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REPORT

drawn up on behalf of the Committee
on Budgetary Control

on the granting of discharge to the Commission
in respect of the financial management of the
Second, Third, Fourth and Fifth European
Development Funds for the 1983 financial year

Rapporteur: Mr. Peter N. PRICE

PE 98.000/fin.
OR. EN

On 15 October 1984, the Committee on Budgetary Control appointed Mr. Peter N. Price rapporteur.

The Commission of the EC forwarded to the European Parliament the balance sheets and accounts of the European Development Funds for the financial year 1983 on 16 May 1984 (COM(84)281 final).

On 16 April 1985, Parliament decided to defer the grant of discharge to the Commission in respect of the financial management of the Second, Third, Fourth and Fifth European Development Funds during the 1983 financial year pending the receipt of the relevant Council recommendations.

On 23 April 1985, the Council transmitted the recommendations for discharge in respect of the European Development Funds for the 1983 financial year.

The Committee on Budgetary Control considered the matter further at its meetings on 23/24 April 1985 and 14/15 May 1985. At the latter meeting, the Committee on Budgetary Control adopted the Proposals for Decisions unanimously.

Present at the time of voting: Mr. Aigner, Chairman; Mr. Martin, vice-chairman; Mrs. Boserup, vice-chairman; Mr. Battersby, vice-chairman; Mr. Price, rapporteur; Mr. Bardong; Mr. Chanterie (deputising for Mr. Marck); Mr. Cornelissen; Mr. Dimitriadis; Mrs. Fullet; Mr. Hindley (deputising for Mr. Wettig); Mr. Rigo (deputising for Mr. Sutra); Mr. Ryan; Mr. Schön; Mr. Simmonds; Mr. Tomlinson (deputising for Mr. Pitt).

The Motion for Resolution was adopted by 16 votes for, none against and one abstention.

Present at the time of voting: Mr. Aigner, chairman; Mr. Martin, vice-chairman; Mrs. Boserup, vice-chairman; Mr. Battersby, vice-chairman; Mr. Price, rapporteur; Mr. Bardong; Mr. Chanterie (deputising for Mr. Marck); Mr. Cornelissen; Mr. Dimitriadis; Mrs. Fullet; Mr. Hindley (deputising for Mr. Wettig); Mr. Rigo (deputising for Mr. Sutra); Mr. Ryan; Mr. Schön; Mr. Schreiber; Mr. Simmonds; Mr. Tomlinson (deputising for Mr. Pitt).

The opinion of the Committee on Development and Cooperation is published in Doc. A2-10/85/C.

The report was tabled on 22 May 1985.

The deadline for tabling amendments to the report will be indicated in the draft agenda for the part session at which it will be debated.

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A

The Committee on Budgetary Control hereby submits to the European Parliament the following proposals for decisions together with explanatory statement:

I

PROPOSAL FOR A DECISION

on the granting of discharge to the Commission in respect of the financial management of the Second and Third European Development Funds during the 1983 financial year

The European Parliament

- having regard to the Treaty establishing the EEC,
- having regard to the Conventions signed at Yaoundé on 20th July, 1963, and 29th July, 1969,
- having regard to the balance sheets and accounts of the European Development Funds for the financial year 1983, (COM(84)281 final),
- having regard to the report of the Court of Auditors concerning the financial year 1983 accompanied by the replies of the institutions¹,
- having regard to the Council decisions granting discharge in respect of the Second and Third European Development Funds for the 1983 financial year, (Doc. C2-19/85),
- whereas the Treaty of 22 July 1975 authorises the European Parliament to grant discharge in respect of the financial activities of the Community,
- having regard to the report of the Committee on Budgetary Control and to the opinion of the Committee on Development and Cooperation (Doc. A 2-39/85),

¹ (OJ C348, 31.12.84)

1. Grants discharge to the Commission in respect of the financial management of the Second and Third European Development Funds during the financial year 1983 on the basis of the following expenditure:

Second European Development Fund	-	53,657 ECU
Third European Development Fund	-	14,279,853 ECU

2. Records its comments in the resolution which forms part of this decision;

3. Instructs its President to forward this decision and the resolution embodying its comments to the Commission, the Council, the Court of Auditors and the European Investment Bank and to ensure that they are published in the Official Journal (L series).

II

PROPOSAL FOR A DECISION

on the granting of discharge to the Commission in respect of the financial management of the Fourth European Development Fund during the 1983 financial year

The European Parliament

- having regard to the Treaty establishing the EEC,
- having regard to the first ACP-EEC Convention of Lomé¹,
- having regard to the balance sheet and accounts in respect of the Fourth European Development Fund for the financial year 1983, (COM(84)281 final),
- having regard to the report of the Court of Auditors concerning the financial year 1983 accompanied by the replies of the institutions²,
- having regard to the Council recommendation on the granting of this discharge, (Doc. C2-19/85),
- whereas the Treaty of 22 July 1985 empowers the European Parliament to grant discharge in respect of the financial activities of the Community,
- having regard to the report by the Committee on Budgetary Control and to the opinion of the Committee on Development and Cooperation (Doc.A 2-39/85),

