



## **The EU's policy on differentiation: Tackling poverty and global challenges?**

**Siân Herbert – [s.herbert@odi.org.uk](mailto:s.herbert@odi.org.uk)**

**<http://international-development.eu/>**



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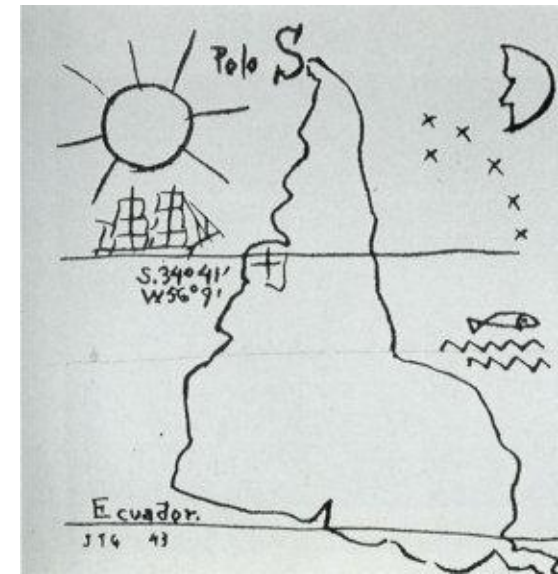


## 1. CONTEXT:

# Global development patterns

## New opportunities

- New economic and **geopolitical** realities
- Rapid **growth** in developing economies
  - Less LICs, more MICs
  - China and LDCs
- Non-DAC **donors** (2008) = \$12-15bn US
- Different demands/opportunities → new **partnerships**
- **'Beyond aid'**

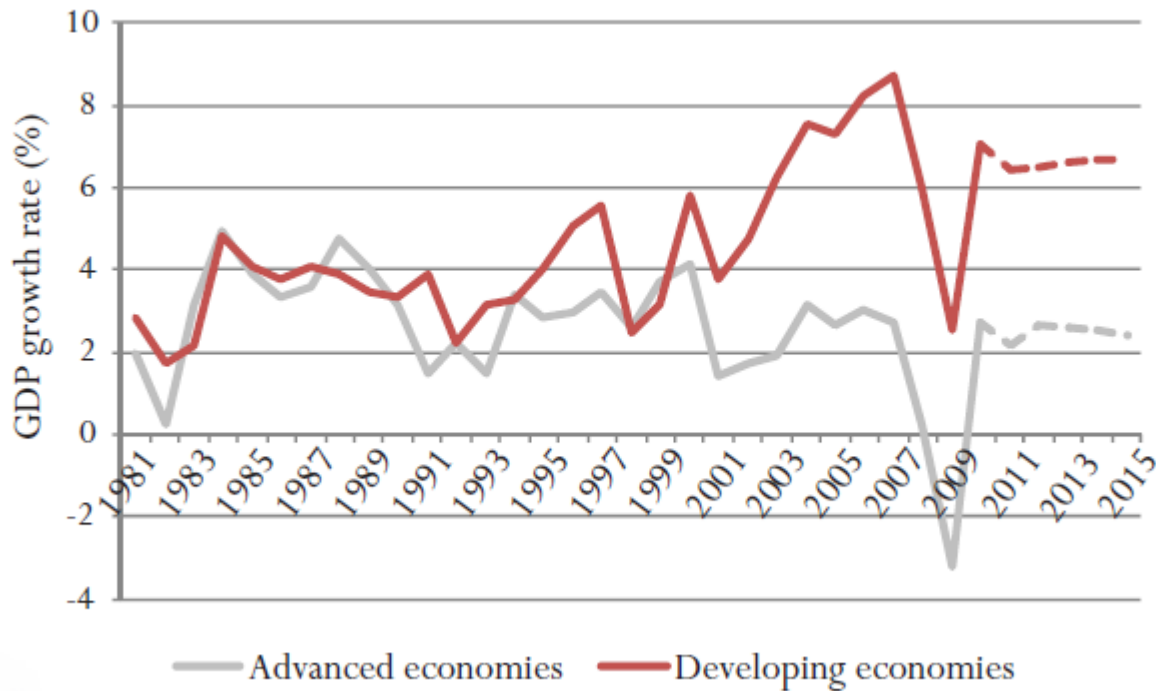




## 1. CONTEXT:

# Global development patterns

FIGURE 2: THE RISE OF DEVELOPING ECONOMY GROWTH (ACTUALS AND PROJECTIONS)



IMF (2010) IN Chandy and Gertz (2011)



