



EUROPEAN PARLIAMENT

2009 - 2014

Plenary sitting

A7-0062/2013

21.3.2013

REPORT

on discharge in respect of the implementation of the budget of the Eighth, Ninth and Tenth European Development Funds for the financial year 2011 (COM(2012)0435 – C7-0223/2012 – 2012/2166(DEC))

Committee on Budgetary Control

Rapporteur: Søren Bo Søndergaard

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1. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

**on discharge in respect of the implementation of the budget of the Eighth, Ninth and Tenth European Development Funds for the financial year 2011
(COM(2012)0435 – C7-0223/2012 – 2012/2166(DEC))**

The European Parliament,

- having regard to the Commission's report on the follow-up to the discharge for the 2010 financial year (COM(2012)0585) and to the Commission staff working documents accompanying that report (SWD(2012)0330 and SWD(2012)0340),
- having regard to the financial statements and revenue and expenditure accounts for the Eighth, Ninth and Tenth European Development Funds for the financial year 2011 (COM(2012)0435 – C7-0223/2012),
- having regard to the Commission's Annual Report of 26 April 2012 on the financial management of the Eight, Ninth and Tenth European Development Funds in 2011,
- having regard to the financial information on the European Development Funds (COM(2012)0386),
- having regard to the Court of Auditors' annual report on the activities funded by the Eighth, Ninth and Tenth European Development Funds concerning the financial year 2011, together with the Commission's replies¹ and to the Court of Auditors' special reports,
- having regard to the statement of assurance² as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors for the Financial year 2011 pursuant to Article 287 of the Treaty on the Functioning of the European Union,
- having regard to the Council's recommendations of dd mm yyyy 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 2011 (C7-0000, /2012),
- having regard to the Partnership Agreement between the members of the African, Caribbean and Pacific Group of States, of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000³ and revised in Luxembourg on 25 June 2005⁴,
- having regard to Council Decision 2001/822/EC of 27 November 2001 on the association of the overseas countries and territories with the European Community ("Overseas

¹ OJ C 344, 12.11.2012, p. 243.

² OJ C 348, 14.11.2012, p. 130.

³ OJ L 317, 15.12.2000, p. 3.

⁴ OJ L 287, 28.10.2005, p. 4.

Association Decision")¹, amended by Council Decision 2007/249/EC of 19 March 2007²,

- having regard to Article 33 of the Internal Agreement of 20 December 1995, between the representatives of the governments of the Member States, meeting within the Council, on the financing and administration of the Community aid under the Second Financial Protocol to the fourth ACP-EC Convention³,
 - having regard to Article 32 of the Internal Agreement of 18 September 2000, between Representatives of the Governments of the Member States, meeting within the Council, on the financing and administration of Community aid under the Financial Protocol to the Partnership Agreement between the African, Caribbean and Pacific States and the European Community and its Member States signed in Cotonou (Benin) on 23 June 2000, and the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the EC Treaty applies⁴,
 - having regard to Commission's Communications of 21 April 2010 on "Tax and Development - Cooperating with Developing Countries on Promoting Good Governance in Tax Matters" and of 13 October 2011 on "The Future Approach to EU Budget Support to Third Countries";
 - having regard to Article 319 of the Treaty on the Functioning of the European Union,
 - having regard to Article 74 of the Financial Regulation of 16 June 1998 applicable to development finance cooperation under the fourth ACP-EC Convention⁵,
 - having regard to Article 119 of the Financial Regulation of 27 March 2003 applicable to the 9th European Development Fund⁶,
 - having regard to Article 142 of Council Regulation (EC) No 215/2008 of 18 February 2008 on the Financial Regulation applicable to the 10th European Development Fund⁷,
 - having regard to Rules 76 and 77, third indent of, and Annex VI to, its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Development (A7-0062/2013),
1. Grants the Commission discharge in respect of the implementation of the budget of the Eighth, Ninth and Tenth European Development Funds for the financial year 2011;
 2. Sets out its observations in the resolution below;
 3. Instructs its President to forward this Decision and accompanying resolution to the

¹ OJ L 314, 30.11.2001, p. 1 and OJ L 324, 7.12.2001, p. 1.

² OJ L 109, 26.4.2007, p. 33.

³ OJ L 156, 29.5.1998, p. 108.

⁴ OJ L 317, 15.12.2000, p. 355.

⁵ OJ L 191, 7.7.1998, p. 53.

⁶ OJ L 83, 1.4.2003, p. 1.

⁷ OJ L 78, 19.3.2008, p. 1.

Council, the Commission, the Court of Justice of the European Union, the Court of Auditors and the European Investment Bank, and to arrange for their publication in the *Official Journal of the European Union* (L series).

2. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

**on the closure of the accounts of the Eighth, Ninth and Tenth European Development Funds for the financial year 2011
(COM(2012)0435 – C7-0223/2012 – 2012/2166(DEC))**

The European Parliament,

- having regard to the Commission's report on the follow-up to the discharge for the 2010 financial year (COM(2012)0585) and to the Commission staff working documents accompanying that report (SWD(2012)0330 and SWD(2012)0340),
- having regard to the financial statements and revenue and expenditure accounts for the Eighth, Ninth and Tenth European Development Funds for the financial year 2011 (COM(2012)0435 – C7-0223/2012),
- having regard to the Commission's Annual Report of 26 April 2012 on the financial management of the Eight, Ninth and Tenth European Development Funds in 2011,
- having regard to the financial information on the European Development Funds (COM(2012)0386),
- having regard to the Court of Auditors' annual report on the activities funded by the Eighth, Ninth and Tenth European Development Funds concerning the financial year 2011, together with the Commission's replies¹ and to the Court of Auditors' special reports,
- having regard to the statement of assurance² as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors for the Financial year 2011 pursuant to Article 287 of the Treaty on the Functioning of the European Union,
- having regard to the Council's recommendations of dd mm yyyy 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 2011 (C7-0000, /2012),
- having regard to the Partnership Agreement between the members of the African, Caribbean and Pacific Group of States, of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000³ and revised in Luxembourg on 25 June 2005⁴,
- having regard to Council Decision 2001/822/EC of 27 November 2001 on the association of the overseas countries and territories with the European Community ("Overseas

¹ OJ C 344, 12.11.2012, p. 243.

