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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE
EUROPEAN PARLIAMENT AND THE EUROPEAN COURT OF AUDITORS**

**Annual Report on the Financial Management of the 6th-9th European Development
Funds (EDFs) in 2005**

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1. INTRODUCTION

The European Development Fund (EDF) finances:

i) European Commission development programmes in:

- sub-Saharan Africa, the Caribbean and the Pacific (ACP) financed under the ACP-EC Partnership (Cotonou Agreement);
- the 20 Overseas Countries and Territories (OCTs) linked constitutionally to Denmark (1), France (6), the Netherlands (2) and the UK (11).¹

ii) European Investment Bank (EIB) programmes in ACP states, under the Investment Facility and Own Resources.

The Commission manages the European Development Fund separately from the EC general budget. EU Member States who joined the Union before 2004 fund the EDF from direct contributions agreed between them. The ten EU Member States who joined in 2004 will contribute for the first time to the next EDF, the 10th, which should enter into force in 2008.

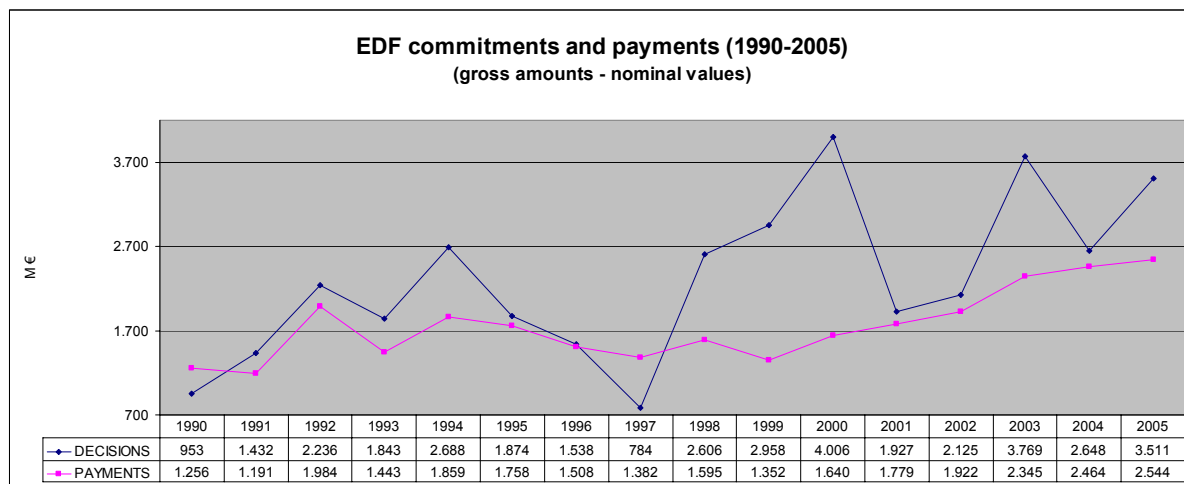
The 9th EDF took effect on 1st April 2003, once all EU and ACP Member States had ratified the Cotonou Agreement. The Commission transferred outstanding balances from previous EDFs to the 9th EDF. These had funded previous EU-ACP agreements. The 9th EDF will expire in December 2007.

2. FINANCIAL OBJECTIVES

In 2005, following a recommendation by the Court of Auditors, the Commission reclassified certain transactions relating to Stabex and completed between 2001 and 2004. All figures in this report covering 2001-04 take this into account.

2.1. Trends in commitments and payments

The table below shows the evolution of global commitments and payments over a since 1990. It confirms positive trends in each, in particular for payments since 1999.



¹ Annex II to the EC Treaty lists 21 Overseas Countries and Territories (OCTs). The Commission has direct relations with 20 of them, as the Overseas Association Decision does not apply to Bermuda (at its request).

The Commission met or exceeded most of its EDF financial performance indicators and targets in 2005.

6th-9th EDF key performance indicators, 2005 (gross, €m)			
Indicator	Target	Result	
Global commitments	3 500	3 511	33% higher than in 2004
Individual commitments	3 000	3 057	
Payments	2 600	2 544	Highest ever annual level for the EDF

The Commission narrowly missed its 2005 payments target, with a shortfall of € 56 million against the €2.6 billion target, but this was still the highest ever EDF amount paid out in a single year.

The Commission also decommitted funds on old or completed projects and contracts and received money back from previous advance payments. Net amounts are set out below:

Commitments and payments, 2005 (€m)		
Global Commitments	New global commitments (gross)	3 511
	De-commitments	476
	Net global commitments	3 035
Individual commitments	New contracts (gross)	3 057
	Contracts decommitted/cancelled	405
	Net individual commitments	2 652
Payments	New payments (gross)	2 544
	Recoveries & corrections received ²	55
	Net payments	2 489

2.2. Management of unspent commitments

The increasing volumes of EDF global commitments require the Commission to be more effective in managing unspent commitments (referred to internally as 'RAL', the acronym of the French term *restes à liquider*). The Commission must disburse the funds as planned or decommit them if they are no longer needed or justified, so they can be used for other purposes.

2.2.1. Overall RAL

At the end of 2005, overall RAL stood at €10 324 million, a 6% rise year-on-year. This reflected the high volume of new commitments in 2005. Over the last five years overall RAL has risen 15%, but the table below shows that increases occurred only in two of the last five years - 2003 and 2005 - and then only as a direct consequence of the very high global commitments entered into in those two years.

This is due to:

- the cyclical nature of the EDFs – increases in commitments precede increases in payments - and
- the Commission's undertaking to commit by the end of 2007, not only all funds allocated to the 9th EDF, but also all unspent funds from previous EDFs.

² Table 2.7 on the report on financial implementation provides details on recoveries and corrections received.

