## Basic information

| | |
|---|---|
| **2011/2212(DEC)**<br>DEC - Discharge procedure | Procedure completed |
| 2010 discharge: 8th, 9th and 10th European Development Funds (EDF)<br>**Subject**<br>8.70.03.07 Previous discharges | |

## Key players

### European Parliament

| Committee responsible | Rapporteur | Appointed |
|---|---|---|
| CONT Budgetary Control | EHRENHAUSER Martin (NI) | 03/03/2011 |
| | Shadow rapporteur<br>HOHLMEIER Monika (PPE)<br>WEILER Barbara (S&D)<br>MULDER Jan (ALDE)<br>STAES Bart (Verts/ALE)<br>CZARNECKI Ryszard (ECR)<br>SØNDERGAARD Søren Bo (GUE/NGL)<br>ANDREASEN Marta (EFD) | |

| Committee for opinion | Rapporteur for opinion | Appointed |
|---|---|---|
| DEVE Development | BERMAN Thijs (S&D) | 11/10/2011 |
| BUDG Budgets | The committee decided not to give an opinion. | |

### Council of the European Union

| Council configuration | Meetings | Date |
|---|---|---|
| Economic and Financial Affairs ECOFIN | 3148 | 2012-02-21 |

### European Commission

| Commission DG | Commissioner |
|---|---|
| Budget | ŠEMETA Algirdas |

## Key events

| Date | Event | Reference | Summary |
|---|---|---|---|
| 26/07/2011 | Non-legislative basic document published | COM(2011)0471 | Summary |
| 12/10/2011 | Committee referral announced in Parliament | | |
| 26/03/2012 | Vote in committee | | |
| 03/04/2012 | Committee report tabled for plenary | A7-0100/2012 | Summary |
| 10/05/2012 | Decision by Parliament | T7-0156/2012 | Summary |
| 10/05/2012 | Results of vote in Parliament | | |
| 10/05/2012 | Debate in Parliament | | |
| 10/05/2012 | End of procedure in Parliament | | |
| 17/10/2012 | Final act published in Official Journal | | |

## Technical information

| | |
|---|---|
| **Procedure reference** | 2011/2212(DEC) |
| **Procedure type** | DEC - Discharge procedure |
| **Other legal basis** | Rules of Procedure EP 165 |
| **Stage reached in procedure** | Procedure completed |
| **Committee dossier** | CONT/7/07173 |

## Documentation gateway

**European Parliament**

| Document type | Committee | Reference | Date | Summary |
|---|---|---|---|---|
| Committee draft report | | PE475.759 | 06/02/2012 | |
| Committee opinion | DEVE | PE478.625 | 01/03/2012 | |
| Amendments tabled in committee | | PE483.643 | 06/03/2012 | |
| Committee report tabled for plenary, single reading | | A7-0100/2012 | 03/04/2012 | Summary |
| Text adopted by Parliament, single reading | | T7-0156/2012 | 10/05/2012 | Summary |

**Council of the EU**

| Document type | Reference | Date | Summary |
|---|---|---|---|
| Supplementary non-legislative basic document | 05458/2012 | 07/02/2012 | Summary |
| Supplementary non-legislative basic document | 05459/2012 | 07/02/2012 | Summary |
| Supplementary non-legislative basic document | 05460/2012 | 07/02/2012 | Summary |

**European Commission**

| Document type | Reference | Date | Summary |
|---|---|---|---|
| Non-legislative basic document | COM(2011)0471 | 26/07/2011 | Summary |

**Other institutions and bodies**

| Institution/body | Document type | Reference | Date | Summary |
|---|---|---|---|---|
| CofA | Court of Auditors: opinion, report | N7-0106/2011<br>OJ C 326 10.11.2011, p. 0251 | 01/09/2011 | Summary |

**Additional information**

| Source | Document | Date |
|---|---|---|
| European Commission | EUR-Lex | |

**Final act**

Decision 2012/0560
OJ L 286 17.10.2012, p. 0123 Summary

# 2010 discharge: 8th, 9th and 10th European Development Funds (EDF)

2011/2212(DEC) - 10/05/2012 - Final act

PURPOSE: to grant discharge to the Commission in respect of the implementation of the budget of the 8th, 9th and 10th European Development Funds for the financial year 2010.

NON-LEGISLATIVE ACT: Decision 2012/560/EU of the European Parliament on discharge in respect of the implementation of the budget of the 8th, 9th and 10th European Development Funds for the financial year 2010.

