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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 2002 financial year
(COM(2003) 475 - C5-0496/2003 - 2003/2189(DEC))

Committee on Budgetary Control

Rapporteur: Jonas Sjöstedt

CONTENTS

	Page
PROCEDURAL PAGE.....	3
1. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION	5
2. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION	7
3. MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION	10
ANNEX 1	21
OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION.....	23

PROCEDURAL PAGE

On 6 August 2003 the Commission forwarded to Parliament the balance sheets and administrative accounts of the 6th, 7th and 8th European Development Funds for the 2002 financial year (COM(2003) 475 - 2003/2189(DEC)).

At the sitting of 5 November 2003 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 and the Committee on Development and Cooperation for their opinions (C5-0496/2003).

On 7 August 2003 the Commission forwarded to Parliament the financial information on the 6th, 7th and 8th European Development Funds for the 2002 financial year (COM(2003) 491).

At the sitting of 15 December 2003 the President of Parliament announced that he had referred this document to the Committee on Budgetary Control (C5-0619/2003).

On 17 November 2003 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 2002 financial year.

At the sitting of 3 December 2003 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 opinions (C5-0584/2003).

On 10 March 2004 the Council forwarded to Parliament the recommendation concerning the discharge to be given in respect of the European Development Funds for the 2002 financial year.

At the sitting of 29 March 2004 the President of Parliament announced that he had referred this document to the Committee on Budgetary Control (C5-0146/2004, C5-0147/2004, C5-0148/2004).

At its meeting of 10 September 2002 the Committee on Budgetary Control had appointed Jonas Sjöstedt as rapporteur.

The Committee on Budgetary Control considered the draft report at its meetings of 18 February and 17 March 2004.

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 6th, 7th and 8th European Development Funds for the 2002 financial year by 11 votes to 1;

2. the proposal for a decision on closing the accounts of the 6th, 7th and 8th European Development Funds for the 2002 financial year by 11 votes to 1;
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 6th, 7th and 8th European Development Funds for the 2002 financial year by 11 votes to 2.

The following were present for the vote: Diemut R. Theato, chairman; Herbert Bösch and Paulo Casaca, vice-chairmen; Jonas Sjöstedt, rapporteur; María Antonia Avilés Perea, Mogens N.J. Camre, Christopher Heaton-Harris, Helmut Kuhne, John Joseph McCartin (for Brigitte Langenhagen), Eluned Morgan, Jan Mulder (for Ole Sørensen), Gabriele Stauner and Michiel van Hulst.

The opinion of the Committee on Development and Cooperation is attached. The Committee on Budgets decided on 26 November 2003 not to deliver an opinion.

The report was tabled on 23 March 2004.

1. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

**concerning the discharge to the Commission in respect of the implementation of the budget of the sixth, seventh, and eighth European Development Fund for the 2002 financial year
(COM(2003) 475 - C5-0496/2003 - 2003/2189(DEC))**

The European Parliament,

- having regard to the balance sheets and accounts of the 6th, 7th and 8th European Development Funds for the 2002 financial year (COM(2003) 475 - C5-0496/2003),
- having regard to the annual report of the Court of Auditors on the activities of the sixth, seventh and eighth European Development Funds for 2002 together with the institutions' replies (C5-0584/2003)¹,
- having regard to the Court of Auditors' Statement of Assurance on the European Development Funds (C5-0584/2003),
- having regard to the Council's recommendations of 9 March 2004 concerning the discharge to be given to the Commission in respect of the implementation of the operations of the European Development Funds for the financial year 2002 (C5-0146/2004, C5-0147/2004, C5-0148/2004).
- 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 of, and Annex V to 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 (A5-0183/2004),

¹ OJ C 286, 28.11.2003, p. 325.

² OJ L 156, 29.5.1998, p. 108.

³ OJ L 191, 7.7.1998, p. 53.

- 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 financial year 2002 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 inter alia on the audit of a sample of transactions,
- 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 financial year 2002;
 - 2. Presents its comments in the accompanying resolution;
 - 3. Instructs its President to forward this decision and the accompanying resolution to the Council, the Commission, the Court of Justice, the Court of Auditors and the European Investment Bank and to have them published in the Official Journal of the European Union (L series).

2. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

on closing the accounts of the sixth, seventh and eighth European Development Funds for the 2002 financial year (COM(2003) 475 - C5-0496/2003 - 2003/2189(DEC))

The European Parliament,

- having regard to the balance sheets and accounts of the 6th, 7th and 8th European Development Funds for the 2002 financial year (COM(2003) 475 - C5-0496/2003),
 - having regard to the annual report of the Court of Auditors on the activities of the sixth, seventh and eighth European Development Funds for 2002 together with the institutions' replies (C5-0584/2003)¹,
 - having regard to the Court of Auditors' Statement of Assurance on the European Development Funds (C5-0584/2003),
 - having regard to the Council's recommendations of 9 March 2004 concerning the discharge to be given to the Commission in respect of the implementation of the operations of the European Development Funds for the financial year 2002 (C5-0146/2004, C5-0147/2004, C5-0148/2004),
 - 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 of, and Annex V to 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 (A5-0183/2004),
1. Notes that the financial situation of the sixth, seventh and eighth European Development Funds as at 31 December 2002 was as follows:

¹ OJ C 286, 28.11.2003, p. 325.