1. Grants discharge to the Commission in respect of the financial management of the Fourth European Development Fund during the financial year 1983 on the basis of the following amounts:

receipts	:	226,437,404 ECU
payments	:	285,181,083 ECU

2. Records its comments in the resolution which forms part of this decision;

3. Instructs its President to forward this decision and the resolution embodying its comments to the Commission, the Council, the Court of Auditors and the European Investment Bank and to ensure that they are published in the Official Journal (L series),

¹ (OJ L25, 30.1.76) ² (OJ C348, 31.12.84)

III

PROPOSAL FOR A DECISION

on the granting of discharge to the Commission in respect of the financial management of the Fifth European Development Fund during the 1983 financial year

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The European Parliament

- having regard to the Treaty establishing the EEC,
- having regard to the second ACP-EEC Convention of Lomé ¹,
- having regard to the balance sheet and accounts in respect of the Fifth European Development Fund for the financial year 1983, (COM(84)281 final),
- having regard to the report of the Court of Auditors concerning the financial year 1983 accompanied by the replies of the institutions ²,
- having regard to the Council recommendation on the granting of this discharge, (Doc. C2-19/85),
- whereas the Treaty of 22 July 1975 empowers the European Parliament to grant discharge in respect of the financial activities of the Community,
- having regard to the report by the Committee on Budgetary Control and to the opinion of the Committee on Development and Cooperation (Doc. A 2-39/85),

1. Grants discharge to the Commission in respect of the financial management of the Fifth European Development Fund during the financial year 1983 on the basis of the following amounts:

receipts	:	480,192,381 ECU
payments	:	419,234,127 ECU

2. Records its comments in the resolution which forms part of this decision;

3. Instructs its President to forward this decision and the resolution embodying its comments to the Commission, the Council, the Court of Auditors and the European Investment Bank and to ensure that they are published in the Official Journal (L series).

¹ (OJ L347, 22.12.80) ² (OJ C348, 31.12.84)

IV
MOTION FOR A RESOLUTION

embodying comments forming part of the decisions granting discharge in respect of the financial management of the Second, Third, Fourth and Fifth European Development Funds during the 1983 financial year

The European Parliament

- having regard to Articles 137 and 206b of the Treaty establishing the European Economic Community,
- having regard to Articles 67 and 70 respectively of the Financial Regulations applicable to the Fourth and Fifth European Development Funds, which require the Commission to take all appropriate steps to act upon the comments appearing in the decisions giving discharge,
- noting that the same Articles also require the Commission, at the request of the European Parliament, to report on the measures taken in the light of Parliament's comments and, in particular, on the instructions given to those of its departments which are responsible for the management of the European Development Funds,
- deciding to make the comments mentioned in the said Articles 67 and 70 in the form of this resolution, which is part of each discharge decision in respect of the financial management of the European Development Funds for the 1983 financial year,
- adopting this resolution also, in exercise of powers necessary for the fulfilment of its supervisory role, in order to remedy weaknesses found during its discharge investigation and to achieve better management of the European Development Funds,
- having regard to the report of the Committee on Budgetary Control and other documents mentioned in the decisions granting discharge (Doc. A 2-39/85),

Form of the discharge decision

1. Decides, in order to standardise the terminology used in its discharge decisions and to achieve greater clarity, to adopt again the definitions set out in paragraph 1 of its resolution of 16 April 1985, forming part of the decision granting a discharge in respect of the implementation of the budget for the 1983 financial year;

Development policy as a priority

2. Stresses the importance of development policy because:-

- (a) the needs of developing countries, even for the basic necessities of life such as food and clean water, are enormous;

- (b) it is one of the main aspects of the Community's relationship with half the countries of the world; and

- (c) it is the only Community policy involving major expenditure which is executed by the Commission rather than by the Member States;

3. Points out that the achievement of development objectives depends upon efficient financial management in order to maximise the effect of EDF resources;

4. Recalls the recommendation contained in its aforesaid resolution of 16 April 1985 that the Commission should conduct an urgent assessment of the staff levels in its Directorate-General for Development by reference to staff levels in other aid administrations and other Commission departments and then take appropriate action; and calls upon the Commission to take account of the priority attached to development policy when conducting that assessment and taking consequent action;

Parliamentary powers and responsibilities

5. Recalls its previous resolutions calling for budgetisation of the EDF but also draws attention to the powers and responsibilities of the European Parliament under the Treaties, which are not precluded by the Council's failure to budgetise the EDF;

6. Reaffirms its right to be consulted on proposals for regulations relating to the EDF and, in particular, the forthcoming financial regulation for the sixth EDF;

Annual accounts

7. Notes that the annual accounts of each European Development Fund (EDF) have taken the form of a balance sheet, in which a summary of the year's transactions is included, whereas both the Internal Agreement and the Financial Regulation applicable to each EDF require the accounts to be in the form of a revenue and expenditure account and a separate balance sheet, and calls upon the Commission, in order to achieve greater clarity and to comply with these requirements, to publish both a revenue and expenditure account and a balance sheet in future years,

8. Calls upon the Commission to publish with the annual EDF accounts the figures upon which they seek discharge, being a summary of the main items of the revenue and expenditure account and of the balance sheet for each EDF, and requests the Court of Auditors to comment on such figures in its annual report;

9. Regrets that the accounts for each EDF for the 1983 financial year were not approved by the Commission until 15 May 1984, whereas the relevant regulations require them to be submitted to the European Parliament, the Council and the Court of Auditors no later than 15 April; and calls upon the Commission to adhere strictly to this deadline in future;

