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REPORT

on the budgetisation of the European Development Fund (EDF)
(2003/2163(INI))

Committee on Development and Cooperation

Rapporteur: Michel-Ange Scarbonchi

CONTENTS

	Page
PROCEDURAL PAGE	4
MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION.....	5
EXPLANATORY STATEMENT	13
OPINION OF THE COMMITTEE ON BUDGETS	18

PROCEDURAL PAGE

At the sitting of 4 September 2003 the President of Parliament announced that the Committee on Development and Cooperation had been authorised to draw up an own-initiative report under Rule 163 on the budgetisation of the European Development Fund (EDF) and the Committee on Budgets had been asked for its opinion.

The Committee on Development and Cooperation had appointed Joaquim Miranda rapporteur at its meeting of 9 July 2003.

At its meeting of 12 January 2004 the Committee on Development and Cooperation appointed Michel-Ange Scarbonchi rapporteur to replace Joaquim Miranda.

The committee considered the draft report at its meetings of 1 October 2003, 1 December 2003 and 20 January 2004.

At its meeting of 8 March 2004, it adopted the motion for a resolution unanimously.

The following were present for the vote: Margrietus J. van den Berg (vice-chairman and acting chairman), Marieke Sanders-ten Holte (vice-chairwoman), Anders Wijkman (vice-chairman), Michel-Ange Scarbonchi (rapporteur), Yasmine Boudjenah, John Alexander Corrie, Nirj Deva, Glenys Kinnock, Nelly Maes (for Paul A.A.J.G. Lannoye), Linda McAvan, Edward H.C. McMillan-Scott (for John Bowis), Hans Modrow and Sérgio José Ferreira Ribeiro.

The opinion of the Committee on Budgets is attached.

The report was tabled on 12 March 2004.

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the budgetisation of the European Development Fund (EDF) (2003/2163(INI))

The European Parliament,

- having regard to Articles 177-181, 268 and 271 of the Treaty establishing the European Community,
 - having regard to the ACP-EU Partnership Agreement signed in Cotonou on 23 June 2000 and especially to the Financial Protocol in Annex I and the Implementation and Management Procedures in Annex IV thereof,
 - having regard to its resolutions on the budgetisation of the EDF of 14 February 1973¹ and on the integration of the EDF in the budget of the Union of 12 July 1995²,
 - having regard to the Communication from the Commission to the Council and the European Parliament 'Towards the full integration of cooperation with ACP countries in the EU budget'³,
 - having regard to the work of the Convention on the Future of Europe,
 - having regard to the Interinstitutional Agreement of 6 May 1999 on budgetary discipline and improvement of the budgetary procedure,
 - having regard to Rule 163 of its Rules of Procedure,
 - having regard to the report of the Committee on Development and Cooperation and the opinion of the Committee on Budgets (A5-0143/2004),
- A. whereas the ACP group includes 40 out of the 48 Least Developed Countries of the world,
- B. whereas the EU has made financial commitments on ODA at the Barcelona Council and at the Monterrey UN Financing for Development Conference in 2002,
- C. whereas the Cotonou Agreement was signed in 2000 for a period of 20 years but the 9th EDF did not enter into force until 2003 owing to delays by EU Member States over ratification of the Financial Protocol,
- D. whereas the European Development Fund (EDF) operates outside the EU budget on the basis of voluntary contributions from the Member States,

¹ OJ 14, 27.3.1973, p. 25-26.

² OJ C 249, 25.9.1995, p. 68.

³ COM(2003)590.

- E. whereas the Commission Communication towards the full integration of cooperation with ACP countries in the EU budget has been issued prior to the presentation of the financial framework for the period after 2006,
- F. whereas levels of development funding for ACP countries must be guaranteed and no ACP country should be left in a less beneficial position as a result of changes to the system of financing,
- G. whereas there have been difficult negotiations between Member States over their contributions to the most recent EDFs, leading to less generous increases than in the past, and the forthcoming enlargement of the EU is likely to exacerbate this situation,
- H. whereas the European Parliament has no power over the EDF or its implementation but may only grant discharge over disbursements already made, and the ACP-EU Joint Parliamentary Assembly has no formal authority in relation to the EDF,
- I. whereas the issue of EDF budgetisation was first raised in the European Parliament in 1971¹ and both the Parliament and the ACP-EU Joint Parliamentary Assembly have subsequently repeated calls for budgetisation to be carried out,
- J. whereas the Convention on the Future of Europe recommended budgetisation of the EDF²,
- K. considering that partnership, ownership and participation are enshrined in the Cotonou Agreement as fundamental elements of a strategy aimed at poverty eradication,
- L. whereas the very high level of ACP participation in decision-making over EDF programming and implementation leads to a stronger donor-beneficiary partnership and greater ownership of programmes by the ACP countries,
- M. whereas the European Parliament has said that priority needs to be given to allocating 35% of the funds to basic social infrastructure, earmarking education and healthcare,
- N. whereas specific country and regional allocations are the basis of the EDF,
- O. whereas there has recently been a tendency to divert EDF funds to uses outside national and regional envelopes such as the Global Fund to combat HIV/AIDS, Tuberculosis and Malaria, the Water Fund and the African Peace facility, with the proviso that such funds be used in ACP countries,
- P. whereas procedures for implementing the EDFs are cumbersome and lengthy, leading to delays, and backlogs in the EDFs currently stand at nearly 11 billion Euro,

