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

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Aid to middle-income countries has become one of the most discussed issues among development researchers and in the current modernisation of the development policy of the European Union. This article argues that the question needs to be dealt with in the context of two interlinked challenges: (i) the need to reconceptualise dominant approaches to global poverty reduction beyond national income, and (ii) the growing range of global challenges and the strategically important role of middle-income countries. For EU development policy, the implications are twofold: (i) a better-coordinated cross-country division of labour, and (ii) a diversification of objectives towards a global rationale of development policy involving closer co-ordination with other EU external policies.

Key words: EU development policy, middle-income countries, differentiation, global public goods

1 Introduction

The need for greater differentiation between partner countries and the extent to which middle-income countries (MICs) should continue to receive foreign aid has become one of the most controversial debates among development researchers (Alonso, 2007; Sumner, 2010, 2011; Kanbur and Sumner, 2011; Glennie, 2011) and in the current process of modernising European Union (EU) development policy.1 The first controversy refers to the changing geography of poverty and the implications for aid allocations. Does the current concentration of poverty in MICs (Sumner, 2010; 2012a) require continued donor engagement in this group of countries and a shift in understanding poverty increasingly as a national distribution problem? Or is poverty in MICs transitory and are the bulk of poor people likely to live in low-income, fragile countries in the future (Kharas and

1. According to the European Commission’s Communication and the Council Conclusions of 14 May 2012, the EU plans to withdraw its bilateral development-co-operation programmes from 19 developing countries that have either reached upper-middle-income status or account for 1% of global GDP. On a more conceptual basis, the EU aims to better calibrate and target partner engagements and to include strategically oriented policy objectives alongside a strict poverty-reduction remit. In other words, the argument for differentiation is that development co-operation with more advanced countries should shift the focus from poverty reduction to global challenges and mutual interests (Gavas et al., 2011).
Rogerson, 2012)? The second controversy refers to the extent to which global poverty reduction should be the key guiding principle for continued engagement with – and aid to – MICs (Sumner and Mallet, 2012). Tackling global challenges such as climate change, food insecurity, financial instability, communicable diseases, migration, conflict and insecurity ultimately depends on the development paths of MICs and their commitments and co-operation in global governance processes. Such a global development agenda, however, requires a new rationale of aid beyond poverty reduction (Severino and Ray, 2009) and continued co-operation with influential non-OECD (Organisation for Economic Co-operation and Development) countries.

So far, research has mainly focused on analysing the changing distribution of wealth (for example, Spence, 2011; OECD, 2010; Rodrik, 2011), the changing distribution of global poverty (Sumner, 2010; 2012a; Kharas and Rogerson, 2012; Loewe and Rippin, 2012), the increasingly global rationale of development policy (for example, Severino and Ray, 2009; van Lieshout et al., 2010; Birdsall and Leo, 2011) or the question of aid to MICs on a conceptual basis (for example, Alonso, 2007; Kanbur, 2010; Fenton, 2008; Sumner, 2011; Kanbur and Sumner, 2011). However, these discussions have not yet been combined and analysed from the specific perspective of EU development policy.2

The aim of this article is therefore to synthesise the trends of the changing development landscape and to identify the implications of these for the strategic reorientation of EU development co-operation with MICs. With regard to the implications for the EU, the article comes to two main conclusions. (i) The EU’s overarching objective of global poverty reduction requires moving beyond national income as a key guiding criterion to classifying countries and designing poverty-efficient aid allocations. It also requires the EU and its Member States to better co-ordinate their distribution of aid and the cross-country division of labour in order to ensure that countries with higher per capita incomes – but significant internal development challenges – continue to receive support in their fight against poverty and social inequality. (ii) The growing range of global challenges require EU development policy to diversify its objectives beyond poverty reduction and to seek continued engagement with MICs and emerging economies. Addressing global challenges, however, will also increase substantially the co-ordination challenges among European donor agencies and other European external policies.

The article is organised as follows. Section 2 discusses the past debate on aid to MICs at the EU level and the EU’s current approach. Section 3 analyses two evolving challenges that need to be considered in the strategic reorganisation of development co-operation with MICs: (i) the question of what to prioritise – poor

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2. For the purposes of this article, the term ‘EU development policy’ is used rather than solely referring to the European Commission. The degree of independence of a supranational actor such as the European Commission is limited, due to the influence on decision-making of the Member States (Tallberg, 2002; Furness, 2010). However, the focus of this article does not include the bilateral aid programmes of Member States but refers to aid that is spent through Community institutions in Brussels.
countries or poor people – and (ii) the global rationale for development policy and the interlinkages between national and global development challenges. Section 4 concludes by outlining the implications of both challenges for EU development policy.

2 The debate on differentiation in the EU context so far

The question of how best to adapt development policy to the specific needs of countries with advanced development and higher levels of average income is not entirely new. Thus far, the reactions and strategies of European donors have fallen into two main categories based on different rationales for providing aid. First, a narrow definition of development policy, which prioritises poverty reduction as the overarching objective for development programmes and aid allocation to the poorest countries. The United Kingdom’s Department for International Development (DFID) and its 90/10 rule (90% of aid resources for low-income countries (LICs) and 10% for MICs) is a prominent example of this approach. Since MICs were expected to have lower levels of poverty and greater access to international capital markets due to their better-developed institutions (Dollar and Pritchett, 1998; Dollar and Levin, 2004a), these donors markedly reduced – or even withdrew – their aid to MICs.

