

EUROPEAN PARLIAMENT

1999



2004

Session document

21 March 2003

FINAL
A5-0072/2003

REPORT

on the discharge to the Commission in respect of the implementation of the budget of the sixth, seventh and eighth European Development Funds for the 2001 financial year
(COM(2002) 211 - C5-0190/2002 - 2002/2087(DEC))

Committee on Budgetary Control

Rapporteur: Ole B. Sørensen

CONTENTS

	Page
PROCEDURAL PAGE	4
1. PROPOSAL FOR A DECISION	6
2. PROPOSAL FOR A DECISION	8
3.MOTION FOR A RESOLUTION	11
OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION	22
ANNEX I	24
ANNEX II	25

PROCEDURAL PAGE

On 29 April 2002 the Commission forwarded to Parliament the balance sheets and administrative accounts of the sixth, seventh and eighth European Development Funds for the 2001 financial year (COM(2002) 211 - 2002/2087(DEC)).

At the sitting of 13 May 2002 the President of Parliament announced that he had forwarded this document to the Committee on Budgetary Control as the committee responsible and to the Committee on Development and Cooperation for its opinion (C5-0190/2002).

At its meeting of 10 September 2002 the Committee on Budgetary Control confirmed the appointment of Ole B. Sørensen as rapporteur.

On 4 November 2002 the Court of Auditors forwarded to Parliament its report on the activities of the sixth, seventh and eighth European Development Funds, together with the institutions' replies for the 2001 financial year.

At its sitting of 18 November 2002 the President of Parliament announced that he had referred this document to the Committee on Budgetary Control as the committee responsible and all other committees for their opinion (C5-0539/2002).

On 20 December 2002 the Commission forwarded to Parliament the financial information on the 6th, 7th and 8th European Developments Funds for the 2002 financial year (COM(2002) 726).

At the sitting of 16 January 2002 the President of Parliament announced that he had forwarded this document to the Committee on Budgetary Control as the committee responsible and to the Committee on Budgets for its opinion (C5-0003/2003).

On 10 March 2003 the Council forwarded to Parliament the recommendation concerning the discharge to be given in respect of the European Development Funds for the 2001 financial year.

At the sitting of 13 March 2003 the President of Parliament announced that he had referred this document to the Committee on Budgetary Control (C5-0091/2003, C5-0092/2003, C5-0093/2003).

The Committee on Budgetary Control considered the draft report at its meetings of 20 February and 10 and 19 March 2003.

At the last meeting it adopted:

1. the proposal for a decision on the discharge to the Commission in respect of the implementation of the budget of the sixth, seventh and eighth European Development Funds for the 2001 financial year by 17 votes to 2
2. the proposal for a decision on closing the accounts of the sixth, seventh and eighth European Development Funds for the 2001 financial year by 16 votes to 3
3. the motion for a resolution containing the comments which form part of the decision giving discharge to the Commission in respect of the implementation of the budget of the

sixth, seventh and eighth European Development Funds for the 2001 financial year by 16 votes to 2 with 1 abstention.

The following were present for the vote: Diemut R. Theato, chairman; Herbert Bösch and Freddy Blak, vice-chairmen; Ole Sorensen, rapporteur; María Antonia Avilés Perea, Ioannis Averoff (for Generoso Andria), Juan José Bayona de Perogordo, Mogens Camre, Rijk van Dam, Christopher Heaton-Harris, Michiel van Hulten, Helmut Kuhne, John Joseph McCartin (for Brigitte Langenhagen), Eluned Morgan, Francisca Sauquillo Pérez del Arco (for Paulo Casaca), Bart Staes, Gabriele Stauner, Jeffrey William Titford and Kyösti Tapio Virrankoski.

The opinion of the Committee on Development and Cooperation is attached. The Committee on Budgets decided on 18 February 2003 not to deliver an opinion.

The report was tabled on 21 March 2003.

PROPOSAL FOR A DECISION

1. European Parliament decision on the discharge to the Commission in respect of the implementation of the budget of the sixth, seventh and eighth European Development Fund for the 2001 financial year (COM(2002) 211 - C5-0190/2002 - 2002/2087(DEC))

