RESOLUTION OF THE EUROPEAN PARLIAMENT

containing the comments which are an integral part of the decision on the discharge to the Commission for implementing the budget of the sixth, seventh, eighth and ninth European Development Funds for the financial year 2003

THE EUROPEAN PARLIAMENT,

— having regard to the report on the follow-up to 2002 discharges (COM(2004) 0648 — C6-0126/2004),

— having regard to the balance sheets and accounts of the sixth, seventh, eighth and ninth European Development Funds for the financial year 2003 (COM(2004) 0667 — C6-0165/2004),

— having regard to the Annual Report of the Court of Auditors of the activities of the sixth, seventh, eighth and ninth European Development funds concerning 2003 together with the institutions' replies ([1]),

— having regard to the Court of Auditors' Statement of Assurance on the European Development Funds ([2]),

— having regard to its resolution of 1 March 2001 on the Commission communication to the Council and the European Parliament on the European Community's Development Policy ([3]),

— having regard to its resolution of 22 April 2004 on the Commission communication to the Council and the European Parliament on Building our common future; policy challenges and budgetary means of the enlarged Union 2007 to 2013 ([4]),

— having regard to the EuropeAid Cooperation Office's annual activity report 2003,

— having regard to the Annual Report 2004 from the Commission to the Council and the European Parliament on the European Community's development policy and external assistance (COM(2004) 0536),

— having regard to the Council's recommendations of 8 March 2005 (6865/2005 — C6-0078/2005, 6866/2005 — C6-0079/2005, 6867/2005 — C6-0080/2005, 6868/2005 — C6-0081/2005),

— 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 ([5]),

— having regard to Article 32 of the Internal Agreement of 18 September 2000 between the 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 ([6]),

— having regard to Article 74 of the Financial Regulation of 16 June 1998 applicable to development finance cooperation under the fourth ACP-EC Convention ([7]),

— having regard to Articles 119 and 120 of the Financial Regulation of 27 March 2003 applicable to the ninth European Development Fund ([8]),

([1]) OJ C 293, 30.11.2004, p. 315.
([2]) OJ C 293, 30.11.2004, p. 327.
([3]) OJ C 277, 1.10.2001, p. 130.
([4]) Texts Adopted, P5_TA(2004) 0367.
([5]) OJ L 156, 29.5.1998, p. 108.
([6]) OJ L 317, 15.12.2000, p. 355.
([7]) OJ L 191, 7.7.1998, p. 53.
([8]) OJ L 83, 1.4.2003, p. 1.

— having regard to Rules 70, 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 (A6-0069/2005),

A. Whereas Article 119 of the Financial Regulation of 27 March 2003 requires the Commission to take all appropriate steps to act on the observations accompanying the decision giving discharge and to report, at the request of the European Parliament, on the measures taken in the light of those observations and comments.

B. Whereas the reform of the management of the EC's external assistance was launched in May 2000 ([1]) and the reform of the EC's development policy in November 2000 ([2]).

C. Whereas the Partnership Agreement between the members of the African, Caribbean and Pacific Group of States of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000 (the Cotonou Agreement) ([3]), entered into force on 1 April 2003,

1. Takes the view that development policy is an essential component of the Union's external action, the aim of which is to eradicate poverty by bolstering social, educational and health-related infrastructure, increasing the production capacity of poor populations and granting support to the countries concerned to enable them to increase growth and local potential; stresses that the achievement of the Millennium Development Goals (MDGs) would be a major step towards reaching this objective; takes the view that the EDF is an important tool for carrying out this policy in the ACP countries and that it must be made more effective through a greater focus on actions aimed at poverty eradication and through faster implementation in tandem with greater transparency, greater accountability and compliance with the principles of sound financial management;

2. Recognises the Commission's efforts to focus its development operations on the achievement of the MDGs including the identification of 10 key indicators; welcomes the use of these key indicators in the EDF mid-term reviews for assessing the progress towards poverty eradication; calls on the Commission to step up its efforts to that end and recommends that 35 % of European Union development cooperation spending be given over to achieving the MDGs;