Other European donors have emphasised the need to conceptualise development policy beyond the narrow poverty-reduction remit towards a global outlook on development (Messner, 2001; Faust and Messner, 2006). Such a broad definition of development policy aims to contribute towards solving regional and global challenges in cooperation with non-OECD countries. For some EU donors, this has led to a diversification of the objectives of development policy: Germany and Sweden, for example, have increasingly shifted their strategies from ‘traditional’

3. In 2003, for example, the UK Department for International Development (DFID) and the Spanish Agency for International Co-operation commissioned a study with the objective of outlining the rationale for aid to MICs (Eyben et al., 2004). In 2005, DFID published a special strategy for its engagement in MICs titled ‘Achieving the Millennium Development Goals: the middle-income countries’ (DFID, 2005). The UN held a series of international conferences on development cooperation with middle-income countries between 2007 and 2009 and published a number of reports and resolutions exclusively dedicated to the question of how to undertake this (UN, 2007; 2009). In 2007, the World Bank issued a special evaluation of its role in MICs (World Bank IEG, 2007). In 2008 Oxfam commissioned a study with the aim to rethink the role of MICs in the development process, as it became clear that income-status graduation cannot be considered as an endpoint to development (Fenton, 2008).

4. DFID’s 2011 bilateral aid review has led to a further concentration of aid in 27 partner countries and to a decision to end the bilateral relationship with 16 countries, 12 of which are MICs; see: http://www.dfid.gov.uk/Media-Room/News-Stories/2011/The-future-of-UK-aid/. This process has been accompanied by a controversial debate about the continuation of UK aid to India (House of Commons, 2011) and by a discussion about new partnerships with emerging economies; see: http://www.chathamhouse.org.uk/files/18611_150211mitchell.pdf. In the Netherlands, a revision of Dutch development cooperation has led to a reduction in the number of partner countries from 33 to 15, only 4 of which are MICs. Upper-middle-income countries, for example, were excluded from the partner-country selection from the beginning.
development policy and a focus on poverty reduction towards global structural policy or policy for global development.⁵

The latter shift of principles and objectives has also led to a different approach towards MICs and emerging economies. Germany’s ‘anchor country concept’⁶ (BMZ, 2004) developed at the beginning of the 2000s, and highlighted the external capacities of anchor countries to create regional and global spillover effects as well as their central importance in global governance processes. Rather than withdrawing from these countries, it was considered important to continue development co-operation, but in a manner that recognised the countries’ increased self-confidence and their economic and political roles in regional and global terms (Altenburg and Stamm, 2005).

The EU can be considered a latecomer in these debates and has only recently started to address the issue of differentiation in its modernisation process. The EU’s current approach can thus best be described as a mismatch between policy objectives and partner-country portfolios. Poverty reduction is the EU’s central development-policy objective, according to its guiding policy documents.⁷ 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 has only recently announced its intention to adapt its partner-country portfolio and aid allocations. For the time being, the EU’s partner-country portfolio includes 145 countries.⁸ In 2009, the European Commission allocated more of its aid budget (54%) to MICs than the Development Assistance Committee (DAC) average (41%); the biggest contrast related to spending in upper-middle-income countries (European Commission 19%, DAC average 9%).⁹ This above-average funding for MICs is one

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⁵ In Germany, the term ‘global structural policy’ was introduced in the coalition treaty under the chancellorship of Gerhard Schröder in 1998. The objective of global structural policy was to take development policy out of its niche of project aid and interventions at the local level and to aim at working towards structural changes at the national and global levels. In 2003, Sweden announced a Bill to introduce its ‘policy for global development’, which required not only the Development Ministry but all Swedish ministries to take due account of sustainable global development in all their policies and actions.

⁶ According to the updated definition of Leininger et al. (2009: 3), ‘anchor countries are developing countries which, due to their economic weight in regional terms and due to their international role, have the potential to create far-reaching spillover effects and the state capacity to pro-actively influence regional and global processes’.

⁷ The European Consensus on Development clearly states that the eradication of poverty is the primary and overarching objective of EU development co-operation, benchmarked against the Millennium Development Goals (MDGs). On a legal basis, this is also enshrined in the Lisbon Treaty (Art. 208), which has narrowed the focus and objective of EU development policy by making poverty reduction the central goal.

⁸ There are 124 countries that receive overseas development assistance (ODA) from the Development Co-operation Instrument (DCI) and the European Development Fund (EDF). Apart from the DCI and the EDF, the European Neighbourhood and Partnership Instrument (ENPI) covers Europe’s 16 closest neighbours in Eastern Europe, the Mediterranean and the Caucasus, while the Instrument for Pre-Accession (IPA) covers both candidate and potential candidate countries in the Western Balkans, Turkey and Iceland. The funds within both instruments are to a large extent ODA-eligible. However, the rationale for ‘aid’ to these countries is based on the EU’s own strategic interests rather than pure developmental outcomes. The ENPI and the IPA can be considered as ‘the most strategically refined aid instruments that are most precisely attuned to EU interests’ (Holden, 2009: 183).

⁹ See: http://www.oecd.org/dac/stats/donorcharts.html
of the most frequent criticisms of EU development policy and is considered to be a lack of focus on poverty by some (Booth and Herbert, 2011; Orbie and Versluys, 2009; Dollar and Levin, 2004b). The 2007 DAC Peer Review of the European Community echoed this criticism and stated that ‘the Community has been under pressure from some Member States to increasingly concentrate on LDCs and other low-income countries, partly as a way to retain the poverty focus of its assistance’ (OECD/DAC, 2007: 40). One key challenge for the EU is therefore to concentrate its aid funds in better accordance with its overall objective of poverty reduction, but to do so based on a thorough understanding of the changing patterns of poverty.

