RESOLUTION OF THE EUROPEAN PARLIAMENT

of 22 April 2008

with observations forming an integral part of the decision on discharge in respect of the implementation of the budget of the Sixth, Seventh, Eighth and Ninth European Development Funds for the financial year

THE EUROPEAN PARLIAMENT,

— having regard to the Commission report on the follow-up to the 2005 discharge decisions (COM(2007) 538 and its annex SEC(2007) 1185),

— having regard to the financial statements and revenue and expenditure accounts for the Sixth, Seventh, Eighth and Ninth European Development Funds for the financial year 2006 (COM(2007) 458 — C6-0118/2007) ([1]),

— having regard to the report on the financial management of the Sixth, Seventh, Eighth and Ninth European Development Funds for the year 2006 (COM(2007) 240),

— having regard to the Court of Auditors' annual report on the activities funded by the Sixth, Seventh, Eighth and Ninth European Development Funds for the financial year 2006, together with the Commission's replies ([2]),

— having regard to the statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors pursuant to Article 248 of the EC Treaty ([3]),

— having regard to the Council's recommendations of 12 February 2008 (16744/2007 — C6-0078/2008, 16745/2007 — C6-0079/2008, 16746/2007 — C6-0080/2008, 16748/2007 — C6-0081/2008),

— 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 2000 ([4]) and revised in Luxembourg on 25 June 2005 ([5]),

— 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 Association Decision') ([6]), amended by Council Decision 2007/249/EC of 19 March 2007 ([7]),

— 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 Convention ([8]),

— 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 applies ([9]),

([1]) OJ C 260, 31.10.2007, p. 1.
([2]) OJ C 259, 31.10.2007, p. 1.
([3]) OJ C 260, 31.10.2007, p. 258.
([4]) OJ L 317, 15.12.2000, p. 3.
([5]) OJ L 287, 28.10.2005, p. 4.
([6]) OJ L 314, 30.11.2001, p. 1 and OJ L 324, 7.12.2001, p. 1.
([7]) OJ L 109, 26.4.2007, p. 33.
([8]) OJ L 156, 29.5.1998, p. 108.
([9]) OJ L 317, 15.12.2000, p. 355.

— 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 Convention ([1]),

— having regard to Article 119 of the Financial Regulation of 27 March 2003 applicable to the Ninth European Development Fund ([2]),

— having regard to Rules 70 and 71, 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 (A6-0106/2008),

A. whereas the European Development Fund (EDF) is the European Union's most important financial instrument for development cooperation with the African, Caribbean and Pacific States,

B. whereas the total amount of aid channelled through the EDF will increase considerably over the coming years, as the amount of aid under the 10th EDF for the period 2008 to 2013 has been set at EUR 22 682 million, compared to EUR 13 800 million under the Ninth EDF for the period 2000 to 2007,

C. whereas, despite Parliament's repeated request that the EDF be budgetised, the EDFs currently do not fall under the general budget of the European Union and the general Financial Regulation, but are implemented according to specific financial rules,

The statement of assurance

Accounts are reliable

1. Notes that, with the exception of problems relating to the following, the European Court of Auditors (ECA) is of the opinion that the accounts reliably reflect the revenue and expenditure relating to the Sixth, Seventh, Eighth and Ninth EDFs:

   (a) the validity of the assumptions used for the estimate of the provision for invoices to be received has not been demonstrated by the Commission;

   (b) there is an overstatement of the amount of guarantees disclosed in the notes to the financial statements;

Underlying transactions are legal and regular with one exception

2. Notes that, except for errors affecting underlying transactions authorised by delegations, the ECA is of the opinion that the transactions underlying the revenue, allocations, commitments and payments for the financial year are, taken as a whole, legal and regular;

3. Notes the ECA's statement that its audit of payments authorised by delegations revealed a material incidence of errors; notes that the Commission disagrees with the ECA's finding; notes that the Commission suggests applying a different methodology for calculating the error rate and that it considers the level of error not to be materially significant;

4. Observes that, however, the ECA and the Commission do agree that most of the errors detected are due to inadequate controls carried out by project supervisors or by auditors who do not form part of the delegations' staff, but have contracts with the Commission;

([1]) OJ L 191, 7.7.1998, p. 53.
([2]) OJ L 83, 1.4.2003, p. 1.

