

**Budgetary control of EU funds in Afghanistan**

**European Parliament resolution of 15 January 2009 on budgetary control of EU funds in Afghanistan (2008/2152(INI))**

*The European Parliament,*

- having regard to its previous resolutions on Afghanistan and, in particular, that of 8 July 2008<sup>1</sup>,
- having regard to the conferences of Bonn (2001), Tokyo (2002) and Berlin (2004), at which the UN, the EU and the international community committed themselves to granting a total in excess of EUR 8 000 000 000 in international aid to Afghanistan; having regard to the London conference of 2006, which saw the signing of the 'Pact for Afghanistan',
- having regard to the national development strategy agreed in early 2008 by the Afghan Government, which is also the country's poverty reduction strategy,
- having regard to the Paris conference of 12 June 2008 at which the donor countries promised Afghanistan more than USD 21 000 000 000 in aid,
- having regard to the commitments made by the EU at the above-mentioned Paris conference concerning the effectiveness of aid to Afghanistan, as well as to the EU code of conduct on complementarity and the division of labour in development policy, adopted in 2007,
- having regard to its resolution of 22 April 2008 with observations forming an integral part of the decision on discharge in respect of the implementation of the European Union general budget for the financial year 2006, section III - Commission<sup>2</sup>, and, notably, paragraphs 181 to 200 thereof (external action, humanitarian aid and development),
- having regard to the Country Strategy Paper for 2003-2006 adopted by the Commission in agreement with Parliament, with its stress on stability and poverty reduction,
- having regard to the Country Strategy Paper for 2007-2013 and the Multi-Annual Indicative Programme (MIP) 2007 - 2010 adopted by the Commission in agreement with Parliament, the latter of which makes provision for the sum of EUR 610 000 000 to be given to the Islamic Republic of Afghanistan over the financial years 2007 to 2010,
- having regard to the visit of an EP delegation to Afghanistan from 26 April to 1 May 2008 with the purpose of examining the conditions of implementation of Community and international aid, and to the relevant mission report,
- having regard to Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the

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<sup>1</sup> Texts adopted, P6\_TA(2008)0337.

<sup>2</sup> Texts adopted, P6\_TA(2008)0133.

Financial Regulation applicable to the general budget of the European Communities<sup>1</sup>, and in particular Article 53 thereof,

- having regard to Articles 285 to 287 of the Treaty on the Functioning of the European Union on the Court of Auditors and to Articles 310 to 325 of that Treaty on financial provisions, which will enter into force following the completion of the process of ratification of the Treaty of Lisbon modifying the Treaty on European Union and the Treaty establishing the European Community,
  - having regard to Regulation (EC) No 1073/1999 of the European Parliament and of the Council of 25 May 1999 concerning investigations conducted by the European Anti-Fraud Office (OLAF)<sup>2</sup>,
  - having regard to the Millennium Development Goals (MDGs) and targets set out in the Millennium Declaration adopted by the UN on 8 September 2000 and signed by 189 countries,
  - having regard to Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation (Development Cooperation Instrument - DCI)<sup>3</sup>,
  - having regard to Rule 45 of its Rules of Procedure,
  - having regard to the report of the Committee on Budgetary Control and the opinions of the Committee on Foreign Affairs, the Committee on Development and the Committee on Budgets (A6-0488/2008),
- A. whereas Afghanistan has been in a state of near-permanent conflict or war for several decades, and its central government, apart from having to deal with drug trafficking and endemic corruption at all administrative levels, has been constantly and chronically affected by weak structures, a lack of capacity and expertise, and a paucity of resources, with a level of budget revenue that covers scarcely 30% of total expenditure,
- B. whereas Afghanistan's grave circumstances necessitate a rapid improvement in governance by means of the emergence of a stronger state that can offer its people security and the rule of law and can create the conditions necessary for sustainable national development,
- C. whereas, in the current climate of global economic slowdown, it is especially important to ensure effective control of EU development cooperation funding,
- D. whereas Article 25(1)(b) of the DCI determines the conditions for providing budget support to partner countries,
- E. whereas accountability, transparency and managing for results are among the main principles guiding development cooperation according to several international conventions, including the Paris Declaration on Aid Effectiveness ("the Paris Declaration"),
- F. whereas in Afghanistan 90 % of public money comes from international aid, which illustrates the high levels of both need and aid dependency in the country,

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<sup>1</sup> OJ L 248, 16.9.2002, p. 1.

