

RESOLUTION OF THE EUROPEAN PARLIAMENT**of 29 April 2015****with observations forming an integral part of the decision on discharge in respect of the implementation of the budget of the eighth, ninth and 10th European Development Funds for the financial year 2013**

THE EUROPEAN PARLIAMENT,

- having regard to its decision on discharge in respect of the implementation of the budget of the eighth, ninth and 10th European Development Funds for the financial year 2013,
 - having regard to Rule 93 and the third indent of Rule 94 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 (A8-0102/2015),
- A. whereas the main goal of the Cotonou Agreement as the framework of the Union's relations with African, Caribbean and Pacific (ACP) States 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 States and OCTs into the world economy,
- B. whereas the specific development policy objectives must be safeguarded under the European External Action Service (EEAS); emphasises that other considerations such as trade policy and foreign and security policy considerations should not cut across the Union's development priorities,
- C. whereas the European Development Funds (EDFs), funded by the Member States, are the Union's main financial instrument for providing development cooperation to the ACP States for which the Commission is accountable within the discharge procedure,
- D. whereas pre-financing instruments paid by the European Commission reached EUR 424 million and the operating revenue amounted to EUR 124 million for the financial year 2013,
- E. whereas the EDF has defined its strategy and priority areas based on political preferences as well as economic and financial criteria connected with general efficiency criteria, and works with adequate financial instruments to fulfil these priorities defined on a sustainable and long-term horizon,
- F. whereas there is an inherent high-level risk exposure in the developing country context due to geopolitical, institutional and administrative environment frequently associated with instability and fragile context,
- G. whereas the level and nature of the Union's engagement must be differentiated and conditional, depending on measurable progress in various fields such as democratisation, human rights, good governance, sustainable socio-economic development, the rule of law, transparency and the fight against corruption,
- H. whereas the use of innovative financial instruments like blending mechanisms is seen as one way of extending the scope of existing tools such as grants and loans and also includes challenges in terms of oversight and governance,
- I. whereas it is fundamental to ensure Union visibility and promote Union values in all Union interventions,
- J. whereas the 'budgetisation' of the EDF, consisting of its incorporation and integration into the Union budget structure, remains a priority for Parliament; whereas the inclusion of the EDF in the general budget would lead to greater financial security for recipient countries but also to improved policy coherence and democratic scrutiny,

- K. whereas budget support carries a considerable fiduciary risk, in particular a number of transparency, accountability, good financial management related challenges; whereas budget support requires close monitoring and policy dialogue between the Union and the partner country regarding objectives, progress towards agreed results and performance indicators as well as a systemic risk analysis and risk mitigation strategy that should be further enhanced,

Statement of assurance

Reliability of the accounts

1. Welcomes the Court of Auditors' opinion that the final annual accounts of the eighth, ninth and 10th European Development Funds for the year 2013 present fairly, in all material respects, the financial position of the EDFs as of 31 December 2013, and that the results of their operations, their cash flows and the changes in net assets for the year-end, are in accordance with the provisions of the EDF financial regulation and with internationally accepted accounting standards for the public sector;
2. Notes with satisfaction the improvement achieved as regards the number and value of recoveries increased compared to 2012, with 24 recoveries totalling EUR 4,7 million in 2013 compared to 13 recoveries amounting EUR 1,3 million in 2012;
3. Is deeply concerned however that authorising officers in sub-delegations still do not systematically comply with the rule that for pre-financing payments over EUR 750 000 the Commission is required to recover interest on an annual basis and that the amount of interest revenue disclosed in the accounts is partly based on estimates;
4. Regrets in addition that the interest earned on pre-financing between EUR 250 000 and 750 000 was still not recognised as a financial revenue in the financial statements due to the fact that the development of the Common Relex Information System (CRIS) was not yet completed;

