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REPORT

on discharge in respect of the implementation of the budget of the eighth,
ninth, tenth and eleventh European Development Funds for the financial year
2016
(2017/2146(DEC))

Committee on Budgetary Control

Rapporteur: Barbara Kappel

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1. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

on discharge in respect of the implementation of the budget of the eighth, ninth, tenth and eleventh European Development Funds for the financial year 2016 (2017/2146(DEC))

The European Parliament,

- having regard to the financial statements and revenue and expenditure accounts for the eighth, ninth, tenth and eleventh European Development Funds for the financial year 2016 (COM(2017)0364 – C8-257/2017),
- having regard to the financial information on the European Development Funds (COM (2017)0299),
- having regard to the Court of Auditors' annual report on the activities funded by the eighth, ninth, tenth and eleventh European Development Funds for the financial year 2016, together with the Commission's replies¹,
- having regard to the statement of assurance² as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors for the financial year 2016, pursuant to Article 287 of the Treaty on the Functioning of the European Union,
- having regard to the Council's recommendations of 20 February 2018 on discharge to be given to the Commission in respect of the implementation of the operations of the European Development Funds for the financial year 2016 (05078/2018 – C8-0053/2018, 05079/2018 – C8-0054/2018, 05080/2018 – C8-0055/2018, 05082/2018 – C8-56/2018),
- having regard to the Partnership Agreement between the members of the African, Caribbean and Pacific Group of States, of the one part, and the European Community and its Member States, of the other part, signed in Cotonou (Benin) on 23 June 2000³ and amended in Ouagadougou, Burkina Faso, on 22 June 2010⁴,
- having regard to Council Decision 2013/755/EU of 25 November 2013 on the association of the overseas countries and territories with the European Union ('Overseas Association Decision')⁵,
- having regard to Article 33 of the Internal Agreement of 20 December 1995 between the representatives of the Governments of the Member States, meeting within the Council, on the financing and administration of the Community aid under the Second Financial Protocol to the fourth ACP-EC Convention⁶,
- having regard to Article 32 of the Internal Agreement of 18 September 2000 between

¹ OJ C 322, 28.09.2017, p. 281.

² OJ C 322, 28.09.2017, p. 289.

³ OJ L 317, 15.12.2000, p. 3.

⁴ OJ L 287, 4.11.2010, p. 3.

⁵ OJ L 344, 19.12.2013, p. 1.

⁶ OJ L 156, 29.5.1998, p. 108.

Representatives of the Governments of the Member States, meeting within the Council, on the Financing and Administration of Community Aid under the Financial Protocol to the Partnership Agreement between the African, Caribbean and Pacific States and the European Community and its Member States signed in Cotonou (Benin) on 23 June 2000 and the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the EC Treaty applies¹,

- having regard to Article 11 of the Internal Agreement of 17 July 2006 between the Representatives of the Governments of the Member States, meeting within the Council, on the financing of Community aid under the multiannual financial framework for the period 2008 to 2013 in accordance with the ACP-EC Partnership Agreement and on the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the EC Treaty applies²,
- having regard to Article 11 of the Internal Agreement of 24 and 26 June 2013 between the Representatives of the Governments of the Member States of the European Union, meeting within the Council, on the financing of European Union aid under the multiannual financial framework for the period 2014 to 2020 in accordance with the ACP-EU Partnership Agreement and on the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the Treaty on the Functioning of the European Union applies³,
- having regard to Article 319 of the Treaty on the Functioning of the European Union,
- having regard to Article 74 of the Financial Regulation of 16 June 1998 applicable to development finance cooperation under the fourth ACP-EC Convention⁴,
- having regard to Article 119 of the Financial Regulation of 27 March 2003 applicable to the ninth European Development Fund⁵,
- having regard to Article 50 of Council Regulation (EC) No 215/2008 of 18 February 2008 on the Financial Regulation applicable to the tenth European Development Fund⁶,
- having regard to Article 48 of Council Regulation (EU) 2015/323 of 2 March 2015 on the financial regulation applicable to the eleventh European Development Fund⁷.
- having regard to Rule 93 and the third indent of Rule 94 of, and Annex IV to, its Rules of Procedure,
- having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Development (A8-0123/2018),

1. Grants the Commission discharge in respect of the implementation of the budget of the

¹ OJ L 317, 15.12.2000, p. 355.

² OJ L 247, 9.9.2006, p. 32.

³ OJ L 210, 6.8.2013, p. 1.

⁴ OJ L 191, 7.7.1998, p. 53.

⁵ OJ L 83, 1.4.2003, p. 1.

⁶ OJ L 78, 19.3.2008, p. 1.

⁷ OJ L 58, 3.3.2015, p. 17.

eighth, ninth, tenth and eleventh European Development Funds for the financial year 2016;

2. Sets out its observations in the resolution below;
3. Instructs its President to forward this decision and the resolution forming an integral part of it to the Council, the Commission, the Court of Auditors and the European Investment Bank, and to arrange for their publication in the *Official Journal of the European Union* (L series).

2. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

on the closure of the accounts of the eighth, ninth, tenth and eleventh European Development Funds for the financial year 2016 (2017/2146(DEC))

The European Parliament,

- having regard to the financial statements and revenue and expenditure accounts for the eighth, ninth, tenth and eleventh European Development Funds for the financial year 2016 (COM(2017)0364 – C8-257/2017),
- having regard to the financial information on the European Development Funds (COM (2017)0299),
- having regard to the Court of Auditors' annual report on the activities funded by the eighth, ninth, tenth and eleventh European Development Funds for the financial year 2016, together with the Commission's replies¹,
- having regard to the statement of assurance² as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors for the financial year 2016, pursuant to Article 287 of the Treaty on the Functioning of the European Union,
- having regard to the Council's recommendations of 20 February 2018 on discharge to be given to the Commission in respect of the implementation of the operations of the European Development Funds for the financial year 2016 (05078/2018 – C8-0053/2018, 05079/2018 – C8-0054/2018, 05080/2018 – C8-0055/2018, 05082/2018 – C8-56/2018),
- having regard to the Commissions' report on the follow-up to the discharge for the 2015 financial year (COM (2017)0379),
- having regard to the Partnership Agreement between the members of the African, Caribbean and Pacific Group of States, of the one part, and the European Community and its Member States, of the other part, signed in Cotonou (Benin) on 23 June 2000³ and amended in Ouagadougou, Burkina Faso, on 22 June 2010⁴,
- having regard to Council Decision 2013/755/EU of 25 November 2013 on the association of the overseas countries and territories with the European Union ('Overseas Association Decision')⁵,
- having regard to Article 33 of the Internal Agreement of 20 December 1995 between the representatives of the Governments of the Member States, meeting within the Council, on the financing and administration of the Community aid under the Second

¹ OJ C 322, 28.09.2017, p. 281.

² OJ C 322, 28.09.2017, p. 289.

³ OJ L 317, 15.12.2000, p. 3.

⁴ OJ L 287, 4.11.2010, p. 3.

⁵ OJ L 344, 19.12.2013, p. 1.

Financial Protocol to the fourth ACP-EC Convention¹,

- having regard to Article 32 of the Internal Agreement of 18 September 2000 between Representatives of the Governments of the Member States, meeting within the Council, on the Financing and Administration of Community Aid under the Financial Protocol to the Partnership Agreement between the African, Caribbean and Pacific States and the European Community and its Member States signed in Cotonou (Benin) on 23 June 2000 and the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the EC Treaty applies²,
- having regard to Article 11 of the Internal Agreement of 17 July 2006 between the Representatives of the Governments of the Member States, meeting within the Council, on the financing of Community aid under the multiannual financial framework for the period 2008 to 2013 in accordance with the ACP-EC Partnership Agreement and on the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the EC Treaty applies³,
- having regard to Article 11 of the Internal Agreement of 24 and 26 June 2013 between the Representatives of the Governments of the Member States of the European Union, meeting within the Council, on the financing of European Union aid under the multiannual financial framework for the period 2014 to 2020 in accordance with the ACP-EU Partnership Agreement and on the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the Treaty on the Functioning of the European Union applies⁴,
- having regard to Article 319 of the Treaty on the Functioning of the European Union,
- having regard to Article 74 of the Financial Regulation of 16 June 1998 applicable to development finance cooperation under the fourth ACP-EC Convention⁵,
- having regard to Article 119 of the Financial Regulation of 27 March 2003 applicable to the ninth European Development Fund⁶,
- having regard to Article 50 of Council Regulation (EC) No 215/2008 of 18 February 2008 on the Financial Regulation applicable to the tenth European Development Fund⁷,
- having regard to Article 48 of Council Regulation (EU) 2015/323 of 2 March 2015 on the financial regulation applicable to the eleventh European Development Fund⁸,
- having regard to Rule 93 and the third indent of Rule 94 of, and Annex IV to, its Rules of Procedure,

¹ OJ L 156, 29.5.1998, p. 108.

² OJ L 317, 15.12.2000, p. 355.

³ OJ L 247, 9.9.2006, p. 32.

⁴ OJ L 210, 6.8.2013, p. 1.

⁵ OJ L 191, 7.7.1998, p. 53.

⁶ OJ L 83, 1.4.2003, p. 1.

⁷ OJ L 78, 19.3.2008, p. 1.

⁸ OJ L 58, 3.3.2015, p. 17.

- having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Development (A8-0123/2018),
- A. whereas in the context of the discharge procedure, the Parliament wishes to stress the special importance of further strengthening of the democratic legitimacy of the EU institutions through improving on transparency and accountability, implementing the concept of the Performance-Based Budgeting (PBB) and good governance of human resources;
- 1. Approves the closure of the accounts of the eighth, ninth, tenth and eleventh European Development Funds for the financial year 2016;
- 2. Instructs its President to forward this decision to the Council, the Commission, the Court of Auditors and the European Investment Bank, and to arrange for its publication in the *Official Journal of the European Union* (L series).

3. MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

**with observations forming an integral part of the decision on discharge in respect of the implementation of the budget of the eighth, ninth, tenth and eleventh European Development Funds for the financial year 2016
(2017/2146(DEC))**

The European Parliament,

- having regard to its decision on discharge in respect of the implementation of the budget of the eighth, ninth, tenth and eleventh European Development Funds for the financial year 2016,
 - having regard to Rule 93 and the third indent of Rule 94 of, and Annex IV to, its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Development (A8-0123/2018),
- A. whereas the main goal of the Cotonou Agreement as the framework of the Union's relations with African, Caribbean and Pacific (ACP) countries and overseas countries and territories (OCTs) is to reduce and eventually eradicate poverty, in line with the objectives of sustainable development and the gradual integration of ACP countries and OCTs into the world economy;
- B. whereas the European Development Funds (EDFs) are the Union's main financial instrument for providing development cooperation aid to ACP countries and OCTs;
- C. whereas the history of the Member States confers obligations on the Union regarding development in ACP countries and cooperation with OCTs, which are tied to the Union's future due to geopolitics, globalisation and global challenges such as the effects of climate change and demographic change;
- D. whereas the Commission, as the implementing body, is accountable for the discharge of the EDFs;
- E. whereas the emergence of new global challenges is thoroughly changing the patterns of delivery aid leading all development stakeholders to reflect on a new aid approach and reorientation of the current external aid framework;
- F. whereas sustainability, policy coherence and effectiveness principles are crucial for developing a new and cross-cutting Union development approach in view of enhancing the positive impact of its development aid and deliverables;
- G. whereas transparency and accountability are prerequisites for both democratic scrutiny and the consistency of Union development action with the objectives of other actors such as Member States, international organisations, international financial institutions or multilateral development banks;
- H. whereas effective coordination is central to limiting the risk of aid fragmentation and maximising impact coherence and partners' ownership of development priorities;