² OJ L 156, 29.5.1998, p. 108.

³ OJ L 191, 7.7.1998, p. 53.

Cumulative utilisation of EDF resources as at 31 December 2002

	Situation at end of 2001		Budgetary implementation during the financial year 2002				Situation at end of 2002					
	Global amount	Implementation rate ²	6th EDF	7th EDF	8th EDF ³	Global amount	6th EDF	7th EDF	8th EDF ³	Global amount	Implementation rate ²	
	million EUR	Per cent	----- million EUR -----									Per cent
A - RESOURCES¹	32.797,3					0,0	7.829,1	11.511,7	13.499,6	32.840,4		
B - UTILISATION												
1. Primary commitments	28.152,8	85,8	2,8	126,0	1.639,6	1.768,4	7.484,7	10.928,7	11.507,8	29.921,2	91,1	
- programmable aid	15.648,6		1,2	151,0	660,2	812,5	4.875,5	5.754,4	5.831,1	16.461,1		
- non-programmable aid	9.324,5		-1,1	-15,6	574,4	557,7	2.511,2	3.667,4	3.703,6	9.882,2		
- structural adjustment and macroeconomic support	2.726,1		0,0	-0,6	405,0	404,3	6,0	1.151,4	1.973,1	3.130,5		
- on transfers from previous EDFs	453,6		2,7	-8,8	0,0	-6,1	92,0	355,5	0,0	447,5		
2. Secondary commitments	22.681,3	69,2	33,5	328,1	1.781,3	2.142,9	7.318,9	9.985,4	7.519,9	24.824,2	75,6	
- programmable aid	11.282,7		36,3	212,6	890,7	1.139,7	4.741,8	4.973,7	2.706,8	12.422,4		
- non-programmable aid	8.716,9		-4,2	99,2	403,2	498,2	2.483,0	3.549,4	3.182,6	9.215,1		
- structural adjustment and macroeconomic support	2.298,7		-0,7	-1,0	487,3	485,7	5,3	1.148,6	1.630,5	2.784,4		
- transfers between EDFs	383,0		2,0	17,3	0,0	19,3	88,7	313,6	0,0	402,3		
3. Payments	19.683,6	60,0	48,5	326,1	1.478,1	1.852,7	7.235,1	9.232,4	5.068,9	21.536,4	65,6	
- programmable aid	9.739,4		46,3	239,2	650,0	935,5	4.669,0	4.488,1	1.517,8	10.674,9		
- non-programmable aid	7.512,6		1,3	56,5	467,7	525,5	2.475,1	3.315,9	2.247,1	8.038,1		
- structural adjustment and macroeconomic support	2.088,5		-0,1	8,5	360,4	368,8	5,3	1.148,0	1.304,0	2.457,4		
- transfers between EDFs	343,1		1,0	21,9	0,0	22,9	85,7	280,4	0,0	366,0		
C - Outstanding payments (B1-B3)	8.469,2	25,8					249,6	1.696,3	6.438,9	8.384,8	25,5	
D - Available balance (A-B1)	4.644,5	14,2					344,4	583,0	1.991,8	2.919,2	8,9	

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 As a percentage of resources.

³ Including 732,9 million euro in primary commitments, 347,4 million euro in secondary commitments and 97,7 million euro in payments for advance implementation of the Cotonou Agreement.

Source: Court of Auditors, Annual Report concerning the financial year 2003 (OJ C 286, 28.11.2003, p. 331).

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

3. MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

containing the comments accompanying the decision concerning discharge to the Commission in respect of the implementation of the budget of the sixth, seventh and eighth European Development Funds for the 2002 financial year (COM(2003) 475 - C5-0496/2003 - 2003/2189(DEC))

The European Parliament,

- having regard to the balance sheets and accounts of the 6th, 7th and 8th European Development Funds for the 2002 financial year (COM(2003) 475 - C5-0496/2003),
- having regard to the Commission communication to the Council, the European Parliament and the Court of Auditors of 7 August 2003 on financial information on the 6th, 7th and 8th European Development Funds 2002 (COM(2003) 491 - C5-0619/2003),
- having regard to the annual report of the Court of Auditors of the activities of the sixth, seventh and eighth European Development funds for 2002 together with the institutions' replies (C5-0584/2003)¹,
- having regard to the Court of Auditors' Statement of Assurance on the European Development Funds (C5-0584/2003),
- having regard to the Annual Report 2003 from the Commission to the Council and the European Parliament on the EC development policy and the implementation of external assistance in 2002 (COM(2003) 527,
- having regard to its resolution of 1 March 2001 on the Commission communication to the Council and the European Parliament on the European Community's development policy²,
- having regard to the EuropeAid Co-operation Office's annual activity report 2002,
- having regard to the Council's recommendations of 9 March 2004 concerning the discharge to be given to the Commission in respect of the implementation of the operations of the European Development Funds for the financial year 2002 (C5-0146/2004 - C5-0147/2004 - C5-0148/2004),
- 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,

¹ OJ C 286, 28.11.2003, p. 325.

