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## Information and Notices

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#### COURT OF AUDITORS

86/C 321/01

Annual report concerning the financial year 1985  
accompanied by the replies of the institutions

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## COURT OF AUDITORS



In accordance with the provisions of the Treaties (Article 78f(4) ECSC; Article 206a(4) EEC; and Article 180a(4) EAEC) and the Financial Regulation of 21 December 1977 (Article 83) and the corresponding provisions relating to the European Development Funds, the Court of Auditors of the European Communities, at its meeting on 19 November 1986, adopted its

### ANNUAL REPORT

#### **concerning the financial year 1985**

The report, accompanied by the replies of the institutions to the comments of the Court, was transmitted to the authorities responsible for giving discharge and to other institutions by 30 November 1986

Marcel MART  
(President)

Paul GAUDY

Aldo ANGIOI

Pierre LELONG

André J. MIDDELHOEK

Keld BRIXTOFTE

Lothar HAASE

Stergios VALLAS

Charles J. CAREY

Josep SUBIRATS

Carlos MORENO

Richie RYAN



## **FOREWORD**

1. The footnotes indicated in the text of each chapter are given at the end of the chapter in question.
2. The key to the abbreviations and symbols used in this report is given on page 156.
3. The replies of the institutions are set out after the annexes to this report and are marked with a grey strip along the edge.

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## **Annual report of the Court of Auditors concerning the financial year 1985**

### **INTRODUCTION**

1. This is the ninth annual report of the Court of Auditors of the European Communities and it concerns the accounts of the financial year 1985 <sup>(1)</sup>. The Treaties <sup>(2)</sup> and the Financial Regulation <sup>(3)</sup> lay down that the Commission shall draw up and forward the accounts relating to the implementation of the budget and a financial statement of the assets and liabilities of the Community, together with a financial analysis of the preceding financial year, to the European Parliament, the Council and the Court of Auditors by 1 June at the latest. The Court is required to draw up its annual report after examining these documents and taking into consideration any information that it deems necessary to carry out its task. In accordance with the Treaties <sup>(4)</sup>, Parliament, acting on a recommendation from the Council, gives discharge to the Commission in respect of the implementation of the budget. For this purpose, the Council and Parliament in turn examine the above-mentioned accounts and financial statement and the annual report prepared by the Court of Auditors, together with the institutions' replies to the Court's observations.

2. Chapter 1 of Part I of the report contains the Court's general observations. Chapters 2 to 11 concern the general budget of the Communities. Chapter 12 deals with loan and borrowing operations under the EEC and EAEC Treaties and related interest subsidies financed from the budget.

3. Part II of the report is concerned with the European Development Funds. These Funds, which provide aid to developing countries, do not constitute an integral part of the general budget of the Communities but are financed by specific contributions from the Member States.

4. Annex I of the report gives the allocation of responsibilities amongst the Members of the Court at the time this report was adopted. Annex II gives a list of the reports and opinions adopted by the Court during the past five years.

5. Summaries and various detailed analyses of financial information relating to the general budget of the

Communities and to the European Development Funds are presented in Annex III.

6. The Court has sent separate reports to the relevant discharge authorities on the 1985 accounts of JET (the Joint European Torus), the European Centre for the Development of Vocational Training (Berlin), the European Foundation for the Improvement of Living and Working Conditions (Dublin) and the Euratom Supply Agency, and on the 1984 accounts of the European Schools. Comments on the Commission contributions to the budgets of the Schools are included in Chapter 11. The Court has also drawn up a separate annual report on the accounting for the functional activities of the ECSC and on the Commission's financial management in this area, as required by Article 78f(5) of the ECSC Treaty.

### **PRESENTATION OF COMMUNITY ACCOUNTS AND ANNUAL REPORT OF THE COURT OF AUDITORS**

7. The accounts for the financial year 1985 were forwarded by the Commission by 1 June 1986. On 17 October 1986, however, the Court received from the Commission a corrected version of the revenue and expenditure account as at 31 December 1985 (see paragraph 7.11). All the comments contained in this report were sent to the Commission by 15 July 1986 and the relevant extracts of Chapters 1, 2 and 11 were also sent to the Parliament, the Council, the Court of Justice and the Economic and Social Committee.

8. The Financial Regulation provides for each institution to send its reply to the Court by 31 October at the latest. In practice, the formal replies are preceded by discussions between the institutions and the Court. These discussions cover both the Court's comments and the draft replies made available to the Court on an informal basis. This procedure has made it possible, in several cases, to adapt both the comments and the replies so that

<sup>(1)</sup> The footnotes appear together at the end of the Introduction.

the points of view expressed are presented to the reader as objectively as possible.

9. After receiving the institutions' formal replies, the Court adopted its report and, in accordance with the provisions of Article 84 of the Financial Regulation, it then forwarded it, accompanied by these replies, to the institutions by 30 November 1986. The Court did not find it necessary this year, after the conclusion of the contradictory procedure, to add its own comments on the institutions' replies. This attitude does not imply that the Court necessarily agrees with the content of the replies.

10. This year, for the first time and with the aim of making them readily identifiable, the institutions' replies have been highlighted by a grey line in the margin headed 'Replies of the institutions'.

11. The Court has not made any changes to the arrangements introduced in 1983 for the audit of its own accounts. The audit of a given topic in the other institutions also includes an examination of the use made of the corresponding appropriations in the Court's budget. Any observations arising from this examination are included in the relevant chapter of this report and the replies are annexed at the end of the report, in exactly the same way as the other institutions' replies.

## SPECIAL REPORTS

12. As already mentioned under paragraph 4, Annex II gives a list of reports and opinions adopted by the Court during the past five years.

## MEMBERSHIP AND ORGANIZATION OF THE COURT

13. Subsequent to the entry into force of the Treaty relating to the accession of Spain and Portugal to the Communities, the Council, by Decision of 27 January 1986, appointed Messrs Josep Subirats and Carlos Moreno as Members of the Court. The Court consequently reorganized the allocation of responsibilities amongst its Members at its meeting of 6 February 1986. This allocation was further amended in May 1986, following the Council's appointment, with effect from 18 May 1986, of Mr Richie Ryan as a Member of the Court in place of Mr Michael N. Murphy. The allocation of responsibilities amongst the Members of the Court is given in Annex I.

## COURT BUDGET AND STAFF

14. The Court's expenditure in 1984, including carry-overs to 1985, amounted to 17,3 Mio ECU, and in 1985, including carry-overs to 1986, amounted to 18,1 Mio ECU. Salaries and allowances constitute the main component of these amounts.

15. The budgets for 1984 and 1985 provided for the following numbers of posts:

	1984	1985
A category staff	107	109
LA category staff	36	36
B category staff	63	64
C category staff	78	77
D category staff	19	21
<b>Total</b>	<b>303</b>	<b>307<sup>(5)</sup></b>

<sup>(1)</sup> The annual report is produced in accordance with the:  
ECSC Treaty, Article 78f(4);  
EEC Treaty, Article 206a(4);  
EAEC Treaty, Article 180a(4);  
Article 83 of the Financial Regulation of 21 December 1977, OJ L 356 of 31.12.1977, and similar provisions in each of the Financial Regulations for the second, third, fourth and fifth European Development Funds, respectively:  
Council Decision 64/356/EEC, OJ 93 of 11.6.1964;  
Council Decision 71/68/EEC, OJ L 31 of 8.2.1971;  
Council Decision 76/647/EEC, OJ L 229 of 20.8.1976;  
Council Decision 81/215/EEC, OJ L 101 of 11.4.1981.

<sup>(2)</sup> ECSC Treaty, Article 78d;  
EEC Treaty, Article 205a;  
EAEC Treaty, Article 179a.

<sup>(3)</sup> Articles 73 to 77.

<sup>(4)</sup> ECSC Treaty, Article 78g;  
EEC Treaty, Article 206b;  
EAEC Treaty, Article 180b.

<sup>(5)</sup> Including 268 permanent posts and 39 temporary posts.

## PART I

### CHAPTER 1

#### General matters

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#### INTRODUCTION

1.1. In accordance with Article 77 of the Financial Regulation of 21 December 1977 <sup>(1)</sup>, on 29 May 1986 the Court of Auditors received from the Commission the revenue and expenditure account, the financial analysis and the balance sheet of the European Communities for the financial year 1985 <sup>(2)</sup>. The final situation regarding

the appropriations for commitment and for payment available in 1985 was as follows: the appropriations for commitment amounted to 32 320,4 Mio ECU and the appropriations for payment to 29 531,0 Mio ECU (28 437,1 Mio ECU of appropriations specific to the financial year 1985 and 1 093,9 Mio ECU of appropriations carried over from the financial year 1984). *Tables 1.1 — 1.3* show how these appropriations were used, broken down by main areas of Community activity. *Table 3.1* in Chapter 3 summarizes, by type, the revenue collected during the financial year.

<sup>(1)</sup> The footnotes appear at the end of each chapter.

Table 1.1 — Utilization of appropriations for commitment in 1984 and 1985

(Mio ECU)

Sector	Type of appropriations: CA = commitment appropriations; NDA = non-differentiated appropriations	1984			1985		
		Final appropriations	Commitments entered into		Final appropriations	Commitments entered into	
		(1)	(2)		(3)	(4)	
1. Administration (all institutions)	NDA	1 245,6	1 223,1	(98,2 %)	1 336,0	1 314,4	(98,4 %)
2. EAGGF-Guarantee	NDA	18 358,0	18 330,8	(99,9 %)	19 859,0	19 728,1	(99,3 %)
3. Agricultural structures	CA	908,0	819,3	(90,2 %)	933,7	866,1	(92,8 %)
	NDA	51,8	51,2	(98,8 %)	45,2	44,8	(99,1 %)
	CA + NDA	<b>959,8</b>	<b>870,5</b>	<b>(90,7 %)</b>	<b>978,9</b>	<b>910,9</b>	<b>(93,1 %)</b>
4. Fisheries	CA	121,9	66,2	(54,3 %)	155,5	74,9	(48,2 %)
	NDA	32,2	29,9	(92,9 %)	59,9	46,8	(78,1 %)
	CA + NDA	<b>154,1</b>	<b>96,1</b>	<b>(62,4 %)</b>	<b>215,4</b>	<b>121,7</b>	<b>(56,5 %)</b>
5. Regional and transport policies	CA	2 595,7	2 444,4	(94,2 %)	3 031,7	2 637,7	(87,0 %)
	NDA	485,5	484,2	(99,7 %)	3,8	3,0	(79,0 %)
	CA + NDA	<b>3 081,2</b>	<b>2 928,6</b>	<b>(95,0 %)</b>	<b>3 035,5</b>	<b>2 640,7</b>	<b>(87,0 %)</b>
6. Social policy	CA	2 039,4	1 859,5	(91,2 %)	2 558,0	2 202,9	(86,1 %)
	NDA	419,0	416,2	(99,3 %)	209,1	80,6	(38,5 %)
	CA + NDA	<b>2 458,4</b>	<b>2 275,7</b>	<b>(92,6 %)</b>	<b>2 767,1</b>	<b>2 283,5</b>	<b>(82,5 %)</b>
7. Research, energy etc.	CA	1 034,9	762,5	(73,7 %)	1 289,5	945,3	(73,3 %)
	NDA	556,1	555,5	(99,9 %)	38,3	31,9	(83,3 %)
	CA + NDA	<b>1 591,0</b>	<b>1 318,0</b>	<b>(82,8 %)</b>	<b>1 327,8</b>	<b>977,2</b>	<b>(73,6 %)</b>
8. Repayments to Member States	NDA	1 083,2	1 082,5	(99,9 %)	1 266,8	1 244,0	(98,2 %)
9. Cooperation with developing countries	CA	625,0	477,9	(76,5 %)	1 283,8	936,6	(73,0 %)
	NDA	721,7	721,1	(99,9 %)	203,8	202,9	(99,6 %)
	CA + NDA	<b>1 346,7</b>	<b>1 199,0</b>	<b>(89,0 %)</b>	<b>1 487,6</b>	<b>1 139,5</b>	<b>(76,6 %)</b>
10. Provisional appropriations	CA	—	—	—	40,5	—	—
	NDA	—	—	—	5,8	—	—
	CA + NDA	—	—	—	<b>46,3</b>	—	—
Grand total	CA	7 324,9	6 429,8	(87,8 %)	9 292,7	7 663,5	(82,5 %)
	NDA	22 953,1	22 894,5	(99,7 %)	23 027,7	22 696,5	(98,6 %)
	CA + NDA	<b>30 278,0</b>	<b>29 324,3</b>	<b>(96,9 %)</b>	<b>32 320,4</b>	<b>30 360,0</b>	<b>(93,9 %)</b>

Table 1.2 — Utilization of appropriations for payment available in 1985

Mio ECU

Sector	Type of appropriations: PA = payment appropriations; NDA = non-differentiated appropriations	I. Appropriations specific to the financial year 1985					II. Carry-overs from 1984												
		Final appropriations	Commitments (against NDA)	Payments	Carry-overs to 1986	Cancellations	Carry-overs (after transfer)	Payments	Carry-overs to 1986	Cancellations									
											(1)	(2)	(3)	(4)	(5) = (1)-(3)-(4)	(6)	(7)	(8)	(9) = (6)-(7)-(8)
1. Administration																			
— Parliament	NDA	237.8	232.7 (97.9 %)	216.6 (91.1 %)	16.1 (6.8 %)	5.1 (2.1 %)	15.4	11.9 (77.3 %)	—	—	3.5 (22.7 %)								
— Council	NDA	158.5	153.1 (96.6 %)	135.1 (85.2 %)	18.0 (11.4 %)	5.4 (3.4 %)	13.9	13.3 (95.7 %)	—	—	0.6 (4.3 %)								
— Commission	NDA	888.0	879.4 (99.0 %)	811.8 (91.4 %)	67.6 (7.6 %)	8.6 (1.0 %)	63.6	57.7 (90.7 %)	—	—	5.9 (9.3 %)								
— Court of Justice	NDA	32.6	31.0 (95.1 %)	29.2 (89.6 %)	1.8 (5.5 %)	1.6 (4.9 %)	2.5	1.9 (76.0 %)	—	—	0.6 (24.0 %)								
— Court of Auditors	NDA	19.1	18.2 (95.3 %)	17.6 (92.2 %)	0.6 (3.1 %)	0.9 (4.7 %)	1.0	0.9 (90.0 %)	—	—	0.1 (10.0 %)								
Total	NDA	1 336.0	1 314.4 (98.4 %)	1 210.3 (90.6 %)	104.1 (7.8 %)	21.6 (1.6 %)	96.4	85.7 (88.9 %)	—	—	10.7 (11.1 %)								
2. EAGGF-Guarantee	NDA	19 859.0	19 728.1 (99.3 %)	19 723.7 (99.3 %)	4.4 (0.0 %)	130.9 (0.7 %)	2.6	2.2 (84.6 %)	—	—	0.4 (15.4 %)								
3. Agricultural structures	PA	702.5	—	657.6 (93.6 %)	44.9 (6.4 %)	—	49.9	43.0 (86.2 %)	—	—	6.9 (13.8 %)								
	NDA	45.2	44.8 (99.1 %)	33.2 (73.4 %)	11.6 (25.7 %)	0.4 (0.9 %)	5.3	4.8 (90.6 %)	—	—	0.5 (9.4 %)								
	PA + NDA	747.7	—	690.8 (92.4 %)	56.5 (7.6 %)	0.4 (0.0 %)	55.2	47.8 (86.6 %)	—	—	7.4 (13.4 %)								
4. Fisheries	PA	47.5	—	27.0 (56.8 %)	20.5 (43.2 %)	—	31.5	2.5 (7.9 %)	—	—	29.0 (92.1 %)								
	NDA	59.9	46.8 (78.1 %)	45.6 (76.1 %)	1.2 (2.0 %)	13.1 (21.9 %)	6.9	6.7 (97.1 %)	—	—	0.2 (2.9 %)								
	PA + NDA	107.4	—	72.6 (67.6 %)	21.7 (20.2 %)	13.1 (12.2 %)	38.4	9.2 (24.0 %)	—	—	29.2 (76.0 %)								
5. Regional and transport policies	PA	1 694.0	—	1 501.2 (88.6 %)	192.8 (11.4 %)	—	172.9	168.2 (97.3 %)	—	—	4.7 (2.7 %)								
	NDA	3.8	3.0 (78.9 %)	0.7 (18.4 %)	2.3 (60.5 %)	0.8 (21.1 %)	59.7	55.4 (92.8 %)	—	—	4.3 (7.2 %)								
	PA + NDA	1 697.8	—	1 501.9 (88.5 %)	195.1 (11.5 %)	0.8 (0.0 %)	232.6	223.6 (96.1 %)	—	—	9.0 (3.9 %)								
6. Social policy	PA	1 417.1	—	1 318.7 (93.1 %)	98.4 (6.9 %)	—	101.2	97.8 (96.6 %)	—	—	3.4 (3.4 %)								
	NDA	209.1	80.6 (38.5 %)	54.4 (26.0 %)	148.7 (71.1 %)	6.0 (2.9 %)	24.7	19.8 (80.2 %)	—	—	4.9 (19.8 %)								
	PA + NDA	1 626.2	—	1 373.1 (84.4 %)	247.1 (15.2 %)	6.0 (0.4 %)	125.9	117.6 (93.4 %)	—	—	8.3 (6.6 %)								
7. Research, energy etc.	PA	653.9	—	461.7 (70.6 %)	191.9 (29.4 %)	0.3 (0.0 %)	195.8	166.6 (85.1 %)	4.4 (2.2 %)	24.8 (12.7 %)									
	NDA	38.3	31.9 (83.3 %)	7.9 (20.6 %)	24.0 (62.7 %)	6.4 (16.7 %)	73.7	71.3 (96.7 %)	—	—	2.4 (3.3 %)								
	PA + NDA	692.2	—	469.6 (67.8 %)	215.9 (31.2 %)	6.7 (1.0 %)	269.5	237.9 (88.3 %)	4.4 (1.6 %)	27.2 (10.1 %)									
8. Repayments to Member States	NDA	1266.8	1 244.0 (98.2 %)	1 239.3 (97.8 %)	4.7 (0.4 %)	22.8 (1.8 %)	8.7	8.7 (100.0 %)	—	—	—								
9. Cooperation with developing countries	PA	888.9	—	692.0 (77.8 %)	196.9 (22.2 %)	—	135.4	102.9 (76.0 %)	—	—	32.5 (24.0 %)								
	NDA	203.8	202.9 (99.6 %)	163.2 (80.1 %)	39.7 (19.5 %)	0.9 (0.4 %)	129.2	126.6 (98.0 %)	—	—	2.6 (2.0 %)								
	PA + NDA	1 092.7	—	855.2 (78.3 %)	236.6 (21.6 %)	0.9 (0.1 %)	264.6	229.5 (86.7 %)	—	—	35.1 (13.3 %)								
10. Provisional appropriations and contingency reserve	PA	5.5	—	—	—	5.5 (100.0 %)	—	—	—	—	—								
	NDA	5.8	—	—	—	5.8 (100.0 %)	—	—	—	—	—								
	PA + NDA	11.3	—	—	—	11.3 (100.0 %)	—	—	—	—	—								
Grand total	PA	5 409.4	—	4 658.2 (86.1 %)	745.4 (13.8 %)	5.8 (0.1 %)	686.7	581.0 (84.6 %)	4.4 (0.6 %)	101.3 (14.8 %)									
	NDA	23 027.7	22 696.5 (98.6 %)	22 478.3 (97.6 %)	340.7 (1.5 %)	208.7 (0.9 %)	407.2	381.2 (93.6 %)	—	—	26.0 (6.4 %)								
	PA + NDA	28 437.1	—	27 136.5 (95.4 %)	1 086.1 (3.8 %)	214.5 (0.8 %)	1 093.9	962.2 (88.0 %)	4.4 (0.4 %)	127.3 (11.6 %)									

(Mio ECU)



Table 1.3 — Utilization of appropriations for payment during the period 1980-85

Financial year	Type of appropriations: PA = payment appropriations; NDA = non-differentiated appropriations	I. Appropriations specific to the financial year					II. Carry-overs from the previous financial year				
		Final appropriations	Commitments (against NDA)	Payments	Carry-overs to following financial year	Cancellations	Carry-overs (after transfer)	Payments	Carry-overs to following financial year <sup>(1)</sup>	Cancellations	
		(1)	(2)	(3)	(4)	(5) = (1) – (3) – (4)	(6)	(7)	(8)	(9) = (6) – (7) – (8)	
1980	PA	1 991,2	—	1 384,4	606,3	0,5	1 056,9	953,8	7,5	95,6	
	NDA	14 242,1	13 998,6 <sup>(2)</sup>	13 482,3	502,1	257,7	812,9	469,9	321,9	21,1	
	Total	16 233,3	—	14 866,7	1 108,4	258,2	1 869,8	1 423,7	329,4	116,7	
1981	PA	2 524,2	—	2 084,1	434,0	6,1	611,1	510,5	10,9	89,7	
	NDA	15 917,3	14 992,6	14 627,9	738,8	550,6	824,0	570,3	220,4	33,3	
	Total	18 441,5	—	16 712,0	1 172,8	556,7	1 435,1	1 080,8	231,3	123,0	
1982	PA	3 659,4	—	2 683,0	953,6	22,8	444,9	349,5	8,6	86,8	
	NDA	18 334,9	17 393,1 <sup>(2)</sup>	16 637,3	431,9	1 265,7	959,2	752,9	126,8	79,5	
	Total	21 994,3	—	19 320,3	1 385,5	1 288,5	1 404,1	1 102,4	135,4	166,3	
1983	PA	4 134,4	—	2 915,6	1 133,0	85,8	962,2	749,0	7,5	205,7	
	NDA	20 934,4	20 759,0	20 186,0	573,8	174,6	558,8	462,4	—	96,4	
	Total	25 068,8	—	23 101,6	1 706,8	260,4	1 521,0	1 211,4	7,5	302,1	
1984	PA	4 317,6	—	3 631,4	682,9	3,3	1 122,7	871,9	4,8	246,0	
	NDA	22 953,1	22 894,5	22 487,8	407,2	58,1	573,9	532,5	—	41,4	
	Total	27 270,7	—	26 119,2	1 090,1	61,4	1 696,6	1 404,4	4,8	287,4	
1985	PA	5 409,4	—	4 658,2	745,4	5,8	686,7	581,0	4,4	101,3	
	NDA	23 027,7	22 696,5	22 478,3	340,7	208,7	407,2	381,2	—	26,0	
	Total	28 437,1	—	27 136,5	1 086,1	214,5	1 093,9	962,2	4,4	127,3	

(Mio ECU)

(1) Appropriations prior to the financial year 1977 concerning the EAGGF-Guidance and aid to Friuli (programme expired) and carry-overs of 'revenue allocated' in the area of research (programmes still in force).  
 (2) Including commitments against non-automatic carry-overs.

## THE SITUATION OF COMMUNITY FINANCES

### *Future expenditure*

#### **Build-up of outstanding commitments against differentiated appropriations**

1.2. *Table 1.4* shows that, in the areas covered by differentiated appropriations, the amount of commitments still outstanding has continued to rise, reaching 11 805,1 Mio ECU by 31 December 1985. After deducting the relevant payment appropriations carried forward to 1986, amounting to 688,7 Mio ECU, a balance of some 11 116,4 Mio ECU remains to be financed out of future Community budgets. The Commission ought to make an effort, especially in the case of the structural funds, to review the justification for a number of commitments which could turn out to be illusory, with no great likelihood of ever being realized and which could therefore, in the event of cancellation, serve to reduce the outstanding balance (see paragraph 1.25).

#### **Other liabilities and potential expenditure**

1.3. On 31 December 1985, the list of other liabilities and potential expenditure, which was not exhaustive, amounted to about 9 000 Mio ECU. The maturity dates of these liabilities are still to be clarified and the breakdown of the sum was as follows:

- (a) liabilities amounting to 1 680,5 Mio ECU entered in the consolidated balance sheet of the Communities and resulting from the imbalance between revenue and expenditure (see paragraphs 1.7 — 1.8):
  - (i) refundable advances granted by five Member States in 1984 and by five others in 1985 (see paragraph 3.7) in order to provide partial cover of 1 001,8 Mio ECU for the deficit forecast in amending and supplementary budget No 1 of the financial year 1984 <sup>(3)</sup>;
  - (ii) the residue, namely 654,8 Mio ECU, of the 1984 deficit;
  - (iii) the deficit of 23,9 Mio ECU shown in the consolidated revenue and expenditure account for 1985;

**Table 1.4 — Accumulated outstanding commitments (differentiated appropriations)**

<i>(Mio ECU)</i>				
Financial year	Net commitments entered into during the financial year <sup>(1)</sup>	Payments carried out during the financial year	Increase of outstanding commitments during the financial year	Accumulated outstanding commitments at the end of the financial year
	(1)	(2)	(3) = (1) - (2)	(4)
1977				1 802,7
1978	1 623,5	918,8	704,7	2 507,4 (+ 39,1 %) <sup>(2)</sup>
1979	2 797,6	1 763,5	1 034,1	3 541,5 (+ 41,2 %)
1980	3 262,0	2 338,2	923,8	4 465,3 (+ 26,1 %)
1981	3 700,6	2 594,6	1 106,0	5 571,3 (+ 24,8 %)
1982	4 554,9	3 032,5	1 522,4	7 093,7 (+ 27,3 %)
1983	5 466,1	3 664,6	1 801,5	8 895,2 (+ 25,4 %)
1984	5 954,1	4 503,2	1 450,9	10 346,1 (+ 16,3 %)
1985	6 698,2	5 239,2	1 459,0	11 805,1 (+ 14,1 %)
Breakdown of the amount for the financial year 1985 by budget title:				
— Agricultural structures (Title 3)				1 169,3 (+ 1,5 %)
— Fisheries (Title 4)				125,8 (+ 40,1 %)
— Regional and transport policies (Title 5)				5 336,2 (+ 14,4 %)
— Social policy (Title 6)				2 850,5 (+ 12,8 %)
— Research, energy etc. (Title 7)				1 066,7 (+ 34,1 %)
— Cooperation with developing countries (Title 9)				1 256,6 (+ 12,3 %)

<sup>(1)</sup> Including cancellations of commitments and, in the case of 1978, adjustments made to the balances because of the exchange rate fluctuations of the ECU.  
<sup>(2)</sup> Percentage increase in comparison with the previous year.

- (b) liabilities not entered in the consolidated balance sheet of the Communities and amounting to 1 709,5 Mio ECU:
- (i) liabilities arising from the requests for reimbursement by various Member States of 54,7 Mio ECU of European Agricultural Guidance and Guarantee Fund, Guidance Section (EAGGF-Guidance) expenditure (see paragraph 5.7);
  - (ii) other liabilities, estimated at about 850 Mio ECU, payable to Member States and connected with the EAGGF-Guidance programmes approved by the Commission (see paragraph 5.10);
  - (iii) liabilities amounting to 466,8 Mio ECU towards Member States arising from programmes adopted by the Commission in the field of the European Regional Development Fund (ERDF) (see paragraph 7.17);
  - (iv) 38,0 Mio ECU of obligations entered into prior to 31 December 1985 in connection with food aid expenditure;
  - (v) other food aid liabilities estimated at about 300 Mio ECU and concerning the implementation of the 1985 programmes and previous programmes;
- (c) a contingent liability, estimated at 5 650 Mio ECU, for the future disposal of intervention stocks which is not shown in the Community balance sheet (see paragraph 4.23).

1.4. By adding these other actual and contingent liabilities to the outstanding commitments against differentiated appropriations, the Court, after analysing in detail the principal titles in the budgets for previous financial years, estimates that the Communities' definite or contingent liabilities at 31 December 1985 amount to 20 000 Mio ECU.

#### *General assessment of the presentation of the accounts*

1.5. The Court observes that the way these liabilities are set out at present is partial and heterogeneous. In some cases they are entered in the balance sheet, in others they are set out in the form of notes or 'attached notes' to the balance sheet, which makes them difficult to understand for uninitiated readers, and in yet other cases they have been completely omitted. Setting them out in this way lays the Commission open to the accusation of not having given a true and fair view of the Community's actual financial situation.

1.6. As the institution responsible for the management of the budget, the Commission ought to draw up a list of all the financial liabilities which the Communities have accumulated over the past and should also make an effort to compile a calendar of maturities. A similar mode of presentation to the one already partially established for commitments entered in the accounts, and concerning the structural funds in particular, is also required for other future liabilities, whether potential or definite, in a form that gives a multi-annual calendar of the payment appropriations needed. Presenting the facts in this way would oblige the budgetary authority to face up to its responsibilities and would enable it to draw the appropriate conclusions, with full knowledge of the facts, regarding the revenue needing to be mobilized over and above the normal foreseeable financing needs that result from the medium-term programming of future Community budgets.

#### *Imbalance between revenue and expenditure*

1.7. In its annual report for the financial year 1984 <sup>(4)</sup>, the Court particularly regretted that a situation had been allowed gradually to arise which increasingly contravened the requirements for a balanced budget, and that the institutions had not always exercised the budgetary powers conferred on them 'with due regard for the provisions of the Treaty ... relating to the Communities' own resources and to the balance between revenue and expenditure'. Revenue was in fact insufficient to meet expenditure in 1984 and the Communities' revenue and expenditure account showed a deficit of 827,3 Mio ECU, after taking into account 593,5 Mio ECU of reimbursable advances from the Member States received before 31 December 1984.

1.8. The consolidated revenue and expenditure account for 1985 shows a deficit of 23,9 Mio ECU, after taking into account 1 242,4 Mio ECU of non-reimbursable advances paid over by Member States, and 408,3 Mio ECU of reimbursable advances also owed by the latter in 1984 but paid in 1985. This amount does not, however, take into account the residue of the 1984 deficit of 654,8 Mio ECU, that is to say, a total deficit for 1984 of 827,3 Mio ECU, less 172,5 Mio ECU taken up in the 1985 budget. The question of accounting for this residue of 654,8 Mio ECU has thus been deferred until the financial year 1986, which is contrary to Article 27 of the Financial Regulation, which stipulates that the balance of a financial year must be carried over in its entirety to the budget of the following financial year. The Court notes that preliminary draft amending and supplementary budget No 1 for the financial year 1986, submitted on 12 May 1986 by the Commission <sup>(5)</sup>, far from rectifying this abnormality, on the contrary ignores the question of accounting for this expenditure.

1.9. Under the pressure of budgetary constraints, the Commission certainly gave the impression that, in 1985, it was abiding by the 1 % maximum limit laid down for the Community rate of value-added tax (VAT) own re-

sources. This formal observance of the limit, however, was only made possible by recourse to non-reimbursable advances from the Member States (national contributions, in other words), on the one hand, and by carrying over the resulting deficits to subsequent financial years on the other hand. Failing recourse to these devices, the contribution required of most Member States during the financial year 1985 would have resulted in a Community rate for VAT own resources of at least 1,3 % (see paragraph 3.6).

### *Conclusion*

1.10. For the second year running, the Communities have not observed one of the fundamental principles upon which their financial organization is based, namely the need to cover fully each year's financing needs with the equivalent amount of annual revenue. What is more, use of advances from the Member States, far from helping to amortize the 'burden of the past' — apart from a few timid attempts to depreciate agricultural stocks — has, on the contrary, allowed it to increase throughout the financial year 1985. Of course, to the extent that the operation of the structural funds calls for non-differentiated appropriations, the increase in outstanding expenditure partly reflects in concrete form the development of the Community's activities. All the same, it still remains true that, since 1983, a preponderant and growing share of these liabilities does not correspond to this natural growth of commitments entered into in connection with future common policies, but rather corresponds to the systematic carrying-over of previous budget deficits and to postponing the task of accounting for certain costs arising from agricultural stocks to future budgets (see paragraphs 4.24 — 4.26).

1.11. This being so, calling for advances from the Member States, though presented as a temporary, emergency measure, will inevitably become a permanent financing tool if the Community is both to remain within the 1,4 % limit established for 1986 and 1987 for the Community rate of VAT own resources and start seriously to amortize part of the accumulated past liabilities which, alone, already represent the equivalent of more than one year's VAT revenue for the Communities.

1.12. This prospect is all the more regrettable as recourse to advances from the Member States has already shown, in 1984 and 1985, the extent of the damage done to the financial autonomy of the Communities which was the objective of the authors of the Decision of 21 April 1970 <sup>(6)</sup> on the Communities' own resources. The fact is that the use of a system of advances is tantamount to renationalizing the budget of the Communities and, in so doing, negating the objective of the above-mentioned decision. Secondly, the need to obtain from each Member State prior approval of the advances reintroduces the power of individual veto into the Communities' budgetary decision-taking procedure, which has hitherto been characterized by voting by qualified majority.

### REGULARITY OF CERTAIN FINANCIAL OPERATIONS

1.13. Certain operations raise problems as to their regularity:

- (a) non-inclusion by the Commission in the budget for the financial year 1985 of the residue of the 1984 deficit, amounting to 654,8 Mio ECU (see paragraph 1.8);
- (b) spending, during the payment of EAGGF-Guarantee advances to the Member States, in excess of:
  - (i) the limit for available appropriations for payment when the provisional twelfths system is in force, as defined by Article 204, first indent, of the EEC Treaty and by Article 8, third indent, of the Financial Regulation, to the extent of 1 329,7 Mio ECU during the period January to May 1985 (see paragraph 4.8); and, subsidiarily,
  - (ii) the limit of available appropriations for commitment when the provisional twelfths system is in force, as defined by Article 204, first indent, of the EEC Treaty and by Article 8, second indent, of the Financial Regulation, to the extent of 516,9 Mio ECU in the case of the advance for March 1985 (see paragraph 4.9);
- (c) a cash deficit of 0,1 Mio ECU in the Parliament's balance sheet as at 31 December 1985 (see paragraphs 2.2 — 2.3);
- (d) charging to 1986 of expenditure arising from the payment of salary arrears for the financial year 1985 at the Parliament (1,6 Mio ECU; see paragraph 2.5) and at the Commission (1,9 Mio ECU; see paragraph 2.13); in addition, crediting all the revenue generated by the payment of these arrears to 1985;
- (e) under-estimation by 1,7 Mio ECU of recoverable duties and taxes (see paragraphs 2.8(c) and 2.9);
- (f) failure to credit to the budget 9,7 Mio ECU of revenue deriving mainly from repayments of Social Fund aid (see paragraph 2.14);
- (g) lack of budgetary authorization for 60,6 Mio ECU of expenditure effected under the cover of a line of negative expenditure (see paragraph 4.4(d));
- (h) payment of 71 142 ECU in excess of the amount shown in the supporting documents, in connection

with fishing agreements with certain developing countries (see paragraph 6.10);

- (i) 28,4 Mio ECU of non-priority Social Fund expenditure and 1,8 Mio ECU of ineligible Social Fund expenditure (see paragraph 8.16(a));
- (j) commitments entered into, amounting to 0,55 Mio ECU, despite the absence of a basic regulation (see paragraph 10.40);
- (k) spending of 0,6 Mio ECU in excess of available appropriations in the case of the Council Item 1110 'Auxiliary staff' and a loss of 57 400 ECU as a result of paying social security contributions twice over in the case of certain Community employees (see paragraph 11.15);
- (l) spending of 0,7 Mio ECU in excess of available appropriations in the case of Item A 1141 'Annual leave travel expenses' (see paragraph 11.16);
- (m) payment of 0,6 Mio ECU of salaries not due to officials posted outside the Communities (see paragraph 11.20);
- (n) charging to the budget of the Ispra Joint Research Centre of 0,5 Mio ECU of expenditure on staff transport not provided for by the Staff Regulations (see paragraphs 11.25 — 11.26);
- (o) the questionable eligibility of investments involving the sum of some 61 Mio ECU financed by New Community Instrument loans and interest subsidies for areas devastated by earthquakes (see paragraphs 12.28 — 12.30).

## ANALYSIS OF THE IMPLEMENTATION OF THE GENERAL BUDGET

### *Outline of the utilization of appropriations for commitment and for payment available in 1985*

1.14. For the Commission, overall utilization of appropriations amounted to 93,9 % of the appropriations for commitment available and 95,3 % of the appropriations for payment available. This is primarily due to the decisive importance of the EAGGF-Guarantee appropriations, virtually 100 % of which were utilized, and it should therefore be stressed, as shown in *Table 1.5*, that the rate of utilization of appropriations was lower than 90 % in the case of certain policies. In the fisheries sector,

**Table 1.5 — Areas where the rate of utilization of appropriations was less than 90 % in 1985**

Area	Rate of utilization (%)			
	of available appropriations for commitment		of available appropriations for payment <sup>(1)</sup>	
	1984	1985	1984	1985
Fisheries	62,4	56,5	57,2	56,1
Regional and transport policy	95,0	87,0	86,6	89,4
Social policy	92,6	82,5	90,3	85,1
Research, energy etc.	82,8	73,6	77,2	73,6
Cooperation with developing countries	89,0	76,6	77,9	79,9

<sup>(1)</sup> Including carry-overs from the previous financial year.

in particular, the rate of utilization of appropriations for commitment fell from 62,4 % in 1984 to 56,5 % in 1985, whilst for the development cooperation sector the rate fell from 89,0 % in 1984 to 76,6 % in 1985.

1.15. Out of the five areas in which the rate of utilization was lower than 90 %, the Court drew up a list (see *Table 1.6*) of the budget headings which, in 1985, were allocated more than 5 Mio ECU and for which the rate of utilization was below 75 %. Volume I of the revenue and expenditure account provides explanations for several of these cases of under-utilization. The Court's list shows, where appropriate, the extent to which the headings in question had been amended by the European Parliament. The Court notes in particular that the 120 Mio ECU of commitment appropriations, including 50 Mio ECU following a Parliament amendment, which were allocated to Article 551 'Integrated Mediterranean programmes — Community measures' remained entirely unspent (see paragraph 7.20). In the case of Article 581 'Financial support for transport infrastructure projects inside the Community', to which the Parliament allocated an additional 14 Mio ECU of payment appropriations and 60 Mio ECU of commitment appropriations, only the appropriations carried over from 1984 were utilized (see paragraph 7.21). Finally, mention must also be made of the case of Article 958 'Special programme to combat hunger in the world', to which 29,5 Mio ECU of payment appropriations were allocated (29 Mio ECU of which were allocated by Parliament) and which remained practically unutilized (see paragraph 10.40).

1.16. *Tables 1.2 and 1.3* show the appropriations for payment of the financial year which were carried over (1 086,1 Mio ECU) or cancelled (214,5 Mio ECU) at 31 December 1985, making a total of unutilized appropriations of 1 300,6 Mio ECU. This sum represents a considerable increase on the figure recorded as at 31 December 1984 (1 151,5 Mio ECU).

**Table 1.6 — Budget headings with allocations greater than 5 Mio ECU where the rate of utilization of appropriations for payment (AFP) and/or appropriations for commitment (AFC) was lower than 75 %, specifying, where appropriate, the amendments made by the European Parliament**

Area	Budget Heading	Heading	Available appropriations <sup>(1)</sup> (Mio ECU)		of which added by Parliament (Mio ECU)	Utilization rate <sup>(1)</sup> (%)
			AFP	AFC		
Fisheries	4010	Withdrawal and carry-over premiums	AFP	22,9	—	70,4
			AFC	22,9	—	70,4
	422	Expenditure in connection with agreements on fishing rights	AFP	14,2	—	62,0
			AFC	8,1	—	36,3
	450	Adjustment of capacity in the fisheries sector	AFP	41,3	—	—
			AFC	43,0	—	14,3
	460	EAGGF (Guidance) — Common measures to restructure, modernize and develop the fishing industry and to develop aquaculture	AFP	29,4	2,0	100,0
			AFC	103,0	—	63,9
Regional and transport policies	505	ERDF operations (1984 revision)	AFP	411,0	—	72,0
			AFC	2 474,0	39,9	99,3
	510	ERDF — specific Community measures	AFP	33,4	—	100,0
			AFC	180,9	10,0	20,9
	5411	Community measures in the framework of integrated operations	AFP	30,6	—	29,4
			AFC	34,9	—	97,6
	5420	Construction, fitting-out and equipment of vocational training centres	AFP	11,6	—	34,4
			AFC	15,1	—	58,5
	550	Mediterranean programmes — preparation of integrated programmes	AFP	20,0	—	43,6
			AFC	20,0	—	33,8
	551	Integrated Mediterranean programmes — Community operations	AFP	p.m.	—	—
			AFC	120,0	50,0	—
	581	Financial support for transport infrastructure projects within the Community	AFP	66,0	14,0	41,5
			AFC	170,0	60,0	46,9
Social policy	650	Contribution to the ECSC for social measures in connection with the restructuring of the steel industry	AFP	62,5	—	—
			AFC	62,5	—	—
	651	Restructuring of the local industry in the Community	AFP	60,0	—	—
			AFC	60,0	—	—
Research, energy, etc.	7020	New technologies for burning solid fuels and using the residues thereof	AFP	13,0	—	46,9
			AFC	16,4	— 1,0	98,8
	704	Community energy-saving programme	AFP	31,2	—	50,0
			AFC	29,9	—	97,3
	7302	Industrial technologies — basic technological research and application of new technologies	AFP	12,3	—	8,1
			AFC	61,5	—	8,4
	7306	Biotechnology	AFP	6,6	— 0,3	14,5
			AFC	34,1	— 0,3	11,1
	7320	Non-nuclear energy	AFP	25,3	8,2	39,1
			AFC	85,3	28,7	16,1
	7326	Health and safety — Biology and health protection	AFP	16,7	— 2,9	63,5
			AFC	22,8	— 2,9	90,9
	7328	Environment — Sectoral programme 'Environment'	AFP	15,6	3,5	71,4
			AFC	13,9	1,6	66,2
	7335	Information technologies — Esprit	AFP	143,2	5,0	69,6
			AFC	295,6	—	75,3
	7390	Completion of joint programmes 1980-83	AFP	23,9	—	49,0
			AFC	4,1	—	68,5
Cooperation with developing countries	941	Community contribution towards schemes concerning developing countries carried out by NGOs	AFP	48,1	12,0	65,0
			AFC	42,5	5,0	99,0
	958	Special programme to combat hunger in the Third World	AFP	56,0	14,0	41,0
			AFC	29,5	29,0	2,0
	96	Cooperation with countries of the Mediterranean basin	AFP	298,2	—	43,0
			AFC	241,7	—	56,0

<sup>(1)</sup> Including carry-overs and/or existing appropriations.

### Cancellations of appropriations for payment during the period 1980-85

1.17. *Table 1.7* shows, for the financial years 1980 to 1985, the cases where appropriations for payment available were cancelled. It can be seen that the average rate of cancellation was 2,7 % and that, after reaching a maximum of 6,7 % in 1982, it gradually decreased to 1,2 % (i.e. 341,8 Mio ECU) in 1985. The average cancellation rates observed vary considerably from one sector to another: from 1,0 % in the case of regional policy to 16,5 % in the case of the fisheries sector.

### *Transfers from chapter to chapter*

1.18. Apart from the appropriations from Chapter 100 'Provisional appropriations', transfers of appropriations for payment from chapter to chapter in 1985 amounted, in the case of the Commission, to 1 224 Mio ECU. Moreover, the Court notes that Article 505 'ERDF operations (1984 revision)', originally allocated 281 Mio ECU of payment appropriations of the financial year, was subsequently strengthened by 70 Mio ECU which in the end were carried over entirely to the financial year 1986 (see paragraph 7.9). Similarly, a sum of 10 Mio ECU, transferred to Item 6011 'Other regions' of the Social Fund, was also carried over.

### *Transfers of appropriations carried over*

1.19. During the financial year 1985 the Commission carried out transfers of appropriations carried over from 1984. This procedure has already been criticized by the Court, in its annual reports for the financial years 1979 (7) and 1980 (8), because it is contrary to the principle of the annuality of the budget and because there is no provision for it in the Financial Regulation. The following specific cases were noted:

(a) transfers approved by the budgetary authority:

- (i) 60 Mio ECU of payment appropriations transferred from Article 510 'ERDF — Specific Community measures' to Article 505 'ERDF operations (1984 revision)' (see paragraph 7.10);
- (ii) Altogether, 17,1 Mio ECU of payment appropriations withdrawn from Items 7302 'Industrial technologies — Basic technological research and applications of new technologies', 7306 'Biotechnology' and 7320 'Non-nuclear energy sources' were transferred to Items 7315 'Nuclear fission — Management and storage of radioactive waste', 7326 'Health and safety — Biology

and health protection' and 7351 'Horizontal projects — Stimulating scientific and technical potential';

(b) transfers within chapters:

- (i) 1,0 Mio ECU of payment appropriations and commitment appropriations transferred from Item 7503 'Community activities in the specialized information sector' to Item 7520 'Exploratory projects in the field of innovation'. This operation amounts to a transfer from the appropriations carried over to the appropriations of the financial year;
- (ii) 1,05 Mio ECU of payment appropriations transferred from Articles 931 'Promotion of trade relations with non-associated developing countries' and 933 'Cooperation with non-associated developing countries on energy' to Article 930 'Financial and technical cooperation with non-associated developing countries';
- (iii) 1,0 Mio ECU of payment appropriations transferred from Item 3220 'EAGGF-Guidance — Agricultural advisory services in Italy' to Item 3290 'EAGGF-Guidance — Acceleration of agricultural development in certain regions of Greece';
- (iv) 0,5 Mio ECU of commitment and payment appropriations transferred from Item 7771 'Mineral raw materials' to Item 7710 'Community operations for developing microelectronics technology'.

### OTHER OBSERVATIONS

#### *Summary of observations concerning several areas*

1.20. In certain important areas of Community activity, particularly where government departments and bodies in Member States (or developing countries) play a vital part, the Commission should be more active in its coordinating and supervisory role, in order to guarantee better protection of Community interests (see paragraphs 3.23, 4.39(d), 4.44, 5.49, 7.61, 8.34, 10.25 — 10.36).

Table 1.7 — Payments and cancellations during the period 1980-85

Sector	1980		1981		1982		1983		1984		1985		Total 1980-85
	Pay- ments	Cancellations ( <sup>1</sup> )	Pay- ments	Cancellations	Pay- ments	Cancellations	Pay- ments	Cancellations	Pay- ments	Cancellations	Pay- ments	Cancellations	
1. Administration (all institutions)	819,7	67,0 (7,6 %)	942,9	91,1 (8,8 %)	1 010,3	74,2 (6,8 %)	1 110,4	58,7 (5,0 %)	1 216,1	33,7 (2,7 %)	1 296,0	32,3 (2,4 %)	6 395,4 357,0 (5,3 %)
2. EAGGF- Guarantee	11 283,2	190,3 (1,7 %)	10 960,2	424,1 (3,7 %)	12 369,5	914,5 (6,9 %)	15 788,2	36,5 (0,2 %)	18 328,3	27,2 (0,2 %)	19 725,9	131,3 (0,7 %)	88 455,3 1 723,9 (1,9 %)
3. Agricultural structures	601,9	27,0 (4,3 %)	574,7	19,3 (3,3 %)	646,1	23,0 (3,4 %)	749,7	184,6 (19,8 %)	702,8	40,1 (5,4 %)	738,6	7,8 (1,1 %)	4 013,8 301,8 (7,0 %)
4. Fisheries	43,7	3,1 (6,6 %)	49,9	8,6 (14,7 %)	54,8	0,4 (0,7 %)	54,8	8,8 (13,8 %)	57,1	4,4 (7,2 %)	81,8	42,3 (34,1 %)	342,1 67,6 (16,5 %)
5. Regional and transport policies	1 103,8	3,1 (0,3 %)	2 237,4	9,8 (0,4 %)	3 009,4	17,6 (0,6 %)	2 409,5	36,6 (1,5 %)	1 814,3	47,7 (2,6 %)	1 725,5	9,8 (0,6 %)	12 299,9 124,6 (1,0 %)
6. Social policy	771,8	2,1 (0,3 %)	836,7	6,0 (0,7 %)	1 060,6	2,8 (0,3 %)	1 020,9	18,9 (1,8 %)	2 036,3	93,6 (4,4 %)	1 490,7	14,3 (1,0 %)	7 217,0 137,7 (1,9 %)
7. Research, energy, etc.	311,0	3,1 (1,0 %)	376,2	26,8 (6,7 %)	436,6	10,9 (2,4 %)	1 304,0	34,6 (2,6 %)	1 044,9	38,7 (3,6 %)	707,5	33,9 (4,6 %)	4 180,2 148,0 (3,4 %)
8. Repayments to Member States	846,4	0,0 (0,0 %)	956,3	2,5 (0,3 %)	1 049,3	55,6 (5,0 %)	1 064,7	40,8 (3,7 %)	1 173,2	0,8 (0,1 %)	1 248,0	22,8 (1,8 %)	6 337,9 122,5 (1,9 %)
9. Cooperation with developing countries	508,9	79,2 (13,5 %)	858,5	81,5 (8,7 %)	786,1	72,4 (8,4 %)	810,8	56,0 (6,5 %)	1 150,6	62,6 (5,2 %)	1 084,7	36,0 (3,2 %)	5 199,6 387,7 (6,9 %)
10. Provisional appropriations and contingency reserve	—	—	—	10,0 (100 %)	—	283,4 (100 %)	—	87,0 (100 %)	—	—	—	11,3 (100 %)	— 391,7 (100 %)
Total	16 290,4	374,9 (2,3 %)	17 792,8	679,7 (3,7 %)	20 422,7	1 454,8 (6,7 %)	24 313,0	562,5 (2,3 %)	27 523,6	348,8 (1,3 %)	28 098,7	341,8 (1,2 %)	134 441,2 3 762,5 (2,7 %)

(<sup>1</sup>) The cancellation rates given in brackets have been calculated with reference to total budget implementation for the financial year, i.e. payments plus cancellations.



1.21. Some Member States are not prepared to cooperate with the Court and the Commission as regards access to information, with the result that the Court has not so far been able to discharge fully its responsibilities for the audit of VAT own resources (see paragraphs 3.17 — 3.20) and the EAGGF-Guarantee (see paragraph 4.56).

1.22. The management activity of the Commission could be strengthened by an improvement in the financial and management information which is already in its possession (see paragraphs 7.63 — 7.64, 9.9, 10.7 — 10.10, 10.23) or which it is entitled to insist upon receiving in its capacity as a principal in matters where the European Investment Bank acts as its agent (see paragraph 12.41).

1.23. Budgetary control over financial commitments is rendered difficult on account of the various practices followed by the Commission with regard to commitments (see paragraphs 5.8 — 5.9, 7.17, 9.13).

1.24. Delays and slow progress were observed in the implementation of operations financed by the Communities, even in cases of emergency (see paragraphs 5.35, 5.39, 6.16, 12.19 — 12.22).

1.25. The sometimes inefficient monitoring of outstanding commitments leads to unnecessary immobilizations of appropriations and to very belated recoveries of amounts — which are at times substantial — paid unduly to third parties. These late recoveries do not generally yield interest for the Communities (see paragraphs 6.14 — 6.15, 7.62, 8.35).

### *Observations on the preparation of the budget*

1.26. Various observations set out in this report (see paragraphs 1.18, 5.11 — 5.14, 7.8 — 7.9, 9.2, 10.20 — 10.22, 10.39 — 10.41) suggest that the preparation of the budget could be substantially improved.

1.27. Since the widespread introduction of differentiated appropriations in 1977, the budget documents include, for the majority of headings relating to the operational expenditure of the Communities other than those of the EAGGF-Guarantee, comments including a likely schedule of payments *vis-à-vis* commitments. The schedules given in the budget for the financial year 1985 (°) were prepared during the financial year 1984 and show certain amounts taken from the annual budgetary accounts of the financial year 1983. These amounts correspond to commitments still to be paid or to outstanding commitment appropriations for which new payment appropriations are necessary. For Community

activities which have been implemented for several years, these data relating to 1983, at least as much as the commitment appropriations for the financial year 1985, form the basis for fixing payment appropriations for the latter financial year.

1.28. The Court examined the payment schedules concerning the differentiated appropriations for Titles 3 to 9 shown in the budget for the financial year 1985, in order to determine whether the data taken from the accounts of the financial year 1983 were accurate and whether the forecasting of new appropriations required had been carried out correctly. This examination revealed a considerable number of anomalies affecting the calculation of requirements in terms of new payment appropriations, that is, for the budget year 1985, as well as for subsequent years.

1.29. The most important anomalies may be broken down into the following three categories:

- (a) new payment appropriations had been entered unnecessarily, due to the failure to take account of payment appropriations carried over from the financial year 1983 (11 cases totalling 59,9 Mio ECU, of which, for example, 35,8 Mio ECU for Article 510 'ERDF — Specific Community measures');
- (b) in the schedule, the payment appropriations to cover commitment appropriations were inadequate and in some cases had even been omitted (11 cases totalling 17,4 Mio ECU, of which, for example, 7,4 Mio ECU of appropriations from 1983 in Item 3242 'EAGGF-Guidance — West of Ireland' (see paragraph 5.13) and 3 Mio ECU of commitment appropriations from 1984 in Item 3222 'EAGGF-Guidance — meat production in Italy');
- (c) no new payment appropriations had been entered to cover commitment appropriations because the Commission had included in the schedule appropriations supposed to have been carried forward from 1983 which in fact had not been carried forward (three cases, totalling 7,9 Mio ECU, of which, for example, 6,2 Mio ECU for Item 3312 'EAGGF-Guidance — non-marketing of milk').

### *System of provisional twelfths*

1.30. The administration of the financial year 1985 was marked by the consequences of the rejection, on 13 December 1984, of the draft budget for 1985. Thus, from 1 January to 13 June 1985, the date of the final adoption of the budget for the financial year, budgetary administration was governed by the provisions of Article 204 of the EEC Treaty and Article 8 of the Financial Regulation, which define the system of provisional twelfths.

1.31. This system, which lays down strict rules as regards the management of appropriations, applies to commitment and payment operations by chapter, within the lower limit for appropriations for each chapter derived from the budget of the preceding financial year, and from the draft budget in preparation. Furthermore, within the framework of this system, only 'expenditure of a kind already approved in principle in the last budget duly adopted' may be implemented. Finally, it should be pointed out that this system, though not opposed to the utilization of appropriations carried forward from the preceding financial year as a form of delayed implementation of the previous budget, does prohibit recourse to transfers from chapter to chapter inasmuch as such a practice constitutes a technique for implementing a rejected budget and because the budgetary authority may, at the request of the Commission, authorize expenditure representing two or more additional twelfths if the appropriations of particular chapters are insufficient.

1.32. The Court took particular care to analyse the implementation of the provisional twelfths system during the financial year 1985. This analysis resulted in two types of observations.

#### **Observations on the incompleteness of the existing legislation**

1.33. As the Court emphasized in its annual report for the financial year 1980<sup>(10)</sup> and subsequently in its opinions<sup>(11)</sup> on the proposals for a Council Regulation amending the Financial Regulation, the provisions of the Financial Regulation concerning the provisional twelfths system are in places imprecise or incomplete:

- (a) regarding, first of all, the implementation of the system itself, it can be seen that the definition of the limits applicable to the calculation of the provisional twelfths is sometimes ambiguous; in addition, there is still no clear explanation of how the advances that the Commission is required to pay under the EAGGF-Guarantee to the Member States should be treated in the accounts;
- (b) what is more, some of the consequences of the transition from management under a system of provisional twelfths to normal implementation of the budget call for legislative clarification: for example, the conditions for regularizing payments in excess of available appropriations by items (or articles) made under the system of provisional twelfths, that is, when the limit applicable to the spending of appropriations is applied by chapter, are not specified in the legislation in force at present.

#### **Observations on the management of the budget under the provisional twelfths system**

1.34. Though revenue was made available without any special difficulty during the period of application of the system of provisional twelfths, analysis of the management of expenditure has revealed various irregularities. In particular, the Court noted the following infringements:

- (a) management of EAGGF-Guarantee advances: the irregularities in the management of these advances as regards the rules limiting the available appropriations when the provisional twelfths system is in force are set out in paragraphs 1.13(b) and 4.6 — 4.11 of this report;
- (b) transfers of appropriations: at the request of the Commission, the budgetary authority approved, during the period from 1 January to 13 June 1985, a transfer of an amount of 36 Mio ECU of commitment appropriations within Chapter 73. According to the provisions of Title VII (Article 94, indent 1) and Article 8 of the Financial Regulation, such an operation, concerning research and investment appropriations, should be treated as a transfer from chapter to chapter and is therefore irregular;
- (c) entry in the accounts: on several occasions expenditure was entered in the accounts in an irregular manner or in excess of available appropriations (see paragraphs 4.8 — 4.9, 6.9). These situations were not regularized until after the final adoption of the budget on 13 June 1985.

1.35. The Court deplores the fact that the implementation of the provisional twelfths system in 1985 was inconsistent in this way, thanks especially to the inaccuracies of the legislation and to the variety of practices developed by the institutions or their departments in order to remedy them. The Court must once again stress the need to complete the revision of the Financial Regulation, which was submitted to the Council in 1983 and on which no decision has yet been taken, as well as the revision of the corresponding implementation procedures. Only thus can the definitive clarification of the text be achieved which the difficulties experienced during the management of the financial year 1985 have yet again shown to be urgently required.

#### *List of decisions by the institutions to overrule the Financial Controller's refusal to give his approval*

1.36. Pursuant to the provisions of Article 35 of the Financial Regulation, the Court was informed of one

decision taken by the Parliament and of five decisions taken by the Commission during 1985 to overrule refusals of approval by the respective Financial Controllers. The Court's observations on some of these decisions are set out in paragraphs 4.52 and 11.33 — 11.35.

#### SPECIAL REPORTS ADOPTED BY THE COURT SINCE ITS PREVIOUS ANNUAL REPORT

1.37. The following special reports<sup>(12)</sup> have been adopted by the Court since its previous annual report:

- (a) special report 4/85 on the common organization of the market in fishery products;
- (b) special report 5/85 on the Community contribution towards schemes concerning developing countries carried out by non-governmental organizations;
- (c) special report 1/86 on the contract measures for the expansion of markets for milk and milk products financed by proceeds of the co-responsibility levy;
- (d) special report 2/86 on the ERDF's specific Community regional development measures (non-quota measures);
- (e) special report 3/86 on the subsidy system for oilseeds.

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(1) OJ L 356 of 31.12.1977.

(2) Doc. COM(86) 208 — 212.

(3) OJ L 329 of 17.12.1984.

(4) OJ C 326 of 16.12.1985, paragraph 1.22.

(5) Doc. COM(86) 225.

(6) OJ L 94 of 28.4.1970.

(7) OJ C 342 of 31.12.1980, paragraphs 1.10 — 1.11.

(8) OJ C 344 of 31.12.1981, paragraph 1.14.

(9) OJ L 206 of 5.8.1985.

(10) OJ C 344 of 31.12.1981, paragraphs 1.15 — 1.18.

(11) OJ C 232 of 11.9.1981 and OJ C 122 of 13.5.1982.

(12) For the precise references, see Annex II to this report.

## CHAPTER 2

**Accounting matters**

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**INTRODUCTION**

2.1. The observations set out in this chapter concern, on the one hand, the general accounts and the balance sheets of the Parliament and the Commission, and, on the other hand, cash management in respect of the implementation of the general budget.

sheet at 31 December 1984 as deferred expenditure under the heading 'Cash deficit', is still to be seen in the balance sheet at 31 December 1985. In this connection, the Court of Auditors must refer the reader to its reports on previous financial years <sup>(1)</sup>.

2.3. The situation at 31 December 1985 was as follows:

**OBSERVATIONS ON THE GENERAL ACCOUNTS AND THE BALANCE SHEETS*****PARLIAMENT******Cash deficit***

2.2. The amount of 4,1 Mio BFR (about 0,1 Mio ECU), which was included in the Parliament's balance

(a) no regular supporting documents have yet been produced to justify this 4,1 Mio BFR shortage, with the result that the Parliament has been obliged since 1982 to enter this sum on the assets side of its balance sheet as 'Expenditure to be charged';

(b) the insurance company which, in accordance with the provisions of Article 70(3), indent 1, of the Financial Regulation of 21 December 1977 <sup>(2)</sup>, covers the risks of loss or depreciation of the funds entrusted to the accounting officers and the administrators of the imprest accounts, refused to refund the sum in

<sup>(1)</sup> The footnotes appear at the end of each chapter.

question in 1984 as it took the view that in this case there had been a 'serious misdemeanour and a deliberate infringement of the regulations';

- (c) the disciplinary measure (downgrading) taken in 1984 with regard to the person who held the office of Accountant at the time of the loss was overturned by the Court of Justice on 20 June 1985 on grounds of procedural irregularities;
- (d) at the recommendation of its Committee on Budgetary Control, Parliament, meeting in plenary session, voted to grant discharge to the Accountant for the financial year 1981 whilst at the same time reserving the right to look into the matter again when the time came to consider granting discharge for the financial year 1982;
- (e) this was the background against which Parliament asked the Court on 24 July 1985 for its opinion regarding the amount and the origin of the deficit; in its Opinion, which was delivered in November 1985 <sup>(3)</sup>, the Court concluded that irregularities had been committed from 1981 onwards and that a cash deficit of 4,1 Mio BFR, corresponding to two cheques in UKL drawn in September and November 1981, had been incurred.

### *Imprest accounts*

2.4. On several occasions <sup>(4)</sup> the Court has criticized the excessively high number of imprest accounts, the way they are operated (the time allowed for the settlement of expenditure effected and the book-keeping) and, in particular, the procedures in use at the Members' Cash Office. In spite of the efforts that have been made since 1982 to improve the administrative and accounting organization of the imprest accounts, they are still too cumbersome in their mode of operation. This is especially true of the Members' Cash Office because of the high number of payments in cash or by cheque and the absence of individual accounts. For this reason the Court wishes to ask Parliament:

- (a) to look once again at the grounds for maintaining the imprest accounts and, in particular, to see whether the appropriations concerned cannot be managed in accordance with the normal procedures, as laid down in the Financial Regulation <sup>(2)</sup>;
- (b) in the case of the Members' Cash Office, to look at ways of eliminating cash payments.

### *Salary arrears*

2.5. Payment of salary arrears for the financial year 1985 was charged, on the strength of a single authorization, partly to the financial year 1985 (to the extent of

the remaining appropriations, namely 1 Mio ECU) and partly, as regards the balance, to the financial year 1986 (1,6 Mio ECU). All the revenue resulting from the payment of these arrears (in the form of taxes and miscellaneous deductions: 0,8 Mio ECU), on the other hand, was credited to the financial year 1985. The Court must point out that:

- (a) these salary arrears, which concerned the financial year 1985 only, should have been entered in the accounts for 1985, using the appropriate procedures in order to obtain the required appropriations;
- (b) in addition, crediting revenue arising from the expenditure of a given financial year to the previous financial year does not seem regular;
- (c) finally, since the authorization for the expenditure is dated 9 January 1986, entering the corresponding revenue or expenditure in the accounts for the financial year 1985 amounts to an irregularity.

## *COMMISSION*

### *Recoverable taxes and duties*

2.6. The Court has already had occasion to observe <sup>(5)</sup> that the procedure concerning recoverable duties and taxes ought to be improved. In particular, the Court noted that the system in use provided no means of ensuring that reimbursement had been requested for all the recoverable taxes and duties previously charged to the budget.

2.7. In effect, this system involves entering expenditure in the accounts inclusive of all taxes and duties. The amount of recoverable duties and taxes is then determined by the department concerned from evidence other than accounting evidence, on the basis of invoices forwarded by the authorizing departments. This sum is determined at the beginning of the following financial year and a request for reimbursement is then sent to the Member States before the sum is entered in the balance sheet amongst the Commission's accounts receivable.

2.8. Bearing in mind the time-lag between the payment of the invoices and the request for reimbursement, the Court decided to test the reliability of the system by examining taxes paid in 1984 and the related reimbursement applications drawn up in 1985. These checks, which covered 16 budget items, concerning all the study contracts commissioned by the Commission, showed that:

(a) the drafting of the study contracts does not provide any means of establishing whether the contractor, particularly when he or she is a natural person, is or is not subject to value-added tax (VAT), or whether the tax has been included in the invoiced amount and should be recovered. One general clause stipulates that 'if the contractor is liable to charge VAT on the fee paid in remuneration of the study work the amount of the tax shall be included in the all-in sum mentioned in the contract';

(b) in the case of studies carried out by natural persons, payment is made on the evidence of the contracts and not on submission of an invoice, which would make it easier to establish whether VAT was involved and to recover it in cases where it was involved;

(c) out of 29 invoices including recoverable taxes, applications for reimbursement were made in respect of only 18 during 1985 or in 1986, and 11 sums (amounting to about 63 000 ECU) were omitted.

2.9. In its annual reports on the financial years 1983 <sup>(6)</sup> and 1984 <sup>(7)</sup>, the Court criticized the fact that the amount of recoverable taxes and duties was only entered in the accounts (in the balance sheet) once the request for reimbursement had been sent to the Member State concerned. At 31 December 1985, the amount of recoverable VAT entered in the Commission's balance sheet was 1,1 Mio ECU. This figure is incorrect and should be 2,7 Mio ECU, because:

(a) the sum of 2,2 Mio ECU, corresponding to recoverable taxes for which applications for reimbursement have not been sent to the Member States, is not included;

(b) recoverable taxes and duties (amounting to 0,6 Mio ECU) on purchases by the Petten Centre have been entered twice.

2.10. The Court must thus urge the Commission once again to do what it has already undertaken to do and review as soon as possible its procedures relating to recoverable taxes and duties.

### *Revenue to be recovered*

2.11. On 31 December 1985 the item 'Revenue to be recovered' amounted to 780 Mio ECU, most of which (763 Mio ECU) was made up of miscellaneous claims that had fallen due. The overall situation regarding claims that have fallen due, in chronological order (by maturity date), is as follows:

Maturity	Amount in Mio ECU
1982 and before	1,8
1983	4,2
1984	9,5
1st half of 1985	6,7
3rd quarter of 1985	1,3
October 1985	1,4
November 1985	1,6
December 1985	736,6*
	<hr/> 763,1

\* This sum, mainly made up of non-refundable claims against the Member States, was recovered at the beginning of 1986.

The Court must ask the Commission to take all necessary measures to accelerate the compilation of computer print-outs in order to monitor the claims and recover those claims which have fallen due as soon as possible.

### *Advances to staff and staff current accounts*

2.12. On 31 December 1985 advances to members of staff amounted to 4 Mio ECU and staff current accounts amounted to 0,2 Mio ECU. These sums are supported by computer print-outs submitted to the Court on 2 June 1986. Checks of the final print-outs showed:

(a) that there is still a very high number of creditor balances (981 items) amounting in all to 1,2 Mio ECU;

(b) that many balances go back to before the financial year 1985, which constitutes an infringement of Article 65 of the Financial Regulation.

There was thus no sufficiently detailed examination of these computer print-outs during 1985, contrary to what the Commission had undertaken to do in its reply to the Court's report on the financial year 1984 <sup>(8)</sup>.

### *Salary arrears*

2.13. The payment of salary arrears for the financial year 1985 was charged, on the basis of two separate

authorizations, partly to the financial year 1985, as far as available appropriations (7,7 Mio ECU) would allow: the remainder was charged to the financial year 1986 (1,9 Mio ECU). The revenue generated by the payment of these arrears (consisting of taxes and miscellaneous deductions amounting to 3,5 Mio ECU), on the other hand, was credited to 1985. The Court must point out that:

- (a) these salary arrears, which concerned the financial year 1985 only, should have been entered in the accounts for 1985, using the appropriate procedures in order to obtain the required appropriations;
- (b) in addition, crediting revenue arising from the expenditure of a given financial year to the previous financial year does not seem regular.

### *Various items of revenue to be credited*

2.14. On 31 December 1985 the account 'Budgetary revenue to be credited' showed a credit balance of 9,7 Mio ECU (compared with 0,8 Mio ECU on 31 December 1984). This abnormal situation, resulting mainly from reimbursements of unused aid from the European Social Fund for 1985, constitutes an infringement of Article 15 of the Regulation laying down implementation measures for certain provisions of the Financial Regulation<sup>(9)</sup>. If all the revenue received had been entered in the accounts, the deficit for the financial year 1985 could have been reduced.

### *Press and information offices and external delegations*

2.15. On 31 December 1985 cash held by the press and information offices and external delegations amounted to 10,8 Mio ECU. The Court examined the ceilings fixed for the financial year 1985 for the 'Press and information offices and external delegations' imprest accounts. The Court's investigations have revealed that the ceiling fixed for the imprest accounts amounts to between 2,5 and 4,7 months' expenditure, which seems excessive; in addition, in the case of three imprest accounts for which the ceiling is equal to more than three months' average expenditure, no interest is earned by excess funds in the bank accounts. The Court calls upon the Commission to review the ceilings established for the press and information offices and external delegations and to ask the administrators of the imprest accounts to re-negotiate the terms governing the operation of their bank accounts.

### *Reimbursement of expenditure incurred on behalf of the ECSC*

2.16. In 1971 the ECSC purchased a property in Washington which has since been used as the residence of

the Head of the Commission's delegation to the United States. The ECSC receives a rent for the use of this building which is paid from the general budget of the Communities and which, since 1984, amounts to 60 000 ECU a year. Maintenance costs are borne by the ECSC.

2.17. During an on-the-spot audit, the Court observed that extensive renovation work had been carried out on the building in 1982 and 1983 on behalf of the ECSC. The total, about 399 750 USD (about 0,5 Mio ECU), was paid from the Commission delegation's imprest account in Washington. At the moment the audit took place, at the beginning of March 1986, settlement of this sum, between the European Communities and the ECSC, had not taken place. Although, more than two years after the completion of the works (at the end of 1983), the Commission had the supporting documents relating to the account available, the ECSC did not pay over the sum it owed the European Communities until 24 March 1986.

## **OBSERVATIONS ON THE COMMISSION'S CASH MANAGEMENT**

2.18. The Court's observations on cash management in respect of the implementation of the general budget set out in its annual report on the financial year 1984<sup>(10)</sup> mainly concerned the financial year 1983, for the reasons stated in these observations. In its replies, the Commission indicated that some procedures had since been improved. For this reason the Court carried out a survey of banking terms and the system of managing and distributing cash resources based on the use of estimates which has been in operation since October 1985.

### *Banking terms*

2.19. The Commission's files on the terms applying to its bank accounts consist mainly of the banks' replies to a questionnaire obtained at the request of the Court during its preparatory audit work for the annual report on the financial year 1984. These files are still incomplete because certain replies and certain items of information are still lacking. Similarly, some items of information arising from the renegotiation of certain banking terms have not yet been placed on file.

2.20. The renegotiations of terms with some of the banks, which were prompted by the Court's investi-

gations, have produced some positive results. All the same, the Court must point out that:

- (a) no prior study was carried out to establish the optimum terms which a customer of the quality of the European Communities could reasonably expect and priority in approaching the banks with a view to renegotiating terms was not given to those that offered the least satisfactory terms;
- (b) the terms requested and obtained differ appreciably from one bank to another within the same country;
- (c) no improvement has yet been obtained from some banks notwithstanding that they have the benefit of a considerable volume of Community business;
- (d) the negotiations are not carried out in liaison with the other institutions.

For this reason, the Court must stress that the Commission should make systematic use of competitive tendering, which is the most suitable way of obtaining the finest banking terms.

2.21. At present, there is practically no form of check to ensure that the banking terms are being correctly implemented:

- (a) the interest-rate scales are not filed: there is thus no way of checking that all the scales have been received, nor of checking the amounts and the interest rates;
- (b) there is no systematic check of the charges and commissions received by the banks;
- (c) there is no systematic comparison of exchange rates with independent indicators;
- (d) there is no adequate check of value dates, in particular because the transfer orders do not (except in special cases) mention the value date.

2.22. The Court recommends that the Commission should make an increased effort to:

- (a) renegotiate the terms applying to its bank accounts, in liaison with the other institutions, with a view to improving them;
- (b) keep the file on banking terms up to date;
- (c) check that the banks are actually applying the agreed terms;
- (d) generalize the practice of mentioning the value date on transfer orders.

### *System of management based on estimates and cash distribution*

2.23. Article 12 of Council Regulation (EEC) No 2891/77 of 19 December 1977 implementing the Decision of 21 April 1970 on the replacement of Member State's financial contributions by the Community's own resources <sup>(11)</sup> states that 'the difference between the overall assets and the cash resource requirements shall be divided among the Member States, as far as possible, in proportion to the estimated budget revenue from each of them'. The Court investigated the question of whether the distribution of funds amongst the Member States had been improved. In spite of the progress in the mode of calculation the discrepancies were greater in 1985 than in 1983:

- (a) as a monthly average, the proportion of incorrectly distributed funds rose to 19 % of the total during the second quarter of 1985, compared with 15,5 % for the financial year 1983 as a whole;
- (b) the proportion of incorrectly distributed funds averaged 67,4 % at the end of the months of April, May and June, compared with an average of 23,4 % for the whole of 1983.

2.24. The worsening of the results in spite of the improvements to the system may be largely explained by the unreliability of the estimates submitted by the various authorizing officers, something that the Court has already criticized <sup>(12)</sup>. The Court therefore recommends that the Commission should concentrate its efforts on improving the reliability of the estimates.



- (1) — Special report on the Members' Cash Office of the European Parliament, OJ C 202 of 5.8.1982.  
— Annual report concerning the financial year 1982, OJ C 357 of 31.12.1983, paragraph 2.9.  
— Annual report concerning the financial year 1983, OJ C 348 of 31.12.1984, paragraphs 2.5 — 2.7.  
— Annual report concerning the financial year 1984, OJ C 326 of 16.12.1985, paragraph 2.2.
- (2) Financial Regulation applicable to the general budget of the European Communities, OJ L 356 of 31.12.1977.
- (3) Opinion on the deficit of the Members' Cash Office, sent to the President of the European Parliament on 7.11.1985.
- (4) — Special report on the Members' Cash Office of the European Parliament, OJ C 202 of 5.8.1982.  
— Annual report concerning the financial year 1982, OJ C 357 of 31.12.1983.  
— Annual report concerning the financial year 1983, OJ C 348 of 31.12.1984.
- (5) — Annual report concerning the financial year 1984, OJ C 326 of 16.12.1985, paragraphs 2.3 — 2.4.  
— Annual report concerning the financial year 1983, OJ C 348 of 31.12.1984, paragraphs 2.17 — 2.18.
- (6) Annual report concerning the financial year 1983, OJ C 348 of 31.12.1984, paragraph 2.18.
- (7) Annual report concerning the financial year 1984, OJ C 326 of 16.12.1985, paragraph 2.3.
- (8) Annual report concerning the financial year 1984, OJ C 326 of 16.12.1985, paragraph 2.8.
- (9) Commission Regulation of 30 June 1975 on measures of implementation of certain provisions of the Financial Regulation of 25 April 1973, OJ L 170 of 1.7.1975.
- (10) Annual report concerning the financial year 1984, OJ C 326 of 16.12.1985, paragraphs 2.18 — 2.53.
- (11) OJ L 336 of 27.12.1977.
- (12) Annual report concerning the financial year 1984, OJ C 326 of 16.12.1985, paragraphs 2.24 — 2.25.

## CHAPTER 3

## Revenue

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## INTRODUCTION

other deductions from staff remuneration come under other chapters of this report.

3.1. This chapter relates to own resources and certain miscellaneous revenue of the European Communities included in the 'Revenue' section of the general budget. Revenue of the European Coal and Steel Community (ECSC) is dealt with in a separate report of the Court of Auditors, while revenue of the European Development Fund, contributions by certain Member States to Euratom research programmes and pension, tax and

3.2. The revenue under consideration consists, for the most part, of the own resources allocated to the Communities by Council Decision 70/243/ECSC, EEC, Euratom of 21 April 1970 <sup>(1)</sup>, as since replaced by Council Decision 85/257/EEC, Euratom of 7 May 1985 <sup>(2)</sup>. The revenue in question comprises Common Customs Tariff duties, agricultural levies, including sugar and isoglucose

<sup>(1)</sup> The footnotes appear at the end of each chapter.

production and storage levies, and value-added tax (VAT) not exceeding 1 % of a uniform Community-wide basis of assessment. By way of exception, Greece is continuing to pay a financial contribution in lieu of VAT, based on its gross national product, pending the introduction in that Member State of a common system for this tax.

## SUMMARY OF FINANCIAL INFORMATION

3.3. A summary of the general budget revenue of the Communities for 1984 and 1985 is set out in *Table 3.1*. It shows the figures estimated in the 1985 budget <sup>(3)</sup> and the actual out-turn of revenue for the financial year in question.

### *Exhaustion of own resources and financing of the budget*

3.4. The budget adopted for the financial year 1985 showed that total revenue from the traditional own resources of customs duties, agricultural levies and sugar levies, plus the own resources accruing from VAT own resources up to the limit of 1 % allowed for under the Decision of 21 April 1970, would be insufficient to meet budgeted expenditure. As was the case for 1984, an intergovernmental agreement was made whereby this deficit would be met by advances paid by each of the Member States. The Court notes that, unlike those for 1984, which were refundable, the advances for 1985 were non-refundable. However, the 1985 budget includes 1 981,6 Mio ECU as revenue from advances within Title 8, entitled 'Borrowing and lending operations', as in 1984.

3.5. As has already been mentioned in Chapter 1, the deficit carried over from the financial year 1984 was 827,3 Mio ECU, but only part of this deficit, amounting to 172,5 Mio ECU, was entered in the 1985 budget. This procedure is manifestly contrary to Article 27 of the Financial Regulation of 21 December 1977 <sup>(4)</sup>, which states that the balance must be carried over in its entirety to the budget for the following financial year. The result was that the difference, namely 654,8 Mio ECU, was only entered in the 1985 balance sheet as the residue of the deficit for the financial year 1984, which was still to be covered, and was deferred as a charge to a subsequent financial year.

3.6. The Court has compiled *Table 3.2*, which shows:

- (a) the effect on the Community rates of VAT of the implementation in 1985 of the Decision of 7 May 1985, Article 3(4);
- (b) the change in these rates which would have resulted had the budget been fully financed from VAT own resources without the 1 % limit and without recourse to non-refundable advances from the Member States; and
- (c) the further change that would have had to be made to these same rates if the 1985 budget had had to take into account the final 1984 deficit after the refundable advances had been paid in full (827,3 — 408,3 = 419,0 Mio ECU) instead of the figure of 172,5 Mio ECU actually entered in the budget (see paragraphs 3.5 and 3.7).

*Table 3.2* does not take account of the financing of the refunding of 1 001,8 Mio ECU of advances granted by the Member States to finance supplementary and amending budget No 1 <sup>(5)</sup> of the financial year 1984. If the refunding of these advances had been charged as 1985 expenditure, rather than charged to following financial years, the Community rate of VAT would have been 0,065 % in excess of the rates shown in the last column in *Table 3.2*. In that case most of the Member States would have been asked to pay over the equivalent of 1,307 % of their base.

### *Deficit for the financial year*

3.7. The final out-turn of revenue for 1985 was extremely close to the budgeted figure (see *Table 3.1*). Revenue from own resources was, as expected, insufficient to finance expenditure for the financial year. The resulting deficit for the financial year 1985 between own resources and expenditure amounted to 1 674,6 Mio ECU. The non-refundable advances mentioned in paragraph 3.4 above were supposed to cover this shortfall in revenue. By 31 December 1985, however, only 1 242,4 Mio ECU of these advances had been paid (by Belgium, Denmark, the FR of Germany, Greece, Ireland, the Netherlands and the United Kingdom). Including the payment in 1985 of the balance of the 1984 advances, amounting to 408,3 Mio ECU (by Belgium, Denmark, Italy, Luxembourg and the United Kingdom), the revenue and expenditure account shows a final deficit of 23,9 Mio ECU.

3.8. These data are based on the figures in the revenue and expenditure account distributed by the Commission on 29 May 1986. However, as already indicated in paragraph 3.5 above, the residue of the deficit for the financial year 1984, amounting to 654,8 Mio ECU, was not charged to 1985 but deferred to a subsequent financial year. The Court wishes to draw the attention of the discharge authorities to the fact that, if the 1984 deficit had been fully covered in 1985, the actual deficit on the

Table 3.1 — Revenue 1984 and 1985

(Mio ECU)

Type of revenue	1984 Actual revenue	1985		
		Budget	Actual revenue	Difference (3)–(2)
	(1)	(2)	(3)	(4)
Customs duties	7 960,8	8 596,1	8 310,1	– 286,0 (– 3,3 %)
Agricultural levies	1 260,0	1 081,5	1 121,7	+ 40,2 (+ 3,7 %)
Sugar and isoglucose levies	1 176,4	1 025,0	1 057,4	+ 32,4 (+ 3,2 %)
VAT own resources	14 372,1	15 198,1	15 218,9	+ 20,8 (+ 0,1 %)
Financial contributions	222,5	263,5	260,9	– 2,6 (– 1,0 %)
<b>Sub-total</b>	<b>24 991,8</b>	<b>26 164,2</b>	<b>25 969,0</b>	<b>– 195,2 (– 0,7 %)</b>
Adjustments to VAT own resources for 1984	—	p.m.	62,2	
1983	– 198,5	p.m.	– 26,0	
1982	38,7	p.m.	16,5	
1981	19,4	p.m.	16,7	
1980	12,7	p.m.	12,9	
1979	15,9	p.m.	29,5	
Miscellaneous revenue	271,8	287,4	353,6	
Surplus from previous year	307,1	p.m.	—	
<b>Total revenue available</b>	<b>25 458,9</b>	<b>26 451,6</b>	<b>26 434,4</b>	
Revenue required to finance expenditure of year	26 879,7	28 433,2 <sup>(1)</sup>	28 109,0 <sup>(1)</sup>	
Insufficiency of revenue	1 420,8	1 981,6	1 674,6	
Advances received in year	593,5	1 981,6	1 650,7 <sup>(2)</sup>	
<b>Balance of year</b>	<b>– 827,3</b>	<b>—</b>	<b>– 23,9 <sup>(3)</sup></b>	

<sup>(1)</sup> Includes part of deficit 1984 (172,5 Mio ECU).<sup>(2)</sup> Reimbursable advances for 1984 (408,3 Mio ECU) + non-reimbursable advances for 1985 (1 242,4 Mio ECU).<sup>(3)</sup> See observations in paragraph 3.8 concerning the effect on this deficit of the unaccounted for portion of the 1984 deficit (654,8 Mio ECU), bringing the real deficit to 678,7 Mio ECU.

revenue and expenditure account for the financial year 1985 would have been 678,7 Mio ECU.

(b) under the terms of Article 12(2), it drew from the Member States in excess of the total sums credited by them.

3.9. As a result of the delays in the payment of the advances and of the continuing deficit, the Commission, in order to meet its cash-flow needs during 1985, made use of the two methods provided for in Council Regulation (EEC, Euratom, ECSC) No 2891/77 of 19 December 1977 <sup>(6)</sup>, namely:

(a) under the terms of Article 10(2), it asked the Member States to pay over the traditional own resources one month in advance of the normal due dates for the duration of the financial year; in addition,

### *Impact of the Decision of 7 May 1985*

3.10. On 28 December 1985 the Council received the last notification by Member States of the completion of the procedures for the adoption of the Council Decision of 7 May 1985. Accordingly, the lump-sum deduction of 1 000 Mio ECU was made, under Article 3(4) of the Decision, from the amount of VAT own resources paid by the United Kingdom, and an equivalent sum was borne

Table 3.2 — Variations in Community rates of VAT

Member State	Contribution to the 1985 budget on the basis of a 1 % rate of VAT	Contribution to the 1985 budget in implementation of the Decision of 7 May 1985, Article 3 (4)	Rate by Member State	Member States' contributions <sup>(2)</sup> on the basis of calculation according to paragraph 3.6 (b)	Rate by Member State	Member States' contributions <sup>(3)</sup> on the basis of calculation according to paragraph 3.6 (c)	Rate by Member State
	(ECU)	(ECU)	%	(ECU)	%	(ECU)	%
Belgium	505 000 000	554 511 616	1,098	619 234 451	1,226	627 286 601	1,242
Denmark	312 000 000	342 589 354	1,098	382 576 532	1,226	387 551 326	1,242
FR of Germany	4 450 000 000	4 693 938 249	1,055	5 264 268 186	1,183	5 335 222 782	1,199
(Greece) <sup>(1)</sup>	239 947 760	263 472 911	1,098	294 225 583	1,226	298 051 515	1,242
France	3 450 000 000	3 788 247 667	1,098	4 230 413 573	1,226	4 285 423 316	1,242
Ireland	135 600 000	148 894 604	1,098	166 273 647	1,226	168 435 769	1,242
Italy	2 278 500 000	2 501 890 525	1,098	2 793 912 269	1,226	2 830 242 617	1,242
Luxembourg	40 000 000	43 921 712	1,098	49 048 273	1,226	49 686 067	1,242
Netherlands	750 500 000	824 081 123	1,098	920 268 228	1,226	932 234 840	1,242
United Kingdom	3 300 000 000	2 300 000 000	0,697	2 722 941 302	0,825	2 775 559 317	0,841
<b>Total</b>	<b>15 461 547 760</b>	<b>15 461 547 760</b>	<b>1,0</b>	<b>17 443 162 044</b>	<b>1,128</b>	<b>17 689 694 150</b>	<b>1,144</b>

(<sup>1</sup>) In the case of Greece, the figures represent financial contributions in lieu of VAT own resources. The refund of 10 % of its financial contributions appears in the budget as expenditure, and has therefore not been taken into account in this table.

(<sup>2</sup>) The total of non-refundable advances entered in the 1985 budget (1 981,6 Mio ECU) differs from the amount provided for by the intergovernmental agreement of 1985 (1 982,4 Mio ECU). The distribution of these advances amongst the Member States takes account of the sum entered in the budget and has been calculated in accordance with the VAT own resources scale of allocation.

(<sup>3</sup>) The table is based on data which are available at the time of presentation of the budget. Matters arising after adoption of the budget are not reflected; principally these are the balance of VAT own resources from 1984 and the corrections to VAT own resources for preceding years, amounting to 111,8 Mio ECU.

by the other Member States. Some of these operations were carried out in December 1985. The sum of 712,0 Mio ECU, however, by way of a refund to the United Kingdom, and 577,2 Mio ECU of sums recovered from the other Member States were not actually paid over or received until 2 January 1986, even though the entire sum was entered in the 1985 revenue and expenditure account. The Court observes that this latter procedure is contrary to the provisions of Article 5 of the Financial Regulation, according to which the revenue of a given financial year must be entered in the accounts on the basis of the amounts actually collected during that financial year. It must also point out, however, that the second indent of Article 3(4) of the Decision of 7 May 1985 did authorize the Commission, in respect of operations concerning VAT adjustments in favour of the United Kingdom during 1985, to enter the corresponding amounts in the accounts for the financial year 1985.

from Member States, which allow them the alternative of paying on the basis of either Method A (returns) or Method B (revenue), were extended to 31 December 1988 by Council Regulation (ECSC, EEC, Euratom) No 3735/85 of 20 December 1985 (<sup>7</sup>). The Court has continued its enquiries mentioned in previous annual reports concerning the functioning of these transitional arrangements. It notes that only two Member States (Denmark and Ireland) opted initially for Method A, but that they subsequently amended their option to Method B (with effect from 1 January 1983 and 1986 respectively). The Council has asked the Commission to present proposals in respect of a uniform method for determining the assessment basis before 31 December 1987.

### *Amounts written off or in arrears*

## VAT OWN RESOURCES

3.11. The transitional arrangements for determining the amounts of value-added tax (VAT) own resources due

3.12. In paragraph 3.13 of its annual report on the financial year 1984 (<sup>8</sup>), the Court observed that the choice between Method A and Method B was not neutral. VAT own resources determined under Method B depend principally upon the total net amount of national VAT

collected by the Member States, whereas under Method A they are determined from the amounts established as due. The Court referred in the above-mentioned paragraph to the differences between these Methods caused by amounts due but written off and in arrears. It estimates these amounts, using the data available, at 0,9 % and 5,3 % respectively of VAT collected during the year 1984 and calculates that the potential negative effect of these differences on own resources amounts to 154,6 Mio ECU and 752,6 Mio ECU respectively.

3.13. Amounts of VAT assessed as being due from a taxable person are required to be paid by that taxable person in accordance with arrangements authorized by the Council's Sixth VAT Directive of 17 May 1977<sup>(9)</sup>. This Directive, the primary objective of which is to ensure that VAT is collected in a uniform manner in all the Member States, authorizes Member States to 'release taxable persons from certain obligations and from the payment of the tax due where the amount is insignificant' (Article 22(9)). No further Community legislation or guidelines have been issued concerning conditions under which VAT assessed as due may be written off or otherwise waived and no attempt has been made to define 'insignificant'.

3.14. The Court asked each of the Member States to state the circumstances in which it would write off or waive amounts of VAT properly established as due. The information obtained from the six Member States which replied to the Court's questionnaire (namely, Belgium, Denmark, the FR of Germany, France, the Netherlands

and the United Kingdom) indicates a wide variation in practices. While death or formal bankruptcy is accepted by all six Member States as justification for writing off the amount due, this is not always so in cases of hardship (accepted by three), inequity (two), where it is considered uneconomic to institute legal proceedings (two), or where enforcement action has been unsuccessful (two). One Member State, in contrast, has no procedure for writing off a tax debt, even where the amount is insignificant.

3.15. Procedures for enforcement also vary. While all six of the Member States were found to have the power to fine and/or impose interest on late payments, only one had authority to demand a financial guarantee before the due date in case of risk. VAT debts have preference over commercial debts in four Member States, but only in one Member State was it the practice to revoke registration as a means of enforcement.

3.16. Table 3.3 illustrates the trends over the years of the amounts of VAT written off by Member States and in arrears (expressed as percentages of the VAT own resources base). It is clear that these procedural variations affect the total net VAT collected, and thus the amount paid over to the Community by Member States which apply Method B. It is also clear that they affect the equality of treatment among the Member States.

Table 3.3 — Variation between Member States within method B for VAT own resources

Year	(a) Amounts written off						(b) Amounts in arrears					
	Belgium	Denmark	FR of Germany	France	Netherlands	United Kingdom	Belgium	Denmark	FR of Germany	France	Netherlands	United Kingdom
1979	—	—	—	—	1,05 %	0,26 %	—	—	—	—	—	—
1980	—	—	0,97 %	0,15 %	1,18 %	0,38 %	—	—	4,59 %	4,92 %	—	—
1981	0,14 %	—	1,27 %	0,19 %	1,88 %	0,50 %	5,41 %	—	4,93 %	5,43 %	9,15 %	—
1982	0,17 %	—	1,48 %	0,14 %	2,77 %	0,88 %	6,45 %	—	5,10 %	5,09 %	14,35 %	4,74 % <sup>(1)</sup>
1983	0,22 %	0,27 %	1,46 %	0,11 %	5,31 %	1,23 %	6,70 %	6,44 %	4,90 %	5,46 %	12,81 %	4,14 %
1984	0,31 %	0,32 %	1,54 %	0,16 %	2,77 %	1,26 %	7,02 %	5,71 %	4,60 %	5,97 %	11,06 %	3,31 %

<sup>(1)</sup> Exceptionally high because of national staff industrial action.

### *Limitation on audit examination*

3.17. The observations made in paragraphs 3.12 — 3.16 above arise from the obligation placed on the Court by Article 206a(2) of the EEC Treaty, to 'examine whether all revenue has been received'. Since the amount of VAT own resources to be made available to the Communities is determined, in compliance with Method B, using a base derived principally from the amount of national VAT collected by each of the Member States, the Court takes the view that, in order to fulfil its responsibilities under the Treaty, it must examine:

- (a) the degree to which national VAT due is actually collected;
- (b) the reliability of the registration, assessment and enforcement procedures used by the Member States; and
- (c) the effectiveness of the national control systems.

3.18. In order to implement this audit strategy, the Court is obliged to verify national VAT revenue at three different levels:

- (a) by referring to the relevant global data or statistics;
- (b) by examining and obtaining documentation on the relevant national control systems relating to the completeness of the revenue;
- (c) by verifying this information in accordance with normal auditing practice, that is, by compliance tests based on local records, registers or individual case files. The purpose of such compliance tests is to determine whether there are any weaknesses in the systems or controls operated by the national authorities which might have an effect on Community own resources.

3.19. The Court was able to carry out and complete these enquiries in the following Member States: Belgium, Denmark, Ireland, the Netherlands and the United Kingdom. Other Member States, however, refused to accept that such enquiries were within the Court's sphere of authority. Specifically, Italy and Luxembourg refused to provide the Court with tax statistics, France would not agree to supply all the information needed for a description of the systems and the FR of Germany, France, Italy and Luxembourg refused the Court leave to carry out compliance tests.

3.20. The Court wishes to draw the attention of the discharge authorities to the fact that it has not so far been able to fulfil its responsibilities (as required by Article 206(a) of the Treaty) as regards the audit of VAT own resources paid over by these Member States.

### CUSTOMS DUTIES

#### *Release of goods for free circulation under simplified declaration procedures*

3.21. The Court has examined the operation of the special procedures provided for in Articles 16 — 21 of Council Directive 79/695/EEC of 24 July 1979<sup>(10)</sup>. One of the principal aims of the Directive was to introduce common rules to ensure the correct and uniform application not only of import duties but also of any other Community provisions governing the release of goods for free circulation. These rules were designed to dispense with unnecessary customs formalities and to introduce harmonized yet flexible practices while maintaining a customs capability to intervene by physical and *a posteriori* controls. The Directive provides, in particular, that as from 1 January 1984 (at the latest) only those special procedures set out therein shall be applied and that Member States shall apply all such procedures 'in so far as their administrative organization allows it'.

3.22. In respect of the examination of the operation of these special procedures in some Member States, the Court notes that:

- (a) Article 16(2) of the Directive states that the conditions to be fulfilled by a person in order to obtain an authorization to use the procedures shall be determined by the competent authorities in the Member States. The Court found considerable disparities in the criteria adopted for treating applications for such authorization; for example in the FR of Germany the conditions to be fulfilled are such that an estimated 80 % of all importations are authorized under these procedures while in Denmark the facility is restricted to goods not liable to import duties (less than 10 %);
- (b) Article 20 of the Directive allows authorized persons to receive the goods directly into their own premises,

on condition that, *inter alia*, the customs authorities are notified of the arrival of goods in sufficient time to enable them to exercise their right to examine the goods before release. It further requires that importers maintain full records of importations which will be available for examination by customs authorities. It was found that the arrangements being operated in two of the Member States visited did not give customs a realistic option to examine the goods prior to their release. In France, the time available to customs to exercise this option was only 30 minutes from notification of arrival of the goods; in the FR of Germany, for the majority of importers, release of goods was authorized concurrently with the time of entry into the records precluding any possibility of intervention by customs before release of the goods. The Court also observed that in the FR of Germany, inspections of accounting records for major importers had not taken place in respect of these special procedures for more than 6 years.

3.23. The Court draws the attention of the Commission to its responsibility for supervising the operation of the system in the Member States, and for ensuring that the stated objectives of harmonized treatment of importers and goods and of correct establishment of import duties are attained.

### *Simplified procedures relating to the carriage of goods by rail in large containers under the Community transit system*

3.24. The purpose of the Community transit system is to permit the movement of goods across internal frontiers within the territory of the Community with the minimum of formalities and without payment of customs or other charges until they reach their destination. Legally, the system is based on Council Regulation (EEC) No 222/77 of 13 December 1976<sup>(11)</sup> and Commission Regulation (EEC) No 223/77 of 22 December 1976<sup>(12)</sup>. Control to ensure that duties are properly paid is carried out by the customs authorities of the Member State where the goods initially enter the Communities, to whom the customs authorities of the Member State of final destination return the completed Community transit document.

3.25. A further simplified transit procedure, specifically designed for the carriage of goods in large containers by railway authorities, was introduced by Commission Regulation (EEC) No 902/80 of 14 April 1980<sup>(13)</sup>, which amended Regulation (EEC) No 223/77 (Article 50(a) and 50(b)). This simplified procedure for large containers differs from the normal transit system in that an intermediary exists in the form of a transport undertaking with administrative headquarters in a third country, that this undertaking's transfer note is treated as equivalent to the Community transit document and that the railway authorities guarantee the payment of duties. This undertaking is a holding company whose shareholders are various European railway companies.

3.26. The Court found that inspections had never been carried out at the headquarters of the transport undertaking in the third country where key documentation on the operation of the system is held. The Court also found that, in the Member States visited (Belgium, Italy and the Netherlands), inspection by customs of the records of the undertaking's agent and of the national railway administration, as provided for in the legislation, were minimal or non-existent.

3.27. The Court takes the view that the extent of supervisory inspections by customs authorities, as described above, does not fulfil the role required to be played by the customs authorities in reasonably safeguarding Community own resources. It considers that inspection of the relevant records of the third country undertaking should have been arranged, within the general framework of the Community transit system.

## AGRICULTURAL CHARGES

### *Co-responsibility levy on milk*

3.28. Income of 632 Mio ECU from the co-responsibility levy on milk, as introduced by Council Regulation (EEC) No 1079/77 of 17 May 1977<sup>(14)</sup>, is included in Item 2070 of the budget as negative expenditure — that is to say, any amounts collected as levies by or in a Member State are held by that Member State on account of sums due to it by the Communities, which in turn reduces advances to that Member State by the amounts so withheld (see paragraph 4.4(d)). Unlike agricultural levies collected as own resources, which are made available to



the Community on the basis of amounts established as due, the milk co-responsibility levy is accounted for in the Community accounts on the basis of amounts actually collected. In the Court's view, income accruing from this levy should be accounted for on the same basis as the own resources accruing from agricultural levies and customs duties, i.e. on the basis of amounts established as due.

3.29. In several Member States payments of levies by the dairies were considerably in arrears of the 45-day limit allowed. Both the Commission in the context of the clearance of the EAGGF-Guarantee accounts relating to 1978-81 and the Financial Controller of the Commission in 1980, had already observed the existence of such arrears.

3.30. Article 9 of Commission Regulation (EEC) No 1822/77 of 5 August 1977 <sup>(15)</sup> requires Member States to adopt measures necessary to ensure the proper collection of the levy. The Court asked the Commission:

- (a) if it had evaluated the adequacy of these measures; and
- (b) the steps taken to ensure the prompt payment of the levy in the light of the arrears situation.

The Court notes that there is no provision in Community legislation for any sanction to be applied in case of late payment.

### *Physical examination of goods*

3.31. Initially in its annual report on the financial year 1978 <sup>(16)</sup>, and again in its special report on the system for the payment of refunds on agricultural exports <sup>(17)</sup>, the Court criticized the lack of harmonization between Member States with regard to practices concerning the physical examination by customs of goods. It considered it necessary for the Commission to set up arrangements to determine the level of examination which is regarded as the minimum to assure efficient control by customs authorities.

3.32. In its reply to the annual report referred to above, the Commission stated that it proposed to carry out detailed studies, in conjunction with the representatives of the Member States, of the conditions in which the examinations were conducted. Subsequently, in 1985, in its reply to the special report, the Commission agreed to

explore the possibility of adopting Community provisions in this field.

3.33. The Court has carried out during the financial years 1984 and 1985 further enquiries in respect of this control aspect. It found in two of the Member States visited (FR of Germany and the United Kingdom) that the scope and quality of physical inspections were in its opinion insufficient to give a reasonable assurance that imported goods actually conform to the descriptions and specifications necessary for applying the appropriate levy rate. In particular, sample-taking with a view to analysis of the goods imported, for tariff classification purposes, took place only at a minimal level.

3.34. The Court considers that physical inspections carried out when goods are presented for customs clearance are essential in so far as these cannot be, or are not, replaced by adequate controls at a later stage. It also considers that the Commission should urgently formulate guidelines on the carrying out of physical examination, or any other examination which can adequately replace it. The guidelines should set minimum standards for frequency, scope and quality of such examinations to safeguard the proper collection of levies and contribute to the correct application of the common agricultural policy.

### *Triangular traffic concerning rice imports*

3.35. In its annual reports on the financial years 1978 and 1980 <sup>(18)</sup> (respectively paragraphs 2.36 and 3.18 — 3.22), the Court drew attention to the speculative character of trade movements of rice between Member States and their negative impact on the financial resources of the Community. The Commission stated in its reply that it did not consider it advisable to introduce monetary compensatory amounts (MCAs) in the rice market because currency disparities were tending to diminish, and in any event it was the Commission's desire that MCAs should disappear altogether. It did, however, state that it was examining whether this particular situation could be remedied by requiring that the product be unloaded for customs clearance in the first Member State of import.

3.36. During an audit mission in 1985 in Belgium to examine the application of levies on imports of rice, the following trade flows were observed:

- (a) rice entering the Communities in the Netherlands was onward shipped to Belgium where levies were paid. The rice was then transported back to the Netherlands for use thereby saving the importer ap-

proximately 17 ECU per tonne at the expense of own resources; and

- (b) rice designated for the FR of Germany was imported in Belgium with payment of levies and immediately transported to the FR of Germany. This reduced own resources by about 25 ECU per tonne.