CONTENT: with the present decision, and in accordance with Article 318 off the Treaty on the Functioning of the European Union, the European Parliament grants discharge to the Commission in respect of the implementation of the budget of the 8th, 9th and 10th European Development Funds for the financial year 2010. The parallel decision 2012/562/EU approves the closure of the accounts of the EDFs for the financial year in question.

The decision is in line with the European Parliament's resolution adopted on 10 May 2012 and comprises a series of observations that form an integral part of the discharge decision (please refer to the summary of the opinion of 10/05/2012).

# 2010 discharge: 8th, 9th and 10th European Development Funds (EDF)

2011/2212(DEC) - 26/07/2011 - Non-legislative basic document

PURPOSE: to present the final accounts of the 8th, 9th and 10th European Development Funds (EDF) for the financial year 2010.

CONTENT: this Communication presents the final accounts of the 8th, 9th and 10th EDF which, in accordance with the relevant provisions of the EDF, must be submitted to the European Parliament, the Council, and the Court of Auditors.

The document also includes a note accompanying the accounts in which the accounting officer in charge of the EFD audit certifies that the accounts present a true and fair view of the financial position of the European Development Funds in all material aspects (signed **declaration of assurance**).

**1. EDF objectives and implementation**: the Communication recalls that the EDF is the main instrument for providing Union aid for development cooperation to the African, Caribbean and Pacific (ACP) States and Overseas Countries and Territories (OCTs). The 1957 Treaty of Rome made

provision for its creation with a view to granting technical and financial assistance, initially limited to African countries which at that time were still colonised and with which some Member States had historical links.

**The EDF is not funded by the European Union's budget**. **It is funded by the Member States, subject to its own financial regulation and managed by a specific committee**. The European Commission is responsible for the financial implementation of the operations carried out with EDF resources and the European Investment Bank (EIB) manages the Investment Facility.

During the period 2008-2013, the geographic aid granted to ACP States and OCTs will continue to be mainly funded by the EDF. Each EDF is usually concluded for a period of around five years. Since the conclusion of the first partnership convention in 1964, the EDF programming cycles have generally followed the partnership agreement/convention cycles. Each EDF is governed by its own Financial Regulation which imposes the preparation of financial statements for each individual EDF. Accordingly, financial statements are prepared separately for each EDF in respect of the part that is managed by the European Commission. These financial statements are also presented in an aggregated way so as to provide a global view of the financial situation of the resources for which the European Commission is responsible.

Within the framework of the Cotonou agreement, the Investment Facility was established. This Investment Facility is managed by the European Investment Bank and is used to support private sector development in the ACP States by financing essentially – but not exclusively – private investments. The Facility is designed as a renewable fund, so that loan repayments can be reinvested in other operations, thus resulting in a self-renewing and financially independent Facility. As the Investment Facility is not managed by the European Commission, it is not consolidated in the first part of the annual accounts – the financial statements of the 8th, 9$^{th}$ and 10th EDFs and the related report on financial implementation. The financial statements of the Investment Facility are included as a separate part of the annual accounts to provide a full picture of the development aid of the EDF.

**Implementing the EDF resources**: the vast majority of financial resources awarded to ACP States and OCTs through the EDF are **grants**. At the beginning of each EDF, the European Union informs the ACP States and the OCTs about the level of grants which should be available to them over the period of the fund. The beneficiary country develops a cooperation strategy while or after holding consultations with its development partners (donors). A National Indicative Programme (NIP) is then drawn up to implement the cooperation strategy.

**Audit and discharge**: the EDF annual accounts and resource management are overseen by its external auditor, the European Court of Auditors, which draws up an annual report for the Council and the European Parliament. The Court's main task is to conduct an external, independent audit of the EDF annual accounts. The final control is the discharge of the financial implementation of the EDF resources for a given financial year. The European Parliament is the discharge authority of the EDF. This means that following the audit and finalisation of the annual accounts it falls to the Council to recommend and then to the Parliament to decide whether to grant discharge to the Commission for the financial implementation of the EDF resources for the preceding financial year. This decision is based on a review of the accounts and the annual report of the Court of Auditors (which includes an official statement of assurance) and replies of the Commission, and also following questions and further information requests to the Commission.

The discharge represents the political aspect of the external control of financial implementation and is the decision by which the European Parliament, acting on a Council recommendation, "releases" the Commission from its responsibility for management of the financial implementation of a given financial year. This discharge procedure may produce one of two outcomes: the granting or postponement of the discharge.

**(2) Financial implementation of the EDF in 2010**: in 2010, the 8th, 9th and 10th EDFs were implemented simultaneously. Each EDF agreement is usually concluded for a period of around 5 years, whereby the programming cycles generally follow the partnership agreement/convention cycles. Although funds for each EDF are committed over a period of five years, payments can be made over a longer period.