² OJ C 277, 1.10.2001, p. 130.

³ OJ L 156, 29.5.1998, p. 108.

- having regard to Article 74 of the Financial Regulation of 16 June 1998 applicable to development finance cooperation under the fourth ACP-EC Convention¹,
 - having regard to Rules 93 and 93a, third indent of, and Annex V to 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 (A5-0183/2004),
- A. whereas, pursuant to article 74 of the Financial Regulation of 16 June 1998, the Commission shall take all appropriate steps to act on the comments appearing in the decision giving
- B. whereas the present Commission took office in September 1999, launched the reform of the management of the EC external assistance in May 2000² and the reform of the EC's development policy in November 2000³,
- C. whereas the Partnership Agreement between the members of the African, Caribbean and Pacific Group of States of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000 (the Cotonou Agreement)⁴, entered into force on 1 April 2003, has reformed aid to the ACP States and increased focus on poverty reduction,
- D. whereas due to the long ratification process for the Cotonou Agreement, the ninth European Development Fund (EDF) covering the period 2000-2005 had not entered into force at the end of 2002, making it necessary for the Commission during 2002 to use funds from the eighth EDF in order to initiate financing decisions based on programming for the ninth EDF,
- E. whereas the ACP-EU Joint Parliamentary Assembly at its meeting in Rome (Italy) from 11 to 15 October 2003 adopted a resolution on the use of the European Development Fund, calling on the European Commission to speed up implementation of funds,

Statement of Assurance

1. Notes that the Court of Auditors is of the opinion that the revenue entered in the accounts, the amounts allocated to the European Development Funds (EDFs), the commitments and the payments of the financial year are, taken as a whole, legal and regular;

¹ OJ L 191, 7.7.1998, p. 53.

² Cf. Communication to the Commission on the Reform of the Management of External Assistance, adopted by the Commission on 16 May 2000.

³ Cf. Statement by the Council and the Commission on The European Community's Development Policy adopted by the General Affairs Council (Development) on 10 November 2000.

⁴ OJ L 317, 15.12.2000, p. 3.

2. Notes that the Court of Auditors has formed its opinion based on an analysis and testing of the supervisory systems and controls of the Commission as well as on controls carried out on a number of underlying transactions in Brussels and on the spot in six ACP States;
3. Supports the Court of Auditors' approach of giving analysis of supervisory systems and controls high priority;
4. Supports the Court of Auditors' intentions to perform on the spot controls in ACP States; invites the Court of Auditors to ensure that all Delegations of the Commission are visited and controlled within a limited number of years;
5. Notes that the Court of Auditors has critical remarks regarding:
 - a) The Commission has not sufficiently addressed weaknesses relating to the terms of reference, reporting and follow-up of audit reports carried out on EDF operations;
 - b) Key controls are not always reliably carried out by the National Authorising Officer and/or the Head of Delegation;
 - c) Monitoring information and performance indicators on the evolution of the quality of public finance management in ACP States do not exist, preventing the Court of Auditors from giving an opinion on the use of direct budgetary aid;
 - d) The Director-General of EuropeAid Co-operation Office (AIDCO) did not have sufficient information available when he declared without reservations in the AIDCO annual activity report for 2002 that control procedures put in place provided the necessary guarantees in respect of the legality and regularity of the underlying transactions;

Declaration of the Director-General of AIDCO

6. Notes with satisfaction that the annual activity report and declaration of the Director-General of AIDCO for 2002 also covered the EDF even though the charter for authorising officers by delegation did not at that time extend to EDF transactions; however, also notes that the Court of Auditors considers that - from the viewpoint of methodology - the Director-General of AIDCO did not yet have all the requisite information concerning the reality, legality and regularity of the on-the-spot transactions as regards the following information:
 - a) the management of funds by ACP countries had not yet been subjected to risk analysis and formalised evaluation, particularly in the context of the use of budgetary aid. AIDCO was not yet able to determine the extent to which Internal Control Standard no. 17 on supervision had actually been implemented as regards the transactions that were managed by the Delegations and National Authorising Officers;
 - b) the coverage and findings of external audits were neither quantified nor analysed. These external audits were still not included within the scope of Internal Control Standard no. 21 on audit reports;

- c) the amounts to be recovered were not entered in the accounts and were not always identified. There was therefore no guarantee that advances were correctly cleared;

Calls on the Director-General of AIDCO to address the above mentioned weaknesses pointed out by the Court of Auditors;

7. Notes that the Commissioner for Development and Humanitarian Aid does not believe it to be part of his responsibilities to ensure that the Director-General of AIDCO includes a reliable declaration in the AIDCO annual activity report;
8. Does not find that the opinion of the Commissioner for Development and Humanitarian Aid on this issue is in accordance with the Code of Conduct for Commissioners and Departments, which states that 'Directors-General shall be answerable to their Commissioner for the sound implementation of the policy guidelines laid down by the Commission and the Commissioner.';
9. Questions the value of such a declaration when it does not have any consequence for a Director-General if serious criticism is raised against the approach taken in working out the declaration;