In addition, the time needed to implement projects - measured by the ratio of RAL to annual payments - remained the same year-on-year, at around 4 years. This represents a 20% cut since 2000, when projects took on average more than 5 years to complete. This was possible because the Commission continued to make more EDF payments: 43% more in 2005 than in 2001.

Within this overall RAL the Commission pays particular attention to two situations which can reveal potential problems:

- “old RAL” - unspent commitments over 5 years old and
- “dormant commitments” - commitments for which there have been no contracts signed or payments made in the last 24 months.

2.2.2. *Old and dormant RAL, including Stabex*

Old RAL remained relatively stable between 2001 and 2004, but increased in 2005. The Commission did however anticipate this increase: the final figure of €1 025 million was within 2% of the 2005 target of €1 004 million.

The evolution of dormant commitments is less predictable and year-end figures tend to be more volatile. Dormant RAL at the end of 2005 stood at €487 million, above the €360 million target. This was mainly due to:

- slower-than-expected payments from Stabex funds, which made up 35% of dormant RAL at year-end;
- risk capital managed by the EIB, which comprised 25% of dormant RAL at year-end (but only 8% of total EDF allocations).

The Commission is taking several new measures to close old RAL and dormant commitments, including:

- systematic follow-up and monitoring of individual cases over the year: in regional seminars held at the start of the year, EuropeAid Headquarters and Commission Delegations jointly set targets and agree action plans to address these cases;
- a new mechanism under the Cotonou Agreement for closing such commitments, which allows the Commission to issue recovery orders in cases where the National Authorising Officer has not done so;
- a further new mechanism allowing the Commission to directly deduct, under certain conditions, funds proving difficult to recover from instalments of payments made as part of macroeconomic budget support programmes.

2.2.3. *Decommitments*

In 2005, the Commission decommitted €476 million in unspent commitments, one of the highest annual levels achieved so far. The Commission can now recommit these to new projects and programmes. The table below provides detailed information on:

- the evolution of unspent commitments in the last five years and
- contracting and decommitment of unspent funds in 2005.

Evolution of unspent commitments, 2001-05 (€m)															
Type of unspent commitment (or 'RAL')		Measure		Year											
				2001		2002		2003		2004		2005			
				1 Jan	31 Dec	1 Jan	31 Dec	1 Jan	31 Dec	1 Jan	31 Dec	1 Jan	31 Dec		
Status	Known as											Target	Actual		
≥5 years old	'old RAL'	Committed before	'95	621	520	520	429	429	323	323	253	253	290	141	244
		Committed in	'95	375	245	245	183	183	118	118	72	72		49	
			'96	-		319	210	210	145	145	91	91		54	
			'97	-				194	156	156	128	128	90	112	
			'98	-						427	286	286	200	181	
		'99	-								692	424	488		
		Total	€m	996	765	1 084	822	1 016	743	1 170	829	1 521	1 004	1 025	
Change in total over year	€m	-231		-262		-273		-341		-	-517	-496			
	%	-23%		-24%		-27%		-29%		-	-34%	-33%			
Inactive ≥2 yrs	'dormant RAL' ³	Total	€m	322	389	389	449	449	261	255	513	459	360	487	
≥5 years old &/or inactive ≥2 yrs	'old &/or dormant RAL'	Total	€m	1 318	1 154	1 473	1 271	1 465	1 004	1 425	1 342	1 980	1 364	1 512	
		Change in total over year	€m	-164		-202		-461		-83		-468			
		%	-12%		-14%		-31%		-6%		-24%				
Total, all types	'total RAL'	All years	€m	8 821		8 728		9 842		9 779		10 324			

Result			
Contracts	% of funds for which contracts concluded	funds committed in 2003	73% (€2 752m)
		funds committed in 2004	61% (€1 675m)
		funds committed in 2005	25% (€882m)
Unspent commitments ('RAL')	Total decommitted	€476m	

³ Until 01/01/2003 including old RAL ; from 31/12/2003 onwards excluding old RAL

3. PROGRESS WITH QUALITY

3.1. Quality Support Groups (QSGs)

Following EuropeAid's re-organisation in 2005, the Commission intensified the QSGs' review of new operations:

- for ACP programmes over €8 million, QSGs now meet formally to review all new proposals;
- for ADP programmes up to €8 million, QSGs use a written quality review procedure.

In 2004, QSGs reviewed a sample of 22 ACP proposals in formal meetings, but in 2005 this rose almost ten-fold to 211 proposals, amounting to €3 800 million.

Through the QSGs, Commission staff with geographical and/or thematic expertise recommend ways to improve new programmes' design. They review each new programme at two stages of the project cycle: early on, at the initial identification stage, and later once the technical formulation has been completed.

3.2. Monitoring of ongoing programmes

Commission staff in both Headquarters and Delegations monitor all programmes regularly. In addition, independent analysts continued to undertake results-oriented monitoring (ROM) in 2005. Monitoring missions were carried out in 60 ACP countries, covering 347 programmes amounting to €5 739 million.

Monitors attribute scores against several internationally-accepted criteria. The benchmark set is that a programme should be 'performing as planned'. This corresponds to an overall score of 2.5 or more. A score of 3 or more means that the project is performing better than originally planned, while a score of 2 or less means that the project is not reaching its targets. The aggregate indicator for the ACPs was 2.60 in 2005.

Programmes reviewed in 2005 achieved above-target scores for programme design/relevance and sustainability, and scored least well for efficiency (2.42).

ACP programmes' average ROM scores, 2005	
ROM criterion	Average score of programmes monitored
Quality of design / relevance	2.77
Efficiency	2.42
Effectiveness	2.64
Impact	2.48
Sustainability	2.68
Overall	2.60

Preliminary indications suggest that many ACP projects' complexity, and the difficult political and socio-economic context in which they are implemented, adversely affect ROM scores. The Commission will continue to reinforce its monitoring of ongoing projects, and follow the evolution of ROM scores closely.