¹ Suggested by the Committee on Relations with African States and Madagascar at the sitting of 21 June 1971.

² Working Group VII on External Action, Final report to Members of the Convention (CONV 459/02 of 16.12.2002, point 9.

- Q. whereas there have been significant reductions in payment backlogs in aid programmes financed from the Community budget and in the EDF,
 - R. whereas ACP countries also receive funding from the Community budget, resulting in two different sets of procedures for the same beneficiaries to receive funds from the same donor, with all the duplication and waste of resources that this entails,
 - S. whereas the principle of annuality which applies to the EU budget does not apply to the EDFs, which must be 100% disbursed but have no effective time-limit; whereas successive EDFs have been intended to last 5 years but in practice implementation has taken on average 12 to 13 years, resulting in an overlap of several EDFs at any one time,
 - T. whereas the multi-annual nature of the EDFs allows resource predictability for the ACP countries but leads to unevenness in the delivery of aid, with peaks and troughs in disbursement levels during the implementation of each EDF,
 - U. whereas the European Commission has been pursuing a policy of restructuring the external relations sector, including deconcentration which devolves decision-making authority to the external delegations,
 - V. whereas scarcely 1% of funding from the 9th EDF is earmarked for administrative support expenditure¹ whilst the equivalent figure for budgetised external aid is 3%,
 - W. whereas cooperation with South Africa is already financed from the Community budget,
 - X. whereas budgetisation would require technical changes to the Cotonou Agreement,
1. Expresses its most serious concern at the continuing high levels of poverty in many ACP countries, at the ever-deepening crisis of diseases such as the HIV/AIDS pandemic, tuberculosis and malaria, and at the unending trend of food shortages, and underlines its determination to continue to combat these scourges with adequate financial resources;
 2. Takes the view that since many of the ACP countries belong to the poorest countries in the world, and face severe difficulties in achieving the Millennium Development Goals, the EU has an important political and financial responsibility in this regard; urges that the EU-ACP partnership shall continue to be based on the mutual objective of poverty eradication and the achievement of the MDGs;
 3. Notes that fulfilling the collective commitment to achieving the Millennium Development Goals will entail a redoubling of efforts to increase aid levels and improve aid effectiveness; welcomes, therefore, the commitment made by international donors to increase the aid levels in line with the Monterrey Financing for Development Conference and urges that this commitment be fulfilled; urges the EU Member States to honour their undertaking to achieve an interim aid level of 0.39% of their GDP in 2006, and one of 0.7% subsequently; considers that the Budgetary Authority must ensure that budgetisation

¹ Internal Agreement, 9th EDF.

makes for an increase in the overall amount available for aid throughout the period covered by the Financial Perspective;

4. Notes that any decision on EDF budgetisation should be consistent with the high level ODA commitments made at the Barcelona Council and at the Monterrey UN Financing for Development Conference in 2002;
5. Considers that aid would be more effective if donors coordinated their efforts better and completely untied all aid, especially food aid and technical assistance, and if foreign policy and external trade were brought closer into line with the major development objectives set by the United Nations; considers it essential to find a radical solution to the issue of developing countries' foreign debt, which hinders any possibility of development;
6. Recognises the importance of the ACP-EU partnership as the central plank of EU development policy and the key role played by successive EDFs, since their inception in 1957, in consolidating and strengthening that partnership;
7. Takes the view that the non-budgetised system of financing for the EDF has its roots in historical factors which are no longer applicable to the modern European Union and will be even less relevant after enlargement;
8. Notes that EDF budgetisation is proposed as a new financing model to replace the forthcoming 10th EDF and hence as of 2007/2008 budgets; notes that such budgetisation will require amendments to both the body and annexes of the Cotonou Agreement and hence ratification by the ACP-EU Joint Council of Ministers;
9. Strongly deplores the lack of parliamentary accountability implicit in the absence of European Parliament participation in any aspect of decision-making over levels of EDF funding, programming or allocations by country, region or sector, and the restriction of its powers to an annual discharge; calls urgently for this democratic deficit to be eliminated;
10. Reiterates its position that ACP-EU cooperation, and its financial conventions (European Development Funds), should be politically anchored, controlled and legitimised through the full association of the European Parliament, thus ensuring the link with European citizens, the institutional balance within the European Union's institutions, and an equal footing for ACP cooperation with the rest of the Union's external programmes;
11. Considers it necessary, likewise, to examine the role that the ACP-EU Joint Parliamentary Assembly should play with regard to the EDF budget, and to award it the power of consultation and interpellation on budget matters vis-à-vis the European Commission, the ACP-EU Council and the European Parliament;
12. Welcomes the fact that agreement was reached in the Copenhagen Agreement that the accession countries would participate in EDF funding as of the 10th EDF;
13. Expresses its concern that if the EDF were to remain outside the Community budget, the voluntary nature of Member States' contributions and the impact of enlargement would make increases in funding levels less probable for future EDFs than in the past;