Budgetary support

10. Notes that budgetary support has increased its share of implemented primary commitments from 14 per cent in 2001 to 23 per cent in 2002; notes that the Commission intends to increase this share further in future years;
11. Acknowledges that budgetary support may be effective in achieving the objectives of poverty reduction and better management of public finances in beneficiary countries, inter alia by increasing ownership of the beneficiary country;
12. Notes that according to the Cotonou Agreement, direct budgetary assistance in support of macroeconomic or sectoral reforms shall be granted where ¹:
 - a) Public expenditure management is sufficiently transparent, accountable and effective;
 - b) Well defined macroeconomic or sectoral policies established by the country itself and agreed to by its main donors are in place; and
 - c) Public procurement is open and transparent;
13. Acknowledges that when budget support funds have been released to an ACP State, these funds are spent and controlled according to national and not EDF control procedures; is aware that this necessitates a change in the Commission's follow-up procedures away from traditional controls and checks of transactions towards an assessment of the state of public finance management based on monitoring information and performance indicators; however,

¹ Cf. Cotonou Agreement, Article 61(2).

notes that the Court of Auditors finds that criteria used to release budget support funds essentially consist of macroeconomic indicators but provide only partial information about public finance management, and that no separate, clear analysis and evaluation of the quality of public finance management is produced;

14. Is deeply concerned that the Commission is increasing the use of budget support at the same time as the Court of Auditors - in the absence of monitoring information and of performance indicators on the evolution of the quality of public finance management in ACP States - is not able to give an opinion on the use of direct budgetary assistance by the ACP States;
15. Has been informed that other donors are also increasing the use of budgetary support and that the Commission is cooperating with such donors, notably the World Bank, on the development of performance indicators;
16. Invites the Commission to continue to cooperate with other donors in order to ensure a harmonised approach among donors towards ACP States - not just on performance indicators but also on requirements placed on ACP States as regards e.g. controls and reporting;
17. Strongly supports the Court of Auditors' intentions to adopt a special report during 2004 on the use of budgetary support;
18. Asks the Commission to include a list of countries granted budgetary support, including information on whether tranches of budgetary support have been withheld, in a communication on financial information on the EDFs for the 2003 financial year; asks the Commission to also inform in this communication - for each country receiving direct budgetary aid - whether the three main conditions for receiving such aid as stated in article 61(2) of the Cotonou agreement are met;
19. Asks the Commission to inform by 1 September 2004 on the state of play of work within The Public Expenditure and Financial Accountability Program (PEFA), including information on the expected deadline for agreement on a final list of Public Finance Management performance indicators;
20. Calls on the Commission - in connection with the upcoming negotiations on possible amendments of the Cotonou Agreement - to enter into a dialogue with the ACP States on the possibility of making budgetary support conditional on the beneficiary country agreeing to spend the equivalent of 5-10 per cent of any amount received as budgetary support for institutional support measures;

Supreme Audit Institutions

21. Recalls its opinion regarding the importance of involving ACP States' supreme audit institutions in EDF control¹;
22. Notes that the Court of Auditors regrets the absence of a clear structured approach to strengthening the national control and audit institutions on the part of the Commission;
23. Asks the Commission to include information on funds spent on projects involving supreme audit institutions in a communication on financial information on the EDFs for the 2003 financial year;
24. Invites the Commission to consider entering the condition that an ACP State must agree to introduce a multi-annual program for creating and/or strengthening a Supreme Audit Institution before budgetary support can be granted;

Decentralisation of management of aid and support

25. Supports the Commission's devolution of resources and decision-making powers to the Delegations of the Commission; expects this will contribute to even higher implementation levels for commitments and payments than achieved by the Commission in 2002; is aware that the deconcentration exercise is ongoing and expected to be fully implemented during 2004;
26. Emphasises that the audit and evaluation strategy of the Commission must reflect the change in the management of aid and support and be underpinned by a risk assessment; stresses that audits and evaluations must be independent and of high quality; asks the Commission to communicate its working document on risk assessment as soon as it has been finalised and by 1 July 2004 at the latest;
27. Stresses that Heads of Delegation must ensure that key controls are carried out and take action if the National Authorising Officer does not fulfil the obligation of performing such controls; is concerned that Delegations may not have sufficient qualified staff available in order to respect new obligations regarding financial control;
28. Is concerned that Headquarters' overview of audit and evaluation activities in the Delegations is inadequate; notes that EDF activities are expected to be integrated into the CRIS system during first half of 2004; notes the Court of Auditors' concern that in the short term the CRIS-system is not likely to address weaknesses relating to the terms of reference, audit reports and follow-up of audit reports; asks the Commission to inform by 1 September 2004 whether: 1) the process of linking the accounting system OLAS to the CRIS system has been successful and 2) whether audits concerning EDF funds have been included in the CRIS system;

¹ Cf. points 21-24 in the Resolution containing the comments accompanying the decision concerning 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 (OJ L 148, 16.6.2003, p. 3).