3.3. General budget and sector support to beneficiary countries

The share of EDF funds channelled through general budget and sector policy support programmes (GBS and SPSPs) increased by 57 % in 2005:

New general budget and sector policy support programmes (GBS and SPSPs), 2005 - global commitments (€m, gross)			
Type of programme	2004	2005	% increase
General budget support	469.4	704.7	50%
Sector policy support programmes	242.1	415.7	72%
Total	711.5	1 120.4	57%

Many ACP countries now have poverty reduction support programmes (PRSPs) in place. With these, governments identify priorities for tackling poverty and monitor their progress over time. Budget Support is an effective way to assist beneficiary countries in the implementation of PRSPs.

The Commission also uses Sector Policy Support Programmes (SPSPs) to target aid more effectively in education, health and other key sectors. SPSPs are conditional on governments achieving concrete progress in the sectors concerned - for example, increasing vaccination rates for children under five or school enrolment rates. SPSPs can be funded either through budget support, or as standard development projects.

New general budget support and sector policy support programmes (GBS and SPSPs), 2005 - global commitments (€m, gross)					
Programme type	Financing type	Country	Sector	Amount	
				Target	Result
General budget support		Burkina Faso	Budget Support	-	151.5
		Burundi			7.8
		Cape Verde			12.5
		Congo, Rep.			30.5
		Guinea-Bissau			6.0
		Madagascar			55.0
		Malawi			41.5
		Mozambique			95.0
		Niger			70.0
		Rwanda			36.0
		Sierra Leone			50.0
		Tanzania			57.0
		Uganda			92.0
		Sub-total, macroeconomic budget support			840.0
SPSPs	Sectoral budget support (SBS)	Botswana	Education	-	50.3
		Burkina Faso	Education		15.0
		Dominican Rep.	Education		3.8
		Mali	Capacity-building		72.0
		Niger	Education		21.0
		Zambia	Capacity-building		13.0
		Sub-total, SBS			175.0
	Standard project financing	Chad	Infrastructure	-	30.0
			Transport		84.0
		Niger	Transport		69.0
			Capacity-building		3.5
		Samoa	Water		19.1
		Swaziland	Education		20.0
		Zambia	Food security		15.0
Sub-total, standard projects			700.0	240.6	
Sub-total, SPSPs			875.0	415.7	
Total			1 715.0	1 120.45	

The share of commitments comprising general budget and sector support has peaked under the current programming arrangements, as most of the large programmes are now underway until 2007-08.

In March 2004 and February 2006, EuropeAid and DG Development submitted to EU Member States meeting in the EDF Committee information notes presenting the guiding principles and methodology of ACP budget support.

4. DEVOLUTION

During 2005, the remaining four ACP delegations which had not been devolved - Papua New Guinea, Lesotho, Haiti and Burundi - received their sub-delegations. So now all 44 ACP Delegations are devolved, as is EC assistance to all 78 ACP states, since some Delegations cover more than one country.

The Commission conducted nine verification missions in 2005 to Guinea Bissau, Ghana, Nigeria, Papua New Guinea, Lesotho, Central African Republic, Haiti, Sudan and Burundi. It has now completed missions to all 44 ACP Delegations. These allow headquarters staff to check that sub-delegations granted to Heads of Delegations are operating efficiently and under secure conditions.

At year end, 82% of all outstanding commitments under EDF were managed on a devolved basis, just short of the 86% target for 2005. The remaining 18% managed by Headquarters staff mainly comprise intra-ACP programmes.

The table below shows staffing levels in ACP Delegations before and after devolution. External staff comprise Local Agents, Contract Agents, Detached National Experts and Young Experts:

Staff in ACP delegations, pre- and post-devolution				
	Before devolution	After devolution	Increase	
			Absolute	%
Officials	262	457	195	74 %
External staff	741	1575	834 ⁴	113%
Total	1 003	2 032	1 029	103%

The Commission foresaw a gap in financing from mid-2006 to 2007 to cover the costs of devolution. It reached an agreement with ACP states as part of the revision of the Cotonou Agreement to transfer an extra €90 million from 9th EDF funds reserved for intra-ACP cooperation. A €90 million financing proposal to cover devolution costs from mid-2006 to 2007 will be presented for a Commission decision in 2006. The Commission will use the funds to finance devolution in 2006 and 2007.

At its meeting in Luxembourg in June 2005, the ACP-EU Council of Ministers decided to amend the Cotonou Agreement by adding this paragraph :

“9. By derogation from Article 58 of this Agreement, an amount of EUR 90 million shall be transferred to the intra ACP envelope under the 9th EDF. This amount may be allocated to finance devolution for the period 2006-2007, and shall be managed directly by the Commission.”

The Commission successfully completed devolution in 2005, but difficulties remain in some areas, in particular relating to staff:

- “hardship” posts remain vacant for long periods;
- the Commission uses so-called “floaters” to address temporary vacancies at critical moments, but this has not been sufficient to respond to all demands.

The vacancy rate for post in Delegations stood at 9% at the end of 2005.

⁴ Financed under the EDF administration support costs.

5. FOLLOW-UP TO COMMENTS BY THE EUROPEAN COURT OF AUDITORS

5.1. Court of Auditors' Annual Report

The Court of Auditors issued a positive Annual Statement of Assurance for the EDF for 2004. It considered that the reports on financial implementation and the financial statements reliably reflected the revenue and expenditure relating to the 6th, 7th, 8th and 9th EDFs for 2004 and their financial situation at year-end.

The Court also noted that both at Headquarters and in delegations, the Commission had made steady progress in applying its Internal Control Standards, and thereby in the functioning of its internal control systems.

