Briefing
How the EU budget is spent
October 2017

European Parliament

Development Cooperation Instrument

In a nutshell

The Development Cooperation Instrument (DCI) is the main financial instrument in the EU budget for funding aid to developing countries, and as such complements the European Development Fund, which is outside the EU budget.[1] The primary objective of the DCI is to alleviate poverty, but it also contributes to other international priorities of the EU such as the UN's post-2015 Development Agenda; sustainable economic, social and environmental development; and the promotion of democracy, the rule of law, good governance and respect for human rights.

EU's Multiannual Financial Framework (MFF) heading and policy area

Heading 4 (Global Europe)

Cooperation with third countries; international agreements

2014-2020 financial envelope (in current prices and as % of total MFF)

Commitments: €19 661.64 million (1.81 %)

2016 budget (in current prices and as % of total EU budget)

Commitments: €2 629.90 million (1.70 %)
Payments: €2 729.00 million (1.90 %)

2017 budget (in current prices and as % of total EU budget)

Commitments: €3 168.19 million (2.01 %)
Payments: €2 768.54 million (2.06 %)

Methods of implementation

Direct management (European Commission, European External Action Service) and *indirect management* (partner countries and organisations)

In this briefing:

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EU role in the policy area: legal basis

Article 209(1) of the Treaty on the Functioning of the European Union (TFEU) states that 'The European Parliament and the Council, acting in accordance with the ordinary legislative procedure, shall adopt the measures necessary for the implementation of development cooperation policy, which may relate to multiannual cooperation programmes with developing countries or programmes with a thematic approach'. Further reference to external economic and financial assistance can be found in Article 212. Based on these TFEU provisions, on 11 March 2014 the European Parliament and the Council adopted Regulation (EU) No 233/2014 establishing a financing instrument for development cooperation – the Development Cooperation Instrument (DCI) – for the 2014 to 2020 period. This regulation replaced Regulation No 1905/2006 for the previous multiannual financial framework for 2007 to 2013.

The DCI is one of six EU budgetary instruments for financing external action that are governed by Regulation (EU) No 236/2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action. The other five instruments are: the European Instrument for Democracy and Human Rights (EIDHR); the European Neighbourhood Instrument (ENI); the Instrument contributing to Stability and Peace (IcSP); the Partnership Instrument (PI); and the Instrument for Pre-accession Assistance (IPA II).

The DCI's objectives

The main objective of the DCI and of EU development policy in general is to alleviate poverty. The DCI is also meant to contribute to fostering sustainable economic, social and environmental development, and supporting democracy, good governance, human rights and international law in recipient countries. More specifically, the DCI should help the EU meet its obligations to developing countries arising from the United Nations' millennium development goals[2] (MDGs) and post-2015 development agenda. Where DCI-funded actions concern countries eligible for overseas development aid (ODA) according to the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development – the vast majority of DCI beneficiaries – they must be designed to meet OECD/DAC criteria.