29. Regrets that the Commission does not systematically collect audits and evaluations from Delegations and therefore has not been able to react in a timely manner to a request from the rapporteur to receive a number of audit and evaluation reports; regards this as confirmation of headquarters' lack of overview concerning audit and evaluation activities; notes that lists of audits received by the rapporteur in some cases contained wrong information about the prices of an audit, the size of the underlying project etc.; regards this as a further confirmation of headquarters' lack of overview concerning audit activities;
30. Asks the Commission to provide a structured plan by 1 July 2004 as to how Headquarters should control Delegations' controls within a deconcentrated management system; stresses that financial audits and evaluation should be co-ordinated, monitored and followed-up by Headquarters; is especially worried by the apparent lack of systematic follow-up of audits and evaluations;
31. Asks the Commission to present by 1 July 2004 a list of audits and evaluations performed in 2003 by Delegations and Headquarters as well as informing how audits and evaluations have been followed up; stresses that the requested list shall only include audits and evaluations actually performed - not merely planned;
32. Notes that the Commission is not certain that it has full information about evaluations carried out by Delegations¹; asks the Commission to include information on how this situation has been resolved when it forwards the list of evaluations performed in 2003;

Implementation, RAL and budgetisation

33. Considers that the level of unspent EDF resources, currently standing at € 11.3 billion², is regrettable in a fund aimed at assisting many of the poorest countries in the world; appreciates the factors that limit the Commission's ability to redress this problem, such as the responsibility of the National Authorising Officer (NAO) for processing invoices, the need to obtain the NAO's agreement for decommitments, the circumstances preventing the implementation of programmes in certain countries in crisis and the absence of any time-limit on the use of funds; recognises the value of changes to the Financial Regulation and new Financing Agreements aimed at keeping RAL under control for the 9th EDF; stresses the fact that many of these problems would be resolved if the EDF were to be brought within the Community budget;
34. Notes that resources not yet committed under the 6th, 7th and 8th EDFs in total amounted to EUR 2.9 billion (or 8.9 per cent of total resources) at the end of 2002 even though it was respectively 17, 12 and 5 years since the three EDFs entered into force;
35. Notes that implemented secondary commitments (contracts) and payments amounted to respectively EUR 2.1 billion and EUR 1.9 billion, thereby maintaining a relatively high

¹ Cf. Commission's answer to question 75 in Replies to Questionnaire to the Commission regarding discharge 2002 - Part II (PE 328.732/FIN2): 'It is not possible to say with any degree of certainty to what extent the attached list, which is based on information provided by EC Delegations in ACP countries, is complete.'.

² €2.9 billion is yet to be committed, while €8.4 billion relates to outstanding payments.

level compared to earlier years; however, is also aware that increased use of budgetary support is the main reason for achieving higher implementation levels;

36. Notes that outstanding commitments - or RAL (reste à liquider) - amounted to EUR 8.4 billion at the end of 2002, of which EUR 1.2 billion was considered to be abnormal RAL¹;
37. Asks the Commission to include in a communication on financial information on the EDFs for the 2003 financial year a table showing the RAL per sector and per year of commitment as well as information on the level of abnormal RAL and specific actions taken in 2003 in order to reduce the abnormal RAL;
38. Welcomes 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' of 8 October 2003 (COM(2003) 590);
39. Considers that the EDF shall be budgetised, i.e. integrated in the general budget of the European Union, in order to grant the EDF the same status as other parts of the 'acquis communautaire' and eliminate the current democratic deficit;
40. Emphasises that - apart from the political significance of budgetisation - considerable advantages related to budgetary management can be achieved by integrating the EDF in the general budget of the European Union; e.g. more efficient implementation due to the possibility of harmonising existing procedures, greater level of flexibility in implementation, a higher level of transparency concerning total Community aid, and avoiding the current complications of transitional measures between EDFs;
41. Notes that a new Financial Protocol succeeding the ninth EDF has to be determined at the same time as negotiations will start on respectively a new Financial Perspective for the European Union and possible amendments of the Cotonou Agreement, offering an exceptionally good opportunity to budgetise the EDF;
42. Calls on the Commission and the Member States to decide on and implement budgetisation of the EDF without delay;
43. Considers it to be essential that the Commission continues to speed up implementation of commitments and payments from the EDF in order for the European Community and its Member States to fulfil the political commitments towards the ACP States as well as minimising possible complications related to budgetisation of the EDF;
44. Invites the Commission to enter into a dialogue with the ACP States on how to eliminate the RAL, taking into account the specific problems that may be encountered in connection with budgetisation;

¹ Abnormal RAL is defined as commitments on which no contracts or payments have been made in the last two years as well as commitments made before 1997 and not yet paid, cf. above-mentioned Communication from the Commission on Financial Information on the 6th, 7th and 8th European Development Funds 2002, section 3.1).