- **Total contributions received from Member States in 2010 for all EDF**s: EUR 23 879 million (the initial allocation for the 9th EDF was originally totalled at EUR 10 555 million);
- **Amount of the 10th EDF**: the 10th EDF covers the period 2008-2013 and has a total budget of **EUR 22 682 million**. Of this amount, **EUR 21.966 million** were allocated to ACP countries, EUR 286 million allocated to the OCT; EUR 430 million for the Commission to finance the costs arising from the programming and implementation of 10th EDF resources.
- **RAL (outstanding commitments)**: the outstanding budgetary commitments correspond to the amount of open commitments for which payments have not yet been paid. At 31.12.2010, the outstanding budgetary commitments not yet paid amounted to EUR 5.991 billion.

The document contains a table showing the aggregated use of EDF resources at 31 December 2010, which are as follows:

**EDF aggregated accounts at 31.12.2010**:

- 8th: EUR 10 702 million;
- 9th: EUR 16 482 million;
- 10th: EUR 21 609 million.

This comes to a global amount for all the EDFs totalling **EUR 48 792 million**. The report details in a series of tables the way in which these amounts were spent throughout 2010.

# 2010 discharge: 8th, 9th and 10th European Development Funds (EDF)

2011/2212(DEC) - 01/09/2011 - Court of Auditors: opinion, report

PURPOSE: to present the 2010 report of the Court of Auditors on the implementation of the 8$^{th}$, 9$^{th}$ and 10$^{th}$ European Development Funds (EDFs).

CONTENT: pursuant to the tasks and objectives conferred on the Court of Auditors by the Treaty on the functioning of the European Union (TFEU), it provides, as part of the discharge procedure, both the European Parliament and the Council, with a Statement of Assurance regarding the reliability of

the accounts and the legality and regularity of the underlying transactions of each EU institution, body or agency, based on an independent external audit.

The audit also focused on the financial implementation of the EDFs.

The main conclusions of the Court are contained in a "statement of assurance" whose main elements can be summarised as follows:

Statement of Assurance:

**Reliability of the accounts**: the Court concludes that the EDFs accounts for the financial year ending 31 December 2010 fairly present, in all material respects, the financial position of the EDFs and the results of their operations and cash flows for the year then ended, in accordance with the provisions of the Financial Regulation and the accounting rules adopted by the accounting officer.

**Legality and regularity of the underlying transactions**: as in 2009, EuropeAid's transactional ex-post controls and the Court's own controls identified a still high frequency of encoding errors. While the Court's audit of the financial statements did not reveal material error due to such errors, these remain a source of concern as they may 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. Such errors also affect the reliability of EuropeAid financial management data. The Court's audit of **commitments** did not find any material error. However, individual commitments made for projects implemented under the decentralised management mode were affected by a significant frequency (four out of 14) of non-quantifiable errors regarding compliance with tendering rules and legal deadlines for the signature of contracts. As regards the regularity of transactions, the Court's testing of the sample of payments found 27% to be affected by error. The most likely error estimated by the Court is 3.4 %.

**Control systems**: the Court's audit revealed that the supervisory and control systems are partially effective in ensuring the regularity of payments.

**The Court's recommendations**: as noted in previous Annual Reports on the EDFs, EuropeAid has set up a comprehensive control strategy, but weaknesses remain in certain areas. At the end of 2010, EuropeAid launched an 'Action Plan for a strengthened EuropeAid management and control pyramid'.

For 2010, the Court recommends that EuropeAid should finalise the following actions foreseen in its Action Plan:

- develop a key indicator for the estimated financial impact of residual errors after all ex-ante and ex-post controls have been implemented;
- assess the cost-effectiveness of the various controls, notably of the transactions ex-post control systems;
- strengthen the effectiveness of project monitoring, including on-the-spot visits, on the basis of multiannual monitoring and evaluation plans.

**The Court also recommends that EuropeAid should**:

- review the reliability of certificates from external supervisors, audits and expenditure verifications;
- introduce management information systems to better monitor the follow-up of results from on-the-spot visits, external audits and expenditure verifications;
- link the CRIS Audit and CRIS Recovery Orders information systems;
- continue;
- **as regards budget support**, ensure that Delegations consistently apply the new format and scheme for Delegations' annual reporting on reforms of public finance management systems in recipient countries so as to provide a structured and formalised demonstration of public finance management progress.

The report includes a part establishing the amounts of **financial implementation** in figures for the financial year 2010:

The report confirms in particular the following amounts:

- Cumulative use of EDF resources: EUR 48 792 million.
- Global commitments: EUR 37 778 million.
- Individual commitments: EUR 32 324 million.
- Payments: EUR 26 334 million.
- Outstanding payments: EUR 11 444 million.
- Available balance: EUR 11 014 million.

