



From Poverty Reduction to Mutual Interests? The Debate on Differentiation in EU Development Policy

Summary

The need to better adapt EU development policy to the varying levels of development of partner countries (“differentiation”) and the extent to which middle-income countries (MICs) should continue to receive EU aid have become contentious issues of the EU’s new development policy agenda as well as in the negotiations on the next multi-annual financial framework. Due to the EU’s mandate to ensure its global presence in all developing countries, development cooperation with MICs is more a question of how such cooperation should be framed rather than withdrawing from these countries. The Commission’s proposal foresees ending bilateral aid allocations to 19 developing countries but continuing cooperation under thematic and regional programmes. Ongoing discussions between the Commission, Member States and the European Parliament have so far focussed mainly on the “right” criteria for such graduation and the extent to which specific countries should be exempt from the rule. So far, the EU has not presented a clear strategy of how exactly it aims to change its development programmes with this group of advanced developing countries, and has thus created some ambiguity on the actual implications of a differentiated approach. What are the strategic priorities and policy objectives of these new forms of cooperation? Will the EU continue to focus on poverty reduction or will the cooperation objectives shift to addressing regional and global development challenges?

The debate on differentiation needs to be placed in the context of two interlinked challenges – both being of fun-

damental importance for the future direction of EU development policy: the phenomenon of continued poverty and rising inequality in countries that have generated fast economic growth; and the growing range of global challenges and the strategically important role of many MICs in securing global commons.

With regards to the implications for EU development policy, there are two main conclusions:

- Tackling global poverty needs both better “technical” solutions for classifying countries and, on the political level, a better coordinated cross-country division of labour and joint EU strategy towards advanced developing countries;
- The EU needs to address the mismatch between partner country portfolio and development objectives. Due to its global presence, the EU is ideally placed to adopt a global rationale of development policy, in particular in its cooperation with MICs. This global outlook on development will increase the coordination challenges of EU development policy and other European external policies substantially.

The EU’s instrument framework – and in particular the Development Cooperation Instrument (DCI) – needs to be designed to allow for the continued funding of poverty reduction and social cohesion programmes in graduating countries. At the same time, it should make sufficient resources for the proposed “Global Public Goods” programme available to demonstrate a clear shift towards a global rationale of development policy.

The debate on differentiation

According to the 2011 European Commission’s Communication “An Agenda for Change” and the Council Conclusions of 14 May 2012, the EU plans to graduate 19 developing countries that have either reached upper-middle-income status or account for 1 per cent of global gross domestic product from geographic, grant-based bilateral assistance to the thematic programmes of the DCI (see Box). But while it is widely recognised among Member States and the European Parliament that donor agencies need to better adapt their approaches to the varying levels of development of partner countries (“differentiation”), there seems to be less agreement on what exactly a European response should look like. So far, discussions at the EU level have mainly focussed on identifying the criteria for a graduation from bilateral aid allocations, the extent to which specific countries should be exempt from the rule and the need for including phasing-out periods of existing development programmes.

But while these are important debates, it is equally important to draw attention to more strategic considerations and further implications of a more differentiated approach. For example, how does the EU intend to address shifting patterns of global poverty? What are the strategic priorities and policy objectives of these new forms of cooperation? And how does the EU ensure a coherent institution-wide strategy towards these countries?

From a “narrow” to a “broad” definition of development policy

There are increasingly two different rationales for development policy and for providing aid. The first is a “narrow”

definition of development policy, which prioritises poverty reduction as the overarching objective. This definition applies to EU development policy, whose primary objective – enshrined in the Lisbon treaty and the 2005 European Consensus on Development – is the eradication of poverty. However, unlike those EU donors for whom a clear focus on poverty reduction has been accompanied by a strong concentration of aid to the poorest countries, the EU is bound by its mandate to maintain a global presence and a partner country portfolio that covers more than 140 developing countries. This global presence, and the fact that the EU mainly cooperated through grant-based aid, resulted in above-average funding for MICs, as compared to other members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD) – a situation for which the EU has been frequently criticised.

One key challenge within the existing narrow definition of EU development policy thus relates to concentrating aid funds where they are likely to have the greatest impact on poverty reduction. However, how the EU positions itself in these concentration efforts depends to a large extent on its reading of the current transformations of the development landscape and the changing patterns of global poverty.

Poor countries or poor people?

