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Briefing

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The Development Cooperation Instrument

In December 2013, the European Parliament (EP) approved the compromise text agreed in trilogue on a new Regulation on the Development Cooperation Instrument (DCI), the EU's major financial instrument for development cooperation in the 2014-20 period. The Council is expected shortly to approve the text in its turn, ensuring adoption of the legislative act at first reading.

Main elements of the new DCI

A new Regulation of the EP and of the Council on establishing a financing instrument for development cooperation, replacing the previous Regulation 1905/2006, would apply from 1 January 2014 to 31 December 2020. It is part of the package of legislative proposals on the Union's instruments for external action put forward by the Commission in 2011, and set in the context of the new Multiannual Financial Framework (MFF) 2014-20. After 18 months of negotiations with the Council, in December 2013 the European Parliament approved the Commission's proposal, with modifications agreed in trilogue. The **legal basis** for the DCI regulation is Article 209 TFEU ("measures necessary for the implementation of development cooperation policy"). It also takes into account **EU development policy** principles, such as Policy Coherence for Development, the European Consensus on Development (2005) and the "Agenda for Change" (2011).

Of the six recently adopted financing instruments for external action, the DCI has the largest financial envelope: €19.7 billion. In comparison, the 2007-13 DCI had an allocation of €16.9 billion. The primary **objective** of cooperation under the DCI is the **eradication of poverty**; other aims are to achieve the internationally agreed Millennium Development Goals (MDGs) and the post-2015 Development Agenda, sustainable economic, social and environmental development; and to consolidate and support democracy, the rule of law, good governance, human rights and international law. The use of innovative financial instruments, such as blending grants and loans, is provided for, under certain conditions.

The DCI applies to all developing countries, except those eligible for pre-accession assistance, and finances three types of programmes. The **geographic programmes** support **bilateral** and **regional** cooperation with developing countries included in the OECD/DAC list of Official Development Assistance (ODA) recipients. However, they will not cover the signatories to the ACP-EU Partnership Agreement (except South Africa) nor the countries eligible for the European Development Fund (EDF), the European Neighbourhood Instrument (ENI) or the Instrument for Pre-Accession (IPA II). The **thematic programmes** bring together the five programmes from the previous DCI in just two new programmes: a) Global public goods and challenges, and b) Support for civil society organisations and local authorities. Finally, a new **Pan-African programme** will support the implementation of the EU-Africa strategic partnership. In its Annexes, the proposed Regulation details the areas of cooperation under the three types of programmes and the indicative financial allocations, as follows: geographic programmes - €11 809 million; thematic programmes - €7 008 million; and Pan-African programme - €845 million. All expenditure under the geographic programmes must fulfil the **OECD/DAC criteria for ODA**, while at least 95% under the thematic programmes and 90% under the Pan-African programme must comply with them.

Official development assistance (ODA) is defined by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) as "flows to countries and territories on the DAC List of ODA recipients and to multilateral institutions" provided by official agencies (e.g. state and local governments); which aim at promoting the economic development and welfare of the developing countries; and are concessional (a grant element of at least 25 percent). Eligibility of expenditure as ODA is restricted in some areas: military aid, peacekeeping, nuclear energy or anti-terrorism activities.

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Other provisions relate, inter alia, to: climate change and environment objectives (set to receive at least 25% of the funds under the Global public goods and challenges programme); basic social services (with a focus on education and health and secondary education, to receive at least 20% of the entire DCI funding); and the Erasmus+ programme (to get a maximum of €707 million from the geographic envelope of the DCI).

The Regulation allows for Commission delegated acts, which may be used to modify the areas of cooperation and the indicative financial allocations for the geographic and the Global public goods and challenges programmes (up to a maximum decrease of 5%). Following the mid-term review, the Commission must adopt a delegated act by 31 March 2018.

The Regulation also comprises a number of statements and declarations: on suspension of assistance; on Commission-Parliament strategic dialogue; on exceptions to the countries graduating from the DCI bilateral cooperation; and on basic social services.

New aspects

The DCI has a number of significant differences from the previous instrument:

Simplification of the programming process, through simpler rules and procedures, including fewer documents. Country strategy papers (geographic), for example, will not be required in those cases where other strategy documents exist.

Flexibility, for faster decision-making particularly in crisis, post-crisis or fragility situations, through the use of delegated acts (*see above*), unallocated funds left in each type of programme (up to 5%) and reviews of the programming.

Differentiation, one of the most important new aspects in the DCI, suggests cooperation should be based on the partner country's needs; capacities to generate and access financial resources and absorption capacities; commitments and performance; and the potential impact of EU development aid. The differentiated approach proposed by the Commission refers to changes concerning: the eligibility criteria for grant-based bilateral aid; the share of aid to low-income countries (LICs), least-developed countries (LDCs) and fragile states; and differentiated development partnerships. In general the Commission means to direct a greater share of DCI funds to the LICs, the LDCs and fragile states, while certain countries will no longer be eligible for assistance under the bilateral geographic component of the DCI (aid "graduation"). According to the criteria proposed by the Commission (mainly income level and size of economy), upper-middle income countries (UMICs) on the OECD/DAC list and countries with more than 1% of the world's gross domestic product (GDP) are set to "graduate" out of the DCI. For them, the Commission proposes bilateral cooperation under the new Partnership Instrument, although they will remain eligible under the DCI's thematic and regional programmes.

Besides criticising the concept and criteria of "graduation", analysts point out that most of the world's poor live nowadays in MICs, not in LICs and LDCs. Cutting aid for UMICs such as India, China or Indonesia would lead to excluding 55% of the world's poor from the scope of the DCI. Likewise, they underline the need to address inequality within the countries and warn of the potential impact of graduation from EU aid on the MICs concerned and on the EU itself.

Differentiation was a significant point of contention in the negotiations, particularly with regard to cutting or phasing out aid for "graduate" countries, and whether or not to allow exceptions. The EP's position was that the eligibility criteria for DCI also need to take into account human development, poverty and inequality data indicators, as well as qualitative criteria. Therefore, the Parliament opted to allow for an exception clause (including with a view to phasing out aid), plus a few named exceptions: Cuba, Colombia, Ecuador, Peru and South Africa. A joint Parliament-Council-Commission statement annexed to the Regulation establishes this position.

European Parliament

In its legislative resolution on the DCI (rapporteur Thijs Berman, S&D, the Netherlands), the Parliament stressed the need for better coordination of development policies at EU level. With the Regulation's entry in force, the EP will reinforce its role in the EU's strategic decision-making process on development policy, and its oversight over its financial allocations.