The European Parliament,

- having regard to the balance sheets and administrative accounts of the sixth, seventh and eighth European Development Funds for the 2000 financial year (COM(2002) 211 - C5-0190/2002),
 - having regard to the annual report of the Court of Auditors on the activities of the sixth, seventh and eighth European Development Funds for 2001 together with the replies of the institutions (C5-0539/2002)¹,
 - having regard to the Statement of Assurance on the European Development Funds of the Court of Auditors (C5-0539/2002),
 - having regard to the Council's recommendations of 7 March 2003 concerning the discharge to be given to the Commission in respect of the implementation of the operations of the European Development Funds for the 2001 financial year (C5-0091/2003, C5-0092/2003, C5-0093/2003),
 - 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 Convention²,
 - having regard to Article 276 of the EC Treaty,
 - having regard to Article 74 of the Financial Regulation of 16 June 1998 applicable to development finance cooperation under the fourth ACP-EC Convention³,
 - having regard to Rules 93 and 93 a, third indent, and Annex V of its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Development and Cooperation (A5-0072/2003),
- A. whereas, in its Statement of Assurance on the European Development Funds, the Court of Auditors concludes that, with certain exceptions, the accounts for the 2001 financial year reliably reflect the revenue and expenditure for the financial year and the financial situation at the end of the year,
- B. whereas the Court of Auditors conclusion on the legality and regularity of the underlying transactions is based on the audit of a sample of transactions,

¹ OJ C 295, 28.11.2002, p.289

² OJ L 156, 29.5.1998, p.108

³ OJ L 191, 7.7.1998, p.53

- C. whereas the Court of Auditors, on the basis of the documentation examined, is of the opinion that the revenue entered in the accounts, the amounts allocated to the EDF's commitments and payments are, taken as a whole, legal and regular,
1. Gives discharge to the Commission in respect of the implementation of the budget of the sixth, seventh and eighth European Development Funds for the 2001 financial year;
 2. Presents its comments in the attached resolution;
 3. Instructs its President to forward this decision, and the resolution which forms an integral part of this decision, to the Council, the Commission, the Court of Justice, the Court of Auditors and the European Investment Bank and to have it published in the Official Journal (L series).

PROPOSAL FOR A DECISION

2. European Parliament decision on closing the accounts of the sixth, seventh and eighth European Development Funds for the 2001 financial year (COM(2002) 211 - C5-0190/2002 - 2002/2087(DEC))

The European Parliament,

- having regard to the balance sheets and administrative accounts of the sixth, seventh and eighth European Development Funds for the 2001 financial year (COM(2002) 211 - C5-0190/2002),
 - having regard to the annual report of the Court of Auditors on the activities of the sixth, seventh and eighth European Development Funds for 2000 together with the replies of the institutions (C5-0539/2002)¹,
 - having regard to the Statement of Assurance on the European Development Funds of the Court of Auditors (C5-0539/2002),
 - having regard to the Council's recommendations of 7 March 2003 concerning the discharge to be given to the Commission in respect of the implementation of the operations of the European Development Funds for the 2000 financial year (C5-0091/2003, C5-0092/2003, C5-0093/2003),
 - 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 Convention²,
 - having regard to Article 74 of the Financial Regulation of 16 June 1998 applicable to development finance cooperation under the fourth ACP-EC Convention³,
 - having regard to Rules 93 and 93 a, third indent, and Annex V of its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Development and Cooperation (A5-0072/2003),
1. Notes that the financial situation of the sixth, seventh and eighth EDF as at 31 December 2001 was as follows:

¹ OJ C 295, 28.11.2002, p.289

² OJ L 156, 29.5.1998, p.108

³ OJ L 191, 7.7.1998, p. 53.

Table 2 - Cumulated utilisation of EDF resources as at 31 December 2001 (Mio €)

	Situation at end of 2000		Budgetary implementation during the financial year 2001				Situation at end of 2001				
	Global amount	Implementation rate (%) ⁽²⁾	6th EDF	7th EDF	8th EDF	Global amount	6th EDF	7th EDF	8th EDF	Global amount	Implementation rate (%) ⁽²⁾
A - RESOURCES ⁽¹⁾	32 598,7						7 829,1	11 503,3	13 465,0	32 797,3	
B - UTILISATION											
1. Primary commitments	26 598,7	81,2	-14,2	48,2	1 520,2	1 554,2	7 481,9	10 802,7	9 868,2	28 152,8	85,5
- programmable aid	14 783,6		-17,2	72,1	810,0	865,0	4 874,2	5 603,4	5 170,9	15 648,6	
- non-programmable aid	8 847,0		2,9	-19,4	494,0	477,5	2 512,3	3 683,0	3 129,2	9 324,5	
- structural adjustment	2 510,7		0,0	-0,6	216,1	215,5	6,0	1 152,0	1568,1	2 726,1	
- on transfers from previous EDFs	457,4		0,1	-3,9	0,0	-3,8	89,3	364,3	0,0	453,6	
2. Secondary commitments	20 417,9	62,4	26,9	294,1	1 942,3	2 263,4	7 285,4	9 657,2	5 738,6	22 681,3	69,2
- programmable aid	10 175,2		23,9	199,1	884,4	1 107,4	4 705,5	4 761,1	1 816,1	11 282,7	
- non-programmable aid	7 863,8		2,2	87,8	763,2	853,1	2 487,3	3 450,2	2 779,4	8 716,9	
- structural adjustment	2 003,7		0,0	0,3	294,7	295,0	6,0	1 149,6	1 143,1	2 298,7	
- on transfers from previous EDFs	375,2		0,8	7,0	0,0	7,8	86,7	296,3	0,0	383,0	
3. Payments	17 615,8	53,8	50,5	406,9	1 610,5	2 067,9	7 186,6	8 906,3	3 590,8	19 683,7	60,0
- programmable aid	8 985,8		44,4	295,4	413,9	753,7	4 622,7	4 248,9	867,8	9 739,4	
- non-programmable aid	6 521,8		5,1	90,8	894,9	990,8	2 473,8	3 259,4	1 779,4	7 512,6	
- structural adjustment	1 784,8		0,0	2,1	301,7	303,8	5,4	1 139,5	943,6	2 088,5	
- on transfers from previous EDFs	323,4		1,0	18,6	0,0	19,6	84,6	258,5	0,0	343,1	
C - OUTSTANDING PAYMENTS ON PRIMARY COMMITMENTS (B1-B3)	8 982,9	27,4					295,3	1 896,4	6 277,5	8 469,2	25,8
D - RESOURCES AVAILABLE FOR PRIMARY COMMITMENTS (A-B1)	6 147,3	18,8					347,2	700,6	3 596,7	4 644,5	14,2