3.37. These trade flows are apparently inspired by the fact that the agricultural conversion rates (green rates) are used to express the levy in national currency. Thus, in Belgium, the ECU value of the levy converts to a lower sum in Belgian francs than if the market exchange rate was used, while in the FR of Germany and the Netherlands the opposite is the case. A German or Dutch importer can take advantage of this situation by paying the levy in Belgium with Belgian francs purchased on the more favourable open market. The Commission has consistently resisted the introduction of MCAs in the rice sector although they were developed specifically to counteract such unwarranted advantages in other markets.

3.38. The volume of these trade flows through Belgium has been determined as 67 200 tonnes for 1984 and 91 200 tonnes for 1985. The effect of these on the Community financial resources can be estimated to be about 1,5 Mio ECU for 1984 and 2,0 Mio ECU for 1985.

3.39. The Court notes that this market continues to be characterized by trade distortion at the expense of the Communities' resources more than 5 years after the Court originally drew attention to the triangular traffic in rice. The Court again requests that the Commission should take appropriate measures to remedy this situation in the rice sector in order to protect Community financial resources.

### *Self-financing objectives within the sugar market*

#### **Introduction**

3.40. Unlike other markets, the common organization of the market in sugar has always been characterized by:

- (a) a system of production quotas;

(b) the principle of full financial co-responsibility; and

- (c) the revenue from levies being accounted for as own resources.

These features were confirmed and strengthened by Council Regulation (EEC) No 1785/81 of 30 June 1981<sup>(19)</sup>, which applied for the 5 years beginning 1 July 1981. To this end, budgetary expenditure on the storage and export of Community sugar must, in principle, be met from levies at the marketing and production stages respectively.

3.41. Sugar produced in the Community is subject to production quota arrangements as provided for in Council Regulation (EEC) No 1785/81. Under these provisions, producers receive a price guarantee up to a maximum quantity of 11.8 Mio tonnes per annum, i.e. the quantity representing the total of the 'A' and 'B' quotas under the scheme. Sugar consumption in the Community has stabilized at 9,5 Mio tonnes per annum. The operation of the scheme has resulted in the production covered by the price guarantee exceeding consumption by an average annual quantity of 1,6 Mio tonnes.

#### **The compensation system for storage costs**

3.42. The compensation system for storage costs was set up to ensure regular marketing of Community sugar throughout the year by reimbursement of storage costs to the manufacturers of the sugar. These storage costs for sugar are reimbursed at a flat rate fixed by the Council. When the sugar is marketed, it is subject to a levy payable by the manufacturer. Under Article 6 of Council Regulation (EEC) No 1358/77 of 20 June 1977<sup>(20)</sup>, this levy is designed to ensure that for any marketing year the estimated total of levies is equal to the estimated total of the reimbursement of storage costs. The financial out-turn of the marketing years, is presented in *Table 3.4*. As can be seen from the table, the Commission now estimates the scheme to be in overall balance at the end of 1985/86. The Court observes, however, that the use of the available management tools should have enabled the Commission to achieve sooner a higher degree of annual equilibrium.

#### **The production quota/levy scheme**

3.43. The production quota scheme provides that the producing undertakings themselves meet in full the cost of disposing of the Community production in excess of

**Table 3.4 — Financial outcome of the sugar storage costs compensation system**

Marketing year	Reimbursement		Levies		Balance	
	Rate per month of storage (ECU/tonne)	Total payments (Mio ECU)	Rate per tonne marketed (ECU/tonne)	Total revenue (Mio ECU)	Balance of the marketing year (Mio ECU)	Cumulative balance (Mio ECU)
	(1)	(2)	(3)	(4)	(5) = (4) - (2)	(6)
1981/82	5,80	433,0	35,50	407,4	- 25,6	- 30,1 <sup>(1)</sup>
1982/83	6,30	540,8	42,50	478,7	- 62,1	- 92,2
1983/84	5,70	465,6	42,50	448,9	- 16,7	- 108,9
1984/85	5,30	408,1	42,50	481,0	72,9	- 36,0
1985/86 <sup>(2)</sup>	5,30	430,5	42,50	484,5	54,0	18,0

<sup>(1)</sup> Including a deficit of 4,5 Mio ECU carried forward.

<sup>(2)</sup> Based on estimates.

consumption by paying a production levy. Detailed rules for the calculation of the levy rates in force during the marketing year are contained in Regulation (EEC) No 1785/81. This regulation also sets a ceiling on the levy that may be charged and provides for any uncovered loss arising from the operation of the scheme in a given marketing year to be carried forward to the following marketing year.

3.44. The overall deficit so calculated and its breakdown for the marketing years in question are given in *Table 3.5*. This table shows that the production quota/levy scheme has been in continuous deficit since its inception and that the cumulative deficit reached 609,2 Mio ECU at the end of the 1984/85 marketing year.

**Table 3.5 — Financial outcome of the sugar production quota/levy scheme**

(Mio ECU)			
Marketing year	Calculated revenue from levies	Calculated expenditure on sugar exports	Difference
1981/82	410,1	1 380,3	- 451,9
1982/83	516,8		
1983/84	453,4		
1984/85	507,5	664,8	- 157,3
<b>Total</b>	<b>1 887,8</b>	<b>2 497,0</b>	<b>- 609,2</b>

### Conclusions on sugar

3.45. In the Court's opinion the considerable surplus of production over consumption, coupled with the statutory limitation on production levies, indicated at an early stage that the self-financing objective could not be achieved in the operation of the sugar-production quota scheme. The size of the actual deficits resulting from the operation of the scheme has increased steadily over the marketing years concerned. At the same time, the Court notes the recent initiatives taken by the Commission in attempting to strengthen the auto-financing mechanism within the scheme.

3.46. Irrespective of the self-financing objective, the Court is of the opinion that the Commission should have quantified the potential liability in respect of sugar stocks, whether private or public, which will almost certainly have to be exported with the benefit of refunds.

3.47. While the annual financial report on the EAGGF contains some information on the deficit, the Court notes that neither the general budget nor the accounts contain adequate information on this matter. Having regard to the basic character of the financing principles involved, a comprehensive presentation in the general budget and the annual accounts is strongly recommended.

3.48. The Court recommends that future measures towards the common organization of the sugar markets provide for the full deficit to be recovered, and that levies and refunds be set at levels which will allow for the self-financing objective.

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- (1) OJ L 94 of 28.4.1970, p. 19.  
(2) OJ L 128 of 14.5.1985, p. 15.  
(3) OJ L 206 of 5.8.1985.  
(4) OJ L 356 of 31.12.1977.  
(5) OJ L 329 of 17.12.1984.  
(6) OJ L 336 of 27.12.1977, p. 1.  
(7) OJ L 356 of 31.12.1985, p. 1.  
(8) OJ C 326 of 16.12.1985.  
(9) OJ L 145 of 13.6.1977, p. 1.  
(10) OJ L 205 of 13.8.1979, p. 19.  
(11) OJ L 38 of 9.2.1977, p. 1.  
(12) OJ L 38 of 9.2.1977, p. 20.  
(13) OJ L 97 of 15.4.1980, p. 20.  
(14) OJ L 131 of 26.5.1977, p. 6.  
(15) OJ L 203 of 9.8.1977, p. 1.  
(16) OJ C 326 of 31.12.1979.  
(17) OJ C 215 of 26.8.1985.  
(18) OJ C 344 of 31.12.1981.  
(19) OJ L 177 of 1.7.1981, p. 4.  
(20) OJ L 156 of 25.6.1977, p. 4.

## CHAPTER 4

**European Agricultural Guidance and Guarantee Fund,  
Guarantee Section (EAGGF-Guarantee)**

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## INTRODUCTION

4.1. In 1985, the management of the European Agricultural Guidance and Guarantee Fund, Guarantee Section (EAGGF-Guarantee) continued to be governed by Council Regulation (EEC) No 729/70 of 21 April 1970<sup>(1)</sup> which, together with the provisions of the Financial Regulation, in particular Title VIII, forms a legislative framework distinct from the rules of the general budget.

4.2. The main feature of the system of financing introduced by Regulation (EEC) No 729/70 is that the management is partly decentralized; a more detailed description is given in the report of the Court of Auditors for the financial year 1984<sup>(2)</sup>.

## SUMMARY OF FINANCIAL INFORMATION

4.3. The principal financial data on the management of the EAGGF-Guarantee appropriations are given in *Table 4.1*. Total appropriations available for the financing of EAGGF-Guarantee expenditure in 1985 were 19 883,1 Mio ECU. The Commission made available to the Member States appropriations amounting to 19 787,0 Mio ECU. The Member States declared 19 737,8 Mio ECU in expenditure, which the Commission charged to the accounts of the financial year, together with 2,0 Mio ECU for payments made directly, i.e. total expenditure entered in the revenue and expenditure account amounted to 19 739,8 Mio ECU, representing a 7,6 % increase over 1984.

<sup>(1)</sup> The footnotes appear at the end of each chapter.

## OBSERVATIONS ON THE IMPLEMENTATION OF THE BUDGET

### *Presentation of the accounts and balance sheet*

4.4. When analysing the figures relating to the EAGGF-Guarantee, as they appear in the financial statements of the Communities, account should be taken of the following points which affect either the completeness or the annuality of the financial statements, or the clarity of the accounts:

- (a) the Commission's reservations in the context of clearance (see paragraphs 4.49 — 4.52), with regard to the acceptance of expenditure declared by the Member States, are holding up the final settlement of expenditure. These reservations, which are in the nature of potential claims upon or obligations towards the Member States, should be entered in an annex to the balance sheet;
- (b) for the same reason of completeness, the balance sheet should take account, in one way or another, of the amount recoverable in respect of certain irregularities, which may have involved as much as 106 Mio ECU at the end of 1985 (see paragraph 4.42);
- (c) as in previous years, the Commission recorded certain revenue as negative expenditure; this practice is tantamount to concealing the true situation of the budget. Gross expenditure in 1985 was 20 823,1 Mio ECU; if this sum is compared with the 19 739,8 Mio ECU entered in the revenue and expenditure account, there is a difference of 1 083,3 Mio ECU. The Court considers that the figure for gross expenditure should be given in an explanatory note annexed to that account;

Table 4.1 — Summary of accounts 1985

(Mio ECU)

Appropriations	Commitments	Sums charged to revenue and expenditure account
Automatic carry-overs from 1984: 2,6 Cancellations of appropriations: 0,4 Appropriations used: 2,2	—	Payments against automatic carry-overs from 1984: 2,2
Appropriations from initial budget (Titles 1 and 2, Chapter 40): 19 979,1	Balance of appropriations available in the Member States at 1. 1. 1985 <sup>(1)</sup> : 29,4	
Transfers to: — Chapter 92: - 36,0 — Chapter 32: - 60,0 - 96,0	Advances to Member States: — normal advances: 13 579,2 — advances paid in instalments: 5 910,6 — special advances: 311,6 <b>Total advances:</b> 19 801,4 Exchange difference: - 14,4 <b>Total amount of provisional total commitments:</b> 19 787,0 Expenditure committed directly by the Commission: 6,4 <b>Total:</b> 19 793,4 Decommitment of balance available in the Member States at 31. 12. 1984: 49,2	Sums charged as payments <sup>(2)</sup> : — normal payments: 2 111,9 — in instalments and/or late payments: 17 625,9 <b>Total:</b> 19 737,8 Sums paid directly by the Commission: 2,0 <b>Total payments:</b> 19 739,8
<b>Total available:</b> 19 883,1	<b>Total:</b> 19 793,4	<b>Total payments:</b> 19 739,8
Cancellations of appropriations <sup>(3)</sup> : 138,9		Automatic carry-overs to 1986: 4,4
<b>Total appropriations used:</b> 19 744,2	<b>Total commitments:</b> 19 744,2	<b>Total:</b> 19 744,2

<sup>(1)</sup> This balance was included in the commitment of the advance for April.<sup>(2)</sup> The sum charged for November takes into account the consequences of the clearance of the accounts for 1980-81 (- 99,2 Mio ECU).<sup>(3)</sup> Of which 8 Mio ECU for Chapter 40, Fisheries.

(d) it should also be noted that the practice of negative expenditure underwent further modification during the year with regard to the 'super-levy' connected with the implementation of the system of milk production quotas, for which 148 Mio ECU had been entered in the budget as negative expenditure. The administration of this revenue heading calls for the following comments:

(i) following a positive transfer of 160 Mio ECU between articles, Item 2071 was converted into an expenditure heading for which the final appropriations for the financial year amounted to 12 Mio ECU;

(ii) expenditure amounting to 2,1 Mio ECU was entered under this heading in the revenue and expenditure account; however, this entry is only the net result of a series of operations involving the collection of sums amounting to 58,5 Mio ECU, following the refunds of the over-payment made in 1984, and involving expenditure totalling 60,6 Mio ECU effected and declared by the FR of Germany and the Netherlands and subsequently recorded by the Commission under sub-items of Item 2071;

(iii) these operations were made possible by two Council Regulations authorizing the Member States either not to collect the levy if production

in excess of the quota was offset elsewhere, at regional or even national level (Article 4a of Council Regulation No 857/84 <sup>(3)</sup>), or to use this levy directly in order to pay compensation to farmers who withdraw from milk production (Article 9(4) of Council Regulation No 857/84 <sup>(4)</sup>);

- (iv) the budgetary treatment of these provisions authorizing the Member States to allocate sums collected under the levy to the financing of compensation payments to farmers who withdraw from milk production gave rise to expenditure under headings not provided for in the budget, although the Regulation concerned was introduced prior to the adoption of the budget. As a result, this expenditure is not shown in the revenue and expenditure account, thus preventing the budgetary and discharge authorities from fulfilling their responsibilities in this matter.

4.5. In comparing the 1985 expenditure with that of 1984, the Court must draw the reader's attention to the fact that, unlike the 1984 expenditure, the second-category expenditure for 1985 for cereals, butter and beefmeat includes the sum of 439 Mio ECU for the depreciation of the stock in question (see paragraphs 4.17 and 4.21).

### *The provisional twelfths system*

4.6. The following comments, which relate to the Commission's application of the provisional twelfths system to EAGGF expenditure in the early months of 1985, should be read in conjunction with the more general comments about the provisional twelfths system in Chapter 1 (paragraphs 1.30—1.35).

4.7. The clear intention of the Treaty (Article 204) and the Financial Regulation (Articles 8 and 92) is to require the Commission, in the absence of a budget, to exercise the utmost self-restraint in the management of expenditure. The way in which the Commission applied the provisional twelfths system to EAGGF expenditure in the early months of 1985 had in fact the opposite effect.

4.8. EAGGF-Guarantee expenditure takes place in the Member States, and is financed by monthly advances from the Commission. In 1985, the Commission equated these advances with commitments pursuant to Article 8, second indent, of the Financial Regulation. Thus, instead of a ceiling of one twelfth per month the Commission awarded itself three twelfths for January, with an additional twelfth for each succeeding month. This practice has already been criticized by the Court, in its annual report concerning the financial year 1980 <sup>(5)</sup>. In the Court's opinion, such advances, which give rise to

payments to beneficiaries in Member States, should be subject to the provisions of the Financial Regulation (Article 8, third indent) concerning appropriations for payment under the provisional twelfths system. The Court calculates the excess of actual expenditure by Member States during the period January-May 1985, by comparison with the permissible total under Article 204 of the Treaty and under Article 8, third indent, of the Financial Regulation, to be a minimum of 1 329,7 Mio ECU.

4.9. Despite the greater latitude that this treatment of commitments afforded it, the Commission found that the advances which it wished to make in March 1985 would exceed the lower of the two limits for that month. As the budget authorities would not agree to grant an additional twelfth (under the fourth indent of Article 8 of the Financial Regulation), the Commission applied the higher limit instead. As a result, advances to Member States in March 1985 exceeded the legal ceiling by an amount of 516,9 Mio ECU.

4.10. Whatever legal interpretation is given to the system of advances, the Commission is not released from its important obligation to ensure that expenditure by Member States stays within the Treaty limits, i.e. to apply to the Member States' expenditure the stricter system for payments laid down in the third indent of Article 8 of the Financial Regulation. In the event, no attempt was made by the Commission to ensure that the Member States stayed within the monthly ceilings on expenditure laid down by the Treaty, i.e. one twelfth of actual 1984 expenditure or proposed 1985 expenditure, whichever is the lower.

4.11. In the Court's view, by not observing the double limit, by its treatment of advances as commitments and by funding advances above the permitted level, the Commission's implementation of the 1985 budget amounted to an evasion of the constraints imposed by the provisional twelfths system.

### *Cash management in the Member States*

4.12. Table 4.2, which shows the credit balances at the end of each month in the Member States, demonstrates that:

- (a) the level of unexpended amounts in the Member States was particularly high during the first four months of the year, which again reflects the excessive amount of advances made at a time when the provisional twelfths system should, on the contrary,



**Table 4.2 — Appropriations still available at the end of the month in the Member States***(Mio ECU)*

Recipient Member State	Balances during the financial year 1985											
	31. 1. 85	28. 2. 85	31. 3. 85	30. 4. 85	31. 5. 85	30. 6. 85	31. 7. 85	31. 8. 85	30. 9. 85	31. 10. 85	30. 11. 85	31. 12. 85
Belgium	— 8,5	— 9,5	+ 8,6	— 26,7	+ 4,1	+ 3,9	+ 27,3	— 1,9	+ 6,9	— 9,7	— 24,7	+ 0,9
Denmark	— 0,9	— 1,1	+ 22,6	+ 32,5	+ 35,7	+ 34,6	+ 26,7	— 8,9	+ 16,3	+ 36,5	+ 10,7	— 0,05
FR of Germany	— 4,1	+ 18,1	+ 85,3	+ 63,2	+ 80,9	+ 37,4	— 9,6	+ 8,7	+ 99,6	+ 97,9	+ 87,4	+ 13,1
Greece	+ 20,3	+ 51,4	+ 50,2	+ 16,5	— 23,0	— 7,2	— 27,9	— 7,3	+ 6,8	+ 37,9	+ 20,7	— 0,1
France	— 0,1	— 42,2	— 23,7	+ 19,7	+ 7,3	— 6,6	— 35,0	— 18,3	+ 0,3	+ 11,7	— 36,7	+ 0,3
Ireland	+ 24,1	+ 48,2	+ 14,7	+ 10,4	+ 1,7	+ 8,6	+ 19,3	— 6,5	+ 19,9	+ 0,2	+ 8,0	+ 0,1
Italy	+ 320,0	+ 209,2	+ 70,0	+ 194,3	+ 133,8	+ 79,5	+ 94,4	+ 124,6	+ 46,8	+ 140,9	— 17,3	+ 6,2
Luxembourg	— 0,1	+ 0,3	+ 0,0	+ 0,5	— 0,1	— 0,0	+ 0,3	+ 0,1	— 0,1	+ 0,0	+ 0,0	+ 0,1
Netherlands	— 22,1	+ 4,4	+ 74,3	+ 94,3	— 4,0	— 27,1	— 63,5	— 30,2	— 17,3	— 5,8	— 20,0	+ 28,0
United Kingdom	+ 80,1	+ 86,9	+ 55,8	+ 2,0	+ 6,8	+ 57,3	+ 50,5	+ 7,5	+ 13,3	+ 13,1	— 4,9	+ 0,6
<b>Total</b>	<b>408,7</b>	<b>365,7</b>	<b>357,8</b>	<b>406,7</b>	<b>243,2</b>	<b>180,4</b>	<b>82,5</b>	<b>67,8</b>	<b>192,5</b>	<b>322,7</b>	<b>23,2</b>	<b>49,2</b>

have imposed special constraints (cf. paragraphs 4.6 — 4.11 above);

- (b) the monthly average of these credit balances was 225 Mio ECU, compared with — 35,8 Mio ECU in 1984. In relative terms, this means that the Commission granted Member States advances which were, on average, 14 % higher than actual requirements. In the case of two countries whose end-of-month cash position was strongly positive virtually throughout the year, this percentage was 19,4 % (United Kingdom) and 40,9 % (Italy);

- (c) furthermore, the Commission was unable to avoid the fact that, at the end of certain months — even in December — the agricultural expenditure of some Member States exceeded the Commission's advances.

modest objective. This would involve relying on the computerized system for processing expenditure used in Denmark and putting it into general use in all the Member States; this in itself would be a minimum improvement as regards the type and timing of information available at Community level. Whilst being sorry to see the prospect of a more fundamental reform of the existing system recede, the Court can only encourage any progress towards a more correct and more rapid execution of the central responsibilities with regard to the financing of the EAGGF-Guarantee incumbent on the Commission.

## OBSERVATIONS ON THE FINANCIAL MANAGEMENT

### *Conclusions with regard to the implementation of the budget*

### *Public storage: general aspects*

4.13. Such situations once again highlight the need to review the system of advances based on estimates by the Member States. In this context, the Court has followed with interest the efforts made to introduce a system of direct payments, which, according to the Commission itself, could remedy most of the existing problems. However, the reservations of the Member States with regard to what they consider to be a forced relinquishment of their responsibility for financial implementation provided for in Regulation (EEC) No 729/70 has led the Commission to fall back for the time being on a more

### **Changes in stocks**

4.14. The book value (based primarily on the purchase price) of products in intervention at the end of the financial year 1985 was 11 019 Mio ECU; this represents a 26 % increase over 1984, which is a growth rate comparable to that of the previous year. Following depreciation (see paragraph 4.22), the amount was reduced to 10 580 Mio ECU (see Table 4.3).

Table 4.3 — Quantity and value of products in public storage

Product	Position at 30. 11. 84 <sup>(1)</sup>		Position at 30. 11. 85 <sup>(1)</sup>	
	Quantity (1 000 tonnes)	Value <sup>(2)</sup> (Mio ECU)	Quantity (1 000 tonnes)	Value <sup>(2)</sup> (Mio ECU)
Common wheat	6 463	1 263	11 903	2 390
Barley	1 636	320	4 651	940
Rye	441	92	1 108	226
Durum wheat	853	227	986	264
Total cereals	9 393	1 902	18 648	3 820
Sugar	43	26	—	—
Olive oil	167	272	75	116
Colza	58	26	0	—
Tobacco	14	14	15	15
Alcohol from the compulsory distillation of wine <sup>(3)</sup>	—	—	501	47
Skimmed-milk powder	773	1 242	514	867
Butter	973	3 537	1 018	3 416
Beef carcasses	468	1 297	589	1 509
Boneless beef	127	435	214	761
Pork	—	—	26	29
<b>Grand total</b>	<b>—</b>	<b>8 751</b>	<b>—</b>	<b>10 580</b>

(<sup>1</sup>) According to the provisions of Commission Regulation (EEC) No 3184/83, second-category expenditure effected and chargeable to a financial year is that arising from intervention operations carried out during the period from December to November.

(<sup>2</sup>) The value in ECU was obtained by applying to the carry-overs value in national currencies the budgetary rates valid for the conversion of the November expenditure. The amounts appearing in the table represent the book values after depreciation.

(<sup>3</sup>) The quantities of alcohol are expressed in hectolitres of pure alcohol.

Source: 15th EAGGF Financial Report, 1985.

Table 4.4 — Analytical table of the movements of public stocks 1983-85 (<sup>1</sup>)

Product	(1 000 t)									
	1982	1983			1984			1985		
	Stocks 31. 12. 1982	Purch- ases	Sales	Stocks 30. 11. 1983	Purch- ases	Sales	Stocks 30. 11. 1984	Purch- ases	Sales	Stocks 30. 11. 1985
Common wheat suitable for bread- making	6 504	2 520	2 462	6 562	2 898	5 012	4 448	1 671	2 228	3 891
Common wheat unsuitable for bread- making	22	7	15	14	2 015	14	2 015	6 248	251	8 012
Sub-total common wheat	6 526	2 527	2 477	6 576	4 913	5 026	6 463	7 919	2 479	11 903
Barley	1 679	1 251	1 568	1 362	1 544	1 270	1 636	4 418	1 404	4 651
Rye	298	37	24	311	249	119	441	686	19	1 108
Durum wheat	801	329	396	734	309	204	853	695	561	986
Total cereals	9 304	4 144	4 465	8 983	7 015	6 619	9 383	13 718	4 463	18 648
Olive oil	181	30	93	118	131	87	162	12	98	76
Tobacco	37	16	22	31	12	28	15	13	13	15
Skimmed-milk powder	607	869	448	1 028	454	695	787	223	496	514
Butter	138	590	43	685	509	222	972	494	447	1 018
Beef carcasses	155	323	177	301	370	190	481	253	145	588
Boneless beef	61	69	44	86	89	42	133	129	48	214
Total beef	216	392	221	387	459	232	614	382	193	802

(<sup>1</sup>) A comparison of the figures for the financial years included in this table is complicated by the fact that the financial year 1983 was reduced to 11 months, following the introduction of Commission Regulation (EEC) No 3184/83.

4.15. Changes in stock movements by quantity are shown in *Table 4.4*, thus enabling the relationship between purchases and sales of the principal products to be assessed. The following observations may be made: the imbalance in butter dates from 1983 and persisted in 1984; in the case of beefmeat, the imbalance has been constant for several years; movements in cereals stocks really became unbalanced for the first time in 1985, on account of the virtual doubling of purchases and an inadequate disposal level, which was even lower than that of 1984.

4.16. The increase in purchases into intervention was particularly marked for certain cereals, and followed automatically from the exceptional size of the 1985 harvest and the decisions by the Council and the Commission with regard to prices and other aspects of market organization. Total cereal exports (from the open market and from stocks) exceeded the 1984 levels, but only by a small amount and were not sufficient to prevent a substantial increase in end-1985 stock levels. The Court is aware of two factors which, with hindsight, might have enabled the Commission to achieve a higher level of cereals exports in 1985. One was the dollar exchange rate, which led to world prices for cereals equalling, if not exceeding, Community prices on some occasions during the year. The other was the availability of 665,9 Mio ECU of budgetary appropriations (of which in the event 439 Mio ECU were used for depreciation, 130,9 Mio ECU were cancelled and 96 Mio ECU were transferred out of the EAGGF, Guarantee Section). The Court

recognizes, however, that the Commission's agricultural export promotion policy has to take account of important non-financial considerations (such as the Community's international obligations and its commercial relations with the USA).

#### Changes in expenditure

4.17. Expenditure relating to public storage entered in the accounts for the financial year 1985 amounted to 3 542,4 Mio ECU. It should be noted that a comparison of expenditure relating to the various financial years is complicated by the policy followed by the Commission with regard to depreciation (see paragraphs 4.5 and 4.21). Milk products still account for more than half the expenditure (51 %). The distribution of this expenditure by category and product is shown in *Table 4.5*, which also refers to aid for private storage. The largest category of this expenditure is that of losses on sales, which represent the reimbursement, by the EAGGF to the Member States, of the difference between the purchase price as stated in the accounts and the selling price obtained. For 1985, these losses, amounting to 2 193,8 Mio ECU as shown in *Table 4.5*, include both the amount of the losses made (1 754,8 Mio ECU) and that of anticipated losses (439 Mio ECU) resulting from the depreciation effected by the Commission (see paragraph 4.21). The following analysis refers to the two categories of technical costs and financial costs.

**Table 4.5 — Distribution of storage costs in 1984 and 1985**

(Mio ECU)

Product	Private storage		Public storage							
			Total		Technical costs		Financial costs		Losses on sales	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
Cereals	—	—	314,8	751,8	199,2	353,5	92,7	174,8	22,4	223,5
Sugar	429,5	438,9	0,4	1,2	0,3	1,7	0,1	2,0	—	— 2,5
Olive oil	—	—	66,6	5,2	31,5	20,0	21,3	14,1	13,8	— 28,9
Oil seeds	—	—	2,1	— 0,5	0,3	0,7	0,1	1,1	1,7	— 2,3
Wine and alcohol	135,6	88,1	—	1,5	—	0,5	—	1,0	—	—
Tobacco	—	—	28,2	11,8	6,2	6,9	1,5	1,5	20,5	3,4
Skimmed-milk powder	—	—	819,4	580,0	33,7	16,9	107,1	57,8	678,6	505,3
Butter	152,4	98,8	678,6	1 226,9	134,5	134,3	233,1	234,5	311,0	858,1
Cheese	60,0	67,0	—	—	—	—	—	—	—	—
Beef	14,1	159,6	800,4	934,5	135,9	198,1	58,8	128,2	605,7	608,2
Pork	38,9	32,5	—	30,0	—	0,7	—	0,3	—	29,0
<b>Total</b>	<b>830,5</b>	<b>884,9</b>	<b>2 710,5</b>	<b>3 542,4</b>	<b>541,6</b>	<b>733,3</b>	<b>514,7</b>	<b>615,3</b>	<b>1 653,7</b>	<b>2 193,8</b>

*Technical costs*

4.18. The expenditure headed 'technical costs' represents the amounts of the standard-rate reimbursements paid by the EAGGF to the Member States to cover the cost of the physical operations involved in storage. It is therefore directly related to the quantities in stock and to their movements. The technical costs (733,4 Mio ECU) increased by 35 % over the previous year. The major part of this increase is accounted for by the growth of cereals stocks which, alone, now account for almost half the technical costs.

*Financial costs*

4.19. The expenditure shown under 'financial costs' corresponds to reimbursements to the Member States, likewise at a standard rate, of compensation for interest on their capital tied up by intervention purchases. Variations in this expenditure are therefore directly related to changes in the book value of the stocks. The financial costs (615,2 Mio ECU) increased by 20 % in 1985, as compared with 1984.

*Expenditure charged back to the national budgets*

4.20. In 1985 the standard level of reimbursements for the financing of stocks and for the technical operations which they involve were both below the level of the actual costs incurred by the Member States. On the basis of the declarations of actual costs for 1985 submitted by the Member States for the purpose of a review of the standard amounts, the overall amount remaining as a final charge to the national budgets in 1985 may be estimated at 160,2 Mio ECU, consisting of 117,1 Mio ECU for the financing charges and 43,1 Mio ECU for the technical costs. Table 4.6 shows in detail the differences between declared costs and standard reimbursements for all the Member States. The new Council Regulation (EEC) No 1334/86 <sup>(6)</sup> of 6 May 1986 and Commission Regulation (EEC) No 1730/86 <sup>(7)</sup> of 3 June 1986 will have the effect of increasing the rationalization of this expenditure, in so far as they explicitly provide for the fixing of the uniform interest rate for financing costs at a level below its representative level and for the fixing of the uniform standard amounts for technical costs at 75 % of their normal level.

**Potential losses and depreciation**

4.21. During the period in which the book value of stocks more than quadrupled (i.e. 1982-84), no use was made of the possibility provided for in the second

**Table 4.6 — Transfer of public storage expenditure in 1985 to national budgets <sup>(1)</sup>**

<i>(Mio ECU)</i>			
Member State	Financial costs	Technical costs	Total
Belgium	+ 1,0	– 1,0	+ 0,0
Denmark	+ 1,8	+ 0,2	+ 2,0
FR of Germany	– 39,7	+ 26,8	– 12,9
Greece	+ 3,2	+ 0,1	+ 3,3
France	+ 40,2	– 2,0	+ 38,2
Ireland	+ 13,1	+ 9,5	+ 22,6
Italy	+ 51,7	+ 3,4	+ 55,1
Luxembourg	+ 0,0	– 0,0	– 0,0
Netherlands	– 4,1	– 9,9	– 14,0
United Kingdom	+ 49,9	+ 16,0	+ 65,9
<b>Total</b>	<b>+ 117,1</b>	<b>+ 43,1</b>	<b>+ 160,2</b>

<sup>(1)</sup> Differences between national expenditure and Community fixed-rate reimbursements.

paragraph of Article 8 of Council Regulation (EEC) No 1883/78 <sup>(8)</sup> of 2 August 1978 which allows part of the potential losses to be charged to the financial year by way of depreciation. The Court has on many occasions expressed its opposition to the procedures for implementing this rule; these objections related in particular to the fact that depreciation was not applied in terms of the extent of potential losses, but with reference to the availability of appropriations at the end of the financial year, resulting in an arbitrary allocation of expenditure with regard to its annuality. In the Court's opinion <sup>(9)</sup>, optional depreciation should be replaced by a fixed rule, namely by the rule of valuation of stocks at either purchase price or realizable value, whichever is the lower.

4.22. Regulation (EEC) No 1883/78 as amended in March 1986 <sup>(10)</sup> now in fact makes it possible to apply the method advocated by the Court, just as the entering of specific budget headings in the 1986 budget should in future enable the financial impact of the depreciation of stocks to be identified from a budgetary and accounting point of view. It should be noted, however, in connection with the depreciation operation effected at the end of 1985, that:

- (a) the financial impact of anticipated losses continues to be confused in the revenue and expenditure account with that of actually realized losses on sales (see paragraph 4.17);

- (b) the Commission only used part of the appropriations available under the EAGGF-Guarantee (since it cancelled 130,9 Mio ECU and transferred 96 Mio ECU to other chapters) to carry out a depreciation limited to 439 Mio ECU, i.e. less than a third of the maximum possible depreciation (1 428 Mio ECU);
- (c) this maximum possible depreciation was determined, according to the regulations in force, as being equal to half the potential loss; however, the potential loss was calculated, taking into account current procedural constraints, on the basis of the accounting data reflecting the situation as at 30 August (2 856 Mio ECU), whereas if this method had been applied on the basis of the accounting data for the end of the financial year, thus reflecting the situation as at that date, the potential loss would have been 3 010 Mio ECU (see Table 4.7);
- (d) finally, with regard to the distribution of the impact of the depreciation across the range of products, the Court can only stress the lack of precise rules: in 1985 this distribution applied to cereals (98,0 Mio ECU), butter (268,6 Mio ECU) and beefmeat (72,3 Mio ECU), although it is not possible to link these amounts objectively to the maximum possible depreciation calculated for each of these products.

### The potential costs

4.23. The unsatisfactory situation of the past few years, with regard to depreciation in general, was somewhat tempered by the publication in 1984, as an annex to the financial statement, of an assessment of the potential costs relating to public stocks at the end of the year. However, contrary to the practice followed in 1984, the annex to the 1985 financial statement no longer mentions the potential costs directly — the reader being required to calculate them as the difference between book values and foreseeable revenue from disposal — and no longer refers explicitly to quantities of 'normal stock' (see paragraph (a) (iii)).

- (a) For 1985, the potential costs (after depreciation) were 4 459 Mio ECU <sup>(1)</sup>. This amount differs from that given for potential losses (3 010 Mio ECU) for three main reasons:

- (i) the figure taken into account is not the difference between the purchase price entered in the accounts and the actual sales price during the past year, but the difference between the purchase price used in the accounts and the foreseeable sales price over the coming period;

Table 4.7 — Changes in losses on public stocks

Product	1983		1984		1985	
	Loss made <sup>(1)</sup> on sales (%)	Potential loss <sup>(2)</sup> on stock (Mio ECU)	Loss made <sup>(1)</sup> on sales (%)	Potential loss <sup>(2)</sup> on stock (Mio ECU)	Loss made <sup>(1)</sup> on sales (%)	Potential loss <sup>(2)</sup> on stock (Mio ECU)
Common wheat for fodder	—	—	—	—	0,4	7,2
Barley	—	—	4	12,9	24	207,3
Rye	—	—	7	5,8	7	14,6
Durum wheat	—	—	—	—	6	16,9
Olive oil	—	—	8	21,9	—	—
Tobacco	87	16,8	87	11,8	85	13,9
Skimmed-milk powder	83	1 154,2	66	739,0	62	501,2
Butter	64	1 493,3	40	1 310,5	46	1 566,5
Beef carcasses	18	134,9	30	356,5	34	583,1
Boneless beef	6	16,1	15	61,0	13	99,7
<b>Total</b>	—	<b>2 815,3</b>	—	<b>2 519,4</b>	—	<b>3 010,4</b>

<sup>(1)</sup> Difference between the average selling prices and the average purchase price as used in the accounts, expressed as a % of the average purchase price. For beef, the percentage loss refers to the price as used in the accounts, i.e. purchase price less 20 %, to take into account initially the loss in value due to freezing.

<sup>(2)</sup> Values in green ECU, subject to the effect of the dual rate.

- (ii) the potential costs include the amounts of refunds for stocks intended for export;
  - (iii) the calculation excludes the part of the stock regarded as 'normal'. The concept used here is that of 'strategic stock', i.e. a reserve stock intended to provide the population with supplies in exceptional circumstances;
- (b) the first two points do not require any particular comment. On the third point, the Court considers that the exclusion of 'normal stock' might be justified if a decision were made at an appropriate level to leave aside certain quantities of stock permanently as a strategic reserve; it is not aware of any such decision, which would also have to refer to the quantities constituting such a reserve. This being so, it seems unrealistic to think at present that part of the stocks, consisting of products resulting from substantial surplus production, is secure from any loss in value — particularly if this part amounts to 5 Mio tonnes in the case of cereals, 400 000 tonnes for milk products and 100 000 tonnes for beefmeat. On the contrary, it is the total overhang of these stocks that is pushing prices down on the markets in question. The fact that, in another document submitted by the Commission <sup>(12)</sup>, the potential costs were valued at a far higher level (i.e. 5 650 Mio ECU), may indicate that the Commission itself is not confident of being able to dispose of this part of the stocks without making considerable losses.

#### **Conclusions with regard to public storage: general aspects**

4.24. The Court considers that the practices set out above, i.e. the charging of expenditure incurred in the implementation of the common intervention policy either to the Community budget for future financial years or to national budgets, lead to a situation in which it is no longer possible to obtain full or accurate information on the actual expenditure for a particular financial year. In fact, the revenue and expenditure account:

- (a) provides for only a small part of the known loss of value of intervention stocks, thereby postponing the greater part of the loss to the budgets of later years;
- (b) cannot provide full disclosure of the costs of storing and financing intervention stocks, in so far as an increasing share of these costs is borne directly by Member States.

4.25. In general, the Community's adoption of inadequate accounting principles has contributed, in the Court's view, to the worsening of the present problem of surplus stocks, by making it easier for the institutions to avoid or defer difficult decisions regarding the storage of intervention stocks.

4.26. The present level of stocks (11 019 Mio ECU) reflects intervention payments for the benefit of Community agricultural producers. However, the cost-effectiveness of this level of support seems difficult to justify in view of the fact that the stocks entail annual storage and financing costs amounting to 1 350 Mio ECU a year and carry with them potential disposal costs of some 5 650 Mio ECU.

#### *Public storage: cereals*

##### **Introduction**

4.27. The market which underwent the most noticeable changes in 1985, as far as storage is concerned, is undoubtedly the cereals market, as shown in *Table 4.4*. After a three-year period of relative stability, (with approximately 9,5 Mio tonnes in storage and expenditure amounting to 375 Mio ECU), these figures suddenly doubled. The doubling of these figures reflects the current difficulties faced by the market which, in a very short time, has moved from a shortage to a surplus, especially after the record harvests of the last two years (15 to 20 % above the average of previous years). In future, the disposal of current stocks, mostly onto the export market, will involve potential costs estimated by the Commission at more than 800 Mio ECU. The real costs will be even greater if, as has already been stated, the Commission's failure to provide for losses against the disposal of 5 Mio tonnes, considered as 'normal stocks', is taken into consideration.

4.28. The Court has, therefore, paid special attention to storage of cereals, by including in its audit the management of intervention in the main Member States concerned. The following observations take account of findings made during on-the-spot visits from November 1985 to February 1986, to the FR of Germany, France and the United Kingdom, countries which, in 1985, were concerned with more than 80 % of expenditure for the public storage of cereals. The geographical and technical details on which these observations are based were made available to the Commission.

## Quality

### *Commercial and Community criteria*

4.29. Since the main outlet for the disposal of stocks is the world market, it should be noted, on the basis of the current Regulations, that the minimum quality acceptable for intervention in 1985 did not correspond to international trade requirements. For example:

- (a) on the world market, the standard of 14 % is applied for humidity, whereas for intervention up to 16 % humidity is acceptable; a specific weight of 76 kg/hl for wheat is usually required, whereas for intervention purposes the Community accepts 68 kg/hl;
- (b) numerous experts consulted by the Court are all of the opinion that the quality of wheat accepted for intervention as suitable for bread-making is so poor that it does not exhibit the technical characteristics actually required to make bread. The Regulation in force until the 1985/86 marketing year did not therefore exclude wheat which was supposedly 'of bread-making quality' from being taken into intervention when, in fact, it was possibly unsuitable for making bread;
- (c) during the last two years, stocks of common wheat unsuitable for bread-making have increased considerably, from several thousand tonnes to 2 Mio tonnes at the end of 1984 and to 8 Mio tonnes at the end of 1985; in other words, two thirds of the total stock of common wheat. This development is more apparent than real, reflecting the introduction of a guarantee limit of 3 Mio tonnes of common wheat suitable for bread-making, paid at a higher price, as from the 1983/84 marketing year. In this way, the Commission brought about a relative fall in the average purchase price for intervention wheat. From the point of view of quality, the Regulation's two definitions are almost completely confused, and, contrary to the observation under (b) above, part of the stock said to be unsuitable for bread-making is in fact of bread-making quality. This inconsistency does not make for disposal in the best possible conditions.

4.30. With regard to humidity, it should be noted that the difference between a level of 14 % and a level of 16 % amounts to the difference between a cereal which is suitable for long-term storage and one which is difficult to keep for longer than a year; and a situation characterized by surplus production and by difficulties in finding outlets inevitably results in extended storage. The fact that cereals with a high humidity level are accepted into intervention presents problems of quality control and

involves considerable additional costs for special treatments, such as drying, cooling and homogenization. The cost of these treatments is reimbursed by the EAGGF by means of special flat-rate sums.

### *Quality control*

4.31. The Court undertook a preliminary enquiry into the quality control arrangements for cereal intervention stocks. Court staff visited 12 stores and had 16 samples of grain taken for technical analysis in three Member States (the FR of Germany, France and the United Kingdom) during the investigation. Whilst it would be unwise to draw general conclusions from the results of this preliminary enquiry, the Court is of the opinion that the results obtained do raise some doubts about the soundness of the arrangements for quality control.

4.32. There are considerable variations between the provisions made by the different Member States for technical monitoring of the quality of products purchased and stored for intervention. For example:

- (a) in some cases, very precise regulations exist prescribing in detail the procedures the stockists should follow, the standards they should observe and the information they should supply, in conjunction with strict monitoring on the part of the intervention agency by means of very frequent inspection visits;
- (b) in other cases, there is a general system of monitoring, the inspection operations being carried out on a relatively small scale.

4.33. In any case, a great deal of trust is put, in general, in the stockists, to a point where it is essentially they who take and analyse the samples when the stock arrives and decide the price increases and reductions to which the suppliers are entitled in view of the quality of the merchandise. This trust is based on the fact that the stockists are contractually responsible both for the quantity and quality of the intervention cereals in their charge. However, it is more difficult to question this responsibility as far as the quality is concerned than the quantity, because of the practice of mixing several purchases of different qualities together in large consignments (combined storage) which results in a heterogeneous mass, and because of the unreliability of the quality control system both when the stock enters and leaves. Reliability can only be ensured if the sampling and the analysis are carried out by cross-checks between two parties of opposing interests or by the intervention agency directly.

4.34. The Court's enquiry revealed that:

(a) cereals are often stored in very large consignments, sometimes in excess of 20 000 tonnes, quantities which obviously cannot be homogeneous, and this leads to the following results:

(i) a greater risk that consignments of a quality below intervention standards might be introduced and absorbed into the average for the overall mass;

(ii) intermediate controls, by means of representative sampling are made extremely difficult;

(iii) it is disadvantageous when parts of the overall consignment are offered for sale since the actual quality of one part may differ considerably from the average theoretical quality;

(b) certain intervention agencies impose an average quality on entering and leaving, for a given product and year, according to the warehouse as a whole and not according to the consignment stored (as is the case with another agency);

(c) in most cases cross-checking during quality control analysis as the product enters and/or leaves cannot be vouched for: for example when the vendor and the stockist are the same company or person, or when the product is offered for sale according to its theoretical quality;

(d) the financial responsibility of the stockists is very rarely involved; in fact, only in one Member State were examples found of stockists being charged for the financial consequences (price reductions) of a deterioration in quality during storage.

4.35. Under the responsibility of the Court, moreover, samples were taken by independent experts and analysed by an independent laboratory. The results of the analyses of the 16 samples show:

(a) two cases of quality unacceptable for intervention, one of which was due to exceeding the maximum percentage of broken grains and the other due to exceeding the maximum percentage of humidity;

(b) seven cases of discrepancies between the value established at the time of the investigation and the

value recorded on arrival, involving financial consequences in relation to price increases/price reductions. Five of these cases occurred in a Member State where analysis of the product on arrival was the entire responsibility of the stockists;

(c) several cases, particularly concerning consignments of rye which had received the premium for rye of bakery quality and which exhibited certain technical and chemical characteristics that seemed impossible to determine objectively. The Court found that some of these characteristics were given very different values, depending on the expert analysing them, to the extent that in some cases they were said to comply with the prescribed criteria and in other cases not.

4.36. With regard to these findings, it would be advisable to tighten up the quality control system and to adopt Regulations for this purpose, notably:

(a) to require the intervention agencies to register the average quality recorded on entering and on leaving intervention for each consignment stored (which may be a combination of several consignments purchased);

(b) to limit the volume of a consignment stored to the content of a chamber or a small group of chambers in the case of silo storage and to a certain maximum quantity, for example 4 or 5 000 tonnes, in the case of flat storage;

(c) to allow the combined storage of products of similar qualities in such consignments, as far as is practicable;

(d) to require the intervention agencies to carry out close inspections of the quality control records, both on entering and leaving, and, in cases where there is no guaranteed cross-checking, to require them to intervene using their own resources or to bring in independent firms of experts;

(e) to enforce the financial responsibility of stockists, by systematically charging them for any financial consequences arising from a deterioration in quality for which they are responsible, on the basis of price reductions applicable to the product for the characteristics in question. These penalties are to be declared in the accounts for surrender to the EAGGF, which did not occur in the case mentioned above (see paragraph 4.34(d)).

4.37. The Court realizes that the Commission is currently aware of this problem and has begun to



introduce quality controls on samples taken when leaving the intervention store. However, it has some doubts regarding the method chosen, in so far as:

- (a) at the present time, it is only possible to check that the criteria for minimum quality are being respected, and it is not possible to monitor the purchase price paid or the extent to which the stocks have been preserved (which would require a comparison between the quality on entering and on leaving);
- (b) it is based on the hypothesis of a cross-check sampling carried out between two parties of opposing interests, which, according to the findings of the Court's staff, is not the case in most disposals in the three Member States examined.

#### Other aspects of national management

4.38. The on-the-spot enquiry into the agencies responsible for intervention in the Member States mentioned above noted appreciable differences in administrative, accounting and inspection procedures between one Member State and another. The main differences are as follows:

- (a) payment conditions: the suppliers of cereals for intervention in the different Member States are presented with different payment periods. In current practice, accepted by the Regulation<sup>(13)</sup>, these periods vary from 60 days (FR of Germany) to 120 days (France). If the difference in interest rates is also taken into account, it may be emphasized that the most favoured vendors, the Germans, have a financial advantage of 3,3 % over their French colleagues. Such a difference is also found in the free-market prices and could well cause a movement of merchandise from one Member State to another;
- (b) monthly increases in intervention prices: Commission Regulation (EEC) No 1569/77<sup>(14)</sup> of 11 July 1977, lays down, in Article 3(3), that 'the price to be paid to the seller shall be the price valid for the month specified as the month of delivery at the time of acceptance of the offer'. In practice, this provision is not implemented by the intervention agencies, who feel free to apply the price for the month of actual delivery if the consignment in question (or a part of it) is delivered after the month provided for in the contract;
- (c) difficulties in reconciling the accounting data: declarations of reimbursable expenditure submitted

to the Commission for operations carried out are drawn up on the basis of data other than accounting data. Reconciling these declarations with data appearing in the accounts held by the intervention agencies occasionally proved to be extremely complicated;

- (d) the frequency and exhaustivity of external control at national level: the enquiry carried out in the Member States showed that the monitoring of intervention agencies by independent inspection bodies differs considerably, not just in methods but also in frequency and exhaustivity.

#### Conclusions on the public storage of cereals

4.39. The Court considers that:

- (a) the intervention procedures, characterized by unselective quality criteria and a price differentiation scheme which is not an adequate deterrent against poor quality, have encouraged the production of large quantities of cereals, including cereals of qualities which would have represented too great a risk for the farmers concerned without the security of intervention. In this respect, these procedures have helped to create the current situation of over-production;
- (b) it is therefore necessary to tighten up the criteria on quality and price conditions. The Council's adoption of measures connected with the price package for the 1986/87 cereal marketing year, in April 1986, is undoubtedly a step in the right direction, but it does not completely bridge the gap between the criteria for Community intervention and commercial criteria;
- (c) the unsatisfactory situation regarding quality control requires statutory action by the Commission, so that the present quality, which is already poor, does not deteriorate further and result in increased losses (or potential costs) to the Community;
- (d) in relation to national administrative, accounting and inspection procedures, it would be advisable for the Commission to work towards a minimum level of harmonization by attempts at coordination, either through its own checks or through the introduction of more detailed Regulations. In this context, the Court emphasizes the important role which national Courts of Auditors could play in checking that the inspection system operates properly.

## OBSERVATIONS ON THE INTERNAL CONTROLS

### *Frauds and irregularities*

#### **The reliability and comprehensiveness of information**

4.40. In 1985, Member States reported 219 cases of irregularities concerning a total of almost 12 Mio ECU. In relation to 1984, this is a 70 % increase in terms of numbers, and a 100 % increase in terms of value. The breakdown of these figures (by type of measure, market, Member State) is given by the Commission in its 15th Financial Report on the EAGGF <sup>(15)</sup>. The high concentration of irregularities in certain countries can only confirm the doubts expressed by the Court in previous annual reports about the value of such statistics. Faced with the same observation for the financial year 1984, the Commission agreed to give the reasons for this imbalance; at the present time, the Court has still not received the answers promised by the Commission, which are even more necessary considering the considerable increase in 1985.

4.41. Furthermore, the Court regrets that, due to a shortage of resources, the introduction of 'Irene', the computerized system for recording and analysing frauds and irregularities reported by Member States, has been postponed; this system will only be operational as from the end of 1986, nearly two years later than the date initially forecast.

#### **Recovery of claims**

4.42. The recoveries made in 1985 as a result of overpayments, relate to 70 cases for an amount of only 1,3 Mio ECU. The Court notes that:

- (a) as a consequence, the amount to be recovered continues to increase, reaching 106 Mio ECU at the end of 1985;
- (b) the Commission has agreed to study the question of entering the amount of the claim in the accounts, a matter which had already been raised in 1984 <sup>(16)</sup>.

4.43. The Court draws attention to the Commission's current study of the national requirements in force in each Member State for the recovery of overpayments. From

this study it should be possible to make a better assessment of the practices of Member States when the recovery of Community payments is in question, and to make negligent Member States bear the cost of Community claims considered to be irrecoverable, as provided for by the Regulation <sup>(17)</sup>. The Court expects the Commission to be in a position to implement the results of this study from next year.

#### **Mutual assistance in the campaign against fraud**

4.44. Council Regulation (EEC) No 1468/81 <sup>(18)</sup> of 19 May 1981 provides for mutual assistance between the administrative authorities of the Member States and for cooperation between them and the Commission in the campaign against customs and agricultural frauds:

- (a) however, in Article 2 of this Regulation the role of 'applicant authority' for the purpose of making a request for assistance is only granted to Member States, so that the Commission is limited to a role of passive observer;
- (b) in the opinion of the Court, extension of the role of applicant authority to the Commission would considerably improve the Commission's position as regards the monitoring of frauds and irregularities.

### *Clearance of the accounts*

#### **Financial effect of the clearance decisions**

4.45. The decisions taken on the clearance of the accounts during the financial year 1985 <sup>(19)</sup> related to the expenditure of the Member States for 1980 and 1981. These decisions gave rise to a net recovery of 99,2 Mio ECU, bringing to 458,4 Mio ECU the amounts recovered since 1971, the year in which the financing system of the EAGGF-Guarantee was introduced. This amount includes, in addition to various accounting adjustments, refusal of gross expenditure totalling 145,2 Mio ECU for the financial years 1980 and 1981, and acceptance of expenditure totalling 24,4 Mio ECU which had previously been refused pending submission by the Member States of the necessary supporting documents.

### Checks by the Commission

4.46. As a result of the continual and substantial increases in the volume of expenditure to be checked, the increasing complexity of the Regulation and the relative stability of numbers of control staff, the Commission Decision (20), aiming to absorb the clearance delay by 30 June 1987, inevitably involves a reduction in the number of on-the-spot checks, both in absolute and in relative terms.

4.47. Furthermore, the Commission has not achieved the progress expected in the general application of audit procedures based on the analysis and evaluation of national systems of control. In fact, after examining the mission reports drawn up by the different teams, it is clear to the Court that these procedures have still not been introduced and that the old inspection methods have been maintained with all their previously recorded weaknesses and shortcomings.

4.48. The Court notes that the partial correction of the clearance delay has only been made possible by a reduction in the number of checks, and to the detriment of their quality.

### The problem of reserves

4.49. Following the clearance decisions of 1980 and 1981, the reserves at the end of 1985 can be broken down into:

- (a) provisional acceptances (positive reserves) for which no figures are available;
- (b) provisional refusals of expenditure (negative reserves) totalling 51,4 Mio ECU, including 29,8 Mio ECU under the 1980 and 1981 clearances alone.

4.50. The Court has, on many occasions, both in its special report concerning clearance of the accounts of the EAGGF, Guarantee Section (21) and in its annual reports, criticized the introduction of reserves into the clearance decisions, mainly on the grounds that such reserves have no legal basis and that the resultant clearance decisions are no longer definitive.

4.51. These cases of reserves are not accounted for as financial information in any form whatsoever in the balance sheet, even though, in its replies to the previous annual report, the Commission stated that it would consider how it could satisfy the Court's wishes (22).

4.52. In 1985 the Financial Controller refused to approve the clearance decisions in relation to the EAGGF-Guarantee Section accounts for France, Italy, and the United Kingdom. He did this because he objected to the positive reserves (paragraph 4.49(a) above) which the Commission had introduced on the basis of enquiries under way at that time. In the case of Italy, the reserve related to expenditure on production aid for olive oil (cf. paragraph 4.63 below) while those concerning France and the United Kingdom related to sums paid as financial compensation to groups of fruit and vegetables producers for the withdrawal of these products from the market. These refusals were all overruled by the Commission (the only overrulings affecting EAGGF-Guarantee Section in 1985). The Court regrets these decisions of the Commission and supports the Financial Controller in his opposition to reserves of this nature.

4.53. The Court is concerned at the length of time needed to complete the supplementary enquiries connected with the introduction of reserves. In the cases under review, that concerning fruit and vegetables in France is the final phase of an enquiry which began in 1978; the olive oil enquiry began in the 1979/80 marketing year; that concerning the fruit and vegetables sector in the United Kingdom was undertaken during 1985, although a potential problem was first highlighted during a control visit in 1981.

4.54. These long delays emphasize two important weaknesses within the Commission:

- (a) a lack of detailed knowledge of the systems installed by the Member States to disburse and control Community expenditure, due to inadequate monitoring and follow-up arrangements;
- (b) insufficient determination to devote to an enquiry the resources needed to complete it quickly.

4.55. Both weaknesses result in delays: the first in discovering breakdowns in the control system, the second in determining the full extent of a breakdown. In the cases under review, the lapses of eight years or more in determining the extent of serious control weaknesses, even after their discovery, are totally unacceptable. The information available indicates that, for the olive oil enquiry at least, the delay will extend for some time into the future. In the meantime, the accumulation of reserves increases as funds continue to be disbursed in conditions of doubtful legality.

## *Cooperation of Member States*

4.56. In its Annual Report for the financial year 1984, in relation to specific cases, the Court criticized the general lack of cooperation of Member States, both regarding the checks for which they are primarily responsible, such as day-to-day management and the prevention and suppression of fraud, and also regarding the checks by Community departments which involve the Member States, especially in relation to the clearance of the accounts. In the light of the replies and the subsequent information obtained from the Commission, the Court sees no reason to alter its view. It can only deplore, once again, that the information collected on the monitoring operations of Member States is inadequate, especially since Community legislation expressly provides for the notification of the results of these operations, and notification is the only tangible proof that the Regulation is being implemented correctly.

## **FOLLOW-UP TO THE SPECIAL REPORT ON AID FOR OLIVE OIL**

### *Production aid*

#### **Introduction**

4.57. In its reply to the special report of the Court on the common organization of the market in olive oil <sup>(23)</sup>, the Commission took the view that most of the weaknesses in the system of administering the production aid had been eliminated following the adoption of Council Regulations (EEC) Nos 2261/84 of 17 July 1984 and 2262/84 <sup>(24)</sup> of 17 July 1984, effective from the 1984/85 marketing year. The reply goes on to say 'In particular, the role which the (new olive oil control) agencies may have in the management of the production and consumption aid require a better assessment...' <sup>(25)</sup>. Since the Court's enquiry, which was carried out during 1983, expenditure on production and consumption aid rose from 615,5 Mio ECU in that year to 977,0 Mio ECU in 1984. This reflects the record harvest in Italy in 1983/84, when the total amount of oil included in production aid applications rose to 888 000 tonnes (as compared with the previous record tonnage of 751 000 in 1977/78). In 1985, expenditure fell to 624,2 Mio ECU. It is opportune, therefore, to review briefly the progress made in the principal areas concerned.

## **Olive oil control agencies**

4.58. The agencies referred to in paragraph 4.57 were provided for by Article 1 of Regulation (EEC) No 2262/84. They were to be autonomous agencies set up by the olive oil producing Member States (except France). They were to be equipped with the necessary powers and resources to carry out a wide range of checks designed 'to ensure that the production-aid arrangements are correctly applied'. The Regulation, which came into force on 1 November 1984, also provided for the expenditure of the agencies to be charged to the Community budget for the first three years as follows:

- (a) 100 % for the first two years, up to a maximum of 14 Mio ECU for Italy and 7 Mio ECU for Greece;
- (b) 50 % for the third year.

4.59. The Court has ascertained that, in both of the Member States concerned, the agencies were set up during 1985. Since then, they have been occupied mainly with completion of preliminary formalities, acquisition of the necessary offices and organizational planning. At the end of March 1986, they were on the point of advertising for the recruitment of staff. While a great deal of preparatory work has been done, therefore, the verification operations for which the agencies are responsible have not yet commenced.

#### **Normal checks**

4.60. Article 8 of Commission Regulation (EEC) No 27/85 <sup>(26)</sup> of 4 January 1985 provides that, until the agencies are in a position to perform all the other verifications assigned to them, the Member States should at least carry out the normal checks foreseen in the Regulations. In the context of the present review it was not possible to assess the effectiveness of these arrangements. However, it was noted that, in Greece, the computerized files provided for in Article 11 of Commission Regulation (EEC) No 3061/84 <sup>(27)</sup> of 31 October 1984 had not yet been completed, although the deadline set was 31 October 1985.

**Administrative sanctions**

4.61. Articles 2 and 3 of Council Regulation (EEC) No 2262/84, effective from 1 November 1984, obliged Member States to 'take specific and appropriate measures in order to penalize any breaches of the production aid arrangements...'. In Greece, the relevant provisions were incorporated in the Presidential Decree which created the olive oil agency and came into effect on 9 May 1985. In Italy, powers exist to impose administrative sanctions on firms, but individual olive producers are not at present liable to such penalties. A draft general law governing sanctions in the EAGGF sector is before the Italian legislature, but has not yet been adopted.

**Olive Cultivation Register**

4.62. No progress has been made on the planning of the register in Greece. A Commission decision is awaited on the scope of the register and the methods to be used. As regards the Italian register, all the technical work has been carried out in nine provinces, which together account for 45 % of national production. It is planned to extend this to an area accounting for 80 % of production by end-1987. The total cost, now estimated at 99 500 Mio LIT (about 65 Mio ECU) at (mainly) 1981 prices, is being met from sums retained from the production aid. The Italian authorities claim that the register is already having a beneficial psychological effect in discouraging fraud and irregularity. In addition, they hope to be able to use the register to recheck aid applications for years prior to its completion. In the meantime, however, it has not been possible, even for the provinces where the technical work has been completed, to exploit the register for the purposes foreseen in Council Regulation (EEC) No 154/75<sup>(28)</sup> of 21 January 1975, i.e. to determine the potential production of olives and of oil and to improve the operation of the aid system.

*Clearance of accounts*

4.63. As regards previous years, it should be recalled that a substantial backlog had developed in the final clearance of the accounts relating to olive oil production aid in Italy. For 1979, 1980 and 1981 the Commission had placed a reserve on its acceptance of the relevant expenditure, pending the outcome of a major re-examination of claims for aid relating to the marketing years from 1979/80 onwards. Progress in the Member State concerned on the final checking of these aid applications has been so slow that, at the end of 1985, 188 000 cases from 1981/82 and 680 000 cases from 1982/83 had still to be checked. The situation is in danger of getting out of hand, especially since, as mentioned in the foregoing paragraphs, the unsatisfactory features of previous years continue to occur, even following the adoption of the 1984 regulations.

*Stocks of olive oil*

4.64. The Court was concerned to note that the olive oil accounts submitted by the Italian authorities to the Commission revealed an unexplained reduction of 5 600 tonnes (about 8,6 Mio ECU) in the opening stock of 1985 by comparison with the closing stock of 1984.

*Conclusion on olive oil*

4.65. In short, the Court's 1985 audit suggests that the control procedures in the olive oil sector are still far from satisfactory despite the confident predictions of the Commission in its reply to the Court's special report.

- (1) OJ L 94 of 28.4.1970, p. 13.
- (2) Annual Report for the financial year 1984, OJ C 326 of 16.12.1985, paragraph 4.2.
- (3) Introduced by Council Regulation (EEC) No 590/85 of 26.2.1985, OJ L 68 of 8.3.1985.
- (4) Introduced by Council Regulation (EEC) No 1305/85 of 23.5.1985, OJ L 137 of 27.5.1985.
- (5) OJ C 344 of 31.12.1981, paragraphs 4.14 — 4.19.
- (6) Council Regulation (EEC) No 1334/86, OJ L 119 of 8.5.1986.
- (7) Commission Regulation (EEC) No 1730/86, OJ L 150 of 4.6.1986.
- (8) Council Regulation (EEC) No 1883/78 of 2.8.1978, laying down general rules for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section (OJ L 216 of 5.8.1978, p. 1).
- (9) Opinion No 1/86 of the Court of 6.3.1986, OJ C 80 of 9.4.1986, p. 9.
- (10) Council Regulation (EEC) No 964/86 of 25.3.1986, amending Regulation (EEC) No 1883/78 laying down general rules for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section (OJ L 89 of 4.4.1986, p. 1).
- (11) Note attached to the revenue and expenditure account for the financial year 1985, Doc. COM(86) 212.
- (12) Financial perspectives 1987-90, communication from the Commission to the Council and the European Parliament, Doc. COM(86) 201 final, p. 8 of the English version of 2.4.1986.
- (13) Commission Regulation (EEC) No 2180/85 of 30.7.1985, amending Regulation (EEC) No 1569/77 in respect of the time of payment for cereals bought in by intervention agencies (OJ L 203 of 1.8.1985, p. 62).
- (14) Commission Regulation (EEC) No 2262/85 of 2.8.1985, amending Regulation (EEC) No 1569/77 in respect of the time of payment for cereals bought in by intervention agencies (OJ L 211 of 8.8.1985, p. 23).
- (15) Commission Regulation (EEC) No 1569/77 of 11.7.1977, fixing the procedure and conditions for the taking over of cereals by intervention agencies (OJ L 174 of 14.7.1977, p. 15).
- (16) Doc. COM(86) 631 final.
- (17) Annual Report for the financial year 1984, OJ C 326 of 16.12.1985, paragraph 4.25.
- (18) Article 8 of Council Regulation (EEC) No 729/70 of 21.4.1970 concerning the financing of the common agricultural policy, OJ L 94 of 28.4.1970.
- (19) OJ L 144 of 2.6.1981, p. 1.
- (20) OJ L 267 of 9.10.1985.
- (21) Commission Decision of 30.7.1985.
- (22) OJ C 313 of 29.11.1982.
- (23) See Annual Report for the financial year 1984, OJ C 326 of 16.12.85, paragraph 4.30.
- (24) OJ C 134 of 3.6.1985.
- (25) OJ L 208 of 3.8.1984.
- (26) OJ C 134 of 3.6.1985.
- (27) OJ L 4 of 5.1.1985, p. 5.
- (28) OJ L 288 of 1.11.1984, p. 52.
- (29) OJ L 19 of 24.1.1975, p. 1.

## CHAPTER 5

**European Agricultural Guidance and Guarantee Fund,  
Guidance Section (EAGGF-Guidance), and  
specific agricultural measures**

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## INTRODUCTION

5.1. By means of the EAGGF, Guidance section, which was created by Council Regulations No 25/62 of 4 April 1962<sup>(1)</sup> and No 17/64 of 5 February 1964<sup>(2)</sup>, the Community finances common measures adopted in order to attain the objectives set out in Article 39(1)(a) of the EEC Treaty. It also finances 'project' measures — aid to individual beneficiaries for specific investments — and 'reimbursement' measures, whereby Member States can be reimbursed part of their expenditure for certain operations complying with the conditions laid down in the Community legislation. These operations are envisaged under Title 3 of the Community budget, Chapter 38 of which, concerning expenditure in the agricultural sector, is not, however, financed under the EAGGF-Guidance.

## SUMMARY OF FINANCIAL INFORMATION

5.2. The commitments and payments for the financial year are summarized in *Table 5.1*, which also shows the amount of appropriations available. The appropriations are differentiated, except for those of Chapter 38 concerning specific agricultural measures, the majority of which are non-differentiated.

5.3. Council Regulation (EEC) No 870/85 of 26 March 1985<sup>(3)</sup> earmarked a sum of 5 250 Mio ECU for the period 1985-89. This amount was raised to 6 350 Mio ECU by Council Regulation (EEC) No 3769/85 of 20 December 1985<sup>(4)</sup> because of the accession of Spain and Portugal.

5.4. In 1985, the commitments entered into for Title 3 as a whole amounted to 910,9 Mio ECU (in 1984: 870,5 Mio ECU), i.e. 93,1 % of the appropriations available (in 1984: 90,7 %). Total payments made in 1985 amounted to 738,6 Mio ECU (in 1984: 702,8 Mio ECU), i.e. 92 % of the appropriations available (in 1984: 88,1 %).

5.5. Total commitments outstanding at the close of the financial year 1985 amounted to 1 180,9 Mio ECU, of which 686,4 Mio ECU were allocated to individual projects (Chapter 30), 380,3 Mio ECU to measures to assist less-favoured areas (Chapter 32), 75,7 Mio ECU to structural measures (Chapter 33) and 38,5 Mio ECU to expenditure in the agricultural sector (Chapter 38). The total of 1 180,9 Mio ECU includes 11,6 Mio ECU of non-

differentiated appropriations carried over to the financial year 1986.

## OBSERVATIONS ON BUDGETARY MANAGEMENT

### *Recovery of sums paid in excess*

5.6. In 1985, the Commission issued 26 recovery orders for a total of 1 529 042 ECU in order to recover overpayments to recipients within the framework of expenditure financed by Chapters 30 and 32 of the budget, 982 483,45 ECU of which still had to be recovered at the end of the financial year 1985. Allowing for amounts from previous financial years, the total amount still to be recovered at the close of the financial year 1985 was about 1 080 000 ECU. The Court of Auditors' audit revealed that the recovery of debts has not been systematically followed up, hence the long delays (the Court found a debt from 1981 and other debts from dates in between still outstanding).

### *Expenditure still to be disbursed*

5.7. At 31 December 1985, a sum of about 54,7 Mio ECU, corresponding to requests for reimbursement submitted by France, Italy and Luxembourg in respect of the 1984 expenditure for Article 320 'Mountain and hill farming and farming in certain less-favoured areas', still had to be committed and paid. Since by that date there were no longer any appropriations available under this Article, the expenditure will be charged against the appropriations for the financial year 1986. Furthermore, the financial documents drawn up as at the end of 1985 make no mention of these sums, even as estimates. In respect of the same Article, the Court had already observed, in paragraph 5.23 of its report on the financial year 1984<sup>(5)</sup>, that sums still to be paid at the end of that financial year were not mentioned in the balance sheet.

5.8. It is also worth recalling the Court's more general observations expressed in paragraphs 5.11 — 5.12 of its annual report on the financial year 1979<sup>(6)</sup>, concerning the entry in the accounts of commitments relating to 'indirect' measures, i.e. those giving rise to global reimbursements to the Member States. These commitments are entered in the accounts at the time of payment, i.e. when an advance payment or a reimbursement is paid to the Member State. The financial documents thus do not give a full picture of the costs which the Commission

<sup>(1)</sup> The footnotes appear at the end of each chapter.



**Table 5.1 — Expenditure in the agricultural structures sector (Title 3):  
appropriations available in 1985 and their utilization**

(Mio ECU)

Budget heading	Commitments		Payments	
	Appropriations for commitment available in 1985 <sup>(1)</sup>	Commitments entered into in 1985	Appropriations for payment available in 1985 <sup>(2)</sup>	Payments made in 1985
<b>Chapter 30:</b>				
Projects for the improvement of agricultural structures	334,5	313,9	175,0	175,0
— 300 Individual projects	6,5	6,4	15,4	15,4
— 301 Marketing	328,0	307,5	159,6	159,6
<b>Chapter 31:</b>				
General socio-structural measures	109,1	102,3	108,7	102,3
— 310 Modernization	98,8	95,1	98,8	95,1
— 311 Cessation	1,2	0,9	1,2	0,9
— 312 Training	9,1	6,3	8,7	6,3
<b>Chapter 32:</b>				
Measures to assist less-favoured areas	386,8	356,5	377,8	352,2
— 320 Mountain and hill farming	118,1	118,1	118,1	118,1
— 321 Specific regions — Mediterranean	108,4	106,7	51,1	42,4
— 322 Specific regions — Italy	18,8	9,1	67,1	65,1
— 323 Specific regions — France	35,8	35,3	35,6	35,3
— 324 Specific regions — Ireland	30,1	29,5	29,8	29,5
— 325 Specific regions — Greenland	0,4	0,4	0,4	0,4
— 326 Specific regions — United Kingdom	16,1	10,8	17,5	12,1
— 327 Specific regions — Belgium	1,0	0,1	0,1	0,0
— 328 Specific regions — Germany	5,4	4,9	7,6	7,1
— 329 Specific regions — Greece	52,7	41,6	50,5	42,2
<b>Chapter 33:</b>				
Structural measures connected with the common organization of markets	87,8	80,1	66,5	60,6
— 330 Producer organizations	7,0	5,5	6,7	5,5
— 331 Milk and meat	30,0	27,4	30,0	27,4
— 332 Wine	42,7	40,6	23,0	21,1
— 333 Fruit	8,1	6,6	6,8	6,6
<b>EAGGF-Guidance total <sup>(3)</sup></b>	<b>918,2</b>	<b>852,8</b>	<b>728,0</b>	<b>690,1</b>
<b>Chapter 38:</b>				
Expenditure in the agricultural sector	60,7	58,1	74,9	48,5
— 380 Campaigns against livestock epidemics	4,9	4,9	8,8	5,6
— 381 Veterinary measures	29,1	28,7	29,3	28,7
— 382 Seeds and propagating material	0,2	0,2	0,2	0,2
— 383 Farm accountancy data network	4,4	4,0	3,7	3,3
— 384 Agricultural research	10,1	8,7	12,4	4,3
— 386 Vocational training of farmers	0,3	0,3	0,3	0,2
— 387 Supervision of agricultural rules	5,5	5,5	5,6	2,1
— 388 Forestry measures	—	—	4,6	1,8
— 389 Specific measures - regions	6,2	5,8	10,0	2,3
<b>Grand total of Title 3</b>	<b>978,9</b>	<b>910,9</b>	<b>802,9</b>	<b>738,6</b>
<b>Rate of utilization of appropriations (%)</b>		<b>(93,1 %)</b>		<b>(92,0 %)</b>

<sup>(1)</sup> Taking into account transfers, decommitments, adjustments and appropriations remaining from 1984.

<sup>(2)</sup> Taking into account transfers and carry-overs from 1984.

<sup>(3)</sup> Except for Chapter 46 which is included in Chapter 6 of this report (Fisheries).

is likely to have to bear. The budgetary management procedures should be improved in order better to determine these costs and, in cases where it is not possible to calculate an exact amount, at the very least an estimated sum should be entered in the financial documents.

5.9. It is surprising, to say the least, that in the case of payment of a partial advance only the amount of the advance paid is entered in the accounts as a commitment and not the total amount of the expected expenditure on the basis of which the advance payment is calculated. The latter method would also make it possible, by the presence of a balance in the accounting entries, to keep a closer watch over the adjustment operations.

5.10. It can be estimated that, at 31 December 1985, the total expenditure to be effected for Chapter 32 of the budget, arising from the programmes approved and which are not mentioned in the financial documentation drawn up at the end of the financial year, amounted to approximately 900 Mio ECU.

### *Management of the appropriations of Article 320*

5.11. For Article 320 'Mountain and hill farming and farming in certain less-favoured areas', the management of the appropriations has been the subject of contradictory decisions. A sum of 16,5 Mio ECU of these appropriations was provisionally charged in an irregular manner (see paragraph 6.9 of this report).

5.12. The 148,3 Mio ECU of payment appropriations granted to Article 320 of the budget were first of all reduced, by means of various transfers between articles, by a total of 90,2 Mio ECU intended to finance, *inter alia*, the continuation of collective irrigation works in the south of Italy for which the payment appropriations allocated in the 1985 budget were quite inadequate. Subsequently, the payment appropriations of Article 320 were increased by 60 Mio ECU by a transfer from Title 2 of the budget, which, as already mentioned in paragraph 5.7, was, moreover, insufficient to cover all the requests for reimbursement submitted by the Member States in 1985. Contradictory transfer operations such as these in fact mean that the appropriations of Article 320 are being used for purposes other than those for which they are needed and for which they have been allocated. This constitutes an abuse of the transfer procedure.

### *Drawing up the likely schedules of payments*

5.13. The likely schedules of payments, set out under various articles or items of Chapter 32 'Measures to assist less-favoured areas', contain a number of anomalies which reveal that they were not drawn up with sufficient accuracy. For the 1985 budget (7), whose schedules cover the financial years from 1984 onwards, the total payments provided for by these schedules differ in 12 cases from the total corresponding commitments, whereas they should be exactly the same. For example, for Item 3242 'Specific programme to develop farming in the west of Ireland', the total staggered payments amount to 8,8 Mio ECU whereas the related commitment appropriations were estimated at 16,2 Mio ECU. In other cases (Article 327 'Integrated development programme for south-eastern Belgium', Item 3290 'Acceleration of agricultural development in certain regions of Greece'), the schedule does not mention appropriations remaining or carried over from 1983 to be used in 1984.

5.14. It may also be noted that the schedule of payments for Item 3292 of the 1986 budget (8) 'Launching of an irrigation programme in Greece', concerns a total sum of 22 Mio ECU, whereas the overall estimated amount for the operation is only 17 Mio ECU. For all the schedules of Chapter 32 of the 1986 budget, the payment requirements are, moreover, overestimated by 90,5 Mio ECU, some amounts having been allowed for twice over.

### *Supplementary expenditure under Item 3841 'Research programme'*

5.15. Within the framework of Item 3841, the Commission issued payment orders in ECU to settle amounts invoiced in national currencies. As a result, the amounts in national currency received by the beneficiaries do not correspond to the amounts invoiced, because of variations in the ECU exchange rate between the time of authorization and that of payment. The Court considers that, in order to prevent such disparities, the Commission ought to make its payments in the same currency as that in which the corresponding invoices are made out.

### *Appropriations entered under Item 3892 'Slaughter of pigs and processing of pigmeat in the United Kingdom'*

5.16. Despite the Court's observations in its annual report for the financial year 1984 (9) and although it acknowledged in its reply that they were in principle valid,

the Commission nevertheless continued in 1985, under Council Regulation (EEC) No 355/77 of 15 February 1977<sup>(10)</sup>, to use the Item 3892 appropriations for additional financing for an EAGGF-Guidance common measure for which a specific heading (Article 301 of the budget) is provided. The amounts used in this way totalled 931 905,73 ECU in commitments and 1 178 393,90 ECU in payments. This manner of using appropriations entered under Item 3892 is an infringement of the principle, defined by the Financial Regulation (Article 15, second indent, and Article 21), that appropriations must be classified and used for the purpose to which they have been assigned. Moreover, financing an EAGGF-Guidance common measure by using appropriations which are not part of the EAGGF-Guidance budget allocation runs contrary to the special provisions governing the Fund, which provide, *inter alia*, for a five-yearly financial framework, decided on by the Council, for the total amount of assistance for financing all the common measures<sup>(11)</sup>.

#### APPLICATION OF THE MEASURES TO IMPROVE THE CONDITIONS UNDER WHICH AGRICULTURAL PRODUCTS ARE PROCESSED AND MARKETING (Regulation (EEC) No 355/77), TO ASSIST FRUIT AND VEGETABLE UNDERTAKINGS

##### *General principles*

5.17. Regulation (EEC) No 355/77, as amended on several occasions and adapted because of the accession of Spain and Portugal<sup>(10)</sup>, introduced common measures to improve the conditions under which agricultural products are processed and marketed. The EAGGF, Guidance section, assists these measures by making financial contributions to investment projects, which must form part of specific programmes.

##### *The Court's observations*

##### **Basis of the observations**

5.18. The observations which follow are based, on the one hand, on an examination of the files closed in 1985 relating to fruit and vegetables (160 files in all) and, on the other, on the findings made, on the basis of 42 projects

audited, during independent audit visits performed in 1985 in the Member States concerned (all except Denmark, Greece, Ireland and Luxembourg).

##### **Problems connected with the guarantees of the projects' profitability**

5.19. According to Article 10(b) of Regulation (EEC) No 355/77, projects must offer adequate guarantees that they will be profitable.

5.20. Structural improvement projects, such as those which the EAGGF finances, are difficult to isolate from the whole productive structure of the undertaking and their profitability therefore has a direct influence on that of the beneficiary undertaking. The Court has doubts, however, as regards this effect in the case of the following undertakings:

- (a) in France, an agricultural cooperative whose main activity is tomato processing (about 85 % of its turnover), was granted 2 Mio FF ( $\pm$  0,3 Mio ECU) in Fund aid to purchase capital goods for the processing and tinning of tomatoes. Over the last five years, the cooperative's financial results show, however, that it has been trading at only a slight profit or a slight loss, despite the Community production aid, supplied by the EAGGF, Guarantee section, and grants from the Member State and from national bodies. In total, these amounts of aid are equivalent to very high percentages (between 40 % and 78 %) of the turnover figures. Similarly, for two undertakings in Italy, the processing of agricultural products, which is the subject of the projects, would not be economically possible without the EAGGF-Guarantee production aid;
- (b) in the United Kingdom, the same is true for an undertaking whose 1984-85 profit and loss account showed a deficit of 2 000 UKL (i.e.  $\pm$  3 400 ECU), instead of a positive balance of 101 000 UKL ( $\pm$  170 000 ECU), as indicated in the aid application file;
- (c) in Italy, a fruit-and-vegetable-processing undertaking has been in the hands of the receiver ('amministrazione controllata') since January 1985 and the likelihood of its recovery still hangs very much in the balance. Even though, according to the examining magistrate's findings, the undertaking had been in severe difficulties since 1980, the EAGGF aid was granted by the Commission on 22 December 1981;
- (d) in France, a private agricultural company producing and packing fruit received a second amount of aid from the Fund<sup>(12)</sup> in 1980-81, totalling 6 719 405 FF ( $\pm$  1,1 Mio ECU). Nevertheless, it was found that,

according to the general operating accounts, the company was operating at a loss in 1979 and during the period 1982-84. This deficit had to be covered by subsidies and by sales of equipment;

- (e) moreover, it was found that the profitability of some subsidized businesses is heavily dependent on the Community market-management policy. For example, in the FR of Germany, problems have been noted in the case of two beneficiaries, one of which is a processing undertaking producing, *inter alia*, large quantities of Morello cherries in syrup, and the other a cooperative whose chief product is Morello cherries. These two beneficiaries say they encountered serious difficulties in marketing their Morello cherries because of the market policy followed by the Community during the marketing years 1983-84 and 1984-85. Community production of Morello cherries, which was stimulated by the introduction of the processing premium for Morello cherries in syrup, did indeed have to face competition, as of 1983, from enormous imports of processed Yugoslav Morello cherries at very low prices, whilst in March 1984 the Council decided to reduce the amount of the processing premium. This situation did not improve until June 1985 when the Commission took measures to protect the Community market<sup>(13)</sup>, which were provided for under the regulations on the common organization of the market in processed fruit and vegetables.

#### **Problems connected with processing capacities for tomatoes**

5.21. The criteria for the choice of projects lay down that, as of 1981, investments involving an increase in processing capacity for tomatoes are to be considered ineligible for assistance from the Fund, the aim being to curb surplus production and the resultant increasing expenditure that has to be borne by the EAGGF-Guarantee.

5.22. In Italy, the beneficiary of a project not directly concerned with any increase in tomato processing capacity made other investments, outside the framework of the EAGGF project, concerning the production of tomato juice. This led to an increase in the quantity of fresh tomatoes processed, which more than doubled between 1981 (16 600 tonnes) and 1985 (34 973 tonnes during the first 10 months). In the same country, tomato processing is the main activity of the beneficiary of a project not relating to tomatoes. Between 1982 and 1984, his business' operating results showed an increase of about 40 % in the quantities of fresh tomatoes processed: 12 811 tonnes in 1984 as against 9 114 tonnes in 1982. As these findings show, EAGGF-Guidance aid ought to be the subject of an analysis that takes into account the

whole business and not just the subsidized part. When deciding to grant aid, the Commission should ensure that the funds granted affect solely the one field assisted and that they do not free any financial or technical resources which might allow an increase in processing capacities.

#### **Problems connected with compliance with the financing arrangements for projects**

5.23. Article 17 of Regulation (EEC) No 355/77 lays down the rates of contribution applying to each of the three sources of finance for each project, namely the beneficiary, the Member State concerned and the Fund. The beneficiary's rate of contribution must be not less than 50 % of the investment. This rate may however be reduced to 25 % for beneficiaries located in some regions of Greece, France, Ireland and Italy. The Member State's contribution must be equivalent to at least 5 % of the project's eligible cost. Lastly, the Commission's maximum rate of contribution, depending on the region where the investment is made, varies between 25 % and 50 % of the amount eligible.

5.24. Aid is limited to 2,5 times national aid where this is less than 8 %<sup>(14)</sup>. In cases of this kind, it should be noted that the Commission, when calculating the EAGGF aid, applies the 'proportional share' rule, whereby, if the eligible costs are lower than the total costs of the project, the Fund aid may not exceed 2,5 times the rate of national aid multiplied by the amount of eligible costs.

5.25. The financing arrangements for each project approved by the Commission constitute an essential part of the latter's decision.

5.26. The Court's audit, performed on records and on the spot, revealed several anomalies concerning, in particular, on the one hand the documents proving the actual amount paid by the Member State and, on the other, the rules for calculating the maximum possible aid granted by the EAGGF:

- (a) for example, for eight projects in the United Kingdom and for three projects in France, the amounts shown on the supporting documents sent to the Commission at the time of payment of the last tranche of aid, in accordance with the Community regulations<sup>(15)</sup>, do not tally at all with those on the certificates supplied on the spot by the local authorities or the beneficiaries;
- (b) for four projects in the United Kingdom, the Commission, when paying the balance, adopted a

method for determining the aid which was different from that used at the time the decision was taken, meaning that the Commission has abandoned the rule whereby the national aid together with the EAGGF aid may not exceed 50 % of the eligible cost incurred;

- (c) for a French project, the maximum possible aid was calculated incorrectly, with the result that too high an amount of aid was granted (386 054 FF paid in excess, i.e.  $\pm$  57 400 ECU);
- (d) in the case of a Dutch project, even though the real amount of the investment was lower than the amount stated when the application was lodged, the Fund aid was paid in full (185 629 HFL paid in excess, i.e.  $\pm$  74 800 ECU);
- (e) for a project in the United Kingdom, at the time of the audit it was found from examining the beneficiary's accounts that aid worth 14 749,44 UKL had been paid by the Member State instead of the 16 493 UKL laid down in the decision. The sum actually paid represents a rate of contribution which is lower than 8 % of the cost of the investment, a fact which should have led to the EAGGF aid being reduced by 13 738 UKL, i.e.  $\pm$  8 100 ECU;
- (f) when submitting its application for aid, a French company, contrary to Community regulations, failed to notify the Commission that it had received a form of State aid called a 'regional development grant' ('prime d'aménagement du territoire'). Taking account of this grant must entail a review of the aid paid and the Commission should determine the amount to be paid back;
- (g) for a German project, the beneficiary himself carried out a large proportion of the work relating to the project. The expenditure relating to this work included a sum of 546 043 DM ( $\pm$  247 500 ECU) for expenses for various materials. The Commission paid the Fund aid for these materials even though the beneficiary did not submit any documents providing unquestionable proof of the materials' value, date of purchase and nature. If no supplementary proof is provided, the Commission should consider recovering any sum paid in excess.

5.27. The Court considers that the various cases mentioned above point to a situation which could call into question the reliability of the management systems set up in this connection several years ago, both at the Commission and in the Member States.

#### **Problems connected with the alteration of projects after the granting of aid**

5.28. In the case of a limited-liability agricultural company ('landwirtschaftliche Aktiengesellschaft') in the FR of Germany, of which two factories specialized in the production of fruit juices, the Commission granted aid in 1982 for the construction of a warehouse and tanks to store fruit juices, with a capacity of 5 Mio litres. At the time the project should have been completed (July 1983), the beneficiary submitted, by way of an alteration to the original project, a completely new project providing for the construction of silos for storing fresh fruit and the development of some technical installations. At the same time, the Commission was informed that one of the beneficiary's factories and the company's registered trademark had been sold. The company's identity and business had thus changed: instead of producing fruit juices marketed under its own trademark, the factory was specializing in the production of concentrates. Furthermore, whereas the undertaking had previously been a limited-liability agricultural company in which the producers had a direct share, it had become a limited-liability company ('Gesellschaft mit beschränkter Haftung') and the producers were no longer directly the owners of the company. In the Court's view, these changes should have prompted the Commission to require that the beneficiary submit a new project and should not have been considered as modifications of an existing project.

#### **Problems connected with repeated grants of aid**

5.29. Article 18 of Regulation (EEC) No 355/77 lays down that 'the granting of aid from the Fund must not affect the conditions of competition in such a way as to be incompatible with the principles contained in the Treaty'.

5.30. During its audit visits in various Member States, the Court found that the Commission does not always pay sufficient attention to these provisions.

5.31. For example, some industrial concerns have received various EAGGF grants for different projects, without adequate explanation being given of the reasons for granting successive subsidies. This applies in the case of a jam factory in France which received Fund aid three times. Similarly, in Belgium, a large canning plant and frozen-food undertaking, a family-run limited company, was subsidized four times. When appraising files such as these, efforts should be made to analyse all the factors, especially sectoral and regional ones, which ensure that grants of aid of this size — in order to be justified in terms of the objectives of the common agricultural policy — remain sufficiently neutral from the point of view of equality of conditions of competition in the sector to which the undertaking belongs.

## COMMON MEASURES TO ASSIST STOCK FARMING IN ITALY

### *Regulation (EEC) No 1944/81*

5.32. Council Regulation (EEC) No 1944/81 of 30 June 1981<sup>(16)</sup> established a common measure for the adaptation and modernization of the structure of production of beef and veal, sheepmeat and goatmeat in Italy. Its aim (see fourth recital of the Regulation) is to improve the economic situation of agricultural holdings and to curb the decline in the production of meat in that country. To this end, the Fund has allocated an estimated amount of 291 Mio ECU for five years to finance 40 % of the eligible public expenditure, to be planned in special programmes which are drawn up at regional level and which form part of a national framework programme. These programmes are examined and approved by the Commission.

5.33. The framework programme<sup>(17)</sup>, approved in 1982, points out that the maximum eligible amounts are too low to offer any real incentive. Consequently, it was very difficult to achieve those of the Regulation's objectives which are of an economic nature, and the measure was not able to bring about any major, dynamic effect on the development of stock farming. Moreover, the economic effects appear to be slight: according to the forecasts of the framework programme, applying the measure will permit an annual increase in beef and veal production of almost 250 000 quintals, i.e. 4,3 % of Italian imports of beef and veal in 1980.

5.34. In reality, the general economic situation of the meat market, characterized by substantial Community surpluses, was hardly likely to ensure success for the measure, which has for the most part not been applied. Moreover, whilst about 40 % of national needs in beef and veal are covered by imports from within or from outside the Community, a large proportion of Italian production, evaluated at about 10 %, is delivered into intervention. The framework programme does not tackle this problem and does not contain any provision aimed at adapting production and consumption; this is despite the substantial increase in Community intervention decided by Council Regulation (EEC) No 797/85 of 12 March 1985<sup>(18)</sup>, an increase which did not, however, result in the framework programme's objectives being revised.

5.35. Four years after its adoption, Regulation (EEC) No 1944/81 is still applied to only a limited extent. By the end of 1985, three regions had still not submitted a special programme to the Commission, and for four others the programme submitted was awaiting approval. Of all the

14 other regions whose special programme had been approved, only four had submitted payment requests, mainly for advances, to the Commission. The total paid out by the EAGGF by the end of 1985 amounted to 11,9 Mio ECU, i.e. 4,1 % of the planned contribution up until the expiry of the measure in October 1987. Although the amounts transferred to the regions by the Member State were much higher (over 50 Mio ECU by the end of 1983 and about 30 Mio ECU by February 1985), they came too late to ensure an efficient start-up of the common measure and, in some cases, the regions gave financial cover out of their own funds so that the measure could start to be implemented.

### *Regulation (EEC) No 2969/83*

5.36. Another measure to assist stock farming in Italy was established by Council Regulation (EEC) No 2969/83 of 19 October 1983<sup>(19)</sup>. According to Article 1(1) of the Regulation, this was an emergency measure aimed at facilitating the implementation of the measures provided for in Regulation (EEC) No 1944/81 by granting farmers aid enabling them to convert their short-term loans into medium-term loans.

5.37. In fact, the relation between these two measures is more indirect. For one thing, the 1983 Regulation applies to a larger number of regions and, for another, it is aimed at all livestock holdings, whether or not they are involved in achieving the objectives of Regulation (EEC) No 1944/81.

5.38. The forecasts set out in the programme<sup>(20)</sup>, which was drawn up in accordance with Regulation (EEC) No 2969/83, have proved to be completely unjustified, since it was considered that all the outstanding loans ought to be extended, without any reduction for extensions not requested by those concerned or not granted by the financial bodies. Such a high forecast was all the more unjustified in that there was no effective information campaign at local level. The Court's on-the-spot audit visits in fact revealed that, in general, the local offices of the regional administrations which were involved in applying the measure were unaware of its existence.

5.39. This situation resulted in a low rate of implementation for this Regulation, which nevertheless constituted an emergency measure due to expire on 30 November 1983 and for which Community financing covered all the national aid. Out of the estimated cost of the measure of 60 Mio ECU, an advance of about 21,8 Mio ECU was paid to Italy in August 1984, two thirds of which — i.e. about 25 % of the Community financing — had been used by October 1985. In the meantime, the duration of the

measure was extended until 1 April 1985 by Council Regulation (EEC) No 1713/85 of 20 June 1985 (21).

## DEMARCATIION OF MOUNTAIN AREAS AND OTHER LESS-FAVOURED AREAS

### *Development in the demarcation of areas*

5.40. Council Directive 75/268/EEC of 28 April 1975 (22), whose provisions have largely been replaced by those of Regulation (EEC) No 797/85, seeks to assist farms situated in mountain areas or other less-favoured areas by laying down various measures intended to compensate for the handicaps suffered by farming in these regions. Given that, in 1985, payments made in accordance with this Directive accounted for 17 % of the EAGGF-Guidance payments and that, furthermore, other regulations have introduced specific provisions to assist these same areas, it is plain that the demarcation of these areas has a direct influence on the financial management of the Communities. This influence is all the greater in that at present the Directive is applicable to over 50 % of the effective agricultural area of the Community.

5.41. The areas are divided into three categories: mountain areas, less-favoured areas and areas with specific handicaps. The areas in the first category are defined according to physical criteria such as the altitude and/or the steepness of the slopes. The less-favoured areas are those which are in danger of depopulation and which simultaneously satisfy three types of criteria: low productivity of the environment, low profitability of farming and a low or dwindling population predominantly dependent on agriculture. Lastly, there are areas with specific handicaps where farming must be continued.

5.42. Under Article 2 of Directive 75/268/EEC, it is the Council, acting on a proposal from the Commission, that adopts the Community list of the areas concerned and which therefore decides on any amendments to this list. There is a simplified procedure, not involving the Council, for minor amendments which do not increase the effective amount of agricultural land of the eligible areas in the Member State concerned by more than 0,5 % of the total effective agricultural area; with effect from 1980, this percentage has been raised to 1,5 %.

5.43. On the basis of the information available in the Commission's files, the extension from 1975 to 1985 of the effective agricultural area of the eligible areas within the meaning of Directive 75/268/EEC is shown in Table 5.2. During this period, only a few small areas in the Netherlands were removed from the list of those eligible.

### *Justification of the extension of areas*

5.44. The data supplied by Table 5.2, although approximate, show that by 31 December 1985 the original areas, taken as a whole, had been extended by some 11 %.

5.45. An examination of the supporting documents submitted by the Commission has nevertheless led to disappointing findings. Files relating to the original areas in Italy and to the extensions in France were no longer available at the time of the audits. Furthermore, the justifications submitted by the Member States in support of their requests for an increase are very brief and the files gave no indication that the Commission had made any checks in this field. In the case of the United Kingdom, the area originally declared of 7 654 000 ha was corrected to 8 636 000 ha in 1982, but the file submitted to the Court did not contain any evidence to show that the Commission had carried out any checks in this respect. The same is true of an extension relating to France which, in 1984 and 1985, increased the mountain areas by 109 900 ha (of which 101 600 ha were transferred from other less-favoured areas or from areas with specific handicaps and 8 300 ha added as a new eligible area), despite the fact that these are areas defined by normally stable physical criteria (altitude, slope).

5.46. In the case of the United Kingdom, again, in connection with an extension requested in 1982, the criteria of the productivity of the land and the population density were not applied for the new areas which were put forward as eligible but for a block composed of old and new areas. It is not evident, from an examination of the file, that the Commission has endeavoured to ascertain whether or not the criteria were being met for each of the new areas taken separately. In other cases, a comparable income was accepted which was equivalent to 82 % and 83 % of the national average, whereas the maximum rate permitted is usually 80 %. For the extension decisions for Ireland in 1985, the criteria of 'percentage of rough grazing more than 38 %' was replaced by that of 'percentage of ploughed area less than 7,8 %'. The file shows no sign of any investigation into this change, even though an alteration of this kind is not without effect in terms of milk production, given that the producers in the assisted areas benefit from special arrangements for applying the co-responsibility levy system.

Table 5.2 — Directive 75/268/EEC: development of the effective agricultural area of eligible areas from 1975 to 1985

(in 1 000 ha)

Member State	Article 3 (3) (1)		Article 3 (4) (1)		Article 3 (5) (1)		Total	% increase
	Original area	Extension	Original area	Extension	Original area	Extension		
Belgium	—	—	302,5	11,9	—	—	314,4	3,9
FR of Germany	349,0	2,5(2)	3 398,6	11,3	262,8	6,6	4 030,8	0,5
France	3 620,0	721,9(3)	7 025,0	148,2	327,2	116,6	11 958,9	9,0
Ireland	—	—	3 500,0	378,7(4)	—	—	3 878,7	10,8
Italy	4 895,8	268,4(5)	2 034,0	1 057,9	196,6	1,3	8 454,0	18,6
Luxembourg	—	—	129,9	—	3,2	—	133,1	—
Netherlands	—	—	—	—	13,6	5,3	18,9	39,0
United Kingdom	—	—	8 636,0	1 222,3	—	0,7	9 859,0	14,2
<b>Total (6)</b>	<b>8 864,8</b>	<b>992,8</b>	<b>25 026,0</b>	<b>2 830,3</b>	<b>803,4</b>	<b>130,5</b>	<b>38 647,8</b>	<b>11,4</b>
Greece	4 805,0	173,8	1 084,1	916,5	233,2	26,3	7 238,9	18,2

(1) Article 3 (3): mountain areas.

Article 3 (4): less-favoured areas in danger of depopulation.

Article 3 (5): areas affected by specific handicaps.

(2) Of which 2 105 ha from a transfer from areas in danger of depopulation (Art. 3 (4)).

(3) Of which 133 400 ha from a transfer of 121 200 ha from areas in danger of depopulation (Art. 3 (4)) and of 12 200 ha from areas with specific handicaps (Art. 3 (5)).

(4) Of which 31 600 ha for the extension of areas with specific handicaps (Art. 3 (5)), subsequently transferred to less-favoured areas (Art. 3 (4)).

(5) Including a transfer from other areas of an unspecified size.

(6) Denmark does not apply Directive 75/268/EEC. The data relating to Greece, which has been part of the Community only since 1981, have not been included in the total and are presented separately.

## GENERAL OBSERVATIONS ON REGIONAL AID MEASURES

5.47. The problem of selecting objectives and determining priorities arises just as much in relation to the structures policy as a whole as to each common measure. The objectives are often defined in terms of achieving a balance between a number of different and sometimes even contradictory factors. This being so, there is, however, a danger that the goals aimed at when carrying out the measures may be diverse and lacking in unity, thus lessening the measures' effectiveness and leading to indifferent results.

5.48. The causes of the delays in implementing the measures are multiple and include the introduction of schemes offering little incentive to the beneficiaries,

problems of administrative reorganization imposed by regionalization, budgetary restrictions, and technical or political reasons. Nevertheless, better use should be made of the lessons learnt in connection with previous measures in order to prevent similar situations recurring, to produce more and more realistic forecasts and to follow up the completed measures more effectively.

5.49. It is regrettable that the Commission does not give greater priority to assessing the economic impact of the measures. In the Commission's view, the difficulties regarding the availability of staff oblige it to concentrate on checks on the regularity of expenditure and on measures to make the administrations more aware. As a result, the system has a major defect to which the Court considers it must draw particular attention.



- (1) OJ 30 of 20.4.1962, p. 991.
- (2) OJ 34 of 27.2.1964, p. 586.
- (3) OJ L 95 of 2.4.1985, p. 1.
- (4) OJ L 362 of 31.12.1985, p. 17.
- (5) OJ C 326 of 16.12.1985.
- (6) OJ C 342 of 31.12.1980.
- (7) OJ L 206 of 5.8.1985, p. 486.
- (8) OJ L 358 of 31.12.1985, p. 535.
- (9) OJ C 326 of 16.12.1985, p. 52.
- (10) Council Regulation (EEC) No 355/77 of 15.2.1977 on common measures to improve the conditions under which agricultural and fishery products are processed and marketed (OJ L 51 of 23.2.1977, p. 1), as last amended by Council Regulation (EEC) No 2224/86 of 14.7.1986 (OJ L 194 of 17.7.1986, p. 4).
- (11) Council Regulation (EEC) No 729/70 of 21.4.1970 on the financing of the common agricultural policy (OJ L 94 of 28.4.1970, p. 13), as last amended by Council Regulation (EEC) No 3769/85 of 20.12.1985 (OJ L 362 of 31.12.1985, p. 17).
- (12) An initial sum of aid amounting to 1 035 500 FF ( $\pm$  0,2 Mio ECU) was granted in 1972.
- (13) Regulation (EEC) No 1626/85 of 14.6.1985, OJ L 156 of 15.6.1985, p. 13.
- (14) This percentage must be replaced by:
  - 16 % for the Mezzogiorno, the west of Ireland and Greece with the exception of Greater Athens,
  - 11 % for Languedoc-Roussillon and projects relating to wine in the departments of Var, Vaucluse, Bouches-du-Rhône, Ardèche and Drôme (OJ C 152/83 of 10.6.1983, p. 6).
- (15) Commission Regulation (EEC) No 1685/78 of 11.7.1978, OJ L 197 of 22.7.1978, p. 1.
- (16) OJ L 197 of 20.7.1981, p. 27.
- (17) OJ L 322 of 18.11.1982, p. 36.
- (18) OJ L 93 of 30.3.1985, p. 1.
- (19) OJ L 293 of 25.10.1983, p. 7.
- (20) Commission Decision 84/95/EEC of 8.2.1984, OJ L 51 of 22.2.1984, p. 20.
- (21) OJ L 165 of 25.6.1985, p. 1.
- (22) OJ L 128 of 19.5.1975, p. 1.