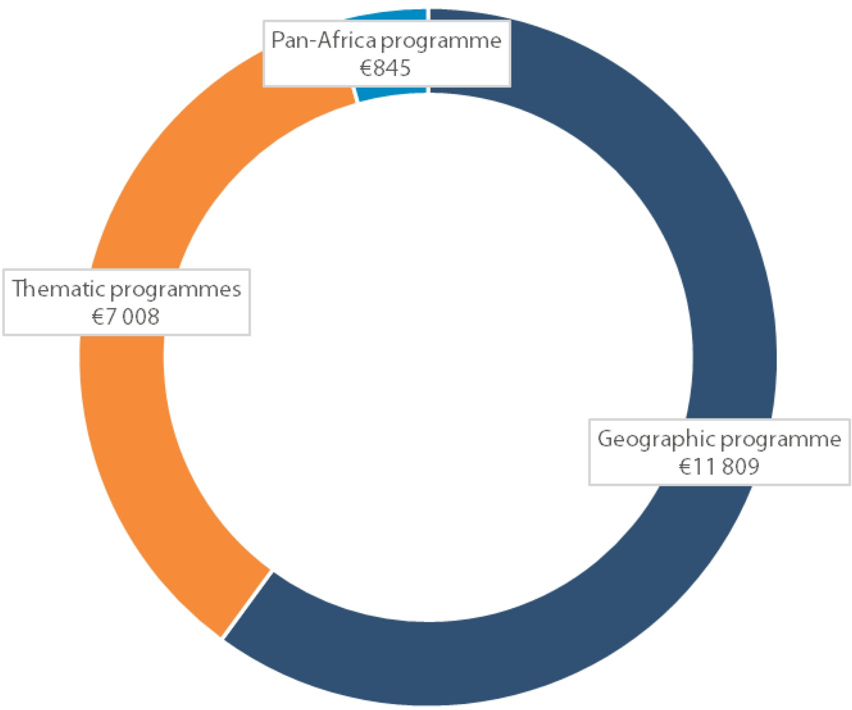
The DCI is one of two EU funds for aid to developing countries, with the other one being the European Development Fund. The EDF, while significantly larger than the DCI with a 2014-2020 budget of €30.5 billion, is intergovernmental in nature and outside the EU budget, and is aimed mainly at the African, Caribbean and Pacific Group of States (ACP) and the overseas countries and territories (OCTs) of the EU. The DCI is aimed chiefly at all other developing countries, with the DCI geographic programmes – the largest part of the DCI budget – unavailable to EDF recipient countries or to countries eligible for funding under the European Neighbourhood Instrument (ENI) or the Instrument for Pre-Accession Assistance (IPA). However, a portion of the DCI budget is also reserved for thematic programmes for fostering global public goods, such as good governance and supporting civil society organisations and local authorities. The thematic programmes and a pan-African programme are open to recipients in EDF, ENI and IPA countries.

How the money is spent

The DCI financial envelope of €19.6 billion for 2014 to 2020 is subdivided between three different types of programme: geographic programmes, which have been allocated €11.8 billion (60 % of the total envelope); thematic programmes, for which €7 billion

(36 %) has been budgeted; and a pan-African programme, which has a budget of €845 million (4 %).

Figure 1 – DCI budget for 2014-20 by programme type (€ million)



Source: Annex IV of the DCI Regulation (Regulation (EU) No 233/2014).

- **Geographical programmes** are aimed at supporting bilateral and regional cooperation in areas such as human rights, democracy, good governance, inclusive and sustainable growth for human development, migration and asylum, conflict prevention, and disaster risk reduction. They support cooperation with 47 countries in the following regions: Latin America (with an indicative geographic programme allocation of €2 500 million for 2014-2020); South Asia (€3 813 million); North and South East Asia (€2 870 million); Central Asia (€1 072 million); the Middle East (€545 million); and 'other countries' (€251 million). The geographic programmes fund projects related to security, climate change and sustainable growth. At least 15 % of the geographic programme funds must be spent on human rights, democracy and good governance; while at least 45 % must go to 'inclusive and sustainable growth for human development'.
- **Thematic programmes** complement the geographical programmes. Within this pillar of the DCI, there are two categories: Global Public Goods and Challenges (GPGC), for which the indicative 2014-2020 allocation is €5 101 million; and Civil Society Organisations and Local Authorities (CSO-LA), for which it is €1 907 million. GPGC addresses issues such as the environment, climate change, sustainable energy, human development, food security, migration and asylum, while ensuring coherence with poverty reduction goals. CSO-LA measures encourage civil society (i.e. non-state actors, non-governmental organisations (NGOs) and citizens' organisations) and local authorities to play a greater role in development

strategies. For example, GPGC is financing a project aimed at strengthening the ability of non-state actors in Liberia, Ivory Coast and Ghana to carry out forest law enforcement, governance and trade and reduce deforestation and degradation (DCI contribution: €3 million).

- **The Pan-African programme** supports the strategic partnership between Africa and the EU. This programme complements other financing instruments that are used in Africa, such as the EDF and the European Neighbourhood Instrument (ENI). Activities under the programme are carried out at trans-regional, continental or global level. For 2016, the Commission has identified two objectives under the programme: first, increase the availability of high-level professional manpower in Africa by supporting the intra-African mobility of students and staff and improving the quality of higher education; second, support the transformation of the African livestock sector with a view to environmentally sustainable, climate-resilient socio-economic development, and equitable growth. The 2017 action document includes an initiative to improve broadband access in Africa, co-financed by the International Telecommunications Union (ITU) (DCI contribution: €7.5 million).

