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

2010/2151(DEC) - 10/05/2011 - Text adopted by Parliament, single reading

The European Parliament adopted by 530 votes to 106, with 16 abstentions, a decision to 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.

Parliament also approved the closure of the accounts of these EDFs for 2009 and approved by 563 votes to 77, with 11 abstentions a resolution containing a number of observations that must be taken into consideration when granting discharge.

Parliament recalls 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 its historic attachment to the **budgetisation of the EDF**, Parliament underlines 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. It urges 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: Parliament recalls the 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, it calls 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. It calls on the Commission to increase this share to 25% in the future.

Parliament underlines, 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. It calls on the Commission to make merit-based **use of local- and European-based NGOs, in particular in cases where the management of projects and programmes by NGOs and international organisations (Multi-Donor Trust Funds) is more efficient and cost-effective than management by the Commission**. Parliament also asks the Commission to provide it 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. Parliament recalls 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, Parliament, however, identifies certain weaknesses as regards the management of implementing organisations, ex ante checks and the functionalities of certain audit activities. It therefore calls on the Commission to keep it informed of steps taken to remedy these issues. It also expresses concern regarding certain weaknesses in regard to public procurement procedures, ex ante controls in delegations and partner countries' internal control systems. Parliament also regrets 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).

Statement of Assurance: Parliament welcomes the Court's positive statement of assurance regarding the EDF annual accounts in 2009.

- **Regularity of transactions**: Parliament welcomes 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**. It urges 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). It also recalls 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. Parliament still observes errors concerning compliance with tendering rules, legal deadlines for the signature of contracts and provisions regarding mandatory guarantees.
- **EuropAid**: Parliament welcomes 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. Parliament is 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: Parliament deplores 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. It deplores, in particular, the lack of complementarity between the Commission's regional and national cooperation strategies, as well as the poor absorption capacity of regional organisations. It calls 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. **It considers it completely unacceptable that the Court of Auditors through a lack of proper reporting, was "unable to assess" a number of projects financed.**

Parliament underlines 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. It awaits information on this matter before the beginning of the discharge procedure for 2010. Parliament regrets 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. **It calls, accordingly, on the Commission to step up capacity-building for East African and West African regional economic organisations and their institutions.**

EPAs: as regards EPAs, Parliament insists 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.The Union should also avoid undermining existing regional groupings by agreeing EPAs with individual countries. Parliament insists 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.

Use of accrued interest: Parliament does 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. It asks the Commission to make proposals in regard to this issue.

Budget support: Parliament is 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. Parliament stresses 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) strengthening the eligibility criteria for budgetary support; iii) strengthening audits and control and monitoring systems.

Parliament also urges the Commission to evaluate the budget support payments with even greater rigour. It calls on it to take all necessary measures in order to **combat corruption in the beneficiary states** by taking a pro-active approach. It believes 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. It reiterates its view 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. It urges the Commission to ensure better visibility for Union-funded activities overseas.

Disclosure statement by beneficiary countries: Parliament calls once more its 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: Parliament is extremely 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. It consequently expects 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.

The Investment Facility: Parliament welcomes 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. It invites 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.

Parliament expects the EIB to confirm that there is no overlap between projects it finances and those financed by the Commission and makes a number of observations on this issue 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;
- present a report that is less theoretical and more practical, in particular on the results obtained by the various programs and actions financed by the Investment Facility;
- 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, but should also review all appropriations and guarantees the EIB must write off.