² OJ C 348, 14.11.2012, p. 130.

³ OJ L 317, 15.12.2000, p. 3.

⁴ OJ L 287, 28.10.2005, p. 4.

Association Decision")¹, amended by Council Decision 2007/249/EC of 19 March 2007²,

- having regard to Article 33 of the Internal Agreement of 20 December 1995, between the representatives of the governments of the Member States, meeting within the Council, on the financing and administration of the Community aid under the Second Financial Protocol to the fourth ACP-EC Convention³,
 - having regard to Article 32 of the Internal Agreement of 18 September 2000, between Representatives of the Governments of the Member States, meeting within the Council, on the financing and administration of Community aid under the Financial Protocol to the Partnership Agreement between the African, Caribbean and Pacific States and the European Community and its Member States signed in Cotonou (Benin) on 23 June 2000, and the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the EC Treaty applies⁴,
 - having regard to Commission's Communications of 21 April 2010 on "Tax and Development - Cooperating with Developing Countries on Promoting Good Governance in Tax Matters" and of 13 October 2011 on "The Future Approach to EU Budget Support to Third Countries",
 - having regard to Article 319 of the Treaty on the Functioning of the European Union,
 - having regard to Article 74 of the Financial Regulation of 16 June 1998 applicable to development finance cooperation under the fourth ACP-EC Convention⁵,
 - having regard to Article 119 of the Financial Regulation of 27 March 2003 applicable to the 9th European Development Fund⁶,
 - having regard to Article 142 of Council Regulation (EC) No 215/2008 of 18 February 2008 on the Financial Regulation applicable to the 10th European Development Fund⁷,
 - having regard to Rules 76 and 77, third indent of, and Annex VI to, its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Development (A7-0062/2013),
1. Notes that the final annual accounts of the Eighth, Ninth and Tenth European Development Funds are as shown in Table 2 of the Court of Auditors' annual report;
 2. Approves the closure of the accounts of the Eighth, Ninth and Tenth European Development Funds for the financial year 2011;
 3. Instructs its President to forward this decision to the Council, the Commission, the Court of Justice of the European Union, the Court of Auditors and the European Investment

¹ OJ L 314, 30.11.2001, p. 1 and OJ L 324, 7.12.2001, p. 1.

² OJ L 109, 26.4.2007, p. 33.

³ OJ L 156, 29.5.1998, p. 108.

⁴ OJ L 317, 15.12.2000, p. 355.

⁵ OJ L 191, 7.7.1998, p. 53.

⁶ OJ L 83, 1.4.2003, p. 1.

⁷ OJ L 78, 19.3.2008, p. 1.

Bank, and to arrange for its publication in the *Official Journal of the European Union* (L series).

3. MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

with observations forming an integral part of its Decision on discharge in respect of the implementation of the budget for the Eighth, Ninth and Tenth European Development Funds for the financial year 2011

(COM(2012)0435 – C7-0223/2012 – 2012/2166(DEC))

The European Parliament,

- having regard to the Commission's report on the follow-up to the discharge for the 2010 financial year (COM(2012)0585) and to the Commission staff working documents accompanying that report (SWD(2012)0330 and SWD(2012)0340),
- having regard to the financial statements and revenue and expenditure accounts for the Eighth, Ninth and Tenth European Development Funds for the financial year 2011 (COM(2012)0435 – C7-0223/2012),
- having regard to the Commission's Annual Report of 26 April 2012 on the financial management of the Eight, Ninth and Tenth European Development Funds (EDFs) in 2011,
- having regard to the financial information on the European Development Funds (COM(2012)0386),
- having regard to the Court of Auditors' annual report on the activities funded by the Eighth, Ninth and Tenth European Development Funds concerning the financial year 2011, together with the Commission's replies¹ and to the Court of Auditors' special reports,
- having regard to the statement of assurance² as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors for the Financial year 2011 pursuant to Article 287 of the Treaty on the Functioning of the European Union,
- having regard to the Council's recommendations of dd mm yyyy 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 2011 (C7-0000, /2012),
- having regard to the Partnership Agreement between the members of the African, Caribbean and Pacific Group of States, of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000³ and revised in Luxembourg on 25 June 2005⁴,
- having regard to Council Decision 2001/822/EC of 27 November 2001 on the association

¹ OJ C 344, 12.11.2012, p. 243.

² OJ C 348, 14.11.2012, p. 130.

³ OJ L 317, 15.12.2000, p. 3.

⁴ OJ L 287, 28.10.2005, p. 4.

of the overseas countries and territories with the European Community ("Overseas Association Decision")¹, amended by Council Decision 2007/249/EC of 19 March 2007²,

