2010 discharge: 8th, 9th and 10th European Development Funds (EDF)

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The Committee on Budgetary Control adopted the report by Martin EHRENHAUSER (NI, AT) on discharge to be granted to the Commission in respect of the implementation of the budget of the Eighth, Ninth and Tenth European Development Funds (EDFs) for the financial year 2010. The committee also called on Parliament to approve the closure of the accounts for the implementation of these EDFs for 2010. They make a number of recommendations that need to be taken into account when the discharge is granted.

Members firstly recall that the European Development Fund (EDF) is the Union's most important financial instrument for development cooperation with the ACP States. They also recall that the total amount of aid channelled through the EDF is undergoing a considerable increase as the amount of Union aid under the Tenth EDF for the period 2008 to 2013 has been set at EUR 22.682 billion which represents a 37 % nominal increase per year compared with the financial allocations under the Ninth EDF, and that, while the EDF disbursements have doubled from 2000 to 2010, **the problem of absorption capacity persists**.

Structure of the EDF: Members recall that the EDF is implemented through projects and budget support, whereas in 2010 66 % of the funds flowed into projects and 34 % were channelled via budget support. In 2010, 49 % of payments from the EDF were managed under centralised management, i.e. the Commission implemented the aid activities directly, 11 % of the payments were managed under joint management, i.e. via international organisations such as the United Nations Organisation and the World Bank. 40 % of the payments were managed under decentralised management, i.e. the Commission entrusted certain implementation tasks to the authorities of the beneficiary countries.

Members note with satisfaction the **record high in gross payments and the commitment rate of close to 50 % halfway through the Tenth EDF** but reiterate their concern that Parliament does not have the right to scrutinise EDF operations in the same way as it does for other aid instruments such as the Development Cooperation Instrument (DCI).

EDF budgetisation: Members **reconfirm their position of supporting EDF budgetisation**. They strongly believe that this is an indispensable step towards strengthening the democratic control, the accountability, and the transparency of funding and towards providing more coherence in Union policy concerning ACP countries. Budgetisation would reduce transaction costs and would simplify reporting and accounting requirements by having only one set of administrative rules and decision-making structures instead of two. In particular, they regret that no provision has been made in this regard in the future financial framework and insist on the EDF's budgetisation no later than 2020.

Statement of Assurance: Members make the following remarks in relation to the Court of Auditors' Statement of Assurance:

- **Reliability of the accounts**: they welcome the opinion of the Court of Auditors that the final annual accounts of the Eighth, Ninth and Tenth EDFs present fairly, in all material respects, the financial position of the EDFs as of 31 December 2010, in spite of the high frequency of encoding errors, in particular with regard to Europe Aid's financial management;
- **Regularity of transactions:** they note that the revenue and commitments are free from material error (3.4% which is above the materiality threshold of 2%). They are especially worried over the

increase in badly performing projects in 2010 (12,6 %, versus 11 % in 2009) and the persistently high frequency of errors in commitments under decentralised management. They call on the Commission to enhance *ex-ante* controls to prevent non-quantifiable errors and possible losses as a result of non-compliance with the bank guarantee rules.

Residual errors: Members recall that Europe Aid is still working on a key indicator for the estimated financial impact of residual errors after all *ex-ante* and transactional *ex-post* controls have been carried out. They regret the lack of compatibility between the Court of Auditors' estimation of the most likely error rate based on the annual approach of the Court of Auditors and current methodology, on one hand, and the Commission's practice to refer to the net residual error rate covering more than one year, on the other hand. They believe that the approach based on the residual error rate in its current form does not provide comparable data for the annual discharge procedure and call for the completion of the process of developing the key indicator to estimate the financial impact of residual error within the set timeframe, i.e. by 2013.

Overall assessment of the effectiveness of supervisory and control systems: Members regret the Court of Auditors' finding that the overall supervisory and control systems of the EDFs managed by the Commission are only **partially effective** (particularly for the central services of Europe Aid and the Union's delegations). They call for the strengthening of the institutional capacity in the National Authorising Officer's administration by providing additional financial training and targeted guidance. In particular, they call for a **strengthening of staff and human resources**. Noting the efforts made by the Commission to improve the supervisory and control systems of EuropeAid, they expect the Commission to inform the competent committees of the Parliament on the measures taken to remedy the problems. They urge the Commission to increase the level of information regarding the implementation of the EDF at national and regional level in the ACP countries and to ensure better visibility for all Union-funded activities overseas.

Competences of the Commission and the EEAS in the implementation of Union development assistance: Members note that 2010 was the year when the EEAS took shape and commenced operation. They reiterate their concerns that the initial division of competences between the Commission and EEAS staff in the Union Delegations gave rise to c**onfusion and justified criticism**. Measures are called for in this regard, as well as greater transparency *vis-à-vis* Parliament.