⁽¹⁾ Initial endowment of the 6th, 7th and 8th EDFs (of which 60 million euro from the special EIB contribution), interest, sundry resources and transfers from previous EDFs

⁽²⁾ In percentage of resources (Source: OJ C 295, 28.11.2002, p.296)

2. Instructs its President to forward this decision and the resolution containing its observations to the Commission, the Council, the Court of Auditors and the European Investment Bank, and to have them published in the Official Journal (L series).

MOTION FOR A RESOLUTION

3. European Parliament resolution containing the comments which form part of the decision giving discharge to the Commission in respect of the implementation of the budget of the sixth, seventh and eighth European Development Funds for the financial year 2001 (COM(2001) 211 - C5-0190/2002 - 2002/2087(DEC))

The European Parliament,

- having regard to the balance sheets and administrative accounts of the sixth, seventh and eighth European Development Funds for the 2001 financial year (COM(2002) 211 - C5-0190/2002),
- having regard to the annual report of the Court of Auditors of the activities of the sixth, seventh and eighth European Development funds for 2001 together with the replies of the institutions (C5-0539/2002)¹,
- having regard to the statement of Assurance on the European Development Funds of the Court of Auditors (C5-0539/2002),
- having regard to the Annual Report 2001 from the Commission to the Council and the European Parliament on the EC development policy and the implementation of the external assistance (COM(2002) 490 - C5-0607/2002),
- having regard to its resolution on the Commission communication to the Council and the European Parliament on the European Community's development policy²
- having regard to the EuropeAid Cooperation Office's annual activity report 2001,
- having regard to Commission communication on financial information on the 6th, 7th and 8th European Development Funds 2001 (COM(2002) 726 - C5-0003/2003),
- having regard to the Council's recommendations of 7 March 2003 concerning the discharge to be given to the Commission in respect of the implementation of the operations of the European Development Funds for the 2000 financial year (C5-0091/2003, C5-0092/2003, C5-0093/2003),
- 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 Convention³
- having regard to Article 74 of the Financial Regulation of 16 June 1998 applicable to development finance co-operation under the fourth ACP-EC Convention⁴

¹ OJ C 295, 28.11.2002, p.289

² OJ C 277, 1.10.2001, p.130

³ OJ L 156, 29.5.1998, p. 108.

⁴ OJ L 191, 7.7.1998, p.53.

- having regard to Rules 93 and 93a, third indent and Annex V of its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Development and Co-operation (A5-0072/2003),
- A. whereas the present Commission took office in September 1999, the reform of the EC's development policy was launched in November 2000 and the reform of the management of EC external assistance in May 2000,
 - B. whereas the principal aim of the Community's development policy is to reduce poverty with a view to its eventual eradication¹ and whereas the EU and all Member States have endorsed the Millennium Development Goals (MDGs) which set outcome targets mainly related to education and health;
 - C. whereas poverty reduction and the promotion of the Human Rights requires the existence of genuine participatory democracy and responsible, corruption-free government,
 - D. whereas national ownership, budget support, multi-donor approach and country-based indicators for all donors are new strategies in the Community's development policy following the reform,
 - E. whereas this means that the visibility and separate identity of each donor's support will diminish, that each donor becomes part of a collective effort and that it is impossible to attribute effects to individual donors,
 - F. whereas this new approach in no way can be allowed to have a negative influence on European taxpayer's possibilities for getting correct and satisfactory information allowing to evaluate if EDF funds have been spent according to international standards for public administration as regards effectiveness, economy and efficiency, with regard to the results obtained and bearing in mind inter alia the substitution effect of this expenditure,
 - G. whereas the reform of the EC's development policy does not affect the Commission's responsibility for the implementation and management of this policy and for carrying out the controls that are necessary to assess whether the Community finances entrusted to it are properly used,
 - H. whereas the rate of implementation is extremely slow and whereas the 6th, 7th and 8th EDF, which began the 16th, 11th and 4th years respectively of their periods of validity, are still being implemented;
 - I. whereas a number of the reasons for underutilisation are due to circumstances for which the Commission has no responsibility; whereas, however, that does not exempt the Commission from promptly stepping up its efforts to simplify procedures and administration to enable the funds to be paid more swiftly to the final recipients;