All expenditure under the geographic programmes must fulfil OECD criteria for ODA (see box), while the proportion is at least 95 % for thematic programmes and 90 % for the Pan-African programme.

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) that are aimed at promoting the economic development and welfare of the developing countries and that are concessional (with a grant element of at least 25 %). Eligibility for ODA expenditure is restricted in some areas, such as military aid, peacekeeping, nuclear energy and anti-terrorism activities.

Assessment of the DCI

Article 17 of the Common Implementing Regulation (CIR) (Regulation (EU) No 236/2014) requires an evaluation of the DCI to be undertaken in parallel with evaluations of the other external financing instruments (EFIs) under the current MFF. This evaluation is to feed into a mid-term review (MTR) report assessing the extent to which the DCI has achieved its objectives against indicators measuring results delivered, and the efficiency of the instrument. To this end, an evaluation report was published in June 2017 by a consortium of consultancies at the European Commission's request. They assessed whether the DCI was fit for purpose as a vehicle for delivering EU resources and achieving the EU's development and external action policy objectives. They reached six conclusions:

- Concerning the **design** of the DCI, they found the DCI had thus far successfully addressed commitments made in the agenda for change and concerns raised by a 2011 impact assessment of the previous DCI. However, they called for closer alignment with recipient countries' priorities and for less fragmentation of thematic programmes.
- The authors wrote that the DCI was helping to achieve positive development **results** and there had been progress in developing a framework for monitoring them at implementation level. Goals in alignment, result-orientation and differentiation had

been met overall, but there had been insufficient progress in mainstreaming democracy and human rights, including gender equality. The authors believe more should be done to strengthen civil society and local authorities as actors of governance, and to integrate climate change and environmental objectives across all sectors of EU-cooperation.

- There was compartmentalisation between the DCI and the other EFIs, undermining complementarity, but there had been progress on joint programming with the Member States.
- The authors report that even if sustained EU engagement under the DCI had resulted in leverage at the sectoral policy level, leverage at the political level (in such areas as democracy and human rights) was weakening. At the same time, little progress had been achieved so far in building effective partnerships with the private sector.
- They underlined that the DCI allows the EU to add value through its unique expertise in regional economic and political integration.
- In terms of efficiency, flexibility and capacity, the authors found that the DCI was a complex and administratively demanding instrument, with limited flexibility to adapt to new conditions and emerging concerns. A significant factor hampering the DCI's performance was limited staff capacity both in EU delegations and at headquarters.
- They stressed that the DCI was designed to address a very broad range of issues, from policy priorities in the agenda for change to EU policy concerns, such as migration and climate change. Despite the ambition of creating a universal multi-actor partnership instrument, the DCI remains an instrument reflecting the donor-beneficiary relationship that underpinned ODA. At the same time, a number of recent trends, such as the declining number of countries eligible for ODA and the diminishing role of ODA in overall resource flows, had further weakened the operational and political foundations of the DCI.

In December 2015, the European Court of Auditors (ECA) published a review of the risks involved in the EU taking a results-oriented approach to development and cooperation. The ECA acknowledged that the Commission had correctly identified most of the nine key risk areas cited in the review: consistency of terminology; clarity of results chain; complexity arising from cross-cutting issues; harmonisation of instruments between development partners; reporting and evaluation; data consolidation; data quality; and focus on budgetary outturn; and changes in the context of EU actions. The review recommended, however, that the Commission improve guidelines for determining terminology, objectives and indicators; clearly link actions and results; improve reporting; ensure data availability and quality; and routinely assess the risks of implementation before committing financial resources.

Other foreign policy instruments in the EU budget

The DCI is one of six foreign policy instruments created by the Commission for the 2014-2020 MFF and subject to Regulation 236/2014.

