2012 discharge: 8th, 9th and 10th European Development Funds

2013/2206(DEC) - 19/03/2014 - Committee report tabled for plenary, single reading

The Committee on Budgetary Control adopted the report by Jan MULDER (ADLE, NL) recommending to Parliament that it give discharge in respect of the implementation of the budget for the Eighth, Ninth and Tenth European Development Funds for the financial year 2012. The committee called on Parliament to approve the closure of these accounts on the implementations of the Funds for 2012. It made a number of recommendations that need to be taken into account when the discharge is granted.

Members recalled that global commitments, individual commitments and payments reached EUR 3 745 million, EUR 3 817 million and EUR 3 292 million respectively for the financial year 2012.

Statement of assurance: the report welcomed the Court of Auditors' opinion that the final annual accounts present fairly, the financial position of the EDFs, and the results of their operations and cash flows for the year 2012. It noted however, that in the domains of budget support and the Union's contributions to multidonor projects implemented by international organisations, the nature of the instruments and payments conditions limited the extent to which transactions were prone to errors.

It observed that 1 153 nongovernmental organisations (57% of all NGOs) are operating in the field of EuropeAid and 152 (8 %) in the field of humanitarian aid (ECHO), receiving EUR 1 520 million and EUR 960 million respectively in Union funding. It also noted that Union funding of NGOs had doubled in 10 years. It called on the Commission to provide an **overview of the 30 largest and 30 smallest projects being implemented by NGOs using EDF funding.**

Members were concerned by certain irregularities on interest on pre-financing payments .

At the same time, they regretted that payments were materially affected by error due to the weaknesses identified in the supervision and control mechanisms (out of 167 interim and final expenditure transactions reviewed by the Court of Auditors, 44 (i.e. 26 %) were affected by errors).

Effectiveness of systems: Members noted with regret, as in the past, that EuropeAid's ex ante checks, carried out before the project payments were done, still remain vulnerable. Worried by the fact that errors had been found, they called on EuropeAid and Union delegations to focus more on the follow-up of external audits and expenditure verification reports, especially when the recovery of ineligible amounts is at stake. The Commission was called upon to:

- continue its efforts to strengthen its current control systems, and to report annually to Parliament on the corrective actions implemented;
- increase staff awareness and knowledge of control issues;

EuropeAid was called upon to:

- continue developing the appropriate tools and actions in order to improve the overall effectiveness of the control pyramid within EuropeAid's Headquarters and Union delegations;
- reinforce the supervision of the Heads of Union delegations in their capacity as authorising officers by sub-delegation for the Commission.

The committee regretted the fact that despite last year's recommendation, **no significant improvement could be observed in the functioning of the Internal Audit Capability,** which has a role to play in the improvement of the internal control system or in the cost-effectiveness analysis of the control architecture /mechanisms.

Budget support: Members noted that in 2012, EUR 891 million, representing 29 % of the overall EDF aid disbursement, was provided through budget support. They welcomed the stronger focus placed on accountability, transparency and reinforced risk management in the management of budget support operations since the introduction of the new policy outlined in the Commission's communication of 13 October 2011 entitled "The Future Approach to EU Budget Support to Third Countries". However, they looked forward to the implementation of the Commission's commitment to align **democratic scrutiny of the EDFs to the scrutiny exercised by Parliament over the Development Cooperation Instrument (DCI).**

Members supported public disclosure of relevant budget information relating to budget support programmes in order to enhance domestic and mutual accountability, including to citizens. They called the Commission to ensure that the disbursement of funds through budget support was **withheld, reduced or cancelled when clear and initial objectives and commitments of partner countries were not achieved** and when the Union's political and financial interests were at stake.

The report welcomed the Commission's greater focus on the fight against fraud and corruption, in particular when assessing the Public Financial Management eligibility criterion in terms of budget support. It noted in this respect that corruption and fraud constituted one of the five risk categories identified by the Commission as part of its risk management framework developed for budget support programme. It recalled that the risk of resources being diverted away remained high and reiterated that stronger and constant attention should be paid to these risks by EuropeAid's Headquarters and by the Head of Union Delegation in the framework of the political and policy dialogue, especially to assess the responsiveness of the government concerned and its ability to enforce reforms.