A second challenge for the EU relates to addressing the mismatch between partner-country portfolio and policy objectives and to reconceptualising development co-operation with countries with higher levels of development. The EU’s global presence and narrow focus on poverty reduction have proved to be too limited an approach. Looking at country programming, one can see that in most emerging economies and countries with higher levels of development, the EU is currently in a transition phase. While maintaining the traditional focus on poverty reduction, most Country Strategy Papers of emerging economies increasingly include a more strategic orientation towards areas of mutual interest. In India, for instance, the EU follows a ‘two-pronged approach’. While still committed to fighting poverty, its objectives have become more strategic, moving ‘away from the aid rhetoric that had no objective beyond poverty reduction’ (Coulon, 2008). Traditional development assistance is thus increasingly moving towards trade, economic and cultural co-operation, and areas of mutual interest such as energy, transport and the environment (ibid.). Moreover, the 2009 Communication of the Commission ‘The European Union and Latin America: Global Players in Partnership’ highlights the need to increasingly integrate activities of mutual interest alongside activities aimed at poverty reduction, in particular in emerging economies and MICs in the region:

The merits of significantly diversifying the instruments and targets of EC co-operation should be explored. While concentrating financial resources on the poorest countries, the EU should look for new forms of co-operation with countries with higher levels of development. For all countries, this may entail putting more emphasis on co-operation in areas such as climate change (mitigation and adaptation), higher education, multilingualism research, science and technology, including energy efficiency and renewable energy, to complement joint efforts. (European Commission, 2009: 9)

Up to now, an envisaged or gradual shift in individual partner countries has not been accompanied by a strategy for global development and a coherent strategy on how to work with more advanced countries to this end. Moreover, discussions thus far have not included a clear strategy on how to shape a gradual transition from a focus on poverty reduction to areas of mutual interest, or on how to potentially combine both strategic objectives.
How the EU positions itself in this strategic reorientation and in addressing both challenges – concentrating EU aid funds where they are likely to have the greatest impact on poverty reduction, and reconceptualising development cooperation with emerging economies and countries with higher levels of development – depends to a large extent on its reading of the current transformations of the development landscape. This article argues that there are two main issues that need to be addressed: first, the need to reconceptualise dominant approaches to poverty reduction that focus mainly on a country’s average income, and second, the fact that the objectives of poverty reduction and addressing global challenges cannot be considered separately.

3 Two evolving challenges

3.1 Poor countries or poor people?

So far, the dominant thinking in the aid literature has considered aid to MICs as being aid that is poorly targeted at poverty reduction. Accordingly, assessing the poverty focus of donors’ aid programmes against their spending in poor countries was advocated (Dollar and Pritchett, 1998; Collier and Dollar, 2002; Dollar and Levin, 2004a). This is echoed in the aid-allocation literature, which reflects the view that aid should primarily be allocated to poor countries with sound political institutions (Svensson, 1999; Burnside and Dollar, 2004; Knack et al., 2010).

Until recently, there has been considerably less debate on whether donors should focus on average per-capita income or on the absolute numbers of poor people in assessing the neediness of a country, as both categories were considered to be overlapping in empirical terms: ‘Aid is widely believed to have greater development impact where it is needed most – that is, where there are large numbers of poor people’ (Knack et al., 2010: 6). However, against the backdrop of changing patterns of poverty, a particular challenge emerged on how best to assess the neediness of a developing country, as the overlaps between the two categories have become smaller. Both categories – average per-capita income and total number of poor people – are now increasingly used as two distinct categories (Barder, 2009; Kanbur and Sumner, 2011).

This evolving trade-off is largely spurred by shifts in the global distribution of poverty. The majority of poor people have so far been located in low-income, fragile countries with stagnating growth, termed the ‘Bottom Billion’ countries (Collier, 2007). More recent estimates, however, show that 70.9% of the world’s income-poor, or a ‘new Bottom Billion’, do not live in poor, low-income countries, but in countries that have generated significant economic growth and crossed the MIC threshold (Sumner, 2012a). While these findings need to be treated with some caution.

10. The calculations of Sumner refer to absolute poverty and the US$1.25 poverty line using data from the World Bank’s Povcal Net.
caution (since they are closely related to the transition of five populous countries\textsuperscript{11} to MIC status), they are nonetheless relevant, in particular since they point towards an important trend in the changing nature of poverty. One of the key differences between the ‘old’ and the ‘new’ Bottom Billion relates to the emphasis given to inequality and income disparities within countries. The original Bottom Billion was calculated by counting the total populations of 58 countries, and not just the countries’ poor populations (Collier, 2007). Sumner (2010; 2012a; 2012b), on the other hand, puts the emphasis on poor people in non-poor countries, and thus on distributional challenges within – rather than between – countries.

A key question in these discussions is therefore whether or not the current shift in the distribution of global poverty describes a situation that only results from the transition of five populous countries to MIC status. In other words, is the continuation of poverty and rising inequality in countries that have generated fast economic growth a trend that characterises a significant change in the poverty problem that is likely to continue in the mid term, if not over the long term?

Any estimation of whether or not the majority of poor people will continue to live in MICs is complex.\textsuperscript{12} However, there are two important factors to consider. First of all, we are likely to enter an era where more and more countries cross the middle-income-country threshold. In 1988, there were only 77 MICs, whereas this number increased to 104 in 2009. In contrast, whereas the number of LICs increased significantly during the 1990s – from 48 in 1988 to 63 in 2000 – the latest World Bank classification data indicate that this number fell to 36 in 2012. Recent projections indicate that this trend is likely to continue. Calculating the World Bank’s future client base, Moss and Leo (2011) estimate that the International Development Association (IDA) will probably lose half of its client countries by 2025 because countries will become too wealthy to qualify. Second, this further increase in the number of MICs will also have an impact on the global distribution of poverty. Using the IMF’s World Economic Outlook growth projections, Sumner (2012c) estimates that half – if not two-thirds – of the global poor will continue to be located in MICs in the next 20 years to come.

