

2007 discharge: 7th, 8th and 9th European Development Funds EDF

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The Committee on Budgetary Control adopted the report drawn up by Bogusaw LIBERADZKI (PES, PL) recommending that the Parliament grant the Commission discharge in respect of the implementation of the budget of the Seventh, Eighth and Ninth European Development Funds (EDFs) for the financial year 2007.

It approves the closure of the accounts of these EDFs for the financial year 2007 and makes a number of observations that must be taken into consideration when granting discharge.

Financial implementation: MEPs welcome the Commission's performance in 2007, and note that payments increased by 12% and commitments by 9%, whereas the increase in outstanding commitments was kept down to 2.8%. They also welcome the commitment of all available funding for the Ninth EDF in 2007, while stressing that speedy commitment of funds should not be carried out to the detriment of the quality of projects. Recalling the Commission's commitment to endeavour to ensure that a benchmark of 20% of its allocated assistance under the Development Cooperation Instrument (DCI) is dedicated to basic and secondary education and basic health, MEPs call on the Commission to prioritise support to health systems and identify the most appropriate aid delivery instruments for this area.

The Court of Auditors' Statement of Assurance: overall, MEPs welcome the Court of Auditors' conclusions. However, they regret the lack of transparency for certain expenditure, particularly concerning budget support to developing countries. They also regret the material level of errors affecting transactions underlying payments of the EDFs.

In relation to the **comments on the information presented by the Court in support of its Statement of Assurance**, MEPs regret that the Commission is still not able to give full accounting information due to technical difficulties and the validity of the Commission's statistical approach used to estimate the provision for costs. They note, in particular, that Europe Aid's supervisory and control systems for the EDFs are only "partially effective". MEPs therefore call on the Commission to **tighten up its controls** and to introduce a system of review of external audit reports to check their quality.

Budget support: MEPs note the sometimes serious weaknesses highlighted by the Court in terms of budget support and call on the Commission to provide evidence that the funds were granted effectively. They note in particular that in seven out of 33 financing agreements examined, the Court found that the provisions of the financing agreements for budget support were incomplete or unclear. MEPs are concerned about the Court's findings in this area but are even more worried about the Commission's replies which show that the Commission is very reluctant to share the information on which its decisions on budget support are based. They therefore call on the Commission to draw up an **annual report on the use of budget support**, including useful, comprehensive, reliable, analytical and evaluative, and not only descriptive, information on expenditure. Moreover, MEPs call on the Commission to identify, with the utmost rigour, countries or issues in budgetary support implementation where particular parliamentary attention could prove useful in improving donor accountability. MEPs also call for technical measures to be taken to **assess and manage risks** in this area, as channelling funds through systems in developing countries which are weak creates a risk of inefficiency and wastage.

Effective parliamentary oversight: MEPs believe that the ultimate aim of parliamentary oversight is to achieve aid effectiveness, which means the effective, economic, legal and regular use of aid to produce sustainable development. In this context, the oversight of budget support is a part of its general efforts in

overseeing the effectiveness and the results of overall development spending. They therefore regret that they do not have sufficient useful, comprehensive and reliable information in order to carry out an effective oversight of budget support results. They call for the ending of the previous system of consecutive EDFs by means of the **full consolidation of the financing of EU/ACP cooperation in the EU budget** in order to ensure parliamentary oversight of the allocation of resources under the EDFs. Furthermore, MEPs call for the establishment of direct contacts with their sister committees in selected recipient country parliaments in order to encourage and support their role in ensuring aid effectiveness through parliamentary oversight activities.

Involvement of the ACP States: MEPs are concerned about “the lack of involvement by the ACP States” in assuring effective control of EDF expenditure as well as “the lack of capacity and resources within NAO administrations”. Given that there is a shortfall of human resources in this sector in the Commission delegations, MEPs call on the Commission to explain how it envisages managing the tension - if not contradiction - between the need for additional human resources at delegations and its commitment to maintain stable staffing. They also call on the Commission to take the necessary measures to increase the number of staff allocated to the EDF's management and control structures in view of the anticipated increase in the volume of commitments under the Tenth EDF.

Reforming the approach to controlling budget support: overall, MEPs are satisfied with Europe Aid's efforts to develop a control strategy and call on the Commission to continue developing this strategy. They call on the Commission to **grant budget support only where public expenditure management is sufficiently transparent, accountable and effective**, or is at least likely to be so with the implementation within a short time frame of a reform programme. MEPs also stress that the recipient country's use of funds delivered as budget support is outside the direct control of the Commission (and other donors) since it is the sovereign right of the recipient country concerned to manage its budget in accordance with its own specific rules and national budgetary procedures. They recall, in this respect, that public sector financial management, internal control and external audit functions in some recipient countries are often not sufficiently reliable to ensure that donors' funds are managed adequately and used for the intended purposes. The Commission therefore should have every interest in knowing the risks assumed when granting budget support and in sharing this knowledge with the discharge authority, to which it is accountable. In this context, MEPs take the view that development aid in general and budget support in particular should be tied to an ex-ante **disclosure statement**, issued by the recipient country's government and signed by the finance minister, concerning selected issues that affect the governance and accountability structure of a beneficiary country. According to MEPs, a recipient country's own assessment and understanding of control weaknesses will provide greater motivation for improvement. This same type of approach should be applied in other institutions, such as the World Bank.

Integration of the EDF budget in the general budget of the European Union: lastly, MEPs welcome the Commission commitment to raise again its proposal to fully incorporate the EDF into the budget during discussions on the next financial framework. They reaffirm their support for the incorporation of the EDF into the general budget of the European Union, which it considers would make it possible to enhance the coherence, transparency and effectiveness of the EDF and to strengthen its oversight system.