011)</td>
<td>Inequality Adjusted Human Development Index (UNDP; 2011)</td>
<td>MDG progress index-Center for Global Development (score/10)</td>
<td>GINI</td>
</tr>
<tr>
<td>Burundi</td>
<td>81,32 (2006)</td>
<td>6.127.000</td>
<td>0,316</td>
<td>na</td>
<td>1,5</td>
<td>4,4</td>
</tr>
<tr>
<td>Congo, Dem. Rep.</td>
<td>87,72 (2006)</td>
<td>44.485.000</td>
<td>0,286</td>
<td>0,172</td>
<td>3,5</td>
<td>4,2; authoritarian regime</td>
</tr>
<tr>
<td>Niger</td>
<td>43,62 (2008)</td>
<td>12.437.000</td>
<td>0,295</td>
<td>0,195</td>
<td>4</td>
<td>4,2; authoritarian regime</td>
</tr>
<tr>
<td>Mozambique</td>
<td>59,58 (2008)</td>
<td>18.127.000</td>
<td>0,322</td>
<td>0,229</td>
<td>4</td>
<td>4,9; hybrid regime</td>
</tr>
<tr>
<td>Uganda</td>
<td>38,01 (2009)</td>
<td>21.235.000</td>
<td>0,446</td>
<td>0,296</td>
<td>5</td>
<td>5,1; hybrid regime</td>
</tr>
<tr>
<td>Rwanda</td>
<td>63,17 (2011)</td>
<td>7.380.000</td>
<td>0,429</td>
<td>0,276</td>
<td>0,276</td>
<td>3,3; authoritarian regime</td>
</tr>
<tr>
<td>Tanzania</td>
<td>67,87 (2007)</td>
<td>27.559.000</td>
<td>0,466</td>
<td>0,332</td>
<td>2,5</td>
<td>5,6; hybrid regime</td>
</tr>
<tr>
<td>Mali</td>
<td>50,43 (2010)</td>
<td>11.771.000</td>
<td>0,359</td>
<td>na</td>
<td>5</td>
<td>6,4; flawed democracy</td>
</tr>
<tr>
<td>Benin</td>
<td>na</td>
<td>5.652.000</td>
<td>0,427</td>
<td>0,274</td>
<td>4</td>
<td>5,1; flawed democracy</td>
</tr>
<tr>
<td>Senegal</td>
<td>33,5 (2005)</td>
<td>7.273.000</td>
<td>0,459</td>
<td>0,304</td>
<td>3,5</td>
<td>5,4; hybrid regime</td>
</tr>
<tr>
<td>Vietnam</td>
<td>16,85 (2008)</td>
<td>14.249.000</td>
<td>0,593</td>
<td>0,510</td>
<td>7</td>
<td>3,6; authoritarian regime</td>
</tr>
<tr>
<td>Bolivia</td>
<td>15,61 (2008)</td>
<td>1.972.000</td>
<td>0,663</td>
<td>0,437</td>
<td>5</td>
<td>5,1; hybrid regime</td>
</tr>
<tr>
<td>Occupied Palestinian Territories</td>
<td>0,04 (2009)</td>
<td>52.000</td>
<td>0,641</td>
<td>na</td>
<td>2</td>
<td>5,1; hybrid regime</td>
</tr>
<tr>
<td>Morocco</td>
<td>2,52 (2007)</td>
<td>3.287.000</td>
<td>0,582</td>
<td>0,409</td>
<td>5</td>
<td>3,8; authoritarian regime</td>
</tr>
<tr>
<td>Ecuador</td>
<td>4,61 (2010)</td>
<td>286.000</td>
<td>0,72</td>
<td>0,535</td>
<td>7</td>
<td>5,7; hybrid regime</td>
</tr>
<tr>
<td>Algeria</td>
<td>na</td>
<td>na</td>
<td>0,698</td>
<td>na</td>
<td>4,5</td>
<td>3,4; authoritarian regime</td>
</tr>
<tr>
<td>Peru</td>
<td>4,91 (2010)</td>
<td>5.421.000</td>
<td>0,725</td>
<td>0,557</td>
<td>6,5</td>
<td>6,6; flawed democracy</td>
</tr>
<tr>
<td>South Africa</td>
<td>13,77 (2009)</td>
<td>6.609.000</td>
<td>0,619</td>
<td>na</td>
<td>2,5</td>
<td>7,6; flawed democracy</td>
</tr>
</tbody>
</table>

Geel = minder dan 20%
Orange = medium HD
Geel = medium HD
Geel = high HD
Background note on redistributive capacity of countries

As developing countries develop over time, their internal capacity to tackle poverty through redistribution increases and it becomes more and more difficult to convince public opinion in donor countries of the necessity to spend aid money. The recent discussion in the UK on spending aid in India clearly illustrates the difficulties. Up to now, however, little research was done to measure a country’s capacity for internal redistribution. Two recent studies try to fill this gap.