<sup>2</sup> OJ L 136, 31.5.1999, p. 1.

<sup>3</sup> OJ L 378, 27.12.2006, p. 41.

### ***Distribution of EU aid***

1. Stresses that the EU is one of Afghanistan's main donors of development aid and humanitarian assistance; recalls that the Commission, which has had a delegation in Kabul since 2002, between 2002 and 2007 granted aid totalling EUR 1 400 000 000 (including EUR 174 000 000 in humanitarian aid), and that payments made so far are in the region of EUR 1 150 000 000, constituting a very high disbursement rate of 81,5%;
2. Notes that EU aid consists of both direct and indirect aid, and that between 2002 and 2007 direct Community aid, which accounts for 70% of the total (EUR 970 000 000), was activated by the Commission's services in the form of funding conventions with the Afghan state, contracts with providers of services, supplies or works and subsidy agreements with international organisations or European or local NGOs, while indirect aid is managed essentially by the UN and the World Bank (13% and 17% respectively of total funds);

### ***Priority areas for aid***

3. Recalls that the Commission's Country Strategy Paper (CSP) for 2003-2006 for Afghanistan aimed at establishing the necessary conditions for sustainable development and poverty reduction and was targeted on the following priorities: reform of the public administration (EUR 212 000 000); the fight against drug trafficking (EUR 95 000 000); food security (EUR 203 000 000); infrastructure (EUR 90 000 000); health (EUR 50 000 000); refugees (EUR 38 000 000); demining (EUR 47 200 000); for 2007-2013, the CSP for Afghanistan proposes two long-term priority objectives, namely sustainable development and the fight against poverty;
4. Notes that, with a view to realising those two long-term priority objectives for 2007-2013, the focal areas for the allocation of aid are governance, rural development and health, with additional non focal areas of intervention being defined as social protection, regional cooperation and demining;
5. Recalls that gender equality and women's rights are recognised as vital issues, both in the Afghan Government's national development strategy and in the CSP 2007-2013, which establishes that the gender dimension will be an integral part of planning in the above-mentioned three focal areas;
6. In order to increase allocations for the two long-term priority objectives of the EU in Afghanistan, sustainable development and the fight against poverty, calls on the Commission to reshuffle, in the course of the drafting of the MIP 2010-2013, the distribution of Community funds between the three focal and three non-focal areas, as well as in favour of infrastructure development and alternative livelihoods contributing to the reduction of poverty and facilitating the change from an opium-based economy to an alternative economic and social system; therefore urges the Commission to increase allocations for health, education and infrastructure; also recalls the EU's commitment regarding the achievement of the MDGs;

### ***Utilisation of EU funds - state of play***

7. Recalls that the meetings held by its above-mentioned delegation to Afghanistan highlighted two major problems for the distribution of international aid: Afghanistan's low absorption capacity in economic and administrative terms, and deficient coordination

between donors and the Afghan authorities;

8. Considers that the lack of coordination is a reflection of weak governmental structures and the absence of a proper strategy at government level; believes that one cannot deny the responsibility of the Afghan authorities and political leaders in terms of the country's general affairs, whether one considers either the absence of strategic orientation or the management of the large sums allocated; adds that the multiplicity of donors and their desire to affirm their visibility can often lead to isolated national strategies or to overlapping between different national ministries; takes the view that this lack of coordination tends to encourage corruption and has proved detrimental to national reconstruction;
9. Recalls that the Afghanistan Compact concluded between the Islamic Republic of Afghanistan and the international community on the occasion of the London Conference in 2006 is the mutually binding framework for reconstruction and state-building in Afghanistan;
10. Expresses its concern about the poor quality of the administration of assistance funds by the Afghan central administration and the lack of transparency in the management of this assistance; considers it to be of prime importance that the MIP 2010-2013 take into due consideration the concrete results of the fight against corruption and adapt EU assistance accordingly;
11. Believes that the Afghan Government's priorities must include the rule of law and the fight against corruption and drug trafficking; considers that without proper governance there can be no lasting progress in Afghanistan;
12. Notes, nonetheless, that despite these structural weaknesses, the determination of the international community and the Afghan Government have made it possible to increase the people's standard of living;
13. Recalls that the visit of its delegation resulted in a positive assessment of the EU's aid options as channelled through the Commission's actions;
14. Considers in particular that since the fall of the Taliban regime, there have been promising developments in the areas of health, education and infrastructure (especially roads), infant mortality has fallen substantially (from 22% in 2001 to 12,9% in 2006), more Afghans have direct access to basic health care (65% in 2006 as against 9% in 2001), and there are the first signs of positive development in terms of education and initiatives for gender equality;
15. Recalls the particularly severe discrimination suffered by women in Afghanistan under the Taliban regime and subsequently condemns any legal, cultural or religious practice that discriminates against women, excluding them from public and political life and segregating them in their daily lives; urges the Commission to combat these practices in all its development actions in the country;
16. Stresses the importance of combating all forms of child labour and trafficking of and violence against children, and of improving social protection for minors in Afghanistan; calls for programmes to encourage children to attend school, including provision for payment of school fees and school feeding programmes;