45. Stresses that budgetisation of the EDF must not lead to a decrease in total funds available to the ACP States; asks the Commission to ensure transparency so that the discharge authority continues to be able to ascertain the level of funds spent on purposes set out by the Cotonou Agreement;

Poverty reduction

46. Draws attention to the principal objective of the Community's development policy, which is to reduce poverty with a view to its eventual eradication¹, and highlights the endorsement given by the Commission and all Member States to the Millennium Development Goals (MDGs) as the means by which this objective is to be achieved; furthermore recognises that there has to be careful monitoring of whether appropriate resources are going to health and education at country level;

47. Notes that the benchmark formula requires the 35% to be allocated 'mainly (to) education and health' which are the two sectors most prominent in the MDGs; observes that the figures reported to the DAC for 2002 commitments in these sectors² remain far from this target, and that structural adjustment programme conditionalities are most unlikely to make up such a large shortfall; expresses concern about the figures given for EDF commitments³ in these sectors; calls on the Commission to improve its performance in this area in future years;

48. Regrets that the Commission has not provided an analysis of its contribution towards achieving the MDGs but has limited its study⁴ to measuring the progress made by developing countries towards this objective; considers that assessment of the effectiveness of Commission programmes is hampered by the absence of such an analysis; calls for an analysis of aid effectiveness to be included in the Mid-Term Review of the Cotonou Agreement;

Programming

49. Congratulates the Commission on the results of its assessment of the involvement of non-state actors (NSAs) in the programming process for the 9th EDF which showed that consultations were carried out in 62 countries out of 68; notes, however, that changes to draft Country Strategy Papers only resulted in 36 countries, raising questions about the impact of consultations in the remaining cases; calls particularly for regular and formal consultation of ACP parliaments and the ACP-EU Joint Parliamentary Assembly;

CESD contracts

50. Notes that several EDF financed contracts have been signed with one of the companies at the centre of the Eurostat scandal in the context of COMESA (Common Market of Eastern

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

² 4.1% for education and 3.0% for health. These figures include sector-specific budget support.

³ 1% for education and 4% for health.

⁴ Outlined in the Annual Report on the EC Development Policy and the Implementation of External Assistance in 2002, Ch 3.

and Southern Africa); notes that serious questions regarding these contracts were raised in the final IAS report of October 2003;

51. Regrets that Eurostat's consistent advice in favour of using CESD did not raise concern in AIDCO despite what was known internally about the company; notes this as another example of inadequate transparency and lack of communication between Commission departments;
52. Finds it deeply dissatisfying that AIDCO did not issue a recovery order on EUR 200.000, outstanding since 1999, before the Eurostat scandal broke out in July 2003; expects the Commission to inform the European Parliament as soon as possible whether the recovery order on EUR 324.088 (accrued interest) issued to CESD has been fulfilled;
53. Welcomes however that AIDCO has ended contractual relations with the company in question;

ACP Secretariat

54. Recalls that the Court of Auditors in its annual report for the 2000 financial year presented serious criticism of the ACP Secretariat as well as the EUR 18 million financing agreement for 2000-2004 benefiting the ACP Secretariat and signed by the Commission on 9 March 2000;
55. Recalls the European Parliament resolution relating to discharge for the 2000 financial year¹, in which the Commission was asked to inform the ACP Secretariat that it must, in all cases, respect the final rulings of the Belgian Courts on matters still pending;
56. Is aware that the ACP Secretariat has not yet complied with a ruling from the Belgian Courts and paid compensation to a former employee, arguing that the ACP Secretariat seeks diplomatic immunity; notes that the ACP Secretariat has appealed the case to the Belgian Cour de Cassation; does not agree that diplomatic immunity shall make it possible for the ACP Secretariat not to honour its responsibilities as an employer;
57. Notes that the present agreement on the financing of the ACP Secretariat will expire at the end of 2004; calls on the Commission to include in any agreement on future financing a mechanism ensuring suspension of the financing agreement if the ACP Secretariat does not respect a final ruling of the Belgian courts;
58. Asks the Commission to inform the discharge authority by 1 July 2004 at the latest about the result of contacts made to the ACP Secretariat as requested above as well as the expected content of a proposal for a future financing agreement benefiting the ACP Secretariat;
59. Invites the Court of Auditors to follow up on observations on the ACP Secretariat made by the Court of Auditors in its Annual Report concerning the financial year 2000; invites the Court of Auditors to at the same time consider whether the ACP-EU Joint Parliamentary Assemblies are organised in accordance with the principles of sound financial management;

¹ OJ L 158, 17.6.2002, p. 28.

Peace Facility

60. Takes note of the Decision of the ACP-EC Council of Ministers on 11 December 2003 on the use of EUR 250 million from the long-term development envelope of the ninth EDF for the creation of a Peace Facility for Africa;
61. Welcomes the creation of a Peace Facility for Africa but is concerned about the risk that such funds are used on other purposes than intended, e.g. on military spending; invites the Commission to enter into a dialogue with the Parliament on the use of the Peace Facility for Africa within the overall development policy framework;
62. Asks the Commission to specify in the annual accounts the amounts used for the Peace Facility for Africa and to inform the discharge authority - on an annual basis and in good time to be taken into account during the discharge procedure - on the management of such funds including information about the specific activities financed by the funds;

CDE

63. Notes that EUR 90 million in the Financial Protocol of the Cotonou Agreement are reserved for the CDE (Centre for the Development of Enterprise, formerly Centre for the Development of Industry); notes that the legal status of CDE is unclear and its objectives not well defined; deplores that there are still management shortcomings and weaknesses in internal and external control despite repeated criticism in different audits over the last years; calls on the Commission to follow up on the criticism raised by the Commission's own audits as well as in the Court of Auditors' annual report for 2002.