This scenario also seems likely if one considers the extent to which countries have reduced poverty as they have reached MIC status. In general, leaving distributional issues aside, countries should have made remarkable progress in reducing poverty by the time they reach MIC status (Kanbur and Sumner, 2011). Overall, findings suggest that the incidence of extreme income poverty in MICs is generally lower than in LICs.\textsuperscript{13} This general positive correlation is also confirmed if

\textsuperscript{11} China (graduated in 1999), Indonesia (2003), India (2007), Nigeria (2008) and Pakistan (2008) (Kanbur and Sumner, 2011).

\textsuperscript{12} According to Kanbur and Sumner (2011: 6), these factors include ‘growth projections for individual countries; assumptions on exchange rate evolution; assumptions on international inflation and other aspects of the Atlas methodology for classifying countries as LICs or MICs; the evolution of income distribution within each country; any re-evaluation of public-private partnerships in each country (and influence on $1.25 poverty) and population growth in individual countries’.

\textsuperscript{13} According to Sumner (2011), the average incidence of income poverty in low-income countries for 2002–7 is almost twice as high (52.4\%) as in lower-middle-income countries (27.1\%) and 10 times higher than in upper-middle-income countries (5.2\%).
multi-dimensional poverty is considered. According to Alkire (2011), there is an encouraging disconnect between higher average-income levels per capita and the multi-dimensional poverty index (MPI).  

However, what these aggregate figures mask is the fact that there are tremendous differences across countries and that the group of MICs and the progress made are actually significantly more disparate than these overall findings indicate. The argument that all MICs achieve broader human development can easily be rejected by the fact that 12 lower-middle-income countries (LMICs) are still considered least-developed countries.  

This incongruent development progress is also reflected in the varying poverty rates of MICs. As emphasised by a recent United Nations report, the incidence of poverty in MICs ranges from 2% to more than 60% of a country’s population (UNDP et al., 2011: 3). Some countries, for example Botswana, have seen substantial income increases but poverty-reduction rates that are falling only slowly. Others such as Ghana have translated comparatively modest economic growth into a significant decline in poverty (Fosu, 2011). There are countries that continue to have higher levels of poverty than LICs, despite achieving MIC status. Zambia, for example, (which has only very recently been granted LMIC status) has a higher extreme-poverty per-capita ratio (64.3%) than a poor LIC such as Mali (51.4%). And there are extreme examples such as Equatorial Guinea, a high-income country where about 75% of the population continues to live below the national poverty line (AfDB, 2012). Even India, which has had impressive annual growth rates of gross domestic product (GDP), has not matched its good economic performance with equally high rates of poverty reduction (Fosu, 2011) and continues to account for more of the world’s extreme income-poor (450 million) than the entire African continent (377 million).

The relationship between growth and poverty reduction is thus more complex. Although there is overall agreement that growth is a necessary precondition for poverty reduction (Lopez, 2010), the assumption that the incomes of the poor increase one-for-one if a country generates economic growth (Dollar and Kraay, 2002) is difficult to sustain against the backdrop of persistent poverty in MICs. In fact, there seems to be little correlation between a country’s progress towards reducing poverty and its economic growth (Lopez and Page, 2003; Fosu, 2009; 2011). This does not invalidate the viewpoint that poor countries need sustained growth in order to reduce poverty. However, it reaffirms the assumption that distributional issues are as significant in characterising the poverty problem as the total lack of resources. 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.

14. The MPI is a new international measure that goes beyond measuring income poverty by taking into account the multi-dimensionality of poverty. It identifies overlapping deprivations that members of a household experience based on three dimensions: health, education and standard of living. A household is considered as multi-dimensionally poor if it is deprived of an equivalent of 30% of the weighted indicators (Alkire and Santos, 2010).
15. See: http://www.unctad.org/Templates/Page.asp?intItemID=3641&lang=1.
16. Data processed from the Demographic Health Survey (2007).
17. According to the Demographic Health Survey (2005).
Among scholars, two general lines of argumentation seem to have evolved as a response to these changes in the poverty landscape. The first reflects adherence to Collier’s work on the Bottom Billion (2007) and calls on donors to concentrate aid to support poverty reduction in the poorest countries. In contrast, others argue that in order to maximise global poverty reduction, donors need to focus on poor people instead of poor countries and therefore continue to support MICs in their poverty-reduction efforts (Eyben et al., 2004; Alonso, 2007; Kanbur, 2010; Kanbur and Sumner, 2011).

Both categories (poor people and poor countries), however, have specific shortcomings. Focusing on income as the key determinant for the needs of a country 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. The advantage of average per capita income is that it allows, to a certain extent, for the accounting of the financial and redistribution capacities of a given country. Prioritising the total number of poor people allows for capturing the poverty problem of a country, but fails to include the country’s own poverty-reduction capacity – in particular the financial and domestic redistribution capacities. Furthermore, it discriminates against smaller developing countries, where the incidence of poverty may be high, but the absolute number of poor people is low compared with populous countries such as India, China and Indonesia.

The argument made in this article is thus to move from a focus on either ‘poor countries or poor people’ towards a multi-dimensional view of developing countries that better captures the heterogeneity of MICs and the varying development challenges they face. When the World Bank originally created its country-classification system, it intended to set income thresholds that allowed for the creation of a link between a country’s economic and social development. ‘The process of setting per capita income thresholds started with finding a stable relationship between a summary measure of well-being such as poverty incidence and infant mortality on the one hand and economic variables including per capita GNI estimated based on the Bank’s Atlas method on the other.’18 These thresholds, however, were set arbitrarily (Sumner, 2012a). Furthermore, the non-linear relationship between economic growth, poverty reduction and other human-development indicators means that the classification system is grouping together countries where such a stable relationship does not necessarily exist.

