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Getting up to speed:

THE EU AND THE DEVELOPMENT IN TRANSITION AGENDA

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This paper looks at the EU's engagement with middle-income countries (MICs). The rapidly changing geopolitical context, the COVID-19 crisis and the launch of the programming cycle for the new Neighbourhood, Development and International Cooperation Instrument (NDICI)–Global Europe compel and offer opportunities to the EU to engage more strategically with those countries. The rationale for a stronger engagement spans from the importance of some MICs to advance the EU international objectives, for example climate change, as well as to realise the Sustainable Development Goals. Despite a decade-long debate and significant cooperation experience, the EU's engagement with MICs has been piecemeal and has lacked clear policy direction. Recently approved Council Conclusions on the subject, prepared under the Portuguese Presidency of the Council of the European Union, are a good start to fill this gap. But further steps are needed to operationalise policy orientations and shape future cooperation with these countries.

Some of these steps will take a lot of political and bureaucratic energy if they are to be realised. But the EU's profile as a global player and the nature of its partnerships with key countries are on the line. The programming of the NDICI–Global Europe could steer a more tailored and agile cooperation with MICs. Cooperation should be based on an acknowledgement of the diversity of MICs, address the challenges of transition across development milestones and make a smart use of the different EU tools. The Team Europe initiatives and the preference for joint programming of the NDICI–Global Europe offer more space for complementarity between the EU and the EU member states and build on the latter's approaches to cooperation with MICs. A number of institutional bottlenecks should also be overcome to promote more synergies in EU external action.

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Acronyms

AfD	Agence française de développement
AU	African Union
BAPA	Buenos Aires Plan of Action
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit
CEPAL	Economic Commission for Latin America and the Caribbean
CEPS	Centre for European Policy Studies
CODEV	Working Party on Development Cooperation
COEST	Working Party on Eastern and Central Asia
COVID-19	Coronavirus disease 2019
CRS	Common Reporting Standard
DAC	Development Assistance Committee
DCFTA	Deep and Comprehensive Free Trade Area
DCI	Development Cooperation Instrument
DESA	Department of Economic and Social Affairs
DEval	German Institute for Development Evaluation
DFID	Department for International Development
DG DEVCO	Directorate-General for International Cooperation and Development
DG INTPA	Directorate-General for International Partnerships
DGs	Directorates-General
DOI	Digital Object Identifier
DSSI	Debt Service Suspension Initiative
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECDPM	European Centre for Development Policy Management
ECLAC	Economic Commission for Latin America and the Caribbean
EDF	European Development Fund
EFSD+	European Fund for Sustainable Development Plus
EIB	European Investment Bank
ENP	European Neighbourhood Policy
ETTG	European Think Tanks Group
EU	European Union
EUGS	European Global Strategy

EXCO	Group for External Coordination
FEXTE	Fund for Technical Expertise and Experience Transfers
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GNI	Gross National Income
HIC	High-income countries
HRVP	High Representative of the Union for Foreign Affairs and Security Policy/Vice President of the Commission
ICAI	Independent Commission for Aid Impact
IDA	International Development Association
IDS	Institute of Development Studies
IIF	International Institute of Finance
IMF	International Monetary Fund
ISS	Institute for Security Studies
KfW	Kreditanstalt Für Wiederaufbau
LDCs	Least developed countries
LIC	Low-income countries
LMIC	Low- and middle-income countries
MADCs	More Advanced Developing Country
MADCT	More Advanced Developing Countries and Territories
MENA	Middle East and North Africa
MFF	Multiannual Financial Framework
MICS	Middle-income countries
MS	Member states
NDICI	Neighbourhood, Development and International Cooperation Instrument
OACPS	Organisation of African, Caribbean and Pacific states
OCE	Oceania
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
PI	Partnership Instrument
PSE	Public sector expertise
SDGs	Sustainable Development Goal
SIDS	Small island developing states
SSA	Sub-Saharan Africa
UK	United Kingdom
UMIC	Upper-middle income countries
UN	United Nations
UNDP	United Nations Development Programme

1. Introduction

Over the last decade, the EU has been reconsidering its approach to engaging with middle-income countries (MICs). This was recently accelerated as part of a reflection on how to adapt development cooperation to the Sustainable Development Goals (SDGs). Additional factors are the pursuing of a more interest-driven cooperation and satisfy a desire – if not respond to an urgency – to become a more vocal and influential player in the von der Leyen Geopolitical Commission. MICs are highlighted as important partners in the European Consensus on Development (EU Council 2017) and the European Global Strategy (EUGS) (European Union 2016), both as countries challenges that need to be addressed to realise the SDGs and as capable and essential partners for the sustainability of the international order, including the fight against climate change.

The debate has been ongoing for some years. But divergences among European member states and within the EU institutions on how to cooperate with MICs, particularly beyond the EU Neighbourhood, while upholding commitments towards least developed countries (LDCs) hindered the emergence of a shared approach. Differential geographical interests of member states, for example geared towards Latin America or the Eastern Neighbourhood or Africa, and the different status of the debate on MICs in these regions has also made policy change and clarity on priorities hard to achieve. The striking diversity of MICs, a category that includes upper-middle-income countries along with fragile contexts and LDCs, has added ambiguity to the discussion on what a new approach could look like and the tools that would support equal, interest-driven and innovative cooperation relationships (Di Ciommo and Sayós Monràs 2018).

The rapidly changing geopolitical context, the imperative to build back 'better and greener' from the COVID-19 crisis, and the initiation of a programming cycle for the Neighbourhood, Development and International Cooperation Instrument (NDICI)–Global Europe have heightened the need for further policy direction from the EU. A global instrument such as the NDICI–Global Europe requires direction on EU international collaboration with MICs that is of an equally global scope.

The recently adopted EU Council conclusions 'EU partnerships with middle-income countries: Opportunities for the development in transition agenda', prepared under the Portuguese Presidency of the Council of the European Union, are a good start to fill this policy gap. But further thinking is needed on how to operationalise its policy orientations and shape a truly forward-looking cooperation with these countries (Council of the European Union 2021c). This paper presents the findings of research into this topic and offers suggestions on how this can be achieved in the context of the political priorities of the EU and its new financing landscape offered by the NDICI–Global Europe. It is based on desk research and 17 interviews with experts from the EU institutions, delegations, member states and partner countries actors. Section 1 provides key facts on MICs. Sections 2 to 6 present the new EU policy framework and the implications for cooperation with MICs. Sections 7 and 8 outline how the EU has engaged with MICs across regions and present examples of EU member state cooperation with MICs with a view to drawing on experiences and lessons for future engagement.

Now is the time for revamped and more strategic engagement between Europe and MICs. While new policy direction in the Council conclusions is welcomed, it needs to be accompanied by a set of steps, at both the technical level of programming and implementing EU external action and the political level for managing transitions towards a partnership based on shared goals. Some of these steps will take a lot of political and bureaucratic energy if they are to be realised. But the EU profile as a global player and with key partners is on the line. Not acting will have higher costs in terms of development results and the EU's influence in a changing world.

2. What are middle-income countries?

MICs is a large set of diverse countries. According to the latest World Bank classification, most of the countries in the world are middle income: in July 2020, 48% (106) of the 218 countries in the world were either upper or lower middle income (World Bank 2020a). Since 1990, the number of MICs has increased from 85 to 106 as many countries moved from low- to middle-income status. Building on the World Bank list and the UN's list of LDCs, the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) regularly updates the list of official development assistance (ODA) recipients. In its latest iteration from 2021, this OECD DAC list has 95 MICs (OECD 2020c). Differences between the World Bank and the OECD DAC lists arise from a different review schedule and from the fact that some LDCs are also MICs, with the former category prevailing over the latter for the sake of the OECD DAC listing (Box 1). According to DAC rules, countries that remain in the World Bank's high-income category for three consecutive years become ineligible for ODA.