## CHAPTER 6

**Common fisheries policy**

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## INTRODUCTION

fishing rights for Community vessels in their waters (Chapter 42);

6.1. The Community draws upon the appropriations relating to the common fisheries policy, which are entered under Title 4 of the budget (in 1985, 215,4 Mio ECU were available as appropriations for commitment and 145,9 Mio ECU as appropriations for payment), to finance the following measures:

(a) the common organization of the market in fishery products, financed by the EAGGF-Guarantee (Chapter 40);

(b) specific measures relating to research programmes, biological studies and the reinforcement of supervisory measures to ensure observance of Community legislation governing fishing activities (Chapter 41);

(c) agreements with non-Member States, mainly developing countries, to obtain, for a consideration,

(d) social measures concerning vocational training and medical assistance at sea (Chapter 43);

(e) structural measures concerning the adjustment and redeployment of capacity in the fisheries sector (Chapter 45);

(f) a common EAGGF-Guidance measure relating to the construction or modernization of fishing vessels and to the development of aquaculture, as well as start-up aid to producer groups, also financed by the EAGGF-Guidance (Chapter 46).

6.2. The position regarding commitments and payments for the financial year is summarized in *Table 6.1* and the evolution of appropriations available in 1985 is shown in *Table 6.2*.

Table 6.1 — Fisheries (Title 4): appropriations available in 1985 and their utilization

(Mio ECU)

Budget heading	Commitments		Payments	
	Appropriations for commitment available for 1985 <sup>(1)</sup>	Commitments entered into in 1985	Appropriations for payment in 1985 <sup>(2)</sup>	Payments made in 1985
Chapter 40:				
Common organization of the market in fishery products	<u>24,1</u>	<u>16,0</u>	<u>24,1</u>	<u>16,0</u>
— 400 Refunds	0,5	-0,1 <sup>(3)</sup>	0,5	-0,1 <sup>(3)</sup>
— 401 Intervention	23,6	16,1	23,6	16,1
Chapter 41:				
Specific measures	<u>2,8</u>	<u>1,6</u>	<u>2,4</u>	<u>0,8</u>
— 410 Surveillance in maritime waters	0,0	—	—	—
— 411 Research	0,7	—	0,2	—
— 412 Biological studies	0,8	0,8	1,4	0,6
— 413 Coordination of surveillance operations	0,3	0,3	0,3	0,2
— 416 Mediterranean programme	1,0	0,5	0,5	—
Chapter 42:				
Agreements on fishing rights in non-Community waters	<u>34,6</u>	<u>29,5</u>	<u>40,8</u>	<u>35,4</u>
— 420 Mediterranean	p.m.	—	p.m.	—
— 421 Baltic	0,1	0,1	0,1	0,1
— 422 Developing countries	8,0	2,9	14,2	8,8
— 423 Canada	0,0	0,0	0,0	0,0
— 424 Greenland	26,5	26,5	26,5	26,5
Chapter 43:				
Social measures	<u>0,1</u>	<u>0,1</u>	<u>0,2</u>	<u>0,1</u>
— 430 Education and training	0,1	0,1	0,2	0,1
— 431 Medical assistance	0,0	0,0	0,0	0,0
Chapter 45:				
Adjustment and redeployment of capacity	<u>50,2</u>	<u>8,6</u>	<u>48,5</u>	—
— 450 Adjustment of capacity	43,0	6,1	41,3	—
— 451 Redeployment of capacity	7,2	2,5	7,2	—
Chapter 46:				
Improvement of structures — Common measures	<u>103,6</u>	<u>65,9</u>	<u>29,9</u>	<u>29,5</u>
— 460 Common measures, projects	103,1	65,8	29,4	29,4
— 461 Producer groups	0,5	0,1	0,5	0,1
<b>Title 4 — Grand total<sup>(4)</sup></b>	<b>215,4</b>	<b>121,7</b>	<b>145,9</b>	<b>81,8</b>
<b>Rate of utilization of appropriations (%)</b>		<b>(56,5 %)</b>		<b>(56,1 %)</b>

<sup>(1)</sup> Taking into account transfers, decommitments, adjustments and appropriations remaining from 1984.<sup>(2)</sup> Taking into account transfers and carry-overs from 1984.<sup>(3)</sup> Recovery in 1985 of expenditure paid in error in 1984.<sup>(4)</sup> The appropriations entered under Chapter 40 are non-differentiated appropriations from the EAGGF-Guarantee; Chapter 41 consists of differentiated and non-differentiated appropriations, Chapter 42 and 43 of non-differentiated appropriations and Chapters 45 and 46 of differentiated appropriations.

**Table 6.2 — Fisheries (Title 4): evolution of appropriations available in 1985**

Type of appropriations	(Mio ECU)	
	Appropriations for commitment	Appropriations for payment
Initial budget	150,2	105,4
Appropriations remaining <sup>(1)</sup>	65,2	—
Appropriations carried over from 1984	—	38,5
Transfers <sup>(2)</sup>	—	+ 2,0
<b>Total</b>	<b>215,4</b>	<b>145,9</b>

<sup>(1)</sup> Including appropriations made available on account of the variation in the exchange rate of the ECU and re-used appropriations.

<sup>(2)</sup> Transfer from Chapter B 100 (provisional appropriations) to Chapter 46.

6.7. The rate of utilization of the appropriations remained low in 1985, mainly because of the delay in implementing the two structural measures decided on by the Council in October 1983 and financed with appropriations entered under Chapter 45. In the case of one of these measures, concerning capacity adjustment in the fisheries sector, the payments could have been made in 1985 if the Commission had adopted in good time provisions laying down the form and content of the applications for reimbursement to be submitted by the Member States.

6.8. The appropriations available under Article 411 (0,7 Mio ECU of appropriations for commitment and 0,2 Mio ECU of appropriations for payment), which were intended to promote the implementation of joint research programmes, were not utilized. A proposal for a Regulation on this question submitted by the Commission to the Council on 18 July 1980 had still not been adopted at the end of 1985.

### *Expenditure arising from the fisheries agreement concerning Greenland*

6.3. The Court has recently published a special report on the common organization of the market in fishery products <sup>(1)</sup>.

## **OBSERVATIONS ON BUDGETARY MANAGEMENT**

### *Utilization of available appropriations*

6.4. Appropriations for commitment increased by 40 % compared with those for the financial year 1984, and appropriations for payment increased by 46 %, mainly owing to the existence of appropriations remaining from 1984 and appropriations carried over from that year.

6.5. Commitments for the whole of Title 4 amounted to 121,7 Mio ECU in 1985 (96,1 Mio ECU in 1984), i.e. 56,5 % of the appropriations available (62 % in 1984).

6.6. Payments made in 1985 amounted to 81,8 Mio ECU (57,1 Mio ECU in 1984), i.e. 56,1 % of the appropriations available (57 % in 1984).

<sup>(1)</sup> The footnotes appear at the end of each chapter.

6.9. Article 424, which was entered in the budget for the first time for the financial year 1985, provided the sum of 26,5 Mio ECU for expenditure arising from the agreement on fishing rights concerning Greenland. The rejection of the 1985 budget meant that the provisional twelfths system had to be implemented and it was therefore impossible to effect the above-mentioned expenditure. In February 1985, however, a payment of 26,5 Mio ECU was made. Of this sum, 10 Mio ECU were entered 'provisionally' under Article 422 (fishing agreements with developing countries) and 16,5 Mio ECU were entered under Article 320 (mountain and hill-farming and farming in certain less-favoured areas). There is no doubt that this operation was irregular and the Financial Controller should have withheld his approval. Furthermore, there is nothing in the existing regulations which authorizes 'provisional entries' to be made. As regards the accounts, the entries were amended after the budget had been adopted; the payment was charged to Article 424 and the appropriations from Articles 320 and 422 were replenished by a sum equal to the amounts used for Greenland.

### *Payments under the fishing agreements with certain developing countries*

6.10. In December 1985 the Commission made a series of payments to a French body which is responsible for certain nationals of Guinea, Guinea Bissau and Senegal who receive training grants made available by the Community under fishing agreements. The total amount paid was 329 470 ECU, equivalent to 2 217 106 FF,

although the only document testifying to these payments was a detailed account by the body in question, which referred to funds from the Community totalling only 1 738 366,24 FF (258 328 ECU). This administrative error is attributable to the authorizing officer and to the Financial Controller, who approved, without raising any objection, payment orders far exceeding the amount indicated by the supporting documents submitted.

6.11. In 1985, an agreement was negotiated with Madagascar <sup>(2)</sup> with a view to obtaining fishing rights for the Community in this country's waters in return for financial compensation. Despite the fact that, in its reply to the observations set out in the Court's annual report for the financial year 1984 <sup>(3)</sup>, the Commission had stated that it had no right to inspect the use to which the funds paid were put, it accepted that the new agreement should include a clause stating the use to which the funds were to be put. This being so, the Court trusts that the Commission will make full use of the opportunity for carrying out inspections which is thus offered to it.

#### OBSERVATIONS ON THE COMMON MEASURES FOR DEVELOPING THE FISHING INDUSTRY AND AQUACULTURE (ARTICLE 460 OF THE BUDGET)

##### *Main features of the common measures*

6.12. Between 1979 and 1983, the EAGGF-Guidance financed, on the basis of Council Regulations (EEC) No 1852/78 of 25 July 1978 <sup>(4)</sup> and No 31/83 of 21 December 1982 <sup>(5)</sup>, an 'interim' common measure (extended from year to year) for restructuring the inshore fishing industry and aquaculture. Within the context of this measure, aid was granted for investment projects involving the purchase, construction or modernization of fishing vessels and the development of aquaculture establishments. In the course of this operation, 1 153 projects were covered by EAGGF aid commitments totalling 103,6 Mio ECU.

6.13. As from the financial year 1984, the EAGGF-Guidance common measure was pursued on the basis of Council Regulation (EEC) No 2908/83 of 4 October 1983 <sup>(6)</sup>, which was adopted as part of a 'package' of structural measures decided upon in conjunction with the introduction of a policy on the management of fish stocks. On the basis of Regulation (EEC) No 2908/83, 1 653 projects had been financed by the end of 1985, with EAGGF aid totalling 132,6 Mio ECU.

6.14. Although the regulations governing the common measure in question do not specify any deadline for

implementing the projects financed, the Commission is entitled to cancel the aid if the beneficiary does not begin the work within two years of the date of notification of aid from the Fund and if he does not, within the same period, supply adequate assurances that the project will be carried out. The Commission may also reduce or withdraw the aid if the project is not carried out as specified <sup>(7)</sup>. The amounts recovered in this way may be used to finance new projects.

6.15. In 1985, commitments relating to a number of projects financed over more than two years were still included in the Commission's accounts. The situation with regard to each Member State is shown in *Table 6.3*.

6.16. On the basis of the files in the Commission's possession, it was observed that there were abnormal delays in carrying out certain projects in Italy, Greece and Ireland, whereas delays in the other Member States could, in the Commission's opinion, be accounted for by the beneficiaries and by the authorities concerned. Consequently, the Court initially limited itself to carrying out an on-the-spot audit at the Commission and on the premises of the Italian, Greek and Irish authorities in order to investigate the projects which had been delayed and discover the reasons for this situation.

##### *Special observations*

##### **Italian projects**

6.17. During its on-the-spot audit at the Commission, the Court examined the 115 files relating to the Italian projects financed during 1979, 1981, 1982 and 1983 which were still open as at 31 December 1985. This investigation revealed that, in the case of 85 projects, the documents on file did not provide sufficiently accurate information about the actual stage that had been reached in the execution of the project or about the reasons for the delay in submitting the application for final payment of Community aid. The Commission depends upon the national administrations for such information. The Court therefore turned, for additional information, to the Italian Ministry for the Merchant Navy, which centralizes the administration of the common measure at its headquarters.

6.18. This centralization consists in particular in organizing and performing all such on-the-spot audits as may ensure that the work is being carried out in accordance with the project specifications, or, if necessary, to check the reasons for delays in implementing the project. Within such a context, it proves difficult to monitor projects closely and to carry out the necessary audits rapidly. Thus, nine projects which, according to

**Table 6.3 — Situation as regards uncompleted projects as at 31. 12. 1985, by Member State and by financial year in which appropriations were committed**

Member State	1979				1980				1981				1982				1983			
	A	B (Mio ECU)	C	D (Mio ECU)	A	B (Mio ECU)	C	D (Mio ECU)	A	B (Mio ECU)	C	D (Mio ECU)	A	B (Mio ECU)	C	D (Mio ECU)	A	B (Mio ECU)	C	D (Mio ECU)
Belgium	—	—	—	—	1	0,2	—	—	3	0,4	—	—	1	0,1	—	—	1	0,1	—	—
Denmark	1	0,3	—	—	3	0,3	—	—	20	0,7	1	0,0	35	1,4	1	0,0	58	2,2	10	0,3
FR of Germany	—	—	—	—	9	0,5	—	—	10	0,6	—	—	12	1,4	1	0,1	27	2,4	3	0,2
Greece	—	—	—	—	—	—	—	—	—	—	—	—	10	1,8	7	0,4	100	6,2	62	2,3
France	—	—	—	—	4	1,3	—	—	13	3,4	3	0,2	26	3,3	3	0,1	57	5,5	15	0,8
Ireland	36	2,4	—	—	11	4,0	2	0,1	18	3,8	4	0,4	38	4,4	4	0,6	78	5,6	12	0,9
Italy	4	2,0	2	0,3	35	4,5	—	—	46	5,9	7	0,7	97	7,2	30	1,8	115	8,5	76	5,0
Netherlands	—	—	—	—	—	—	—	—	9	0,6	2	0,1	16	1,0	2	0,0	10	1,9	5	0,9
United Kingdom	2	0,3	—	—	34	4,3	1	0,0	53	4,5	4	0,1	60	4,5	11	0,6	100	6,2	19	0,7
<b>Total</b>	<b>43</b>	<b>5,0</b>	<b>2</b>	<b>0,3</b>	<b>97</b>	<b>15,1</b>	<b>3</b>	<b>0,1</b>	<b>172</b>	<b>19,9</b>	<b>21</b>	<b>1,5</b>	<b>295</b>	<b>25,1</b>	<b>59</b>	<b>3,6</b>	<b>546</b>	<b>38,6</b>	<b>202</b>	<b>11,1</b>

Key: A: Total number of projects financed.

B: Total aid granted (Mio ECU).

C: Total number of uncompleted projects at end of 1985.

D: Total commitments still available at end of 1985 (Mio ECU).

Sources: — Financial reports concerning the EAGGF-Guidance.

— Periodic account issued by the Single Accounting Centre.

the information sent to the Commission, should have been subject to an on-the-spot audit some time ago, had not yet been inspected when the Court's visit took place. Furthermore, accurate information on the progress of 25 other projects was lacking, in the absence of any response from the beneficiaries, who had been approached by post only. The monitoring of projects, in its present form, does not offer sufficient guarantees of efficiency and speed. The Commission and the national authorities should consider introducing a system involving closer contact with the fishermen and aquaculturists.

6.19. The national aid which has to accompany the Community aid is paid by the Merchant Navy Ministry in the form of a percentage of the costs which the Commission, at the time of submission of the supporting documents for the payment in full of EAGGF aid, considers to be eligible. The financial contribution of the Member State is a precondition for the payment of the full amount of Community aid, and if the national aid is not paid, the Commission grants only 80 % of the aid from the Fund and makes the payment of the remaining 20 % conditional on the submission of evidence to show that national aid has been granted. The period between these two payments runs to several months and constitutes a particular reason for delay.

6.20. The normal execution of the projects is hampered by the inability of a number of fishermen to make the contributions, using their own funds, indicated in the preliminary financial plans. This problem points up the

need for a more thorough examination of the financing plans submitted by the beneficiaries. In particular, the possibilities of self-financing must be examined carefully, especially since the system of making available to fishermen official loans at a subsidized interest rate, as provided for in a law of 1982, is not yet in operation.

6.21. This same survey also revealed that a number of projects had in the meantime been the subject of an application for final payment (25 projects), had been abandoned (6 projects), had been the subject of a request for inspection of the work carried out (5 projects) or raised particular problems which had not yet been resolved (15 projects).

#### Irish projects

6.22. The Court recorded 20 files on projects financed under Regulations (EEC) No 1852/78 and No 31/83, which had not been closed as at 31 December 1985. In the case of eight of them, the information obtained at the Commission showed that they were either about to be closed, were awaiting final settlement or were being cancelled, or that they concerned legal entities in liquidation. On the other hand, 12 projects were subjected to a thorough examination with the Irish authorities, particularly with the BIM (Irish Sea Fisheries Board) and the 'Udaras na Gaeltachta' (responsible for Gaelic-speaking areas).

6.23. According to the information obtained by the Court, concern as to whether the interim measures would be continued prompted the Irish authorities to submit large projects for Community financing which subsequently were only partly completed. In most of these cases, the initial phase was completed and was operational. In the Court's opinion, this initial phase could and should have constituted the project, which could thus have been closed within a normal period of time. The long period of inactivity — linked specifically to supply problems — between this initial phase and any subsequent development of the project results in an unnecessary immobilization of large quantities of appropriations.

6.24. It is regrettable that the Commission, at the time of examining the application, does not check that the conditions governing the execution of the proposed work have been met and does not make the granting of aid subject to adequate guarantees of success, particularly in the case of consecutive projects — at least where it is able to do so — in order not to tie up large commitments over long periods. Thus, when the Commission examined project IRL/109/82, although the application mentioned its connection with the initial project (IRL/61/80), it did not check either the state of progress of the initial project or its prospects for success.

6.25. Appropriations also remain immobilized because of delays in the procedure for cancelling aid. These delays are due to the vague and incomplete nature of the dilatory replies received from the national administrations, which the Commission is content to accept without asking them to be more specific. These replies in fact contain only incomplete information alluding to prospects which are generally most uncertain.

### Greek projects

6.26. The number of Greek projects approved by the Commission in 1982 and 1983, relating to the construction and modernization of vessels and to the introduction of aquaculture, is as follows:

	Number of projects approved	Number of respective beneficiaries
1982	10	64
1983	100	211
Total	110	275

This shows that several of the approved projects comprised a large number of sub-projects.

6.27. Out of these 110 projects, 45 had not yet been terminated in March 1986. Forty out of the 45 projects concerned fishing vessels and five concerned aquaculture.

6.28. In the case of some files which were still open, no reminder had been given for six months to one year. Likewise, at the time of the inspection, the Commission had not arranged for any on-the-spot contact, either with the competent national authorities or with the beneficiaries. This would have been particularly desirable, in view of the fact that Greece has only been a member of the Community since 1 January 1981. The large number of cases whereby aid was voluntarily foregone or cancelled or where the beneficiaries lost interest (around 23 % of the total number of beneficiaries) is undoubtedly due to lack of information.

6.29. In this connection, the Commission should initiate, immediately and in cooperation with the relevant national authorities, the procedure for cancelling aid which has lapsed or which infringes Community regulations.

6.30. The inspection visit also revealed that the system observed by the central administration for monitoring projects is generally organized in such a way as to meet Community requirements. Nevertheless, without an up-to-date management chart, the central information department is not in a position to monitor systematically, for each beneficiary, how work is progressing. Likewise, the connection established between central departments on the one hand and local departments and port authorities on the other does not always operate in a regular and efficient manner, mainly due to the lack of response from local departments. This is the reason why the central administration was unaware, at the time of the audit, of the exact situation in the case of 16 beneficiaries (11 projects), and requests for information from local authorities had remained unanswered.

6.31. The mere fact that 41 % of the 'collective' projects submitted in 1981 and 1982 and approved by the Commission, corresponding to approximately 50 % of the total number of beneficiaries, had not yet been terminated at the time of the investigation, constitutes proof of excessive procrastination, due mainly to the long delay prior to commencement of the work. This is even more significant in view of the fact that only five of the uncompleted projects relate to aquaculture, while the 40 projects still to be concluded, involving 131 beneficiaries, relate to the construction or modernization of medium-sized fishing vessels, which does not normally take more than six to seven months.

### General observations

6.32. After the statutory two-year period, the Commission is required to set in motion the investigation procedure which determines whether it will take a decision to cancel the aid or wait for the beneficiaries to complete the project. Under the terms of this procedure, however, it makes do with various replies which do not

adequately reflect the progress of the projects. Furthermore, the regulations make no provision as regards contacts to be followed up between the Commission, the Member State and the beneficiaries, after the work specified in the project has commenced. This loophole should be filled by a measure prescribed by the Commission within the legislative framework, with a view

to defining clearly, standardizing and accelerating the procedure for discontinuing Community aid. Provision should be made for strict deadlines for both the forwarding of information and the various stages of the procedure for cancelling aid, in order to avoid leaving too great a volume of outstanding commitments.

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(<sup>1</sup>) OJ C 339 of 31.12.1985.

(<sup>2</sup>) OJ L 73 of 18.3.1986, p. 25.

(<sup>3</sup>) OJ C 326 of 16.12.1985, paragraphs 6.10 — 6.12.

(<sup>4</sup>) OJ L 211 of 1.8.1978, p. 30. Regulation (EEC) No 1852/78 was amended by Regulations (EEC) No 592/79 of 26.3.1979 (OJ L 78 of 30.3.1979, p. 5), No 1713/80 of 27.6.1980 (OJ L 167 of 1.7.1980, p. 50) and No 2992/81 of 19.10.1981 (OJ L 299 of 20.10.1981, p. 24).

(<sup>5</sup>) OJ L 5 of 7.1.1983, p. 1.

(<sup>6</sup>) OJ L 290 of 22.10.1983, p. 1. Regulation (EEC) No 2908/83 was amended by Council Regulation (EEC) No 3733/85 of 20.12.1985 (OJ L 361 of 31.12.1985, p. 78).

(<sup>7</sup>) Regulation (EEC) No 1852/78, Article 10(2); Regulation (EEC) No 31/83, Article 10(2); Regulation (EEC) No 2908/83, Article 18(2).



## CHAPTER 7

**Expenditure in the regional development and transport sectors**

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**INTRODUCTION**

Council Regulation (EEC) No 1787/84 of 19 June 1984 <sup>(1)</sup>, which came into force on 1 January 1985.

7.1. The expenditure included under this heading mainly concerns the European Regional Development Fund (ERDF), which was created by Council Regulation (EEC) No 724/75 of 18 March 1975 <sup>(1)</sup> with the aim of helping to correct the principal regional imbalances within the Community through financial participation in the development and structural adjustment of less developed regions and in the conversion of industrial regions in decline. The main feature of the management of the Fund during 1985 was the implementation of the new

7.2. Funding for the ERDF is decided on each year and the relevant commitment and payment appropriations are allocated to it in the general budget of the Communities. The Fund reimburses a proportion of the expenditure incurred by the Member States in the execution of Community programmes, national programmes of Community interest, projects and studies. Guidelines are established for the utilization by the Member States of these resources, and the lower and upper limits laid down in the guidelines apply over a three-year period.

<sup>(1)</sup> The footnotes appear at the end of each chapter.

## SUMMARY OF FINANCIAL INFORMATION

7.3. *Table 7.1* traces the utilization of appropriations in Title 5 of the budget, 'Appropriations for operations in the regional development and transport sectors'.

7.4. For the ERDF (Chapters 50 and 51), the appropriations available for commitments totalled 2 654,8 Mio ECU in 1985, of which 2 495,2 Mio ECU (94,7 %) were used. The commitments covered investment projects (2 321,3 Mio ECU), national programmes of Community interest (134 Mio ECU), 37 studies (2,1 Mio ECU) and the continuation of non-quota measures provided for by the old Regulation (37,8 Mio ECU). A commitment appropriation of 28 Mio ECU for non-quota measures dating back to 1984 was cancelled at the end of 1985, as was a commitment appropriation of 9,6 Mio ECU relating to the old Regulation.

7.5. The aid allocated to projects was divided between industry (18 %) and infrastructure (82 %) and was granted under 743 decisions covering 3 265 investments. The average amount of aid granted per project was 711 000 ECU in 1985, as against 529 000 ECU during the previous financial year. This difference is due to an increase in the average amount of the investments, and, in more than half of the cases, to the application of the higher rates of aid fixed by the new Regulation.

7.6. The total payment appropriations available for the two Chapters of the ERDF amounted to 1 739,2 Mio ECU, of which 1 624,2 Mio ECU (93,4 %) were utilized (see *Table 7.1*). Annex III of this report gives a breakdown of commitments and payments by Member State.

7.7. Three Articles in the 1985 budget concern ERDF operations. They are numbered 500, 505 and 510, and deal with the application of the old Regulation (the quota section), the application of the new Regulation and the non-quota measures of the old Regulation, respectively. A summary of the situation of the appropriations for these three Articles in 1985 is shown in *Table 7.2*.

**Table 7.1 — Aid for regional development and transport: appropriations available in 1985 and their utilization**

Budget Chapter	Commitments		Payments	
	Appropriations for commitment available in 1985	Commitments entered into in 1985	Appropriations for payment available in 1985	Payments made in 1985
Article 500: old Regulation (quota)	9,9	0,3	1 294,9	1 294,8
Article 505: new Regulation	2 464,1	2 457,1	411,0	296,1
Article 510: old Regulation (non-quota)	180,8	37,8	33,3	33,3
<b>Total Chapters 50 and 51 (ERDF)</b>	<b>2 654,8</b>	<b>2 495,2</b>	<b>1 739,2</b>	<b>1 624,2</b>
Chapter 54: Other regional aid	69,1	57,5	55,2	17,4
Chapter 55: Mediterranean programmes	140,0	6,8	20,0	7,8
Chapter 58: Transport policies <sup>(1)</sup>	171,6	81,2	116,0	76,1
<b>General total</b>	<b>3 035,5</b>	<b>2 640,7</b>	<b>1 930,4</b>	<b>1 725,5</b>

<sup>(1)</sup> Including carry-overs relating to non-differentiated appropriations from Chapter 78.

Table 7.2 — Utilization of appropriations of the ERDF in 1985

(Mio ECU)

Type of appropriations	Article 500 (old Regulation — quota)		Article 505 (new Regulation)		Article 510 (old Regulation — non-quota)		Total	
	Commit- ment appropriations	Payment appropriations	Commit- ment appropriations	Payment appropriations	Commit- ment appropriations	Payment appropriations	Commit- ment appropriations	Payment appropriations
Appropriations opened for the 1985 budget	—	1 259,0	2 174,9	281,0	115,0	70,0	2 289,9	1 610,0
Appropriations made available by the cancellation of aid granted previously	95,4	—	—	—	—	—	95,4	—
Appropriations made available due to fluctuations in the exchange rate	198,8	—	—	—	—	—	198,8	—
Appropriations existing or carried forward from 1984	4,9	35,9	—	—	65,8	93,3	70,7	129,2
<b>Sub-total</b>	<b>299,1</b>	<b>1 294,9</b>	<b>2 174,9</b>	<b>281,0</b>	<b>180,8</b>	<b>163,3</b>	<b>2 654,8</b>	<b>1 739,2</b>
Transfer from Article 500 to Article 505	- 289,2	—	+ 289,2	—	—	—	—	—
Transfer from Article 510 to Article 505	—	—	—	+ 130,0	—	- 130,0	—	—
<b>Total appropriations available</b>	<b>9,9</b>	<b>1 294,9</b>	<b>2 464,1</b>	<b>411,0</b>	<b>180,8</b>	<b>33,3</b>	<b>2 654,8</b>	<b>1 739,2</b>
Appropriations utilized	0,3	1 294,8	2 457,1	296,1	37,8	33,3	2 495,2	1 624,2

## ANALYSIS OF BUDGETARY IMPLEMENTATION

### Unexpended ERDF appropriations

7.8. In the context of the budgetary management of the ERDF, the appropriations available for non-quota measures (Article 510) were mostly still unexpended in 1985, since the commitments and payments only corresponded to a part of the existing appropriations or appropriations carried forward from 1984. This subject has been analysed in more detail in a special report of the Court of Auditors <sup>(3)</sup>.

7.9. Furthermore, it was noted that 130 Mio ECU of the appropriations available for non-quota measures undertaken within the framework of the old Regulation had been transferred to Article 505, the purpose of which is to cover the operations of the new Regulation. Payment appropriations for this Article totalling 114,9 Mio ECU were still to be utilized at the end of the financial year. Most of the decisions taken under the new Regulation were adopted in December 1985, so that very few requests for payment applied to them. Furthermore, numerous requests for payment relating to the application of the old Regulation and totalling 220 Mio ECU, could not be

executed. These payments, which will have to be made at the beginning of 1986, will use up almost one third of the appropriations set aside under Article 500 of the 1986 budget for the further application of the old Regulation. This situation raises the question of whether the transfers of appropriations to Article 505 were justified.

### Transfers of ERDF appropriations

7.10. As far as transfers are concerned, the Court noted that:

- (a) The transfer of 130 Mio ECU of payment appropriations from Article 510 to Article 505, which was mentioned previously, includes 60 Mio ECU of appropriations carried forward from 1984. This latter amount therefore constitutes a transfer from the 1984 budget to the 1985 budget, a procedure which the Court has often criticized as being contrary to the provisions of Article 21 of the Financial Regulation, since transfers of appropriations must take place before the end of the financial year <sup>(4)</sup>.
- (b) Furthermore, in this particular case, the 1984 payment appropriations will eventually be used for paying for commitments entered into in 1985. This does not comply with the definition of differentiated appropriations given in Article 1 of the Financial

Regulation, under which differentiated payment appropriations are intended to cover expenditure arising from the execution of commitments entered into during the financial year and/or preceding financial years <sup>(5)</sup>.

- (c) Moreover, of the commitment appropriations for Article 500 dating back to 1984, which amounted to 4,9 Mio ECU, 2,2 Mio ECU were transferred to Article 505, which also constitutes a transfer from the 1984 budget to the 1985 budget. A total of 0,3 Mio ECU of the 2,7 Mio ECU still available were utilized and 2,4 Mio ECU were cancelled at the end of the financial year 1985.

7.11. The total commitment appropriations cancelled at the end of the financial year 1985 actually amount to 9,6 Mio ECU, since a further 7,2 Mio ECU must be added to the amount of 2,4 Mio ECU mentioned previously, corresponding to Article 500 appropriations made available by the withdrawal of aid already granted. As this situation did not comply with the provisions of Article 9(6) of the old Regulation, which provided that funds decommitted in this way could be reallocated to new projects, the Commission made an accounting adjustment in respect of these appropriations at the beginning of 1986. At the same time, however, it ought to have made a corresponding entry in the revenue and expenditure account for 1985. Subsequently, the Commission submitted a corrected version of the revenue and expenditure account on 17 October 1986 showing that the sum of 9,6 Mio ECU had been entered as commitment appropriations still available at 31 December 1985 and was no longer included in the appropriations cancelled.

### *The progress of ERDF payments, by Member State*

7.12. Of all the aid decisions taken by the Commission in mid-December, only a few reached the payment stage in 1985, thanks to the rather short lapse of time between the aid decision and the close of the financial year. This was true of:

- (a) two decisions relating to France, for aid totalling 25,2 Mio ECU, of which 15 Mio ECU were paid;
- (b) 15 decisions relating to Ireland, for aid totalling 85,6 Mio ECU, of which 34,1 Mio ECU were paid;
- (c) eight decisions relating to Greece, for aid totalling 174,6 ECU, of which 128,9 Mio ECU were paid.

7.13. An analysis of payments relating to aid granted in 1984 shows that the percentage of aid paid over was clearly higher for Ireland and Greece. In fact, at 31 December 1985, the percentage of aid paid to each

Member State for the year 1984 was as follows:

Belgium	23,6 %	Ireland	74,5 %
Denmark	54,6 %	Italy	17,5 %
FR of Germany	56,6 %	Luxembourg	12,9 %
Greece	71,1 %	Netherlands	1,6 %
France	28,9 %	United Kingdom	52,0 %

7.14. Differences of the kind shown in the preceding paragraphs can be explained by several factors, mainly related to the Member States' information procedures and administrative practices. Speed of payment must not however be taken as proof of the efficiency with which the ERDF is managed. In reality, it is often due to aid being granted to projects which are at an advanced stage of execution; this reduces the Fund's impact on the decision to invest and limits the additionality of the aid (see the Court's Annual Report for the financial year 1984 <sup>(6)</sup>). The Commission should take note of the differences in the rate of payments from the Fund observed between Member States and should tighten the definition of the criteria applied in relation to accelerated payments, in view of their implications for the impact of the aid and the evolution of outstanding payments.

### *The situation of commitments outstanding*

7.15. For Title 5 as a whole, the cumulative total of commitments from previous financial years still to be settled was 5 336,2 Mio ECU at the end of 1985. Unused commitment appropriations at the close of the financial year amounted to 356,2 Mio ECU. If the payment appropriations carried forward from 1985 to 1986, amounting to 195,1 Mio ECU, are deducted, the Community will therefore need to call upon an amount of 5 497,3 Mio ECU from 1986 onwards in order to cope with the burden of expenditure arising from the past management of Title 5. This amount, which represents almost 50 % of the total commitments still to be settled by the Commission, is mostly accounted for by ERDF measures.

7.16. ERDF commitments outstanding at the end of the financial year amounted to 5 115 Mio ECU at 31 December 1985, as opposed to 4 543 Mio ECU at 31 December 1984. Since the commitment appropriations entered in the budget have exceeded payment appropriations every year, the implementation of the budget leads to an automatic increase in commitments outstanding.

7.17. As far as the former non-quota measures are concerned, it should moreover be noted, as the Court observed in its special report, that 312 Mio ECU of the

total of 490 Mio ECU of aid granted to the approved programmes was still to be committed at 31 December 1985. The same applies to the 154,8 Mio ECU for national programmes of Community interest referred to in paragraph 7.27.

7.18. *Table 7.3*, which gives a breakdown by Member State of outstanding commitments to be settled by the ERDF, shows that 47,6 % of the total relates to Italy and that, furthermore, commitments still exist for decisions taken during the financial years 1975-77, (10 Mio ECU, as against 14,5 Mio ECU at 31 December 1984) and for decisions taken during the financial years 1978-80 (222,9 Mio ECU as against 314,1 Mio ECU at 31 December 1984). The situation is barely improving from year to year and the Court has already had occasion to comment on the matter, in its Annual Report concerning the financial year 1983 (7). It should also be remembered that the proportion of aid paid does not always correspond to the stage reached in the execution of the projects, since some applications for reimbursement are submitted late by Member States and, conversely, payments are accelerated for some aid decisions.

#### *Other operations provided for in relation to Title 5*

7.19. With regard to the 'other regional policy operations' (Chapter 54), of the appropriations available for commitments, which amounted to 69,1 Mio ECU, 57,5 Mio ECU had been expended (83,2 %). The same is not true of appropriations available for payment, where 31,5 % had been expended (17,4 Mio ECU out of 55,2 Mio ECU). This situation has arisen because the preparatory studies for the integrated measures are taking longer to complete and social projects in Greece are taking longer to implement.

7.20. Appropriations for 'Mediterranean programmes' (Chapter 55) were also under-utilized: the commitments entered into in 1985, totalling 6,8 Mio ECU, represent less than 4,9 % of the appropriations available for commitments (140 Mio ECU). Of the appropriations for payment, 7,8 Mio ECU were utilized, in other words, 39 % of the total appropriations available, which amounted to 20 Mio ECU. The commitment appropriations remained almost completely unused, mainly because no integrated Mediterranean programme was approved by the Commission during the financial year, as only one programme was submitted, by Greece, at the end of the year. The low rate of utilization of payment appropriations is due to delays in carrying out the preparatory measures.

7.21. The appropriations available for commitments and payments for 'transport policies' (Chapter 58) amounted to 171,6 Mio ECU and 116,0 Mio ECU respectively. Their respective rates of expenditure were 47,3 % (81,2 Mio ECU) and 65,6 % (76,1 Mio ECU).

**Table 7.3 — ERDF: Commitments outstanding according to Member State at 31 December 1985**

<i>(Mio ECU)</i>					
Member State	1975-77	1978-80	1981-84	1985	Total
Belgium	1,1	1,8	32,9	24,4	60,2
Denmark	—	—	17,2	13,3	30,5
FR of Germany	0,7	9,8	84,2	73,6	168,3
France	1,1	28,4	366,7	294,3	690,5
Greece	—	—	128,7	215,6	344,3
Ireland	0,2	4,8	66,5	90,7	162,2
Italy	4,9	124,6	1 433,7	871,0	2 434,2
Luxembourg	—	—	4,1	—	4,1
Netherlands	1,3	7,8	54,1	17,1	80,3
United Kingdom	0,7	45,7	533,4	561,2	1 141,0
<b>Total</b>	<b>10,0</b>	<b>222,9</b>	<b>2 721,5</b>	<b>2 161,2</b>	<b>5 115,6</b>
Commitments outstanding at 31. 12. 1984	14,5	314,1	4 214,6	—	4 543,2

Even though these utilization rates are the highest for the last three years, they are still low. In particular, none of the appropriations entered under Article 581 of the 1985 budget were utilized (90 Mio ECU of appropriations for commitment and 34 Mio ECU of appropriations for payment). In its preliminary draft budget, the Commission requested 110 Mio ECU of appropriations for commitment and 34 Mio ECU of appropriations for payment (these figures were subsequently reduced to 30 Mio ECU and 20 Mio ECU respectively by the Council, and then increased to 90 Mio ECU and 34 Mio ECU by the Parliament). To allow these appropriations to be committed, on 6 September 1984 the Commission submitted an amendment to its proposal of 9 August 1983, but this amendment has not been examined by the Council.

#### **OBSERVATIONS ON THE MANAGEMENT OF THE ERDF**

##### *Change-over from the old Regulation to the new Regulation*

7.22. The legal provisions in force at present offer no guidance concerning the change-over from the old Regulation to the new Regulation. In particular, they say nothing about what should be done with appropriations that become available as a result of the effect of fluctuations in the rate of the ECU on aid decisions expressed in national currency. The amount of 198,8 Mio ECU decommitted in 1985 is obviously the final balance of various positive or negative movements within each Member State. Where a currency is depreciating, the appropriations decommitted must be re-used, so as to maintain the quotas of the countries concerned, and in the

case of an appreciating currency the difference is to be charged to the new appropriations allocated to the financial year, so as to maintain the aid at the agreed levels. This results in change-overs from the old to the new Regulation which are not covered by any legislation in force at present.

7.23. It is all the more necessary to formalize practices in this area as for some Member States the amounts involved can be high. In the case of Italy, the appropriations decommitted as a result of fluctuations in the rate of the ECU equalled 7,2 % of the budget allocation of the ERDF for 1985 and were utilized for new aid decisions.

7.24. There is also a need to define the procedures for the change-over from the old Regulation to the new Regulation in relation to aid decisions. A survey by the Court of more than 40 % of the 1985 decisions showed that in 13 % of the cases aid was granted at the rates laid down by the old Regulation, which were between 20 % and 40 % less favourable than the rates in the new Regulation. Since the new Regulation came into force on 1 January 1985, applying the old rates is questionable, even in cases concerning aid applications which were submitted before that date.

7.25. As far as the budgetary nomenclature is concerned, all ERDF aid granted under the new Regulation has been concentrated under just one budget heading. The Fund's operations are more diversified than before, due to the creation of Community programmes, national programmes of Community interest, internally generated development measures and integrated development measures. Appropriations which were previously divided between two budget headings have been grouped together under only one heading. This type of concentration does not make for budgetary transparency, nor does it make the planning and analysis of operations any easier.

### *Programme financing*

7.26. The new Fund Regulation provides for ERDF participation in the financing of Community programmes and national programmes of Community interest. Article 6 states in this respect that 'on a trial basis, each Member State whose upper range limit is higher than 1,5 % shall ensure that an appropriate number of applications for aid are submitted in the form of a programme or programmes, so that the Commission may as far as possible guarantee that the share of ERDF aid allocated to programme financing, including Community programmes, is gradually increased to reach at least 20 % of the appropriations allocated by the ERDF at the end of the third year.'

7.27. The United Kingdom submitted 10 proposals for national programmes of Community interest, of which three were approved by the Commission, one was rejected and six were being examined at the end of the financial year. The three approved programmes consisted of Community aid of 260 Mio ECU for a period of four years, of which a tranche of 105,2 Mio ECU was entered in the accounts with the commitments for 1985. In a special report on non-quota measures, the Court has criticized the procedure by which commitments are entered in the accounts by annual tranches, since it is not possible to establish exactly how much aid has been decided on or how much is still to be paid. Thus, aid amounting to 154,8 Mio ECU, which had been granted to the three programmes previously referred to, was not mentioned in the accounting documents for the financial year.

7.28. France submitted six proposals which, due to their form and content, were not considered by the Commission to be immediately eligible for a programme agreement. A total of 28,8 Mio ECU of aid from the Fund was granted to certain operations included in the application which were clearly priority projects. It was granted in the form of project financing, and was not conditional on a favourable decision being taken as regards the application as a whole, or as regards the other parts of the application. If such procedures became widespread, they might well reduce the expected efficacy of programme financing, which constitutes one of the important innovations of the new Regulation.

### *The proportion of aid allocated to industrial investment*

7.29. A similar observation can be made with regard to the application of Article 35 of the new Regulation, which lays down that 'the Member States, in submitting their applications, and the Commission, in administering the ERDF, shall endeavour to ensure that an appropriate proportion (if possible, 30 %) of the Fund's resources is allocated to investments in industry, crafts and the service sector'.

7.30. The 30 % level has only rarely been reached in the past, as is shown by the figures for 1979-84: 28 % in 1979, 26 % in 1980, 12 % in 1981, 13 % in 1982, 11 % in 1983, and 14 % in 1984. Of the total aid granted in 1985, the proportion allocated to investments in industry, crafts and the service sector was 18 %, which is higher than the preceding financial year, but still clearly lower than the level recommended in the Regulation. As for the aid granted to individual Member States, the proportion allocated to these sectors is as low as 15 % in the case of the United Kingdom, 9 % in the case of France and 0 % in the case of Greece.

7.31. Infrastructure investments are an important condition for regional economic development, but their ultimate usefulness depends on how much they are used, which, in turn, requires an adequate level of activity in the industry, crafts and services sector and consequently also an adequate volume of investments in this sector. It is therefore important to improve the distribution of the two types of investments in order to ensure an optimum return from ERDF aid. Furthermore, in the light of the results obtained from industrial investment over the last few years, it is clear that greater efforts need to be made to achieve the objective of allocating a 30 % share of aid to projects in the industrial sector.

## OBSERVATIONS RELATING TO THE SYSTEM OF MANAGEMENT AND CONTROL OF ERDF AID

7.32. When the new Regulation of the Fund came into force, the Court carried out a comprehensive examination of the system of management and control of the ERDF, both at Community and national level, since almost all Community aid is allocated to support initiatives adopted at national level.

7.33. Checks within Member States were carried out principally in Denmark, the FR of Germany, Greece, France, Ireland and the United Kingdom. They were particularly concerned with aspects of national procedures likely to have the greatest effect on the implementation of the ERDF and especially deserving of the Commission's attention. The following observations arise from the examination in question, and concern regional development programmes, the choice of projects, the execution and control of the projects and the evaluation of the results.

### *Regional development programmes*

#### **The Member States' regional development programmes**

7.34. The procedure whereby Member States inform the Commission of their regional development programmes is not intended just to enable the Commission to establish priority areas for aid from the Fund, but is also meant to help it to examine whether national programmes are consistent with Community programmes and objectives.

7.35. The programmes, which are indicative in character, are meant to specify the objectives and the operational means for developing the region in question. Article 2(3) of the new Regulation lays down that the regional authorities concerned shall be involved as far as possible in the preparation of the programmes, and Member States shall as far as possible send the Commission, along with the programmes, information covering the whole of their territory and concerning the essential public measures that are likely to influence the regional balance, including expenditure on each region in their infrastructure budgets.

7.36. An examination of these programmes, known as 'third generation' programmes, is planned to take place in 1986. At the end of the financial year 1985, only Greece had sent a new programme, which was in the process of being examined. Belgium, France, Luxembourg and the Netherlands had still not submitted their new document, whereas Denmark, the FR of Germany, Ireland, Italy and the United Kingdom had sent modifications of their current programmes, which are obviously no substitute for the new programmes required in the legislation. For 1985, the old programmes, duly amended where necessary, remained in operation and served as a basis for the granting of aid. The following observations also refer to these old programmes.

7.37. Despite the existence of a standard plan for the preparation of programmes<sup>(8)</sup>, formulated by the Regional Policy Committee in 1976, and despite the recommendations laid down by the Commission in 1979<sup>(9)</sup>, there are still important differences in the planning and role of the programmes, and they are also scarcely comparable from one country to another. Even from the point of view of form, the documents vary considerably, and, merely as regards the stages for the execution of the works, they include a breakdown of the financing but no timetable for completion of the various stages.

7.38. The types of infrastructure or industrial sectors to receive development priority are not specified, and the benefit to be expected, in terms of regional development, from the completion of the projects is not stated. In their present form, the programmes tend to be lists of the various possible types of investment, rather than instruments for selecting projects according to their contribution to regional development.

7.39. The question of coordinating Community, national and regional measures is not really addressed. In certain cases, such as Denmark, it is not even mentioned. The German programme refers to the problem of the coordination of Community instruments, but does not supply any figures. The Greek programme states the aid expected from the different Funds, but does not consider how to coordinate them, whereas the diversity of Community instruments (ERDF, Social Fund, EAGGF-Guidance, New Community Instrument, ECSC, transport policies, energy policies, European Investment Bank, etc.) calls for such coordination. Furthermore,

inquiries by the Court in Schleswig-Holstein revealed that the regional development programme there did not take into account an industrial aid scheme set up by the Land, the specific aim of which was to influence regional development. If this scheme had been taken into account, however, it would have provided a useful criterion for assessment. In addition, the lack of information regarding the additionality of aid from the Community and the extra development effort which such aid will make possible makes it difficult to assess the effect anticipated from Community aid.

7.40. It would therefore be a good idea if the standard plan for the preparation of programmes was updated, so as to take more account, in particular, of the requirements of the new Regulation. It should be possible, by bringing it up to date, to take advantage of the experience acquired, with a view to perfecting the reference framework for aid from the Fund and supplying adequate information regarding the additional nature of the aid and the results expected from it.

#### **The Commission's priorities for action**

7.41. At Commission level, examination of the programmes should lead to the adoption of definite conclusions, both regarding the choices and operational factors which will direct the aid and also regarding coordination with Community policies or with other Community financial instruments. As far as the operational choices are concerned, the programmes should allow the Commission to give greater priority to the regions and zones which are most in need of aid, in order to achieve the Fund's objective of correcting economic imbalances between regions of the Community. The programmes should also allow the Commission to establish priorities for certain categories of investment, in order to obtain the best possible return in terms of per capita employment and income for the development of the region concerned. The objective of the examination of the programmes, as described above, is not being adequately achieved, notably due to deficiencies in the programmes as instruments for selecting projects (see paragraph 7.38 above).

#### *Choice of projects*

7.42. Usually, a central administrative unit in the Member States is responsible for submitting requests for aid from the Fund. It is also responsible for monitoring projects which have been accepted and, generally, for organizing coordination between the departments responsible for managing the projects and the Fund. Checks carried out by the Court relating to the activity and role of these administrative units showed that they

were often not fully informed on the measures implemented by the Member State and by the various Community instruments which were likely to have an impact on regional development. This being so, the central unit's effectiveness in the coordination of Community instruments and in establishing guidelines and priorities for regional policies at Community and national levels is limited.

7.43. Such limitations, combined with the fact that the programmes are not yet fully operational, tend to reduce the selection procedure by the central unit to a simple check on whether the formal criteria of the Regulation and other very general priorities have been respected. In France and the United Kingdom, little time is spent on analysing whether the industrial projects are consistent with the prospects for the sector of activity to which they are related, and similarly little thought is given to the economic effect of the aid. These are not isolated cases: similar observations could also be made in other Member States. Furthermore, at local level, the departments which manage the projects are often insufficiently or incorrectly informed with regard to the objectives of the Fund and the projects they propose do not necessarily comply with Community objectives. Thus, in Ireland and the United Kingdom, instructions issued to decentralized departments do not mention the impact that investments financed by the Fund will have on regional development.

7.44. The projects submitted to the Commission for aid from the Fund reflect the diversity of the Member States' regional development aims; they do not provide much evidence to show that serious consideration has been given to the Community dimension of regional development. It is therefore essential that the Commission should continue to try to improve the definition and application of its selection criteria. Once the Member States get to know about these criteria, moreover, they should eventually have some influence on the choices made at national level.

7.45. The basic information available to the central administrative units regarding 'ex-ante' evaluation and the results expected from the investments is also too fragmentary and is unsatisfactory. This is due to inadequate coordination and inadequate transfers of information, both between the central unit and the regional authorities and between the various national departments concerned.

7.46. With regard to job creation, where forecasts exist, they only relate to the direct effect of the project on employment and not to the indirect effect. Furthermore, inquiries by the Court have shown that, in the case of road projects in France, assessment of the expected return often consists of quoting average data taken from studies carried out at national level. Such a method provides no means of assessing the expected return from a specific investment.



7 47 The Fund has also financed a number of investments for the production of hydroelectric power in France. These are very capital-intensive operations which only create a small number of long-term jobs and their contribution to regional development is limited. These investments are used essentially to supply the country in general with power and the importance of their contribution to regional development is not clearly indicated. For these projects, as for the road projects, the assessment methods used to select the investments to be financed are based mainly on criteria relating to the activities of the administrative bodies and these criteria take little account of the possible impact of the project on regional development.

7 48 Furthermore, more attention should be given to cases where aid is granted successively to the same recipient. The Court has again noted the case of two recipients in Schleswig-Holstein who received successive grants of aid for the execution of industrial projects, even though the employment objectives established for the first projects had not been fulfilled in the allotted time and no proper examination had been made of the reasons.

7 49 Taking into account all these circumstances, the Commission inevitably receives applications which are not adequately prepared and often confines itself to adopting almost automatically the choices made by the Member States. It is therefore important that the methods and data used for assessing how the execution of the projects will contribute towards the development of the regions concerned should be improved at national level. In order to implement the new Regulation, the Commission, for the purpose of selecting the projects, has drawn up formal criteria for ex-ante evaluation of the results. These criteria were introduced in 1985 on a somewhat experimental basis, varying from one country to another, and steps have yet to be taken to ensure that they are used.

### *Global decisions*

7 50 Fund aid for industrial and infrastructure projects which are situated in the same region and which involve investment costs of less than 10 Mio ECU under the old Regulation and 15 Mio ECU under the new Regulation is granted in the form of global decisions. These global decisions are supposed to make for greater administrative convenience in the management of the Fund, because minimal information on the different individual projects is required for such decisions to be adopted.

7 51 Consequently, if projects included in a global decision are to be appraised in accordance with the provisions of Article 21 of the ERDF Regulation, in most cases the Commission will have to ask the Member States to supply extra information. The considerable proportion of global decisions receiving aid from the Fund makes such a system impracticable. Of the 2 560 infrastructure projects financed in 1985, 2 502 were included in global decisions, as against 58 in individual decisions, the total amount of aid being comparable in both cases.

7 52 The administrative convenience of the global decisions is thus often illusory. The fact is that information on the different individual projects which has not already been supplied will, in most cases, have to be supplied when the files are being closed, and this leads to delays in closing them.

7 53 Administration of the ERDF would therefore certainly be improved if the proportion of global applications were reduced, and it would be better if small-scale projects were financed under Community programmes or national programmes of Community interest, as defined in the current legislation.

### *Execution of the projects*

#### **Follow-up to execution by Member States**

7 54 The central administrative unit which, in each Member State, is responsible for submitting applications for assistance is also responsible for monitoring the execution of assisted projects. It is also required to check the validity of the applications for payment submitted by the departments that manage the projects or collect the information necessary for the preparation of the applications.

7 55 The information which the central unit receives from the managing departments is often very incomplete and does not comply fully with the requirements of the Fund Regulation. In most cases, the information only permits an assessment of the financial execution of the projects and it is not possible to check whether the investments carried out agree with the forecasts. In general, no systematic procedures exist for monitoring the execution of assisted projects or for establishing which projects are experiencing implementation delays. This applies especially in France, where the summaries received periodically by the central administrative unit from the departments concerned by ERDF aid only give information enabling the expenditure which was considered eligible for reimbursement from the Fund to be identified.

7.56. Execution of the projects is often delayed by the lack of adequate financial cover at Member State level. To avoid such difficulties, the aid application forms currently include sections which must be filled in with information on the financing scheme for the project. However, these sections are not always filled in. Furthermore, information about the financing scheme alone may not be sufficient to guarantee good financial cover, especially when the project is not sufficiently complete to be usable, or when its cost has been underestimated. It is therefore important that the data supplied should be carefully analysed by the central administrative unit in the Member State and by the Commission.

7.57. Checks by the Court established that in Denmark a system of advances is applied to industrial projects, which aims to speed up the investment by making aid available to investors quickly. This procedure should be carefully examined, because it could help to speed up the execution of the projects. As soon as a decision is taken to grant national aid, it is paid in full to the recipient, in the form of an advance, subject to a bank guarantee from which all or a part of the funds advanced can be recovered if the grant conditions, including the time limits, are not met.

7.58. Other differences concern eligible expenditure and in its Annual Report concerning the financial year 1983 <sup>(10)</sup> the Court emphasized that the United Kingdom was submitting, as projects, operations which were in fact annual tranches of expenditure relating to investments to be carried out over several years. In the cases in question, the exact division of work corresponding to these annual tranches has not been fixed, so that it is not possible to distinguish, when examining these projects, between the investment provided for initially, subsequent adjustments and the application of price-revision clauses. In such cases the closing procedure for the project is also rendered largely meaningless.

7.59. During an inspection in Greece (Epirus), the Court noted the case of two industrial projects which had been abandoned by the recipients two years previously without either the national authorities or the Commission being informed. It transpired that, in the absence of a request for payment from the recipients of the aid, the national authorities had not carried out any inspections to ascertain the progress achieved on the project, with the consequence that a quantity of appropriations remained pointlessly committed. As a question of general practice, improvements should be made to the procedures for monitoring the progress of projects at Member State level, especially since certain projects benefit from accelerated payments, the recovery of which may be considerably delayed if such a form of monitoring does not take place.

7.60. In some cases, investments are undertaken even though, after the initial assessment period, it looks much

less likely that they will be put to practical use. In Thessaly, large-scale projects were carried out to develop the port of Volos, with a view to a 'train-ferry' link with Syria, which had been the subject of an intergovernmental agreement. Execution of one of the projects examined by the Court began at the end of 1983, at a time when the legal conditions for the implementation of the intergovernmental agreement had not been settled. In spite of this, the project was not amended in any way.

#### **Monitoring of execution by the Commission**

7.61. It is also of great importance that the execution of the projects should be monitored by the Commission and progress still has to be made in this area. The Commission should aim for greater uniformity and eliminate the considerable differences which exist between Member States with regard to the conditions governing the execution of the projects. The differences regarding accelerated payments have already been stressed in paragraphs 7.12 to 7.14.

7.62. The Commission should improve its system of project monitoring, so that, in cases where delays recorded in the financial execution of the projects are unjustified, for example, when implementation periods are extended unduly, or when important changes are made to the assisted projects, it is in a position to reallocate funds to new projects which would allow the resources of the Fund to be managed more effectively.

7.63. For several years, studies and other works have been undertaken with a view to computerizing the management of ERDF aid, but the system is still not properly operational. Computerization appears to be practically the only way to guarantee rapid and up-to-date processing of data relating to a growing range of projects, particularly as regards the state of the financing and execution of such projects. The need for computerized processing has further increased following the entry into force of the new Fund Regulation, which diversifies the types of aid, increases the Commission's responsibilities for the coordination of the aid and specifies the provisions to be applied if the projects are not carried out.

7.64. For lack of suitable computerized facilities for the rapid processing of the available information, there is a danger that the managing departments' time will be occupied solely by recording data and drawing up statements, rather than carrying out qualitative analyses.

### *Monitoring of the execution of projects and evaluation of results*

#### **Monitoring of the execution of projects**

7.65. All the Member States use traditional systems for monitoring the execution of investments, for both industrial and infrastructure projects. However, these systems are not designed to fulfil the particular requirements of the ERDF: auditing by the Community bodies on the basis of records and on-the-spot visits is essential in order to ensure that projects have been carried out correctly.

7.66. Changes may be made to the investment during the execution of a project, because of technological innovations or in order to respond to new trends in the market. In most Member States, however, the departments responsible for managing the aid do not carry out a detailed examination to see whether such changes are valid. They are often accepted a posteriori, or even without question, and no real check is made as to their justification.

7.67. The data submitted by Member States are often particularly unsatisfactory in relation to jobs created or maintained by the execution of industrial projects. National measures do not always provide for checks on the fulfilment of job forecasts, in which case such checks are only carried out for the purposes of the Community. This was the situation in Ireland and the United Kingdom, but, in the case of the latter, new provisions providing for a national check on the number of jobs created or maintained came into force in 1985.

7.68. Furthermore, the Court noted that in Denmark and the FR of Germany the information on employment at the disposal of the managing departments is essentially made up of declarations submitted by the recipients of the aid and accepted as such. In Denmark, it even transpired that the documents which were intended to be submitted to the national aid management departments were only financial certificates, and no information was requested on the jobs created or even on the location of the plant and machinery belonging to the assisted project.

7.69. A specific aspect of checks on job creation concerns the permanence of the jobs created. In several countries the degree of permanence was assessed over a period of five years following the final execution of the project. In the United Kingdom, the new provisions brought into force in 1985 only provide for a period of 18 months; such differences in the implementation of the Fund must be avoided.

7.70. At Member State, and therefore at Commission, level, hardly any general data exist (relating to sectors, regions and duration) on the jobs actually created by industrial projects. Even when incomplete data are available, they are not analysed with a view to an overall assessment of the results. This omission deprives the managing bodies of useful items of information regarding the efficiency of their activities which would also allow improvements to be made in the choice of new projects.

#### **Evaluation of the results achieved in terms of regional development**

7.71. Attempts to assess the impact of operations from the standpoint of whether the regional development programme's objectives have actually been fulfilled are made in only a few countries. In the FR of Germany, the problem is looked at and commented upon, particularly in connection with the preparation of subsequent programmes. In many other Member States attempts along these lines are still at a less advanced and less formal stage.

7.72. At Community level, the old Fund Regulation provided for a statistical summary to be submitted by Member States before 1 October each year, outlining the funds invested and the results obtained from ERDF aid during the previous financial year. This requirement has only been partially satisfied. In March 1986, the Commission had received statistical summaries for the year 1984 from five Member States only (Denmark, FR of Germany, Italy, Luxembourg and the Netherlands). Ireland had supplied provisional information and France had not submitted statistical summaries for the years after 1981. Belgium and the United Kingdom had submitted partial data for 1983 and Greece had not yet sent the summary for 1984. With regard to the content of the summaries, the Court emphasized in its previous reports<sup>(1)</sup> that, due to their inconsistencies and omissions, they were not suitable for making comparisons between Member States, or even for evaluating the results in a specific country or region.

7.73. With regard to the new Fund Regulation, Article 2(3)b, provides for a report on the implementation of the regional development programmes to be sent to the Commission, the first to be sent out at the end of 1985. The FR of Germany and Denmark submitted their annual report in January and March 1986 respectively and the United Kingdom submitted a provisional document, also in March 1986. Reports for the other countries were expected to arrive later.

7.74. In its periodic report on the situation in the regions, the Commission examined the situation and development of the regions in the Member States. However, its approach was too general and it was not

possible to establish what link there might be between the developments recorded and the aid from the Fund. Such a link is in any case difficult to assess, due to the lack of information available in the Member States.

## GENERAL OBSERVATION

7.75. All the observations made on the management of the Fund, both at national and Community levels, show that the essential features which should distinguish Community aid need to be more precisely defined.

7.76. In order to avoid a dilution of the impact of the aid, there is a vital need for a better definition of methods of appraisal and selection of projects and of monitoring project execution, such as would make it possible to ensure that the conditions and objectives of ERDF measures were respected.

7.77. Furthermore, in the absence of adequate methods and reliable statistics for an ex-post evaluation of the social and economic effects of the policies implemented, or for an analysis of their regional impact, the situation ten years after the creation of the Fund is that it is still difficult to make any assessment of the proper utilization of Community resources.

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(<sup>1</sup>) OJ L 73 of 21.3.1975, p. 1. Amendments were made by Council Regulations (EEC) No 214/79 of 6.2.1979 (OJ L 35 of 9.2.1979, p. 1) and No 3325/80 of 16.12.1980 (OJ L 349 of 23.12.1980, p. 10).

(<sup>2</sup>) OJ L 169 of 28.6.1984, p. 1. Amendments were made by Council Regulations (EEC) No 3634/85 of 17.12.1985 and No 3641/85 of 20.12.1985 (OJ L 350 of 27.12.1985, p. 6 and 40).

(<sup>3</sup>) OJ C 262 of 20.10.1986.

(<sup>4</sup>) Paragraph 1.10 of the Annual Report concerning the financial year 1979 (OJ C 342 of 31.12.1980) and paragraph 1.14 of the Annual Report concerning the financial year 1980 (OJ C 344 of 31.12.1981).

(<sup>5</sup>) Paragraph 7.8 of the Annual Report concerning the financial year 1979 (OJ C 342 of 31.12.1980).

(<sup>6</sup>) OJ C 326 of 16.12.1985, paragraphs 7.10 — 7.15.

(<sup>7</sup>) OJ C 348 of 31.12.1984, paragraphs 7.11 — 7.16.

(<sup>8</sup>) OJ C 69 of 24.3.1976, p. 2.

(<sup>9</sup>) OJ L 143 of 12.6.1979, p. 9.

(<sup>10</sup>) OJ C 348 of 31.12.1984, paragraphs 7.31 to 7.33.

(<sup>11</sup>) Paragraph 7.23 of the Annual Report concerning the financial year 1983 (OJ C 348 of 31.12.1984) and paragraph 7.27 of the Annual Report concerning the financial year 1980 (OJ C 344 of 31.12.1981).

## CHAPTER 8

## Social sector

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## INTRODUCTION

*European Social Fund*

8.1. In the general budget, Title 6 of Part B of Section III, 'Commission' includes appropriations for measures in the social sector. Chapters 60 and 61 include the appropriations allocated to the European Social Fund (ESF), which constitute the bulk of the finance for social activities in the Community.

8.3. *Table 8.2* gives an analytical presentation of the appropriations available with regard to the operations of the ESF.

## SUMMARY OF GENERAL FINANCIAL INFORMATION

8.4. The amount of commitment appropriations available totalled 2 536,3 Mio ECU; as the total commitments entered into amounted to 2 188,5 Mio ECU, the rate of utilization was 86 % (92 % in 1984) <sup>(1)</sup>.

*Title 6*

8.5. Commitments outstanding at the beginning of 1985 totalled 2 519,5 Mio ECU; of this amount, 380,3 Mio ECU (15%) were paid (29 % in 1984), 358,6 Mio ECU of which against the old Fund <sup>(1)</sup>, and

8.2. *Table 8.1* shows the appropriations available in 1985 for Title 6 as a whole and the use made of them.

<sup>(1)</sup> The footnotes appear at the end of each chapter.

Table 8.1 — Social sector: appropriations available in 1985 and their utilization

*(Mio ECU)*

Budget heading	Commitments		Payments	
	Appropriations for commitments available in 1985	Commitments entered into in 1985	Appropriations for payments available in 1985	Payments made in 1985
Chapter 60:	2 459,9	2 115,7	1477,0	1 388,0
General measures including:				
— Young people under 25, less favoured regions (6000)	753,9	646,5	326,7	325,4
— Young people under 25, other regions (6001)	1 089,2	996,9	508,3	502,6
— Persons aged 25 and over, less favoured regions (6010)	247,6	184,4	83,3	81,5
— Persons aged 25 and over, other regions (6011)	309,5	287,8	142,3	119,9
Measures proposed before 1984				
— Former Chapter 60 (607)	14,7	0,1	204,1	154,6
— Former Chapter 61 (608)	44,8	0,0	210,3	203,0
— Former Chapter 62 (609)	0,2	—	2,0	1,0
Chapter 61:				
Specific measures (610)	76,4	72,8	28,5	25,0
<b>Total Chapters 60 and 61 (Social Fund)</b>	<b>2 536,3</b>	<b>2 188,5</b>	<b>1 505,5</b>	<b>1 413,0</b>
Chapter 63:				
Education and vocational training	17,7	17,7	23,8	16,5
Chapter 64:				
Employment, social protection and health	24,6	23,3	30,9	18,1
Chapter 65:				
Contribution to the ECSC for social measures in connection with the restructuring of the steel industry	122,5	—	122,5	—
Chapter 66:				
Environmental and consumer protection	26,6	19,7	26,8	11,0
Chapter 67:				
Cultural action and the European Foundation	2,6	2,6	3,3	2,1
Chapter 69:				
Aid to disaster victims in the Community	36,8	31,7	39,3	30,0
<b>Total Chapters 63 to 69</b>	<b>230,8</b>	<b>95,0</b>	<b>246,6</b>	<b>77,7</b>
<b>Total Title 6 (Social sector)</b>	<b>2 767,1</b>	<b>2 283,5</b>	<b>1 752,1</b>	<b>1 490,7</b>

105 Mio ECU were cancelled. At 31 December 1985, these commitments amounted to 2 832,2 Mio ECU. Of this amount, 30 % concerned Italy, 26 % the United Kingdom and 15 % France. The proportion of the old Fund amounted to 1 022,9 Mio ECU (1).

8.6. The commitments from the financial year 1976 which were still to be settled at the beginning of the financial year 1985 were subsequently either paid or cancelled, and those of subsequent financial years have still not been settled.

**Table 8.2 — Social Fund : breakdown of commitment and payment appropriations**

(Mio ECU)

Type of appropriations	Commitment appropriations	Payment appropriations
Initial budget 1985	2 010	1 410
Appropriations remaining from 1984	168,4	—
old Fund	59,7	—
Carry-overs from 1984	—	95,5
Appropriations arising from decommitments of 1984 commitments:		
before December	35,1	—
in December	239,7	—
Appropriations arising from the revaluation of outstanding commitments	23,4	—
Transfer of appropriations	—	—
<b>Total of final appropriations</b>	<b>2 536,3</b>	<b>1 505,5</b>

8.7. In 1985, recoveries of advances which were in excess of the aid actually due amounted to 48 Mio ECU, of which 9 Mio ECU was for the FR of Germany, 26 Mio ECU for France, 8 Mio ECU for Italy and 2 Mio ECU for the United Kingdom.

8.8. The 48 Mio ECU of recoveries originated in excess payments of advances and the amount of such overpayment is calculated when the applications for final payment are examined. In cases where the same promoter is receiving successive grants of aid the Commission usually offsets the new aid against sums due to be recovered. This practice, however, should be strictly confined to the area of cash management and the sums in question should be broken down in the accounts into budgetary revenue and expenditure.

#### **OBSERVATIONS ON THE MANAGEMENT OF THE EUROPEAN SOCIAL FUND WHICH ENTERED INTO FORCE ON 23 OCTOBER 1983**

##### *A brief introduction to the new Fund*

8.9. Council Decision 83/516/EEC of 17 October 1983<sup>(2)</sup> redefined the tasks of the ESF and was implemented by Council Regulation (EEC) No 2950/83 of 17 October 1983<sup>(3)</sup>. These texts form the basis of Community policy in this field. In its Decision 83/673/EEC of 22 December 1983<sup>(4)</sup>, the Commission defined the management procedures of the Fund. These provisions laid down:

- (a) the conditions for admissibility, relating to the procedure to be followed by Member States when submitting applications for assistance and payment;
- (b) the conditions for eligibility, relating to the categories of recipients, types of measures and nature of expenditure.

8.10. The annual policy is the subject of guidelines laid down at the beginning of the financial year by the Commission<sup>(5)</sup>, in consultation with the Member States. For 1985, the Commission also drew up criteria for weighted reductions according to different national social conditions. This is the background against which the Commission draws up its own rules of priority, which should also enable Member States to select projects for submission.

8.11. Article 4(2) of Regulation (EEC) No 2950/83 requires the Commission to take its approval decision or decisions before 31 March of the financial year concerned. As soon as an approval decision has been taken, the recipients are entitled to an automatic advance of 50 % of the aid agreed. The balance is only paid on submission of an application within 10 months of the operation being completed and, at the latest, before 31 October of the following financial year. This application must be accompanied by a certificate from the Member State (the certifier) certifying that the operation has indeed been completed and that the accounts submitted are accurate<sup>(6)</sup>. If the advance agreed proves to be too high, the Commission recovers the amount paid in excess.

##### *The second approval decision of 23 December 1985*

8.12. During the financial year 1985, the Commission took two decisions on ESF aid for financing projects submitted by Member States. The approval decision of 19 June 1985 related to 4 785 applications for assistance, 3 600 of which were agreed against an overall commitment of 2 091 Mio ECU<sup>(7)</sup>. The decision of 23 December consisted of increasing some 530 approved applications, which were decided on 19 June, by an amount of 118 Mio ECU<sup>(8)</sup> after a new calculation of the total commitment appropriations available on 30 November 1985.

8.13. The Court of Auditors questions the efficacy of such a measure. In fact:

- (a) since this second decision was taken very late, it had no incentive effect, especially since the payments of automatic advances entailed by the approval decision, pursuant to Article 5(1), of Regulation (EEC) No 2950/83, could only be made at the beginning of 1986<sup>(9)</sup>;

(b) this decision, concerning a relatively small amount, involved, even though it did not concern new applications, considerable administrative work in choosing which approved applications to increase, consulting Member States, applying the new reduction, computerization and making the necessary entries in the accounts; furthermore, this administrative work interfered with the examination of applications for assistance for the financial year 1986<sup>(10)</sup> and applications for final payment for operations approved in 1984<sup>(11)</sup>, which deserve priority treatment.

8.14. These various considerations once again raise the problem of the date of the approval decision. Under the present system, the Commission is likely to have regularly to take a second decision if it wants to utilize virtually all the commitment appropriations which have become available during the financial year. It would be better if there were just one approval decision, which should be taken nearer the date on which the recipient bodies draw up their final plans for the operations for which applications for assistance are made from the Fund, or as soon as the amount of appropriations available is known. The positive effects of this measure would be as follows:

- (a) the bodies concerned would find out which aid applications had been approved by the Commission at a more convenient time — often before the date on which the related operation was due to start. In this way they would be encouraged to present more worthwhile projects and the financial effect of the advance payment system would be reinforced;
- (b) it would guarantee a reduction in the number of decommitments of commitments of appropriations;
- (c) the Commission would be in a position to organize the appraisal of applications for assistance and payment more efficiently and avoid the overlapping of the appraisal periods for the different types of applications.

### *Individual approval decisions*

8.15. Out of a total of 3 600 approved applications, 420 were examined by the Court, on the basis of the information contained in the files, some of which was in figures, both with regard to the admissibility, eligibility and priority of the corresponding applications for aid and also with regard to whether the competent departments took these factors into consideration during appraisal of the applications.

8.16. This examination led to the following observations:

- (a) in the case of eight approved applications, the estimated expenditure which was either totally or partially ineligible corresponded to an approved sum of 1,8 Mio ECU. In the case of eight others, representing an approved amount of 28,4 Mio ECU, the Court found that there was insufficient proof that the applications had the requisite priority;
- (b) as was the case for the financial year 1984, numerous individual approval decisions (50 % of the cases examined) were based on information contained in the *ad hoc* aid application forms which proved to be inadequate, especially with regard to the length of training, compliance with the respective guidelines, job prospects and methods of calculating expenditure. This resulted in problems, which varied from case to case, regarding the admissibility, eligibility or priority of the aid applications approved. Furthermore applications which gave accurate indications of the calculation methods were treated differently; in cases where such information was provided it was easy to eliminate ineligible sums, whereas applications which did not include accurate details were to some extent spared such scrutiny;
- (c) the lack of precision in some of the rules raised doubts about the eligibility or priority of certain measures for which an application for aid had been made to the Fund. For example, the exact priority of certain measures for vocational training, whose aim is to facilitate the introduction of new technology, is questionable, since in the guidelines concerned the Commission has not clearly defined the role of new technology in these measures;
- (d) the Commission was not consistent in taking into account the additional information submitted by Member States. In several cases it accepted the additional information, sometimes approving applications or parts of applications which it had initially rejected (16 cases). In other cases, it did not take it into account and, for no apparent reason, either upheld its initial decision to reject the application or applied, without explaining its decision, participation rates which, in some cases, were different from those proposed by the Member State (nine cases).

### *Initial conclusions*

8.17. With regard to the implementation of the new Fund, the lack of precision of certain rules determining the eligibility and the priority of the projects submitted to the Commission and the laxity of the procedures for examining the applications for aid reflect the lack of a clear definition of Community objectives and of the measures necessary to achieve them. The initial findings mentioned above, concerning applications by Member States and examination by the Commission, do not point



towards a genuine simplification of procedures, which was one of the major objectives of the new Fund. The new Fund is consequently tending to perpetuate the same fundamental weaknesses inherent in the previous one, which were listed in the Court's report on the Fund, drawn up pursuant to the conclusions of the European Council of 18 June 1983 <sup>(12)</sup>.

## OBSERVATIONS ON THE WINDING-UP OF THE OLD EUROPEAN SOCIAL FUND

8.18. The Court paid particular attention to those files of the old Fund which were still outstanding at the beginning of the financial year 1985.

### *Files which were still to be closed*

8.19. At 1 January 1985, 76 commitments previous to 1 January 1980 and equivalent to approximately 30 Mio ECU, were still open, of which 16 related to pilot studies or experiments. These 76 commitments concerned 57 files which had been approved by the ESF prior to 1 January 1980. With regard to commitments subsequent to 1 January 1980, approximately 300 applications for final payment for an amount of about 90 Mio ECU were still waiting to be settled at the beginning of the financial year 1985, even though they had been received by the Commission before 30 June 1984.

### **Files previous to 1980 which had not been closed by 1 January 1985**

8.20. It was noted that, for 40 % of the files which had still not been closed at 1 January 1985, no application for final payment had been made during the appropriate period, and no justification had been given for the advances received. These files concerned operations which were believed to have been concluded during 1979, 1980 and 1981 and, in each case, the Commission waited more than two years before requesting the supporting documents for the advances paid, if indeed it requested them at all.

8.21. During the financial year 1985, 26 commitments from before 1 January 1980, equivalent to 10,75 Mio ECU, were closed, only one of which was closed by a final payment (18 100 ECU). The remainder were cancelled or, if necessary, a recovery was made of the payments effected.

8.22. With regard to seven files which were closed in 1985 and for which advances paid in error had been recovered, the time lag between the payment of the

advances and the subsequent recovery of them averaged five years and three months. In one case, the recipient body, having asked the Commission on several occasions how it wished a sum which had been paid in error to be refunded, finally chose, after waiting more than one year, to send the funds by bank transfer (and the Commission did not succeed in establishing the provenance of these funds until three years later).

8.23. Six files which had been subjected to an on-the-spot inspection by the Commission were closed in 1985, on average three years and nine months after the inspection. In one case, where the outstanding sum was settled at the end of 1985, the project had been the subject of an on-the-spot inspection in June 1978.

8.24. The commitments relating to some of these files which were cancelled in 1985 were cancelled on average within a period of five years and nine months after the initial commitment. Moreover, examination showed that one tenth of the commitments still open at 31 December 1985 could have been settled in 1985, and some even in 1984 or 1983. Three cancellations of commitments carried out in 1985 were due to operations which had never been started and the promoter's failure to start the projects had been brought to the Commission's attention in 1980 or 1981.

### **Applications for final payment outstanding at 1 January 1985 and relating to commitments subsequent to 1 January 1980**

8.25. With regard to commitments subsequent to 1 January 1980, an examination of 300 applications for final payment submitted before 30 June 1984 showed that periods greater than six months between the receipt of the application for final payment and the execution of the payment were not always justified by the need to obtain additional documents or information or carry out on-the-spot visits.

8.26. It was noted that:

- (a) in 43 cases, the final payment was effected more than six months after receipt of the application, with no apparent explanation for such a delay. For 22 of these files, the period was greater than 12 months, and for three others it even reached 20 months;
- (b) in 18 cases, even though the Commission had obtained the necessary additional information or had carried out an on-the-spot check, it took more than six months to effect the payment;
- (c) with regard to the files which had not been settled at the time of the Court's audit, the Commission had received the application for final payment or obtained

additional information for 59 files more than six months beforehand, and no action had been taken to settle them; in 42 of these cases, the period was greater than twelve months.

### *Projects audited on the spot by the Court*

8.27. During an on-the-spot audit visit in France, it was discovered that a promoter had not mentioned registration fees paid by apprentices in his report. Taking this revenue into account would normally have resulted in a two-thirds reduction in the amount of aid from the ESF.

8.28. Moreover, during the same inspection it turned out that the criteria whereby vocational training for women was eligible for assistance in the case of skills where they were under-represented, or for new occupations, were not based on any precise definition and this led to aid being granted which was not expressly covered by the text of the guideline.

8.29. In three important files from the same country, which were representative of the methods used in relation to the Fund, it was observed that:

- (a) the training activities subsidized by the ESF only corresponded to unidentifiable parts of the national training programme;
- (b) the application for final payment was not based on actual data but on estimates;
- (c) the implementation of the training contracts did not correspond to the periods covered by the approval decision.

8.30. In two cases, in France and Italy, it was noted that the recipient's final account had not been inspected by the certifier before being forwarded to the Commission. In one of these cases, on-the-spot examination of the file revealed various ineligible items of expenditure; furthermore, the execution of the project showed substantial differences in relation to what had been approved or stated in the performance report.

8.31. In another case, in Italy, it was discovered that the certifier's inspection had not been completed when the application for final payment was sent to the Commission. The amount of aid which was determined as a result of checks carried out by the certifier, after the application

for final payment, and even after the final payment had been made, turned out to be 113 110,81 ECU <sup>(13)</sup> less than what had been paid by the Commission.

8.32. In two Italian files relating to aid measures for youth employment, provided for by Council Regulation (EEC) No 3039/78 of 18 December 1978 <sup>(14)</sup>, it was noted that some of the recipients were not 'unemployed or seeking employment' before being recruited, as stipulated by the Regulation, but were already employed in another undertaking at the time of recruitment. Furthermore, from the documents available it was not possible to check the employment situation of other recipients before recruitment.

8.33. During an audit in a textile firm in Italy which had just been taken over by a bigger company, it was noted that the hourly cost of training given by the parent company had been charged at four times the rate observed in the case of other undertakings in the same sector, where training had been given by the undertaking's own staff.

8.34. Taken as a whole, the on-the-spot audits of the projects showed that the certification of applications for final payment was not always reliable. This unreliability of the certification was attributable to the lack of checks by the certifier or to incomplete checks, and to the failure of the certifier to take into account the eligibility criteria laid down by the ESF regulations. The Commission ought to carry out a detailed examination of the question of certification and the application forms for final payment ought to specify the nature of the checks carried out before certification, their content, the persons responsible and their conclusions.

8.35. The existence of files previous to 1980 which had not been closed at 1 January 1985, and the excessively long periods required for the appraisal of certain applications for final payment were due essentially to the Commission's failure to monitor the files. This was not only due to frequent changes of administrator, but also to a lack of planning and the absence of any kind of system to organize the monitoring of the files at each stage in their life, both as regards management proper and financial management in particular.

8.36. The Court noted that when it asked to consult some ten files previous to 1980 and not closed at 1 January 1985, they had already been placed in the archives, which are only supposed to contain files which have been finally closed.

## IMPROVEMENTS IN THE MANAGEMENT

8.37. The expiry of the time limit for applications for final payment should give rise to a systematic request for justification of all advances paid.

8.38. All requests made by the Commission, especially in relation to the furnishing of supporting documents or additional information, either during an audit or during the appraisal of a file, should be given a clearly defined reply period and the procedures to be applied if the time limit is not observed should be specified.

8.39. Internal rules on time limits should be fixed for the appraisal and monitoring of applications for final payment.

8.40. Appraisal of the file should include an overall examination during which it would be possible at the same time to ask the promoter all the questions necessary for closing the file.

8.41. At the time of the on-the-spot checks following the execution of operations chargeable to the ESF, the Commission should establish with the bodies concerned the procedures to be implemented in order to complete the appraisal of the applications for final payment, notably in relation to the reply periods. Similarly, precise conclusions should be drawn from these checks, especially at a financial level. Finally, the inspectors should be made responsible for following up and implementing these conclusions.

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(<sup>1</sup>) See Annex III of this report.

(<sup>2</sup>) OJ L 289 of 22.10.1983, p. 38.

(<sup>3</sup>) OJ L 289 of 22.10.1983, p. 1.

(<sup>4</sup>) OJ L 377 of 31.12.1983.

(<sup>5</sup>) OJ C 5 of 10.1.1984, p. 2.

(<sup>6</sup>) For the new Fund, certification is defined by Article 5(4) of Council Regulation (EEC) No 2950/83 of 17.10.1983, OJ L 289 of 22.10.1983, which stipulates: 'The Member State shall certify the accuracy of the facts and accounts in payment claims'. For the old Fund, it is defined in the same terms by Article 4(1)5 of Council Regulation (EEC) No 858/72 of 24 April 1972, OJ L 101 of 28.4.1972, p. 3, as amended by Council Regulation (EEC) No 2894/77 of 20.12.1977, OJ L 337 of 27.12.1977, p. 5.

(<sup>7</sup>) An amending decision was taken on 31.7.1985, correcting certain individual approval decisions to assist the FR of Germany and Luxembourg, without changing the overall amounts granted to these Member States in the decision of 19.6.1985.

(<sup>8</sup>) After re-evaluation at the rate of 31.12.1985, the overall amount of commitments entered into in 1985 comes to 2 188,5 Mio ECU.

(<sup>9</sup>) The payments of automatic advances resulting from the approval decision of 23.12.1985 were entered in the accounts on 19 and 20.2.1986.

(<sup>10</sup>) The applications for assistance must be made before 21 October each year.

(<sup>11</sup>) The applications for final payment must be made during a period of 10 months following the close of operations.

(<sup>12</sup>) OJ C 287 of 24.10.1983.

(<sup>13</sup>) At the exchange rate in force in June 1985.

(<sup>14</sup>) OJ L 361 of 31.12.1978, p. 3.

## CHAPTER 9

**Research, energy, etc.**

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## INTRODUCTION

9.1. This chapter is concerned with expenditure on energy, research and various allied activities for which appropriations are contained in Chapters 70 — 77 of part B of the Commission section of the budget. The appropriations available amount to 1 327,8 Mio ECU for commitment and 961,6 Mio ECU for payment (see *Table 9.1*). For the financial year 1985 the observations of the Court of Auditors deal with the management of two of the principal forms of expenditure employed by the Commission in this area:

- (a) cost-sharing contracts, which account for 70 % (929,4 Mio ECU) of appropriations available for commitment;
- (b) study-contracts, which account for 5 % (70,5 Mio ECU) of appropriations.

## BUDGETARY EXECUTION

9.2. *Table 9.1* summarizes the use of appropriations in 1985. It shows that 350,6 Mio ECU of appropriations for

commitment (26 %) and 254,1 Mio ECU of appropriations for payment (26 %) were not used. *Table 9.2*, which presents the trends in utilization rates between 1982 and 1985, shows that the rates in 1985 are substantially lower than those in the two preceding years. One result is an increase of 34 % in outstanding commitments, from 795,5 Mio ECU at 31 December 1984 to 1 066,7 Mio ECU at 31 December 1985. The Court has the following comments on the utilization rates for appropriations for payment and commitment:

- (a) indirect action research (Chapter 73). In 1985 appropriations for commitment of 213,9 Mio ECU and for payment of 91,1 Mio ECU were not used. This represents a significant fall in the rates of utilization as compared with previous years. The low rates of utilization were due principally to delays in the approval by Council (in March 1985) of seven new research programmes, and to the Community procedures for the evaluation and negotiation of research proposals, which meant that contracts could not be established before the end of the financial year;

- (b) information technologies research — Esprit programme (Item 7335). The rates show an improvement; but this was due to the utilization in 1985 of the substantial appropriations carried over from 1984

Table 9.1 — Research, energy, etc.: appropriations available in 1985 and their utilization

(Mio ECU)

Expenditure area (chapter of budget)	Commitments				Payments			
	Appropriations for commitment available in 1985 ( <sup>1</sup> )	Commitments entered into in 1985	Appropriations not used	Utilization rate (%)	Appropriations for payment available in 1985 ( <sup>2</sup> )	Payments made in 1985	Appropriations not used	Utilization rate (%)
Energy:								
— Energy policy (70 excluding 707)	169,5	155,6	13,9	92	125,8	80,5	45,3	64
— Specific Community measures (707)	—	—	—	—	45,8	45,8	—	100
Research and investment (73)								
— Direct action research	232,0	212,4	19,6	92	224,6	203,1 ( <sup>4</sup> )	21,5	90
— Indirect action research ( <sup>3</sup> )	511,8	297,9	213,9	58	298,9	207,8 ( <sup>5</sup> )	91,1	70
— Information and telecommunication technologies	305,6	224,6	81,0	74	146,2	99,7 ( <sup>6</sup> )	46,5	68
Industry: (77)								
— Industrial policy	29,3	21,6	7,7	74	41,6	18,9	22,7	45
— Information and telecommunication technologies	41,2	37,2	4,0	90	44,4	30,9	13,5	70
Other activities:								
— Nuclear safeguards (71)	3,5	2,9	0,6	83	5,0	2,7	2,3	54
— Information market and innovation (75)	31,9	22,1	9,8	69	23,6	15,1	8,5	64
— Miscellaneous (72)	3,0	2,9	0,1	97	5,7	3,0	2,7	53
<b>Total</b>	<b>1 327,8</b>	<b>977,2</b>	<b>350,6</b>	<b>74</b>	<b>961,6</b>	<b>707,5</b>	<b>254,1</b>	<b>74</b>

(<sup>1</sup>) Appropriations in the 1985 budget, plus appropriations remaining at the end of 1984, after transfers.(<sup>2</sup>) Appropriations in the 1985 budget, plus carry-overs from 1984, after transfers.(<sup>3</sup>) Including contribution to JET (57,5 Mio ECU)(<sup>4</sup>) Of which 115,0 Mio ECU are shown as research personnel expenditure.(<sup>5</sup>) Of which 19,6 Mio ECU are shown as research personnel expenditure.(<sup>6</sup>) Of which 4,3 Mio ECU are shown as research personnel expenditure.

Table 9.2 — Research, energy, etc.: the development of the utilization rates of appropriations available for the period 1982 to 1985

(%)

Expenditure area (chapter of budget)	Commitments				Payments			
	1982	1983	1984	1985	1982	1983	1984	1985
Energy:								
— Energy policy (70 excluding 707)	61	89	94	92	56	35	65	64
— Specific Community measures (707)	—	100	100	—	—	99	90	100
Research and investment: (73)								
— Direct action research	89	94	86	92	78	83	86	90
— Indirect action research	86	90	70	58	92	90	80	70
— Information and telecommunication technologies	—	—	65	74	—	—	4	68
Industry: (77)								
— Industrial policy	29	92	92	74	37	53	49	45
— Information and telecommunication technologies	—	—	39	90	—	—	52	70
Other activities:								
— Nuclear safeguards (71)	100	100	100	83	58	64	59	54
— Information market and innovation (75)	48	66	57	69	53	47	44	64
— Miscellaneous (72)	95	91	97	97	55	43	48	53
<b>Total</b>	<b>76</b>	<b>95</b>	<b>83</b>	<b>74</b>	<b>77</b>	<b>87</b>	<b>77</b>	<b>74</b>

and, in absolute terms, the appropriations remaining unused at the end of 1985 for commitments (72,9 Mio ECU) and for payments (43,5 Mio ECU) were similar in size to those at the end of 1984. This indicates that the problem of delays in the commencement of the Esprit annual work programmes, which was raised in paragraph 9.2(c) of the Court's annual report for 1984 <sup>(1)</sup>, has not yet been resolved by the Commission;

- (c) energy (Chapter 70). Chapter 70 has, due to the factors described in paragraph 9.13, a high rate for appropriations for commitment (92 %) but, on the other hand, a low utilization rate for appropriations for payment (64 %). The low rate for payments (resulting in 45,3 Mio ECU of appropriations for payment not being used) was due, as in previous years, to factors not adequately taken into account during budget preparation i.e. the heaviness of Community procedures and a slow rate of contract progress. In its reply to paragraph 9.2(a) of the Court's Annual Report for 1984 <sup>(1)</sup> the Commission pointed out that, in order to take account of these factors, strict limits had been imposed on appropriations for payment in the 1986 preliminary draft budget;
- (d) industrial policy (Chapter 77). The rates of utilization of appropriations have fallen and appropriations for commitment of 7,7 Mio ECU and for payment of 22,7 Mio ECU were not used. This was partly due to delays in procedures for the approval of service and study contracts which, in some cases, have led to the cancellation of non-differentiated appropriations (see paragraph 9.20(a)).

## COORDINATION OF THE MANAGEMENT OF COST-SHARING CONTRACTS

9.3. The most important provisions governing Community contractual expenditure are to be found in Articles 50 — 58 of the Financial Regulation. These provisions are primarily concerned with the award of contracts. They offer little guidance on other aspects of contract management (e.g. the assessment of contractors' financial and technical strength, project appraisal, verification of costs, monitoring of contract progress, evaluation of results, follow-up, etc.). Although supplementary Commission directives exist for study contracts (see paragraph 9.19), no Commission-wide instructions or guidelines exist which cover the specific field of cost-sharing contracts.

<sup>(1)</sup> The footnotes appear at the end of each chapter.

9.4. The Commission first began to make use of cost-sharing contracts in 1960. Since then different procedures for managing these contracts have been developed separately by several different Commission services, in particular those responsible for:

- (a) science, research and development (DG XII);
- (b) energy (DG XVII);
- (c) information and telecommunications technologies (Task Force) <sup>(2)</sup>;
- (d) information market and innovation (DG XIII).

9.5. The Court, in paragraph 9.6 of its annual report concerning the financial year 1983 <sup>(3)</sup>, placed emphasis on the need for improved coordination of these procedures by the above services and for an exchange of information on contractors. The Commission in its reply stated that 'a considerable effort always has been and will be made to ensure internal coordination along the lines recommended by the Court'. A Commission working group (see paragraphs 9.7 — 9.8 below) was instructed to examine contract procedures with a view to improvement (including the creation of a central information index) and to report to the Commission. In May 1986 the Economic and Social Committee adopted an opinion <sup>(4)</sup> on the European Community's shared-cost research, development and demonstration programmes. This opinion is based on discussions with both contractors and Commission services, and its findings on the coordination of the management of cost-sharing contracts support the Court's comments for 1983.

9.6. In the light of the above, the Court has examined the success of the Commission's efforts to improve financial management through better coordination of the procedures for cost-sharing contracts. These represent only one among many different types of contracts, but in such cases the Commission payments are based on contractors' statements of costs incurred and effective management and control procedures are therefore essential. Furthermore cost-sharing contracts are of particular importance because they are the most numerous and of the highest value; in the areas of research and energy, at 31 December 1985, there were 4 500 live contracts while outstanding commitments totalled 918,3 Mio ECU.

## *Commission initiatives*

### **Harmonization working group**

9.7. The terms of reference of the harmonization group set up by the Commission under the responsibility of the legal service only required it to examine contractual provisions. A report issued in May 1985 on the work of the group describes and attempts to justify the differences between the legal bases and standard contracts of the participating services. Although certain pre-contractual procedures are touched on, key questions such as the approach to the verification of expenditure, the requirements for the submission of documents, the development of computer systems or the creation of a central index of information on contractors are not referred to. Furthermore, the report does not contain practical conclusions and recommendations to improve coordination which the Commission could consider.

9.8. This lack of a concrete outcome reinforces the recommendation of the Court in its annual report for 1984 <sup>(1)</sup>, paragraph 9.15, for a clearer statement by the Commission of the advisory and monitoring responsibilities of its central financial services. In the case of cost-sharing contracts these services did not provide leadership on this issue although they have done so in the past for other similar areas (e.g. study contracts, see paragraph 9.19).

### **Central information index**

9.9. Although a register of all study contractors used by the Commission has been established (Ceres system) nothing comparable exists for cost-sharing contracts other than the recently developed Sesame system. However this system is designed primarily to provide a tool for the evaluation of projects and for the dissemination and exploitation of the information resulting from them, mainly for users external to the Commission. It has not been designed to facilitate internal Commission control over contracts or the exchange of essential administrative and contractual information between services (e.g. the results of appraisal of contractors' financial and technical strength).

### **Other initiatives**

9.10. The Court notes the Commission decisions of 17 October 1984 <sup>(5)</sup> and 18 November 1985 <sup>(6)</sup>, aimed at

improving control over the growing volume of outstanding commitments and which are of special relevance to the improved management of cost-sharing contracts by all services. In addition, occasional contacts have taken place between individual services on specific issues such as:

- (a) the selection of external audit firms to carry out on-the-spot financial verification of contractors;
- (b) ways of reducing delays in contractual payments.

## *Financial consequences*

9.11. There is no merit in seeking coordination or consistency for its own sake. Differences in the legal bases of contracts and programme objectives are inevitably reflected in differences in some of their key parameters (e.g. rates of Community participation in costs, duration of contract, repayment conditions, etc.). There are also some less significant differences in contractual provisions or procedures where harmonization would not yield important financial benefits. On the other hand there are several areas where the inadequate coordination measures described above have led to differing practices which have important financial consequences. Examples are given at paragraphs 9.12 — 9.15.

9.12. Manpower and resources would be more efficiently used if there were better dissemination and exploitation of information and experience already available, for example:

- (a) as explained in paragraph 9.9 above, there is at present no system for identifying those contractors common to more than one Directorate-General which could compensate for the lack of an adequate central information index. In order to establish the number and names of such contractors the Court found it necessary to compare the separate contract records of several services. This comparison showed that there are over 100 contractors common to two or more services. Each Directorate-General maintains its own separate contracts service which, for common contractors, partially duplicates the procedures followed by other services in areas such as:
  - (i) the evaluation of financial and technical strength prior to contract signature;

- (ii) the verification of costs declared by contractors and of their supporting accounting records;
  - (iii) the monitoring and evaluation of contract performance;
- (b) there has been inadequate coordination of the development of computerized contract management systems. Each service has developed its own system without clearly demonstrating that those being developed or already used by other services were unsuitable. Both DG's XII and XVII introduced separate systems in the second half of 1984 and the Task Force, at the end of 1985, was in the process of developing two further main systems of its own. Despite differences in organization and means of programme execution, (e.g. decentralized contract management in the Task Force, the absence of multipartner contracts in DG XVII), the information needs for cost-sharing contracts are broadly similar. The development cost to 31 December 1985 of the four systems mentioned above is estimated at 900 000 ECU.

vary from six months prior to contract signature in one case to the date of notification of commencement of work (after contract signature) in another. The practice of accepting costs incurred prior to contract signature increases the risk that the Community is financing projects which would have occurred in any case (a point commented upon by the Court in its annual reports for 1981 <sup>(7)</sup> and 1982 <sup>(8)</sup>);

- (b) the general practice for initial advances to contractors is that payment is made automatically at the time of contract signature. However, DG XVII pays these advances into bank deposit accounts earning interest for the Community, (139 000 ECU on 36 contracts completed between June 1984 and April 1986), while the Task Force makes their payment dependent on notification of commencement of work by the contractor;
- (c) the extent to which allowable costs are defined in standard contracts or annexes thereto differs considerably between services. Some services specify in detail which costs can or cannot be submitted by the contractor whereas others only indicate broad categories, thus facilitating the inclusion of unjustified costs;
- (d) the varying treatment of VAT deserves special mention. DG XVII takes the simplest approach by excluding all VAT incurred by contractors from allowable costs. The other Directorates-General will accept VAT as an allowable cost if the contractor has not been able to recover it and provides the supporting documentation to permit the Commission to effect its recovery instead from the Member State concerned. Given the time-consuming procedures for obtaining VAT reimbursements this practice clearly has negative cash flow consequences for the Commission, as is illustrated by the fact that, at 31 December 1985, 493 000 ECU paid to contractors by DG XII had not yet been recovered from the Member States.

9.13. There is inconsistent treatment of contractual expenditure in the budget and accounts. In paragraphs 9.4 — 9.5 of its annual report for 1983 <sup>(3)</sup> the Court recommended greater consistency in the treatment of commitments. In September 1985 the Commission sent to the Court a document analysing the main differences in current practice. The inconsistencies confirmed by this document are the result of differing interpretations of Article 32 of the Financial Regulation by the various Commission services. In the area of cost-sharing contracts, DG XVII records commitments once there is a Council or Commission decision on projects, usually several months before contract signature, whereas the other DGs, which take similar decisions at their own level, do not record commitments until the contracts are ready for signature. In consequence DG XVII recorded commitments of 127 Mio ECU in 1985 which, under the systems employed in other services, would not have been recorded until 1986 or later. Such inconsistencies seriously reduce the utility of the Commission's budgetary estimates and also of the figures in the accounts submitted to the discharge authority (see paragraph 9.2 (c)).

9.14. The Commission's treatment of contractors engaged on cost-sharing projects is also inconsistent in several respects and may result in some receiving more favourable treatment at the Communities' expense. For example:

- (a) the services concerned have different rules regarding the establishment of the earliest date on which allowable costs can be incurred by contractors. These

9.15. It does not at present appear to be the responsibility of any particular Commission service to determine best practice for the sound management of cost-sharing contracts and to standardize internal control procedures at that level. Although the methods used to validate cost claims submitted by contractors have been the subject of numerous observations in the Court's annual reports <sup>(1)</sup> <sup>(3)</sup>, the internal control exercised varies widely from one service to another. Whereas the Task Force intends to place substantial reliance on the use of external audit firms to carry out on-the-spot verification of all or most contracts, other services, with similar amounts of annual expenditure on cost-sharing contracts, rely to a much greater extent on reasonableness checks carried out by their own officials and use on-the-spot verification only for contracts which are large or have given rise to problems. The Court concludes that the type



and extent of verification carried out is determined largely by the availability of internal staff resources or, in the case of the Task Force's Esprit programme, of appropriations for the use of external firms rather than by a coordinated effort to define the most efficient and effective means of controlling expenditure of this kind.

### *Conclusions on cost-sharing contracts*

9.16. The Court's audit has confirmed its observations in previous annual reports <sup>(1)</sup> <sup>(3)</sup> and in particular has established the following conclusions:

- (a) despite some useful *ad hoc* initiatives (see paragraph 9.10), the action so far taken by the Commission in response to the Court's previous observations, principally the creation of a temporary harmonization working group, has been inadequate (see paragraphs 9.7 — 9.9);
- (b) there are differences between the procedures and contractual provisions employed by the various Commission services managing cost-sharing contracts which are not always justified by the varying character of the projects. Some of these differences have financial consequences for the Community (see paragraphs 9.11 — 9.15);
- (c) inconsistencies remain in the interpretation of Article 32 of the Financial Regulation and affect the treatment of commitments during the preparation of budgetary estimates and of the accounts submitted to the discharge authorities (see paragraph 9.13);
- (d) there is a need for improved coordination and exchange of information between the services managing cost-sharing contracts.

9.17. In order to ensure better coordination, the Commission should initiate studies, involving representation from all appropriate Commission services, with the objective of identifying all possible opportunities for beneficial harmonization of the management of cost-sharing contracts. Consideration should be given to how far mandatory principles for the management of cost-sharing contracts based on best practice could usefully be introduced either as an expansion of the provisions of the Financial Regulation (see paragraph 9.3) or by way of internal directives.

9.18. A central index of information on contractors should be created to facilitate the identification of contractors common to more than one service and the exchange of administrative and technical information about them (see paragraph 9.12).

### MANAGEMENT OF STUDY CONTRACTS

9.19. Since 1978 the management of study contracts has been governed by internal Commission instructions entitled 'directives coordonnées pour la gestion des crédits d'études'. These provide that all proposed studies shall be subject to the following procedures:

- (a) consultation of the 'groupes interservices de coordination';
- (b) consultation of the 'comité consultatif d'études';
- (c) authorization by the Commission.

For the majority of study contracts (i.e. those with a duration of less than two years) the appropriations available are non-differentiated i.e. provided that a commitment has been established in the budget year, the appropriations may be carried over automatically to the following year, at the end of which they lapse.

9.20. The Court has examined the application of these procedures in the area of industry (Chapter 77), and has the following observations:

- (a) although the directives foresee the authorization of proposed studies in three groups, in the months of February, April and October of each year, in 1985, due to delays in completing the procedures, authorization took place on only two occasions, the second of which was not until 13 December. This left insufficient time for the negotiation and commitment before the end of the year of all the studies authorized and resulted in the cancellation of appropriations. For example, on items 7780 and 7790 the majority of the cancelled appropriations of 395 762 ECU (17 % of the available appropriations) were lost as a result of difficulties with study contracts. Similar difficulties arose in 1984;
- (b) the present consultation and authorization procedure is used primarily as a means of eliminating possible

duplication of studies and of allocating appropriations; except for studies over 100 000 ECU, however, it does not cover the assessment of the choice of contractor. In fact the standard 'fiche financière' submitted for each proposed study does not require the responsible service to provide any justification for its choice and none of the 18 contract files examined by the Court (contract proposals totalling 780 000 ECU) contained any appraisals of contractors or their study proposals.