5. Welcomes the fact that, with regard to audit firms carrying out audits of external aid operations, the EuropeAid Cooperation Office (EuropeAid) has adopted standard terms of reference in order to improve the quality of those audits; notes that delegations have been obliged to use these standard terms of reference since 1 October 2007; invites the ECA to assess, in forthcoming annual reports, if this new tool improves the quality of audits;

6. Notes that a new standard contract and terms of reference for expenditure verifications by beneficiaries entered into force on 1 February 2006 and that these cover tendering procedures; intends to monitor the application of these procedures to assess whether they reduce the level of errors discovered by the ECA for 2006;

Ensuring correct accounts despite delayed modernisation of the accounting system

7. Recalls that, for the second year, the Commission had to prepare the accounts of the EDFs by using accruals based accounting principles; recalls that, with regard to the financial year 2005, the ECA and Parliament had expressed concerns as the current accounting system did not deliver full accounting information and, consequently, some data had to be adjusted manually; regrets that the problem persisted in the financial year 2006;

8. Notes that the modernisation of the IT system implies a migration of the EDF-specific IT system (OLAS) to the Commission's central IT system (ABAC) and EuropeAid's local system (CRIS); observes that the modernisation had originally been scheduled for 2006, but was delayed and is now scheduled to be completed by the end of 2008; notes that the Director-General of EuropeAid recently informed the Committee on Budgetary Control about the current state of play;

9. Notes that the Director-General of DG Budget, in the annual activity report of DG Budget for 2006, withdrew a reservation made in the previous annual activity report with regard to the unavailability of the new IT system, although the new IT system was still not implemented in 2006;

10. Requests the Commission to specify the shortcomings of the current system and the measures it takes to compensate them in the forthcoming discharge exercises for the financial years 2007 and 2008;

11. Expects the new IT system to be operational in time for the start of the financial year 2009; requests the Commission to inform Parliament's Committee on Budgetary Control in the event of further delays;

Simplifying the management of the EDFs

12. Recalls that, in its previous discharge resolutions, Parliament had strongly supported the integration of the EDF in the general budget of the European Union, since this would remove many of the complications and difficulties of implementing successive EDFs, help speed up disbursement and eliminate the current democratic deficit; regrets that the EDF was not budgetised under the financial framework 2007 to 2013, but remained a separate financial instrument; considers that the budgetisation of the EDF should be a priority objective for the financial framework after 2013;

13. Welcomes the Commission's intention to reopen the debate on EDF budgetisation concurrently with the mid-term review of the 10th EDF; stresses that budgetisation would greatly favour the democratic control and accountability of the EDF; stresses that integrating the EDF in the general budget of the European Union is also an appropriate way of addressing the recurrent problems linked to the slow and cumbersome nature of the intergovernmental ratification process;

14. Takes the view that the Commission and the Council should do their utmost to simplify the management of the EDF; considers that simplification should be achieved by closing previous EDFs as early as possible and by simplifying the financial rules applicable to successive EDFs; recalls that simplification of the management of EU funds forms part of the key objectives set out in the Commission's Action Plan towards an Integrated Internal Control Framework (COM(2006) 9);

15. Notes that the Sixth EDF was closed in 2006, and that the Commission plans to close the Seventh EDF in 2008; notes that, with the start of the 10th EDF in 2008, the Commission will continue to implement four EDFs simultaneously; requests the Commission to prioritise the closure of the Seventh, Eighth and Ninth EDFs;

16. Observes that there are specific financial rules for each EDF, and that these rules differ from the rules for implementing external aid from the general budget; notes that this situation obliges Commission staff responsible for external aid implementation to consider five different sets of financial rules; notes that Council Regulation (EC) No 215/2008 of 18 February 2008 on the Financial Regulation applicable to the 10th European Development Fund [1] aims at harmonising the financial rules applicable to the different EDFs to a great extent;

17. Notes the ECA's statement, in its Opinion No 9/2007 on the proposal for a Council Regulation on a Financial Regulation applicable to the 10th European Development Fund [2], that the Commission successfully transposed the recasting of the general Financial Regulation in the context of the EDF; is satisfied with the ECA's finding that Regulation (EC) No 215/2008 'provides clear and straightforward legislation concentrating on the provisions that are essential and necessary for the implementation of the EDF';

