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DISCUSSION PAPER No. 224

Sailing new waters in international cooperation

ON THE WAY TO FRAMING FUTURE EU ENGAGEMENT WITH MORE ADVANCED DEVELOPING COUNTRIES

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March 2018

Summary

The EU Global Strategy and the European Consensus on Development present the drivers for the EU's engagement with more advanced (MADCs) and middle-income developing countries (MICs) but do not offer clear guidance. This is partly due to tensions among different objectives: for example, between an emphasis on the EU's neighbourhood and the global 2030 Agenda; or between the EU's short-term and long-term interests.

The new concept of 'tailoring' carries different interpretations: 1. adapting the EU's external engagement to the EU's interests; 2. endorsing the outcomes of dialogue with partner countries based on mutual interests; 3. using a country-specific toolbox. The benefits of greater managerial and political agility supposedly generated by tailoring should be set against the risks of a piecemeal approach and reduced accountability.

Although the EU's priorities in the neighbourhood have led to a substantial increase in aid to MICs, there are big differences between different countries and between EU external financial instruments. Income-based measures for development leave little space for political manoeuvre but are manifestly inadequate as a policy-making tool in a diverse world. Future policy choices on MICs and MADCs could involve less resources for other countries.

This trade-off could be softened by a more coherent, tailored approach that creatively combines all EU means of implementation. Better collaboration with member states and across EU institutions, and closer cooperation with national actors beyond governments and the development community, would also help.

The rationalisation of the current EU's external financing architecture, for example the introduction of a 'single instrument', will impact on future engagement. While operational flexibility and adaptability are assets in cooperation with MICs and MADCs, dedicated policy guidance that sets out EU objectives and its cooperation offer to partners could lead to a more legitimate, transparent EU action.

Table of Contents

List of Figures

List of Tables

Acknowledgements

The authors would like to thank first and foremost all the individuals who shared their time, knowledge and insights with us during the interviews. We are especially grateful to Andrew Sherriff, James Mackie, Sebastian Große-Puppendahl, Alfonso Medinilla, Alexei Jones and Jean Bossuyt for their valuable feedback and advice. We are grateful to Tony Parr and Claudia Backes for the editorial support; Annette Powell and Yaseena van' t Hoff for layout and graphic design; and to Valeria Pintus and Virginia Mucchi for their help with communications. The opinions expressed in the paper may be attributed to the authors only, as may any errors. The authors would warmly welcome feedback, which should be addressed to Mariella Di Ciommo at mdc@ecdpm.org.

Acronyms

AAIB	Asian Infrastructure Investment Bank
ACP	Africa, Caribbean and Pacific countries
BRICS	Brazil, Russia, India, China and South Africa
CSO-LA	Civil-society organisations - Local Authorities
DAC	Development Assistance Committee of the OECD
DEVCO	Directorate-General for International Cooperation and Development (European Commission)
DCI	Development and Cooperation Instrument
DCD	Development Cooperation Division
DG	Directorate-General (European Commission)
EC	European Commission
ECDPM	European Centre for Development Policy Management
EDF	European Development Fund
EEAS	European External Action Service
EFIs	External Financial Instrument
EFSD	European Investment Fund for Sustainable Development
EIDHR	European Instrument for Democracy and Human Rights
EIP	European External Investment Plan
ENI	European Neighbourhood Instrument
EU	European Union
EUGS	European Union Global Strategy
FPI	Foreign Policy Instrument Service
GDP	Gross domestic product
GPGC	Global Public Good and Challenges
HDI	Human Development Index
HICs	High income countries
HIPC	Highly indebted poor country
HR/VP	High Representative of the Union for Foreign Affairs and Security
IcSP	Instrument contributing to Stability and Peace
INSC	Instrument for Nuclear Safety Cooperation
IPA	Instrument for Pre-Accession Assistance
IT	Information technology
LDCs	Least developed country
LI	Low-income
LMICs	Lower middle-income country
MADCs	More advanced developing country

MFF	Multiannual Financial Framework
MICs	Middle-income country
NDC	Nationally determined contribution
NDB	New Development Bank
ODA	Official development assistance
OECD	Organisation for Economic Cooperation and Development
OLICs	Other low-income country
PI	Partnership Instrument
SDG	Sustainable Development Goal
SIDS	Small-island developing states
TAIEX	Technical Assistance and Information Exchange
UMICs	Upper middle-income country
UN	United Nations

1. Introduction

Global development has changed substantially in recent decades. We have moved from a world in which a majority of poor developing countries entitled to development assistance co-existed with a handful of rich donors, into one in which many developing countries have made significant progress towards their own development. The number of people living in extreme poverty fell from 1.7 billion in 1990 to 743 million in 2015, with the largest decreases occurring in the richer developing countries. Living standards as measured by the Human Development Index (HDI) increased in all but a handful of countries over the same period. Although they still receive development assistance, there has also been an increase in the scale of South-South cooperation.

This progress leaves unaddressed many national development challenges (see Section 3). Significant gaps in technology, productivity, education, environmental sustainability, institutional architecture, and economic and societal resilience remain. Sub-national inequalities can be staggering: income and wealth abundance co-exist with pockets of deep poverty, exclusion, discrimination and violation of basic human rights. At the same time, the European Union (EU) and its member states look at richer developing countries for leadership in their own regions, so as to steer global collective action and strike mutually beneficial partnerships beyond the classical realm of development cooperation.

How is the EU responding to these changes? Some argue that the EU has gained unique experience that could be deployed in cooperation with middle-income (MICs) and more advanced developing countries (MADCs). The process of accession to EU membership and close collaboration with the EU's neighbours are examples on which to build. The collective European expertise on climate change and the EU's research networks are a great attraction. Its experience in navigating the waters of regional integration and mediating the interests of different countries on issues of high relevance such as trade, macroeconomic stability, mobility, regional inequalities and agriculture, is unique. In the realm of development, the EU institutions are collectively one of the largest aid donors. If the member states are factored in, they are the largest donor. As we will argue in this paper, bold steps need to be taken to make the most of the EU's potential.

The EU institutions and member states are currently reflecting on how better to frame their future engagement with MICs and MADCs. This paper seeks to support this process contributing to an evidence-based, informed and broad discussion, following the EU Foreign and Development Cooperation ministers' meeting in Tallinn in September 2017 and the adoption of both the EU's Global Strategy (EUGS) and the new European Consensus on Development. The negotiations on the post-2020 Multiannual Financial Framework (MFF) and the ensuing programming process will add meat to the bones of this reflection. Against this background, this paper analyses the current MFF instruments and the tools available to the EU institutions as a starting package for framing future cooperation.

This paper is based on an extensive review of EU documents and literature and an analysis of official data. Some 40 interviews with EU officials and representatives of member states, civil-society organisations and a few partner countries were held between November 2017 and March 2018 to complement the study.

2. What are the new global dynamics and why do they matter for Europe?

The EU is in the midst of multiple challenges that are taking a toll on the legitimacy of, and its capacity for, external action (Muller et al., 2017). The Brexit vote in the UK illustrated the need to more clearly articulate the EU's added value for its citizens. Its legitimacy is being tested primarily in terms of its ability to protect the socio-economic wellbeing of its citizens in a global age. Some commentators viewed the EU's response to the economic crisis as being inadequate for accommodating the needs of some member states and a sense of injustice has settled in as the decline in the volume of public resources available for ordinary citizens has been matched by rising inequality. In a more digitised and globalised economy, the recent economic recovery has not been translated into decent jobs, particularly in the weakest European regions. The unbalanced response to the rise in irregular migration and refugee flows into Europe has exposed the EU's struggle to live up to its own values in a political environment where national interests are eating up the space for solidarity and collaboration. The need to articulate an answer grows stronger as populist political parties canalise feelings of discontent.

There are a number of drivers for a reflection on how to renew engagement with MICs and MADCs in this context. Europe's interdependence with the rest of the world means that individual countries, no matter how wealthy, are poorly equipped to face pressures on their own. The porousness of the EU's borders for terrorists and the use of unconventional destabilising tactics such as data and psychological warfare and cyber attacks have placed security right at the top of the EU's agenda. Instability in Europe's eastern and southern neighbourhoods has recaptured the member states' attention. Eastern European member states have long-standing stakes as much as expertise in cooperation with countries in these regions and some consider this experience useful to rethink engagement with MICs elsewhere.

The 2030 Agenda and the Paris Agreement refocused attention on the global agenda for sustainable development and climate change. These are complex issues that cut across national and policy boundaries. Success will hinge on political agreement being reached among a wider set of countries and actors within them on how to share responsibility and enhance cooperation so as to address common challenges.

The orderly domestic and regional development of the EU's partner countries is fundamental to the EU's competitiveness, trade, growth and stability in an increasingly multipolar and competitive world (European Commission, 2017a). Population growth is concentrated outside the EU: by 2025, 61% of the world's projected eight billion population will live in Asia, with only 5.5% in Europe (European Commission, 2017a). By 2030, Europeans will be older on average than those living in other regions (European Commission, 2017b). Although the EU remains the world's largest single market, new markets are expanding in the larger non-EU economies as their populations become richer.

Economically, 'Europe's place is the world is shrinking, as other parts of the world grow' as the European Commission puts it (European Commission, 2017b: p.8). The EU's share of global Gross Domestic Product (GDP) decreased from 26% in 2004 to 22% in 2015, following a shift in economic power towards Asia. Asian enterprises compete with European firms in a wide range of industries, from shipbuilding to telecommunication, and from steel to semiconductors. The new competitors are not only the usual suspects: Vietnam's leading exports have moved from commodities to mobile phones and computers; and Colombia is the fastest growing economy in Latin America (PwC, 2017a; Ewing and Alderman, 2017). Small-island developing states (SIDS) can be allies in maritime security, sustainable fisheries or climate change.

Power today is more diffuse. If they are not being rewritten, international rules are at least being questioned. The ‘America First’ approach in the US, historically the EU’s ‘irreplaceable’ partner, leaves Europe less confident of its most powerful ally’s willingness to team up on security, trade, sustainable development and global governance (European Council, 2003; Roth and Ulbert, 2018). Although China has shown leadership on important topics such as climate change, its political model offers no reassurance to a Europe built on the ideals of political liberalism and inclusive, market-based economies. The New Development Bank (NDB), the Asian Infrastructure Investment Bank (AAIB), the Belt and Road initiative and the slow but consistent build-up of policy spaces, such as the meetings of the BRICS countries (i.e. Brazil, Russia, India, China and South Africa) are reshaping global governance. The G20, an exclusive forum of the richest countries of which the EU is a member, has expanded its agenda from global financial stability to a wide array of topics.

The development architecture that emerged after the Second World War is also changing, as development finance has become more diversified in terms of both funding options and actors (Development Initiatives, 2015; Gulrajani and Swiss, 2017). The scale of international public resources, of which aid forms part, is today outpaced by much larger private flows: the share of these public flows in aggregate international flows decreased from 21.2% in 2000 to 14.3% in 2013. South-South cooperation offers developing countries a wider choice of partners and bargaining power, and has reduced the EU’s market share as a provider of external finance (Greenhill et al. 2013).

The tectonic shifts in the international environment and the broadening of the international agendas for potential collaboration with countries that have progressed on their development journey have prompted the EU to update its approach to cooperation with these countries. The following sections explore the building blocks of this ongoing discussion in detail.

3. Which are the most advanced developing countries?

The term ‘more advanced developing countries’ is not entirely new. It was already mentioned in the EU’s development policy, the Agenda for Change in 2011 but has retained a degree of ambiguity as time has passed. The term has two different, yet overlapping, interpretations in the current policy debate. On the one hand, it revolves around how better to engage with developing countries that have become more advanced, especially upper-middle income countries (UMICs) and some lower-middle income countries (LMICs) with whom the EU is planning to strengthen partnerships for sustainable development on the basis of mutual interests. On the other hand, it aims to ensure that development lessons and networks are not lost to countries graduating out of the Development Assistance Committee (DAC) list of aid recipients while their engagement with the EU becomes broader.

Some actors claim that ambiguity is beneficial. Like the relatively vague concept of ‘strategic partnerships’ (Cirlig, 2012; Grevi and Khandekar, 2011), the MADCs label could allow countries to be chosen from a wider spectrum that cuts across income categories and the DAC list of recipients. It also helps, they say, in choosing objectives, modalities and tools for engagement more flexibly. For these reasons, some stakeholders have a limited appetite for an overarching MADCs policy or a list of MADCs countries. Other stakeholders have indicated that such an undefined concept is too vulnerable to political swings and opaque managerial decisions and for this reason would like to see greater clarity and accountability. A median position states that the risks carried by this ambiguity could be mitigated by adequate input and accountability mechanisms for member states and other actors.

These trade-offs require serious consideration but some opportunities exist. One of those is that, to some extent, the debate in the EU seeks to address the rigidity of the middle-income category. In this sense, it might form a welcome conceptual innovation. It could open up space for a more informed discussion of the normative use of income-based categories both within and beyond the EU institutions.

3.1. The increased use of income-based categories for policy-making

The system of income-based categories was originally devised by the World Bank to create operational lending categories. The system divides countries into low-income (LICs), lower-middle income (LMICs), upper-middle income (UMICs) and high-income (HICs) countries, based on income per capita figures. These thresholds are used to track economic progress and to move countries along the various lending windows of the World Bank's institutions as part of a relatively sophisticated process. However, they are not used by the bank to make allocation decisions.[1] The policy on graduation from the International Bank for Reconstruction and Development, the World Bank's arm for MICs and credit-worthy LICs, takes account of a country's institutional development and its ability to access capital markets (Heckelman et al, 2011).

The DAC has a list of developing countries eligible for official development assistance (ODA). A country that transitions to high-income status and remains so for three consecutive years is no longer eligible for aid. Graduation becomes effective once the DAC list is reviewed, usually every two or three years. More than 50 countries and territories have graduated out of aid in the past few decades. The most recent graduates will be the Seychelles, Chile and Uruguay, which will become ineligible in 2018. According to DAC projections, some 28 countries will graduate during the period up to 2030 (Sedemund, 2014). Unlike in the past, these rounds will include some of the emerging economies and countries with relatively large populations such as Brazil, China, Mexico, Turkey and Thailand.