- I. whereas joint development financing and programmes should be translated into better targeting of objectives, identifying synergies and sharing of information from the various organisations' results frameworks;
- J. whereas the design of new modes of intervention such as blending, investment capacities or platforms and dedicated trust funds is a way to leverage financing beyond official development assistance but in compliance with conditions related to transparency, bringing additionality and making a positive impact on the ground;
- K. whereas mobilising the private sector and attracting further investments is key, given the funding gap required to reach ambitious development goals, to secure the best building blocks for sustainable development in the recipient countries under their own administrative capability and within their own societal structure;
- L. whereas budget support, while being a key driver for change and addressing the main development challenges, carries a significant fiduciary risk and should only be granted if it provides sufficient transparency, traceability and accountability and is accompanied by a clear commitment from partner countries to reform policies;
- M. whereas aid development is implemented in a complex and fragile geopolitical context, impacted by issues such as weak governance frameworks, corruption, social and economic instability, armed conflicts, crisis or post-crisis situations triggering migrations or forced displacements, or health crises;
- N. whereas Parliament has reiterated its call for inclusion of the EDF Funds in the general budget of the Union;

Statement of assurance

Key findings in the 2016 financial implementation

- 1. Welcomes the continuous efforts made by the Commission's services to ameliorate the overall financial management of the EDFs with regard to old outstanding pre-financing commitments and payments;
- 2. Notes, in particular, that the fixed target of a 25 % reduction has been slightly overridden for the old open commitments by reaching 28 % and 36 % with regard to old unspent commitments;
- 3. Notes also the actions to diminish and close open expired contracts as delays exceeding the 18 months after the end of their operational period constitute a significant risk for the occurrence of regularity errors insofar as supporting documentation might not be at disposal anymore and staff in charge of the management of those contracts might also not be there anymore to ensure adequate continuity of operations;
- 4. Observes that the overall share of expired contracts in the portfolio of the Commission's Directorate-General for International Cooperation and Development (DEVCO) represented 15,15 % at the end of 2016 compared to the 15 % target; regrets that 1 058 (or 56 %) out of 1 896 expired contracts are related to the management of EDF operations and that the operational period of 156 EDF expired contracts out of those 1 058 expired more than 5 years ago, the latter representing a financial value of

EUR 323 million;

5. Regrets, however, that, according to the Court of Auditors (the “Court”), the supervisory and control systems were still assessed as only partially effective;

Reliability of the EDF accounts

6. Welcomes the Court’s opinion that the final annual accounts of the 8th, 9th, 10th and 11th EDFs for the year 2016 present fairly, in all material respects, the financial position of the EDFs as at 31 December 2016 and that the results of their operations, their cash flows and the changes in net assets for the year then ended are in accordance with the provisions of the EDF financial regulation and with accounting rules based on internationally accepted accounting standards for the public sector;
7. Urges the Commission to act to solve the issue of recoveries of unspent pre-financing incorrectly recorded as operational revenue as this incorrect recording of operational revenue has led to corrections amounting to EUR 3,2 million;
8. Regrets the fact that these encoding errors have been present since 2015 in the context of the management of recovery orders; notes, however, that in 2016 DG DEVCO issued detailed instructions to its staff on the correct encoding of recovery orders of this type;

Legality and regularity of the EDF operations

9. Welcomes the Court’s opinion that the revenue underlying the accounts for the year 2016 is legal and regular in all material aspects;
10. Reiterates its concern about the Court’s assessment of the legality and regularity of payments underlying the accounts which are materially affected by error;
11. Notes that, according to the Court’s estimation in its annual report, the estimated level of error rate for expenditure underlying the accounts from the 8th, 9th, 10th and 11th EDFs is 3,3 %, which indicates a slight decrease compared to 3,8 % in 2014 and 2015, 3,4 % in 2013 and 3 % in 2012;
12. Notes and regrets that 24 % of the transactions under review (35 out of 143) were affected by error; notes the results of the sampling with regard to projects, whereby 35 out of 130 payments (27 %) were affected by error and, in particular, the fact that 26 payments out of those 35 (74 %) were qualified as quantifiable errors, with 9 final transactions authorised after all *ex ante* checks had been performed;
13. Notes with concern that for two cases of quantifiable error, the Commission’s services had enough information from its management systems to prevent, detect or correct the error before accepting the expenditure, which had a direct positive effect on the estimated level of error, which would have been 0,7 percentage points lower, and that five transactions with errors were not detected by external auditors or supervisors;
14. Observes that for budget support and for the implementation of multi-donor projects by international organisations, with the application of the notional approach, their nature of funding and modalities of payments limit the extent to which transactions are prone to error; reiterates its recurrent concern both on the pooling of Union funds with other

donors' funding, particularly the fact that Union funds are not earmarked for specific identifiable items of expenditure, and on the limits of the Court's audit work arising from the application of the notional approach;

15. Is concerned by the recurrence and persisting typology of errors, in particular in the area of public procurement, despite consecutive corrective action plans, i.e. non-compliance with procurement provisions with a case of services contracts awarded without a competitive selection procedure, expenditure not incurred, ineligible expenditure or lack of supporting documents; observes that those errors were also related to transactions linked to programme estimates, grants and contribution agreements between the Commission and international organisations; calls on the Commission to address the shortcomings in contract management, selection procedures, document management and the procurement system as a matter of urgency;
16. Reiterates that the Commission should intensify its efforts in those specific areas of cooperation by refining its existing corrective action plan, in particular when quantifiable errors point to shortcomings in the checks by international organisations on compliance with contractual provisions, as a part of the general effort to improve risk management methods, the overall reinforcement of the monitoring systems and business continuity;
17. Invites DG DEVCO to pay due attention to the encoding and monitoring of payments in order to respect the set deadlines in the financial circuit and workflows;