Legality and regularity of the transactions underlying the accounts

5. Welcomes the Court's opinion, according to which revenue and commitments underlying the accounts for the year 2013 are legal and regular in all material aspects;
6. Expresses concern, however, about the Court of Auditors' assessment related to the legality and regularity of payments underlying the accounts whereby the supervisory and control systems at EuropeAid's Headquarters and Union delegations are only partially effective in ensuring the legality and regularity of payments;
7. Regrets that according to the Court of Auditors' estimation, the most likely error rate for expenditure transactions from the eighth, ninth and 10th EDF is 3,4 %, which indicates a slight increase compared to 2012 (3 %) but still remains below the peak of 2011 (5,1 %);
8. Takes note that the Court of Auditors' Annual Report concerning EDF activities for the financial year 2013 shows that the error rate has increased compared to the previous year and that this error rate is still too high; urges the Commission to work towards the agreed target of 2 % error rate;
9. Take notes and regrets that the payments underlying the accounts are due to the shortcomings of the oversight system and that the payments were materially affected by error; takes note that 27 % of the payments were affected by error, namely 45 out of the 165 payments transactions tested;
10. Take notes of the results of the sampling with regard to projects whereby 42 among 130 payments (32 %) were affected by error, and in particular the fact that 30 payments out of this 42 were qualified as quantifiable errors, with 17 final transactions authorised after all *ex ante* checks had been performed;

11. Regrets the fact that despite the corrective action plan which was set up in May 2013, the typology of errors identified is, to a large extent, similar to previous years, namely a lack of supporting documents, non-compliance by beneficiaries with procurement provisions and ineligible expenditure; observes that these errors were also related to transactions linked to the following activities (i) programme estimates, (ii) grants and (iii) contribution agreements between the Commission and international organisations;
12. Urges the Commission to intensify its efforts in these specific areas of cooperation by refining the existing corrective action plan which was set up, especially when quantifiable errors point to shortcomings in the checks by international organisations on compliance with contractual provisions as a part of the general effort to improve the risk management methods and overall controlling and management systems;

Risks related to regularity and effectiveness of the control mechanisms

13. Acknowledges that the implementation of the EDFs by using numerous *modus operandi* and diverse delivery methods (centralised direct management and indirect management) with complex rules and procedures, such as the tendering and the award of contracts and with a wide geographical coverage, present a high degree of inherent risk making it difficult to optimise the controlling system and strengthen the transparency of the EDFs financing;
14. Is deeply concerned that *ex ante* checks carried out before the project payments transactions are executed still present significant weaknesses according to the Court's evaluation;
15. Calls on the Commission to pay regular attention to the quality and adequacy of the *ex ante* controls performed by all the actors (Commission staff and external auditors) before projects payments are made and especially given the high political and operational risk environment;
16. Takes note that for both budget support (with EUR 718 million of payments made from the EDF in 2013) and Union contributions to multi-donor projects carried out by international organisations such as the United Nations (UN) (payments from the EDFs amounted to EUR 458 million in 2013), the nature of the instrument and the payment conditions limit the extent to which transactions are prone to errors;
17. Is worried by the recurring issue that errors concerning final claims have been continuously found, despite external audits and expenditure verifications;
18. Urges the Commission's Directorate-General for Development and Cooperation (DG DEVCO) to act upon the recommendation of the Court in 2011 to strengthen the capacity of its Internal Audit Capacity as soon as possible so that it could perform its tasks more effectively;

Strategy and priorities

19. Emphasises that all EDFs activities have to accurately follow the general strategy and priority areas based on political preferences, as well as economic and financial efficiency criteria, consequently reflected in management performance, including risk-management and controlling activities and the concrete form of financial instruments for this purpose;
20. Draws attention, in light of the increased focus on the performance of Union aid, to the fact that Sub-Saharan Africa is the region which is lagging behind the most with regard to the Millennium Development Goals (MDGs) and is the only region worldwide where, according to projections, poverty will most probably not be halved by 2015; is concerned that declining levels of Official Development Assistance (ODA) for social services over the past few years, particularly in the education and reproductive health sectors, threaten to reverse progress on human capital development;

21. Concludes that an intensification of efforts is needed in order to accelerate the achievement of the MDGs in Africa by the target date of 2015; calls on the Commission to take the Post-2015 Development Agenda and the negotiations on the Sustainable Development Goals (SDG) once adopted into account as a basis for the CoA performance audit; welcomes the fact that the EDFs, which are the main instrument for providing Union aid for development cooperation to the ACP States, accounted for as much as 45 % of the total value of new contracts concluded by DG DEVCO in 2013;
22. Notes that agreement was found in 2013 on the establishment of the 11th EDF with a total value of close to EUR 27 billion (in 2011 prices), thus effectively freezing funds at the level of the 10th EDF, rather than increasing them by 13 % as the Commission had proposed, despite the Union's standing commitment to increase development financing in the coming years;