- having regard to Article 33 of the Internal Agreement of 20 December 1995, between the representatives of the governments of the Member States, meeting within the Council, on the financing and administration of the Community aid under the Second Financial Protocol to the fourth ACP-EC Convention³,
- having regard to Article 32 of the Internal Agreement of 18 September 2000, between Representatives of the Governments of the Member States, meeting within the Council, on the financing and administration of Community aid under the Financial Protocol to the Partnership Agreement between the African, Caribbean and Pacific States and the European Community and its Member States signed in Cotonou (Benin) on 23 June 2000, and the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the EC Treaty applies⁴,
- having regard to its resolution of 28 September 2006 on more and better cooperation: the 2006 aid effectiveness package⁵,
- having regard to Commission's Communications of 21 April 2010 on "Tax and Development - Cooperating with Developing Countries on Promoting Good Governance in Tax Matters" and of 13 October 2011 on "The Future Approach to EU Budget Support to Third Countries",
- having regard to its resolution of 22 May 2008 on the follow-up to the Paris Declaration of 2005 on Aid Effectiveness⁶,
- having regard to the OECD Development Assistance Committee (DAC) report on aid effectiveness, a progress report on the implementation of the June 2009 Paris Declaration,
- having regard to the "Tunis Consensus: Targeting Effective Development" of 4 and 5 November 2010, an African agenda for development effectiveness,
- having regard to the outcome document on the OECD high level meeting on Aid Effectiveness in Busan December 2011,
- having regard to Article 319 of the Treaty on the Functioning of the European Union,
- having regard to Article 74 of the Financial Regulation of 16 June 1998 applicable to development finance cooperation under the fourth ACP-EC Convention⁷,
- having regard to Article 119 of the Financial Regulation of 27 March 2003 applicable to

¹ OJ L 314, 30.11.2001, p. 1 and OJ L 324, 7.12.2001, p. 1.

² OJ L 109, 26.4.2007, p. 33.

³ OJ L 156, 29.5.1998, p. 108.

⁴ OJ L 317, 15.12.2000, p. 355.

⁵ OJ C 306 E, 15.12.2006, p. 373.

⁶ OJ C 279 E, 19.11.2009, p. 100.

⁷ OJ L 191, 7.7.1998, p. 53.

the 9th European Development Fund¹,

- having regard to Article 142 of Council Regulation (EC) No 215/2008 of 18 February 2008 on the Financial Regulation applicable to the 10th European Development Fund²,
 - having regard to Rules 76 and 77, third indent of, and Annex VI to, its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Development (A7-0062/2013),
- A. whereas the main goal of the Cotonou agreement as the framework of the Union's relations with African, Caribbean and Pacific (ACP) countries and overseas countries and territories (OCTs) is to reduce and eventually eradicate poverty, consistent with the objectives of sustainable development and the gradual integration of the ACP countries and OCTs into the world economy and whereas the European Development Fund (EDF) is the Union's most important financial instrument for development cooperation with the ACP countries;
- B. whereas the Commission, as the implementing body, is accountable for the discharge of the EDF;
- C. whereas transparency and accountability are prerequisites for democratic control, as well as an effective development aid;
- D. whereas the development aid landscape is constantly evolving; whereas development aid is part of a larger context, where trade, remittances and other sources of income today are more important than the Official Development Assistance (ODA) payments for most developing countries;
- E. whereas illicit financial flows from developing countries seriously undermine their opportunity for growth and the alleviation of poverty;
- F. whereas development aid is in many cases delivered in a context of weak state institutions, high occurrence of corruption and insufficient level of control systems in the recipient state and where the Union's audit of its development cooperation is of particular importance;
- G. whereas transparency and accountability in taxation have been re-emphasised in the abovementioned Commission's Communication on "Tax and Development - Cooperating with Developing Countries on Promoting Good Governance in Tax Matters"; whereas budget support carries a considerable fiduciary risk, it should be given only if it provides sufficient transparency, accountability and effectiveness;
- H. whereas fostering transparency and fighting corruption and fraud are key for the success of Union budget support operations as highlighted in the above-mentioned Commission's Communication on "The Future Approach to EU Budget Support to Third Countries";

¹ OJ L 83, 1.4.2003, p. 1.

² OJ L 78, 19.3.2008, p. 1.

- I. whereas sustainability is crucial for the effectiveness of development aid;
- J. whereas global commitments, individual commitments and payments reached EUR 3.279 billion, EUR 2.786 billion and EUR 2.941 billion respectively for the financial year 2011¹;
- K. whereas Parliament has made repeated calls for the inclusion of the EDF in the general budget;

Statement of Assurance

Reliability of the accounts

- 1. Welcomes the Court of Auditors' opinion that the final annual accounts of the Eighth, Ninth and Tenth EDFs present fairly, in all material respects, the financial position of the EDFs as of 31 December 2011;
- 2. Recalls the Court of Auditors' opinion that there is still a high frequency of encoding errors, which remain a source of concern as they affect the accuracy of data used for the preparation of the annual accounts, in particular with respect to the annual cut-off exercise at year-end; is concerned that this situation has not yet been remedied by the Commission, despite the Court of Auditors' repeated criticism and Parliament's calls for improvements;

Regularity of transactions

- 3. Notes with satisfaction that according to the Court of Auditors, the revenue and commitments are free from material error;
- 4. Is concerned by the Court of Auditors' opinion on the legality and regularity of payments underlying the accounts according to which the payments were materially affected by error; is concerned that material error in EDF payments was found for the second year in row and to a significantly higher degree than in 2010 (with an estimated error rate of 5,1 % in 2011, i.e. a significant increase over 2010, when it was 3,4 %);
- 5. Regrets that the most likely error rate continues to be high; regrets, in particular, that both the most likely error rate and the frequency of errors has increased in 2011; recognises that there may be statistical fluctuations from year to year and considers it crucial that the trend does not continue; calls on the Commission to complete the comparative analysis of the errors detected by the Court of Auditors in 2010 and 2011 and to report its findings to Parliament;
- 6. Notes that the above-mentioned error rate only reflects quantifiable errors, whereas errors that may have occurred in connection with the EUR 737 million spent on budget support are not included;

¹ The above-mentioned Annual report on the financial management of the Eighth, Ninth and Tenth European Development Funds (EDFs) in 2011.