Although a recent UK proposal for a special time-limited ODA waiver for the Caribbean islands hit by hurricanes Maria and Irma was rejected, the October 2017 DAC High Level Meeting recognised the need to provide appropriate support for countries transitioning across different phases of development (DAC, 2017; OECD DCD/DAC, 2018). It also requested an evidence-based proposal for the reinstatement in the DAC list of countries subjected to an enduring fall in per capita income after graduation, for example due to a natural disaster or a humanitarian crisis.

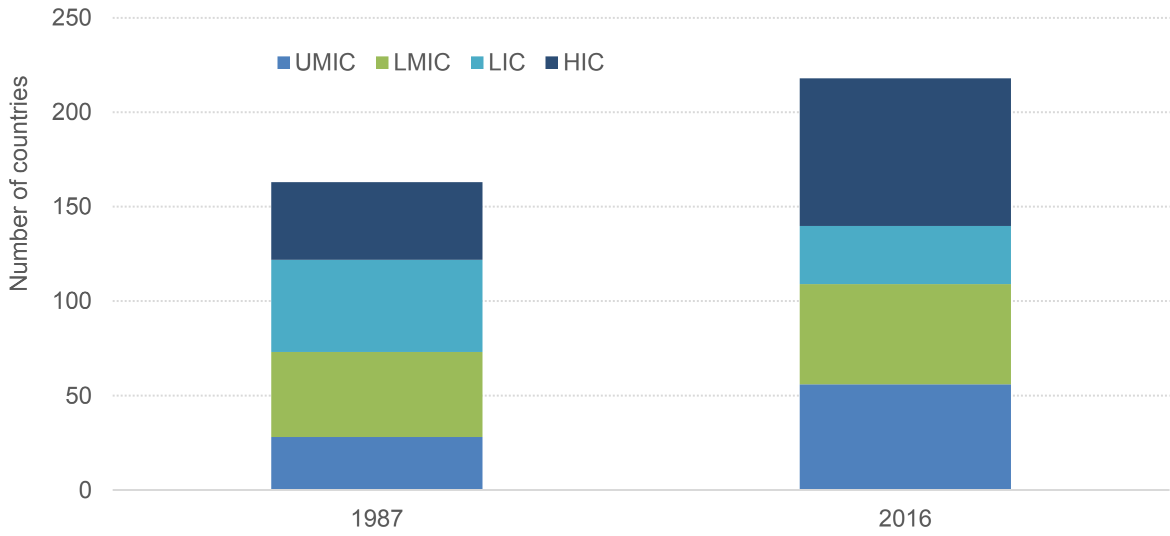
Beyond the question of aid eligibility under DAC rules, some donors have either phased out or cut aid to some MICs in order to focus their efforts on poorer countries. In a context of shrinking public budgets due to the 2008 economic crisis and a decline in the general level of prosperity in Europe, some donors have adapted to a political environment in which it has become harder to justify supporting relatively rich developing countries. This is due to a public perception that they already have or can access enough resources and expertise. The following section explores the subject matter of this debate in greater detail, to introduce the main critiques of this normative use of country categories. It also looks at how this debate features in the 2030 Agenda.

[1] https://datahelpdesk.worldbank.org/knowledgebase/articles/378834-how-does-the-world-bank-classify-countries

3.2. Middle-income countries are very diverse

There are now 109 MICs on the World Bank's list, consisting of 56 UMICs and 53 LMICs.[2] The DAC uses the same list, but there are overlaps to account for the least developed countries (LDCs), some of which are also MICs. For this reason and also because of a different review schedule, the DAC list only includes 94 MICs, comprising 57 UMICs and 37 LMICs. The World Bank MICs category has burgeoned from its original number of 73 in 1987. Conversely, the number of low-income countries has shrunk from 49 to 31 (see Figure 1).[3]

Figure 1: The number of middle-income countries has soared in the past three decades

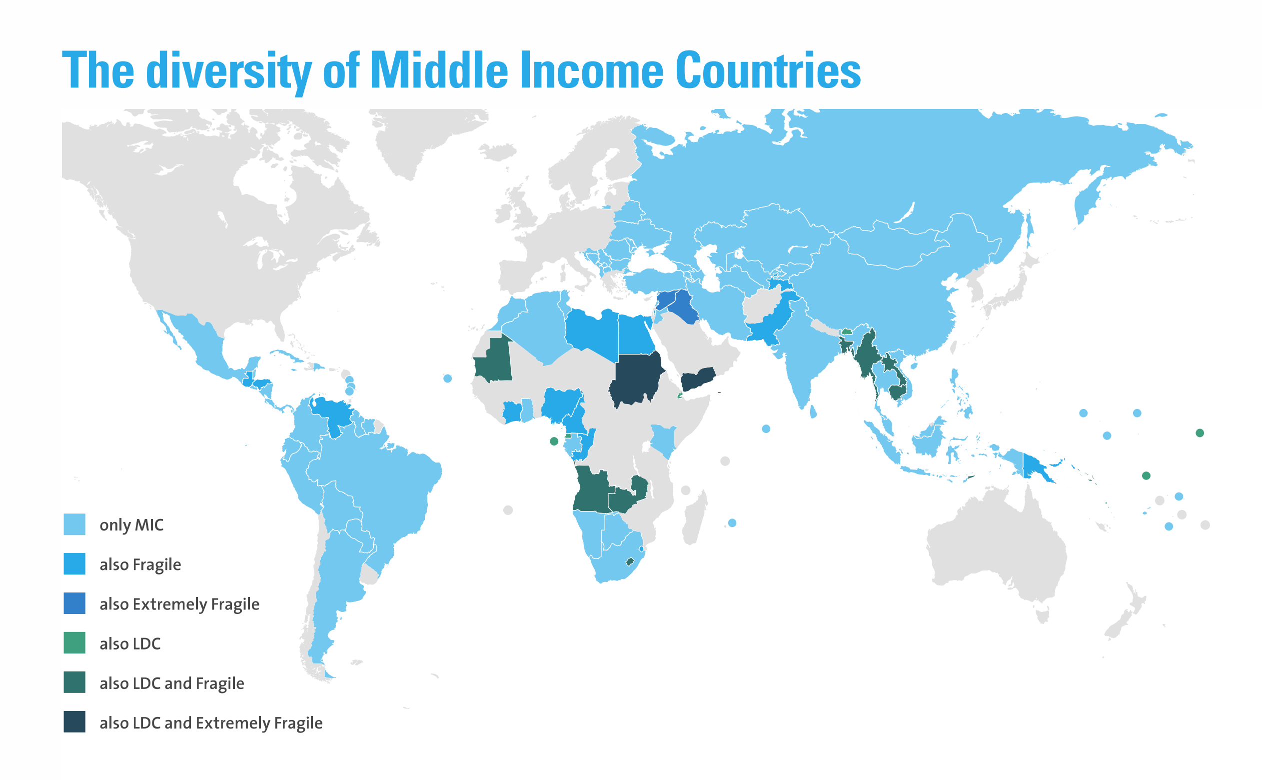


Source: authors' calculations based on World Bank data

With a few exceptions, the countries in Latin America and the Caribbean, Europe, Oceania and the Middle East are MICs. Some are HICs. Asia has a large number of LMICs, some UMICs and a few LICs. Only half of the African countries are MICs (see Map 1).

2 Data refer to the 2016 calendar year, the most recent year for which data are available. The GNI per capita of lower-middle income ranges from USD 1,006 to USD 3,955. The GNI per capita of upper-middle income countries ranges from USD 3,956 to USD 12,235 (Atlas method). Income thresholds are updated every year. The DAC list is based on World Bank income groups and the UN list of least developed countries. The DAC list is reviewed every three years and the World Bank once every year. This is another reason for the differences between the two lists.

3 This was in the context of an increase in the total number of countries on the list from 163 to 218, as a result of state creation and better data coverage.



Note: The map also includes MICs that are non-ODA recipients. MIC country classification is based on the World Bank country income historical classification of 2016 (last historical classification available). LDC category classification is based on the UN Committee for Development Policy LDC list of 2016. Fragile and Extremely Fragile classification is based on the OECD States of Fragility Report of 2016. Chile, Seychelles and Uruguay were UMICs in the DAC list of 2016 which graduated in 2018.

MICs are a very diverse category of countries. Some are projected to become among the world's largest economies (PwC, 2017b). However, of the 109 current MICs, 18 are also LDCs according to the United Nations (UN) categorisation. According to the OECD's (Organisation for Economic Cooperation and Development) multidimensional fragility framework, 25 MICs are fragile and four are extremely fragile. 11 MICs are highly indebted poor countries (HIPCs) and 26 are small-island developing states (SIDS). Movements across income thresholds can be reversed (see Table 1), as has happened to countries as diverse as Venezuela, Fiji and Senegal during the past decade (Greenhill, 2011).

Table 1: Many countries have changed categories during the past decade

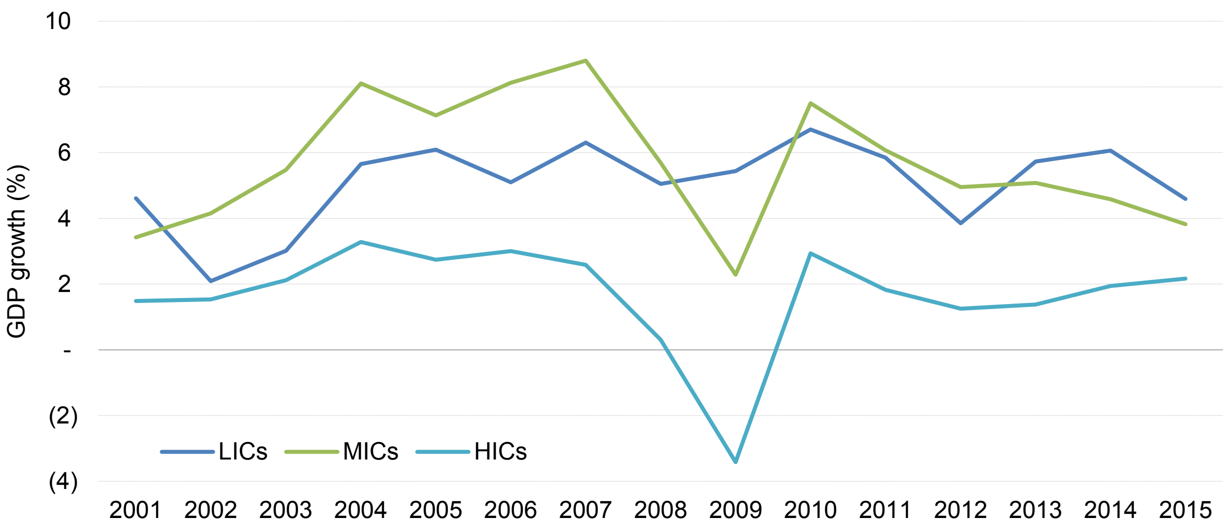
From HIC to UMIC	From UMIC to LMIC	from LMIC to LIC
Antigua and Barbuda	Albania	Mauritania
Argentina	Angola	Senegal
Equatorial Guinea	Belize	Solomon Islands
Nauru	Fiji	South Sudan
Russia	Georgia	

From HIC to UMIC	From UMIC to LMIC	from LMIC to LIC
Venezuela	Jordan	
	Mongolia	
	Tonga	
	Tunisia	

Note: Non-EU countries that have seen a downward change in their status at least once between 2006 and 2016; Croatia, Hungary and Latvia are EU countries whose status has been revised downwards. The table does not necessarily reflect the current status. Source: World Bank data.

Projections suggest that the per capita income of MICs will increase, although not necessarily fast enough to catch up with that of richer countries for decades to come, especially in those countries with a rapidly growing population (PwC, 2017b; OECD, 2017). After the euphoric early 2000s and as MICs economies mature, there seems to be some convergence in economic growth rates between MICs and HICs (see Figure 2). As the gap between growth rates declines, convergence becomes slower. Population growth can both stimulate economic growth and reduce per capita income. Adequate strategies for exploiting the demographic dividend will be key in Africa, the population of which is projected to double during the period up to 2050 and the majority of countries might turn into MICs (AfDB/OECD/UNDP 2017; Badiane and Makombe, 2014).

Figure 2: Growth rates of richer and middle-income countries have converged in recent years



Source: authors' calculations based on World Bank data

Economic progress relies not just on income generation in a given year, but also on the wealth available to a given country. Human and natural resources, the assets created by economic activities and the result of exchanges with the world are the assets available to a country in order to generate future income and achieve its development goals (Lange et al. (eds.), 2018). The preservation of natural and other assets is the bedrock of sustainable future growth.

The MICs' share of global wealth increased from 19% in 1995 to 28% in 2014, notably in favour of the UMICs. Although this reduced the concentration of wealth in the HICs, the latter still account for 65% of global wealth. Per capita wealth rose more slowly than overall wealth, benefiting UMICs the most. Driven by India and China, wealth per capita grew the most in Asia. Latin America and the Caribbean grew only slightly, but still have the highest wealth per capita levels among LMICs and UMICs. Conversely, sub-Saharan wealth per capita decreased as a result of population growth and wealth depletion, thereby jeopardising future paths to greater prosperity.

This review highlights some of the differences in the broad category of MICs. The geography of MICs across the globe also varies and the future trajectories of MICs could diverge.

3.3. Measures of development progress need to be rethought beyond income

On the basis of such diversity and the development challenges still faced by MICs, the use of income-based categories for policy-making has attracted a range of criticisms. Measures based primarily on income have endured as a normative device thanks to their simplicity and the lack of opportunities for political manoeuvre, rather than thanks to their technical soundness. The middle-income category has been considered an inadequate means of reflecting the diversity of countries it aims to depict and capturing the complexity of existing gaps and vulnerabilities (ECLAC, 2012). In practice, there is no sudden change when a country moves from one category to another; many of existing financial and non-financial impediments to development remain unchanged (Alonso et al., 2014). The income measure is at best a partial means of assessing development or even economic performance (Lange et al., 2018). The World Bank's methodology has been criticised for being not public and outdated, as it was conceptualised on the basis of data available in the late 1960s. Even composite indexes may allot the income component too much weight (Sumner, 2010; Sumner and Tezanos Vázquez, 2014).[4]

One of the key aspects of Agenda 2030 as a universal, interconnected and multi-layered agenda is that it brings back to the forefront challenges that affect MICs and MADCs in peculiar ways. Growing incomes and consumption expectations need to be combined with the promotion of sustainable production and consumption patterns. Malnutrition and non-communicable diseases such as diabetes and obesity co-exist in these countries, with both of them often affecting the poorer members of the population. Economic growth needs to be inclusive and decoupled from greenhouse gas emissions. Improved skills, productivity and innovation need to go hand in hand with social and environmental protection. As technology changes the way we work and the population grows older, public revenue generation and welfare systems need to adapt. As citizens become better equipped to participate in political life, institutional systems and socio-political intermediaries need to articulate new demands. Violent conflict in the form of war affects a minority of MICs, but many people experience daily violence to a degree that is unacceptable in modern societies: 33% of all the world's intentional homicides are in Latin America, which is home to just 8% of the global population (Igarape Institute, 2017).