Effectiveness of the control framework

18. Welcomes DG DEVCO's continuous efforts to improve the implementation of its control framework, in particular the targeting of high-risk areas related to funds under indirect management through international organisations and development agencies and grants under direct management; notes the extension of the reservation to grants and programme estimates under indirect management;
19. Acknowledges that development aid is often implemented in difficult, unstable or critical contexts which are error-prone;
20. Repeats its call for unwavering attention to be paid to the recurrent weaknesses observed within the running of key control steps, namely the vulnerability of ex ante checks carried out before project payments are made and external audit verifications on expenditure; notes that DG DEVCO is currently revising the terms of reference of the audits and verifications to obtain information allowing for a quality assessment;
21. Welcomes the fact that a residual error rate (RER) study was carried out for the fifth year in compliance with the RER methodology, thus constituting henceforth a building block of DG DEVCO's assurance building;
22. Welcomes the fact that DG DEVCO addressed all weaknesses reported in 2013 by the European Court of Auditors, but notes, however, that the RER-specific estimation method still leaves too wide a margin for individual error rates;

23. Notes with interest that, for the first time, the 2016 RER study estimated the RER at 1,7 %, which is below the materiality threshold of 2 %, confirming a downward trend since 2014, corresponding to an amount at risk of EUR 105 million (or 1,9 % of 2016 expenditure) with a corrective capacity - or estimated future corrections - of EUR 25 million (24 %), while bearing in mind, however, the shortcomings identified in the recording of recovery orders in the accounting system; considers, however, that specific attention should be continuously paid to budget support transactions in view of their high inherent risk;
24. Reiterates its support for the shift from a general reservation to the issuance of differentiated reservations as requested by Parliament in its previous EDF resolutions to progressively reinforce the assurance mapping of the different operational processes, with (i) a reservation based on error rates on the four following highest risks areas identified namely for grants under direct and indirect management, indirect management with international organisations and development agencies and programme estimates and (ii) a specific and renewed reservation for the African Peace Facility (APF); encourages the Commission to continue refining its management processes according to risk and financial volumes and, if appropriate, add additional conditionalities;
25. Supports the fact that the Commission has maintained its reservation concerning the APF related to governance and reporting on corrective measures in the management of funds; reiterates its call on the Commission to continue its efforts within the pillar assessment exercise towards reinforcing the control system for the management and operational monitoring of the APF in view of protecting the EDFs against illegal and irregular expenditure; asks the Commission to continue to reinforce the design and effectiveness of the remedial measures at contract level;
26. Notes that EUR 14,16 million was recovered for the reimbursement of undue payments due to irregularities and errors;
27. Observes that the cost of controls amounted to EUR 280,17 million or 4,26 % of the total payments made by DG DEVCO in 2016; believes, in this regard, that work on the overall effectiveness of the framework of control activities and their complementarity with good governance principles should be regularly carried out to secure sufficient guarantees;
28. Considers it necessary to maintain a consistent control strategy ensuring a balance between the absorption capacity of partner countries, respect for compliance provisions and targets related to performance, which should be duly reflected in the management of the different aid operations and delivery modes;
29. Considers that for infrastructure projects financed through the EDFs, an independent ex ante assessment that takes the social and environmental impact of the projects into account, as well as their added value, is essential;

Monitoring and reporting on DG DEVCO's performance towards achieving its objectives

30. Invites DG DEVCO to improve significantly its monitoring and performance reporting arrangements to ensure that key indicators established in the different performance

systems are systematically and regularly monitored and that appropriate and reliable information is provided to senior management on a timely basis; reiterates that social and environmental aspects, as well as economic aspects, have to be taken into account when assessing development objectives;

31. Considers that the frequency of the monitoring and reporting should be established taking into account the nature of the objectives to be monitored, the type of indicator and the collection methods as well as the monitoring and reporting needs;
32. Calls on DG DEVCO, along with other external affairs stakeholders, to further develop its communications strategy and tools by highlighting the main results achieved, and to further strengthen the overall visibility of EDF-supported projects in order to reach out to a wider public by providing relevant information on the Union's contribution to global challenges;
33. Considers the 86 progress External Assistance Management Reports (EAMRs) from Union delegations as a useful contribution both to the assurance chain and performance measurement of each Union delegation, while insisting on the reliability of data used in that reporting; notes the positive trend for DG DEVCO for the performance of Union delegations with 21 out of 24 Key Performance Indicators (KPIs) meeting targets in 2016 (compared to 20 in 2015 and 15 in 2014), except for three KPIs related to 'the accuracy of financial forecasts for decisions', 'percentage of payments done within the thirty days deadline' and 'the respect of flexibility arrangements for the use of staff in EU Delegations';
34. Is concerned, however, that 980 projects out of 3 151 (31 %) were qualified as problematic and that six Union delegations are still below the benchmark of 60 % of green KPIs; calls on the Commission's services to closely monitor those Union delegations which have recently reached the target of 60 % or which stand just above the 60 % target in order to refine and consolidate the trend analysis of Union delegations;
35. Invites DG DEVCO to consider the possibility of rescheduling or upgrading the benchmark of 60 %; reiterates that the definition of certain KPIs could also be reviewed, depending on the typology of issues identified or the risk environment of each Union delegation, in order to find new margins of improvement;
36. Points out that it is important to ensure that programmes are calibrated and not overly ambitious, which would jeopardise the expected results of the assistance; invites DG DEVCO, as a result of the monitoring of the performance of Union delegations, to maintain realistic pipelines of projects in Union delegations;
37. Considers it essential that the heads of delegation continue to be regularly reminded, during *ad hoc* or regional seminars, of their key role in the consolidation of the DG DEVCO assurance chain and their overall accountability for managing the portfolios of projects, requiring an adequate assessment and weighting of various components likely to trigger the issuance of a reservation, in addition to their political duties; notes that no Union delegation issued a reservation in its EAMR in 2016;