No.	Area	Recommendation	Status end 2005, action planned 2006
2004 EDF			
(a)	Reporting	In the EDF financial management report (FMR), include, complement or place in context key information.	The FMR highlights significant events only; the financial statements give more detailed information.
(b)	Stabex	In the FMR, set out the outstanding actions arising from the inventory	See section 4.2 in this report.
(c)	Reporting	Publish the FMR at the same time as the definitive annual accounts, to be consistent with final data	The deadlines set by the EDF Financial Regulation imply that the FMR accompany the provisional and not the final accounts. For 2005 the FMR and the provisional accounts have been prepared in close collaboration to ensure that data is consistent
(d)	Advance payments	To register as an asset in the balance sheet of the EDF	When closing the 2005 accounts the Commission registered the advance payments and receivables according to the IPSAS norms. The follow-up of the advance payments has been executed according to the Financial Regulation. The Action Plan for 2006 envisages producing a report on advance payments by the end of the year.
(e)	RAL	Accelerate the execution of the external aid	See section 6.2 in this report.
(f)	Results of EDF	Define quantifiable objectifs	In line with the recommendations of the Parliament, the Commission will continue to define quantifiable objectives. Aggregate quantified objectives for the EDF are established in the context of the Annual Management Plan approved each year for EuropeAid. These objectives are monitored against execution during, and at the end, of the year. This Financial Management Report makes reference to such indicators.

-	International organisations	Detail the amounts involved in activities with major international organisations.	In 2005, the EDF entered into new contracts with: - UN organisations - total €212 million - World Bank (IBRD) - total € 149 million Annex 4 breaks down figures in more detail.
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5.2. Court of Auditors' Special Reports

The Court also issued a report on the public finance aspects of EDF-funded budget support. This found that the Commission's policies in this area "provide relatively comprehensive information that enables it to take appropriate action." The table below summarises the Court's recommendations and AIDCO/C's follow-up.

No.	Area	Recommendation	Status end 2005 and/or action planned 2006	
EDF budget support – public finance aspects (no. 2/2005, summarised in 2004 EDF Discharge, para. 55)				
55	Methodological guide	Update and complete, incl. monitoring reports	Update and complete: work is in progress in updating the Methodological Guide, including clarification of eligibility criteria and reporting on public financial management (where it is planned to replace the six-monthly reports with an annual report).	
	Eligibility	Give clearer evidence of countries' eligibility	This is being covered by revised Identification Fiches, and within the existing format of Financing Proposal.	
	Indicators	Use enhanced-incentive PF performance indicators	Use new PFM performance management tool	The Commission and other donors completed the Public Expenditure Financial Accountability (PEFA) framework in 2005. The Commission will use PEFA to replace current tools.
	Donor coordination	Cooperate more closely locally	In addition: - the current donor group has extended the PEFA secretariat's work to 2008 - the OECD-DAC approved the PEFA framework - the EC is using the joint venture on Public Financial Management to encourage more rigorous public finance management.	
ACP states' institutions	Strengthen relations with parliaments & supreme audit institutions (SAIs)	The Commission recognises parliaments' and SAIs' important role. but must ensure due regard for: 1. national sovereignty 2. the rules governing the balance of powers between such institutions and 3. the Cotonou Agreement. An orientation note is in preparation.		

6. KEY CHALLENGES FOR 2006-07

The next two years represent a critical period for the Commission. It must work fast to follow through on its political commitment to deliver more and better aid in ACP states, and in Africa in particular. Key to this is continuing to improve its management of the EDF.

To this end the Commission has set itself the following goals for 2006-2007:

- globally commit all 9th EDF funds by end 2007;
- close 6th EDF by end June 2006;
- close 7th EDF by end 2007;
- reduce “old RAL” and “dormant RAL” in 2006 compared to 2005;
- maintain RAL/payments ratio close to 4 years;
- commit all outstanding Stabex funds before end 2007;
- contract all Stabex funds by end 2008;
- set up an ex-post control system which complies with the authorising officer’s standards;
- continue to raise quality and impact through more quality support and monitoring.

This is an ambitious work programme. Its achievement will ensure that when the 10th EDF enters into force, which is expected to happen in early 2008, it will be managed as efficiently as possible and thereby contribute more to achieving the Millennium Development Goals in ACP states.

Annex 1: EDF consolidated accounts at 31.12.2005

	APPROPRIATIONS	6th EDF	7th EDF	8th EDF	9th EDF	6th,7th,8th et 9th
Lomé	Programmable aid	4.819,91	5.525,69	5.610,35		15.955,94
	Non-programmable aid	2.493,88	4.874,55	5.008,15		12.376,58
	Transfers to other Funds	91,00	331,35			422,35
	Sundry revenue					0,00
Cotonou	A envelop			442,09	9.025,31	9.467,40
	B envelop			255,00	1.296,53	1.551,53
	Regional Allocation				983,86	983,86
	Intra ACP allocation	10,00	50,00		1.945,23	2.005,23
	Cde, Cta et ass. Paritaire				106,99	106,99
	Countries Reserve Cotonou				433,20	433,20
	Reserve dev.long terme				864,29	864,29
	Dot.speciale dec.cons.4/04				107,99	107,99
	Frais de mise en ouvre et int.				179,51	179,51
	TOTAL	7.414,78	10.781,59	11.315,59	14.942,90	44.454,87