# 2010 discharge: 8th, 9th and 10th European Development Funds (EDF)

2011/2212(DEC) - 07/02/2012 - Supplementary non-legislative basic document

**Council Recommendation : 10th EDF**

Having examined the revenue and expenditure account and the balance sheet relating to the operations of the tenth EDF as at 31 December 2010, and the Annual Report of the Court of Auditors on the activities funded by the eighth, ninth and tenth European Development Funds (EDFs), concerning the financial year 2010, together with the Commission's replies, the Council recommends that the European Parliament give the Commission a discharge in respect of the implementation of the operations of the tenth EDF for the financial year 2010.

Given that the Council considers that the overall implementation by the Commission of the operations of the tenth EDF during the financial year 2010 has been satisfactory, this recommendation is not accompanied by any further observations.

# 2010 discharge: 8th, 9th and 10th European Development Funds (EDF)

2011/2212(DEC) - 07/02/2012 - Supplementary non-legislative basic document

**Council Recommendation : 9th EDF**

Having examined the revenue and expenditure account and the balance sheet relating to the operations of the ninth EDF as at 31 December 2010, and the Annual Report of the Court of Auditors on the activities funded by the eighth, ninth and tenth European Development Funds (EDFs), concerning the financial year 2010, together with the Commission's replies, the Council recommends that the European Parliament give the Commission a discharge in respect of the implementation of the operations of the ninth EDF for the financial year 2010.

Given that the Council considers that the overall implementation by the Commission of the operations of the ninth EDF during the financial year 2010 has been satisfactory, this recommendation is not accompanied by any further observations.

# 2010 discharge: 8th, 9th and 10th European Development Funds (EDF)

2011/2212(DEC) - 07/02/2012 - Supplementary non-legislative basic document

**Council Recommendation : 8th EDF**

Having examined the revenue and expenditure account and the balance sheet relating to the operations of the eighth EDF as at 31 December 2010, and the Annual Report of the Court of Auditors on the activities funded by the eighth, ninth and tenth European Development Funds (EDFs), concerning the financial year 2010, together with the Commission's replies, the Council recommends that the European Parliament give the Commission a discharge in respect of the implementation of the operations of the eighth EDF for the financial year 2010.

Given that the Council considers that the overall implementation by the Commission of the operations of the eighth EDF during the financial year 2010 has been satisfactory, this recommendation is not accompanied by any further observations.

# 2010 discharge: 8th, 9th and 10th European Development Funds (EDF)

2011/2212(DEC) - 21/02/2012

The Council adopted a recommendation to the European Parliament on the discharge to be given to the Commission for implementation of the EU’s general budget for 2010. Some delegations emphasised the importance of **EU resources being correctly accounted for**, in particular in times when Member States are making significant budgetary consolidation efforts.

The recommendation was prepared on the basis of the Court of Auditors' annual report.

# 2010 discharge: 8th, 9th and 10th European Development Funds (EDF)

2011/2212(DEC) - 03/04/2012 - Committee report tabled for plenary, single reading

The Committee on Budgetary Control adopted the report by Martin EHRENHAUSER (NI, AT) on discharge to be granted to the Commission in respect of the implementation of the budget of the Eighth, Ninth and Tenth European Development Funds (EDFs) for the financial year 2010. The committee also called on Parliament to approve the closure of the accounts for the implementation of these EDFs for 2010. They make a number of recommendations that need to be taken into account when the discharge is granted.

Members firstly recall that the European Development Fund (EDF) is the Union’s most important financial instrument for development cooperation with the ACP States. They also recall that the total amount of aid channelled through the EDF is undergoing a considerable increase as the amount of Union aid under the Tenth EDF for the period 2008 to 2013 has been set at EUR 22.682 billion which represents a 37 % nominal increase per year compared with the financial allocations under the Ninth EDF, and that, while the EDF disbursements have doubled from 2000 to 2010, **the problem of absorption capacity persists**.

**Structure of the EDF**: Members recall that the EDF is implemented through projects and budget support, whereas in 2010 66 % of the funds flowed into projects and 34 % were channelled via budget support. In 2010, 49 % of payments from the EDF were managed under centralised management, i.e. the Commission implemented the aid activities directly, 11 % of the payments were managed under joint management, i.e. via international organisations such as the United Nations Organisation and the World Bank. 40 % of the payments were managed under decentralised management, i. e. the Commission entrusted certain implementation tasks to the authorities of the beneficiary countries.

