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THE SDGS, INEQUALITY AND AID ELIGIBILITY – SHOULD THE CRITERIA BE RE-VISITED?

by Riina Pilke

Introduction

The newer Middle Income Countries (MICs) are in the spotlight of the current development financing eligibility discussion for many good reasons. In the past 20 years, a large number of countries have moved from the Low Income (LIC) to MIC category (Organisation for Economic Co-operation and Development (OECD), 2012; Sumner, 2013). As a result, a significant number of countries across the world appear to be less poor when measured according to Gross National Income (GNI). Part of this success story can be contributed to the agreement on the Millennium Development Goals (MDGs) that allowed countries and international organisations to work together towards the same poverty reduction goals worldwide. However, critique of the MDGs has suggested that they were too tightly anchored to the prevailing neoliberal system and therefore poorly equipped to change the structures that produced the present levels of poverty in the first place (Briant Carant, 2017). Moreover, focus on the MDGs with their somewhat narrow scope, combined with weighty emphasis on economic growth as a development objective, has resulted in an artificial change of the global politico-economic geography of poverty. Consequently, the OECD's LIC, MIC and High Income (HIC) country classification, including the thresholds between the categories and their suitability in determining development aid eligibility, have been contested (Sumner, 2013).

Simply put, applying these policies has resulted in the decrease of between-country inequality. Paradoxically, though, we are now witnessing heightened levels of in-country inequalities, often in combination with critically limited natural resources. Furthermore, the focus on GDP/GNI in development metrics that has been popular for decades does not tell us enough about the conditions of poverty: where it is experienced and why. Researchers have argued that even if growth experienced in the MDGs epoch might have worked for the poor to some extent, a relative increase in income during periods of growth has seemed to leave the poorest behind (Dollar, Kleineberg & Kraay, 2013), and large increases in development aid alone have not automatically led to better development outcomes (Fischer, 2009: 863).

Even though they are still designed to serve the prevailing economic system, the subsequent Sustainable Development Goals (SDGs) are considerably more attentive than the MDGs to the causalities in poverty reduction and the closing of gaps created by unequal outcomes of economic and social structures, injustice in opportunities for individuals and the exclusion of

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Key Points

- The current aid eligibility criteria must be debated in the light of increasing inequality in countries other than Low Income Countries.
- The reduction of multiple forms of inequality requires novel, broader definitions of poverty and development.
- The quest to achieve the SDGs calls for "de-centralisation" of development objectives and self-regulation of the rich countries.
- Decisions to end development co-operation in emerging economies should be accompanied by adequate transition periods and exit strategies from aid to other types of partnerships.

social groups (Freistein & Mahlert, 2016: 2145). Certain international actors now identify inequality as possibly the most pressing contemporary poverty challenge (OECD, 2018; World Economic Forum, 2014), but four years after the SDGs were introduced, there is still a striking need to sharpen definitions and to further think approaches to the reduction of inequality. Tackling within-country inequality and finding ways to deal with the increasing gap between the rich and poor in countries other than LICs seems no less critical than global between-country inequality, which continues to serve as the basis for the OECD Development Assistance Committee's (DAC) definitions of aid eligibility. This brief discusses inequality and poverty, aid eligibility and the paradox of ending (development) cooperation in the MICs, many of which struggle with high levels of inequality.

Inequality as the contemporary poverty challenge

The SDGs have indeed compelled researchers to explain multiple forms of inequality in new terms, with an increasingly multi-layered approach to development planning. This approach entails the adoption of broad definitions of poverty that include analyses of its root causes, of socio-political factors, and of decision-making structures and processes in a society (Freistein & Mahlert, 2016). Nonetheless, inequality is a trying concept for both development practitioners and academics, as there is great variation in terms of levels of inequality, the pace at which it increases or decreases, and the socio-economic and political circumstances in which inequality occurs globally (cf. Wilkinson & Pickett, 2010; Ravaillon, 2018). Evidence suggests that inequality has progressed as the share of global financial markets (as opposed to capital accumulation through manufacturing) held by individuals or transnational corporations has grown (Bourgoignon, 2015: 57, Standing, 2016), and that economic growth is both subject to and fuel for inequality, especially during periods of rapid growth (Sumner & Mallett, 2013: 2).

