The EU’s policy on differentiation: Tackling poverty and global challenges?

Siân Herbert – s.herbert@odi.org.uk
http://international-development.eu/
Contents

1. **Context** – a world in flux:
   - Global development patterns
   - Changing poverty landscape

2. **EU development policy:**
   - Overview
   - New development agenda
   - Differentiation in aid allocation
   - Differentiation in partnerships
   - The new criteria

3. **Key issues:**
   - Allocation criteria
   - Defining problems – LICs, MICs and LDCs
   - Why is cooperation with MICs important?
   - Why is differentiation important?

4. **Conclusion**

5. **More information**
1. CONTEXT:
Global development patterns

New opportunities

- New economic and \textit{geopolitical} realities
- Rapid \textit{growth} in developing economies
  - Less LICs, more MICs
  - China and LDCs
- Different demands/opportunities $\rightarrow$ new \textit{partnerships}
- ‘Beyond aid’
1. CONTEXT:
Global development patterns

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

Chandy and Gertz (2011)
Figure 3: The Changing Landscape of Global Poverty (Millions of Poor)

2005

- India: 456
- Indonesia: 47
- Vietnam
- benin
- Ethiopia
- ZAF
- DRC
- PHL
- Bangladesh: 76
- NPL
- Pakistan: 35.2
- Tanzania: 33.6
- Brazil
- DRC
- UGA
- UZB
- Niger: 96
- MDG

2015

- Nigeria: 95.9
- Bangladesh: 33.2
- Pakistan: 51.9
- China: 208
- India: 86.1
- Egypt
- Ethiopia
- DRC
- PHL
- Tanzania: 30.5
- Kenya

Legend:
- Sub-Saharan Africa
- Latin America and Caribbean
- Middle East and North Africa
- Europe and Central Asia
- East Asia and Pacific
- South Asia

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**
2. EU DEVELOPMENT POLICY:
Development instruments 2014-2020 (proposed)

European Commission (2011)
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

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

OECD-type cooperation peer learning, institutional twinning, fully co-financed symmetrical

Ethiopia    India    China    Brazil    Korea

(Altenburg and Koch, DIE, 2011)
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:

<table>
<thead>
<tr>
<th>LEAST DEVELOPED COUNTRIES</th>
<th>OTHER LOW-INCOME COUNTRIES (per capita GNI $ ≤ USD 1 005 in 2010)</th>
<th>LOWER MIDDLE-INCOME COUNTRIES AND TERRITORIES (per capita GNI USD 1 006-3 975 in 2010)</th>
<th>UPPER MIDDLE-INCOME COUNTRIES AND TERRITORIES (per capita GNI USD 3 976-12 275 in 2010)</th>
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</table>

- 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

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

- **EDCSP website:** [http://international-development.eu/](http://international-development.eu/)


Thank you