Monitoring and supervision

23. Is seriously concerned about the remaining weaknesses in the management information system on the results and the follow-up of external audits, expenditure verifications and monitoring visits despite the Commission's commitment to improve the quality of CRIS data in recent years;
24. Recalls that the reliability and accuracy of the management information system plays a pivotal role which require persistent vigilance; urges the Commission to pursue its efforts to develop and set up new functions in the audit module of its CRIS management system, and in particular, the follow-up of all audit reports and all types of evaluation; considers it fundamental to have consistent results-oriented monitoring systems to provide adequate and reliable information on results achieved in order to adjust strategic priorities;
25. Considering that most of the EDFs are implemented in a devolved way by Union delegations; invites DG DEVCO's Headquarters to consistently support them in the management of their portfolio according to respective risk components through CRIS; reiterates and encourages the better use of the possibilities provided by risk assessment in the framework of the follow-up of the Union delegation's operations;
26. Welcomes the introduction of the measurement study on the residual error rate on closed transactions as an example of the DG DEVCO management environment in action;
27. Notes that on the basis of the second study in 2013, the error rate was estimated by DG DEVCO at 3,35 % (equal to about EUR 228,55 million) compared to the 3,4 % estimated by the Court of Auditors; notes with concern that the main causes identified are the absence of satisfactory documentation provided by beneficiary organisations, errors due to the insufficient evidence available to check the regulatory of transactions, non-compliance with public procurement procedures and unrecovered and uncorrected amounts;
28. Considers that prioritisation might be integrated into the action plan developed by DG DEVCO for the implementation of mitigating actions by putting the focus on the specific and most critical areas of concern and the opportunities for cost-efficiency; calls on DG DEVCO to indicate in the annual activity report progress achieved or specific difficulties encountered in the implementation of the action plan;
29. Believes that it will be useful to clearly identify which activity based budgeting activities present the most weaknesses, errors and the highest level of vulnerability; is of the opinion that in order to maintain the cost of controls at a reasonable level, the treatment and analysis of these specific areas could be done on a multiannual rotation;
30. Acknowledges with regard to the cost-efficiency of controls mechanisms that the issue is not to add other control layers but to work on the effectiveness of the framework of control activities and their complementarity under good governance principles;
31. Welcomes the inclusion of the overview of all costs in the annual activity report, including the cost of administrative expenditure as well as the cost of control and monitoring systems;

32. Welcomes the review of the External Assistance Management Reports, which now includes a summary of corrective measures to any error identified and the introduction of the assurance by Heads of Delegations that they will increase their level of accountability in the global assurance chain and the exhaustiveness of the Union delegations' reporting;