**Requests made in Questionnaire - part II to the Commission:
Discharge for the 2002 - general budget - Section III
(PE 328.732/2)**

Question	Documents requested	Status
No. 67	External audit programme 2003.	Received list of projects to be audited within the external audit plan 2003 of Headquarters for the ACP States.
No. 68	List of audits on projects financed by the EDF funds and carried out in 2002 under the direct responsibility of Headquarters.	Received.
No. 69	List of audits on projects financed by EDF funds and carried out in 2002 under the responsibility of the Delegations.	Received.
No. 71	List of audits planned carried out in 2003 by Headquarters and Delegations respectively.	List of audits planned carried out by Headquarters received as part of answer to question no. 67. List of audits planned carried out by Delegations not received. The Commission expects the list will be available during 2004.
No. 72	Outcome of risk assessment exercise carried out in 2002/2003.	Received.
No. 73	List of audits/reports carried out by IAS in 2002 and 2003.	Received.
No. 74	List of evaluations carried out by the evaluation unit in AIDCO in 2002 and 2003 involving EDF funds.	List of evaluations carried out in 2002 not received. List of evaluations completed or nearly completed in 2003 as well as list of ongoing evaluations received.
No. 75	List of evaluations carried out by the Delegations on projects financed by EDF funds.	Received list of evaluations of projects or programmes that EC Delegations in ACP States were planning to complete or to undertake during the year 2002. The Commission cannot say with any degree of certainty to what extent the list, based on information provided by EC Delegations in ACP States, is complete.
No. 79	Table showing a sectoral breakdown of the RAL and which years the commitments underlying the EUR 8.384,8 million relate to.	Received.
No. 81	List of primary commitments dating from before 1997 and the beneficiary countries these commitments are related to.	Received.
No. 82	List of recoveries due.	Received.
No. 84 (first part)	Table showing the breakdown of commitments and payments on sectors.	Received.
No. 84 (second part)	Table showing breakdown of funds on instruments.	Received.
No. 87	List of reports received from supreme national audit institutions in 2001, 2002 and 2003 concerning inter alia the use of budget support.	Not received.
No. 97	List of issues (country by country) agreed with partner countries for the strategic plans in the light of the midterm reviews coming up.	Not received. The Commission states it is too early to draw up a list of issues to be considered, as these will arise in the course and as a result of the midterm review exercise.

**Requests made in letters of 8 January 2004 and 15 January 2004
from the rapporteur to Commissioner Nielson**

Documents requested	Status
Organisational audit of the Centre for the Development of Enterprise (CDE/CDI)	Received.
Financial audit of the microrealisation and decentralised cooperation project (Republic of Senegal)	Received.
Audit of structural adjustment funds in Ethiopia	Received.
Audit of structural adjustment funds in Malawi	Received.
Follow-up of EDF Counterpart Funds	Received.
Burkina Faso - ARJVA - 8.ACP ROC 39/TPS.96	Received.
Congo - Programme of support to the health sector - EDF/ZR/06033/001	Received.
Namibia - Support for improvement of clinical STD/HIV Management and prevention-wp/ce	Received.
Tanzania - Microprojects Programme - 7 ACP TA 031+099	Received.
Chad - Health programme, 8th EDF - 9 ACP CD 014	Not received. (not finalised)
Zimbabwe - Health Sector Support Programme - 8 ACP ZIM 010	Received.
Uganda - Improving Sexual and Reproductive Health in Uganda - 8 ACP UG 005	Received.
Uganda - South West Uganda Rural Health Programme, West Nile Primary Health Programme - 7 ACP UG 016	Received.
Congo - PATS - 7 ACP ZR 29 - ZR 30	Received.
Ethiopia - Road projects - 7 ACP and 8 ACP ET 093, 094, 099, 003, 004	Not received.
Ethiopia - Higher Education development - 7 ACP ET 090	Not received.
Ethiopia - EC Programme Support 7 ACP ET 103	Not received.
Kenya - farming in Tsetse - 7 ACP KE 078	Received.
Uganda - farming in Tsetse - 7 ACP RPR 578 (ROR) - 7 ACP UG 063	Received.

9 February 2004

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 2002 financial year (COM(2003) 475 – C5-0496/2003 – 2003/2189(DEC))

Draftsman: Glenys Kinnock

PROCEDURE

The Committee on Development and Cooperation appointed Glenys Kinnock draftsman at its meeting of 25 November 2003.

It considered the draft opinion at its meetings of 2 December 2003 and 20 January 2004.

At its meeting of 9 February 2004, it adopted the following suggestions unanimously.

The following were present for the vote: Margrietus J. van den Berg (acting chairman), Marieke Sanders-ten Holte (vice-chairwoman), Glenys Kinnock (draftsman), Yasmine Boudjenah, John Bowis, Nirj Deva, Giovanni Claudio Fava (for Maria Carrilho), Fernando Fernández Martín, Concepció Ferrer (for Karsten Knolle), Michael Gahler (for Vitaliano Gemelli), Karin Jöns (for Miguel Angel Martínez Martínez), Constanze Angela Krehl (for Wolfgang Kreissl-Dörfler), Giorgio Lisi (for Jürgen Zimmerling), Nelly Maes (for Paul A.A.J.G. Lannoye), Mario Mantovani (for Luigi Cesaro), Maria Martens (for John Alexander Corrie), Linda McAvan, Hans Modrow, Philippe Morillon (for Jean-Pierre Bebear), José Ribeiro e Castro (for Luisa Morgantini), Ulla Margrethe Sandbæk, Francisca Sauquillo Pérez del Arco, Maj Britt Theorin, Elena Valenciano Martínez-Orozco (for Marie-Arlette Carlotti) and Anne E.M. Van Lancker (for Karin Junker).