17. Notes the Commission's efforts to raise the profile of its activities with its Afghan partners; regrets, nonetheless, the near-total absence of support from the Member States for its project identification efforts;
18. Considers, in the light of the legal provisions concerning the monitoring of direct and indirect Community aid contained in the agreements signed by the EU on the management of Community aid channelled through multi-donor trust funds (MDTFs), that the Commission is able to draw on a sufficient range of legal resources to be able to protect the EU's financial interests in Afghanistan; expects it to draw up a list categorising the irregularities identified on the ground;
19. Notes that the European Court of Auditors (ECA), in application of the same provisions, can also carry out checks with the international organisations concerned;
20. Recalls that the UN agencies and the World Bank have at their disposal elaborate governance provisions comparable to those of the Commission, with specialised financial management entities, internal audits, inspections, external audits, market monitoring and means of combating fraud and irregularities;
21. Applauds the recent improvements in cooperation between the UN, among other international organisations, and the institutions of the EU as regards the monitoring of development cooperation funding; calls for the process of improvement to be further deepened in the near future;
22. Stresses the need for stronger monitoring of the implementation of EU development cooperation; calls for the UN and other international organisations which manage EU funds to cooperate fully with the ECA and the European Anti-Fraud Office (OLAF), as well as with the UN Joint Inspection Unit;
23. Supports the Commission's efforts to help Afghanistan, and welcomes its long-term commitment to the country; maintains that the Commission should work more closely with the UN and the World Bank, including through cooperation between it, the ECA, OLAF and the relevant UN agencies, to ensure that its contribution to the MDTFs is managed transparently; urges the Commission to keep Parliament adequately informed;
24. Stresses the need to improve donor coordination in Afghanistan under the leadership of the United Nations Assistance Mission in Afghanistan, and believes that the Commission should strengthen assistance coordination among Member States in order to improve effectiveness and to increase the visibility of EU support;

## ***Recommendations***

### *Coordination and visibility of international aid*

25. Believes that further efforts are required as regards international assistance with a view to supporting implementation of the Afghan national development strategy and phasing-in improved coordination and more efficient methods in the activation of the development priorities as defined by the Afghans themselves; insists that a greater role should be played by Kabul in the implementation of development projects and the fight against corruption, notably via the improved management of public finances and training for auditors, especially at ministerial and local level;

26. Insists that the Commission tackle the worrying coordination shortcomings regarding EU financial assistance to Afghanistan not only between Member States and it but also amongst Member States; calls on the Commission to develop a strategy involving donors and the Afghan authorities designed to improve coordination and communication between them;
27. Underlines the great importance of donor coordination in Afghanistan and particularly the harmonisation of procedures on the basis of country systems; insists that these and other aid effectiveness measures set out in the Paris Declaration be fully implemented in Afghanistan;
28. Recalls that aid effectiveness is a key principle of EU development policy; in this regard, stresses the importance of the Commission's aid effectiveness agenda and takes note of the General Affairs and External Relations Council conclusions adopted on 26 May 2008 with regard to EU aid effectiveness in Afghanistan;
29. Noting the intention to transfer Commission funding for basic health care to the Afghan Ministry of Health, stresses that any increased funding directed through the Afghan Government must be accompanied by capacity-building and clear expectation criteria, including specific support to democratic governance at sub-national level;
30. Questions the channelling of funds through the Afghan Government's core budget ("budget support") by means of MDTFs with contributions from the Community budget when Afghanistan is not yet considered to fulfil the EU's requirements for direct participation in a budget support programme; considers that when such requirements are met, budget support should be delivered on a sectoral basis;
31. Draws attention to Article 25(1)(b) of the DCI, which requires that budget support programmes be accompanied by support for partner countries' efforts to develop parliamentary control and audit capacity and increase transparency and public access to information; points out that work in this area should also be carried out when budget support is delivered by other donors or MDTFs, and stresses the important role that civil society organisations can play in the monitoring of such budget support;
32. Stresses the importance of evaluating community cooperation in Afghanistan, as required by Article 33 of the DCI, and the need for evaluations to start from solid baselines, to cover donor coordination and to include aspects of input activities and chains of results (output, outcome, impact); calls for the findings of the evaluations to be used in the formulation of subsequent cooperation actions;
33. Considers it essential, given the importance of Community aid in the context of international aid as a whole, to boost the visibility of the EU's actions both locally and in the eyes of the European public; believes that the EU must also play a key role in the areas of dialogue, guidance and support in respect of decision-making vis-à-vis the Afghan Government, national and regional administrations and the international donor community; hopes that the Commission will launch a general reflection process with regard to the future management of direct aid by the Afghan authorities;
34. Calls on the Afghan Government to ensure that the National Action Plan for the Women of Afghanistan (NAPWA), which was recently adopted, will receive satisfactory funding and be implemented in cooperation with civil society and women's organisations; calls also on