Budget support

33. Acknowledges with interest and welcomes the implementation of the Commission's new budget support approach; notes that in 2013, a total of EUR 660 million was allocated to new budget support operations in Africa, which were used in part to implement the 'MDG initiative' to support those countries that were lagging behind in important sectors such as health, water, sanitation, food security and nutrition;
34. Considering the aim of budget support, with contributions directly transferred to a recipient countries' general budget or to a budget devoted to a specific general policy or objective, insists that the budget support respects and strictly links the general eligibility conditions with substantial progress achieved by partner countries, in particular in public finance management; would welcome the development of binding key performance indicators (KPI) in an attempt at risk reduction;
35. Draws attention to the need to support the fight against fraud and corruption in all the areas of government covered by the Union's cooperation strategy; emphasises that the risk of resources being diverted remains high and that it is the areas in which public funds are managed which offer scope for corruption and fraud;
36. Reiterates that robust and verifiable KPIs have to be applied to any continued budget support programmes; emphasises that focus should be put on the differentiation principle in order to avoid a widened interpretation of budget support disbursement conditionality; requests a strong support of anti-corruption mechanisms as corruption seems to be one of the key issues which reduces the effectiveness of the support programmes and thus leads to lack of effectiveness of European development cooperation; stresses therefore the need to strengthen cooperation for good governance measures and anti-corruption measures;
37. Criticises the fact that the funds made available by the Union are ultimately combined with the partner country's own budget resources and that as a result, Union funds cannot be traced; calls for detailed reports to be published on the way funds are used in order to increase transparency and to ensure that the funds made available by the Union are more readily traceable;
38. Invites the Court, in this context, to progressively elaborate more on the issue of corruption and to try to quantify and indicate the degree of corruption in its special reports as well as in the Court of Auditor's Annual Activity Report;
39. Demands, as regards sectorial budget support, that the sectorial conditionality matrix be systematically used and reinforced and that adequate benchmarks for Union intervention be defined; would welcome if all general budget support programmes were gradually changed into sectorial budget support programmes to increase the level of control and accountability in order to further protect the Union's financial interests;
40. Emphasises the importance of ensuring an appropriate incentive-based policy dialogue, a continuous monitoring of sector reforms and programmes measuring the performance and the sustainability of the results via the Commission's financial management systems for the implementation of budget support in partner countries;
41. Calls on the Commission to strongly support the development of parliamentary control and oversight bodies, competence and capabilities in beneficiary countries, also by continuously providing technical assistance; insists that an independent national audit body must be a condition for granting budget support;
42. Strongly supports the Commission's ability to stop transfers of funds to recipient countries when *ex ante* conditions, in particular the required macroeconomic conditions, are not met; calls on the Commission to block the transfer of funds in countries that have a high rate of corruption and that have not undertaken targeted policies to combat the phenomenon;

Cooperation with international organisations

43. Suggests that, during the new parliamentary term, further steps towards a better exchange of information with the World Bank and UN institutions should be found to optimise the cooperation;
44. Reiterates Parliament's support for the definition and exchange of good practices in order to set up similar and sustainable core principles of assurance and compliance with Union financial regulations;
45. Supports the enhanced disclosure of the audit reports of UN institutions to get a better stewardship of Union funding;
46. Believes that the continuous approximation of respective governance systems and of internal and external audits to compare their data, methodologies and outcomes should be pursued;
47. Calls for the visibility of Union funding to be strongly respected in multi-donor initiatives, particularly when Union funding is disbursed in a risky environment;
48. Welcomes the deepening of the relationship of the United Nations Children's Fund (Unicef) and the World Bank with the European Anti-Fraud Office (OLAF) through the adoption of OLAF's guidelines relating to the exchange of information and strategies;
49. Reiterates its concern with regard to the implementation of the 11th EDF that entrusted entities can further entrust budget implementation tasks to other organisations governed by private law with a service contract, thus creating a chain of trust relationships; calls on the Commission to apply strict subcontracting conditions and recalls that those entrusted entities shall guarantee a strong level of protection of the financial interests of the Union for this mode of implementation;
50. Requests that further clarification be swiftly provided on funds pooling (including trust funds) and related risks regarding the regularity of transactions, namely when the Commission's financial contributions to multi-donor projects are pooled with funds from other donors, without being earmarked for a specific identifiable items of eligible expenditure;
51. Requests to be informed about the preliminary survey of controls and management systems performed by the Commission on other associated international organisations; further requests information on the level of comparability and consistency of the already existing systems;
52. Asks to be informed about the preventive, mitigating or other measures that could be activated in case of a divergent view on the level of assurance to be attained and the correlative risk involved for the entire spending;

European Investment Bank Investment Facility

53. Reiterates and strongly believes that the Investment Facility managed by the European Investment Bank (EIB) on behalf of the Union should also be subject to Parliament's discharge procedure as the investment facility is financed by Union tax payers' money;
54. Notes that the Tripartite Agreement mentioned in Article 287(3) of the Treaty on the Functioning of the European Union governing cooperation between the EIB, the Commission and the Court of Auditors with respect to the modes for controls exercised by the Court on the EIB's activity in managing Union funds and Member States' funds is up for renewal in 2015; calls upon the EIB to update the remit of the European Court of Auditors in this respect by including any new EIB financial instruments involving public funds from the Union or the EDF;
55. Welcomes the inclusion in the Court of Auditors' work plan of an audit on the EDF investment facility, following Parliament's request in the 2012 discharge, and awaits the outcome of this special report in 2015;