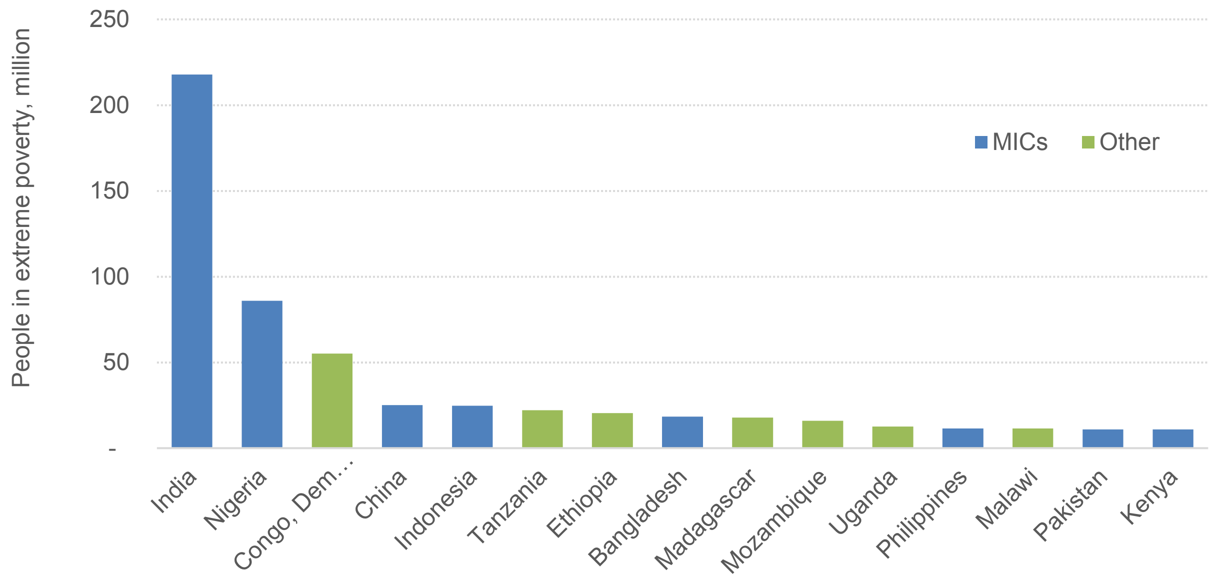
The principle of leaving no one behind will require support for the most fragile and poorest countries, as well as targeted interventions in MICs as they host over half (i.e. 496 million) of the estimated 743 million people who still live in extreme poverty around the world.[5] Of those residing in MICs, the vast majority live in India (218 million) and Nigeria (86 million). More than a third (172 million) live in MICs that are either fragile, extremely fragile or LDCs (see Figure 3).

[4] For more technical details, see Sumner and Tezanos Vázquez, 2014

[5] The extreme poverty threshold is PPP$ 1.9 a day (international dollars at purchasing power parity).

China has led poverty reduction efforts, with an astonishing 731 million decrease in the number of people living in extreme poverty between 1990 and 2013, followed by India (-120 million), Indonesia (-79 million) and Pakistan (-52 million). But progress is not a given in MICs as some of these countries made the reverse journey. These include Nigeria (+36 million) and Kenya (+6 million). Among MICs, countries with smaller populations such as Tajikistan, Albania and Zimbabwe have seen the highest reductions in proportional terms.

Figure 3: Large MICs and fragile states host most people in extreme poverty



Notes: data is for 2013; the extreme poverty threshold is PPP$1.9 a day (International dollars at purchasing power parity). Source: authors calculations based on Development Initiatives' Development Data Hub data/Povcalnet.

These remain structurally unequal countries where rising wealth coexists with multiple dimensions of poverty, vulnerability and exclusion and where poverty is more the result of unfair national distribution rather than deprivation alone (Koch, 2015; Sumner 2010). For example, sub-national poverty data for Kenyan counties show that poverty affects between 21.8% and 87.5% of the population.[6] The HDI for Brazilian municipalities ranges from levels comparable to the HDI for Estonia down to that for South Sudan.[7] Of the 20 most unequal countries in the world, nine are UMICs and seven LMICs.[8]

One of the targets of Sustainable Development Goal (SDG) 17 ('Revitalise the Global Partnership for Sustainable Development') is to build on existing initiatives 'to develop measurements of progress on sustainable development that complement GDP, and support statistical capacity-building in developing countries'.[9] The UN Secretary-General's Independent Expert Advisory Group's report on the data revolution points out that the use of national averages is inadequate for capturing differences at sub-national level

6 Development Initiatives' Development Data Hub http://data.devinit.org/spotlight-on-kenya

7 n 2016, Brazil's national Human Development Index was 0.754. Values for municipalities are for 2010 and range from 0.862 to 0.418. Municipal data from Brazil are from the *Atlas do Desenvolvimento Humano no Brasil*: http://atlasbrasil.org.br/2013/pt/ Data on Brazil are from: http://hdr.undp.org/en/composite/HDI

8 According to the latest Gini index data. The ranking is: South Africa, Namibia, Botswana, Zambia, Central African Republic, Lesotho, Swaziland, Brazil, Colombia, Panama, Guinea-Bissau, Rwanda, Honduras, Congo, Guatemala, Kenya, Costa Rica, México, Paraguay, Benin.

9 http://www.undp.org/content/undp/en/home/sustainable-development-goals/goal-17-partnerships-for-the-goals/targets/

among different social groups and geographies, and that the lack of data simply hides segments of society that are often the most deprived or discriminated against (UN, 2014; Stuart et al., 2015).[10] In short, the 2030 Agenda suggests that measures going beyond income would be a better means of capturing the journey towards sustainable development. Development measures should make the most of the wealth of data available, including official statistics, surveys and citizen-generated and big data.

It is beyond the scope of this paper to look further into alternative metrics, but the hope is that the ongoing debate on how to better measure sustainable development progress could help to find better evidence-based, politically feasible indicators. In this regard, the emergence of the 'more advanced developing countries' label in the EU is a welcome development, as at it helps to unpack the much wider category of MICs. However, there is a need to strike a balance between further reflection on what can make the category meaningful, i.e. criteria that are relevant, and how to operationalise it in a way that is both flexible and transparent.

4. The EU policy framework identifies MADCs but offers limited policy guidance

The political ambition behind the debate on how to better partner with MADCs is to reposition the EU as a leading international actor, including and beyond development cooperation. The Lisbon Treaty states that EU development cooperation 'shall be conducted within the framework of the principles and objectives of the Union's external action' with the primary objective of poverty reduction and, in the longer term, its eradication (art. 208).[11] In practice, this objective has proved broad enough to remain relevant and accommodate the ascension of global public goods in the international agenda and the comprehensive nature of the 2030 Agenda.

The 2017 European Consensus on Development (European Commission, 2017c) is the most important reference for framing EU development cooperation in the post-2015 era. It is global in nature and recognises both MICs and MADCs as important to the EU's development objectives. It acknowledges the challenges faced by MICs and the need to engage with them in accordance with the 2030 Agenda principle of leaving none behind. The document identifies MADCs as key on account of their influence at regional level, their significant impact on global public goods, and their role as instigators of South-South and triangular cooperation. The European Consensus on Development also renews the commitment to focus on the poorer and most fragile contexts and to allocate 0.15-0.2% of GNI of EU aid to LDCs.

The EUGS refers to 'like-minded and strategic' country and regional partners as enablers and allies for achieving EU and common objectives on security, prosperity, migration, sustainable development and climate change (European Union, 2016). These countries and regional aggregations are seen as anchors

[10] For some examples, see: https://unstats.un.org/sdgs/report/2016/leaving-no-one-behind

[11] The EU's external action principles and objectives are defined in Article 21 of the Treaty on European Union. The principles are democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, equality and solidarity, and respect for the principles of the United Nations Charter and international law. EU external action should: '(a) safeguard its values, fundamental interests, security, independence and integrity; (b) consolidate and support democracy, the rule of law, human rights and the principles of international law; (c) preserve peace, prevent conflicts and strengthen international security [...]; (d) foster the sustainable economic, social and environmental development of developing countries, with the primary aim of eradicating poverty; (e) encourage the integration of all countries into the world economy, including through the progressive abolition of restrictions on international trade; (f) help develop international measures to preserve and improve the quality of the environment and the sustainable management of global natural resources, in order to ensure sustainable development; (g) assist populations, countries and regions confronting natural or man-made disasters; and (h) promote an international system based on stronger multilateral cooperation and good global governance.

for a more decentralised, cooperative and stable global order. While the EUGS is global in its ambition, its priorities lie in the Southern and Eastern Neighbourhoods 'stretching into Central Asia, and South down into Central Africa' (European Union, 2016: p.23). European security and prosperity are intertwined with the fate of an increasing instable vicinity. Strengthening state and societal resilience and cementing ties in the region are seen as a political imperative. Undeniably, the prospect of EU membership has engendered demands for reforms in the midst of political volatility and multiple vulnerabilities, but enlargement remains a tricky business.[12]

The EUGS's focus on the neighbourhood and the 'neighbours of the neighbours' contrasts starkly with the aspirations for global change underpinning the Consensus on Development. While short-term EU interests might be protected by geographical concentration, many of the EU's potential allies and competitors, i.e. the countries that will most affect the EU's future prosperity, lie well beyond the neighbourhood. Similarly, global agendas on which the EU has spent political and financial capital, for example on climate change, peace and a world without poverty, need broad coalitions and action. Negotiating these drivers and interests will be a major imperative if the EU wishes to become a transformational actor in the coming years.

5. An approach based on mutual interests requires a broad engagement at country level

A relationship based on mutual interests is a compelling adaptation of existing ways of working as national capacities improve and countries have more options for partnerships. Success depends increasingly on the willingness of partner countries and the EU to work together on certain issues. Such an approach could be welcomed by different actors in partner countries. Those committed to social progress would favour a broader agenda on sustainable private investments, climate change, inequality and governance. Others would hope to have more engaging conversations on economic development: infrastructure, business, trade, investments, innovation and technology. As the mutual interests approach takes into account global challenges and their linkages to national issues, such an approach implies a greater relevance of MICs as global actors and suggests that their national issues will gain international relevance (Koch, 2015).

In this sense, partnerships based on mutual interests will require a fundamental shift in donor agencies from programme delivery towards a role as enablers of development processes in line with the multiple demands of national actors (Alonso, 2014). As the spectrum of potential collaboration broadens, donor agencies will need to facilitate dialogue and action involving different policy communities, business networks, financing institutions and others in their own countries beyond the development sector boundaries.

An approach based on broad, politically-informed engagement could also help the EU to find allies for agendas on which it has achieved mixed results, such as values. Without ignoring Europe's domestic idiosyncrasies on democracy and human rights and its deprioritisation of values where its own interests are at risk - for example the EU's approach to authoritarian regimes in Azerbaijan, Belarus, China and Turkey (Alieva et al., 2017; Pierini, 2018) – we need to look at how the EU could build more traction on these agendas externally.

Southern civil-society organisations (CSOs) and others in Latin America have argued that international support, both financial and political, has been paramount to democratisation. They feel that the space for

[12] The EU membership of the Western Balkans figures high on the agenda of the Bulgarian and Austrian presidency of the Council of the European Union (European Commission, 2018). The prospect is more realistic for Albania and Macedonia, while more efforts are required for Bosnia and Herzegovina and for Kosovo.

progressive agendas on deforestation, climate change and human rights has shrunk, as donors and international philanthropists have wound up programmes and domestic philanthropy remains thin. In the case of the Eastern Partnership countries, human rights activists and CSOs look to Europe as an irreplaceable ally for reforms. The mid-term review of the external financing instruments highlights that the EU has played a valuable role in trying to involve civil society in country dialogues and in building capacities (European Commission, 2017d).

There are at least two lessons to be drawn here:

1. First of all, in the specific case of values, mainstreaming through geographical programming has been difficult. There might therefore be some merit in expanding resources under thematic programmes and instruments that are accessible to MICs. These include the European Instrument for Democracy and Human Rights (EIDHR) and the Civil Society Organisations - Local Authorities (CSO-LA) programme of the Development and Cooperation Instrument (DCI) (Bossuyt et al., 2017).
2. Secondly, strengthening political engagement on the basis of a clear understanding of national dynamics and demands could create more space for EU priorities, in the context of a credible and responsible EU. This applies not only to values, but also to other agendas where allies may be found among local business associations, trade unions, media, religious groups and other actors.

Finally, a mutual interests approach should not hide that divergences of view exist. One case in point is South-South cooperation and its contribution to the 2030 Agenda. All providers agree that this contribution matters, but the narrative that 'we are all developing countries' has been fiercely fought by Southern providers on the basis that it erases the persistent inequalities among countries and implies that all countries have to share similar responsibilities internationally (Bracho, 2015; Chaturvedi, 2016; Esteves, 2017). Similarly, although triangular cooperation is a recurrent commitment of strategic partnerships, it is much harder to achieve due to political and bureaucratic frictions (Castillejo, 2014). Similarly, the Paris Agreement was a rare instance of effective multilateralism, but the question of how to implement nationally determined contributions (NDCs) remains a sticky point. At a time when multilateralism is suffering on many fronts, investing time in patient and honest dialogue and broad engagement might pay off for all parties involved.

6. Tailoring creates both opportunities and risks

The EU development policy document known as the Agenda for Change (2011) already mentioned MADCs as those countries which were 'already on sustained growth paths and/or able to generate enough own resources' (European Commission, 2011; p.9). The adoption of this agenda marked a shift in how the EU approaches MICs and MADCs. It stewarded a differentiated approach to development assistance to target EU resources 'where they are needed most to address poverty reduction and where they could have greatest impact', with emphasis on the neighbourhood, sub-Saharan Africa, fragile contexts and LDCs (European Commission, 2011; European Council, 2012). Cooperation with MADCs in other regions would result in the phasing out of the EU institutions' bilateral grant aid and the establishment of new and more strategic modes of cooperation. Resource allocation would be based on country needs, capacity, commitment and performance and the likely impact of EU interventions. In practice, this has meant (Keijzer et al, 2012):

- a differentiation in the mix of policies and instruments used in specific contexts;
- differential allocations of aid resources to countries, based on the above criteria and with a focus on those countries which are most in need;
- the phasing out of bilateral grant aid for UMICs (graduation).