18. Calls on the ACP countries to speed up the ratification of the legal bases for the 10th EDF in order to avoid delays which could affect the continuity of EDF-funded activities;

19. Strongly supports the ECA's suggestion, as repeated in several opinions, to introduce a single financial regulation applicable to all present and future EDFs; agrees with the ECA that a measure of this type would ensure continuity of approach and would greatly simplify management; calls on the Commission to come forward with a legislative proposal;

Enhancing Parliament's oversight as regards EDF funds managed by the European Investment Bank

20. Recalls that, in previous discharge resolutions, Parliament had highlighted the fact that it has insufficient oversight with regard to the part of the EDF funds managed by the European Investment Bank (EIB), as these funds are neither covered by the ECA's statement of assurance nor by Parliament's discharge procedure;

21. Notes that the EIB manages the investment facility, a risk-bearing instrument funded from the EDF, aimed at fostering private investment in the difficult economic and political context of the ACP countries; notes that, under the Ninth EDF, EUR 2 037 million were allocated to the investment facility for the ACP countries; notes that, with the additional capital endowment of EUR 1 100 million from the 10th EDF, the total amount of EDF funds allocated to the investment facility for the ACP countries is EUR 3 137 million;

22. Notes that the ECA, in its abovementioned Opinion No 9/2007, as in previous opinions, regretted that the operations managed by the EIB are not subject to the discharge procedure, although the EIB uses EDF resources, which are contributed by European taxpayers, not by the financial markets;

[1] OJ L 78, 19.3.2008, p. 1.
[2] OJ C 23, 28.1.2008, p. 3.

23. Fails to understand why the governments of the Member States, in the internal agreement for the 10th EDF for the period 2008 to 2013, have not followed up on the ECA's and Parliament's concerns and have continued to exclude operations managed by the EIB from the formal discharge procedure;

24. Welcomes the fact that the EIB is willing to improve cooperation with Parliament during the discharge procedure on an informal basis; suggests that, for the forthcoming discharge procedure, EIB representatives be invited to present the EIB's annual report on the implementation of the investment facility to Parliament's Committee on Budgetary Control;

Deadlines

25. Welcomes the fact that, under Regulation (EC) No 215/2008, the deadlines for the transmission of the ECA's annual report to the discharge authority and for Parliament's discharge decision are aligned with the corresponding dates in the general Financial Regulation;

Following up on the 2005 discharge resolution

26. Welcomes the Commission's clear answer to the rapporteur's questionnaire that the Member of the Commission responsible for Development Cooperation, Louis Michel, bears full political responsibility for the Commission's implementation of the EDF;

27. Invites the ECA to audit the Commission's management of EDF funds, with particular emphasis on the distribution of responsibilities within the Commission Directorates-General forming part of the 'RELEX family';

28. Notes that, in its financial management report, the Commission indicated that its objective for 2006 was to keep overall outstanding commitments stable at EUR 10 300 million, and that this objective has been achieved; notes that this means that 25 % of total funds committed remain unspent; urges the Commission to further reduce outstanding commitments, especially old and dormant commitments;

29. Congratulates the Commission on reducing the level of *reste à liquider* (RAL) dating from pre-2001 EDF commitments by 49 % in 2006; requests that it receive regular updates on changes in levels of normal and abnormal RAL; calls on the Commission to draw up, for Parliament and for the ACP-EU Joint Parliamentary Assembly, a three-monthly statement on the disbursement of funds;

30. Notes that, according to the Cotonou Agreement, budget support shall only be granted to a beneficiary country where public expenditure is sufficiently transparent, accountable and effective; notes that the ECA has some doubts about the Commission's 'dynamic interpretation' of these criteria; notes the ECA's finding that 'there is a tendency for the Commission to rely upon indicators which seek to predict future progress when making disbursement decisions';

31. Understands that the Commission, in a difficult environment like the ACP countries, needs some margin of manoeuvre for its decisions; welcomes the Commission's positive response to the ECA's recommendation to make the parameters for its 'dynamic interpretation' more explicit;

32. Notes that in 2006, 68 % of EDF budget support was delivered in the form of sector budget support, which is more targeted than general budget support and therefore leads to lower risks; questions the Commission's 'dynamic interpretation' of the eligibility criteria for budget support, which the ECA has said increases risk; believes that budget support should only be undertaken in countries that already meet a minimum standard of credible public finance management;