14. Reiterates the need to ensure, by means of commitments or monitoring mechanisms to be defined, that there is no reduction in the overall value of funds allocated to the EDF following budgetisation, notes that future allocations could link the available financial resources to the growth of EU GNI;
15. Calls on the Council to issue a declaration giving legal guarantees, in the decision on EDF-budgetisation and the new financial perspectives, that the resources cannot and will not diminish the commitments during the period covered by the Cotonou Agreement (and beyond the period covered by the Financial Perspective);
16. Calls for the EDF to be integrated into the EU budget without compromising the existing cooperation and development policies and in such a way as to ensure complementarity with the current external programmes;
17. Points out that the current own resources ceiling at 1.24% of GNI does not include the 0.03% GNI represented by the annual share of EDF; urges Commission and Council, in future Financial Perspectives, to take the share of EDF into account when deciding the ceilings of own resources and external actions;
18. Stresses that a precondition for the budgetisation of the EDF is to guarantee ring-fencing for a budgetised EDF to prevent funds being siphoned off to meet needs elsewhere or to address concerns responding more to the needs of donors than development, such as combating terrorism, money-laundering, illegal migration or the reconstruction of a non-ACP state;
19. Calls upon the European Commission and the Council to ring-fence EDF funds by creating an EDF sub-heading in the Financial Perspectives;
20. Calls on the European institutions, during the negotiations on the new Financial Perspective, to include in the Interinstitutional Agreement governing the future Financial Perspective a commitment guaranteeing the allocation of funds to the ACP countries for the duration of that Financial Perspective; insists that it is essential for there to be no decrease in real terms in the resources earmarked for the ACP countries;
21. Points out that the regulation granting legal authority for the implementation of a budgetised EDF would be decided under the codecision procedure;
22. Declares its determination to include in any future EDF regulation a fixed financial framework to run for the full period of the Financial Perspectives, as is currently the case for South Africa, and that on the expiry of this term there will be a legal obligation to draw up a new regulation with new financial provisions for the period of the following Financial Perspectives; expresses its intention to monitor the full implementation of these provisions in accordance with Article 33 of the Interinstitutional Agreement of 6 May 1999 between the European Parliament, the Council and the Commission on budgetary discipline and improvement of the budgetary procedure¹;

¹ OJ L 322, 10.1.1999, p. 8.

23. Acknowledges the concerns of poorer or 'less well-performing' ACP countries that EDF budgetisation could lead to reductions in their allocations and asks the Commission to explain how it will ensure these countries' interests are not prejudiced in this way;
24. Stresses the importance of consulting ACP countries during discussions on EDF budgetisation, and notes that existing procedures for decision-making and implementation under the EDF require agreement from ACP countries at every stage in setting political priorities and in implementation of the EDFs, making a reality of the concepts of 'partnership' and 'ownership' to which all donors and developing countries aspire;
25. Expresses its intention, when codeciding any future EDF regulation, to safeguard the principles of 'partnership' and developing country 'ownership' of development programmes by ensuring full participation by ACP countries in drawing up multiannual strategy documents and in other decision-making on the use of funds, as well as consultation of civil society and other relevant stakeholders;
26. Affirms that programming with clear participation and authorisation of CSP's and NIP's by the recipient government, including active participation of their civil society, will remain the basis for the multi-annual programmes with specific countries or regions;
27. Points out that special budgetary procedures would be needed to safeguard the predictability and multi-annuality of funding and programmes, and any new procedures created should continue to allow for joint but differentiated management of financial procedures;
28. Expresses its deep concern that current EDF procedures are cumbersome and lengthy, with the result that the actual delivery of aid is compromised and backlogs arise both in commitments and in payments, and calls for these procedures to be streamlined, simplified and harmonised with other donors in accordance with international best-practice, noting that budgetisation would be a useful means to achieve this end;
29. Criticises particularly the unnecessary complexity, duplication and waste of resources, both for the Commission and for the ACP countries, that result from the need to apply two different sets of procedures for allocations from the EFD and from budgetised funds, such as those for food aid, humanitarian aid and NGO co-financing; considers that this runs counter to coherent management of aid and calls for this unacceptable situation to be rectified as soon as possible, pointing out that this would result from EDF budgetisation;
30. Fully supports EDF budgetisation in order to put an end to the current administrative complexity and fragmentation of the financial resources available for the external relations of the Union which constitutes a contravention of the principle of budget unity and transparency enshrined in the Treaty and in the Financial Regulation;
31. Observes that simpler procedures would also lead to greater transparency and facilitate reporting on the use of funds, allowing for assessments of greater aid effectiveness;