56. Acknowledges that the EIB supports projects in highly risky environments, notably with political risk, linked to the instability of the recipient countries;
57. Welcomes the EIB's result-oriented approach, notably with the introduction of a Result Measurement Framework which allows for the assessment of the soundness of projects, their financial and economic sustainability and the EIB's own added value; asks that a permanent dialogue on the measurement indicators and on the convergence of results achieved with the associated partners be ensured;
58. Emphasises the importance of the EIB's zero tolerance policy on fraud and corruption; draws attention to the importance of not funding undertakings which have been shown to be involved in fraud and corruption; regards as inadequate the EIB's current policy on non-cooperative jurisdictions, including the latest addendum, and calls on the EIB to implement without delay a new 'responsible tax policy' under which it would carry out a forensic review of the beneficial owners of the undertakings funded and, in cases where multinationals are in receipt of funding, it would require the latter to provide in advance a breakdown of the revenue and profits they generate and the amounts of tax they pay in each country in which they operate;
59. Emphasises how important it is that EIB-funded projects should have a broad social impact and that they should support local firms, rather than fuelling speculative transactions; calls for a detailed annual assessment to be drawn up of the social impact of EIB-funded projects;
60. Asks that the granting of Union funds be awarded only for financial intermediaries not operating in offshore financial centres, which have substantial local ownership and are equipped to implement a pro-development approach supporting the specificity of small and medium-sized enterprises in each country; asks that the EIB shall not cooperate with financial intermediaries with negative track record in terms of transparency, fraud, corruption and environmental and social impacts; stresses that a stringent list of criteria for selection of financial intermediaries shall be established by the EIB jointly with the Commission and be publicly available;
61. Encourages the EIB to fund productive investments and to combine lending with technical assistance when required to increase the effectiveness of projects and to ensure real Union added value regarding additionality and to reach a higher developmental impact;
62. Recalls that consistency with Union objectives is key and that due care should be given to the ACP States' absorption capacity;
63. Calls for a thorough scrutiny of potential local actors and intermediaries during the identification and selection of such actors and intermediaries;

Blended finance

64. Acknowledges that the increased interest in blending is mainly caused by the correlation of important developmental challenges with heavily constrained public's funds, therefore leading to the development of new financial resources combining Union grant aid and non-grant resources; encourages the Court to provide a regular comprehensive assessment on the activities funded by the blending of financial instruments;
65. Acknowledges that by blending grants with additional public and private resources (such as loans and equity), the substantial leverage effect of grants and the development and impact of stronger Union policies can be achieved in order to unlock additional financing;
66. Stresses that any new financial instruments and blending have to remain in line with Union development policy objectives based on Official Development Assistance criteria and set out in the Agenda for Change; believes that those instruments must focus on Union priorities where added value and strategic impact are the highest;
67. Take notes of the results of the review of the EU Platform for blending in external cooperation, with the original aim to increase the effectiveness, efficiency and quality of existing blending mechanisms and facilities;

68. Demands the introduction of common standards of implementation for such financial activities, as well as the definition of best practices and eligibility and evaluation criteria; believes that coherent management rules such as structured reporting, clear monitoring frameworks and oversight conditions will reduce transaction costs and possible duplication of payments due to the higher level of transparency and accountability;
69. Calls for regular reporting to Parliament on the use of these financial instruments and results to allow Parliament to have the power of scrutiny and consent, namely on the assessment of the financial and non-financial leveraging and additionality;

Union support in the Democratic Republic of the Congo

70. Reiterates its stance on the troubling situation in the Democratic Republic of the Congo (DRC), particularly regarding the reform of the judiciary system as well as the rule of law situation, public finances, and the issue of decentralisation;
71. Welcomes the Court of Auditors' assessment regarding Union development aid funded with EDF means; agrees that the lack of political will as well as the lack of absorption capacity largely account for only minimal success in improving governance in the DRC;
72. Acknowledges that the DRC is widely recognised as one of the most fragile states in the world; strongly suggests the development of binding KPIs and benchmarks for reliable improvement assessment; also strongly suggests that KPI and benchmarks be drafted in a realistic manner;
73. Asks the Commission and the EEAS to provide the most recent list of priorities for European development aid in the DRC as a follow-up from last year's discharge report, which suggested a more limited number of priorities to allow for a better and more focused development aid strategy;

