

MONDAY, 13 FEBRUARY 2017

19.00 - 20.30

Room: Louise Weiss (N1.3)

1. ADOPTION OF THE AGENDA

The draft agenda was emailed to Members on 2 February 2017 and is in the [file for the meeting](#).

2. CHAIR'S ANNOUNCEMENTS

The Chairman draws attention to the following points:

Languages available

FR, DE, IT, NL, EN, EL, ES, FI, CS, ET, HU, LT, PL, SL, BG, RO

Webstreaming

The CONT meeting is webstreamed on the [Europarl web-site](#).

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MONDAY, 13 FEBRUARY 2017

19.00 - 20.30

PUBLIC MEETING

3. ECA SPECIAL REPORT N° 32/2016 (2016 DISCHARGE) ON "EU ASSISTANCE TO UKRAINE"

CONT/8/08799



Presentation of the Special Report by the Member of the European Court of Auditors responsible, *Szabolcs Fazakas*, and consideration of working document

Rapporteur: [Joachim Zeller](#) (EPP)

Administrator: Michal Czaplicki

Shadow Rapporteurs: Caterina Chinnici (S&D), Miguel Viegas (GUE/NGL), Benedek Jávor (Greens/EFA), Marco Valli (EFDD)

EU-Ukraine cooperation is part of the European Neighbourhood Policy and its eastern dimension, the Eastern Partnership. The European Neighbourhood and Partnership Instrument, which was replaced by the European Neighbourhood Instrument in 2014, provided most of the bilateral assistance. During the audited period (2007-2015), EU financial assistance consisted of 1.6 billion euros in grants, half of which was in the form of budget support, and of 3.4 billion euros in macro-financial loans.

The audit objective was to assess whether Commission and EEAS (European External Action Service) assistance was well prepared, appropriate and effective in supporting the transformation of Ukraine into a well governed state in the area of public finance management and the fight against corruption, as well as in the gas sector during the 2007-2015 period. The audit scope included all EU budget support and macro-financial assistance programmes initiated since 2007, as well as the financial instruments from the Commission's package launched in 2014.

The ECA arrived at the conclusion that overall, EU assistance to Ukraine has been partially effective in supporting the transformation of Ukraine into a well governed state in the area of public finance management and the fight against corruption, as well as in the gas sector during the 2007-2015 period.

In light of its findings, the ECA recommended that the Commission should place greater emphasis on public finance management in the dialogue process with Ukraine in order to maintain the Public finance management (PFM) reform momentum created by the adoption of the 2013 PFM strategy. The Commission and EEAS should consolidate policy dialogue on PFM issues. The Commission should also explore the possibility of launching a specific programme to ensure PFM reform is implemented effectively as soon as possible.

The Rapporteur's working document (EN) is available on the [CONT website](#).

4. CONT DELEGATION TO UKRAINE (16-19 MAY 2016)

CONT/8/06355



Consideration of delegation report

Rapporteur: [Ingeborg Gräßle](#) (EPP)
Administrator: Michal Czaplicki

Since the Maidan revolution in 2014, the EU is providing a very substantial financial assistance to support Ukraine's stabilisation and reform process (3.4 billion euro of Macro-financial assistance, 900 million euro of bilateral development assistance, 500 million euro of regional assistance, 50 million euro for stability and peace, 60 million euro for humanitarian aid). This aid covers key areas such as fight against corruption, judicial and public sector reform as well as economic reform and private sector development. In addition, there are specific actions targeting civil society organisations, cross-border cooperation and humanitarian assistance.

In the light of the above, the Budgetary Control Committee decided to send a delegation to Ukraine in order to verify whether:

- EU money has been spent and what added value it brought;
- EU expertise helped tame corruption and brought the spill over effect of EU standards to Ukraine;
- EU financial aid in its direct neighbourhood helped in stabilising the country;
- Eastern Partnership project improved the quality of the civil service in Ukraine?

The first part in the L'viv region in western Ukraine aimed to monitor EU funded projects and trans-border cooperation with the EU. The delegation visited projects not only in the regional capital of L'viv, but also in towns like Drohobych or Sambir and villages like Morshyn, PISOCHNA or LUKY where EU funded projects have also been conducted.