Box 1: Country categorisations

The World Bank list and income categories

Categorising countries based on income for analytical purposes originates from the World Bank. It categorises them into low-income (LIC), lower-middle-income (LMIC), upper-middle-income (UMIC) and high-income countries, based on income per capita. Categorisation is updated on a yearly basis. This analytical categorisation differs from the operational classification that uses a more complex assessment to define lending categories. When a country transitions from LIC to MIC categorisation, it moves away from concessional lending from multilateral development banks. However, while the transition to MIC status triggers the process, lending decisions are based on much broader institutional and economic factors (Fantom and Serajuddin 2016).

UN list of least developed countries

The LDC list is maintained and updated by the UN. Currently, 46 countries are classified as LDCs. Classification is based on three indicators: gross national income (GNI) per capita, human assets and environmental vulnerability (UN n.d.). To graduate from the LDC status, a country needs to reach thresholds in two of the three indicators. Graduation from LDC status is rare – it has been achieved by only Botswana (1994), Cabo Verde (2007), Maldives (2011), Samoa (2014) and Equatorial Guinea (2017) (OECD 2018a, UN n.d.). Difficulty leaving the LDC classification compared with graduating to MIC status suggests that social outcomes are harder for countries to reach compared with income growth. However, once reached, the social outcomes tend to be more permanent, as the return to LDC status is rare (OECD 2018a).

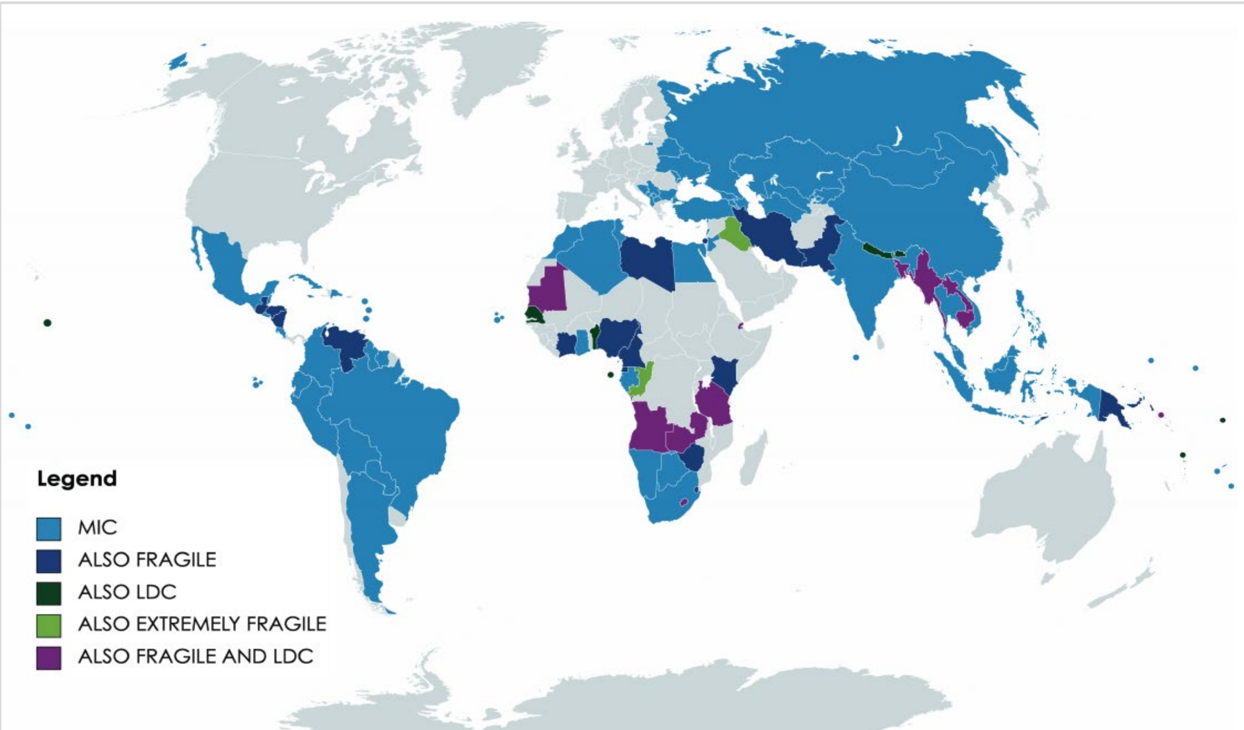
Despite being aggregated under a common category, MICs face diverse challenges

Fragility is a significant challenge for many MICs, in part due to the effect of conflicts in their neighbouring countries (OECD 2015, OECD 2020a, Desai and Forsberg 2020). Over half of extremely poor people now live in MICs, whereas in 1987 this was roughly 10% (Pande et al. 2019). This is partly due to the rise in the number of MICs, but also because persistent inequalities play a major role in countries that have seen the average income per capita grow (Sumner 2010; Rahman and Baranyi 2018; Braathen et al. 2016). For instance, South Africa has one of the highest levels of inequality in the world, and its unequal distribution of income is manifested in high levels of poverty (World Bank 2020b). Similarly in India, although there has been remarkable success in poverty reduction, the levels of poverty and inequality have remained high (World Bank, 2019). In fact, evidence shows that transition to middle-income status does not necessarily entail a sudden, sustained and consistent change in the development challenges a country encounters.

Africa is a prime example of both the variety and the scale of these challenges

There are 29 MICs in Africa according to the World Bank (the OECD DAC list counts 21 MICs in Africa). This includes upper-middle-income countries (UMICS) such as Botswana and South Africa and small island states such as Cabo Verde. Of the African MICs, nine are also LDCs and sixteen are considered fragile or extremely fragile (some countries are both least developed and fragile). For instance, Tanzania, Zambia and Benin are both LDCs and LMICs. Mauritania and Angola, although categorised as an LMIC, are also LDCs and fragile according to the latest edition of the OECD States of Fragility report (2020a). Nigeria, a MIC, has the highest number of people living in extreme poverty of all countries in the world, having surpassed India in 2018, while also being a key regional player due to its large population, as well as economic and military strength (Ogunnubi et al. 2016). Globally, MICs include major economies such as China or India, most of the countries in South and Central America, and the Pacific islands. While overlaps across categories are less common in other regions than in Africa, Bangladesh and Cambodia are examples of countries that are both MICs and LDCs. Guatemala and Venezuela are both MICs and fragile.

Figure 1: Overlaps between MIC category and others



Source: ECDPM. Notes: MIC country classification is based on the World Bank country income historical classification of 2020 (last historical classification available), DAC recipient list 2020 classifications, and OECD States of Fragility report (2020a) country classification of fragile and extremely fragile states.[1]

COVID-19 has worsened socioeconomic conditions in MICs

Along with past natural hazards and economic crises, the COVID-19 pandemic illustrates how short-lived achievements of the MICs can be and how crises can compromise graduation processes, poverty eradication and

[1] The map includes countries that are classified as LMIC or UMIC by the World Bank. The 'Also LDC' category includes countries that are both LDCs and MICs. The 'Also fragile' and 'Also extremely fragile' categories include countries that are classified as MIC and, at the same time, fragile or extremely fragile according to the OECD States of Fragility report (OECD 2020a). Countries in the category 'Also fragile and LDC' include those that are MICs, LDCs and fragile. At the time of the data analysis, no country was an MIC, LDC and extremely fragile.

sustainable transitions (Sumner et al. 2020). COVID-19 will likely cause a vast increase in poverty levels in MICs. Estimates of the number of people pushed into extreme poverty due to COVID-19 in MICs vary greatly, ranging from 88 million according to the World Bank baseline scenario to almost 300 million in the worst-case scenario by Sumner et al. (2020) (Lakner et al. 2021). People who have only recently moved above the poverty line risk being pushed back into poverty in particular in countries that already host large numbers of people living in poverty (India, Nigeria, Ethiopia, Bangladesh, Kenya, Tanzania and Pakistan) (Sumner et al. 2020).