38. Asks the Commission to report immediately on the specific remedial actions taken when a project has been classified as ‘red’ for two consecutive years in order to rapidly re-examine the initial design of the project, eventually reallocate funds to more viable projects and needs, or even consider the possibility of stopping the project;

Oversight and management of Union trust funds

Complementarity and impact

39. Stresses that coherence and complementarity of development financial instruments with the EDFs’ strategy and overarching objectives of Union development policy should be continuously ensured;
40. Recognises that Union trust funds were designed to provide a rapid political response in the context of a lack of resources to certain critical situations or major crises, such as the migration crisis, or the need to link relief, rehabilitation and development;
41. Understands that, in such circumstances, dedicated Union trust funds offer flexibility and a range of possibilities combining geographic and thematic interventions via different windows;
42. Stresses, however, that the Commission must ensure that such trust funds add value to existing actions, contribute to increased visibility of the Union’s external action and soft powers, and avoid duplication of other financial tools;
43. Notes that out of the total pledges for all of the Union trust funds (EUR 5 026 million as of the end of November 2017), EUR 2 403 million comes from the EDFs, with EUR 2 290 million pledged for the Union emergency trust fund for Africa (Africa trust fund) and EUR 113 million for the Union trust fund for the Central African Republic (Bêkou trust fund);
44. Recalls, however, the high inherent risks incurred by those development instruments and, for the time being, the mixed experience in their implementation; reiterates the need for ensuring maximum transparency in, and accountability of, the utilisation of those instruments;
45. Welcomes Special Report No 11/2017 of the Court on the Bêkou trust fund; recognises that despite some shortcomings the Bêkou trust fund was a hopeful beginning and observes that setting up a trust fund was a rapid response to the need to link relief, rehabilitation and development; calls on the Commission to follow the Court’s recommendations in order to prepare guidance on the choice of aid vehicle (trust fund or other); is of the opinion that such guidance must reflect the possible risks posed by, and disadvantages of, trust funds and take into account the mixed experience in their use so far; regrets that the Bêkou trust fund has not significantly improved general donor coordination;
46. Calls for the identification of best practices in order to contribute to a better coordination of the various donors’ bilateral aid and aid vehicles;
47. Recalls that the scope of Union trust funds is to be anchored to the provision of additionality, particularly to respond appropriately to post-conflict or post-disaster

partner countries' needs and priorities while focusing on areas where added value and strategic impact are the highest;

48. Takes the view that both single-country Union trust funds and Union trust funds supporting programmes for multiple countries are more effective when they have a formal and coherent governing structure that can foster stakeholders' voices, values and shared results frameworks;
49. Considers it essential that the Union's trust funds aim at mobilising additional funds from the Member States, private sector and other donors;
50. Highlights the fact that the selectivity, oversight and accountability for results generated by Union trust funds must be deepened within partnership programmes and need to rely on a preliminary assessment of the comparative advantages of Union trust funds compared to other aid channels; points out that it is necessary to ensure full transparency and access to data, as well as to clear rules governing control and monitoring;

The Bêkou trust fund

51. Welcomes the establishment of the Bêkou trust fund and its contribution to the international response to the crisis in the Central African Republic; recognises that this first trust fund can be considered as a major pilot project in a number of ways and that it is necessary to develop more precise guidance on the systemic issues of donor coordination, monitoring and evaluation according to a more systemic approach to obtain guarantees;
52. Is of the opinion that more time is needed to properly evaluate the effectiveness of the Bêkou trust fund and to further learn from its operational implementation;
53. Considers that particular attention should also be paid to the effectiveness and political governance of Union trust funds as well as to a lack of guarantees and oversight of the final use of the allocated funds;
54. Believes that the Bêkou trust fund's limited influence on coordination amongst stakeholders should be given special attention and that the Commission should do everything in its power to use the experience it has gained in the activities of the EDFs in areas such as the implementation and coordination of multi-party investments and result-ownership management;
55. Expresses its concerns that Member States' contributions to the Bêkou trust fund have, to date, been relatively low; calls on Member States to become more involved in order to ensure that the Bêkou trust fund delivers its expected policy objectives;
56. Believes that due care should be devoted to the management of administrative costs against total contributions, to calculating the full management costs and to finding ways to maximise the share of the allocated aid that goes to the final beneficiaries;
57. Calls on the Commission to implement comprehensive control mechanisms to ensure political scrutiny from Parliament on the governance, management and implementation

of these new instruments in the context of the discharge procedure; considers it to be important to develop specific supervision strategies for Union trust funds, with specific objectives, targets and reviews;