Budget support: Members recall the Court of Auditors found in its Annual Report on the EDFs concerning the financial year 2010 that budget support payments were affected by a high frequency of non-quantifiable errors in 2010 - 35 %, as high as it was in 2009, showing persistently high levels of errors in budget support payments. They recall that budget support has been used as an aid modality for almost two decades by the Commission and, although acknowledging its potential advantages, they believe that it is **not the right answer to every situation**. In fact, this aid modality is meaningful only if it provides sufficient transparency, accountability and effectiveness. Members call on the Commission to concentrate on the effectiveness of the programmes by checking results against indicators. Members call on the Commission to continue its efforts to substantiate its decisions concerning 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. They stress the double accountability for the budget support: between the donor***and the*** partner country and between the partner state and its citizens. They recall that public finance management is one of the criteria for providing budget support. They call on the Commission and the Member States to create a **public register in which budget support agreements, procedures and development indicators are transparently listed**. They call on the Commission to ensure that budget support is reduced or cancelled when clear goals are not achieved. They urge the Commission once again to help partner countries develop parliamentary control and audit capacities.

Development priorities, Development Cooperation with higher Impact: Members stress that good governance, democracy, respect of human rights, and poverty reduction must be integrated goals of the

implementing organisations in countries where EDF support is distributed. They reiterate their call on the Commission to prioritise support to **strengthen health systems** by focusing, in particular, on targeting the poorest people, to improve the quality of learning and to help establish a policy framework which favours the poor and which is gender responsive; urges the Commission to ensure better visibility for Union-funded activities overseas.

The following additional measures are called for:

- the mobilisation of developing countries' internal funds to complement European funds;
- combat the flight of capital from developing countries through corruption and large-scale tax evasion;
- respect for WTO principles and the finding of solutions to the outstanding issues concerning the proposed Economic Partnership Agreements and free trade between Europe and the ACP region;
- the introduction of control procedures to bring an end to management problems when Union funds are managed through international organisations;
- the significance of linking relief, rehabilitation and development (LRRD) in order to strengthen the links between relief, recovery and development;
- the importance that EDF funding is coordinated with other instruments (food aid, Food Security Thematic Programme, European Instrument for Democracy and Human Rights, etc.);
- better coherence and complementarity between humanitarian aid and development aid, both at policy level and in practice.

Members also point out that the Union needs a wide range of tools for development cooperation adapted to different contexts as there is **no one-size-fits-all in development aid** and, in particular, emphasises the need for specific tools and working methods in dealing with failed states or with deeply undemocratic countries such as **Eritrea**, which refuses aid to its people in spite of a rampant food crisis. On the issue of the chronic character of drought and food shortages in the Horn of Africa Members call for measures to strengthen the self-sufficiency of local farmers.

Members also raise the following points:

- **Union's aid to Haiti**: Members recall the earthquake in Haiti and its disastrous consequences. They regret the insufficient level of coordination between the Union Delegation and the ECHO representation and the lack of sustainability of some projects. They ask the Commission to provide Parliament with a list of projects which have been carried out during the last 15 years in Haiti. To increase the visibility of European aid, Members consider not only the flag, but also the name of the European Union should appear in PR documents rather than simply that of the Commission or of DG ECHO, which are much less identifiable to average Haitian citizens.
- Members also make a number of comments regarding the observations made by the Court of Auditors in its **Special Reports 11/2010** (on the Management of General Budget Support in ACP, Latin American and Asian Countries) and **12/2010** (on Union development assistance for basic education in Sub-Saharan Africa and South Asia). In the two cases, Members call for measures to be taken to deal with the weaknesses highlighted by the Court of Auditors.

The Investment Facility: Members recall that the funds allocated to the Investment Facility from the Tenth EDF (EUR 1.53 billion for the ACP and OCTs) managed by the European Investment Bank (EIB). Once again, Members deplore the fact that the Investment Facility is not covered by the Court of Auditors' Statement of Assurance or the Parliament's discharge procedure. The also stress that all the EIB operations financed from the EDF must be in full compliance with Article 208 of the Treaty on the Functioning of the European Union, according to which the **reduction and eradication of poverty** is the primary objective of the Union's development policy. According to Members, only pro-poor development policy can be effective and sustainable. They believe in particular that economic growth policies cannot succeed without **promotion of social and environmental standards a**nd the implementation of social

protection mechanisms. They call on the EIB to link its financing projects more directly to poverty reduction and the achievement of the MDGs, human rights, corporate social responsibility, decent work and environmental principles**,** democracy, good governance and the set up of companies.

Members recall that 14 % of the funds from the Investment Facility (EUR 390 million) are channelled via European bilateral development financial institutions or joint ventures. They deplore the lack of transparency concerning the final beneficiaries of the funds from the Investment Facility and call on the EIB to apply stringent enhanced due diligence in accordance with standardised procedures, following international best practices, concerning the fight against money laundering and the financing of terrorism.