	EDF	AGGREGATE TOTAL		ANNUAL FIGURES				
		As at 31/12/05	% of appropriation	2001	2002	2003	2004	2005
DECISIONS								
	6	7.414,78	100%	(14,20)	2,84	(13,13)	(32,24)	(24,56)
	7	10.781,59	100%	48,21	125,99	(2,60)	(58,42)	(86,09)
	8	11.315,59	100%	1.520,15	1.639,56	255,11	(172,26)	(275,05)
	9	9.215,28	62%			3.156,44	2.638,08	3.420,76
TOTAL		38.727,25		1.554,16	1.768,39	3.395,83	2.375,15	3.035,06
ASSIGNED FUNDS								
	6	7.377,03	99%	26,92	33,49	30,74	28,68	(1,32)
	7	10.529,00	98%	294,11	328,12	311,69	121,42	110,52
	8	10.247,10	91%	1.942,32	1.781,30	1.406,57	848,67	471,95
	9	4.812,08	32%			993,70	1.747,48	2.070,90
TOTAL		32.965,22		2.263,36	2.142,92	2.742,71	2.746,25	2.652,05
PAYMENTS								
	6	7.333,77	99%	50,46	48,53	47,04	30,00	21,62
	7	10.084,88	94%	406,92	326,12	382,21	234,94	235,31
	8	8.385,22	74%	1.610,48	1.478,07	1.472,56	985,34	858,47
	9	2.598,92	17%			277,66	947,56	1.373,70
TOTAL		28.402,79		2.067,86	1.852,72	2.179,47	2.197,84	2.489,10

* Negative figures represent decommitments.

Annex 2: EDF resources for ACP countries and OCTs, end 2005 (€m, net)

	Allocations	Global ctments	Indiv. ctments	Payments
6th – 8th EDFs				
NIP, TIP National Indicative Programme	15,955.94	15,955.94	14,877.96	13,571.81
Interest rate subsidies on loans	390.92	390.92	390.92	351.81
Emergencies Emergency Aid	722.92	722.92	722.27	721.59
Refugees Refugee Aid	296.76	296.76	292.74	270.66
Risk capital operations	2,540.65	2,540.65	2,530.65	2,197.90
Stabex Stabilisation of Export earnings-agri commodities	3,862.04	3,862.04	3,840.29	3,477.27
Sysmin Mining development	697.31	697.31	665.20	577.84
SAF-Structural Adustment Support for macroeconomic and sectoral reforms	2,727.83	2,727.83	2,677.31	2,649.43
Debt relief	1,100.00	1,100.00	1,100.00	1,100.00
Use of interest income	38.15	38.15	34.45	31.79
Transfers from previous EDFs of balances	422.35	422.35	410.86	398.05
Intra-ACP allocation	60.00	60.00	60.00	60.00
Cotonou A envelope –Transitional Measure	442.09	442.09	397.87	341.74
Cotonou B envelope –Transitional Measure	255.00	255.00	152.63	53.98
TOTAL	29,511.97	29,511.97	28,153.13	25,803.87
9th EDF				
A envelope –country allocation	9,025.31	6,325.17	3,190.55	1,507.37
B envelope-country allocation	1,296.53	713.67	474.08	334.51
Regional cooperation	983.86	520.39	157.22	36.79
Intra-ACP allocation-all ACP states	1,945.23	1,324.42	713.95	460.67
Other – Support for Joint Inst. mechanism	106.99	104.97	69.81	60.98
Implementation expenses for the 9th EDF	125.00	125.00	112.41	108.35
Interest, autres recettes	52.51	9.05	1.99	0.37
Special for DRC assistance	107.99	91.96	91.69	89.56
Cotonou countries reserve	433.20	0.00	0.00	0.00
Long term development reserve	864.29	0.00	0.00	0.00
OCTs support expenses (studies, TA)	2.00	0.65	0.38	0.32
TOTAL	14,942.90	9,215.28	4,812.08	2,598.92

Consolidated 6th - 9th EDF				
9th EDF: A envelope, reg. allocation 6th-8th EDFs: NIP, TIP, SAF	29,135.04	25,971.43	21,300.90	18,107.14
Intra-ACP allocation	2,005.23	1,384.42	773.95	520.67
Support to joint Institutional Mechanism	106.99	104.97	69.81	60.98
Reserves for long term development ⁵	864.29	0.00	0.00	0.00
Cotonou countries reserve ⁶	433.20	0.00	0.00	0.00
Interest rate subsidies	390.92	390.92	390.92	351.81
9th EDF: B envelope 6th-8th EDFs: emergencies, refugees, debt	3,671.20	3,088.35	2,741.71	2,480.74
Risk capital	2,540.65	2,540.65	2,530.65	2,197.90
Stabex	3,862.04	3,862.04	3,840.29	3,477.27
Sysmin	697.31	697.31	665.20	577.84
Use of interest income	90.66	47.20	36.44	32.16
Transfers from 6th-8th EDFs	422.35	422.35	410.86	398.05
COTs support expenses (studies, TA)	2.00	0.65	0.38	0.32
Implementation costs	125.00	125.00	112.41	108.35
Special assistance DRC	107.99	91.96	91.69	89.56
TOTAL	44,454.87	38,727.25	32,965.22	28,402.79

⁵ Includes:
i) €525m balances released from the EDF conditional billion but which had still to be transferred to the intra-ACP allocation at end 2005;
ii) €90m in operational credits to finance devolution in 2006-2007 (new paragraph 9, Annex I, revised Cotonou Agreement).

⁶ Reserve for:
i) countries for which the 9th EDF has not been notified - Togo, €20.8m
ii) countries without signed country strategy papers (CSPs) – Côte d'Ivoire, Equatorial Guinea, Guinea, Liberia, Sudan, Zimbabwe. For some countries, CSPs are being prepared for signature in 2006; for the others, an end of term review in 2006 will reassess the amount of the reserve.