Members note with satisfaction the **record high in gross payments and the commitment rate of close to 50 % halfway through the Tenth EDF** but reiterate their concern that Parliament does not have the right to scrutinise EDF operations in the same way as it does for other aid instruments such as the Development Cooperation Instrument (DCI).

**EDF budgetisation**: Members **reconfirm their position of supporting EDF budgetisation**. They strongly believe that this is an indispensable step towards strengthening the democratic control, the accountability, and the transparency of funding and towards providing more coherence in Union policy

concerning ACP countries. 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. In particular, they regret that no provision has been made in this regard in the future financial framework and insist on the EDF's budgetisation no later than 2020.

**Statement of Assurance**: Members make the following remarks in relation to the Court of Auditors' Statement of Assurance:

- **Reliability of the accounts**: they welcome the opinion of the Court of Auditors that the final annual accounts of the Eighth, Ninth and Tenth EDFs present fairly, in all material respects, the financial position of the EDFs as of 31 December 2010, in spite of the high frequency of encoding errors, in particular with regard to Europe Aid's financial management;
- **Regularity of transactions:** they note that the revenue and commitments are free from material error (3.4% which is above the materiality threshold of 2%). They are especially worried over the increase in badly performing projects in 2010 (12,6 %, versus 11 % in 2009) and the persistently high frequency of errors in commitments under decentralised management. They call on the Commission to enhance *ex-ante* controls to prevent non-quantifiable errors and possible losses as a result of non-compliance with the bank guarantee rules.

**Residual errors**: Members recall that Europe Aid is still working on a key indicator for the estimated financial impact of residual errors after all *ex-ante* and transactional *ex-post* controls have been carried out. They regret the lack of compatibility between the Court of Auditors' estimation of the most likely error rate based on the annual approach of the Court of Auditors and current methodology, on one hand, and the Commission's practice to refer to the net residual error rate covering more than one year, on the other hand. They believe that the approach based on the residual error rate in its current form does not provide comparable data for the annual discharge procedure and call for the completion of the process of developing the key indicator to estimate the financial impact of residual error within the set timeframe, i.e. by 2013.

**Overall assessment of the effectiveness of supervisory and control systems:** Members regret the Court of Auditors' finding that the overall supervisory and control systems of the EDFs managed by the Commission are only **partially effective** (particularly for the central services of Europe Aid and the Union's delegations). They call for the strengthening of the institutional capacity in the National Authorising Officer's administration by providing additional financial training and targeted guidance. In particular, they call for a **strengthening of staff and human resources**. Noting the efforts made by the Commission to improve the supervisory and control systems of EuropeAid, they expect the Commission to inform the competent committees of the Parliament on the measures taken to remedy the problems. They urge the Commission to increase the level of information regarding the implementation of the EDF at national and regional level in the ACP countries and to ensure better visibility for all Union-funded activities overseas.

**Competences of the Commission and the EEAS in the implementation of Union development assistance:** Members note that 2010 was the year when the EEAS took shape and commenced operation. They reiterate their concerns that the initial division of competences between the Commission and EEAS staff in the Union Delegations gave rise to c**onfusion and justified criticism**. Measures are called for in this regard, as well as greater transparency *vis-à-vis* Parliament.

**Budget support**: Members recall the Court of Auditors found in its Annual Report on the EDFs concerning the financial year 2010 that budget support payments were affected by a high frequency of non-quantifiable errors in 2010 - 35 %, as high as it was in 2009, showing persistently high levels of errors in budget support payments. They recall that budget support has been used as an aid modality for almost two decades by the Commission and, although acknowledging its potential advantages, they believe that it is **not the right answer to every situation**. In fact, this aid modality is meaningful only if it provides sufficient transparency, accountability and effectiveness. Members call on the Commission to concentrate on the effectiveness of the programmes by checking results against indicators. Members call on the Commission to continue its efforts to substantiate its decisions concerning the **eligibility of budget support and to ensure that all financing agreements provide a comprehensive and clear basis** for the assessment of compliance with payment conditions. They stress the double accountability for the budget support: between the donor***and the*** partner country and between the partner state and its citizens. They recall that public finance management is one of the criteria for providing budget support. They call on the Commission and the Member States to create a **public register in which budget support agreements, procedures and development indicators are transparently listed**. They call on the Commission to ensure that budget support is reduced or cancelled when clear goals are not achieved. They urge the Commission once again to help partner countries develop parliamentary control and audit capacities.