Debt levels are high in MICs but many were excluded from debt relief initiatives

Many LICs and MICs entered the pandemic with high debt burdens absorbing a large share of their domestic revenues (Veron and Sergejeff 2021). Yet, some MICs have struggled to access appropriate debt restructuring initiatives, for example the G20 Debt Service Suspension Initiative (DSSI) and the Common Framework for Debt Treatments Beyond the DSSI, which was introduced at the end of 2020. The DSSI suspends debt from official bilateral creditors for a definite period of time and it is available to International Development Association (IDA)-eligible countries and Angola (Nye and Rhee 2020). This includes all LDCs and 13 small island developing states, some of which are MICs, but many MICs with high debt vulnerability are left out (Jensen 2021, World Bank 2021b; Spiegel et al. 2020). Still, MICs hold by far the largest share of official bilateral debt.

The benefit of the DSSI for many MICs is limited unless private sector creditors and non-Paris Club creditors such as China participate in the initiative (Fabricius 2020). In fact, private creditors hold most of the debt of MICs and are currently not part of the DSSI (International Monetary Fund (IMF) 2021). A United Nations Development Programme (UNDP) report found that the 72 LICs and MICs vulnerable to debt challenges will owe at least US$598 billion in debt repayments between 2021 and 2025 to both public and private creditors. From the total of US$598 billion in debt repayments, LICs owe only 6%, while the rest is held by MICs (Jensen 2021). The G20 encouraged private creditors to join the initiative on comparable terms and support developing countries including MICs to deal with the pandemic, but the call resulted in limited action from the private creditors (International Monetary Fund 2021). Some MICs that are currently eligible to DSSI (e.g. Kenya, Nigeria and Ghana) have chosen to not participate in it. Beyond the limited benefits for them, they chose to continue paying their debt to ensure their creditworthiness in financial markets beyond the G20 (Ssuuna 2020, Fabricius 2020).

Public finances are under incredible strain and countries face additional spending needs to sustain their economies and avoid social backlash due to the pandemic; worsening conditions to access financing and the lack of concerted and wide-ranging efforts for debt sustainability puts global financial stability at risk and jeopardises efforts to end the pandemic. Acknowledging the vulnerable position of several MICs, experts and organisations, including the UN, have repeatedly called for expanding debt relief initiatives to cover all MICs (Jensen 2021, UN 2021, Munevar 2020). Following this discussion, the joint IMF–World Bank Development Committee communication pledged to “identify lessons learned and continue working closely with other organisations and policymakers to address the debt challenges facing middle-income countries, on a case-by-case basis” (World Bank 2021a).

3. The EU’s approach to MICs has been varied but not strategic

In the last decade, the EU has approached MICs in a differentiated manner under the policies outlined in Agenda for Change (European Commission 2011) and 2014–2020 Multiannual Financial Framework. However, a varied approach was often not based on strategic reflection on EU objectives specific to a given context and how to achieve them. Rather, the fragmented EU external financing architecture up to 2021 contributed to a situation in which cooperation with MICs was largely dictated by EU financing instruments and sometimes artificially differentiated based on geographical belonging, rather than based on strategic assessment of EU objectives or added value, or responding to country needs and demands (Di Ciommo and Sayós Monràs 2018).

The Agenda for Change put an end to EU bilateral grants to UMICs and countries representing 1% of global GDP under the Development Cooperation Instrument, with a few exceptions. EU Neighbourhood countries and UMICs covered by the European Development Fund (EDF) were excluded from this policy because the graduation principle was deemed not in line with the European Neighbourhood Policy and the spirit of the Cotonou Agreement. Graduation led to financial constraints, only partially compensated by the regional and thematic envelopes of the Development Cooperation Instrument and the Partnership Instrument. Notably, the EU also struggled to frame alternative engagement based on mutual interests and shared values at bilateral level and/or equip the EU institutions to put them in place.

Other MICs were subjected to some form of differentiation, meaning an adaptation of policies and tools of intervention to different contexts and/or a modulation of aid allocations based on country needs, capacity, commitment and performance, with a focus on countries most in need (Keijzer et al. 2012). While a context-specific, country-tailored approach was in line with partner countries' demands, the EU differentiation policy was limited by being based on aid alone, not taking transition processes into account, applied with limited transparency and not driven by a strategic approach to external action.

In countries far from Europe, the end of bilateral cooperation and a diminished priority for the EU of some of those countries led to a perception of a drop in the channels of cooperation and engagement with the EU and a diminished profile for the EU as a development partner. In Latin America, a region heavily affected by graduation, regional cooperation helped in many ways but was not an adequate substitute for bilateral engagement (Caputo et al. 2019). All in all, the EU suffered from a lack of a coherent yet flexible approach to external action to MICs and a missed opportunity of tailoring EU action based on country needs, shared objectives with partner countries and on the relevance that they have for the EU.

The debate in the EU has focused primarily on how to deal with the later stages of transition, namely upper-middle income status and graduation out of aid, while evidence shows that changes occur along a continuum and transitions need to be prepared carefully, by both partner countries and donors to preserve development results and prepare the ground for other forms of international engagement. Although a thorough assessment still has to come, the widespread perception is that graduation under the Agenda for Change has led to a loss of communication channels and relevance in some contexts, including at a high level of partner country governments. With the loss of country programmes, the EU also lost some relevance as a development actor without a clear strategy for replacing these relationships based on other forms of international cooperation that would be desirable both to the EU and to the partner country.

4. A narrative for future collaboration with MICs

One of the reasons for the above situation has been the absence of a consistent narrative within the EU around which a convincing approach to cooperation with MICs could be built (Di Ciommo and Sayós Monràs 2018, Keijzer et al. 2013, Alonso et al. 2014, Koch 2013). Some discussions occurred in the round of debates on Development in Transition held by the European Commission in collaboration with the Economic Commission for Latin America and the Caribbean and the OECD Development Centre starting from 2017. However, the impact on policy has been limited and debates at the Council of the European Union stalled due to concerns about maintaining LDCs high on the agenda, differential geographic interests of member states and different views on the adequate forums to discuss the matter in the Council. The national geostrategic and economic interests of member states in specific countries or regions add another dimension of complexity to finding a joint and well articulated discourse on how the EU engages with some strategic partners.

While being a major break that could enable a more strategic approach, the new EU financing framework for external action underpinned by the NDICI–Global Europe will achieve this only if accompanied by a strong, EU-wide commitment to more cohesive external action.

The EU international partnerships approach offers a push for better engagement with MICs

A major push for renewed engagement with MICs stems from wider shifts in the EU's international cooperation and external relations, rather than from an articulated rationale around cooperation with these countries. The EU's new international partnerships approach frames EU cooperation as a mutually beneficial endeavour between Europe and its international partners based on common interests and values much more clearly than in the past. Such partnerships would include new forms of cooperation along with, or in substitution for, development assistance. The turmoil caused by COVID-19 has heightened the EU ambitions for global leadership, including on the issues of green transition, digital development, multilateralism, the defence of a rules-based international order and regulatory matters.