10. Calls upon the Commission to ensure that the accounts of the European Association for Co-operation (EAC) are closed on 31 December each year and that the accounts of the EAC and other agencies responsible for managing EDF scholarships and in-service training are reconciled regularly with the EDF accounts;

The Second EDF

11. Notes with approval that the accounts for the Second EDF were closed during 1984, only one project having been outstanding at the end of 1983;

The Third EDF

12. Notes that 13.58 MECU of the Third EDF is still not allocated and a further 34.86 MECU awaits payment; recommends the Commission to take no further funding decisions and to transfer the balance not yet allocated to the Fifth EDF by the end of 1985;

13. Calls upon the Commission to close the accounts relating to all completed projects by the end of 1985 and thus release unused balances estimated at up to 5 MECU;

14. Calls upon the Commission to take effective action to ensure repayment of the loan of 4.5 MECU, which has been outstanding from an ACP state since 1978, and to avoid any similar situation in the future;

Rate of utilisation

15. Calls upon the Commission to present a written report to the European Parliament by 30 April 1986 analysing the reasons for the slow rate of disbursement of the EDF, proposing ways by which it could be improved and appending a summary of comparable information obtained from major international development organisations;

16. Calls upon the Commission to procure an independent comparative study, to be commenced by 1 January 1986, of the procedures within the EDF, the World Bank and the United Nations Development Programme relating to information and decision-taking on projects, from identification to ex-post evaluation;

Appraisal

17. Calls upon the Commission to issue appropriate guidelines to its officials and delegations so as to emphasise that, when appraising projects proposed for EDF assistance, they must obtain adequate information to ensure that the completed project:

- (a) will be appropriately sited in relation to local needs;
- (b) will be financially viable, taking account of the local economy;
- (c) will have adequate managerial and technical staff;
- (d) will be adequately maintained and have access to all necessary spare parts; and
- (e) will avoid any difficulties previously experienced with similar EDF projects;

Ex-post evaluation

18. Reaffirms the need for more thorough ex-post evaluation and improved means of collating the results of previous experience; therefore calls upon the Commission:
- (a) to make arrangements for many more ex-post evaluation studies of EDF projects and programmes to be conducted as from 1 January 1986 and for every project or programme completed after 1 January 1988 to be the subject of an ex-post evaluation, in accordance with Article 224 (2) of the Third Lomé Convention;
 - (b) to conduct ex-post evaluations of projects managed on behalf of the EDF by the EIB, in respect of a sample of projects completed after 1 January 1987 and all projects completed after 1 January 1989;
 - (c) to establish not later than 30 April 1986, a data base bringing together not only the financial information relating to EDF financial and technical co-operation but also the positive and negative experience gained from implementation and ex-post evaluation;
 - (d) to add to the data base no later than 31 December 1986 parallel information relating to Community aid for non-associated developing countries;
 - (e) to set in motion, as an immediate priority, the appointment of sufficient additional staff with appropriate skills to the Directorate-General for Development in order to carry out the above work;

Delegations

19. Underlines the growing importance of Commission delegations in the implementation of EDF financial and technical co-operation and calls upon the Commission to review the numbers and skills of delegation staff so as to ensure that they are sufficient to fulfil their expanding responsibilities and, in particular, to ensure improved standards of project and programme appraisal, monitoring of implementation and ex-post evaluation;
20. Recommends to the Commission that they should engage independent consultants, with relevant expertise, to assist them in the review of delegations;

21. Recommends to the Commission that they should create more possibilities for interchange between those working in delegations and officials within the Directorate General for Development in Brussels;

Stagiaires

22. Proposes to the Commission that they recruit annually as stagiaires a number of young graduates with relevant qualifications to work in Commission delegations, assisting in the tasks of project appraisal, monitoring and ex-post evaluation;

Technical expertise in ACP states

23. Observes that the capacity of certain ACP states, particularly the least developed, to absorb aid to maximum effect is limited by shortages of trained staff within their administrations; therefore calls upon the Commission to give greater emphasis to meeting these needs by reviewing the procedures whereby it offers: (a) aid in training local personnel, and (b) aid through the provision of staff to work within local ACP administrations;

Service contracts

24. Calls upon the Commission (a) to ascertain from other international development organisations how they award service contracts, particularly relating to the supervision of projects, and by what criteria they fix remuneration under such contracts; (b) to consider how the EDF might improve its procedures and enable better value to be obtained from such contracts; and (c) to report to the European Parliament not later than 30 April 1986, comparing the practices of the other organisations with those of the EDF and explaining the Commission's conclusions;

European Investment Bank

25. Intends to examine in a separate report the issues arising from the Court of Auditors' special report on the management of Community Development Aid Funds by the European Investment Bank;

Co-ordination of aid

26. Intends to examine the question of better co-ordination between Community

bodies and with other aid donors in a separate report, based on the special report of the Court of Auditors on the co-ordination of Community aid to third countries;

Contributions

27. Calls upon the Commission to annex to each year's EDF accounts a list of the Member States who have failed to pay their contributions within 15 days of the due dates, showing against each the dates and amounts concerned and the dates and amounts when related payments were made;

28. Recommends to the Commission that they should propose legislation enabling interest penalties to be imposed on those Member States who make late payments of their EDF contributions;