9.21. The Court recommends that the Commission should consider:

- (a) how delays in the consultation and authorization procedures may be avoided;
- (b) whether forecasts of budgetary expenditure on studies adequately reflect the probable timing of Commission authorizations;
- (c) how the procedures can provide for an appraisal of the choice of all contractors based on justification submitted by the responsible services.

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(1) OJ C 326 of 16.12.1985.

(2) The task force was merged with DG XIII in 1986.

(3) OJ C 348 of 31.12.1984.

(4) OJ C 207 of 18.8.1986.

(5) Doc. COM(84), PV 754.

(6) Doc. SEC(85), 1650.

(7) OJ C 344 of 31.12.1982, paragraph 8.18.

(8) OJ C 357 of 31.12.1983, paragraphs 8.50 — 8.52.

## CHAPTER 10

### Cooperation with developing countries and other non-member States

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## INTRODUCTION

10.1. The bulk of Title 9 of the general budget consists of appropriations for food aid, cooperation with non-associated developing countries and with certain Mediterranean countries, co-financing actions by non-governmental organizations (NGOs) and some emergency aid. The subsidy for the European Association for Cooperation (EAC) and appropriations for the running of the Commission delegations in the southern Mediterranean and the ACP countries are also included.

## SUMMARY OF FINANCIAL INFORMATION

10.2. *Table 10.1* shows how appropriations available from the 1985 budget and from previous years were used for commitments and payments in 1985. The appropriations available for commitment were 10 % higher than in 1984, whilst the appropriations available for payment were 8 % lower than in 1984. The total value of commitments was 5 % lower than in 1984 and total payments were 6 % lower. The rate of utilization of appropriations for commitment fell from 89 % in 1984 to 77 % in 1985 and the rate for appropriations for payment

Table 10.1 — Title 9: appropriations available in 1985 and their utilization

(Mio ECU)

Chapter of the budget	Commitments			Payments		
	Appropriations for commitment available in 1985	Commitments entered into in 1985	Utilization rate	Appropriations for payment available in 1985	Payments made in 1985	Utilization rate
(1)	(2)	(3)	(4) = % (3)/(2)	(5)	(6)	(7) = % (6)/(5)
Chapter 92: Food aid	689,1	689,1	100 %	568,8	543,8	96 %
Chapter 93: Cooperation with non-associated developing countries	384,4	173,2	45 %	164,9	159,6	97 %
Chapter 94: Specific measures for cooperation with developing countries	44,2	44,1	100 %	53,2	34,6	65 %
Chapter 95: Exceptional measures to assist developing and other non-member countries	65,0	35,4	54 %	207,7	159,3	77 %
Chapter 96: Cooperation with Mediterranean countries	241,7	134,6	56 %	298,2	127,7	43 %
Chapter 98: Operation of Commission delegations in developing countries	58,2	58,1	100 %	58,2	58,1	100 %
Chapter 99: Cooperation with non-member countries	5,0	5,0	100 %	6,3	1,6	25 %
<b>Total</b>	<b>1 487,6</b>	<b>1 139,5</b>	<b>77 %</b>	<b>1 357,3</b>	<b>1 084,7</b>	<b>80 %</b>

increased from 78 % to 80 %. The rates of utilization of appropriations for commitment decreased in the case of Chapters 93, 95 and 96. The rates of utilization of appropriations for payment increased for Chapters 93, 94 and 95. Volume V of the revenue and expenditure account also shows that the cumulative total of commitments from earlier financial years still to be settled was 1 256,6 Mio ECU at the end of 1985. The unused commitment appropriations still remaining at the end of the financial year amounted to 343,8 Mio ECU. The payment appropriations carried over from 1985 to 1986 totalled 236,6 Mio ECU. It is therefore very probable that the Community will have to make available 1 363,8 Mio ECU from its resources as from 1986, in order to meet the obligations resulting from the past administration of Title 9. This expense results primarily from measures undertaken within the context of financial and technical cooperation with non-associated developing countries (see paragraphs 10.14 — 10.15).

## IMPLEMENTATION OF THE DUBLIN PLAN

10.3. The objective of the Dublin Plan, which was initiated by the European Council at the end of 1984, was to deliver 1,2 Mio tonnes of cereals or cereal equivalent to the African countries most affected by the drought. It was composed of three parts: 400 000 tonnes to be delivered by the Member States, 300 000 tonnes from the regular 1985 Community food aid programme and 500 000 tonnes to the value of 175 Mio ECU as emergency aid. This sum of 175 Mio ECU included 80 Mio ECU provided under Article 137 of the Lomé II Convention referring to emergency aid and the remainder was covered by Article 950 of the budget, supplemented for this purpose by 90 Mio ECU by means of several transfers. These funds represent the major part of the contribution which was actually made in addition to the aid usually granted to assist these countries.

10.4. The implementation of the Dublin Plan was entirely satisfactory (see *Table 10.2*). However, when it started out at the beginning of 1985, the beneficiaries experienced difficulties in having the quantities involved unloaded, stored, transported and distributed. This led the Community to use special means of transport, particularly airlifts. Coordination with the other donors was difficult. The political situation and armed conflicts in Ethiopia, the Sudan and in Angola complicated the distribution process. Although the Plan was initially centred exclusively on food aid, it was in fact implemented with a view also to basic needs as regards health, child nutrition, shelter for displaced populations and agriculture (seeds and tools). These measures were entrusted to international or non-governmental organizations.

tonnes mentioned above, which made up for the reduction in 'emergency aid'. The Member States also contributed towards air and surface transportation of aid.

## OBSERVATIONS ON FOOD AID (CHAPTER 92)

### *Quantities mobilized and delivery times*

10.5. Altogether, 107 Mio ECU out of the 175 Mio ECU provided as additional Community aid was used for food aid, which enabled the equivalent of 312 000 tonnes of cereals to be delivered, and 68 Mio ECU was used for other forms of aid. The quantity of foodstuffs delivered under the Plan (1 265 715 tonnes) exceeded the 1,2 Mio tonnes initially envisaged. The Member States in fact delivered 632 000 tonnes, and the regular Community aid amounted to 321 000 tonnes in addition to the 312 000

10.6. *Table 10.3* shows that the quantities mobilized in 1985 were lower than in 1984. They represented only 88 % of the annual programme for 1985. It is worth noting the growing importance of new products (sugar, vegetable oil, beans, dried fish). Having examined a sample of consignments shipped as regular food aid in 1985, the Court found that delivery times for cereals had stabilized and that there had been a substantial improvement in the case of milk products compared with 1984. From the time

**Table 10.2 — Implementation of the Dublin Plan**

Country	EEC									Member States		Dublin Plan: total		
	Emergency aid				1985 food aid programme		Total			Cereals or equivalent		Cereals or equivalent	Other EEC aid (2)	Total
	Cereals or equivalent		Other aid	Total	Cereals or equivalent		Cereals or equivalent	Other aid	Total/					
	(tonnes)	(Mio ECU)	(Mio ECU)	(Mio ECU)	(tonnes)	(Mio ECU) (1)	(tonnes)	(Mio ECU)	(Mio ECU)	(tonnes)	(Mio ECU) (1)	(tonnes)	(Mio ECU)	(Mio ECU)
	(1)	(2)	(3)	(4) = (2) + (3)	(5)	(6)	(7) = (1) + (5)	(8) = (3)	(9) = (4) + (6)	(10)	(11)	(12) = (7) + (10)	(13) = (8)	(14) = (9) + (11)
Ethiopia	98 050	34,8	20,5	55,3	116 200	29,0	214 250	20,5	84,3	143 680	35,9	357 930	20,5	120,2
Sudan	118 870	37,0	30,6	67,6	53 620	13,4	172 490	30,6	81,0	153 100	38,3	325 590	30,6	119,3
Niger	20 290	7,9	3,9	11,8	26 100	6,5	46 390	3,9	18,3	77 020	19,2	123 410	3,9	37,5
Mozambique	12 040	4,0	0,5	4,5	52 200	13,1	64 240	0,5	17,6	71 450	17,9	135 690	0,5	35,5
Mali	22 340	9,3	2,5	11,8	14 400	3,6	36 740	2,5	15,4	59 180	14,8	95 920	2,5	30,2
Chad	20 790	8,7	3,8	12,5	16 000	4,0	36 790	3,8	16,5	45 720	11,4	82 510	3,8	27,9
Mauritania	2 200	0,5	2,5	3,0	17 080	4,3	19 280	2,5	7,3	59 860	15,0	79 140	2,5	22,3
Angola	5 580	2,5	3,2	5,7	25 785	6,5	31 365	3,2	12,2	22 010	5,5	53 375	3,2	17,7
Cameroon	10 150	1,6	—	1,6	—	—	10 150	—	1,6	—	—	10 150	—	1,6
Region (incl. Burkina Faso)	2 000	1,0	0,2	1,2	—	—	2 000	0,2	1,2	—	—	2 000	0,2	1,2
<b>Total</b>	<b>312 310</b>	<b>107,3</b>	<b>67,7</b>	<b>175,0</b>	<b>321 385</b>	<b>80,4</b>	<b>633 695</b>	<b>67,7</b>	<b>255,4</b>	<b>632 020</b>	<b>158,0</b>	<b>1 265 715</b>	<b>67,7</b>	<b>413,4</b>

(1) Estimated at 250 ECU/t.

(2) The other aid from the Member States cannot be quantified.

**Table 10.3 — State of implementation of food aid programmes in cereals, skimmed-milk powder, butteroil and other products**

(in tonnes)

State of implementation by year		Cereals (equivalent)	Skimmed- milk powder	Butteroil	Other products
1984	Balance 1983	622 921	104 463	35 718	31 570
	Adjustments in 1984 to the 1983 programme	- 42 000	- 5 147	- 626	+ 3 311
	1984 programme	1 127 663	122 500	32 760	34 556
	Mobilized in 1984	1 384 199	165 218	49 442	49 198
1985	Balance 1984	324 385	56 598	18 410	20 239
	Adjustments in 1985 to the 1984 programme	—	—	—	+ 12 053
	1985 programme	1 160 000	108 600	28 700	54 377
	Mobilized in 1985	1 016 199	109 997	25 407	65 518
1986	Balance 1985	468 186	55 201	21 703	21 151

of initiating mobilization until the arrival of the ships in the port of unloading, allowance had to be made for a total of 15 weeks for cereals (as in 1984), 16 weeks for skimmed-milk powder and butteroil (i.e. a reduction of seven and three weeks respectively) and 15 weeks for vegetable oil.

### *Statistics on the implementation of food aid*

10.7. As indicated in *Table 10.4*, the Commission supplied several sets of conflicting figures concerning tonnages of food aid 'delivered' or 'implemented' in 1984. The discrepancies were due to the existence of two systems of statistical recording — one kept by the Directorate-General for Agriculture (DG VI) and the other by the Directorate-General for Development (DG VIII). They can also be accounted for by the unsatisfactory use of these sets of figures in published documents.

10.8. The Directorates-General devised these two systems, which are administered independently, in the light of their own needs. They use different definitions for the various stages in the operations. For DG VI, aid 'in the process of being implemented' is aid which has not yet been shipped, but which has already been approved by the Management Committee responsible for the product to be delivered. For DG VIII, aid 'in the process of being mobilized' is aid which has not yet been shipped, but which has already been the subject of a mobilization request to DG VI from DG VIII. The notion used at the

shipment stage also differs. For DG VI, aid for which the shipment period laid down in the mobilization regulation has already ended has been 'implemented'. On the other hand, DG VIII endeavours to draw up statistics on aid actually shipped during a specified period and regards aid which has been shipped as having been 'delivered'.

10.9. Nevertheless, the system used by DG VIII is still based partly on an estimate of the shipment dates. At the close of the financial year, it did not in fact have all the necessary information relating to the aid shipped most recently. In order to overcome this difficulty, DG VIII could draw up statistics on the implementation of food aid in two stages. By taking the anticipated dates of shipment as a basis, it could make an estimate almost immediately after the end of the financial year. After having brought together all the necessary data, it would draw up a definitive list, based on the actual dates of shipment.

10.10. In any case, it is essential that the systems used by DG VIII and DG VI should be harmonized, and the harmonization should be completed rapidly since the system used by DG VIII was only recently introduced and has not been definitively computerized. The two Directorates-General should cooperate closely to draw up genuine 'stock accounts' of food aid, with multi-stage accounts marking the successive steps in the implementation of the programmes, from their adoption to the arrival of the aid at its destination; these steps should include, in particular, the decision to grant aid, the mobilization request, the Management Committee's approval, the shipping of the goods and the unloading. Only an integrated system of this kind would meet the needs of all administrators and audit authorities, as well as the public's desire for information, and would ensure that all published figures were entirely consistent.

**Table 10.4 — Figures supplied by the Commission concerning the tonnages of food aid 'delivered' or 'implemented' in 1984**

*(in tonnes)*

Source of data	Terms used to describe the state of implementation	Cereals	Skimmed-milk powder	Butteroil
Report on the implementation of the budget as at 31 December 1984 and Revenue and expenditure account for the financial year 1984	'implemented or in the process of being implemented'	1 476 778	209 614	59 746
14th Financial Report on the EAGGF-Guarantee and food aid financing for 1984	'delivered' (excluding mobilizations not yet delivered)	1 505 167	173 094	49 854
Replies of the Commission to paragraph 10.3 of the annual report of the Court concerning the financial year 1984	'mobilizations' (incl. those in progress)	1 505 167	173 094	49 854
Commission — Directorate-General for Agriculture	'implemented or in the process of being implemented'	1 384 199	165 218	49 442
Reply from a Member of the Commission to written Parliamentary Question No 2281/84 <sup>(1)</sup>	'delivered or mobilized'	1 340 000	165 000	49 000

<sup>(1)</sup> OJ C 233 of 12. 9. 1985, p. 10.

# **OBSERVATIONS ON COOPERATION WITH NON-ASSOCIATED DEVELOPING COUNTRIES (CHAPTER 93) — ADMINISTRATION OF APPROPRIATIONS UNDER ARTICLE 930**

## *Volume of commitments and payments*

10.11. Out of the 355,8 Mio ECU available in 1985 in the form of appropriations for commitment, only 149,7 Mio ECU, or 42 % (see *Table 10.5*) were committed during the financial year 1985, and 206,1 Mio ECU remained available in 1986. Out of the 149,2 Mio ECU available in 1985 in the form of appropriations for payment, 148,3 Mio ECU (i.e. 99 %) were used.

10.12. The low rate of commitment is not only due to the belated Council guidelines (see paragraph 10.17) concerning the way in which the appropriations should be distributed; it is also caused by the unduly slow process for selecting and initiating the measures to be financed, because they are administered jointly with the Member States (and thus require prior consultation of a committee on non-associated developing countries). However, over a two-year period, the appropriations available for commitment are normally almost entirely utilized.

10.13. The fact that 99 % of payment appropriations were utilized during the financial year 1985 does not, paradoxically, imply that the situation regarding payments is satisfactory. Some payments do not in fact correspond, at the time when they take place, to operations already effected. This was the case with payments to a development bank which acted as an agent and did not effect the payments itself until several years later, at the time of completion of the work (see paragraph 10.29 of the annual report for the financial year 1984) <sup>(1)</sup>. Furthermore, when the payments in question do correspond to services rendered, the financing may be intended to cover the delivery of raw materials, such as fertilizers. The particular feature of these deliveries is that they enable payment to be effected promptly after the commitment of the corresponding appropriations. Because of these practices, the actual volume of payments in favour of development projects administered by the Commission and corresponding to completed work is far lower than the total amount of the payments shown in the accounts (651,4 Mio ECU since 1976). It is probably the inadequacy of administrative resources in the departments concerned which acts as a brake upon the direct administration of a larger number of projects in the non-associated developing countries.

10.14. In any case, at the end of 1985, 611,5 Mio ECU of commitments entered into since 1976 still remained to be settled. About 500 Mio ECU of this sum can be

<sup>(1)</sup> The footnotes appear at the end of each chapter.

Table 10.5 — Article 930: commitments in 1985

Beneficiary or destination	Reference programme				Sums charged to		Total		
	1984 and previous years		1985		appropriations remaining from 1984 (Mio ECU)	appropriations from the financial year 1985 (Mio ECU)	Number	Amount (Mio ECU)	Allocation of amounts (%)
	Number	Amount (Mio ECU)	Number	Amount (Mio ECU)					
	(1)	(2)	(3)	(4)	(5)	(6)	(7) = (1) + (3)	(8) = (2) + (4) = (5) + (6)	(9)
Asia :									
— Bangladesh	1	25,5	1	4,9	25,5	4,9	2	30,4	
— Bhutan	1	4,5	—	—	4,5	—	1	4,5	
— India	1	15,0	—	—	15,0	—	1	15,0	
— Thailand	1	2,0	1	35,0	2,0	35,0	2	37,0	
— Yemen	1	5,8	—	—	5,8	—	1	5,8	
— Occupied Arab territories	1	2,0	—	—	2,0	—	1	2,0	
Asia sub-total	6	54,8	2	39,9	54,8	39,9	8	94,7	63,2
America :									
— Costa Rica	—	—	2	13,6	7,2	6,4	2	13,6	
— Nicaragua	—	—	1	2,5	2,5	—	1	2,5	
— Regional projects	—	—	2	11,8	11,8	—	2	11,8	
America sub-total	—	—	5	27,9	21,5	6,4	5	27,9	18,6
Africa									
— Angola	1	2,3	1	4,2	2,3	4,2	2	6,5	
— Mozambique	—	—	1	7,4	—	7,4	1	7,4	
Africa sub-total	1	2,3	2	11,6	2,3	11,6	3	13,9	9,3
Supplementary commitments for programmes prior to 1984	5	3,0	—	—	3,0	—	5	3,0	2,0
(Programmes sub-total)	(12)	(60,1)	(9)	(79,4)	(81,6)	(57,9)	(21)	(139,5)	(93,1)
Agricultural research	1	6,3	—	—	6,3	—	1	6,3	4,2
Studies and technical assistance	13	1,9	—	—	1,9	0,0	13	1,9	1,3
Administrative costs	11	2,0	—	—	2,0	—	11	2,0	1,4
<b>Total committed in 1985</b>	<b>37</b>	<b>70,3</b>	<b>9</b>	<b>79,4</b>	<b>91,8</b>	<b>57,9</b>	<b>46</b>	<b>149,7</b>	<b>100</b>

Overall analysis of the utilization of appropriations in 1985:

	Appropriations available in 1985 (Mio ECU)	Commitments entered into in 1985 (Mio ECU)	Rate of utilization	Appropriations remaining for 1986 (Mio ECU)
— Appropriations remaining from 1984:	91,8 (1)	91,8	100,0 %	—
— Appropriations made available under the financial year 1985:	264,0	57,9	21,9 %	206,1
<b>Total</b>	<b>355,8</b>	<b>149,7</b>	<b>42,1 %</b>	<b>206,1</b>

(1) Including 1,7 Mio ECU decommitments from financial years prior to 1985.



accounted for by the inevitable time taken to implement measures involving infrastructure work planned over several years. This state of affairs is quite normal. However, it should be noted that, in the case of ten measures accounting for 62,9 Mio ECU, which were started in 1983 and 1984, no payment had been effected, or was expected, at the beginning of the financial year 1986. Lack of administrative resources is probably partly responsible for these delays.

10.15. On the other hand, it was not possible to effect payments totalling about 50 Mio ECU which fell due in 1985, quite simply because there were not sufficient payment appropriations available. If both the commitments still to be paid and the commitment appropriations still available are taken into consideration, the Community will have to make available 817,6 Mio ECU from its resources as from 1986 in order to meet all its obligations with regard to financial and technical cooperation with non-associated developing countries. The utilization in 1985 of 99 % of the payment appropriations is not, under these circumstances, a sign of sound management. As the Commission had not obtained the appropriations initially applied for or those requested by transfer, it had to carry forward to 1986 expenditure resulting from administration in 1985, and was therefore unable to meet the Community's obligations to third countries.

### *Comparison between the accounting commitments and the guidelines laid down by the Council*

10.16. Financial and technical aid to non-associated developing countries, which is financed by the appropriations from Article 930, is classified as non-compulsory expenditure in respect of which the Parliament has the last word concerning budgetary authorization. Furthermore, Article 9 of Council Regulation (EEC) No 442/81 of 17 February 1981<sup>(2)</sup> stipulates that, on a proposal from the Commission and after consulting the European Parliament, the Council 'shall determine, in good time before the end of the year, the general guidelines to be applied to aid for the following year'.

10.17. In reality, the guidelines are decided upon during the financial year (in July 1985 for the year 1985) and, therefore, well after the adoption of the budget. As they relate to the way in which the volume of appropriations made available by the budgetary authority is to be allocated among the non-associated developing countries, the Commission cannot commit the appropriations in question before these guidelines are adopted. It is compelled to use these appropriations in the following year, which is quite in order since they are differentiated appropriations. It thus becomes impossible to make any comparison between the initial wish of the budgetary authority, the Council's guidelines and the year's results recorded in the revenue and expenditure account (see Table 10.5).

10.18. Even if the Council's guidelines really were set 'in good time', checks on the way in which they are implemented would come up against another difficulty. The scales of allocation fixed in the guidelines are not sufficiently clear or consistent to enable them to be monitored by means of an analysis of the accounting commitments. For 1985, for example, aid was divided up on a geographical basis and was fixed at 75 % for Asia, 20 % for Latin America and 5 % for Africa, totalling 100 %. Provision was also made for distribution on a functional basis: 5-6 % for measures in response to catastrophes, 'the same level as in 1984' (i.e. approximately 1,5 %) to support international agricultural research, and a maximum of 3 % for management expenses. These two scales of allocation cannot entirely be combined with each other, using a double entry table, since aid for international agricultural research cannot be distributed on a geographical basis and it is very difficult to allocate management expenses.

10.19. The Commission was therefore forced to distribute aid by these two methods consecutively, instead of combining them with each other. It first put aside 10 % of the appropriations which it distributed on a functional basis, then allocated the remaining 90 % on a geographical basis (75 %, 20 % and 5 %). If this is what the Council intended when setting its guidelines, it should have made this clear. As things stand at present, it is impossible for the audit body to say whether the guidelines have been observed or not.

### *Budgetary nomenclature*

10.20. With regard to the appropriations for cooperation with non-associated developing countries, the Court notes that:

- (a) Article 930 relates to a large volume of appropriations — 45 % of the appropriations for commitment and 19 % of the appropriations for payment made available under Title 9 (apart from food aid);
- (b) Article 930 is very heterogeneous. In 1985 it covered 21 commitments relating to projects distributed over three continents and falling under different annual programmes (1985 and 1984 programmes and adjustments to previous programmes), one commitment relating to a number of subsidies to international agricultural research institutes, and 24 commitments relating to miscellaneous measures (participation in the operation of certain Community delegations, feasibility studies, missions by experts offering technical assistance for the implementation of projects or supervising them, etc.);

- (c) in addition to Article 930, there are several other articles with a smaller volume of appropriations (totalling approximately 1 % of the appropriations in Title 9), intended to cover the financing of measures to assist non-associated developing countries in the fields of energy, trade and training. These measures are covered by Articles 931, 932, 933, 934 and 935. All this financing is in fact intended to promote industrial and technical cooperation with non-associated developing countries.

10.21. The Court therefore considers that two amendments should be made within the nomenclature of Chapter 93:

- (a) Article 930 should be broken down within the budget by item, or even by sub-item, to allow rapid identification, merely by reading the Commission's accounts, of which commitments fall under which annual programmes, and which ones are intended for the various geographical areas according to their type (project, research, technical assistance, management expenses, etc.);
- (b) in addition to Article 930, the appropriations intended for industrial, commercial and technical cooperation should be consolidated into a single article, broken down into as many items as necessary, in order to show the specific types of expenditure in question.

10.22. It would thus be possible to make a clearer distinction between, on the one hand, the financing of investment projects to assist the rural development of non-associated developing countries (Article 930) and, on the other hand, the financing of measures to assist the industrial, commercial and technical development of these countries (new article consolidating former Articles 931, 932, 933, etc.), whilst giving real significance to the principle of budgetary classification formalized in Article 15, indent 2, of the Financial Regulation: '... the items of ... expenditure shall be classified according to their type or the use to which they are assigned under titles, chapters, articles and items'.

### *Monitoring of the administration of Article 930*

10.23. The Commission has a data bank for Title 9, but it is only operational as regards financing chargeable to Articles 965 and 966 (Mediterranean protocols). The data for the rest of Title 9, particularly Article 930 under which the 1976 and 1977 commitments still to be settled are not recorded, still have to be finalized and corrected before they can be used. At present, the desk officers responsible for administration draw up by hand the statistics on implementation. No comparison is made between these statistics, which take a long time to draw up, and those contained in the data bank. The risk of inaccuracies is therefore substantial.

10.24. Furthermore, the files are kept by the administrative departments in such a way that it is not easy to find out or to assess how the financial and technical cooperation measures are progressing. Prompt and reliable information is provided only through the files kept by the financial departments. Because of the different types of files in the other departments, it is not generally possible to provide information so rapidly.

### **OBSERVATIONS ON THE SPECIFIC MEASURES FOR COOPERATION WITH DEVELOPING COUNTRIES (CHAPTER 94) — ADMINISTRATION OF ARTICLE 941**

10.25. The function of the appropriations under Article 941 is to provide a 'Community contribution to schemes concerning developing countries carried out by non-governmental organizations (NGOs)'. The subsidies are not paid directly by the Commission to NGOs located in developing countries, but only to NGOs which have their registered office within the Community, provided that they negotiate with a local partner, if necessary; this is very often the case.

10.26. The recent on-the-spot audit visits by the Court in 1985 (Burkina Faso, Cape Verde, Ghana, Guinea, India, Kenya, Madagascar, Mauritius, Niger, Somalia) showed that, on the whole, the NGOs are an irreplaceable tool for carrying out many different operations, particularly in the fields of food aid and rural development. In many cases, these operations were carried out at a lower cost than would have been the case if more conventional administrative and technical measures had been used.

10.27. Nevertheless, on the evidence of the findings of the Commission's Financial Control department and its own observations, the Court has good reason to state that, although the legislation applicable to NGOs was improved in 1982, it still has loopholes and imprecisions. This makes it difficult to monitor files in a satisfactory manner and, at the same time, there are too few Commission employees engaged in the administration and checking of the subsidies granted to the NGOs to carry out the task. The three cases described below illustrate this situation.

10.28. One NGO submitted applications for co-financing under irregular circumstances. Out of the ten projects inspected, two were not eligible because they had virtually been completed. The same project was proposed to a number of financial backers in such a way that the combined funds exceeded the cost of the project. The Commission maintained its subsidy after the NGO had reimbursed another financial backer's contribution.

10 29 Five of the ten projects examined, which were administered by the NGO in question, also suffered from initial technical design and financial planning errors, giving rise to cost over-runs. The most flagrant case is that of a road project which had to be abandoned because the technical details of the main component — the construction of a 60 m bridge — had to be completely re-examined and the cement cost twice the sum estimated.

10 30 The monitoring of projects was poor, due to the lack of an appropriate exchange of information between the registered office and the local branches of the NGO. The NGO did not have, at its head office, substantiating documents relating to the expenditure effected. The implementation reports normally required were only sent to the Commission after it had made repeated approaches to the NGO.

10 31 The competent administrative officer of the NGO at the time of these events was prosecuted and sentenced in July 1983 to imprisonment for the embezzlement of substantial funds. To date, it has still not been possible to establish that the amounts paid by the Community actually were transferred to the projects. The only inspection which could be carried out related to the acknowledgement of receipt of the subsidies by the NGO's head office and to the exchanges of correspondence with its local branches. In reality, the Community funds were swallowed up by the operating budget of the NGO, which used them as it pleased.

10 32 A second NGO in the same Member State functions exclusively through local NGOs, and is therefore not directly operational. It made use of the possibility, provided for in the General Conditions, of including in the total cost of the project 6% to cover its own administrative costs and 7,5% for educational development measures related to the project. Although these percentages are maximum amounts, the Commission did not reduce them. This is particularly regrettable in the case of the 6% for administrative costs, as this NGO is not directly operational. The examination of applications for finance was therefore inadequate. Furthermore, amendments should be made to the text of the General Conditions applicable to NGOs, which — particularly with regard specifically to the calculation of the Community's participation in these costs — is very obscure. In addition, although the NGO and the Community are required to bear these costs in proportion to their respective participation in the project, the NGO succeeded in having them financed in full by the Community subsidy.

10 33 In the case of four of the twelve projects examined, the NGO was unable to prove, when the audit was carried out, that it had in fact transferred the funds received from the Commission to the projects. It had, however, previously forwarded implementation reports to the Commission mentioning these transfers.

10 34 In spite of the large payment it received, the NGO did not monitor the operations properly. Only two

of the 12 projects examined did not involve any substantial discrepancy between the application for a subsidy and its subsequent use, incorrect calculations, incomplete reports, or a combination of these shortcomings.

10 35 In the case of the third NGO, the Court's findings on an inspection visit in a developing country, and then at the European head office of the NGO concerned, confirmed the scope of the observations made above. It was in fact evident that a subsidy of 0,28 Mio ECU had been paid to a project, but that the NGO had made no real contribution itself, although the General Conditions stipulate that co-financing should be limited to 50% of the total cost. By resorting to a particular way of presenting the accounts (enhancing the value of existing premises and including future revenue), the NGO was able to dispense with making any financial contribution.

10 36 This operation was initiated in 1978, at a time when the General Conditions were rather vague. In 1982, a provision was introduced to allow contributions in kind. It makes it possible to engage in practices which are, to say the least, dubious whilst preserving the outward appearance of regularity. This is, moreover, not the only shortcoming in the General Conditions applicable to NGOs. The monitoring of operations carried out by the NGOs will remain inadequate as long as they are not obliged to check the operations carried out by their local partners on the spot and make available the relevant financial documents to the Commission. It is therefore regrettable that the financial penalty provided for in the General Conditions when an NGO does not meet its obligations (i.e. repayment of the subsidy received) is not imposed more often. The truth is that it is difficult to apply this penalty to infringements such as inadequate on-the-spot audits or failure to forward reports within the prescribed period. It would therefore be desirable to consider a flexible system, leading, for example, to the partial reimbursement of sums already paid. The conditions governing the granting of a contribution towards administrative costs should be reviewed in order to take account of expenditure actually incurred.

#### OBSERVATIONS ON THE EXCEPTIONAL MEASURES TO ASSIST DEVELOPING AND OTHER NON-MEMBER COUNTRIES (CHAPTER 95)

##### *Special programme to combat hunger in the world*

10 37 The appropriations required for the implementation of the special programme to combat hunger in the

world were provided, as from 1982, by the introduction into the 1983 budget of Article 958, which has been incorporated into subsequent budgets. Council Regulation (EEC) No 1993/83 <sup>(3)</sup> of 11 July 1983, setting up this programme, expired on 31 December 1984. On 6 August 1985, and subsequently on 26 December 1985, the Commission recommended to the Council that the programme should be pursued until the end of 1986, and then until the end of 1987.

10.38. The objective of the special programme is to use structural measures in order to increase the developing countries' self-sufficiency in food and contribute towards the conservation of natural resources. On this basis, the Court examined the situation of two recipient countries which had arranged with the Community, in the context of the special programme, to purchase with the Community subsidy cereals produced locally and to resell them on their own market. The two countries undertook to transfer the proceeds of this resale to a special account, with a view to funding similar operations in the future. However, in one of the countries, only a third of the anticipated quantity of cereals was purchased and, moreover, they were purchased outside the country in question and were distributed within the country free of charge. As a result, no counterpart funds were credited to the special account. In the other country, the proceeds of the resale were not returned to the special account as planned. It is to be feared that, in both cases, the Community aid ultimately served to fund semi-governmental bodies, the administration and financial situation of which give cause for great concern.

10.39. The appropriations committed in 1983 (see *Table 10.6*), which were non-differentiated at the time, could not be spent and were therefore carried forward to 1984. In 1984, under the system of differentiated appropriations, commitments continued at a high rate, but no payments from the appropriations for the financial year were effected. On the other hand, the Commission utilized all the appropriations carried over from 1983, and went as far as to make payments although the cor-

responding services had not been rendered. This is an infringement of Article 37 of the Financial Regulation.

10.40. In 1985, the amount authorized for new commitments was reduced by half. However, most of the appropriations were not utilized, due to the lack of any regulation authorizing the use of the appropriations entered in the budget. This situation is due to the fact that the Commission submitted, in August 1985 (and therefore too late), an initial proposal to extend the term of validity of the Regulation that had expired, and the Council did not wish to adopt this proposal. A second — and more comprehensive — proposal from the Commission, submitted on 26 December 1985, had still not been adopted by the Council at the end of April 1986. Under these circumstances, it is not normal that the Commission should nevertheless have been able to commit 0,55 Mio ECU. The greater part of this sum (0,46 Mio ECU) represented amounts due under contracts signed in 1984, for which the implementation period had exceeded the period of validity of the corresponding appropriations. This excuse, which is moreover questionable, does not in any case apply to the remaining 0,093 Mio ECU. This amount, 0,045 Mio ECU of which were charged to appropriations available for the financial year 1984 whilst the remaining 0,048 Mio ECU were charged to appropriations belonging to the financial year 1985, was committed at the end of 1985, although there was no legislative justification for committing it. The irregularity in this case must therefore be stressed.

10.41. Once again in 1985, it was not possible to effect any payments from appropriations for the financial year, although the authorization covered only a third of the payments allowed in the previous financial year. Only 55 % of the payment appropriations carried over from 1984 were utilized; this shows that it is impossible to convert commitments entered into into expenditure with adequate rapidity and still abide by the rules.

**Table 10.6 — Implementation of the special programme to combat hunger in the world**

(Mio ECU)

	1983		1984		1985		1986
	Appropriations available	Appropriations utilized	Appropriations available	Appropriations utilized	Appropriations available	Appropriations utilized	Appropriations available
Appropriations for commitment							
— appropriations for the financial year	50,0	49,6	58,0	57,8	29,0	0,0	16,0
— appropriations remaining	—	—	—	—	0,5	0,5	29,0
Appropriations for payment							
— appropriations for the financial year	50,0	0,1	42,0	—	14,0	—	16,0
— appropriations carried forward	—	—	49,5	48,1	42,0	23,1 <sup>(1)</sup>	14,0

<sup>(1)</sup> 18,9 Mio ECU therefore lapsed at the end of 1985.

## OBSERVATIONS ON THE OPERATION OF COMMISSION DELEGATIONS IN DEVELOPING COUNTRIES (CHAPTER 98)

10.42. In 1985, a subsidy of 58,14 Mio ECU was paid to the European Association for Cooperation (EAC) in order to administer 77 Commission delegations located in non-member States. A total of 1 414 members of staff, including 276 expatriates, are employed in these delegations.

10.43. Whilst examining, at the EAC's head office in Brussels, a number of imprest accounts administered by Commission delegations in developing countries, the Court found shortcomings in the central administration of the EAC and, more specifically, in the way in which it supervises the financial operations of the delegations.

### *Supervision of the delegations by the EAC*

10.44. The delegations keep a monthly journal for the imprest accounts, covering their operating expenses and, if appropriate, technical assistance operations. This journal is subsequently sent to the EAC, together with the supporting documents. The EAC's control procedure consists of an examination of each item and document in respect of expenditure declared and is carried out by members of staff in category C. The check is carried out thoroughly, particularly when the account books are received late by the EAC.

10.45. Such an audit of the delegations' accounts is unsatisfactory. In fact, although the EAC auditors perform their work conscientiously, their level of training is such that their tasks should be defined in detail. However, they do not even have a manual setting out the checks to be carried out and they perform their audits simply on the basis of guidelines, which are most often given orally. It is therefore not possible to ensure that all the necessary audits have been carried out, and this inevitably leads to a far too routine approach. A more structured method of control, by selecting samples and items to be checked, should be introduced. Control strategies should be defined and the expenditure of the various delegations should be compared with each other and analysed with reference to standards. The measures taken by the EAC in the case of fuel expenditure show the advantage of adopting such an approach.

### *Central administration of the EAC*

10.46. Optimum use is not made of the procedure introduced since 1984, which consists of granting each delegation an internal budget. The delegations generally make their proposals on the basis of past expenditure. The EAC analyses the variations recorded from one year to the next and attempts to compare the various budgets with each other. However, it has not managed to establish, for all the budgetary items, objective criteria on which the proposals should be based, and the concept of a standard delegation budget is still to be determined.

10.47. When a specific item of expenditure, such as the purchase of furniture locally, has been provided for in the budgetary estimate which is formally approved by the EAC, the rule stipulating that the agreement of head office is required when expenditure exceeds 500 ECU is supererogatory. This rule is in any case not observed very strictly by the delegations, partly because the EAC is sometimes slow to react to their demands and does not always take their needs into consideration. For example, it may take several months to give its opinion on requests to purchase vehicles or furniture. The EAC does not advise delegations from a technical point of view, in order to seek the most economical solutions. It does not follow up the annual plant maintenance contracts, which often exceed 500 ECU and are therefore subject to the prior authorization rule.

10.48. The amounts provided for the running of the delegations are generally transferred from Brussels in the currency of the country in which the delegation is located. It sometimes happens that the EAC effects the transfers in hard currency, which is then changed into local currency on the spot. The exchange rate used is an official rate which, in certain cases, does not correspond to the actual value of the local currency. This practice results in considerable costs for the Community budget.

10.49. The EAC is not always equipped with satisfactory administrative tools, such as may be used by the actual authority supervising the delegations, i.e. DG VIII at the Commission. For example, the accounts for expenses incurred in connection with official travel are recorded in such a way that it is not possible to identify directly all the expenditure declared during such trips or to establish their total cost. Furthermore, on-the-spot visits do not always give rise to reimbursements. It is difficult to trace the movements of members of staff during these visits, nor is it easy to monitor their inspections of the implementation of projects. The rate of utilization of appropriations, which is often lower than the estimates, could provide the Commission with valuable information.

10.50. As the EAC had not had up-to-date records for a number of years, in July 1985 it started to make an inventory of the property held by the delegations, both for their own operations and for the accommodation of

expatriate staff. Inadequacies had led the EAC to bear extra costs and, when a new member of staff took up his duties, to incur substantial expenditure. It was therefore essential to have inventories of fixtures and equipment when expatriate staff took up their appointments, so as to allow checks to be made on their departure and to allow them to take responsibility for the expenditure for which they could be considered accountable. The Court notes that, in many delegations, these inventories are carried out extremely slowly.

10.51. The accounting methods should be improved and harmonized. The delegations are not always able to charge the expenditure they have incurred against an item

in their own budget (expenditure refused by the EAC's head office and to be settled, expenditure not connected with the running of the delegation, 'private' expenditure by members of staff to be recovered). The delegations charge them to a suspense account, but do not produce a monthly summary of the amounts outstanding, indicating only the additions and withdrawals made during the month and the balance. This method does not show the extent of the suspense items, how long they have existed or how rapidly they are cleared. The lack of uniformity of supporting documents, particularly with regard to the salaries of local staff, is also worth noting.

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(<sup>1</sup>) OJ C 326 of 16.12.1985.

(<sup>2</sup>) OJ L 48 of 21.2.1981, p. 8.

(<sup>3</sup>) OJ L 196 of 20.7.1983.

## CHAPTER 11

**Management of the Community institutions and the external bodies**

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## INTRODUCTION

11.1. This Chapter deals with the Court of Auditors' examination of the management of the Community institutions (staff and operational expenditure) and of the subsidies to bodies external to the Communities. The management of the institutions gives rise to observations which relate, as the case may be, either to general subjects concerning all or some of the institutions or to matters peculiar to the Commission.

11.2. The appropriations intended to cover the staff expenditure of the institutions appear under Title 1 of each section of the general budget <sup>(1)</sup> and, for Section III: Commission, under Title 1 of Part A and Title 7 of Part B (research and investment) <sup>(2)</sup>. This expenditure, which in 1985 amounted to 1 043,1 Mio ECU, is effected under the provisions of the Staff Regulations of Officials of the European Communities, including annexes and the Conditions of Employment of Other Servants (CEOS).

11.3. The appropriations intended to cover the operational expenditure of the Community institutions appear under Titles 2 and 3 of each section of the general budget and, in the case of the Commission, under Title 2, Part A of Section III of this budget. The corresponding expenditure totalled 391,6 Mio ECU.

11.4. The Court carries out annual audits of the accounts of the following recipient bodies by virtue of specific powers conferred on it by the Treaties or by the constituent instruments or internal rules of these bodies:

- (a) the European Schools and the Board of Governors of the European Schools;
- (b) the JET Joint Undertaking;
- (c) the Euratom Supply Agency;

<sup>(1)</sup> The footnotes appear at the end of each chapter.

(d) the European Centre for the Development of Vocational Training (Berlin Centre — Cedefop);

(e) the European Foundation for the Improvement of Living and Working Conditions (Dublin Foundation);

(f) the European Foundation, Paris (not operating in 1985).

In accordance with the rules laid down in the above-mentioned documents, the Court reports to the discharge authorities of these bodies. These reports, which are separate from the annual report on the implementation of the general Community budget, are listed in Annex II to this report.

## STAFF EXPENDITURE

### *Summary of financial information and list of posts at the institutions*

11.5. The volume and utilization of the appropriations relating to Titles 1 of the budget are set out by budget chapter and by institution in *Table 11.1*. Taken as a whole, the rate of utilization of appropriations was 97,5 %, the rate of carry-overs of appropriations 1,3 % and the rate of cancellations 1,2 %.

11.6. The theoretical staff complement (the posts authorized in the budget) and the numbers actually employed, including other categories of staff not provided for in the list of posts, are set out in *Tables 11.2 — 11.3*. These data show a reduction in the disparity between posts actually filled by the end of the financial year and posts authorized by the budget, thus confirming a trend already noted in 1984, except at the Office for Official Publications and in respect of the Commission's 'research and investment' staff complement.



Table 11.1 — Utilization of staff appropriations — by budget chapter and institution

(Mio ECU)

Budget chapter and institution	1985 budget					Carry-overs from 1984		
	Final appropriations	Commitments	Payments	Carry-overs to 1986	Cancellations	Carry-overs from 1984	Payments	Cancellations
(1)	(2)	(3)	(4)	(5)	(6)=(2)-(4)-(5)	(7)	(8)	(9)=(7)-(8)
<b>A. By budget chapter</b>								
10 Members of the institutions <sup>(1)</sup>	55,8	54,2	52,5	1,7	1,6	1,7 <sup>(4)</sup>	1,4	0,3
11 Staff	735,9	730,5	726,9	3,6	5,4	3,2 <sup>(4)</sup>	2,2	1,0
12 Allowances and expenses on entering and leaving the service and on transfer	93,1	90,8	90,1	0,7	2,3	0,6 <sup>(4)</sup>	0,4	0,2
13 Expenditure relating to missions and duty travel	22,6	22,5	17,7	4,8	0,1	4,2 <sup>(4)</sup>	3,8	0,4
14 Socio-medical infrastructure	2,5	2,5	2,1	0,4	0,0	0,4	0,4	0,0
15 Graduate traineeships and further training of staff	3,0	3,0	2,8	0,2	0,0	0,2 <sup>(4)</sup>	0,1	0,1
16 Expenditure on social welfare	2,2	2,0	1,6	0,4	0,2	0,0	0,0	0,0
17 Commission — Entertainment and representation expenses	0,7	0,7	0,4	0,3	0,0	0,2 <sup>(4)</sup>	0,2	0,0
37 Expenditure relating to certain institutions and bodies <sup>(2)</sup>	1,6	1,6	1,6	0,0	0,0	—	—	—
<b>Total</b>	<b>917,4</b>	<b>907,8</b>	<b>895,7</b>	<b>12,1</b>	<b>9,6</b>	<b>10,5<sup>(4)</sup></b>	<b>8,5</b>	<b>2,0</b>
<b>B. By institution</b>								
Parliament	174,3	172,1	166,6	5,5	2,2	4,4	3,6	0,8
Council	77,2	75,8	75,4	0,4	1,4	0,5	0,5	0,0
Commission <sup>(3)</sup>	606,3	602,5	596,7	5,8	3,8	5,4 <sup>(4)</sup>	4,2	1,2
Court of Justice	25,7	24,4	24,2	0,2	1,3	0,1	0,1	0,0
Court of Auditors	16,6	15,9	15,7	0,2	0,7	0,1	0,1	0,0
Economic and Social Committee	17,3	17,1	17,1	0,0	0,2	0,0	0,0	0,0
<b>Total</b>	<b>917,4</b>	<b>907,8</b>	<b>895,7</b>	<b>12,1</b>	<b>9,6</b>	<b>10,5<sup>(4)</sup></b>	<b>8,5</b>	<b>2,0</b>

<sup>(1)</sup> Parliament, Commission, Court of Justice, Court of Auditors, Economic and Social Committee.<sup>(2)</sup> Except for Item 3742 of Section II — Council (Operating expenditure in connection with the accession of Spain and Portugal).<sup>(3)</sup> Including the Office for Official Publications.<sup>(4)</sup> These amounts take into account the alteration to the Commission's budgetary nomenclature in 1985.

### Observations on the computerized systems for calculating salaries and for managing staff numbers

11.7. The data concerning the lists of staff employed in each institution should tally with those used for calculating the salaries. The Court investigated the extent to which the computer systems set up by two of the institutions, namely the 'RAPE' (Parliament), 'Sysper' (Commission) and 'PAIE' (common to both institutions) systems, enabled the numbers of staff employed to be checked against the numbers paid.

11.8. The enquiry revealed that there were no arrangements for a reconciliation to be made between the various items of information recorded, either within each system or between one system and another, a fact which constitutes a major defect in the internal control of staff management. Not even the first stage of such a reconciliation has been achieved, in so far as there is no totalling of staff numbers within each system, with the result that they cannot be compared easily. Thus, for example:

- (a) in the 'PAIE' system, neither the monthly list of salaries paid, by official, nor the monthly bank lists mention the total number of staff paid;

Table 11.2 — Officials and temporary staff

Institution	1984			1985		
	Posts authorized	Staff at 31. 12. 1984	Difference (2) — (3)	Posts authorized	Staff at 31. 12. 1985	Difference (5) — (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Parliament	2 966	2 826	140	2 941 <sup>(1)</sup>	2 917	24
Council	1 792	1 711	81	1 888	1 823	65
Commission						
(a) Administration excluding Office for Official Publications	10 037	9 587	450	10 429	10 027	402
(b) Office for Official Publications	312	287	25	331	303	28
(c) Research and investment:						
— Direct action	2 222	2 155	67	2 260	2 164	96
— Indirect action	629	551	78	662	578	84
Court of Justice	480	438	42	480	441	39
Court of Auditors	303	283	20	307	289	18
Economic and Social Committee	398	398	—	405	402	3
<b>Total</b>	<b>19 139<sup>(2)</sup></b>	<b>18 236</b>	<b>903</b>	<b>19 703<sup>(2)</sup></b>	<b>18 944</b>	<b>759</b>

<sup>(1)</sup> Excluding, in 1985, a reserve of 57 posts.

<sup>(2)</sup> This total includes neither the 43 staff of the European Centre for the Development of Vocational Training nor the 38 staff of the European Foundation for the Improvement of Living and Working Conditions.

Source of data: the EC institutions.

Table 11.3 — Auxiliary staff, local staff and special advisers

Institution	31. 12. 1984				31. 12. 1985			
	Auxiliary staff	Local staff <sup>(1)</sup>	Special advisers	Total	Auxiliary staff	Local staff <sup>(1)</sup>	Special advisers	Total
Parliament	83	—	—	83	88 <sup>(2)</sup>	—	—	88
Council	42	—	—	42	32 <sup>(3)</sup>	—	—	32
Commission:								
— Administration	77	498	46	621	145	532	54	731
— Research and investment	67	—	—	67	98	—	—	98
Court of Justice	20	10	1	31	18 <sup>(4)</sup>	12	1	31
Court of Auditors	3	5	—	8	7	2	—	9
Economic and Social Committee	17	—	—	17	22 <sup>(5)</sup>	—	—	22
<b>Total</b>	<b>309</b>	<b>513</b>	<b>47</b>	<b>869</b>	<b>410</b>	<b>546</b>	<b>55</b>	<b>1 011</b>

<sup>(1)</sup> This figure does not include local staff paid by extra-budgetary bodies (restaurants, crèches etc.).

<sup>(2)</sup> 88 at 31. 12. 1985 but 253 during the financial year.

<sup>(3)</sup> 32 at 31. 12. 1985 but 55 during the financial year.

<sup>(4)</sup> 18 at 31. 12. 1985 but 30 during the financial year.

<sup>(5)</sup> 22 at 31. 12. 1985 but 51 during the financial year.

Source of data: the EC institutions.

- (b) the lists of names produced by the day-to-day management systems, 'RAPE' and 'Sysper', give no final total of staff numbers, either overall or by category;
- (c) lastly, discrepancies have been found between the various documents issued by the 'Sysper' system and between these and the statements issued by the 'PAIE' system.

The Commission has been notified of the anomalies found in its systems. It is investigating them in order to justify them.

### *Observations on the institutions' management of the education allowances system*

11.9. The education allowances, part of the family allowances for which appropriations are entered under Items 1002 and 1101 of the five sections of the budget, gave rise to expenditure for the financial year 1985 totalling 15,4 Mio ECU. An examination of this expenditure at all the institutions resulted in some observations of general interest, which are set out below.

11.10. The basic texts setting up the system of education allowances <sup>(3)</sup> lay down the principle of reimbursement of the actual education costs incurred for each child up to a maximum amount, which may in certain cases be doubled. For the purpose of putting these texts into effect, the current general implementing provisions <sup>(4)</sup> stipulate that part of the cost is covered by a fixed allowance, whilst the other part is reimbursed on the basis of the actual costs, up to the afore-mentioned maximum. Furthermore, since the financial year 1984, a subsidy to educational establishments, which is accessible to staff from all the institutions, has been entered under Item A 2898 of the Commission budget. Analysis shows this subsidy to be a supplement to the education allowance.

11.11. Whilst the management of the fixed part of the allowance is relatively simple and is, moreover, carried out through the computerized payroll systems, the same is not true for the part calculated according to the actual costs. This part, even though it represents only about 20 % of the total expenditure, has proved very complicated to manage because of the large number of cases and files to deal with and it results in differences in treatment which are hard to understand. Thus, for example:

- (a) where the education costs are exactly the same, twice the maximum amount is granted, for higher education, to officials who receive expatriation allowances and is refused in the case of officials who receive foreign residence allowances;

- (b) twice the maximum amount is granted to an official whose place of employment is over 50 km away from the educational establishment which his child attends, even though the family home may be less than 50 km away;
- (c) in the case of staff posted to an information office in their country of origin, twice the maximum amount is granted for primary and secondary education but refused for higher education.

11.12. The 0,1 Mio ECU of appropriations entered under Item A 2898 are intended to cover the costs of schooling for children who, for overriding pedagogical reasons or because of the father's or mother's place of assignment (external offices), cannot be educated in a European School. The corresponding expenditure is questionable on two counts: because of its nature and because it is paid directly to the recipients it constitutes a supplement to the education allowance which, on the one hand, derogates from the rule of a maximum amount of reimbursement for education costs and, on the other, is artificially booked as subsidies to educational establishments. The Court considers that this practice should cease, though specific provisions may be incorporated into the Staff Regulations to cover some particular cases (external offices).

11.13. An examination of the management system for the education allowances highlights the complexity of the regulations regarding reimbursement of actual education costs. The conditions under which these regulations are applied require a cumbersome system of administration and result in errors, backdated reimbursements and discrimination, making it impossible to carry out any effective checks. The actual cases are not sufficiently varied or complex to merit such detailed rules. This being so, the Court recommends that this system be simplified on the basis of a fixed allowance for education costs for each of the three levels of education.

### *Observations on the budgetary management of the Council and the Commission*

11.14. The main feature of the financial year 1985 was the application of the 'provisional twelfths' system until 13 June, the date the budget was adopted. During its audit enquiries at the Council and the Commission, the Court noted the following two cases.

11.15. In the first case, an examination of the management of the appropriations under the Council's Item 1110 'Auxiliary staff' showed that, between 13 June and 7 October 1985, appropriations had first of all been overspent by 618 988 ECU, and then, after 1 August, by

amounts fluctuating between 30 000 and 60 000 ECU. The original deficit had been partially off-set by re-charging payments totalling 584 131 ECU to Item 3741 'Expenditure in connection with the accession of Spain and Portugal to the Communities'. Neither this operation, however, nor a subsequent transfer was sufficient to replenish Item 1110 adequately. Despite its negative balance, new expenditure continued to be charged to this item. A positive balance was not restored until 7 October 1985, by means of a second transfer. These difficulties are partly attributable to the late adoption of the 1985 budget, which caused the Council to keep on 35 Spanish and Portuguese members of staff as auxiliaries for six months, because of the future enlargement of the Communities. The Council then retroactively gave them the status of temporary staff, at the cost of a loss of contributions to the Belgian social security system equal to 57 400 ECU. Without underestimating the roots of the problem, the Court points out that the persistent use of Item 1110 between 13 June and 7 October 1985, in breach of the Financial Regulation <sup>(5)</sup>, should not have been authorized at the various stages of the procedure for implementing the budget.

11.16. The second case concerns the Commission's Item A 1141 'Annual leave travel expenses'. Spending exceeded available appropriations for this Item during June 1985. After the adoption of the budget on 13 June 1985, the authorized appropriations amounted to 5,3 Mio ECU. On 11 and 12 June the authorizing officer had drawn up two commitment proposals bringing the total appropriations committed to 6 Mio ECU. The Financial Controller, having examined the commitment proposals on 17 and 21 June, i.e. after the adoption of the budget, should have refused his approval because there was a shortfall of 0,7 Mio ECU of appropriations.

### *Observations specific to the Commission's management of staff appropriations*

11.17. An examination of the Commission's management of staff expenditure prompts the Court to make two groups of observations relating, on the one hand, to the remuneration of officials posted outside the Communities and, on the other, to expenditure on staff at the Joint Research Centre (JRC).

### **Remuneration of staff posted outside the Communities**

11.18. Some Commission staff are employed, in various non-member countries, in its information offices and external delegations or at the European Association for Cooperation. These members of staff, whose jobs have been created as and when the need arose, face problems

concerning adapting their standard of living, housing, foreign currency and safety, for which no provision was made when the Staff Regulations were adopted in 1962. For example, the Staff Regulations provide for the reimbursement of accommodation costs <sup>(6)</sup> outside the territory of the Member States only in the case of staff assigned to a post in Geneva. The Commission has therefore had to take specific measures, when the need arose, to cope with situations which in fact ought to have necessitated the introduction of proper special arrangements within the Staff Regulations. It was not, however, until 6 March 1986 that a proposal for a regulation to this effect was submitted to the Council <sup>(7)</sup>. The management of these matters during 1985, meanwhile, was characterized not only by a failure to comply with the provisions of the Staff Regulations, but also by a lack of financial stringency in the two fields of accommodation costs and the payment of salaries.

11.19. As regards accommodation costs, in 1985 the Commission paid 123 officials posted in 18 cities rent allowances worth a total of 2 Mio ECU (of which 0,7 Mio ECU in Tokyo, 0,4 Mio ECU in New York and 0,2 Mio ECU in Geneva), according to a method whereby the cost of the rent, minus a proportional contribution (15 to 20 % of the net salary) paid by the official, is borne by the Community. This practice does not comply with the provisions of Article 14 of Annex VII to the Staff Regulations, which states that the accommodation costs of officials shall be reimbursed only in cases — and they are the exception — where the officials in question regularly incur entertainment expenses. Furthermore, since this practice fails to establish either a maximum limit for the allowance or any objective criteria for assessing the true needs of the staff, it attracted some comment by the Financial Controller. Similarly, the Commission reimburses newly-posted officials the actual hotel expenses they have incurred, minus the daily subsistence allowance normally paid, or the afore-mentioned proportional contribution when the stay lasts longer than one month. This practice too is contrary to the provisions of Article 10 of Annex VII to the Staff Regulations.

11.20. Regarding the payment of salaries, Article 63 and Article 17 of Annex VII to the Staff Regulations lay down that payment shall be made to the official at the place and in the currency of the country where he carries out his duties. Derogating from these rules, the Commission allows 50 % of the salaries of officials serving in some non-member countries (Brazil, Chile, India, Israel, Lebanon, Venezuela, Yugoslavia) to be converted into a currency other than the local one, most usually the USD, and, what is more, at the August 1983 exchange rates <sup>(8)</sup>, instead of the current rates, which ought normally to have been used. This practice was established by two Commission decisions which were the subject of two refusals of approval by the Financial Controller, in 1983 and 1984, followed by two overrulings by the superior authority. The corresponding expenditure related to 27 members of staff and totalled 1,1 Mio ECU in 1985, including an exchange-rate loss, resulting from the use of the 1983 rates, estimated by the Court at 0,6 Mio ECU. The Court points out that this expenditure is contrary to the provisions of the Staff Regulations.

11.21. In conclusion, the Court, whilst it is aware of the fact that the Commission has had to make indispensable adjustments to the standard of living of staff serving outside the Communities, finds that such measures have been adopted in a piecemeal and legally doubtful manner. It deplores the fact that no objective method for assessing the staff's true needs and the requisite adjustments was used in drawing up either the existing measures or the proposal for a Council regulation of 6 March 1986.

#### **Staff appropriations of the Joint Research Centre (JRC)**

11.22. According to a long-standing practice, the staff appropriations entered under Titles I of the five sections of the budget are non-differentiated appropriations divided up according to a nomenclature based on traditional headings (basic salaries, family allowances, other staff, etc.). The JRC's staff appropriations, presented according to a nomenclature based on action programmes, are differentiated appropriations, like all the research and investment appropriations of Chapter B 73 of the Commission's budget. The difficulty of identifying and monitoring the current components of staff expenditure is therefore increased, as far as the JRC is concerned, by the fact that the accumulated appropriations may be kept over several financial years<sup>(9)</sup>, whereas staff expenditure must normally be restricted to the one financial year. Under cover of these exceptional arrangements, the JRC's management of staff appropriations has allowed various practices to become established which give rise to anomalies that are contrary to budgetary orthodoxy and to the principle of equal rates of pay for Community officials, as the following paragraphs show.

11.23. The total amount of the JRC's staff appropriations systematically exceeds the strict needs for each financial year. This surplus is a result, *inter alia*, of the practice of basing the estimates for appropriations on the number of jobs on the list of posts without taking due account of vacant posts (estimates based on 2 222 posts, of which only 2 164 have been filled), and, to a lesser extent, of the fact that the social appropriations per staff member are fixed at a higher level than at the other institutions (0,5 Mio ECU for 2 222 JRC staff as opposed to 0,2 Mio ECU for 1 788 Council staff), even though the special features of the JRC partly justify this.

11.24. The available appropriations thus released are used, for the most part, to cover expenditure which no longer has any connection with staff. The staff account contains a special category 19 reserved, according to the financing plan, for 'appropriations accruing from any possible shortfall in staff numbers'. According to the JRC's internal rules, this category is earmarked for covering 'expenditure substituting for staff expenditure', i.e. the scientific expenditure or the administrative or

technical operating expenditure normally covered by appropriations of the same kind. In 1985, category 19 received a final allocation of 5,7 Mio ECU, i.e. almost half the total allocation of appropriations originally set aside for JRC research contracts. In this way, a permanent mechanism has been set up for transferring to the operational side surplus appropriations entered for staff expenditure.

11.25. Furthermore, according to a long-standing practice, the JRC provides its staff, except those at the Geel establishment, with free transport between their homes and their place of work. The related expenditure amounted to 0,4 Mio ECU for the financial year. Such benefits in kind, granted to all the staff, must be considered as contrary to the Staff Regulations, which do not provide for a transport allowance save in specific cases governed by exceptional arrangements which must be interpreted in a restrictive manner<sup>(10)</sup>. In the absence of any legal provision, this practice must be regarded as irregular and the benefits granted to the staff as discriminatory towards the other staff of the Communities. Whilst it is acceptable and even useful that, for lack of a public transport system, as is the case at Ispra, the JRC organizes a collective transport system as best it can, the related cost, on the other hand, should be borne not by the JRC but by the users.

11.26. Similarly, by way of compensation, the JRC grants a transport allowance per kilometre to staff who, because of their special working hours (staff on shiftwork or on call), cannot make use of the free pick-up arrangements. This gives rise to expenditure of 0,1 Mio ECU. Once again, this is expenditure which is not provided for in the regulations, which envisage only a fixed allowance for journeys made in the performance of official duties and not between the place of residence and the place of work<sup>(10)</sup>.

11.27. This analysis of the JRC staff expenditure shows the need to return to more orthodox management procedures in order, on the one hand, to guarantee greater clarity of budget choices and, on the other, to prevent additional benefits being granted to staff. As regards the budget, this concern is shared by the Commission, which has made proposals, in the context of the review of the Financial Regulation, with a view to creating a special title for staff expenditure, with a traditional nomenclature and non-differentiated appropriations. The Court hopes that these proposals will be supplemented by the adoption of a more realistic method of estimating appropriations and by the removal of the category of 'expenditure substituting for staff expenditure'.

## OPERATIONAL EXPENDITURE

*Observations on the transmission of supporting documents**Summary of financial information*

11.28. Table 11.4 shows the appropriations available during the financial year 1985 for operational expenditure and their utilization by budget chapter and by institution.

11.29. As regards operational expenditure, the Court found that, for the financial year 1985, some institutions (Parliament and Council) had sent in their supporting documents rather irregularly, contrary to the time-limits laid down by Article 79 of the Financial Regulation. The Economic and Social Committee did not send the Court the supporting documents relating to the entire financial year 1985 until April 1986.

Table 11.4 — Utilization of operating appropriations — by budget chapter and institution

(Mio ECU)

Budget chapter and institution	1985 budget					Carry-overs from 1984		
	Final appropriations	Commitments	Payments made	Carry-overs to 1986	Cancellations	Carry-overs from 1984	Payments made	Cancellations
(1)	(2)	(3)	(4)	(5)	(6) = (2) - (4) - (5)	(7)	(8)	(9) = (7) - (8)
<b>A. By budget chapter</b>								
20 Investments in immovable property, rental of buildings and associated costs	137,1	135,4	113,1	22,3	1,7	22,7	20,6	2,1
21 Expenditure on data-processing	34,1	33,9	23,7	10,3	0,1	8,5	8,2	0,3
22 Movable property and associated costs	23,2	22,8	14,1	8,7	0,4	8,2	7,5	0,7
23 Current administrative expenditure	30,9	30,4	23,8	6,6	0,5	11,4 <sup>(3)</sup>	10,9	0,5
24 Commission — Postal charges and telecommunications	17,0	17,0	15,2	1,8	0,0	2,6 <sup>(3)</sup>	2,2	0,4
24 Other institutions — Entertainment and representation expenses	0,7	0,6	0,5	0,1	0,1	0,1 <sup>(3)</sup>	0,1	0,0
25 Expenditure on formal and other meetings	27,3	24,9	20,6	4,3	2,4	2,7	1,5	1,2
26 Expenditure on studies, surveys and consultations	11,3	11,1	2,9	8,2	0,2	8,0	7,7	0,3
27 Expenditure on publishing and information	51,2	50,7	31,6	19,1	0,5	17,3 <sup>(3)</sup>	14,6	2,7
28 Subsidies for balancing budgets <sup>(1)</sup>	55,8	54,6	52,5	2,0	1,3	3,1	3,0	0,1
29 Subsidies and financial contributions	12,1	8,1	5,4	2,7	4,0	0,8	0,6	0,2
37 Expenditure relating to certain institutions and bodies <sup>(2)</sup>	17,0	17,0	11,1	5,9	0,0	0,3	0,2	0,1
<b>Total</b>	<b>417,7</b>	<b>406,5</b>	<b>314,5</b>	<b>92,0</b>	<b>11,2</b>	<b>85,7 <sup>(3)</sup></b>	<b>77,1</b>	<b>8,6</b>
<b>B. By institution</b>								
Parliament	63,1	60,6	50,0	10,6	2,5	11,0	8,2	2,8
Council <sup>(2)</sup>	54,3	50,9	34,1	16,8	3,4	12,5	12,0	0,5
Commission <sup>(1)</sup>	281,7	276,9	215,2	61,8	4,7	58,1 <sup>(3)</sup>	53,5	4,6
Court of Justice	6,9	6,6	4,9	1,6	0,4	2,4	1,9	0,5
Court of Auditors	2,4	2,3	1,8	0,5	0,1	0,8	0,7	0,1
Economic and Social Committee	9,3	9,2	8,5	0,7	0,1	0,9	0,8	0,1
<b>Total</b>	<b>417,7</b>	<b>406,5</b>	<b>314,5</b>	<b>92,0</b>	<b>11,2</b>	<b>85,7 <sup>(3)</sup></b>	<b>77,1</b>	<b>8,6</b>

<sup>(1)</sup> Including operating expenditure for the Office for Official Publications.

<sup>(2)</sup> Except for Item 3741 of the Council budget (staff expenditure in connection with the accession of Spain and Portugal).

<sup>(3)</sup> These amounts take account of the alteration to the budgetary nomenclature in 1985.

*Observations on expenditure on the fitting-out of premises occupied by the Council and the Commission*

11.30. During the financial year, the Council and the Commission each carried out various improvements to the buildings they occupy in Brussels. The Court's enquiries focused in particular on the improvements to the Charlemagne building decided by the General Secretariat of the Council in the context of an outline contract relating to the period 1985-1989 for a total of 3,4 Mio ECU in 1985 (Section II, Article 204 and Item 3742), and on the work to renew the telephone network of the Commission's JECL building, also carried out under an outline contract, for a sum of 0,5 Mio ECU in 1985.

11.31. Although each of these operations has its own special features and has been carried out independently, they give rise to similar comments which can be summarized as follows:

- (a) the outline contracts concluded by the Council and the Commission respectively do not contain the details necessary to allow the cost of the work to be carried out by the contractor to be checked and monitored, with the result that the institution is not able to verify the actual cost and the constituent parts of the prices invoiced. Moreover, in respect of the contract concluded by the Council, the invitation to tender did not cover the various aspects of the proposed contract (amount, full range of works to be performed, etc.);
- (b) despite the provisions of Article 56 of the Financial Regulation, no preliminary guarantee for the performance of the contracts was required to be made, even for works involving an amount exceeding 0,2 Mio ECU for which such a deposit is obligatory.

11.32. The cost of the improvement of premises carried out by the Council and the Commission during the financial year in the Charlemagne and JECL buildings was met under a legal framework which, in many respects, did not comply with the provisions of the Financial Regulation and with the contractual obligations between the institutions and the owners of these premises. Similarly, it is evident that the institutions did not, in this instance, explore all the possible ways of getting the owners to share in the costs thus incurred.

*Observations specific to the Commission's management of operational appropriations*

**Overruling of a refusal of approval by the Financial Controller**

11.33. The Financial Regulation (Article 32 *et seq.*) lays down that all measures which may give rise to expenditure must be preceded by a proposal for commitment of expenditure approved by the Financial Controller, who ascertains, *inter alia*, that the appropriations are available. In the case of a provisional commitment (to which several items of expenditure can be charged), the authorizing officer must check, on his own responsibility, that the individual commitments do not exceed the provisional commitment covering them.

11.34. On this subject, the Court must point out that, for handling and removal expenses relating to the financial year 1985 (appropriations involved : 0,3 Mio ECU), the authorizing officer concerned made commitments to a third party on behalf of the Commission without ascertaining beforehand that the necessary appropriations were available. The proposals for provisional commitment, which were submitted late, were not accepted by the Financial Controller and the Commission decided in the end to overrule the latter's refusal of approval.

11.35. On several occasions in the past <sup>(11)</sup>, the Court has already drawn attention to failure by the Commission to comply with the basic provision laid down in Article 32 of the Financial Regulation. Such failures constitute a major weakness in the present management system. The Commission should remedy it by improving the procedures for programming and monitoring expenditure.

**Implementation of a European television pilot-project**

11.36. The Commission awarded a private company a grant of 1 Mio ECU with a view to carrying out a 'European television pilot-project' to investigate the possibility of a televised presentation of the content, aims and policies of the Communities. The Commission charged the grant to the financial years 1983 and 1984, but, because of delays in the implementation of the project, the payments did not cease until December 1985.

11.37. The Court's examination of the awarding and implementation of this subsidy calls for the following observations:

- (a) with regard to the awarding of this grant, the Court observes that the Commission's decisions were not accompanied by terms which were binding on the recipient, especially in respect of the costs actually borne by the latter (the resources, other than the Commission's, allocated to the project amounted in the end to only 0,4 Mio ECU instead of 0,6 Mio ECU, i.e. 26,9 % of the original budget instead of the 36,8 % planned) or by conditions likely to ensure that the project stayed within the budgeted costs (expected cost: 1,6 Mio ECU; final cost stated by the recipient: 1,9 Mio ECU);
- (b) with regard to the possibilities for assessing the expenditure paid out by the grant recipient, the Court observes that the payments by the Commission were made on the basis of a time-schedule which was not linked to the presentation of detailed reports on the expenses incurred, and that the final payment was made despite the inadequacy of the documents for the final accounts. Thus, the recipient's final accounts failed to give sufficient justification for or details of the unusual amount of expenditure on consultation, the undifferentiated presentation of major items (such as authors' royalties or general and entertainment expenses) and the project's 0,4 Mio ECU deficit.

11.38. The European television pilot-project received a grant which was not awarded on the kind of financial terms and subject to the kind of guarantees which the amount in question merited. When the partial and the final payments of this grant were made, the Commission did not make the necessary checks to ensure that the aim of the pilot-project had been achieved.

### *Observations on the payment of invoices by the Court of Auditors*

11.39. In order to establish how long the Court took to pay the invoices it received, checks were made on a large number of invoices paid or received during the first quarter of 1985. These checks showed that, in one particular case, the Court had not asked for the discount which suppliers usually give on invoices paid within 15 days.

## EXTERNAL BODIES

### *General matters*

11.40. Under the terms of the Treaties and the derived legislation, the Court has a duty to perform an annual audit on the accounts of the bodies listed in paragraph 11.4. The Commission pays annual subsidies to these various bodies external to the Communities out of appropriations entered in the general budget. The financial data relating to these bodies are set out in *Table 11.5*. The main feature of these payments is that they constitute the lion's share of the resources available to these bodies and that, in the case of the Euratom Supply Agency and the European Schools, they are presented as true subsidies, given for the purpose of balancing the budget. For this reason, the amount charged to the Community budget depends directly on the quality of the management of these bodies, which, however, is in the hands of authorities that are independent of the Communities.

**Table 11.5 — Subsidies paid by the Commission to some bodies external to the Communities**

Body	Payments made by the body (Mio ECU)	Commission subsidy (Mio ECU)	Importance of the subsidy in relation to payments
European Schools <sup>(1)</sup>	64,00	41,00	64 %
JET Joint Undertaking	94,00	52,50	56 % <sup>(2)</sup>
Euratom Supply Agency	1,36	1,34	99 %
Centre for the Development of Vocational Training	4,69	4,68	100 %
Foundation for the Improvement of Living and Working Conditions	4,23	4,32	102 % <sup>(3)</sup>
European Foundation	—	0,1	—

<sup>(1)</sup> The data for the European Schools relate to the financial year 1984 for the payments as well as for the Commission subsidy.

<sup>(2)</sup> Since the implementation of the budget is influenced by payments made out of reserves accumulated from earlier years, the Commission subsidy appears to be lower than the 80 % laid down by the statutes of the JET.

<sup>(3)</sup> Some payments were deferred until the following financial year because of carry-overs of appropriations.



11.41. Apart from the observations contained in the specific reports written by the Court on the management of these bodies, an examination of the use of these subsidies gives rise to two kinds of considerations. Firstly, the internal legal structure of some of these bodies has an effect on the use of the subsidies, and, secondly, the management of some of them is not as scrupulous as the Communities, in their capacity as the chief supplier of funds, have a right to expect.

- (a) the Member States have paid only a first tranche of 10 % of the authorized capital;
- (b) on a unanimous proposal from the Euratom Council, the Commission has since 1960 indefinitely postponed the introduction of the charge intended to cover the Agency's operating costs and has replaced it with a balancing subsidy which is included in the general budget.

### *Observations on the legal structure of the recipient bodies*

#### **European Schools**

11.42. The statutes of the European Schools lay down the way in which authority and responsibilities are to be divided up; this is done according to a model which concentrates in the hands of one and the same authority — the Board of Governors of the European Schools — the mutually incompatible duties of budgetary authority, managing authority and management-control authority (discharge authority). This situation is worrying because it is the failure to keep these powers separate that is chiefly to blame for the shortcomings noted for some years now in the administration of the schools.

#### **JET Joint Undertaking**

11.45. Although Article 3 of the JET statutes<sup>(13)</sup> stipulates that the budgetary authority (the JET Council) and the administrator (the Director of the Project) must be separate persons, Article 5.2(c) of these statutes encourages the watering down, to some extent, of the responsibilities as regards management decisions. The JET Executive Committee is obliged to play an increasingly important role in the decision-making process by acting more as an administrative body responsible for approving some decisions proposed by the Director of the Project rather than as an advisory body responsible for appraising the budgetary authority's files. This practice, which has been backed up by various internal documents<sup>(14)</sup>, gives particular cause for concern.

### *Observations on the use made by some external bodies of the Communities' subsidies*

#### **Euratom Supply Agency**

11.43. The Agency was set up and its functions defined in Chapter VI of the Euratom Treaty, which also provided that the Council, acting by a qualified majority on a proposal from the Commission, was to draw up the Agency's statutes.

11.44. For various reasons, the Agency's activities have not developed as expected, with the result that there is a lack of legal clarity as regards the internal organization and the definition of the Agency's activities. The Commission's 1982 and 1984 proposals for new provisions in Chapter VI of the Euratom Treaty are in fact still being considered by the Council, whilst the proposals provided for in Articles 171 and 183 of the Euratom Treaty concerning the drafting of a financial regulation, have still not been submitted<sup>(12)</sup>. This situation has the following consequences for the general budget:

#### **European Schools**

11.46. The Board of Governors of the European Schools decided, at its meeting of December 1985, to take follow-up action on two observations made previously by the Court: firstly, the question of the financing of the schools by public or private bodies which had concluded agreements with the Board of Governors and, secondly, the updating of the Financial Regulation. Nevertheless, although decisions of principle were taken in both these fields, they have not yet resulted in any specific improvement.

11.47. Even though it has been raised by the Court on several occasions, the crucial question of the review of the system of remuneration of teachers seconded by the Member State governments has been examined only cursorily and no decision has yet been taken. Firmer action by the Commission at all stages of the budget procedure is now essential.

11.48. An examination of the schools' accounts for the financial year 1984 shows that the amount of the subsidy paid by the Communities could be significantly affected if all the possible ways of making savings or increasing revenue were systematically explored. This applies in particular to:

- (a) school fees required of non-entitled pupils;
- (b) the teachers' professional obligations;
- (c) payment for overtime;
- (d) the pension scheme for substitute teachers;
- (e) the way in which classes are created and kept;
- (f) the management of some activities not included in the budget, in particular the canteens.

11.49. For these various reasons and in view of the increasing shortcomings in the management of the schools, the Court considered, in its report to the Board of Governors on the European Schools' accounts for the financial year 1984, that a new agreement ought to be made between the Commission and the Board of Governors, with a view to settling unequivocally the conditions for drawing on funds from the Community budget and determining the guarantees necessary in respect of management and control. The temporary agreement entered into with the ECSC High Authority on 11 December 1957, for only one school and for a period of one year, has never been re-considered. In the meantime, eight other schools have been set up and the number of pupils has risen from a few hundred to over 12 000; in addition, more than a third of these pupils have no

connection with the Community institutions and the original ceiling set for the subsidy has been far exceeded.

11.50. In the Court's view, the Commission must seriously review the means at the disposal of its representative on the Board of Governors which enable him to play a more active role in the decision-making process, with a view to taking more effective action against the shortcomings noted in the Court's reports to the Board of Governors.

#### **JET Joint Undertaking**

11.51. In paragraph 7 of its report on the JET's financial statements for the financial year 1984, the Court pointed out that, whenever the rate of expenditure was proving to be slower than expected, the JET budget provisions ought to be revised in order to avoid needlessly immobilizing Community appropriations. In September 1985, in the expectation that the slow-down in the rate of JET expenditure would probably continue until the end of the financial year, the Commission thought fit to obtain from the JET Council a cut in the budget of 21,9 Mio ECU in payment appropriations. This cut was decided by the JET Council at its meeting of 25 October 1985. The Court welcomes the Commission's initiative.

11.52. At the end of the financial year 1983, the staff seconded from the UKAEA <sup>(15)</sup> to JET lodged an appeal before the Court of Justice of the European Communities against the Commission and the Council with a view to obtaining parity of employment conditions with the Euratom temporary staff. At 31 December 1985 the case was still pending and its financial consequences (concerning about 200 people) for the Commission remain uncertain.

- (1) In addition to the appropriations of Title 1 of Section II (Council), in 1985 there were also the appropriations entered under Item 3741, Article 374 ('Expenditure in connection with the accession of Spain and Portugal to the Communities'), of Title 3.
- (2) Appropriations also appear under Title 9 of Part B of the Commission's budget for some staff expenditure of the European Association for Cooperation (EAC) and the Commission delegations. They are not taken into account in this Chapter.
- (3) Article 67 of the Staff Regulations of officials and Article 3 of Annex VII thereof; Articles 20 and 21 of the regulations applicable to other servants.
- (4) General implementing provisions which came into force on 1.3.1975 (Parliament, Court of Justice, Commission), 1.5.1978 (Economic and Social Committee), 4.5.1978 (Council) and 3.3.1983 (Court of Auditors).
- (5) Article 1 of the Financial Regulation of 21.12.1977 applicable to the general budget of the European Communities, OJ L 356 of 31.12.1977.
- (6) Article 14a of Annex VII to the Staff Regulations and Regulation Nos 6/66/Euratom, 121/66/EEC of the Councils of 28.7.1966, OJ 150 of 12.8.1966, p. 2749.
- (7) OJ C 74 of 3.4.1986, p. 11.
- (8) Exchange rate as at August 1984, then January 1985 and July 1985 for Israel.
- (9) Financial Regulation of 21.12.1977 applicable to the general budget of the European Communities: Article 88(3): '... the commitment appropriations shall remain valid until cancelled ...'; Article 6(2)(b) and Article 88(4): 'Payment appropriations not used by the end of the financial year for which they were entered shall be carried over automatically, for the next financial year only'.
- (10) See the Staff Regulations, Annex VII, Article 12(4) (travel on mission), Article 14b (difficult or acute transport problem) and Article 15 (constant journeys required by official's duties).
- (11) Annual report of the Court on the financial year 1981, paragraphs 11.6 — 11.8, OJ C 344 of 31.12.1982. Annual report of the Court on the financial year 1982, paragraphs 12.34 — 12.36, OJ C 357 of 31.12.1983.
- (12) Since 1982, the Agency has been applying internal accounting instructions to counteract this legal vacuum.
- (13) Article 3 of the statutes of the JET Joint Undertaking, OJ L 151 of 7.6.1978.
- (14) Financial Regulations and measures of implementation for Financial Regulations.
- (15) United Kingdom Atomic Energy Authority.

## CHAPTER 12

**Loans, borrowings and interest-rate subsidies**

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## INTRODUCTION

Community borrowings contracted through the NCI, Euratom and BP mechanisms. Interest-rate subsidies are entered under Chapter 69 of the general budget of the Communities.

12.1. This chapter deals with New Community Instrument loans (NCI loans), European Atomic Energy Community loans (Euratom loans) and Balance of Payments loans (BP loans), as well as the borrowings contracted by the Communities in order to finance these three loan mechanisms. Loans and borrowings by the European Coal and Steel Community (ECSC) are dealt with in a separate report <sup>(1)</sup>, which is not published in the Official Journal. Loans by the European Development Fund are dealt with in the second part of this report.

12.2. Community loans and borrowings are administered on an extra-budgetary basis and are included in the balance sheet of Community assets and liabilities. The 'Commission' section of the general budget includes token entries which represent the budgetary guarantee for

12.3. Euratom loans are granted by the Commission and administered by the European Investment Bank (EIB) as the Commission's agent. In the case of NCI loans, the Commission decides on the eligibility of the projects; the loans are approved and administered by the EIB, acting under a mandate from the Commission, at the latter's risk and on the condition that the EIB fulfils its obligations. BP loans are granted by the Council of Ministers and are administered by the Bank for International Settlements. The related borrowings for all these loans are contracted by the Commission.

12.4. In 1985 the Court paid particular attention during the execution of its audit to NCI loans and interest-rate subsidies for areas devastated by earthquakes in Italy and Greece.

<sup>(1)</sup> The footnotes appear at the end of each chapter.

## SUMMARY OF FINANCIAL INFORMATION

12.5. Tables 12.1 and 12.2 give a summary of the evolution of loans and borrowings during the financial year 1985 and also show the extent to which the ceilings fixed by the Council were utilized.

12.6. Of the approximate total of 245 Mio ECU of interest-rate subsidies granted over the whole period for NCI and EIB (own resources) loans for reconstruction measures in the areas of Greece and Italy devastated by earthquakes, namely, Campania and Basilicata in Italy and Attica, Boeotia, Corinth, Euboea and Phokis in Greece, 28,4 Mio ECU were disbursed in 1985. Of this sum, Italy received 25,7 Mio ECU and Greece 2,7 Mio ECU.

12.7. In paragraph 14.4 of its annual report for the financial year 1984 <sup>(2)</sup> the Court recommended that the Commission should obtain a legal opinion on the correct interpretation of the relevant legislation in order to establish the ceilings for borrowings and loans relating to NCI earthquake transactions. Such a legal opinion has not yet been forwarded to the Court.

## OBSERVATIONS ON THE BALANCE SHEETS AND REVENUE AND EXPENDITURE ACCOUNTS OF THE NEW COMMUNITY INSTRUMENT AND EURATOM MECHANISMS

12.8. The Court examined the NCI and Euratom balance sheets at 31 December 1985 as well as the statements of revenue and expenditure relating to the two mechanisms for the financial year 1985. In so doing, it uncovered a number of mistakes in the case of the Euratom mechanism which have, for the most part, been corrected.

12.9. If all the adjustments recommended by the Court had been implemented, the overall result for Euratom transactions for the financial year 1985 would have been a small loss (of about 50 000 ECU). The positive result for the year (137 000 ECU) should be attributed to an amendment to the procedure for amortizing the issuing costs of borrowings: costs arising from borrowings contracted for refinancing purposes are no longer treated as expenditure of the financial year but are amortized over the life of the new borrowings. Although this new procedure should be considered to be an improvement, and as such is welcomed by the Court, it nevertheless gives cause for two observations:

- (a) as amendments to the accounting procedures impair the comparability over time of the annual statements

**Table 12.1 — Evolution of loans and borrowings during 1985**

(Mio ECU)

Mechanism	Outstanding at 31. 12. 1984		Operations carried out in 1985 <sup>(1)</sup>			Outstanding at 31. 12. 1985 <sup>(1)</sup>
	At the ECU exchange rate of 31. 12. 1984	At the ECU exchange rate of 31. 12. 1984	New loan or borrowing	Effects of swap transactions	Repayment or amortization	
	(1)	(2)	(3)	(4)	(5)	(6) = (2) + (3) + (4) - (5)
<b>Loans:</b>						
— NCI	4 034,1	3 795,3	1 043,8	—	81,2	4 757,9
— Euratom	1 881,3	1 864,0	211,0	- 10,7	63,6	2 000,7
— Balance of payments	4 931,7	3 967,8	—	—	732,0	3 235,8
<b>Total</b>	<b>10 847,1</b>	<b>9 627,1</b>	<b>1 254,8</b>	<b>- 10,7</b>	<b>876,8</b>	<b>9 994,4</b>
<b>Borrowings:</b>						
— NCI	4 431,6	4 183,2	843,6	—	67,3	4 959,5
— Euratom	1 892,4	1 865,9	344,1	—	197,4	2 012,6
— Balance of payments	4 931,7	3 967,8	2 691,7	—	3 423,7	3 235,8
<b>Total</b>	<b>11 255,7</b>	<b>10 016,9</b>	<b>3 879,4</b>	<b>—</b>	<b>3 688,4</b>	<b>10 207,9</b>

<sup>(1)</sup> At the ECU exchange of 31. 12. 1985.

**Table 12.2 — Main characteristics and ceilings of the various mechanisms at 31 December 1985***(Mio ECU)*

Mechanism	Objective	Borrowing ceiling	Loans granted within this limit		Balance available
			Disbursed <sup>(1)</sup>	Undisbursed	
		(1)	(2)	(3)	(4) = (1) - (2) - (3)
NCI*	NCI I: Council Decision 78/870/EEC of 16. 10. 1978 to promote investment in the infrastructure, energy and industrial sectors	1 000	1 000	—	—
	NCI II: Council Decision 82/169/EEC of 15. 3. 1982 to finance projects in the fields of energy, infrastructure and the development of small and medium-sized enterprises	1 000	970,4	8,1 <sup>(2)</sup>	21,5
	NCI III: Council Decision 83/200/EEC of 19. 4. 1983 to finance projects in the fields of energy, infrastructure and the development of small and medium-sized enterprises	3 000 <sup>(3)</sup> 2 900 <sup>(3)</sup>	2 050,7	317,9 <sup>(2)</sup>	531,4
	NCI Italian earthquake: Council Decision 81/19/EEC of 20. 1. 1981 to reconstruct the means of production and the economic and social infrastructure in the areas affected by the 1980 earthquake	1 000 <sup>(4)</sup>	536,3 <sup>(5)</sup>	56,4 <sup>(2)</sup>	117,0 <sup>(6)</sup>
	NCI Greek earthquake: Council Decision 81/1013/EEC of 14. 12. 1981 to reconstruct the means of production and the economic and social infrastructure in the areas affected by the 1981 earthquake	80,0 <sup>(4)</sup>	79,8 <sup>(5)</sup>	—	0,2
Euratom*	Council Decision 77/720/Euratom of 29. 3. 1977 and 82/170/Euratom of 15. 3. 1982 to promote the production of electricity by nuclear power stations	3 000	1 997,4	—	1 002,6
Balance of payments	Council Regulations Nos (EEC) 397/75 of 17. 2. 1975 and (EEC) 682/81 of 16. 3. 1981 and (EEC) 1131/85 of 30. 4. 1985 to alleviate balance of payments difficulties in the Member States	3 000 <sup>(7)</sup> Mio USD 8 000 Mio ECU	2 547,8 <sup>(7)</sup> Mio USD 3 997,2 Mio ECU	— —	— <sup>(8)</sup> 4 002,8 Mio ECU

\* Sources: DG XVIII Commission.

(1) NCI I, II and III and Euratom loans, converted into their equivalent in terms of borrowings, i.e. including the issue costs of the corresponding borrowing operations, at the ECU conversion rate at the date on which each borrowing was raised.

(2) Loans undisbursed but contracted, at the exchange rates ruling on 31. 12. 1985.

(3) On 31. 12. 1985 two tranches (amounting to a total of 2 900 Mio ECU) had been approved.

(4) Ceiling applicable to the entire loan programme, and relating therefore to the NCI and EIB loans and borrowings.

(5) At the exchange rate ruling two working days before each disbursement (NCI loan).

(6) The balance has been calculated taking into account loans made out of the EIB's own resources and amounting to 290,3 Mio ECU.

(7) Principal and interest.

(8) Balance not available (measure expired).

of accounts, any such amendments should only be justified on grounds which are of general validity. The Court has commented on this matter in previous annual reports <sup>(3)</sup>;

- (b) the amendment mentioned above, in common with the amendments which the Court commented on previously, once again points up the need for a review of all the accounting procedures used by the Commission. The Court has already called once for such a review <sup>(4)</sup>.

12.10. During its audit of the NCI transactions the Court checked whether DG XVIII's Internal Rules for the payment of interest on borrowings were being correctly applied. This check produced the following results:

- (a) in accordance with the written procedure E/556/83, the telexes relating to these payments must be signed by two persons (an official of DG XVIII and an official of DG XIX). Of the 27 telexes which the Court

examined, five, concerning payments of sums amounting to 39,9 Mio ECU, bore only one signature;

- (b) moreover, in the case of transactions involving sums of more than 15 Mio ECU, the Court would also welcome compliance with the rule laid down in the general provisions of the Internal Rules of DG XVIII, according to which the signature of the Director-General or the Head of the 'Borrowings' Directorate is required.

The Court must therefore call upon the Commission to revise its Internal Rules concerning signatures, as regards the management of NCI and Euratom bank accounts, and in so doing to ensure, in particular, that written procedure E/556/83 does not result in a degree of internal control which is less stringent than that provided for in the general provisions of the Internal Rules applicable to DG XVIII.

12.11. In the case of transactions connected with the NCI Treasury, and more particularly loan transactions managed by the EIB, the Commission confines itself merely to incorporating the figures supplied to it by the EIB into its own accounts. At the same time, the entries are checked against documents which are also supplied by the EIB. In the Court's opinion, the Commission (using appropriate EDP means) ought to use information which has already been entered in the EIB's accounts and systematically compare it with the documents supporting the original transactions.

## OBSERVATIONS ON LEGALITY AND SOUND FINANCIAL MANAGEMENT

### *European Investment Bank management commissions*

12.12. In 1985 the management commissions received by the EIB for the administration of NCI and Euratom loans amounted to 7,5 Mio ECU, compared with 6,2 Mio ECU in 1984.

12.13. The Court has still not been able to ascertain to what extent the management commissions received by the EIB for the administration of these loans is consistent with the costs involved, as the information needed for the appraisal is still not available at the Commission.

12.14. The Court finds it highly unsatisfactory that this matter has not yet been resolved, particularly in view of

the Parliament's express request in that respect <sup>(5)</sup>. The Court must accordingly reiterate its recommendation, set out in paragraph 14.23 of its Annual Report for the financial year 1984 <sup>(2)</sup>, that the Commission should request the EIB, in respect of any new contracts, to make available an annual account of costs and income relating to NCI and Euratom loans.

### *NCI Treasury*

12.15. The Court notes that the average balance of the NCI Treasury, or liquidity reserve, decreased from 471,3 Mio ECU in 1984 to 249,7 Mio ECU in 1985 and that the balance at 31 December 1985 was 156,3 Mio ECU, compared with 321,7 Mio ECU a year earlier. As the interest paid by the EIB to the Commission on credit balances on the NCI Treasury accounts is, on average, some 1,4 % lower than the interest paid by the Commission on related borrowings, the net benefit of the reduction in the level of this reserve will amount to approximately 3,2 Mio ECU over a full year.

### *NCI loans and interest-rate subsidies for areas devastated by earthquakes*

#### Introduction

12.16. In response to the serious earthquakes which struck parts of Italy in November 1980 and parts of Greece in February and March 1981, the Council empowered <sup>(6)</sup> the Commission to contract borrowings on behalf of the European Economic Community for the purpose of financing investments for the reconstruction of the means of production and the economic and social infrastructure in the affected regions. Loans to support these investments are made from the resources of the NCI or the EIB, subject to ceilings of 1 000 Mio ECU for loans to projects in Italy and 80 Mio ECU for loans to Greek projects. All these loans qualify for interest subsidies of 3 % a year for a maximum period of 12 years, chargeable to the general budget of the European Communities. If the ceilings are fully utilized, the total cost of these interest subsidies will be approximately 225 Mio ECU in the case of the Italian projects and approximately 20 Mio ECU for Greek projects.

12.17. Five years after the occurrence of the earthquakes, the Court has reviewed the implementation of these Council Decisions to see whether they have

achieved the aim of bringing effective remedial action to the affected regions. Up to the end of 1984, this review was based on documents held by the Commission, which included some EIB documents as well. For the financial year 1985, however, it became apparent to the Court that a full appreciation of this subject could only be gained by going on the spot.

12.18. The review of Community aid in 1985 to the Greek reconstruction projects, which led to the observations set out in this report, is on the other hand based solely on documents, since, at the request of the Greek authorities responsible for administering the aid, the on-the-spot audit visit by representatives of the Court did not take place until June 1986.

#### Earthquake loans and interest-rate subsidies to Italy

##### *Implementation of the Council Decision*

12.19. The value of loan contracts signed with the Italian authorities for each of the five years from 1981 to 1985 is shown in *Table 12.3*, which also shows the value of disbursements made under these contracts. This table can be used to establish the rate of implementation of the Council Decision. The table shows that there was an unused balance — on the ceiling of 1 000 Mio ECU — of 97,2 Mio ECU at 31 December 1985, more than five years after the occurrence of the earthquake. In reality, the actual unused balance as at 31 December 1985, calculated on the basis of the ECU exchange rate applicable at the time when the loans were disbursed, amounted to 117 Mio ECU.

12.20. Of the 13 projects financed from NCI resources, eight have suffered significant delays, the most extreme cases being the railways' projects, which are experiencing forecast delays of up to 3,5 years on a planned two-year contract, and the roads' project, which experienced a three-year delay on an 18 months' contract.

12.21. The progress reports concerning the NCI earthquake loans issued by the EIB to the Commission do not provide much information on the causes of these delays. The Court's enquiries on the spot in November 1985 revealed the following main causes:

- (a) unrealistic completion dates written into contracts;
- (b) projects launched before completion of the essential preparatory works;

**Table 12.3 — Loans for reconstruction measures in areas devastated by earthquakes (Italy)**

(Mio ECU)

Year	Loans contracted <sup>(1)</sup>				
	NCI	EIB	Total amount	Amount disbursed	Undisbursed amount
(1)	(2)	(3)	(4) = (2) + (3)	(5)	(6) = (4) - (5)
1981	296,2	31,8	328,0	328,0	—
1982	78,4	116,4	194,8	194,8	—
1983	208,1	61,1	269,2	222,9	46,3
1984	14,6	51,8	66,4	66,4	—
1985	14,1	30,3	44,4	30,3	14,1
<b>Total</b>	<b>611,4</b>	<b>291,4</b>	<b>902,8</b>	<b>842,4</b>	<b>60,4</b>

<sup>(1)</sup> Converted at the ECU exchange rate on the last working day of the quarter preceding the loan signing.

- (c) delays in the transmission of the necessary appropriations by the Italian Treasury to the relevant ministries and by them to the local authorities;
- (d) laborious national administrative procedures and clashes of different competences;
- (e) unforeseen technical difficulties.

12.22. In the Court's opinion, some of these problems could have been avoided, or at least minimized, if steps had been taken in the Member State to ensure improved coordination of the efforts of the different authorities concerned and of the supervision of the overall planning and implementation of the different projects.

##### *Disbursement of loans and interest-rate subsidies*

12.23. Where disbursements under loan contracts with interest subsidies are concerned, it is necessary to seek as far as practicable to match the rhythm of disbursements to the rhythm of payments to be made by the final loan beneficiary. To this end, the EIB has a general rule that disbursements should be made on the basis of expenditure actually incurred, together with short-term future commitments. This general rule is included as a clause in some of the loan contracts.

12.24. The Court could not monitor the application of this rule using the documents available at the Commis-



sion. *Table 12.4*, which was compiled from information obtained by the Court on the spot, shows for selected projects the dates and amounts of disbursements compared with the annual project payments. It is clear from this table that disbursements have been made well in advance of the related payments, on one occasion by as much as 2,5 years, and that scant attention has been paid to the general rule described above and to the conditions of the contracts concerned.

12.25. In a particular case decided on in 1985, the Commission and the EIB even approved and effected a disbursement of 50 000 Mio LIT (about 33,6 Mio ECU) before the works contracts had been negotiated. In the Court's view, such decisions are not consistent with the most prudent possible management of resources.

12.26. The result of making disbursements so long in advance of the related payments is that loan funds with interest subsidies lie for considerable periods in the Italian Treasury accounts with the Bank of Italy.

12.27. In order to avoid a recurrence of such an unsatisfactory situation, it is recommended that steps should be taken to ensure:

- (a) that the disbursement profiles are more closely aligned by the EIB with the payment profiles; and
- (b) that interest subsidies are not granted by the Commission until payments have actually been incurred by the final loan beneficiaries.

Acceptance of these recommendations would also provide an increased incentive for the authorities concerned to speed up the implementation of projects funded with subsidized loans.

#### *Eligibility of projects financed from NCI resources*

12.28. The relevant Council Decision <sup>(6)</sup> lays down that the loans, amounting to 1 000 Mio ECU, and the interest-rate subsidies, estimated as totalling 225 Mio ECU, shall be granted 'for the reconstruction of the means of production and the economic and social infrastructure in the (affected) regions'.

12.29. In the Court's opinion, it is not evident that all the investments listed below are consistent with the Council's objective of reconstructing the economic and social infrastructure in the affected regions, and it is thus not evident that they are eligible for Community assistance:

- (a) the construction of a barrack and administration block for the Carabinieri at an estimated cost of 6 250 Mio LIT (about 4,6 Mio ECU) at Avellino; no such building existed before the earthquake;
- (b) the construction of a police headquarters building at Avellino at an estimated cost of 10 250 Mio LIT (about 7,5 Mio ECU) (the old headquarters building at Avellino is still in use);
- (c) the construction of a new pharmacy building at the University of Naples at an estimated cost of 13 050 Mio LIT (about 9,5 Mio ECU) (the former faculty of pharmacy was slightly damaged in the

**Table 12.4 — Timetable of loan disbursements and payments made by the final beneficiaries (Italy)**

*(Mio ECU)*

Project	Disbursed by the EIB	Date	Payments by the beneficiary					
			1981	1982	1983	1984	1985	Total
Railways IA	27,6	1. 7. 81	15,2	15,1	6,8	5,1	2,5	44,7
Railways IB	21,9	21. 1. 83						
Railways IC	14,6	14. 3. 84						
Railways IIA	14,6	26. 5. 83				—	—	—
Industrial plant I	36,4	21. 11. 83	7,5	36,3	18,6	5,1	—	62,4
	29,2	7. 9. 84						
University buildings	7,3	11. 1. 84						5,1
	6,7	28. 6. 85					—	—

earthquake but is being repaired with national funds and will continue in use as a university building);

(d) there is, in addition, the example, not visited by the Court's representatives, of the military barracks being constructed at Persano at a cost of 55 000 Mio LIT (about 40,1 Mio ECU). No such facility existed before the earthquake.

12.30. Favourable eligibility decisions were made by the Commission on the projects covering the sub-projects cited above on the basis of documents supplied by the EIB. Apart from the Persano barracks, which constitutes an individual project, these documents did not make it clear that the projects concerned included the construction of new buildings and not the reconstruction or restoration of buildings damaged or destroyed in the earthquake.

#### **Earthquake loans and interest-rate subsidies to Greece**

12.31. In November 1982, i.e. 20 months after the occurrence of the earthquake, a contract for a loan of the equivalent of 80 Mio ECU (about 5 332 Mio DRA) (7) from NCI resources was signed with the Greek Government to provide the balance of finance required for the implementation of various projects forming part of a programme set up by the Greek authorities for the reconstruction of the means of production and the economic and social infrastructure, including housing, in the areas affected by the earthquake.

12.32. The projects to be co-financed by the Community included the total or partial reconstruction or repair of roads, railway buildings and bridges and State-run schools and assistance in the reconstruction of private housing. The total costs were estimated at 7 137 Mio DRA (about 107,1 Mio ECU), the work to be carried out between 1981 and 1985.

12.33. The loan of 5 332 Mio DRA (about 80 Mio ECU) was disbursed in three tranches, the last in April 1983. By January 1985, only 63 % of the disbursed loan (3 362 Mio DRA/about 50,5 Mio ECU) had been drawn from the special accounts at the Bank of Greece, which means that the loan and the related interest subsidy had been made available long before they were needed.

12.34. Based on the information available at the Commission, the costs incurred as at 30 June 1985, that is, more than four years after the earthquake, compared with

the initial projects co-financed by a NCI loan, may be estimated at 4 000 Mio DRA (about 60 Mio ECU), against forecast costs estimated at 7 137 Mio DRA (about 107,1 Mio ECU).

12.35. The loan contract provides that half-yearly progress reports should be presented to the EIB. This requirement has not been satisfied.

12.36. In April 1985 the Greek authorities proposed a number of modifications to the initial programme. The most significant changes were:

- (a) the inclusion of the repair of 42 541 private flats (actual cost out-turn as at 31 December 1985: 1 325,9 Mio DRA, or about 19,9 Mio ECU);
- (b) the inclusion of the reconstruction of three buildings (four sub-contracts) in Nikaea-Piraeus, consisting of 120 flats, 52 warehouses and 21 shop premises (actual cost out-turn as at 31 December 1985 : 437,2 Mio DRA, or about 6,6 Mio ECU);
- (c) an increase in the number of road sections to be repaired from 42 to 218 (actual cost out-turn as at 31 December 1985: 1 697 Mio DRA, or about 25,5 Mio ECU, instead of the initial estimate of 872,3 Mio DRA, or about 13,1 Mio ECU).