The current policy discourse is shifting further from differentiation, substantially based on aid, towards tailoring to specific contexts, priorities and needs. The new European Consensus on Development calls for cooperation 'in an increasingly diversified and tailored manner' for all countries (European Commission, 2017c; p.43). The document affirms the commitment to 'innovative engagement' on the basis of an 'increasingly diversified and tailored' approach to promote the implementation of Agenda 2030 for MICs and MADCs. The core of this engagement is formed by policy dialogue, mutual interests and partnerships that include but go beyond financial transfers, as the Consensus on Development identifies them as countries in need of little or no concessional assistance. The EUGS endorses the idea of tailored partnerships with each partner and region, according to specific objectives.

Our interviewees emphasised that the concept of tailoring is fairly broad. The interviews conducted for the purpose of this study revealed that it is understood differently and could serve different purposes:

- **adapting to the EU's interests and priorities**: a more politically-driven form of cooperation could mean that tailoring is based on the EU's interests and priorities in a specific country or region, thus providing substantial flexibility for EU institutions to respond to shifting demands arising from domestic demands or the international context;
- **allowing scope for country ownership and mutual interests**: tailoring could mean having enough space to define a common agenda with partners, for example endorsing policy dialogue outcomes based on the 2030 Agenda and mutual interests;
- **adapting the EU toolbox for cooperation**: tailoring could involve the use of different cooperation instruments depending on the context, including financial and non-financial development cooperation, but also going beyond this to include wider collaboration in other domains.

Different versions of tailoring can generate significant benefits in terms of agility for better aligning the EU's priorities, responding to different contexts and making flexible use of all the tools available to the EU. A flexibility of approach is in fact important in order to allow cooperation with countries that have more capacity to define and implement their policies and articulate demands vis-à-vis EU partners based on their own or mutual interests. In a political environment where national interests are explicitly penetrating the EU agenda, policy-makers have incentives to build approaches that can be aligned with domestic demands.

Tailoring also presents potential drawbacks, such as:

- the favouring of a piecemeal approach to external relations where the coherence of EU objectives is lost;
- a transactional attitude that gives precedence to short-term interests over long-term goals and values;
- the negligence of countries where development needs still remain high but which form a low priority for the EU;
- reduced transparency and accountability in a framework with extensive political or managerial autonomy.

A clear identification of the trade-offs offered by tailoring and the establishment of adequate mechanisms for inclusive decision-making, safeguards and accountability mechanisms will be essential.

7. The future EU's package of instruments should address gaps and inconsistencies

The EU institutions fund their external action through a package of External Financing Instruments (EFIs), which in turn are driven by EU policies and underpinned by Treaty commitments. External relations and cooperation with MICs and MADCs fall primarily under Heading IV (Global Europe), although actions take place under other programmes such as those for trade, climate change, research and innovation, international cooperation on taxation. Although this paper focuses on Heading IV, these other programmes are also relevant to the cooperation agenda with MICs and MADCs.[13]

Under Heading IV, the MICs and MADCs fall under different EU policy frameworks and instruments, as presented in Table 2. As a consequence, and due to the limitations of working in synergy across instruments, countries with similar challenges may be treated differently on the basis of EU set of instruments rather than their needs and potential relevance to the EU. Substantial differences exist among EFIs in terms of how many resources they allocate to MICs, their geographical coverage and their logic for engagement.

Table 2: External financing instruments available to MICs

Instruments & funds	EU policy frameworks	Goals	MICs included
Development and Cooperation Instrument (DCI) €19,662 million	European Consensus on Development (2005) Joint-Africa EU Strategy (JAES), limited to the Pan-African Programme	• Poverty reduction and eradication • Sustainable development • Support for democracy, rule of law, good governance and human rights	• Geographical programmes: All LMICs in Asia, Middle East and Latin America, excluding UMICs that have not been guaranteed exceptions • Thematic programmes: All MICs (Global Public Goods and Challenges; and Civil-Society Organisations and Local Authorities) • Pan-African Programme: All MICs in Africa
European Development Fund (EDF) €30,500 million	Cotonou Partnership Agreement (CPA)	• Poverty reduction and eradication • Sustainable development • Support for democracy, rule of law, good governance and human rights • A rights-based approach	All MICs in Sub-Saharan Africa, Caribbean and Pacific
Partnership Instrument (PI) €955 million		• Advance and promote the EU's and mutual interests:	All MICs (but in practice targeted more at the EU's strategic partners)

13 As part of this study, the authors interviewed stakeholders working on climate change and research and innovation. They hope to use their insights for the purpose of future work on cooperation with MICs and MADCs in these areas.

Instruments & funds	EU policy frameworks	Goals	MICs included
		• bilateral, regional and inter-regional cooperation • implement Europe2020 • access to markets; trade, investment and business opportunities • enhance EU visibility	
European Neighbourhood Instrument (ENI) €15,433 million	European Neighbourhood Policy (ENP)	• Support an area of shared prosperity and good neighbourliness • Promote human rights and fundamental freedoms • Achieve progressive integration with the EU's internal market • Improve legal migration and mobility • Foster sustainable development • Promote stability and cross-border cooperation	MICs in the Eastern Neighbourhood, i.e. Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine, and the Southern Neighbourhood, i.e. Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia
Instrument for Pre-Accession (IPA II) €11,699 million	Enlargement Policy	• Support reforms needed so as to comply with EU values, rules, standards, policies and practices, with a view to EU membership • Contribute to stability, security and prosperity	Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, Serbia and Turkey
European Instrument for Democracy and Human Rights (EIDHR) €1,333 million	EU Strategic Framework and Action Plan on Human Rights and Democracy	Develop and consolidate democracy, rule of law, human rights and fundamental freedoms	All MICs
Instrument contributing to Stability and Peace (IcSP) €2,339 million	EU Gothenburg Programme on the Prevention of Violent Conflict / European Security Strategy 2003	Increase efficiency and coherence of EU crisis response, conflict prevention, peace-building and crisis preparedness	All MICs
Instrument for Nuclear Safety		Support the promotion of a high level nuclear safety, radiation protection,	All MICs

Instruments & funds	EU policy frameworks	Goals	MICs included
Cooperation (INSC) €225 million		efficient safeguards of nuclear material	

Source: European Union regulations on external financing instruments (various)

The Coherence Report (Bossuyt et al, 2017), a synthesis of external EFIs evaluations carried out last year, claims that this package of instruments needs to evolve from a model for development cooperation based on bilateral transfers from donors to recipients into a model for partnerships based on mutual interests, the involvement of a range of stakeholders and shared responsibilities for global challenges. It refers to a number of pockets for innovation in this direction. Global thematic instruments such as the EIDHR and the CSO-LA programme under the DCI play an important role in supporting civil-society organisations on agendas such as human rights, gender, democracy and the rule of law. The Global Public Goods and Challenges (GPGC) under the DCI complemented geographical instruments and promoted better collaboration across Directorates General (DGs) at the European Commission.

The European Union is now shifting its attention to how to organise the next budget and its external financing architecture post-2020. There is consensus that rationalisation of the existing package of instruments and more flexibility in the use of resources are needed. A potential 'single' instrument under Heading IV would include all but a few of the current EFIs, including development, external action and neighbourhood instruments. On this basis, the following section reviews the main instruments and how they approach cooperation with MICs and MADCs.

7.1. The Partnership Instrument: foreign policy in the making

The Partnership Instrument (PI) was created in 2014 to equip the EC and the then recently created Foreign Policy Instrument Service (FPI) and EEAS with an instrument for promoting the EU's and mutual interests, thus widening the focus of a previous instrument.[14] At the time, the PI was designed as a separate instrument to minimise the risk of tensions between development objectives and other aims (Fotheringham et al, 2017). The absence of any requirement for ODA eligibility (known as 'dacability'), the need for some form of endorsement from partner countries but not country ownership, and the absence of co-financing requirements make clear that its logic is driven by EU interests rather than development concerns.

The independent evaluation notes that the PI is a valuable asset for the EU's foreign policy agenda, partly because of the direct line between the FPI, which manages it, and the High Representative of the Union for Foreign Affairs and Security (HR/VP), who sets the priorities (Fotheringham et al, 2017). The PI's strengths are its responsiveness to EU objectives, nimbleness and its ability to work on a demand-driven yet increasingly strategic basis in collaboration with other DGs. For example, it supported a Technical Assistance and Information Exchange (TAIEX) expert mission for a EU-Mexico dialogue on security and justice, an action to anticipate the impact of China's trade policy on the EU, and EU-India cooperation on IT matters.
The PI has been key to supporting climate change initiatives that could not be accommodated under the DCI, providing a link between development and EU foreign policy objectives. However, the PI is a more opportunistic, interest-driven instrument and some interviewees questioned whether it would fit in with the

[14] The EU institutions had previously used an instrument known as the Instrument for Collaboration with Industrialised Countries.

longer-term development perspective and work in areas where governmental endorsement does not exist.[15] Although the PI has the merit of opening channels for discussion, there is still scope for delivering on tangible policy change (Fotheringham et al, 2017).

So far, the PI has concentrated mainly on strategic partners such as Brazil, China, Mexico and India (Burnay et al., 2016; Fotheringham et al, 2017; see Annex 1 on strategic partners). Expansion to other countries is under way. A number of interviewees mentioned, however, that the limited financial envelope and the accompanying human resource constraints would need to be addressed to accommodate such expansion.

The proposal of a ‘single’ instrument to rationalise the future MFF architecture will need to address the question of how to preserve the PI logic and potentially meet demands for increased allocations to this instrument, while keeping development high on the agenda.

7.2. The Development Cooperation Instrument: getting differentiation right

Under the DCI, UMICs were graduated out of EU bilateral grants on the basis of their income status in the DAC list of recipients or on the grounds of their accounting for more than 1% of global GDP. Some exceptions were made following negotiations between the EC, the European Council and the European Parliament. However, no clear criteria were provided for such exceptions, illustrating that political rather than merely technical considerations were at play (see Table 3). Other countries were subjected to DCI differentiation, ‘not only at the level of fund allocation, but also at the level of programming, to ensure that bilateral development cooperation targets partner countries most in need’ (European Union, 2014a; p.7).

Table 3: Countries graduating out of the DCI and exceptions

Graduated out of bilateral grants		Exceptions
Argentina	Iran	Colombia
Brazil	Malaysia	Cuba
Chile	Maldives	Ecuador
China	Mexico	Iraq
Costa Rica	Panama	Peru
Kazakhstan	Thailand	South Africa
India	Venezuela	Turkmenistan
Indonesia		

Source: adapted from Burnay et al. 2016.

A key message emerging from our research is that differentiation has been useful and its evolution into tailoring welcomed. But graduation out of bilateral assistance as it currently stands under the DCI left some gaps only partially filled by the above regional and thematic programmes and the PI. As some member states have withdrawn from certain partner countries, the EU institutions have come under pressure to fill the resultant funding gaps and sustain the political dialogue. However, the EU ‘lacks an adequate basis for

[15] Of 174 initiatives tracked by the independent mid-term evaluation, 81 were stand-alone initiatives, 67 policy support facilities and 26 TAIEX. See: Fotheringham et al, 2017 annex.

development cooperation with UMICs despite the persistence of poverty' (MacKellar et al., 2017, p. vi; Bossuyt et al., 2017). Demands for a more nuanced, needs-based assessment exist inside and outside the EU Commission (Burnay et al, 2016; Concord, 2017).

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. There is a parallel concern that such a move would tighten financial resources for LDCs, in addition to shifting political energy further away from the poorest countries. As the data show (see section 8), there are only limited opportunities for raising ODA resources to MICs without moving away from commitments to LDCs (Castillejo et al., 2018). The use of leveraging mechanisms or a politically implausible reorganisation of the EU's geographical priorities away from the neighbourhood would be required.

7.3. The European Development Fund: looking for a new partnership model

Historically, the partnership between the African, Caribbean and Pacific (ACP) countries and the EU was built on three pillars: political cooperation, trade and aid. Of these three, the latter seems to have stood the test of time best, albeit at the cost of scaling down the ambition of the original partnership (Bossuyt et al., 2016). While aid still has a role to play in the development cooperation toolbox as a public non-profit seeking resource, such a reductionist approach has sparked calls for a radical rethink of the partnership. The special status of the EU-ACP relationship allows the group privileged access to EU resources through the European Development Fund (EDF).

Just how adequate a model the Cotonou-EDF combination is for cooperation with MICs is certainly a question that will require some thought. While the principles of ownership and co-management have brought ACP governments closer to governmental ownership, they might hamper a wider form of ownership and participation from non-governmental actors in line with the 2030 Agenda and development effectiveness principles. Headquarter-led approaches have undermined good intentions, and delegations and consultation processes have suffered (Herrero et al., 2015).

The draft EU negotiating directives for a future ACP-EU partnership shy away from financing matters. But as the weight of development decreases in the face of more interest-driven EU external action, potentially shrinking resources due to Brexit, and wider discussions of financing for development beyond aid, the future of the most traditional of the EU mechanisms for financing development looks uncertain (Medinilla and Bossuyt, 2018). Differentiation will be back on the agenda and will encompass financial allocations, modalities and the political weight of different regions and countries (Medinilla and Bossuyt, 2018).

So far, the MICs among the ACP countries have prevented the phasing out of bilateral assistance on the grounds that graduation would not be in line with the spirit of the Cotonou agreement (Herrero et al., 2015). Differentiation is now accepted on the basis of population, human development, economic vulnerability and governance criteria and qualitative adjustments depending on country factors. While efforts have been made to create greater simplification and transparency, the fact that the formula used for aid allocations under the EDF continues to be not publicly available and that allocations can be qualitatively adjusted, leaves scope for political influence on decision-making beyond country characteristics.