7. Notes with concern that of the 29 transactions affected by quantifiable error, 11 were final payments already subject to the Commission's checks;
8. Is concerned that many of these errors had been detected neither by external audits nor by the Commission's own checks, which points to weaknesses in the Commission's Directorate-General for Development and Cooperation – EuropeAid's (EuropeAid) supervisory and control systems; urges the Commission to examine the causes of these errors and to undertake remedial actions to eliminate them;
9. Welcomes the annual report from the Court of Auditors; specifically welcomes the fact that it clearly identifies problem areas, such as the increase in the error rate and budget support; notes that the Court of Auditors does not unreservedly share the Commission's optimism that the management of the budget is steadily improving;
10. Calls on the Commission to use a 'traffic light' system in its annual EDF report in order to show what has improved or deteriorated from one year to the next;

Effectiveness of systems

11. Is deeply worried by the Court of Auditors' finding that the supervisory and control systems are only partially effective;
12. Welcomes the Court of Auditors' positive assessment of EuropeAid's control strategy to prevent or detect and correct errors and of the implementation of the Commission's internal control standards;
13. Notes that delays in contracting important infrastructure programmes and withheld budget support payments caused individual commitments and payments to be respectively 13 % and 16 % below target in 2011; reiterates its particular concern about the low commitment rate of the 10th EDF regional envelope (31 %), only two years before the end of the programming period; encourages the Commission to strive for smooth financial implementation of this envelope and to draw lessons from the present delays for the next programming period;
14. Is concerned that human resources policy has continued to be a persistent concern due to the high staff turnover and the reorganisation that took place in mid-2011 and that EuropeAid staff members were being used for tasks other than aid management, over and above the flexibility limits agreed with the European External Action Service (EEAS); expects that that situation will have been improved in 2012 and calls for Parliament to be informed about the situation;
15. Notes with regret that the Court of Auditors assessed ex-ante checks by authorising officers at EuropeAid's headquarters and in the delegations as only partially effective; calls on the Commission to continue its efforts to improve its current systems and to report to Parliament on the results by the end of November 2013;
16. Notes that the Court of Auditors found most National Authorising Officers (NAOs) in EDF beneficiary countries to perform below the required standards of financial management; urges the Commission to intensify its technical assistance and training

efforts to improve the monitoring and supervision capacities of NAOs;

17. Welcomes the introduction of the Financial Management Toolkit to improve contractors' and beneficiaries' knowledge of the Union's financial management and eligibility rules; urges the Commission to improve further the management of contract awarding procedures by clarifying the selection criteria and better documenting the evaluation process, and to enhance the quality of grant contract supervision, with a view to reducing the high number of errors found in project payments;
18. Calls on the Commission to establish a blacklist of external service providers that do not meet the required standards, including a set of binding criteria, and to inform the discharge authority about its conclusions before the beginning of the next discharge procedure;
19. Notes with satisfaction that monitoring and supervision are effective in EuropeAid's headquarters; welcomes the new version of the six-monthly External Assistance Management Report; regrets, however, that the reliability of the key performance indicators related to financial checks on which it is based is affected by inaccurate data in the Common Relex Information System (CRIS);
20. Is concerned about the existing deficiencies in CRIS with regard to information on the results and follow-up of all ex-ante checks in that CRIS-Audit does not provide information on the amounts eventually considered ineligible by EuropeAid, CRIS does not provide complete information on the amounts found ineligible and corrected by the Commission's own ex-ante checks and the accuracy of CRIS data remains problematic; welcomes the Commission's engagement to improve CRIS data quality in 2012;
21. Is seriously concerned about the Court of Auditors' finding that monitoring and supervision was only partially effective for delegations; notes that staffing constraints and inadequate human resources, which may have a negative impact on financial checks, have been reported in the last four of the Court of Auditor's annual reports on the EDFs; is highly concerned about this recurring problem;
22. Takes note of the low number of reported cases of whistleblowing, despite the high error rate; calls on the Commission to reconsider its whistleblowing policy, including the implementation of that policy in the delegations; requests that the Commission report to Parliament on its present policies and actions for receiving and protecting both internal and external whistle blowers and any changes thereof;
23. Is satisfied with the Court of Auditors' assessment of the external audit function with regard to EuropeAid's headquarters as effective; is concerned that the same conclusion cannot be drawn in respect of the delegations in that there are deficiencies in risk-based audits and delays in the audit clearance process, which could lead to ineligible expenditure becoming irrecoverable; calls on the Commission and the EEAS to solve that problem without delay;
24. Is worried that the Court of Auditors assessed internal audit as partially effective; recognises that it is the Commission's reorganisation in 2011 that had a major impact on the activity of Internal Audit Capability; expects that the situation will have improved in

2012;

25. Regrets the lack of compatibility between the Court of Auditors' estimation of the most likely error rate based on the annual approach of the Court of Auditors and current methodology and the Commission's practice to refer to the net residual error rate covering more than one year; welcomes the Commission's initiative to launch a study on EuropeAid's residual error rate and expects it to be finalised within the set timeframe i.e. in the first quarter of 2013; calls on the Commission to present the results of this study to Parliament as soon as they become available;
26. Is satisfied that in the Court of Auditors' opinion, EuropeAid has made significant progress in implementing many of the Court of Auditors' recommendations; urges the Commission to fully implement the Court of Auditors' recommendations contained in the Annual Report 2011;
27. Requests the Commission and the EEAS to forward to the Parliament an updated list of accounts outside the budget (*hors budget*) where this applies no later than 1 April 2013;