Annex 3: EDF General Budget Support global commitments, 2000-05 (€m, gross)

Country	2001	2002	2003	2004	2005
Benin			55.00		
Burkina Faso		125.00			151.5
Burundi		22.60		43.62	7.82
Cameroon					
Cape Verde	12.10			5.81	12.5
Central African Republic		4.40			
Chad	10.00		50.00		
Côte d'Ivoire	12.77	40.00			
DR Congo		5.50	106.00		
Congo, Rep.					30.45
Djibouti					
Ethiopia	25.65	44.05		95.00	
Gabon	4.90				
The Gambia	4.26				
Ghana	76.22		5.00	62.00	
Guinea	11.04				
Guinea Bissau					6.0
Guyana				23.30	
Jamaica	21.70	30.00		25.00	
Kenya				125.00	
Lesotho	18.50				
Madagascar		70.00		35.00	55.0
Malawi					41.5
Mali	31.76		132.92		
Mauritania	18.29				
Mozambique		168.00	16.40		95
Niger	3.16	20.00	90.00		70.0
Papua New Guinea					
Rwanda			55.10		36.0
São Tomé & Príncipe					
Senegal				53.00	
Sierra Leone					50.0
Tanzania	76.13		114.00		57.0
Uganda					92.0
Vanuatu	1.60			1.70	
Zambia			117.00		
Annual totals	328.06	529.55	741.42	469.43	704.77
% of EDF annual global commitments	17%	25%	20%	18%	20%

Annex 4: New EDF commitments to the UN and World Bank Group, 2005

	Organisation	€m
UN family	FAO	6.4
	ILO	5.5
	UNDP	87.8
	UNESCO	0.3
	UNICEF	42.4
	UNIDO	1.2
	UNOPS	2.7
	UNOV	24.7
	WFP	34.7
	WHO	6.5
	Total	212.2
World Bank Group	Total	149.0
Both groups	Total	361.2

Annex 5: EDF global commitments by programming & financing instrument (€m, gross)

EDF		Programmable aid ⁷					Non-programmable aid					Total
		Non-budget support (projects)	Budget support			Sub-total programmable aid	Financial contributions		Export support		Sub-total non programmable aid	
			General	Sectoral	Subtotal budget support		Venture capital ⁸	HIPC & Global Fund ⁹	Stabex, Flex	Sysmin		
6	€m	5,224.14	60.73	-	60.73	5,284.86	544.32	-	1,451.12	134.47	2,129.92	7,414.78
	% of total	70%	1%		1%	71%	7%	-	20%	2%	29%	100%
7	€m	6,124.60	1,626.35	-	1,626.35	7,750.95	839.34	40.00	1,702.69	448.60	3,030.64	10,781.59
	% of total	57%	15%		15%	72%	8%	0%	16%	4%	28%	100%
8	€m	6,175.46	1,843.69	257.00	2,100.69	8,276.14	1,156.98	1,060.00	708.23	114.24	3,039.45	11,315.59
	% of total	55%	16%	2%	19%	73%	10%	9%	6%	1%	27%	100%
9	€m	6,061.12	1,803.48	628.43	2,431.91	8,493.03	-	630.00	92.25	-	722.25	9,215.28
	% of total	66%	20%	7%	26%	92%	-	7%	1%	-	8%	100%
All, 6-9	€m	23,585.32	5,334.24	885.43	6,219.67	29,804.99	2,540.65	1,730.00	3,954.29	697.31	8,922.25	38,727.24
	% of total	61%	14%	2%	16%	77%	7%	4%	10%	2%	23%	100%

Annex 6: Consultations held under Arts. 8 and 96/97 of the Cotonou Agreement, 2005

Country	Action taken
Mauritania	Article 96 consultations were launched after the coup d'état in August.
Liberia, Guinea-Conakry, Togo	Article 96 consultations were being followed up.
Guinea-Bissau	Consultations were closed following an end-of-term assessment mission in October.
Zimbabwe	The Council reviewed its Article 96 Decision in February, and decided to extend it for a further year, until February 2006.
Côte d'Ivoire	Political conditions prevented the possibility of Article 96 consultations.
Haiti	The Council lifted the remaining Article 96 measures, enabling the Commission to use the 9th EDF's €72 million A-envelope.
Central African Rep.	A successful transition to democratic rule and elections in 2005 led to the resumption of cooperation in July. Reinforced Article 8 dialogue continued on commitments targeting governance and the rule of law.

⁷ Programmable aid: aid programmed within the framework of national and regional indicative programmes.

⁸ The Commission holds accounting responsibility for venture capital managed by the European Investment Bank under the 6th-8th EDFs.

⁹ HIPC: the World Bank-led Highly Indebted Poor Countries initiative, which helps offset eligible ACP countries' debts.

Global Fund: The Global Fund to Fight AIDS, Tuberculosis and Malaria.

Annex 7: Stabex - balances as at 31st December 2005

STABEX is a financial instrument established by the Lomé Convention. Its purpose is to offset the negative consequences for ACP countries of volatility in export earnings. Each time the Commission signs a STABEX transfer agreement with an ACP state, it transfers funds to a secured bank account in Europe.

A Framework of Mutual Obligations (FMO) sets out the ways in which the transferred funds are to be used. Once the Commission and the ACP state's National Authorising Officer have signed the FMO, transfers are made from the security account in Europe to a double signature bank account opened by the beneficiary state. Funds transferred to this double signature account therefore belong to the beneficiary state. These transfers are recorded as expenditure in the EDF's Financial Statements and therefore balances in these accounts do not appear in the EDF balance sheet.

However, cash outflows from these accounts require a double signature, so the Commission retains joint control of double signature accounts when funds are used for the purposes set out in the FMO. Under Article 212 of the Lomé Convention, an ACP state must give the Commission a report on its use of the funds within twelve months of receipt.