Moreover, the classification system does not adequately reflect the nature of development challenges and the varying degrees to which the passing of the (rather arbitrary) income threshold was accompanied by reductions in poverty levels, structural changes and effective institution-building. For instance, in the group of LMICs, there are countries such as Sudan, Nicaragua and Timor-Leste where issues of fragility, state-building and security are among the primary concerns for overcoming widespread poverty. There are countries such as India and Indonesia – both

18. See: http://data.worldbank.org/about/country-classifications/a-short-history.
consolidated democracies and members of the G20 – where inclusive growth across all regions and cultural groupings remains challenging. And there are countries such as Ghana and Zambia where commodity-based economic growth needs to be followed by economic diversification. In these latter countries, the process of building up effective institutions that are able to design and implement pro-poor policies has yet to keep pace with rapid economic growth. The same problem constellations apply to upper-middle-income countries. There are countries in the upper third of the income range (US$3,976 to $12,275), such as Uruguay and Chile, whose main challenge is to consolidate economic progress and to catch up with the group of high-income OECD countries. And there are countries in the bottom third, such as Ecuador, Peru, Botswana and Namibia, where high levels of poverty and inequality remain key development challenges.

Grouping these countries under one heading fails to recognise these various development challenges. An adequate response to the changing geography of poverty thus requires a more nuanced view of developing countries’ needs and capacities and moving beyond GDP per capita as the single determining factor for grouping countries and deciding on aid cut-offs. To get a more differentiated picture of these countries, it is important to develop a 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 their own resources and institutional capacities and those that cannot. Poverty in poor and especially fragile countries will remain on the agenda and continue to pose a particular challenge for the development community (see, for example, World Bank, 2011; Kharas and Rogerson, 2012). Nonetheless, the sharp reduction in the number of LICs and the fact that the graduation process has, in many cases, been accompanied by stagnating poverty levels and increasing inequality require a better understanding of the specific characteristics and development challenges of the countries ‘in the middle’. Such a multi-dimensional approach towards country classifications would go beyond economic development and include factors that provide a more accurate picture of a country’s social and political development. Proposals for different country classifications are already under way, for instance with regard to the internal and external capacities of countries (for example, Harris et al., 2009), or with regard to a multi-dimensional approach towards fragile states (Grävingholt et al., 2012) or a multi-dimensional clustering system of different types of developing countries (Tezanos and Sumner, 2012). However, given the dominant widespread practice of classifying countries according to GDP per capita, more research and efforts are needed to develop such classifications further and to establish them among development researchers and practitioners.19

19. As part of the research process for this article, the author presented previous versions at academic conferences and in public discussions. While the issue of aid to MICs continues to be a controversial topic for discussion, there was a wide consensus that the problem with the MIC category is that everybody agrees that it is increasingly ill-suited, but that they all – including development researchers – keep using it. Classifying countries differently thus also includes overcoming path dependence.
3.2 A global rationale for development policy

While it is important not to exclude countries from development assistance on the basis of their average income, it is important to acknowledge that global development challenges beyond poverty reduction have increased in importance. In the late 1990s, the seminal work of the United Nations Development Programme on global public goods20 (GPGs) highlighted that minimising the negative consequences of globalisation requires the adequate provision of GPGs, ‘concerted cross-border public policy action’ (Kaul et al., 1999: 3) and a new paradigm for international cooperation (Kaul et al., 1999). Such a global approach to development acknowledges that major global challenges such as climate change, food insecurity, financial instability, communicable diseases, migration, conflict and insecurity have increased along with accelerating globalisation and are problems that not only potentially affect us all but also require multi-layered interventions at the national, regional and global levels (Kaul, 2013).

Initially, when the concept started to be widely discussed in international forums21 in the early 2000s, some donors subscribed to this new global approach to development (for example, France, Sweden and Germany) while others (for example, the United Kingdom) contested it (Carbone, 2007). However, against the backdrop of intensifying globalisation, frequent global crises and a steadily growing range of global challenges, the current trend among European donors22 points towards a global outlook on development (Lammers, 2011) and ‘a new “grand purpose” for development policy: managing global interdependencies in a globalized world’ (Severino and Ray, 2009: 5). This diversification of development policy and the increasingly complex set of objectives are also reflected in the changing nature of aid. During the last decade, the amount of aid allocated to GPGs has increased steadily. Whereas estimates on the exact share of aid financing for GPGs vary – largely due to different definitions used for GPGs – they all point towards a marked increase of aid that is directed to finance the provision of GPGs (te Velde et al., 2006; Cepparulo and Giuriato, 2009). Shafik (2011: 4) expects aid to become the

20. According to Kaul et al. (1999: 2): ‘A global public good is a public good with benefits that are strongly universal in terms of countries (covering more than one group of countries), people (accruing to several, preferably all, population groups), and generations (extending to both current and future generations, or at least meeting the needs of the current generation without foreclosing development options for future generations’.

21. For example at the Financing for Development conference held in Monterrey in March 2002 or the 2002 World Summit on Sustainable Development in Johannesburg.