SUGGESTIONS

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

1. Draws attention to the principal objective of the Community's development policy, which is to reduce poverty with a view to its eventual eradication¹, and highlights the endorsement given by the Commission and all Member States to the Millennium Development Goals (MDGs) as the means by which this objective is to be achieved; furthermore recognises that there has to be careful monitoring of whether appropriate resources are going to health and education at country level;
2. Recalls that in the past a lack of statistical data hampered attempts to analyse the level of poverty-focus in the Commission's development programmes; welcomes the introduction of the Common Relex Information System (CRIS) which, along with other databases, gave fully reliable figures for the first time in 2002;
3. Congratulates the Commission on meeting the global benchmark, introduced in the 2002 budget, requiring 35% of annual development commitments to be allocated to 'social infrastructure and services' as defined by the OECD Development Assistance Committee (DAC); observes, however, that aid reported to the DAC under this heading amounted to only 31.4% and that the shortfall was made up of 'macroeconomic assistance with social sector conditionality', which was included in the benchmark formula at the request of the Commission and for which the link to poverty reduction is less direct;
4. Notes that the benchmark formula requires the 35% to be allocated 'mainly (to) education and health' which are the two sectors most prominent in the MDGs; observes that the figures reported to the DAC for 2002 commitments in these sectors² remain far from this target, and that structural adjustment programme conditionalities are most unlikely to make up such a large shortfall; expresses concern about the figures given for EDF commitments³ in these sectors; calls on the Commission to improve its performance in this area in future years;
5. Points out that the figure for 'social infrastructure and services' includes an allocation of 13.5% for 'government and civil society' of which the largest single element is €319.9 million for 'economic and development planning'; notes that this is principally aimed at administrative support and that its direct relevance for poverty reduction is therefore questionable;

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

² 4.1% for education and 3.0% for health. These figures include sector-specific budget support.

³ 1% for education and 4% for health.

6. Regrets that the Commission has not provided an analysis of its contribution towards achieving the MDGs but has limited its study¹ to measuring the progress made by developing countries towards this objective; considers that assessment of the effectiveness of Commission programmes is hampered by the absence of such an analysis; calls for an analysis of aid effectiveness to be included in the Mid-Term Review of the Cotonou Agreement;
7. Supports the Commission's policy of deconcentrating decision-making to the external delegations, forty-four of which completed the process in 2002; and notes with satisfaction the improvements that have already resulted from this²; derives reassurance from the reinforcement of delegation staff and the training programmes established for them, as well as from the controls exercised by headquarters; warns nevertheless that delegation staff should not be burdened with excessive levels of reporting to headquarters as this would risk negating the benefits of deconcentration;
8. Expresses concern at the increase in the use of macroeconomic assistance in 2002, and particularly at the Commission's willingness to use this modality in cases where other donors consider minimum requirements have not been met; notes that the Commission has drawn up an analysis of the risk associated with external assistance and calls for this to be communicated to Parliament without delay; takes the view that budget support is more effective when targeted at a specific sector, and that key horizontal fields³ may be addressed through a sector-wide approach in the area of public finance;
9. Considers that the level of unspent EDF resources, currently standing at € 11.3 billion⁴, is regrettable in a fund aimed at assisting many of the poorest countries in the world; appreciates the factors that limit the Commission's ability to redress this problem, such as the responsibility of the National Authorising Officer (NAO) for processing invoices, the need to obtain the NAO's agreement for decommitments, the circumstances preventing the implementation of programmes in certain countries in crisis and the absence of any time-limit on the use of funds; recognises the value of changes to the Financial Regulation and new Financing Agreements aimed at keeping RAL under control for the 9th EDF; stresses the fact that many of these problems would be resolved if the EDF were to be brought within the Community budget and calls on the Commission and the Member States to budgetise the EDF;
10. Congratulates the Commission on the results of its assessment of the involvement of non-state actors (NSAs) in the programming process for the 9th EDF which showed that consultations were carried out in 62 countries out of 68; notes, however, that changes to draft Country Strategy Papers only resulted in 36 countries, raising questions about the impact of consultations in the remaining cases; calls particularly for regular and formal consultation of ACP parliaments and the ACP-EU Joint Parliamentary Assembly.

¹ Outlined in the Annual Report on the EC Development Policy and the Implementation of External Assistance in 2002, Ch 3.

² Among improvements observed by the Commission are: reduction in time taken for tenders and calls for proposals and implementation of better-quality programmes.

³ public service, public contracts, external audit etc

⁴ €2.9 billion is yet to be committed, while €8.4 billion relates to outstanding payments.