Contemporary research has approached inequality and development from three perspectives: 1) definitions of inequality; 2) measurement of inequality; and 3) solutions for reducing inequality. When it comes to definitions of inequality, we are yet to agree on how it relates to poverty. Some social policy researchers place both inequality and poverty under the broader notion of social exclusion (Sealey, 2015) or social progress (Stiglitz, Sen & Fitoussi, 2009), whereas anthropological views tend to focus on inequality as a problem of power relations (cf. Mosse, 2010). Social scientists have been somewhat inattentive to measuring inequality, which has been chiefly an interest of development economists. In terms of potential solutions to reducing inequality, Andy Sumner has made a strong case in recent years for the need to re-visit current aid eligibility criteria, asking whether aid should be targeted towards poor people or poor countries (Sumner, 2010; 2016). As for how to deal with the problem at hand, Amartya Sen's capability approach offers an interesting mix of economic and social aspects that could be used for defining inequality and identifying remedies to it (Sen, 1999). Beyond foreign aid, there is also a steadily growing criticism of the delusion of free markets that work for the few privileged (cf. Gibson-Graham, 2006; Stiglitz, 2010; Standing, 2016). The suggested alternatives include, for example, Kate Raworth's (2017) doughnut economics model combining economic theory, social and environmental justice; debates about future employment and universal basic income (Standing, 2016); and fighting tax base erosion and promoting the re-distribution of wealth (Cobham & Janský, 2003; Fjeldstad & Tungodden, 2003; Spanjers & Frede Foss, 2015).

A lack of accurate data presents an obvious weakness in the current inequality debate, which is somewhat dominated by income inequality. While the significance of income inequality is not to be undermined, finding the underlying cause of inequality as part of the global poverty problem would seem to require a much deeper academic and operational understanding of the social forms and causes of inequality. These include socio-cultural values that lead to different governance and power settings, knowledge of who the power elites are (and why) in a society, the possible solutions to achieving social progress, what kind of and whose interests drive societal development and for whom. Equally important is the assessment of environmental factors as problems or indeed solutions to reducing inequality.

Inequality and the SDGs in action

In identifying the key global issues for a sustainable and inclusive future for all people in all settings with most states committed to the implementation of them, agreement on the SDGs was an irrefutable achievement in the international political arena. However, the fulfilment of them depends, at least in part, on the ownership of the Goals; while they are universal in their scope, they were developed chiefly by the global development community. Working on the SDGs among development actors is equivalent to preaching to the already converted, and the greatest challenge lies in adopting sustainability measures in other policy domains, such as trade, taxation and social policy. Such measures would also need to take into account possible cross-border effects. Thus far, only a few countries have demonstrated the will to implement wider policy reforms in the light of the SDGs. However, established powers such as the EU, the US and Japan, where multiple forms of inequality are on the rise as the production of goods decreases and income generated by fluid financial markets and rentier capitalism continues to increase, are now being challenged to take a critical look at their own systems. What kind of measures are they willing to take in order to halt the widening of the gap between rich and poor both in their own societies and with other countries whose societies are affected by Western cooperation policies and practices?

Development cooperation is thus at most only a partial answer to sustainability. The condition of the achievement of the SDGs seems to be that global economic giants such as the EU assess the social, economic and environmental repercussions of their home-grown companies on local communities in other countries in a much more systematic manner than has been the case until now. In other words, finding the underlying cause of the inequality problem would seem to require a transformation by the West, with new types of self-regulation and responsibility agendas for wealth re-distribution, control of (illicit) financial flows, supply chains and extractivist industries. Self-regulation – for example in the case of the EU single market - seems particularly important in partnerships with MICs that have experienced a donor escape while at the same time attracting more multinational investors. In the specific case of the EU, assessing the impact of European actors in third countries has so far been largely off the policy-makers radars. However, institutional principles as to how to put sustainability measures in place are already provided in a number of policy communications and strategic notes (cf. Carbone, 2008; European Commission, 2014; 2016). In policy areas such as tax good governance, there is still a need to expand further to policy approaches that would encourage fair tax and business practices of European companies in third countries, instead of simply safeguarding revenues within the European borders.