## 1. CONTEXT:

# Changing poverty landscape

## New challenges

- Changing poverty landscape - **“Pockets of poverty”** (Sumner, Kanbur)
  - 1990 = 93% of the world’s poor in LICs
  - 2007 = **72% of world’s poor in MICs** (Sumner, 2010)
    - However – India and China
  - 2015 = less than 10% in LICs (forecast by Chandy and Gertz, 2011)
- Eurozone **crisis**
- **Multilateral** architecture fit for purpose?
- **Global public goods**



## 1. CONTEXT:

# Changing poverty landscape

Share of world's poor by country category

	2005		2010	
Fragile	19.6%	0.9%	23.7%	17.1%
Stable	53.9%	25.6%	10.4%	48.8%
	LIC	MIC	LIC	MIC

Chandy and Gertz (2011)





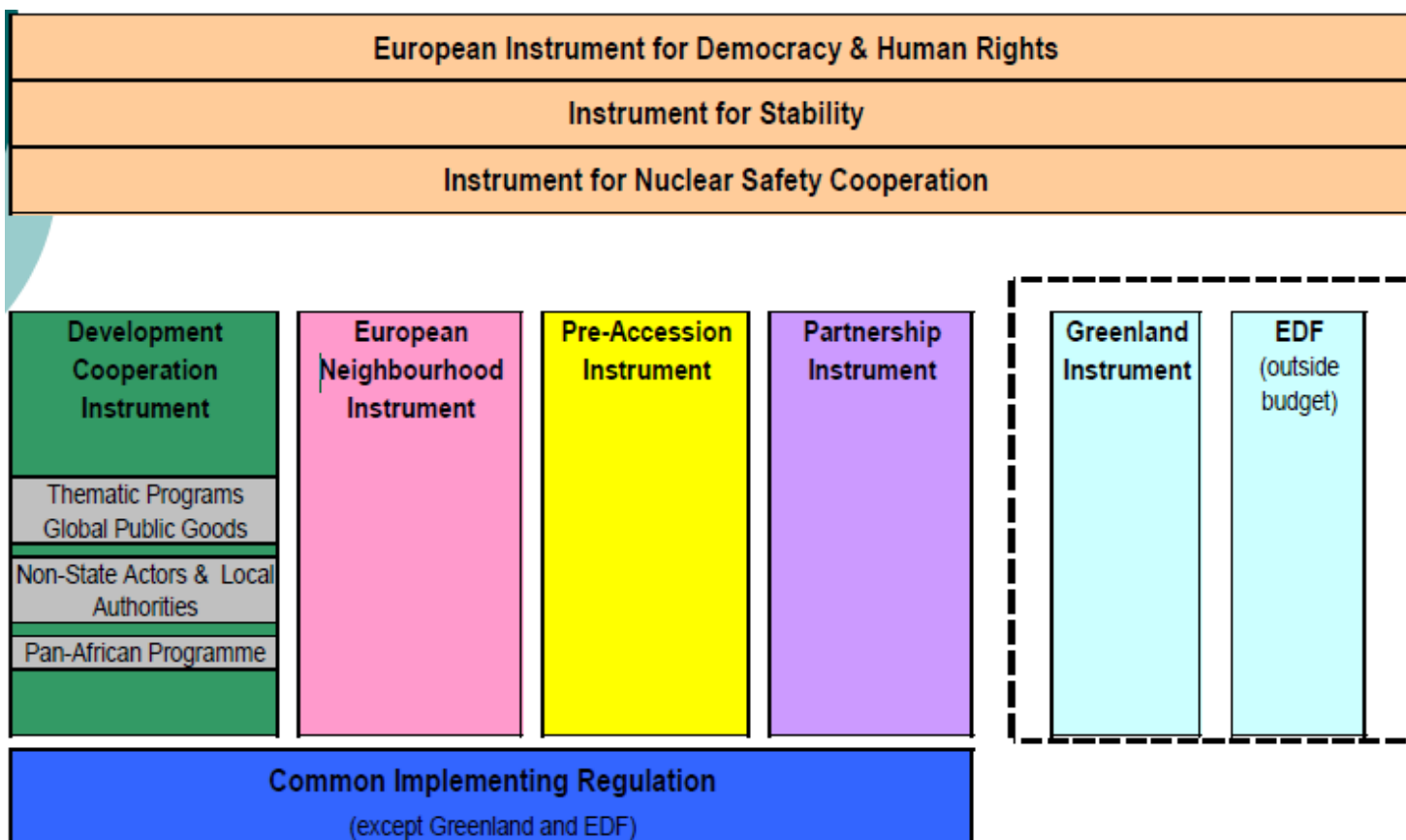
## 2. EU DEVELOPMENT POLICY: Overview

- The EU institutions disbursed around **€11 billion in ODA in 2010**
- **60% of all global development aid** (EU institutions + Member States)
- Programmes in over **140 countries** worldwide
- The European Consensus on Development (2005) (and Article 208 of the Lisbon Treaty) enshrines **poverty reduction** as the “primary objective”, with “particular attention” paid to LDCs and LICs
- New development policy - **Agenda for Change** (2011) introduces **differentiation**
- Multi-Annual Financial Framework (**MFF**) (2014-2020) – next budget period



