Budgetary control of EU financial assistance to Afghanistan

2011/2014(INI) - 15/12/2011 - Text adopted by Parliament, single reading

The European Parliament adopted a resolution on **budgetary control of EU financial assistance to Afghanistan.**

Parliament recalls firstly, that already in 2010, Parliament's resolution on a new strategy for Afghanistan had identified several points of concern in regard to the budgetary control exercised with regard to EU aid to Afghanistan. According to Integrity Watch, in 2009, bribes of over $1 billion were paid in this country. They also recall that, since 2002, the Commission had allocated more than EUR 2 billion in development and humanitarian aid to Afghanistan and that it had disbursed EUR 1.8 billion.

In this context, Members highlight the **benefits and drawbacks of the different funding channels for providing aid to Afghanistan**. In their view the Commission should envisage different funding channels to diversify aid in order to address individual needs. They call on the Commission to consider introducing **direct budget support in Afghanistan under rigorous and well-defined conditions** as soon as the necessary macroeconomic stability and sufficiently reliable financial management have been shown to exist, as it is the best instrument for building capacity in the Afghan administration.

Sectoral budget support: Parliament calls on the Commission, at the same time, to make potential future budget support dependent on rigorous and well-defined conditions which are clear and measurable. It believes that budget support could start with limited amounts applied under rigorous and well-defined conditions, noting the example of other donor countries in introducing sectoral budget support for those Afghan ministries for which the benchmarks on accountability and transparency are met. Members ask the Commission to consider introducing budget support not only at central level but also at provincial and local level, as this would increase capacity building at all governmental levels and would also strengthen the Commission's position vis-à-vis those entities and make the Commission more independent of its relations with a single entity.

At the same time, Parliament reiterates its oversight role in this context and calls on the Commission to publish clear and standardised reports which assess - in an objective and transparent way - progress and eventual obstacles encountered in regard to these projects.

Accountability and oversight of EU funds in Afghanistan: Members deplore the weaknesses in project management in Afghanistan identified by the European Court of Auditors (ECA). Among the weaknesses most frequently encountered were:

- a high risk of corruption and fraud in the country (between 5% and 9% of total US aid spent in Iraq and Afghanistan was subject to fraud);
- the high level of illiteracy and poorly trained staff;
- lack of reliability of the Afghan national police;
- a high risk of waste of funds (between 10 and 20% of total US aid spent in Iraq and Afghanistan was wasted);

- short-term projects being funded with limited chances of being sustainable in the long run;

- lack of full independent of the Control and Audit Office of Afghanistan from the Afghan Government.

To address these weaknesses, Members call for the introduction of several measures to ensure: i) the strengthening of financial and operational long-term sustainability; ii) encouragement of Afghan ownership of the project to the highest possible extent; iii) fraud and corruption risk factor to be eliminated to the highest possible extent. They underline the crucial importance for democracy of having a Supreme Audit Institution which is financially and operationally fully independent of the executive branch for the Commission to successfully carry out control and monitoring tasks with the Control and Audit Office of Afghanistan.

Parliament also stresses the need to improve the accountability of aid channelled via UN Agencies in Afghanistan. It recalls that Parliament has repeatedly asked the Commission to improve the transparency and accountability of UN-managed projects, especially multi-donor trust funds, e.g. by introducing a **Statement of Assurance**. Members believe that further progress is needed in order to improve reporting on the use of EU funds. They call for enhanced transparency and accountability combined with effectiveness and efficiency. They welcome the work undertaken by the International Organisation of Supreme Audit Institutions (INTOSAI) which should serve as an inspiration to UN organizations in their methods of granting aid.

Once again, Members recall that Parliament has long been asking for a European multi-donor trust fund, as a way of ensuring accountability to the highest possible extent for as long as not all UN agencies managing multi-donor trust funds comply with EU standards on transparency and accountability. Parliament draws attention to the Commission's proposal that the revised Financial Regulation should provide for a legal basis on which to set up its own multi-donor trust funds.

Coordination of aid efforts by the donor community: noting that aid effectiveness and coordination of donor actions in Afghanistan are structurally hampered by the fact that many donors have a tendency to aim for short-term results without sufficient alignment with the needs of the people of Afghanistan, Members anticipate that the creation of the EEAS (European External Action Service) will result in better coordination and interaction, as well as greater transparency in the implementation of EU projects and the more sustainable and efficient use of EU funding. They call on the Commission to pursue further efforts to coordinate the aid not only with the Member States but also with other international donors.

Improvements to reporting: Parliament reminds the Commission that Parliament has called on the Commission to submit to it an annual report on Afghanistan containing a detailed evaluation of the effectiveness and impact of aid, and it reiterates this call to implement the recommendation. It sees the need to increase the transparency and accountability of the use of EU funds and to help EU Member States and other donors to avoid common pitfalls.

Challenges for the future: noting the recent announcement of the United States of America that it is going to withdraw about one third of American troops by the summer of 2012, Members underline the fact that a withdrawal of troops could have a **negative effect on the economy of Afghanistan**. Several challenges must be met to ensure Afghanistan’s future: i) the need to improve the capacity and independent of the Afghan judiciary; ii) measures to combat corruption that is undermining the country’s socio-economic development; iii) combating waste, excessive intermediary and security costs, and overbilling and corruption; iv) strengthening the country’s security; v) gender equality and women’s rights.

Foreign policy: Members consider that the general purpose of EU development aid should be to assist in the long-term sustainable development of the country, including improvement of socio-economic standards, facilitating job creation and proliferation of SMEs, strengthening the educational sector and

ensuring gender equality. The aid should further facilitate capacity-building in the public administration, strengthen the rule of law and reduce corruption. They recommend that part of the financial assistance to Afghanistan be allocated to the five-year plan to **phase out opium cultivation** and replace it with alternative crops.

Noting that a significant proportion of aid does not reach the intended beneficiaries (the people of Afghanistan), Members point out that the EU and, in particular, the Commission/EEAS should have a leading role in improving donor coordination, in close cooperation with other key donors such as the US and Japan. They take the view that the European Union, as one of the major donors of official development and humanitarian assistance to Afghanistan (more than EUR 2 billion between 2002 and the end of 2010), has a particular responsibility to evaluate whether those funds reach the intended recipients and improve their living conditions. They also call on the EU to set up a centralised database on, and to analyse the costs and the impact of, all EU aid to Afghanistan, and for the introduction of sectoral budget support, with measurable impact indicators.

Development policy: Members stress that directing aid towards conflict-affected countries implies the acceptance of a substantial level of inherent risk in terms of results. Nevertheless, greater efforts need to be made to reverse this trend. They emphasise that the effectiveness of aid to Afghanistan can only be improved if there is a **radical change of approach to the problem of corruption**. In this context, they call on the EEAS and the Commission to define a clear strategy for delivering aid in such a fragile, high-risk context. They stress the need for urgent reforms and capacity building to strengthen public financial management (PFM) systems, reduce corruption and improve budget execution. The Afghan authorities are called upon to mobilize themselves so as to ensure that Afghans can actually benefit from the aid they are granted and to ensure that there is a greater role for civil society. The Afghan authorities are also asked to focus on the development of capacity building in the public sector.

As far as future aid is concerned, Members call on the EU to honour its commitments and to continue to make available appropriate resources **beyond 2014**, when responsibility for security will be fully in the hands of the Afghan authorities. They call on the EU to seek new foreign civil-society partners and donors.

Lastly, Members call on the Commission, the Member States and the international community to coordinate their aid efforts better, and combat the current fragmentation of assistance.