Illicit capital outflows

28. Recognises that one of the biggest challenges developing countries are facing is the massive outflows of illicit capital; recognises that off-shore centres and tax havens facilitate an annual illicit capital flight of USD 1 trillion; observes that these illicit monetary outflows are roughly ten times the amount of aid money going into developing countries for poverty alleviation and economic development;
29. Refers specifically to its resolution of 8 March 2011 on Tax and Development – Cooperating with Developing Countries on Promoting Good Governance in Tax Matters (2010/2102(INI))¹;
30. Stresses that in the cross-border flow of illicit money, proceeds from commercial tax evasion, mainly through trade mispricing, represent the biggest component;
31. Notes that tax systems can be evaded through tax havens, secrecy jurisdictions, disguised corporations, anonymous trust accounts, fake foundations, trade mispricing, and money laundering techniques; emphasises that tax evasion and tax fraud urgently need to be tackled at all levels (national, Union and international); calls on the Commission to identify areas for improvement in both Union legislation and administrative cooperation between Member States; asks the Commission to study possibilities to involve the recipient countries in the fight against tax avoidance through an incentives based programme, and to report back to the discharge authority with its findings before the end of the year 2013;
32. Welcomes the Commission's Action Plan to strengthen the fight against tax fraud and tax evasion; believes that a common definition and blacklist of tax havens as well as enhanced corporate transparency, including the introduction of 'beneficial ownership' in company registrations, are important steps to curb the illicit capital flows;

¹ OJ C 199 E, 7.7.2012, p. 37.

33. Agrees with the Commission that "[t]he increasing integration of international markets and the economic globalisation also affects the effectiveness of national tax systems"¹ and that "[a]ddressing this problem requires joint efforts by both developing and developed countries to implement the principles of good governance in the tax area, thereby also enhancing growth prospects and poverty reduction in developing countries while strengthening tax systems at global level"²;
34. Stresses that parts of illicit financial flows are done through the mispricing of trade transactions which consists of overpricing imports and underpricing exports on customs documents; emphasises the important role played by the customs authorities in detecting fraudulent transactions as they are the ones who are present at points of entry and exit of goods; points out that the illicit practices are possible in the absence of efficient national customs supervision;
35. Notes that the customs authorities in many developing countries are not functioning effectively, principally due to absence of efficient risk management systems; calls on the Commission to pay particular attention to this aspect of development and to concentrate its resources on remedying this situation, especially by including sustainable reforms of customs systems in the public financial management criteria for granting budget support;
36. Emphasises the fact that inefficient customs control is not exclusive to developing countries; deplores that control of customs in Member States is not functioning properly³, thus allowing for fraudulent behaviour; urges the Commission to take all necessary steps in order to remedy the situation by strengthening its cooperation with international networks such as the Economic Crime Agency Network and national customs authorities in order to gather evidence from manufacturers, shipping lines, logistics companies and port authorities all over the world;

Coordination of development assistance, development priorities, and getting results from Union aid

37. Notes that Union aid remains fragmented between Union instruments with regard to levels of action in the Union as well as Member States' bilateral programmes and the European Investment Bank's (EIB) interventions; this situation contributes to weaknesses in aid programming in crisis and fragile situations; calls on the Commission to coordinate the different aid instruments across the Union;
38. Regrets that only four countries - Sweden, Luxembourg, Denmark and the Netherlands - exceeded Union targets for international development assistance in 2012, despite the fact that all have committed themselves to contribute 0,70% of their Gross Domestic Product (GDP) in development aid;
39. Reiterates that good governance, democracy, respect for human rights and poverty reduction must be integrated goals of the implementing organisations in countries where

¹ Commission's communication of 21 April 2010 entitled "Tax and Development – Cooperating with Developing Countries on Promoting Good Governance in Tax Matters".

² Ibidem.

³ Special Reports by the European Court of Auditors Nos 1/2010 and No 13/2011.

EDF support is distributed; calls on the Commission to more often use the political dialogue under Article 8 of the Cotonou Agreement when there are violations of human rights, and if necessary suspend aid;

40. Points out that the Union needs a wide range of tools for development cooperation adapted to different contexts; emphasises especially the need for effective tools and working methods when dealing with failed states or with deeply undemocratic states;
41. Stresses that the specific development policy objectives must be safeguarded under the EEAS; emphasises the need to minimise contradictions between trade policy, foreign and security policy and development priorities;
42. Notes that the overall impact of the Union's development policy is determined by the Union's policies on agriculture, fisheries, energy and trade; stresses the need to ensure policy coherence for development in accordance with Article 208 of the Treaty on the Functioning of the European Union and that that policy should embody and comply with the 'do no harm' principle;
43. Stresses that more emphasis should be given to the sustainability of aid; is concerned about the persisting weaknesses in terms of efficiency (with 40.3% of reviewed interventions facing problems), effectiveness (43%) and sustainability (46%) of ongoing projects and programmes in Sub Saharan Africa¹ revealed by on-site assessments by independent experts; notes that similar performance concerns affected implementation in the Caribbean, where the overall percentage of projects performing well or very well had decreased from 74.6 % in 2009, to 72.9 % in 2010 and 61.5 % in 2011², as well as the Pacific region, where a significant share of the programs faced implementation difficulties³;
44. Is deeply concerned about the findings of the Court of Auditors contained in Special Reports Nos 1/2012 and 13/2012 of the Court of Auditors on, respectively, the Effectiveness of European Union Development Aid for Food security in Sub-Saharan Africa and on the European Union Development Assistance for Drinking Water Supply and Basic Sanitation in Sub Saharan Countries, which have demonstrated that the prospects for sustainability are good for half of the interventions but there are fewer guarantees of continued results for the other half; welcomes the Court of Auditors' recommendations contained in those reports and urges the Commission to take them on board in order to maximise the benefits from Union development expenditure;
45. Is of the opinion that education plays a key role in development, as it gives prospects for the sustainability of aid efforts and without it, even the best thought through technical policies will fail; recognises the challenges in this area, especially the difficulties in meeting global targets in terms of gender parity for school enrolment;
46. Believes that the Commission should be able to demonstrate to the taxpayers what has

¹ Commission Staff Working Document "Annual Report 2012 on the European Union's Development and external assistance policies and their implementation in 2011", p. 67.