In a first paper, Andy Sumner (2012) looks at the relative cost of ending poverty in developing countries. To this end, he expresses the poverty gap, the sum of all income shortfalls from the poverty line, as a share of a country’s GDP. In this way, he measures the effort, through a reallocation of existing public spending towards the poor and additional redistributive taxation of the rich, that is necessary to lift the poor out of poverty. These estimates can be readily contrasted with other statistics, for instance that military spending is about 1.6% of GDP in LICs and 2.2% in LMICs, and that social programs like Brazil’s Bolsa Familia cost less than 1% of GDP. They give an impression of the economic feasibility of within country redistribution.

The following table presents his main findings:

Table 1: Estimates of the total poverty gap as %GDP, PPP² constant 2005 international $ by $1.25 and $2 poverty line in 2008/9

<table>
<thead>
<tr>
<th></th>
<th>Total poverty gap as % of GDP PPP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1.25</td>
</tr>
<tr>
<td>LICs</td>
<td>8.4</td>
</tr>
<tr>
<td>LMICs</td>
<td>1.3</td>
</tr>
<tr>
<td>UMICs</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Sumner(2012: 12)

While the average cost for LICs looks prohibitive, for both LMICs and UMICs Sumner’s findings illustrate that the cost of ending $1.25 poverty is affordable. Only 17 out of 109 MICs have a poverty gap exceeding 1% of GDP.

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1 Prepared by Karel Verbeke and Robrecht Renard, Institute of Development Policy and Management (IOB), University of Antwerp, Belgium, within the framework of the O’Platform Aid Effectiveness, a project financed by DGD through the VLIR-UOS to provide policy advice to the Directorate General of Development Cooperation (DGD) of the Belgian Government.

2 Purchasing power parities (PPPs) are used to ensure that 1 dollar buys an identical basket of commodities and services in every country. Existing exchange rates do not always correctly express this.
The next table applies Sumner’s methodology to the Belgian partner countries:

**Table 2: Estimates of the total poverty gap as %GDP, PPP constant 2005 international $ by $1.25 and $2.00 poverty line in 2008/9, Belgian partner countries**

<table>
<thead>
<tr>
<th>Belgian LIC partner countries</th>
<th>Cost of ending poverty (%GDP) PPP, constant 2005 int’l $</th>
<th>Belgian MIC partner countries</th>
<th>Cost of ending poverty (%GDP) PPP, constant 2005 int’l $</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1.25</td>
<td>$2.00</td>
<td></td>
</tr>
<tr>
<td>Benin</td>
<td>5.05</td>
<td>17.19</td>
<td>Algeria</td>
</tr>
<tr>
<td>Burundi</td>
<td>32.08</td>
<td>79.07</td>
<td>Bolivia</td>
</tr>
<tr>
<td>DR Congo</td>
<td>79.34</td>
<td>162.61</td>
<td>Ecuador</td>
</tr>
<tr>
<td>Mali</td>
<td>7.92</td>
<td>27.28</td>
<td>Morocco</td>
</tr>
<tr>
<td>Mozambique</td>
<td>14.55</td>
<td>39.69</td>
<td>Peru</td>
</tr>
<tr>
<td>Niger</td>
<td>9.09</td>
<td>36.08</td>
<td>Senegal</td>
</tr>
<tr>
<td>Rwanda</td>
<td>12.15</td>
<td>32.55</td>
<td>South Africa</td>
</tr>
<tr>
<td>Tanzania</td>
<td>10.61</td>
<td>28.72</td>
<td>Vietnam</td>
</tr>
<tr>
<td>Uganda</td>
<td>4.97</td>
<td>17.83</td>
<td>West Bank and Gaza</td>
</tr>
</tbody>
</table>

Source: Own calculations based on Povcal and WDI, using methodology of Sumner

Within most Belgian partner LICs, the fiscal effort required to eliminate the poverty gap is much above affordable levels. In the MIC-group, redistributive policies have much more potential as nearly all have a cost of ending extreme poverty that is below 1% GDP. There are even opportunities for ending $2.00 poverty in most partner countries.

A second paper by Martin Ravallion (2010) goes one step further. While Sumner’s paper illustrates that many MICs have the economic potential to tackle poverty, Ravallion translates this potential into an actual tax rate on the “rich” to redistribute towards the poor.