The programme thus amended was approved by the EIB. Total costs incurred as at 31 December 1985 amounted to 6 648,1 Mio DRA (about 99,7 Mio ECU).

12.37. The finance contract provides that the allocation of the NCI loan between the various parts of the programme may be modified by the parties by simple exchange of correspondence. However, in the Court's opinion, the extent of the modifications and the inclusion of a number of completely new projects under the assisted programme required a formal decision by the Commission on the eligibility of the projects to be added to the programme, especially as any modification has a direct effect on the level of the interest-rate subsidy.

#### **Control by the Commission**

12.38. The Commission's eligibility decisions on NCI-financed projects, its opinions on projects financed from the EIB's own resources and its interest subsidy decisions are all based on documents submitted by the EIB. The EIB, as administrator of all the loans granted, furnishes the Commission with progress and completion reports for the projects financed from NCI resources. It does not, however, transmit to the Commission any progress or

completion reports for projects financed from its own resources, notwithstanding that the loans concerned also receive interest rebates payable from the general budget of the Community. In the Court's view, the Commission should insist on receiving relevant reports from the EIB for all projects for which budgetary resources have been made available.

12.39. Under Article 7 of Council Decisions <sup>(6)</sup> 81/19/EEC of 20 January 1981 and 81/1013/EEC of 14 December 1981, the Commission is required to inform the Council and the European Parliament annually of transactions carried out under the Decisions.

12.40. The Court's review of the reports made under this requirement shows that they merely explain the utilization of loan resources. They contain no information on the progress of projects financed, reasons for delays, utilization of disbursed funds etc. nor do they contain any comment on the general effectiveness of the assistance granted.

## Conclusion

12.41. In the light of the above-mentioned inadequacies and the problems that have arisen with regard to these loans, the Commission should, in the Court's view, assume a more positive role in the monitoring and evaluation of the implementation of the Council Decision and should make its reports more informative. In particular, the Court recommends that the Commission should undertake a full evaluation of the effectiveness of the assistance granted so far in these cases so that lessons may be drawn for the benefit of these and any future emergency assistance programmes which might arise.

## *NCI global loans*

12.42. Since 1982 global loans have been made from NCI resources. The purpose of these loans is to make funds available to financial institutions in the Member States which then pass on these funds at their own risk in the form of loans to small and medium-sized enterprises engaged on projects which have been approved by the EIB. These loans have increased considerably in scale since they were introduced. Whereas no global loans were made under NCI I, 43 % of the loans made under NCI II, amounting to 988,5 Mio ECU altogether, were global loans, and as at 31 December 1985 global loans accounted for 71 % of the total of 2 408 Mio ECU in loans approved under NCI III.

12.43. In respect of these loans, the Court's audit for the financial year 1985 was limited to an examination of the records which the Commission maintains and which the EIB had contributed.

12.44. Examination of the available documents showed that they do not at present contain adequate information to allow the Commission and the Court to form an opinion regarding the extent to which the aims set out by the Council in the regulations, in particular concerning the number of jobs actually created, have been achieved.

12.45. The Court, in association with the Commission, is at present seeking to establish implementation procedures for the execution of on-the-spot audits in this area.

(1) Report (Annex to the Annual Report ECSC 1985) on the accounting and financial management of the European Coal and Steel Community.  
 (2) Annual Report on the financial year 1984, OJ C 326 of 16.12.1985.  
 (3) — Annual Report on the financial year 1984, OJ C 326 of 16.12.1985, paragraphs 2.5-2.6.  
 — Annual Report on the financial year 1983, OJ C 348 of 31.12.1984, paragraphs 2.20-2.24.

(4) Annual Report on the financial year 1983, paragraph 2.38.

(5) Resolution of the European Parliament, of 18.4.1986, OJ L 150 of 4.6.1986.

(6) Council Decisions 81/19/EEC of 20.1.1981, OJ L 37 of 10.2.1981, and 81/1013/EEC of 14.12.1981, OJ L 367 of 23.12.1981.

(7) All figures quoted in DRA have been converted into ECU at the exchange rate ruling on 15.11.1982.

## PART II

### European Development Funds

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#### INTRODUCTION

1. The European Development Funds (EDF) constitute the main instrument of the policy of cooperation that the EEC has been conducting since 1958 with a number of developing countries in Africa, the Caribbean and the Pacific (ACP States). Each EDF's allocation is separate from the general budget of the European Communities and is financed by the Member States' contributions, which are fixed according to an *ad hoc* scale of quotas. The implementation of each EDF is governed by a specific financial regulation.

#### SUMMARY OF FINANCIAL INFORMATION

2. The cumulative utilization of the third, fourth and fifth EDF at 31 December 1985 is summarized in *Table 1*, as are the total payments and sundry receipts recorded in 1985. The allocation of aid by recipient country is shown in the second part of Annex III.

**Table 1 — Utilization of the third, fourth and fifth EDF at 31 December 1985**

Resources and utilization	(Mio ECU)		
	3rd EDF Yaoundé II (expiry: 1976)	4th EDF Lomé I (expiry: 1981)	5th EDF Lomé II (expiry: 1985)
Disbursements:			
— prior to 1985	875,6	2 676,3	1 454,7
— paid in 1985	5,9	105,6	586,3
Total disbursement	881,5	2 781,9	2 041,0
Not yet disbursed:			
— committed	17,8	216,9	1 621,3
— not committed	17,3	157,1	1 140,0
Allocation	916,6	3 155,9	4 802,3
Sundry receipts			
— prior to 1985	—	40,7	6,9
— banked in 1985	—	—	20,2
Total resources available	916,6	3 196,6	4 829,4

## OBSERVATIONS ON THE FINANCIAL MANAGEMENT

### *Third and fourth EDF*

3. In 1985, the Commission continued to take financing decisions under the third EDF, thereby further delaying its closure. Most of the 17,8 Mio ECU committed under the third EDF but not yet paid concerns projects first started more than ten years ago. Surplus sums committed on such projects should in the Court's view now be released and transferred to the fifth EDF, together with the 17,3 Mio ECU which have not been committed. Similarly, the Commission should now propose applications for certain unused resources of the fourth EDF, such as unallocated programmable aid (47,1 Mio ECU) and sundry receipts (40,7 Mio ECU).

### *Fifth EDF*

4. That part of the fifth EDF's resources which may be programmed in advance by the Commission amounts to 3 147,4 Mio ECU. Article 110 of the Second Lomé Convention (fifth EDF) <sup>(1)</sup> specifies that the commitments of programmable aid should be distributed as evenly as possible throughout the period of application of the convention, which expired on 28 February 1985. At 31 December 1985, 77 % of programmable aid had been committed. The breakdown by economic sector is in Table 2. Amongst the major beneficiaries, Sierra Leone, Liberia, Suriname, Papua New Guinea and Nigeria stand out as having particularly low rates of utilization (17 %, 14 %, 12 %, 13 % and 4 % respectively). The rate of disbursement of the allocation for special loans is significantly lower than that for grants (24 % compared to 37 %), partly because of the excessive time required to conclude the loan contracts.

## OBSERVATIONS ON THE ACCOUNTING SYSTEMS AND PROCEDURES

5. In its annual report concerning the financial year 1984 <sup>(2)</sup>, and in previous annual reports, the Court of Auditors commented on the excessive level of calls by the Commission for payment of contributions by the Member States, on the late payment of these contributions by certain Member States, and on the Commission's inadequate accounting records concerning EDF bank balances. These deficiencies persisted in 1985, pending the adoption of changes proposed in the sixth EDF financial regulation, and pending a review of the cash recording system announced by the Commission in paragraph 15.13 of its reply to the Court's 1984 annual report.

6. Similarly, many of the deficiencies noted in past years continued in the supporting documents concerning payments which are presented to the finance department for authorization or verification, as did certain delays in payment or accounting, in particular in the first quarter of the year, during which time the book-keeping was no longer continuous.

<sup>(1)</sup> The footnotes appear at the end of Part II.

**Table 2 — Utilization of 5th EDF programmable aids at 31 December 1985**

Economic sector	Indicative allocation		Financing decisions		Payments		
	Mio ECU	% of total	Mio ECU	Rate of financing decision	Mio ECU	Payment rate against allocation	Payment rate against financing decision
(1)	(2)	(3)	(4)	(5) = % (4)/(2)	(6)	(7) = % (6)/(2)	(8) = % (6)/(4)
Rural development	1 235,0	39,2	838,8	68,0	346,6	28,1	41,3
Transport and communications	585,0	18,6	600,2	102,6	317,1	54,2	52,8
Social (health and training)	410,0	13,0	314,7	76,8	108,7	26,5	34,6
Industry, energy, mining	285,0	9,0	284,9	100,0	143,1	50,2	50,2
Housing, urban, sewerage and water supplies	210,0	6,6	221,8	105,6	105,3	50,1	47,5
Technical cooperation	100,0	3,2	34,2	34,2	21,0	21,0	61,4
Microprojects	47,0	1,5	61,7	131,2	32,4	68,9	52,5
Trade promotion	45,0	1,4	65,7	146,0	24,8	55,1	37,7
Reserve	230,4	7,5	—	—	—	—	—
<b>Total programmable aids</b>	<b>3 147,4</b>	<b>100,0</b>	<b>2 422,0</b>	<b>77,0</b>	<b>1 099,0</b>	<b>34,9</b>	<b>45,4</b>

**Table 3 — Percentage of the aid audited by the Court, per country visited**

Ghana	Guinea	Cape Verde	Madagascar	Mauritius	Kenya	Somalia
95 %	91 %	61 %	67 %	53 %	57 %	82 %

7. The EDF computer system is a major source of delays: given the computing power available to the Commission, it should be possible for authorizing and accounting staff to have direct access to EDF magnetic files, through terminals for example, thus eliminating the present excessively long wait before receiving printed accounting records, which are updated by the time-consuming means of handwritten forms and punched cards.

supporting documents in their delegation, concerning for example exceptional aids totalling 80 Mio ECU granted under the Dublin Plan.

#### OBSERVATIONS ON THE ACP STATES' ROLE IN DEFINING THE AID

8. The deficiencies noted in the supporting documents reflect *inter alia* the lack of a detailed procedures manual, required to define and harmonize the work of officials in the Commission's finance departments and delegations. The need to define and apply verification procedures has become particularly urgent since, in the interest of rapid implementation, an increasing volume of payments is made by the Commission in Brussels on receipt of simple telex instructions from the delegates who keep all

9. During the audit visits it made in 1985 to seven countries (Ghana, Guinea, Cape Verde, Madagascar, Mauritius, Kenya and Somalia) and to departments of the Commission, the Court examined 63 projects and numerous micro-projects financed in the context of the national indicative programmes and regional cooperation, as well as various measures relating to emergency aid and the stabilization of export earnings. These audit

enquiries concerned sectors as diverse as rural development, agricultural production, the agro-industry, manufacturing, road, water and sanitary infrastructures, the credit system, aid to small and medium-sized undertakings and training. Moreover, as *Table 3* shows, the proportion, in financial terms, of the aid audited in relation to the total amount of aid granted under the fourth and fifth EDF in each of these countries varies between 53 % and 95 %.

### *Aid programming*

#### **Identification of the beneficiary Member States' priority needs**

10. According to Article 109 of the Second Lomé Convention (fifth EDF) <sup>(3)</sup>, 'the schemes financed by the Community, which are complementary to the ACP States' own efforts, shall be integrated into the economic and social development plans and programmes of the said States and shall tie in with the development objectives and priorities which they set both at national and regional level'. When scrutinized, a great many of the indicative programmes are found to be more an amalgamation of independent projects rather than a set of coordinated measures to achieve specific objectives.

11. Some programmes thus lack any element of selectivity or priority. For instance, in Guinea, which is one of the least developed of the ACP States within the meaning of the Lomé Conventions, the fourth EDF mainly financed industrial investments and purchases of agricultural machinery, despite the lack of basic infrastructure (electricity, roads, tracks, etc.) essential for their operation. The power-supply difficulties plaguing this country are chiefly to blame for the delay of almost three years affecting the reconstruction of the Sanoyah textile complex and for the fact that the Community's contribution to this project had to be increased from 30 to 43,2 Mio ECU. The one-year delay in achieving a steady rate of output at the Soguiplast plastics factory and the investment of an extra 0,5 Mio ECU of EDF finance can also be attributed to the inadequacy of the electricity supply network. Furthermore, if this shortcoming persists, it will seriously jeopardize the operation of these two complexes. In the case of the cotton-production development project in Upper Guinea, the reasons for its failure are to be found, in part, in the fact that the service roads and the bridges in this area are virtually impassable, making it particularly difficult to inform and instruct the farmers and to supply the inputs. The bottlenecks which these projects have encountered prove that an important stage has been omitted in the planning process, namely

that of compiling an accurate list of the priority needs of the national economy, prior to making a judicious selection of the measures to be promoted.

#### **Taking account of national constraints resulting from the state of public finances and foreign-exchange reserves**

12. Article 110 of the Second Lomé Convention (fifth EDF) lays down that when the aid is being programmed, the optimum pace for overall commitments shall be worked out with the ACP State concerned 'in the light of the various constraints on the parties and priorities to be observed by them'. The nature of the difficulties encountered by many of the projects examined suggests that, when the indicative programmes were being drawn up, insufficient account was taken of the factors acting as constraints upon the development strategies of most of the beneficiary States. Some of these constraints, linked as they are with economic trends, are hard to take account of when drawing up a five-year programme. The indicative programmes' failure even to mention structural constraints is nevertheless surprising, to say the least. The latter include the very precarious situation of many national budgets and the chronic lack of foreign exchange, constraints which, through having all too often been swept under the carpet, have hampered the completion or operation of many projects.

13. Because of the delicate situation of their public finances, some national authorities have experienced difficulties either in honouring their commitments in jointly-financed operations or in defraying running costs, and it is these problems which lie behind the troubles that dog a great many projects.

14. As regards jointly-financed projects, the Court has observed, in the case of a project to construct and extend a hospital and health centres in Kenya, that the construction of one centre originally planned has had to be abandoned, and that the construction work on two other centres was suspended in 1982 for several years, because of the difficulties encountered by the State in paying the undertakings responsible for the construction, even though the financing agreement laid down that this expenditure was to be met from national funds. In Ghana, the programme for the rehabilitation and construction of staff housing for the Prestea oil-palm plantation was supposed to be financed, in part, out of national resources. Since the Ghanaian authorities were not able to provide this finance, the construction of the houses had to be temporarily abandoned, thus making it even more difficult to provide the plantation with skilled staff. A similar situation arose in the same country at the Twifo oil-palm plantation. Alterations of this kind are likely to upset the internal economic balance of each project

concerned and, consequently, to jeopardize its viability. In these circumstances, the Commission should undertake to participate in jointly-financed operations only with States offering reliable guarantees that they are able to meet the obligations they enter into.

15. The operation of completed projects may also be impeded by ailing national budgets. For example, the audit visit to three hospital centres in Guinea revealed a marked under-utilization of the equipment financed by the fourth EDF, which was due to shortages of health-care materials and basic instruments. It is clear merely from reading through the budget of these institutions that the appropriations allocated to them are insufficient for them to be able to operate satisfactorily. In view of this situation, it would no doubt have been preferable to focus the Community aid measures on a small number of investments and, within this context, to carry out integrated operations involving 100 % financing of the various component parts of each of these projects.

16. In the absence of any specific reference by the indicative programmes, the budgets of the beneficiary States also have to bear the cost of maintaining the majority of the investment projects financed by the EDF. It must be pointed out that, in many of the cases examined, the public finances of these States did not enable the latter to carry out this obligation.

17. For example, the Somali government had undertaken to earmark every year in its budget the appropriations required for the upkeep of the Goluen-Gelib road and to notify the Commission of the corresponding amounts. These conditions have never been met. As a result, the state of the road has seriously deteriorated which, on some sections, will mean that it will have to be remade. In the programme of public services and development of urban sites in Mathare Valley in Kenya, the inadequate maintenance of the infrastructures by the Nairobi City Council explains the poor state of the roads and the defects of the sewerage system. In Madagascar, the ever-dwindling maintenance budgets for the Ambilobe-Vohimarina and Manakara-Irondo roads bode ill for the future development of these projects.

18. In the same country, a great many of the investment projects financed in the agricultural sector in the years 1970 - 1983 have failed, mainly because the maintenance was inadequate or even non-existent. This is the case for the Lower Mangoky development project where, as a result of the silting up of the water supply and distribution network, less than 50 % of the developed areas are cultivated. The consequences of this situation, in terms of the scrapping of expensive equipment and the shortage of rice and cotton for Madagascar, are out of all proportion to the relatively modest maintenance budget required for managing a stock of spare parts for the main machines and for the regular upkeep of the irrigation networks.

19. Given the situation of the public finances of these countries, it was possible to foresee that these States

would have problems — perhaps even insurmountable ones — in defraying the maintenance costs of all the projects. This being so, it is regrettable that no provision for financing the maintenance was made in the indicative programmes, despite the fact that Article 153 of the Second Lomé Convention (fifth EDF) provides for the possibility of financing 'running costs' serving to cover 'the cost of operating, maintaining or managing capital projects implemented previously, in order to ensure that full use is made of such projects, in particular by providing maintenance equipment and/or carrying out large-scale repair work'.

20. The second constraint which, when it affects a country, has little chance of being overcome in the short term, and of which account must therefore be taken when programming aid, is the shortage of foreign exchange. Several of the projects audited show that this has not always been the case, far from it, in fact. For example, the Soguiplast factory in Guinea can operate only by importing huge amounts of raw materials. Since the Guinean State does not have sufficient foreign exchange, the only way to date of preventing production at the factory being halted, has been by granting additional Community funds. It is out of the question, however, to go on indefinitely using external aid to cover a factory's supplies of raw materials, even supposing this aid to be forthcoming. In the case of a project to develop coconut production in Madagascar, the State is unable to supply Soavoanio, the company running the project, with the necessary funds to finance imports of inputs (fertilizers, pesticides, etc.). Since here too it is obliged to rely on external assistance, the company is deprived of control of a vital aspect of its management. The programming should endeavour to encourage States which have a long-term balance-of-payments deficit to submit for EDF financing projects which are economical in their use of imported commodities.

#### **Complementarity of Community and national efforts**

21. Article 109 of the Second Lomé Convention (fifth EDF) stipulates that the Community schemes should be complementary to the ACP States' own efforts. Since in some projects the Community and the national authorities are directing their efforts in opposite directions to each other, it is somewhat doubtful whether any such complementarity actually exists.

22. For example, in Mauritius, the Rodrigues Island agricultural development project included a scheme aimed at halving the size of a 10 000-head herd of cattle, most of which were of a degenerate breed, and at restricting the movements of the animals in order to be able to apply proper veterinary practices and curb overgrazing and the destruction of crops. Far from putting these measures into practice, the State extended to Rodrigues Island the right to benefit from provisions to



promote cattle-breeding on Mauritius, such as subsidies for concentrated feedstuffs and supplies of medical products free of charge. This inconsistency jeopardizes that aspect of the project which aims to increase the maize yield, since in the absence of any cutback in the number of animals and of any restrictions on their movements, the damage caused by free-ranging cattle prevents this scheme being implemented.

23. In Guinea, the fourth EDF financed supplies of equipment to five secondary-level polytechnic colleges. At the same time, the Ministry of Intermediate Technical Education and Professional Training went on allocating these colleges remarkably low budgets which were wholly inadequate for repairing the premises supposed to house this equipment, for acquiring the tools necessary for its use and for training the staff essential for operating this equipment. As a result, a large proportion of the equipment delivered disappeared, whilst the remainder was under-used and deteriorated rapidly. The fate of the scientific apparatus supplied to the agronomy faculties was no better. One of the beneficiary faculties, in Labé, quite simply no longer exists. The material financed by the EDF is stored in crates which have been broken open, the equipment has been badly damaged and much of it is unusable. In another faculty visited, in Kankan, a considerable proportion of the equipment is still in store in crates several years after delivery because there are no buildings to accommodate it. This situation casts grave doubts on the consistency of, on the one hand, the Community aid aiming to support these establishments and, on the other, the Guinean policy condemning the same institutions to neglect.

### *Appraisal of projects*

#### **Analysis of the commercial aspects**

24. The need to guarantee the disposal of a project's expected production calls for a two-fold approach at the appraisal stage: firstly, the needs to be met have to be identified in order to assess the quantity and quality of existing outlets; secondly, the distribution networks have to be examined so as to set up an efficient link between the project and the market. The difficulties experienced by several projects in disposing of their products indicate that these two phases have not always been carried out as thoroughly as is necessary.

25. In appraising some projects, the market's absorptency may not have been assessed with sufficient accuracy. For example, in the Rodrigues Island agricultural development project, the plan was to increase onion

production from 540 tonnes in 1981 to 1 500 tonnes in 1986. Production was in fact cut by half, ending up at 285 tonnes. Since the Mauritian market was saturated from the very outset, the production targets were far from realistic. In Madagascar, the coconut-production development project has led to a sharp rise in the production of copra. Because the company running the plantations, Soavoanio, cannot manage to dispose of this production, it is building up large stocks and is experiencing cash-flow problems. The reasons behind this are the partial insolvency of the oil-mills that are its customers and their inability to procure the other raw materials required for manufacturing soap. Furthermore, plans to build an additional oil-mill to absorb the surplus production have come to nothing. In the case of other projects, not enough attention has been paid to the preferences of potential customers, because of a failure to research the market in sufficient depth. This applies to the Soguiplast factory in Guinea, whose shoes, intended for the domestic market, are very slow to sell because the styles produced are not to the taste of the consumers, who prefer shoes imported from Sierra Leone.

26. In some projects, efforts to market the products are also hampered by an inefficient distribution system. In the case of the Soguiplast factory mentioned in paragraph 25, the entire production is bought up by the Ministry of Domestic Trade, which sells it in its State shops. The same Ministry determines the selling prices administratively. The company therefore does not have any influence over its profit margins. Owing to the present liberalization of the Guinean economy, competing products are flooding in from neighbouring countries. These imported goods are distributed by small private traders who use some aggressive trading tactics and who adjust their selling prices in order to gain a bigger share of the market. Under these conditions, the Soguiplast products, hampered by an inflexible pricing system and by an inefficient distribution network, are experiencing great difficulty in coping with this competition.

#### **Technical studies**

27. The purpose of the technical studies, which are an important stage in a project's cycle, is to make it possible to tackle the problems connected with determining the location and scale of the investment, the availability of equipment, of raw materials and of services essential for production. With regard to these various aspects, the sample of projects examined revealed numerous defects relating to the design of the studies and to the implementation of their conclusions.

28. Sufficient thought is not always given at the appraisal stage to selecting the projects' location, as the following cases show. On the basis of a study of the

development of the Juba Valley made in 1976, the Somali authorities decided to set up an agricultural experimentation centre in Sakow. For this purpose, they received two grants from the fourth EDF totalling 6,35 Mio ECU. The initial technical studies carried out in the context of the project cast doubt upon the conclusions of the 1976 study, especially in respect of the economic profitability of the investment and the suitability of the soil in the chosen region for the proposed work. Furthermore, the limited accessibility of the site necessitated infrastructure work which was out of all proportion to the scale and purpose of the investment project. Despite these warnings, issued as early as 1979, about the inadvisability of locating the experimentation centre in Sakow, the work was not stopped until November 1983, by which time 897 000 ECU had been spent needlessly. At that juncture, the project's location was reconsidered. The Commission then proposed siting the centre in Alexandra, a town 150 km away from the original location. The Somali authorities, pleading administrative difficulties, did not accept this proposal and in the end it was decided to build the centre on a third site, Bardeera. These prevarications over the choice of site, which caused a delay of at least three years as well as heavy financial losses, could have been avoided had the Commission immediately taken account of the conclusions of the studies carried out in 1979.

29. In Madagascar, the coconut-production development project provided for 405 ha of village plantations to be created. Only 105 ha have been planted and the plantations are for the most part run by the Soavoanio company and not by the local farmers, as was planned. The original design was at fault, insofar as the coconut palms have been concentrated in large plantations, whereas the local farmers wanted smaller plantations situated near to the villages so that a closer watch could be kept on them.

30. The technical studies have not always examined the size of the projects with sufficient care, with the result that situations have arisen where supply has exceeded demand. In Somalia, the project to develop the Goluen-Bulo Mererta grapefruit farm included the installation of a power station; this comprised three 200-kw generators, one of which was a reserve generator, and one 100-kw generator, even though the peak requirement of the farm after its enlargement is no more than 100 kw.

31. The rough estimates which are drawn up on the basis of earlier data and included in the financing proposals often prove to be far too vague. For example, in Kenya, the project to build up the health-care infrastructure of the Machakos district estimated that constructing and equipping a new polyclinic, extending and equipping four existing health centres, constructing a new health centre and building staff-housing would cost 2,3 Mio ECU. In fact, the cost of constructing and equipping the

polyclinic alone amounted to over 3 Mio ECU. As a result of this considerable underestimation of the cost, a large part of the project had to be abandoned.

32. Similarly, in a project to rehabilitate rice farms, in Kenya, it was planned to extend the area of four existing holdings from 130 ha to 650 ha. These targets had to be lowered and were fixed at 500 ha. The original targets had been set at the time the financing proposal was drawn up in October 1981, whilst the corresponding feasibility study had not been completed until May 1982. As a result, the cost of the project was underestimated in the financing proposal and the planned enlargement of the holdings had subsequently to be curtailed.

33. The technical studies have failed, in respect of several of the investment projects audited, to check up on the availability of the requisite material and equipment, as well as the raw and consumable materials essential for the proper running of the projects. In the case of a rural development project in Guinea, the inputs were not delivered in sufficient quantity and were not of adequate quality. The low rice yields recorded in the Mansaya and Donka plains (500 to 600 kg/ha), despite the clayey soil which is favourable for rice growing, are attributable in part to the lack of fertilizers. In Kono and in Sagana, the shortage of weedkillers has hampered both the maize and the dry-rice crop. The same project has been handicapped by the fact that the farm machinery and implements available (tractors and ploughs) were unsuitable for the work to be done. In a water-engineering micro-project in Madagascar, the local farmers experienced great difficulty in obtaining supplies of selected seed and of fertilizers on the local market. Because of this shortage, the farmers were unable to achieve the expected increase in the rice yields for the areas concerned.

#### **Examination of the projects' administrative and financial context**

34. The appraisal stage is also the right moment to examine a number of administrative and financial matters influencing the operation of the project. The shortcomings found during the audits indicate that no systematic investigation has been made of the reliability of the financing plans, the problems relating to the management of the investments, and the administrative provisions and regulations which are in force in the beneficiary countries and which may affect the smooth running of the projects.

35. Scrutiny of the financing plan and the estimated operating account at the time of a project's appraisal should enable the Commission to ensure that the project's working-capital needs can be covered. This elementary precaution has been omitted in some cases. For example, in the project to reconstruct the Sanoyah textile complex

in Guinea, the cash needs of the company were covered, during the start-up phase, by a State grant. However, since there are no commercial banks in this country, the question which springs to mind concerns the method which will be used to finance the short-term structural need generated by the inevitable replenishing of stocks and by credit given to customers. The enquiries made on the spot and at the Commission have not elicited any answer to this problem which, nevertheless, is crucial to the future existence of the complex.

36 The appraisal must also ensure that the conditions under which the projects are managed in the beneficiary Member States are not such as to upset the projects' smooth running. Some of the investment projects audited do in fact suffer from a shortage of manpower and from defective management structures. For example, in Ghana, during the initial phase of the Twifo oil-palm plantation development project, the State set the salaries at a level which was not even sufficient to cover a family's basic needs. This unsuitable wage-policy, coupled with the geographical isolation of the project, led to a shortage of staff on the project, especially skilled staff, which seriously affected its progress. In the water-engineering micro-project financed in Madagascar, some of the structures were not made sufficiently profitable because of inadequate back-up. The advisory service did not have sufficient resources available to enable optimum use to be made of the irrigated areas and the support service proved to be incapable of encouraging the local farmers to manage and maintain the structures they had acquired by virtue of the aid project.

37 The management of some projects suffers from uncoordinated administrative intervention. For example, in a water-supply and drainage project, financed by the fourth EDF, in the town of Praia on Cape Verde, three ministries were party to the project: the Ministry of Rural Development for the management of water resources, the Ministry of Public Works for water supply and the Ministry of the Interior for financial management. The fact that the responsibilities are divided up amongst so many bodies has adversely affected the proper running of the project. As provided for by this project's financing agreement under the fifth EDF, efficient management of the project depended upon a management body being set up which enjoyed financial autonomy and which was provided with suitable legal, administrative and technical means for carrying out and running the project. The partial failure of the Upper Guinea cotton-production development project is also attributable to some extent to excessive State intervention. Deprived of any administrative or financial autonomy, those managing the project were subject to the supervision of the national administration and the technical assistance was allowed to play only a very minor role.

38 Within the Guinean administration, conflicts have arisen over responsibilities in the rural development project. Even though the geographical dispersion of the work in the regions of Kankan and Labe called for coordination on the part of the national authorities, the various ministries playing a part in this project each

adopted a different or even divergent approach. For instance, the Commission put forward a short-list of four consultancies able to provide the technical assistance for the project to support district agri-pastoral farms ('Fapa'). The Ministry for International Cooperation informed the delegation that none of the proposed consultancies met with its approval. Virtually at the same time, the Ministry for the 'Fapa' told the Commission that it was opting for one of the proposed consultancy bureaux, 'one of whose experts was admirably suited to the main task to be entrusted to the consultants'. These few examples highlight the need to determine clearly, at the appraisal stage, the competences and responsibilities in the execution and management of the projects, and to identify the systems and practices, in the national administrations, which are likely to hamper the execution and running of the projects. These preliminary studies should make it possible to set up suitable management systems.

39 Until the end of 1985, the Guinean economy had two price systems, one based on the official exchange-rate for the *syli*, and the other on the free-market rate, calculated on a purchasing power for the *syli* which was ten times lower. The purchase price for cotton paid to the farmers, in the context of the above-mentioned cotton-production development project, was fixed by reference to the official exchange-rate for the *syli*, although those living in the countryside had access, for the most part, only to products sold on the market at the black-market exchange-rate. The consequent deterrent effect on the cotton producers has contributed quite considerably to the project's failure.

40 In the same country, a project to assist small and medium-sized undertakings (SMU) included the granting of a line of credit to the 'Credit National' (National Loan Bank) for the financing of loans to SMU. The implementation of the financing agreement was subject to the entry into force of a finance contract between the 'Credit National' and the Commission. The relevant Commission departments drew up a draft finance contract which looked likely to meet with the approval of the contracting parties. It was not until this lengthy preparatory work on the contract was completed that the Commission departments suddenly realized that the 'Credit National' was not legally empowered to contract this type of loan. It then proved necessary to revise the articles of association of this financial institution. It is regrettable that there has been a lengthy delay in meeting the undertakings' financing needs as a result of legal and administrative obstacles which could quickly have been eliminated by means of thorough appraisal of the project.

41 These shortcomings largely stem from the fact that, during the planning stage, the Commission adopted a global and essentially financially-oriented approach, thus sometimes ignoring the national characteristics of the ACP States. As a result, the indicative programmes drawn up with each beneficiary State have barely made it possible to identify the priority needs of the latter, have

taken insufficient account of the constraints arising from the state of the public finances and foreign-exchange reserves of these States and have not always ensured that Community and national efforts are complementary, as required. Taking these factors into consideration should in future mean that the Community will assume a greater share of the costs of the maintenance measures in the poorest countries.

42. The appraisal of several of the projects audited was found to be inadequate in one or other of these stages:

- (a) on many occasions the analysis of the commercial aspects was inadequate, in that it has not made it possible to assess the potential outlets for some products sufficiently accurately, nor to set up effective distribution channels;
- (b) the technical studies have resulted in ill-advised locations and unsuitable scales for projects and have not always paid due regard to the availability of the equipment, raw materials and services crucial for running the projects;
- (c) the scrutiny of the administrative and financial context of the projects has not made it possible to anticipate the problems connected with incompetent management bodies, with interference by national administrations and with financing plans that are not reliable enough.

## OBSERVATIONS ON THE COMMUNITY'S RESPONSIBILITIES IN THE MANAGEMENT OF THE AID

### *Implementation of projects*

#### **The general conditions of the public works contracts financed by the EDF**

43. The common rules governing the general provisions and conditions applicable to the placing and performance of public works contracts financed by the Fund which, pursuant to Article 22 of Protocol No 2 annexed to the First Lomé Convention (fourth EDF) <sup>(4)</sup>, ought to have been adopted by a decision of the Council of Ministers at its second meeting following the date of entry into force of the Convention, were not in fact adopted during this

Convention's period of application. This resulted in the implementation of a transitional provision laying down that, in the meantime, the placing and performance of the public works contracts in question would be governed, as regards the ACP States party to the Yaoundé Convention (third EDF), by the legislation in force on 31 January 1975 and, as regards the other ACP States, by their respective national laws or their established practices regarding international contracts.

44. This deficiency was not remedied during the period of application of the Second Lomé Convention (fifth EDF) since this virtually repeated the provision concerning the common rules and the transitional provision contained in the First Convention (fourth EDF). This new shortcoming led to these provisions being incorporated into Article 237 of the Third Lomé Convention (sixth EDF) <sup>(5)</sup>. Desirable though it may be, it seems hardly likely that the Council is considering implementing any common rules in the immediate future.

45. The failure to adopt any general conditions for the public works contracts financed by the EDF, in so far as this entailed applying the national legislation of ACP States not party to the Yaoundé Convention (third EDF), made it necessary to keep a permanent and regularly updated register of this legislation. To date, no such action has been taken.

#### **The arbitration procedure for disputes arising in connection with the performance of public works contracts**

46. Under Article 23 of Protocol No 2 annexed to the First Lomé Convention (fourth EDF), 'any dispute arising between the authorities of an ACP State and a contractor or supplier in the course of execution of a contract financed by the Fund shall be settled by arbitration in accordance with rules of procedure adopted by a decision of the Council of Ministers not later than its second meeting following the entry into force of the Convention'.

47. By a joint declaration, the Member States and the ACP States agreed that 'as a transitional measure and pending implementation of the decision referred to in Article 23 of Protocol No 2 any disputes will be definitively settled in accordance with the rules of conciliation and arbitration of the International Chamber of Commerce'.

48. As this Convention expired without the rules of procedure having been adopted, provisions to the same effect were incorporated into the Second Lomé Convention (fifth EDF) and, in the continuing absence of formal adoption, into Article 238 of the Third Lomé Convention (sixth EDF).

49. Because of this, it is all the more regrettable that there is no comprehensive register of the disputes brought before the various national judicial and administrative bodies and before the International Chamber of Commerce and the Court of Justice of the European Communities.

50. The value of such a register, divided up into different categories (sectors concerned, parties involved, nature of the dispute), is all the more obvious in that most of these disputes are not without financial consequences for the EDF, either because of overspending of budget estimates or because of additional expenditure resulting, *inter alia*, from price rises where time-limits have been exceeded.

### *Evaluation of projects*

#### **Evaluation during implementation**

51. Pursuant to Article 118(1) of the Second Lomé Convention (fifth EDF), 'evaluation may be undertaken during the implementation of projects and programmes. The ACP States concerned and the Community shall draw up a joint progress report, at agreed intervals, on the various aspects of the project and its results'. It is regrettable that the Commission has not made more frequent use of this provision. Had it been applied, it would in fact have enabled some bottlenecks or deviations from the stated objectives to be identified promptly and would thus have given new impetus or new direction to projects in difficulties.

52. The integrated development project for the Machakos region in Kenya includes an agricultural advisory operation intended to improve the working methods of the region's farmers. Several years after the start of this measure, no information is available about its effect on local agriculture. Without underestimating the difficulties of the task, it seems essential to evaluate the impact of the advisory operations on the region's agricultural production, otherwise there is a risk of losing the opportunity of correcting any of the possibly unsuitable instruments of this agricultural extension work, during their implementation.

53. During their implementation, the projects must be regularly and systematically monitored. This has not occurred in all the countries to which audit visits were made. For example, in Guinea, most of the contracts financed by the EDF as of 1981 were arranged by mutual agreement, sometimes after limited consultation and very often with the same suppliers. Moreover, the supporting

documents rarely refer to the firms consulted previously and to their tenders.

54. In the same country, many payments have been made solely on the basis of pro forma invoices. Some handwritten invoices are of dubious validity. For example, a sum of 300 000 sylis for the supply of 10 000 litres of diesel oil was paid on the basis of a handwritten invoice and the corresponding payment order makes no mention of any bank account. Until 1982, the acknowledgements of receipt of material were very frequently missing. Whilst subsequently they were annexed to the payment orders more systematically, they were usually terse and sometimes bore no date. Moreover, despite frequent late deliveries, the penalties for delay have hardly ever been applied. Lastly, there is no exact information about the whereabouts of numerous quantities of spare parts, fuel and even lorries financed by the EDF.

55. Article 103(3) of the Second Lomé Convention (fifth EDF) stipulates that 'any profit accruing to the ACP State because it receives either a grant or a loan for which the interest rate or the repayment period is more favourable than that of the final loan shall be used by the ACP State for development purposes on the conditions laid down in the financing agreement'. The use made by the ACP States of the profit generated by interest-rate differentials for special loans is not often followed up as required. For example, the Mauritian State made a profit, under the fourth EDF, on a special loan worth 3,04 Mio ECU within the framework of a project tackling the country's housing problem. The on-the-spot audit visits did not enable any information to be gathered as regards the use of the profit generated by the part of the loan already used up. Similarly, the financing agreement for the project to rehabilitate the Prestea plantation in Ghana stipulates that the interest on the special loan granted must be used in projects for agricultural purposes. Although this interest started becoming available in 1982, no agricultural project has to date benefited from it, despite the fact that there is considerable need in this sector.

#### **Ex-post-facto evaluation of projects**

56. Article 118(2) of the Second Lomé Convention (fifth EDF) lays down that:

- (a) 'The ACP States concerned and the Community shall organize the joint evaluation of completed projects and programmes. Evaluation shall concern the results, by comparison with the objectives, and also the administration, operation and maintenance of the schemes. The two parties shall study the results of such evaluations.'

- (b) The relevant authorities of the Community and of the ACP States concerned shall each take the appropriate measures called for by the results of the evaluation work'.

57. The Commission makes too little use of this provision. The poor conditions under which some completed projects are having to operate, however, would have called for Community action. By way of illustration, in the Sahambavy tea-plantation project in Madagascar, most of the production is for export. From 1978, when the factory came into operation, to 1982, the body responsible for the tea-growing operation marketed the production by itself with great success since the quality of the tea produced was appreciated on the international market. From 1982 onwards, the State put the marketing in the hands of a State-owned company, Somacodis, which endeavoured to find buyers directly rather than continue to trade through the London Commodity Exchange. This new distribution system failed: in July 1985, the top-grade production from the 1984 tea-growing year, which should have been sold six months earlier, was still stored at the port of Tamatave, and the second-grade production from the 1983 year was rotting at the plantation. Furthermore, the price offered by Somacodis is only 60 pence/kg, whereas the world rate for the first half of 1985 fluctuated between 260 and 140 pence/kg, and only half the price is paid upon shipment, with the balance being settled after sale. As a result, the tea-producing complex is selling only a small proportion of its production and that at a loss, so much so that the viability of the entire operation is in jeopardy. The Commission has hardly taken any steps at all to encourage the national authorities to reintroduce a suitable distribution system.

#### Use made of the Court's earlier observations

58. Several of the projects audited by the Court in 1985 in Madagascar, Kenya and Somalia had already been the subject of an earlier on-the-spot visit. Some of the observations made on that occasion have not been acted upon and the shortcomings pointed out on the initial visits persist. For example, in Kenya, in the project to irrigate and resettle the Bura area, the enquiries made by a Court audit team revealed, as of 1980, that the initial cost assessments were substantially underestimated, and that the project's management by the National Irrigation Board left much to be desired. No remedial action was taken until 1983, and this three-year delay served only to aggravate the difficulties faced by the project. In the same country, the objectives for water-resources development put forward in the integrated development programme for the Machakos region seemed to be far too optimistic. These fears proved to be well-founded, since the number of small water-supply pipes had to be cut back from 200 to 100 and the number of large pipes from 50 to 20 and then down to 12.

59. In Madagascar, the situation of the project to develop the Andapa Basin has developed little since the visit by a Court audit team in 1979. The work has continued to be delayed by supply problems and the lack of spare parts. Most of the civil-engineering machinery is out of order. The government decree of 22 December 1978 abolishing the practice of sharecropping has still not been implemented and the plots of land are still too concentrated. No rent system has been introduced, even though this measure was provided for in a regulation of 22 December 1981. This being so, the management company recorded an operating loss of 0,6 Mio ECU in 1983. Furthermore, no action was taken to remedy the poor maintenance of the pumping station noted in 1979. As regards the implementation reports, it is difficult to use them for following up the project because they are of poor quality.

60. Just from these few examples, it is clear that the Commission does not always act upon the Court's observations, which have been put forward in a spirit of constructive criticism. If greater attention were to be paid to them, however, it would be possible in many cases to put a stop to some divergent tendencies in the execution of projects and even to anticipate the consequences of defects relating to the aid-programming and project-appraisal phases.

61. In conclusion, the implementation of the measures has to cope with legislative shortcomings relating to the general conditions of the public works contracts financed by the EDF and the arbitration procedure for disputes arising in connection with the performance of these contracts. Furthermore, the evaluation of the projects has proved to be inadequate both during their execution and after their completion. Also, only a few of the observations made previously by the Court have been followed up.

#### STABEX

##### *Use of Stabex transfers*

62. The causes of the fall in revenue which leads to a Stabex transfer may be local in nature. For example, unrealistic pricing policies, deficient transport infrastructure and ineffective parastatal structures were all factors which contributed to the reduction in Ghana's cocoa production from 281 000 tonnes in 1979 to 178 000 tonnes in 1982. This reduction resulted in claims of 102,2 Mio ECU under Stabex for losses of revenue in 1981 and 1982. Stabex resources being insufficient in 1981, Ghana finally received 56,8 Mio ECU of the claim, of which 40 % was

used to import consumer goods unrelated to cocoa production. Under the rules of Stabex, there was no obligation for Ghana to obtain a prior Community agreement for a programme to revitalize cocoa production, no tying of international procurement to Community suppliers, no requirement for competitive bidding and no provision for financial and technical supervision by the delegation (although Ghana did permit the delegation to observe the award of contracts).

63. As regards the use made of the foreign exchange received under Stabex, Madagascar intends to justify the major part of the 6,1 Mio ECU received under the Second Lomé Convention (fifth EDF) by submitting reports on expenditure of an equivalent sum in local currency, and Cape Verde has submitted no reports at all. Thus the use of Stabex transfers escapes all the controls applied to other financial cooperation under the Lomé Conventions.

#### *Refund by beneficiary States of Stabex transfers*

64. Article 21 of the First Lomé Convention (fourth EDF) and Articles 43 and 44 of the Second Lomé Convention (fifth EDF) provide that certain ACP States shall refund to the EDF the payments they received under the Stabex system, should the trend of their export earnings or their financial situation so permit.

65. The refundable transfers made under the fourth EDF totalled 127,3 Mio ECU, of which 5,0 Mio ECU have since been refunded to the EDF, 26,1 Mio ECU have been recovered by deduction from transfers payable under subsequent years and 6,2 Mio ECU have been waived following the reclassification of the States concerned as 'least developed countries'. A payment of 0,4 Mio ECU regarding an overseas territory remains to be refunded by the United Kingdom. The ACP — EEC Council of Ministers has not yet decided whether the remaining total of 89,6 Mio ECU, transferred to five ACP States (Congo, Gabon, Liberia, Madagascar, Senegal), should be refunded to the EDF or waived. The Commission has prepared proposals concerning refunds and waivers, but these proposals are not based on precise criteria as there are no implementation rules concerning Article 21(4) of the First Lomé Convention (fourth EDF), which only states that the balance of payments, exchange

reserves and foreign indebtedness of the ACP States concerned 'shall be taken into consideration' before deciding whether a refund should be claimed.

66. At 31 December 1985, the refundable transfers made under the fifth EDF totalled 261,2 Mio ECU. At that date, the amount of refund claims notified by the Commission under Article 43 of the Second Lomé Convention (fifth EDF), following the recovery of ACP export quantities and prices, had reached 161 Mio ECU, whereas throughout the whole period of the First Lomé Convention (fourth EDF) the comparable sum was only 5,0 Mio ECU. This situation shows that there has been a substantial improvement in the level of export earnings of the ACP States concerned, but this improvement may not have been sufficient to allow all beneficiary countries to meet their legal obligations to refund the transfers over the seven year repayment period laid down in Article 42 of the Second Lomé Convention (fifth EDF), which commences in 1986.

#### **SYSMIN**

67. The Sysmin system was established under the Second Lomé Convention (fifth EDF) with an allocation of 282 Mio ECU, with a view to assisting ACP States with economies largely dependent on specified mining sectors to cope with a decline in their exporting capacity and the corresponding decline in their export earnings. Sysmin funds are tied to the restoring of the revenue-earning capacity of the affected sector under the close supervision of the Commission and their use is subject to EDF financial regulation and procurement rules. The amount received by a beneficiary State is decided by the Commission on no precise basis, though one of the factors which the Commission is required to take into account is the loss of earnings incurred (Article 54(2), Second Lomé Convention (fifth EDF)). The period over which the loss of earnings is calculated is not clearly defined, and a very wide timescale can be considered, for example the period 1976 to 1980 was chosen as the basis of aid payments to Zambia and Zaire in 1980 and 1981.

68. By 31 December 1985, five Sysmin financing decisions had been taken in favour of four States for a total of 128,8 Mio ECU, of which 92,6 Mio ECU had been disbursed. The situation is summarized in *Table 4*. Requests from five other States were still being appraised.

Table 4 — Implementation of Sysmin under Lomé II (Convention at 31 December 1985)

Beneficiary	Financing decision		Paid at 31. 12. 1985 (Mio ECU)	Comments
	Date	Amount (Mio ECU)		
<b>Zambia:</b>				
— 1st decision	4/82	55,0	55,0	
— 2nd decision	10/85	28,0	—	Financing agreement not yet signed
<b>Zaire:</b>				
— 1st decision	7/82	40,0	37,4	
— 2nd decision	not yet taken	p.m.	—	Eligibility decided in December 1985, financing proposal not yet agreed
<b>Guyana:</b>				
— advance	10/84	3,0	0,2	
— remainder	not yet taken	p.m.	—	Eligibility decided in July 1984, 22-32 Mio ECU financing proposal not yet submitted to Com- mission
<b>Rwanda:</b>				
— artisanal mining	7/85	2,8	—	
— commercial mining	not yet taken	p.m.	—	Financing contract not yet signed Eligibility decided in September 1984, 12-17 Mio ECU financing proposal not yet appraised.
<b>Subtotal</b>		128,8	92,6	
<b>Remainder</b>		153,2	189,4	
<b>Lomé II Sysmin allocation</b>		<b>282,0</b>	<b>282,0</b>	

### *Delays in implementation*

69. The Sysmin system stands out as having been implemented particularly slowly, only two projects having been completed, and only 33 % of the allocation having been disbursed by 31 December 1985. For the two completed projects, it has taken four to six years since the financing requests were submitted in January 1981 for the aid to reach the beneficiary countries. Sysmin has thus not immediately cushioned the economies of beneficiary States against falls in their foreign-exchange earnings.

70. A large part of this delay is caused by the requirement implicit in Article 52(1) of the Second Lomé Convention (fifth EDF), that the beneficiary States must first agree to restore the mines to a viable and economic level of production.

71. The length of the implementation period is also determined by the many administrative steps involved

before Sysmin aid is disbursed. Firstly, after consulting the EDF Committee of the Council, the Commission decides whether a financing request is eligible, and then, after appraising a specific project or programme and again consulting the EDF Committee, it decides on the amount and the conditions of the finance. Three agreements are signed at separate times with the beneficiary: a statement of common accord concerning policy objectives, a financing agreement and then the loan contract.

72. The Second Lomé Convention (fifth EDF) underlines the need for rapid implementation of Sysmin aid, and provides for the payment of advances to permit the implementation of precautionary measures during appraisal or implementation. Although long delays are apparent for each beneficiary, only one advance has been granted, of 3 Mio ECU to Guyana. Despite having received this advance, part of which was earmarked for technical assistance, no proposal for the use of the promised further 22 to 32 Mio ECU of finance had been forwarded to the Commission by the Guyanese authorities.



## CONTROL OVER FUNDS MANAGED BY THE EUROPEAN INVESTMENT BANK (EIB)

73. In its special report <sup>(6)</sup> on the management of Community development aid funds by the EIB, the Court commented on the inadequacy of the files available to it concerning projects financed by the EDF and managed by the EIB. The Parliament adopted a resolution on this subject on 22 October 1985 <sup>(7)</sup>. Although there has been some improvement, the Commission's files are still very inadequate, as there is no information on the implementation of projects decided before 1 January 1984, although disbursements continue to be made on these projects, and there is no information on the implementation of any project receiving interest-rate subsidies, although the EDF contribution amounts to over 30 % of the loan granted from the EIB's own resources. As

regards on-the-spot audits of the projects managed by the EIB, the Court considers it appropriate in this connection to reaffirm the position it clearly expressed in its opinion on the draft Financial Regulation applicable to the sixth EDF <sup>(8)</sup> (and, moreover, already touched on in the aforementioned special report), namely that there can be no question of reducing by subsequent acts the scope of the Court's audit powers, which were laid down, without any restrictions, by the Treaty establishing the Court of Auditors.

74. The Court has been unable to comply with the Parliament's invitation, included in its resolution of 22 October 1985 <sup>(7)</sup>, to provide it with an analysis of the EIB's earnings and expenditure concerning development aid, as it has not been able to find the necessary information for such an analysis in the files made available to it by the Commission.

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<sup>(1)</sup> OJ L 347 of 22.12.1980.

<sup>(2)</sup> OJ C 326 of 16.12.1985.

<sup>(3)</sup> Article 51 of the First Lomé Convention contains a provision to the same effect.

<sup>(4)</sup> OJ L 25 of 30.1.1976.

<sup>(5)</sup> OJ L 86 of 31.3.1986.

<sup>(6)</sup> Special report 2/84 adopted on 10.5.1984, not published but available at the Court.

<sup>(7)</sup> OJ C 343 of 31.12.1985, p. 27.

<sup>(8)</sup> OJ C 361 of 31.12.1985

*ANNEX I***Allocation of responsibilities among Members of the  
Court of Auditors at the time this report was adopted**

Secretariat, personnel and administration of the Court and external relations

Marcel MART,  
President

**Audit Group I**

Own resources 1:  
customs duties and agricultural revenue

Richie RYAN

Own resources 2:  
VAT own resources, balancing of the budget and miscellaneous revenue

Josep SUBIRATS

European Agricultural Guidance and Guarantee Fund, Guarantee Section 1:  
management and budgetary control procedures and general matters

Charles J. CAREY

European Agricultural Guidance and Guarantee Fund, Guarantee Section 2:  
common market organizations

Keld BRIXTOFTE

**Audit Group II**

European Social Fund

Paul GAUDY

European Agricultural Guidance and Guarantee Fund, Guidance Section (operations other  
than regional measures)

Fisheries

European Development Funds

Aldo ANGIOI

Cooperation with developing countries and other non-member States

Pierre LELONG

European Regional Development Fund

André J. MIDDELHOEK

European Agricultural Guidance and Guarantee Fund, Guidance Section  
(regional measures)

**Audit Group III**

General audit matters

Marcel MART

Loans and borrowings

Lothar HAASE

European Coal and Steel Community

General accounts

Accounting principles

Staff and operational expenditure of institutions

Stergios VALLAS

Office for Official Publications

Press and information offices

European Schools

Research, technology and new policies

Carlos MORENO

Subsidies

*ANNEX II***Reports and opinions adopted by the Court of Auditors during the last five years**

The Court of Auditors is required by the terms of the Treaties to produce an annual report. It is also required, by the Treaties and other regulations, to produce annual reports on certain Community bodies and activities. The Treaties further give the

Court the power to submit observations on specific questions and to deliver opinions at the request of one of the institutions. The reports and opinions adopted by the Court during the last five years are listed below.

Title	Date of adoption	Publication
Fourth annual report, concerning the financial year 1980	26 November 1981	OJ C 344, 31. 12. 1981
Study of the financial systems of the European Communities (1981)	26 November 1981	OJ C 342, 31. 12. 1981
Special report on expatriation and foreign residence allowances	4 February 1982	Available from the Court of Auditors
Opinion on a proposal for a Council Regulation amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities	18 February 1982	OJ C 122, 13. 5. 1982
Special report on sales of reduced-price butter within the Community	18 March 1982	OJ C 143, 7. 6. 1982
Report on the 1981 accounts of the Euratom Supply Agency	29 April 1982	Not published
Report on the 1981 JET financial statements	29 April 1982	Not published
Report on the financial statements of the European Coal and Steel Community for the financial year 1981 (Art. 78 f (5) ECSC)	27 May 1982	OJ C 270, 14. 10. 1982
Special report (observations) on the members' cash office of the European Parliament	6 July 1982	OJ C 202, 5. 8. 1982
Special report on loans and borrowings	19 July 1982	OJ C 319, 6. 12. 1982
Special report on job creation or maintenance in the granting of aid to regional investments	30 July 1982	OJ C 345, 31. 12. 1982
Report on the accounts of the European Schools for 1980	30 July 1982	Not published
Special report on the Community inward processing system	16 September 1982	OJ C 88, 30. 3. 1983

Title	Date of adoption	Publication
Opinion 1/82 on four proposals for Council Regulations amending certain provisions concerning the European Centre for the Development of Vocational Training and the European Foundation for the Improvement of Living and Working Conditions	16 September 1982	OJ C 324, 10. 12. 1982
Special report on the 'Como' frauds	16 September 1982	Not published
Special report on the financial management of multiannual programmes of the Joint Research Centre	7 October 1982	Available from the Court of Auditors
Report on the 1981 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin)	7 October 1982	Not published
Report on the 1981 accounts of the European Centre for the Development of Vocational Training (Berlin)	7 October 1982	Not published
Report (Annex to the annual report ECSC 1980) on loans – borrowings – interest rebates	12 October 1982	Not published
Special report (observations) concerning clearance of the accounts of the EAGGF Guarantee Section — the structure and operation of the system	12 October 1982	OJ C 313, 29. 11. 1982
Opinion 2/82 on a proposal for a Council Regulation amending Regulation (EEC, Euratom, ECSC) No 2891/77 implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources	16 November 1982	OJ C 133, 20. 5. 1983
Opinion 3/82 on a proposal for a Council Regulation amending and extending the terms of validity of Regulation (EEC, Euratom, ECSC) No 2892/77 implementing in respect of own resources accruing from value-added tax the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources	16 November 1982	OJ C 151, 9. 6. 1983
Report (Annex to the annual report ECSC 1981) on loans for housing	25 November 1982	Not published
Fifth annual report, concerning the financial year 1981	25 November 1982	OJ C 344, 31. 12. 1982
Opinion 4/82 on a draft Commission Regulation concerning financial provisions applicable to the European Agency for Cooperation and provisions relating to the Agency's relations with the Commission	9 December 1982	Not published
Opinion 5/82 on a proposal for a Council Regulation amending Regulation (EEC) No 2744/80 establishing supplementary measures in favour of the United Kingdom	16 December 1982	OJ C 160, 18. 6. 1983
Opinion 6/82 on a proposal for a Council Regulation instituting a special energy development programme	16 December 1982	OJ C 199, 26. 7. 1983 p. 7
Opinion 7/82 on a proposal for a Council Regulation amending Regulation (EEC) No 2779/78 on the procedure for applying the ECU to legal acts adopted in the customs sphere	2 February 1983	OJ C 199, 26. 7. 1983, p. 8

Title	Date of adoption	Publication
Special report 1/83 on the expenditure of the European Parliament in connection with inter-parliamentary conferences	10 March 1983	Available from the Court of Auditors
Special report 2/83 on the application of Regulations (EEC) No 1078/77 and (EEC) No 1041/78 introducing a system of premiums for the non-marketing of milk and milk products and for the conversion of dairy herds	14 April 1983	OJ C 278, 17. 10. 1983
Report on the accounts of the European Schools for 1981	28 April 1983	Not published
Report on the 1982 JET financial statements	28 April 1983	Not published
Special report 3/83 on the restaurants, canteens, cafeterias and staff shops	18 May 1983	Not published
Report on the 1982 accounts of the Euratom Supply Agency	26 May 1983	Not published
Special report 4/83 on the budgetary management of the programme for supplying agricultural products and foodstuffs to Poland	9 June 1983	OJ C 278, 17. 10. 1983
Special report 5/83 on aid to skimmed milk processed into casein and caseinates	9 June 1983	OJ C 41, 15. 2. 1984
Report on the financial statements of the European Coal and Steel Community for the financial year 1982 (Art. 78 f (5) ECSC)	22 June 1983	OJ C 339, 19. 12. 1984
Report on the 1982 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin)	14 July 1983	Not published
Report on the 1982 accounts of the European Centre for the Development of Vocational Training (Berlin)	14 July 1983	Not published
Opinion 1/83 on a draft Commission Regulation (EEC) relating to the operation of the system of advances for expenditure financed under the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF)	21 July 1983	Not published
Report in response to the conclusions of the European Council of 18 June 1983	6 October 1983	OJ C 287, 24. 10. 1983
Sixth annual report, concerning the financial year 1982	24 November 1983	OJ C 357, 31. 12. 1983
Report (Annex to the Annual Report ECSC 1982) on the accounting and financial management of the ECSC	7 December 1983	Not published
Special report 6/83 on the European Social Fund Computer System	15 December 1983	Available from the Court of Auditors
Opinion 2/83 on the proposal for a Council Regulation on interest subsidies for certain loans granted under the European Monetary System	12 January 1984	OJ C 55, 28. 2. 1984

Title	Date of adoption	Publication
Report on the accounts of the European Schools for 1982	23 February 1984	Not published
Opinion 4/83 on the second amendment to the proposal for a Council Regulation amending Regulation (EEC, Euratom, ECSC) No 2891/77 implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources	14 March 1984	OJ C 163, 23. 6. 1984
Special report 1/84 on the coordination of Community aid to third countries	14 March 1984	OJ C 224, 25. 8. 1984
Opinion 3/83 on the proposal for a Council Decision empowering the Commission to help finance innovation within the Community	5 April 1984	OJ C 163, 23. 6. 1984
Special report 2/84 on the management of Community development aid funds by the European Investment Bank	10 May 1984	Available from the Court of Auditors
Opinion 1/84 on the proposal for a Council Regulation introducing measures to cover budgetary requirements in 1984 given the exhaustion of own resources	7 June 1984	OJ C 228, 30. 8. 1984
Report on the 1983 accounts of the Euratom Supply Agency	19 June 1984	Not published
Report on the 1983 JET financial statements	19 June 1984	Not published
Report on the financial statements of the European Coal and Steel Community for the financial year 1983	26 June 1984	OJ C 350, 31. 12. 1984
Special report 3/84 on the operation of the common organization of the market in sheepmeat	19 July 1984	OJ C 234, 4. 9. 1984
Special report 4/84 on the implementation of Directive 77/435/EEC of 27 June 1977 on scrutiny by the Member States of transactions forming part of the system of financing by the EAGGF (Guarantee Section)	11 October 1984	OJ C 336, 17. 12. 1984
Report on the 1983 accounts of the European Centre for the Development of Vocational Training (Berlin)	24 October 1984	Not published
Report on the 1983 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin)	24 October 1984	Not published
Seventh annual report concerning the financial year 1983	22 November 1984	OJ C 348, 31. 12. 1984
Report (Annex to the Annual Report ECSC 1983) on the accounting and financial management of the ECSC	13 December 1984	Not published
Special report 5/84 on the system of aid for liquid skimmed milk used as animal feed	13 December 1984	OJ C 91, 12. 4. 1985
Special report 1/85 on the common organization of the market in olive oil	25 April 1985	OJ C 134, 3. 6. 1985

Title	Date of adoption	Publication
Opinion 1/85 on a proposal for a Council Regulation (EEC) on the application of the agreement in the form of an exchange of letters between the EEC and the Portuguese Republic concerning the implementation of specific financial aid for improving agricultural and fisheries structures in Portugal	2 May 1985	OJ C 138, 6. 6. 1985
Opinion 2/85 on a proposal for a Council Regulation (EEC, Euratom, ECSC) extending the terms of validity of Council Regulation (EEC, Euratom, ECSC) No 2892/77 implementing in respect of own resources accruing from value added tax the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources	26 June 1985	OJ C 261, 12. 10. 1985
Report on the financial statements of the European Coal and Steel Community for the financial year 1984	26 June 1985	OJ C 360, 31. 12. 1985
Special report 2/85 on the system for the payment of refunds on agricultural exports (Audit of the export of agricultural products)	26 June 1985	OJ C 215, 26. 8. 1985 and OJ C 238, 19. 9. 1985
Special report 3/85 on certain aspects of technical cooperation financed by Community development aid	12 July 1985	Available from the Court of Auditors
Report on the accounts of the European Schools for 1983	17 July 1985	Not published
Report on the accounts of the Euratom Supply Agency for 1984	17 July 1985	Not published
Report on the 1984 JET financial statements	17 July 1985	Not published
Report on the 1984 accounts of the European Centre for the Development of Vocational Training (Berlin)	17 October 1985	Not published
Report on the 1984 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin)	17 October 1985	Not published
Report (Annex to the Annual Report ECSC 1984) on the accounting and financial management of the ECSC	19 November 1985	Not published
Eighth annual report concerning the financial year 1984	19 November 1985	OJ C 326, 16. 12. 1985
Special report 4/85 on the common organization of the market in fishery products	28 November 1985	OJ C 339, 31. 12. 1985
Special report 5/85 on the Community contribution towards schemes concerning developing countries carried out by non-governmental organizations	12 December 1985	Available from the Court of Auditors
Opinion 3/85 on the draft amendments to certain articles of the draft Commission Regulation laying down detailed rules for the implementation of certain provisions of the Financial Regulation of 21 December 1977 (not translated into English)	12 December 1985	Not published
Opinion 4/85 on the proposal for a Council Regulation (EEC) amending Regulation (EEC) No 2681/74 on Community financing of expenditure incurred in respect of the supply of agricultural products as food aid	12 December 1985	OJ C 357, 31. 12. 1985



Title	Date of adoption	Publication
Opinion 5/85 on the draft Financial Regulation applicable to the Sixth European Development Fund	12 December 1985	OJ C 361, 31. 12. 1985
Special report 1/86 on the contract measures for the expansion of markets for milk and milk products financed by proceeds of the co-responsibility levy	20 February 1986	OJ C 127, 26. 5. 1986
Opinion 1/86 on the proposal for a Council Regulation amending Regulation (EEC) No 1883/78 on the general rules for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section	6 March 1986	OJ C 80, 9. 4. 1986
Report on the 1985 accounts of the Euratom Supply Agency	29 May 1986	Not published
Report on the financial statements of the ECSC at 31 December 1985	17 June 1986	OJ C 208, 19. 8. 1986
Special report 2/86 on the ERDF's specific Community regional development measures (non-quota measures)	10 July 1986	OJ C 262, 20. 10. 1986
Special report 3/86 on the subsidy system for oilseeds	10 July 1986	Available from the Court of Auditors
Report on the accounts of the European Schools for the financial year 1984	25 September 1986	Not published
Report on the 1985 accounts of the European Centre for the Development of Vocational Training (Berlin)	23 October 1986	Not published
Report on the 1985 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin)	11 November 1986	Not published
Opinion 2/86 on a draft Financial Regulation on the application of the Financial Protocols concluded with Algeria, Morocco, Tunisia, Egypt, Lebanon, Jordan, Syria, Malta and Cyprus	11 November 1986	OJ C 302, 27. 11. 1986
Report on the 1985 JET financial statements	19 November 1986	Not published
Report (Annex to the ECSC 1985 Annual Report) on the accounting and financial management of the ECSC	19 November 1986	Not published
Ninth annual report concerning the financial year 1985	19 November 1986	In this edition

*ANNEX III*

**Financial information relating  
to the general budget of the European Communities  
and  
to the European Development Funds  
(1985)**

**Preliminary remarks**

**1. Source of financial data**

The financial data in this Annex have been drawn from the revenue and expenditure accounts and the balance sheets of assets and liabilities of the European Communities <sup>(1)</sup> and of the European Development Funds and from other financial records provided by the Commission.

**2. Monetary unit**

All the financial data are presented in millions of ECU (Mio ECU), rounded to one decimal place.

**3. Change in nomenclature of the general budget**

Changes are sometimes made to the budgetary nomenclature. The Court uses the nomenclature of the current financial year for the presentation of the historical data and each time the nomenclature is changed it adapts the data of the previous financial years in accordance with the current nomenclature.

Thus the data given in § 14 to § 19 are comparable year by year.

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<sup>(1)</sup> For the financial year 1985: revenue and expenditure account and balance sheet of assets and liabilities relating to operations under the 1985 budget (Doc. COM(86) 208, 209, 210, 211, 212).

**4. Abbreviations and symbols**

EC	European Community(ies)
ECSC	European Coal and Steel Community
EEC	European Economic Community
EAEC or Euratom	European Atomic Energy Community
EAGGF	European Agricultural Guidance and Guarantee Fund
GNP	Gross national product
VAT	Value-added tax
BFR	Belgian franc
DKR	Danish crown
DM	German mark
DRA	Greek drachma
FF	French franc
IRL	Irish pound
LIT	Italian lira
LFR	Luxembourg franc
HFL	Dutch guilder
UKL	Pound sterling
u.a.	Unit of account (until 1977)
EUA	European unit of account (from 1978 to 1980)
ECU	European currency unit (as from 1 January 1981)
Mio ECU	Millions of European currency units
DA	Differentiated appropriations
NDA	Non-differentiated appropriations
CA	Commitment appropriations
PA	Payment appropriations
AFC	Appropriations for commitment
AFP	Appropriations for payment
B	Belgium
DK	Denmark
D	Federal Republic of Germany
GR	Greece
F	France
IRL	Ireland
I	Italy
L	Luxembourg
NL	The Netherlands
UK	United Kingdom
EUR 10	Total of the 10 Member States of the European Communities
EDF	European Development Fund
ACP	African, Caribbean and Pacific States
OCT	Overseas Countries and Territories
FOD	French Overseas Departments
Stabex	Stabilization of export earnings
Sysmin	System of stabilization of export earnings from mining products
FR	Financial Regulation of 21 December 1977
OJ	Official Journal of the European Communities
S	Budgetary section
T	Budgetary title
Ch	Budgetary chapter
—	Nil
0,0	Data between zero and 0,05
%	Percentage
§	Sections referring within this annex to texts, diagrams and tables

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## Part I: General budget of the European Communities

### § 1. Background information on the general budget

#### 1.1. Origin of the general budget

The general budget was created by the Merger Treaty <sup>(1)</sup> (Article 20). It replaced, on 1 January 1968, the three separate EC budgets which existed before then: the ECSC administrative budget, the EEC budget and the Euratom operating budget. The Euratom research and investment budget was incorporated in the general budget as from 1971 by the Treaty of Luxembourg <sup>(2)</sup> (Article 10).

#### 1.2. Legal basis

The general budget is governed by the financial provisions of the Treaties of Paris <sup>(3)</sup> (Article 78 ECSC) and Rome <sup>(4)</sup> <sup>(5)</sup> (Articles 199 to 209 EEC and Articles 171 to 183 Euratom) and by amendments resulting from the Merger Treaty <sup>(1)</sup>, the Council Decision on own resources <sup>(6)</sup>, the Treaty of Luxembourg <sup>(2)</sup>, the Treaty of Accession <sup>(7)</sup> and the Treaty of Brussels <sup>(8)</sup>. The Financial Regulation <sup>(9)</sup> governs the procedure for establishing and implementing the budget and for presenting and auditing the accounts. The Financial Regulation is supplemented by further specific enactments governing the details of budgetary implementation.

#### 1.3. Main budgetary principles prescribed by the Treaties and the Financial Regulation

The budget is authorized for one financial year (annuality). The budget presented must be in balance. Budgetary revenue is to be used without distinction to finance all expenditure entered in the budget (non-assignment). All items of Community revenue and expenditure are to be included in the budget (unity). All items of revenue and expenditure are to be entered in full in the budget and in the accounts without any adjustment against each other (universality). There are some exceptions to these general principles.

#### 1.4. Content and structure of the general budget

The general budget comprises the estimates of administrative expenditure of the ECSC and corresponding revenue, of revenue and expenditure of the EEC and of revenue and expenditure of Euratom.

The budget consists of five separate sections subdivided into statements of (estimated) revenue and expenditure: **(I) Parliament; (II) Council** (annexed: **Economic and Social Committee**); **(III) Commission; (IV) Court of Justice; (V) Court of Auditors**.

Within each section, revenue and expenditure are classified under budget headings (titles, chapters, articles and items) according to their type or the use to which they are to be applied.

#### 1.5. Monetary unit of the general budget

Until 1977 the budget was established and implemented in **units of account (u.a.)**: 1 u.a. = 0,88867088 g gold (= 1 US dollar between 1934 and 1972).

From 1978 to 1980 the budget was established and implemented in **European units of account (EUA)**: 1 EUA corresponds to the total of the following amounts of the currencies of the EC Member States: 0,828 DM + 0,0885 UKL + 1,15 FF + 109 LIT + 0,286 HFL + 3,66 BFR + 0,14 LFR + 0,217 DKR + 0,00759 IRL.

As from 1981 the budget has been established and implemented in **European currency units (ECU)**. Like the EUA, the ECU is a unit based on a basket of national currencies. For 1981, 1982 and 1983 the value and composition of the ECU basket is the same as that of the EUA (the Greek currency, the drachma, was not included in the ECU basket). For 1984 and 1985 1 ECU = 0,719 DM + 0,0878 UKL + 1,31 FF + 140,0 LIT + 0,256 HFL + 3,71 BFR + 0,14 LFR + 0,219 DKR + 0,00871 IRL + 1,15 DRA.

The rates of conversion at 31 December 1985 between the ECU and the national currencies were as follows: 1 ECU = 2,18386 DM = 0,615334 UKL = 6,70474 FF = 1 489,94 LIT = 2,46133 HFL = 44,6450 BFR/LFR = 7,95672 DKR = 0,714055 IRL = 131,200 DRA.

#### 1.6. Financing of the general budget (budgetary revenue)

The general budget is mainly financed by the **own resources of the Communities** <sup>(6)</sup>: customs duties, agricultural levies, sugar and isoglucose levies and VAT up to a maximum of 1 % of a uniform EC assessment basis <sup>(10)</sup>; there are also other smaller sources of revenue.

As from January 1971, pursuant to the Council Decision of 21 April 1970 <sup>(6)</sup>, the system of own resources progressively replaced the former system of fixed percentage financial contributions by the Member States. Until it became possible to apply the uniform VAT basis, financial contributions continued to be paid by the Member States. As from 1975 these financial contributions were calculated on the basis of the gross national product (GNP) shares of Member States. In 1979 own resources included VAT own resources for the first time. This was paid by Member States other than the Federal Republic of Germany, Ireland and Luxembourg, which continued to pay GNP-based financial contributions. In 1980 the VAT system was applied by all Member States. From 1981 to 1985 all the Member States paid VAT own resources with the exception of Greece which paid a financial contribution based on the GNP.

<sup>(1)</sup> Merger Treaty (8 April 1965): Treaty establishing a Single Council and Single Commission of the European Communities.

<sup>(2)</sup> Treaty of Luxembourg (22 April 1970): Treaty amending certain budgetary provisions of the Treaties establishing the European Communities and of the Merger Treaty.

<sup>(3)</sup> Treaty of Paris (18 April 1951): Treaty establishing the European Coal and Steel Community (ECSC).

<sup>(4)</sup> Treaty of Rome (25 March 1957): Treaty establishing the European Economic Community (EEC).

<sup>(5)</sup> Treaty of Rome (25 March 1957): Treaty establishing the European Atomic Energy Community (Euratom).

<sup>(6)</sup> Council Decision 70/243/ECSC, EEC, Euratom of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources (OJ L 94, 28. 4. 1970).

<sup>(7)</sup> Treaty of Accession (22 January 1972): Act concerning the Conditions of Accession and the Adjustments to the Treaties.

<sup>(8)</sup> Treaty of Brussels (22 July 1975): Treaty amending certain financial provisions of the Treaties establishing the European Communities and of the Merger Treaty.

<sup>(9)</sup> Financial Regulation of 21 December 1977 (OJ L 356, 31. 12. 1977).

<sup>(10)</sup> See Sixth Council Directive of 17 May 1977, common system of VAT: uniform assessment basis (OJ L 145, 13. 6. 1977).

### 1.7. Types of budget appropriations

To cover estimated expenditure, the following types of budget appropriations are distinguished in the general budget:

a) **Differentiated appropriations (DA)** are used to finance multiannual activities in certain sectors. They comprise commitment appropriations and payment appropriations:

- **commitment appropriations (CA)** cover, for the current financial year, the legal obligations to be entered into for activities whose implementation extends over several financial years;
- **payment appropriations (PA)** cover expenditure arising from commitments entered into in the financial year and/or preceding financial years.

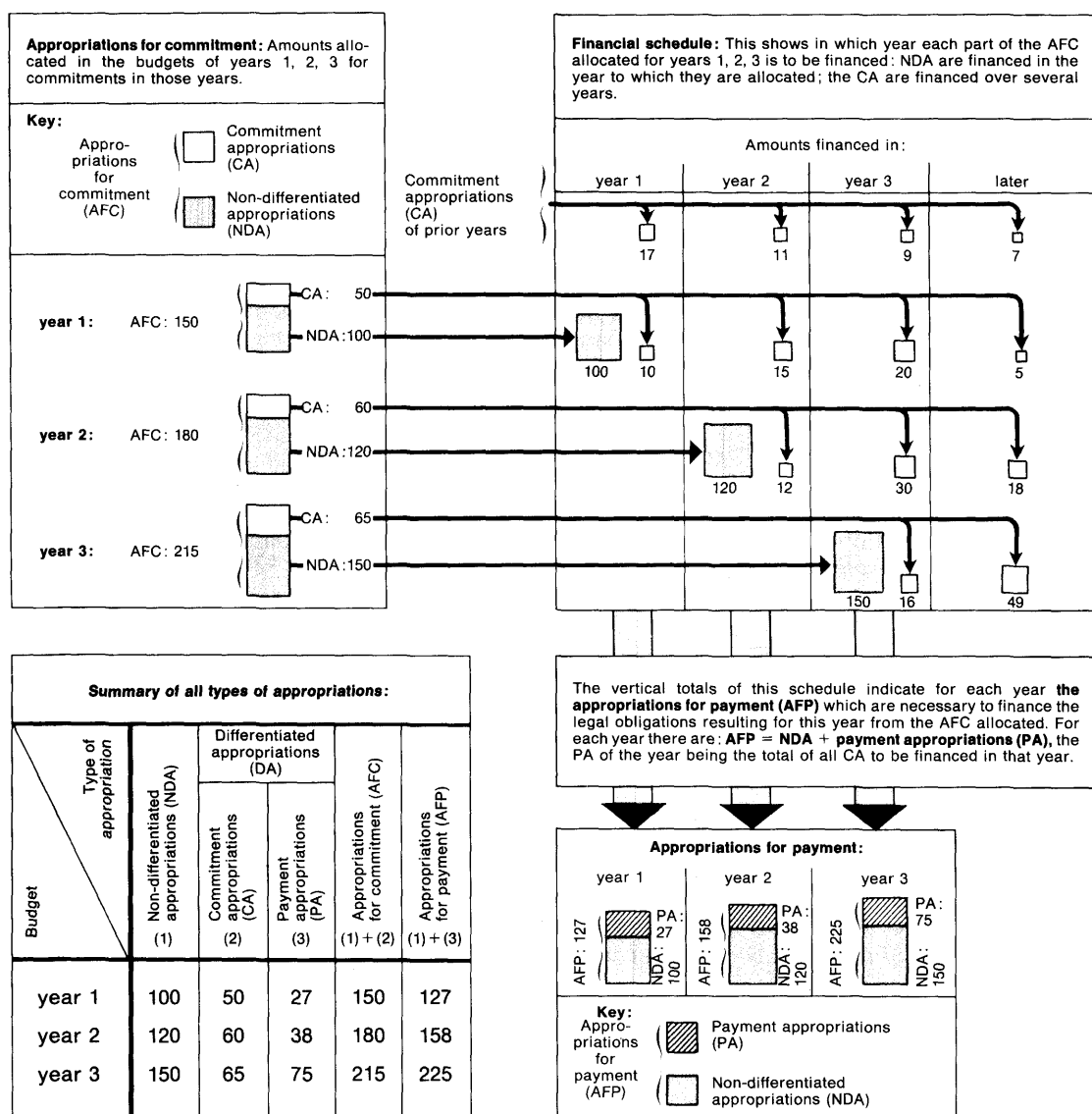
b) **Non-differentiated appropriations (NDA)** cover for annual activities both commitments and payments for the same financial year.

Thus it is possible to establish the following two totals for the same financial year:

- the total of **appropriations for commitment (AFC)** <sup>(1)</sup> = non-differentiated appropriations (NDA) + commitment appropriations (CA) <sup>(1)</sup>;
- the total of **appropriations for payment (AFP)** <sup>(1)</sup> = non-differentiated appropriations (NDA) + payment appropriations (PA) <sup>(1)</sup>.

Revenue raised in the budget is to cover the total appropriations for payment. Commitment appropriations are not financed until the corresponding payment appropriations have been entered in the budget.

The following simplified scheme (with illustrative amounts) shows the impact of these types of appropriations in each budget year:



<sup>(1)</sup> **Note:** It is important to note the differences between *appropriations for commitment* and *commitment appropriations* and between *appropriations for payment* and *payment appropriations*. The two terms *commitment appropriations* and *payment appropriations* are used exclusively in the context of *differentiated appropriations*.

### 1.8. Establishment of the general budget

Before 1 July of each year each institution draws up estimates of its expenditure for the following financial year (running from 1 January to 31 December). The Commission enters these estimates in a preliminary draft budget, and, not later than 1 September, places this before the Council, which with Parliament constitutes the budgetary authority. The Council establishes the draft budget and forwards it to Parliament not later than 5 October of the same year. Parliament can propose modifications to the draft budget for compulsory expenditure <sup>(1)</sup> and make amendments for non-compulsory expenditure; these modifications and amendments are submitted to the Council. For compulsory expenditure the Council takes the final decision. For non-compulsory expenditure Parliament may, within the limits of a statistical maximum rate of increase, make amendments before taking the final decision. The President of Parliament declares that the budget has been finally adopted. However, Parliament may reject the draft budget and ask for a new draft to be submitted <sup>(2)</sup>.

If at the beginning of a financial year the budget has not been voted, particular provisions of the Treaties and the Financial Regulation relating to the authorization of expenditure are to be applied <sup>(3)</sup>.

Amending budgets (which do not alter the total amount of the annual budget) or supplementary budgets (which alter the total amount) can be adopted by the budgetary authority <sup>(4)</sup>.

The budgetary allocation to a specific budget heading can be modified by transfers <sup>(5)</sup> from other budget headings.

### 1.9. Implementation of the general budget

#### 1.9.1. Responsibility for implementation

The Commission implements the budget on its own responsibility in accordance with the Financial Regulation and within the limits of the appropriations allotted; it also confers upon the other institutions the requisite powers for the implementation of the sections of the budget relating to them <sup>(6)</sup>. The Financial Regulation lays down the implementation procedures and, in particular, the responsibilities of the authorizing officers, accounting officers, administrators of advance funds and financial controllers of the institutions <sup>(7)</sup>.

#### 1.9.2. Implementation of revenue

The **estimated revenue** is entered in the budget subject to change by amending and supplementary budgets <sup>(4)</sup>.

The budgetary implementation of revenue consists in establishing the entitlements and recovering the revenue due to the Communities (own resources and other revenue); it is governed by special provisions <sup>(8)</sup>. The **actual revenue of a financial year** is defined as the sum of recoveries upon entitlements established during the current financial year and recoveries upon entitlements still to be recovered from previous financial years.

#### 1.9.3. Implementation of expenditure

The **estimated expenditure** is entered in the budget. According to the nature of the legal obligation involved, it is covered by appropriations for commitment or appropriations for payment. The budgetary implementation of expenditure, i.e. the evolution and utilization of appropriations, may be summarized as follows:

##### a) Appropriations for commitment.

- Evolution of appropriations: The appropriations for commitment allocated in the initial budget can undergo certain modifications until the final appropriations for commitment are obtained: final appropriations for commitment = initial budget (NDA and CA) ± amending and supplementary budgets <sup>(4)</sup> + supplementary receipts <sup>(9)</sup> ± transfers <sup>(5)</sup> + commitment appropriations remaining from the preceding financial year <sup>(10)</sup> + non-automatic carry-overs <sup>(11)</sup> from the preceding financial year (uncommitted NDA) + released commitment appropriations from preceding financial years.
- Utilization of appropriations: The final appropriations for commitment are available in the financial year for use in the form of commitments entered into (appropriations for commitment utilized = amount of commitments entered into).
- Appropriations remaining available for the next financial year: Non-differentiated appropriations which have not been committed, may be carried over non-automatically to the next financial year after approval by the Council <sup>(11)</sup>. Non-utilized commitment appropriations remain available for the next financial year <sup>(10)</sup>.
- Cancellation of appropriations: The balance is cancelled.

##### b) Appropriations for payment of the financial year.

- Evolution of appropriations: Appropriations for payment may also undergo modifications leading to the final appropriations for payment: final appropriations for payment = initial budget (NDA and PA) ± amending and supplementary budgets <sup>(4)</sup> + supplementary receipts <sup>(9)</sup> ± transfers <sup>(5)</sup>.
- Utilization of appropriations: The final appropriations for payment are available in the financial year for use as payments (utilized appropriations for payment of the financial year = amount of payments made from the appropriations of the financial year).

- Carry-overs of appropriations to the next financial year: Appropriations not paid may be carried over to the next financial year in the form of automatic <sup>(12)</sup> or non-automatic <sup>(11)</sup> carry-overs.
  - Cancellation of appropriations: The balance is cancelled.
- c) Appropriations for payment carried over from the preceding financial year (automatic and non-automatic carry-overs). In each financial year these appropriations (after possible transfers) are also available for use as payments. Carry-overs which remain unused during the year are cancelled, except in certain cases where carry-overs can be repeated <sup>(13)</sup>. Amounts cancelled in this way are added to the result of the financial year in the consolidated revenue and expenditure account (see 1.9.4.).

With regard to actual expenditure, a distinction is made between:

- **actual expenditure during a financial year** = total payments during the financial year = payments against appropriations for payment of the financial year plus payments against appropriations for payment carried over from the preceding financial year.
- **actual expenditure charged to a financial year** = expenditure charged to the consolidated revenue and expenditure account (see 1.9.4.) = payments against appropriations for payment of the financial year plus appropriations for payment of the financial year carried over to the following financial year.

#### 1.9.4. The consolidated revenue and expenditure account and the balance of the financial year

After the closure of each financial year the consolidated revenue and expenditure account is drawn up. **The balance of the year**, which is to be entered in the budget of the next financial year on the occasion of an amending budget, is determined therein <sup>(14)</sup> (see § 10).

### 1.10. Presenting the accounts

Not later than 1 June of the year following the closure of the financial year, the Commission forwards to Parliament, the Council and the Court of Auditors the accounts of that year: the accounts comprise a revenue and expenditure account and a balance sheet, together with an analysis of the financial management <sup>(15)</sup>.

### 1.11. External audit

As from 1977 the external audit of the general budget has been carried out by the **Court of Auditors of the European Communities** <sup>(16)</sup>. The Court of Auditors examines the accounts of all revenue and expenditure of the general budget, whether revenue has been received and expenditure incurred in a lawful and regular manner, and whether the financial management has been sound. The audits may be carried out before the closure of the financial year in question. The audits are performed on the basis of records and, where necessary, on the spot in the institutions of the Communities and in the Member States. The Court of Auditors draws up an annual report for each financial year and may also, at any time, submit observations on specific questions and deliver opinions at the request of one of the institutions of the Communities.

### 1.12. Discharge and follow-up

As from 1977 the following provisions are applicable <sup>(17)</sup>: Parliament, on the recommendation of the Council, gives, before 30 April of the second year following the financial year in question, discharge to the Commission on the implementation of the budget. To this end the Council and Parliament in turn examine the accounts presented by the Commission and the annual report of the Court of Auditors.

The institutions must take appropriate action on the comments appearing in the decisions giving discharge and report on the measures taken <sup>(18)</sup>.

<sup>(1)</sup> Compulsory expenditure is that resulting necessarily from the Treaties or from acts adopted in accordance with them.

<sup>(2)</sup> For details concerning the budgetary procedure see Articles 78 ECSC, 203 EEC and 177 Euratom.

<sup>(3)</sup> Article 8 of the Financial Regulation.

<sup>(4)</sup> Article 1 (5) of the Financial Regulation.

<sup>(5)</sup> Article 21 of the Financial Regulation.

<sup>(6)</sup> Articles 78d ECSC, 205 EEC, 179 Euratom and Article 18 (2) of the Financial Regulation.

<sup>(7)</sup> Articles 17 to 49 and 68 to 72 of the Financial Regulation.

<sup>(8)</sup> Articles 23 to 31 of the Financial Regulation; Council Regulations (EEC, Euratom, ECSC) Nos 2891/77 and 2892/77 of 19 December 1977 (OJ L 336, 27. 12. 1977).

<sup>(9)</sup> Article 87 of the Financial Regulation and Article 91 (2) of the modified Financial Regulation.

<sup>(10)</sup> Articles 6 (2) (a) and 88 (3) of the Financial Regulation.

<sup>(11)</sup> Article 6 (1) (b) of the Financial Regulation.

<sup>(12)</sup> Articles 6 (1) (c), 6 (2) (b) and 88 (4) of the Financial Regulation.

<sup>(13)</sup> Articles 6 (4) and 108 (3) (a, b) of the Financial Regulation.

<sup>(14)</sup> Article 27 of the Financial Regulation and Articles 15 and 16 of Council Regulation (EEC, Euratom, ECSC) No 2891/77 (OJ L 336, 27. 12. 1977).

<sup>(15)</sup> Articles 73 to 77 of the Financial Regulation.

<sup>(16)</sup> Articles 78e, 78f ECSC, 206 and 206a EEC, 180 and 180a Euratom and Articles 78 to 84 of the Financial Regulation.

<sup>(17)</sup> Articles 78g ECSC, 206b EEC, 180b Euratom.

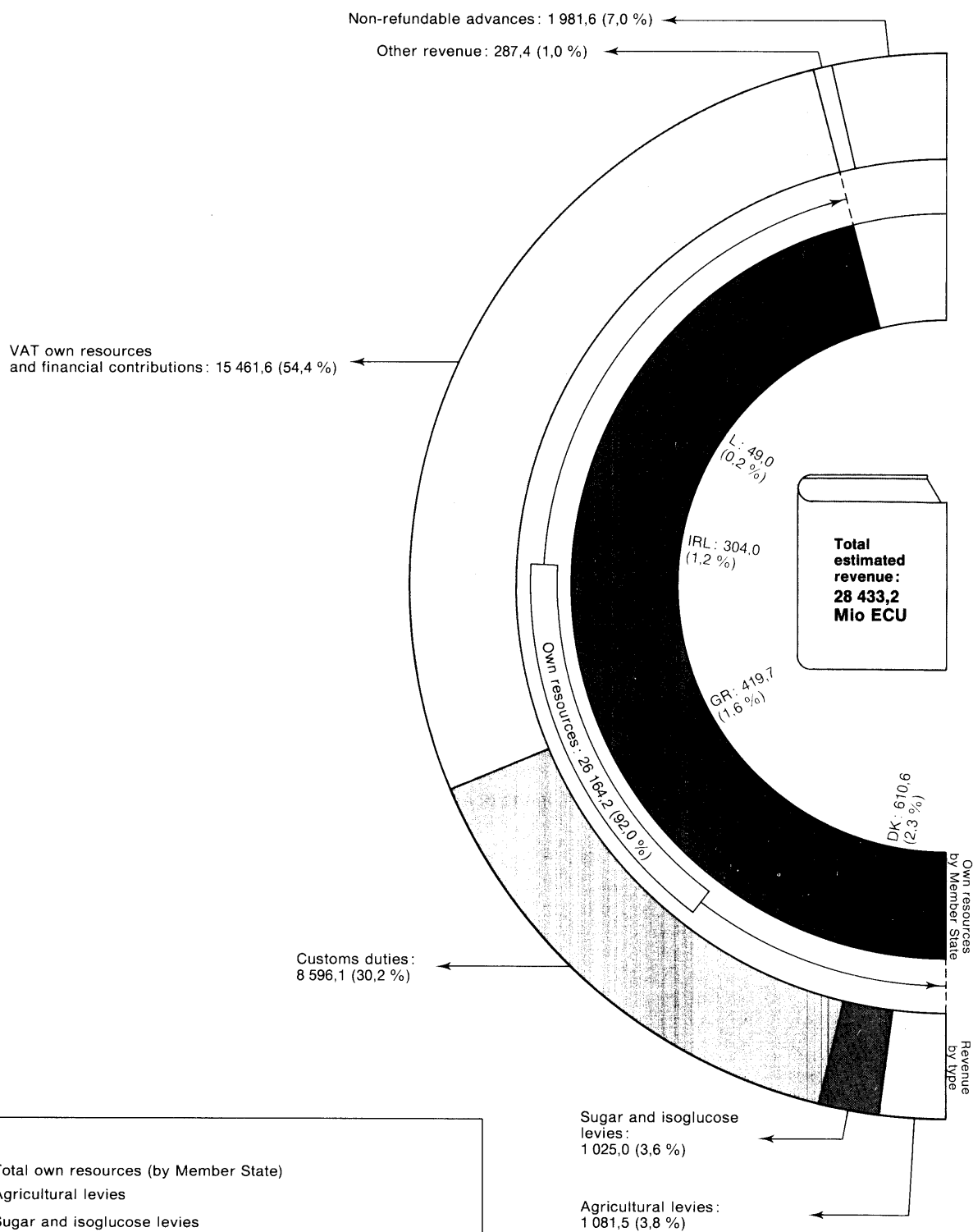
<sup>(18)</sup> Article 85 of the Financial Regulation.



## § 2. General budget 1985: estimated revenue

(for more detailed information: see also § 5)

(Mio ECU and %)



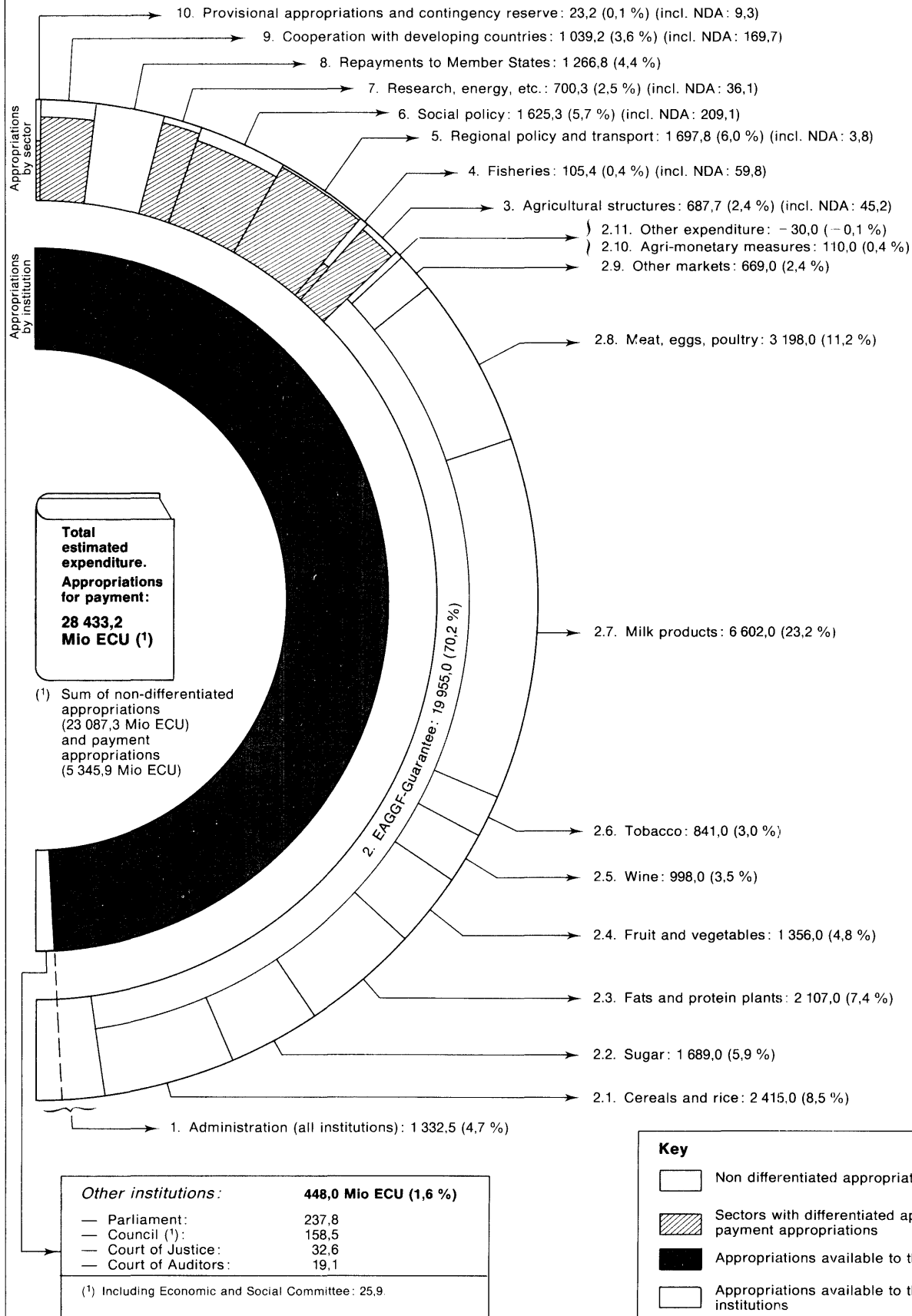
### Key:

- |               |   |  |   |
|---------------|---|--|---|
| Own resources | { |  | Total own resources (by Member State)         |
|               |   |  | Agricultural levies                           |
|               |   |  | Sugar and isoglucose levies                   |
|               |   |  | Customs duties                                |
|               |   |  | VAT own resources and financial contributions |
|               |   |  | Other revenue/Non-refundable advances         |

### § 3. General budget 1985: estimated expenditure — appropriations for payment

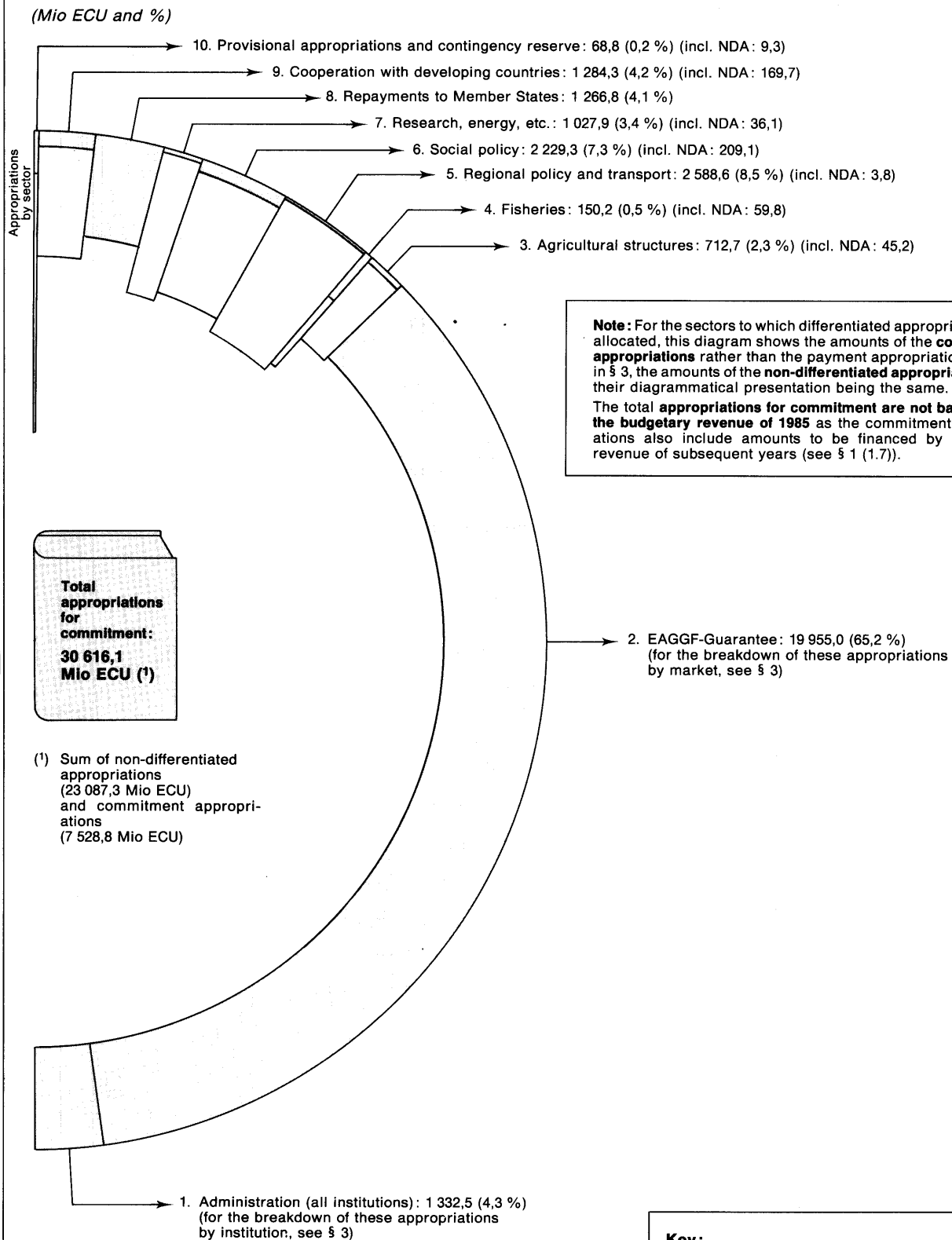
(for more detailed information: see also § 7, column 3)

(Mio ECU and %)



#### § 4. General budget 1985: appropriations for commitment

(for more detailed information: see also § 6, column 3)



## § 5. Estimated and actual revenue in 1985

### A. Estimated and actual revenue in 1985:

Type of revenue (the Titles (T) or Chapters (Ch) corresponding to the budgetary nomenclature for 1985 are given in brackets)	Revenue as estimated in the 1985 budget		Actual revenue in 1985 (revenue collected during the financial year)	
	Mio ECU	%	Mio ECU	%
1. Own resources:				
— agricultural levies (Ch 10)	1 081,5	3,8	1 121,7	4,0
— sugar and isoglucose levies (Ch 11)	1 025,0	3,6	1 057,4	3,8
— customs duties (Ch 12)	8 596,1	30,2	8 310,1	29,6
— VAT own resources (Ch 13)	15 198,1	53,5	15 218,9	54,2
— financial contribution (GNP) Greece (Ch 20, 21)	263,5	0,9	260,9	0,9
— balances and adjustments prior to 1985 of VAT own resources and financial contri- butions (Ch 31)	p.m.	—	111,8	0,4
<b>Total own resources</b>	<b>26 164,2</b>	<b>92,0</b>	<b>26 080,8</b>	<b>92,9</b>
2. Surplus available from the preceding financial year (Ch 30)	p.m.	—	—	—
3. Other revenue (T 4; 5; 6; 7; 8 except for Ch 82; 9)	287,4	1,0	353,6	1,3
4. Advances granted by the Member States (Ch 82):				
— non-refundable advances	1 981,6	7,0	1 242,4	4,4
— refundable advances (entitlements carried forward from 1984)	—	—	408,3	1,4
<b>Total revenue</b>	<b>28 433,2</b>	<b>100</b>	<b>28 085,1</b>	<b>100</b>

### B. Estimated and actual own resources in 1985 by Member State:

(Mio ECU)

Type of resource	Belgium	Denmark	FR of Germany	Greece	France	Ireland	Italy	Luxem- bourg	Nether- lands	United Kingdom	EUR 10
Agricultural levies:											
— estimated	160,0	7,0	130,0	21,0	88,0	5,5	276,1	0,1	125,9	267,9	<b>1 081,5</b>
— actual	197,2	9,7	142,0	18,1	74,1	5,9	314,4	0,2	131,7	228,4	<b>1 121,7</b>
Sugar and isoglucose levies:											
— estimated	75,3	43,0	300,0	16,3	330,7	14,9	70,2	—	88,8	85,8	<b>1 025,0</b>
— actual	78,4	43,5	286,3	12,0	348,0	15,0	75,8	—	104,1	94,3	<b>1 057,4</b>
Customs duties:											
— estimated	493,5	218,0	2 500,0	118,9	1 206,0	134,7	860,0	5,0	790,0	2 270,0	<b>8 596,1</b>
— actual	489,3	208,2	2 414,5	95,9	1 174,7	137,2	820,1	6,0	781,5	2 182,7	<b>8 310,1</b>
VAT own resources/financial contributions <sup>(1)</sup> :											
— estimated	554,5	342,6	4 693,9	263,5	3 788,3	148,9	2 501,9	43,9	824,1	2 300,0	<b>15 461,6</b>
— actual	554,6	342,6	4 699,0	260,9	3 792,5	148,9	2 491,4	43,9	825,4	2 320,6	<b>15 479,8</b>
Balances and adjustments prior to 1985:											
— estimated	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	<b>p.m.</b>
— actual	— 26,9	16,4	— 37,5	1,1	— 70,1	— 10,6	— 72,2	0,6	46,7	264,3	<b>111,8</b>
<b>Total own resources:</b>											
— estimated	<b>1 283,3</b>	<b>610,6</b>	<b>7 623,9</b>	<b>419,7</b>	<b>5 413,0</b>	<b>304,0</b>	<b>3 708,2</b>	<b>49,0</b>	<b>1 828,8</b>	<b>4 923,7</b>	<b>26 164,2</b>
— actual	<b>1 292,6</b>	<b>620,4</b>	<b>7 504,3</b>	<b>388,0</b>	<b>5 319,2</b>	<b>296,4</b>	<b>3 629,5</b>	<b>50,7</b>	<b>1 889,4</b>	<b>5 090,3</b>	<b>26 080,8</b>

<sup>(1)</sup> Greece paid a financial contribution based on its GNP.