29. Calls upon the Commission to review the system by which it estimates the EDF rates of disbursement and thereby to avoid calling up contributions unnecessarily;

Control of payments

30. Calls upon the Commission to review its system of monitoring supporting documents, with particular reference to transactions involving more than 50,000 ECU, so as to improve control without adding to bureaucracy;

31. Recommends to the Commission that it should record in the EDF accounts the amount of each individual contract concluded within the framework of a special loan, so as to improve control and minimise the possibility of erroneous payments;

32. Recommends to the Commission that it should seek to further simplify its payments procedures, without prejudicing effective control, so as to ensure that payment is normally made within 60 days after the receipt of valid invoices;

Taxation

33. Calls upon the Commission to ensure that EDF contracts benefit in full from the most-favoured state or international development organisation treatment stipulated in Protocol 6 of the Conventions and in particular:

(a) to cease all direct payments of taxes and customs duties in respect of EDF contracts in ACP states which normally grant such exemption to World Bank contracts or to another international development organisation or relevant state;

(b) to devise procedures which will enable it to prevent the indirect payment of taxes and customs duties in such circumstances; and

(c) to take steps to ensure that the lowest rates of taxation or customs duties normally paid by international development organisations or states (other than ACP states or other developing countries, which are excluded by the Protocol) are known and applied in every other ACP state;

34. Calls upon the Commission to present a written report to the European Parliament not later than 30 April 1986 on the result of its monitoring of Protocol 6, listing any countries where taxes or customs duties have been paid on EDF contracts since 1 July 1985, with the amounts and reasons for payment;

35. Recommends to the Commission that it should press strongly in the negotiations for the next Convention for the replacement of Protocol 6 by a clear provision that all EDF contracts are exempt from taxes and customs duties similar to the stipulation made by the World Bank;

Court of Auditors' Annual Report

36. Requests the Court of Auditors to consider how the section of its Annual Report dealing with the European Development Funds might show more clearly whether criticisms of particular projects are typical of certain aspects of EDF management or of certain types of projects, possibly by the inclusion of statistics showing the number of projects found to be unsatisfactory as a percentage, both by projects and by value, of those inspected and of those financed by the EDF;

Reports on implementation of this resolution

37. Calls upon the Commission to report in writing to the European Parliament on the measures taken in the light of this resolution and, in particular, on the instructions given to those of its departments which are responsible for the management of the European Development Funds:

- (a) by an interim report before 30 September 1985, and
- (b) by a report annexed to the EDF revenue and expenditure accounts for the 1985 financial year;

38. Intends to appraise the implementation of this resolution in a detailed manner on the basis of these reports and to comment by further resolutions at the interim and final stages.

EXPLANATORY STATEMENT

The European Parliament attaches great importance to development policy. The main reason is, of course, the enormity of the needs of developing countries. The lack of the basic necessities of food and clean water leads to the death of at least 15 million children each year, even without a famine such as currently afflicts Africa. No one with any sense of priorities could fail to realise the importance and the urgency of this subject.

Under the Third Lomé Convention, sixty five African, Caribbean and Pacific countries are now associated with the ten Member States of the European Community. Together this represents about half the membership of the United Nations. So the Community's links with these countries are of major political importance.

Development policy is the only Community policy involving major expenditure which is executed by the Commission rather than by the Member States. Thus it is a unique test of the Commission's capacity to assume direct management responsibilities. It should therefore have appropriate priority in the Commission's own allocation of management resources.

Ideas into action

The European Community, directly and through its Member States, is the world's largest aid donor. Nevertheless, the resources available are small compared with the needs of the developing countries. So it is essential to maximise the effect of these resources. The achievement of the development objectives of the European Development Fund (EDF) depends upon efficient financial management.

This report looks at the accounts for 1983 and the Court of Auditors' report concerning that year. It draws conclusions about how the financial management of the EDF could be improved. The approach of the report is positive and constructive. This is based on a recognition of the importance of making the greatest possible success of the Lomé Conventions and their EDF component.

It is also based on a recognition of the difficulties involved in managing expenditure in 65 different African, Caribbean and Pacific countries, including many of the least developed. With ten Member States involved at the European end, it is a formidable task. However, the EDF can only justify its existence if the Commission shows that it is at least as effective in managing EDF aid as other international agencies with their multilateral programmes and as the Member States with their bilateral aid.

The main points of this report

The European Parliament

- has revised the form of the EDF discharge decisions in order to achieve greater clarity as to its powers when granting discharge and as to the consequent action which it requires of the Commission, and
- will require interim and final reports from the Commission on the actions taken to give effect to Parliament's resolution.

The Commission is required

- to give greater priority to its management of development aid, and
- to review the staffing of its Directorate General for Development.

The rate of utilisation

- will be the subject of a report by the Commission, analysing the reasons for the slow rate of disbursement of the EDF and proposing ways by which it could be improved, and
- will also be examined from the viewpoint of an independent comparative study of the procedures of the EDF, the World Bank and the United Nations Development Programme.

Appraisal of projects should be improved by the issue of guidelines emphasising that the completed project must:

- be appropriately sited in relation to local needs;
- be financially viable, taking account of the local economy;
- have adequate managerial and technical staff;
- be adequately maintained and have access to all necessary spare parts; and
- avoid any difficulties previously experienced with similar EDF projects.