The financial situation at year-end 2005 is set out in the table below:

- figures in columns 1-3, 5 and 7 are based on figures from an earlier table ("2003 table"); this summarised the status of STABEX funds at year-end 2003;
- figures in columns 3 and 7 are also based on figures supplied by the Accounting Officer;
- for two states - Cape Verde and Guinea-Bissau - year-end 2005 figures were not available at the time of drafting this report, so the table shows figures for year-end 2003 and 2004, respectively.

	Transfers from 6th EDF	Transfer agreements from 7th and 8th EDFs	Interest on Stabex accounts	Total available funds (transfers plus interest)	FMOs signed	Total excl. FMO	Balance of both accounts (Europe, ACP state)	Payments made
	1	2	3	4 (=1+2+3)	5	6 (= 4-5)	7	8 (= 4-7)
Benin		2.279.518	973	2.280.491	2.274.819	5.672	210.994	2.069.497
Burkina F.		20.063.915	3.879.205	23.943.120	23.927.173	15.947	10.324.408	13.618.712
Burundi		68.393.759	3.076.410	71.470.169	36.798.909	34.671.260	26.447.749	45.022.420
Cameroon		280.819.530	112.588	280.932.118	328.040.622	-47.108.504	3.908.515	277.023.603
Cabo Verde		1.862.107	470.958	2.333.065	1.937.563	395.502	1.181.346	1.151.719
CAR		24.617.114	2.555.261	27.172.375	16.061.424	11.110.951	1.081.592	26.090.783
Chad		11.307.153	4.799.493	16.106.646	12.461.651	3.644.995	1.594.604	14.512.042
Comoros		9.223.570	1.131	9.224.701	7.926.274	1.298.427	2.068.785	7.155.916
Côte d'Iv.	147.572	345.182.669	897.976	346.228.217	50.308.177	295.920.040	46.749.570	299.478.647
Dominica		43.380.734	11.728.327	55.109.061	48.079.069	7.029.992	13.264.526	41.844.535
Eq. Guinea		8.397.999	18.914	8.416.913	8.397.999	18.914	1.122.322	7.294.591
Ethiopia		189.240.270	50.422.181	239.662.451	238.825.667	836.784	903.872	238.758.579
Gambia		4.612.569	359.604	4.972.173	4.612.569	359.604	1.005.423	3.966.750
Ghana		50.581.460	9.086.069	59.667.529	59.667.529	0	8.762.982	50.904.547
Grenada		13.409.109	3.130.138	16.539.247	15.073.887	1.465.360	4.031.294	12.507.953
Guinea-Bissau		1.572.748	34.643	1.607.391	1.827.332	-219.941	958.993	648.398
Haiti		35.386.871	2.970.097	38.356.968	511.639	37.845.329	1.490.593	36.866.375
Jamaica		8.806.983	13.178	8.820.161	9.250.872	-430.711	734.261	8.085.900
Kenya		132.640.940	14.497.879	147.138.819	86.227.704	60.911.115	50.136.965	97.001.854
Kiribati		908.379		908.379	908.379	0	271.853	636.526
Lesotho	1.224.000	3.705.350	1.404.250	6.333.600	6.333.600	0	312.928	6.020.672
Madagascar		74.244.488	16.820.359	91.064.847	90.744.189	320.658	21.720.568	69.344.279
Malawi		20.030.585	3.105.326	23.135.911	22.952.308	183.603	6.012.025	17.123.886
Mali		941.986	64.818	1.006.804	1.002.088	4.716	0	1.006.804
Mauritania		32.010.377	5.705.829	37.716.206	1.849.875	35.866.331	26.206.187	11.510.019
Mozambique		3.637.727	835.671	4.473.398	4.473.398	0	4.391.935	81.463
PNG		85.162.106	33.229	85.195.335	95.062.351	-9.867.016	901.258	84.294.077
Rwanda		66.306.027	226.163	66.532.190	20.140.000	46.392.190	17.133.180	49.399.010
Samoa	661.324	5.813.570	1.403.721	7.878.615	6.555.971	1.322.644	1.147.547	6.731.068
Sao Tomé		2.886.861		2.886.861	2.886.861	0		2.886.861
Senegal		69.821.420	1.684.599	71.506.019	46.686.795	24.819.224	51.936.623	19.569.396
Sierra Leone		14.834.753	344.124	15.178.877	12.126.798	3.052.079	3.052.079	12.126.798
Solomon Is.	1.114.079	79.274.382	10.775.594	91.164.055	70.994.200	20.169.855	73.509.481	17.654.574
St. Lucia		73.337.780	31.879.522	105.217.302	83.838.820	21.378.482	25.239.590	79.977.712
St. Vincent		63.376.174	31.474.643	94.850.817	75.521.501	19.329.316	26.653.200	68.197.617
Sudan		190.981.534	10.072.730	201.054.264	190.981.534	10.072.730	182.051.061	19.003.203
Tanzania		88.225.486	22.170.468	110.395.954	50.329.386	60.066.568	36.373.543	74.022.411
Togo	1.785.406	22.009.485	9.751.862	33.546.753	28.279.292	5.267.461	16.397.764	17.148.989
Tonga		2.469.490		2.469.490	2.469.490	0		2.469.490
Tuvalu		37.569		37.569	37.569	0		37.569
Uganda		175.946.889	42.494.103	218.440.992	218.440.991	1	41.530.337	176.910.655
Vanuatu		3.497.440	1.534.626	5.032.066	3.959.176	1.072.890	76.900	4.955.166
Zimbabwe		41.636.938	18.350.624	59.987.562	31.212.949	28.774.613	23.877.916	36.109.646
Total	4.932.381	2.372.875.814	318.187.286	2.695.995.481	2.019.998.400	733.623.253	734.774.769	1.961.220.712

