2008 discharge: 7th, 8th, 9th and 10th European Development Funds EDF

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The Committee on Budgetary Control adopted the report by Inés AYALA SENDER (S&D, ES) recommending that the Parliament grant the Commission discharge in respect of the implementation of the budget of the Seventh, Eighth, Ninth and Tenth European Development Funds (EDFs) for the financial year 2008.

It approves the closure of the accounts of these EDFs for the financial year 2008 and makes a number of observations that must be taken into consideration when granting discharge.

General points: Members welcome the implementation of the Lisbon Treaty and point out, in this regard, that improvements aimed at better management of the EDFs must be maintained. They call on the Commission to give it a description and detailed explanation of the operation of the new system. Once again, Members support the Commission's undertaking that it **will fully incorporate the EDF into the budget** during discussions on the next financial framework which would make it possible to enhance the coherence, transparency and effectiveness of the EDF and to strengthen its oversight system. They also ask to be kept informed concerning the mid-term review due to be held for the Tenth EDF in 2010 and call for an improvement in the programming and implementation of the Tenth EDF. Members wonder, in particular, whether management by the respective NGOs in the field is in fact more efficient and cost-effective than management by the Commission. Once again, Members look forward to receiving the Commission's report on the results of the tolerable risk/cost effectiveness studies on external action and the review of the EuropeAid control strategy, in good time for the 2009 discharge procedure.

Statement of assurance: Members note that the Court of Auditors, with the exception of the Commission' s method of estimating the provision for costs incurred, takes the view that the accounts reliably reflect the revenue and expenditure relating to the Seventh, Eighth, Ninth and Tenth EDFs. The main aspects of the statement of assurance may be summarised as follows:

- **underlying transactions:** noting that the revenue and commitments are free from material error, Members are, however, concerned about the high incidence of non-quantifiable errors in budget support commitments and assessments of a material level of error in the payments. They find it unacceptable that the Court of Auditors was not able to obtain all the information and documentation concerning 10 sampled payments to international organisations and that consequently it is not able to express an opinion on the regularity of expenditure amounting to EUR 190 million, i.e. 6,7% of the annual expenditure. They call on the Commission to take a sufficiently firm line with these organisations to obtain the necessary information;
- **reliability of the accounts:** noting that a part of EDF resources in not covered by the statement of assurance (DAS), Members welcome the fact that overall the Court of Auditors takes the view that the final annual accounts of the EDFs fairly present, in all material respects, the financial position of the EDFs as at 31 December 2008.

Financial implementation: Members note that the Seventh EDF was closed on 31 August 2008 and that EUR 10 381 were disbursed, amounting to 98.3% of the EUR 10 559 million allocated and that the balance (EUR 178 million) was transferred to the Ninth EDF. They also note that the Tenth EDF (for the period 2008-2013, for a total amount of EUR 22.682 million) entered into force on 1 July 2008.

Commission's financial management of the EDFs: praising the overall management of the EDFs by the Commission, the Members are particularly satisfied with the project management and payments. In fact, record levels of commitments were reached in 2008 and the implementation of the 10th EDF was timely. As regards the errors identified (e.g. lack of invoices or other supporting documents in Angola), Members underline that most of these errors can be explained by the particularly difficult conditions in which the audit was carried out in that country. However, 47% of the quantifiable errors relate to the eligibility of expenditure. Efforts need to be made to further reduce these errors. The revision of the Financial Regulation could, in this regard, present the opportunity to clarify procedural problems that the Commission has encountered during crises and to present an effective control procedure that is flexible enough not to harm the flow of funds and that ensures the transparency of the projects undertaken.

Monitoring of implementing organisations: as in previous years, Members criticise the significant weaknesses in the financial procedures and controls of implementing organisations. They call for efforts to be stepped up in future to bring about the best results possible. Members stress that democracy and the right for people to live under conditions where their human rights are not violated must be integrated goals of the implementing organisations in countries where EDF support is distributed.

Budget support: Members note the significant increase in the share of cumulative financing decisions accounted for by budget support and structural adjustment under the Tenth EDF (over 45 %) as compared with the Eighth and Ninth EDFs (around 15 %). However, they deplore the fact that the audit of budget support commitments and payments found them to be affected by a high level of non-quantifiable errors. They urge the Commission to evaluate those payments with even greater rigour and to tighten up its payment procedures as of now. The Commission must also continue its efforts to **substantiate its decisions on the eligibility of budget support** and to ensure that all financing agreements provide a comprehensive and clear basis for the assessment of compliance with payment conditions. The Commission is urged to keep Parliament better informed on these questions and to help partner countries develop parliamentary control and audit capacities in this area. Members recall Parliament's role in regard to budget support (which involves holding the Commission responsible for the results of expenditures made) and stress that this tool is an aid instrument that requires a paradigm shift in oversight behaviour, moving from control over inputs to the checking of results against indicators, thus ensuring that support spending benefits the population of the recipient country. They reiterate their request to the Commission **to identify the countries or issues in budgetary support implementation where particular parliamentary attention could prove useful** in improving donor accountability, in addition to the special guidance on how to manage budget support operations in countries in a situation of fragility promised in the Commission's replies of 2 December 2009 to the Committee on Budgetary Control's written questions to Commissioner Karel De Gucht. They also call on the Commission to ensure that budget support is reduced or **cancelled** when clear goals are not achieved.

Disclosure statement by beneficiary states: Members reiterate their 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**. They do not accept the Commission's argument that sufficient information on governance is obtained from analyses carried out with the cooperation of other parties and stakeholders. They await the Commission's proposals in this regard.

Human resources: Members are concerned at the risk of loss of institutional memory as a result of significant staff constraints (excessive turnover, and excessively high and increasing vacancy rates call for solutions to deal with a shortage or inadequate allocation of staff. They fully support the intention expressed by the Commission to recruit additional external staff to increase numbers at headquarters and in the delegations for the management and control of the EDF.

Development priorities and visibility: Members calls for the Development Cooperation Instrument (DCI) benchmark allocating 20 % of spending to basic and secondary education and basic health to apply

also to the EDF. They urge the Commission to place greater emphasis on maternal health and to ensure better visibility for EU-funded activities overseas.

The Investment Facility: Members note that the EIB manages the investment facility (a risk-bearing instrument funded from the EDF that aims to foster private investment in the difficult economic and political context of the ACP countries) and recall that the management of the Investment Facility by the EIB was excluded from the discharge. They also recall that EDF resources are derived from public money contributed by European taxpayers and not by the financial markets. In this context, Members propose, once again, that the EIB presents, during the discharge procedure, its annual report on the implementation of the investment facility to Parliament's Committee on Budgetary Control and that the Committee on Budgetary Control invites the President of the EIB as soon as possible to discuss this possibility. Lastly, they call on the Commission to provide more comprehensive information in this area with a view to achieving EU objectives relating to development, as well as on the efficiency of those procedures.