## 2. EU DEVELOPMENT POLICY:

# Development instruments 2014-2020 (proposed)



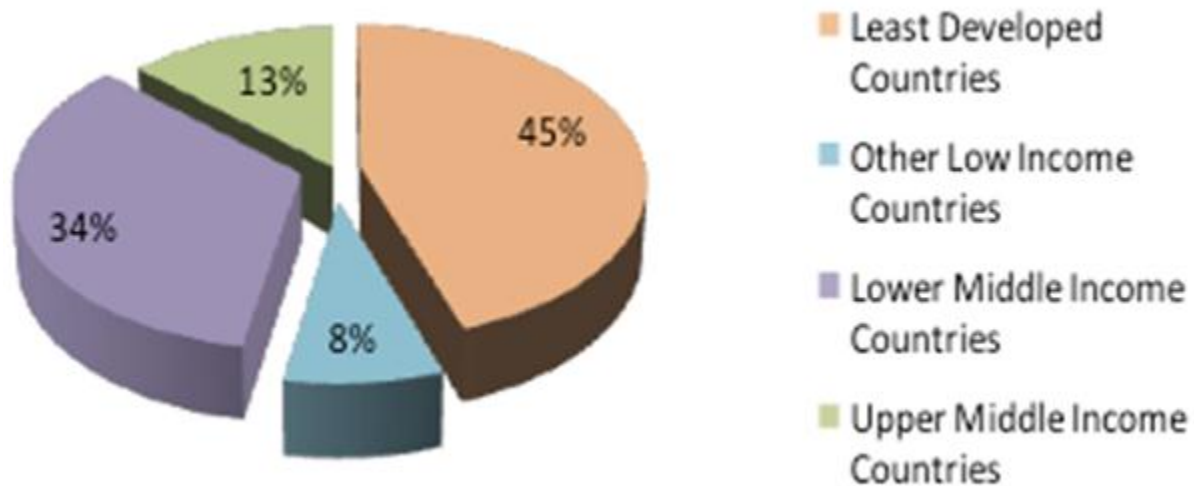
European Commission (2011)

[http://ec.europa.eu/commission\\_2010-2014/piebalgs/multimedia/pdf/20111208\\_mff\\_extrel\\_technical\\_briefing\\_en.pdf](http://ec.europa.eu/commission_2010-2014/piebalgs/multimedia/pdf/20111208_mff_extrel_technical_briefing_en.pdf)



## 2. EU DEVELOPMENT POLICY:

# EU aid by income group (2010)



- Share of LDCs & OLICs in the Development Cooperation Instrument (**DCI**) = **43%**
- **Low poverty focus?**



## 2. EU DEVELOPMENT POLICY: Differentiation

### Agenda for Change

*“The EU must seek to **target its resources where they are needed most to address poverty reduction and where they could have greatest impact.**”*

*Grant-based aid should not feature in geographic cooperation with **more advanced developing countries already on sustained growth paths and/or able to generate enough own resources. Conversely, many other countries remain heavily reliant on external support to provide basic services to their people. In between, there is a spectrum of situations requiring different policy mixes and cooperation arrangements.***

*A differentiated EU approach to aid allocation and partnerships is therefore key to achieving maximum impact and value for money”*





## 2. EU DEVELOPMENT POLICY:

# Differentiated approach to aid allocation – what it means

- New aid **allocation criteria**
- Grant based **bilateral aid will be cut** from selected countries from 2014 (countries will “graduate”)
- But these countries could **still receive funding** under: DCI thematic envelopes, Partnership Instrument (PI), European Instrument for Democracy and Human Rights (EIDHR), Instrument for Stability (IfS) and external components of internal instruments
- Differentiation will be **applied “first” to the DCI**  
*(and the European Neighbourhood Instrument (ENI))*
- LDCs, LICs and fragiles - “priority in the resource allocation process”



## 2. EU DEVELOPMENT POLICY:

# Differentiated development partnerships – what it means

- Thematic projects
- Trade agreements
- Blending of loans and grants
- South-South/triangular cooperation
- Directing funds to civil society – big role for NGOs
- Technical assistance
- Technological cooperation
- Cultural cooperation
- Public/private partnerships
- Capacity development for individuals and organisations
- Consultancy and dialogue measures