Ex-post evaluation of projects and programmes

- will increase by annual stages until all EDF projects, including those managed by the EIB, will be the subject of an ex-post evaluation study from 1 January, 1989,
- will be one of the main sources for a new data base, making available experience from previous projects when appraising or monitoring later ones, and
- will require the appointment of sufficient additional staff to the Directorate General for Development.

Delegations

- are recognised as having an expanding role, which makes necessary a review of their staffing, and
- could be strengthened by the use of young graduates with relevant qualifications as stagiaires.

Technical expertise in the ACP states

- is essential to enable them to absorb aid to maximum effect, and
- the Commission is called upon to give greater emphasis to meeting these needs by training local personnel and by providing staff to work within local ACP administrations.

Taxation

- imposed by certain ACP governments absorbs part of the aid given, and
- the Commission is called upon to stop making payments of such taxes and to ensure that the Protocol granting special treatment of EDF contracts is respected.

The form of the discharge decisions

A separate discharge is granted to the Commission for each EDF, except for the second and third EDFs, which are in their winding-up phase. These two Funds are covered by a single decision. This year the form of each decision has been standardised and the role of the resolution, as the embodiment of comments forming part of the decisions, has been more clearly stated.

The resolution sets out in its recitals the powers of the European Parliament to require action in response to its comments forming part of the discharge decisions. The Lomé Convention recites the EEC Treaty as its legal base and is part of the activities of the Community. The European Parliament has a general supervisory role under Article 137 and this is specifically applied to discharge by Article 206b. Under Community law, the Parliament has implied powers in order to fulfil its supervisory task.

More specific power to require action is found in the Financial Regulations applicable to the fourth and fifth European Development Funds. Articles 67 and 70 respectively require the Commission to take all appropriate steps to act upon the comments appearing in the decisions giving discharge. The same articles require the Commission, at the request of the European Parliament, to report on the measures taken in the light of Parliament's comments, and in particular, on the instructions given to those of its departments which are responsible for the management of the European Development Funds.

In its resolution of 16 April, 1985, granting discharge in respect of implementation of the 1983 budget, Parliament standardised the terminology used in its discharge decisions. The same terminology is applied to this report by paragraph 1 of the resolution. The terms are defined as follows:

"calls upon" means that the institution concerned is required to take the action called for,

"recommends" means that the institution concerned is required to consider the recommendation and to implement it unless there are strong reasons to modify or reject it, which the institutions must explain to the European Parliament,

"proposes" means that the institution concerned is required to consider the proposal and to give its reasoned response to the European Parliament.

All other comments are to be treated as an assessment of the actions of the institution concerned or of the needs of the Community, which the institutions are required to note and to which they are invited to respond to the European Parliament.

Implementation of this resolution

The annual report of the Court of Auditors concerning the financial year 1983 contains, in chapter 15, some highly critical observations on the financial management of the EDF. The Court of Auditors alleged that faults which they had been pointing out for years 'recur with disconcerting regularity' and that 'no lessons are learnt from past experience'.

Because of the timescale involved in the implementation of projects, it is inevitable that faults will recur for several years after they are first noticed. This is because other projects, incorporating the same faults, will already have been started. However, the timescale between observing a fault and preventing its recurrence must be shortened.

In some aspects, remedial action involves significant changes in the management of the EDF, which have not yet been made. The Commission as a whole must take responsibility for allocating sufficient internal resources to achieve these improvements.

After careful consideration of the Court of Auditors' observations and the replies of the Commission, the European Parliament in its discharge resolution is stipulating a number of precise steps which need to be taken in order to improve the financial management. Since the Parliament has unique powers in a discharge resolution to require action, it will not be content with a token response. Its comments have been phrased in precise terms and similar precision will be expected in the action taken by the Commission.

In order to monitor progress, an interim report is called for by 30 September, 1985, and then a final report annexed to the revenue and expenditure account for the 1985 financial year, due to be submitted to Parliament by 15 April, 1986. These reports will be examined in detail and appropriate resolutions will be placed before Parliament at each stage making further comment.

Budgetisation of the EDF

The resolution points out that the Council's failure to budgetise the EDF does not preclude the European Parliament exercising its powers and responsibilities under the Treaties. The reliance on the EEC Treaty as the legal base for the Lomé Conventions brings the EDF fully within the sphere of activities of the Community.

This report shows that all the Parliament's powers relating to discharge apply. Similarly Parliament's right to legislative consultation is not precluded by any provision of the Treaties or of any of the Conventions. Thus it should be consulted on the forthcoming Financial Regulation for the sixth EDF.

If the EDF were to be budgetised, it is likely that expenditure falling under the Convention would be classified as compulsory. Furthermore, since a figure is fixed in the negotiations for each new Convention, it would be undesirable for it to be subject to question in the annual budgetary procedure. So it would be noted rather than altered in the budget.

The contributions of Member States would be made in the form of VAT payments, rather than national contributions fixed as a percentage of total expenditure, provided that the Community's system of raising revenue remained the same. Thus the EDF would be better integrated in the Community's financial systems. However, since VAT contributions are fixed in the Own Resources Decision, budgetisation of the EDF would make little difference to the annual decisions about the revenue side of the budget.