3. Recognises the problems of measuring the impact of Community assistance on the achievement of the MDGs in multi-donor environments; deplores the fact that the Commission has not made efforts to establish an appropriate mechanism to measure such an impact and thus confines itself to measuring the progress of the developing countries towards the MDGs; deplores the fact that the Commission's replies to the Development Committee's questionnaire are particularly vague as regards the implementation of the MDGs in the Commission's development actions;

4. Welcomes the improvements made by the Commission in its reporting system and recognises the improved quality of the Annual Report 2004 on EC Development Policy and External Assistance (COM(2004) 0536 and SEC(2004) 1027);

5. Decides to introduce an annual plenary debate on the Commission's Annual Report on EC Development Policy and External Assistance;

6. Welcomes the fact that in 2003 out of a total financing for ACP countries (EDF and EU general budget) of EUR 4 079 million, 33 % (EUR 1 346 million) was committed for social infrastructure and services; deplores the fact that only EUR 62 million (1,5 %) was earmarked for basic education and EUR 212 million (5,2 %) for basic health; urges the Commission to increase funding for these sectors and calls for 20 % of European Union development cooperation spending to be earmarked for basic education and health in the developing countries;

([1]) Communication to the Commission on the Reform of the Management of External Assistance, adopted by the Commission on 16 May 2000.
([2]) Statement by the Council and the Commission on the European Community's Development Policy, adopted by the General Affairs Council (Development) on 10 November 2000.
([3]) OJ L 317, 15.12.2000, p. 3.

Accounts

7. Notes that the balance sheets and accounts were forwarded late; notes that modernisation of the EDF accounts is scheduled to be ready within the deadlines set; looks forward to receiving the report of the Commission Accountant on the state of the Commission accounts, including the EDF accounts, as at 1 January 2005; asks to be kept informed of progress with modernisation of the new integrated IT system (ABAC-FED);

8. Notes that although EDF funds managed by the EIB are not audited by the Court of Auditors or controlled by Parliament as part of the discharge procedure, they are consolidated in the EDF accounts; considers that transparency would be enhanced if information on these funds were provided to the discharge authority which is responsible for signing off the EDF accounts;

Statement of Assurance

9. Notes that, with the exception of problems relating to the following [1], the Court of Auditors is of the opinion that the accounts reliably reflect the revenue and expenditure relating to the sixth, seventh, eighth and ninth EDFs:

   (a) amounts payable to the EDFs and not included in the balance sheet at 31 December 2003 (EUR 27,5 million),

   (b) advances (EUR 400 million),

   (c) Stabex funds,

   (d) funds transferred to the EIB and not utilised (EUR 209 million);

10. Notes the Court's view that the Director-General of the EuropeAid Cooperation Office should have expressed a reservation in the Annual Activity Report and declaration concerning debts still to be established and the correct use of the Stabex funds as he did not have sufficient information available at the time to draw well-founded conclusions;

11. Notes that, with regard to the underlying transactions, the Court of Auditors is of the opinion that the revenue entered in the accounts, the EDF allocations and the commitments and the payments for the financial year are, taken as a whole, legal and regular; notes that the Court of Auditors has formed its opinion based on analysis of the supervisory systems and controls, audit of a number of transactions and analysis of the annual activity report and declaration of the Director-General of the EuropeAid Cooperation Office;

12. Urges the Commission to address the following weaknesses noted by the Court of Auditors concerning supervisory systems and controls:

   (a) the effects of the implementation of internal control standards are limited because their implementation in delegations is tied to the devolution process, which was not due to be completed until the end of 2004;

   (b) action plans need to be continued and implemented more fully, particularly at delegation level, in order to provide an effective future framework for supervisory systems and controls;

   (c) the supervisory systems and controls covering contracts and payments, although generally well designed, require improved implementation;

Financial Management Report

13. Notes that the Financial Management Report was forwarded late; praises the quantity and quality of information contained in the Financial Management Report, including information specifically requested by Parliament in its 2002 discharge recommendation; asks the Commission to further enhance this report in future, in particular to allow comparison of the sums channelled into projects, budget support and non-programmable aid under the ninth EDF with those under earlier EDFs and to permit an overview of the EDF's administrative costs;

[1] Court of Auditors, Annual Report concerning the financial year 2003, p. 387.