The second part of the delegation took place in the Ukrainian capital Kyiv where the Members met with the central authorities - the Verkhovna Rada (Ukrainian parliament) and the newly sworn in government. During the meetings they checked how Ukraine was coping with systemic corruption and how it was managing centrally the EU funds. In the Parliament, the CONT Delegation met with their counterparts in the spirit of the recently signed cooperation agreement between the European Parliament and the Verkhovna Rada. The delegation also met with the anti-corruption bodies created after the Maidan revolution. Meetings with the civil society, anti-corruption watchdogs and investigative journalists were also included in the program.

Following up on the mission the delegation is presenting a mission report to be adopted by the Committee. It includes a detailed description of each of the project visited, an analysis of the general situation of Ukraine and its absorption of EU funds and recommendations of the delegation to improve the situation in the country.

CONT Members will have an exchange of views on the mission report and its recommendations.

The mission report is available on the [CONT website](#).

5. ECA SPECIAL REPORT N° 21/2016 (2016 DISCHARGE) ON “EU PRE-ACCESSION ASSISTANCE FOR STRENGTHENING ADMINISTRATIVE CAPACITY IN THE WESTERN BALKANS: A META-AUDIT” CONT/8/07704



Presentation of the Special Report by the Member of the European Court of Auditors responsible, *Szabolcs Fazakas*, and consideration of working document

Rapporteur: [Joachim Zeller](#) (EPP)

Administrator: Olivier Sautière

Shadow Rapporteurs: Zigmantas Balčytis (S&D), Nedzhmi Ali (ALDE), Younous Omarjee (GUE/NGL), Marco Valli (EFDD)

Since the accession of Croatia in 2013, the EU Western Balkans enlargement policy has dealt with six countries: Albania, Bosnia and Herzegovina, Kosovo, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia. From 2007 until 2014, the EU financial assistance to the Western Balkans through the Instrument for Pre-accession Assistance (IPA) amounted to 5.1 billion euros. The funds were allocated through national and regional programmes with roughly a quarter of national programme funding that went towards strengthening administrative capacity in the key sectors of the rule of law and public administration reform, including Public finance management (PFM) and political dialogue in the six Western Balkan countries.

The Court conducted a 'meta-audit', an overview of the European Commission's management of pre-accession assistance in the six aforementioned countries between 2007 and 2013 (IPA I) while also taking into account developments relating to the 2014-2020 period. The Court assessed the effectiveness of the Commission's management of the IPA in the Western Balkans and whether administrative capacity was strengthened in the region with a focus on two sectors namely

Committee on Budgetary Control

- i. the rule of law (fundamental rights, justice and home affairs) with a specific emphasis on the fight against corruption and organised crime ;and
- ii. the public administration reform covering public finance management.

Out of the 902 mio euro related to rule of law and public administration reform projects, the Court examined 52 national projects for a total of 109 mio euro (or 12%) and three regional programmes representing 330 mio euro contracted (or 28%) out of a total of 1.16 billion euros.

The Court found that the Commission's management objectives had not always been specific and measurable. Programmes and projects were based on needs, but some beneficiaries' assessments in the 'rule of law' sector showed considerable shortcomings. The absorption of funds was hampered by weak administrative capacity in some countries and strict requirements for EU fund management when implementation was decentralised.

Although there were shortcomings in reporting, the Commission had been effective in monitoring the implementation of projects and capable of supporting donor coordination despite beneficiary shortcomings.

With regard to administrative capacity, the EU's assistance had generally delivered the planned outputs but the support for the rule of law and public administration reform was partly sustainable. For 'rule of law' projects, the Commission had not applied conditions consistently, and relatively little funding had been provided in key areas such as media freedom, public prosecution and the fight against corruption and organised crime. Beneficiaries' lack of political will to reform institutions, insufficient budget and staffing, as well as poor coordination had also affected project sustainability.

Finally, the Commission has encouraged regional cooperation and the improvement of administrative capacity but room for improvement remains as the political dialogue in the region had a limited impact on the rule of law.

The Rapporteur acknowledges the fact that the European Commission has to operate in a difficult political context encountering many weaknesses within beneficiaries' public institutions such as excessive bureaucracy, low efficiency, lack of accountability and corruption.

