2009 discharge: Eighth, Ninth and Tenth European Development Funds EDF

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The Committee on Budget Control adopted the report by Bart Staes (Green/EFA, BE) recommending that the Parliament grant the Commission discharge in respect of the implementation of the budget of the Eighth, Ninth and Tenth European Development Funds (EDFs) for the financial year 2009. 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.

Members recall that the EDF (EUR 22.682 billion for the current, tenth, EDF for 2008-2013) is still not integrated in the Union budget, while being the main instrument for providing Union development aid to the people of the ACP countries. Recalling their historic attachment for the **budgetisation of the EDF**, Members underline that its eventual incorporation in the EU's budget must not lead to any overall reduction in development spending with respect to the Union's two current funding instruments. They urge the Council and the Member States to respond positively to the Commission's proposal and to agree that the **EDF will be fully incorporated in the Union's budget from 2014** onwards as part of the next financial framework - a measure that is long overdue.

Development priorities: Members recallthe Commission's commitment to ensuring 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. In this context, they call on the Commission to prioritise support to strengthen health systems by focusing especially on targeting the poorest people and to improve the quality of learning. They call on the Commission to increase this share to 25% in the future.

Members underline, once again, that the **Tenth EDF should focus on a limited number of areas**, while involving non-governmental organisations (NGOs), whether European or local, that are effective at local level and that are properly audited, in order to avoid the harmful effects arising from the proliferation of objectives. Depending on their merits, international organisations (Multi-Donor Trust Funds) is more efficient and cost-effective than management by the Commission. Members ask the Commission to provide Parliament with clear information on the composition of NGOs' own resources for specific projects which are partly financed by the EDF and by the NGOs themselves. Among the other main development priorities, Members highlight support for SMEs and wealth creation. Members recall in passing that EUR 800 billion is lost annually from developing countries through illicit capital flows. Action in this area is therefore also needed.

Financial management of the EDFs: noting the fact that the Court of Auditors judged the financial management of the EDFs positively, Members however identify certain weaknesses as regards the management of implementing organisations, ex ante checks and the functionalities of certain audit activities. They therefore call on the Commission to keep them informed of steps taken to remedy these issues. Members also express concern regarding certain weaknesses in regard to public procurement procedures, ex ante controls in delegations and partner countries' internal control systems. Members also regret that, for reasons of accountability, the Investment Facility is not covered by the Court of Auditors' Statement of Assurance or by Parliament's discharge procedure (which reduces the scope of Parliament's powers, especially considering that EDF resources are derived from public money contributed by European taxpayers and not by the financial markets).

They welcome the Court's positive Statement of Assurance on the EDF's annual accounts for 2009. However, they ask for some explanations regarding the guarantees received in respect of prefinancing.

They also welcome the introduction of the new accrual-based accounting system (ABAC-EDF) in February 2009 which will strengthen EDF's the accounting environment.

Regularity of transactions: Members welcome the fact that the Court of Auditors considers that the revenue, commitments and payments underlying the accounts of the Eighth, Ninth and Tenth European Development Funds for the year ended 31 December 2009 are in all material respects legal and regular even if there was a **high frequency of non-quantifiable errors affecting commitments and payments**. They urge the Commission to strengthen its *ex ante* controls to avoid these types of errors as well as possible losses due to non-compliance with the bank guarantee rules (the main problem mentioned in the Court of Auditors' report). They also recall that, even if the supervisory and control systems of EuropeAid have significantly improved year after year, that, overall, the Court of Auditors assessed EuropeAid's supervisory and control systems as only partially effective. Improvements are expected in this regard. Members still observe errors concerning compliance with tendering rules, legal deadlines for the signature of contracts and provisions regarding mandatory guarantees.

Monitoring of implementing organisations: Members welcome the efforts of EuropeAid and of the Delegations in addressing the various weaknesses which still exist in the financial procedures and controls of implementing organisations, supervisors and National Authorising Officers (NAOs). EuropeAid is invited to further strengthen its efforts in this regard. Members are also concerned regarding the shortcomings in delegations' financial procedures and controls on implementing organisations due to resource constraints and lack of capacity.

Court of Auditors' Special report No 18/2009: Members deplore the results highlighted b the Court of Auditors in Special Report 18/2009 on the Effectiveness of EDF support for Regional Economic Integration in East Africa and West Africa. They deplore the lack of complementarity between the Commission's regional and national cooperation strategies, as well as the poor absorption capacity of regional organisations. They call on the Commission to take the situation regarding regional cooperation into account in the context of the mid-term review foreseen for the first half of 2011. **They consider it completely unacceptable that the Court of Auditors through a lack of proper reporting, was "unable to assess" a number of projects financed**.