Accountability

14. Notes that while the Commissioner for Development and Humanitarian Aid is responsible for EDF policy, the Commissioner for External Relations and European Neighbourhood Policy is responsible for all general policy and management matters concerning the functioning of EuropeAid, which implements the EDF; notes that the Commissioner for Development and Humanitarian Aid is empowered to take decisions related to the EDF and the specific budget lines for which he bears responsibility; remains to be convinced that this 'empowerment' will allow the Commissioner for Development and Humanitarian Aid to take full political responsibility for the implementation of the programmes financed by the EDF and the Development Policy area through EuropeAid when EuropeAid reports to the Commissioner for External Relations and European Neighbourhood Policy; remains concerned that the lack of clarity over responsibility may create ambiguities with regard to accountability for the EDF;

Implementation and the RAL

15. Welcomes the increases in budget implementation recorded in 2003; notes, nevertheless, that with the introduction of the ninth EDF and the rapid commitment of new funds the level of unspent resources (RAL — *reste à liquider*) rose by over EUR 1 000 million from EUR 8 385 million at the end of 2002 to EUR 9 410 million at the end of 2003; finds that this level is unacceptably high and urges the Commission to speed up disbursement of EDF aid;

16. Points out that, while desirable, more rapid implementation alone is not sufficient to conclude that the performance of the EDF has improved — better achievement of objectives is also required; notes the comparison between objectives and achievements included in the Financial Management Report but asks the Commission to make more effort to set quantifiable objectives as defined in the Financial Regulation;

17. Notes that a number of Member States did not pay their contributions in full in 2003 which, combined with a payment to the Global Health Fund, caused the Commission to run short of funds and defer payments; urges Member States to respect their legal obligations with regard to EDF contributions;

Budgetary support

18. Notes the increasing significance of budget support with EUR 390 million disbursed in 19 ACP countries in 2003; acknowledges that budget support can contribute effectively towards realising the objectives of reducing poverty and improving public financial management in recipient countries, in particular by giving them a greater sense of 'ownership'; underlines the importance of the 'variable tranche approach'; urges the Commission to improve its instruments to assess economic reforms and the quality of public financial management as conditions for the eligibility for budget support;

19. Understands that when budget support funds have been released to an ACP state they are spent and controlled according to national and not EDF control procedures; is aware that this necessitates a change in the Commission's follow-up procedures away from traditional controls and checks of transactions towards an assessment of the state of public finance management based on monitoring information and performance indicators;

20. Notes, however, that the Court again observes that the criteria for releasing budgetary support funds largely consist of macroeconomic indicators, which provide only part of the information about the management of public finances; recalls the request made in the 2002 discharge report for an assessment of the extent to which all three conditions set out in Article 61(2) of the Cotonou Agreement [1] have been met; agrees with the Court that assessments should be formalised in terms of each of these criteria;

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[1] Direct budgetary assistance in support of macroeconomic or sectoral reforms shall be granted where:
(a) public expenditure management is sufficiently transparent, accountable and effective,
(b) well defined macroeconomic or sectoral policies established by the country itself and agreed to by its main donors are in place, and
(c) public procurement is open and transparent.