Due to its geographical focus and differentiation, the EDF is, out of all the EFIs, the one that is most focused on LDCs in quantitative terms. ACP MICs reside primarily in the Caribbean and the Pacific and more ACP countries might reach middle-income status in the near future. A clear line on how to redefine the partnership along new lines, including in relation to financing, still has to emerge from the ACP group. Such reflection is important as ACP countries are vulnerable, irrespective of their income status. Some of them are SIDS that are disproportionately exposed to climate risks and development problems due to their size. A few countries in Africa have credible prospects for graduation, and most of their neighbourhoods have multiple fragilities (OECD, 2017).

7.4. The European Neighbourhood Instrument: tailored to circumstances

One argument that draws attention to the debate on MICs and MADCs is the fact that the EU has a fairly clear framework for cooperation with these countries on the strength of the Treaty on European Union's ambition for a space of peaceful and prosperous neighbourliness.[16] The Neighbourhood experience stretches beyond development and revolves around common interests, proximity and a shared history. The European Neighbourhood Policy (ENP) and the European Neighbourhood Instrument (ENI), the ENP's main funding instrument, have adapted to the shift from institution-building and democracy following the Arab Spring to a focus on stabilisation, security and migration under the 2015 ENP review, although this has not always been supported by an adequate conflict and strategic analysis. The EC and the EEAS have made some attempts to retain a longer-term institution-building perspective that emphasises the need for a more respectful relationship based on mutual ownership, including a strong political and policy dialogue under the ENP/ENI.

The ENI's main innovation in terms of tailoring the EU's engagement has been the adoption of an incentive-based approach known as 'more for more'. Under this approach, countries making faster progress in internal reforms are eligible for more EU support, including financial support, market access, mobility and EU expertise. More differentiation in amounts and modalities has been introduced, in line with countries' needs, commitments, capacities and achievements (European Union, 2014b). A parallel principle of 'less for less' was introduced, although its implementation has been weak in both the East (e.g. Azerbaijan and Belarus) and the South (e.g. Algeria and Egypt) (Blockmans, 2017).

The variability of results in neighbouring countries depending on national factors is a recurrent theme of the ENI evaluation that applies to human rights as much as to policy dialogue and sector reforms. While the evaluation shows that progress is possible when there are shared commitments, it highlights the trade-offs at stake in differentiated approaches. Differentiation resulted useful to operationalise the 2015 ENP review as it allowed for a more transactional approach. It permitted to factor in the escalating challenges in the neighbourhood, the need for national ownership from partner countries and action increasingly driven by EU interests (Blockmans, 2017). In the Eastern neighbourhood, reforms have been more successful in areas such as energy and trade where there are mutual interests, and less successful in tackling corruption or promoting gender equality. Tunisia, Georgia and Morocco have been successful outliers and results elsewhere have been poor (Hennion et al., 2017).

Countries that have been rewarded by differentiation have greatly appreciated the additional support, although non-financial incentives have hardly been used to date and the scale of EU aid is too small to provide much leverage in MICs in the neighbourhood. The 'more for more' approach has not compensated for reduced EU leverage. It has not provided enough incentives to make progress on the values agenda. For example, a political dialogue to promote the EU's fundamental values was given a secondary role in Azerbaijan (Alieva et al., 2017). Similarly, differentiation has not catalysed interest in alignment to EU rules

[16] Article 8 of the Treaty on European Union states that 'the Union shall develop a special relationship with neighbouring countries, aiming to establish an area of prosperity and good neighbourliness, founded on the values of the Union and characterised by close and peaceful relations based on cooperation' (European Union, 2007).

and standards where this interest was decreasing. Regional integration and multilateralism could become major casualties of differentiation as it emphasises bilateral relationships (Blockmans, 2017; Renard, 2012).

7.5. Is a more coherent approach possible?

The existing package of EFIs is the result of extensive negotiations among the EU member states, the European Commission and the European Parliament. In the past, compromises were made on how to focus the EU's external action and development resources. Overturning them is a complex task as each party, including individual member states, have a specific idea of what the EU's priorities should be.

The above review shows that the conclusions of past studies calling for a more coherent, yet country-tailored approach to MICs and MADCs remain valid today (Keijzer et al. 2013; Alonso 2014; Koch, 2015). A consistent approach to MICs needs to find a more coherent narrative around the drivers for the EU's engagement, a daunting task that needs to confront the stark reality of the differing interests constraining EU action (Di Ciommo et al., 2017). A potential single instrument for EU external action could build a stronger narrative for EU action and a more synergic and consistent approach, including one for MICs and MADCs. But only if actors are committed to such an outcome and can smartly negotiate such dynamics.

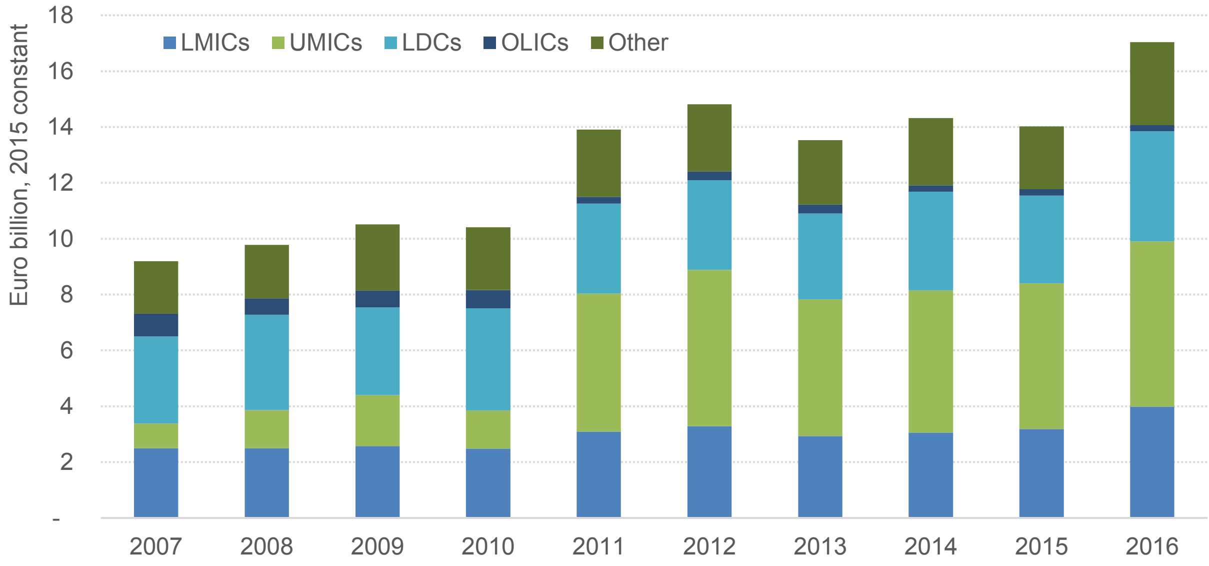
8. Money talks: aid allocations as an index of political priorities?

While the debate on cooperation with MICs and MADCs goes beyond aid, most of the EU's external resources are ODA-eligible. For example, 96% of external funds were ODA in 2015 (European Commission, 2016a). Resource allocations are also an indication of priorities in a given time frame, in the light of the distributive nature of public budgets. While it is beyond the scope of this report to assess whether the Agenda for Change was successful, an overview of the current scenario for EU aid five years after its approval could be instructive in highlighting relevant trends in the EU's external financing.

In practice, shifting resources away from MICs has proved difficult. Between 2007 and 2016, MICs received increasing volumes of EU institutions ODA (see Figure 4), which peaked at €9.9 billion in 2016. Of this figure, €5.9 billion went to UMICs and €4 billion to LMICs. This is more than double the volume of aid to LDCs (at €3.9 billion) in the same year. In relative terms, UMICs received 35% of EUinstitutions bilateral aid in that year and LMICs and LDCs about 23% each, broadly in line with their shares from 2011 onwards.[17]

[17] The DAC defines bilateral aid as 'resources earmarked for specific geographies or purposes, including aid to specific countries, regions or themes'. Multilateral aid which is defined as 'core funding that multilateral organisations can use without restrictions given by the donors, within the remit of their mandate'. Aid to countries is 'bilateral aid minus regional ODA and flows classified under the 'developing countries, unspecified' DAC category'. The shares of 2016 EU aid to countries in different categories are: UMICs 42%, LMICs and LDCs 28% each. The calculations are based on the OECD Creditor Reporting system (CRS) database, extracted on 12 March 2018. Data are gross disbursements converted into euros at 2015 prices.

Figure 4: Increases in EU bilateral aid have largely favoured MICs



Source: gross disbursements; based on DAC country categories. Notes: authors' calculations based on OECD DAC CRS data, extracted on 12 March 2018. The UMIC category includes states of the former Yugoslavia. 'Other' includes regional and 'unspecified' funding.

Up to 2011, LDCs received larger shares of EU institutions aid. However, their allocations grew 1.3 times (+26%) between 2007 and 2016, more slowly than those to other country categories. In comparison, EU institutions bilateral ODA almost doubled (+85%) and there was an almost three-fold increase in aid to MICs, largely favouring UMICs. The weight of EU institutions aid to MICs over allocations to the same country group by all other donors increased as a consequence, from around 11.2% to 14.2%.[18]

By comparison with other donors, the EU institutions allocate larger shares of aid to MICs: 58% of bilateral aid as compared with a global average of 42% and 36% for member states in 2016 (see Figure 5).[19] Rising allocations to MICs are only partially the result of an increase in the number of countries transitioning to MIC status. Just eight countries were added to the DAC list of MICs between 2007 and 2016, bringing the total from 86 to 94 countries. Conversely, the number of LDCs went from 49 to 48, again based on DAC categories.[20]

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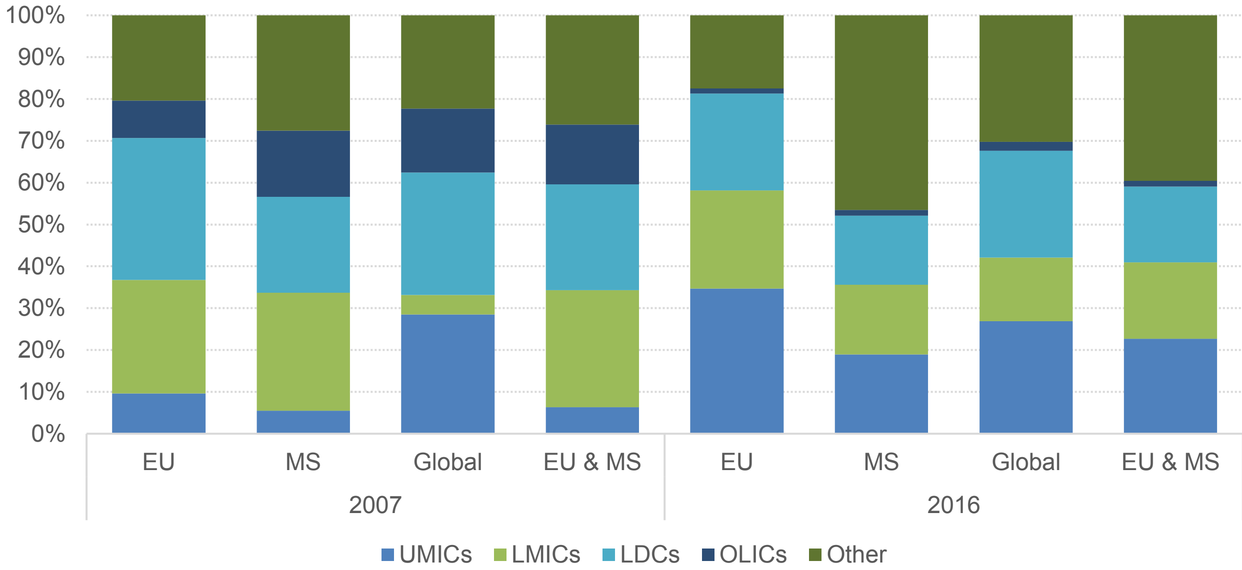
18 'All other donors' includes EU member states and other donors reporting to the OECD DAC.

19 The share of EU aid going to MICs is much higher, at around 70%. The difference is due to the fact that the latter share only takes account of aid allocated to countries, net of regional aid and resources classified under the 'developing countries, unspecified' category.

20 The MIC category increased mainly due to changes in the 'other low-income countries' (OLICs) category. Of the 18 OLICs in 2007, only four remained so in 2016. After being classified as LDCs in 2007, the Maldives and Samoa have become a UMIC and an LMIC respectively. Eight countries graduated from the DAC list between 2007 and 2016, i.e. Barbados, Croatia, Mayotte, Oman, Saudi Arabia, Saint Kitts and Nevis, Trinidad and Tobago, and Turks and Caicos.

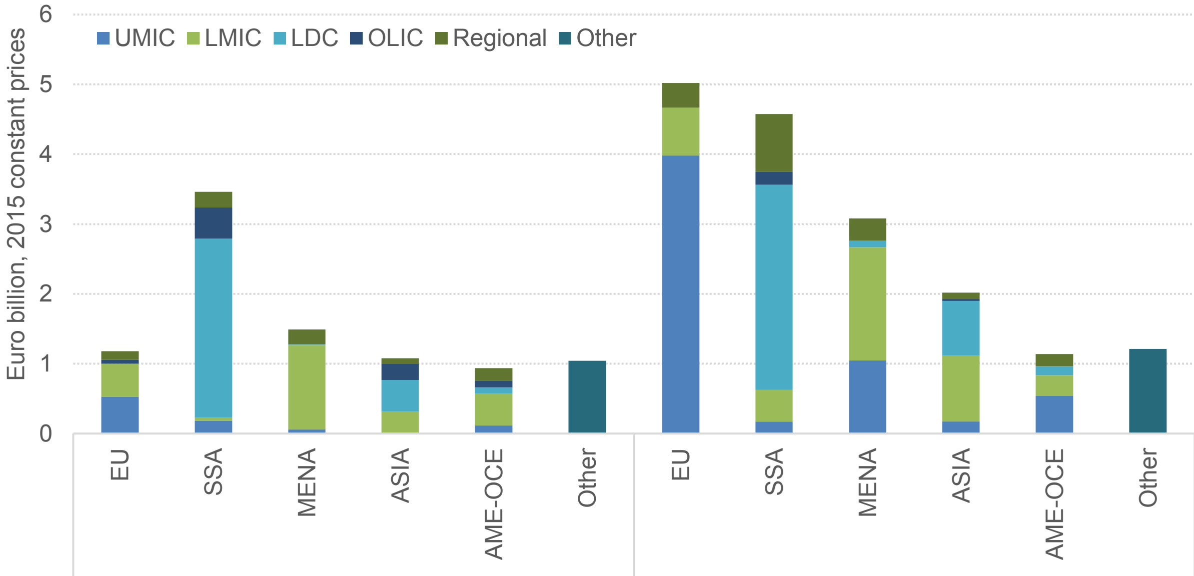
Figure 5: The EU disburses larger shares to MICs than average



Source: gross disbursements; based on DAC country categories. Notes: authors' calculations based on OECD DAC CRS data extracted on 12 March 2018. The UMIC category includes states of the former Yugoslavia. 'Other' includes regional aid and unspecified developing countries.