Certain MICs are of significant strategic relevance to the EU's international objectives as set in the EUGS (European Union 2016) and in line with the geopolitical approach and ambitions of the European Commission. The EUGS referred to "like-minded and strategic partners" for the realisation of peace and security, prosperity, climate change, migration and sustainable development objectives and the preservation of a rules-based multilateral order (European Union 2016). Emphasis in the EUGS on the EU Neighbourhood remains of relevance due to proximity and history. This has consistently been demonstrated throughout the EU's COVID-19 response where MICs in the EU Neighbourhood benefitted from support from the EU not available to other countries. The geopolitical commission of Ursula von der Leyen builds on the EUGS to endorse a more global approach and a stronger defence of EU interests and values. In the words of the High Representative of the Union for Foreign Affairs and Security Policy Joseph Borrell, Europe has the urgency to "find its way in a world increasingly characterized by raw power politics. We Europeans must adjust our mental maps to deal with the world as it is, not as we hoped it would be" (Borrell 2020).

The COVID-19 crisis and the SDGs have strengthened arguments for collaboration

The turmoil caused by the COVID-19 crisis added a layer of realism to the way the EU approaches globalisation and focused the debate on the need for the EU to sharpen its own toolkit to be better able to act and compete in an interdependent and volatile global context. This is where new concepts gain strength: open strategic autonomy and re- and nearshoring (i.e. moving key industries within or closer to Europe out of countries that are perceived as unreliable or otherwise problematic as in the case of China). If anything, the crisis has heightened EU ambitions to global leadership, including on green transition, multilateralism and regulatory matters (Michel 2020).

EU allies are not necessarily MICs and the argument for engagement is often made on a regional or individual country basis rather than as an MIC category in itself (von der Leyen 2019). Still, arguably these countries have better capacities and resources to engage with the EU on global agendas and in multilateral forums, as well as providing investment opportunities for Europe. MICs can also serve as champions and anchors at the regional level. This is particularly important as the EU is moving away from regional organisations as the sole partners in the EU's funding for regional cooperation. This means that the EU will increasingly seek flexible alliances with influential and strategic countries on specific regional issues such as security or trade.

Box 2: MICs and MADCs

Strongly pushed by the European Commission, the concept of a 'more advanced developing country' (MADC) made its way in the New European Consensus on Development (2017) but has lost some of its original appeal (see also European Commission 2020b). The EU has used the concept to refer to UMICs or large LMICs "for which traditional external bilateral assistance is no longer the most important (nor necessarily preferred) form of international cooperation" (O'Riordan 2018: 18). Some EU actors would also include countries that recently graduated out of aid (O'Riordan 2018, Di Ciommo and Sayós Monràs 2018). MADCs also refer to MICs that have some strategic relevance for the EU; a group that overlaps with those with whom new forms of cooperation would be needed. The OECD uses 'more advanced developing countries and territories' (MADCTs) to refer to countries that have left the OECD DAC list of recipients (e.g. Chile, Israel, Uruguay, Oman), which includes high-income countries. All in all, the concept lacks definition and remains ambiguous, making it of limited use in guiding EU or international policy.

The SDGs provided new impetus for collaboration with MICs, due to their universal nature and applicability to all countries and the emphasis on global challenges. The 2017 European Consensus on Development recognises the global nature of the SDGs and the role of MICs and more advanced developing countries (MADCs, see Box 2 for MICs and MADCs) in implementing Agenda 2030, both as global and regional actors and because of the scale of the domestic challenges they face. The Consensus mentions persistent inequalities, acknowledging the need to address these issues and engage with MICs alongside LDCs "to ensure that no-one is left behind" (European Commission 2017, Di Ciommo and Sayós Monràs 2018).

5. Institutional improvements can add value to cooperation with MICs

While most of the reasons why the debate on MICs has stalled in the EU are genuinely political, some of the barriers are strengthened by the EU institutional architecture itself. A stronger integration between the working groups of the EU Council could facilitate this debate, easing some of the existing polarisation and fostering the sharing of information and learnings and building common views across the domains of EU external action. The governance of the NDICI–Global Europe will be crucial to exploit the opportunities for synergies that the instrument offers.

The governance of the NDICI–Global Europe will impact how the EU engages with MICs

Formally, the Working Party on Development Cooperation (CODEV) deals with EU development cooperation. While this is a broad mandate, overlaps with other working parties of the EU Council have caused uneasiness in the debate on MICs. Some countries have argued that relationships with EU neighbouring countries, all of which are MICs, are remits of other forums such as the Working Party on Eastern and Central Asia (COEST) and the Mashreq/Maghreb Working Party. Political cooperation is dealt with in regional working groups, and the Political and Security Committee is responsible for the Common Security and Defence Policy and the Common Foreign and Security Policy. Supporters of a debate on an updated engagement with MICs have raised the point that MICs exist well beyond the EU Neighbourhood, and therefore CODEV should discuss this matter too, and that the discussion should go beyond development. Discussions on a revised CODEV mandate that could broaden its mandate to the scope of the NDICI–Global Europe and international partnerships could also help to address this issue more consistently and strategically across the council's working parties.

Some institutional improvements beyond the EU Council are underway already

In this spirit, the von der Leyen Commission established the Group for External Coordination (EXCO). Chaired by the High Representative, EXCO coordinates external action responses across the whole European Commission. Its major contribution to the EU's engagement with MICs is to instil consistency of EU action across European Commission Directorates-Generals (DGs), better aligning the internal and external aspects of the Commission's work and helping to overcome the bottlenecks that arise from the different priorities and ways of working within the EU institutions. This would be in line with a better integration of the EU domestic and international action, signalling more strongly that, on the one hand, EU domestic policies have a large impact beyond EU borders and, on the other, that Europe could offer solutions to solve shared societal problems to other countries on the basis of its domestic experience. Despite a tendency to work in silos, our interviews suggest that line DGs are now engaging earlier and more effectively to bring international and domestic dimensions into dialogue, for example under the European Green Deal (Di Ciommo and Ahairwe 2021, Teevan et al. 2021). The NDICI–Global Europe programming process, including the EU institutions inter-service country team meetings and the Multiannual Indicative Programme, offers an opportunity to build this from the bottom up.

6. Key changes in the NDICI–Global Europe that can influence cooperation with MICs

Programming and implementing the NDICI–Global Europe and external resources through the European financing institutions for development bring changes that can, directly or indirectly, impact cooperation with MICs and offer a key moment to innovate how the EU works with these countries. Making the most of the opportunities available through the NDICI–Global Europe and beyond can support the EU to be not only a development actor but also a strategic partner to these countries (Di Ciommo and Jones 2019).

Differing from past fragmented financing architecture, the NDICI–Global Europe covers partner countries irrespective of where they are in the world, with the exception of accession countries. With some variations for the EU Neighbourhood, the same programming principles apply to all countries and, jointly with dedicated policy direction for MICs, could help to frame a better approach to cooperation.

