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

2012/2166(DEC) - 17/04/2013 - Text adopted by Parliament, single reading

The European Parliament adopted a decision granting 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 approves the closure of these accounts for 2011 and adopts a resolution in which it makes a number of recommendations that should be taken into account when discharge is granted.

Parliament firstly recalls 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:** Parliament notes with satisfaction that according to the Court of Auditors, the final annual accounts 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. It is 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%). It is 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. It calls on the Commission to complete the comparative analysis of the errors detected by the Court of Auditors in 2010 and 2011 and to report its findings to Parliament.

Contrary to the Commission’s optimism of a constant improvement in budget management, Parliament calls 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:** Parliament considers that the supervisory and control systems are only partially effective. It notes 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. It reiterates its particular concern about the low commitment rate of the 10th EDF regional envelope (31%), only two years before the end of the programming period.

It notes that human resources policy continues to be a concern due to the high staff turnover and that the level of control of National Authorising Officers (NAOs) in EDF beneficiary countries is relatively low.

It calls 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;
- improve monitoring and supervision in the delegations because staffing problems is recurring;
- call on the Commission to reconsider its whistleblowing policy, including the implementation of that policy in the delegations;
- strengthen all audit policy.

In an amendment adopted in plenary, Parliament takes note of the **Commission's assurance that there are no bank accounts held or managed by the Commission outside the budget** in the sense that funds are used for payments of actions which are not authorised by the Budget Authority.

**Illicit capital outflows:** Parliament recognises that **one of the biggest challenges developing countries are facing is the massive outflows of illicit capital**. It also recognises 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, Parliament stresses that in the cross-border flow of illicit money, proceeds from commercial tax evasion, mainly through trade mispricing, represent the biggest component.

It calls on the Commission to identify areas for improvement in both Union legislation and administrative cooperation between Member States. It welcomes the Commission's Action Plan to strengthen the fight against tax fraud and tax evasion and believes 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 in both developing countries and the Member States.

**Coordination of development assistance:** Parliament notes that **Union aid remains fragmented** between Union instruments with regard to levels of action in the Union as well as Member States' bilateral programmes and the European Investment Bank's (EIB) interventions. This situation contributes to weaknesses in aid programming in crisis and fragile situations. It calls on the Commission to coordinate the different aid instruments across the Union.

It regrets 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. In Parliament' s view, there is a need to ensure **improved policy coherence** so that **other considerations** such as trade policy and foreign and security policy **do not cut across the Union's development priorities**. The plenary stresses that long term social and economic development requires sustainable sources of income other than aid. It considers that sound and well-functioning trade relations in line with WTO principles is a key issue in this regard for developing countries and therefore urges the Council, the Commission and the ACP countries to find solutions to the issues concerning the Economic Partnership Agreements and free trade between the Union and the ACP region.

Parliament also stresses that 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:** Parliament notes that, in 2011, EUR 207 million were committed for budget support which represents 6.3% of the overall amount of total commitments. It observes 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, Parliament 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. Parliament therefore urges the Commission to take into account existing reporting on corruption and fraud levels before taking a decision on granting budget support. It also insists that an **independent national audit body** must be a condition for granting budget support. It repeats its 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:** Parliament is 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 (58% of audited transactions were affected by error). Safeguards are required to ensure the control and the follow-up of Union funds under joint management. It makes a series of further recommendations on aid under the management of the World Bank Group (WBG) in order to ensure its effectiveness.

Parliament regrets that the investment facility is not covered by the Court of Auditors' Statement of Assurance or Parliament's discharge procedure, so that projects financed under this instrument can be monitored. It urges the Commission to make public the performance indicators for budget support to the Republic of Haiti and deplores the lack of sustainability of some of the projects implemented. This is why the plenary calls on the Commission to provide an assessment of the sustainability of the **Union-funded projects in Haiti based in a five-year perspective** and to report to the discharge authorities on an annual basis.

Lastly, Parliament reiterates its demand for the **EDF budgetisation** for 2020, as the Commission has committed itself to do. It insists 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.