Implementation of budget support activities

Eligibility and inherent risks

58. Notes that budget support payments financed by the EDFs in 2016 corresponded to EUR 644 million; notes that the number of ongoing budget support operations in the EDFs was 109 in 2016 with 56 disbursements;
59. Acknowledges the Commission's flexibility in assessing whether the general eligibility conditions have been met to make the payments to the partner country (differentiation and dynamic approach to eligibility) due to a broad interpretation of the legal provisions and is concerned by the final use of the funds transferred and the lack of traceability when the Union's funds are merged within the partner country's budget resources;
60. Urges the Commission to expand result-oriented budget support by better defining the development outcomes to be achieved in each budget support programme and sector, and above all to enhance control mechanisms concerning recipient states' conduct in the areas of corruption, the respect for human rights, the rule of law and democracy; expresses deep concern about the potential use of budget support in countries lacking democratic oversight, either due to the lack of a functioning parliamentary democracy or freedoms for civil society and the media or due to a lack of capacity of oversight bodies; calls for a corruption-free expenditure chain to be set up; considers it a priority to tie this support to corruption being fought effectively in countries benefiting from budget support;
61. Recalls that the risks that resources are diverted away remain high and risks of corruption and fraud are often linked to public financial management and reforms; reiterates that deeper attention should be paid to those risks in the framework of the policy dialogue and strategy design for future budget support contracts, in particular to assess a government's responsiveness and ability to enforce reforms; points out that the risks and results of ex ante and ex post controls need to be carefully followed;
62. Calls on the Commission, however, to ensure that budget support and disbursement of funds is revised, withheld, reduced or cancelled when clear and initial objectives and commitments are not achieved and/or when the Union's political and financial interests are at stake;
63. Recalls the need for the EDFs to offer maximum openness and transparency; supports the public disclosure of relevant budget information related to budget support programmes in order to enhance transparency and accountability, of and towards all the stakeholders, including citizens;

Budget support to improve domestic revenue mobilisation in Sub-Saharan Africa

64. Stresses the importance of domestic revenue mobilisation in less-developed countries as it reduces dependence on development aid, leads to improvements in public governance

and plays a central role in state-building; calls for the use of disbursement conditions specific to domestic revenue mobilisation to be strengthened in good governance and development contracts;

65. Points out that the Commission has not yet effectively used budget support contracts to support domestic revenue mobilisation in low and lower-middle income countries in Sub-Saharan Africa; notes, however, that the Commission's new approach increased the potential of this form of aid to effectively support domestic revenue mobilisation; invites the Commission to provide more information in its budget support reports concerning the use of budget support contracts for domestic revenue mobilisation;
66. Underlines the fact that strengthening tax systems contributes not only to raising more predictable revenue but also to the accountability of governments by creating a direct link between taxpayers and their government; supports the explicit inclusion of domestic revenue mobilisation improvement on the Commission's list of key development challenges addressed through budget support;
67. Points out challenges related to tax avoidance, tax evasion and illicit financial flows; calls on the Commission to adhere to its guidelines when conducting macroeconomic and public financial management assessments of aspects related to domestic revenue mobilisation in order to obtain a better overview of the most problematic issues, e.g. the scale of tax incentives, transfer pricing and tax evasion;
68. Further invites the Commission to increase its commitment in the fight against tax evasion and tax abuse by decreasing its financial support for blacklisted tax havens through the means of the EDFs in order to create an incentive for those listed countries that encourage abusive tax practices to comply with the Union's fair tax criteria;
69. Points out a lack of appropriate monitoring tools to assess the extent to which budget support contributed to overall improvements in domestic revenue mobilisation;
70. Believes that it is crucial to continue promoting fair and transparent domestic tax systems in the field of tax policy, to scale up its support for oversight processes and bodies in the area of natural resources, and to continue backing governance reforms that promote the sustainable and transparent exploitation of natural resources;
71. Emphasises the need to apply conditions specific to domestic revenue mobilisation more often as they clearly associate the disbursement of budget support payments with the partner country's progress in domestic revenue mobilisation reforms;
72. Encourages the Commission to extend the capacity building component of budget support as it lays firm foundations for a long-term economic and social transformation and addresses major obstacles to the efficient collection of public revenue;
73. Invites the Commission, for all existing and future budget support contracts with a capacity development component earmarked for domestic revenue mobilisation, to increase partner countries' awareness of the availability of this support and facilitate its use, in particular to address capacity development needs not yet covered by other donors;

Need for increased cooperation with international organisations

74. Observes that EDF payments to multi-donor projects implemented by international organisations in 2016 amounted to EUR 914 million;
75. Believes that multilateral financial institutions for development should work to make the use of blended finance more effective, particularly with regard to additionality;
76. Emphasises that multilateral development banks should contribute in a coordinated and harmonised way to achieve the sector funding of the United Nations' ambitious Sustainable Development Goals set for 2030, in particular by using effectively blended finance and leveraging private finance to increase the efficiency and impact of aid financing;
77. Encourages the Commission to make an increased use of the micro financing instrument, which is considered to be a significant and effective tool in the fight against poverty and in lifting up local economies;
78. Recalls the need for EDF financial tools to attract further investments from the private sector; encourages the Commission to draw up an action plan that would address this need and to inform the discharge authority on the progress made;
79. Calls on the Commission to provide for the double purpose of transparency and Union visibility and to provide further information on projects managed with Union funds in the next Commission' reporting; believes that deepening the dialogue with the United Nations and the World Bank Group should be intensified for the purpose of enhanced transparency and simplification of joint cooperation instruments;
80. Calls on the Commission to make available to the public not only the data concerning the financing of NGOs but also detailed reports on the projects funded; expresses concern about the recent allegations of misconduct made against certain NGOs; calls on the Commission to monitor actively the development of the situation and, where necessary, to reassess the funding granted;

Addressing new global development priorities

Operational challenges and new drivers

81. Recognises the necessity to develop new patterns for designing development assistance instruments and related conditionalities, in line with the commitments of the Sustainable Development Goals and the new European Consensus on Development, in order to respond to new critical features such as the development and humanitarian nexus, the development, migration and mobility nexus, the climate change nexus and the peace and security nexus;
82. Stresses that, given the funding gap required to reach the ambitious Sustainable Development Goals, the private sector might play a crucial role; notes that blending might be a useful vehicle for leveraging additional resources, provided that its use is duly justified, its added value is demonstrated and it meets development effectiveness principles;