The main driver behind the increase in EU institutions allocations is a staggering increase in aggregate aid to the EU neighbourhood, following the prioritisation of the EU's external policy to this area. Disbursements to European countries rose most, from €1.2 billion to €5 billion during the past decade. Disbursements to Middle Eastern and North African countries rose from €1.5 billion to €3.1 billion. Aid to countries in Europe had a fourfold increase and aid to Middle East and Africa more than doubled, against a less than double increase of EU aid overall. Aid to Asia rose in line with the rise in EU institutions aid and allocations to the Americas and Oceania combined grew by only 21% (see Figure 6).

Figure 6: Rise in assistance to the neighbourhood drives increases in EU bilateral aid



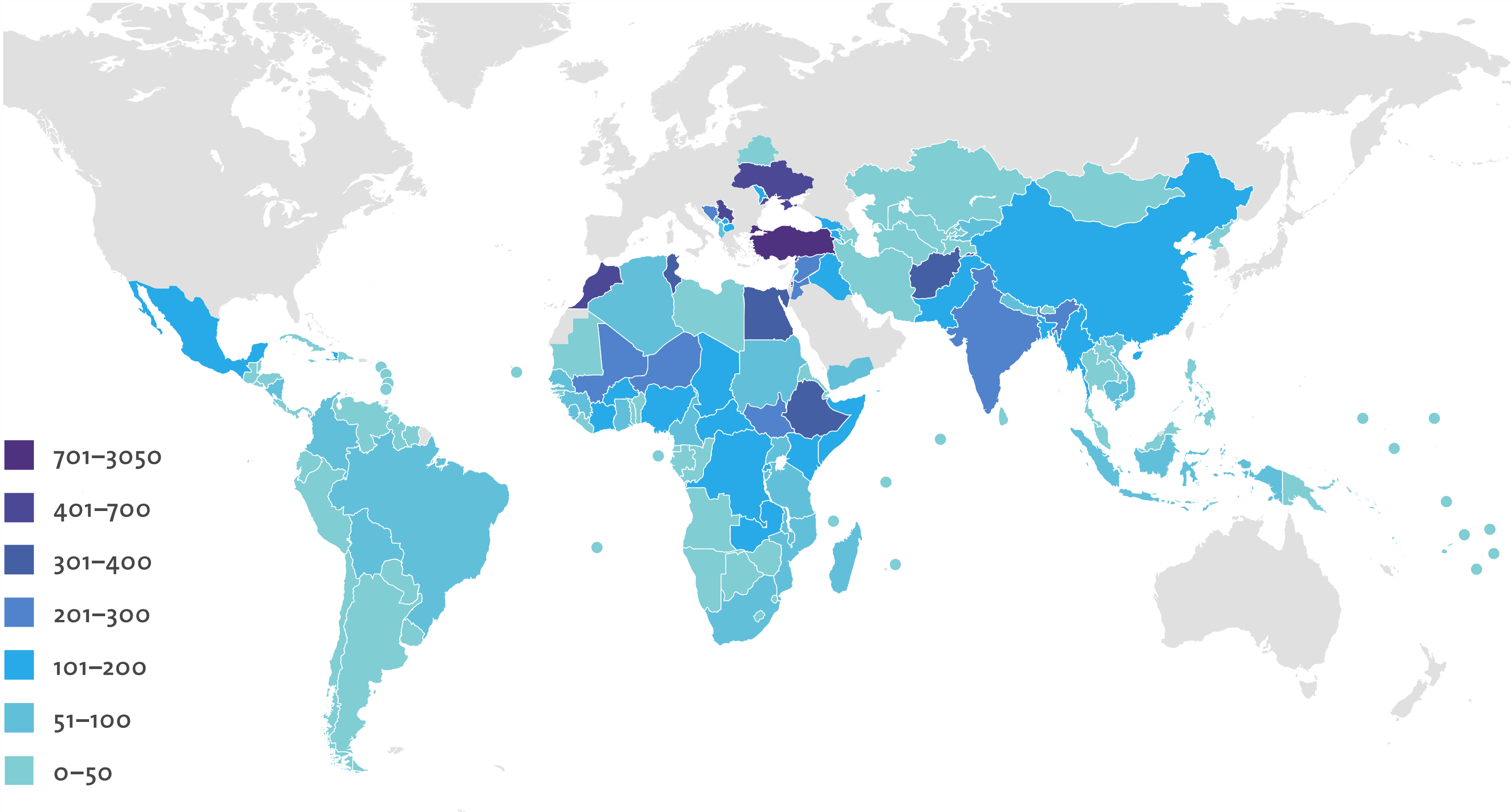
Source: gross disbursements; based on DAC country categories. Notes: authors calculations based on OECD CRS DAC data extracted on 12 March 2018. The UMIC category includes states of the former Yugoslavia. Regional aid is proportionally attributed to each region. 'Other' includes 'Developing countries, unspecified' funding. EU is Europe, SSA is Sub-Saharan Africa, MENA is Middle East and North Africa; Asia is Far East Asia and South and Central Asia; AME includes North and Central America, and South America; OCE is Oceania. Regions are according the OECD DAC distribution (see Annex 2).

Differences in growth rates have also led to a new geographical composition of EU institutions aid. In 2016, aid to Europe represented 29% of EU institutions bilateral aid, compared with 13% in 2007. Aid to the Middle East and North Africa rose from 16% to 18%. In a context of increased volumes, sub-Saharan Africa receives a smaller slice today that in the past: 27% versus 38%. The same applies to the Americas and Oceania. Asia has maintained its share at the same percentage.

Beyond the regional aggregates, there are also remarkable differences across countries (see Annex 3 for the leading recipients). In 2016, Turkey was by far the largest recipient, with €3 billion in aid. The second largest recipient was Morocco, with €628 million, followed by Ukraine (€444 million) and Serbia (€438 million). Other leading recipients in the neighbouring regions are Tunisia (5th), Palestine (6th), Egypt (8th) and Syria (10th). All these countries, with the exception of Egypt and Syria, have consistently been among the top ten recipients of EU institutions aid since 2011, with Turkey as a regular outlier. However, the picture in the neighbourhood is very varied, as other countries, such as Algeria, Azerbaijan and Libya, receive much less aid.

The pattern of MICs outside these regions is much more erratic as aid allocations by EU institutions fluctuate greatly from one year to another. For example, India was the 11th biggest recipient (€277 million) in 2016 and the 7th biggest in 2015, but allocations were much lower in the years before then. South Africa was among the ten leading recipients for three years between 2011 and 2016 but was 40th last year with €99 million.

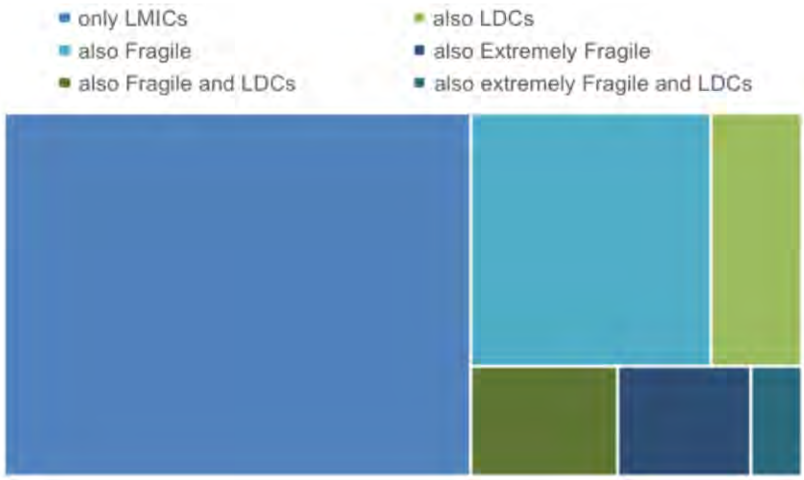
MICs receive differing amounts of EU aid



Note: ODA gross disbursements, euro million, constant 2015 prices. Source: OECD DAC Credit Report System.

Considering the overlaps in income-based categories, LDCs and fragile contexts, it is instructive to look at whether EU institutions aid reaches some MICs that are either fragile or LDCs. This is marginally the case for UMICs. In the case of LMICs, 41% of allocations go to countries that are also classified as LDCs, fragile, or extremely fragile (see Figure 7).

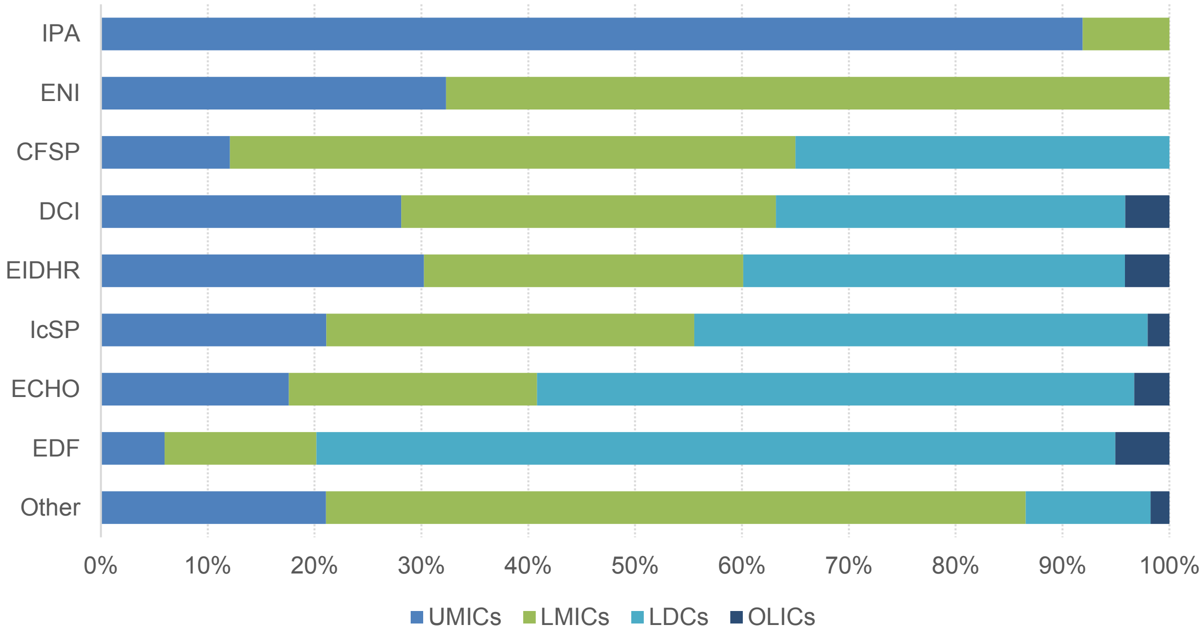
Figure 7: Allocations to MICs are driven only marginally by their status as LDCs or by fragility



OECD States of Fragility framework. Notes: authors' calculations based on OECD DAC CRS data extracted on 12 March 2018. The UMIC category includes states of the former Yugoslavia.

Data from the Directorate-General for International Cooperation and Development (DEVCO) shows that EFIs differ in their allocations to income groups. On average (from 2012 to 2015), the EDF disbursed higher shares (75%) to LDCs and 59% to fragile contexts. This is because it covers ACP countries, many of which are LDCs and fragile. By contrast, other, larger instruments such as the ENI and the Instrument for Pre-Accession Assistance (IPA) concentrate entirely on MICs due to their focus on the neighbourhood. The DCI disbursed the majority of funds to MICs (63%), and to UMICs in particular. Smaller thematic instruments such as the Instrument contributing to Stability and Peace (IcSP) and the EIDHR show similar shares (see Figure 8).

Figure 8: External instruments differ in their distribution across country categories



Source: authors' calculation based on DEVCO Annual Reports (2011 to 2016). 'Others' include the INSC, Food Facility and non-specified instruments.

The distribution across country categories depends heavily on the geographical focus of each instrument. The future distribution of resources in the post-2020 MFF should be driven by a more coherent and shared strategy for EU external relations and development objectives. This discussion should underpin the narrative and structure behind a supposed 'single instrument' or any other deeply needed rationalisation of the EU external financing architecture. Such a rationalisation would need to strike a balance between allocations to different countries in both quantitative – that is, how many resources go to which countries? - and in qualitative terms, i.e. what are the tools and logics that govern each instrument (Di Ciommo et al., 2017)?

9. The EU has a rich toolbox available

The urgent need for a more consistent approach to engagement with MICs and MADCs should take account of the variety of the countries in question and preserve the richness of the EU toolbox. The interviews revealed great interest in making better use of the EU toolbox in the context of MICs, based on an accurate perception of the existing gaps in funding and of the multiple, sometimes conflicting, objectives that the EU aims to achieve internationally.

The EU has some fairly ambitious agreements. These include Association Agreements, Strategic Partnerships, Free Trade Agreements, Economic Partnership Agreements and the relationship with the Neighbourhood. One emerging concern is how to bring these forward, especially those with countries that are graduating out of the DAC list of aid recipients or which have high development needs that have lost relevance in EU headquarters due to shifting political priorities and the need to directly link development action to EU interests.

9.1. Dialogue and policy coherence for development

Inclusive and open political and policy dialogue can go a long way to foster common agendas, erode barriers to action, and identify actors for future collaboration. Non-governmental actors in civil society, trade unions, the media, academia and businesses can be valuable allies. The EU already has a good record of policy dialogue in line with the development effectiveness principles of ownership and inclusive partnerships, although worsening conditions in a particular partner country affect the EU's political leverage and the partner country's commitment. This has been the case in the neighbourhood. The same applies to negotiated withdrawals from previously agreed sectors, as in the case of infrastructure, which was suddenly replaced by energy under the 11th EDF (Visser et al. 2017). Existing platforms for policy and political dialogue could be strengthened not just to align them with potential solutions to specific national challenges, but also in order to pursue a wider-ranging debate on regional and global dimensions in line with the SDGs.