Ownership

¹ The European Union's Development Policy, conclusions of the 2304th meeting of the Development Council 10 November 2000

1. notes that the need to reform the nature of the relationship between donors and developing countries has fostered the concept of "ownership" which should give primacy to the role of the developing countries (involving all stakeholders) in the development process; invites the Commission to outline, in its next annual report on the EC development policy, the scope for interpretation of this concept in beneficiary countries and whether it has a negative influence on EU priorities for development policy;
2. asks the Commission to provide information in its next annual report on the EC development policy on the involvement of representative parliamentary institutions, civil society organisations and minorities in the drawing up of the countries' development policies (including those developing countries with problems of governance and administrative capacity) and endeavour to ensure that real and effective consultation is taking place so that it make sense to talk about *national* ownership;

Budget support

3. notes that macro-economic budgetary support has become part of the Community's financial and technical co-operation with ACP countries, that the Community since 1992 has provided budgetary support amounting to € 2604 million¹ and that in 2001 € 270 million was spent on ACP macro-economic support²
4. notes the principle according to which the amounts of aid is directly linked to the level of performance of the country in *social sectors* and *public finance management* through *performance indicators* and *intensive discussions* with Government on the degree of achievement of the targets the government has set itself, and that meeting the targets secures full funding whereas missing them reduces the funding;
5. calls on the Commission to keep Parliament's competent committee regularly informed of the results achieved by budget support operations as regards social development;
6. regrets that the annual report on the EC development policy and the implementation of the external assistance does not give full information on when and under which circumstances budget support is an adequate instrument to use;
7. considers the mentioned indicators - "stable and sustainable macro-economy, prudent fiscal and monetary policies, sound macroeconomic policies"³ - too general and asks the Commission to inform Parliament, in its next annual report on the EC development policy, in detail on conditions and circumstances to be fulfilled in order to have the assurance that budget support is an adequate instrument;

Public finance management

¹ Point 4.5.7.1. in COM(2002) 490

² Point 2.5.3. in COM(2002) 490

³ Point 2.5.3. in COM(2002) 490

8. notes that EDF budget support is controlled according to national control procedures in the ACP States, and not the EDF procedures¹, and that the support therefore is subject to the same risks as expenditure financed from national income;
9. points out that budget support differs in this respect from project aid, which is implemented according to the procedures imposed by individual fund providers.
10. notes that the shift from specific project aid to programme budget support places a transparent and efficient management of public finance in the developing countries in the centre of the development strategy to provide assurance that resources are used as intended,
11. expects that the Commission, in parallel with the increasing use of budget support, will monitor closely the quality of public finance management in beneficiary countries;
12. invites the Commission to keep the use of budget support at a minimum until it has got evidence that public finance management in beneficiary countries is of such a standard that the inherent risk of the budget support approach has been considerably reduced;
13. asks the Commission to publish, in its next annual report on the EC development policy, guidelines against which progress in the management of public finance in each of the countries concerned can be assessed as well as performance indicators for measuring progress towards these guidelines;
14. is aware that improvement of public finance management takes time because it is a complex process and asks the Commission in negotiations with the responsible authorities in the beneficiary countries to stress the importance with which the discharge authority regards significant progress in the reform of mechanisms for sound management of budget execution in beneficiary countries;

Sector programmes and multi-donor approach

15. notes that development aid to sector programmes provided in conjunction with other donors creates specific control and monitoring related problems, which the Commission necessarily must address as long as the reform mentioned above has not given tangible results;
16. considers that the Commission - before any support is provided and together with the other donors and the beneficiary country, - should
 - establish measurable indicators for progress drawn up in relation to objectives and a solid and reliable baseline;
 - obtain sufficient guarantee that the planned programme falls inside EU development objectives
 - be satisfied that the financial reporting system used by the multilateral organisation corresponds to the standards of the European Court of Auditors and that accounts will be forwarded on time;
17. takes the view that the Commission, which has the political and financial responsibility for more than 10 % of Official Development Assistance world-wide should use its position to ensure appropriate reporting, accounting and auditing mechanisms;