The emphasis in this report is on the effective exercise of Parliament's extensive existing powers. This does not reduce the force of the demand for budgetisation, which would regularise the present anomaly in the Community's finances.

Staff

Staff levels in the Directorate General for Development are significantly lower than those in comparable international aid administrations. They have not reflected increases in the real value of resources administered and the number of ACP states.

This issue was dealt with in detail in the discharge resolution of 16 April, 1985. The Commission was recommended to conduct an urgent assessment of the staff levels in its Directorate General for Development by reference to staff levels in other aid administrations and other Commission departments and then take appropriate action. The present resolution recalls the previous words and adds a requirement that the Commission must take account of the priority attached to development policy when conducting that assessment and taking consequent action.

It is well understood that the Council have not granted any extra posts for many years to cover the expanding workload of the relevant Directorate General. The European Parliament, in exercise of its budgetary powers, has attempted to meet this need from time to time. However, the lack of criteria for assessing workloads and determining the posts required has made this difficult. Therefore the main responsibility lies with the Commission to ensure that it accords appropriate priority to this sector within the limits of its overall staff resources.

Parliament's previous resolution made recommendations as to how the overall staff needs might be better assessed and met more flexibly by internal redeployment. This resolution focuses solely on the problem in the Development Directorate General and places the responsibility on the Commission to conduct an urgent assessment and take consequent action.

Annual Accounts

Both the Internal Agreement and the Financial Regulation applicable to each EDF require the annual accounts to be in the form of a revenue and expenditure account and a balance sheet. Hitherto they have been published in the form of a balance sheet, in which a summary of the year's transactions is included. It might be argued that this is sufficient to meet the words of the legislation. However separating the revenue and expenditure account from the balance sheet would set out the necessary information more clearly. Even quite small organisations produce their accounts in this form and there is no reason why the EDF should be an exception.

In the main discharge, the figures which are used as the basis for the discharge decision are recommended by the Commission in the annual accounts and the Court of Auditors is able to comment upon them in its annual report. The present resolution calls for a parallel procedure in respect of the EDF accounts and discharge.

Improvements in accounting administration are called for. The annual EDF accounts are often produced late and the Commission is called upon to adhere to the deadline of 15 April in future. The accounting period of the European Association for Co-operation (EAC), which manages certain expenditure for the Commission, is already being brought into line with the normal accounting year and the Commission is now called upon to reconcile these accounts with their own more regularly to avoid discrepancies.

Second and third EDFs

Only one project was outstanding under the second EDF by the end of 1983 and the accounts were closed in 1984. However, 13.58 MECU of the third EDF is still not allocated and a further 34.86 MECU awaits payment. The Commission is recommended to take no further funding decisions but to transfer the balance not yet allocated to the fifth EDF by the end of 1985. This will make the administration and exercise of control simpler and more effective.

Rate of utilisation

The table on page 177 of the Annual Report of the Court of Auditors shows that the pattern of expenditure under each EDF is that it takes more than a year after the signature of a new Convention for the first payments to be made and that they gradually increase and then decrease over a further nine years, making the main implementation period roughly ten years. However, a small part of the money remains unspent at the end of the tenth year and the fact that the second EDF, under which payments started in 1965, was not closed until 1984, illustrates the problem.

It is desirable that this aid, which is so urgently needed should be disbursed more rapidly. For that reason, the resolution calls upon the Commission to present a written report to the European Parliament by 30 April, 1986, analysing the reasons for the slow rate of disbursement of the EDF and proposing ways by which it could be improved. A summary of comparable information obtained from major international development organisations should be appended, so that their rates of disbursement can be compared with those of the Commission.

The nature of the projects undertaken will affect the rate of disbursement. Some industrial projects may be completed within a couple of years whereas rural projects may take several years to reach completion. The emphasis in Lomé III on rural projects is likely to delay rather than expedite the rate of disbursement. This makes it all the more important to study the problems involved and to make improvements.

The procedures of the EDF at all stages from identification to ex-post evaluation need to be studied and compared with other international aid organisations. While the Commission itself carries out the main study of utilisation rates, it should procure a comparative study carried out independently, perhaps by a university institute, showing how the procedures of the relevant bodies differ. Such a study might give rise to ideas for further improvements.

Appraisal

It is usually both difficult and costly to remedy problems discovered during the implementation of a project. It is still worse to do so after the project has been completed. So it is of major importance that project appraisal should look ahead to all the vital aspects of the completed project. The Commission issue a manual, which is intended to be used both by those who submit application for EDF assistance and by the staff who appraise them. It contains a vast amount of detail and practically all the essential elements are there.

Despite the existence of this manual, it is clear that fundamental points are being missed at the appraisal stage. So this resolution calls upon the Commission to issue appropriate guidelines to its officials and delegations so as to emphasise certain key points. The purpose of such guidelines would be to avoid the essentials being lost in a mass of detail.

The guidelines would require those appraising projects to obtain adequate information so that they can ensure that the completed project:

- will be appropriately sited in relation to local needs;
- will be financially viable, taking account of the local economy;
- will have adequate managerial and technical staff;
- will be adequately maintained and have access to all necessary spare parts; and
- will avoid any difficulties previously experienced with similar EDF projects.

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The only one of these items which is not already in the manual is the last. This is likely to be because, on the one hand, it is assumed and, on the other, that there is no adequate means, other than reliance on consulting colleagues, of knowing about previous difficulties. That problem is addressed later in the resolution.