To avoid heavy taxation of the people living just above the poverty line, extra taxes in his simulation are only imposed on that part of the population that would not be considered poor in a representative rich country, and would, when living in a developed country, also contribute to development aid through taxation.

Ravallion uses the two “poor country” poverty lines that he has helped to pioneer and that Sumner also takes as a basis for his calculations. The first $1.25 is the average national poverty line found in the poorest 15 countries. The second, $2.00, is the median poverty line for all developing countries with data available. In setting the “rich county” poverty line, above which people will be subject to an extra tax, he uses $13 a day at 2005 PPP, which is the poverty line per person for a family of four in the US. The hypothetical redistribution in each developing country is thus from those who are not poor by US standards to those who are poor by the standards of the poorest countries ($1.25) or developing countries as a whole ($2.00).

Calculating the tax rate for a set of 90 developing countries, Ravallion finds that on average an extra tax rate of 41.6% on the non-poor by rich country standards is necessary to lift the $1.25-poor out of poverty, and 52.4% for the $2.00-poor\(^3\). These averages seem prohibitive, but they hide large variance, and two important groups of countries can be distinguished. A first group has little to no scope for making a serious impact on the problem of extreme poverty through internal redistribution. This group consists of 48 countries with consumption per capita under $2,000 per year at 2005 PPPs. For this group the average tax rate is 70% for the $1.25 poverty line and 81% for the $2.00 poverty line. These are clearly prohibitive

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\(^3\) Ravallion calls this a marginal tax rate because it is only levied on income in excess of the international poverty line of $13
tax rates by international standards. In rich countries even tax rates on the highest income tranches rarely exceed 60%.

As average consumption increases, the additional redistributive taxes required to eliminate absolute poverty however fall sharply. Above consumption per capita of $4,000 a second group of countries appears to have much more potential for redistribution. For the average of this group of 17 countries the Ravallion marginal tax rate is very low: 0.8% to close the $1.25 poverty gap and 2.4% to close the $2.00 poverty gap. The following graph summarizes the calculations.

**Figure 1: Extra or “marginal” tax rate on the non-poor to lift the 1.25$ poor out of poverty**

![Graph showing marginal tax rate on non-poor to lift the 1.25$ poor out of poverty](image)

*Source: Ravallion (2010: 17)*

Overall Ravallion concludes that his findings support the necessity of economic growth for poverty reduction. While the poorest countries have weak capacity for redistribution, sufficient economic growth makes the tax rates fall rapidly through time. Given that high taxation of the rich tends to act as an impediment to economic growth, he favors relatively more emphasis on growth than on redistribution at low levels of income per capita, and more external aid to countries in this stage of their development.

Ravallion limits himself to 89 countries for which at least two surveys are available, in order to allow for intertemporal comparison. As this excludes a number of Belgian partner countries for which one survey is available, we did Ravallion’s calculations for three additional partner countries: Benin, DRC and West Bank and Gaza.
Table 3: Extra marginal tax rate on the rich to eliminate extreme poverty

<table>
<thead>
<tr>
<th>Belgian LIC partner countries</th>
<th>Marginal tax rate on the “rich” to fill the poverty gap</th>
<th>Belgian MIC partner countries</th>
<th>Marginal tax rate on the “rich” to fill the poverty gap</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1.25</td>
<td>$2.00</td>
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<tr>
<td>Benin</td>
<td>100%</td>
<td>100%</td>
<td>Algeria</td>
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<tr>
<td>Burundi</td>
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<td>100%</td>
<td>Bolivia</td>
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<tr>
<td>DR Congo</td>
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<td>100%</td>
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<td>Vietnam</td>
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<tr>
<td>Uganda</td>
<td>100%</td>
<td>100%</td>
<td>West Bank and Gaza</td>
</tr>
</tbody>
</table>

Source: own calculations based on povcal, using methodology of Ravallion.
Note: tax rates in excess of 100% are capped at that rate

In line with Sumner’s findings, these data suggest that there is limited potential for fiscal redistribution within Belgian partner LICs to contribute significantly to the elimination of absolute poverty, whereas there are realistic opportunities, at least from an economic perspective, to do so in many of the Belgian partner MICs.

References:


Federal Public Service Foreign Affairs, Foreign Trade and Development Cooperation

Communications Departement
Rue des Petits Carmes 15
B-1000 Brussels
Belgium

Tél. +32 2 501 81 11

www.diplomatie.belgium.be
www.dg-d.be

Responsible editor: Dirk Achten, Rue des Petits Carmes 15, B-1000 Brussels

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