Has poverty turned from an international to a national distribution problem in MICs (Sumner 2010)? Is poverty in MICs transitory or are we likely to see the majority of poor people in MICs in the medium and long term? Or is the “old bottom billion” debate still valid today and poverty likely to

G E O G R A P H I C P R O G R A M M E	B I L A T E R A L	R E G I O N A L
	THEMATIC PROGRAMME	
	Global Public Goods environment and climate change (31.8%), sustainable energy (12.7%), human development (20%), food security and sustainable agriculture (28.4%), migration and asylum (7.1%)	

The EU has a complex set of instruments for funding its external and development policies. Ongoing discussions between the Commission, the European Parliament and the Council Presidency focus on the future design and regulation of the Development Cooperation Instrument (DCI), which funds countries in Latin America, Asia and Central Asia, the Gulf region and South Africa. The Commission’s proposal foresees ending bilateral cooperation with 19* developing countries, which have either reached upper-middle-income status or account for at least 1 per cent of global GDP. These countries, however, remain eligible for regional cooperation programmes and the proposed thematic programme “Global Public Goods”. Under this instrument, a large number of countries will compete for limited resources: African, Caribbean and Pacific countries are eligible for the thematic programmes of the DCI, and areas to be funded include responses to unforeseen global crises, e.g. rising food prices. Such emergency funds were in high demand and quickly exhausted in the past.

*Argentina, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Kazakhstan, India, Indonesia, Iran, Malaysia, the Maldives, Mexico, Panama, Peru, Thailand, Venezuela and Uruguay

be a problem mostly in the group of low-income, fragile countries?

Poverty reduction in poor and especially fragile countries is likely to concern the development community for many years to come. At the same time, it is important to acknowledge that distributional issues have become as significant in characterising the poverty problem as the total lack of resources. The “low-income” / “middle-income” classifications have become ill-suited for establishing a clear link between a country’s economic and its social development. According to a recent UN report, the poverty incidence in MICs currently ranges from 2 per cent to 60 per cent. National progress and national aggregates such as average income per capita can be misleading, as entire regions and social groups have been de-linked from the positive developments in the same country. Moreover, recent projections indicate that the number of low-income countries, which is currently at an historic low point of 36 countries, is likely to decrease further. Given the very heterogeneous reductions in poverty, a further increase in the number of MICs is also likely to have a statistical impact on the global distribution of poverty. Thus, a better understanding of the specific characteristics and development challenges of the countries “in the middle” is needed. Focussing on income (poor country) as the key determinant for classifying countries and for selective aid allocations overlooks the fact that national aggregates – and in particular national per capita income – have become insufficient criteria for assessing the poverty levels and development challenges of a country. Prioritising a focus on the absolute number of poor people in a country, on the other hand, could easily lead to an undesirable selection of MICs that are sufficiently able to tackle poverty without international support; it could also lead to disadvantaging smaller MICs that continue to experience high incidences of poverty and below-average human development. To get a more differentiated picture of these countries, it is thus important to develop a country classification system that carefully balances a country’s needs against its own financial and institutional capacities in order to better distinguish between countries that can wipe out absolute poverty based on own resources and institutional capacities and those that cannot.

A global rationale for development policy

A second “broad” rationale for development policy puts the question of aid to MICs in the context of global development challenges beyond poverty reduction. Major global challenges such as climate change, food insecurity, financial instability, communicable diseases, migration, conflict and insecurity are not only challenges that potentially affect us all; they also ultimately depend on the development paths of developing and emerging countries and their commitments and cooperation in global governance processes. Addressing these complex global public goods (GPG) challenges requires EU development policy to diver-

sify its objectives, in particular in its cooperation with influential MICs.

However, addressing global challenges and working towards joint interests could require the EU to continue offering support to tackle advanced developing countries’ poverty problems. Not only do many national policy challenges have a global character; national development and necessary national policy reforms are primary requirements for the effective provisioning of GPGs and for solving global collective-action problems. Many important global governance processes – or stalemates – suffer from diverging interests and fears over unequally distributed costs and benefits. These global cooperation dilemmas cannot exclusively be attributed to an increasingly redundant “North-South” divide. Domestic conditions such as the varying socio-economic transformation pressures within a given country heavily impact on countries’ engagement in global governance processes: how cooperative they are, the strategies they adopt and the interests they represent (Conzelmann / Faust 2009). These domestic conditions often tend to create cooperation-adverse environments in non-OECD countries. In most developing countries, and even in the most powerful emerging economies, domestic political processes often concentrate on ensuring basic material needs and on redistribution challenges that arise in the wake of rapid economic and political transformation. Aid can incentivise governments to invest in the provision of a specific GPG, as funding is often – though not always – necessary for their provision.