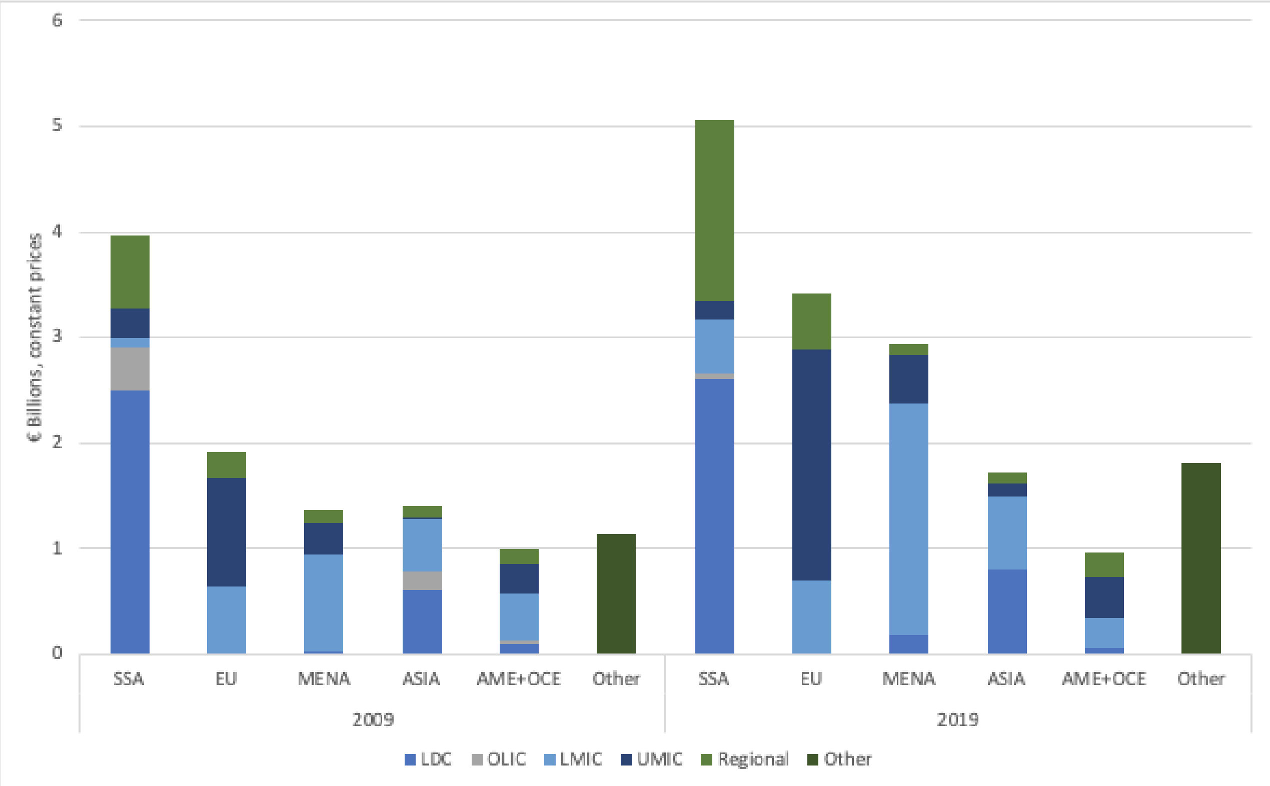
The space to increase financial resources to MICs is limited

The NDICI–Global Europe allows for cooperation with all countries, irrespective of their income status, reversing previous policy directions under the Agenda for Change (European Commission 2011). Past assessments suggest that "rather than involving the provision of large sums of bilateral assistance, a review of graduation would be based on the notion of facilitating mutually agreed initiatives based on policy dialogue, common interests and shared values" (Di Ciommo and Sayós Monràs 2018: 18, Bossuyt et al. 2017). Those in favour of such an approach say that these resources can be a game changer in facilitating more political cooperation with strategic allies or to finance specific actions, for example public sector expertise (PSE) or policy dialogue, or better link different realms of EU actions (e.g. across European Commission DGs or between bilateral and regional action). Other EU policymakers and stakeholders in UMICs have expressed concerns that small envelopes will not suffice to position the EU well enough to tackle some of the most pressing social issues in UMICs, notably inequality and poverty. Moreover, they fear that small sums risk to further marginalise the EU in its cooperation with MICs at a time when other global players are increasing their footprint.

It is likely that LMICs and even some UMICs will still receive relatively large amounts of aid compared with other recipients of EU assistance. This is certainly the case for neighbouring countries and many countries in Africa, based on their strategic relevance for the EU and the policy choices made in the NDICI–Global Europe negotiation in terms of the geographic focus of resources. When looking at the programming of the DG for International Partnerships and country allocations, roughly half of the beneficiary countries are MICs. Of the €79.5 billion instrument, at least 37% will go to sub-Saharan African countries. The case in favour of larger sums for most UMICs is harder to make, primarily due to choices that need to be made in the context of limited resources, especially in the midst of the COVID-19 pandemic where pressure on public finances will be hard felt for many years in donor countries.

OECD DAC data shows that the EU institutions are a relatively large funder of MICs. In total, EU institutions' aid in 2019 was €15.8 billion, of which €7.7 billion went to MICs (€4.36 billion to LMICs and €3.36 billion to UMICs). This equates to 49% of total bilateral aid, a relatively high share compared with the 34% allocated to MICs by the member states and 43% by other donors (excluding member states and the EU institutions). Within the EU institutions, the European Investment Bank allocated the largest share of their ODA resources to MICs (85%) in 2019. These findings are consistent with past EU performance starting in 2011. This situation is largely due to the priority given to the EU Neighbourhood countries under the European Neighbourhood Policy. These countries received €3.3 billion of ODA from the EU institutions in 2019, which is a little more than a fifth of their total ODA that year. Among the top 10 recipients, 6 are EU Neighbourhood countries (Egypt, Morocco, Syria, Ukraine, West Bank and Gaza strip, and Tunisia) and 2 (Turkey and Serbia) are pre-accession countries.

Figure 2: EU aid by region and country income category



Source: authors' calculations based on OECD DAC Creditor Reporting System data, extracted on 4 October 2020 for the year 2009, and 23 January 2021 for the year 2019. Notes: gross disbursements; the UMIC category includes states of the former Yugoslavia. 'Regional' includes regional funding, and 'Other' includes unspecified funding. SSA is Sub-Saharan Africa, EU is Europe, MENA is Middle East and North Africa, Asia is Far East Asia and South and Central Asia, AME includes North and Central America, Caribbean and South America, OCE is Oceania. Regions are according to the OECD DAC distribution.

Additional resources to most UMICs need to be found beyond aid, for example through blending and guarantees under the European Fund for Sustainable Development Plus (EFSD+). This will avoid depletion of already low resources going to other countries and further distancing from reaching the commitment of 0.15% to 0.20% of ODA as a share of GNI to LDCs (Castillejo et al. 2018). The EU has been pushing the use of blending and guarantees to leverage additional resources for development purposes, including from the private sector. These operations can bring much needed resources to developing countries and public backing to cover risks in unstable contexts. However, most global blended finance goes to MICs. From the transactions between 2017 and 2019, 59% targeted LMICs and 18% UMICs (Convergence 2020). In addition, sustainability of further lending and rising debt levels remain an issue (see section 1).

A shift from grants towards loans, either concessional or at market rates, and harder conditions for borrowing can worsen the macroeconomic position of some MICs. Debt sustainability can become an issue, especially since not all lenders abide by similar standards. In addition, recent research suggests that social sectors, previously supported by ODA and normally better financed through public spending, may experience funding gaps when grants dry up (Engen and Prizzon 2019, Dercon and Lea 2015, Kharas et al. 2014). Conversely, productive sectors may experience no funding gap or even an increase in resources as several MICs offer relatively favourable conditions for profitable investments. However, the quality of investments in terms of social and environmental standards can worsen due to a diminished push towards sustainability in certain contexts (Cattaneo and Piemonte 2021).

The ‘policy first’ principle allows for cooperation based on shared goals with EU partners

The ‘policy first’ principle signals a shift towards the achievement of certain policy objectives, rather than having an external policy driven by instruments. The NDICI–Global Europe as an instrument and the ‘policy first’ principle seem to offer an opportunity to end the instrument-driven cooperation of the past.