**Development priorities, Development Cooperation with higher Impact:** Members stress that good governance, democracy, respect of human rights, and poverty reduction must be integrated goals of the implementing organisations in countries where EDF support is distributed. They reiterate their call on the Commission to prioritise support to **strengthen health systems** by focusing, in particular, on targeting the poorest people, to improve the quality of learning and to help establish a policy framework which favours the poor and which is gender responsive; urges the Commission to ensure better visibility for Union-funded activities overseas.

The following additional measures are called for:

- the mobilisation of developing countries' internal funds to complement European funds;
- combat the flight of capital from developing countries through corruption and large-scale tax evasion;
- respect for WTO principles and the finding of solutions to the outstanding issues concerning the proposed Economic Partnership Agreements and free trade between Europe and the ACP region;
- the introduction of control procedures to bring an end to management problems when Union funds are managed through international organisations;
- the significance of linking relief, rehabilitation and development (LRRD) in order to strengthen the links between relief, recovery and development;
- the importance that EDF funding is coordinated with other instruments (food aid, Food Security Thematic Programme, European Instrument for Democracy and Human Rights, etc.);
- better coherence and complementarity between humanitarian aid and development aid, both at policy level and in practice.

Members also point out that the Union needs a wide range of tools for development cooperation adapted to different contexts as there is **no one-size-fits-all in development aid** and, in particular, emphasises the need for specific tools and working methods in dealing with failed states or with deeply undemocratic countries such as **Eritrea**, which refuses aid to its people in spite of a rampant food crisis. On the issue of the chronic character of drought and food shortages in the Horn of Africa Members call for measures to strengthen the self-sufficiency of local farmers.

Members also raise the following points:

- **Union's aid to Haiti**: Members recall the earthquake in Haiti and its disastrous consequences. They regret the insufficient level of coordination between the Union Delegation and the ECHO representation and the lack of sustainability of some projects. They ask the Commission to provide Parliament with a list of projects which have been carried out during the last 15 years in Haiti. To increase the visibility of European aid, Members consider not only the flag, but also the name of the European Union should appear in PR documents rather than simply that of the Commission or of DG ECHO, which are much less identifiable to average Haitian citizens.
- Members also make a number of comments regarding the observations made by the Court of Auditors in its **Special Reports 11/2010** (on the Management of General Budget Support in ACP, Latin American and Asian Countries) and **12/2010** (on Union development assistance for basic education in Sub-Saharan Africa and South Asia). In the two cases, Members call for measures to be taken to deal with the weaknesses highlighted by the Court of Auditors.

**The Investment Facility**: Members recall that the funds allocated to the Investment Facility from the Tenth EDF (EUR 1.53 billion for the ACP and OCTs) managed by the European Investment Bank (EIB). Once again, Members deplore the fact that the Investment Facility is not covered by the Court of Auditors' Statement of Assurance or the Parliament's discharge procedure. The also stress that all the EIB operations financed from the EDF must be in full compliance with Article 208 of the Treaty on the Functioning of the European Union, according to which the **reduction and eradication of poverty** is the primary objective of the Union's development policy. According to Members, only pro-poor development policy can be effective and sustainable. They believe in particular that economic growth policies cannot succeed without **promotion of social and environmental standards a**nd the implementation of social protection mechanisms. They call on the EIB to link its financing projects more directly to poverty reduction and the achievement of the MDGs, human rights, corporate social responsibility, decent work and environmental principles**,** democracy, good governance and the set up of companies.

Members recall that 14 % of the funds from the Investment Facility (EUR 390 million) are channelled via European bilateral development financial institutions or joint ventures. They deplore the lack of transparency concerning the final beneficiaries of the funds from the Investment Facility and call on the EIB to apply stringent enhanced due diligence in accordance with standardised procedures, following international best practices, concerning the fight against money laundering and the financing of terrorism.

# 2010 discharge: 8th, 9th and 10th European Development Funds (EDF)

2011/2212(DEC) - 10/05/2012 - Text adopted by Parliament, single reading

The European Parliament adopted by 518 votes to 76, with 36 abstentions, a decision granting discharge to the Commission on the implementation of the budget of the Eighth, Ninth and Tenth European Development Funds (EDFs) for the financial year 2010. Parliament also approved the closure of the accounts regarding these EDFs for 2010 ad approved by 558 votes to 66, with 14 abstentions, a resolution in which it makes a number of observations that need to be taken into account when granting the discharge.

Parliament recalls that the European Development Fund (EDF) is the Union's most important financial instrument for development cooperation with the ACP States. It also recalls that the total amount of aid channelled through the EDF is undergoing a considerable increase as the amount of Union aid under the Tenth EDF for the period 2008 to 2013 has been set at EUR 22.682 billion which represents a 37 % nominal increase per year compared with the financial allocations under the Ninth EDF, and that, while the **EDF disbursements have doubled from 2000 to 2010, the problem of absorption capacity persists**.