## § 6. Appropriations for commitment available in 1985 and their utilization

(Mio ECU)

Sector (the Sections (S), Titles (T) and Chapters (Ch) corresponding to the 1985 budgetary nomen- clature are shown in brackets)		Type of appropriations: - non-differentiated - appropriations (NDA); - commitment appropria- - tions (CA)	Evolution of appropriations		Commitments entered into in 1985	Appropriations remaining available for 1986 <sup>(2)</sup>	Cancellations
(1)	(2)	(3)	(4)	(5)			
							<sup>(7)</sup> = (4) - (5) - (6)
All institutions	1. Administration	NDA	1 332,5	1 336,0	1 314,4	—	21,6
	1.1. Parliament (S I)	NDA	237,8	237,8	232,7	—	5,1
	1.2. Council (S II)	NDA	158,5	158,5	153,1	—	5,4
	(of which: Economic and Social Committee)	(NDA)	(25,9)	(26,6)	(26,3)	(—)	(0,3)
	1.3. Commission (S III, Part A)	NDA	884,5	888,0	879,4	—	8,6
	1.4. Court of Justice (S IV)	NDA	32,6	32,6	31,0	—	1,6
	1.5. Court of Auditors (S V)	NDA	19,1	19,1	18,2	—	0,9
Commission (Section III, Part B)	2. EAGGF-Guarantee (T 1, 2)	NDA	19 955,0	19 859,0	19 728,1	—	130,9
	2.1. Cereals and rice (Ch 10)	NDA	2 415,0	2 394,0	2 360,3	—	33,7
	2.2. Sugar (Ch 11)	NDA	1 689,0	1 807,0	1 804,5	—	2,5
	2.3. Fats and protein plants (Ch 12, 13)	NDA	2 107,0	2 192,5	2 175,4	—	17,1
	2.4. Fruit and vegetables (Ch 15)	NDA	1 356,0	1 236,0	1 230,7	—	5,3
	2.5. Wine (Ch 16)	NDA	998,0	925,0	921,4	—	3,6
	2.6. Tobacco (Ch 17)	NDA	841,0	865,0	862,9	—	2,1
	2.7. Milk products (Ch 20)	NDA	6 602,0	5 981,0	5 933,2	—	47,8
	2.8. Meat, eggs, poultry (Ch 21 - 24)	NDA	3 198,0	3 484,0	3 476,6	—	7,4
	2.9. Other markets (Ch 14, 18, 25)	NDA	669,0	741,0	736,1	—	4,9
	2.10. Agri-monetary measures (Ch 27, 28)	NDA	110,0	196,0	189,8	—	6,2
	2.11. Other expenditure (Ch 29)	NDA	-30,0	37,5	37,2	—	0,3
	3. Agricultural structures (T 3)	NDA + CA	712,7	978,9	910,9	54,6	13,4
	(of which: non-differentiated appropriations)	(NDA)	(45,2)	(45,2)	(44,8)	(—)	(0,4)
	3.1. EAGGF-Guidance (Ch 30 - 33)	CA	656,0	918,2	852,8	52,5	12,9
	3.2. Specific measures (Ch 38)	NDA + CA	56,7	60,7	58,1	2,1	0,5
	4. Fisheries (T 4)	NDA + CA	150,2	215,4	121,7	57,6	36,1
	(of which: non-differentiated appropriations)	(NDA)	(59,8)	(59,9)	(46,8)	(—)	(13,1)
	4.1. Common organization of the market (Ch 40)	NDA	24,1	24,1	16,1	—	8,0
	4.2. Other measures (Ch 41 - 43, 45 - 46)	NDA + CA	126,1	191,3	105,6	57,6	28,1
	5. Regional policy and transport (T 5)	NDA + CA	2 588,6	3 035,5	2 640,7	356,2	38,6
	(of which: non-differentiated appropriations)	(NDA)	(3,8)	(3,8)	(3,0)	(—)	(0,8)
	5.1. Regional Fund (Ch 50, 51)	CA	2 289,9	2 654,9	2 495,3	122,0	37,6
	5.2. Transport (Ch 58)	NDA + CA	91,6	171,6	81,2	90,0	0,4
	5.3. Other measures (Ch 52 - 57)	NDA + CA	207,1	209,0	64,2	144,2	0,6
	6. Social policy (T 6)	NDA + CA	2 229,3	2 767,1	2 283,5	418,0	65,6
	(of which: non-differentiated appropriations)	(NDA)	(209,1)	(209,1)	(80,6)	(122,5)	(6,0)
	6.1. Social Fund (Ch 60 - 61)	CA	2 010,0	2 536,3	2 188,5	288,2	59,6
	6.2. Other measures (Ch 63 - 67, 69)	NDA + CA	219,3	230,8	95,0	129,8	6,0
	7. Research, energy, etc. (T 7)	NDA + CA	1 027,9	1 327,8	977,2	340,6	10,0
	(of which: non-differentiated appropriations)	(NDA)	(36,1)	(38,3)	(31,9)	(—)	(6,4)
	7.1. Energy (Ch 70)	NDA + CA	141,3	169,5	155,6	13,9	0,0
	7.2. Research and investment (Ch 73)	CA	821,7	1 049,4	734,9	313,6	0,9
	7.3. Industry (Ch 77)	NDA + CA	36,8	70,6	58,8	3,5	8,3
	7.4. Other measures (Ch 71, 72, 75, 79)	NDA + CA	28,1	38,3	27,9	9,6	0,8
	8. Repayments to Member States (T 8)	NDA	1 266,8	1 266,8	1 244,0	—	22,8
	8.1. Costs incurred in collecting own resources (Ch 80)	NDA	1 070,3	1 070,3	1 048,8	—	21,5
	8.2. Other repayments (Ch 81 - 86)	NDA	196,5	196,5	195,2	—	1,3
	9. Cooperation with developing countries (T 9)	NDA + CA	1 284,3	1 487,6	1 139,5	343,8	4,3
	(of which: non-differentiated appropriations)	(NDA)	(169,7)	(203,8)	(202,9)	(—)	(0,9)
	9.1. Food aid (Ch 92)	NDA + CA	635,6	689,1	689,1	—	—
	9.2. Financial aid (Ch 93 - 99)	NDA + CA	648,7	798,5	450,4	343,8	4,3
	10. Provisional appropriations and contingency reserve (Ch 100, 101)	NDA + CA	68,8	46,3	—	—	46,3
	(of which: non-differentiated appropriations)	(NDA)	(9,3)	(5,8)	(—)	(—)	(5,8)
Grand total		NDA + CA	30 616,1	32 320,4	30 360,0	1 570,8	389,6
		NDA	23 087,3	23 027,7	22 696,5	122,5	208,7
		CA	7 528,8	9 292,7	7 663,5	1 448,3	180,9

(1) Budget appropriations amended after taking account of commitment appropriations remaining from 1984, appropriations corresponding to receipts for services performed on behalf of outside bodies and transfers between budget headings.

(2) Non-differentiated appropriations not automatically carried over to 1986 and commitment appropriations remaining at the closure of the 1985 accounts.

## § 7. Appropriations for payment available in 1985 and their utilization

(Mio ECU)

Sector (for the corresponding terms and budget heading see § 6, column 1)	Type of appropriations : – non-differentiated appropriations (NDA) ; – payment appropriations (PA)	A. Appropriations of the financial year 1985					B. Carry-overs from 1984				C. Total pay- ments made in 1985
		Evolution of appropriations		Payments made in 1985	Carry-overs to 1986	Cancellations	Appropriations carried over from 1984 (after transfers)	Payments made in 1985	Carry-overs to 1986	Cancellations	
		Budget 1985	Final appro- priations 1985 (1)								
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (4) – (5) – (6)	(8)	(9)	(10)	(11) = (8) – (9) – (10)	(12) = (5) + (9)
1. Administration	NDA	1 332,5	1 336,0	1 210,3	104,1	21,6	96,4	85,7	—	10,7	1 296,0
1.1. Parliament	NDA	237,8	237,8	216,6	16,1	5,1	15,4	11,9	—	3,5	228,5
1.2. Council (of which: ESC)	NDA (NDA)	158,5 (25,9)	158,5 (26,6)	135,1 (25,6)	18,0 (0,7)	5,4 (0,3)	13,9 (0,9)	13,3 (0,8)	— (—)	0,6 (0,1)	148,4 (26,4)
1.3. Commission	NDA	884,5	888,0	811,8	67,6	8,6	63,6	57,7	—	5,9	869,5
1.4. Court of Justice	NDA	32,6	32,6	29,2	1,8	1,6	2,5	1,9	—	0,6	31,1
1.5. Court of Auditors	NDA	19,1	19,1	17,6	0,6	0,9	1,0	0,9	—	0,1	18,5
2. EAGGF-Guarantee	NDA	19 955,0	19 859,0	19 723,7	4,4	130,9	2,6	2,2	—	0,4	19 725,9
2.1. Cereals and rice	NDA	2 415,0	2 394,0	2 359,8	0,5	33,7	—	—	—	—	2 359,8
2.2. Sugar	NDA	1 689,0	1 807,0	1 804,5	—	2,5	—	—	—	—	1 804,5
2.3. Fats and protein plants	NDA	2 107,0	2 192,5	2 172,1	3,3	17,1	1,9	1,6	—	0,3	2 173,7
2.4. Fruit and vegetables	NDA	1 356,0	1 236,0	1 230,7	—	5,3	—	—	—	—	1 230,7
2.5. Wine	NDA	998,0	925,0	921,4	—	3,6	—	—	—	—	921,4
2.6. Tobacco	NDA	841,0	865,0	862,9	—	2,1	—	—	—	—	862,9
2.7. Milk products	NDA	6 602,0	5 981,0	5 933,2	—	47,8	—	—	—	—	5 933,2
2.8. Meat, eggs, poultry	NDA	3 198,0	3 484,0	3 476,6	—	7,4	—	—	—	—	3 476,6
2.9. Other markets	NDA	669,0	741,0	735,5	0,6	4,9	0,7	0,6	—	0,1	736,1
2.10. Agri-monetary measures	NDA	110,0	196,0	189,8	—	6,2	—	—	—	—	189,8
2.11. Other expenditure	NDA	— 30,0	37,5	37,2	—	0,3	—	—	—	—	37,2
3. Agricultural structures (of which: NDA)	NDA + PA (NDA)	687,7 (45,2)	747,7 (45,2)	690,8 (33,2)	56,5 (11,6)	0,4 (0,4)	55,2 (5,3)	47,8 (4,8)	— (—)	7,4 (0,5)	738,6 (38,0)
3.1. EAGGF-Guidance	PA	632,5	692,5	654,5	38,0	—	35,6	35,6	—	—	690,1
3.2. Specific measures	NDA + PA	55,2	55,2	36,3	18,5	0,4	19,6	12,2	—	7,4	48,5
4. Fisheries (of which: NDA)	NDA + PA (NDA)	105,4 (59,8)	107,4 (59,9)	72,6 (45,6)	21,7 (1,2)	13,1 (13,1)	38,4 (6,9)	9,2 (6,7)	— (—)	29,2 (0,2)	81,8 (52,3)
4.1. Common organ. of market	NDA	24,1	24,1	16,1	—	8,0	—	—	—	—	16,1
4.2. Other measures	NDA + PA	81,3	83,3	56,5	21,7	5,1	38,4	9,2	—	29,2	65,7
5. Regional policy and transport (of which: NDA)	NDA + PA (NDA)	1 697,8 (3,8)	1 697,8 (3,8)	1 501,9 (0,6)	195,1 (2,4)	0,8 (0,8)	232,6 (59,7)	223,6 (55,4)	— (—)	9,0 (4,3)	1 725,5 (56,0)
5.1. Regional Fund	PA	1 610,0	1 610,0	1 495,0	115,0	—	129,2	129,2	—	—	1 624,2
5.2. Transport	NDA + PA	35,6	35,6	0,3	35,1	0,2	80,4	75,7	—	4,7	76,0
5.3. Other measures	NDA + PA	52,2	52,2	6,6	45,0	0,6	23,0	18,7	—	4,3	25,3
6. Social policy (of which: NDA)	NDA + PA (NDA)	1 625,3 (209,1)	1 626,2 (209,1)	1 373,1 (54,5)	247,1 (148,6)	6,0 (6,0)	125,9 (24,7)	117,6 (19,8)	— (—)	8,3 (4,9)	1 490,7 (74,3)
6.1. Social Fund	PA	1 410,0	1 410,0	1 317,5	92,5	—	95,5	95,5	—	—	1 413,0
6.2. Other measures	NDA + PA	215,3	216,2	55,6	154,6	6,0	30,4	22,1	—	8,3	77,7
7. Research, energy, etc. (of which: NDA)	NDA + PA (NDA)	700,3 (36,1)	692,2 (38,3)	469,6 (7,9)	215,9 (24,0)	6,7 (6,4)	269,5(2) (73,7)	237,9 (71,3)	4,4 (—)	27,2 (2,4)	707,5 (79,2)
7.1. Energy	NDA + PA	83,3	83,3	42,4	40,9	0,0	88,2	83,8	—	4,4	126,2
7.2. Research and investment	PA	553,2	543,1	406,0	136,8	0,3	126,7	104,6	4,4	17,7	510,6
7.3. Industry	NDA + PA	43,7	44,7	11,1	28,0	5,6	41,4	38,7	—	2,7	49,8
7.4. Other measures	NDA + PA	20,1	21,1	10,1	10,2	0,8	13,2	10,8	—	2,4	20,9
8. Repayments to Member States	NDA	1 266,8	1 266,8	1 239,3	4,7	22,8	8,7	8,7	—	—	1 248,0
8.1. Costs incurred in collecting own resources	NDA	1 070,3	1 070,3	1 046,0	2,8	21,5	4,9	4,9	—	—	1 050,9
8.2. Other repayments	NDA	196,5	196,5	193,3	1,9	1,3	3,8	3,8	—	—	197,1
9. Coop. with developing countries (of which: NDA)	NDA + PA (NDA)	1 039,2 (169,7)	1 092,7 (203,8)	855,2 (163,2)	236,6 (39,7)	0,9 (0,9)	264,6 (129,2)	229,5 (126,6)	— (—)	35,1 (2,6)	1 084,7 (289,8)
9.1. Food aid	NDA + PA	507,9	561,4	536,4	25,0	—	7,4	7,4	—	0,0	543,8
9.2. Financial aid	NDA + PA	531,3	531,3	318,8	211,6	0,9	257,2	222,1	—	35,1	540,9
10. Provisional appropriations and contingency reserve (of which: NDA)	NDA + PA (NDA)	23,2 (9,3)	11,3 (5,8)	— (—)	— (—)	11,3 (5,8)	— (—)	— (—)	— (—)	— (—)	— (—)
Grand total	NDA + PA NDA PA	28 433,2 23 087,3 5 345,9	28 437,1 23 027,7 5 409,4	27 136,5 22 478,3 4 658,2	1 086,1 340,7 745,4	214,5 208,7 5,8	1 093,9 407,2 686,7	962,2 381,2 581,0	4,4 — 4,4	127,3 26,0 101,3	28 098,7 22 859,5 5 239,2

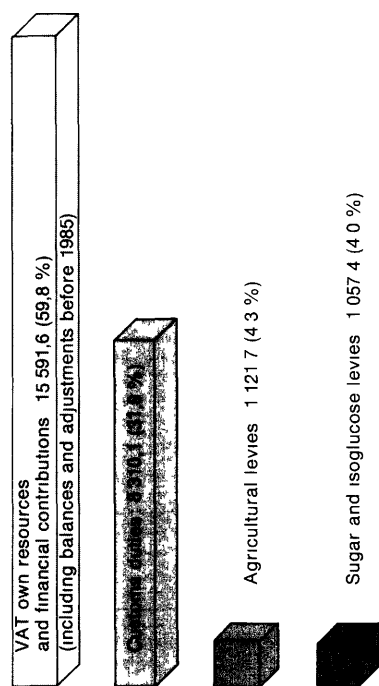
(1) Budget appropriations amended after taking account of transfers between budget headings, receipts for services performed on behalf of outside bodies and 1984 carry-overs transferred to the 1985 appropriations.

(2) After transfers of 1,0 Mio ECU to the non-differentiated appropriations of the financial year 1985.

### § 8. Actual own resources in 1985

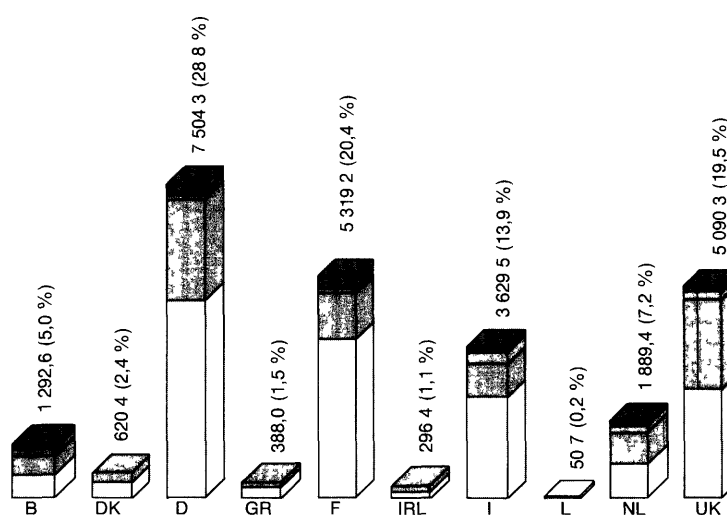
(for basic figures, see § 5)

**A. Actual own resources in 1985 — by type**  
(Mio ECU and %)



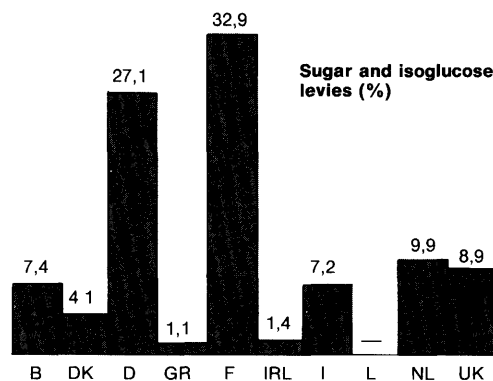
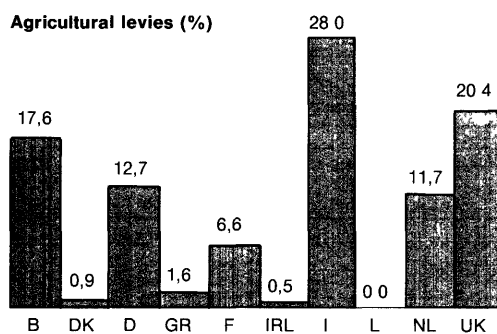
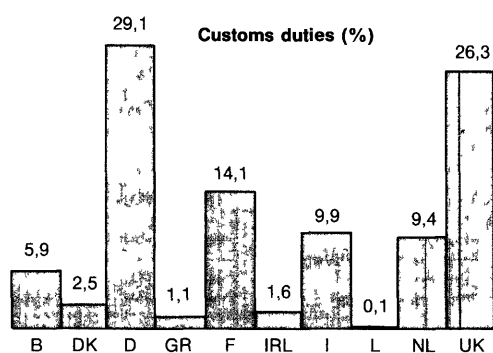
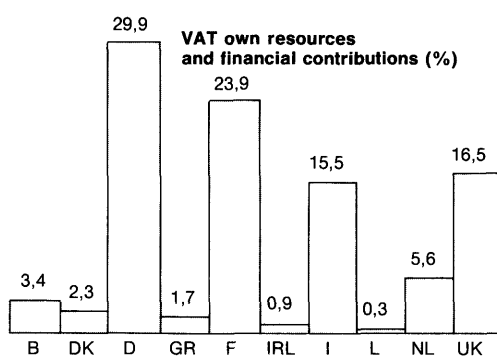
← Total: 26 080,8 Mio ECU →

**B. Actual own resources in 1985 — by Member State and by type**  
(Mio ECU and %)



← Total: 26 080,8 Mio ECU →

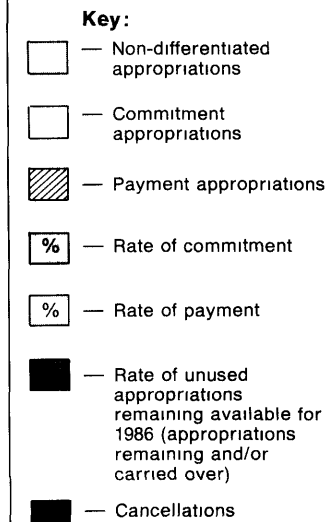
**C. Shares of Member States in each type of own resources (%):**



### § 9. Rate of utilization of appropriations available in 1985

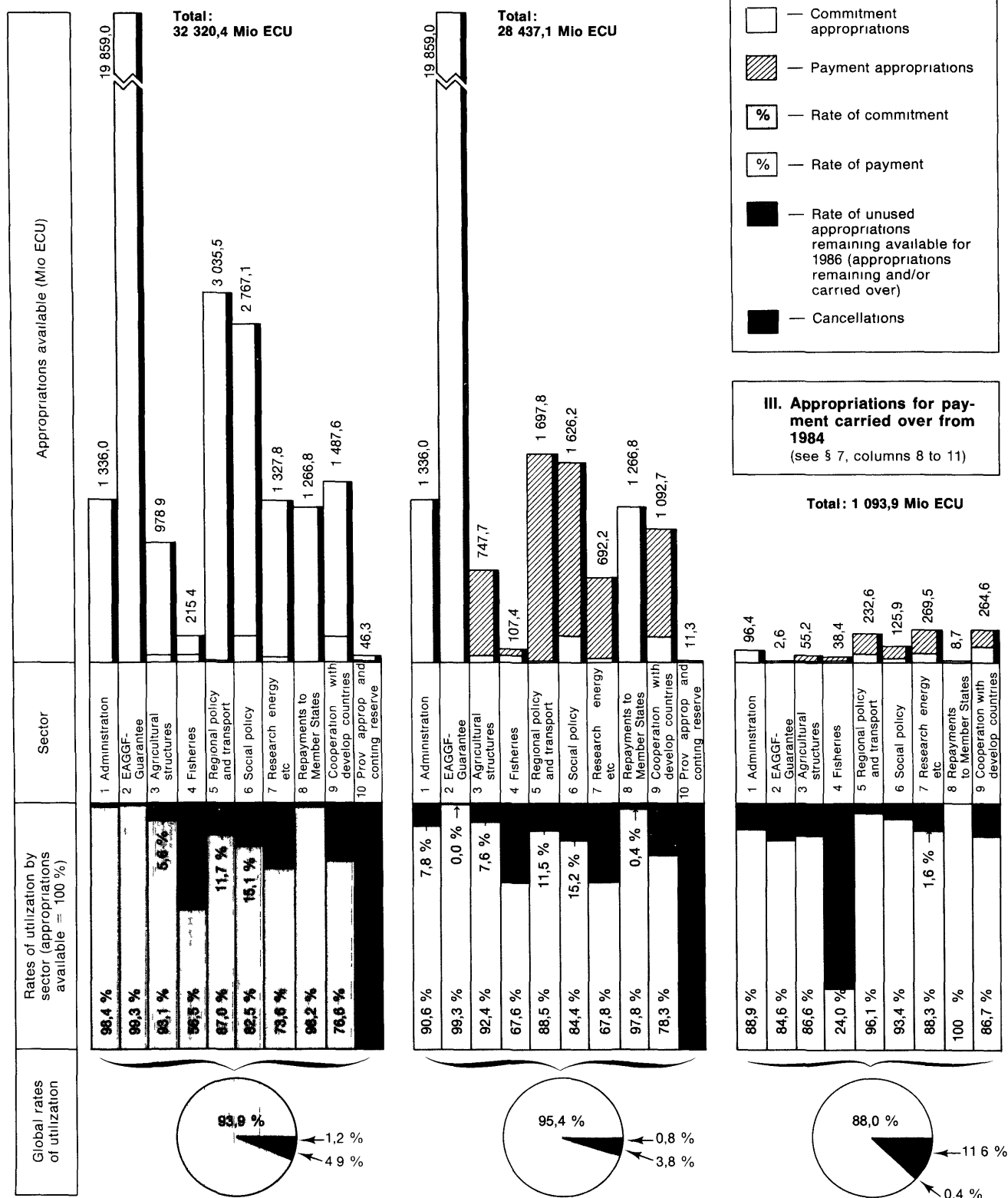
#### I. Final appropriations for commitment in 1985 (see § 6 columns 4 to 7)

#### II. Final 1985 appropriations for payment (see § 7 columns 4 to 7)



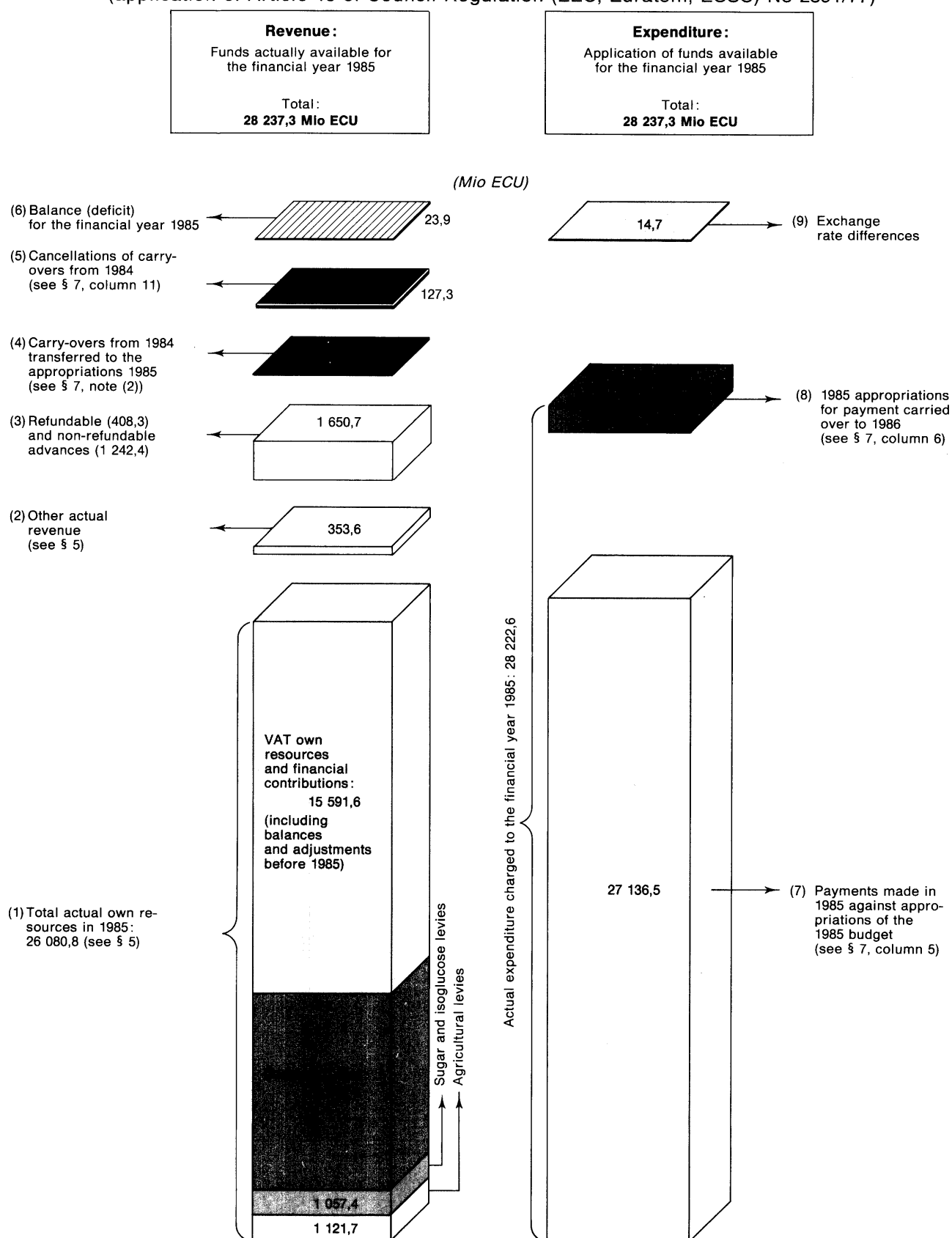
#### III. Appropriations for payment carried over from 1984 (see § 7, columns 8 to 11)

Total: 1 093,9 Mio ECU





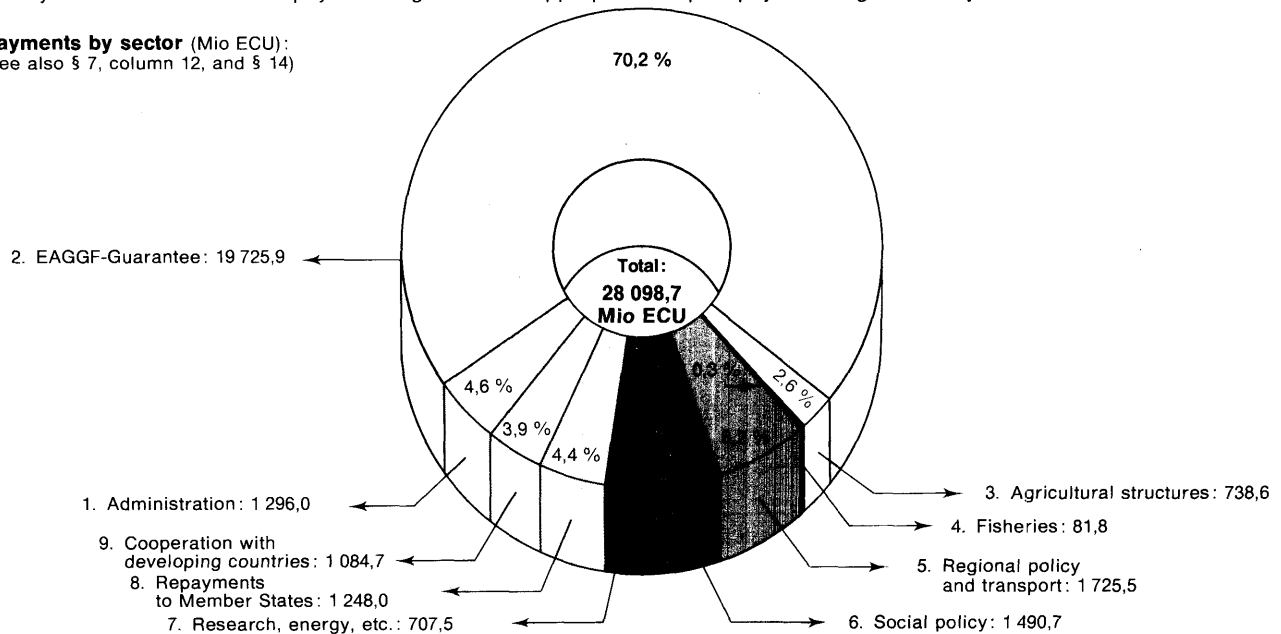
**§ 10. The consolidated revenue and expenditure account and the balance of the financial year 1985**  
(application of Article 15 of Council Regulation (EEC, Euratom, ECSC) No 2891/77)



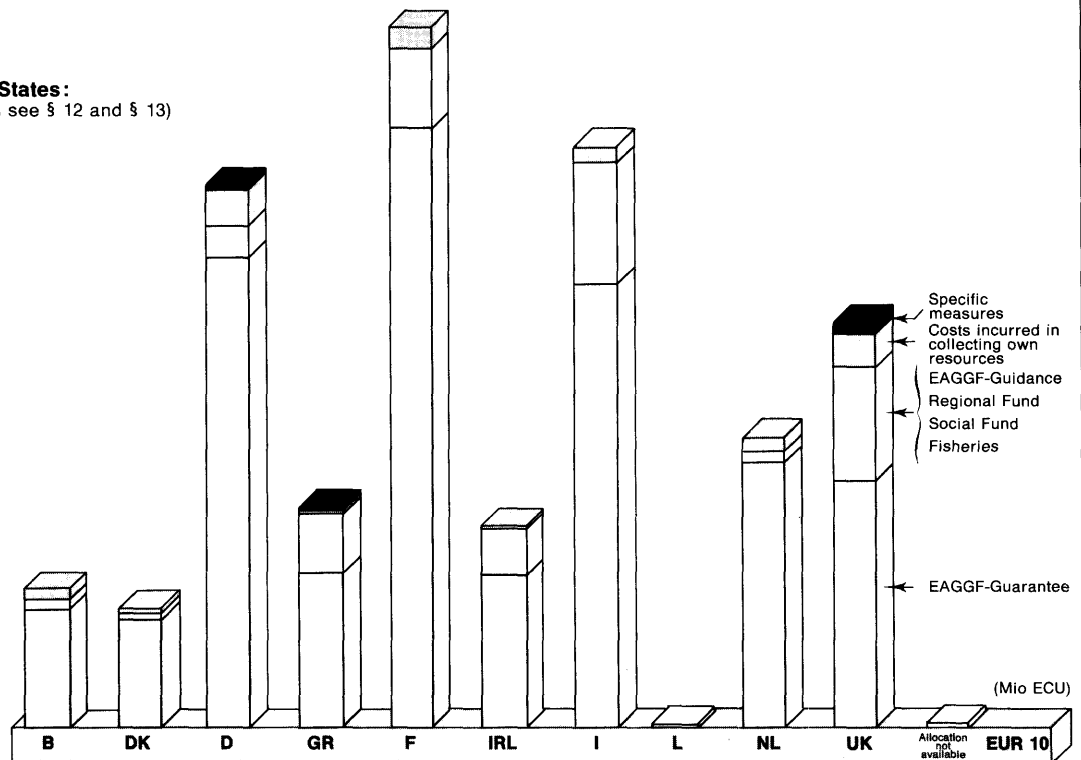
### § 11. Payments made in 1985 — by sector and by recipient Member State

**Note:** Payments made in 1985 = payments against 1985 appropriations plus payments against carry-overs from 1984

#### A. Payments by sector (Mio ECU): (see also § 7, column 12, and § 14)



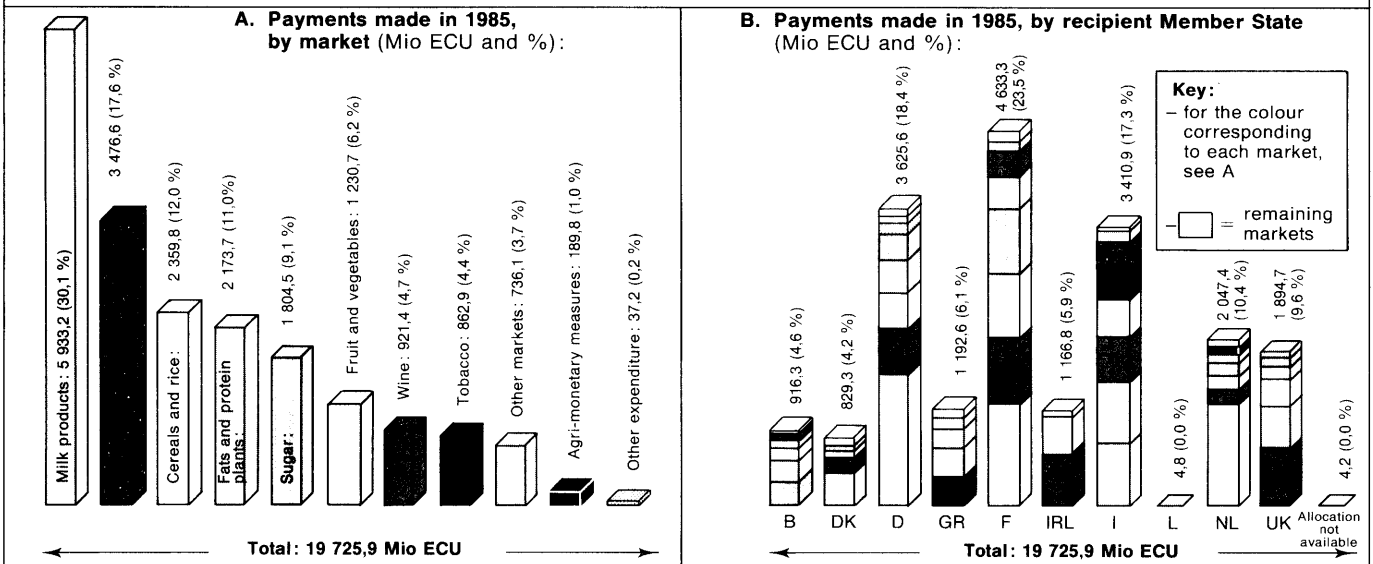
#### B. Payments to Member States: (for more detailed figures see § 12 and § 13)



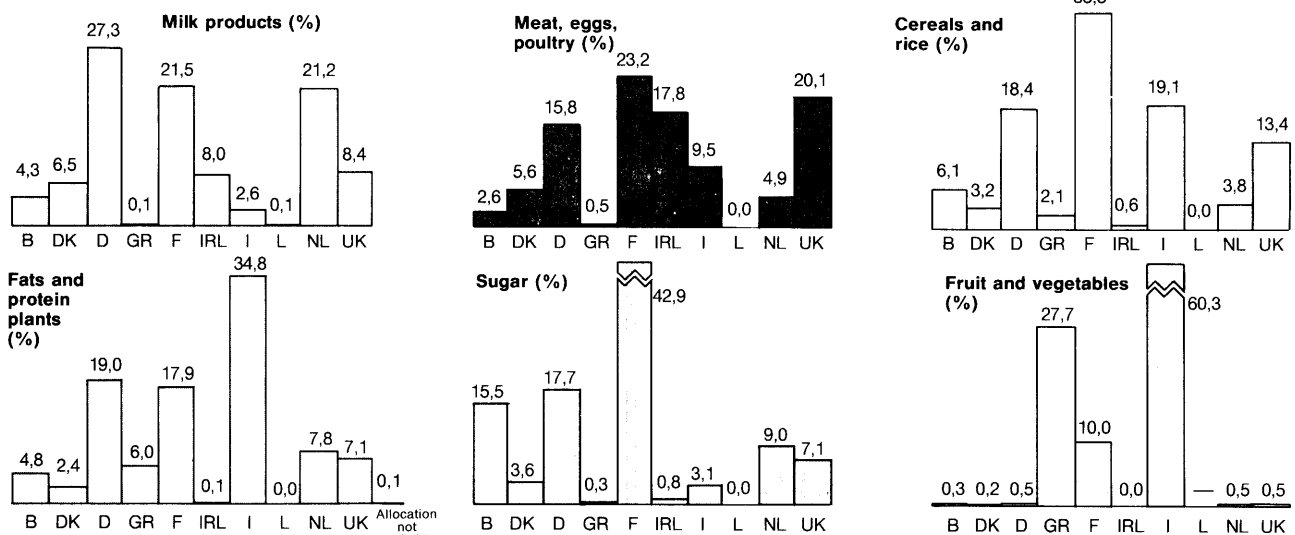
	B	DK	D	GR	F	IRL	I	L	NL	UK	Allocation not available	EUR 10
— EAGGF-Guarantee (T1 — 2) <sup>(1)</sup>	916,3	829,3	3 625,6	1 192,6	4 633,3	1 166,8	3 410,9	4,8	2 047,4	1 894,7	4,2	19 725,9
— EAGGF-Guidance (Ch 30 — 33)	12,4	13,0	81,0	83,7	122,3	73,1	175,3	1,8	18,1	109,4	—	690,1
— Fisheries (Ch 40 — 43, 45 — 46)	3,1	2,9	2,3	1,7	12,1	3,2	6,0	—	2,3	12,5	35,7	81,8
— Regional Fund (Ch 50 — 51)	12,3	7,7	61,7	309,0	233,2	118,2	381,1	0,7	16,4	483,9	—	1 624,2
— Social Fund (Ch 60 — 61)	49,4	33,5	109,8	79,0	255,6	171,6	383,5	0,6	46,0	284,0	—	1 413,0
— Costs incurred in collecting own resources (Ch 80)	76,5	26,1	284,5	12,2	159,9	15,8	123,5	0,6	101,7	250,1	—	1 050,9
— Specific measures (Ch 82, 86; articles 583, 707)	—	—	20,1	24,6	—	—	—	—	—	72,8	—	117,5
<b>Total</b>	<b>1 070,0</b> (4,3%)	<b>912,5</b> (3,7%)	<b>4 185,0</b> (17,0%)	<b>1 702,8</b> (6,9%)	<b>5 416,4</b> (21,9%)	<b>1 548,7</b> (6,3%)	<b>4 480,3</b> (18,1%)	<b>8,5</b> (0,0%)	<b>2 231,9</b> (9,0%)	<b>3 107,4</b> (12,6%)	<b>39,9</b> (0,2%)	<b>24 703,4</b> (100%)

<sup>(1)</sup> For the EAGGF-Guarantee these figures include adjusted monetary compensatory amounts (see § 12 D, footnote <sup>(1)</sup>).

## § 12. EAGGF-Guarantee: payments made in 1985 — by market and by recipient Member State



### C. Distribution by recipient Member State of payments made in 1985 for the principal markets (%):



### D. Record of payments made in 1985, by recipient Member State and by market:

(Mio ECU)

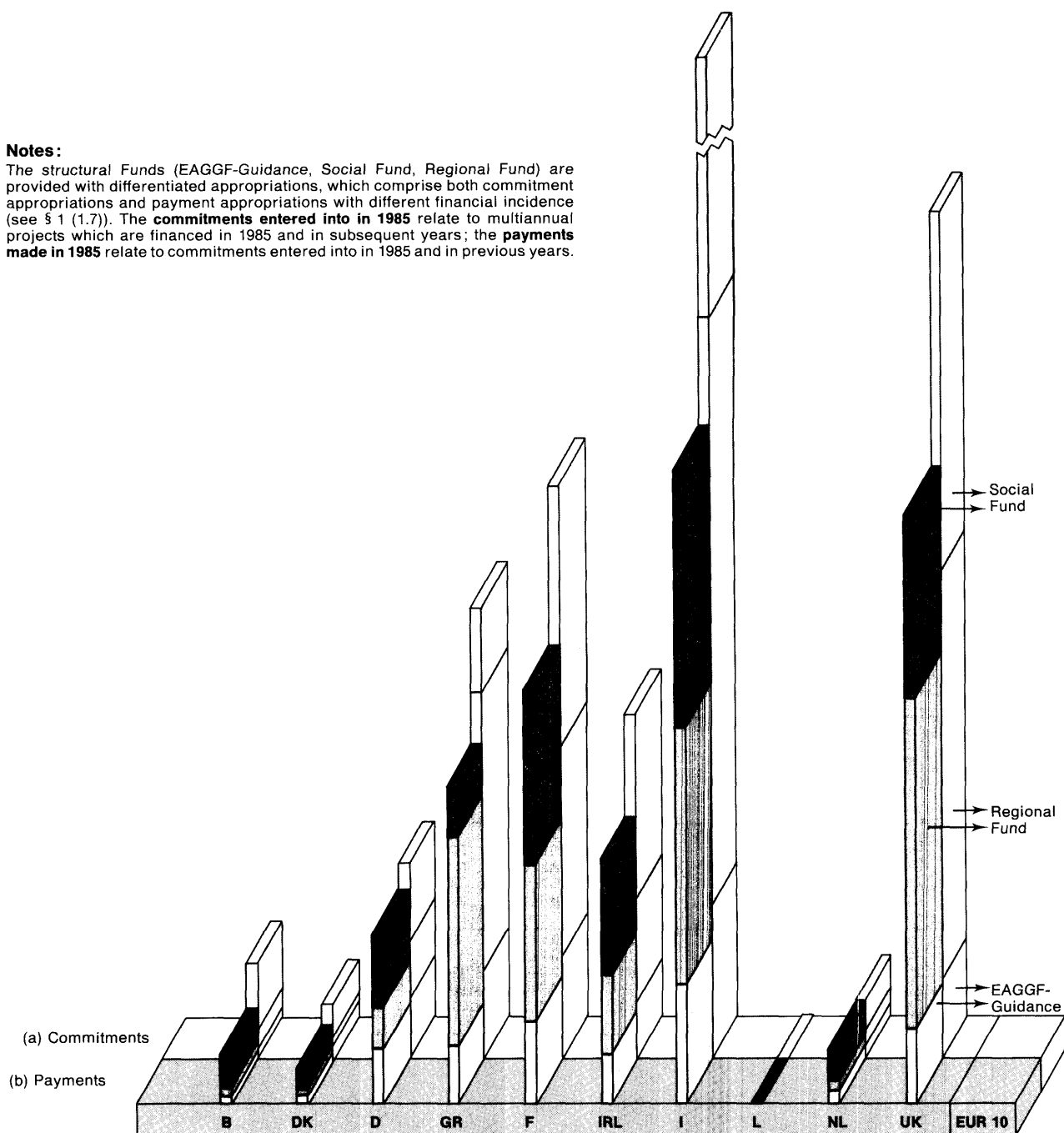
Market	B	DK	D	GR	F	IRL	I	L	NL	UK	Allocation not available	EUR 10
2.1. Cereals and rice	143,7	74,8	434,8	50,8	786,2	13,9	450,6	0,3	89,1	315,6	—	2 359,8
2.2. Sugar	278,8	64,9	320,2	5,7	774,8	14,0	56,1	0,0	162,1	127,9	—	1 804,5
2.3. Fats and protein plants	104,7	51,3	413,2	130,6	388,4	1,7	757,4	0,0	170,1	153,2	3,1	2 173,7
2.4. Fruit and vegetables	3,0	2,0	6,4	341,4	123,2	0,2	742,1	—	6,6	5,8	—	1 230,7
2.5. Wine	—	0,0	8,5	34,6	329,5	—	548,2	—	—	0,6	—	921,4
2.6. Tobacco	6,7	—	44,1	352,1	81,8	—	377,5	—	0,7	—	—	862,9
2.7. Milk products	256,9	387,3	1 617,3	8,1	1 273,7	477,0	150,7	4,1	1 257,4	500,7	—	5 933,2
2.8. Meat, eggs, poultry	90,8	193,8	548,8	17,8	807,4	619,0	328,5	0,2	171,1	699,2	—	3 476,6
2.9. Other markets	29,3	52,4	64,3	217,5	79,0	36,8	40,9	0,1	117,3	97,4	1,1	736,1
2.10. Agri-monetary measures <sup>(1)</sup>	1,6	7,2	46,8	38,3	—14,9	5,0	—1,8	0,0	99,1	8,5	—	189,8
2.11. Other expenditure	0,8	—4,4	121,2	—4,3	4,2	—0,8	—39,3	0,1	—26,1	—14,2	—	37,2
<b>Total</b>	<b>916,3</b>	<b>829,3</b>	<b>3 625,6</b>	<b>1 192,6</b>	<b>4 633,3</b>	<b>1 166,8</b>	<b>3 410,9</b>	<b>4,8</b>	<b>2 047,4</b>	<b>1 894,7</b>	<b>4,2</b>	<b>19 725,9</b>

<sup>(1)</sup> The agri-monetary measures include monetary compensatory amounts (MCAs) adjusted to cancel the effect of the application of Article 2 of Council Regulation (EEC) No 974/71, under which exporting Member States themselves pay directly the MCAs due on import into certain importing Member States. The MCA adjustment consists in allocating to these importing Member States the amounts which are chargeable to them.

**§ 13. The structural Funds: commitments entered into and payments made in 1985 — by recipient Member State**

**Notes:**

The structural Funds (EAGGF-Guidance, Social Fund, Regional Fund) are provided with differentiated appropriations, which comprise both commitment appropriations and payment appropriations with different financial incidence (see § 1 (1.7)). The **commitments entered into in 1985** relate to multiannual projects which are financed in 1985 and in subsequent years; the **payments made in 1985** relate to commitments entered into in 1985 and in previous years.



EAGGF-Guidance:												
(a) Commitments	16,3	18,3	89,3	133,6	152,8	82,7	225,8	0,9	19,3	113,8	852,8	
(b) Payments	12,4	13,0	81,0	83,7	122,3	73,1	175,3	1,8	18,1	109,4	690,1	
Regional Fund:												
(a) Commitments	24,4	13,3	83,6	409,5	309,9	156,5	871,0	—	18,9	608,2	2 495,3	
(b) Payments	12,3	7,7	61,7	309,0	233,2	118,2	381,1	0,7	16,4	483,9	1 624,2	
Social Fund:												
(a) Commitments	99,3	49,9	113,5	123,6	387,2	268,8	568,2	1,1	46,4	530,5	2 188,5	
(b) Payments	49,4	33,5	109,8	79,0	255,6	171,6	383,5	0,6	46,0	284,0	1 413,0	
Total:												
(a) Commitments	140,0	81,5	286,4	666,7	849,9	508,0	1 665,0	2,0	84,6	1 252,5	5 536,6	
(b) Payments	74,1	54,2	252,5	471,7	611,1	362,9	939,9	3,1	80,5	877,3	3 727,3	

(Mio ECU)

# § 14. Evolution and utilization of the appropriations for payment for the period 1981-1985 – by sector

(Mio ECU)

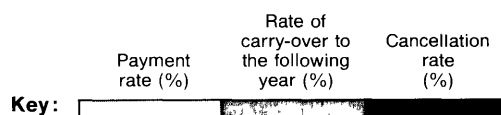
Sector and financial year		A. Appropriations for payment for the financial year						B. Carry-overs from the previous financial year			
		Evolution of appropriations			Payments	Carry-overs to the following financial year	Cancellations	Final carry-overs (3)	Payments	Carry-overs to the following financial year	Cancellations
		Initial budget	Final budget (1)	Final appropriations (2)							
		(1)	(2)	(3)	(4)	(5)	(6) = (3) – (4) – (5)	(7)	(8)	(9)	(10) = (7) – (8) – (9)
<b>General budget -total-</b>	1981	19 327,6	18 434,0	18 441,5	16 712,0	1 172,8	556,7	1 435,1	1 080,8	231,3	123,0
	1982	21 984,4	21 984,4	21 994,3	19 320,3	1 385,5	1 288,5	1 404,1	1 102,4	135,4	166,3
	1983	21 558,5	25 061,1	25 068,8	23 101,6	1 706,8	260,4	1 521,0	1 211,4	7,5	302,1
	1984	25 361,5	27 248,6	27 270,7	26 119,2	1 090,1	61,4	1 696,6	1 404,4	4,8	287,4
	1985	28 433,2	28 433,2	28 437,1	27 136,5	1 086,1	214,5	1 093,9	962,2	4,4	127,3
<b>1. Administration (all institutions)</b>	1981	1 007,7	1 015,7	1 037,7	886,1	69,9	81,7	66,2	56,8	—	9,4
	1982	1 103,2	1 103,2	1 121,2	957,0	106,6	57,6	69,9	53,3	—	16,6
	1983	1 153,4	1 161,6	1 162,9	1 019,2	100,5	43,2	106,7	91,2	—	15,5
	1984	1 229,1	1 236,6	1 245,6	1 127,2	96,4	22,0	100,6	88,9	—	11,7
	1985	1 332,5	1 332,5	1 336,0	1 210,3	104,1	21,6	96,4	85,7	—	10,7
<b>2. EAGGF-Guarantee</b>	1981	12 675,0	11 580,0	11 538,0	10 951,5	162,4	424,1	8,7	8,7	—	—
	1982	13 217,3	13 217,3	13 124,3	12 257,3	2,7	864,3	162,4	112,2	—	50,2
	1983	14 050,0	15 811,0	15 822,2	15 785,7	0,1	36,4	2,6	2,5	—	0,1
	1984	16 150,0	17 983,0	18 358,0	18 328,2	2,6	27,2	0,1	0,1	—	0,0
	1985	19 955,0	19 955,0	19 859,0	19 723,7	4,4	130,9	2,6	2,2	—	0,4
<b>3. Agricultural structures</b>	1981	468,9	518,9	553,0	457,0	93,3	2,7	343,7	117,7	209,4	16,6
	1982	772,1	772,1	763,7	483,5	277,2	3,0	302,7	162,6	120,1	20,0
	1983	651,2	653,4	668,5	513,7	131,5	23,3	397,3	236,0	—	161,3
	1984	655,6	660,1	666,9	611,1	55,2	0,6	131,2	91,7	—	39,5
	1985	687,7	687,7	747,7	690,8	56,5	0,4	55,2	47,8	—	7,4
<b>4. Fisheries</b>	1981	44,3	49,3	49,9	37,7	4,1	8,1	12,7	12,2	—	0,5
	1982	75,8	75,8	81,5	50,7	30,4	0,4	4,1	4,1	—	—
	1983	70,1	70,1	45,7	31,9	12,5	1,3	30,4	22,9	—	7,5
	1984	101,4	112,4	87,4	46,6	38,4	2,4	12,5	10,5	—	2,0
	1985	105,4	105,4	107,4	72,6	21,7	13,1	38,4	9,2	—	29,2
<b>5. Regional policy and transport</b>	1981	1 675,7	1 798,8	2 417,8	2 164,8	243,2	9,8	72,6	72,6	—	0,0
	1982	2 824,5	2 824,5	2 959,3	2 766,2	175,5	17,6	243,2	243,2	—	0,0
	1983	1 484,3	2 397,5	2 397,5	2 268,1	126,9	2,5	175,5	141,4	—	34,1
	1984	1 488,6	1 488,6	1 967,7	1 733,9	232,6	1,2	126,9	80,4	—	46,5
	1985	1 697,8	1 697,8	1 697,8	1 501,9	195,1	0,8	232,6	223,6	—	9,0
<b>6. Social policy</b>	1981	670,6	732,6	732,7	580,9	148,5	3,3	269,4	255,8	10,9	2,7
	1982	1 022,3	1 022,3	1 130,7	910,0	220,0	0,7	159,4	150,6	6,7	2,1
	1983	1 410,6	1 430,6	1 430,7	801,0	617,7	12,0	226,8	219,9	—	6,9
	1984	1 369,3	1 369,4	1 638,1	1 509,4	125,9	2,8	617,7	526,9	—	90,8
	1985	1 625,3	1 625,3	1 626,2	1 373,1	247,1	6,0	125,9	117,6	—	8,3
<b>7. Research, energy, etc.</b>	1981	301,1	308,1	317,1	214,1	95,8	7,2	192,7	162,1	11,0	19,6
	1982	408,9	408,9	461,1	345,3	111,8	4,0	106,8	91,3	8,6	6,9
	1983	527,2	1 360,4	1 380,7	1 213,6	155,0	12,1	120,4	90,4	7,5	22,5
	1984	610,7	664,4	1 191,6	922,0	265,7	3,9	162,5	122,9	4,8	34,8
	1985	700,3	700,3	692,2	469,6	215,9	6,7	269,5	237,9	4,4	27,2
<b>8. Repayments to Member States</b>	1981	1 506,6	1 431,9	969,1	869,5	97,1	2,5	86,8	86,8	—	—
	1982	1 120,9	1 120,9	1 123,8	952,2	116,0	55,6	97,1	97,1	—	—
	1983	1 122,9	1 089,0	1 089,0	950,6	99,5	38,9	116,0	114,1	—	1,9
	1984	1 103,5	1 150,2	1 083,2	1 073,8	8,7	0,7	99,5	99,4	—	0,1
	1985	1 266,8	1 266,8	1 266,8	1 239,3	4,7	22,8	8,7	8,7	—	—
<b>9. Cooperation with developing countries</b>	1981	603,6	791,3	816,2	550,4	258,5	7,3	382,3	308,1	—	74,2
	1982	803,3	803,3	945,3	598,1	345,3	1,9	258,5	188,0	—	70,5
	1983	966,5	981,2	984,6	517,8	463,1	3,7	345,3	293,0	—	52,3
	1984	893,1	893,1	1 032,2	767,0	264,6	0,6	445,6	383,6	—	62,0
	1985	1 039,2	1 039,2	1 092,7	855,2	236,6	0,9	264,6	229,5	—	35,1
<b>10. Provisional appropriations and contingency reserve (Commission)</b>	1981	374,1	207,4	10,0	—	—	10,0	—	—	—	—
	1982	636,1	636,1	283,4	—	—	283,4	—	—	—	—
	1983	122,3	106,3	87,0	—	—	87,0	—	—	—	—
	1984	1 760,2	1 690,8	—	—	—	—	—	—	—	—
	1985	23,2	23,2	11,3	—	—	11,3	—	—	—	—

(1) After amending and supplementary budgets.

(2) After supplementary receipts and transfers.

(3) After transfers between budget headings and 'transfers' to the appropriations for the current financial year.

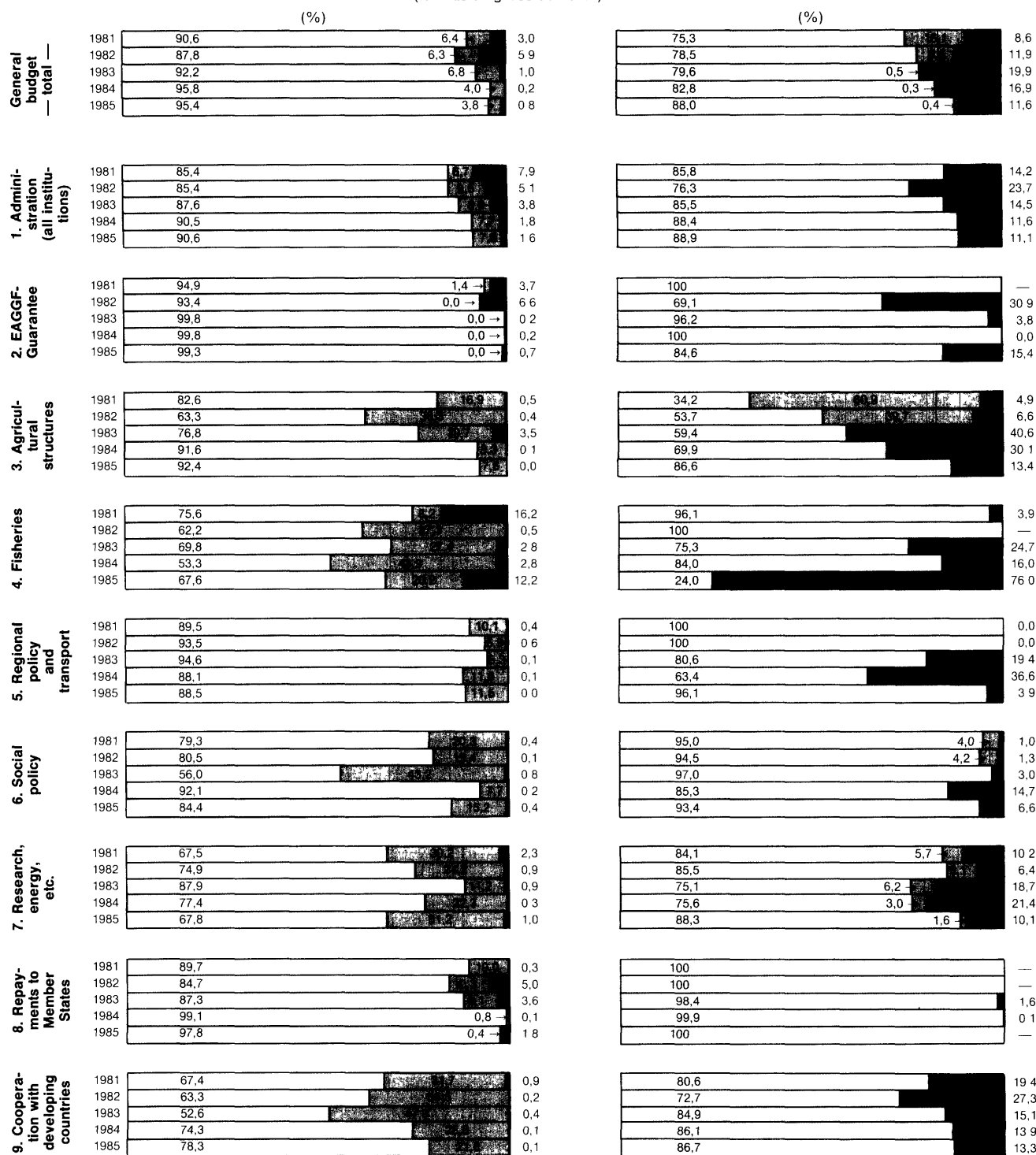
# § 15. Utilization rates of the appropriations for payment from 1981 to 1985 — by sector



## A. Appropriations for the financial year (final appropriations = 100 %)

(for basic figures see § 14)

## B. Carry-overs from the previous financial year (appropriations carried over = 100 %)



### § 16. Annual payments during the period 1981-1985, by sector

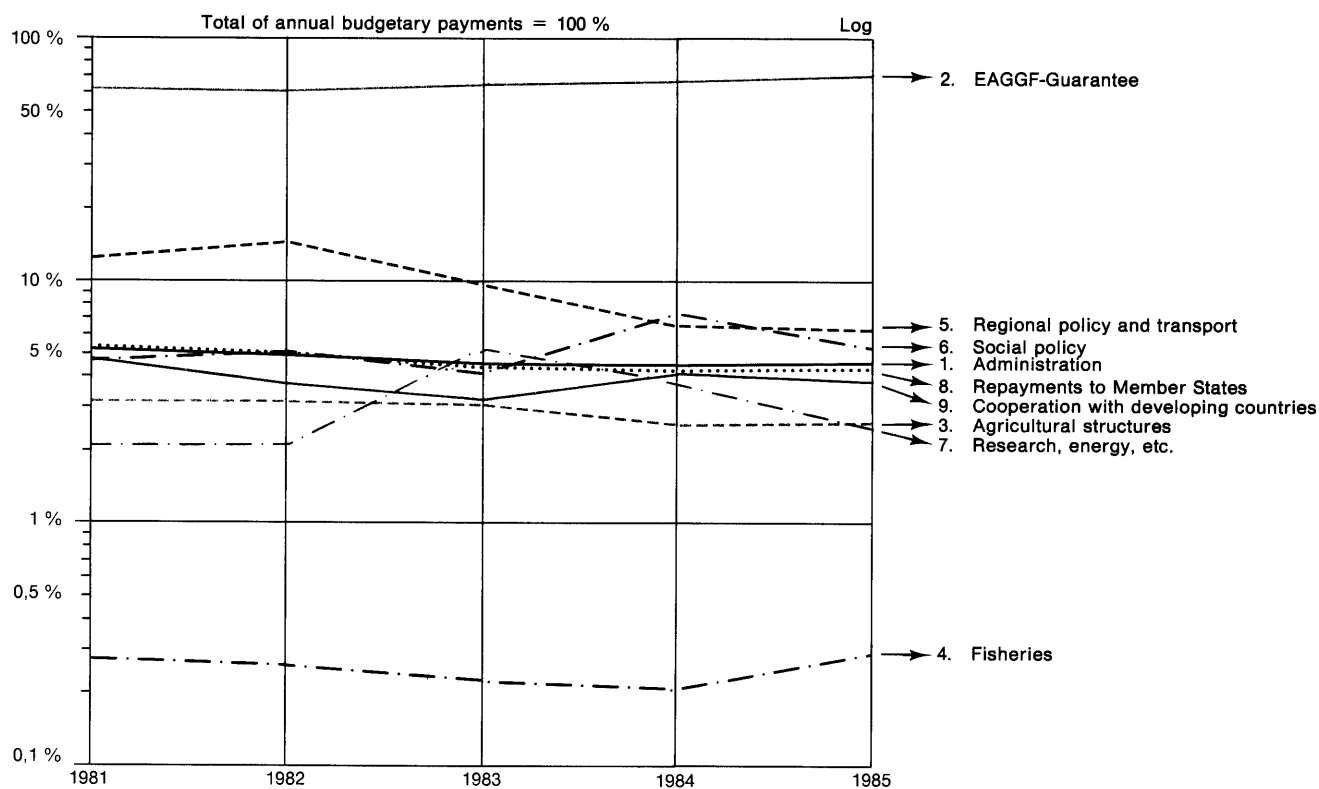
**Notes:**

1. Annual payments = payments against appropriations of the financial year plus payments against carry-overs from the previous financial year.
2. For the budget headings corresponding to the 1985 budgetary nomenclature, see § 6, column (1).

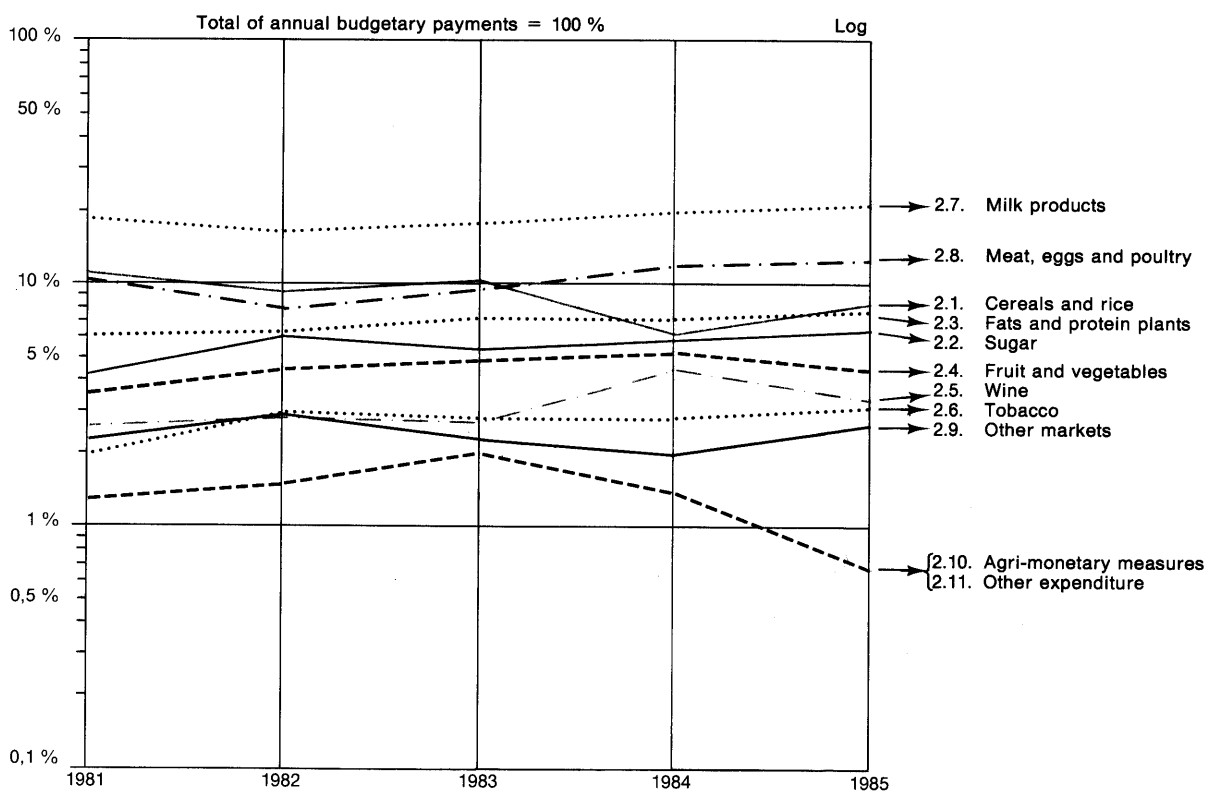
Sector	1981		1982		1983		1984		1985	
	Mio ECU	%	Mio ECU	%	Mio ECU	%	Mio ECU	%	Mio ECU	%
<b>1. Administration</b>	<b>942,9</b>	<b>5,3</b>	<b>1 010,3</b>	<b>5,0</b>	<b>1 110,4</b>	<b>4,6</b>	<b>1 216,1</b>	<b>4,4</b>	<b>1 296,0</b>	<b>4,6</b>
1.1. Parliament	168,0	0,9	173,3	0,9	214,8	0,9	245,5	0,9	228,5	0,8
1.2. Council (of which: the Economic and Social Committee)	103,9 (20,0)	0,6 (0,1)	109,7 (20,6)	0,5 (0,1)	116,7 (22,4)	0,5 (0,1)	126,7 (24,2)	0,4 (0,1)	148,4 (26,4)	0,5 (0,1)
1.3. Commission	635,4	3,6	688,3	3,4	736,3	3,0	798,4	2,9	869,5	3,1
1.4. Court of Justice	23,1	0,1	25,4	0,1	27,2	0,1	28,6	0,1	31,1	0,1
1.5. Court of Auditors	12,5	0,1	13,6	0,1	15,4	0,1	16,9	0,1	18,5	0,1
<b>2. EAGGF-Guarantee</b>	<b>10 960,2</b>	<b>61,6</b>	<b>12 369,5</b>	<b>60,6</b>	<b>15 788,2</b>	<b>64,9</b>	<b>18 328,3</b>	<b>66,6</b>	<b>19 725,9</b>	<b>70,2</b>
2.1. Cereals and rice	1 951,8	11,0	1 874,8	9,2	2 534,1	10,4	1 697,8	6,2	2 359,8	8,4
2.2. Sugar	767,5	4,3	1 241,8	6,1	1 316,2	5,4	1 631,5	5,9	1 804,5	6,4
2.3. Fats and protein plants	1 090,7	6,1	1 295,0	6,3	1 764,7	7,2	1 965,6	7,1	2 173,7	7,7
2.4. Fruit and vegetables	641,1	3,6	914,3	4,5	1 196,1	4,9	1 454,6	5,3	1 230,7	4,4
2.5. Wine	459,4	2,6	570,6	2,8	659,2	2,7	1 222,6	4,4	921,4	3,3
2.6. Tobacco	361,8	2,0	622,6	3,0	671,3	2,8	776,4	2,8	862,9	3,1
2.7. Milk products	3 342,7	18,8	3 327,8	16,3	4 396,1	18,1	5 441,7	19,8	5 933,2	21,1
2.8. Meat, eggs and poultry	1 867,0	10,5	1 625,9	8,0	2 310,3	9,5	3 246,1	11,8	3 476,6	12,4
2.9. Other markets	400,8	2,3	583,6	2,9	559,7	2,3	541,3	2,0	736,1	2,6
2.10. Agri-monetary measures	238,4	1,3	313,1	1,5	488,6	2,0	376,2	1,4	189,8	0,7
2.11. Other expenditure	-161,0	-0,9	—	—	-108,1	-0,4	-25,5	-0,1	37,2	0,1
<b>3. Agricultural structures</b>	<b>574,7</b>	<b>3,2</b>	<b>646,1</b>	<b>3,2</b>	<b>749,7</b>	<b>3,1</b>	<b>702,8</b>	<b>2,5</b>	<b>738,6</b>	<b>2,6</b>
3.1. EAGGF-Guidance	566,5	3,1	638,2	3,2	719,7	3,0	646,8	2,3	690,1	2,4
3.2. Specific measures	8,2	0,1	7,9	0,0	30,0	0,1	56,0	0,2	48,5	0,2
<b>4. Fisheries</b>	<b>49,9</b>	<b>0,3</b>	<b>54,8</b>	<b>0,3</b>	<b>54,8</b>	<b>0,2</b>	<b>57,1</b>	<b>0,2</b>	<b>81,8</b>	<b>0,3</b>
4.1. Common organization of the market	28,0	0,2	34,0	0,2	25,8	0,1	15,7	0,0	16,1	0,1
4.2. Other measures	21,9	0,1	20,8	0,1	29,0	0,1	41,4	0,2	65,7	0,2
<b>5. Regional policy and transport</b>	<b>2 237,4</b>	<b>12,6</b>	<b>3 009,4</b>	<b>14,7</b>	<b>2 409,5</b>	<b>9,9</b>	<b>1 814,3</b>	<b>6,6</b>	<b>1 725,5</b>	<b>6,2</b>
5.1. Regional Fund	798,7	4,5	973,0	4,8	1 255,9	5,2	1 350,6	4,9	1 624,2	5,8
5.2. Transport	1,0	0,0	1,1	0,0	3,7	0,0	430,8	1,6	76,0	0,3
5.3. Other measures	1 437,7	8,1	2 035,3	9,9	1 149,9	4,7	32,9	0,1	25,3	0,1
<b>6. Social policy</b>	<b>836,7</b>	<b>4,7</b>	<b>1 060,6</b>	<b>5,2</b>	<b>1 020,9</b>	<b>4,2</b>	<b>2 036,3</b>	<b>7,4</b>	<b>1 490,7</b>	<b>5,3</b>
6.1. Social Fund	745,8	4,2	905,6	4,4	890,9	3,7	1 606,3	5,8	1 413,0	5,0
6.2. Other measures	90,9	0,5	155,0	0,8	130,0	0,5	430,0	1,6	77,7	0,3
<b>7. Research, energy, etc.</b>	<b>376,2</b>	<b>2,1</b>	<b>436,6</b>	<b>2,1</b>	<b>1 304,0</b>	<b>5,4</b>	<b>1 044,9</b>	<b>3,8</b>	<b>707,5</b>	<b>2,5</b>
7.1. Energy	63,1	0,3	44,0	0,2	828,0	3,4	545,7	1,9	126,2	0,4
7.2. Research and investment	295,6	1,6	367,6	1,8	423,3	1,7	441,0	1,6	510,6	1,8
7.3. Industry	7,3	0,1	15,2	0,1	41,0	0,2	43,9	0,2	49,8	0,2
7.4. Other measures	10,2	0,1	9,8	0,0	11,7	0,1	14,3	0,1	20,9	0,1
<b>8. Repayments to Member States</b>	<b>956,3</b>	<b>5,4</b>	<b>1 049,3</b>	<b>5,1</b>	<b>1 064,7</b>	<b>4,4</b>	<b>1 173,2</b>	<b>4,3</b>	<b>1 248,0</b>	<b>4,4</b>
8.1. Costs incurred in collecting own resources	807,0	4,6	909,3	4,4	921,9	3,8	1 109,9	4,1	1 050,9	3,7
8.2. Other repayments	149,3	0,8	140,0	0,7	142,8	0,6	63,3	0,2	197,1	0,7
<b>9. Cooperation with developing countries</b>	<b>858,5</b>	<b>4,8</b>	<b>786,1</b>	<b>3,8</b>	<b>810,8</b>	<b>3,3</b>	<b>1 150,6</b>	<b>4,2</b>	<b>1 084,7</b>	<b>3,9</b>
9.1. Food aid	601,7	3,4	540,2	2,6	388,7	1,6	709,2	2,6	543,8	2,0
9.2. Financial aid	256,8	1,4	245,9	1,2	422,1	1,7	441,4	1,6	540,9	1,9
<b>Grand total</b>	<b>17 792,8</b>	<b>100</b>	<b>20 422,7</b>	<b>100</b>	<b>24 313,0</b>	<b>100</b>	<b>27 523,6</b>	<b>100</b>	<b>28 098,7</b>	<b>100</b>

**§ 17. Evolution of the ratio of 'annual payments by sector'  
to 'total of annual budgetary payments' (1981-1985)**  
(for detailed figures see § 16)

**A. General budget (all sectors):**



**B. EAGGF-Guarantee (all markets):**







### § 19. Actual owns resources — by Member State (1981-1985)

(Mio ECU)

Financial year/Type of resource		Bel- gium	Den- mark	FR of Germany	Greece	France	Ireland	Italy	Luxem- bourg	Nether- lands	United Kingdom	EUR 10
1981	Agricultural levies	178,4	10,1	179,9	17,4	103,1	4,3	247,6	0,1	175,4	348,6	<b>1 264,9</b>
	Sugar and isoglucose levies	27,8	19,3	126,9	1,0	154,5	4,6	62,5	—	39,1	46,9	<b>482,6</b>
	Customs duties	408,4	135,2	1 943,8	84,6	977,3	81,9	633,0	4,5	572,8	1 550,9	<b>6 392,4</b>
	VAT own resources <sup>(1)</sup> <sup>(2)</sup>	375,9	189,8	2 806,5	151,5	2 256,2	68,1	1 582,9	22,6	499,8	1 930,8	<b>9 884,1</b>
	<b>Total</b>	<b>990,5</b> (5,5 %)	<b>354,4</b> (2,0 %)	<b>5 057,1</b> (28,1 %)	<b>254,5</b> (1,4 %)	<b>3 491,1</b> (19,4 %)	<b>158,9</b> (0,9 %)	<b>2 526,0</b> (14,0 %)	<b>27,2</b> (0,1 %)	<b>1 287,1</b> (7,1 %)	<b>3 877,2</b> (21,5 %)	<b>18 024,0</b> (100 %)
1982	Agricultural levies	238,6	7,5	201,9	63,5	70,9	6,0	285,1	0,1	172,5	475,9	<b>1 522,0</b>
	Sugar and isoglucose levies	44,4	25,3	190,2	13,1	211,0	7,0	83,5	—	58,9	72,4	<b>705,8</b>
	Customs duties	403,7	142,6	1 966,5	108,7	1 071,2	87,8	660,8	4,3	585,2	1 784,5	<b>6 815,3</b>
	VAT own resources <sup>(1)</sup> <sup>(2)</sup>	461,6	226,8	3 339,9	196,3	2 872,8	107,7	1 457,8	25,7	649,8	2 782,7	<b>12 121,1</b>
	<b>Total</b>	<b>1 148,3</b> (5,4 %)	<b>402,2</b> (1,9 %)	<b>5 698,5</b> (26,9 %)	<b>381,6</b> (1,8 %)	<b>4 225,9</b> (20,0 %)	<b>208,5</b> (1,0 %)	<b>2 487,2</b> (11,8 %)	<b>30,1</b> (0,1 %)	<b>1 466,4</b> (6,9 %)	<b>5 115,5</b> (24,2 %)	<b>21 164,2</b> (100 %)
1983	Agricultural levies	293,9	6,9	143,0	38,0	78,9	7,0	323,2	0,1	135,8	320,3	<b>1 347,1</b>
	Sugar and isoglucose levies	65,8	38,9	270,5	16,7	293,7	11,6	95,0	—	82,2	73,6	<b>948,0</b>
	Customs duties	423,8	159,8	2 019,8	107,4	1 051,8	100,4	657,1	4,6	633,2	1 830,8	<b>6 988,7</b>
	VAT own resources <sup>(1)</sup> <sup>(2)</sup>	432,4	274,3	4 038,8	215,6	3 082,1	150,6	1 923,4	39,2	713,7	2 859,7	<b>13 729,8</b>
	<b>Total</b>	<b>1 215,9</b> (5,3 %)	<b>479,9</b> (2,1 %)	<b>6 472,1</b> (28,1 %)	<b>377,7</b> (1,6 %)	<b>4 506,5</b> (19,6 %)	<b>269,6</b> (1,2 %)	<b>2 998,7</b> (13,0 %)	<b>43,9</b> (0,2 %)	<b>1 564,9</b> (6,8 %)	<b>5 084,4</b> (22,1 %)	<b>23 013,6</b> (100 %)
1984	Agricultural levies	211,0	8,0	158,6	19,5	94,2	6,9	288,5	0,1	131,8	341,4	<b>1 260,0</b>
	Sugar and isoglucose levies	83,9	38,0	350,2	16,6	406,3	16,8	84,1	—	76,9	103,6	<b>1 176,4</b>
	Customs duties	470,0	197,3	2 309,7	99,4	1 100,0	126,7	750,9	5,9	740,8	2 160,1	<b>7 960,8</b>
	VAT own resources <sup>(1)</sup> <sup>(2)</sup>	473,4	289,6	4 233,9	220,3	3 201,8	135,9	2 319,9	45,3	738,3	2 824,4	<b>14 482,8</b>
	<b>Total</b>	<b>1 238,3</b> (5,0 %)	<b>532,9</b> (2,1 %)	<b>7 052,4</b> (28,4 %)	<b>355,8</b> (1,4 %)	<b>4 802,3</b> (19,3 %)	<b>286,3</b> (1,2 %)	<b>3 443,4</b> (13,8 %)	<b>51,3</b> (0,2 %)	<b>1 687,8</b> (6,8 %)	<b>5 429,5</b> (21,8 %)	<b>24 880,0</b> (100 %)
1985	Agricultural levies	197,2	9,7	142,0	18,1	74,1	5,9	314,4	0,2	131,7	228,4	<b>1 121,7</b>
	Sugar and isoglucose levies	78,4	43,5	286,3	12,0	348,0	15,0	75,8	—	104,1	94,3	<b>1 057,4</b>
	Customs duties	489,3	208,2	2 414,5	95,9	1 174,7	137,2	820,1	6,0	781,5	2 182,7	<b>8 310,1</b>
	VAT own resources <sup>(1)</sup> <sup>(2)</sup>	527,7	359,0	4 661,5	262,3	3 722,4	138,3	2 419,2	44,5	872,1	2 584,9	<b>15 591,6</b>
	<b>Total</b>	<b>1 292,6</b> (5,0 %)	<b>620,4</b> (2,4 %)	<b>7 504,3</b> (28,8 %)	<b>388,0</b> (1,5 %)	<b>5 319,2</b> (20,4 %)	<b>296,4</b> (1,1 %)	<b>3 629,5</b> (13,9 %)	<b>50,7</b> (0,2 %)	<b>1 889,4</b> (7,2 %)	<b>5 090,3</b> (19,5 %)	<b>26 080,8</b> (100 %)

<sup>(1)</sup> Including the balances and adjustments of previous financial years.<sup>(2)</sup> Greece paid a financial contribution based on its GNP.

## Part II: The European Development Funds (EDF) (position at 31 December 1985)

### § 20. General information on the EDF

#### *THE FIRST THREE EDF*

**20.1** General information and detailed financial information on the first three EDF, established under agreements in force between 1959 and 1976, has most recently been given in the annual report of the Court of Auditors on the financial year 1980. Only a few small amounts still remain to be paid under the 3rd EDF.

A summary of the annual payments made under the first three EDF is given in § 27.

#### *THE 4th AND 5th EDF*

#### **20.2. Legal provisions**

a) Legal basis in respect of ACP States:

- 4th EDF: ACP-EEC Convention signed in Lomé on 28 February 1975 (Lomé I),
- 5th EDF: second ACP-EEC Convention signed in Lomé on 31 October 1979 (Lomé II).

b) Legal basis in respect of the OCT and FOD:

- 4th EDF: Council Decision 76/568/EEC of 29 June 1976,
- 5th EDF: Council Decision 80/1186/EEC of 16 December 1980 (no longer concerns the FOD).

c) Establishment of the EDF:

- 4th EDF: internal agreement of 11 July 1976,
- 5th EDF: internal agreement of 20 November 1979.

d) Financial Regulations:

- 4th EDF: Financial Regulation 76/647/EEC of 27 July 1976,
- 5th EDF: Financial Regulation 81/215/EEC of 17 March 1981.

#### **20.3. Allocations, financing, distribution and type of aid**

The EDF allocations after changes <sup>(1)</sup> by the Council are as follows:

- 4th EDF: 3 155,9 Mio ECU,
- 5th EDF: 4 802,3 Mio ECU.

The EDF are financed by the EC Member States (with the exception of Greece for the 4th EDF) in proportions laid down in the internal agreements.

The above-mentioned internal agreements provide for distribution of the allocations of the 4th and 5th EDF between the ACP States and the OCT/FOD and between grants, special loans, risk capital, Stabex <sup>(2)</sup> and Sysmin <sup>(3)</sup> for the 5th EDF.

Part of the allocation in the form of grants is reserved for exceptional aid and for interest subsidies on loans granted by the European Investment Bank. The rest of the allocation in the form of grants and the allocation in the form of special loans are distributed among the recipient countries, with the exception of funds for the regional projects, administrative costs and a contingency reserve. The amounts thus allocated to the recipient countries, called indicative programmes in the case of the ACP States, are used to finance the projects adopted.

#### **20.4. Monetary unit**

The EDF amounts are given in ECU; for conversion into ECU of the monetary units previously applied, it has been agreed that 1 u.a. = 1 EUA = 1 ECU.

#### **20.5. Date of entry into force**

- 4th EDF: 1 April 1976,
- 5th EDF: 1 January 1981.

#### **20.6. Financial implementation**

The Commission draws up a timetable of requests for contributions, which in principle are to be paid quarterly by the Member States of the European Communities (4th EDF: six-monthly). The use of the EDF resources is shown in the accounts in three stages: (I) financing decision, (II) signing of contracts against funds allocated to national authorizing officers, (III) authorization of payments to contractors.

#### **20.7. External audit**

The Court of Auditors is responsible for the audit of the EDF (in accordance with the Treaty).

#### **20.8. Authority giving discharge**

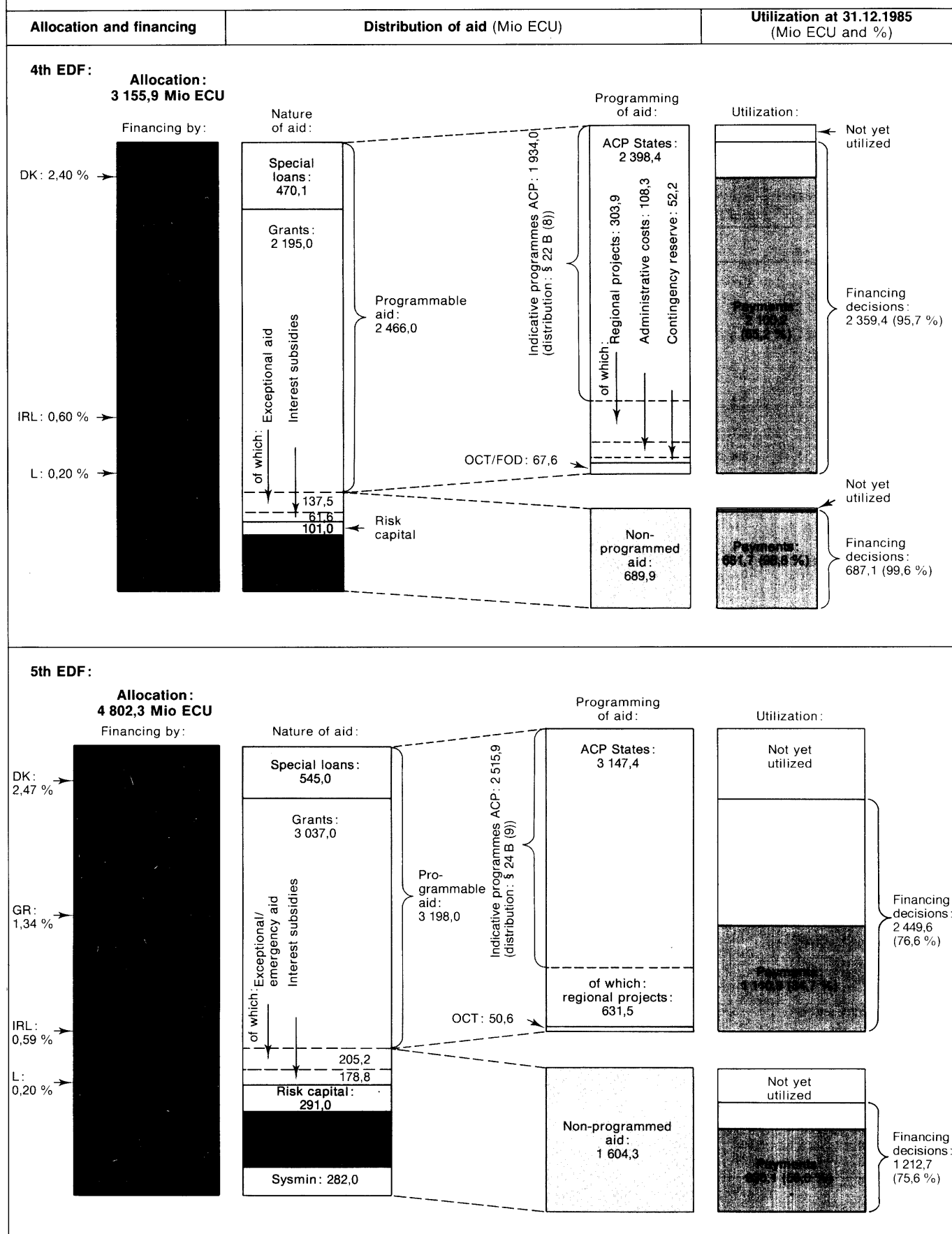
The European Parliament gives discharge of the financial management of the EDF, on the recommendation of the Council (in accordance with internal agreements).

<sup>(1)</sup> The initial allocations were altered by Council Decisions, and are increased by various receipts such as reconstitution of Stabex transfers and bank interest.

<sup>(2)</sup> System designed to guarantee the stabilization of earnings from exports by the ACP States to the Community (Lomé I, Article 16, and Lomé II, Article 23).

<sup>(3)</sup> System designed to aid ACP States whose economies are largely dependent on the mining sectors and in particular towards helping them cope with a decline in their capacity to export mining products to the Community (Lomé II, Article 49).