The ‘policy first’ principle implies flexibility to follow and adapt to the policy priorities of both the EU and partners. It relates to the use of forms of collaboration beyond financial transfers to encompass political and policy dialogue, exchange of expertise and innovative financing mechanisms. While all these are already part of the EU cooperation toolbox, the ambition is that their use will be aligned behind shared priorities with the partner country and engagement widened to matters such as trade, digital governance, the fight against climate change, security and global threats and others, depending on the context. Interviews revealed that some MICs offer a fertile ground and would welcome this approach. Cooperation with countries such as South Africa and Colombia seems to already be advanced. Others, such as Kenya and Chile (a recently graduated country) are presented as candidates for a shift in their relationship with the EU.

Finally, the envisaged ‘cooperation facilities’ under the NDICI–Global Europe could offer a new way to provide technical support to MICs at the country level and give flexibility to take actions, for example in response to emerging policy priorities in the EU’s as well as mutual interests, that were harder to support in the past. Some expect that these facilities could also encourage dialogue with the partner countries and are considered a channel through which the EU could promote its policies and standards abroad, including through strategic public diplomacy. Conversely, the cooperation facilities could enable partners in MICs to more easily gain access to knowledge and insight from how the EU itself has sought to address their own policy challenges that may be relevant for them. The extent to which the cooperation facilities could go beyond technical support and offer space for political coordination and direction remains to be seen. In MICs, a mechanism should be in place for better alignment with the policy objectives of the European Commission DGs, especially in countries where different interests exist or where the potential for synergies is great.

7. Stepping up joint programming and ‘Team Europe’ in MICs

Joint programming is the EU’s preferred way of cooperation in partner countries under the NDICI–Global Europe (Council of the European Union 2021a, article 12). Greater collaboration between the EU and member states, including on strategic approaches to cooperation with MICs, could strengthen the European profile with international partners and in an increasingly competitive geopolitical landscape. The EU and its member states have been able to better position themselves in the context of joint programming in MICs, emphasising the added value of cooperation with the EU on policy development, governance or access to EU markets in countries as diverse as Egypt, Ghana, Kenya, Moldova, Namibia and Palestine (O’Riordan 2018). More collaboration could help ease some of the concerns of member states about protecting funds for their priority areas (Serrano Caballero 2018). Demands from MICs for differentiated and innovative forms of cooperation (e.g. triangular cooperation, the deployment of European PSE and scientific exchange and/or knowledge diplomacy) that would greatly benefit from a deeper involvement of member states and their institutions have grown. Still, their use remains limited (O’Riordan 2018).

Despite some positive experiences, joint programming remains a complex endeavour

There are many incentives and disincentives at play in joint programming. Many larger and economically strategic MICs have the benefit of a high presence of member states and wide interests, but significant competition on the ground has hampered collaboration in certain instances. For example, member states might have a strong interest in maintaining their visibility and a separate programming process in their key partner countries, rather than favour joint programming. These interests are at play in the current NDICI–Global Europe programming phase.

The ‘Team Europe’ approach, developed in the context of the EU’s global response to COVID-19, is a valuable step towards greater collaboration. Team Europe initiatives are high-profile actions that aim to bring together EU institutions, EU member states and European financial institutions for development around shared objectives. They have the potential to place the EU collectively as a partner of reference in partner countries, including MICs, and to achieve a higher impact in key areas by building on a wider toolbox and combined resources (Council of the European Union 2021b). However, it is unclear whether Team Europe will overcome the institutional and political stumbling blocks that arise from divergences between EU and member states’ interests, different working methods and programming cycles, and the different circumstances prevailing in partner countries to deepen Europe-wide collaboration (Jones and Teevan 2021). One of the key goals of some member states is to foster inclusiveness in Team Europe initiatives and beyond (Jones 2021).

The EU member states’ experiences are of great value to MICs

The diversity and complementarity of member states’ experience (e.g. transition experience, experience in specific regions, and thematic expertise such as digital, green projects) could allow MIC partners to access a wider set of EU competencies and funding, for example through the use of PSE and European financial institutions for development. Particular attention could be paid to inclusive partnerships with EU member states that do not have an embassy or cooperation activities in the country but that bring an added value to cooperation in a given context. Smaller member states could also prove very useful and complementary to traditional modalities and actors, building on their own transition experience and experience of cooperating with MICs, for example in the EU Neighbourhood or in Central Asia (Jones 2021). This could ease pressure on the EU institutions themselves, who are often considered as ‘donor of last resort’ to fill the funding gaps and sustain the political dialogue with partner countries after the departure of other international partners (Di Ciommo and Sayós Monràs 2018).

8. Lessons from EU cooperation with MICs in different regions

A review of past EU cooperation with MICs in different regions (Africa, the EU Neighbourhood and Latin America) gives a sense of how scattered EU cooperation with MICs has been so far. Approaches vary not only from region to region, but also among countries in the same region. While this could be partially justified by diversity across and within MICs, existing evidence tells a story of missed opportunities to better support countries along their transitions and for the EU to exploit partnerships fully for mutual benefit. Some recurring elements and lessons for the future emerge from the review.

Integrating better bilateral and regional cooperation would improve engagement

Firstly, there is a tendency to favour bilateral relations at the expense of regional approaches. This is particularly evident in the EU Neighbourhood but is also present in Latin America, where the regional partnership has been relatively solid and the EU engagement at bilateral level rather limited. The EU Neighbourhood approach was based on building a wider circle of stability by pursuing close political and economic relations with states to the EU's east and south. This largely failed, and the 2015 review of the European Neighbourhood Policy moved towards a more differentiated approach based on deeper bilateral cooperation with selected countries and the 'more for more' principle. The EU thus stipulated that it would move forward at a faster pace in cooperation with those countries that were most willing to reform and deepen relations with the EU (European Commission and High Representative of the Union for Foreign Affairs and Security Policy 2015). The initial multilateral dimension of the policy is today extremely weak (Blockmans 2017).

The new EU–Latin America Strategy speaks of "a modernised partnership focused on trade, investment and sectoral cooperation" that "should concentrate on four mutually reinforcing priorities" – namely prosperity, democracy, resilience and effective global governance – open regionalism and win-win solutions (European Commission 2019: 2-3). The EU has been a strong supporter of the peace process in Colombia, and in 2016 it signed the first ever cooperation agreement with Cuba. The long-awaited EU-Mercosur agreement received the political green light from the EU in 2019, although its future remains uncertain. In a context of a declining EU influence in the region, coming to terms with the trade-offs between the desire to preserve a regional outlook and the reality of growing bilateral ties has been a challenge for Europe (Tvevad 2020). On a more positive note, the continuity of EU programmes of a continental scale transformed some EU-funded activities into "well-established structures to foster exchanges and provide funding on policy issues of common interest for countries of the region" (Caputo et al. 2019: 23) and allowed for the continuation of cooperation with countries graduating out of EU aid, giving them a role to play, for example through peer-to-peer learning and triangular cooperation (Caputo et al. 2019: 18).

The regional dimension seems to be one in which the EU has clear added value but that is quite disconnected from bilateral engagements. How to better integrate the regional and bilateral dimensions along with the thematic cooperation, especially when engaging with countries that the EU sees as strong regional players, will deserve some reflection. For example, the EU could work with frontrunners to progressively bring up to speed their neighbours and limit intra-regional competition, including through South–South and triangular cooperation. This could be an area for mutual collaboration with countries that graduate out of the DAC list of recipients, for example, as some experiences in Latin America suggest already.

Partnerships among equals have been hard to achieve, especially in Africa...