**Structure of the EDF**: Parliament recalls that the EDF is implemented through projects and budget support, whereas in 2010 66 % of the funds flowed into projects and 34 % were channelled via budget support. In 2010, 49 % of payments from the EDF were managed under centralised management, i. e. the Commission implemented the aid activities directly, 11 % of the payments were managed under joint management, i.e. via international organisations such as the United Nations Organisation and the World Bank. 40 % of the payments were managed under decentralised management, i. e. the Commission entrusted certain implementation tasks to the authorities of the beneficiary countries.

It notes with satisfaction the **record high in gross payments and the commitment rate of close to 50 % halfway through the Tenth EDF** but reiterate its concern that Parliament does not have the right to scrutinise EDF operations in the same way as it does for other aid instruments such as the Development Cooperation Instrument (DCI).

**EDF budgetisation**: Parliament reconfirms its position of supporting EDF budgetisation. It strongly believes that this is an indispensable step towards strengthening the democratic control, the accountability, and the transparency of funding and towards providing more coherence in Union policy concerning ACP countries. 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. In particular, it regrets that no provision has been made in this regard in the future financial framework and insist on the EDF's budgetisation no later than 2020.

**Statement of Assurance**: Parliament makes the following remarks in relation to the Court of Auditors' Statement of Assurance:

- **Reliability of the accounts**: it welcomes the opinion of the Court of Auditors that the final annual accounts of the Eighth, Ninth and Tenth EDFs present fairly, in all material respects, the financial position of the EDFs as of 31 December 2010, in spite of the high frequency of encoding errors, in particular with regard to Europe Aid's financial management;
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**Regularity of transactions**: it notes that the revenue and commitments are free from material error (3.4% which is above the materiality threshold of 2%). It is especially worried over the increase in badly performing projects in 2010 (12,6 %, versus 11 % in 2009) and the persistently high frequency of errors in commitments under decentralised management. It calls on the Commission to enhance ex-ante controls to prevent non-quantifiable errors and possible losses as a result of non-compliance with the bank guarantee rules.

- **Residual errors**: Parliament recalls that Europe Aid is still working on a key indicator for the estimated financial impact of residual errors after all ex-ante and transactional ex-post controls have been carried out. It regrets the lack of compatibility between the Court of Auditors' estimation of the most likely error rate based on the annual approach of the Court of Auditors and current methodology, on one hand, and the Commission's practice to refer to the net residual error rate covering more than one year, on the other hand. It believes that the approach based on the residual error rate in its current form does not provide comparable data for the annual discharge procedure and call for the completion of the process of developing the key indicator to estimate the financial impact of residual error within the set timeframe, i.e. by 2013.
- **Overall assessment of the effectiveness of supervisory and control systems**: Parliament regrets the Court of Auditors' finding that the overall supervisory and control systems of the EDFs managed by the Commission are only partially effective (particularly for the central services of Europe Aid and the Union's delegations). It calls for the strengthening of the institutional capacity in the National Authorising Officer's administration by providing additional financial training and targeted guidance. In particular, it calls for a strengthening of staff and human resources. Noting the efforts made by the Commission to improve the supervisory and control systems of EuropeAid, it expects the Commission to inform the competent committees of the Parliament on the measures taken to remedy the problems. It urges the Commission to increase the level of information regarding the implementation of the EDF at national and regional level in the ACP countries and to ensure better visibility for all Union-funded activities overseas.
- **Competences of the Commission and the EEAS in the implementation of Union development assistance**: Parliament notes that 2010 was the year when the EEAS took shape and commenced operation. It reiterates its concerns that the initial division of competences between the Commission and EEAS staff in the Union Delegations gave rise to confusion and justified criticism. Measures are called for in this regard, as well as greater transparency vis-à-vis Parliament.
- **Budget support:** Parliament recalls the Court of Auditors found in its Annual Report on the EDFs concerning the financial year 2010 that budget support payments were affected by a high frequency of non-quantifiable errors in 2010 - 35 %, as high as it was in 2009, showing persistently high levels of errors in budget support payments. It recalls that budget support has been used as an aid modality for almost two decades by the Commission and, although acknowledging its potential advantages, it believes that it is **not the right answer to every situation**. In fact, this aid modality is meaningful only if it provides sufficient transparency, accountability and effectiveness. Parliament calls on the Commission to concentrate on the effectiveness of the programmes by checking results against indicators. Parliament calls on the Commission to continue its efforts to substantiate its decisions concerning the eligibility of budget support and to ensure that **all financing agreements provide a comprehensive and clear basis for the assessment of compliance with payment conditions**. It stresses the double accountability for the budget support: between the donor and the partner country and between the partner state and its citizens. It recalls that public finance management is one of the criteria for providing budget support. It calls on the Commission and the Member States to create **a public register in which budget support agreements, procedures and development indicators are transparently listed**. It calls on the Commission to ensure that budget support is reduced or cancelled when clear goals are not achieved. It urges the Commission once again to help partner countries develop parliamentary control and audit capacities.
- **Development priorities, Development Cooperation with higher Impact**: Parliament stresses that good governance, democracy, respect of human rights, and poverty reduction must be integrated goals of the implementing organisations in countries where EDF support is distributed. It reiterates its call on the Commission to prioritise support to **strengthen health systems** by focusing, in particular, on targeting the poorest people, to improve the quality of learning and to help establish a policy framework which favours the poor and which is gender responsive. It also recalls the Arab Spring of 2011 and the important of placing emphasis on democratic principles and support for democracy in the context of development aid. It urges the Commission to ensure better visibility for Union-funded activities overseas.