22. DFID is a somewhat special case in these discussions. On the one hand, the department continues to emphasise the primacy of poverty reduction in its development programmes. Yet, at the same time, DFID has set up a Global Partnerships Department to contribute towards shaping global development policies and working with emerging economies towards global outcomes; see: http://www.dfid.gov.uk/Documents/publications/1/op/glob-parts-dept-2011.pdf. Moreover, in a recent speech on future co-operation with emerging economies, the UK’s former International Development Secretary, Andrew Mitchell, clearly stated that ‘[t]he really big strategic issues […] don’t readily lend themselves to single country solutions’; see: http://www.dfid.gov.uk/News/Speeches-and-statements/2011/Emerging-powers/.
‘key catalyst for financing global problem solving’ and to increasingly serve two distinct purposes: poverty reduction and the provision of GPGs.

The trend of orientating development policy towards global challenges has also been accompanied by a changing focus and interest that can be attributed to the provision of GPGs – from a one-sided focus on developing countries’ interests to an emphasis on mutual interests in tackling global challenges. From a development-policy perspective, the initial approach taken was that the provision of GPGs is essential for development and reductions in poverty. Following this line, in 2005 the World Bank, for example, defined GPGs as:

...commodities, resources, services and systems of rules or policy regimes with substantial cross-border externalities that are important for development and poverty-reduction, and that can be produced in sufficient supply only through co-operation and collective action by developed and developing countries. (World Bank, 2005: 2)

Development policy thus shifted towards a multi-layered approach, whereby its focus (theoretically) continued to represent the interests of developing countries as well as to work towards coherent external policies that do not undermine the policy’s objectives. This one-sided emphasis on a developing country’s interests in a GPG approach to development has moved successively towards the notion of mutual interests or ‘collective self-interests’ (Kaul, 2010). The concomitance of a relative loss of importance of the EU and OECD countries vis-à-vis emerging countries on the one hand, and escalating global crises and the growing challenge to provide GPGs on the other, has now led to a situation in which development-related GPGs shape EU and OECD external relations (Faust and Messner, 2012). Addressing global systemic risks such as an increasingly fragile ecosystem, resource scarcity, unsustainable fossil-fuelled economic growth and the regulation of global financial and trade flows is not only in the interest of the EU and other industrialised countries. Finding solutions to these challenges ultimately depends on the development paths of emerging economies and other increasingly powerful developing countries and the interests they represent in global governance processes. The future challenge in co-operating with developing and emerging countries therefore lies in balancing European interests with those of partner countries and developing joint and mutual interests (ibid.).

How is this related to the question of continuing or discontinuing development co-operation with seemingly ‘better-off’ countries? As Altenburg (2010) argues, the principles that guide development policy are decisive for whether or not

23. Blending aid resources for poverty reduction with the financing for GPGs, however, remains contested. Kaul (2010; Kaul et al., 1999) has repeatedly called for financing ODA and GPGs separately, mainly to ensure that aid is not directed away from poverty reduction. Severino and Ray (2009: 22), on the other hand, propose combining both types of financing and moving from ODA to ‘Global Policy Finance’ to better reflect the changing paradigm of development policy. Whatever view one takes in these debates, the current practice of categorising GPG-related expenditures as ODA implies that aid is currently being used to address both national and global development challenges.
development co-operation with MICs and emerging economies is still appropriate. A broad definition of development policy and a GPG approach to development – with an emphasis on mutual and joint interests – requires continued EU engagement with emerging economies and other increasingly powerful developing countries:

In trying to deal with global problems and challenges, the governments of richer countries will be obliged to work in a highly networked mode with other (newly) powerful agents, often with the aim of changing the rules of political and economic games. The co-operation of a range of influential countries from among the ranks of the former ‘developing countries’ will be essential, partly because they are increasingly the of some problems (e.g. climate change), partly because it will be difficult to change international rules without their co-operation, and partly because they exercise influence of various kinds over smaller, poorer neighbouring countries. (Harris et al., 2009: 25)

Adopting a global outlook on development thus acknowledges that global challenges beyond poverty reduction have increased in importance and that development policy can make significant contributions to support the adequate provision of GPGs. On the level of objectives, one could therefore argue that development co-operation with emerging economies and anchor countries should focus mainly on regional and global development challenges and neglect internal development challenges such as poverty reduction and social development (Stamm, 2004). In many country contexts, however, the boundaries between different policy objectives are not, and cannot be, as clearly separated as in the past. National development is a key prerequisite for the effective provision of a number of GPGs, requiring strong financial and policy-making capacities of developing countries to address these (Kaul, 2013). National development challenges, also in MICs, can thus have a global character, and a neglect of these can easily be detrimental to the effectiveness of global problem solving.

This is even more so since the shift of global poverty to MICs has been accompanied by a shift of other developmental challenges to this group of countries. Global health is a case in point. The prevalence of HIV/ AIDS, tuberculosis and other vaccine-preventable diseases is higher in MICs than in LICs (Glassmann et al., 2011). These are obviously national development challenges, but they also pose a global risk. Given that these are communicable diseases, the risk of infection does not stop at national borders. Outbreaks can have negative spillovers, as in the case with polio in the Democratic Republic of the Congo, a LIC which imported the disease from neighbouring Angola, an upper-middle-income country (ibid.). Controlling infectious diseases is thus ultimately a global challenge, requiring continued focus on the prevalence in MICs and the capacity of their health systems.

This blurring of objectives not only occurs at the individual country level. The adequate provision of GPGs requires controlling risks at the country level that have the potential to develop into global systemic risks, but it ultimately requires effective and co-operative governance at the global level. Many important global governance fora or agreements – or stalemates – such as the World Trade Organization’s Doha
Round or the Kyoto Protocol and subsequent climate agreements, suffer from diverging interests and fears over unequally distributed costs and benefits. Building on the liberal school of foreign-policy analysis, it is argued that these lines of conflict cannot be exclusively attributed to an increasingly redundant ‘North-South’ divide. In addition, domestic conditions such as the varying socio-economic transformation pressures within a given country or the type of political regime have a heavy impact on how countries engage in global governance processes: how co-operative they are, the strategies they adopt and the interests they represent (Conzelmann and Faust, 2009). These domestic conditions often tend to create co-operation-adverse environments in non-OECD countries. In most developing countries, and even in the most powerful emerging economies, domestic political processes often tend to concentrate on ensuring basic material needs and on redistribution challenges that arise in the wake of rapid economic and political transformation (Chaudhuri and Ravallion, 2006).