### § 21. The 4th and 5th EDF: allocations, financing, distribution of aid, utilization rates



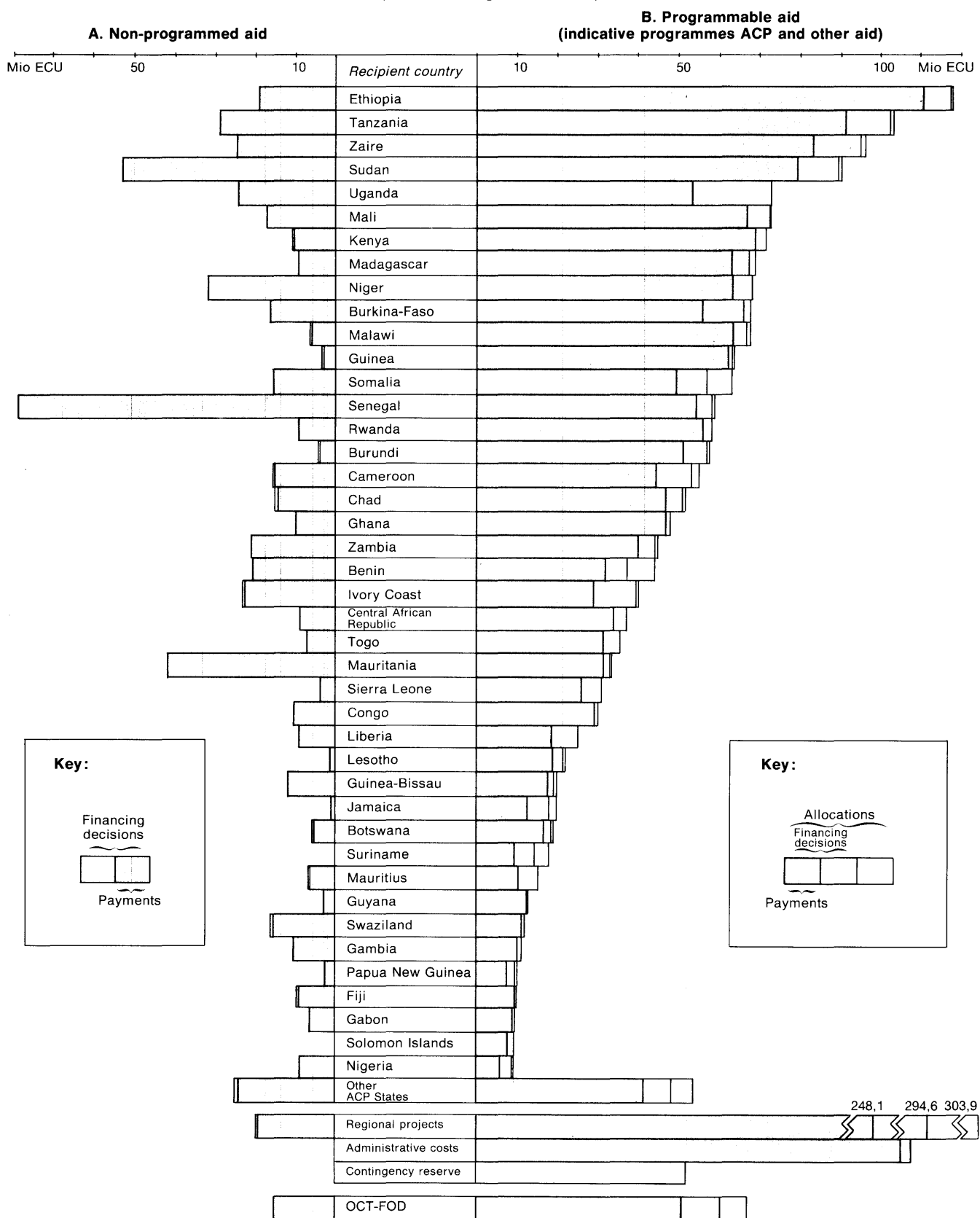
**§ 22. The 4th EDF: aid by type and by recipient country**  
(financial implementation: situation at 31 December 1985)

(Mio ECU)

Recipient country	A. Non-programmed aid						B. Programmable aid (indicative programmes ACP and other aid)					Total (A + B)	
	Financing decisions					Payments made	Allocations	Financing decisions			Payments made	Financing decisions	Payments made
	Interest subsidies (grants)	Risk capital	Exceptional aid (grants)	Stabex	Total (2) + (3) + (4) + (5)			Grants	Special loans	Total (9) + (10)			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13) = (6) + (11)	(14) = (7) + (12)
I. ACP States including:	57,6	90,9	125,8	377,5	651,8	646,7	1 934,0	1 533,2	362,9	1 896,1	1 695,7	2 547,9	2 342,4
Ethiopia	—	—	4,7	14,4	19,1	19,1	118,2	118,1	—	118,1	110,9	137,2	130,0
Tanzania	0,1	7,7	0,3	20,7	28,8	28,9	103,4	69,9	32,8	102,7	91,6	131,5	120,5
Zaire	—	5,6	19,0	—	24,6	24,5	96,5	88,0	8,0	96,0	83,6	120,6	108,1
Sudan	—	6,5	4,9	41,8	53,2	53,1	90,6	74,7	15,0	89,7	79,5	142,9	132,6
Uganda	—	0,3	3,3	20,6	24,2	24,2	73,6	63,9	9,7	73,6	53,6	97,8	77,8
Mali	—	6,4	1,0	9,8	17,2	17,1	73,5	71,9	1,4	73,3	67,0	90,5	84,1
Kenya	8,5	1,2	1,3	—	11,0	10,7	72,0	34,2	37,8	72,0	69,9	83,0	80,6
Madagascar	—	2,3	1,5	5,7	9,5	9,5	69,2	62,6	6,0	68,6	63,3	78,1	72,8
Niger	0,9	0,9	7,7	22,7	32,2	32,2	68,5	68,4	—	68,4	63,3	100,6	95,5
Burkina-Faso	1,6	7,6	—	7,3	16,5	16,5	68,0	59,7	7,0	66,7	56,1	83,2	72,6
Malawi	2,3	1,6	2,6	—	6,5	6,0	67,9	56,0	11,6	67,6	63,6	74,1	69,6
Guinea	0,4	0,3	3,0	—	3,7	3,5	64,0	38,1	25,4	63,5	62,4	67,2	65,9
Somalia	—	0,2	13,3	1,9	15,4	15,5	63,6	57,1	—	57,1	49,5	72,5	65,0
Senegal	1,8	7,4	4,6	65,1	78,9	78,9	59,0	39,3	19,3	58,6	54,4	137,5	133,3
Rwanda	—	3,0	5,9	0,6	9,5	9,5	58,7	56,0	2,6	58,6	57,0	68,1	66,5
Burundi	—	0,5	2,1	1,5	4,1	4,1	58,1	52,2	5,0	57,2	51,4	61,3	55,5
Cameroon	4,2	5,0	2,3	4,1	15,6	15,3	55,3	32,7	20,8	53,5	44,6	69,1	59,9
Chad	—	7,5	0,3	7,3	15,1	14,6	51,9	43,8	7,6	51,4	47,4	66,5	62,0
Ghana	1,9	0,2	2,7	5,2	10,0	10,0	48,0	28,4	19,6	48,0	47,3	58,0	57,3
Zambia	1,5	3,3	16,4	—	21,2	21,2	45,1	27,1	17,6	44,7	40,2	65,9	61,4
Benin	—	0,4	0,0	20,4	20,8	20,7	44,3	37,1	0,3	37,4	32,7	58,2	53,4
Ivory Coast	7,1	0,9	0,1	15,0	23,1	22,7	40,0	16,9	22,8	39,7	29,7	62,8	52,4
Central African Republic	—	—	1,0	7,8	8,8	8,8	37,3	37,2	—	37,2	34,4	46,0	43,2
Togo	0,4	3,0	—	3,6	7,0	7,0	35,7	33,2	2,3	35,5	32,3	42,5	39,3
Mauritania	3,6	—	1,4	37,0	42,0	41,6	33,6	33,3	—	33,3	31,7	75,3	73,3
Sierra Leone	—	—	—	4,0	4,0	4,0	31,1	27,3	3,8	31,1	26,8	35,1	30,8
Congo	—	3,1	0,2	7,4	10,7	10,7	30,0	23,1	6,7	29,8	29,3	40,5	40,0
Liberia	1,2	0,4	—	7,6	9,2	9,1	25,0	20,2	4,8	25,0	18,4	34,2	27,5
Lesotho	—	0,1	1,1	—	1,2	1,2	22,0	18,8	3,0	21,8	18,8	23,0	20,0
Guinea-Bissau	—	—	0,5	11,3	11,8	11,8	20,0	19,5	—	19,5	18,2	31,3	30,0
Jamaica	—	—	1,2	—	1,2	1,1	20,0	10,0	8,6	18,6	13,2	19,8	14,3
Botswana	1,3	1,7	2,7	—	5,7	5,2	19,0	18,0	0,6	18,6	16,8	24,3	22,0
Suriname	—	—	—	—	—	—	18,0	2,9	11,5	14,4	9,2	14,4	9,2
Mauritius	2,0	0,0	4,5	—	6,5	6,5	15,3	4,6	10,6	15,2	10,5	21,7	17,0
Guyana	—	3,2	—	—	3,2	3,2	12,8	5,9	6,8	12,7	12,6	15,9	15,8
Swaziland	2,0	1,1	0,0	13,2	16,3	15,8	12,0	8,4	3,5	11,9	11,4	28,2	27,2
Gambia	—	2,4	0,7	7,5	10,6	10,6	11,3	11,2	—	11,2	10,6	21,8	21,2
Papua New Guinea	1,1	1,6	—	—	2,7	2,7	10,0	6,3	3,5	9,8	8,4	12,5	11,1
Fiji	4,0	0,1	3,6	2,1	9,8	9,4	9,9	3,2	6,7	9,9	9,6	19,7	19,0
Gabon	—	—	—	6,7	6,7	6,7	9,5	2,0	7,4	9,4	8,9	16,1	15,6
Solomon Islands	—	—	—	—	—	—	9,0	0,8	6,8	7,6	7,5	7,6	7,5
Nigeria	9,0	—	—	—	9,0	9,0	9,0	8,7	—	8,7	6,4	17,7	15,4
Other ACP States:	—	—	—	—	—	—	1,8	0,7	1,1	1,8	1,6	1,8	1,6
Bahamas	—	—	—	—	—	—	2,6	0,9	1,6	2,5	1,9	3,8	2,7
Barbados	1,2	—	0,1	—	1,3	0,8	4,0	4,0	—	4,0	3,7	10,2	9,8
Cape Verde	—	3,6	1,4	1,2	6,2	6,1	6,3	6,3	—	6,3	5,4	9,3	8,4
Comoros	—	0,0	3,0	—	3,0	3,0	2,7	2,5	—	2,5	2,1	4,8	4,4
Djibouti	—	1,0	1,3	—	2,3	2,3	0,5	0,5	—	0,5	0,5	4,4	4,4
Dominica	—	—	3,9	—	3,9	3,9	2,0	2,0	—	2,0	2,0	2,4	2,4
Grenada	—	—	0,4	—	0,4	0,4	7,0	7,0	—	7,0	6,5	7,3	6,8
Equatorial Guinea	—	—	0,3	—	0,3	0,3	3,4	3,2	—	3,2	2,0	3,2	2,0
Kiribati	—	—	—	—	—	—	1,8	1,8	—	1,8	1,8	2,1	2,1
Sao Tome and Principe	—	—	0,3	—	0,3	0,3	0,9	0,9	—	0,9	0,8	2,1	2,0
Saint Lucia	—	0,2	1,0	—	1,2	1,2	—	—	—	—	—	—	—
Saint Vincent	—	—	—	—	—	—	—	—	—	—	—	—	—
Western Samoa	—	—	—	2,8	2,8	2,8	4,6	3,6	0,9	4,5	4,5	7,3	7,3
Seychelles	—	0,6	—	—	0,6	0,6	2,4	2,4	—	2,4	2,4	3,0	3,0
Tonga	—	—	0,2	1,2	1,4	1,4	3,2	3,1	0,1	3,2	3,1	4,6	4,5
Trinidad and Tobago	1,5	—	—	—	1,5	1,4	10,3	3,0	2,3	5,3	2,8	6,8	4,2
Tuvalu	—	—	—	—	—	—	0,6	0,6	—	0,6	0,6	0,6	0,6
Vanuatu	—	—	—	—	—	—	—	—	—	—	—	—	—
(Total other countries)	(2,7)	(5,4)	(11,9)	(5,2)	(25,2)	(24,5)	(54,1)	(42,5)	(6,0)	(48,5)	(41,7)	(73,7)	(66,2)
II. Regional projects	2,6	6,1	11,2	—	19,9	19,7	303,9	222,5	72,1	294,6	248,1	314,5	267,8
Administrative costs	—	—	—	—	—	—	108,3	108,3	—	108,3	105,5	108,3	105,5
Contingency reserve	—	—	—	—	—	—	52,2	—	—	—	—	—	—
Total ACP (I + II)	60,2	97,0	137,0	377,5	671,7	666,4	2 398,4	1 864,0	435,0	2 299,0	2 049,3	2 970,7	2 715,7
III. OCT/FOD	1,5	1,1	0,5	12,3	15,4	15,3	67,6	36,6	23,8	60,4	50,9	75,8	66,2
Total 4th EDF	61,7	98,1	137,5	389,8	687,1	681,7	2 466,0	1 900,6	458,8	2 359,4	2 100,2	3 046,5	2 781,9

# § 23. The 4th EDF: financial implementation of aid by recipient country (31 December 1985)

(for detailed figures see § 22)



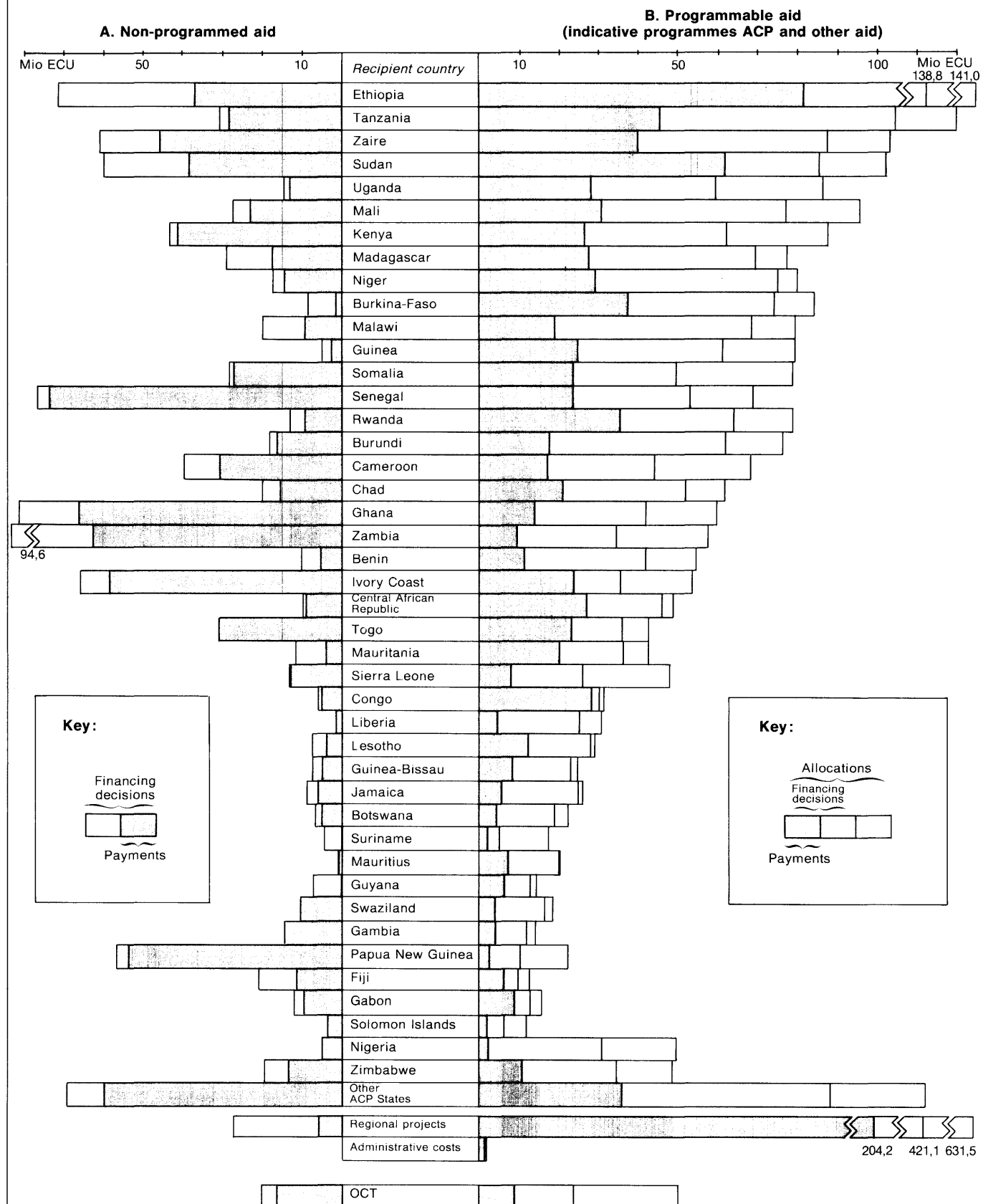
**§ 24. The 5th EDF: aid by type and by recipient country**  
(financial implementation: situation at 31 December 1985)

(Mio ECU)

Recipient country	A. Non-programmed aid							B. Programmable and (indicative programmes ACP and other aid)					Total (A + B)	
	Financing decisions						Payments made	Allocations	Financing decisions			Payments made	Financing decisions	Payments made
	Interest subsidies (grants)	Risk capital	Exceptional/ emergency aid (grants)	Stabex	Sysmin	Total (2) + (3) + (4) + (5) + (6)			Grants	Special loans	Total (10) + (11)			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14) = (7) + (12)	(15) = (8) + (13)
I. ACP States including:	114,0	244,3	172,3	505,8	128,8	1 165,2	907,4	2 515,9	1 685,3	316,3	2 001,6	895,2	3 166,8	1 802,6
Ethiopia	—	12,5	48,2	10,8	—	71,5	37,0	141,0	107,8	31,0	138,8	81,8	210,3	118,8
Tanzania	—	11,0	0,5	19,2	—	30,7	28,3	120,7	93,2	11,6	104,8	45,5	135,5	73,8
Zaire	—	18,2	2,8	—	40,0	61,0	46,1	104,0	71,4	16,6	88,0	40,0	149,0	86,1
Sudan	—	10,2	17,5	32,2	—	59,9	38,4	103,0	85,8	—	85,8	62,1	145,7	100,5
Uganda	—	10,0	4,5	—	—	14,5	13,2	87,0	60,1	—	60,1	28,6	74,6	41,8
Mali	—	3,4	14,1	9,9	—	27,4	23,0	96,0	61,2	16,4	77,6	31,1	105,0	54,1
Kenya	8,6	1,5	2,4	31,1	—	43,6	41,4	88,0	51,4	11,0	62,4	26,7	106,0	68,1
Madagascar	—	21,2	1,8	6,1	—	29,1	17,4	78,0	60,1	9,8	69,9	28,2	99,0	45,6
Niger	3,6	—	13,6	—	—	17,2	14,7	80,5	67,4	8,0	75,4	29,5	92,6	44,2
Burkina-Faso	—	7,0	0,5	1,0	—	8,5	1,5	84,5	67,6	7,0	74,6	37,3	83,1	38,8
Malawi	1,2	13,5	0,4	4,7	—	19,8	9,6	80,0	57,0	11,8	68,8	19,3	88,6	28,9
Guinea	1,1	2,7	1,1	—	—	4,9	2,5	80,0	54,5	7,0	61,5	25,0	66,4	27,5
Somalia	—	9,6	16,2	2,8	—	28,6	27,6	79,3	49,9	—	49,9	24,2	78,5	51,8
Senegal	5,6	4,2	2,1	64,9	—	76,8	74,1	69,0	36,0	17,3	53,3	24,1	130,1	98,2
Rwanda	—	0,7	2,0	7,7	2,8	13,2	9,6	79,0	52,8	11,9	64,7	35,5	77,9	45,1
Burundi	—	6,5	0,2	11,6	—	18,3	16,4	77,0	50,7	11,7	62,4	17,9	80,7	34,3
Cameroon	20,9	—	1,6	17,3	—	39,8	31,2	69,0	26,6	17,9	44,5	17,5	84,3	48,7
Chad	—	2,0	11,7	6,1	—	19,8	15,6	62,0	52,7	—	52,7	21,3	72,5	36,9
Ghana	—	13,6	4,4	63,9	—	81,9	66,4	60,0	35,2	7,0	42,2	14,0	124,1	80,4
Zambia	8,5	1,5	1,6	—	83,0	94,6	62,8	58,0	33,0	2,0	35,0	9,8	129,6	72,6
Benin	—	4,5	1,5	4,1	—	10,1	5,5	55,0	36,3	6,4	42,7	11,7	52,8	17,2
Ivory Coast	10,6	—	0,8	54,5	—	65,9	58,8	54,0	17,8	18,3	36,1	24,2	102,0	83,0
Central African Republic	—	5,1	0,5	4,2	—	9,8	9,2	49,0	41,8	4,7	46,5	27,7	56,3	36,9
Togo	1,5	—	0,6	28,8	—	30,9	30,9	43,0	29,4	6,9	36,3	23,7	67,2	54,6
Mauritania	—	7,0	4,4	—	—	11,4	4,0	43,0	27,8	8,7	36,5	20,7	47,9	24,7
Sierra Leone	—	—	—	13,6	—	13,6	13,5	48,5	24,2	2,4	26,6	8,2	40,2	21,7
Congo	5,3	0,5	—	—	—	5,8	5,0	31,5	18,4	12,0	30,4	28,3	36,2	33,3
Liberia	0,5	0,7	—	—	—	1,2	1,2	31,0	15,5	4,7	20,2	4,4	21,4	5,6
Lesotho	—	6,0	0,1	1,3	—	7,4	3,8	29,0	19,5	8,8	28,3	12,6	35,7	16,4
Guinea-Bissau	—	3,8	—	3,4	—	7,2	4,9	25,0	18,5	—	18,5	8,5	25,7	13,4
Jamaica	0,7	5,0	—	3,2	—	8,9	5,9	26,4	16,5	9,1	25,6	6,0	34,5	11,9
Botswana	6,3	—	0,2	—	—	6,5	5,0	23,0	17,2	2,3	19,5	5,1	26,0	10,1
Suriname	—	4,3	—	—	—	4,3	0,1	18,0	2,9	2,7	5,6	2,2	9,9	2,3
Mauritius	0,7	0,5	0,1	—	—	1,3	0,9	20,5	12,7	7,7	20,4	7,5	21,7	8,4
Guyana	—	4,0	—	—	3,0	7,0	0,2	14,6	13,0	—	13,0	6,4	20,0	6,6
Swaziland	2,1	0,0	0,1	8,2	—	10,4	10,4	18,5	11,9	4,7	16,6	4,0	27,0	14,4
Gambia	1,4	—	0,0	14,3	—	14,3	14,3	14,0	12,0	—	12,0	4,1	26,3	18,4
Papua New Guinea	1,4	13,8	—	41,8	—	57,0	53,9	23,0	6,2	4,4	10,6	3,0	67,6	56,9
Fiji	6,8	7,8	4,3	2,1	—	21,0	11,3	13,0	9,9	—	9,9	6,6	30,9	17,9
Gabon	9,4	2,5	—	—	—	11,9	9,5	16,0	8,0	5,1	13,1	8,9	25,0	18,4
Solomon Islands	—	—	—	3,8	—	3,8	3,8	12,0	6,0	—	6,0	2,0	9,8	5,8
Nigeria	5,1	—	—	—	—	5,1	5,1	50,0	30,8	—	30,8	2,2	35,9	7,3
Zimbabwe	6,7	5,4	7,5	—	—	19,6	13,5	49,0	26,9	8,1	35,0	11,1	54,6	24,6
Other ACP States:														
Antigua and Barbuda	—	—	0,2	—	—	0,2	0,1	2,7	0,0	0,8	0,8	0,0	1,0	0,1
Bahamas	—	—	—	—	—	—	—	2,1	2,0	—	2,0	0,3	2,0	0,3
Barbados	1,9	—	—	—	—	1,9	0,9	3,7	3,7	—	3,7	1,3	5,6	2,2
Belize	0,3	0,6	—	—	—	0,9	0,9	5,5	0,1	—	0,1	0,1	1,0	1,0
Cape Verde	—	1,7	1,2	0,5	—	3,4	3,4	16,0	13,6	—	13,6	2,5	17,0	5,9
Comoros	—	0,2	0,4	6,6	—	7,2	7,2	14,5	9,8	—	9,8	3,8	17,0	11,0
Djibouti	—	2,3	0,3	—	—	2,6	2,5	5,4	4,6	—	4,6	2,1	7,2	4,6
Dominica	—	1,0	0,5	3,0	—	4,5	4,4	3,5	3,5	—	3,5	2,7	8,0	7,1
Grenada	—	2,4	—	4,0	—	6,4	6,1	3,5	3,3	—	3,3	1,8	9,7	7,9
Equatorial Guinea	—	2,0	—	—	—	2,0	—	8,5	4,8	—	4,8	1,0	6,8	1,0
Kiribati	—	0,2	—	1,6	—	1,8	1,8	4,0	4,0	—	4,0	0,6	5,8	2,4
Sao Tome and Principe	—	0,0	0,1	7,0	—	7,1	7,1	4,0	4,1	—	4,1	2,6	11,2	9,7
Saint Christopher and Nevis	—	—	—	—	—	—	—	2,2	1,7	0,5	2,2	—	2,2	—
Saint Lucia	—	1,0	0,2	1,3	—	2,5	2,1	3,7	3,7	—	3,7	1,9	6,2	4,0
Saint Vincent	—	—	0,2	—	—	0,2	0,2	3,7	3,4	—	3,4	2,8	3,6	3,0
Western Samoa	—	3,3	0,1	5,1	—	8,5	8,5	6,2	6,2	—	6,2	5,9	14,7	14,4
Seychelles	—	4,0	0,2	—	—	4,2	1,2	3,6	3,6	—	3,6	2,2	7,8	3,4
Tonga	—	2,3	1,4	4,0	—	7,7	7,3	4,1	3,1	—	3,1	0,7	10,8	8,0
Trinidad and Tobago	5,2	—	—	—	—	5,2	5,2	10,5	6,9	—	6,9	1,8	12,1	7,0
Tuvalu	—	0,1	—	0,1	—	0,2	0,2	1,0	1,1	—	1,1	0,4	1,3	0,6
Vanuatu	—	3,0	0,2	—	—	3,2	0,8	4,5	4,5	—	4,5	2,2	7,7	3,0
(Total other countries)	(7,4)	(24,1)	(5,0)	(33,2)	(—)	(69,7)	(59,9)	(112,9)	(87,7)	(1,3)	(89,0)	(36,7)	(158,7)	(96,6)
II. Regional projects	1,3	25,9	—	—	—	27,2	5,9	631,5	352,3	68,8	421,1	204,2	448,3	210,1
Administrative costs	—	—	—	—	—	—	—	—	3,0	—	3,0	2,5	3,0	2,5
Total ACP (I + II)	115,3	270,2	172,3	505,8	128,8	1 192,4	913,3	3 147,4	2 040,6	385,1	2 425,7	1 101,9	3 618,1	2 015,2
III. OCT	2,9	6,7	0,9	9,8	—	20,3	16,8	50,6	20,1	3,8	23,9	9,0	44,2	25,8
Total 5th EDF	118,2	276,9	173,2	515,6	128,8	1 212,7	930,1	3 198,0	2 060,7	388,9	2 449,6	1 110,9	3 662,3	2 041,0

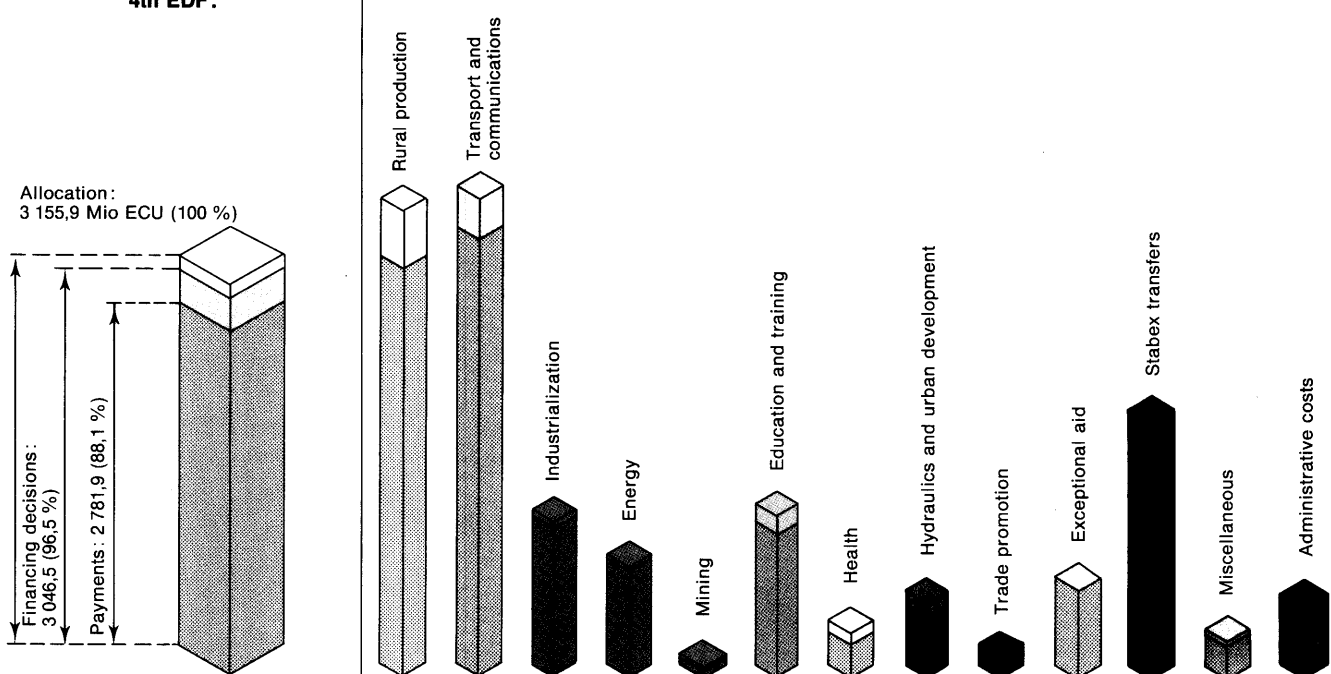
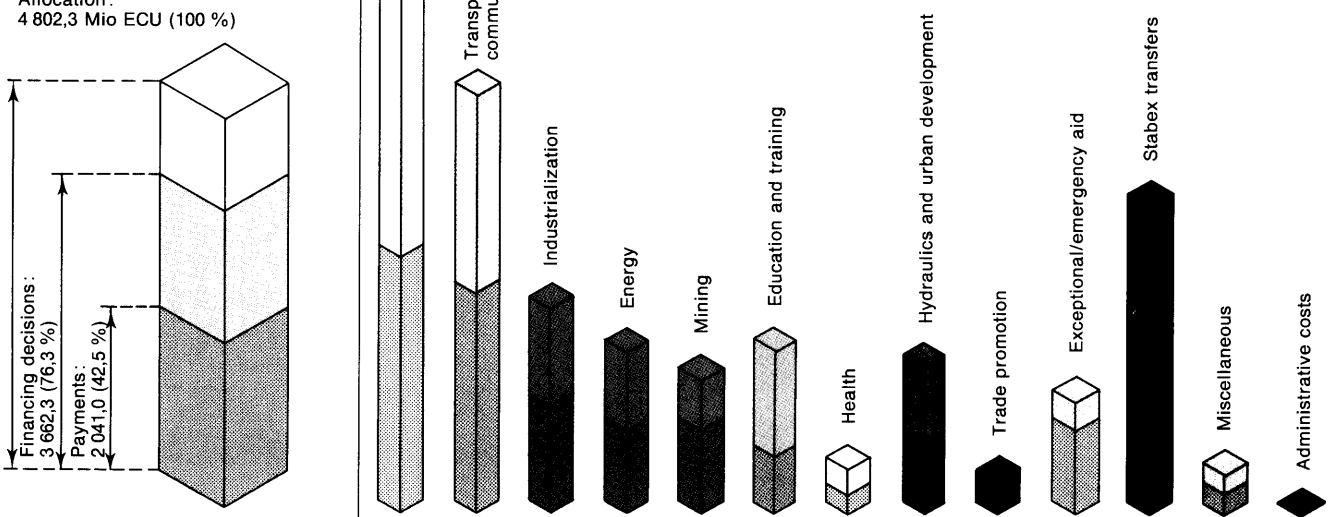
# § 25. The 5th EDF: financial implementation of aid by recipient country (31 December 1985)

(for detailed figures see § 24)





# § 26. The 4th and 5th EDF: utilization of aid by economic sector (situation at 31 December 1985)

Allocation and total utilization		Financing decisions and payments by economic sector												
<b>4th EDF:</b>														
Allocation: 3 155,9 Mio ECU (100 %)														
Financing decisions: 3 046,5 (96,5 %) Payments: 2 781,9 (88,1 %)														
Total:		By economic sector:												
Financing decisions (Mio ECU)	3 046,5	718,9	742,5	238,6	171,6	18,8	250,4	69,0	112,9	31,9	137,5	389,8	56,3	108,3
Payments (Mio ECU)	2 781,9	627,1	668,5	223,2	163,8	17,5	217,0	56,4	97,9	26,3	137,2	389,8	51,6	105,6
<b>5th EDF:</b>														
Allocation: 4 802,3 Mio ECU (100 %)														
Financing decisions: 3 662,3 (76,3 %) Payments: 2 041,0 (42,5 %)														
Total:		By economic sector:												
Financing decisions (Mio ECU)	3 662,3	936,9	642,2	314,3	250,1	206,0	252,3	67,8	228,9	50,6	174,0	476,5	59,7	3,0
Payments (Mio ECU)	2 041,0	396,9	339,9	165,9	127,6	128,6	86,0	26,1	109,0	19,2	129,9	476,5	32,9	2,5

### § 27. The five EDF: evolution of annual payments (1960-1985)

Mio ECU

700

600

500

400

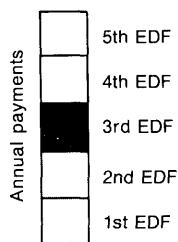
300

200

100

**Note:**

This presentation summarizes the annual payments made under all the European Development Funds. Detailed information on the first three Funds, particularly regarding the breakdown by type of aid and by recipient country, was most recently given in the Court's annual report for the financial year 1980.

**Key:**

(Mio ECU)

	1960	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	Total
1st EDF	3,4	15,8	53,3	65,3	83,4	84,8	76,7	61,7	38,6	25,6	16,1	11,4	10,1	9,9	5,5	2,4	2,9	0,6	0,8	0,4	0,3	0,4	—	—	—	—	569,4
2nd EDF						21,9	31,6	42,9	67,9	89,4	129,5	120,5	78,6	49,4	25,9	23,3	17,2	16,3	7,9	4,1	2,5	0,9	0,4	0,1	0,1	6,0	730,4
3rd EDF												22,5	42,8	98,5	140,6	182,7	131,0	79,8	66,0	37,4	19,8	20,7	11,2	14,3	8,2	—	881,5
4th EDF																	97,5	148,0	326,3	423,4	459,3	445,8	305,5	285,2	185,2	105,7	2 781,9
5th EDF																						195,9	330,1	419,2	509,5	586,3	2 041,0
<b>Total</b>	<b>3,4</b>	<b>15,8</b>	<b>53,3</b>	<b>65,3</b>	<b>83,4</b>	<b>106,7</b>	<b>108,3</b>	<b>104,6</b>	<b>106,5</b>	<b>115,0</b>	<b>145,6</b>	<b>154,4</b>	<b>131,5</b>	<b>157,8</b>	<b>172,0</b>	<b>208,4</b>	<b>248,6</b>	<b>244,7</b>	<b>401,0</b>	<b>465,3</b>	<b>481,9</b>	<b>663,7</b>	<b>647,2</b>	<b>718,8</b>	<b>703,0</b>	<b>698,0</b>	<b>7 004,2</b>



<p><b>Replies of the institutions to the observations of the Court of Auditors concerning the financial year 1985</b></p>
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## **PART I**

### **REPLIES OF THE COMMISSION TO**

#### **CHAPTER 1**

#### **General matters**

#### **INTRODUCTION**

In Chapter 1 of its Annual Report for the financial year 1985, the Court of Auditors makes a number of general remarks arising from its analysis of the execution of the budget in the various areas of Community activity.

The Commission would like to make it clear from the outset that it has always, and particularly since the beginning of its present term of office in January 1985, set great store by the proper financial management of Community resources made even more imperative by current budgetary difficulties.

Like last year, the Commission has set out here, in its reply to Chapter 1 of the Court of Auditors' report, its general comments on the execution of the budget, explaining its position and its planned action.

As the Court of Auditors' specific observations are contained in the sectoral chapters of the report, reference should be made to the Commission's detailed replies to these chapters.

#### **I. FINANCIAL MANAGEMENT**

##### *1. Monitoring the implementation of the budget*

As early as the beginning of 1984, when faced with the impending exhaustion of available own resources, the Commission introduced new arrangements for administering and monitoring expenditure, designed to ensure that the budget was implemented in the best possible conditions.

The Commission would confirm the particular importance it attaches to the administration of the Community's financial resources, a point which was stressed in the Commission's policy statement to the European Parliament on 14 January 1985. It has accordingly decided to improve monitoring of the Community's revenue and expenditure, leaving no doubt about the leading role it is determined that this activity should play.

## 2. *Action on comments by the supervisory authorities*

Follow-up action to comments made by the supervisory authorities — by the European Parliament in its resolution accompanying the discharge decision and by the Court of Auditors in its annual report and special reports — is of constant concern to the Commission.

The Commission considers it essential to respect its undertakings to these institutions. Thus, in order to have an overall view of the action taken and, where appropriate, to make the necessary adjustments, the Commission has set up an internal procedure to keep it informed each year of the undertakings given to the supervisory authorities, the measures planned or already in force by way of follow-up action and the schedule for their implementation. This procedure was first applied in spring 1986.

In general terms, the Commission would repeat that it is at the disposal of the European Parliament and the Court of Auditors to assist them in the exercise of their supervisory powers.

## 3. *Four-year financial perspective*

The Commission stresses the importance in financial management of medium-term financial planning. This can help enhance the transparency of the budget and the consistency between policy decisions and their financial consequences.

With this in view, the Commission presented to the European Parliament and the Council on 2 April 1986 a communication setting out the four-year financial perspective for the Community — 1987-90.

This financial perspective is an essential tool, especially in the present climate of budget stringency, for medium-term financial planning, which can help the Community to attain its priority objectives.

The annual budget exercise will in future be made to fit into the four-year financial perspective the policy implications of which must be considered with the greatest care by the two arms of the budgetary authority. These perspectives will be periodically reviewed — a feature of proper financial planning — and any desirable improvements will be made.

## 4. *The management of Community policies*

One of the Commission's constant concerns is to improve the management of Community policies. It has therefore carried out a constructive analysis of the observations of the Court of Auditors.

As regards the *structural funds*, the Commission intends to make use of the mandate provided by Article 130 D of the new Title V of the EEC Treaty on economic and social cohesion, to make whatever adjustments are required to the structure and operation of the structural funds in order to enhance their effectiveness. The Commission intends to carry out this mandate in close cooperation with the other competent institutions. Discussions within the Commission will begin in autumn 1986.

The Commission has also given one of its Members special responsibility for the coordination of structural instruments, and, in its internal organization, has set up a new Directorate-General to handle this area of activity.

As regards clearance of the *EAGGF Guarantee* accounts, the Commission would point out that it set itself the target of taking the clearance decision for the 1985 accounts by 30 June 1987, provided that it received the Member States' declarations at least a year before that date. On 6 December 1985 the President of the Commission himself wrote to the Member States to impress on them the importance of the clearance procedure and the need to make up the backlog. In addition, the Commission has adopted the necessary legislation for speeding up clearance operations. In 1986 the Commission has already cleared the 1982 accounts and is also planning to clear those for 1983 before the end of the year.

With regard to the *problem of stocks of agricultural products*, the Commission announced in 1986 an additional programme for the disposal of old stocks in its proposal on agricultural prices (Doc. COM(86) 20 final, point 14). Decisions on the appropriations for this programme were adopted in the budgets for 1986 and 1987. At the same time, the Commission is continuing its efforts to ensure special sales to reduce the level of stocks. However, it is plain to see that this problem can only be solved with the appropriate resources and with the cooperation of all the institutions involved, notably the Council.

As far as the *EAGGF Guidance Section* is concerned, the Commission, in line with the undertaking it gave in its most recent proposal on agricultural structures policy (Doc. COM(86) 199 final of 21 April 1986), would confirm its intention of ensuring greater coherence

between the operations of the two sections of the EAGGF. It would stress, however, that in some regions in difficulty it is not possible to subordinate structures policy to considerations related solely to agricultural markets.

In the case of *food aid*, the Commission set up a working party with a view to amending the existing legislation and identifying possible ways of improving procedures for taking management decisions. The working party produced a Commission proposal repealing Council Regulation (EEC) No 3331/82, which was sent to the European Parliament and the Council in July 1986 <sup>(1)</sup>. The Commission is also planning other measures designed to enhance the efficiency of food aid policy, in particular as regards the delivery of aid.

With regard to *research and the new technologies*, on 1 August 1986 the Commission sent to the Council and the European Parliament a proposal for a Regulation concerning the first framework programme of Community activities in the field of research and technological development (1987-91). This proposal was drawn up in the light of the discussions in the Council (Research) on the broad lines of a new framework programme which the Commission presented in March 1986.

## II. IMBALANCE BETWEEN REVENUE AND EXPENDITURE

In its report on the implementation of the 1984 budget the Court of Auditors already highlighted the lack of coherence between revenue-generating mechanisms and those determining expenditure. The Commission replied in considerable detail to this comment <sup>(2)</sup>, which it considered pertinent, but the reasons for which it felt were to be found in the provisions governing the exercise of powers as contained in the Treaty itself.

The Commission naturally shares the Court of Auditors' concern about the need for a balance between revenue and expenditure: it would repeat once more that it made appropriate proposals in good time. Unfortunately, the situation in which the Commission found itself again in 1985 was the consequence above all of the delay in adopting the new own resources decision (which did not enter into force until 1 January 1986).

<sup>(1)</sup> The footnotes appear at the end of each chapter.

The Commission also regrets, with the Court of Auditors, that the Member States resorted to a non-Community formula — based on an intergovernmental agreement — to provide additional finance for the 1985 budget (as had already occurred in 1984). Recourse to this formula represents a violation of the principle of the Community's financial autonomy, which was the objective of providing the Community with own resources.

In this context, the four-year financial forecasts should shed some light on the problems of achieving a balance in the medium term between revenue and expenditure.

At all events, in accordance with the undertakings given at the Fontainebleau European Council in June 1984, the Commission will be presenting a report in late 1986 on the system of Community financing and on the improvements and developments which could be made.

## III. PROVISIONAL TWELFTHS ARRANGEMENTS

In addition to the points made in its replies to specific observations (especially those on the EAGGF Guarantee Section), the Commission supports the Court of Auditors' call for the legislation in force to be made more comprehensive.

The Commission has been well aware for many years that the relevant provisions of the Financial Regulation (Article 8 of the present text) leave many gaps. For this reason, the Commission prepared a far more comprehensive text in its initial proposal for the revision of the Financial Regulation — drawn up as long ago as 1980 — in order to eliminate all the shortcomings observed in the past.

After the Court of Auditors and the European Parliament had delivered their opinions, the Commission produced its final proposal in March 1984 (Doc. COM(84) 123 final). The Commission hopes that the Council — with the additional prompting of the observations of the Court of Auditors — will now adopt the revised version of the Financial Regulation as soon as possible. This would solve most of the problems underlying the Court of Auditors' observations.

As regards the regularity of the management of the budget under the provisional twelfths arrangements, the Commission takes the view that, according to its

interpretation of the arrangements — with all their shortcomings — it acted entirely in accordance with the rules in force.

#### IV. FINANCIAL COMMITMENTS DERIVING FROM THE PAST

The Court of Auditors is rightly concerned about how it has come about that expenditure originating in past years is going to have to be met in the future.

In its preliminary draft budget for 1987, the Commission distinguished between Community commitments according to four criteria:

- commitments which, although politically binding, arise from declarations such as those of the European Council on stepping up the Community's role in research and development and providing real growth in the structural funds;
- political commitments which arise from a legal instrument setting up a Community programme to be carried out over several years, for example the five-year financial allocation for the EAGGF Guidance Section and multiannual research programmes;
- commitments arising directly from legally binding Community instruments, such as common agricultural policy regulations, the repayment of 10% of traditional own resources to Member States and the financial allocation for the integrated Mediterranean programmes;
- commitments which impose legal obligations on the Community, such as salaries, rents, commitment appropriations remaining for the structural funds, financial protocols with non-member countries, etc.

In connection with the Court of Auditors' report, the Commission feels that two of these types of commitment merit special attention:

- outstanding commitments, particularly in connection with the structural funds,
- expenditure connected with the disposal of agricultural stocks.

#### 1. *Outstanding commitments*

The Commission (and the Court of Auditors) puts these commitments at 11 805 Mio ECU at the end of 1985 (see Volume V of the revenue and expenditure account, page 29). If the corresponding payment appropriations carried over to 1986 are subtracted, the balance remaining to be met from subsequent Community budgets is 11 116,4 Mio ECU.

The existence of an 'outstanding balance' is in itself perfectly normal, since it is associated with the differentiation between commitment appropriations and payment appropriations. This 'cost of the past' is the price to be paid for a deliberate policy on the part of the budgetary authority, as proposed by the Commission, to develop all the structural policies and new Community actions.

The Court of Auditors points out that the 'outstanding balance' has been increasing in size over the years. While one cause of this, as already mentioned, is the deliberate decision to strengthen the role of these funds, the trend has been accentuated by the slower than anticipated execution of commitments and by the inadequacy of the payment appropriations granted.

The payments resulting from these commitments will be a liability for the future development of structural policies, if the resources available to the budget in coming years do not increase at a corresponding rate.

The Commission has presented the problems clearly and suggested solutions both in its preliminary draft budgets and in its four-year forecasts. In its preliminary draft budget for 1987 the Commission has proposed appropriations to cover payments to be made in 1987 against earlier commitments; at the same time it has taken account of the unavoidable need to contain the increase in new commitment appropriations.

It would again state clearly that the desire for sound financial management is incompatible with the temptation to defer payments due.

#### 2. *Expenditure connected with the disposal of agricultural stocks*

Since 1983 agricultural stocks have increased considerably in both volume and value, largely because increases in productivity have not been matched by equally rapid growth in domestic consumption and because export opportunities have proved to be limited.

Thus the book value of the stocks held by intervention agencies, estimated at some 4 000 Mio ECU at the end of 1982, had risen to 7 000 Mio ECU by the end of 1983, 8 800 Mio ECU by the end of 1984 and 10 500 Mio ECU at the end of 1985, when the market value represented around 5 000 Mio ECU.

These enormous stocks therefore constitute a major liability for future financial years because of the potential losses which they represent. One way of dealing with this increase in the value of stocks given the level of production would have been to increase expenditure, either in the form of refunds for exports and for other kinds of disposal or in the form of annual financial depreciation of stocks.

The Commission decided to effect a depreciation of stocks at the end of 1985 (435,1 Mio ECU) and early 1986, using the appropriations entered for this purpose in the 1986 budget (471 Mio ECU). These sums are quite inadequate and would need to be increased considerably for any appreciable results to be achieved. The Commission will take every opportunity in the coming years to continue its policy of reducing the gap between the book value of stocks and their market value.

The Commission would also point out that the new rules on depreciation adopted by the Council in 1986 on a proposal from the Commission now make it possible to apply the method recommended by the Court of Auditors.

For 1987 the Commission is planning to continue its three-year stock-disposal programme started in 1986. However, the problem of stocks is continuing to worsen and will require exceptional measures going far beyond those taken so far.

### *3. Presentation of the accounts*

The Commission enters in the Community's balance sheet liabilities which derive from actual operations and which result from its accounting system, e.g. the amount of advances to be refunded to the Member States or the deficit for the year.

In addition, it enters outside the balance sheet future liabilities already registered, such as commitments against differentiated appropriations to be covered at a later date by payment appropriations.

Finally, since 1984 the Commission has attached a note to the revenue and expenditure account relating to the financing by the EAGGF Guarantee Section of intervention stocks and the potential liabilities connected with the disposal of these stocks.

The Commission is prepared to consider what would be an appropriate form for indicating certain potential liabilities in the annual financial statements, for example, in the commitments shown outside the balance sheet. It cannot, however, entertain a list of potential liabilities which might not even exist, which cannot be accurately estimated and whose schedule is subject to unforeseeable factors.

The Commission does not believe that this kind of information would enable the budgetary authority to draw conclusions for future Community budgets.

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(<sup>1</sup>) Proposal for a Council Regulation on food aid policy and food management repealing Regulation No 3331/82. (Doc. COM(86) 418 final/2 of 29.9.1986).

(<sup>2</sup>) OJ C 326 of 16.12.1983, p. 60, point II.2.



## REPLIES OF THE INSTITUTIONS TO

## CHAPTER 2

**Accounting matters**REPLIES OF THE PARLIAMENT**OBSERVATIONS ON THE GENERAL ACCOUNTS AND THE BALANCE SHEETS***Cash deficit*

**2.2 – 2.3.** The European Parliament refers the Court of Auditors to its decision of 11 July 1986 on the implementation of Parliament's budget for the financial year 1982 (OJ C 227/154 of 8.9.1986). This cash deficit could be partially covered with funds from the credit balance on the guarantee accounts provided for in Article 70(3) of the Financial Regulation, within the limits and in accordance with the terms laid down by that regulation and its implementing provisions. The European Parliament proposes to review the matter of the amount which would not be covered if recourse were taken to the guarantee accounts.

*Imprest accounts*

**2.4.** The European Parliament's political and administrative activities are spread over three working places with meetings of its political organs being held frequently throughout and sometimes indeed outside Europe. This diversity of activity over a wide geographical area fully justifies the European Parliament in having recourse to the mechanism of making payments promptly and efficiently through imprest accounts.

Imprest accounts are not necessarily to be eschewed if realistic ceilings are fixed and if payments made are

efficiently and speedily regularized and booked to the budget. On the creation of an imprest account, the Accounting Officer issues to the authorizing officer concerned and the imprest account officer, instructions on the time-limits for the submission and regularization of expenditure.

The question of eliminating cash payments to Members of the European Parliament was examined by the College of Quaestors in May 1985; on 9 July 1985 the Bureau adopted the College's proposal that Members should continue to be able to choose the method of payment of their travel and daily allowances.

*Salary arrears*

**2.5.** The Council Regulation of 17 December 1985 adjusting remunerations (OJ L 343 of 20.12.1985). The European Parliament charged as much as possible of the amounts to be paid (a total of 2,6 Mio ECU) to the financial year 1985 and the remainder to the financial year 1986. The reason for this was the late date on which the regulation was adopted.

No other course of action was possible because the date of the adoption of the regulation by the Council made it impossible to take recourse to the usual transfer of appropriations before the end of 1985. The Commission, which was in the same position, also opted for the solution chosen by Parliament.

The institution does not share the Court of Auditors' opinion that it was irregular to charge the revenue

generated by expenditure in a given financial year to that same financial year. Indeed, the revenue accruing from the expenditure on the arrears for 1985 relates to the financial year 1985 and must automatically be charged to that year. Stoppages on 1985 remunerations cannot be spread over two financial years.

Only two solutions are possible if in future we are to avoid charging such expenditure to two financial years:

- (a) A more generous allocation of appropriations under Chapter 11 of the budget, making it possible to meet every contingency. This solution would probably be opposed by the budgetary authority, which for

several years has been asking for these appropriations to be calculated as accurately as possible.

- (b) The Council could be asked to take its decisions on the adjustment of salaries either before the first of December in the year concerned or after the first of January in the following year. There would then be no doubt as to the year to which the adjustments were to be charged and the European Parliament could take the necessary measures.

A final solution can be found only through consultation between the institutions.

### REPLIES OF THE COMMISSION

#### OBSERVATIONS ON THE GENERAL ACCOUNTS AND THE BALANCE SHEETS

##### *Recoverable taxes and duties*

**2.8.** The problem referred to by the Court of Auditors arises only if exemption from the payment of VAT to the Commission is based on Articles 3 and 4 of the Protocol on the privileges and immunities of the European Communities.

Assuming the contractor is subject to VAT, then the amount of tax is included, in accordance with Article 8.6 of the standard study contract, in the all-in sum provided for in Article 4 of the contract by way of payment for the work carried out.

The Commission is well aware of the difficulties involved in the recovery of sums to which it is entitled and, once the rules governing the management of study contracts were introduced, carefully defined the obligations incumbent on contractors so that it can recover the sums it has paid in VAT.

The provisions are set out in particular in:

- the second paragraph of Article 8.6 of the standard contract;
- the tax arrangements set out in point VI(c) of the guide to the application of the coordinated directives for studies regarding the budgetary implementation of contracts, which require contractors to make available to the Commission any supporting docu-

ments which will enable it to obtain reimbursement of VAT from the national authorities.

Furthermore, both contractors and the Commission departments which manage study appropriations have on several occasions been reminded of their obligations.

To allay the Court of Auditors' concern, a proposal that study contracts should show the amount payable as VAT has been made within the Commission. This should make things perfectly clear in future and so remove any obstacles to the actual recovery of sums due to the Commission in connection with contracts.

**2.9.** The accounting arrangements for taxes and duties paid and recoverable from the Member States, which the Commission announced in its reply to the comments regarding the 1984 financial year, are due to become operational in 1987. They will make it possible to identify and determine the amount of all potential claims to be entered in the balance sheet.

The 0,6 Mio ECU of recoverable taxes and duties was entered in two different items in the assets side of the balance sheet. In the light of the Court of Auditors' comment, the Commission will make sure that this kind of double entry does not occur in future.

**2.10.** At the end of June 1986 the Commission wrote to the Member States not operating the direct system of VAT exemption to request that talks be started to find ways and means of amending the implementing provisions for Articles 3 and 4 of the Protocol on the privileges and immunities of the European Communities.

### *Revenue to be recovered*

**2.11.** In January 1985 a computerized system was introduced for registering claims and recoveries. The programs have had to be modified during the first year of operation. A major effort is currently being made to monitor and recover claims which have fallen due.

### *Advances to staff and staff current accounts*

**2.12.** Because of problems of staff numbers and computers, about 150 files could not be entered into the computerized payment system by the end of 1985. As a result, the staff concerned, although they had been in service for several months, had to be paid advances which were charged to an extra-budgetary account. The situation was put right during the first few months of 1986, and so the readjustments, both budgetary and extra-budgetary, will appear in the 1986 accounts. This is the main reason for the amount of advances to staff at 31 December 1985, but it must nevertheless be borne in mind that it is virtually impossible to incorporate new staff in the computerized payment system within two months of their taking up their duties.

Both in 1985 and since then the Commission departments responsible have been looking carefully at the advance accounts and the staff current accounts. They have been able to settle quite a large number of the accounts in question.

### *Salary arrears*

**2.13. (a)** Any Council decision on salary adjustments represents the culmination of a lengthy procedure which begins with the transmission of figures by the Member States to the Commission. In 1985, the Commission was unable to send a draft decision to the Council until 26 November. The Council took its decision on 17 December.

In view of the late date on which the Council decision was taken in 1985, the Commission was unable to make appropriate transfers. Nor could the Commission request a transfer on the basis of its proposal, because the final decision is the Council's and, the appropriations being provisional, the Council cannot approve a transfer in the absence of such a decision, on which the transfer is based.

In order to respect the principle of annuality and to ensure budgetary transparency, the Commission charged 1985 salary arrears to the 1985 financial year, the year to which they should normally be charged, as far as appropriations would allow. The Commission had to meet its legal obligations by charging the remainder to the 1986 appropriations.

The Commission can do little to influence the timetable of the salary review. There would be no problem if in future the procedure could be completed with a Council decision in November so that the Commission would then have time to make the necessary arrangements for covering the expenditure involved in a suitable manner.

**(b)** The Commission takes the view that the rules for booking revenue are different from those for the charging of expenditure. Furthermore, it is technically very difficult to give the same breakdown by financial year for revenue as is given for the corresponding expenditure.

### *Various items of revenue to be credited*

**2.14.** The delay in the issue of recovery orders to enable revenue to be booked to the appropriate budget items was due to difficulties encountered by the departments concerned. The Commission will draw their attention to the provisions regarding the establishment of claims.

### *Press and information offices and external delegations*

**2.15.** The Commission carries out an annual review of the ceiling fixed for the imprest accounts to adjust them to actual requirements. The review is based on the average expenditure over the previous 11 months <sup>(1)</sup>. It considers that 3 months' cover is necessary to take account of any delays in communications, particular requirements of far outlying offices and any sudden changes in the flow of expenditure. A revision based on the period from December 1984 to November 1985 was carried out in June 1986.

### *Reimbursement of expenditure incurred on behalf of the ECSC*

**2.16 – 2.17.** The sum owed remained outstanding for some time because of difficulties encountered by the accounting departments in the past in analysing the accounts (see reply to paragraph 2.8 of the 1984 report) together with chance circumstances in the clearing of the item of expenditure by the Commission departments concerned.

<sup>(1)</sup> The footnotes appear at the end of each chapter.

The Commission accepts that the administrative adjustment for the cost of the work on the Washington residence was late.

## OBSERVATIONS ON THE COMMISSION'S CASH MANAGEMENT

**2.18 – 2.22.** The Commission has in fact undertaken a general renegotiation of the terms offered by banks both in the light of the Court of Auditors' comments and on its own initiative. Some results have been obtained, as the Court of Auditors was pleased to point out in paragraph 2.20. The negotiations have been delayed by the heavy workload they created and their particular nature. The Commission regrets the delay and would point out that this matter is nevertheless still a priority objective.

With regard to paragraph 2.20, it should be noted that:

- (a) A study has since been undertaken by the Directorate-General for Budgets on procedures, security, etc., and a study of relations with banks is also to be carried out.
- (c) The 'considerable volume of Community business' could be a negative factor.
- (d) The Commission Accounting Officer held an initial meeting with his counterparts in other institutions on 16 June 1986 to discuss the problem of bank terms.

With regard to paragraph 2.21:

- (a), (b) and (d) The difficulties referred to in the previous paragraph have meant that for the time being it has been impossible to launch the systematic action requested by the Court of Auditors.

(c) Major exchange transactions (transfers from one Member State to another) under Article 208 of the Treaty are effected via the central banks, which generally make the conversion on the basis of the average rates at the fixing.

ECU purchases are made by taking the best offer from competing banks (the way exchange brokers work).

As far as value dates are concerned, the Commission's main concern at the moment is to make sure that orders reach the banks rapidly. The addition of a value date will only delay the execution of an order. If the payment calls for a value date, then the Commission of course indicates one.

The Commission would also add that it makes payments by telegraphic transfer whenever necessary.

### *System of management based on estimates and cash distribution*

**2.23 - 2.24.** The Court of Auditors maintains that the deterioration to which it refers (paragraph 2.23 (a)) is due to the unreliability of the estimates submitted by the authorizing departments to the department responsible, although it observes that progress has been made in the mode of calculation.

It is in fact the budget situation in 1985 (and at present) that caused the decrease in funds available for distribution. Under the circumstances it is clear that a difference of the same absolute amount has far greater repercussions in percentage terms.

Reference should also be made to Article 12 of Council Regulation (EEC) No 2891/77 of 19 December 1977 and in particular to the phrase 'as far as possible', which is of utmost significance and importance. The object of this is to avoid making unnecessary work out of cash management.

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(1) The external offices close their accounts for November during the first ten days of December, the rest of December and January being covered by a single statement.

## REPLIES OF THE COMMISSION TO

## CHAPTER 3

## Revenue

SUMMARY OF FINANCIAL  
INFORMATION

The real deficit for the 3 years is therefore 123,3 Mio ECU.

*Exhaustion of own resources and financing of the budget*

3.4. The advances were entered under Title 8 to allow a direct comparison between the advances for 1984 and those for 1985 and to ensure budget transparency. Furthermore, the heading of Title 8 — Borrowing and lending operations — is the most suitable in the statement of revenue to accommodate advances, even those which are non-refundable.

3.5. The delay in the budgetary procedure was the reason why only part of the 1984 deficit was entered in the 1985 budget. In financial terms, it must be borne in mind that the balance for 1984 would also have included the VAT balance (111,8 Mio ECU) and the 1984 intergovernmental advances paid in 1985 (408,3 Mio ECU). This gives a net deficit of 134,7 Mio ECU.

The remainder of the deficit for 1984 could only be incorporated into the accounts for 1985 by means of a budget. It would have been accompanied by the VAT balances and the advances which had not been paid in 1984 (see reply to paragraph 3.5). The remaining 134,7 Mio ECU would have been covered by other measures to balance the budget, and in this way the deficit for 1984 would have been completely covered.

3.8. With reference to the calculation of the balance for the financial year, the procedure laid down in the Financial Regulation was complied with, and the calculations were made in accordance with the provisions of Article 15 of Council Regulation (EEC) No 2891/77 of 19 December 1977.

*Deficit for the financial year*

3.7 – 3.9. Owing to the delay in payment by the Member States of the intergovernmental advances for the 1984 and 1985 financial years, an accurate picture can be gleaned only if account is taken of the balances for 1984 and 1985 and the advances for 1985 paid in 1986:

	Mio ECU
1984: deficit	827,3 <sup>(1)</sup>
1985: deficit	23,9
1986: payment of advances for 1985 financial year	727,9
Net deficit	123,3

With regard to the deficit for 1984, the Commission would refer back to its reply to paragraph 3.5.

As no supplementary or amending budget was adopted in 1985, the remainder of the deficit for 1984 had to be entered as budget expenditure.

It should be emphasized however that the Community's consolidated balance sheet (page 19 of Volume V) clearly shows, in the item 'current assets', the total deficit to be covered at the close of the 1985 financial year (678,8 Mio ECU), equal to the sum of the deficits for the 1984 financial year (remainder of 654,8 Mio ECU) and the 1985 financial year (24,0 Mio ECU).

<sup>(1)</sup> The footnotes appear at the end of each chapter.

## VAT OWN RESOURCES

### *Amounts written off or in arrears*

**3.12 – 3.16.** As the Commission already pointed out in its reply to the observations of the Court of Auditors on the 1984 financial year <sup>(2)</sup>, Article 3 of Council Regulation (EEC) No 2892/77 as amended stipulates that each Member State may opt for either method, and the first paragraph of Article 6 of the same Regulation states that, for Member States having chosen Method B, the VAT own resources base is derived from the total net VAT revenue collected by that Member State for a given year. The situation described by the Court of Auditors is therefore in accordance with this Regulation, which has been correctly applied.

However, the Commission would re-emphasize the following points:

- (i) Council Regulation (EEC, Euratom, ECSC) No 3735/85 of 20 December 1985 extending the term of validity of Regulation No 2892/77 stipulated that the Commission should present proposals for a uniform method of determining the assessment basis for VAT own resources before 31 December 1987. The Commission intends to study all the issues connected with equality of treatment between Member States in the determination of the assessment basis.
- (ii) The fact that all the Member States paying VAT own resources have opted for Method B with effect from 1986 will make for greater equality of treatment between them.
- (iii) Since the Member States retain the bulk of the VAT revenue they collect (between 88 % and 95 % according to the individual case) they have most to benefit financially from ensuring that all VAT due is actually collected. The Commission would, however, recall that it is continuing its efforts to secure greater harmonization of the VAT system within the Community and has already presented various proposals which are now before the Council.
- (iv) The existence of arrears at the end of the financial year does not entail a loss of own resources. Its only consequence is to defer the inclusion of certain transactions in the VAT base, since they are included in the base for the year in which they are actually

collected, and hence are subject to the call-in rate for that year. The changes in the amount of arrears from one year to the next are more significant than the amount of arrears at the end of any one year. Furthermore, comparisons are difficult with the figures contained in Table 3.3, as their sources lie outside the scope of the rules on own resources, and they therefore reflect differing national situations.

### *Limitation on audit examination*

**3.17 – 3.20.** The Commission is unable to comment on the problems encountered by the Court of Auditors in carrying out its enquiries in the Member States.

The Commission for its part exercises its powers of control in accordance with the rules in force.

## CUSTOMS DUTIES

### *Release of goods for free circulation under simplified declaration procedures*

**3.21 – 3.22.** The Commission has taken note of the disparities observed by the Court of Auditors in the application by the Member States of the provisions governing the special procedures provided for in Articles 16-21 of Council Directive 79/695/EEC.

Like the Court of Auditors it wants to see that the procedures are applied in such a way as to ensure uniform treatment of Community importers and to maintain an essential level of customs control while reducing formalities to a minimum.

With regard to the first of these objectives, the Court of Auditors correctly points out that, under the above Directive, the Member States must apply the procedures in question 'in so far as their administrative organization allows it'.

As there are considerable differences in the present administrative structures of the Member States, the frequency with which these procedures are used, and the arrangements for applying them, are bound to vary, while remaining within the confines specified by the Directive.

Nevertheless, the systematic restriction of the simplified procedures to goods exempted from import duties is not permissible under Community law.

With reference to the second objective, the Commission would point out that, while the Community rules are clearly designed to enable customs to continue to inspect goods before they are given clearance, the practical application of these rules must be adapted to the features of each case, such as the nature of the goods, whether or not the import operation is one of a regular series, the distance from the customs office responsible for monitoring, etc.

**3.23.** The Commission is planning to carry out a detailed examination in the coming months of the way in which the simplified procedures are actually applied in the Community.

If necessary, the Commission will propose an implementing directive for Article 20 of Directive 79/695/EEC. It must be made clear however, that while such a directive would undoubtedly lead to greater harmonization of the way in which the simplified procedure operates in the Member States where it is in fact applied, it could not result in the procedure being used in all the Member States.

### *Simplified procedures relating to the carriage of goods by rail in large containers under the Community transit system*

**3.24 – 3.27.** The simplified Community transit procedure for the carriage of goods by rail in large containers was devised along lines which are comparable in every respect with those of the simplified procedure applicable to ordinary rail transport. The procedure is very largely based on the trust which can be placed in the railways and in the transport undertaking concerned, which, in both legal and practical terms, is an offshoot of the railways.

This has meant that the simplified procedure for transport in large containers, like the procedure for

ordinary rail traffic, can be based on an audit mechanism operated by the Member State concerned, which in this case involves inspecting the books of the national representative or representatives of the transport undertaking. It should be added that this solution was adopted following a detailed study and an on-the-spot examination, which revealed that it provided all the necessary guarantees.

The Commission would draw the attention of the Court of Auditors to the difficulties involved in conducting an inspection at the head office of an undertaking located in a non-member country.

With regard to the question of how the national authorities carry out these controls, the Commission's departments will remind the authorities, notably at meetings of the Committee on the Movement of Goods, of the responsibilities they must assume and of the need to make use of the provisions on inspection laid down in Community law.

## AGRICULTURAL CHARGES

### *Co-responsibility levy on milk*

**3.28.** The Court of Auditors expresses the view that the co-responsibility levy on milk should be part of the own resources system. As pointed out in the reply to paragraph 4.4 of the present report however, the levy is an intervention mechanism and as such is bound by the rules governing the EAGGF Guarantee Section. The system for collecting the milk levy differs from the system for agricultural levies, which is why the amounts are entered into the accounts on the same basis as the payments, i.e. on the basis of amounts received.

**3.29.** In one Member State, the time limit of 45 days for payment of the levy was exceeded, and amounts due in 1982 were only credited to the EAGGF in 1983. At the request of the Commission, the national authorities concerned applied strict measures, and the situation has improved appreciably.

However, one other Member State continues to be in arrears in paying the levy collected from producers, in spite of being repeatedly urged by the Commission to take



appropriate steps to remedy the situation, the Community rules making no provision for imposing penalties. On 21 May 1986 the Commission decided to make a negative adjustment of 690 000 ECU for the 1982 financial year, in order to take into account the amounts due in 1982 which were not credited until 1983.

In addition, the Commission initiated the infringement procedure, which prompted the national authorities to introduce measures to solve the problem. The Commission will check that these new measures are being applied when it undertakes the clearance of the accounts for 1984 and 1985.

**3.30.** The Commission would:

- (a) point out that it satisfied itself that, apart from the case referred to in the reply to paragraph 3.29, the Member States adopted the necessary measures to ensure collection of the levy,
- (b) confirm the information already supplied at the request of the Court of Auditors to the effect that it took the measures referred to in the reply to paragraph 3.29 to guarantee payment of the levy within the specified time-limit.

While it is true that the rules governing the collection of the co-responsibility levy make no provision for application of penalties at Community level in the event of late payment, this situation is catered for by general Community legislation. For instance, in 1986 the Commission made a substantial negative adjustment to the accounts of the Member State in question for the 1982 financial year. Furthermore, the Member States make use of national administrative or even legal procedures to recover amounts from dairies or individuals.

### *Physical examination of CAP goods*

**3.31 – 3.32.** As the Court of Auditors points out in paragraph 3.32, the Commission, in the light of the observations made by the Court of Auditors in its special report on the system for the payment of refunds on agricultural exports, agreed to explore the possibility of adopting Community provisions in this field. The Commission has since been active on this matter and intends to present a proposal for a Regulation to the Council before the end of the year (see reply to paragraph 3.33). This should serve to allay the concern of the Court of Auditors about the lack of harmonization between Member States with regard to practices and the need to introduce arrangements to determine the level of

examination which is regarded as the minimum to ensure effective control by customs authorities of export declarations for agricultural products qualifying for refunds.

**3.33 – 3.34.** The Commission agrees with the Court of Auditors about the need to ensure that agricultural levies are collected on imports and that goods are properly inspected.

It is particularly important that importers be fully aware that such checks can be carried out at any time, so that they are deterred from attempting to secure financial advantages by irregular means.

This is the aim of Article 9 of Directive 79/695/EEC, which stipulates that:

- 'without prejudice to any other means of control at its disposal, the customs authority may examine all or part of the goods entered' (paragraph 1) and
- 'when examining the goods, the customs authority may take samples for analysis or for more detailed examination' (paragraph 5).

Articles 11-17 of Commission Directive 82/57/EEC of 17 December 1981 <sup>(3)</sup>, laying down certain provisions for implementing Directive 79/695/EEC set forth a number of rules on the examination of goods and the taking of samples.

However, in most cases, it is the customs department which must decide, on the basis of the specific circumstances of the case and its own subjective assessment, which particular type of goods or particular import transaction merits inspection. The customs department must therefore be allowed considerable freedom of manoeuvre in this respect.

For this reason the Commission feels that no new proposal for a directive should be drawn up on the physical inspection of goods entered for free circulation until the outcome of the Council's deliberations on the proposal concerning the physical inspection of exports eligible for refunds is known, so that this may be taken into account in preparing the new text (see the reply to paragraphs 3.31 and 3.32 of the Court of Auditors' report).



*Triangular traffic concerning rice imports*

**3.35 – 3.39.** As it pointed out in its replies to the observations of the Court of Auditors on the 1978 and 1980 financial years, the Commission is not in favour of introducing monetary compensatory amounts in this sector, particularly in view of the fact that MCAs affect not only intra-Community trade, but also trade with non-member countries.

The problems highlighted by the Court of Auditors continue to receive the close attention of the Commission.

*Self-financing objectives within the sugar market***Introduction**

**3.41.** Although the guarantee granted to producers for A and B quotas applies to a quantity of 11,8 Mio tonnes, real production is in fact closer to the level of consumption (e.g. 10,9 Mio tonnes in 1983/84 and 11,1 Mio tonnes in 1984/85). In reality, therefore, the disparity between the level of consumption and A and B sugar production is less than stated.

**The compensation scheme for storage costs**

**3.42.** The aim of the compensation scheme for storage costs is not only to ensure regular marketing of sugar, but also to obviate the need for sugar to be sold into intervention. The fact that intervention sales are very rare is proof of the effectiveness of the system.

The Commission would emphasize that, for practical and commercial reasons, the amount of the levy must be set before the beginning of the marketing year to which it applies. At that stage, even the final production figures for the current marketing year are still uncertain and the forthcoming crop, the pace of exports and the level of stocks carried over can only be estimated. In view of this, the Commission does not share the view of the Court of Auditors that it should have been possible to achieve annual equilibrium in the compensation scheme for storage costs sooner. The Commission does everything within its power to maintain an overall balance.

**The production quota/levy scheme**

**3.43.** Article 28 of Council Regulation (EEC) No 1785/81 stipulates that the calculations in respect of self-financing in the sugar sector should be done cumulatively, with the positive or negative balance being carried over to the following marketing year.

**Conclusions on sugar**

**3.45.** The Commission would remind the Court of Auditors that on 7 August 1985 it proposed the renewal of the quota system for sugar production, coupled with a substantial tightening-up of the self-financing mechanism. The proposal, which provided for an increase in the maximum levy on A sugar from 2 % to 2,5 % of the intervention price, and on B sugar from 37,5 % to 47 % of the intervention price, was rejected by the Council.

However, the Council did agree to the introduction of the elimination quota, which is designed to eliminate the accumulated deficit. The provisions were contained in Council Regulation No 934/86 of 24 March 1986. The levy is based firstly on the contributions paid in the past by all sugar beet and sugar cane growers, and producers of sugar and isoglucose in each region, and, secondly, on estimated production in these regions calculated by reference to production during the 1984/85 marketing year.

**3.46.** The Commission would stress that there are no sugar stocks in public storage. This being so, there are no potential costs of the kind referred to by the Court of Auditors in paragraph 4.23.

As to potential losses on the exportable surplus, the Commission would point out that this information is published in the annual EAGGF financial report.

**3.47.** The revenue accounts and the documents making up the revenue and expenditure account are set out in accordance with the nomenclature of the budget as adopted, with revenue in the sugar sector continuing to be treated as own resources within the meaning of the Decision of 7 May 1985. It should be noted that the EAGGF annual financial report contains some details of the deficit recorded each year.

**3.48.** As explained in the reply to paragraph 3.45, the Council has already adopted the measures required to eliminate the accumulated deficit, in the form of the elimination levy introduced in Regulation No 934/86.

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(1) Of this, a total of 172,5 Mio ECU is entered in the 1985 budget.

(2) OJ C 326 of 16.12.1985, p. 176.

(3) OJ L 28 of 5.2.1982, p. 38.

## REPLIES OF THE COMMISSION TO

## CHAPTER 4

**European Agricultural Guidance and Guarantee Fund,  
Guarantee Section (EAGGF-Guarantee)**

OBSERVATIONS ON THE  
IMPLEMENTATION OF THE BUDGET*Presentation of the accounts and balance  
sheet*

**4.4. (a)** The Commission will, from 1986 onwards, add a note on its reservations regarding the acceptance of expenditure declared by the Member States to the table showing the breakdown by budget item of the effects of clearance decisions which it attaches to the revenue and expenditure account (page 144 of Volume II in 1985).

**(b)** Information on irregularities is given in the EAGGF annual financial report (number of cases, financial implications and amounts recovered). Since the findings of the working party referred to in its reply to paragraph 4.25 of the Court of Auditors' report for 1984 have not yet been evaluated, the Commission must maintain the position set out in that reply.

**(c)** As the Commission explained in the reply to the 1983 annual report (paragraph 4.5), the concept of negative expenditure is the result of special provisions introduced into Community regulations for both political and practical reasons. The co-responsibility levy is considered to be a measure equivalent to operations designed to restore equilibrium to the markets<sup>(1)</sup>. The method of inclusion in the budget was in fact determined by the budgetary authority.

The disadvantages in terms of budgetary transparency are reduced by the use of a detailed nomenclature which makes it possible to ascertain the proceeds of the levy.

The Commission also publishes each year EAGGF-

Guarantee detailed figures in the financial report on milk co-responsibility levies and the use made of them.

**(d)** The same arguments apply as regards the 'super levy'. Its aim is chiefly to discourage production of milk in excess of quotas by imposing very stiff penalties.

The situation described by the Court of Auditors is the result of two factors:

- The additional levy to be paid by farmers or dairies is calculated for each milk year. The first payment made at the end of 1984 was inevitably provisional pending the final statements. Because of the time involved in adapting milk production, the amount due for a year was in some cases less than the initial payment, and so reimbursements had to be made.
- Council Regulation (EEC) No 1305/85 authorizes the Member States to use the proceeds of the super-levy in 1984/85 and 1985/86 for national measures to reorganize milk production. For this reason, the EAGGF accounts show only that part of the levy which was not used for these measures. In order to facilitate control activities, the Commission has requested that the statements submitted by the countries concerned should cover all operations relating to the levy.

*The provisional twelfths system*

**4.7.** The Commission would restate its position regarding the provisional twelfths arrangements: they are stopgap measures designed to ensure the continued operation of the public service.

<sup>(1)</sup> The footnotes appear at the end of each chapter.

**4.8 – 4.10.** Article 8 of the Financial Regulation does not contain any specific provisions for the EAGGF-Guarantee. However, Article 96 of the Regulation states that EAGGF-Guarantee 'advances', for the purposes of budget execution, are equivalent to 'provisional global commitments'.

The advances therefore do constitute commitments, although of a special kind as a result of the specific financing arrangements for the EAGGF Guidance Section.

The funds available for commitments in January 1985 therefore amounted to three twelfths.

As the Court of Auditors states, funds available in March proved to be insufficient, and so the Commission requested an additional twelfth.

This twelfth was calculated, in accordance with Article 8 of the Financial Regulation, on the basis of the two limits constituted by the 1984 budget, including transfers, and the rejected draft budget for 1985.

The budgetary authority, however, held that in the event of the budget being rejected, the only limit to be applied was the previous year's budget and that an additional twelfth was therefore not necessary since sufficient funds were available. The Commission executed the appropriations made available as a result of this decision; but it made clear that it was upholding its initial position and it stressed the ever growing importance of completing the revision of the Financial Regulation, which has been pending since December 1980.

Once the new draft budget for 1985 was adopted on 24 April 1985, thereby establishing the second limit accepted by the budgetary authority, the Commission was able to work again according to the principle of the double limit.

**4.11.** In the light of the above, the Commission does not share the Court of Auditors' view that it evaded the constraints of the provisional twelfths arrangements.

Like the Court of Auditors (see paragraph 1.35), the Commission would like the revision of the Financial Regulation to be concluded as soon as possible so that it will be clear what rules are applicable in this area and the current difficulties of interpretation will not be encountered in future.

### *Cash management in the Member States*

and

### *Conclusions with regard to the implementation of the budget*

**4.12 – 4.13.** The Commission shares the Court of Auditors' concern regarding the need to reduce the large balances and notes its interest in the efforts being undertaken to improve the system of EAGGF-Guarantee payments. The improvement will require changes in the operation of the Member States' paying agencies, which come under the national authorities, and the introduction of a computerized system linking all the Member States and the Commission. In July 1986 the Commission therefore decided, as a first step, to set up a pilot project with Denmark, which has adapted its national system to the Commission's requirements. It feels that this represents an advance which should eventually lead to a system for improving the management of EAGGF-Guarantee appropriations throughout the Community.

Furthermore, with regard to the comment in paragraph 4.12(a), it should be noted that a prolonged strike by civil servants in a Member State helped to create the situation described by the Court of Auditors.

## **OBSERVATIONS ON THE FINANCIAL MANAGEMENT**

### *Public storage: general aspects*

#### **Changes in stocks**

**4.14.** Like the Court of Auditors, the Commission regrets the increase in stocks at the end of 1985; it made its price proposals for 1986/87 accordingly. It deliberately used the financial depreciation facility because of the lower commercial value of the stocks, and thus achieved savings in interest charges.

**4.16.** The Commission would stress that world production of cereals in 1985 was a record and that demand from the main importing countries was limited.

Despite this, the Community managed to increase its exports, as the Court of Auditors also noted.

The Court of Auditors recognizes the important non-financial considerations which the Commission has to take into account in its endeavours to promote agricultural exports and which affect any changes in these exports.

### Changes in expenditure

**4.17.** A comparison of expenditure in 1985 and 1984, with allowance being made for the financial depreciation of stocks by 439 Mio ECU in 1985, shows an increase of 14,7 %.

### *Expenditure charged back to national budgets*

**4.20.** The Community system for financing storage costs is a standard-rate system, the application and control of which are subject to a number of factors and cost levels which are not harmonized between the Member States. The standard amount provided for the financing of these storage costs therefore does not cover the full costs incurred by some intervention agencies.

Because of the Community's current budget difficulties, a restrictive approach is taken as regards the reimbursement of financing and storage costs. This approach was tightened even more between 1986 and 1988 by the Council, which adopted Regulation (EEC) No 1334/86 after obtaining the opinion of the European Parliament. However, it should be noted that the Member States pay only a fraction (160,2 Mio ECU) of expenditure; the measures involved are temporary and do not call into question the Community character of the policy.

### Potential losses and depreciation

**4.21.** The Commission shares the Court of Auditors' view that a fixed rule should be established for the valuation of stocks at a price level closer to market reality.

However, it feels that in view of the present limit on own resources and the very high level of stocks, this is not the time to introduce such a rule.

When it considers that the time is right, the Commission will propose a permanent change to the method of valuation of stocks held in intervention.

In the mean time, the Commission is taking every isolated opportunity for depreciation within the framework of the existing regulations. Its scope for doing so has been increased by Council Regulation (EEC) No 964/86.

**4.22. (a)** Until 1985, the financial impact of anticipated losses was included under the budget headings 'other storage costs', but it is also stated separately in the Commission's financial report on the EAGGF. For 1986, the Commission prompted the budgetary authority to create two new items for the depreciation of stocks in the chapters on milk products and beef/veal; these items are retained in the 1987 budget.

**(b)** The Commission felt that its main concern should be to avoid a negative balance in the execution of the 1985 budget, a new estimate of own resources being lower than the amount entered in the budget. For this reason it did not use all the appropriations available for the financial depreciation of stocks.  
FGDG

**(c)** If the Commission were to base itself on the stocks at the end of the financial year for determining the maximum possible depreciation, it would have to wait until January of the following year to know what this maximum was, i.e. when it was too late to act in the financial year concerned. Furthermore, a change of method would not have had any practical effect in 1985 since the maximum appropriations available for such an operation would in any case have been less than one third of the maximum depreciation.

**(d)** The Commission distributed the depreciation across the range of products on the basis of Council Regulation (EEC) No 1883/78 and taking into account depreciation potential, the size of stocks and the prospects for disposal.

It gave priority to butter in view of the large stocks held and the significant losses on disposal.

### The potential costs

**4.23. (a)** The Commission first attached a note on potential costs to the 1984 revenue and expenditure account. It did so again in 1985, when it provided an estimate of disposal value.

The Commission therefore feels that it has moved in the direction advocated by the Court of Auditors.

From 1986 onwards, it will attach to the financial statements an annex on foreseeable revenue from disposal and potential costs.

(b) The 'normal stock' taken by the Commission as a basis for calculation of potential costs is an assessment based on past experience and relative consumption levels. 'Normal stocks' represent 5-40 days' consumption, depending on the product, which does not seem excessive when compared with other sectors such as oil, for which stocks are often about 90 days.

In its 4-year perspective, the Commission tried to assess the real value of intervention stocks on the basis of a different assumption, namely that of the disposal of all stocks in the short term putting greater pressure on disposal prices.

#### Conclusions with regard to public storage: general aspects

4.24 – 4.26. With regard to potential costs, the Commission has complied with the wishes of the Court of Auditors by providing additional information with the accounts. With regard to the small part of storage expenditure borne by the Member States, the Commission would refer to its reply to paragraph 4.20.

The Commission's view is that the stock problems depend above all on various economic factors and the Community's agricultural regulations.

#### Public storage: cereals

#### Introduction

4.27 – 4.28. The Commission is fully aware that the production of cereals is increasing faster than the means of disposal. It therefore insisted, in the price negotiations for 1985/86 and 1986/87, that the Council adopt measures to adjust the common organization of the market in cereals.

#### Quality

##### *Commercial and Community criteria*

4.29 – 4.30. The quality criteria for the sale of cereals into public intervention were tightened up on 1 July 1986 by Council and Commission regulations (Regulations (EEC) Nos 1580/86, 2134/86 and 2135/86), which changed the standard level of humidity acceptable for intervention cereals from 16 to 14%. The Council also imposed stricter criteria regarding the definition of wheat of bread-making quality. These measures were accompanied by reductions in the intervention prices of wheat not meeting the criteria specified.

##### *Quality control*

4.31. The Commission recognizes that in practice differences exist between the ways in which public intervention operations are conducted in the various Member States. It would however draw attention to the provisional nature of the findings of the Court of Auditors' preliminary inquiry.

4.32. With regard to checks on the quality of cereals bought into intervention, the Court of Auditors' observations reflect the individual administrative structures of the Member States. In order to avoid high administrative costs, intervention is organized in each Member State to resemble commercial practice as closely as possible.

4.33. As the Court of Auditors mentions, the stockists are contractually responsible to the intervention agencies of the Member States for both the quantity and the quality of the intervention cereals in their charge. Although it is more difficult to question their action as far as quality is concerned, the Commission would point out that, where such cases are revealed by its own checks, it adjusts expenditure — assuming the Member States have not done so themselves in their statements of expenditure — in its clearance decisions.

4.34. The Commission is aware of the problems revealed by the Court of Auditors' preliminary inquiry.

It would point out that, at the present time, storage arrangements are based on the infrastructure of existing warehouses; this may mean that large consignments are held in storage, giving rise to difficulties in identification and in determining the degree of homogeneity. However, any other storage arrangements would probably involve

reserving warehouses for the exclusive use of the intervention agency and/or major restructuring of existing warehouses, all this at considerable cost.

**4.35.** The Commission will take account of this valuable information when it clears the accounts for the Member States concerned.

**4.36 – 4.37.** The Commission shares the Court of Auditors' concern regarding the need to tighten up quality control.

It accordingly analysed nearly 2 000 samples of intervention cereals in 1985/86 and is having the information it collected processed by computer. Once it has studied the findings, the Commission plans to propose further inquiries and any improvements to the control system which prove to be necessary, taking account of the Court of Auditors' suggestions.

#### **Other aspects of national management**

**4.38. (a)** As regards the time allowed for payment — originally something determined by the Member States — the Commission, as a first step towards an alignment, stipulated that it should be 60-120 days. This range was reduced by Commission Regulation (EEC) No 2180/85 of 30 July 1985 to 90-120 days.

**(b)** The situation referred to by the Court of Auditors may arise if the intervention agency requests delivery after the date specified in the offer for technical reasons or because of a lack of storage capacity.

**(c) and (d)** The Commission will ensure that the control procedures (including the organization of accounts within the intervention agencies), which are the responsibility of the Member States, meet the requirements of Community regulations.

#### **Conclusions on the public storage of cereals**

**4.39.** The Commission's view is that the production of cereals is subject first and foremost to various factors such as guaranteed prices, production costs, estimates of alternative crops, and weather conditions. The technological and biotechnological revolution has been the

chief factor behind the considerable increase in yields and production.

The Commission responded to this situation in 1984 by proposing a reduction in prices for cereals and the introduction of a co-responsibility levy in this sector. At the same time it tightened up the terms for buying into public intervention.

The Commission is well aware of the importance of improving quality control. It will take whatever action seems appropriate on the basis of the findings of the studies currently being conducted by the various Community institutions.

### **OBSERVATIONS ON THE INTERNAL CONTROLS**

#### *Frauds and irregularities*

#### **The reliability and comprehensiveness of the information**

**4.40.** The increase in the cases reported in comparison with 1984 concerns the majority of Member States and practically all product sectors, which may indicate an improvement in the application of the regulations.

However, for a more precise evaluation of the reliability and representativity of the statistics, it is necessary to consider a number of factors such as the control systems applied, the relative financial significance of the expenditure per Member State, for certain measures the number of transactions, for other measures the number and type of beneficiaries.

In reply to the Court of Auditors' report for 1984, the Commission indicated that it had initiated an investigation to obtain a more precise picture of why some Member States report considerably more irregularities than others. This investigation is still continuing. The Commission will inform the institutions concerned as soon as it has completed its investigations. It is expected that the results of the examination will be available at the end of 1986.



### Recovery of claims

**4.42 – 4.43.** As stated in the reply to paragraph 4.4.(b) above, the Commission would refer to its reply to paragraph 4.25 of the Court of Auditors' report for 1984.

### Mutual assistance in the campaign against fraud

**4.44.** The Commission is actively engaged in the development of mutual assistance between the administrative authorities of the Member States, and of cooperation between the latter and the Commission. This development finds its expression in the daily contacts and regular meetings which take place between the Member States and the Commission. Its proposal to amend Council Regulation (EEC) No 1468/81 is designed to reinforce this cooperation as far as possible at the present time. It is planned in particular that Member States should send the Commission any appropriate information it requests on cases of large-scale abuse or irregularities which might have ramifications in other Member States.

It should be added that on 1 July 1986, the Commission adopted an amendment to its initial proposal (under the second paragraph of Article 149 of the EEC Treaty) for transmission to the Council (2). This amendment would enable the Commission to carry out inspections in the Member States.

### *Clearance of the accounts*

#### Checks by the Commission

**4.46.** It is true that if the 1985 accounts are to be cleared by 30 June 1987, the procedures will need to be modified, with emphasis being placed on the priority aspects of the controls.

**4.47.** The Commission has continued its efforts to introduce systems audits. A systems audit inspection manual has been drawn up on the basis of experience and will be used in future. It will help to make the inspections more comprehensive and to standardize the procedures followed by the inspectors.

A second inspection visit was subsequently made to the main paying agencies in the Member States to examine the changes made to the systems since the first visit, and two other paying agencies were audited for the first time.

In addition, the Commission examined the reliability of the national systems of inspection from the viewpoint of a number of important measures.

**4.48.** The quality of the individual on-the-spot checks has been maintained and the elimination of the present clearance backlog will make it possible to make checks more thorough and improve their effectiveness from 30 June 1987.

#### The problem of reserves

**4.49 – 4.51.** In view of the Court of Auditors' comments and criticism over the past few years regarding the problem of reserves, the Commission has reconsidered its general approach to this subject, which it feels it should explain in full. A distinction needs to be made between general reserves in respect of specific investigations in progress and one-off reserves.

1. The purpose of general reserves is to safeguard the Commission's right to draw financial conclusions from specific investigations being conducted independently of the procedures for the clearance of accounts for a given year. These specific investigations concern in particular procedures regarding the examination of cases of infringements (procedure under Article 169 of the Treaty), national aid not compatible with the common market (procedure under Article 93 of the Treaty) and presumed cases of irregularities or negligence (procedure under Article 6 of Regulation (EEC) No 283/72 or Article 9 of Regulation No 729/70).

In fact, the only link with the clearance of the accounts is that the clearance decision is the means of dealing with any financial consequences resulting from the specific investigations. General reserves have been introduced into clearance decisions so as to safeguard the Commission's right to draw financial conclusions at a later date.

2. One-off reserves are directly linked to the clearance of the accounts and may take the form of provisional acceptances (positive reserves) or refusals (negative reserves).



- (a) Provisional acceptance was given where the tendency was in favour of allowing the expenditure, but at the same time a doubt still existed, making further examination of the case necessary.

A different approach is currently used in cases which warrant additional checks. In such cases, the Commission may, so as not to hold up its clearance decision, decide to exclude the declared expenditure from the clearance decision. Clearance of this expenditure is then held over to a later date. This practice, which was first applied in the 1980/81 and the 1982 clearances, eliminates cases of provisional acceptance of expenditure (positive reserve) but makes it necessary to break up the clearance decision.

- (b) Provisional refusals of expenditure can be divided into:

- provisional refusals pending a judgment of the Court of Justice in a similar case;
- provisional refusals on other grounds, in general pending additional proof to be provided by the Member State. Such cases of provisional refusal are exceptional and must be properly justified. The amounts involved in 1980/81 were about 24 Mio ECU out of total declared expenditure of 21 200 Mio ECU. These refusals are subject to a time limit, the Commission, in principle, taking a final decision in the following clearance exercise.

- (c) The amounts involved in provisional refusals and deferments are specified in the clearance decisions, and a note will be attached to the revenue and expenditure account.

**4.52 – 4.55.** The inquiries referred to by the Court of Auditors, namely those in the olive oil sector in Italy and the fruit and vegetables sector in France, are specific inquiries being carried out by the national authorities at the request of the Commission under Article 9 of Regulation (EEC) No 729/70. They are being undertaken independently of the clearance procedure.

With regard to the inquiry in Italy, it was explained in the summary report on clearance for 1982 (point 3.4.1.1) that the findings of the inquiry do not call for financial adjustments. The financial consequences hitherto drawn

from the inquiry in France were incorporated into the clearance decisions for the years from 1978 to 1982.

It should also be emphasized that measures were taken in both Italy and France to improve the control systems in the sectors concerned as soon as the shortcomings became apparent.

As the Commission stated in its reply to the 1984 annual report (Chapter 1, section III.4), it is aware of the need to improve the monitoring of the implementation of Community policies. The Commission therefore shares the Court of Auditors' concern at the length of time France and Italy are taking to complete the inquiries it requested and is continuing its efforts to solve these problems.

### *Cooperation of Member States*

**4.56.** The Commission would confirm the reply it made to the Court of Auditors' report for 1984 (paragraphs 4.43 – 4.44) regarding the importance it attaches to having access to the national control reports. It has approached the Member States to find solutions to the problems in this area.

It should be noted that on 6 December 1985 the President of the Commission sent a letter to all Member States to draw their general attention to the problems of clearance of the accounts and to ask them to step up their cooperation with Commission departments.

### **FOLLOW-UP TO THE SPECIAL REPORT ON AID FOR OLIVE OIL**

#### *Production aid*

#### **Olive oil control agencies**

**4.58 – 4.59.** There has, in fact, been a delay in the application of the controls and the other duties attributed by Council Regulation (EEC) No 2262/84 to the control agencies for olive oil in Italy and Greece. This delay is mainly due to administrative and/or legislative difficulties experienced within the two Member States concerned,

which emerged when the initial steps were taken to establish the agencies.

this case (see the reply to paragraphs 4.46 – 4.55) and will remind the Member State concerned of its obligations.

#### Normal checks

**4.60.** From the outset the Commission has closely followed developments in setting up the agencies. Under Article 8 of Regulation (EEC) No 27/85, the Member States are obliged to carry out the checks prescribed by Community legislation in the olive oil sector, until such time as the agencies are fully operative.

The Commission sent Greece a letter of formal notice on 25 July 1986 regarding the computerized files. It has not yet received a reply. On the same date, it also sent such a letter to Italy concerning the computerized files to be set up in that country.

#### Olive Cultivation Register

**4.62.** The Commission has asked the Italian authorities to use the completed part of the register to check olive growers' statements from 1983/84.

Work on the register in Greece has not yet started since the detailed arrangements are still being discussed by the Greek authorities and the Commission. Its introduction has been delayed by the absence of a land survey register in Greece, which proposes that such a register be compiled together with the Olive Cultivation Register.

#### Clearance of accounts

**4.63.** The accounts referred to by the Court of Auditors have not yet been cleared since they are the subject of a specific inquiry, the findings of which are not yet available. The Commission expressed a general reserve on

#### Stocks of olive oil

**4.64.** Such a discrepancy may occur as a result of *ex post* checks carried out by the Member States for the purpose of preparing their clearance of accounts statements, for example.

In the case at hand, the Italian authorities provided an explanation following a request from the Commission. It emerged that the stocks established on 30 December 1984 were later adjusted to take account of differences discovered during the checks. The adjustment has been made provisionally subject to a check during the clearance procedure.

#### Conclusion on olive oil

**4.65.** The creation of the control agencies was a specific response to the difficulties encountered in the olive oil sector.

Despite the delays mentioned in paragraph 4.59 in the introduction of certain aspects of the new system, the Commission considers that the problems connected with production aid can be solved by the measures provided for in 1984.

The delay concerns the establishment and bringing into full operation of the agencies, rather than the principles of the control mechanisms adopted.

It should also be noted that the Commission plans by summer 1987 to propose the main points for the adjustment of the 'acquis communautaire' in the vegetable oils and fats sector, in accordance with the joint declaration annexed to the Act of Accession of Spain and Portugal to the European Communities.

(1) Regulation (EEC) No 1079/77, second recital.

(2) Doc. COM(86) 381 final of 2. 7. 1986.

## REPLIES OF THE COMMISSION TO

## CHAPTER 5

**European Agricultural Guidance and Guarantee Fund,  
Guidance Section (EAGGF-Guidance), and  
specific agricultural measures**

**OBSERVATIONS ON BUDGETARY  
MANAGEMENT**

In the case of specific measures with a programme adopted by Council regulation, the programmes are such that the costs indicated are often for guidance only.

*Recovery of sums paid in excess*

**5.9.** The Commission is willing to consider the Court of Auditors' suggestion.

**5.6.** The Commission would refer to its reply to paragraph 2.11 of the Court of Auditors' report.

**5.10.** The figure mentioned by the Court of Auditors is no more than a preliminary estimate under the five-year financial framework fixed by the Council in Regulation (EEC) No 729/70 (see reply to Chapter 1).

*Expenditure still to be disbursed**Management of the appropriations of  
Article 320*

**5.7.** The Commission agrees that sums corresponding to requests for reimbursement which, for whatever reason, have not been paid by the end of the year should be recorded in an appropriate form in the financial documents for that year.

**5.11.** The Commission would refer to its reply to paragraph 6.9 of the Court of Auditors' report.

Naturally, such sums would be purely indicative and without prejudice to the decisions to be taken by the Commission once the requests for reimbursement had been checked.

**5.12.** Because the 1985 budget for the EAGGF Guidance Fund was prepared in a climate of austerity, the appropriations for many articles of Chapter 32 were inadequate.

**5.8.** A distinction should be made between open-ended indirect measures (sociostructural measures and compensatory allowances for less-favoured areas) and specific indirect measures with a programme.

In the first case, it is impossible to calculate costs with any degree of precision before reimbursement is requested.

The Commission was aware of this situation and decided to give priority to specific measures for the following reasons: (a) continuation of these measures depends on Community finance; (b) they involve expenditure in the middle of the year, unlike appropriations for the compensatory allowance for less-favoured areas, which are used towards the end of the year. To allow implementation of these measures to proceed at a normal pace, transfers were made in a first phase from Article 320 to other items in the same chapter. In a second phase, which had to wait until the end of the year, the

Commission made a transfer from Title 2 to Article 320 so that reimbursement could be made in all cases where checks had been completed.

The Commission therefore considers that it acted responsibly in implementing the budget, given the particularly difficult circumstances.

### *Drawing up the likely schedules of payments*

**5.13 – 5.14.** The Commission would point out that the time taken by the budgetary procedure and the general rules adopted for the preparation of schedules of payments mean that it is not always in possession of all the information it needs to draw up accurate schedules.

### *Supplementary expenditure under Item 3841 'Research programmes'*

**5.15.** The Commission would point out that its decision that supplementary expenditure incurred by third parties in national currency should be reimbursed in ECU was prompted by a desire to develop utilization of the ECU and to bring such payments into line with current practice on research contracts.

Nevertheless, it appreciates the concern which underlies the Court of Auditors' comment and is willing to consider its suggestion provided it does not pose excessive monitoring or management difficulties.

### *Appropriations entered under Item 3892 'Slaughter of pigs and processing of pigmeat in the United Kingdom'*

**5.16.** It is true that despite the Court of Auditors' comments on the charging of expenditure to budget Item 3892 the Commission, in implementing the 1985 budget, continued to feel that 'the note inserted in amending and supplementary budget No 2/83, creating Item 3892, faithfully reflected the budgetary authority's intention and constituted a sufficiently valid basis for charging the appropriations to this item' <sup>(1)</sup>.

<sup>(1)</sup> The footnotes appear at the end of each chapter.

However, in its preliminary draft budget for 1987, the Commission proposed that payments still to be made on the basis of commitments entered into for this measure should be charged to Article 301 of the budget in future. This means that Item 3892 no longer appears in Chapter 38 of the 1987 preliminary draft.

### **APPLICATION OF THE MEASURES TO IMPROVE THE CONDITIONS UNDER WHICH AGRICULTURAL PRODUCTS ARE PROCESSED AND MARKETING (Regulation (EEC) No 355/77), TO ASSIST FRUIT AND VEGETABLE UNDERTAKINGS**

#### **Problems connected with the guarantees of the projects' profitability**

**5.19 – 5.20.** The Commission has to consider the question of profitability before projects are implemented while the Court of Auditors comments after the event. It is obvious that assessments based on information available when the application is being considered may prove inaccurate in some cases for a wide variety of reasons.

**5.20. (a)** The Commission is not surprised that the French cooperative has been trading at only a slight profit or a slight loss. This is true of virtually all cooperatives, whose aim is to provide their members with the most advantageous prices and conditions.

**(b)** In this case the Court of Auditors is comparing estimates made in 1979 with actual results for 1984/85. A slight loss (very slight as a percentage of turnover) over one or two years is no indication of medium- or long-term profitability. The project is not giving any particular cause for concern.

**(c)** When aid was granted at the end of 1981, the balance sheets for 1977, 1978 and 1979 showed that the economic and financial situation was healthy. Indeed, the undertaking made a profit in 1981.

Estimates of the profitability of the investment were satisfactory too.

The problem appears to be a management one created by the retirement of the marketing manager.

(d) Subsequent unfavourable developments could not be foreseen when the decision to grant aid was taken, particularly since the company had been very stable over many years.

(e) It is obvious that the Commission, in granting EAGGF-Guidance aid to a project, cannot guarantee that market conditions will always be favourable to certain enterprises.

Furthermore, as the Court of Auditors points out, the Commission took appropriate action as soon as the situation deteriorated (see answer to Written Question No 1631/85 by Mr Happart to the Commission) (2).

#### **Problems connected with processing capacities for tomatoes**

5.22. The Court of Auditors rightly notes that the projects did not involve an increase in tomato processing capacity; they therefore satisfied the selection criteria. By laying down selection criteria pursuant to Regulation (EEC) No 355/77 the Commission ensures that EAGGF-Guidance aid is not granted systematically to promote surplus production.

It is clear however, that firms which invest in completely viable projects cannot be denied the aid allowed by the rules simply because they have legitimately invested their own resources in other sectors.

Nevertheless, the Commission recognizes the problem and will examine cases which could involve such risks as far as its resources allow.

#### **Problems connected with compliance with the financing arrangements for projects**

5.26. (a) It is true that in certain cases (some of them cited by the Court of Auditors) contradictions or erroneous

certifications have been detected in the supporting documents submitted. The Commission has asked the appropriate authorities for an explanation and requested them to ensure that Community rules are strictly applied. The French authorities have already responded by reorganizing certain procedures, which should prevent such cases recurring.

(b) The problem facing the Commission is that projects in countries where inflation is high and implementation slow would not be completed if the Member States were not allowed to bear the portion of the excess costs which are not borne by the beneficiary. This is why the Commission applies the proportional share rule to payment of eligible costs, without exceeding the amount of aid fixed in the decision.

(c) It is true that the internal instructions on the proportional share rule were not correctly applied in the case of the French project and attention has been drawn to the need for scrupulous observance of these instructions. However, since the incorrectly calculated figure appeared in the decision and the beneficiary acted in good faith being unaware of the internal instructions, aid could not be refused or recovered.

(d) In the Dutch case, the Commission was obliged to pay the full amount of the aid because it was less than the 25% legal maximum.

This meant that the beneficiary, though spending less than expected, received a proportionally higher aid. Since the end of 1985 the Commission has been inserting a clause in its decisions designed to prevent similar situations recurring.

(e) For the United Kingdom project aid of UKL 16 493 was calculated correctly in the first instance. When payment was made, the Member State had not paid its full contribution according to the rules in force. The Commission did not check on this subsequently. It has nevertheless contacted the British authorities to regularize the situation. Steps have been taken to prevent similar situations recurring.

(f) In this case explanations of the aid mentioned have been requested. But it will not necessarily entail a reduction in Community aid. This is reduced only when combined national and Community aid exceed 50% of costs since in such circumstances the beneficiary's contribution does not reach the minimum required.

(g) In this instance the beneficiary provided documentation showing:

- the invoice date;
- the amount;
- the method of payment; and
- the date of payment.

The Commission considered this sufficient although it agrees with the Court of Auditors that documentation is usually more complete. The Commission will reconsider the case in the light of the Court of Auditors' comment.

#### **Problems connected with the alteration of projects after the granting of aid**

5.28. It is true that considerable changes were made to the project to take account of the market situation. However, under the Commission's very precise internal instructions, these changes were found to be acceptable.

When the decision was amended, the legal status of the beneficiary company had not changed although part of the capital had been acquired by a private company. The large cooperative group still held more than one third of the capital and the change did not affect contracts with the producers.

#### **Problems connected with repeated grants of aid**

5.30 – 5.31. The mere fact that a firm receives several grants of aid is not in itself grounds for criticism. Such cases usually involve beneficiaries who adopt a prudent investment policy and confine their aid applications to investments which can show a profit in the very short term. Many beneficiaries have received far larger sums than those mentioned by the Court of Auditors on the basis of a single application.

More generally, the Commission can assure the Court of Auditors that it takes particular care to ensure that the conditions of competition are not affected.

### **COMMON MEASURES TO ASSIST STOCK FARMING IN ITALY**

#### *Regulation (EEC) No 1944/81*

5.33. Following a favourable opinion from the European Parliament, the Council laid down maximum eligible amounts for certain common measures and a total amount for the various types of intervention to be met from the Fund in Regulation (EEC) No 1944/81. The framework programme was drawn up in conformity with that regulation.

5.34. In reply to the Court of Auditors' comment concerning sales into intervention, the Commission considers that account was taken of the market situation for beef and veal when the regulation was drawn up and would refer the Court of Auditors to its reply to paragraph 4.15 of the 1984 report.

The amendments made by Council Regulation (EEC) No 797/85 are not such as to alter this assessment since they merely align the conditions for granting aid under Regulation (EEC) No 1944/81 on those laid down in that regulation, which is of general application.

5.35. The Commission agrees that application of Regulation (EEC) No 1944/81 is limited and that so far only six regions have submitted payment requests.

This can be explained in part at least by the innovative nature of both the mechanisms and the objectives of the programme. This, combined with a highly decentralized national administration, has delayed start-up.

The Commission believes that implementation should speed up, notably as a result of the amendments made to the regulation by Regulation (EEC) No 797/85.

### *Regulation (EEC) No 2969/83*

**5.37.** The fact that Regulation (EEC) No 2969/83 covers a larger number of holdings than Regulation (EEC) No 1944/81 in no way prevents it from facilitating implementation of that regulation.

**5.38.** The Commission admits that it acted on the basis of forecasts transmitted by the national authorities. This is a typical case of implementation depending directly on how a measure is received by farmers. Estimates cannot be accurate in such cases, and the results are inevitably subject to variation.

The Commission would also emphasize that the banks were responsible for applying this measure.

hence the transfer from one category to another in line with Community criteria, appear justified, given the fact that the areas originally designated were rather small.

**5.46.** General classification criteria are set out in Directive 75/268/EEC. But these criteria have to be translated into statistical categories and these categories may vary between Member States, regions or over time to take better account of each situation.

When the Commission amends the criteria it applies, the amendments are specifically mentioned in its proposal so that the Council and the European Parliament can judge for themselves.

Amendment of the categories for Ireland in 1985 followed an extremely thorough investigation.

### DEMARCATIION OF MOUNTAIN AREAS AND OTHER LESS-FAVOURIED AREAS

#### *Justification of the extension of areas*

**5.45.** The Commission's proposals on the classification of areas as less-favoured are always based on close examination of information supplied by the Member States.

In the case of the United Kingdom there was a statistical problem in that a large part of the area was rough grazing. Nevertheless the difference between the areas declared in 1974 and 1982 was analysed and checked by the Commission.

In other cases, France for instance, the Commission would point out that extensions and adjustments, and

### GENERAL OBSERVATIONS ON REGIONAL AID MEASURES

**5.48.** The Commission agrees with the Court of Auditors. It will take experience acquired into account in drafting proposals for the adaptation of structural policies for transmission to the Council.

**5.49.** The Commission agrees that the economic impact of measures must be assessed.

The Commission has always kept a close watch on the implementation and consequences of the various measures. It intends to step up its efforts in this direction, notably by invoking Article 22 of Regulation (EEC) No 797/85 which provides for the financing of studies to assess the economic efficiency of the measures provided for in the regulation.

(1) OJ C 326 of 16.12.1985, paragraph 5.12.

(2) OJ C 29 of 10.2.1986, p. 21.

## REPLIES OF THE COMMISSION TO

## CHAPTER 6

**Common fisheries policy**

## INTRODUCTION

*Expenditure arising from the fisheries agreement concerning Greenland*

6.3. The Commission has considered the conclusions drawn by the Court of Auditors in its special report on the common organization of the market in fishery products and has taken account of them as appropriate in the follow-up action on the undertakings it gave for 1985.

6.9. To meet a legal obligation under an international agreement (Council Regulation (EEC) No 2/85) to pay 26,5 Mio ECU to the Local Government of Greenland, which it could not do under the provisional twelfths arrangements, the Commission submitted this matter to the budgetary authority.

As agreed with the two arms of the budgetary authority, 10 Mio ECU was charged to Article 422 and 16,5 Mio ECU to Article 320.

## OBSERVATIONS ON BUDGETARY MANAGEMENT

The payment was subsequently charged in full to the appropriate Article 424, when the 1985 budget was adopted.

*Utilization of available appropriations**Payments under the fishing agreements with certain developing countries*

6.7. Detailed rules concerning applications for reimbursement entered into force in September 1985 (Commission Decision 85/474/EEC of 16 September 1985) <sup>(1)</sup>. However, fewer applications have been received from Member States than expected.

6.10. The series of payments made in December 1985 to a French body responsible for grant-holders in certain African countries covered costs for the 1985/86 and 1986/87 academic years.

The costs are based on estimates of expenditure for each student for the duration of the training period which cannot be confirmed until the end of the period.

The payments made are therefore to be considered as advances.

6.8. On 14 November 1985 the Commission adopted an amended proposal for a Council Regulation on the coordination and promotion of research in the fisheries sector. The proposal is still before the Council <sup>(2)</sup>.

<sup>(1)</sup> The footnotes appear at the end of each chapter.



It should be noted that, in addition to the estimates provided, a regular statement of actual expenditure incurred by each grant-holder is requested and this statement is checked by Commission staff.

**6.11.** The Commission had to accept such a clause in the agreement with Madagascar, which specifically requested it.

#### **OBSERVATIONS ON THE COMMON MEASURES FOR DEVELOPING THE FISHING INDUSTRY AND AQUACULTURE (ARTICLE 460 OF THE BUDGET)**

##### *Special observations*

##### **Italian projects**

**6.18 – 6.21.** The Commission has suggested repeatedly, in particular during an on-the-spot audit, that the Italian authorities pay the national aid in full before submitting the application for final payment to the Commission. According to the Italian authorities national law does not allow the payment in full of national aid until the Commission has already paid 80 % of the aid. The Commission is fully aware that this practice delays the processing of files and unnecessarily increases the number of payment operations.