He particularly highlights the need to design national strategies with clear, realistic and measurable objectives and to pursue the efforts of the Western Balkans countries' authorities in key areas of good governance and towards their public administration reform, including the area of financial control in the context of the PFM. He also stresses the need to reinforce the application of the principle of conditionality, by verifying in advance the beneficiary's capacity to do what is required for a high-quality project and in specific measurable terms.

The Rapporteur finally recalls the importance of developing sustainability as it was not ensured in many cases due to inherent factors such as the lack of budget and the beneficiary's lack of political will to reform institutions. He calls on the Commission to focus on the fight against corruption, organized crime, public prosecution and the development of transparency and integrity requirements within the public administration as a matter of priority.

The Rapporteur's working document is available on the [CONT website](#).

The Rapporteur's conclusions will form part of the Commission's discharge report for the financial year 2015.

6. ANY OTHER BUSINESS

7. NEXT MEETINGS

- 27 February 2017, 15.00 to 18.30 (Brussels)
- 28 February 2017, 09.00 to 12.30 and 015.00 to 18.30 (Brussels)

MONDAY, 13 FEBRUARY 2017

20.30 - 21.30

Room: Winston Churchill (200)

Joint Meeting with ECON

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3. ECA SPECIAL REPORT N° 29/2016 ON "SINGLE SUPERVISORY MECHANISM - GOOD START BUT FURTHER IMPROVEMENTS NEEDED"



Presentation of the Special Report by the Member of the European Court of Auditors responsible, *Neven Mates*, and consideration of a working document

Rapporteur: [Marco Valli](#) (EFDD)

Administrator: Christian Ehlers

Shadow Rapporteurs: Brian Hayes (EPP), Cătălin Sorin Ivan (S&D), Luke Ming Flanagan (GUE/NGL), Igor Šoltes (Greens/EFA)

The 2008 global financial crisis caused severe disruption to many European economies. The knock-on effect on the banking sector, after years of deregulation and increasing risk-taking, was that many lending institutions found themselves over-exposed in declining markets and were forced to turn to government for financial

support. However, sovereign bail-outs inevitably contributed to an increase in public debt, leading to lower investment under the Single Supervisory Mechanism (SSM) and growth and further pressures on bank solvency.

The Court has a mandate to examine the operational efficiency of the management of the European Central Bank (ECB). However, the Court encountered an important obstacle in all areas of the intended audit: the emergence of disagreement with the ECB over the exact terms of its mandate and right to access documents. Arguing that they lay outside its remit, the ECB was not willing to share a number of documents that were needed to complete its work. As a result the Court was only partly able to assess whether the ECB is managing the SSM efficiently in the areas of governance, off-site supervision and on-site inspections.

The Court recommended that

(a) In the area of governance, the ECB should:

- (i) seek to improve efficiency by further streamlining the decision-making process;
- (ii) examine the risk posed by the system of shared services to the separation of functions, establish separate reporting lines for cases where specific supervisory resources are concerned and look into giving the Chair and the Vice-Chair of the Supervisory Board stronger involvement in the budgetary process; and
- (iii) assign internal audit skills and resources in such a way that higher-level risks are covered as and when appropriate.

(b) In the area of accountability, the ECB should:

- (i) make available all documents requested for the Court to exercise its audit mandate; and
- (ii) develop and make public a formal performance framework to demonstrate the effectiveness of its supervisory activities.

(c) In the area of off-site supervision (joint supervisory teams, JST), the ECB should:

- (i) take steps to ensure that national authorities participate fully and proportionately in the work of the JST work;
- (ii) develop with national competent authorities (NCA) methods to assess the suitability of prospective JST appointees and their subsequent performance;
- (iii) establish and maintain a comprehensive database of the skills, experience and qualifications of all JST staff;
- (iv) implement a formal, relevant training curriculum for all supervisory staff and consider setting up an off-site supervision certification programme;
- (v) develop a risk-based methodology to determine the target size and composition of each JST; and
- (vi) periodically review the clustering model used in supervisory planning and update it as necessary. The clustering itself should be based on the most recent bank-specific information.

(d) In the area of on-site supervision, the ECB should:

- (i) substantially strengthen the presence of its own staff in on-site inspections, and ensure that a greater proportion of inspections are led by non-native supervisors; and
- (ii) remedy weaknesses in the IT system and improve the overall skills and qualifications of on-site inspectors.

The Rapporteur's working document will be available on the CONT website.

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