33. Recalls that, if external aid is granted through budget support, the funds become part of the national budget of the beneficiary countries, which means that the Commission's and the ECA's control powers are limited; reiterates that, in these cases, it is particularly important that the Commission cooperate with national authorities in the beneficiary countries which carry out control tasks;

34. Recalls that Parliament and the ECA have repeatedly requested that the Commission should improve its cooperation with national supreme audit institutions in budget support recipient countries; notes the ECA's statement, in its annual report, that relations between the Commission and the supreme audit institutions in beneficiary countries have improved recently; requests the Commission to continue its efforts to develop a structured approach in its relations with national audit institutions;

35. Welcomes the Commission's initiative to develop a structured approach to support national supreme audit institutions in countries receiving budget support; notes however that democratic accountability at the level of partner countries cannot be achieved without also strengthening parliamentary budget control bodies, as recommended by the ECA in its Special Report No 2/2005 ([1]);

36. Invites the Commission to improve transparency and access to documentation relating to budget support actions, particularly by establishing agreements with beneficiary country governments analogous to the Financial and Administrative Framework Agreement between the European Community and the United Nations (FAFA) setting out the framework for managing the financial contributions made by the Commission to the UN;

37. Notes with interest that the Commission, in particular the European Antifraud Office and EuropeAid, in cooperation with the EIB, has initiated a series of conferences in beneficiary countries in order to improve cooperation in practice with national authorities concerned with the correct use of public funds, for example inspectors and prosecutors; notes that the first conference was held in Rabat in May 2007, followed by a second conference in Brazzaville in November 2007 and a third in Cape Town in April 2008;

38. Notes that, following the first conferences, cooperation with some national authorities has already been intensified on the basis of specific cooperation agreements between them and the Commission; invites the Commission to provide further information on these activities to Parliament;

39. Congratulates the Commission on its initiative to improve reporting on the effects of development policy interventions towards achieving the millennium development goals (MDGs); trusts that this will make a real contribution to improving accountability in this area; looks forward to receiving details of the evaluation of the pilot phase introduced in 2007;

40. Draws attention to the benchmark, agreed by the Commission, that 20 % of geographical funding under the development cooperation instrument should be allocated to basic and secondary education and basic health; looks forward to receiving details of the implementation of the benchmark in 2007; insists that reporting against the same benchmark be provided for the EDF;

41. Notes with satisfaction that the Commission followed up on Parliament's request to provide more information in its financial management report on resource constraints and their impact on EDF implementation; notes that the Commission indicates that, within these constraints, it made sound financial management and quality its top priorities; is however worried that the Commission continues to report high vacancy rates in some delegations and low levels of staffing relative to the amounts managed;

([1]) OJ C 249, 7.10.2005, p. 1.

42. Notes that, under Regulation (EC) No 215/2008, the Council, following a proposal from the Commission, will undertake an overall performance review of the 10th EDF in 2010; notes that, in this review, financial performance and qualitative performance, in particular results and impact, measures in terms of progress towards achieving the MDGs, will be assessed; requests that the discharge authority be informed about the results of the performance review;

43. Notes that the ECA, in its annual report, reiterated its recommendation that EuropeAid should develop a coherent overall strategy for its control activities; notes that, following the adoption in January 2006 of the Commission's abovementioned action plan towards an integrated internal control framework, which covers all policy areas, EuropeAid has been working on a strategy which would be coherent with the Commission's general approach, but would also take account of the specific management methods for implementation of external aid;

44. Welcomes the fact that the ECA, in its annual report for the financial year 2006, as in its previous annual reports, made detailed recommendations on how the Commission could improve its control strategy; notes that the ECA highlights the positive response given by the Commission to its recommendations; invites the ECA and the Commission to continue their close cooperation in this respect;

45. Notes the criticisms of Commission technical assistance projects made by the ECA in its Special Report No 6/2007 ([1]); notes further that the Commission will address these questions in its Strategy to meet EU aid effectiveness targets on technical cooperation and project implementation units, due by June 2008; looks forward to receiving, in due course, an assessment of the results of the implementation of this strategy;

46. Welcomes the measures taken by the Commission to promote donor coordination in the area of technical assistance; stresses the importance of a coordinated approach, not only at EU level but also among all donors, and looks forward to receiving details of the progress of this initiative.

([1]) OJ C 312, 21.12.2007, p. 3.