On the basis of mutual interests, the EU will have to bear in mind that these countries have their own demands and that certain existing impediments to development require decisive action on policy coherence for development, either in its own regional space or globally (Alonso et al., 2014). This affects areas such as trade, intellectual property rights, taxation and illicit financial flows, international governance, climate change and research networks, to name just a few. The EU could facilitate dialogue among the member states on some of these issues, and also act as a catalyst for global leadership in fora such as the G20 and the UN.

The PI has strengthened the EU's political leverage to create space for dialogue based on trust and common interests and has scope for further development in this direction (Fotheringham et al., 2017; European Commission, 2017e). The combination of sectoral budget support and policy dialogue has been effective in a number of countries, including Cambodia (education), Paraguay (social policy), Morocco (private sector) and the Western Balkans (European Commission, 2017e; p.11). The EU has more flexibility in using budget support than most bilateral donors and allocates 20% of its sectoral budget support to MICs.

Budget support does not fit all MICs, however, and the EU should not use ODA resources where other funds are available. But opportunities for combining budget support with policy dialogue could provide incentives for reforms in certain circumstances. Further incentives could be generated by co-financing from partners as an expression of a joint commitment to specific goals, although not necessarily as a condition for EU action. In-kind co-funding is already provided *de facto* in some cases (such as PI) and co-financing is an option in others (such as ENI).[21]

9.2. Grants

Aid grants have a quite small role to play in the most advanced among MICs but well targeted, strategically used resources remain a highly relevant form of support. One essential area is support for civil society with a strong emphasis on local actors. In highly unequal societies where trust in public institutions is low, civil society's role in inclusive policy-making, citizenship education, mediation and accountability is irreplaceable. A politically informed engagement with national actors beyond government will be essential for advancing certain agendas, for example on EU values. EU thematic programmes and instruments in support of civil society and other non-governmental actors are very valuable and could support politically-informed, tailored approaches. These actors should remain excluded from Incentives-based approaches under the ENI. Grants, although not necessarily ODA, could facilitate cultural exchanges, scholarships and training.

[21] DEVCO Companion. Co-financing of actions by other partners. http://ec.europa.eu/europeaid/companion/document.do?nodeNumber=3.1.2&id=

The EU should closely engage with international discussion on transitional financing that smooth transition across middle-income status and graduation out of ODA. The Addis Ababa agenda for action puts domestic resources mobilisation at the centre of financing for development, in line with the 2012 EU Communication on the topic. This is essential as other resources (e.g. blending, private) are not a perfect substitute for public, non-profit seeking funds. Transitional arrangements that take into account that reforms do not have an immediate impact could be considered along support for equitable fiscal reforms and effective tackling of illicit financial flows and aggressive tax optimisation practices.

9.3. Blending

Loans, guarantees and equity investments can be of real value in strategic sectors and to support private sector development, for example, innovative enterprises through seed or venture capital or sectors with high employment creation potential. Most of EU blending operations between 2007 and 2014 went to MICs and allowed the EU to engage in sectors and countries unattainable with grants alone (Buhl-Nielsen et al, 2016).[22] The combination of EU blending, sectoral support and dialogue is a powerful tool for reforms as the cases of Morocco, Egypt and Colombia show (Buhl-Nielsen et al, 2016).

International competition where rules are not shared provides incentives for a race to the bottom in cooperation standards, potentially through a resurgence of tied aid. Rather than go with the tide, the EU could develop an alternative proposition. A global European External Investment Plan (EIP) could increase effectiveness and impact of all existing regional facilities. The combination of a financial pillar, technical assistance and action to improve the investment climate through political and policy dialogue is a much welcomed innovation in the direction of a more coherent approach.

However, further thought needs to go into how to work with development finance institutions beyond Europe with the objective to develop local functioning markets and small-medium size enterprises (SME). A small share of EU blending (8%) was dedicated to widening access to finance for SMEs over 2007-2014 as most focus was on infrastructure. Product diversification could open opportunities for wider partnerships to maximise benefits from the toolbox offered by the EIP (Buhl-Nielsen et al, 2016b; Bilal and Große-Puppendahl, 2016). Visibility could be enhanced through better linking with EU delegations and communication of partnerships and results where this brings benefit to the project.

Operations will need to pass a careful assessment of development and financial additionality. Working with local actors along the three EIP pillars could open opportunities to improve national legislation and intermediaries' social and environmental safeguards and standards. The use of scarce aid resources for blending needs to find firmer footing in better monitoring and evaluation systems with a strong emphasis on sustainable development outcomes and in better coordination with other tools, such as budget support.

While the current discussion focuses on blending, the menu of options in financial cooperation could be even larger, depending on the countries and the challenges under consideration. Other mechanisms such as debt to nature/climate change swaps, counter-cyclical bonds and risk insurances could be adequate for countries with high instability and risks.

[22] "Blending is an instrument for achieving EU external policy objectives, complementary to other aid modalities and pursuing the relevant regional, national and overarching policy priorities. Blending means the combination of EU grants with loans or equity from public and private financiers. [...] The EU grant element can be used in a strategic way to attract additional financing for important investments in EU partner countries" (European Commission, 2015; p.2)

9.4. Technical assistance and knowledge exchanges

Interviews revealed a keen interest in expanding the EU offer to MICs building on the experiences of twinning and TAIEX (Technical Assistance and Information Exchange) available to countries in the Neighbourhood and Enlargement candidates.[23] In a potential expansion of these initiatives to other countries, these tools could build on many strengths. They build on two major drivers for interest in the EU from partner countries: EU public sector expertise and the EU network since tools draw upon a wide pool among member states personnel.

Their nature as needs-based, cost-effective, demand-driven, tailored tools tails well with a narrative of more equal relationships between partners and proposes solutions to the shortcoming of classical technical assistance. So, it goes for a shared commitment to results under twinning. Their targeting mainly public administrations with the objective to develop capacities and share best practices is very much in line with the requirement to build stronger and more trusted institutions in partner countries.

TAIEX has been used under the PI, for example for experts' missions on the EU-Mexico dialogue on security and justice or to South Korea to build understanding of EU phytosanitary regulations and safety, that led to lifting of trade barriers on some EU products. It led to larger actions such as in the case of cooperation with Argentina on sustainability and energy. Although they do not fall under the label of TAIEX and twinning, some EU initiatives have experimented similar approaches:[24]

- MIEUX/Migration EU exchange: a peer-to-peer and technical assistance mechanism that makes available migration experts, mainly from EU public administrations to partner countries across the globe. In seven years, the programme received more than 100 requests for assistance and involved more than 260 experts, of which 170 from member states, 91 from NGOs and academia, 33 experts from the South.
- SOCIEUX+: a demand-driven, quick, peer-to-peer technical assistance and knowledge development facility to improve social protection, labour and employment policy with a multi-regional scope. It builds on EU expertise and facilitates trilateral cooperation to disseminate regional practices.
- COM SSA/Covenant of mayors in Sub-Saharan Africa: an initiative among municipalities and their networks to strengthen commitment to climate change and implement a dedicated action plan. It offers technical support, networking, knowledge exchanges opportunities among other benefits.
- PALOP-TL: Support to South-South cooperation between Lusophone African countries (Angola, Cape Verde, Guinea-Bissau, Mozambique and São Tomé e Principe) and Timor-Leste through the EDF, for the realisation of national and regional indicative programmes.

The final report on SOCIEUX, the programme preceding SOCIEUX+, notes that the programme mobilised valuable EU expertise and private experts remained a minority (Fernandes Antunes and Belorgey, 2016). As a collective effort, the programme leveraged on the commitment and comparative advantages of EU delegations, the headquarter and the participating institutions, including through trilateral cooperation.

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[23] Twinning and TAIEX are a peer-to-peer demand-driven mechanisms for assistance from EU member states to neighbouring and accession countries. TAIEX is available also to countries covered by the PI. TAIEX is open to public administration and social parties that can benefit of short-term activities such as study visits, expert missions or workshops. Twinning is a long-term cooperation tool for public administrations that aims to achieve concrete results through workshops, training sessions, expert missions, study visits, internships and counselling. Twinning light is a similar instrument but of a short-term, less intensive nature.

[24] Mieux: https://www.icmpd.org/our-work/capacity-building/multi-thematic-programmes/mieux-iii/; Socieux: http://socieux.eu/; COM SSA: http://comssa.org/; PALOP-TL: https://ec.europa.eu/europeaid/regions/africa/palop-tl_en.

Challenges regarded mobilisation of staff in the European public administrations, either because of the willingness of individuals to work in professional and cultural environments very different from theirs or, more often, because EU institutions were not willing to make staff available. Public experts found it difficult to combine international duties with their ordinary ones when back and some found it complex to adapt to a different sociocultural environment. A mix of EU public and private experts was used in such cases.

Within the context of a positive assessment of such initiatives, some considerations need to be made. First, mobilisation of national experts can be valuable but needs to be measured realistically against the individual and institutional incentives for cooperation. Working with countries beyond the accession countries and the neighbourhood, where European interests are higher needs to be duly promoted and justified. Twinning, which requires a much longer-term and intense engagement, could result too heavy for both institutions or individual experts and matching between institutions with similar challenges can be difficult. A lighter version of twinning could be more promising.

The programme under ENI and IPA and, to a degree, under the PI have the explicit purpose to promote the uptake and understanding of EU regulations and *aquis*. While this can be useful in some circumstances, the real value for most countries is how EU expertise can help problem-solving in their own contexts and according to their needs. The 2030 Agenda, national plans and specific countries bottlenecks to development are a better guidance to structure this cooperation.

Finally, the value of a technical assistance facility relies in its ability to be mobilised quickly and ad hoc. This value should not be lost but thinking how to better link such initiatives to the wider EU tools box could add particular value to these initiatives. This could occur through larger programmes or, more innovatively, through better synergies between different programmes and actions in the different branches of the European administration engaged internationally.

9.5. Trilateral cooperation and support to South-South cooperation

SDG 17 (Revitalise the Global Partnership for Sustainable Development) identifies South-South Cooperation as a complementary mean of implementation for the 2030 Agenda. The EU could explore opportunities on how to work alongside Southern providers more systematically, in the spirit of complementary and respect for different approaches, not to establish a uniform paradigm for cooperation.

The forms of South-South cooperation are many and not all are suitable for trilateral cooperation with the EU. Cooperation on peer-to-peer technical assistance in particular is certainly easier in Latin America, a region of the world that has a long tradition of such exchanges, but opportunities could be found elsewhere. Some of the competitive advantages of these forms of cooperation rely on the ability to find policy solutions based on similar national experiences; leverage more affordable technology and comparatively lower costs of labour to solve practical development problems; similarities in institutional arrangements, geography or culture.

A shared, politically backed definition for South-South and indeed trilateral cooperation does not exist. Lack of accurate information of South-South cooperation and fragmented governance renders difficult to identify opportunities for collaboration (Di Ciommo, 2017). This is certainly a challenge but suggests that trilateral cooperation could also lead to a better understanding of different practices and support South-South cooperation institutions building, better regulation and stronger monitoring and accountability mechanisms, on the basis of a commitment of the need to proceed in this direction among Southern providers.

10. Implementation matters

It is beyond the scope of this paper to assess the way in which the EU's engagement in MICs has been implemented. However, it is a point that we need to addressing to a certain extent, given that it proved to be a recurring topic in our interviews.

There is a general awareness that the EU institutions themselves need to adapt. A more comprehensive and consistent engagement with MICs and MADCs requires better coordination among European institutions, DGs and EC services (i.e. the European Commission and the EEAS). This needs to go beyond those DGs and EC services that have an exclusively international mandate, and also involve institutions working primarily on domestic EU policy-making. Although the existing inter-service consultation is a useful mechanism, it does not overcome the differences that often arise due to the varying mandates and priorities of the DGs and EC services.

The fundamental role played by EU delegations is underlined by all EU mid-term independent evaluations of EFIs, blending and programmes. More carefully tailored action has to be based on an updated understanding of the political, economic and social context of the country in question. The EU delegations are in a privileged position to identify and work with the multiplicity of national actors in and beyond the development community. The level of human resources and the expertise of EU personnel is another consideration. Staffing should be linked to the scale of EU involvement in a country rather than to the level of funding. For example, an absence of bilateral allocations has led to cuts in staffing levels in graduating countries, despite the fact that they are of utmost importance for a long list of EU priorities (Burnay et al. 2016). EU delegations and headquarters must be staffed by people who are able to deal with policy issues and other aspects of the emerging and increasingly complex agendas (e.g. the role of the private sector) as the nature of EU engagement changes. All this requires investments. The benefit of going down this path should be measured against the costs and EU priorities.

Our interviewees made recurrent calls for closer collaboration with member states and EU institutions. There are many benefits to be derived from working more closely together, in terms of more coherent action, the visibility of the EU abroad and its influence. While positive experiences have been gained with initiatives such as joint programming in Ghana, Vietnam, Cambodia and Senegal, progress towards closer cooperation has been slow elsewhere (European Commission, 2017e). EU institutions and member states have as yet failed to confront the incentives and disincentives, both political and bureaucratic, that would enable joint programming to be truly transformational (Helly et al, 2015). A diverse set of motives and objectives drives member state action and working together is a challenge.

At the same time, the next round of EU institutional programming post-2021 will generate opportunities for closer collaboration between the EU institutions and the member states. While the debate on MICs and MADCs has not led to any firm conclusions yet on this issue, our research suggests that stronger joint action should be sought whenever this is possible. Beyond the benefits to the EU as a whole, smaller EU countries with a limited diplomatic and development reach could find their own niches for collaboration. Similarly, EU action would benefit from closer cooperation with other actors.

11. Conclusions: getting ready for the next steps

The agreement on the next MFF and the future programming process should paint a clearer picture of how the EU institutions intend to renew their engagement with MICs and MADCs. A proposal for a single instrument including a substantive neighbourhood window and simplifying the overly complicated set of instruments currently available could bring benefits in terms of flexibility, coherence and synergies. These are all areas on which the EU's external financing architecture scores poorly when the whole set of instruments is taken into account (European Commission, 2017e).

Whether a new structure will modernise cooperation with MICs and MADCs will depend on a number of factors:

- how a single instrument is organised;
- what accountability mechanisms and safeguards it has;
- the weighting attached to thematic and geographical programmes and instruments;
- whether graduation or differentiation principles will be reviewed.

These will all have an impact on future engagement (Di Ciommo et al., 2017). Another factor is whether any changes in the instruments will cascade into a wider reorganisation of the EU's institutional architecture for engaging with the rest of the world.