32. Considers that backlogs are unconscionable in an aid programme for the benefit of countries in which the needs are so great; demands that the Commission look into the reasons for the slow disbursement of EDF funds, and into the extent to which this slowness is due, respectively, to the cumbersome EU procedures and the weak administrative capacities of the ACP countries; calls on the EC, in its dialogue with the other development players, to ensure that public services are equipped with the necessary human and financial resources to guarantee an increase in budget implementation capacities;
33. Draws attention to the fact that similar problems with backlogs in budgetised aid programmes have been resolved to a significant degree, due partly to the European Commission's policy of deconcentrating decision-making to the delegations, and due also to the availability of greater resources for administrative expenses in the budgetised programmes than the EDF; calls for similar improvements to be applied to the EDF;
34. Recalls that the entry into force of the 9th EDF was set back several years by serious delays in the ratification process and that budgetisation would automatically resolve this problem as a budgetised EDF would not need to be ratified;
35. Recognises the value of resource predictability afforded by the current EDFs which facilitates long-term planning in ACP countries; calls for the same feature to be included in a budgetised EDF by specifying the level of national envelopes in strategy documents relating to each country;
36. Points out that the specific country and regional allocations continue to be the basis for inscribing the EDF in the budget, and that shifting commitments towards health funds and debt cancellation in relation to the MDGs will only be carried out in consultation with the ACP partners;
37. Calls for a strong focus on the principle of coherence when budgetising the EDF within the EU budget, in that trade and aid should reinforce the aim of poverty eradication;
38. Acknowledges the concerns of ACP countries about the effects of the principle of annuality which applies to the Community budget but is not applicable to the EDF, and also the n+3 rule under the new Financial Regulation, stating that individual contracts which implement financing agreements with the beneficiary third countries shall be concluded no later than three years following the date of the budgetary commitment;
39. Firmly believes that implementation of the EDF must be subject to financial discipline and become progressively swifter and more efficient; considers, however, in view of the backlogs that have accumulated in the implementation of the EDF, that a temporary derogation should be granted to the n+3 rule under the Financial Regulation;
40. Considers that the new provisions of the Financial Regulation applicable to the EDF, with the Financial Regulation for the general budget, including the n+3 rule and the development of 'rolling programming' (decisions on country-specific allocations, within a co-decided envelope, where implementation and output/performance plays a greater role) will ensure that aid is managed more efficiently and hence more effectively;

41. Believes that these gains should contribute to higher real implementation of funds in the ACP countries, notably through the gradual elimination of outstanding commitments ('RAL'), and thus be beneficial to the stated goals of the cooperation and to sound financial management;
42. Welcomes the likelihood that a budgetised EDF would show a more even pattern of disbursement year-on-year than under the current system where levels of aid delivery build to a peak as each successive EDF comes on stream;
43. Stresses the importance of taking a decision on EDF budgetisation before entering into serious debate over the shape of the Financial Perspectives post 2006;
44. Considers that the five-year review of the Cotonou Agreement, concluding in 2005, would offer an ideal opportunity to make the technical changes required by EDF budgetisation, and notes that negotiations for this review must begin in May 2004 so a decision on budgetisation would be needed before this date;
45. Welcomes the long-standing support of the European Commission for EDF budgetisation;
46. Calls on the Council of Ministers to vote unanimously in favour of the budgetisation of the EDF;
47. Instructs its President to forward this resolution to the Council and Commission.

EXPLANATORY STATEMENT

How did the EDF develop outside the budget?