Implications for EU development policy

Putting the question of development cooperation with MICs in the context of a changing geography of poverty and the need to think of development as a global endeavour reveals the conceptual challenges inherent to this question. One way of concentrating the EU’s development assistance would be to focus on poverty reduction in a decreasing number of poor countries. Such an approach, however, fails to acknowledge that the global poverty problem has changed and that the poverty problem of a country is insufficiently captured by looking at national income only. Therefore, in order to address global poverty, the EU needs to find new “technical” solutions to classify countries beyond economic development to better capture the poverty problems and poverty reduction capacities of countries.

A second challenge relates to the political dimension and the question of cross-country division of labour among European donors. The process of selecting and exiting partner countries is still insufficiently coordinated at the EU level, despite the provisions made in the 2007 Code of Conduct on Complementarity and Division of Labour. Concerns over such an uneven and sub-optimal cross-country distribution of aid have so far mainly related to the creation of aid orphans, mostly low-income and fragile countries.

The changing geography of poverty could give this debate a new twist. The potential risk of “orphaning” MICs is not necessarily related to financial volumes, but rather to the continuation of offering assistance to countries with high levels of poverty that are interested in the ongoing support of the EU. Any approach to global poverty reduction should be accompanied by a joint strategy and division of labour towards countries where it is not the absolute lack of resources that constitutes the main challenge, but rather where the EU and Member States can make important contributions in the areas of governance, public sector reform, setting up effective taxation systems and promoting domestic accountability. Such coordinated and concerted actions would also avoid an over-concentration of EU donors and funds on a decreasing number of poor countries, while losing sight of poverty and social exclusion in MICs.

In addition, beyond necessary adjustments in a poverty-focussed development agenda, the EU needs to address the mismatch between its partner country portfolio and its development objectives. Against the backdrop of multiple global challenges and the strategically important role of the developing world in securing global commons, a narrow definition of development policy and an exclusive focus on poverty reduction will be increasingly difficult to sustain. On the contrary, due to its global presence, the EU is ideally placed to adopt a broad definition and a global rationale of development policy. While keeping a focus on poverty reduction where necessary, the EU should put more emphasis on cooperation in areas such as climate change; science, innovation and technology; energy efficiency; migration; and communicable disease control. The EU’s instrument structure and resource allocation should be designed in a way to allow for:

- offering support to national poverty-reduction plans or regional social-cohesion programmes to those

countries and regions that signal ongoing interest in EU support. Such support is needed on solidarity and compassionate grounds, and it is also in the EU’s “enlightened” self-interest to recognise the key role of national development for the effective provisioning of global public goods;

- a diversification of objectives and a move towards a “broad” global definition of development policy, in particular in cooperating with MICs of strategic importance for the provisioning of GPGs.

Moreover, unlike traditional North-South development cooperation, which is often implemented in a silo mentality decoupled from other foreign and internal policies, regulating a globalised world and implementing effective policies for addressing global challenges cannot be accomplished by development agencies alone. Foreign policy; economic and trade policy; finance and investment policy; environmental and climate change policy; migration; technology transfer and research policies have gained importance in the EU’s relations with many MICs and require EU development policy to effectively manage the linkages with these policy areas. Ideally, a new strategy for advanced developing countries would thus be integrated in an overarching, institution-wide strategy for the EU’s engagement across different policy fields. The establishment of a new EU strategy for how to work – from a development perspective – with strategically important MICs needs to be aligned to other policy fields and closely coordinated at the EU level and with Member States’ global strategies. Discussions on a more differentiated approach need to take these strategic considerations more strongly into account – to ensure that the EU better links its development policy to other external policies and to communicate to partner countries more clearly what type of future cooperation they can expect from the EU.

Literature

- Conzelmann, T. / J. Faust (2009): Globales Regieren zwischen “Nord” und “Süd”, in: *Politische Vierteljahresschrift* 50 (2), 203–225
- Sumner, A. (2010): Global poverty and the new Bottom Billion: What if three-quarters of the world’s poor live in middle-income countries? Brighton: Institute of Development Studies (Working Paper, vol. 2010 no. 349)
- UNDP / UNFPA / UNOPS (United Nations Development Programme / United Nations Population Fund / United Nations Office for Project Services) (2011): Addressing the needs of middle-income countries – a concept paper for the Executive Board, June



Svea Koch

Department “Bi- and Multilateral Development Policy”

German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)