The balance of Stabex accounts - in column 7 - is of € 734.774.769, of which:

in BBVA account in Brussels	€ 372.604.458
in EC-ACP accounts	€ 362.170.311

Annex 8: Glossary of terms used in this report

A

accounting: the act of recording and reporting financial transactions, including the origination of the transaction, its recognition, processing, and summarization in the financial statements.

accounting officer: each Union institution appoints an accounting officer responsible for proper implementation of payments, collection of revenue and recovery of amounts established as being receivable; preparing and presenting the accounts; keeping the accounts; laying down the accounting rules and methods and the chart of accounts; laying down and validating the accounting systems and where appropriate validating systems laid down by the authorising officer to supply or justify accounting information; treasury management.

accrual accounting: recognizes revenue when earned, rather than when collected. Expenses are recognized when incurred rather than when paid. This is contrasted with cash basis accounting that recognizes transactions and other events only when cash is received or paid.

annuality: the budgetary principle according to which expenditure and revenue is programmed and authorised for one year, starting on Jan 1 and ending on Dec 31.

auditing: independent assessment of the sufficiency and effective operation of internal controls

auditing standards: each institution determines, in accordance with its specific features and requirements, the scope of the internal auditors' mission and the objectives and procedures for the exercise of the internal audit function with due respect to international internal audit standards.

external auditor: the external auditor for the EU institutions is the European Court of Auditors.

internal audit: performed within an entity by its staff rather than an independent certified public accountant; the function of internal auditor (IA) is incompatible with that of authorising officer and accounting officer. The IA is designated by the institution, which it must advise on dealing with risks, by issuing independent opinions on the quality of management and control systems and issuing recommendations for improvement.

authorising officer: responsible in each institution for implementing revenue and expenditure in accordance with the principles of sound financial management and for ensuring that the requirements of legality and regularity are complied with.

B

budgetary authority: institutions with decisional powers on budgetary matters- the European Parliament and the Council of Ministers.

C

controlling operations or **internal control**: process designed to provide reasonable assurance regarding achievement of various management objectives, such as the fulfilment of legal acts, or reliability of financial actions and reports.

ex-ante controls occur before the financial transaction.

ex-post controls are post-payment checks carried out after the financial transaction.

internal control standards: the Commission's internal control standards were decided by the Commission and are largely inspired by the COSO standards (Committee of Sponsoring Organizations of the Treadway Commission) - an alliance of five professional organizations dedicated to disseminating appropriate internal control standards).

D

delegation: the Commission's delegations and offices around the world:

decentralised programme: a programme managed by officials of the beneficiary country, with the support of the relevant Commission delegation.

discharge: the decision by which the European Parliament, on the basis of the recommendation from the Council and the declaration of assurance provided by the Court of Auditors, closes the life of a budget exercise. It covers the accounts of all the Communities' revenue and expenditure, the resulting balance and the assets and liabilities of the Communities shown in the balance sheet.

E

EDF: The European Development Fund is the main instrument for Commission aid for development cooperation in the African, Caribbean and Pacific (ACP) countries and the Overseas Countries and Territories (OCT). The EDF is governed by its own Financial Regulation and is managed outside the General Budget. The EDF is funded from direct contributions from Member States. The rates of contributions differ from those of the General Budget and are agreed in negotiations.

external auditor: see "auditing" above

F

financial regulation: adopted by unanimity in Council after obtaining the opinion of the European Parliament and the Court of Auditors, this regulation lays down the rules for the establishment and implementation of the general budget of the European Communities.

financial statement: presentation of financial data including balance sheets, revenue and cash flow statements, or any supporting statement that is intended to communicate an entity's financial position at a point in time and its results of operations for a period then ended.

fraud: covers the intentional use or presentation of documents resulting in the reception of funds from the EU budget or the use of funds for a purpose different from the one for which the funds were given, or else, the intentional use or presentation of documents resulting in less money being paid to the EU budget.

G

general accounts: used to prepare the balance sheet and economic outturn.

global commitment: legal pledge to provide finance, provided certain conditions are met.

H - I

internal audit: see "auditing"

individual commitment: contract with a provider of goods or services to deliver a programme.

internal control: see "controlling operations"

international accounting standards: from 2005 onwards, the EC accounting rules in place are those prepared on the basis of the International Public Sector Accounting Standards, IPSAS, as promulgated by the International Federation of Accountants (IFAC). The IPSAS are themselves based on the International Financial Reporting Standards (IFRS, formerly IAS) applicable to commercial companies, but have been adapted as necessary to accommodate the particularities of the public sector.

J - P

payments: cash or bank transfers to EDF programme or project beneficiaries

Q - R

RAL: French acronym for "*restes à liquider*" - commitments which remain to be used/spent.

recoveries: entitlements vis-à-vis the Commission's debtors. Authorising Officers establish third parties' debts towards the Commission and tell the accounting officer to recover money due.

risk and risk assessment/risk analysis: a risk is commonly defined as an event that can result in an undesirable or negative outcome (i.e. the non-achievement of the objectives set up). It is characterised by the probability of the event occurring and the resulting impact if it does occur. These two factors combine to produce a level of risk exposure. A risk assessment identifies such events and their impact and likelihood.

S

sound financial management: the budgetary principle according to which budget appropriations must be used according to economy, efficiency and effectiveness.

statement of assurance (DAS): the European Court of Auditors provides the European Parliament and the Council each year with a statement of assurance as to the reliability of the accounts of all revenue and expenditure of the Commission and the legality and regularity of the underlying transactions.

T

transparency: the budgetary principle of transparency requires the Commission to publish consolidated financial statements and management reports in the Official Journal and online.

treasury: the Commission has bank accounts with Member State Treasuries, Central Banks and commercial banks and these make up the treasury.

U - V - W - X - Y - Z