² Idem, p. 90

³ Idem, p. 113.

been achieved with Union development assistance in this field; calls on the Commission to formulate clear objectives which then make it possible to do actual performance audits;

47. Welcomes the fact that the Commission's services are working on a common framework for measuring and communicating the results of development policy, including for inclusive and sustainable growth, as part of the implementation of the "Agenda for Change"; calls on the Commission to communicate the outcome of those efforts to Parliament by the end of November 2013;
48. Emphasises the value of performance audits conducted in the area of development aid by the Court of Auditors; encourages the Court of Auditors to concentrate more of its resources on audit work which addresses the risks to efficiency, effectiveness and economy;
49. Stresses that long term social and economic development requires sustainable sources of income other than aid; considers that sound and well-functioning trade relations in line with WTO principles is a key issue in this regard for developing countries and therefore urges the Council, the Commission and the ACP countries to find solutions to the issues concerning the Economic Partnership Agreements and free trade between the Union and the ACP region;

Budget support

50. Takes note that in 2011 EUR 207 million was committed for budget support which represents 6,3% of the overall amount of total commitments;
51. Recalls that the Court of Auditors found in its Annual Report on the EDFs concerning the financial year 2011 that 23 % of budget support payments were affected by non-quantifiable errors; notes an improvement with regard to the previous reports' findings; is of the opinion, however, that the result for 2011 is still not satisfactory;
52. Is deeply worried by the Court of Auditors' conclusion that non-quantifiable errors resulted from the lack of a structured demonstration of compliance with the eligibility criteria because public financial management achievements were not compared with the objectives set for the period under review; calls on the Commission to ensure a rigorous control of recipient countries both before and after the decision to grant budget support, in particular in countries receiving significant financial assistance from Union development funds in which corruption is very much on the increase ; calls therefore for more effective Commission control mechanisms in order to ensure that European taxpayers' money is not misappropriated for funding terrorism or corruption;
53. Acknowledges the potential advantages of budget support; draws attention, however, to the risks that this aid modality entails in that it is more vulnerable to fraud and corruption than other forms of aid, due to its fungibility; recalls that control by the Court of Auditors over the funds paid as budget support ends the moment Union aid is paid to the partner country's treasury;
54. Stresses that those risks are especially alarming in the context of the massive outflows of illicit capital from developing countries referred to in paragraph 25; urges the

Commission to take into account the existing reporting on the illicit capital outflows before taking a decision on granting budget support;

55. Welcomes the Commission's statement that the fight against fraud and corruption should receive greater prominence in budget support, particularly when assessing the Public Financial Management eligibility criterion in terms of budget support; urges the Commission to therefore take into account existing reporting on corruption and fraud levels before taking a decision on granting budget support; insists that an independent national audit body must be a condition for granting budget support;
56. Takes note that programmes related to good governance are financed in order to support developing countries in their fight against fraud, corruption and financial mismanagement; keeping in mind that a corruption-free judicial system is a condition sine qua non to ensure good governance and rule of law, calls on the Commission to put a strong emphasis on the judiciary reform programmes; acknowledges moreover that the Commission completed in 2011 a thematic evaluation on justice and security system reform; calls on the Commission to make publicly available the results of the evaluation;
57. Recognises that the relatively low disbursement rate for EDF budget support payments in 2011 is a direct consequence of a more thorough assessment of partner governments' compliance with eligibility criteria and/or performance indicators, which led the Commission to withhold disbursements totalling EUR 200 million in 16 ACP countries where insufficient progress was demonstrated against pre-defined objectives; welcomes the new approach to Union's budget support¹ introduced in October 2011, which contributes to strengthening domestic accountability mechanisms in ACP countries; calls on the Commission to present the first results in terms of the effectiveness of this new approach to Parliament when the new guidelines have been fully applied;
58. Repeats its call on the Commission and Member States to create a public register in which budget support agreements, procedures and development indicators are transparently listed²;
59. Repeats its call on the Commission to provide regular reports on the accomplishment of the goals set for Union budget support and on specific problems encountered in particular recipient countries; calls on the Commission to ensure that budget support is reduced or cancelled when clear goals are not achieved;

Union aid to Haiti

60. Urges the Commission to make public the performance indicators for budget support to the Republic of Haiti, and the respective assessments of the Government of Haiti's performance in order to qualify for budget support, focussing on the following criteria: a) stable macro-economic framework; b) national or sector policies and reforms focused on sustainable growth and poverty reduction; c) public financial management, including the

¹ Commission communication of 13 October 2011 entitled "The future approach to EU budget support to third countries".

² As requested in paragraph 52 of Parliament's resolution of 5 July 2011 on the future of EU budget support to developing countries (Texts adopted, P7_TA(2011)0317), and paragraph 42 of the discharge report for 2010.

- fight against corruption; d) transparency and oversight of the budget, also to the public;
61. Asks the Commission to apply from 2013 onwards, in a transparent way, the new criteria for budget support as described in the Commission's policy 'The future approach to EU budget support to third countries' to the budget support for the Government of Haiti;
 62. Deplores the lack of sustainability of some projects and stresses that projects should principally aim at creating employment and sustainable growth which would allow the Haitian State to increase its own revenues in order to depend less on foreign assistance;
 63. Urges the Commission to continue its efforts towards strengthening the Haitian government and administration; requests the Commission to report on the situation and on the actions taken;
 64. Regrets the insufficient coordination between the Union delegation and the Commission's European Community Humanitarian Office's (ECHO) representation; supports a reinforced coordination between all Union actors in the country; urges therefore the Commission to ensure better coherence and complementarity between humanitarian aid and development aid both at a policy level and in practice;
 65. Urges the Commission to ensure that the postponed, first ever overall impact evaluation of the Union's aid programme for Haiti takes place in 2013;
 66. Insists that, in light of the fact that currently it is impossible for both Parliament and the citizens of the Union to access information about the results achieved by Union funded programmes and projects in Haiti, the Commission substantially improves its policy on public accessibility of programme and projects monitoring before the end of 2013;