The other instruments for the period 2014-2020 are:

The European Instrument for Democracy and Human Rights (EIDHR)
With a budget of €1.33 billion, the EIDHR supports projects in the area of human rights and fundamental freedoms, strengthening the rule of law, and democratisation in third countries.[3]

The European Neighbourhood Instrument (ENI)

The ENI's financial envelope of €15.4 billion funds efforts to cooperate with and promote development in 16 countries and territories on the EU's eastern and southern frontiers. The aim is to make beneficiary countries more democratic, more prosperous and more stable by incentivising reform and economic integration into the EU market.[4]

The Instrument contributing to Stability and Peace (IcSP)

The total funds for this instrument are €2.34 billion and they are allocated to countries that have been struck by, or face, crisis. The IcSP also supports conflict prevention and peace-building efforts.[5]

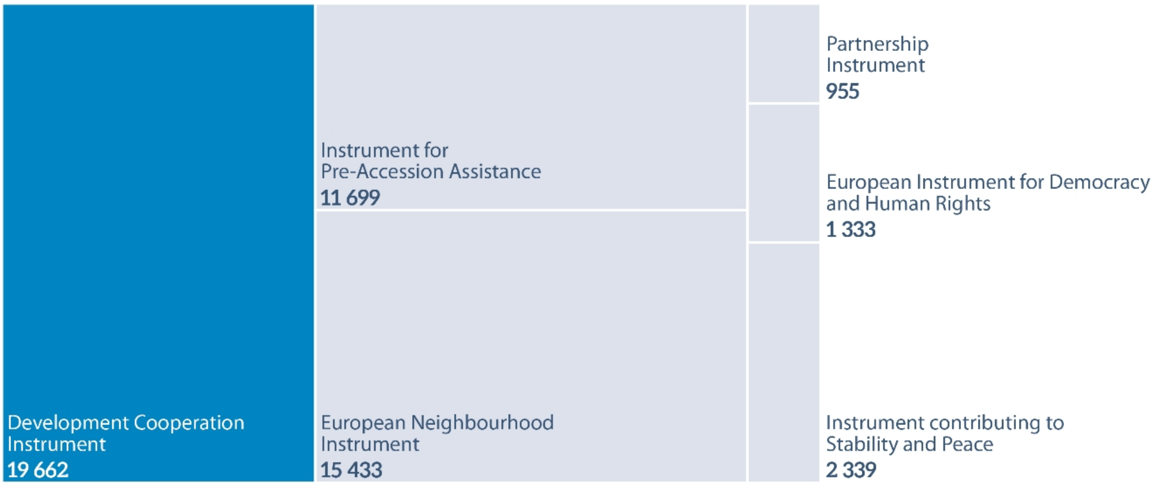
The Partnership Instrument (PI)

The PI finances the external dimension of the EU's internal policies – in areas such as competitiveness, research and innovation, as well as migration – and helps to address major global challenges such as energy security, climate change and environmental protection. It also contributes to the external projection of the Europe 2020 strategy. The budget for this instrument is €955 million.[6]

The Instrument for Pre-accession Assistance (IPA II)

The IPA II is the means by which the EU provides financial and technical assistance to support reform in countries that are candidates for EU accession. The IPA projects build capacity in candidate countries throughout the accession process, resulting in progressive development in the region and economic and political reform. The ultimate objective is the adoption of EU laws and standards (the *acquis communautaire*). The amount allocated to this instrument for the period 2014-2020 is €11.7 billion.[7]

Figure 2 – The EU foreign policy instruments: financial envelopes for the 2014-2020 MFF (€ million)



Data source: European Commission [DG Budget.]

Endnotes

[1] With a 2014-2020 spend of €30.5 billion, the European Development Fund (EDF) is significantly larger than the DCI. However, while it is managed mainly by the European Commission, it is intergovernmental in nature and remains outside the EU budget, with a correspondingly limited scrutiny role for the European Parliament. For more on the EDF and the debate on whether it should be incorporated into the EU budget, see A. D'Alfonso, European Development Fund – Joint development cooperation and the EU budget: out or in?, EPRS, European Parliament, November 2014.

[2] The MDGs were replaced by the Sustainable Development Goals in 2016 in accordance with UN Resolution A/RES/70/1.

[3] See A. Dobreva, How the EU budget is spent: European Instrument for Democracy and Human Rights, EPRS, European Parliament, September 2015.

[4] See M. Parry, How the EU budget is spent: European Neighbourhood Instrument, EPRS, European Parliament, October 2016.

[5] See A. Dobreva, How the EU budget is spent: Instrument contributing to Stability and Peace, EPRS, European Parliament, March 2017.

[6] See M. Parry, How the EU budget is spent: Partnership Instrument, EPRS, European Parliament, April 2017.

[7] See M. Svášek, How the EU budget is spent: Instrument for Pre-accession Assistance (IPA II), EPRS, European Parliament, June 2017.

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