The significant role of domestic politics in shaping international co-operation has always been on the agenda of scholars engaged in international relations and foreign-policy analysis (for example, Putnam, 1988; Moravcsik, 1997). This interrelatedness is also reflected in a recent analysis of the EU’s Strategic Partnerships. Assessing the strategic partnership with China, Grevi and Khandekar (2011: 17) conclude that different domestic conditions and priorities have so far impeded the development of shared interests and more substantial co-operation at the global level: ‘As a developing nation, the priorities of China are different from those of a largely post-industrial society like Europe. ... The alleged EU-China strategic axis will remain elusive as long as both sides fail to address their internal problems’. The same is found for the strategic partnership with India, where a ‘mismatch of priorities’ has so far prevented the identification of mutual interests: ‘The EU’s priorities towards India are trade, security, energy and climate change ... India on the other hand seeks in the EU a partner for sustainable agriculture, development, commerce and a source of technology transfer to maintain its growth’ (ibid.: 21).

While it is important to adopt a more complex set of strategic objectives with anchor countries and emerging economies and to support these countries in providing specific GPGs, it is thus equally important to acknowledge that national and global challenges are inextricably linked. Poverty can thus no longer be reduced to the problem of poor people in poor countries, but has to be seen as a ‘global bad’, requiring collective action at the global level (Sumner and Mallet, 2012). Identifying and working towards mutual and joint interests could require the EU to continue offering support to tackle countries’ poverty problems and internal

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24. The EU maintains strategic partnerships with a rather heterogeneous group of 10 countries, half of which (Brazil, China, India, South Africa and Mexico) have gained importance in global governance processes and are part of the G20, while at the same time qualifying for ODA eligibility according to OECD/DAC rules. Strategic Partnerships in general aim to provide a framework to engage with these countries on a wide range of policy areas (e.g. trade, environmental issues and development). However, the overall strategic orientation of the EU’s Strategic Partnerships remains unclear (Gratius, 2011).
development challenges, to ease the socio-economic transformation pressures and to accompany the countries on a sustainable development path.

4 Implications for EU development policy

The changing development landscape and the need for greater differentiation require substantial changes in EU development policy. Putting the question of development co-operation 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 in this question. This last Section will outline some of these challenges and focuses not only on the EU’s role as an additional bilateral European donor but in particular on its specific role for ensuring complementarity, co-ordination and coherence across European donor practices and policies. In this light, it emphasises the substantial challenges the EU is facing in ensuring a co-ordinated division of labour and a strategically consistent engagement with MICs and emerging economies.

Poverty reduction will undoubtedly remain the primary concern and policy objective for EU development policy, reaffirmed by legal provisions in the Lisbon Treaty. In order to achieve this objective, the EU could concentrate its development assistance on a decreasing number of poor countries. Such an approach, however, fails to acknowledge that the challenge of global poverty reduction has changed and that national income has become an insufficient criterion to capture the poverty problem and development challenges of a country. Therefore, one implication for the EU relates to finding better ‘technical’ solutions to classify countries and to avoid a reliance on classifications that only reflect a country’s economic development. According to the analysis in this article, such a classification system would have to combine a number of categories in order to better reflect a country’s social and political development and to better capture the specific problem constellations of partner countries and the increasing complexity of the developing world.

A second challenge relates to the political dimension, the distribution of European aid and the question of cross-country division of labour among European donors. The process of selecting and exiting partner countries is still considered a national prerogative by European bilateral donors and is insufficiently co-ordinated at the EU level, despite the provisions made in the Paris Declaration and the Code of Conduct on Complementarity and Division of Labour adopted in 2007 (Heldgaar, 2008; Schulz, 2009). So far, the concerns over such an unco-ordinated approach have related to an uneven and sub-optimal cross-country distribution of aid, resulting in ‘aid darlings’ (countries that attract a number of donors and where the level of ODA per capita is relatively high) and ‘aid orphans’ (low-income and often fragile countries where only a limited number of donors are present and where ODA levels per capita are low) (McGillivray, 2011; Dollar and Levin, 2004b). The European Consensus (Art. 48) and the Code of Conduct have assigned to the EU the role of compensating for such an uneven distribution of funds. At present, however, the phenomenon of aid orphans is in general attributed only to low-
income countries (Utz, 2011; OECD/DAC, 2011), whereas MICs are often excluded from the analysis. Accordingly, the EU’s main focus to fulfil its mandate is on low-income, fragile countries where the conditions are considered to be too difficult and too risky by many Member States to implement aid programmes. The changing geography of poverty could give this debate a new twist.

If the EU applied similar income cut-offs as the Member States, without including a more holistic view towards country-specific development challenges (poverty and human development, social inequality, institutional and financial capacities), this could result in marginalising seemingly better-off countries that continue to experience serious internal development challenges. In many Latin American countries that have grown richer in per capita terms but continue to experience significant development challenges, the EU is already one of the few European donors left (Morazán et al., 2012).