The following additional measures are called for:

- the mobilisation of developing countries' internal funds to complement European funds;
- the creation of sources of sustainable income other than development aid ;
- combat the flight of capital from developing countries through corruption and large-scale tax evasion;
- respect for WTO principles and the finding of solutions to the outstanding issues concerning the proposed Economic Partnership Agreements and free trade between Europe and the ACP region;
- the introduction of control procedures to bring an end to management problems when Union funds are managed through international organisations;
- the significance of linking relief, rehabilitation and development (LRRD) in order to strengthen the links between relief, recovery and development;
- the importance that EDF funding is coordinated with other instruments (food aid, Food Security Thematic Programme, European Instrument for Democracy and Human Rights, etc.);
- better coherence and complementarity between humanitarian aid and development aid, both at policy level and in practice.

Parliament also points out that the Union needs a wide range of tools for development cooperation adapted to different contexts as there is **no one-size-fits-all in development aid** and, in particular, emphasises the need for specific tools and working methods in dealing with failed states or with deeply undemocratic countries **such as Eritrea**, which refuses aid to its people in spite of a rampant food crisis. On the issue of the chronic character of drought and food shortages in the Horn of Africa, Parliament calls for measures to strengthen the self-sufficiency of local farmers.

Parliament also raises the following points:

- **Union's aid to Haiti**: Parliament recalls the earthquake in Haiti and its disastrous consequences. It regrets the insufficient level of coordination between the Union Delegation and the ECHO representation and the lack of sustainability of some projects. It urges the Commission to ensure better coherence and complementarity between humanitarian aid and development aid both at a policy level and in practice. It considers that projects should principally aim at creating employment and sustainable growth which would allow the Haitian State to increase

its own revenues in order to depend less on foreign assistance. It requests the Commission to provide Parliament with a list of projects which have been carried out in Haiti with a detailed assessment of their current situation in order to see how sustainable they are;

- Parliament also makes a number of comments regarding the observations made by the Court of Auditors in its Special Reports 11/2010 (on the Management of General Budget Support in ACP, Latin American and Asian Countries) and 12/2010 (on Union development assistance for basic education in Sub-Saharan Africa and South Asia). In the two cases, Parliament calls for measures to be taken to deal with the weaknesses highlighted by the Court of Auditors.

**The Investment Facility:** Parliament recalls that the funds allocated to the Investment Facility from the Tenth EDF (EUR 1.53 billion for the ACP and OCTs) managed by the European Investment Bank (EIB). Once again, it deplores the fact that the Investment Facility is not covered by the Court of Auditors' Statement of Assurance or the Parliament's discharge procedure. It also stresses that all the EIB operations financed from the EDF must be in full compliance with Article 208 of the Treaty on the Functioning of the European Union, according to which the **reduction and eradication of poverty** is the primary objective of the Union's development policy. According to Parliament, only pro-poor development policy can be effective and sustainable. It believes in particular that economic growth policies cannot succeed without promotion of social and environmental standards and the implementation of social protection mechanisms. It calls on the EIB to link its financing projects more directly to poverty reduction and the achievement of the MDGs, human rights, corporate social responsibility, decent work and environmental principles, democracy, good governance and the set up of companies.

Parliament recalls that 14 % of the funds from the Investment Facility (EUR 390 million) are channelled via European bilateral development financial institutions or joint ventures. It deplores the lack of transparency concerning the final beneficiaries of the funds from the Investment Facility and calls on the EIB to apply stringent enhanced due diligence in accordance with standardised procedures, following international best practices, concerning the fight against money laundering and the financing of terrorism.