¹ Special Report 5/2001 point 40, in OJ C 257, 14.9.2001, p. 1
PE 315.834

18. underscores, that the Commission also should control and follow up on the accounts provided by the multilateral organisation, monitor relevant audit reports and inform the European Court of Auditors and the discharge authority on the results;
19. Asks the Commission to provide information, in a separate section of the next edition of the annual report on development policy, as to which audit reports it has received from multilateral donors, what conclusions and recommendations are contained in those reports, what action the Commission has taken on those conclusions and recommendations, and to report on cooperation and coordination with international donors;
20. stresses in particular that it should be assured that the European Court of Auditors have access to all documentation (including national internal audit reports) and to effect visits on the spot in carrying out audits in order to control the use of the EU support;

ACP States' Supreme Audit Institutions' participation in the audit of the EDF

21. is convinced that the quality of public finance management is of the utmost importance for the effectiveness with which resources are mobilised and used and believes firmly that a step forward is to support the creation of strong, efficient and independent Supreme Audit Institutions in the beneficiary countries;
22. considers that giving these institutions partial responsibility for the implementation of the EDFs would help to strengthen the performance of the executive bodies - Government departments - and contribute to the process of developing democratic practices;
23. asks the Commission to analyse the set up, independence and efficiency of the Supreme Audit Institutions in beneficiary countries and to consider the results of such an analysis as one of the determining elements in the light of which future development aid should also be evaluated;
24. asks the Commission to inform, in a special chapter in its next annual report on the EC development policy, on how it is going to involve Supreme Audit Institutions in the audit process and to establish a programme and timetable for this process;

Complementarity - a one-way-issue?

25. notes that the Council at several occasions has stressed the importance of the Country Strategy Paper approach as a key instrument for achieving greater complementarity in the area of development co-operation between the Community and the Member States;
26. notes that the Commission has carried out a survey of Heads of Delegation on the co-ordination with Member States in the field¹; is concerned both that Member State's knowledge of Commission aid programmes is very poor and that Commission involvement in Member State programming of bilateral assistance is restricted to that of merely informing which leads to an overall picture of unsatisfactory coordination and complementarity of national aid programmes with EU development policy priorities;
27. asks the Council to consider if around 50 management committees is an appropriate way to ensure that EC aid better complements aid from Member States; takes the view that the

¹ Annexe 9, page 124 in "Commission's answers to the Cocobu's questionnaire on the 2001 EDF discharge"

Council should concentrate on strategic issues and not be involved in the Commission's micro-management of individual projects;

28. Asks the Commission to provide Parliament by 1 June 2003 with satisfactory and detailed information concerning disbursements to these management committees and to put forward proposals as to how this area may be rationalised;

EuropeAid Co-operation Office's annual activity report

29. notes that the Director General confirms that he has reasonable assurance that the control procedures put in place give the necessary guarantees as to the legality and regularity of the underlying transactions;¹ finds it difficult to reconcile this statement with the recognised need to strengthen the external audit function "swiftly and substantially"²; seeks clarification of the impact of this observation to improve external audit capacity;
30. considers that even if the need to strengthen the external audit function is not presented as a formal reservation -neither included in the list of "observations" in the declaration, but mentioned in the general descriptive part of the annual activity report itself - it is in any case a statement which questions the Director General's positive assurance;
31. regrets that the declaration itself does not include a definition of "reasonable assurance" and asks the Commission to present a *breakdown* of this concept in its
operational scope i.e. how many transactions need to be tested, and its
operational depth i.e. what kind of tests must be performed in the transactions selected as well as to include in the declarations definitions on other key concepts used;
32. is of the opinion that the Director Generals' activity reports are a key element in the financial reform of the Commission but wonders at the usefulness of a declaration that contains important reservations;
33. notes that methodology and guidance for producing the Annual reports for 2002 will be reviewed and enhanced;³ expects improvements so as to allow the declaration of the Director-General to be considered a step forward and represent a more faithful indication of the state of play;
34. notes that Aidco in 2001 arranged for the carrying out of 46 audits; invites the Court of Auditors to analyse these audits and to forward the results to the discharge authority;

Reform of the management of the external assistance

35. welcomes the fact that the reform of the external relations services has prevented a further geographical division; takes the view that the managerial model for efficient development aid delivery should be based on strong delegations in the fields and efficient financial monitoring and strong horizontal expertise in Headquarters;
36. is not convinced that the realised reform fully corresponds to this model as far as six external relations services share responsibility in the area of external relations; considers that a

¹ Annual Report 2001 point 9.77 and "EuropeAid Office de Coopération - rapport annuel d'activité 2001" p. 27

² Annual Report 2001 point 9.87 and "EuropeAid Office de Coopération - rapport annuel d'activité 2001" p. 20.