83. Underlines, however, that the EDFs should not go beyond their scope and that the creation of a new nexus to face new challenges should not undermine the achievement of other development goals and their establishment must be accompanied by accurate, clear and transparent rules laid down on the basis of objective and non-discriminatory criteria set by the Commission;
84. Considers that improved coordination and synergies of support by different donors and aid instruments is crucial; calls on various stakeholders to improve the quality of operations results frameworks and development results on the ground;
85. Recognises the operational difficulties or challenges encountered, in particular for the purpose of consensus building especially when the coordination of a large number of donors is at stake in an evolving, complex context and in light of changing needs;
86. Considers that investing in fragile countries remains a key priority of Union intervention, while maintaining a sober monitoring approach could lead, when required, to the cessation of financing; believes that the practice of outcome ratings and their sharing in relation to fragile or conflict countries must be strengthened;
87. Supports the efforts to tackle the issues of sustainability of development results when DRM, ownership and political economy is at stake;
88. Recalls the fact that climate change is one of the greatest challenges facing the Union and governments across the globe; strongly calls on the Commission to fulfil its commitments based on the Paris Agreement to strengthen the climate conditionalities of Union funding to finance only climate-compatible projects reflecting the Union's climate objectives, which will require an increased consistency in selection criteria;
89. Is worried by the Court's finding that the Union certification system for the sustainability of biofuels is not completely reliable¹; underlines the potentially negative consequences for developing countries since, as stated by the Court, "the Commission did not require voluntary schemes to verify that the biofuel production they certify does not cause significant risks of negative socioeconomic effects, such as land tenure conflicts, forced/child labour, poor working conditions for farmers and dangers to health and safety", and therefore requests the Commission to address this issue;
90. Encourages the integration of the ethical dimension in the design of policy interventions;
91. Insists that educational material financed by Union funds, including PEGASE (Mécanisme Palestino-européen de Gestion de l'Aide Socio-économique), comply with the common values of freedom, tolerance and non-discrimination through education adopted by education ministers of the Union in Paris on 17 March 2015; asks the Commission to ensure that Union funds are spent in line with Unesco-derived standards of peace and tolerance in education;

Operationalising the development-migration nexus

¹ Special report No 18/2016: The EU system for the certification of sustainable biofuels

92. Observes that 106 projects worth a total of EUR 1 589 million were approved, with EUR 594 million contracted and EUR 175 million of paid amounts in 2016 for the better management of migration flows and to address the root causes of irregular migration through the Africa trust fund and related regional windows; notes that one of the agreed targets refers to 'well-managed migrations policies';
93. Invites the Commission to report in a structured manner on the impact of the programmes launched under the Africa trust fund, particularly on the basis of Union result-oriented monitoring and the Africa trust fund results framework to highlight the collective achievements;
94. Notes also in that context that the new European Fund for Sustainable Development, as part of the European External Investment Plan, will target Sub-Saharan African countries, with EUR 400 million provided by the EDFs;
95. Supports increasing the ACP impact financing envelope, a separate window of the ACP investment facility, by EUR 300 million to reach a total capacity amount of EUR 800 million to deal with targeted projects directly tackling the root causes of migration, and turning it into a revolving fund;
96. Notes that the European Investment Bank (EIB) with the ACP investment facility mainly supports projects promoting the development of the private sector while eligible public sector projects are also considered under the ACP migration package; welcomes the development of new partnerships in the context of the ACP investment facility managed by the EIB; calls on the EIB, however, to provide further information on the components of the leverage effect, namely the respective parts coming from the equity part and from Union public funding or other multilateral development banks as well as the reflows reinvested in the functioning of the ACP investment facility;
97. Supports the Commission in the creation of a migration code within the Development Assistance Committee of the Organisation for Economic Cooperation and Development in order to increase the effective use and traceability of the related funding;

Towards a new partnership ACP

98. Looks forward to being fully informed and consulted on the mid-term review of the 11th EDF, which is supposed to take into account Agenda 2030 and a new European Consensus on Development but which should also fully respect the principles of development effectiveness reconfirmed at the Nairobi High Level Forum of the Global Partnership, in particular ownership of priorities by recipient countries;
99. Reiterates its call for the inclusion of the EDF Funds in the general budget.

2.2.2018

OPINION OF THE COMMITTEE ON DEVELOPMENT

for the Committee on Budgetary Control

on discharge in respect of the implementation of the budget of the eighth, ninth, tenth and eleventh European Development Funds for the financial year 2016 (2017/2146(DEC))

Rapporteur: Doru-Claudian Frunzulic

SUGGESTIONS

The Committee on Development calls on the Committee on Budgetary Control, as the committee responsible, to incorporate the following suggestions into its motion for a resolution:

1. Supports the use of budget support but urges the Commission to better define and clearly assess the development outcomes to be achieved in each case and above all to enhance control mechanisms concerning recipient States' conduct in the fields of corruption, respect of human rights, rule of law and democracy; expresses deep concern about the potential use of budget support in countries lacking democratic oversight, either due to the lack of a functioning parliamentary democracy or freedoms for civil society and the media, or due to a lack of capacity of oversight bodies; notes the European Court of Auditors' Special Report No 35/2016 on the use of budget support for domestic resource mobilisation (DRM) in sub-Saharan Africa, which finds that the Commission's ex- ante analyses of DRM are not sufficiently detailed and do not follow its own guidelines, that the Commission often fails to assess tax exemptions and illicit capital outflows and does not properly consider extraction dividends and whether royalties for access to natural resources have been paid; is concerned about the Commission's low and sometimes not relevant use of DRM conditions in budget support contracts;
2. Regrets the repeated occurrence of non-compliance with procurement rules in EDF spending¹; underlines that this is an ongoing problem which the European Court of Auditors has been highlighting for years; calls on the Commission to address this problem, which risks becoming even more important due to accelerated tenders within

¹ Annual report on the activities funded by the 8th, 9th, 10th and 11th European Development Funds for the financial year 2016, ECA.

the EU-Africa Emergency Trust Fund;