Secondly, the difficulty to articulate a partnership among equals based on mutual interests is especially strong in the case of Africa, despite the numerous references to such an outcome as part of the EU–Africa partnership and the new agreement between the EU and the Organisation of African, Caribbean and Pacific States (OACPS) (Medinilla 2021a). The Joint Communication Towards a Comprehensive Strategy with Africa, for example, refers to a partnership based on “a clear understanding of our respective and mutual interests and responsibilities, reflecting the comprehensiveness and maturity of our relationship” (European Commission 2020a: 1). It goes on acknowledging Africa’s attractiveness to many players and that Europe“ must adapt the way it engages with Africa, ensuring its positioning is in line with our mutual interests, and giving more prominence to values, key principles, and good regulatory practice [...]. This reliable, longterm, multi-faceted partnership should now also translate into a strong political alliance” (European Commission 2020a: 2).

Despite these high ambitions and the evolutions that occur on the African continent, equal partnerships are difficult to achieve in an unequal world, and the EU should reflect on the countries with which this is a realistic expectation. While many African countries are MICs, their diversity and the scale of the challenges that the continent still faces mean that a narrative around middle-income status on the continent has not evolved. Only some African MICs fit a European political understanding of what an MIC is, which has less to do with income per capita and hints at the capacities and resources available to the country, the strategic opportunities they offer to Europe and the country’s interest in a stronger partnership with Europe. At the same time, this view maintains a development outlook, especially due to the unequal character of the societies that these countries host. In the EU Neighbourhood, such a partnership may be in the making in the EU-Morocco relations, but this is very much in its infancy. In June 2019, a joint declaration from the EU and Morocco identified a set of shared priorities for moving the partnership forward around addressing the impact of free trade agreements or the potential Deep and Comprehensive Free Trade Area on local livelihoods, and with a very strong focus on youth, jobs and innovation (Council of the EU 2019). Negotiations to put the partnership into practice involved shared priorities under the EU Green Deal and the Moroccan interest to join the European data market.

...But some countries offer lessons and examples for their realisation

Thirdly, more political and integrated relations may be an option for some countries. The core elements of the EU–South Africa relations – a dialogue facility and structured partnership with engagement at the political level – have attracted interest in other contexts for their ability to step up political and policy dialogue and build on the diverse set of EU competencies and resources. Other examples include the Regional Facility for Development in Transition in Latin America and the Caribbean. The EU established the facility after a series of high-level debates in 2018 with the support of the OECD’s Development Centre and the Economic Commission for Latin America and the Caribbean. This is a facility aimed at changing the narrative on international cooperation, including the assessment that development has dimensions beyond income, and that it is a continuous, non-linear and sometimes reversible process. Initially for Latin America, the initiative spurred interest in other contexts. For instance, South Africa requested a ‘development in transition’ seminar to learn about the collaboration between the EU and Latin America.

The experience of *mesas país* under Eurosocial+ and other regional EU programmes in Latin America seems to offer an interesting methodology for cooperation and dialogue (Di Ciommo and Sergejeff 2021). These are inter-institutional high-level dialogues at the country level that involve partner countries’ authorities, the EU, and EU member states involved in the EU programme. Through an innovative methodology, these country tables (*mesas país*) help to identify and then agree a work programme around shared priorities in a horizontal, multisectoral, multidimensional and participatory way. *Mesas país* have been instrumental to the success of regional programmes and especially tailoring them to country contexts.

Aid and a political relationship should not be an 'either-or' situation

Fourthly, a political partnership does not need to come at the expense of aid and should be thought of along a continuum of approaches and strategies for cooperation. The support offered by aid is considered of great importance to many countries, either in the form of budget support or through project-type interventions in strategic sectors and in support of the most vulnerable. This is the case in African countries in particular due to the unique challenges they face and the uneven development of the continent. At the same time, more political engagement can facilitate progress, for example where bottlenecks require high-level, sustained engagement such as in the case of conflict or for wide reforms.

Cooperation between the EU and African MICs is diverse – ranging from a longstanding and articulated strategic partnership with South Africa that involves a dialogue facility and the cross-institutional collaboration of different European Commission DGs, to a traditional approach to cooperation as in the case of Ghana. Countries such as Kenya or Cabo Verde sit somehow in the middle. Cabo Verde is closely aligned with the EU's values and interests and has a special partnership with the EU. Although the country graduated from LDC status, economic growth has been limited and severely hampered by the pandemic. Debt sustainability is an issue and geopolitical competition has been high. These conditions offer a rationale for continued EU support. Kenya, for example, is a country with a clear strategic interest to Europe for its regional role, for example on security and migration, trade, and its economic potential that could benefit European enterprises. Aid is still a major component of the relations between the EU, its member states and Kenya. But there seems to be space for a change in the relationship with the country to slowly move towards a more comprehensive partnership based on mutual interests, potentially on the model of South Africa, and in closer collaboration with the member states based on the European Joint Strategy with Kenya 2018–2022 (Delegation of the European Union to the Republic of Kenya n.d.).

If the assessment is that aid and a more political relationship do represent an alternative, the shift should look more like a marathon than a sprint. The evolution beyond aid relations needs to be gradual, well communicated and managed (Calleja and Prizzon 2019, Jalles d'Orey and Prizzon 2019, Engen and Prizzon 2019, Cattaneo and Piemonte 2021).[2] Transitioning from low-income to middle-income status and from the latter to high-income status carries changes in the mix of financial resources available and in the way donors engage with these countries. An additional point is that, especially in UMICs or countries graduating out of aid, international funding to civil society organisations can dry up, depriving them of essential support, especially in countries where domestic sources of finance are still limited.

Other forms of financial and policy engagement should be considered

Fifthly, despite rising debt levels, different forms of concessional financing from the EU are attractive to sustain economic recovery and, ideally, transformation. In the ongoing programming of 2021–2027 resources, the EU intends to link investments under the EFSD+ and its facilities more strongly to the NDICI–Global Europe

[2] The UK's exit from aid relationships in some countries, managed by the now extinct UK Department for International Development (DFID), is well documented and offers some interesting lessons that may be useful to European donors. Although with some exceptions, DFID attempted to exit responsibly by handing over its activities to governments or other development partners, whenever feasible, and retaining cooperation in strategic areas (Independent Commission for Aid Impact 2016). Vietnam is an example of good practice, where DFID explicitly analysed the development risks associated with its exit and put in place measures to manage them. It identified areas that it believed were critical to Vietnam's continuing development (such as anti-corruption, dialogue between government and the private sector, and civil society development) and concentrated part of its remaining funding in those areas. More broadly, the impact of DFID's support reportedly depends less on the volume of financial support and more on its ability to help the country identify innovative solutions to local economic and social challenges. Engagement has moved towards knowledge partnerships rather than retaining a focus on funding (UK Parliament 2015; see also OECD 2020b).

programming. This is certainly a welcomed move that can enhance the alignment of all EU financing under common objectives, but EU delegations are still in the process of grappling with the operationalisation of the push towards the use of blending and guarantees, not least because these instruments were managed elsewhere in the past. MICs offer the most opportunities for investments, so balancing their attractiveness with a continuous commitment to the poorer countries will be a challenge.

Finally, the EU's aim for regulatory approximation may be interesting for some countries, especially if it facilitates access to the EU single market. However, the added value of EU policies and expertise is if they are used to help devise locally owned solutions to context-specific problems in partner countries, not to impose EU standards. The experience in the EU Neighbourhood also suggests that requirements to comply with complex EU standards and regulations to access the single market can lead to more inequalities, for example among small and large agricultural producers since the former struggle to implement such complex arrangements (Kourtelis 2015). Despite a growing focus on redressing inequalities in EU rhetoric towards the region, there is still much work to be done to ensure that alignment with the single market does not increase inequalities. This is a major preoccupation in MICs where inequality is structural and more equality a game-changer for sustainable development and the SDGs.