³ Annual Report 2001, Commission's reply point 9.53-9.54

further rationalization could have positive influence on the effectiveness of Community aid management;

37. deplores that the evaluation of the actual organisational structure of the management of the external assistance has not been carried out as planned; expects the Commission to respect its own planning in the future and urges the Commission to inform Parliament of the results of this evaluation before 1 June 2003;

Statement of Assurance and its significance

38. takes the view that the current DAS, as the result of a financial audit into the regularity and legality of expenditure, but not the outcome of the expenditures, provides only a part of the basis necessary to make a global judgement about the work of the Commission, the other part being value for money audits assessing to which extent policy objectives have been achieved;
39. believes in particular that developments in policy and management methods have to be reflected in an auditor's work and that, consequently, budget support and multi donor approach requires an outcome oriented monitoring process measuring results achieved in the supported sector;
40. notes that the Court of Auditors did not carry out on-the-spot audits in the beneficiary countries due to "human and financial resources available"¹;
41. calls on the budgetary authority to take into account the need for the Court of Auditors to provide the discharge authority with the necessary information;

Reliability of the accounts

42. requests the Commission to disclose the extent of implementation of macro-financial aid; considers the Commission's reply (point 20) unsatisfactory and asks for transparent, exact and full information on this aid type;

Legality and regularity of the underlying transactions

43. is concerned about the results of the Court's analysis of the structure of internal control and monitoring systems at the Commission as regards the EDF (paragraph 23-31);
44. draws the attention to the weaknesses identified and the Court's conclusion that "the current audit mechanism does not yet make it possible to ensure that Community financing is verified in an appropriate and uniform way" (paragraph 30);
45. notes that the Commission in general agrees with the Court of Auditors' findings; recognises that reforms are ongoing and that the Court expects improvements; invites the Commission - having regard to the criticisms - to make a serious effort to ensure, before next discharge, tangible improvements to internal control systems are in place;
46. expects the Commission to transmit to its competent committee (as and when produced and not at the end of the year) all documents necessary for full and satisfactory information on progress in improvements and/or problems encountered during the process;

¹ Statement of Assurance, paragraph IV
RR\315834EN.doc

47. reminds the Commission as the executive body that it has the responsibility to provide the discharge authority in advance with any information relevant to discharge (the principle of completeness);
48. instructs its competent committee at the beginning of next year's discharge procedure formally to request the Commission to supply a list of all documents and correspondence in its possession relating to the subjects under investigation as specified by the competent committee (discovery of documents procedure);

Deconcentration and audits

49. reiterates its endorsement for the process of deconcentration and notes the Commission's minimum requirement is that each delegation has "at least one trained finance and contract official" though considers that this is only part of the solution to improving sound financial management of the EDF as many of the structural problems lie centrally in AidCo in Brussels, where they should also be resolved;
50. asks the Commission to provide before 1 July 2003, factual and precise information on its audits policy in the framework of deconcentration as regards:
 - inherent risks in development aid programmes and how to deal with such risks,
 - the overall control environment (organisation, allocation of responsibilities, human resources, accountability) and in particular the role and status of the "trained finance and contract official" in relation to the Head of Delegation, other administrators and Headquarters, takes the view that accounting officers should not be hierarchically subordinated to authorising officers,
 - control mechanisms to be applied to and by, intermediaries, other donors and beneficiary countries,
 - the question of how and (if at all) how much Headquarters have to control delegation's controls under a deconcentrated management system; takes the view that there should be a close supervision by Headquarters (Internal Audit Service and DG-aidco) of audits and audit systems in the delegations;
51. Calls on the Commission, when strengthening the delegations in the framework of deconcentration, to take account also of the need for specialised staff in the areas of social development, health and education, as this is a basic objective of Community aid;
52. is not satisfied that the Commission has not established procedures to ensure an objective selection of projects for auditing as the current system relies too heavily on the sole discretion of the Head of delegation¹;
53. asks the Commission to make sure that financial audits are supervised, co-ordinated and monitored by the Headquarters in order to ensure that results of the audits are taken into account, that the methodologies used for the audits are comparable and relevant and the results of controls and audits are coordinated with other donors;

¹ Annexe 6, page 107 in "Commission's answers to the Cocubu's questionnaire on the 2001 EDF discharge"
PE 315.834

