2014 discharge: 8th, 9th, 10th and 11th European Development Funds

2015/2203(DEC) - 16/07/2015 - Court of Auditors: opinion, report

PURPOSE: presentation of the 2014 report from the Court of Auditors of the European Union on the activities funded by the 8th, 9th, 10th and 11th European Development Funds (EDFs) concerning the financial year 2014.

CONTENT: since 1958, the EDFs have been the main instrument for providing European Union aid for development cooperation to the African, Caribbean and Pacific (ACP) States and overseas countries and territories (OCTs). The partnership agreement signed in Cotonou on 23 June 2000 for a period of 20 years ('the Cotonou Agreement') is the current framework for the European Union's relations with ACP States and OCTs. Its main focus is on reducing and eventually eradicating poverty.

The EDFs are of a particular nature:

they are funded by the Member States according to contribution keys set in an internal agreement between the governments of the Member States, meeting within the Council, which are different from those for the EU general budget;

they are managed by the European Commission, outside the framework of the EU general budget, and by the European Investment Bank (EIB);

The Court's main conclusions are set out in a 'Statement of Assurance' of which the main elements may be summarised as follows:

Statement of assurance:

Reliability of the accounts: the Court stated that the consolidated accounts of the European Union for the year ended 31 December 2014 present fairly, in all material respects, the financial position of the Union as at 31 December 2014, the results of its operations, its cash flows, and the changes in net assets for the year then ended, in accordance with the Financial Regulation and with accounting rules based on internationally accepted accounting standards for the public sector.

Regularity of the transactions underlying the accounts (revenue): revenue underlying the accounts for the year ended 31 December 2014 is legal and regular in all material respects.

Legality and regularity of payments underlying the accounts: based on the audit, the Court estimated that the most likely error rate for expenditure transactions from the 8th, 9th, 10th and 11th EDFs is 3.8%.

The Court gave an **adverse opinion on the legality and regularity of payments underlying the accounts** .

Nature of the errors: as in previous years, the frequency of errors, including some affecting final claims which had been subject to external audits and expenditure verifications, point to weaknesses in these ex ante checks. Errors relating to non-compliance with procurement procedures by beneficiaries and the absence of supporting documents account for 63% of the estimated level of error.

Public procurement: the Court examined the final clearance of expenditure under a grant agreement to an organisation in charge of agricultural cooperation between ACP countries and found an error in the procurement of IT services. The audit showed that the grant beneficiary did not follow an international restricted procurement procedure, which requires a tender notice to be published.

Reform of EUROPEAID: EuropeAid adopted an action plan to address weaknesses identified in the implementation of EuropeAid's system. It is too early to assess the impact of the action plan as some actions are still under development. EuropeAid did not set objectively verifiable indicators, including target values, against which to assess the efficiency and cost-effectiveness of controls.

Recommendations by the Court: to remedy the elements mentioned above, the Court recommended that EuropeAid:

- set up and implement internal control procedures to ensure that pre-financing is cleared on the basis of actual incurred expenditure not including legal commitments;
- reinforce the systematic verification that partner countries use the correct exchange rate to convert budget support disbursements into their national currency;
- improve its indicators in respect of target values against which to assess the efficiency and cost-effectiveness of controls.

The report includes a section on **financial implementation** of the EDFs for 2013:

- The 8th EDF (1995-2000) amounts to EUR 12 840 million and the 9th EDF (2000-2007) to EUR 13 800 million. The 10th EDF (2008-2013) totals EUR 22 682 million. Of this amount, EUR 21 966 million is allocated to ACP countries and EUR 286 million to OCTs. These sums include, respectively, EUR 1 500 million and EUR 30 million for the Investment Facility managed by the EIB, mainly for support to the private sector in the ACP countries and OCTs. Finally, EUR 430 million is earmarked for the Commission's expenditure on programming and implementing the EDF.

- The Internal Agreement establishing the 11th EDF was adopted in August 2013. It came into force on 1 March 2015 following ratification by all EU Member States. The 11th EDF totals EUR 30 506 million, of which EUR 29 089 million is allocated to ACP countries and EUR 365 million to OCTs.

Bridging Facility: in order to ensure the availability of funds between January 2014 and the entry into force of the 11th EDF, transitional measures, known as the 'Bridging Facility', were adopted by the Council in December 2013. The resources available under the Bridging Facility in 2014 amounted to EUR 1 616 million. They were funded by:

- funds decommitted from the 8th and 9th EDFs up to 31 December 2013 (EUR 936 million euro);
- uncommitted balances from the 10th EDF at 31 December 2013 (EUR 75 million);
- funds decommitted in 2014 from the 10th and previous EDFs (EUR 586 million); and
- interest and other receipts (EUR 19 million).

They are accounted for under the 11th EDF, but do not constitute additional resources to the 11th EDF.

Commitments in 2014: the level of net commitments made in 2014 was **extraordinarily low** (EUR 621 million) compared to previous years. This was due to the delayed entry into force of the 11th EDF, which limited the resources available for commitments under the Bridging Facility.

Payments in 2014: payments made in 2014 reached a historical high (EUR 3 516 million), in particular because of EUR 595 million paid out from the Bridging Facility, notably for large disbursements of budget support and advances for operations under the African Peace Facility in the Central African Republic and Somalia.

At the end of 2014, almost all resources available had been committed (98.9% for financing decisions, 91.2% for individual contracts).

Outstanding commitments decreased by 23% from EUR 12.5 billion at the end of 2013 to EUR 9.7 billion at the end of 2014. This was the result both of the efforts made by EuropeAid to decrease outstanding commitments and of the low level of financing decisions made in 2014.