Therefore, any approach to global poverty reduction and partner-country selection should not be decided by Member States or by the EU individually. Rather, it needs to 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 an important contribution in the areas of governance, public-sector reform, setting up effective taxation systems and promoting domestic accountability. Such co-ordinated and concerted actions would also avoid an over-concentration of EU donors and funds on a decreasing number of poor countries, while MICs receive less and less support in their fight against poverty and social exclusion. A first effect of a potential marginalisation of MICs can already be seen in the area of health, where income status determines the volume of health aid and access to initiatives like GAVI (Global Alliance for Vaccines and Immunisation) and the Global Fund. As a result of such an income threshold, the funds disbursed correlate insufficiently with the global disease burden, which has shifted to MICs. In some areas, for example vaccination rates and HIV/AIDS treatment, LICs (on average) already perform better than MICs (Glassmann et al., 2011). In view of the increasing number of MICs and the varying degrees to which economic growth has so far been accompanied by reduced levels of poverty and improvements in social development, the need for a co-ordinated EU approach to achieve a balanced and problem-sensitive distribution of development aid has become ever more relevant.

Developing a co-ordinated EU approach to address the new geography of poverty requires making necessary changes within the existing narrow definition of EU development policy. A second far-reaching policy challenge for the EU is 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. This means that – in co-operating with anchor and emerging countries and other strategically important countries for the provision of GPGs – the EU will have
to target a portfolio of strategic objectives instead of a single objective (Gavas et al., 2011).

More than ever, this requires the EU to break up the traditional structures of an asymmetric donor-recipient relationship. Moving towards mutual interests requires the EU to reconcile European interests with those of influential partner countries, and to identify GPGs of joint strategic interest as well as European contributions to a country’s development path. Given the interrelatedness of internal development challenges on the one hand and co-operative governance on the other, the key challenge for the EU will be to find the correct balance in addressing poverty-reduction objectives and internal development challenges, while promoting strategic objectives that are in the mutual interest of the EU and partner countries.

Moreover, when a traditional development agency that is mostly concerned with poverty reduction and a country’s internal development challenges moves towards a global rationale of development, this substantially increases the coordination challenges, both at the EU institutional level and between the EU and its Member States. A broad definition of development policy also implies that the interfaces between different political responsibilities become larger and that the demand for inter-ministerial or inter-departmental co-ordination increases significantly (Faust and Messner, 2012). At the EU institutional level, it requires the EU to redefine the role of development policy vis-à-vis other policy fields. 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 non-OECD countries (Makhan et al., 2012). Managing these interfaces will become more important as the difficulties in distinguishing between the competences and responsibilities of different Directorates-General increase.25

Ideally, a global approach to development would be integrated in an overarching and joint EU global strategy defining the EU’s engagement with non-OECD countries. But while the EU has started to formulate policies intended to align various external-policy fields behind a single strategic orientation (for example, the 2003 European Security Strategy, the 2005 Joint EU-Africa Strategy, or the 2010 EU Strategic Framework and Action Plan on Human Rights), this has not yet been followed by an overall global strategy that clearly identifies the EU’s priorities and how best to engage with influential developing and emerging countries to this end. In general, the EU’s Strategic Partnerships aim to provide a framework to engage with these countries on a wide range of policy areas (for example, trade, environmental issues and development). The EU, however, has not yet identified its

25. The European External Action Service has a special role to play in this respect, given its mandate to ensure more coherent EU external policies and to co-ordinate the EU’s foreign-policy interests with development objectives. In addition to primary foreign and security interests, the Service needs to take on the challenge to ensure a coherent EU-wide approach towards the provision of GPGs and to align different EU external policies behind this common objective (see also Duke and Blockmans, 2010; Furness, 2010). Moreover, avoiding a fragmented and incoherent EU approach to GPGs also implies that a development-related GPG strategy with emerging and anchor countries has the support of other Directorates-General in order to ensure a coherent and institution-wide EU strategy towards these countries.
main interests and objectives for these partnerships or chosen the strategic partners needed to achieve them accordingly (Gratius, 2011; Renard, 2011). Unlike the anchor-country concept, which is based on a systematic selection of countries with a particular importance for the provision of GPGs and global governance processes, the overall strategic orientation of the EU’s Strategic Partnerships remains unclear. Herman van Rompuy, President of the European Council, publicly admitted: ‘[W]e have strategic partners, now we need a strategy.’ This relates as much to the selection of strategic partners as to the content and overall joint objective of these.

At the Member State level, the trend towards a global approach to development has so far not been accompanied by subscribing to a common EU development strategy for addressing global challenges and jointly engaging with strategically important partner countries for this purpose (Furness and Makhan, 2011). Given the declining influence and manoeuvring space of EU donor agencies in these countries, a move towards joint and co-ordinated approaches could increase the weight and potential leverage of the EU’s development programme significantly. This, however, would have to entail Member States and the EU aligning and co-ordinating their strategic engagements with emerging economies, and making distinct choices about where their joint global priorities lie. Such a process might prove to be challenging, since it requires reconciling mutual and joint European interests with the national interests that Member States pursue through their bilateral aid programmes.

An EU-wide approach to the provision of GPGs thus has to go beyond the realm of development policy and integrate other policy fields and ambitions behind a common objective. For this purpose, the establishment of a new EU strategy for how to work – from a development perspective – with emerging global players needs to be aligned with other policy fields and closely co-ordinated at the EU level and with Member States’ global strategies. Given the complex institutional and policy set-ups of the EU, this will be no easy task. Competences over policies with specific importance to the provision of GPGs vary significantly: some are exclusive to the Commission (for example, economic and monetary policy, trade and agriculture), some are shared competences (development, climate change and environmental policies), while foreign and security policy remains in the domain of Member States. Establishing an EU-wide approach to GPGs is therefore likely to include conflict over competences and thematic responsibilities – a conflict that cannot be solved by individual departments or policy fields. Addressing these will require strategic decisions in the highest political fora of the EU.

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