Human Rights

54. is concerned that evaluations carried out in 2001 showed that "there was some way to go before Human Rights were established at every level in the Commission as a true "crosscutting issue" with a common purpose and uniform policy input to all co-operation programmes and political relations"¹ and that "There is a need for the Commission to better define the frontiers of human rights, democracy and good governance, and to ensure that the respective roles of the human rights units in the External Relations DG and in the EuropeAid Co-operation Office are better understood"²
55. asks the Commission to provide, before 1 June 2003, full information on the nature and scope of the problem and on measures which have been or which will be taken in the short term to resolve the identified weakness and in the longer term to give declared horizontal objectives³ the necessary organisational structure;
56. asks in particular the Commission to provide, before 1 June 2003, information on the criteria for suspending aid due to violation of the Human Rights and how many times this has happened;
57. recognises that it is not easy to define and draw up indicators in this area of co-operation and invites the Commission to strengthen its efforts to define criteria and benchmarks by which the outcome of activities can be better assessed;

Budgeting the EDF

58. regrets that no progress has been made as regards budgetising the European Development Funds as repeatedly demanded; recalls its position as expressed in its resolution of 17 December 2002 on the proposal for a Council regulation on a Financial Regulation applicable to the 9th European Development fund⁴;
59. is concerned about the numerous disadvantages mentioned by the Court of Auditors⁵ due to the fact that every EDF has a different financial regulation; notes the advantages of simplification as indicated by the Commission but recognises that renegotiation of existing legal frameworks with ACP states is not a viable option; repeats that budgetising the EDF would be a considerable improvement of both the effectiveness of the aid delivered as well as the management thereof;
60. notes that preparations for the 10. EDF will start already in 2004 with the participation of the new Member States and considers enlargement to be a perfect opportunity for Member States to come to an agreement on the future financing of an effective and coherent EU development policy according to the same budgetary principles as those applicable to other external policy activities;
61. looks forward to receiving the promised Commission communication on the implications of budgetising the EDF by mid-2003

¹ Point 7.3.1. in COM(2002) 490

² Point 17.2.1 in "Annual Evaluation Review 2001" on http://europa.eu.int/comm/budget/evaluation/pdf/review2001_en.pdf(23.12.2002)

³ human rights, equality between men and women, environment and conflict prevention

⁴ P5_TA-PROV(2002)0607,

⁵ Opinion No 12/2002 paragraph 4

62. endorses the statement by the Court of Auditors that

"Under no circumstances must the breakdown of administrative responsibilities between the Community and the ACP partner States have the effect of exonerating the Commission of its responsibilities as regards economic, efficient, effective, legal and regular use of the resources at its disposal. In particular, the Commission must actually be able to recover amounts that have been unduly paid to national authorities or final beneficiaries"¹;

Other issues

63. urges the Commission to ensure compliance with the interest rate ceiling set in the Lomé Convention for EIB loans and to explain as soon as possible the reasons for any exceeding of this ceiling;

64. welcomes the Commission's first publication of an annual report on the EU's development policy; calls on the Commission to edit the next edition of this extremely useful document more rigorously;

65. notes that the Commission has reported global sectoral commitments for 2001 on the basis of the 35% benchmark for social infrastructure, introduced in 2002, which did not apply in 2001; appreciates nevertheless the efforts made by the Commission to meet this benchmark, although implementation in ACP countries should be improved; emphasises that the 35% must be allocated "mainly" to education and health, where global performance in 2001 was particularly weak, and calls for significant improvements in these areas in coming years;

66. congratulates the Commission on producing for 2001 reliable sectoral distribution statistics compatible with OECD-DAC and on implementing the Common Relex Information System (CRIS) to assure quality sectoral reporting in future years; welcomes the decision to introduce in the future similar innovations for audits and framework contracts;

67. underlines the importance of reliable reporting for the move to a results-based approach to development policy but notes that more remains to be done; welcomes the Commission's work on methodology on reporting progress towards the MDGs; notes they have agreed to present details of results targets and performance indicators in July 2003; calls on the Commission to continue to inform and consult Parliament at every stage of this process;

68. expresses concern about the level of financial expertise in the deconcentrated delegations, especially as they are to be the focus of future audit activity, and calls on the Commission to implement without delay thorough and effective training programmes, especially in the area of audits;

69. expresses reservations over the increasing use of budget support as an instrument of development policy before the completion of work with other donors on public financial management in beneficiary countries; expresses particular concern about the multiplicity of reporting requirements imposed by the donor community on some developing country governments; calls for donor harmonisation in this area to be brought to rapid fruition and for sound financial management to be ensured before such programmes are approved;

¹ Opinion No 12/2002 paragraph 11
PE 315.834

70. underlines the need to monitor the quality of actions carried out under budget support and expresses concern that fungibility limits traceability of funds and hence compromises the attribution of results to a particular donor.