3. Welcomes the European Court of Auditors' Special Report No 11/2017 on the Bêkou EU trust fund for the Central African Republic; recognises that despite some shortcomings the trust fund was a hopeful beginning and observes that setting up a trust fund was a rapid response to the need to link relief, rehabilitation and development; calls on the Commission to follow the Court's recommendations to prepare guidance on the choice of aid vehicle (trust fund or other); is of the opinion that such guidance must reflect the possible risks posed by, and disadvantages of, trust funds and take into account the mixed experience in their use so far; regrets that the trust fund has not significantly improved general donor coordination;
4. Looks forward to being fully informed and consulted on the mid-term review of the 11th EDF, which is supposed to take into account Agenda 2030 and a new European Consensus on Development but which should also fully respect the principles of development effectiveness reconfirmed at the Nairobi High Level Forum of the Global Partnership, in particular the ownership of priorities by recipient countries;
5. Stresses that, given the funding gap required to reach the ambitious development goals, the private sector might play a crucial role; notes that blending might be a useful vehicle for leveraging additional resources, provided that its use is duly justified, its added value is demonstrated and it meets development effectiveness principles.
6. Calls on the Commission to incorporate an incentive-based approach to development by introducing the more-for-more principle, taking as an example the European Neighbourhood Policy; believes that the more and the faster a country progresses in its internal reforms to the building and consolidation of democratic institutions, the eradication of corruption, the respect for human rights and the rule of law, the more support it should receive from the Union; stresses that this "positive conditionality" approach, accompanied by a strong focus on financing small-scale projects for rural communities, can bring real change and guarantee that Union tax payers' money is spent in a more sustainable manner; strongly condemns, on the other hand, any attempt to make aid conditional on border control;
7. Is worried by the European Court of Auditors' statement¹ that there is a serious risk that the Union will not meet its aim of mainstreaming climate change throughout the Union budget and that the goal of spending 20 % of its expenditure for climate-related action will not be met;
8. Is worried by the European Court of Auditors' finding that the Union certification system for the sustainability of biofuels is not completely reliable²; underlines the potentially negative consequences for developing countries since, as stated by the Court: "the Commission did not require voluntary schemes to verify that the biofuel production they certify does not cause significant risks of negative socioeconomic effects, such as land tenure conflicts, forced/child labour, poor working conditions for farmers and dangers to health and safety", and therefore requests the Commission to

¹ Special Report No 31/2016 Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short, ECA, 2016.

² Special report No 18/2016: The EU system for the certification of sustainable biofuels

address this issue.

INFORMATION ON ADOPTION IN COMMITTEE ASKED FOR OPINION

Date adopted	24.1.2018
Result of final vote	+: 17 -: 0 0: 4
Members present for the final vote	Ignazio Corrao, Mireille D'Ornano, Doru-Claudian Frunzulic , Charles Goerens, Enrique Guerrero Salom, György Hölvényi, Arne Lietz, Linda McAvan, Norbert Neuser, Vincent Peillon, Lola Sánchez Caldentey, Elly Schlein, Eleftherios Synadinos, Bogdan Brunon Wenta, Joachim Zeller
Substitutes present for the final vote	Ádám Kósa, Paul Rübig, Judith Sargentini, Adam Szejnfeld
Substitutes under Rule 200(2) present for the final vote	Jean Lambert, Miroslav Mikolášik

FINAL VOTE BY ROLL CALL IN COMMITTEE ASKED FOR OPINION

17	+
ALDE	Charles Goerens
NI	Eleftherios Synadinos
PPE	György Hölvényi, Ádám Kósa, Miroslav Mikolášik, Paul Rübig, Adam Szejnfeld, Bogdan Brunon Wenta
S&D	Doru-Claudian Frunzulic , Enrique Guerrero Salom, Arne Lietz, Linda McAvan, Norbert Neuser, Vincent Peillon, Elly Schlein
Verts/ALE	Jean Lambert, Judith Sargentini

0	-
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4	0
EFDD	Ignazio Corrao, Mireille D'Ornano
GUE/NGL	Lola Sánchez Caldentey
PPE	Joachim Zeller

Key to symbols:

+ : in favour

- : against

0 : abstention

INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE

Date adopted	19.3.2018						
Result of final vote	<table><tr><td>+: </td><td>19</td></tr><tr><td>–: </td><td>1</td></tr><tr><td>0: </td><td>0</td></tr></table>	+:	19	–:	1	0:	0
+:	19						
–:	1						
0:	0						
Members present for the final vote	Inés Ayala Sender, Dennis de Jong, Tamás Deutsch, Luke Ming Flanagan, Ingeborg Gräßle, Benedek Jávor, Barbara Kappel, Wolf Klinz, Arndt Kohn, Miroslav Poche, José Ignacio Salafranca Sánchez-Neyra, Petri Sarvamaa, Claudia Schmidt, Bart Staes, Marco Valli, Derek Vaughan						
Substitutes present for the final vote	Gerben-Jan Gerbrandy, Brian Hayes, Andrey Novakov						
Substitutes under Rule 200(2) present for the final vote	John Howarth						

FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE

20	+
ALDE	Gerben-Jan Gerbrandy, Wolf Klinz
EFDD	Marco Valli
ENF	Barbara Kappel
GUE/NGL	Luke Ming Flanagan, Dennis de Jong
PPE	Tamás Deutsch, Ingeborg Gräßle, Brian Hayes, Andrey Novakov, José Ignacio Salafranca Sánchez-Neyra, Petri Sarvamaa, Claudia Schmidt
S&D	Inés Ayala Sender, John Howarth, Arndt Kohn, Miroslav Poche, Derek Vaughan
VERTS/ALE	Benedek Jávor, Bart Staes

0	-

0	0

Key to symbols:

+ : in favour

- : against

0 : abstention