the Commission to ensure that its gender equality actions are transparent and harmonised with other actions of this type undertaken by the other donors in Afghanistan; calls, in this connection, for the Commission to submit a report analysing the extent to which gender equality has been taken into account to date in the programming of the overall financial assistance allocated by the EU;

#### *Priority areas for aid*

35. Encourages the Commission, in cooperation with the Member States, to intervene more forcefully in order to tackle the key problems affecting daily life, health, security and access to public services and basic education;
36. Believes that the priorities outlined in the CSP 2007-2013 are in line with the needs of Afghan society; underlines the need to focus on reform of the criminal justice system, including the police, detention practices and the judiciary, ensuring respect for human rights, particularly those of women and children, and the fight against poverty, including rural development and tackling the overriding problem of opium production; welcomes the Commission's intention to target governance, and calls for fresh impetus to be given to transitional justice in accordance with the Afghan Government's action plan for peace, justice and reconciliation;
37. Stresses the need to increase development assistance to Afghanistan while making it more effective; reaffirms that assistance should increase indigenous capacity and must be equitably distributed throughout the country in line with assessed socio-economic needs; takes note of the recommendations to this effect made by the Paris Conference and the report of the Agency Coordinating Body for Afghan Relief; calls on its Committee on Budgetary Control to include an assessment of the extent to which funding for the EU Police Mission in Afghanistan has been correctly and effectively used;
38. Calls attention to two particular challenges that need to be urgently addressed, namely the development of agriculture in order to avert a potential humanitarian crisis that could worsen the already precarious security situation, and the development of policies and programmes addressing the major social and health problems induced by drug addiction and targeting in particular women and their families;

#### *Control of EU funds*

39. Expects the Commission to step up its controls on the effectiveness of the management of EU financial aid, and, in particular, on its own contribution to the MDTFs;
40. Calls on the Commission to submit to Parliament an annual report containing an evaluation of the effectiveness and impact of aid, a reasoned statement of assurance broken down by type of aid assessing the legality and regularity of financed or co-financed operations, and information on the proportion of expenditure monitored broken down by type of aid, on the types of irregularities identified and on the measures taken;
41. Draws attention to Regulation (EC) No 1073/1999, and insists that all information on cases of fraud or severe irregularities having an impact on EU funds must be forwarded as a matter of urgency to OLAF;
42. Insists that the Commission and OLAF take initiatives with a view to reinforcing

operational links with the World Bank's Integrity Department, especially in the area of financing through MDTFs, and calls for particular attention to be paid to carrying out more joint investigations, possibly in coordination with the UN agencies;

43. Expresses extreme concern about the risks to which personnel working on development cooperation in Afghanistan are exposed, as highlighted by the deaths in August 2008 of four such staff members; considers that the security of civilian aid workers is jeopardised by the blurring of the distinction between military and civilian operators due to the use of military Provincial Reconstruction Teams to carry out development actions in the provinces; calls therefore for the re-establishment of a clear distinction between military and civilian personnel;
44. Believes that deteriorating security is causing severe problems for staff at the Commission delegation in Kabul while also increasing the administrative costs of implementing Commission-supported projects; calls on the Commission to increase the delegation's staffing level by recruiting more and better-qualified employees capable of carrying out all necessary monitoring, audits and controls in the light of the circumstances in Afghanistan;
45. Calls for adequate funding for security costs in Commission projects in order to ensure both that aid workers are protected and that legitimate security management does not divert monies from project objectives and delivery;
46. Salutes the remarkable achievements of the staff of the Commission delegation in Kabul, and calls for a major reinforcement of the security measures in place, as well as improvement of their working conditions;