20 February 2003

OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION

for the Committee on Budgetary Control

on the discharge to the Commission in respect of the implementation of the budget of the sixth, seventh and eighth European Development Funds for the 2001 financial year
(COM(2002) 211 - C5-0190/2002 - 2002/2087(DEC))

Draftsperson: Nirj Deva

PROCEDURE

The Committee on Development and Cooperation appointed Nirj Deva draftsman at its meeting of 20 June 2002.

It considered the draft opinion at its meetings of 3 December 2002 and 18-19 February 2003.

At the meeting of 19 February it adopted the following conclusions unanimously.

The following were present for the vote: Joaquim Miranda, chairman; Margrietus J. van den Berg, Marieke Sanders-ten Holte and Anders Wijkman, vice-chairmen; Nirj Deva, draftsman; Jean-Pierre Bebear, Yasmine Boudjenah, Marie-Arlette Carlotti, John Alexander Corrie, Fernando Fernández Martín, Michael Gahler (for Karsten Knolle), Vitaliano Gemelli, Richard Howitt, Bashir Khanbhai (for John Bowis), Glenys Kinnock, Nelly Maes (for Paul A.A.J.G. Lannoye), Miguel Angel Martínez Martínez, Hans Modrow, Ulla Margrethe Sandbæk, Francisca Sauquillo Pérez del Arco, Agnes Schierhuber (for Luigi Cesaro), Maj Britt Theorin and Jürgen Zimmerling.

CONCLUSIONS

The Committee on Development and Cooperation calls on the Committee on Budgetary Control, as the committee responsible, to incorporate the following points in its motion for a resolution:

1. Notes that the principal aim of the Community's development policy is to reduce poverty with a view to its eventual eradication¹ and that the EU and all Member States have endorsed the Millennium Development Goals (MDGs) which set outcome targets mainly related to education and health;
2. Notes that the Commission has reported global sectoral commitments for 2001 on the basis of the 35% benchmark for social infrastructure, introduced in 2002, which did not apply in 2001; appreciates nevertheless the efforts made by the Commission to meet this benchmark, although implementation in ACP countries should be improved; emphasises that the 35% must be allocated "mainly" to education and health, where global performance in 2001 was particularly weak, and calls for significant improvements in these areas in coming years;

¹ The European Union's Development Policy, conclusions of the 2304th meeting of the Development Council 10 November 2000
PE 315.834

3. Congratulates the Commission on producing for 2001 reliable sectoral distribution statistics compatible with OECD-DAC and on implementing the Common Relex Information System (CRIS) to assure quality sectoral reporting in future years; welcomes the decision to introduce in the future similar innovations for audits and framework contracts;
4. Underlines the importance of reliable reporting for the move to a results-based approach to development policy but notes that more remains to be done; welcomes the Commission's work on methodology on reporting progress towards the MDGs; notes they have agreed to present details of results targets and performance indicators in July 2003; calls on the Commission to continue to inform and consult Parliament at every stage of this process;
5. Expresses concern about the level of financial expertise in the deconcentrated delegations, especially as they are to be the focus of future audit activity, and calls on the Commission to implement without delay thorough and effective training programmes, especially in the area of audits;
6. Expresses reservations over the increasing use of budget support as an instrument of development policy before the completion of work with other donors on public financial management in beneficiary countries; expresses particular concern about the multiplicity of reporting requirements imposed by the donor community on some developing country governments; calls for donor harmonisation in this area to be brought to rapid fruition and for sound financial management to be ensured before such programmes are approved;
7. Underlines the need to monitor the quality of actions carried out under budget support and expresses concern that fungibility limits traceability of funds and hence compromises the attribution of results to a particular donor.

Documents requested and received from the Commission

1. "Financial Information on the 6th, 7th and 8th European Development Funds (COM (2002) 726),
2. A breakdown of EDF spending by sector and country (Annex 3 and 11)
3. IAS "Report on the management, monitoring and control arrangements governing the use of counterpart funds and budgetary support in development aid".
4. Final reports on the financial and organisational audit of the centre for the Development of Enterprise and the CDE replies.

Transmitted separately according to the provisions of Annex 3 if the Framework Agreement and under option "information intended for the chairperson of and the rapporteur for the relevant parliamentary committee".

Documents requested but not received

1. "Governance review of aid management in the external relations family" (IAS (2001) of 15.2.2002).

An executive summary of this audit report was transmitted separately according to the provisions of Annex 3 of the Framework Agreement and under option "information intended for the chairperson of and the rapporteur for the relevant parliamentary committee".

2. Internal Audit Service report 23/10/01 mentioned in footnote 5 page 6 in "EuropeAid - Rapport Annuel d'Activité 2001".

Justification:

"As for the 23/10/2001 report, it is not an audit report but part of an ongoing internal administrative enquiry and is therefore not transmitted at this time" (Commission's answer to question 13).