Implementation of projects and programmes

The Court of Auditors found that there had been insufficient monitoring of certain projects which they inspected. As a result, there was a delay in observing problems and in dealing with them. It is self evident that the Commission must ensure that its delegations are able to carry out effective monitoring.

The resolution deals with these problems in the sections relating to delegations and to technical expertise in ACP states. It is also an important topic in the special report of the Court of Auditors on the co-ordination of Community aid to third countries, which the European Parliament will examine in a separate report.

Ex-post evaluation

There are two main purposes of ex-post evaluation studies. The first is specific to the project. It is to determine whether any further action is needed in order to attain the objectives originally set. The second purpose is more general. It is to be able to learn from previous experience. However, this requires a means of collecting the information gained through such studies and making it available to those involved in future projects.

As well as fulfilling these two purposes, the fact that such an evaluation study will be carried out is a spur to those involved in implementation. Any slackness at that stage will be discovered by a programme of systematic ex-post evaluation studies. Conversely, the absence of such systematic investigation makes it difficult more to exercise proper control during the implementation stage.

The present practice of the Commission is to examine sectors of the operation of the EDF and to conduct evaluation studies of a small sample of such projects. Such a system inevitably relies primarily upon the judgement of those involved and may fail to reveal many problems. Only one A grade official is assigned to this task, although he can, of course, obtain information from other officials and seek outside help. It is obvious that a proper programme of ex-post evaluation will need to be supported by an adequate number of staff.

This resolution calls upon the Commission to increase the number of ex-post evaluation studies by stages over a period of four years. By 1 January, 1988, every EDF project or programme managed by the Commission should be the subject of an ex-post evaluation and as from 1 January, 1989, even those managed by the EIB should have a similar study conducted by the Commission.

So that the information gathered by these studies and the other experience gained by the Commission can be readily available to those involved in future projects, the Commission is called upon to establish not later than 30 April, 1986, a data base. This will contain both positive and negative experience. The World Bank has already pioneered such a data base. It should be an extremely useful management tool.

In order to take full advantage of the EDF experience when dealing with aid to non-associated developing countries and vice-versa, this data base should provide for an interchange of such information. Furthermore, the Commission will need to appoint sufficient staff with appropriate skills in order to carry out this work. The skills involved may be obtained by fresh recruitment but, at least in the short term, it should be possible for the Commission to find the necessary posts within the existing establishment plan.

Delegations

When Commission delegations were originally established in ACP states, their functions were concerned mainly with the implementation of projects and relatively narrow technical expertise was the prime requirement. As a result of progressive changes, culminating in Lomé III, such delegations are being

increasingly involved in wide ranging discussions on the development needs of the ACP states concerned. It is time to make a fresh assessment of the numbers of staff and the skills required in delegations in order to fulfil their expanding responsibilities.

Another purpose of such a review is to ensure greater effectiveness at all stages from project and programme appraisal to ex-post evaluation. It is important to establish whether deficiencies in these areas are attributable mainly to lack of staff or relevant skills in delegations or whether there are management weaknesses. All of this might be better established by independent consultants, with relevant expertise, than by the Commission itself. Furthermore, it is improbable that the Commission has the staff needed to carry out such a review in sufficient depth.

This resolution calls for the review and recommends that it be carried out by independent consultants. As a separate matter for consideration, the resolution suggests that there should be more possibilities for interchange between those working in delegations and officials within the Directorate General for Development in Brussels.

Stagiaires

A welcome trend in recent years has been the establishment of academic courses relevant to development problems. Many of these young graduates would be interested in spending one year, or possibly two, in an ACP state, learning about development problems first hand. At the same time, they have sufficient expertise to make a significant contribution to the work of a delegation. For example, tasks associated with project appraisal, monitoring and ex-post evaluation could be assigned to such stagiaires. It is proposed to the Commission in this resolution that it should establish such a scheme.

The cost of a scheme for stagiaires would be far less than the recruitment of an equivalent number of permanent officials. Within the overall staff complement of a delegation and working with suitable supervision, stagiaires could be extremely cost effective. At the same time, the young graduates

themselves will gain valuable experience, which will assist them in their careers. Some may ultimately join the Commission's permanent staff. Others may join the local administration in an ACP state. It is hoped that the Commission will be able to build on their current special arrangement with Italy, in which they are accepting some young Italian graduates under similar conditions, and establish a full Community scheme in the near future.

Technical expertise in ACP states

It is not difficult, sitting at a desk in Brussels surrounded by technical expertise, to devise superb projects. The difficulty is that the main burden of implementation and later of maintaining and running the projects falls upon ACP states whose needs are usually in inverse proportion to their capacity to absorb aid. The constraint is that the least developed countries have the fewest trained people. It is vital to lessen this constraint by training more local personnel and by assisting ACP states to obtain trained staff to work within their administrations.

The Convention envisages the provision of aid for training and aid to pay for specially recruited expert staff. Bearing in mind the importance of dealing with this problem, the Commission is called upon in the resolution to review its procedures so as to place greater emphasis on meeting these needs.