The special relationship between the ACP countries and the European Union can be traced back to the origins of the latter. The Treaty of Rome from its inception contained provisions allowing for agreements with 'associated countries', which were intended to address concerns raised by the colonies of the initial Member States. These provisions were the basis for the first Yaoundé Agreement with 18 newly-independent former colonies, which came into force in 1964 and established the first EDF.

With European integration in its infancy, there were good reasons for keeping the financing of the EDF outside the Community budget. Development cooperation was at that time viewed as a national preserve, and Member States with few or no former colonies were keen to keep national control over the level of their contributions.

The accession of the United Kingdom to the European Community in 1973 brought about a step-change in this relationship as 21 Commonwealth countries joined the Yaoundé signatories, along with others with 'comparable economic structures', and signed the first Lomé Convention in 1975. This agreement contained provisions much more beneficial to the ACP countries than those accorded under the Yaoundé Agreements.

Other countries of the world, such as those in South Asia, were considered not to have economies comparable to the Lomé countries and were therefore excluded from the agreement. However, as the process of European integration deepened, there was a strengthening of Community competence in matters of development cooperation and separate agreements for trade and cooperation were signed with countries outside the ACP group with financing from the Community budget. In 1992 the Asia Latin America (ALA) programme was formalised, and its financial envelope remained budgetised.

The parallel development of Community cooperation programmes on two different bases has led to an anomalous system with many negative aspects. However, there are also a number of positive elements which must not be discarded in any forthcoming rationalisation of the system.

Current problems - can budgetisation help?

Lack of democratic legitimacy

One of the main drawbacks of the current system is the lack of parliamentary control over levels of funding in the EDF and allocations between the different countries and objectives. As the funds are administered by the Commission, Member State national parliaments do not participate in decisions over allocations. However, the European Parliament is also excluded from such participation as its budgetary powers do not extend to the EDF. The result is that the EDF escapes parliamentary control almost completely. This serious democratic deficit is not redressed by the one power the European Parliament does have over the EDF - that of granting discharge. As a power of scrutiny, exercised *ex-post*, the discharge does not equate

to participation in controlling the use of funds. It is also often difficult for the Parliament to exercise proper scrutiny, given the enormous complexity and lack of transparency affecting EDF decision-making and implementation.

Budgetisation would provide an automatic solution to this problem as it would bring the EDF within the power of the Budgetary Authority, composed of the European Parliament and the Council of Ministers. Annual decisions may then be made over the level of appropriations for budget lines corresponding to the current EDF.

A role may also be envisaged for the ACP-EU Joint Parliamentary Assembly, and particularly its Standing Committee on Economic Development, Finance and Trade. However, in formal terms this body is outside the decision-making process for the Community budget so a different type of control must be envisaged - possibly oversight of the principles of ownership and joint decision-making discussed below.

Cumbersome procedures

Decision-making procedures under the EDF are far from streamlined: initial allocations must be approved by the ACP-EU Council of Ministers and the detailed administration work, such as calls for tender, drawing up contracts and making payments, is carried out by the ACP authorities and controlled by the Commission. The Commission Communication describes the process that must be followed before decommitted allocations can be reallocated and notes that it normally takes at least six months.

Furthermore, as funds remain available in an EDF until they are completely spent, several EDFs normally overlap, leading to further complication and lack of transparency.

A further source of duplication is found in the parallel implementation of budgetised programmes and EDF programmes in ACP countries. Funding for food aid, humanitarian aid and thematic operations in ACP countries often comes from the Community budget. A total of €700 million of commitments were made from the budget for ACP countries in 2002 - a sum amounting to between one quarter and one third of total annual aid to the ACP group. As a result, both the Commission and ACP countries must operate two different sets of procedures to effect a flow of aid from the same donor to the same beneficiaries.

These complex, time-consuming and bureaucratic processes run counter to the reform of the external relations sector that has now been underway in the European Commission for a number of years. The purpose of the reform has been to streamline procedures, bring decisions closer to the beneficiaries, increase the speed of disbursement and improve the effectiveness of aid. Budgetisation may be seen as part of this process, not only because of the administrative simplification that would ensue but also because there are greater funds available for administration under the budget than the EDF, which would greatly assist the process of deconcentrating powers to the Commission's delegations in developing countries.

Transparency

The complexity surrounding EDF administration, and particularly the continual decommitting and re-committing of funds under different EDFs, make it very difficult to draw up accurate reports on the use of this finance and hence lead to a lack of transparency.

RAL

Linked to the question of administrative complexity is the problem of backlogs of funds committed for which payments have yet to be made. This '*reste a liquider*'(RAL), currently amounts to nearly €11 billion, is considered a particular problem of the EDF.