*Aid to the Afghan administration for capacity-building*

47. Welcomes the efforts of the Afghan authorities to improve their management and financial mechanisms, which would lead to Afghan ownership, but believes that a more concerted effort is needed in order for this process to become sustainable; stresses the need for Afghanistan's institutions to continue to fight corruption and to put in place effective policies to improve the social situation and to improve living conditions, education and health for the population, and for particular attention to be given to ways of including marginalised groups and women in decision-making;
48. Believes that it is essential to reinforce actions and programmes for good governance and effective administration in Afghanistan, as well as to fight corruption in all its forms; notes the EU's efforts to combat corruption in the Afghan administration by dedicating part of the relevant budget heading to civil service training and pay, and calls on the Commission to promote training programmes for officials and the police;
49. Calls for the organisation in Afghanistan of training programmes similar to those carried out by OLAF and EuropeAid for officials in African countries on the subject of "protection and optimisation of public funds - cooperation between national and international institutions";
50. Calls on the international community to insist on higher standards of transparency from the Afghan Government in the allocation of fiscal resources to the provinces, districts and local authorities, with greater involvement of those bodies in implementing national development policies; calls on the Afghan Government to provide proper information to



the Afghan Parliament on the utilisation of international aid;

51. Urges the Commission, the Member States and the Afghan Government to ensure that their programmes and activities, particularly at provincial level, are fully coordinated with the Afghanistan national development strategy and in keeping with the commitments made by all parties on the occasion of the Paris Conference;
52. Recognising the importance of the Provincial Reconstruction Teams and the work of the Afghan security forces, nevertheless recognises the challenge for aid effectiveness when it comes to promoting development in Afghanistan through civil-military institutions, and calls for maximum participation by Afghan non-governmental and civil society organisations, the Afghan Government and international agencies;
53. Regrets that relations between non-state actors (NSAs) and the Government of Afghanistan do not always run smoothly and calls for every effort to be made to improve relations; points also to the need to establish a strict definition of not-for-profit NSAs at national level, after consulting the NSAs themselves;
54. Encourages all initiatives aimed at building closer links between its interparliamentary delegations and the two chambers of the Afghan parliament (the Wolesi Jirga and the Meshrano Jirga) in the interests of promoting good governance at parliamentary level;
55. Recalls its initiative, under its 2008 budget, to support democracy-building with parliaments in third countries, and resolves to utilise the relevant resources in such a way as to improve the ability of the Afghan Parliament to legislate, to monitor the executive branch and to be fully representative of the Afghan people;
56. Stresses the need to prioritise support for political party development, issue-based caucuses within the National Assembly, civil society and the media; considers that the international community is under an obligation to fund an electoral budget, totally or in part, and to provide assistance for the implementation of all provisions of the Afghan elections law, including those relating to the vetting of candidates;
57. Calls on the Commission and the Afghan Government, in view of the forthcoming presidential and parliamentary elections due to take place in Afghanistan in 2009 and 2010 respectively, to continue to encourage and provide adequate funding for actions to promote the political emancipation of women, especially in the regions, given that in the last provincial council elections there were not enough women candidates to occupy the 124 seats designated for women in the provincial councils;
58. Believes that the Commission needs to increase resources for combating drug trafficking, and recommends that the donor community make all efforts to ensure that the introduction of substitute crops offers producers sufficient income for them to give up poppy cultivation on a permanent basis;
59. Recalls its recommendation to the Council of 25 October 2007 on production of opium for medical purposes in Afghanistan<sup>1</sup>, opposing, within the framework of integrated development programmes, recourse to fumigation as a means of eradicating the poppy in Afghanistan and offering its assistance in discussing the possibilities and the feasibility of a

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<sup>1</sup> OJ C 263 E, 16.10.2008, p. 651.

scientific "Poppy for Medicine" pilot project;

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60. Instructs its President to forward this resolution to the Council, the Commission, the governments and parliaments of the Member States and the Government and Parliament of the Islamic Republic of Afghanistan.