Cooperation with international organisations

67. Is deeply concerned by the Court of Auditors' finding that the majority of errors for payments were found in grants and contribution agreements with international organisations where 58% of audited transactions were affected by error; finds, therefore, that the safeguards for the implementation of control and the follow-up of Union funds under joint management are not satisfactory and calls on all parties involved to remedy this situation;
68. Regrets that it has taken this long for the World Bank Group's (WBG) undertaking to share their internal audit reports with the Commission Services; regrets that so far, there are no sustainable solutions and procedures for the provision of necessary financial information from the WBG to the Union institutions in each and every case; calls on the WBG and the Commission to promptly arrive at a satisfactory outcome of the discussions in that area; calls on the Commission to report to Parliament on the progress of those discussions;
69. Agrees with the Commission that in the event that no sustainable solution is found for the provision of the necessary financial information from the WBG to the relevant Union institution it will have consequences for the future cooperation with the WBG; calls on the Commission to stop its grants and contribution agreements with the WBG if no

solution is found;

The investment facility

70. Recalls that the funds allocated to the investment facility from the Ninth and Tenth EDF amounted to EUR 3 185,5 million for ACP countries and OCTs;
71. Reiterates its regret that the investment facility is not covered by the Court of Auditors' Statement of Assurance or Parliament's discharge procedure, even though the operations are conducted by EIB on behalf of and at the risk of the Union, using EDF resources;
72. Welcomes the good cooperation of the EIB management with Parliament in the context of the annual discharge procedure to the EDF in the form of exchange of views during committee meetings;
73. Welcomes the introduction as of 1 January 2012, of the new Results Measurement Framework (REM) for all its operations outside the Union which will provide for an ex-ante assessment of the expected contribution to Union and country development objectives (pillar 1), the expected quality and results of operations, including economic, social, environmental and institutional outcomes of the project (pillar 2), and the expected additionality of the EIB relative to market alternatives (pillar 3), as well as for monitoring of indicators until such time as the project is fully implemented and operational and the first development outcomes are measurable; expects the EIB to provide for the first assessment of the functioning of the REM in the context of the discharge procedure for the year 2012;
74. Reiterates its call on the EIB to link its financing of projects more directly to poverty reduction and the achievement of the MDGs, human rights, democracy, good governance, corporate social responsibility, decent work and environmental principles;
75. Welcomes the stated aim of the EIB with regards to ensuring a restrictive lending policy towards the financing of new coal and lignite-fuelled power stations; urges the EIB to implement this policy;
76. Welcomes the steps taken by the EIB in response to Parliament's calls for more transparency in the form of the publication of each new loan on the EIB website in advance of approval by the Board, listing each financial intermediary that benefits from an EIB on the EIB website (including contact information), and requesting EIB small and medium-sized enterprises (SME) loan intermediaries to implement a dedicated product page on their web site for the SME community;
77. Reiterates that the tripartite agreement between the Commission, the EIB and the Court of Auditors defines the role of the Court of Auditors in controlling the EDFs managed by the EIB; repeats its call on the Court of Auditors to produce a Special Report on the effectiveness and efficiency of the EDFs managed by the EIB from the perspective of poverty reduction;
78. Notes furthermore that the present EIB Board of Directors consists of eight women and 20 men; encourages the Member States to consider nominating candidates of both gender

in order to achieve a more gender balanced representation on the EIB Board of Directors;

Budgetisation of the EDF

79. Emphasises the need for aid predictability and democratic scrutiny that only can be achieved when the EDF is part of the general budget of the Union; emphasises the fact that budgetisation would reduce transaction costs and would simplify reporting and accounting requirements by having only one set of administrative rules and decision-making structures instead of two; stresses that budgetisation of the EDF does not imply that total development cooperation spending may be reduced;
80. Welcomes the Commission's commitment¹ to propose EDF budgetisation for 2020, when the Cotonou Agreement expires; expects the Commission to honour this commitment and to take appropriate measures to facilitate incorporating the EDF into the Union's budget starting with the post-2020 MFF; is of the opinion that, in light of the current budgetary and economic crisis, the risk of EDF budgetisation leading to a decrease in the overall funding level for cooperation with ACP partners is too high at present; insists therefore that, were budgetisation to be considered for the MFF 2014-2020, it must imply transferring the entire EDF financial envelope as proposed by the Commission (EUR 30.3 billion in 2011 prices)² to heading 4 on Global Europe and should under no circumstances be used as a pretext for reducing overall spending ceilings for Union's external action in general, and development assistance in particular;
81. Welcomes the Commission's commitment to align the Parliament's scrutiny rights over the EDF to those it has over the Union's general budget, in particular the Development Cooperation Instrument; urges the Commission to bring forward without delay concrete proposals to this effect and to initiate a dialogue to establish the precise modalities for Parliament's future scrutiny over strategic decision-making regarding the EDF.

¹ Commission communication of 29 June 2011 entitled "A budget for Europe 2020".

² Ibid.