Budgetisation would not provide an automatic solution to this difficulty as there have also been similar difficulties in development programmes financed from the Community budget. However, there have in recent years been notable improvements in the RAL figures for some budgetised programmes, providing hope that similar achievements might be possible for the EDF following incorporation into the budget.

Member State voluntary contributions

Contributions made by Member States to the current EDF are voluntary, and result from a lengthy process of negotiation prior to the establishment of each successive EDF. In the past this process has normally encouraged generosity, although in recent years the value of the EDF in real terms has been subject to some stagnation.

There is particular concern about the likely impact of EU enlargement on the level of funding if the EDF were to remain outside the budget. The accession states have a less-strong tradition of development policy and their strategic and historical interests tend to focus on areas outside the ACP regions. It may therefore be foreseen that if the EDF remains outside the budget, the influence of the new Member States may be to limit the overall value of the 10th EDF at the time this is negotiated.

If the EDF were budgetised, Member State contributions would no longer be voluntary but fixed by budgetary rules. However, attention would have to be paid to the overall sums proposed for the EDF within the budget to ensure at least that the present value is maintained.

Delayed entry into force

The entry into force of the 9th EDF was delayed by several years due to the need for all EU Member States and two-thirds of the ACP states to ratify the Financial Protocol of the Cotonou Agreement. This problem would be eliminated by budgetisation, as ratification would no longer be necessary.

Uneven disbursement rates

The system of successive EDFs tends to create an uneven pattern of disbursement as each new fund begins at a low level, reaches a peak and then tails off. Under the budget, appropriations are adopted annually allowing for a more even pattern of disbursement.

Benefits of the EDF - is budgetisation a danger?

Fixed levels of funding

While the EDF remains outside the budget, the special nature of the fund provides an automatic ring-fence, preventing all possibility of accessing this money to meet other priorities. The budget could allow for greater flexibility, raising fears that funds intended for ACP countries could be diverted to meet needs elsewhere.

This concern is of the utmost importance. If budgetisation led to a reduction in funding, this would undermine many of the advantages of moving to the new system. However, the budget allows for technical means to safeguard funds allocated to the EDF.

The Financial Perspectives establish ceilings for 'headings' covering broad policy areas for a period of several years and make it almost impossible to transfer funds from one heading to another. However, the inclusion of a separate heading for the EDF would risk reinforcing the erroneous idea that EU development policy concerns only ACP countries. It would be more appropriate to establish a sub-heading, as currently used under Headings 1 and 7, which would be equally effective to ring-fence funds.

A second possibility to protect the funds would be offered by the regulation which would serve as the legal base for the use of a budgetised EDF. This regulation would be adopted under the codecision procedure, allowing Parliament equal power with Council over its contents, including the financial framework. Parliament would need to ensure that the financial provision of the regulation covered the full period of the Financial Perspectives and that the regulation would lapse on the expiry of that period, requiring a new regulation with a new financial allocation to cover the next Financial Perspective period. The annual decisions on appropriations taken by the budgetary authority would then, in all normal circumstances, have to fulfil the provisions of the regulation¹. However, Parliament would have to monitor the situation carefully as there have been cases in the past when this requirement has not been fully respected.

Predictability of finance

The obligation to spend 100% of each EDF, without a time limit, means ACP countries can be certain of levels of future finance. By contrast, the Community budget is organised on an annual basis: funds left uncommitted at the end of the year lapse. Furthermore, once contracts are signed, the n+3 rule comes into effect, imposing a limit on time in which payments may be made. Some ACP countries see dangers in changing to this system as the problems that have caused delays in the past may mean deadlines would be missed and funds lost. However, improvements in administration under the budgetised EDF should keep such problems to a minimum and the annual system will allow more flexibility in responding to unforeseen events.

¹ Article 33, Interinstitutional Agreement of 6 May 1999 on budgetary discipline and improvement of the budgetary procedure.

Multiannual programming

The current system of programming the use of funds on a multiannual basis should not be threatened by budgetisation, provided provision is made in the EDF Regulation for programming documents to be drawn up in this way. Multiannual programming is already a reality for other development funds drawn from the budget.

ACP ownership of programmes and participation in decision-making

The concept of developing country 'ownership' of programmes is viewed as an integral part of an effective approach to development policy. It is therefore important not to lose the high level of involvement of the ACP countries in decision-making under the EDF. Budgetisation would change the rules applying to the release of funds, but provisions could be included in the regulation to ensure ACP participation is not weakened. The European Parliament should pay particular attention to this point in its work on the regulation.

Conclusion

In an age when actions beyond its own frontiers are very much a part of Community policy, the maintenance of the EDF outside the budget is an anomaly which should be addressed. Budgetisation would require a sea-change in administrative procedures and mindsets, and would have to be undertaken with care to ensure none of the benefits of the current system were lost. However, given the possibilities for improvement offered by budgetisation, it would be a mistake to let the current debate lose momentum without seizing the opportunity.