Service contracts

There have been complaints by some ACP states, which are recorded by the Court of Auditors in its Annual Report, that they sometimes pay excessively high charges to consultants provided through technical assistance aid. This resolution calls upon the Commission to ascertain from other international development organisations how they award service contracts, particularly relating to the supervision of projects, and by what criteria they fix remuneration under such contracts. The Commission is also called upon to consider how the EDF might improve its procedures to obtain better value for money and to report to the European Parliament not later than 30 April, 1986, comparing the practice of the other organisations with those of the EDF and explaining its conclusions.

One way of reducing costs would be to employ more locally based consultants. This would also encourage the development of competent consultancy firms in ACP states. The Commission should prepare lists of appropriately qualified consultants permanently based in ACP states who might be employed in work associated with EDF projects and programmes. It should then encourage more use of such locally based consultants.

Future reports

The Court of Auditors produced during 1984 two important reports relating to development aid. Their special report on the co-ordination of Community aid to third countries (OJ C224, 25.8.84) dealt with co-ordination between Community bodies and also with other aid donors. Their special report on the management of Community development aid funds by the European Investment Bank (available from the Court of Auditors) dealt with a number of difficult problems concerning the delegation of management responsibilities by the Commission to the EIB. The Committee on Budgetary Control is in the course of preparing separate reports to deal with these important subjects.

Contributions

Each year a number of Member States fail to pay their contributions to the EDF on time. The Commission should propose legislation enabling interest penalties to be imposed. However, the immediate remedy is to expose the Member States concerned to publicity. Accordingly the resolution calls upon the Commission to annex to each year's EDF accounts a list of the Member States who have failed to pay their contributions within fifteen days of the due date, showing against each the dates and amounts concerned and the dates and amounts when related payments were made.

The converse problem is that the Commission tends to call up excessive contributions. For example, one of the four installments of contributions called up in 1983 proved superfluous. The Commission is called upon in the resolution to review the system by which it estimates the EDF rates of disbursement and thereby to avoid calling up contributions unnecessarily.

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Control of payments

The Commission frequently faces a difficult balancing act when controlling payments. Under European conditions, high standards of paperwork can be demanded and all applications which do not comply with them can be rejected. When dealing with administrations in ACP states the same meticulous attention to documents may be hard to attain. For example, copying machines which are not properly maintained may give copies which gradually become illegible. Furthermore, it causes much more delay to return documents to an ACP state than to return them to another Commission department.

It is appropriate, in the light of the comments made by the Court of Auditors, for the Commission to review its system of monitoring supporting documents so as to perform its delicate balancing act more effectively. The number of documents which need to be handled should be reduced, if at all possible, particularly for payments under 50,000 ECU. On the other hand, the documents which are essential to proper control and to prevent fraud should be identified and procedures adopted to ensure that the waiver of any such document is only made by a senior official on the basis of adequate secondary evidence.

The resolution also makes recommendations which take up points made by the Court of Auditors relating to the identification of individual contracts in the EDF accounts and to ways of remedying the current delay in payment procedures.

Taxation

It is unfortunate that Protocol 6, contained in successive Lomé Conventions, does not simply grant exemption from taxes and customs duties for all EDF contracts. Instead, it provides that EDF contracts are to be granted the status of the most favoured state or international development organisation. There have been difficulties in obtaining proper enforcement of this protocol.

The World Bank stipulates in all its aid contracts that no taxes or customs duties are to be paid. Virtually all ACP states enter into such World Bank contracts and therefore this sets the standard for the most favoured international development organisation. In short, where World Bank contracts exist in an ACP state, the EDF should not pay any taxes or customs duties.

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In the resolution, the Commission is called upon to cease all direct payments of taxes and customs duties in respect of EDF contracts in ACP states which normally grant such exemption to World Bank contracts or to another international development organisation or relevant state. However, it may be difficult to avoid indirect payments immediately, where intermediaries cannot avoid their tax liabilities associated with EDF contracts. Procedures must be devised to solve this problem. The Commission have been monitoring the application of Protocol 6 and are called upon to make a report on the subject to the European Parliament not later than 30 April, 1986.

In the next Convention, the Commission should press strongly for the replacement of Protocol 6 by a clear provision that all EDF contracts are exempt from taxes and customs duties. It is absurd that part of the development aid budget should be paid simply as tax revenue. It is equally untenable to use forms of words which will consume the time of Commission officials in later arguments.

Court of Auditors' Annual Report

The Annual Report of the Court of Auditors has often contained strong criticisms of the Commission's administration of the EDF. It is unlikely that any other aid administration is open to such public criticism. However, it is one of the strengths of the democratic system by which the European Community's affairs are conducted. Such criticisms must be seen as an incentive to all parties to do better in the future.

At the same time, there could be improvements in presentation designed to make it easier both for the discharge authority and for the general public to put the criticisms in perspective. In particular, the figures might be set more clearly in the context of the overall size of the EDF.

The chapter which deals with the EDF in the Annual Report concerning 1983 indicates very clearly the number of projects found unsatisfactory in relation to the number of projects examined. The Court of Auditors is requested to consider other ways by which it could show whether criticisms are typical.

Conclusions

This report goes further than previous discharge decisions in requiring specific action by the Commission. It is a reflection of the importance which the European Parliament attaches to the subject of development aid and of its determination to undertake seriously its responsibilities as discharge authority. The interim and final reports of the Commission will be awaited with interest, in the expectation that a constructive partnership between the institutions will help to make an even greater success of the European Development Fund.