Specific aid

1) Democratic Republic of the Congo (DRC): Members called on the Commission and the EEAS to pay increased attention to ensuring **an appropriate balance of aid between all provinces, especially the poorer ones.** They called for combined support at a central level for programmes at provincial level that link political and territorial decentralisation with improved natural resource management strategies and infrastructure rehabilitation and development.

Members called on the Commission and the EEAS to place greater emphasis, in its dialogue with the DRC government on:

- holding democratic elections;
- increased support to strengthen the capacity of national oversight institutions;
- the need to appraise the relevance and credibility of the country's policies and action plans for improving governance in relation to the available institutional and financial resources;
- focusing objectives on a limited number of priorities;
- insisting that EDF funding should support the **long-term restructuring of central judicial bodies in DRC** in order to ensure the sustainable establishment of the rule of law in the country;

- strengthening structured political and policy dialogue with the DRC, setting clear, relevant, realistic and time-bound targets and periodically assessing compliance.

Members invited the Commission to take a more active leadership role towards Member States by encouraging a coordinated policy dialogue and by increasing Union leverage over the DRC government.

2) Haïti: the committee took note of the fact that the Commission, notwithstanding Parliament's resolutions in the context of the 2010 and 2011 discharge procedures, had not yet made public exhaustive performance indicators on which the budget support to Haiti was based, nor the detailed assessments of the Government of Haiti's performance on which the decision to give budget support was based. It requested that the Commission explained to Parliament **what performance targets had been set for the Haitian government in return for budget support and the modalities for the assessment of these targets**, particularly in light of recent concerns about the deterioration of the rule of law in Haiti and persistent low scores on international corruption indices. It urged the Commission to ensure that the impact evaluation was completed as required by Parliament. Members regretted the lack of progress on accounts for Union funds received and accounting for Union spending.

Cooperation with international organisations and non-governmental organisations: Members reiterated the need for the reinforcement of the cooperation and contacts with international organisations on the errors found for transactions implemented by them and discussion on actions to be taken jointly in the future to prevent them. They encouraged all actions, furthermore, leading not only to a better mutual understanding of Union and World Bank methodologies but also reinforcing the overall quality and reliability of the control management with regard to the use of Trust funds. To that end, the European Commission's 7 Pillars Assessment constituted a real benchmark for providing adequate level of assurance.

Members asked the Commission to verify, when financing an NGO project, which part of the financing came from the organisation's own private funding and which part of the financing from government funding, be it national or European. They asked the Commission to publish a report each year about its findings.

The investment facility: the committee recalled that the funds allocated to the Investment Facility from the Ninth and Tenth EDF amounted to EUR 3,137 million. It deplored, as in previous years, the fact that the investment facility is not covered by the Court of Auditors' Statement of Assurance or Parliament's discharge procedure. It asked the Court of Auditors to **draw up a Special Report on the performance and alignment with Union development policies and objectives of EIB external lending activities**, and to differentiate its analysis between the guarantees granted by the general budget of the Union and by the Member States, the investment facility endowed by the EDF and the usage of reflows for these investments, and the EIB's use of the various forms of blending used in the EU-Africa infrastructural trust fund and the Caribbean investment facility.

Visibility of Union aid: Members took the view that it is imperative to ensure a more visible Union by projecting Union values in various domains of intervention such as promoting human rights and rule of law, raising environmental and social standards and overall support for sustainable development and inclusive economic growth. In the context of the Union’s external policies, they supported the progressive development of **new financial products** with the Commission and Member States.

Budgetisation of the EDF: again, the committee regretted that the EDF had not been included in the general budget in the new financial rules applicable to the general budget of the Union (Regulation (EU, Euratom) No 966/2012). They recalled that Parliament, the Council and the Commission agreed that those financial rules would be revised in order to include amendments made necessary by the outcome of the

negotiations on the multiannual financial framework for the years 2014 to 2020, **including on the issue of the possible inclusion of the EDF in the general budget**. It repeated its call on the Council and Member States to agree to the full incorporation of the EDF into the general budget.

Members underlined that 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.

While noting the commitment by the Commission to include the EDF in the general budget no later than when the Cotonou Agreement expires in 2020, Members stressed that it was the view of Parliament that it should happen as soon as possible.