## 2. EU DEVELOPMENT POLICY:

# Differentiated development partnerships – a means not an end

### Aid modality of cooperation:

Grant and subsidy-  
based aid projects

Asymmetrical

*Ethiopia*

### Transition phase:

Less concessionary,  
blended finance, still ODA  
element, but less through  
aid agencies

*India*

### OECD-type cooperation

peer learning, institutional  
twinning, fully co-financed  
symmetrical

*China*

*Brazil*

*Korea*



## 2. EU DEVELOPMENT POLICY:

# Proposed criteria for aid allocation – the theory...

The proposed DCI regulation (2011) :

- New aid allocation criteria based on **“needs, capacities, commitments and performance, and potential EU impact”**
- *“Partner countries representing **more than 1% of the world's GDP** and/or **upper middle income countries** according to the list of recipients of Official Development Aid (ODA) of the **OECD/DAC** are in principle excluded; however, additional criteria relating to their need and capacity is used, such as **Human Development Index**, the **Economic Vulnerability Index** and **aid dependency**, as well as **economic growth** and **foreign direct investment**”*
- Potential EU impact will be assessed through two objectives:
  - Promoting political, economic, social and environmental reforms
  - Increasing the leveraging effect on development finance



## ...and in practice?

- Grant based bilateral aid will be cut from **19 countries** from 2014:
  - 17 UMICs (Argentina, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Kazakhstan, Iran, Malaysia, Maldives, Mexico, Panama, Peru, Thailand, Venezuela and Uruguay)
  - 2 large LMICs with GDP larger than 1% of global GDP (India, Indonesia)
  - With exceptions: South Africa, Cuba
- In 2010, these 19 countries received around €0.35bn – so could potentially free up €2.4bn over the next MFF



### 3. KEY ISSUES:

# Differentiation – what criteria and formula?

## European Consensus on Development (2005)

*“Within global geographic and thematic allocations, the **use of standard, objective and transparent resource allocation criteria** based on needs and performance will guide the allocation of resources and a review of their subsequent use”*

## Queries

- How did the criteria lead to the selection of these countries? **No detailed formula**
- What countries will “graduate” next? And, how is this approved?
- What instrument is next?
- **How will these funds be redistributed?**



### 3. KEY ISSUES:

## Defining problems...LICs, MICs and LDCs

- Income categories 2011:

**LEAST  
DEVELOPED  
COUNTRIES**

**OTHER LOW-INCOME  
COUNTRIES**  
*(per capita GNI  
< = USD 1 005 in 2010)*

**LOWER MIDDLE-INCOME  
COUNTRIES AND TERRITORIES**  
*(per capita GNI  
USD 1 006-3 975 in 2010)*

**UPPER MIDDLE-INCOME  
COUNTRIES AND TERRITORIES**  
*(per capita GNI  
USD 3 976-12 275 in 2010)*

- Graduation and relapse
- LDCs
- Criteria: Poor country (Collier), poor people (Sumner, Glennie) or a mix (DFID)?
- Multidimensional Poverty Index (MPI)
  - % of MPI poor varies greatly:
    - LICs: % of poor ranges from 5% (Kyrgyzstan) - 92% (Niger)
    - MICs: % of poor ranges from 0% (Belarus) - 77% (Angola)
  - Nepal is poorer according to the MPI than Cambodia, but Cambodia's poorest region is poorer than the poorest region of Nepal



### 3. KEY ISSUES:

## Why is cooperation with MICs important?

### National

- Most poor people live in MICs
- MDG
- Risk of falling back to LIC
- Moral argument

### Regional

- “Anchor countries” (Stamm)
- Cross-border/global spillovers
  - Regional integration

### Global

- Role in global governance
- Global public goods
- Sustainable development
- Aid darlings & orphans

\*\*\*\* Many of these are reasons to support development, but not strictly aid \*\*\*\*



### 3. KEY ISSUES:

## Why is differentiation important?

### Developing countries

- ↑ poverty focus – LICs, LDCs, fragile
- Limited impact of aid in bigger MICs
- When possible = national responsibility to reduce poverty

### Developed countries

- Justify funding MICs to national electorates?
  - Means not an end
- Poverty in developed world?

### EU as a donor

- Aid effectiveness
- Comparative advantage
- More modern instruments/relationships
- Strengthen role in world



## Concluding thoughts

- **Where** and **who** are the world's poor?
- What do we mean by poverty and how should we **measure** it?
- Poverty reduction as an **objective**?
- **Mutual interest**?
- Understanding multi-levels of differentiation
  - Trade – GSP reform, new Commission communication
- Moving from an aid focus to a coherent **development strategy**?



## More information

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Thank you