2011 discharge: 8th, 9th and 10th European Development Funds (EDF)

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The Committee on Budgetary Control adopted the report by Søren Bo SØNDERGAARD (GUE/NGL, DK) in which it recommends the European Parliament to grant the Commission discharge in respect of the implementation of the budget of the Eighth, Ninth and Tenth European Development Funds for the financial year 2011.

In parallel, it calls on the Parliament to approve the closure of these accounts for 2011. They make a number of recommendations that should be taken into account when discharge is granted.

Firstly, Members recall that global commitments, individual commitments and payments reached EUR 3.279 billion, EUR 2.786 billion and EUR 2.941 billion respectively for the financial year 2011.

Statement of assurance: Members note with satisfaction that according to the Court of Auditors, the revenue and commitments are free from material error despite a high frequency of encoding errors, which remain a source of concern as they affect the accuracy of data used for the preparation of the annual accounts, in particular with respect to the annual cut-off exercise at year-end. They are concerned that material error in EDF payments was found for the second year in row and to a significantly higher degree than in 2010 (with an estimated error rate of 5.1% in 2011, i.e. a significant increase over 2010, when it was 3.4%). They are concerned that many of these errors had been detected neither by external audits nor by the Commission's own checks, which points to weaknesses in EuropeAid's (EuropeAid) supervisory and control systems. They urge the Commission to examine the causes of these errors and to undertake remedial actions to eliminate them.

Contrary to the Commission’s optimism of a constant improvement of budget management, Members call on the Commission to use a 'traffic light' system in its annual EDF report in order to show what has improved or deteriorated from one year to the next.

Effectiveness of systems: Members are deeply worried by the Court of Auditors' finding that the supervisory and control systems are only partially effective. They note that delays in contracting important infrastructure programmes and withheld budget support payments caused individual commitments and payments to be respectively 13 % and 16 % below target in 2011. They reiterate their particular concern about the low commitment rate of the 10th EDF regional envelope (31 %), only two years before the end of the programming period.

They are concerned that human resources policy has continued to be a persistent concern and that EuropeAid staff members were being used for tasks other than aid management.

They call on the Commission to:

- improve further the management of contract awarding procedures with a view to reducing the high number of errors found in project payments;
- **establish a blacklist of external service providers** that do not meet the required standards, including a set of binding criteria;
- call on the Commission to reconsider its **whistleblowing** policy, including the implementation of that policy in the delegations;
- strengthen all audit policy.

Illicit capital outflows: Members recognise that **one of the biggest challenges developing countries are facing is the massive outflows of illicit capital**. They also recognise that off-shore centres and tax havens facilitate an annual illicit capital flight of **USD 1 trillion**. These illicit monetary outflows are roughly ten times the amount of aid money going into developing countries for poverty alleviation and economic development.

Referring specifically to its resolution of 8 March 2011 on Tax and Development – Cooperating with Developing Countries on Promoting Good Governance in Tax Matters, Members stress that in the cross-border flow of illicit money, proceeds from commercial tax evasion, mainly through trade mispricing, represent the biggest component.

Members call on the Commission to identify areas for improvement in both Union legislation and administrative cooperation between Member States. They welcome the Commission's Action Plan to strengthen the fight against tax fraud and tax evasion and believe that a **common definition and blacklist of tax havens** as well as enhanced corporate transparency, including the introduction of 'beneficial ownership' in company registrations, are important steps to **curb the illicit capital flows**.

Measures are also called for to strengthen the effectiveness of customs authorities given that in many developing countries they are not functioning effectively, principally due to absence of efficient risk management systems. The Commission is urged to take all necessary steps in order to remedy the situation by strengthening its cooperation with international networks.

Coordination of development assistance, development priorities, and getting results from Union aid: Members regret that only four countries - Sweden, Luxembourg, Denmark and the Netherlands - exceeded Union targets for international development assistance in 2012, despite the fact that all have committed themselves to contribute 0.7% of their Gross Domestic Product (GDP) in development aid.

According to Members, the Union needs a wide range of tools for development cooperation adapted to different contexts. Members emphasise the need to **minimise contradictions** between trade policy, foreign and security policy and development priorities. More emphasis should be given to the sustainability of aid as well as its efficiency and effectiveness of ongoing projects and programmes in **Sub Saharan Africa**.

A number of general considerations are made as regards the importance of aid for education and long-term socio-economic development in the ACP countries.

Budget support: Members note that, in 2011, EUR 207 million were committed for budget support which represents 6.3% of the overall amount of total commitments. They state that 23% of budget support payments were affected by non-quantifiable errors which resulted from the **lack of a structured demonstration of compliance with the eligibility criteria**. The Commission is called upon to ensure a rigorous control of recipient countries both before and after the decision to grant budget support **in order to ensure that European taxpayers' money is not misappropriated for funding terrorism or corruption**.

Whilst acknowledging the **potential advantages of budget support**, Members draw attention to the risks that this aid modality entails in that it is more vulnerable to fraud and corruption than other forms of aid, due to its fungibility. Those risks are especially alarming in the context of the massive outflows of illicit capital from developing countries.

Members urge the Commission to therefore take into account existing reporting on corruption and fraud levels before taking a decision on granting budget support; insists that an independent national audit body must be a condition for granting budget support. They repeat their call on the Commission to provide

regular reports on the accomplishment of the goals set for Union budget support and on specific problems encountered in particular recipient countries. The Commission is also called upon to **ensure that budget support is reduced or cancelled when clear goals are not achieved**.

Cooperation with international organisations: Members are deeply concerned by the Court of Auditors' finding that the majority of errors for payments were found in grants and contribution agreements with international organisations where 58% of audited transactions were affected by error. The safeguards for the implementation of control and the follow-up of Union funds under joint management are not satisfactory. Members call on all parties involved to remedy this situation. Furthermore, Members regret that so far, there are no sustainable solutions and procedures for the provision of necessary financial information from the WBG to the Union institutions in each and every case.

Members reiterate their regret that the investment facility is not covered by the Court of Auditors' Statement of Assurance or Parliament's discharge procedure, even though the operations are conducted by EIB on behalf of and at the risk of the Union, using EDF resources. They urge the Commission to make public the performance indicators for budget support to the Republic of Haiti, and the respective assessments of the Government of Haiti's performance in order to qualify for budget support.

Lastly, Members welcome the Commission's commitment to propose **EDF budgetisation for 2020**, when the Cotonou Agreement expires. They insist that, were budgetisation to be considered for the MFF 2014-2020, it must imply transferring the entire EDF financial envelope as proposed by the Commission (EUR 30.3 billion in 2011 prices) to heading 4 on Global Europe and should under no circumstances be used as a pretext for reducing overall spending ceilings for Union's external action in general.