9. Inspiration from EU member states' cooperation with MICs

European member states have diverse experiences of cooperation with MICs and have approached the issue of transition in different ways. While not exhaustive, the below review of member states' practices offers inputs for the EU-wide discussion. We hope that this can be useful to think through two elements: first, what elements of these practices could be of inspiration in shaping an EU approach to MICs; secondly, as an information base that could feed into discussions about working better together and inclusiveness in the contexts offered by MICs.

Overall, experiences from member states seem to suggest that a combination of funding and knowledge partnerships/technical cooperation leads to the best results – although this of course depends on the context and needs to take the country's specific situation as a starting point. Transitions need to be managed carefully, offering a continuum of options to countries and closely involving government authorities through a structured dialogue and endorsing a whole-of-government approach. Promoting ownership and responding to local demand is paramount, where ownership is understood as a meaningful and regular process of consultation and genuine attempts to respond to local demand that involve different governmental and non-governmental actors, including local civil society and businesses.

France offers a continuum of differentiated financing terms, with terms and conditions based on a country's specific situation rather than on broad income categories (Jalles d'Orey and Prizzon 2019). The French Development Agency (AFD – Agence Française de Développement) has established a Fund for Technical Expertise and Experience Transfers (FEXTE) to finance technical cooperation programmes in MICs. Loans are a major component of France's international cooperation in MICs, and the country has used these to mobilise other forms of financing, for example national resources, to fund infrastructure, urban development, environmental projects and to support the productive sectors. ODA loans have been used in complementarity with financing from other partners with larger funding capabilities (e.g. European Investment Bank, European Bank for Reconstruction and Development, the German development bank (KfW), the World Bank, and the African Development Bank) or to supplement national resources. Technical assistance is often used in conjunction with these funding streams.

In Germany's development cooperation, countries promoted to MIC status start moving from a grant-only relationship to being able to access non-concessional loans. While Germany's Federal Ministry for Economic Cooperation and Development (BMZ) and KfW do not have a specific transition strategy for countries that are promoted to MIC status, a BMZ country-specific strategy is revisited every six years. Moreover, the concept of Global Development Partners gives guidance especially for cooperation with strategic partners and UMICs. The use of the triangular cooperation modality in German development cooperation was found to have fulfilled the main objectives and expectations of donors, Southern providers and beneficiaries involved, although there is still work to be done to explore the high potential of the modality (Kaplan et al. 2020).

Portugal has been championing triangular cooperation through structured policy dialogue. Together with the OECD, Portugal has been hosting a series of international conferences on triangular cooperation, the latest of which brought together over 150 representatives from national governments, international organisations, municipalities, the private sector, civil society, academia, trade unions and private philanthropy to discuss 'Implementing BAPA +40 – What is next for Triangular Co-operation?'. Portugal's role is underpinned by several memoranda of understanding and projects, with increased activity globally, most of which involving Latin American and African partner countries. Also focused on PSE, Portugal has engaged with the EU through the fourth EU-Brazil Sector Dialogues Support Facility, in view of the significant enlargement of themes considered of mutual interest embracing the bilateral and regional dimensions and global challenges.

Spain has partnerships with "countries of advanced cooperation", and PSE is a major part of these partnerships. Spanish cooperation focuses on an advanced dialogue on sectoral policies and technical and institutional cooperation. It has also developed a strategy for extending MICs' efforts in regional and global public goods. Many programmes are run in consortia with other EU member states and regional and national actors, providing good examples of collaboration. This is the case of EU-funded regional programmes such as Euroclima+ and Eurosocial+, Interconnecta (which focuses on knowledge management, exchange, peer-to-peer learning, capacity-building) as well as bilateral programmes in the southern EU Neighbourhood, focusing on governance, migration, and institutional strengthening/building. Spain also has extensive experience in financial cooperation and triangular cooperation with MICs.

MICs are well suited for PSE cooperation because they have developed administrative capacities and similar challenges to those of European countries (Schneider and Illan 2020). PSE is also a modality for cooperation that supports the EU agendas on 'inclusiveness' and 'working better together'. Most EU member states have some form of PSE, but it is a core element for some. One example is Lithuania, which provides PSE primarily via delegated cooperation in EU projects. Lithuania's bilateral initiatives are usually small, but they sometimes constitute a good starting point for participation in EU projects. The Lithuania's experience of transition and accession to the EU is highly requested by partner countries and Lithuanian public institutions cooperate intensively with eastern EU Neighbourhood and accession countries (Western Balkan and Turkey) (Schneider and Illan 2020). However, Lithuania's expertise is wider, and the country has started to seek opportunities based on its thematic expertise (e.g. in digitalisation, rule of law, public sector reform, state border control and anti-corruption) and in other regions of the world, for example in Africa.

10. Conclusions

The EU is modernising and changing its development cooperation set-up ranging from better articulation of its narrative around international cooperation and more strategic programming of its external resources under the NDICI–Global Europe. The end of graduation out of bilateral EU aid is a major change, but the shifts required by an updated and more strategic engagement with MICs are wider. These shifts require both managing transitions across all development milestones of partner countries and empowering the EU to be influential in a competitive international environment working with partners well beyond the development logic. This is of crucial importance in a moment in which the success of the EU's own domestic policies depends on wider dynamics, as is the case for democratic digital governance and the Green Deal (Di Ciommo and Ahawaire 2021, Teevan et al. 2021, Medinilla 2021b).

The finalisation of NDICI–Global Europe programming and implementation decisions to be taken in the next 18 months could steer a more agile, tailored and strategic cooperation with MICs based on policy priorities and shared goals. Decisions taken in the coming months will set the tone for years to come. Particular attention should be paid to how to better integrate bilateral and regional action, realistically approach the motto of equal partnership, approach aid and political cooperation as complementary rather than alternatives, and use the opportunities offered by the EFSD+ and regulatory approximation wisely. The EU should ensure that meaningful consultation and adaptation and a more sophisticated understanding of country ownership are core to establish genuine partnerships with MICs. The EU and its member states have, collectively, a richness of experiences on which to build to frame attractive propositions for future engagement.

The recently adopted EU Council conclusions on ‘EU partnerships with middle-income countries: Opportunities for the development in transition agenda’ make good steps forward in framing a narrative around MICs that complements and stems from the wider story around the EU’s international partnerships (Council of the European Union 2021c). It will be important to ensure that this document effectively orients EU action as a basis for better cooperation. This would be a significant change of course from a situation in which MICs as a category have not featured prominently in EU policy. In addition, building bottom-up and participatory relations to ensure context specificity, either national or regional, and political savviness could help realise the EU potential.

Additional steps forward would be to overcome the institutional bottlenecks that exist at the EU Commission and the EU Council to frame a more synergic and integrated external engagement – this would benefit all countries and not only MICs. Decisions on the future governance of the NDICI–Global Europe, notably at the Council level and the role of the respective working parties involved, will play a major role. So far, discussions on MICs and the EU have suffered greatly due to institutional divisions and the apparently irreconcilable interests of member states. This paper has argued that, instead, a leap forward in this debate should be based on a more sophisticated understanding of the diversity of MICs, the challenges of transition and a strategic use of the EU toolbox for cooperation as well as the added value of working with member states, including as Team Europe. Any remaining ambiguity on MICs will not be helpful at a critical moment of EU policymaking and spending decisions or to realise the SDGs or EU ambitions globally.

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