2005 discharge: 6th, 7th, 8th and 9th European Development Funds EDF

2006/2169(DEC) - 19/07/2006 - Document attached to the procedure

PURPOSE: presentation of the Commission's Financial Management Report on the 6th, 7th, 8th and 9th European Development Funds for the year 2005.

CONTENT: this Report fulfils the Commission's obligations under Articles 96, 102 and 135 of the Financial Regulation applicable to the 9th European Development Fund. Article 96, paragraph 2 requires that the EDF accounts shall be accompanied by a report on financial management containing an accurate description of the achievement of the objectives for the preceding financial year, in accordance with the principle of sound financial management and of the financial situation and the events that had a significant influence on the activities carried out.

The purpose of this document is to concentrate more on the results of the community cooperation with **sub-Saharan Africa**, the **Caribbean** and the **Pacific** under the ACP-EC partnership enshrined in the Cotonou Agreement; the 20 Overseas Countries and Territories (**OCTs**) linked constitutionally to Member States; and European Investment Bank (**EIB**) programmes in ACP states.

In addition, some of the Commission's ACP development programmes are funded outside the Cotonou Agreement, from the general EU budget. This report does not cover these programmes. They include:

- the Commission's activities in South Africa;
- thematic budget lines covering food security, democracy and human rights, and the environment;
- support for banana producers under the Special Assistance Framework. The European Investment Bank (EIB) also funds activities in ACP states from the Investment Facility and its own resources.

To recall, the 9th EDF took effect on 1 April 2003, once all Member States had ratified the agreement. The Commission transferred to the 9th EDF the outstanding balances from previous EDFs. The 9th EDF expires in December 2007.

The Communication focuses on the following main points:

1) Achievement of objectives for the 2005 financial year: in 2005, the Commission devoted the greatest share of EDF resources - 36% - to the provision of basic social services - education, health, clean water and basic sanitation. These are key to achieving the MDGs. The Commission assigned the next largest shares to budget and balance of payments support (figures include food security and Stabex operations) and to transport, communications and energy. Together, these three areas accounted for 84% of EDF global commitments.

The Commission continued to deliver programmes faster in 2005. This was reflected in its strong commitments and payments performance. It made **global commitments** from the EDF of **€3 511 million** - a 33% increase compared to 2004 - and paid out **€2 544 million**.

After committing funds for a programme (global commitments), the Commission must then sign contracts (individual commitments) with the entities that will deliver it (government, firms, NGOs, international organisations) and then disburse funds to them (payments). The Commission achieved its second-highest level ever of individual commitments in 2005 - €3 057 - and record payments of €2 544 million.

2) Financial situation at the end of 2005: at the close of 2005, the Commission had allocated in total €44 455 million net to ACP countries under the 6-9th EDFs. This comprised €29 512 million from the 6-8th EDFs and €14 943 million from the 9th EDF. Of the total allocated (€44 455 million), the Commission has committed €38 727 million and paid €28 403 million. The unspent €16 052 million comprises uncommitted funds of €5 728 million and unspent commitments (Restes à Liquider) of €10 324 million.

3) Events that had a significant influence on activities carried out in 2005:

- **Backloading:** the uneven spread of global commitments over the year remained a problem in 2005. The Commission committed 38% of the 2005 total by the end of September, against a target of 55%. In response, EuropeAid is monitoring the project pipeline more closely than in the past, and using the Quality Support Group to ensure deadlines are respected in addition to supporting quality.
- **Stabex**: in 2005, the Commission laid the ground for addressing outstanding Stabex issues, but this will only bear fruit in 2006 and 2007. The Commission clarified legal and budgetary issues to allow outstanding Stabex commitments to proceed. The Commission intends to commit all outstanding Stabex funds for beneficiary countries through Frameworks of Mutual Obligations (FMOs). Target deadlines are: (i) FMOs approved - end 2007; (ii) contracting - end 2008; (iii) disbursement - end 2010.
- **Management information:** the Commission's management information tools - CRIS and OLAS - do not yet provide the information needed to make fast, accurate EDF forecasts and to monitor and report on EDF performance indicators. This is in part because of incomplete data inputting. The Commission is working to replace OLAS with CRIS-EDF and to introduce a new accounting system, ABAC.
- **Regulatory limits to co-financing:** the EDF Financial Regulation limits participation in co-financing operations, so the Commission will pursue its proposal for a fast-track revision of the Financial Regulation and 9th EDF Internal Agreement.
- **Internal control:** in 2005, EuropeAid transferred responsibility for ex-post controls to its geographic directorates. The ACP directorate recruited new staff for this task in September 2005. The Directorate also conducted a detailed risk analysis and applied a representative sampling methodology.
- **Resources:** to manage EDF funds, the Commission relies on staff both in EuropeAid headquarters and in Delegations. Since its reorganisation in March 2005, EuropeAid has been working at the limits of its staffing capacity, which stood at 194 people in total at end 2005. In addition, several changes of middle management staff responsible for managing the EDF took place between March and year-end. As a result, the Commission has had to prioritise certain activities over others, leading to some slippage, for instance in updating internal and external web sites; monitoring Stabex programmes; and implementating ex-post controls. An important measure of the intensity with which EuropeAid uses its resources is the number of staff that EuropeAid employs on average for every €10 million in funding which it manages. Accurately allocating "overhead" staff, and hence the precise ratio, specifically for EDF funds, is difficult. However, the ratio for EuropeAid as a whole fell by 6% between 2004 and 2005, from 4.8 to 4.5. The Commission will continue to deploy staff as efficiently as possible and order its priorities strictly in 2006.