19.2.2013

OPINION OF THE COMMITTEE ON DEVELOPMENT

for the Committee on Budgetary Control

on discharge in respect of the implementation of the budget of the Eighth, Ninth and Tenth European Development Funds for the financial year 2011
(COM(2012)0435 - C7-0223/2012 - 2012/2166(DEC))

Rapporteur: Thijs Berman

SUGGESTIONS

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

1. Is concerned that material error in European Development Fund (EDF) payments was found for the second year in row and this to a significantly higher degree than in 2010 (with an estimated error rate of 5.1 % in 2011, i.e. a significant increase over 2010, when it was at 3.4 %); notes that project payments to international organisations appear especially problematic, with 58 % of the tested transactions of this type affected by error; is concerned that many of these errors had been detected neither by external audits nor by the Commission's own checks, which points to weaknesses in EuropeAid's supervisory and control systems; urges the Commission to examine the causes of these errors and to undertake remedial actions to eliminate them;
2. Is concerned at the persisting weaknesses in terms of efficiency (with 40.3% of reviewed interventions facing problems), effectiveness (43%) and sustainability (46%) of ongoing projects and programmes in Subsaharan Africa¹ revealed by on-site assessments by independent experts; notes that similar performance concerns affected implementation in the Caribbean, where the overall percentage of projects performing well or very well had decreased from 74.6 % in 2009, to 72.9 % in 2010 and 61.5 % in 2011², as well as the Pacific region, where a significant share of the programs faced implementation difficulties³;
3. Notes that delays in contracting important infrastructure programmes and withheld budget

¹ Commission Staff Working Document "Annual Report 2012 on the European Union's Development and external assistance policies and their implementation in 2011". Brussels, 6.8.2012. SWD(2012)242 final, p. 67.

² Idem, p. 90

³ Idem, p. 113.

support payments caused individual commitments and payments to be respectively 13 % and 16 % below target in 2011; reiterates its particular concern about the low commitment rate of the 10th EDF regional (31 %)¹ envelope, only two years before the end of the programming period; encourages the Commission to strive for smooth financial implementation of this envelope and to draw lessons from the present delays for the next programming period;

4. Notes that the Court of Auditors found most National Authorising Officers (NAOs) in EDF beneficiary countries to perform below the required standards of financial management; urges the Commission to intensify its technical assistance and training efforts to improve the monitoring and supervision capacities of NAOs;
5. Welcomes the introduction of the Financial Management Toolkit to improve contractors' and beneficiaries' knowledge of the Union's financial management and eligibility rules; urges the Commission to improve further the management of contract awarding procedures by clarifying the selection criteria and better documenting the evaluation process, and to enhance the quality of grant contract supervision, with a view to reducing the high number of errors found in project payments;
6. Recognises that the relatively low disbursement rate for EDF budget support payments in 2011 is a direct consequence of a more thorough assessment of partner governments' compliance with eligibility criteria and/or performance indicators, which led the Commission to withhold disbursements totalling EUR 200 million in 16 ACP countries where insufficient progress was demonstrated against pre-defined objectives; welcomes the new approach to Union's budget support² introduced in October 2011, which contributes to strengthening domestic accountability mechanisms in ACP countries;
7. Welcomes the Commission's commitment³ to propose EDF budgetisation for 2020, when the Cotonou Agreement expires; expects the Commission to honour this commitment and to take appropriate measures to facilitate incorporating the EDF into the Union's budget starting with the post-2020 MFF; is of the opinion that, in light of the current budgetary and economic crisis, the risk of EDF budgetisation leading to a decrease in the overall funding level for cooperation with ACP partners is too high at present; insists therefore that, were budgetisation to be considered for the MFF 2014-2020, it must imply transferring the entire EDF financial envelope as proposed by the Commission (EUR 30.3 billion in 2011 prices)⁴ to heading 4 and should under no circumstances be used as a pretext for reducing overall spending ceilings for Union's external action in general, and development assistance in particular;
8. Welcomes the Commission's commitment to align the Parliament's scrutiny rights over the EDF to those it has over the Union's general budget, in particular the Development Cooperation Instrument; urges the Commission to bring forward without delay concrete proposals to this effect and to initiate a dialogue to establish the precise modalities for Parliament's future scrutiny over strategic decision-making regarding the EDF.

¹ Reply to question 49: "2011 Discharge to the Commission: Written questions to Commissioner Piebalgs. Hearing on 18 December 2012".

² The future approach to EU budget support to third countries. Brussels, 13.10.2011. COM(2011)638 final.

³ A budget for Europe 2020. Brussels, 29.6.2011. COM(2011)0500 final, p. 20-21.

⁴ A budget for Europe 2020. Brussels, 29.6.2011. COM(2011)0500 final, p. 6, 20.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	19.2.2013
Result of final vote	+: 24 -: 0 0: 1
Members present for the final vote	Thijs Berman, Michael Cashman, Ricardo Cortés Lastra, Nirj Deva, Leonidas Donskis, Mikael Gustafsson, Filip Kaczmarek, Michał Tomasz Kamiński, Miguel Angel Martínez Martínez, Gay Mitchell, Norbert Neuser, Jean Roatta, Birgit Schnieber-Jastram, Michèle Striffler, Alf Svensson, Keith Taylor, Eleni Theocharous, Patrice Tirolien, Anna Záborská
Substitute(s) present for the final vote	Philippe Boulland, Agustín Díaz de Mera García Consuegra, Enrique Guerrero Salom, Isabella Lövin, Gesine Meissner, Bart Staes
Substitute(s) under Rule 187(2) present for the final vote	George Lyon

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	18.3.2013
Result of final vote	+: 23 -: 2 0: 0
Members present for the final vote	Marta Andreasen, Jean-Pierre Audy, Inés Ayala Sender, Zuzana Brzobohatá, Ryszard Czarnecki, Tamás Deutsch, Martin Ehrenhauser, Jens Geier, Gerben-Jan Gerbrandy, Ingeborg Gräßle, Jan Mulder, Eva Ortiz Vilella, Monika Panayotova, Aldo Patriciello, Paul Rübig, Petri Sarvamaa, Bart Staes, Georgios Stavrakakis, Søren Bo Søndergaard
Substitute(s) present for the final vote	Jorgo Chatzimarkakis, Edit Herczog, Markus Pieper, Olle Schmidt, Derek Vaughan
Substitute(s) under Rule 187(2) present for the final vote	Birgit Collin-Langen, Peter Jahr