Members underline that, in its Special Report No 18/2009, the Court of Auditors assessed EDF support for regional economic integration in East Africa and West Africa, to which a considerable proportion – over 50 % – of EDF funding was allocated, as only partially effective. They await information on this matter before the beginning of the discharge procedure for 2010. Members regret that the assistance granted by the EDF to regional integration is not yet wholly effective, mainly due to African authorities' lack of capacity, overlapping membership of African regional economic organisations leading to the duplication of efforts and dispersion of resources, as well as inadequate support and coordination from Commission Delegations, principally due to lack of resources. **They call, accordingly, on the Commission to step up capacity-building for East African and West African regional economic organisations and their institutions.** The European External Action Service should also be mobilised to allocate more resources in order to enable Union Delegations to manage regional integration processes more effectively.

As regards EPAs, **Members insist that the Union should not pressure African states to sign up to Economic Partnership Agreements (EPAs) any faster or which cover a greater range of issues than they want to.** TheUnion should also avoid undermining existing regional groupings by agreeing EPAs with individual countries. They insist that smaller states' fund allocation, especially for the least-developed countries, should be more focused on sustainable economic development, such as through wealth creation mechanisms, so as to reduce the dependency on regional economic 'giants', such as Nigeria in West Africa. They also call on the Commission to continue its funding for regional programmes, otherwise known as Intra-ACP Programmes, which cover several or all countries in a particular region.

Use of accrued interest: Members do not agree with the use of accrued interest on EDF treasury accounts (including transfers from the period 2001-2007), which is estimated at EUR 34 million, to cover staff expenditure but considers that it should only be used for expenditure for projects and programmes. They ask the Commission to make proposals in regard to this issue.

Budget support: Members recall that Parliament's assessment of budget support should not focus on the risks only but also on the benefits, as well as on the risks and benefits of alternative aid delivery. Aware that **budget support is a controversial development tool** offering the advantage of low transaction costs, increased ownership and enhanced dialogue between partners and donors, while at the same time, involving the risk of misappropriation and unwanted use of funds when public finance management by recipient countries does not prove sufficiently transparent, **Members stress that budget support is not the right answer to every situation and should not be perceived to be the sole option**. Other measures proposed to counter the inefficiency of budgetary support include: i) better justification of decisions regarding eligibility for budget support to ensure that all financing agreements include a complete and clear reference framework; ii) strengthen the eligibility criteria for budgetary support; iii) strengthen audits and control and monitoring systems.

Members welcome the publication of the Green Paper on the future of EU budget support to third countries but deplore the fact that, despite previous calls by Parliament, the Commission has failed to draw up an annual report on the use of budget support, including useful, comprehensive, reliable, analytical and evaluative information on planned and disbursed budget support, as well as an analysis of the typology of irregularities (systemic and non-systemic) brought to light by controls and audits and remedial action taken. Members believe that a paradigm shift is required in oversight behaviour moving from mere control over inputs to the checking of results against indicators, thus ensuring that support spending benefits the population of the recipient country.

Noting that budget support payments were affected by a high frequency of non-quantifiable errors, Members urge the Commission to evaluate the budget support payments with even greater rigour. They call on it to take all necessary measures in order to **combat corruption in the beneficiary states** by taking a pro-active approach. They believe that the provision of funds should be reconsidered if such cooperation is not forthcoming and if no guarantee as to the basic effectiveness of the systems to tackle corruption can be obtained. Members reiterate their opinion that the involvement of national parliaments, civil society and local authorities in partner countries is indispensable in order to achieve genuine ownership of the process.

Disclosure statement by beneficiary countries: Members once more 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** and signed by its finance minister, concerning selected issues that affect the governance and accountability structure of a beneficiary country.

Human resources: Members are concerned that vacancy rates in third-country Delegations are considered as a "critical risk" and that resource constraints, staff shortages and high staff turnover significantly hamper the Commission's effective implementation of EDF funds. They therefore expect the European External Action Service to make it a priority to equip all delegations with adequate levels of qualified staff, notably experts in the field of development.

EuropeAid: Members call on the Commission to introduce further improvements to strengthen this internal agency. These improvements would include a strengthened control strategy, an assessment of the cost-effectiveness of the various controls and, as regards budgetary support, tighter controls on the management of public finances in third countries.

The Investment Facility: Members great welcome the fact that, during the discharge procedure for the financial year 2009, the EIB presented, for the first time, its annual report on the implementation of the

Investment Facility to Parliament's Committee on Budgetary Control. They invite it to conclude a framework agreement with Parliament's committee responsible for the discharge procedure for the coming years, including the information to be provided by the EIB. Members make a number of recommendations on this matter calling on the EIB to:

- apply stringent enhanced due diligence concerning the fight against money laundering and the financing of terrorism;

- present complete, relevant and objective information as regards outcomes, objectives set, objectives achieved and reasons for possible deviation, as well as evaluations carried out and a summary of evaluation results;

- provide information on the blacklist of fraudsters, whilst preserving the customary confidentiality of open cases;

- conduct an overall audit of all projects financed by the EIB, which should not be restricted to major projects.