EU support in Haiti

74. Reiterates the overall satisfaction with the work and efforts carried out by the Commission's services in response to the earthquake in Haiti in 2010, in an extremely critical situation for the Union delegation and its staff; welcomes the Commission's ability to withhold payments and disbursements as a consequence of insufficient progress in the Haitian Government's financial management and deficiencies in national public procurement procedures;
75. Takes note of the weaknesses identified by the Court of Auditors as regards coordination, in this sense underlines the importance of maintaining a close coordination between donors and within the Commission's services; calls for a continuous articulation of humanitarian aid and development aid, with a stronger link between relief, rehabilitation and development by means of a permanent Linking Relief, Rehabilitation and Development (LRRD) interservices platform; considers that integrated approaches with clearly stated coordination objectives and a coherent country strategy between ECHO and EuropeAid alongside with best practices sharing have to be set up wherever possible; invites the Commission to enter into a dialogue with Parliament; believes also that the involvement of local civil society can strengthen the use of the local knowledge base;
76. Recalls the recommendations in the aftermath of the Committee on Budgetary Control delegation visit to Haiti in February 2012 and again insists on the salient issue of the traceability and the accountability of Union development funds, in particular by linking budget support to a targeted performance; invites the Commission and the EEAS to emphasise the conditionality matrix for sectorial budget support;
77. Recalls that the 'State building' measures are to be at the centre of Union's development strategy and the cornerstone of any crisis situation action plans; calls for the definition of a good policy mix in line with Union intervention;
78. Considers that those situations of crisis and fragility require the development of new approaches, particularly concerning activities such as (i) identifying risks at different operational levels, (ii) drafting projections of likely consequences and (iii) designing instruments to reduce and prepare for risks and potential disaster and which allow for a sufficient level of flexibility and ability to mobilise experts in various fields of competence;

79. Encourages the Commission and the EEAS to work more systematically and jointly on the four phases of the disaster management cycle; calls on the Commission and the EEAS to inform Parliament about the developments, in particular with regard to risk management and preparations to implement and achieve programme objectives in a post-disaster context;
80. Recalls that in any such crisis, due care has to be attributed to the soundness and operational effectiveness of the national governance framework for managing disaster risk reduction as a pre-condition for the success of the Union's intervention;

Future of the EDF

81. Recommends that the strategies and priorities of future EDF activities be precisely defined and that a system of financial instruments be built on that basis, respecting the principles of efficiency and transparency;
82. Regrets that the EDFs have not been included in the general budget in the financial rules applicable to the general budget of the European Union (Regulation (EU, Euratom) No 966/2012);
83. Recalls that Parliament, the Council and the Commission agreed that the financial rules would be revised in order to include amendments made necessary by the outcome of the negotiations on the multiannual financial framework for the years 2014 to 2020, including the issue of the possible inclusion of the EDFs in the Union budget; repeats its call on the Council and Member States to agree to the full incorporation of the EDFs in the Union's budget;
84. Considers that the new parliamentary term is a new political window of opportunity to encourage the Union institutions to initiate soon a reflection and an evaluation on the post 2020 scenario for possible replacement of the current Cotonou Agreement; recalls that in the view of the Parliament the EDF shall be included in the general budget as soon as possible;
85. Is of the opinion that the integration of the EDFs in the general budget will strengthen democratic scrutiny by involving Parliament in setting strategic priorities regarding the allocation of funds and will also provide more effective implementation, with better coordination mechanisms both at Commission Headquarters and field levels; asks the Commission again to duly consider the financial impact of the inclusion of the EDFs for Member States in the coming assessment and a possible binding Member State contribution key;
86. Believes that streamlining and approximating the EDFs rules will likely lead to a reduction of the risk of errors and inefficiencies and will increase the level of transparency and legal certainty; encourages the Commission to propose a single financial regulation for all EDFs; regrets that, in the context of the discussion of the future agreement for the 11th EDF, the Commission has not made proposal for a single financial regulation in order to simplify the EDFs management;

Follow-up of Parliament resolutions

87. Calls upon the Court of Auditors to include in its next annual report a review of the follow-up to the Parliament's recommendations in Parliament's annual discharge report.
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