ODA eligibility will be a battleground in the MFF debate. Lower ODA benchmarking could pave the way for cooperation with recently graduated countries and enable cooperation with MADCs and the other MICs beyond the development cooperation realm, including on a basis that is more attuned to EU interests. In the current context of a potentially smaller EU budget and with limited consensus on shared objectives for EU external action beyond the short-term interests of security and migration, the potential gains from an emancipation of public resources from ODA boundaries, in particular so as to enact the 2030 Agenda, are unclear and would need to be carefully assessed.

This paper has highlighted the emerging trade-offs that a sharper focus on MICs and MADCs in financial and political terms entails, in particular for LDCs and poorer countries. Allocation decisions taken by individual donors need to take account of a complex range of factors. In particular, donors need to consider the wider pool of resources available to partner countries, both domestic and international, and both public and private, as much as partner countries' needs and capacities. In a context of shared objectives for external action where the 0.7% target is met, a better division of labour among the EU institutions and member states could help solve some of the emerging conundrums.

More clarity on what the EU offers beyond grant aid for MICs and MADCs would open further options for navigating the above trade-off. We have consistently argued that grant aid still has a role to play in these countries, in particular in supporting local civil society and strategic initiatives. However, grant aid is not an all-encompassing agenda for MICs or MADCs. Other tools can foster partnerships that are better aligned with national needs and the new realities of international cooperation. Attention needs to focus on the available resources as much as on the variety of tools beyond ODA that the EU can use. These are not just financial resources, but also include political, relational and in-kind resources. Yet these also require investments, so costs need to be measured against alternative uses and the desired outcomes. Another strong message from our research is that the EU would gain strength from closer cooperation among its member states.

This paper has hopefully shown that the EU has considerable assets on which to build, in framing an attractive offer for MICs and MADCs, based on a mature approach to partnerships. However, there has been a lack of guidance on how to reconcile the drivers and multiple objectives that the EU is supposed to accommodate; bold decisions are urgently needed. The malleable category of MADCs and the multiple interpretations attached to the concept of 'tailoring' also offer little direction. Instrument design and, later on, geographical and thematic programming will need to disentangle a wide range of trade-offs and divergences.

Operational flexibility and adaptability in designing interventions would certainly benefit partnerships with MICs and MADCs, but there is too much uncertainty at present at the level of objectives and strategy. While there is not much appetite for yet another EU policy, this is an area in which clearer and dedicated policy direction is required if the EU is to navigate the uncharted waters of a more modern form of cooperation with its more advanced developing country partners.

These are some of the emerging questions that would benefit from clearer answers:

- What advantage can EU member states gain from working with MICs and MADCs through the EU institutions? On which key priorities should the EU institutions focus in their cooperation with these countries?
- Is a geographical concentration of financial and political action a good strategy or should the EU's global ambitions take a different perspective?
- What is the weight of the EU's values and interests, and what are their implications for cooperation with MICs and MADCs, also in the light of the 2030 Agenda?
- What are the possible pathways that could help to ensure that the right balance is struck in terms of the volume of resources allocated to MICs/MADCs on the one hand and LDCs and fragile contexts on the other, in the light of existing commitments and policies?
- Should graduation be reviewed? How can the EU show more consistency in the application of differentiation under the new label of tailoring?
- What is the primary purpose of tailoring? How can the EU minimise the risks and fully exploit the benefits?
- How should the EU engage with actors beyond the development community, both within the Union and in partner countries, so as to have more leverage and produce more effective action?
- Is policy guidance needed on cooperation with MICs and MADCs or will coordination be enough?
- What are the essential building blocks and guidelines for future programming?
- How can the EU institutions be modernised, in terms of staffing and the toolbox for cooperation with MICs and MADCs in a changing world?

Annex 1. Strategic Partnerships with MADCs

Strategic Partner	Technical assistance	Knowledge sharing	Best practices	South- South & triangular cooperation
Brazil	X	X	X	X
China	X	X	X	
India	X	X	X	
Mexico	*	X	X	
South Africa	X	**	X	X

*Source: European Commission (2007) Towards an EU-Brazil Strategic Partnership - COM(2007) 281 final; European Commission (2003) A maturing partnership -shared interests and challenges in EU-China relations- COM(2003)533 final; European Commission (2004) An EU-India Strategic partnership COM(2004) 430 final; European Commission (2008) Towards an EU-Mexico Strategic Partnership. COM(2008)447 final; European Commission (2006) Towards an EU-South Africa Partnership. COM(2006)347 final * technical assistance is mentioned in the EU-Mexico Global Agreement but not cover under the EU-Mexico Strategic Partnership; ** knowledge sharing is framed by the EU-South Africa Science and Technology Agreement.*

Annex 2. Country regional classification according to the OECD DAC

Region	Africa		America		Asia			Europe	Oceania
Sub region	North	Sub-Saharan	North & Central	South	Far East	South Central	Middle East		
Countries	Algeria	Angola	Anguilla	Argentina	Cambodia	Afghanistan	Iran	Albania	Cook Islands
	Egypt	Benin	Antigua & Barbuda	Bolivia	China PR	Armenia	Iraq	Belarus	Fiji
	Libya	Botswana	Barbados	Brazil	DPR Korea	Azerbaijan	Jordan	Bosnia and Herzegovina	Kiribati
	Morocco	Burkina Faso	Belize	Chile	Indonesia	Bangladesh	Lebanon	Croatia	Marshall Islands
	Tunisia	Burundi	Costa Rica	Colombia	Lao PDR Republic	Bhutan	Syrian Arab Republic	FYR Macedonia	Micronesia
		Cabo Verde	Cuba	Ecuador	Malaysia	Georgia	West Bank & Gaza Strip	Kosovo	Nauru
		Cameroon	Dominica	Guyana	Mongolia	India	Yemen	Moldova	Niue
		Central African Republic	Dominican Republic	Paraguay	Philippines	Kazakhstan		Montenegro	Palau
		Chad	El Salvador	Peru	Thailand	Kyrgyzstan		Serbia	Papua New Guinea
		Comoros	Grenada	Suriname	Timor-Leste	Maldives		Turkey	Samoa
		Congo	Guatemala	Uruguay	Viet Nam	Myanmar		Ukraine	Solomon Islands
		Côte d'Ivoire	Haiti	Venezuela		Nepal			Tokelau
		DR Congo	Honduras			Pakistan			Tonga
		Djibouti	Jamaica			Sri Lanka			Tuvalu
		Equatorial Guinea	Mexico			Tajikistan			Vanuatu
		Eritrea	Montserrat			Turkmenistan			Wallis & Futuna
		Ethiopia	Nicaragua			Uzbekistan			
		Gabon	Panama						
		Gambia	St. Kitts & Nevis						
		Ghana	St. Lucia						
		Guinea	St. Vincent & the Grenadines						
		Guinea-Bissau	Trinidad & Tobago						
		Kenya	Turks & Caicos						
		Lesotho							
		Liberia							
		Madagascar							

		Malawi Mali Mauritania Mauritius Mayotte Mozambique Namibia Niger Nigeria Rwanda St. Helena Sao Tome & Principe Senegal Seychelles Sierra Leone Somalia South Africa South Sudan Sudan Swaziland Tanzania Togo Uganda Zambia Zimbabwe							

Annex 3. Leading 25 recipients of EU institutions bilateral ODA

€ million, constant 2015 prices

Country	2011	Country	2012	Country	2013	Country	2014	Country	2015	Country	2016
Turkey	2,223.1	Turkey	2,509.6	Turkey	2,262.6	Turkey	2,510.9	Turkey	2,203.5	Turkey	3,030.2
Serbia	825.0	Serbia	761.9	Serbia	568.3	Morocco	441.0	Serbia	428.1	Morocco	627.8
Tunisia	370.6	Egypt	652.0	Morocco	453.0	Tunisia	407.6	West Bank & Gaza Strip	368.2	Ukraine	444.3
Morocco	324.9	Tunisia	493.5	Tunisia	396.5	Ukraine	380.8	Tunisia	366.0	Serbia	438.3
West Bank & Gaza Strip	309.8	Morocco	414.0	Ukraine	290.6	West Bank & Gaza Strip	375.2	Morocco	344.7	Tunisia	386.1
Afghanistan	281.6	Bosnia & Herzegovina	276.9	West Bank & Gaza Strip	282.9	Serbia	358.5	Brazil	285.2	West Bank & Gaza Strip	383.3
South Africa	250.0	West Bank & Gaza Strip	260.0	Dem. Rep. Congo	265.1	Bosnia & Herzegovina	300.0	India	274.8	Afghanistan	365.8
Dem. Rep. Congo	248.3	Dem. Rep. Congo	233.0	Bosnia & Herzegovina	250.4	Afghanistan	278.6	South Africa	240.2	Egypt	312.1
Kosovo	236.2	Afghanistan	210.1	Mali	233.9	Egypt	269.9	Ukraine	216.3	Ethiopia	310.7
Bosnia & Herzegovina	228.6	South Africa	206.2	Kenya	202.4	Mali	239.7	Niger	204.8	Syria	297.9
Pakistan	198.8	Ukraine	200.7	Afghanistan	197.2	Ethiopia	218.5	Syria	200.4	India	277.2
Ukraine	173.5	Ethiopia	195.7	Kosovo	182.4	Niger	202.7	Bosnia & Herzegovina	197.1	Jordan	231.1
Ethiopia	164.3	Niger	185.0	Georgia	177.9	Kosovo	198.2	Jordan	191.2	Mali	226.1
China	157.7	Kenya	182.0	Jordan	175.6	Dem. Rep. Congo	184.3	Dem. Rep. Congo	185.7	Bosnia & Herzegovina	215.1

Country	2011	Country	2012	Country	2013	Country	2014	Country	2015	Country	2016
Uganda	144.7	Kosovo	164.5	Burkina Faso	161.2	South Sudan	175.2	Kosovo	185.0	Niger	211.4
Georgia	141.9	Sudan	157.2	Lebanon	160.2	Lebanon	171.5	Egypt	173.6	South Sudan	204.9
Haiti	140.0	Pakistan	155.6	Niger	144.7	Jordan	163.5	Afghanistan	173.3	Dem. Rep. Congo	195.7
Moldova	131.0	Brazil	154.6	Syrian	143.4	Kenya	162.5	Burkina Faso	170.5	Iraq	183.5
Sudan	126.2	Moldova	154.3	South Africa	134.6	Burkina Faso	154.8	F.Y.R Macedonia	162.0	Georgia	177.7
Mozambique	126.1	Mozambique	151.4	India	126.3	South Africa	154.4	Somalia	156.1	Lebanon	160.9
Bangladesh	123.3	Somalia	139.9	Somalia	119.9	Somalia	145.9	Chad	155.6	Somalia	145.1
Somalia	120.6	Côte d'Ivoire	139.5	Chad	114.8	Moldova	142.3	Lebanon	154.9	Burkina Faso	144.4
Brazil	119.6	Georgia	135.7	Pakistan	111.9	FYR Macedonia	138.6	Ethiopia	150.4	Nigeria	143.2
Burkina Faso	117.2	China	135.6	Côte d'Ivoire	109.5	Syria.	132.9	Ghana	142.4	Kenya	139.9
Tanzania	116.0	Burkina Faso	131.3	Ethiopia	105.7	Georgia	131.5	Ecuador	141.6	Chad	136.9

Note: € million are ODA gross disbursements, euro million constant 2015 prices.

Source: author's calculations from OECD CRS database.

Annex 4: List of those interviewed for this study

Institution	No. people interviewed	
EU Institutions		
DEVCO	1	Dir. A. Unit 6 - Coordination and Programming of External Financing instruments
DEVCO	2	Dir. A. Unit 1 - SDGs, Policy and Coherence
DEVCO	1	Dir. B. Unit 2 - Resilience, Fragility
DEVCO	1	Dir. F. Unit 2. East, South-East Asia and the Pacific
DEVCO	1	Dir. C. Unit 6. Sustainable Energy, Climate Change
DEVCO	1	Unit 03. Knowledge, Statistics and Data Hub
DEVCO	2	Dir. G. Unit 3. Regional Sector Policy Analysis
CLIMA	1	Dir. A. Unit 1. International and Inter-institutional Relations
CLIMA	1	Dir. A. Unit 2. Climate Finance, Mainstreaming, Montreal Protocol.
NEAR	1	Dir. B. Unit 2. Regional Programmes Neighbourhood South
RESEARCH	1	Dir. C. Unit 3. European Neighbourhood Policy, Africa and the Gulf
RESEARCH	1	Dir. I. Unit 1. Strategy
RESEARCH	1	Dir. C. Unit 1. Strategy, EFTA and enlargement countries, Russia, Asia and Pacific
FPI	1	Unit 4. Partnership Instrument
HRVP	1	Cabinet Mogherini
EEAS	2	Global. Division 5. Development cooperation coordination
EEAS	1	Americas. Division 3. South America
EEAS	1	Mena - Middle East and North Africa
EEAS	1	Global. Division 2. Economic and global issues
EEAS	1	Asia and Pacific. Division 1. Regional Affairs and South Asia
EEAS	1	Asia and Pacific. Division 3. South-east Asia
EEAS	2	Asia and Pacific. Division 5. Japan, Korea, Australia, New Zealand and Pacific
EP	2	Development (DEVE) Committee
Civil Society organisations		
	1	Climate Action Network (CAN Europe)
	1	European Network on debt and development (EURODAD)
	3	Voluntary Organisations in Cooperation in Emergencies (VOICE)
	2	World Wildlife Fund (WWF)
Countries		
	9	European Union Member States
	2	Partner countries/groups

Some people have been interviewed more than once.

The analysis also benefited from attendance to the events 'Next steps for Development in Transition', held in May 2017 and co-organised by the Directorate-General for International Cooperation and Development of the European Commission, the OECD Development Centre and the Economic Commission for Latin America & the Caribbean (ECLAC) and the Joint Meeting of the African, Caribbean and Pacific States Group of States (ACP) and the Organisation for Economic Cooperation and Development (OECD) in September 2017, where discussions related to the topic occurred.

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In addition to structural support by ECDPM's institutional partners: The Netherlands, Belgium, Estonia, Finland, Ireland, Luxembourg, Sweden, Switzerland, Denmark and Austria, this publication also benefits from funding by UK aid from the Department for international Development (DFID), United Kingdom.

ISSN1571-7577

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