21. Notes that other donors are also increasing the use of budgetary support and that the Commission is cooperating with such donors, notably the World Bank, on the development of indicators to assess the performance of public finance management; notes the information provided by the Commission in response to the 2002 discharge request for a report on the state of play of work within the Public Expenditure and Financial Accountability Programme on the preparation of public finance management performance indicators; notes the Commission's assertion that a tentative framework was agreed in early 2004, that testing of the tool developed was planned to start by the end of 2004 and that a decision on finalisation of the analytical framework should be taken by June 2005; asks to be updated by 1 September 2005 on the Programme's work;

Supreme Audit Institutions

22. Recalls the importance attached by Parliament, the Council and the Court of Auditors to involving ACP States' Supreme Audit Institutions (SAIs) in EDF control ([1]);

23. Notes the information provided by the Commission in its Financial Management Report on funds spent on projects involving SAIs in the 2003 financial year, as requested by Parliament in its 2002 discharge report;

24. Notes that the Commission is considering different modalities for supporting and promoting the role of the SAIs in the ACP States; asks for an assessment of the various options under consideration in time for the next discharge exercise;

Budgetisation

25. Considers that budgetisation of the EDF would remove many of the complications and difficulties of implementing successive EDFs, help speed up disbursement and eliminate the current democratic deficit; considers that this issue should be addressed in the framework of the discussion on the new Financial Perspectives;

Devolution of management of aid and support

26. Supports the Commission's devolution of resources and decision-making powers to the Delegations of the Commission; expects that this new organisational structure will contribute to even higher implementation levels for commitments and payments than those achieved by the Commission in 2003;

27. Understands, however, that as well as providing benefits the new structure carries risks; finds the Commission staff working paper 'Outline of Risks Linked to External Assistance' useful;

28. Notes the Commission's report on the Evaluation of the Devolution Process ([2]); is aware that the deconcentration exercise is nearing completion; seeks reassurance that appropriate controls are accompanying the devolution of resources and decision-making powers to delegations; asks for a report in time for the next discharge exercise outlining the state of play of the devolution process, describing the expected benefits with quantifiable indicators and setting out the benefits so far achieved, and detailing the control structures in place in delegations, including the state of implementation of the internal control standards;

29. Notes the Commission's assertion that it has sufficient staff, sufficiently well qualified and trained in financial management, in delegations; notes, nevertheless, that the Commission is at the bottom end of the range in terms of the ratio of staff managing EUR 10 million compared to the other main donors;

30. Notes the risks of the devolution process of the Commission delegations in ACP countries, such as difficulties in finding appropriate staff and the possibility of incoherent interpretation of rules between Commission delegations; underlines the need to improve the rules and to find a balance between reinforced control mechanisms and the need for reporting on one hand, and efficient and speedy decision-making locating the main decisions on projects in the delegations on the other;

([1]) See points 21 to 24 in the Resolution containing the comments accompanying the decision concerning discharge to the Commission in respect of the implementation of the budget of the sixth, seventh and eighth European Development Funds for the financial year 2002 (OJ L 330, 4.11.2004, p. 128).

([2]) SEC(2004) 0561, 6.5.2004.

Stabex Funds

31. Notes that the Commission made an inventory of Stabex funds in 2003 which indicated that around EUR 700 million remain to be committed in the local accounts of beneficiary countries; notes that although funds in these accounts have been transferred to the beneficiary countries and have formally left the EDF accounts, the Commission continues to share responsibility for these funds and retains control over their proper use; notes the Court's observation that a lack of appropriate monitoring does not allow the Commission to check the use of the funds; notes that the Commission intends to introduce better monitoring procedures by the end of 2004 to be fully operational by 2005; urges the Commission to work with the beneficiary countries to enhance monitoring and ensure that the outstanding funds are committed as rapidly as possible;

Evaluation

32. Welcomes the efforts made by the Commission in internal control allowing it to meet the majority of the standards; is concerned, however, about the Commission's inability to meet internal control standard 23 concerning evaluation because of capacity constraints; asks the Commission to report on how it intends to ensure that evaluation is properly carried out and followed up and to advise as to when it feels it will be able to meet the standard;

Deadlines

33. Invites the Commission to forward, and the Council to adopt, the following proposal for modification of the first sentence of Article 119(1) of the Financial Regulation:

'Before 30 June of year N +2 the European Parliament, upon a recommendation from the Council acting by a qualified majority, shall give a discharge to the Commission in respect of the financial implementation for year N of the EDF resources, which it manages in accordance with Article 1(2).'