18 February 2004

OPINION OF THE COMMITTEE ON BUDGETS

for the Committee on Development and Cooperation

on the budgetisation of the European Development Fund (EDF)
(2003/2163(INI))

Draftsman: Kyösti Tapio Virrankoski

PROCEDURE

The Committee on Budgets appointed Kyösti Tapio Virrankoski draftsman at its meeting of 26 November 2003.

It considered the draft opinion at its meeting of 18 February 2004.

At this meeting it adopted the following suggestions unanimously.

The following were present for the vote: Terence Wynn (chairman), Anne Elisabet Jensen (vice-chairwoman), Franz Turchi (vice-chairman), Kyösti Tapio Virrankoski (draftsman), Ioannis Averoff, Joan Colom i Naval, Göran Färm, Markus Ferber, Salvador Garriga Polledo, Neena Gill, Catherine Guy-Quint, Jan Mulder, Juan Andrés Naranjo Escobar, Joaquim Píscarreta, Guido Podestà, Per Stenmarck, Ralf Walter and Brigitte Wenzel-Perillo.

SHORT JUSTIFICATION

The Commission has issued a communication advocating the full integration of the cooperation with the ACP countries in the EU budget. It requests Parliament's support for this approach in order to prepare the proposals for the requisite changes to the political and financial framework in time for inclusion of the ACP budget structure in the preliminary draft budget for 2007.

Background

The EDF is an intergovernmental fund for financing EU cooperation with ACP countries. Since 1959, EDFs have been concluded for an (approximate) five year period on the basis of partnership agreements. The funds, to which the Member States contribute on the basis of a specific cost-sharing formula which is not the same as that used for the EU budget, are managed by the Commission, the management being devolved to the beneficiary countries to the extent possible (limited).

Current EDF resources

For the period 2003 -2007, more than €15 billion are available for new commitments and more than €23 billion for disbursements (including €2.6 billion and €11 billion respectively carried over from 6th, 7th and 8th EDFs, including in turn transfers from previous EDFs).

Timing of the Commission's proposal

The European Convention placed the question of the budgetization of the EDF back on the political agenda, recommending it unreservedly. With the current (9th) EDF due to expire in 2007, the imminent enlargement of the EU, and the launching of the debate on the financial framework after 2006, the Commission considers that this is the ideal time to set to work on the issue.

Problems with/weaknesses of the current structure, with the EDF being managed outside the general budget

The management of the EDF outside the general budget structure presents a number of anomalies:

in terms of budget orthodoxy

- The separation of EDF from the general budget contravenes the principle of budget unity, enshrined in the Treaty and in the Financial Regulation;
- the management of the EDF outside the general budget represents a fragmentation of the financial resources available for the external relations of the Union;
- because the EDF is managed on a multiannual basis with commitments being carried over even from one EDF to the next (and beyond) the principle of budget annuality is also contravened;

in terms of financial management

- the substantial delays in disbursement of EU funds result in a high level of RAL. Not only is this not in conformity with the principles of budget; management, it also severely jeopardises an effective use of resources
- there is no justification for using a different cost-sharing basis than that used for the general EU budget;

from a political point of view

- the fact that Member States contribute to the EDF on a voluntary basis according to a repeatedly renegotiated cost-sharing key scarcely constitutes a strong expression of the EU's commitment to assisting the developing countries;
- the European Parliament's role in the management of the EDF is virtually non-existent (responsible only for discharge), again weakening the expression of commitment to development aid;

from a purely practical point of view

- The current procedure for ratification of financial protocols by 15 (soon 25) Member States plus two thirds of ACP countries is a cumbersome one, often leading to delays in funds being made available (e.g. the funds for the 9th EDF were only made available in 2003). This has negative effects on programming and compromises continuity;
- since some development aid is paid directly from the EU budget to countries also in receipt of EDF funding, it is impossible to have a global overview of development aid. This is not only contrary to the principle of transparency but makes it impossible to ensure the coherent spending of aid monies;
- Paying development aid from two separate sources means that a) the Commission has to manage two payment systems, inevitably leading to duplication of effort, and b) that the administrations of the beneficiary countries have to cope with two different sets of procedures. This makes devolution to the beneficiary countries extremely difficult, resulting in a greater administrative burden on the Commission.

In what way would budgetization address those anomalies?