Cooperation with emerging economies

How inequality is defined as part of the poverty problem and how to solve it, is a key question in emerging economies, which are often relatively new in the MIC category. As the majority of donors have decided to end development cooperation with MICs[1], certain MICs have expressed the need for continued international support in building national social cohesion and safety nets. Given the fact that development cooperation has had a role as a platform for political dialogue on global partnerships for many years, the MICs are now at risk of falling into a global partnership gap. They are not necessarily members of international organisations or political networks and are thus often not full-fledged partners in discussions to determine the best solutions for a sustainable future. This raises legitimate questions as to the relevance of the SDGs for them and the level of expectations that the international community can assume when the "club membership" is closed.

At worst, exiting donors fail to put in place transition strategies when pursuing shifts from development cooperation to alternative, if any, forms of collaboration. This leaves their partners short of strategies for national structures to take over the development initiatives that were previously resourced by foreign funding. While the impact of ending development cooperation in MICs has not yet been adequately assessed, there is evidence that national revenue collection and/or loans can be insufficient in filling the gaps left by losing Overseas Development Aid (ODA), and the social development sector appears to be most at risk of falling behind (ODI, 2019). Whether the need for more international support is particularly salient in resource-rich countries with high levels of (multinational) extractive industries, is a future research agenda.

Conclusions and Recommendations

This paper has focussed on the need to take a critical look at the current definitions of international (development) cooperation, particularly in the light of the world's inequality problem. Mutual interests - popular *lingua* in the EU - have also largely been identified as those boosting economic growth rather than those promoting sustainability. A better understanding of global relations and the interplay between international trade (including its harmful effects) and internal policies would help in framing common interests that can lead to safe and sustainable scenarios for the future. On the instrumental side, re-visiting aid eligibility criteria in order to reach marginalised people outside LICs appears necessary. Equally urgent is the development of tools that would allow practitioners to identify social, economic and political drivers as to why marginalisation occurs in a society. Some possible solutions include:

- Development of practical inter-disciplinary models to conceptualise inequality, collect data and produce impact indicators to capture both economic inequality and the social causes and effects of it.
- Integrated phase-out – phase-in strategies for MICs: while donors exit from development cooperation, they should also prepare matching phase-in partnership strategies for global platforms in different sectors and pursue enhancing mutual understandings rather than overly emphasising mutual interests. A case in point is the Latin American post-development movement (Escobar, 1995; Gudynas, 2013). Exploring the parallels of the (Western) sustainability agendas and the Latin American post-development movement could result in innovative future socio-economic models.
- Dual-approach strategies in development cooperation and public policy development, and the development of joint accountability mechanisms for national governments and international partners particularly in more fragile MICs.
- "De-centralisation" approaches to development with social progress components in various policy

areas beyond the traditional Policy Coherence for Development approach. The EU has suggested tying the concept to the protection of global public goods as a potential strategy to address both environmental and economic impacts of global trade and financial markets. Similarly, development cooperation should be acknowledged as a full-fledged tool for international relations and foreign policy rather than a mere mechanism for charitable aid (see also ODI, 2019).

- In-depth identification of causes and effects between global actions and local impacts (Wade, 2009). Bridging national policies and international commitments, for example by making taxation and sustainability a business case for global responsible supply chains, could be an effective response against rising inequality (cf. Palan, Murphy & Chavagneux, 2010; Jenkins & Newell, 2013; OECD, 2016).

About the Author

Riina Pilke holds a PhD in Economic Sociology (University of Turku). Her recently published doctoral dissertation focuses on the EU's transition from development cooperation to other forms of partnerships with Latin American and Asian MICs.

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Notes

1 In 2014, the EU decided to pull out of nineteen countries in Latin America and Asia, and changed its institutional aid eligibility criteria to enable the building of partnerships on the grounds of mutual interests.

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