- integration into the general budget would ensure rationalisation of the current cumbersome ratification procedure since EDF funding would be dealt with by the budget authority within the context of the annual budget procedure
- with a single source of EU financing, it would be easily possible to have a global overview of development aid granted by the EU. Working within this transparent framework would make for more coherent funding decisions and facilitate the definition of funding priorities.
- payment of aid from a single source and using a single procedure would reduce the administrative burden of the Commission and of the beneficiary countries and greatly facilitate devolution to the latter
- in putting an end to the fragmentation of the financial instruments available for external aid, integration into the general budget would ensure that the principle of budget unity is

respected. Making the EDF subject to the rules of budget management would also mean that, without a compromise of the possibility to programme on a multiannual basis, the principle of annuality would be respected. Application of the rule of annuality should in turn lead to a reduction in the RAL.

Arguments against budgetization

From a budget management point of view there are none. In answer to claims that budgetizing the EDF could be seen as a weakening of the EU's commitment to assist the beneficiary countries, it can fairly be said that the budgetization of the EDF does not constitute a change in the level of commitment of the EU in offering aid, it is merely a question of a change of/improvement in management methods. Indeed, integrating the EDF in the general budget and making it subject to the budget authority would give it enhanced legitimacy and hence raise its profile.

Preliminary comments

The European Parliament has always been in favour of integrating the EDF into the general budget. In response to this communication of the Commission, the Parliament could reaffirm its commitment to the basic principle for the sake of budget integrity and effective use of resources, whilst raising the question as to how the Commission proposes to accommodate integration..

It should be borne in mind that since this debate takes place in the context of the revision of the Financial perspective there is a tactical element to take into account.

Consideration should be given as to whether the Parliament should request a revision of the own resource ceiling (the EDF represents about 0.031 % of GNI) or request that the ceiling of Heading 4 be adjusted to incorporate EDF.

Ways to ring-fence this expenditure could be considered in order to protect the poorest countries and thought will also have to be given to the level to which such ringfencing can be considered admissible in the respect of Financial Regulation

SUGGESTIONS

The Committee on Budgets calls on the Committee on Development and Cooperation, as the committee responsible according to Rule 162a, to incorporate the following suggestions in its motion for a resolution:

Financial and budgetary implications

- A. whereas the Commission Communication towards the full integration of cooperation with ACP countries in the EU budget has been issued prior to the presentation of the financial framework for the period after 2006,
1. Notes that integration is proposed as a new financing model to replace the forthcoming 10th EDF and hence as of 2007/2008 budgets; notes that such integration will require amendments to both the body and annexes of the Cotonou Agreement and hence ratification by the ACP-EU Joint Council of Ministers; notes that the basic act providing for integration is to be adopted under the codecision procedure;
 2. Welcomes the fact that agreement was reached in the Copenhagen Agreement that the accession countries would participate in EDF funding as of the 10th EDF;
 3. Reiterates its position that ACP-EU cooperation, and its financial conventions (European Development Funds), should be politically anchored, controlled and legitimised through the full association of the European Parliament, thus ensuring the link with European citizens, the institutional balance within the European Union's institutions, and an equal footing for ACP cooperation with the rest of the Union's external programmes;
 4. Calls for the EDF to be integrated into the EU budget without compromising the existing cooperation and development policies and in such a way as to ensure complementarity with the current external programmes
 5. Fully supports the integration in order to put an end to the current administrative complexity and fragmentation of the financial resources available for the external relations of the Union which constitutes a contravention of the principle of budget unity and transparency enshrined in the Treaty and in the Financial Regulation;
 6. Points out that the current own resources ceiling at 1.24% of GNI does not include the 0.03% GNI represented by the annual share of EDF; urges Commission and Council, in future financial perspectives, to take the share of EDF into account when deciding the ceilings of own resources and external actions;
 7. Considers that the new provisions of the Financial Regulation applicable to the EDF, with the Financial Regulation for the general budget (including decisions on country-specific allocations, within a co-decided envelope) will ensure that aid is managed more efficiently and hence more effectively;
 8. Believes that these gains should contribute to higher real implementation of funds in the ACP countries, notably through the gradual elimination of outstanding commitments

('RAL'), and thus be beneficial to the stated goals of the cooperation and to sound financial management;

9. Considers that the ring-fencing of EDF expenditure must be done only in respect of the provisions of the Financial Regulation for the budget and believes that a multiannual envelope, adopted under codecision, over the period of an entire financial perspective will ensure adequate protection of funds;
10. Points out that the ceiling for external actions in the current financial perspective had to be revised three times over the period; underlines that it is of the responsibility of the budgetary authority to agree on financial perspectives securing the funding of the multiannual programmes (including EDF in future) and having a sufficient margin to permit the financing of needs arising from international crisis or events and allowing the union to play a role in the world which is commensurate with its ambitions.