With regard to the financing plans submitted by the beneficiaries, Commission staff have no way of ensuring that the funds held by fishermen at the time of application will still be available when the project is executed.

It is clear that small-scale fishermen sometimes have to use their modest capital for contingencies such as repairs or accidents. The 1982 law referred to by the Court of Auditors was introduced to alleviate financial problems but, as the report states, it is not yet fully in operation.

##### **Irish projects**

**6.22 – 6.25.** Because these projects are experimental, it is not always possible for the beneficiaries to keep to the planned schedule.

The national authorities are supposed to consider in advance the reliability of the balance sheets and the trading accounts and therefore to submit only those projects which offer the best guarantee of ultimate success. However, it should be noted that a large number of fishermen are legally entitled to keep simplified records and accounts and that investments in the fishing industry are by nature operations involving an element of risk.

With regard to projects IRL/61/80 and IRL/109/82 (the first for the rearing and the second the fattening of young eels), the application submitted for the second project revealed that the first was operational. Not only was the second project immediately examined in detail but during an on-the-spot check, it was also found that the first project had progressed satisfactorily and that the site planned for the second project met the relevant standards. Outside events then occurred which hampered the progress of the work. Firstly, an abundance of young eels in the natural habitat was, within two seasons, suddenly followed by their total disappearance, something which occasionally happens with migratory fish. The project was furthermore dependent on the supply of hot water from a power station. In September 1983 the Electricity Supply Board announced that it was going to carry out a study to determine the cost of running the power station, which was threatened with closure. In 1985 the authority decided to keep the power station open, and the project started up again and produced 6 tonnes of eels, all exported to the Community market. The projects will be terminated in 1986/87.

The Commission is of course required to ask the national authorities for information on the progress of projects. However, the Member States' replies can only be checked by on-the-spot inspections, which often take a long time. The Commission will do its best to carry out such inspections with the resources currently at its disposal.

##### **Greek projects**

**6.28 – 6.31.** The Commission sent a team to Greece in March 1986 to inspect a number of projects to check the

supporting documents held by the national authorities. Following the visits by the Court of Auditors and the Commission, 23 projects were cancelled.

### *General observations*

Because the collective projects were only in the start-up phase they fell somewhat behind schedule, but the delays should be eliminated once the normal running speed is achieved. The introduction of the measures proposed by the Commission will be of particular value (see reply to paragraph 6.32).

**6.32.** The Commission is currently considering the possibility of simplifying and speeding up the procedures at each stage of projects within the framework of the new structural measures proposed to the Council (Doc. COM(86) 446 final).

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(1) OJ L 284 of 24.10.1985.

(2) Doc. COM(85) 590 final.

## REPLIES OF THE COMMISSION TO

## CHAPTER 7

**Expenditure in the regional development and transport sectors****ANALYSIS OF BUDGETARY IMPLEMENTATION**

indicated previously, the Commission considers this transfer operation to be legal <sup>(3)</sup>.

In any case, payment appropriations carried over can be used to cover commitments made in the current year <sup>(4)</sup>.

*Unexpended European Regional Development Fund (ERDF) appropriations*

7.8. As regards the failure to use up some of the appropriations available for specific Community measures ('non-quota' operations), the Commission would refer to its reply to the Court of Auditors' special report on this subject <sup>(1)</sup>, in which it explained that the implementation difficulties experienced by the Member States were principally due to the fact that these measures were a new departure.

Of the 4,9 Mio ECU in commitment appropriations remaining from 1984 under Article 500, 4,6 Mio ECU appears in the 1986 accounts.

7.11. The cancellation of a commitment appropriation of 9,6 Mio ECU at the end of 1985 was the result of a misunderstanding, and it was restored at the beginning of 1986. Under the terms of Article 32(6) of the new ERDF Regulation, the appropriation in question cannot lapse. It will appear in the 1986 revenue and expenditure account as an appropriation remaining from 1985.

7.9. The transfer of 130 Mio ECU from Chapter 51 to Article 505 (New ERDF) instead of Article 500 (Old ERDF), where there was a need for additional payment appropriations, was the result of a technical error. This was put right at the beginning of 1986.

*The progress of ERDF payments, by Member State*

The 115 Mio ECU remaining under Article 505 was transferred to Article 500 in 1986 and should cover more than half of the requests for payment not settled in 1985.

7.14. On the question of assistance being granted to projects which are 'at an advanced stage of execution', which in the Court of Auditors' view reduces the impact of the Fund, the Commission would point out that the ERDF Regulation explicitly provides that expenditure is eligible provided it is incurred from the twelfth month onwards preceding the date of the application for assistance (Article 29 of the new Regulation).

*Transfers of ERDF appropriations*

7.10. Pursuant to Article 2(3)(b) of Regulation (EEC) No 214/79 <sup>(2)</sup>, the 1984 payment appropriations for non-quota operations which had not been used by the end of 1985 were allocated to quota operations by means of a transfer authorized by the budgetary authority. As it has

The Commission agrees with the Court of Auditors that the principle of additionality of ERDF assistance should be underlined and it will do all it can to see that this is done.

<sup>(1)</sup> The footnotes appear at the end of each chapter.

Although the analysis carried out by the Court of Auditors covers only payments made in 1984 and 1985 in respect of 1984 commitments, it does indeed show some disparities in the rate of ERDF payments. In its financial management the Commission has to take account of the fact that the Regulation allows various methods of payment, which may involve normal claims or applications for advances or accelerated payments. The latter are made in line with the criteria laid down in Article 28(3) of the new Regulation.

### *The situation of commitments outstanding*

**7.16.** As the Commission made clear in its reply to the same comment in the Court of Auditors' 1983 report <sup>(5)</sup>, a discrepancy between the rate of payments and commitments is inherent in the very nature of the operations and, by extension, in the rules governing the ERDF. The system of advances introduced by the new Regulation may help to reduce the discrepancy provided that the Member States avail themselves of it. However, in 1985 (and the same will probably be true in 1986), a further factor tending to increase the amount of commitments outstanding is the inadequacy of payment appropriations.

**7.18.** As the Commission indicated in its reply to the observations made by the Court of Auditors in its 1984 report <sup>(6)</sup>, the old ERDF Regulation contained no binding provisions regarding the closure of files or the implementation period stated in the application for assistance. Article 32(6) of the new Regulation is stricter, since it provides for ERDF assistance to be decommitted if no payment has been made in respect of a project for four years, although it is somewhat weakened by the fact that Member States may claim exemption if they can give good grounds for the delay.

Nevertheless the Commission has acted to speed up the closure of files (global annual review and specific investigations during on-the-spot inspections; these measures are described in the Commission's replies to the comments made by the Court of Auditors in its 1983 report) <sup>(5)</sup>.

### *Other operations provided for in relation to Title 5*

**7.21.** The 1985 appropriations could not be committed for want of a Council Regulation.

The Council has not considered the amendment presented by the Commission on 6 September 1984 to its proposal of 9 August 1983 or its communication (Doc. COM(84) 709) defining a medium-term action framework. If the framework had been adopted, the interim solution contained in the amendment referred to above would not have been necessary.

The Commission recently took a further initiative when it presented a medium-term transport infrastructure programme to the Council in June 1986 (Doc. COM(86) 340, 17 June 1986) together with a proposal for a Council regulation to enable the Commission to take the relevant decisions allocating financial support and to use the appropriations carried over from 1985.

## **OBSERVATIONS ON THE MANAGEMENT OF THE ERDF**

### *Change-over from the old Regulation to the new Regulation*

**7.22.** The re-utilization of appropriations becoming available as a result of exchange rate fluctuations is an inevitable consequence of the introduction of the ECU as the unit of account in 1979, and there is no reason for formally incorporating it into the ERDF Regulation.

The points raised by the Court of Auditors are part of a whole series of problems related to the fact that ERDF assistance is granted in national currencies. The Commission will consider whether all ERDF aid commitments could be expressed in ECU.

**7.24.** Applications for assistance submitted by the Member States before the entry into force of the new Regulation were made under the conditions laid down in the old Regulation. After confirmation by the Member States they were accepted as such by the Commission.

**7.25.** The new ERDF Regulation does not provide any means of forecasting the requirements for each type of operation and consequently it is practically impossible to produce a more detailed budgetary breakdown. To do so would, in any case, be incompatible with management flexibility.

However, the Commission is able to provide a breakdown of the figures *ex post facto*.

## OBSERVATIONS RELATING TO THE SYSTEM OF MANAGEMENT AND CONTROL OF ERDF AID

### *Programme financing*

7.27. In its reply to the special report by the Court of Auditors on specific Community operations (7), the Commission stated that it was aware of a possible problem of transparency as regards the financial consequences of the political undertakings given by the Community when approving the global five-year indicative financial allocation for each programme and it is considering the question in a broader context (see point IV of the reply to Chapter 1 of this report).

7.28. As regards the operations in France, ERDF assistance was granted to some projects included in the proposed programmes as an interim solution pending France's revision of its proposals. This was done so as not to delay or compromise the execution of what were regarded as priority projects.

### *The proportion of aid allocated to industrial investment*

7.29 – 7.31. The new Regulation is less strict in this respect than the old. This change reflects the reality of the situation, for while endeavouring to achieve the 30 % target recommended in the Regulation, it is important not to lose sight of the problems of regions suffering from a continuing low level of productive investment because of their unfavourable socio-economic situation and lack of basic infrastructure. And in any case, it must not be forgotten that the number of industrial projects is high only when the general economic situation is good.

Nevertheless the Commission agrees that the proportion of ERDF resources devoted to investments in industry, crafts and the services sector should be increased.

### *Regional development programmes*

7.37. As the Commission noted in its opinion of 19 June 1984 on the regional development programmes (8), these second-generation programmes were produced on the basis of the standard plan laid down by the Regional Policy Committee (9) and the Commission recommendation of 23 May 1979 (10). However, even with these common guidelines the programmes inevitably reflect the diversity of the problems, traditions and administrative structures of the Member States. The Commission therefore felt that no change to the standard plan for regional development programmes was called for at present (paragraph 7.40).

7.41. In its opinion of 19 June 1984 the Commission stressed that the second-generation programmes are a substantial improvement over their predecessors and provide a better framework for assessing investment projects for which ERDF assistance is sought. Nevertheless it is aware of the need for continued improvement.

In this connection, comprehensive discussions were held between the Commission departments and the national authorities on the preparation of the third-generation programmes covering the period 1986-90. In line with the Commission's opinion of 19 June 1984 (8), one of the main topics discussed was the need to define regional development priorities more clearly.

### *Choice of projects*

7.44. All in all the new Regulation is an improvement over the old as regards the possibility for the Commission to assess the Community interest of projects submitted for ERDF assistance.

Under the new Regulation the Member States have to submit assessments of the expected return together with socio-economic cost-benefit analyses, at least for major

industrial and infrastructure projects, to enable the Commission to form a clearer picture of their viability.

When the new Regulation was adopted the Commission stated that since the way in which ERDF resources were actually allocated depended on the Community interest of the projects, it would set up an operational method for assessing that interest. The method was subsequently drawn up and notified to the Member States in the form of a practical guide. The Commission is in constant contact with the Member States in an effort to ensure that they take greater account of the Community dimension in preparing their applications for ERDF assistance.

### *Global decisions*

**7.50 – 7.53.** The Commission agrees with the Court of Auditors that ERDF operations under global decisions should gradually give way to programme financing as far as possible.

### *Execution of the projects*

#### **Monitoring of execution by the Commission**

**7.61 – 7.64.** Aspects of national procedure do not escape the Commission's notice during on-the-spot checks.

But the diversity of structures and administrative practices in the Member States makes it difficult to harmonize the conditions governing the execution of projects (paragraph 7.61); nor is this required under the existing legislation.

As for investment projects where execution is behind schedule (paragraph 7.62), the Commission is continuing its monitoring efforts (paragraph 7.18) with a view to decommitting and reallocating the amounts in question.

### *Monitoring of the execution of projects and evaluation of results*

#### **Evaluation of the results achieved in terms of regional development**

**7.72 – 7.75.** The periodic reports on the implementation of the programmes should allow the Commission to monitor more closely the achievement of the objectives they set out. As the Court of Auditors has noted, the impact of the ERDF on the socio-economic development of the regions is still difficult to gauge because of the methodological and statistical obstacles to an evaluation of the impact of regional policies in the Member States.

(1) OJ C 262 of 20.10.1986.

(2) OJ L 35 of 9.2.1979, p. 1.

(3) OJ C 344 of 31.12.1981, p. 210, paragraph 1.14.

(4) OJ C 342 of 31.12.1981, p. 277, paragraph 7.8.

(5) OJ C 348 of 31.12.1984, p. 208, paragraphs 7.11 to 7.16.

(6) OJ C 326 of 16.12.1985, p. 191.

(7) OJ C 262 of 20.10.1986.

(8) OJ L 211 of 8.8.1984.

(9) OJ C 69 of 24.3.1976, p. 2.

(10) OJ L 143 of 12.6.1979, p. 9.

## REPLIES OF THE COMMISSION TO CHAPTER 8

### Social sector

#### SUMMARY OF GENERAL FINANCIAL INFORMATION

#### OBSERVATIONS ON THE MANAGEMENT OF THE SOCIAL FUND WHICH ENTERED INTO FORCE ON 23 OCTOBER 1983

#### *The second approval decision of 23 December 1985*

#### *European Social Fund*

**8.4.** The main reason for the 86 % utilization rate is that the Commission was not informed of the amount of unused appropriations available for re-use until the final payment claims in respect of 1984 commitments were submitted just before the deadline (31 October 1985); this was too late for the appropriations to be released and recommitted before the end of the year.

**8.5.** The amount paid out in 1985 in the form of final payments, additional payments and second advances (some 380 Mio ECU) was roughly the same as in 1984, in both absolute and percentage terms (15 %).

The figure of 29 % quoted for 1984 includes the 320 Mio ECU paid at the beginning of the year by way of advances on commitments made at the end of the previous year.

**8.12 – 8.14.** The Commission takes note of the Court of Auditors' criticism. From 1986 onwards the Commission intends to commit the appropriations available for the Fund in a single decision.

#### *Individual approval decisions*

**8.16. (a)** Checks carried out by the Commission have shown that in 5 of the 8 cases cited by the Court of Auditors the estimates included some expenditure which was ineligible; the total amount was approximately 1,4 Mio ECU (rather than 1,8 Mio ECU, as stated). The necessary corrections will be carried out in conjunction with the scrutiny of final payment claims, which have to be submitted by 31 October 1986 in most of the cases in question.

As regards the 8 approved applications for assistance totalling 28,4 Mio ECU which the Court of Auditors found to include non-priority aspects, the Commission confirms that all but 2 of the decisions, involving 0,4 Mio ECU, were justified. It should also be noted that almost the entire amount questioned by the Court of Auditors is accounted for by a single approval decision (27,2 Mio ECU). The application was the subject of discussions with the national authorities to ensure that

approval was restricted to schemes falling within the range of the Community's priorities. The file on the application contains a record of those discussions.

(b) On the question of whether information is adequate or not, it is true that in some applications the project descriptions and particularly the indications regarding compliance with the guidelines are very brief and sketchy. These cases are scrutinized very closely by the Commission when the time comes for final payment. At all events, it approves such applications only where it has a sufficiently good knowledge of the reality of the situation in question.

(c) The Court of Auditors is referred to the Commission's replies to point 8.17 as regards the lack of precision in some of the rules. As to what the term 'new technology' covers, this is assessed in the light of a range of factors such as the category of persons concerned and the project location. Given that such technology is, by its nature, constantly evolving (and not always in the same direction throughout the Community), it is neither possible nor desirable to try to draw up a list.

(d) Some Member States sent additional information supplementing, modifying or correcting some of the original applications. Where this information was received before 21 October 1984 (the prescribed deadline for the submission of applications), it was taken into account at the scrutiny stage. Similarly, where the object of the information supplied was to reduce the amount requested, it was accepted.

Although some gaps were revealed in the course of scrutiny, they did not appear serious enough to warrant total rejection of the application or set of applications in question. In a few specific cases of this kind, bearing in mind their individual merits but with the strictest regard for the principle of equal treatment, the Fund's administration prompted applicants to supply additional information.

The remaining differences between the Court of Auditors and the Commission on these dossiers are principally due to the fact that the Court of Auditors' report is based solely on the information contained in the files, whereas the Commission's departments also rely on the practical knowledge of the dossiers and bodies involved which they have gained over the years and on oral information obtained in discussions with representatives from the Member States. The Commission has issued a reminder to its departments on the need to compile a full file for every

application, containing a record of all the information used as the basis for decisions at any stage whatsoever.

### *Initial conclusions*

**8.17.** In its management of the Fund, the Commission pursues the objectives laid down by the existing legislation. Within this framework, it unhesitatingly seeks to act on constructive comments by the Court of Auditors to the best of its ability. In 1985, for instance, it improved the preparatory procedures for approval decisions, using a more systematic and comprehensive checklist for assessing the admissibility, eligibility and priority of applications. In addition the management guidelines were more strictly applied for the selection of applications.

The Commission will continue its efforts in 1986 along the lines suggested by the Court.

## **OBSERVATIONS ON THE WINDING-UP OF THE OLD EUROPEAN SOCIAL FUND**

### *Files still to be closed*

#### **Files previous to 1980 which had not been closed by 1 January 1985**

**8.19 – 8.21.** The Commission agrees with the Court of Auditors on the need to close dossiers involving commitments made prior to 1980 as rapidly as possible. The special effort undertaken in 1985 has therefore been continued in 1986. By September 1986 only 7 cases remained where the payment procedure had not yet been started.

The Commission will continue its endeavour to remedy the shortcomings referred to by the Court.

**8.22 – 8.24.** The delays in processing payment claims were mainly due to the shortage of staff and the time needed by the Member States to provide additional



information, as well as to the somewhat cumbersome process of recovery by offsetting.

Since then the Commission has taken the necessary steps for this to be remedied as regards both its own administration and the national authorities concerned. In particular a reminder was issued that a system has been set up designed to ensure the recovery of undue payments as rapidly as possible and to avoid delays in cancelling unused commitments.

Moreover, the starting point for determining the average time lapse before unused commitments are cancelled should, in the Commission's view, be the date on which the final payment claim (or, failing that, the final statement of expenditure or the advice of non-completion) is received rather than the date of the initial commitment.

**Applications for final payment outstanding at 1 January 1985 and relating to commitments subsequent to 1 January 1980**

**8.25 – 8.26.** The Commission is aware of the problem of delays in the settlement of final payments. It is working to discover where the procedural obstacles lie in order to eliminate them and prevent a recurrence of hold-ups in the future. It feels confident that the situation is well on the way to normalization (autumn 1986).

The problem has to be seen in the light of the considerable increase in the workload in recent years. Moreover the complexity of some cases, particularly where several dossiers are interlinked, not only hinders their closure but also inevitably tends to slow down the whole administrative process of settlement.

The 3 cases singled out in the Court of Auditors' report as showing the longest delays were part of a combined application (see 8.26(a)). Their treatment, then, was dependent on a solution to the problems concerning the application as a whole.

***Projects audited on the spot by the Court***

**8.27.** The Commission has claimed repayment in this case.

**8.28.** The Court of Auditors' observations reflect less on the eligibility of certain projects which received assistance than on their priority and thus, by implication, on the way in which the Commission used the discretion which it enjoys as the Fund's administrator. The priority of a project to promote the employment of women is assessed on the basis of a variety of factors. There seems little sense at the moment in drawing up a list to apply throughout the Community regardless of the region in question and the category and qualifications of the women concerned.

**8.29.** The Commission takes note of the Court of Auditors' comments and will carry out checks rapidly.

**8.30 – 8.31.** The Commission is aware of the problem regarding the reliability of certification systems. Its departments are collaborating with the national authorities in an effort to find a satisfactory solution to ensure sound management of Community resources.

The overpayment of 113 110,81 ECU cited by the Court of Auditors was repaid by the Italian authorities before the end of 1985.

**8.32.** The Commission has taken note of the Court of Auditors' comment and keeps an eye open to ensure that Member States interpret the conditions for eligibility in line with Regulation No 3039/78, and Article 1(a) in particular. In the two cases referred to, the Commission reserves the right to call for further information from the Member State concerned and will pass this on to the Court of Auditors direct.

**8.33.** The Commission acknowledges that the large differences in hourly training costs noted by the Court of Auditors pose a problem but it cannot refuse to accept them in the face of incontestable supporting documents. As in other areas, there is no Community reference scale of charges for such services.

**8.34.** The Commission would refer to its replies to points 8.30 and 8.31.

**8.35 – 8.36.** The use of computers should make it possible to monitor cases more effectively and in particular to issue systematic requests for justification in the case of advances where no final payment claim is received by the deadline.

European Social Fund. A number of the suggestions contained in this part of the report have already been put into practice in the Fund's administration: for example, the time limit for replies is now clearly specified, as are the implications of any failure to meet it.

## IMPROVEMENTS IN MANAGEMENT

**8.37 – 8.41.** The Commission is as concerned as the Court of Auditors to improve the management of the

For the rest, the Commission will consider the advantages of an overall examination of each application for assistance or final payment claim, as recommended by the Court of Auditors. It agrees that precise conclusions should be drawn from checks, especially at a financial level.

## REPLIES OF THE COMMISSION TO CHAPTER 9

### Research, energy, etc.

#### GENERAL REMARKS

1. The approach taken by the Court of Auditors in devoting a chapter to expenditure on energy, research and various related activities, for which appropriations are contained in Chapters 70-77 of part B of the Commission section of the budget, means that Chapter 9 includes a number of blanket observations applying to all these areas. The Commission considers that Title 7 of the budget covers activities which are actually very different and must therefore be appraised with due regard for their specific features. This limits the possibility for the Commission to act on all the Court of Auditors' suggestions.

Title 7 of the budget covers the extensive field of research, development and technology (RDT), as well as the energy sector and industrial policy. There can be no denying that the Title 7 appropriations serve to finance a wide variety of operations, such as:

- standards-setting activities (through implementation of RDT programmes or via standards institutes);
- studies (energy, industry);
- horizontal research activities;
- sectoral research programmes (in very varied areas — industrial, environmental, medical, etc.);
- demonstration projects (energy);
- innovation promotion projects;

— back-up activities (data banks, Systran ...).

On top of this, activities within any one chapter — such as Chapter 73 (Research), which in 1985 accounts for 70 % of Title 7 appropriations available for commitment — are anything but homogeneous. Commission activity in the field of research and technology (R&D) can take the form of:

- operations conducted in the Community research centres;
- shared-cost projects under research contracts with industry, universities, research centres, etc.
- concerted action.

2. Although the Court of Auditors finds neither errors nor irregularities in the handling of shared-cost contracts by authorizing departments, it nevertheless observes that there are several areas where inadequate coordination has led to divergent practice, which, in its opinion, has financial consequences.

Efficient management of the activities in question depends on three factors:

- In implementing shared-cost projects the Commission must respect the relevant legislation. For instance, the problems involved in the decision-making process and consequently in the methodology of commitments for energy demonstration projects are altogether different from those of R&D programmes.

— Depending on its particular needs, each authorizing department must enjoy some autonomy. As the Court of Auditors itself states in paragraph 9.11, there is therefore clearly nothing to be gained by harmonization at any price of programme management and hence by harmonization of contracts in sectors with their own specific objectives and resources. The Commission has, for that very reason and on the strength of more than twenty-five years' experience, developed standard contracts and framework contracts.

— The Commission has indeed endeavoured to coordinate contract management with due allowance for the specific situations involved. But this approach has so far been encountering a problem of resources in terms of both data-processing capacity and manpower, and this has caused the introduction of computerized contract management to be postponed.

3. The Commission would remind the Court of Auditors that since 1984 it has been making a great effort to promote a good many research and technological development programmes in the Community geared to boosting industrial competitiveness (Esprit, Brite, Biotechnology, etc.) and gradually establishing a European research network Stimulation (stimulation of European potential by stepping up exchanges of research workers). As far as programme management is concerned, this effort has been accompanied by application of a contracts policy based on the criteria of the 1984-87 framework programme (critical mass, transnationality) and a systematic R&D programme evaluation policy on the basis of the Council resolution of July 1983.

4. The Commission nevertheless believes that, as the Court emphasizes, a central register of all potential contractors should be compiled and the computerized management systems should be integrated.

This should finally be part of the overall effort to be made concerning management of activities under the framework programme (1987-91). A working party (see reply to paragraphs 9.3 - 9.18 below) has been assigned to study this question and to determine what action is appropriate in response to the Court of Auditors' observations.

## BUDGETARY EXECUTION

**9.2.** A general point to note is that the volume of non-utilized appropriations includes those to be carried over to 1986. The automatic carryovers were made and the appropriations were subsequently used in conformity with the provisions of the Financial Regulation.

**9.2. (a)** The Commission would point out that it had drawn the budgetary authority's attention in good time to the problems it would encounter in executing the 1985 research appropriations; full allowance was made for this in the calculation of the 1986 appropriations.

On top of this the launching of some of the operations on which the Council took decisions on 12 March 1985 was held up as a result of the application of the provisional twelfths arrangements.

Finally, R&D projects cannot be likened to subsidies, the Commission being required to complete a strict procedure (calls for proposals, opinions of CGCs, selection) before reaching the stage of awarding the actual contracts.

**9.2. (b)** The volume of appropriations used under the Esprit programme improved appreciably in 1985: the 223 Mio ECU in commitment appropriations and the 100 Mio ECU in payment appropriations compare with the 134 Mio ECU and the 2 Mio ECU respectively utilized in 1984, when this major programme was first launched by a team still being developed.

In other words, in 1984 and 1985, commitments under the programme total 357 Mio ECU out of the 430 Mio ECU granted.

This positive trend continued in 1986.

**9.2. (c)** The Commission would confirm the answer it has given in previous years. It would, however, add that the innovatory nature and highly technological character of the work subsidized from Chapter 70 make it hard to forecast exactly the expenditure during any given year.

**9.2. (d)** There were a number of reasons for the low utilization rate of payment appropriations for industrial policy, including notably the late reception of invoices for steel monitoring (Article 775).

Other operations in Chapter 77 were also responsible for the carryover of payment appropriations, notably the

microelectronics programme, which could not be completed according to the planned schedule.

## COORDINATION OF THE MANAGEMENT OF COST-SHARING CONTRACTS

**9.3 – 9.18.** As already stated in the introduction, the Commission, while preparing the new framework programme of RDT activities (1987-91), is at the same time carefully considering how to manage those activities in order to equip itself with a tool for implementing them.

The Commission feels that the Harmonization Group has helped in cataloguing the problems relating to contracts.

The Group's efforts and other more recent preparatory work, which have had an immediate positive impact on the management of existing programmes, prompted the Commission to set up a Group on 24 July 1986 whose terms of reference are to come up very quickly with concrete proposals, particularly with regard to better use of the possibilities offered by data processing and more direct and efficient methods of work organization.

Although a process lasting several years will be necessary to produce solutions for some of the problems involved, others might be resolved sooner: these concern mainly execution of the budget, at the stages of both commitment and payment, the arrangements for dealing with VAT and control operations.

**9.13.** The general rule applying throughout the Commission is that a commitment proposal must be accompanied by a draft contract or order form ready for signing.

The only exceptions are Commission decisions that count as commitments pursuant to Article 32(2) of the Financial Regulation.

In the case of energy policy (DG XVII), the Commission is financially and legally bound by its decisions, since they specify amounts and recipients, who are notified by a letter constituting a framework contract.

The commitment is established at this stage in order to ensure that funds are available. The Commission's approach reflects the application of the rules in force.

## MANAGEMENT OF STUDY CONTRACTS

**9.20. (a)** It is true that two groups of studies were submitted for Commission approval in 1985; it must be emphasized, however, that the first group usually comprises the bulk of study programmes in order to allow as much time as possible for the studies to be carried out, given the lifetime of the appropriations; as an example, 56,7 % of the appropriations in Chapter 26 were authorized in this way.

Moreover, the provisional twelfths arrangements and the uncertainties surrounding the financing of the budget explain why the Commission adopted only two groups of studies during 1985, with the second decision not being possible until December 1985.

**(b)** As regards assessment of the choice of contractor the Commission feels it should remind the Court of Auditors of its decision of 19 December 1984, whereby for contracts with an estimated cost of more than 50 000 ECU but less than 100 000 ECU, the departments administering the study appropriations are required to justify their choice by reference to the list compiled from the CERES data base (data base for documentation and the management of studies and surveys commissioned outside).

For study contracts with an estimated cost of over 100 000 ECU an invitation to tender is usually issued, possibly on a restricted basis; the contractor is then selected by the department concerned on the basis of the quality/price relationship.

The fact that the files examined did not contain appraisals of contractors or the studies they proposed does not mean that no appraisal was made (see also the reply to paragraph 9.21(c)). The selections made are the result of the appraisal.

**9.21. (a) and (b)** Four groups of studies were programmed in 1986; three groups have already been approved; the last one will be submitted to the Commission in the final quarter.

**(c)** In 1985 and for the first three batches of studies in 1986, the interdepartmental coordinating groups endeavoured to obtain from departments their justifications of choice of contractor for studies between 50 000 and 100 000 ECU as well as for studies costing more than 100 000 ECU. In order to satisfy the Court of Auditors, the Commission will arrange to have an item added to financial statements — in cases where it still does not appear — so that the choice of contractor will be justified systematically.

## REPLIES OF THE COMMISSION TO

## CHAPTER 10

**Cooperation with developing countries and other non-member States****OBSERVATIONS ON FOOD AID  
(CHAPTER 92)**

It is not possible to include a separate heading identifying tonnages being unloaded at their destination.

*Statistics on the implementation of food aid*

In the case of allocations at the fob stage, it is almost impossible to pinpoint the date of arrival. In the case of indirect aid, definition of the date of arrival can depend on scattered information which may not be available for several months.

**10.8 – 10.10.** It is time, as the Court of Auditors rightly points out, that the Directorate-General for Development and the Directorate-General for Agriculture have different statistical requirements.

However, a way of harmonizing the two systems has been found. This should be operational for the 1986 programme.

**OBSERVATIONS ON COOPERATION WITH  
NON-ASSOCIATED DEVELOPING  
COUNTRIES (CHAPTER 93) —  
ADMINISTRATION OF APPROPRIATIONS  
UNDER ARTICLE 930**

Statistics will come under one of four headings:

- (1) *allocations*: figures common to both Directorates-General representing tonnages which have been the subject of an allocation decision;
- (2) *invitations to tender*: figures common to both Directorates-General representing tonnages which have been approved by the Management Committee, but have not yet been shipped within the meaning of paragraph 3 below;
- (3) *deliveries*: figures common to both Directorates-General representing tonnages deemed to have been shipped at the end of the delivery period;
- (4) *mobilization*: additional figures produced by the Directorate-General for Development representing tonnages for which a tendering procedure is in progress, i.e. for which a mobilization request has been made to the Directorate-General for Agriculture.

*Volume of commitments and payments*

**10.13.** It is true that the delivery of commodities does enable payment to be effected promptly. However, this is not the main object of this type of aid, which is invariably designed to remedy a specific situation in the recipient country.

The Commission's constant aim is to provide effective aid. If this can be achieved with the help of an organization with experience in a particular sector or region (e.g. Unicef for water purification projects in Laos) the Commission does not hesitate to have recourse to its services. In such cases, however, its departments must conclude an administrative agreement with the organization in question and monitor progress of the project.

It is quite true that the resources of the departments responsible for the administration of aid to the developing countries of Latin America and Asia are inadequate and that the situation cannot be remedied for lack of funds. A number of mechanisms have been introduced to help alleviate the problem.

**10.14.** It is true that staff shortages can delay the start up of a project for a lack of practical support. But frequently the main cause of delays is administrative problems in the recipient countries. This is the case with virtually all of the projects referred to by the Court of Auditors.

**10.15.** The Commission did submit a request for a transfer of the necessary payment appropriations in good time, but it was turned down by the budgetary authority.

#### *Comparison between the accounting commitments and the guidelines laid down by the Council*

**10.17.** It would be much easier to make a comparison between the initial wish of the budgetary authority, the Council's guidelines and the year's results if the Council were to adopt its guidelines at the beginning of the year.

**10.18.** The Council's guidelines appear to express the political will of the Member States quite clearly, but it should be possible to improve presentation in future. In any event, the guidelines must retain a degree of flexibility if advantage is to be taken of opportunities to launch worthwhile, well thought-out projects in a number of countries.

**10.19.** The practice of fixing two scales of allocation (geographical and functional) as a basis for the Council's decision has been followed for many years. The audit can be carried out either on the basis of the annual reports (cf. paragraph 10.17), or each time a commitment proposal is referred to the Committee for Aid to Non-associated Developing Countries.

#### *Budgetary nomenclature*

**10.21. (a)** The Court of Auditors' suggestion that the appropriations for Article 930 should be broken down by sub-item would not make it possible to identify commitments for the various annual programmes since, broadly

speaking, annual programmes run from mid-year to mid-year, while the budget covers a calendar year. In any case, the budgetary authority would then have to fix amounts for each region, although this aspect is best assessed in light of political and practical considerations linked to actual development potential.

**(b)** There is no obvious advantage to be gained from consolidating the appropriations earmarked for industrial, commercial and technical cooperation in a single article, broken down into as many items as necessary.

**10.22.** It is often difficult to define operations and hence, to put them into a particular category. Even the concept of 'rural development' is open to interpretation. The Commission feels that the Court of Auditors' suggestion that overall budgets should be fixed well in advance of the discussion of each annual programme is too restrictive, and would complicate management of the programmes to no purpose.

#### *Monitoring of the administration of Article 930*

**10.23.** The statistics on implementation would undoubtedly lend themselves to computerization. However, additional staff would be required, initially at least, to perfect a system and then transfer data from the manual to the computerized system.

**10.24.** The administrative departments recognize the value of a uniform filing system which would make it possible to establish quickly how financial and technical cooperation measures are progressing. They intend to introduce such a system as soon as staff resources allow.

#### **OBSERVATIONS ON THE SPECIFIC MEASURES FOR COOPERATION WITH DEVELOPING COUNTRIES (CHAPTER 94) — ADMINISTRATION OF ARTICLE 941**

**10.25.** The General Conditions on cofinancing stipulate that in order to qualify for financial assistance a non-governmental organization (NGO) must satisfy a number of criteria, concerning:



- the extent to which it is able to mobilize private support from within the Community for its overseas development activities;
- the importance which it gives to overseas development assistance;
- its previous experience in overseas assistance and, in particular, in cofinancing with the Commission or in similar schemes administered by the Member States;
- its efficiency as an organization and its capacity to ensure the competent formulation and viable implementation of the projects it undertakes or supports, on the initiative of the populations concerned;
- the nature and extent of its links with local counterpart organizations in the developing countries;
- the nature and extent of its links with other NGOs both inside and outside the Community.

The General Conditions also expressly state that organizations which act as agents for other organizations not qualified to submit applications and who have no say in the implementation and funding decisions related to the projects do not qualify for Community assistance.

**10.27.** The Commission confirms that the department responsible for administering Article 941 is short-staffed. Nonetheless, it does all it can, with the means at its disposal to monitor the progress of projects as closely as possible and to manage operations correctly, despite their growing number.

**10.28.** The Court of Auditors refers to two projects approved for cofinancing, which were 'not eligible because they had virtually been completed'.

The Commission would point out that the first of these projects was governed by the old General Conditions, which contained no specific provision on the retroactive cofinancing of projects.

The second project, filed in July 1981 and started in 1982, is still in progress. Furthermore, under the terms of the revised General Conditions (in force since 1 January 1982), only applications for cofinancing of

projects which are already at a very advanced stage are inadmissible; this was not true of this case.

**10.29.** The NGOs are non-profit making bodies, and frequently have recourse to voluntary agencies. They carry out projects at a cost far below that of projects implemented by commercial firms. It is understandable therefore that the technical design and financial planning of the projects should be less sophisticated than in the case of commercial firms which are structured quite differently and have greater financial and human resources at their disposal. For this reason an NGO may occasionally have to revise its initial plans or indeed abandon a project because of local conditions. As to the cost of raw materials, NGOs frequently operate in very remote regions and in countries with galloping inflation, making estimates difficult.

**10.30.** During an inspection visit to the head office of the first NGO referred to by the Court of Auditors, the Commission reminded the latter of its obligations in the matter of accounting, and drew its attention to the need to improve the exchange of information with its local branches. The fact that the European NGO operates on the basis of substantiating documents for its expenditure in Europe and on the basis of a summary statement for expenditure effected locally does not contravene the General Conditions on cofinancing.

The Commission acknowledges that the submission of some implementation reports was delayed. However, it has noticed a distinct improvement since the inspection visit to the head office of the NGO.

**10.31.** The Commission suspended payment of funds and refused to conclude a new contract with the NGO in question as soon as it became aware that funds had been embezzled. Cooperation was not resumed until the Commission was satisfied that Community funds had been used for the purpose intended.

Since then the NGO has been transferring Community funds to projects on a separate basis.

**10.32.** The General Conditions on cofinancing state that the total cost of a project may include 5 % for project planning, 6 % for administrative costs and 7,5 % for associated educational measures irrespective of whether or not the NGO operates on the spot. An NGO which does not do so has no local representatives, which means that costly missions have to be organized to the site. The Commission therefore feels that the inclusion of 6 % for administrative costs is justified: it is not the result of



inadequate examination of the applications for finance submitted by the NGO, which at no point applied for a Commission contribution to the (not inconsiderable) project planning costs.

The Commission's departments, aware that the wording of the General Conditions was open to interpretation, agreed at the end of 1985 on the following rule for the calculation of administrative costs:

'It is agreed that these costs should be predetermined and represent a maximum of 6 % of the actual cost of the project, to be divided among the various parties providing the capital on a proportional basis. The Commission's contribution may not therefore exceed 6 % of its contribution to the project'.

**10.33.** With the exception of one operation implemented under the overall donation, for which the Commission requested repayment, the NGO provided proof that the funds had in fact been received by its local partner.

**10.34.** The very nature of the programmes supported by the NGO means that they must be constantly adapted to changing, sometimes unforeseen, circumstances. In many cases, this explains the discrepancy between the estimated and actual cost of the project. It is true that the NGO did not always inform the Commission of these changes in time. However, the NGO was reminded of its obligations during the inspection visit and is making a considerable effort to regularize and update the files on projects already financed and to apply the General Conditions more strictly to current projects and new applications.

It should be added that the NGO in question recruited a member of staff in 1985 to deal with all aspects of cofinancing with the Commission. This has made cooperation with the NGO considerably easier, and has helped to improve its 'administrative performance'.

**10.35.** Under the General Conditions in force at the time the enhancing of the value of existing premises by the NGO could be regarded as a contribution. The General Conditions have been revised since then.

**10.36.** Under the revised General Conditions in force since 1982, the Commission grants priority in principle to projects where the own non-public NGO contribution is at least 15 % of the total cost. The Commission can also accept inclusion in the total cost of the project of the cash value of contributions in kind such as land, labour, etc., as well as the estimated cash value of existing infrastructures or related projects already carried out, as long as these are less than two years old.

Nonetheless, the Commission has repeatedly drawn the NGO's attention to the obligation to forward reports (letter sent to the NGO systematically after each payment) and to keep separate accounts for each project (reminder sent with each contract).

The Commission makes no further payments unless adequate interim progress reports and financial documents are submitted.

The various on-site inspection visits revealed that the NGOs are in close contact with their local partners and do in fact carry out inspection and assessment visits themselves.

The Commission therefore considers that it is neither necessary nor useful to introduce penalties in addition to those provided for in the General Conditions.

On the question of administrative costs, the Commission would point out that the 6 % figure is a maximum; between 1982 and 1985 the average subsidy granted was 3,5 % of the funds allocated.

## OBSERVATIONS ON THE EXCEPTIONAL MEASURES TO ASSIST DEVELOPING AND OTHER NON-MEMBER COUNTRIES (CHAPTER 95)

### *Special programme to combat hunger in the world*

**10.38.** The Court of Auditors' comments relate to two measures approved in December 1983 for two ACP countries, one involving a sum of 3 Mio ECU (revolving funds) and the other a sum of 2 Mio ECU (also revolving funds):

— With regard to the first measure, the purchase of approximately 3 000 tonnes of maize from a neighbouring country was justified given the severe shortage faced by the country at the end of 1984 (1984/85 marketing year). The state agency, with the agreement of the Commission, used the funds to stabilize the market, in order to cope with an emergency which could not be remedied by ordinary food aid, given the time factor. This explains why maize was purchased outside the country (local shortage) and why it was distributed free of charge

(available food aid was inadequate). However, this was a temporary situation. Once normal supply conditions are restored the agency concerned is to reconstitute the initial allocation so that the funds can be used for the purpose intended.

- The second measure enabled a state agency to purchase 6 800 tonnes of local cereals, which have not yet been resold owing to the relatively satisfactory food supply situation in the country in 1985, and the availability of food aid from various sources which could be distributed free of charge. As a result the counterpart fund had not been replenished at the time of the Court of Auditors' inspection, but there is every reason to believe that this was a one-off occurrence.

The Commission will continue to monitor compliance with obligations concerning counterpart funds.

**10.39.** Accounts have been opened for the recipient countries to facilitate on-the-spot administration of this aid and to make optimum use of the non-differentiated appropriations allocated by the budgetary authority. All transactions require the signature of the national authorizing officer of the recipient country and the Commission delegate.

Introduction of this procedure was the inevitable consequence of the type of appropriations entered in the 1983 budget, and the level of payment appropriations entered in the 1984 budget. As the Court of Auditors points out in paragraph 10.38, the objective of the special programme was to increase the degree of self-sufficiency in food of the recipient countries with the aid of structural measures, i.e. measures which, of necessity, are implemented over a period of several years. In 1983, the appropriations entered in the budget (50 Mio ECU) were non-differentiated, added to which they did not become available until after the basic Regulation was adopted on 11 July 1983. It was impossible, therefore, to complete all measures and make payments before 31 December 1984.

Although the 1984 appropriations were differentiated (commitment appropriations: 58 Mio ECU, payment appropriations: 42 Mio ECU), the same reasoning applies to their utilization. There is little point in differentiating appropriations if the ratio of payment to commitment appropriations fixed by the budgetary authority is too high. In normal circumstances, the implementation of structural projects would not have required more than 10 Mio ECU in payment appropriations, given commitments of 58 Mio ECU.

**10.40.** The proposal for a Regulation was forwarded to the Council and the European Parliament on 6 August 1985 because the Commission considered it advisable to await final adoption of the 1985 budget. Since this did not happen until 16 June 1985, there was no question of a delay. In any event, non-utilization of the 1985 appropriations is not attributable to this six-week interval but rather to the Council's refusal to act on the proposal.

**10.41.** The under-utilization of the payment appropriations for 1984 merely proves that the 42:58 ratio between payment and commitment appropriations was unrealistic for structural projects.

It is hardly surprising, therefore, that the appropriations for the 1985 financial year (14 Mio ECU) were not utilized at all. Indeed the Commission refrained from requesting any payment appropriations for that year during the budgetary procedure.

## OBSERVATIONS ON THE OPERATION OF COMMISSION DELEGATIONS IN DEVELOPING COUNTRIES (CHAPTER 98)

### *Supervision of the delegations by the EAC*

**10.44 – 10.45.** Control of imprest accounts by EAC staff is based on a number of clearly-defined criteria which determine how detailed the control should be.

The criteria include the following:

- failure to produce bank statements,
- suspicious bank statements,
- bank reconciliation statements relating to long-drawn-out transactions,
- quality of supporting documents,

- abnormal utilization of appropriations (over-utilization or under-utilization).

It should be added that, while there is no handbook, there are a number of working documents which provide guidelines for EAC staff, including a computer print-out detailing expenditure under approximately 50 headings over a 12-month period.

### *Central administration of the EAC*

**10.46.** The procedure for administering delegation budgets introduced in 1984 has proved satisfactory for the delegations and the EAC head office alike. Before each delegation's budget is approved, a detailed analysis notably of average staff costs in each delegation is carried out, highlighting any variations from a normal statistical distribution.

**10.47.** The Court of Auditors questions the wisdom of one of the EAC's internal administrative rules. The EAC has taken steps, in the context of the annual meeting of Delegates, to amend this rule, and arrangements for its application have been discussed by the Working Party on

the budget and modern management. New procedures will be applied to implementation of the 1987 budget.

**10.48.** It is true that the practice of adhering to the official exchange rate represents a considerable cost to the Community budget. For this reason, instructions were issued some time ago, in relation to management of the EDF and the EAC, to the effect that delegates in countries with a dual exchange rate should negotiate with the governments to secure the most favourable official exchange rate for Community transactions. It is clear that in other countries the EAC and EDF must use the going official rate.

**10.49.** As with the budgetary nomenclature of the Community institutions, the EAC has a breakdown of expenditure by type, and monitors local missions through the imprest accounts. Particular care is taken to check the rate of utilization of appropriations.

It is therefore an easy matter for the EAC head office to monitor the presence of staff members in the field and their supervisory activities in relation to project implementation.

**10.51.** Staff in the head office monitor all transactions month by month so that they can be regularized as quickly as possible.

## REPLIES OF THE INSTITUTIONS TO

## CHAPTER 11

**Management of the Community institutions and the external bodies**REPLIES OF THE PARLIAMENT

## STAFF EXPENDITURE

*Observations on the institutions' management of the education allowances system**Observations on the computerized systems for calculating salaries and for managing staff numbers*

**11.7 – 11.8.** The 'PAIE' and 'Sysper' systems are managed by the Commission. Parliament manages the 'RAPE' system.

Parliament shares the Court's view that the arrangements for reconciliation between staff numbers and salaries could be improved. This problem could be resolved by means of a computerized system covering both staff management and the calculation of remunerations.

To this end, a project team was set up in 1985 with instructions to introduce a new computerized staff management system which takes account of this problem of reconciliation (staff numbers/salaries).

The lists of names generated by the 'RAPE' staff management system do not give figures for the total number of staff. However, when requesting the list, the user does have the option of using a special facility to obtain a figure for the total number of staff included in the list.

**11.11.** Parliament eliminated the anomaly mentioned under point (a) by a decision of its President on 24 January 1984. The anomalies mentioned in points (b) and (c) are the result of the joint interpretation placed on the general implementing provisions for the granting of the education allowance by the Community institutions.

**11.12.** Since the appropriations concerned are entered in the Commission's budget against Item 2898 (other educational establishments) and are managed by the Commission, the points raised apply more specifically to that institution.

**11.13.** The European Parliament intends to take action at interinstitutional level with a view to making the basic texts more simple and more coherent.

## OPERATIONAL EXPENDITURE

*Observations on the transmission of supporting documents*

**11.29.** It is agreed that the timetable imposed by the Financial Regulation has not been respected to the letter, but the late submissions have permitted the liquidation of

amounts on suspense accounts without the necessity of expensive photocopying of all vouchers or the time-consuming, and sometimes difficult, task of sending members of the staff to the Court of Auditors' building to search for vouchers.

In the event of any modification of the Financial Regulation, the vouchers should be retained in the institutions and held at the disposal of the Court rather than sending them to the Court's building, which must require extensive storage space and personnel to control the documents. This would permit the institutions easy access to their vouchers for the purpose of clearing suspense items and other queries.

### REPLIES OF THE COUNCIL

#### STAFF EXPENDITURE

##### *Observations on the institutions' management of the education allowances system*

**11.11 and 11.13.** The Council feels that the problems raised by the Court of Auditors should be taken into consideration by the relevant authorities with a view to simplifying the texts in question.

**11.12.** The Council has not to date had any officials concerned by this provision.

##### *Observations on the budgetary management of the Council*

**11.14 – 11.15.** The Council accepts the remarks made by the Court of Auditors regarding the management of the appropriations under Item 1110 (Auxiliary staff), but wishes to emphasize the major difficulties which arose in the 1985 situation as regards management of this heading. These difficulties stemmed primarily from the impossibility of transferring a large number of Spanish and Portuguese auxiliary staff to the status of temporary staff before the (belated) adoption of the 1985 budget and also from having insufficient appropriations in Item 1110 in the 1985 budget.

Other exceptional factors which, because of their sudden and unforeseen nature, brought about the difficulties referred to by the Court of Auditors, were the following: the impossibility of recovering contributions paid to the ONSS, major difficulties which occurred suddenly as regards the translation of secondary legislation, making it essential for additional staff to be recruited, and the

decision which had to be taken quickly to keep on auxiliary secretaries beyond the envisaged period.

The Council feels that the situation to which the Court refers is unlikely to recur in future, and has drawn the attention of those responsible for managing the budget to the need to comply strictly with the Financial Regulation.

#### OPERATIONAL EXPENDITURE

##### *Observations on the transmission of supporting documents*

**11.29.** The Council accepts the Court's criticism. In future supporting documents will follow within the time-limits laid down.

##### *Observations on expenditure on the fitting-out of Council premises*

##### **11.31. (a)**

(i) As is noted by the Court, the outline contract does not include all the details necessary for checking and monitoring the cost of works carried out by the contractor. Nevertheless, the following procedures applied by the Council General Secretariat ensure the necessary controls in this area. These procedures make it possible to verify:

- the level of hourly salary costs at the time of submission of tenders on the basis of the official scales for invoicing salaries under the control of the Ministry of Economic Affairs;
- the average hourly rate obtained by all the workers, taking into account their qualifications; this examination is carried out when the invoices drawn up according to the 'open book' system are submitted.

Control of the quality of the work done, materials used and equipment installed is the responsibility of the Council architect and the relevant officials from the Council General Secretariat.

- (ii) The Court rightly notes that the invitation to tender did not cover all the various aspects of the outline contract. The Council takes the view that because of its general nature that invitation could not include an exhaustive list of the work to be done. A non-exhaustive list of 13 projects was drawn up to enable any tenderers to form an idea of the scope of the work to be done during the period of the outline contract.

**11.31. (b)** Due note has been taken of the remark concerning the deposit. Although it is felt that the General Secretariat had enough means of pressure to be assured that the work was properly performed, the practice of requiring a deposit in the form of a bank guarantee has been followed since this remark was made.

**11.32.** Owing to the nature of the works carried out in 1985, the Council was unable to secure a contribution from the owner. The owner of the Charlemagne building has, however, on several occasions in the past, shared in the cost of certain major works which represented capital appreciation of his building, viz.:

- 4 Mio BFR for execution of energy-saving measures;
- 4,5 Mio BFR to improving the emergency electricity supply;
- 3,5 Mio BFR for extending the lift system.

### REPLIES OF THE COMMISSION

#### STAFF EXPENDITURE

#### *Summary of financial information and list of posts at the institutions*

**11.6.** Table 11.2 shows that fewer posts were left unfilled at the end of 1985 than in the previous year. However, there has been an increase in the Publications Office as a result of specific problems there, particularly with regard to proofreading, and in research, where staff levels have been increased temporarily so that voluntary retirement measures can be implemented.

#### *Observations on the computerized systems for calculating salaries and managing staff numbers*

**11.7 – 11.8.** The systems used by the Commission for the calculation and payment of remuneration are as follows:

- 'Sysper': a computerized system which calculates the remuneration of all members of staff covered by the Staff Regulations and can be used to provide totals by category;
- 'PAIE': a computer program for the payment of the remuneration calculated by 'Sysper', which does however operate independently; 'PAIE' also includes a 'Budcol' list, which gives a breakdown of the staff paid during the month in question by grade and step and can calculate the total number of staff paid.

The Commission agrees with the Court of Auditors that the pay program and the 'Sysper' system should be compared periodically.

With regard to the discrepancy observed by the Court of Auditors between the number of staff in the 'PAIE' and 'Sysper' systems, it should be noted that staff numbers are constantly changing and that the two systems use separate data bases.

Furthermore, the lists do not cover the same staff complement: 'PAIE' includes the JET staff in Culham, the Foundation for the Improvement of Living and Working Conditions in Dublin and the head office of the EAC; JET and the Foundation are not covered by 'Sysper' and EAC staff are entered under the administrative position A 20 (secondment in the interests of the service).

A further check by Commission departments found no anomalies between the 'PAIE' and 'Sysper' systems.

### *Observations on the institutions' management of the education allowances system*

**11.11 – 11.13.** With reference to points 11.11(a), (b) and (c), Commission practice is based on the Staff Regulations and relevant implementing provisions, which in their present form do not cover all the situations encountered. Article 3 of Annex VII to the Staff Regulations governing education allowances is in the process of being amended. Item A 2898 of the budget will be abolished as a result.

**11.12.** Item A 2898 was created by the budgetary authority to cover very specific cases not provided for by the Staff Regulations.

Eligibility for an allowance under this Item is subject to the following criteria:

- firstly, overriding pedagogical reasons, duly certified by the headmaster of a European School, for attending another establishment or the absence of a

European School or suitable national establishment within a 50 km radius;

- secondly, a shortfall between the education allowance received and the annual school fees equivalent to at least 30% of the official's basic monthly salary (this 30% threshold was set in order to assess the impact of the shortfall on the official's financial position).

In view of the time taken by the joint working party to examine the applications (26 applications were approved), the officials had already paid the fees by the time the decision was taken.

For this reason the allowance was paid direct to the parents concerned in partial reimbursement of the payment already made.

The Commission can confirm that it will propose the abolition of Item A 2898 of the budget with the introduction of the new arrangements for education allowances.

### *Observations specific to the Commission's management of staff appropriations*

#### **Remuneration of staff posted outside the Communities**

**11.18 – 11.21.** As the Staff Regulations in their present form make no provision for staff posted outside the Communities, the Commission was obliged to adopt a number of special arrangements. A proposal for a Regulation designed to eliminate the loopholes pointed out by the Court of Auditors and create a specific status for such staff was forwarded to the Council on 6 March 1986.

The proposal, which has been endorsed by the European Parliament, is currently under discussion in the Council.

**11.19.** With regard to rent allowance, the Commission examines each individual case thoroughly to ensure that



the accommodation in question is compatible with the duties being performed by the official and with the requirements of his or her family. If necessary, further information is requested.

**11.20.** In the Commission's view the measures criticized by the Court of Auditors were necessary to ensure that one of the basic principles of the Staff Regulations was upheld, namely equivalence of purchasing power for Community officials in the various places of employment.

On 27 July 1983, following currency fluctuations in certain places of employment, combined in some cases with exchange restrictions, the Commission decided to offset the resulting reduction in purchasing power by allowing part of the salary paid in local currency to be converted in four places of employment <sup>(1)</sup> using a fixed rate of exchange. This decision was extended on 8 November 1983 and on 29 February 1984, using the August 1983 exchange rates. On 12 December 1984 the Commission extended these provisions to a further three countries <sup>(2)</sup>.

Following the revision of salary scales with effect from 1 July 1985, it became apparent that maintaining the August 1983 exchange rates would have led to over-compensation for the loss of purchasing power in some places of employment and it was decided to apply new rates in these cases.

At the same time, in connection with its work on the proposal for a Regulation forwarded to the Council on 6 March 1986 and referred to in its reply to paragraph 11.18, the Commission looked into the possibility of amending the Staff Regulations to avoid such problems in the future. This proposal takes into account the practical experience acquired in managing not only the staff covered by the Staff Regulations but also the staff of the European Association for Cooperation. Once adopted, it will ensure greater parity of remuneration for officials posted outside the Community, particularly in places of employment with fluctuating economic and monetary situations.

#### **Staff appropriations of the Joint Research Centre (JRC)**

**11.22.** Commission practice is based on the financial rules in force, which allow commitment appropriations to

be kept over several financial years. However, as the Court of Auditors notes in paragraph 11.27, the Commission proposal to amend the Financial Regulation is designed to counter some of its criticisms.

The Commission would however, recall that the special arrangements currently provided for by the Financial Regulation are geared to the specific needs of the JRC.

**11.23 – 11.24.** With regard to research appropriations, the established practice is to estimate the appropriations required for salaries on the basis of the total number of authorized posts in the list of posts, which in turn is based on the requirements of the programme as decided by the Council. A small part of the staff complement may be made up at a given moment of outside staff on contract.

The level of the JRC's social welfare appropriations reflects its specific situation, as the Court of Auditors partly recognizes.

The proposal to amend the Financial Regulation (see reply to paragraph 11.27) lays down new rules for the special category 19.

**11.25 – 11.26.** When they were set up, the four JRC establishments:

- either replaced national centres; or
- were located in or near national centres.

They consequently took over a number of existing practices, notably the provision of free transport for staff, a concession justified by the distance from urban centres and the lack of public transport.

As for the allowance per kilometre the Commission holds the view that, in the case of shiftwork, journeys between place of residence and place of work should be deemed part of official duties. The Commission is aware of the problem raised by the Court of Auditors.

**11.27.** The Commission intends to take advantage of the revision of the Financial Regulation to resolve some of the issues raised by the Court of Auditors. In this connection it has proposed that 'staff appropriations

<sup>(1)</sup> The footnotes appear at the end of each chapter.



which are available because the actual number of staff is temporarily lower than the number authorized remain valid and may be used only for expenditure to make up the staff shortage'.

It should be noted that a further invitation to tender has been issued since the report was produced. As the specification was not for a well-defined operation as in the case of the renovation of the JECL network, most of which was paid for by the proprietor, a list of standard telecommunications operations was drawn up and tenderers submitted prices on this basis.

## OPERATIONAL EXPENDITURE

This enabled the Commission to choose between the tenderers and the previous contractor, who was once again the lowest bidder, had his outline contract renewed.

### *Observations on expenditure on the fitting-out of premises occupied by the Council and the Commission*

As in the past, future orders will be subject to prior approval following estimates from other sources.

**11.31 – 11.32.** Renewal of the telephone network in the JECL building was the subject of an invitation to tender in accordance with Article 51(2) of the Financial Regulation.

### *Observations specific to the Commission's management of operational appropriations*

Pursuant to Article 54 the tenders received were submitted to the Advisory Committee on Procurements and Contracts for an opinion.

### **Overruling of a refusal of approval by the Financial Controller**

The contract was then awarded to the lowest bidder. The tender complied with a detailed specification. As it was a fixed-price contract, there was no need to check the individual items.

**11.33 — 11.35.** Implementation of the 1985 administrative appropriations was particularly difficult owing to the use of provisional twelfths over a long period. In view of the difficulties encountered the Commission was obliged to use the contingency reserve in Chapter B 101 to cover unavoidable administrative expenditure (totalling 3,2 Mio ECU, including the costs referred to above).

An outline contract was used because of the need to spread the work over several financial years, with the Commission committing itself to subsequent instalments only as and when funds became available.

The provisions of the outline contract were subsequently extended to all buildings where a periodic overhaul of the telephone network is required.

In the case of expenditure under Item A 2353 (removals and handling costs), on the basis of implementation in the first few months it was expected that appropriations would run out in the last quarter of 1985. However, there was considerable activity in this sector during the summer - when work is usually suspended - in preparation for the accession of Spain and Portugal. This meant that the appropriations were exhausted much sooner than originally expected and there was no way to supplement them in time. In the circumstances the authorizing officers temporarily exceeded the limit of appropriations available.

The cost of the work, for which an all-in-price could not be set in advance, was determined for each phase on the basis of an estimate presented to the Commission following a survey carried out by qualified representatives of the contractor and the Commission.

The contractor, a firm recognized by the Belgian and Luxembourg authorities, also applied its official hourly pay rates; thus, the Commission could and did monitor costs.

In deciding to overrule the refusal of approval the Commission requested its departments to improve the procedures for programming and monitoring appropriations, particularly in the implementation of its decision of 17 October 1984 on concrete measures to create or

strengthen the finance sections within the Directorates-General.

### Implementation of a European television pilot-project

**11.37. (a)** The Commission's financial contribution to this project was based on a budget submitted by the private broadcasting company mentioned by the Court of Auditors.

The budget totalled 1,6 Mio ECU (3 607 156 DM) and was financed as follows:

— Commission:	1 031 674 ECU: 63,2 %
— Private broadcasting company:	600 523 ECU: 36,8 %
— Total:	1 632 197 ECU

It had been agreed that the broadcasting company, a commercial firm under German law, would cover its investment with revenue from coproduction agreements or from the sale of productions to other television stations, and from the proceeds of an event organized in Brussels (Euroshow at Forest-National).

According to the financial accounts, the actual costs amounted to 1 884 168 ECU and were covered as follows:

— Commission:	1 031 679 ECU	= 55 %
— Broadcasting company:	852 489 ECU	= 45 %
— revenue from Zweites Deutsches Fernsehen (ZDF) and sales:	436 639 ECU	= 23 %
— deficit:	415 850 ECU	= 22 %
	1 884 168 ECU	

As this was a pilot project with costs spread over two years, it was difficult to produce an accurate estimate at the outset, with the result that the initial budget was exceeded by 0,3 Mio ECU. As the financial commitment was on a lump-sum basis, the Commission did not have to bear the extra costs.

**(b)** Payments were made in accordance with Article 7 of the contract following signature of the declaration

provided for in Article 82 of the Financial Regulation, which required the recipient to submit financial accounts three months after utilization of the grant. The final payment of 35 294 ECU (78 000 DM) was made after acceptance of a study on the possibility of screening a television series aimed at a wide audience ('TV family project'), and the final report, as stipulated in Article 7 of the contract of 24 February 1984.

The final accounts were submitted by the broadcasting company within the three-month time-limit but the Commission felt that, in view of the scale of the project, a check should be carried out on expenditure at the company's offices. This is due to take place in Hamburg in the autumn.

The Commission intends to make inquiries with this company about costs for consultancy services and some major items, such as royalties and general and entertainment expenses.

The Commission is satisfied with the overall outcome of this experimental project; it would recall in particular that the Euroshow had an audience of about 30 million and enabled the Commission to heighten awareness among sections of the public not usually reached through the conventional Community channels.

**11.38.** As this was a totally experimental pilot project and the first of its type, the outcome was difficult to predict; final checks will therefore be carried out (see point 11.37(b)). Be that as it may, the Commission is satisfied that the project achieved its aim of heightening awareness among European public opinion.

The Commission will make use of the experience acquired in this sector in the future and will act on the observations of the Court of Auditors wherever possible.

## EXTERNAL BODIES

*Observations on the use made by some external bodies of the Communities' subsidies**Observations on the legal structure of the recipient bodies***European Schools****European Schools**

**11.42.** The legal framework for the European Schools makes no provision for the Commission to play a direct management role. However, the Commission is examining this matter and will make appropriate proposals to the competent authorities if necessary.

**11.46. (a)** At an extraordinary meeting held on 15 September 1986, the Board of Governors instructed its representative to conclude the financing negotiations with national and international bodies (NATO, Namsa, etc.) by November 1986. The resulting agreements should therefore be implemented in time for the 1987/88 school year.

**(b)** It was also agreed that the Board of Governors would adopt a decision at its meeting in April 1987 on a draft updated Financial Regulation to be produced by the Administrative and Financial Committee, made up of members of the Board of Governors, in cooperation with the Commission.

**Euratom Supply Agency**

**11.44** The Commission holds the view that, until such time as certain problems involving Chapter VI of the Euratom Treaty are resolved, no changes should be made to the Agency's statutes in respect of capital or the financing or financial management of its budget, as these depend on the Agency's function, which could be changed.

**11.47.** An analysis of the problems arising from the system of remuneration of seconded teachers is to be presented to the Board of Governors in November 1986. The latter will then decide how these problems can best be studied and whether or not an external consultant should be called in, as has been proposed on several occasions.

Finally, a detailed schedule will be adopted for this study so that at the very least an interim report can be submitted by November 1987.

**11.48.** The Commission is aware of the possibilities for making savings and increasing revenue to enable the Community subsidy to be reduced.

**JET Joint Undertaking**

**11.45.** The Commission would confirm that the provisions of the JET Joint Undertaking statutes and of the Financial Regulation drawn up pursuant to Article 11 thereof are complied with in their entirety. The Executive Committee of the Joint Undertaking exercises its duties strictly within the confines of the powers attributed to it.

The Commission would emphasize that a study is being undertaken at its request with a view to increasing school fees for certain pupils. It will of course raise the other matters referred to by the Court of Auditors with the school authorities.

**11.50.** The Commission agrees with the Court of Auditors that it is very important for it to be able to play a more active role in the decision-making process in the European Schools. This should be possible in the context of the proposals referred to in paragraphs 11.42 and 11.48 above.

(1) Chile, India, Venezuela and Yugoslavia.

(2) Brazil, Israel and Lebanon.

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REPLY OF THE COURT OF JUSTICE

STAFF EXPENDITURE

*Observations on the institutions' management of the education allowances system*

**11.9 – 11.13.** The Court of Justice will endeavour, by consultation with the other institutions, to follow the recommendation that the system of education allowances be simplified by the adoption of a flat-rate allowance to cover each of the three levels of education.

REPLY OF THE COURT OF AUDITORS

OPERATIONAL EXPENDITURE

*Observations on the payment of invoices by the Court of Auditors*

**11.39.** As soon as it was informed of the results of these checks, the Court of Auditors asked for and was retrospectively granted the discount in question. There was not therefore any loss to Community finances.

## REPLIES OF THE COMMISSION TO CHAPTER 12

### Loans, borrowings and interest-rate subsidies

#### SUMMARY OF FINANCIAL INFORMATION

**12.7.** The Commission departments have confirmed the existing practice. The Commission will provide the Court of Auditors with a reasoned account of its position.

#### OBSERVATIONS ON THE BALANCE SHEETS AND REVENUE AND EXPENDITURE ACCOUNTS OF THE NEW COMMUNITY INSTRUMENT AND EURATOM MECHANISMS

**12.9. (a)** The Commission would point out that issuing costs for Euratom operations exceeding 200 000 ECU were always spread over the lifetime of the loan raised whereas lower issuing costs were charged to the financial year.

The change in the charging procedure in the balance sheet at 31 December 1985, which the Court itself regards as an improvement in the Commission's accounting procedures, was not made for the sake of convenience but to provide a more accurate picture of the results for the year.

**12.10 – 12.11.** The Commission has noted the Court of Auditors' suggestion and will consider it.

#### OBSERVATIONS ON LEGALITY AND SOUND FINANCIAL MANAGEMENT

##### *European Investment Bank management commissions*

**12.12 – 12.14.** Following the Court of Auditors' comment on the EIB's management commissions in its 1984 report, the Commission sought further explanations from the Bank and produced a preliminary analysis of the issue <sup>(1)</sup>. It has also held discussions with the Bank in an attempt to find a satisfactory solution in response to the European Parliament's request and the Court of Auditors' observations.

The Commission would point out that as a result of calculations made, management commissions on NCI and Euratom loans were reduced from 1 April 1984.

##### *NCI Treasury*

**12.15.** The Commission notes with satisfaction the Court of Auditors' remarks concerning its NCI Treasury management policy.

<sup>(1)</sup> The footnotes appear at the end of each chapter.

## *NCI loans and interest-rate subsidies for areas devastated by earthquakes*

### **Introduction**

**12.17 – 12.18.** The Commission would draw attention to the tripartite agreement between the Court of Auditors, the Commission and the EIB in March 1985 establishing for 1984 an enhanced control system based on documents.

The Court of Auditors' President stated that during that period the Court of Auditors would not make use of its right to carry out on-the-spot inspections provided that the three parties undertook to resume negotiations in good time to prepare for the audit of NCI-financed operations in subsequent years.

The Court of Auditors conducted on-the-spot inspections eight months later.

The Court of Auditors has not supplied the Commission with details of any shortcomings it has found in the documentation supplied, which contains a great deal of information on the implementation of the projects and progress made. The Commission is willing to do all it can to provide the Court of Auditors with any further information it requires.

The Commission will also do its best to assist the Court of Auditors and the EIB to find the most satisfactory solution which accommodates their respective rights and powers.

### **Earthquake loans and interest-rate subsidies to Italy**

#### *Implementation of the Council Decision*

**12.20 – 12.22.** Except for two operations (Pugliese Aqueduct and Persano), all projects actually consist of a large number of single schemes (e.g. 1 179 operations for schools).

The EIB's regular reports (on which the Court of Auditors can always ask further questions if necessary) illustrate the situation regarding physical progress, giving reasons for any delays which have occurred. For most of the projects, only a limited number of operations or operations of a particular type remain to be completed

(e.g. station reconstruction in the case of the railways, the plans for these having often been questioned by local authorities after contracts have been let; and waste water treatment plants for industrial estates).

For this kind of composite project, completion dates which are related to the last items involved can scarcely be indicative of the physical progress of the project as a whole.

Furthermore, the possibility of slippage of pre-established timetables is endemic in the field of infrastructure development; experience clearly shows that completion dates here have only an indicative value. Reconstruction projects were specially difficult for many reasons. In particular during 1981 and part of 1982 many minor earthquakes occurred, aggravating damage already done and creating new problems. Moreover, technical standards for construction in seismic zones were tightened up. Plans consequently had to be revised. Delays inevitably ensued in relation to date forecasts in loan contracts. But no project has been, as a consequence, drastically modified in its aim and scope.

For these reasons, the main causes for delay quoted by the Court of Auditors in paragraph 12.21 merely reflect the difficulties usually encountered in carrying out and financing infrastructure projects, particularly composite ones, not to mention the difficulties added by the earthquakes.

#### *Disbursement of loans and interest-rate subsidies*

**12.24 – 12.26.** The Commission would reply to the Court of Auditors' observations as follows:

The interest subsidies are paid out by the Commission, and transmitted by the Bank in the form of a reduced interest rate, in 12 annual instalments on the 12 interest dates of the loan, regardless of whether the loan funds are actually used slightly earlier or slightly later than expected. Furthermore, it should be remembered that the Italian State, through its Treasury, is the borrower for the earthquake loans, for which it also assumes the debt service. The final beneficiaries (themselves part of the

State administration) are not responsible for servicing the debt and are therefore isolated from such timing effects.

Apart from the interpretation of the data, the actual information used by the Court of Auditors in Table 12.4 differs from the information flows between the Italian authorities and the Bank provided for under the loan contracts between them (see the Commission's reply to paragraphs 12.17 — 12.18). Nor does the table correspond with the Bank's information on payments made by final beneficiaries. The latter are all much higher than those cited by the Court of Auditors. This may be due to the definitions used which — in this field — can vary substantially, in particular with reference to relevant phases of procedures (works completed but not yet invoiced; invoiced but not yet paid; invoiced and paid); not to mention forecasts of expenditure over the coming six months, which are always subject to modification.

Furthermore, in view of the urgency of the reconstruction projects, the EIB has, at the request of the State or as a consequence of its own project monitoring, disbursed in advance in those cases where the amounts involved were not immediately available under the relevant budgets but were necessary to ensure the launching of works. This was precisely to help to avoid delays in project implementation as, according to national accounting laws, no public body can let contracts unless liquid funds are available for an amount not inferior to the works cost. The Bank's decision to disburse early in the case cited in paragraph 12.25 was taken after careful study of the circumstances and was particularly helpful in preventing total blockage of the implementation of a project.

**12.27.** In view of the above points and, in particular of the general context in which these operations are carried out the Commission does not consider that the Court of Auditors' conclusions, the principle of which it supports, really apply in this instance.

#### *Eligibility of projects financed from NCI resources*

**12.29 – 12.30.** The Court of Auditors' doubts about the eligibility of certain NCI earthquake loans and interest rebates stem from an excessively restrictive interpretation of Council Decision 81/19/EEC.

In point of fact this decision was the subject of interpretation, when the 'Convention' between the Commission, the Bank and the Italian Republic of 16 March 1981, was finalized. On that occasion it was

agreed to interpret 'the reconstitution of the means of production .....' and 'the reconstruction of the economic and social infrastructure' along the following lines:

- The usual distinctions between economic and social infrastructure having been blurred by the exceptional situation existing after the earthquake, what had to be rebuilt was the totality of items of every kind needed to re-establish normal conditions of life and production, without which no return to a proper level of 'economic productivity in general' (Article 20(1)(b) of the Bank's statute) would be attainable.
- This involved not simply economic infrastructure as generally understood, but public buildings of every type, and possibly the rebuilding of complete villages, together with all necessary public facilities.
- In the process, appropriate improvements were to be incorporated, in so far as they were justified by technical progress, by changing economic and social conditions, or by readaptation to present-day requirements. Thus road projects could incorporate improvements of line, adaptation to present-day traffic loads, rationalization of civil engineering works and easier maintenance features.

The possibility of financing new buildings (see also the Italian Reconstruction Law 219/81) is implicit in this definition and was subsequently accepted by the Bank's decision-making bodies, as was the case for the Industrial Estate Project, aiming at the setting up of infrastructure which previously did not exist. In any case, it would appear inappropriate if pre-earthquake buildings, in frequent cases old, unadapted to modern requirements and located in congested or unsuitable areas, were simply rebuilt, even if modernized. Relocations and additions, as in the Persano case where civil defence facilities were constructed within the military compound, or the new Faculty of Pharmacy building in Naples, were considered necessary following natural disasters to provide adequate infrastructures for the proper economic life of the affected regions.

#### **Earthquake loans and interest-rate subsidies to Greece**

**12.33.** See the Commission's reply to paragraphs 12.24 — 12.26 of this report.

**12.34.** By the end of 1985 completed projects had cost 6 648 Mio DRA, as the Court of Auditors itself states in paragraph 12.36. This compares with the estimate of 6 666 Mio DRA at the time the programme was amended.

**12.35.** Because of the temporary hiatus in written reports from the borrower, the EIB thought it better to monitor the project through its Athens office and by sending out teams of inspectors.

**12.37.** The Commission can confirm that no changes have been made to the amount of the loan. Despite a slight reduction, the programme has remained sufficiently large to absorb the whole loan, which has covered 85% of the investment.

Both the aims and the technical characteristics of these changes to the programme are in line with the aim of the project and so are covered by the Commission's decision on eligibility.

#### **Control by the Commission**

**12.38.** The progress and completion reports prepared by the EIB relate to projects and are therefore normally received by the Commission for those projects which are financed partly by EIB funds and partly by NCI funds (about half of those in which EIB finance is involved in the case of Italian reconstruction operations). In the remaining cases, where the loan capital comes entirely from the EIB's own resources, it would be inappropriate for the Commission to request this type of loan control information.

**12.40.** The annual reports prepared by the Commission are based on the terms of reference quoted by the Court in paragraph 12.39. As such, they are neither accounting documents nor inspection reports. Nevertheless, it is the established practice to include a general appreciation of each type of activity once it is fully operational.

#### **Conclusion**

**12.41.** When it makes its general appreciation, the Commission will endeavour to draw appropriate conclusions for future emergency aid programmes.

#### *NCI global loans*

**12.44.** The Commission considers that its main job is to designate the projects eligible for funding. Once this is done, the provision of whatever loans are granted is the responsibility of the EIB, itself a Community body. If any funds lent are not used in accordance with the eligibility decision, the Bank is required to inform the Commission immediately. The complete documentation which the Bank supplies to the Commission represents a second line of control, additional to the checks which the Bank carries out as a matter of course.

The Commission has already pointed out, in its replies to the Court of Auditors' observations in its 1984 report, that the direct effects on employment of an investment project, one of many factors taken into account when a decision on eligibility is taken, are much less important than the indirect and multiplier effects, which it is impossible to assess precisely.

The objectives of the NCI as set out in the Council decisions are wide-ranging and varied. The Bank implements them in accordance with guidelines laid down by the Commission and endeavours to keep procedures as simple as possible, an objective which the Commission endorses. The Commission regrets that the Court of Auditors is not satisfied with the documentation made available and is willing to consider any further request from the Court for extra documents it requires to be able to carry out its duties. It will also provide the Court with any assistance it needs in fully understanding the documents.

**12.45.** Although the Court of Auditors has the right under the Financial Regulation to carry out on-the-spot audits on global loans, the Commission hopes that the Court of Auditors will agree that this should not be done, since it would in practice entail subjecting the beneficiary to a third possible check.

It should also be borne in mind that, in the case of global loans, the entire risk is borne by the financial intermediary.

The Commission would therefore invite the Court of Auditors to find other ways of exercising its prerogatives. In general, the Commission would point out that the



problems of on-the-spot audits by the Court of Auditors are under consideration at the very highest level, given the problems posed by their implementation. (See also the

Commission's reply to paragraphs 12.17 — 12.18 on the general question of on-the-spot audits.)

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(<sup>1</sup>) See the Interim Report by the Commission on measures taken in response to the 1984 discharge decision (Doc. COM(86) 423 final).

## PART II

### REPLIES OF THE COMMISSION

#### European Development Funds

##### OBSERVATIONS ON THE FINANCIAL MANAGEMENT

##### *Third and fourth EDF*

3. In 1985 the Commission took two further financing decisions under the third EDF. For both operations, payment was expected to be rapid and one has in fact since been completed.

On 10 September 1986 the Commission decided to transfer to the fifth EDF the 15,95 Mio ECU which will definitely remain from the third EDF.

By definition, the part committed but not yet paid (13,6 Mio ECU at 31 August 1986) relates to projects which are still in progress. When all such projects have been completed, that is when the third EDF is closed, the funds remaining from those projects will similarly be transferred to the fifth EDF by a further Commission decision.

The bulk of the sundry receipts under the fourth EDF have been used to assist and rehabilitate certain countries in the Sahel. Those parts of the indicative programmes which remain available will be committed as and when the corresponding projects get under way.

##### *Fifth EDF*

4. The percentages for certain countries quoted by the Court of Auditors are those for payments of programmable aid under the fifth EDF at the end of 1985. The corresponding figures for commitments were 55%, 65%, 31%, 45% and 62%, which are much closer to the 77% previously quoted by the Court of Auditors.

As regards the Court of Auditors' comments on the excessive time taken to conclude loan contracts, the timetable for their preparation is designed to ensure that signature takes place at a time which will permit disbursements from special loans to be made normally while preserving as far as possible the 10-year grace period on repayments which starts to run from the date of signature.

This means that account is taken of:

- any subsidy available, since this is usually used first, so delaying signature of the loan contract. It is quite normal in such cases for subsidies to be disbursed at a faster rate than special loans;
- progress in awarding contracts, and hence the estimated date of the first payment.

It is only in exceptional cases that disbursement has been delayed simply because the loan contract has not been signed.

## OBSERVATIONS ON THE ACCOUNTING SYSTEMS AND PROCEDURES

5. As a result of the efforts of Commission departments to make the Member States respect their commitments, the total length of time for which contributions were overdue was reduced by almost one third in 1985 compared with 1984. It is hoped that with the adoption of the Financial Regulation for the sixth EDF, which provides for penalty interest on late payments, this problem will be eliminated.

The Court of Auditors refers to the existing practice whereby payments are not posted to the accounts until the debit advices are received from the bank concerned.

The present system was developed in order to remove the need for cumbersome accounting entries to adjust for exchange differences arising from payments being effected in a currency other than the ECU. Proposals currently under consideration relating to direct access to banks via a computer link are expected to lead to more rapid posting of payments in future.

6. Examination of the cases quoted by the Court reveals the following:

- supporting documents: 2 cases of correction of punching errors, admittedly without any special procedure; the documents existed but had been placed in files held by different departments; 2 cases where commitments were made on the basis of a contract without attached documents which were not regarded as indispensable; payment made on the basis of a certificate of supervision of works and a certificate from the administration responsible but without a statement of costs from the contractor; a statement amended by hand by a delegation, which alone is capable of assessing what had actually been done;
- delays in payment: of the 11 cases cited by the Court of Auditors, the fault lay with the Commission in only 3. The other delays were due to the ACP State (3 cases), disputes which had to be resolved or agreements which had to be reached before the payment could be made (3 cases) and the creditor himself (late production of a bank guarantee). In one case there was no delay since the date on the invoice was incorrect.

With regard to delays in entry in the accounts, particularly in the first quarter of the year, it should be noted that the 1985 accounts were closed and the accounts reopened on 21 February 1986.

It is true that officially there was a certain gap in the continuity of the accounts. However, until the accounts for the previous year have been closed, those for the new year are kept separately even though no cumulative accounts can be produced.

7. The departments concerned are in complete agreement with the Court of Auditors. Some progress has recently been achieved in that punched cards have been replaced by the direct entry from a computer-linked terminal of data intended for project and tender charts. The Commission is, however, well aware that there is still a long way to go and it is doing what it can with the staff and funds available.

8. Although there is no manual of procedures as such, there has existed for a long time a compendium of instructions for the use of delegates which includes detailed instructions on the award and execution of EDF contracts.

This compendium, of which a completely revised and updated version was recently distributed to delegations, helps considerably 'to define and harmonize the work of officials in the Commission's finance departments and delegations'.

In the case of exceptional aid (e.g. the Dublin Plan), the need for rapid action means that the delegation must play the leading role. It alone can certify to departments in Brussels that the services have actually been carried out, mainly on the basis of supporting documents which it naturally makes available to both internal and external audit bodies when they carry out on-the-spot checks.

## OBSERVATIONS ON THE ACP STATES' ROLE IN DEFINING THE AID

### *Aid programming*

#### **Identification of the beneficiary Member States' priority needs**

10. <sup>(1)</sup> The concept of programming has been constantly refined in succeeding Conventions, so reflecting the

<sup>(1)</sup> The footnotes appear at the end of Part II.

desire of both the ACP States and the Community to make financing more efficient.

Between Lomé I and Lomé II, the move was from what was little more than the determination of a list of projects to an approach based on the definition of priority objectives so that Community financing would be better adapted to the development priorities determined by each ACP State.

The priority areas for intervention were thus determined in the light of each State's objectives and priorities. The indicative total of Community aid was then divided among these areas, wherever possible in percentage terms. The indicative programme should contain only projects or action programmes which are clearly identified.

This meant that the most delicate phase of programming was the definition of the priority objectives, since it involved going beyond the identification of general objectives representing macroeconomic targets to set more operational and concrete goals (e.g. at sectoral level).

It was not always possible to see this exercise through to its conclusion. The concept of objective was replaced by that of sector, and discussions at the programming stage turned upon the percentage breakdown of the indicative programme among the priority sectors. Most of the indicative programmes under Lomé II contain three or four target sectors, together with the percentages of the indicative programme resources which should be allocated to each and the general objectives which each is expected to achieve. These sectors soon turned out to be the projects presented in the indicative programme as clearly identified, which was not always the case.

The programming exercise under Lomé II thus marked an initial step away from the listing of projects as practised under Lomé I towards greater complementarity between actions financed by the Community and the efforts of the ACP State itself. In practice, this approach had to be introduced gradually, since it depended on the social, economic and administrative situation in each ACP State.

On the basis of the lessons learned from this exercise, the Lomé III negotiators gave a new impetus to programming by defining even more precisely its content and stressing the importance of preparatory work.

In order to bring Community measures into closer harmony with the priority sectoral objectives of each

ACP State, Article 215 of the Lomé III Convention made support for sectoral policies central to the programming process by laying down two basic principles:

- the concentration of aid on a limited number of sectors, or even just one, so that it can make a greater impact;
- pre-programming discussions between representatives of the ACP State and the Commission to identify the measures and means within each sector selected which both parties can use to achieve the sectoral objectives set.

The Lomé III approach is designed to make good the deficiencies of Lomé II programming by concentrating support on one or two sectoral priorities selected on the basis of the major constraints on the development of the State concerned.

11. The accession of Guinea to the Lomé I Convention was accepted by the Community Member States and the Commission despite the very difficult circumstances created by an inward-looking dictatorship which had been in power for 15 years. In consequence, the choice of projects for the fourth EDF, which were designed mainly to revive two national industries (textiles and plastics) and finance large purchases of machinery for use in the countryside in conjunction with the proliferation of district agri-pastoral farms (FAPA), proved to be riddled with uncertainties and risks.

Eventually, under Lomé II, the government in power proved more amenable and it may fairly be claimed that the number of difficulties has been reduced and the thrust of projects improved (agricultural development in Upper Guinea, revision and concentration of rural improvement programmes, micro-projects and village water supplies).

#### **Taking account of national constraints resulting from the state of public finances and foreign-exchange reserves**

12–13. In the Lomé II programming exercise, the Commission endeavoured to take account of the problems of public finance and foreign exchange experienced by the ACP States.

A number of indicative programmes make explicit mention of the need to rehabilitate existing investments and works or to consolidate what has already been

achieved (e.g., in the case of infrastructure, the indicative programmes for Mauritania, Mali and Burkina Faso). Some programmes provide for the use of food aid counterpart funds to finance national participation in EDF-financed projects (e.g. Togo).

Despite the fact that these problems were foreseen at the programming stage, it has happened that in certain countries inadequate account was taken of national budgetary capacity or the shortage of foreign exchange at the project appraisal stage.

Programming under Lomé III was even more concerned with accommodating all these factors in keeping with the stress which the Convention lays on rehabilitation, maintenance and support for countries with foreign exchange problems.

This can be seen at three levels in the texts of indicative programmes already signed:

(1) In the section of the indicative programme concerned with measures for which the recipient State is responsible, that State undertakes to maintain at its present level or increase the part of its budget allocated to the sector receiving Community support (e.g. agriculture); and to establish a programme for the rehabilitation of economic infrastructure and to establish or expand a fund for its maintenance.

(2) In the section concerned with the criteria for examining projects and programmes many indicative programmes echo the wording of the Convention in phrases such as:

- recurrent charges in relation to the budgetary resources of the State and/or groupings concerned;
- priority to the rehabilitation and maintenance of existing investments.

(3) At the level of Community support, which makes explicit provision (Article 188) for the financing of sectoral import programmes for countries suffering from a shortage of foreign exchange.

14. One of the two health centres in Kenya whose construction was interrupted in 1982 has now been completed and has been in operation since 1985. Following approval of complementary financing by the Commission in March 1986, the project as a whole is now being completed.

When the financing plan for the two palm-oil projects was drawn up in 1978, Ghana was in a position to make its contribution, which was essentially to meet local costs. Unfortunately the serious deterioration in the country's public finances in the early 1980s meant that Ghana was no longer able to meet the commitments it had entered into when the project was implemented.

15. The Commission attempted to avoid excessive dispersal of funds on this project by deliberately limiting the number of operations, despite pressure from the Guinean authorities, which wanted more hospital centres to be built.

This measure was, in fact, designed as an integrated project involving:

- the provision of technical assistance for maintenance;
- the supply of small generating sets, mainly to power dental surgeries;
- the provision of spare parts and a consignment of medicines and essential minor equipment.

It is difficult to see what more could be done in view of the situation in Guinea.

16 – 19. The temporary utilization of EDF funds for the maintenance or repair of earlier projects was authorized under Lomé II, but only in exceptional circumstances (Article 153). This restriction did not appear in Lomé III (Article 188(2)).

20. In order to take better account of the shortage of foreign exchange from which a large number of ACP States do in fact suffer, Lomé III provides for the financing of inputs into the productive system, such as raw materials, spare parts, fertilizers, etc. (Article 188(1)).

#### Complementarity of Community and national efforts

22. The Commission is aware of the problems referred to by the Court of Auditors affecting the agricultural development project on Rodrigues Island, Mauritius. It has made concrete proposals to the national authorities but with little effect, since the main cattle breeders on the island clearly form a powerful lobby.

23. Guinea originally requested finance for supplies of equipment to 33 polytechnic colleges and agronomy faculties.

Although Commission representatives are unable to carry out any meaningful investigations outside Conakry, they restricted aid to supplies for five colleges and nine agronomy faculties on which they had some information.

It should also be noted that:

- the equipment supplied to both the colleges and the agronomy faculties was basic, comprising manually-operated equipment rather than machine tools or sophisticated scientific apparatus which cannot operate without electricity;
- a certain amount of working material and spare parts was supplied so that the equipment would not stand idle;
- attempts were made, not without difficulty at a time when the arrival of European technical assistants was viewed with suspicion, to train national staff for both teaching and maintenance duties.

### *Appraisal of projects*

#### **Analysis of the commercial aspects**

24. The Commission too is concerned by the problem raised by the Court of Auditors. In this connection it should be noted that the measures for the development of trade and services provided for by Articles 95 to 100 of the Third Lomé Convention take greater account of aspects relating to trade strategies and the adaptation of products to market requirements, both factors which are bound to affect production projects.

26. At the time the project was carried out, everything was in the hands of the all-powerful State, which controlled selling prices, marketing policy, the distribution network, etc. Since the State had no competitors, these factors were of only marginal importance.

The real problem arose with the opening of Guinea's frontiers and the liberalization of its economy, which exposed Soguiplast to competition from imported goods.

It was with the aim of making Soguiplast competitive, both in terms of quality — to adjust to changes in customers' tastes — and of costs (production and sales), that the Commission issued a call for tenders to find a European technical partner who would work with Soguiplast on the restructuring and rational operation of its factory.

#### **Technical studies**

##### **28. Saakow experimental station project**

It was by no means clear in 1979 that the difficulties alluded to would jeopardize realization of the project. This became evident later, in the course of experience (this was the first attempt to set up an agricultural or indeed any development project in the area).

The chronology of the abortive works contract is somewhat vague. The Saakow works tender was issued in March 1981 and a contract signed on 1 November that year. Delays attributable to the administration and the contractor led to work not beginning until October 1982. It stopped in November 1983 when it became evident that the contractor was having grave difficulties.

Reconsideration of the siting of the project started in February 1984. The decision to move the project to Baardhere was taken in July 1984.

29. The sale to small farmers of some 60 000 seedlings and seed nuts between 1980 and 1985 clearly reflects the development of village plantations alongside large-scale plantations.

30. As regards the remarks on the Goluen grapefruit project, the three large generators were originally intended to cover peak power requirements to pump groundwater from 13 wells for dry-season irrigation. In the event only nine wells were completed because of subsequent changes made during implementation. However, use of their capacity will rise as the irrigation system becomes operational and the full 185 ha plantation is completed. The 100 kW generator supplies power to the farm centre.

31. See the reply to paragraph 14.

33. The problem of supply of inputs and consumable materials was not ignored, either in Guinea or elsewhere.

The low yields of rice are not due solely to the shortage of fertilizers but also to the agricultural policy followed under the government in power:

- the imposition by the State of a tithe on production;
- the lack of essential goods on rural markets;
- agricultural price levels which provide no incentive to production.

If yields of rice have fallen short of what might have been expected, this was due principally to the lack of motivation on the part of small farmers who tended to provide only for their own needs.

#### **Examination of the projects' administrative and financial context**

35. The Sanoyah textile plant in Guinea is coming on stream satisfactorily and a protocol of agreement has recently been signed between an international group and Guinea for the establishment of a mixed economy company to run the complex. The difficulty has therefore been overcome.

36. The project is situated in an area of the most developed region of the country where environmental and meteorological conditions are particularly favourable.

The problem of inadequate salaries stems from the serious deterioration in Ghana's economic situation between the appraisal and implementation stages of the project and will be resolved only by the economic recovery which is now in progress. There is no prospect of a general salary increase at present. The Commission is aware of this situation, which should improve with the revival of Ghana's economy, to which the Twifo project should contribute.

37. Water supply to Praia, Cape Verde. The Court of Auditors raises the important problem of the management of the drinking water supply to Praia, which will have to be thoroughly overhauled if full advantage is to be gained from the investments financed from the EDF and other sources.

It is true that, as a matter of urgency, the Commission financed from the fourth EDF a section of the works designed to renovate existing equipment in the most densely populated areas. Appraisal of the project revealed the need to overhaul the existing management system since it is true that three ministries were involved. This organization, a legacy of the colonial period, was perfectly adequate for the policy followed in the past when investment and operation were the responsibility of the town.

The Commission decided that the recommendations for improving water management in Praia which emerged from the study financed from the resources of the fourth EDF should be sent to the Cape Verde authorities. The study proposed a financially autonomous structure and a plan for increasing charges to achieve financial balance.

40. The line of credit for assistance to small businesses in Guinea has been transferred to the Bicigui, a new banking institution, part of whose capital is held by the EIB and which is now operational.

41 – 42. The Court of Auditors' comments in these two paragraphs are similar to the general remarks at paragraphs 10 – 13. The Commission's replies are to be found there.



## OBSERVATIONS ON THE COMMUNITY'S RESPONSIBILITIES IN THE MANAGEMENT OF THE AID

### *Implementation of projects*

#### **The general conditions of the public works contracts financed by the EDF**

**43 – 44.** Conditions governing works and supplies for all countries associated with the Community under the Yaoundé Conventions were negotiated at length and finally adopted and published in the *Official Journal* in 1972 (2). This text was subsequently incorporated into the legislation or rules of all the Member States and signatory countries associated under the Yaoundé Conventions.

At the time of the first enlargement, it was felt that, in view of the different systems of law prevailing in the English-speaking ACP countries and some of the new Member States, these conditions could not be adopted as they stood by all the ACP States and that the text should be thoroughly revised. This was done and led to the production of three documents in 1979 and 1980 (VIII/1213/79, VIII/347/79 and VIII/510/80). These went through the normal procedure in the Community Council of Ministers, where they were subjected to considerable revision. They were then submitted to the ACP States, which made counter-proposals, some of which were accepted by the Community. This obviously long and complex procedure led to the production of two documents, one for works (6421/83) and one for supplies (6422/83). Any real negotiations between the Community and the ACP States on this subject were overtaken by the opening of negotiations on renewal of the Convention itself.

Services were treated separately because counter-proposals by the ACP States complicated matters and in the meantime the Third Lomé Convention changed the principles on which these contracts are awarded. The question therefore needed to be thoroughly re-examined. Commission staff are just completing this process, and in October 1985 they began informal negotiations on the texts on works and supplies. The ACP States have recently pointed out that the negotiations are likely to be protracted because they have no suitable experts to assist them in this complex field.

The token reference in the programmes of the ACP/FIN working party means that this matter will be formally entered for discussion as soon as the informal negotiations referred to above have enabled positions to be clarified and some preliminary problems to be resolved. Only important difficulties which cannot be settled by the negotiators and on which the Community is forced to revise its initial position will be referred to the working party.

**45.** The Commission has some of the national legislation to which the Court of Auditors refers and can consult its delegations to obtain any further information it requires. The delegations, however, do not have the resources to keep a permanent and regularly updated register.

It is wrong to imagine that there is a multiplicity of different legislation. The laws in force on this subject have a number of points in common and the States which were not party to the Yaoundé Convention very often and to an increasing extent make use either of the Fidic conditions or those from 1972-73 already mentioned or apply voluntarily the drafts referred to above.

#### **The arbitration procedure for disputes arising in connection with the performance of public works contracts**

**46 – 48.** Work began in the Commission without delay on drafting the arbitration rules provided for in Article 23 of Protocol No 2 to the First Lomé Convention. In 1977 draft rules were produced on arbitration for public contracts financed by the European Development Fund.

This document was, however, criticized by certain Member States which felt that, since there already existed a large number of texts in this field, most of which had been adopted by international organizations and had proved their worth, further legislation was unnecessary.

The two Yaoundé Conventions and the three Lomé Conventions provided for arbitration by the International Chamber of Commerce (ICC) as a transitional measure. Little use has been made of this provision; of the 18 cases referred to the ICC, judgment has been given in only three. In addition, a feeling of hostility towards the ICC's Court of Arbitration has developed in the ACP States for both legal, procedural and political reasons and the three judgments given have not been enforced.



Accordingly, at the end of 1979, the Directorate-General for Development and the Legal Service of the Commission agreed that the ICC's arbitration procedure could be replaced by the system provided by the United Nations Commission on International Trade Law (UNCITRAL) which, since it was adopted at world level, ought not to provoke any opposition from either the Member States or the ACP States.

During the Lomé III negotiations the Commission proposed a text making express reference to the UNCITRAL rules, but the ACP States thought that the question was so technical that it required more thorough consideration than was possible during the negotiations and so carried over the relevant provision of Lomé II, while asking the Commission to consider the matter. It is now doing so. It has begun work on adapting the UNCITRAL's arbitration rules to the special requirements of the EDF, and a document should be available in February 1987.

49 – 50. The Commission has no legal standing to intervene in the settlement of disputes between a firm and a national administration and can do so only at the request of the parties. Some conditions, such as those concerning supplies and works to which reference was made above, provide that no dispute may be referred to arbitration unless all the channels provided for by national legislation have been exhausted. This means that an amicable settlement is often found.

The Commission does not therefore have the means of producing an exhaustive register of disputes referred to the various national administrative and judicial authorities. References for arbitration to the ICC are a matter for the parties alone and the Commission, which has no part to play in the procedure, is not always informed.

Since it is unable to keep a register, the Commission has developed a computerized system which will record the main disputes which have arisen since 1983 and provide a breakdown by country, sector and legal question in accordance with the wishes of the Court of Auditors. This system should be operational in October 1986.

## *Evaluation of projects*

### **Evaluation during implementation**

51. The Commission agrees with the Court of Auditors that more frequent use should be made of Article 118(1) of the Second Lomé Convention.

It intends to include in future financing agreements provision and finance for the monitoring and evaluation of programmes and projects.

This does not mean that no attempt was made to do this in the past. In many cases delegations carried out monitoring and evaluations between the various phases of projects, and this made it possible to improve implementation, aims and results.

55. As soon as the contract for the 3,04 Mio ECU special loan was signed in 1981 the authorities in Mauritius set up a revolving fund to finance the construction of simple housing through loans carrying a 2,5% interest rate.

For its part, the Commission paid 1 485 846 ECU in three instalments to the Mauritius Housing Corporation. However, the remaining sums have not yet been paid because, despite numerous reminders, the Commission has so far received no information on the use made of the funds allocated. In May 1986 it again requested this information in what it termed a final reminder before termination of the project.

### **Ex-post facto evaluation of projects**

57. While it is the Commission's firm intention to introduce systematic evaluations during implementation, *ex-post* evaluations are a much bigger problem and have less justification. Obviously they cannot be financed within projects and a representative selection is sufficient to provide lessons which may be of use in the preparation of other projects in the same category.

However, the Commission can understand the Court of Auditors' concern, as illustrated by the example which it quotes. It will endeavour gradually to step up *ex-post* evaluations, particularly in the context of the so-called 'global' evaluations for each country.

**Use made of the Court of Auditors' earlier observations**

**60 – 61.** The Court of Auditors appears to believe that the Commission by itself should be able to remedy the defects or shortcomings which it has detected during its audits.

It should scarcely be necessary to point out that cooperation under the Lomé Conventions is based on equality between the Community and the ACP States. This means that it is not within the Commission's power to remedy problems or inaction in the ACP States themselves, these often being the reason for the defects or shortcomings.

The Commission endeavours to take the fullest possible account of the lessons it has learned by experience.

**STABEX***Use of Stabex transfers*

**62.** A study of local causes is required not only to investigate whether losses arise from a trading policy hostile to the Community but also, and more importantly, as part of the consultations to see whether the transfer basis should be reduced because the ACP State concerned is responsible for losses (Article 164).

Before the Third Lomé Convention came into force, the decision of an ACP State on the use of the resources it received had only to respect the objectives of Article 23(2) of the Second Convention and there was no provision for this decision to reflect the origin of the loss incurred. Article 170(3) of the Third Convention changed this situation by requiring an ACP State to justify use of resources outside the sector in which the loss arose.

**63.** Before the Third Convention came into force the Commission could do no more than draw the ACP State's attention to its obligation to submit a utilization report and no penalty could be imposed if it failed to comply. The Third Convention, however, does contain provisions permitting a subsequent transfer to be suspended under certain conditions.

*Refund by beneficiary States of Stabex transfers*

**65.** The criteria on which the Commission's proposals are based are those mentioned in the relevant provisions and so cannot be more precise than the texts on which they are based.

**66.** The Commission is aware of the problems which may arise from strict application of the rules in the circumstances described by the Court of Auditors.

**SYSMIN**

**68.** It should be added that an ACP/EEC decision set 31 October 1985 as the last date for applications for Sysmin applications under the Second Lomé Convention. This explains the three late applications.

*Delays in implementation*

**69.** In the case of the two projects concerned the following points should be noted:

**Zaire:** — two-year gap between the date of the request and signature of the loan contract (and hence making available of Sysmin funds);

— a further 3 1/2 years for the project to be implemented, following which all the funds in question were paid.

**Zambia:** — gap of 20 months between the request and signature of the loan contract;

— a further 3 years, 2 months for the project to be implemented, following which all the funds in question were paid.

**70.** This delay is due mainly to the preparation and implementation by the beneficiary ACP State or mine operator of the programme or project.

71. The stages in the procedure are as follows: the Commission decides on the eligibility of the request and then determines the amount of its contribution. Then, after evaluating a particular project or programme and again consulting the EDF Committee, it decides on financing.

#### CONTROL OVER FUNDS MANAGED BY THE EUROPEAN INVESTMENT BANK (EIB)

73 – 74. As acknowledged by the Court of Auditors, the situation concerning information supplied by the Bank on EDF-financed projects managed by the European Investment Bank has improved since 1984 following an agreement between the Commission and the Bank on the information to be provided by the latter. This improvement has been considerable in respect of projects decided on since 1 January 1984 and the range of information provided corresponds, *mutatis mutandis*, to that agreed on in 1984 between the Commission, the Bank and the Court of Auditors in respect of Bank-managed projects financed from the New Community Instrument. The starting date of 1 January 1984 was considered necessary because of the practical problems of bringing together information relating to projects which in many cases were decided on several years earlier. The Commission and the Bank have already indicated to the Court of Auditors their willingness to negotiate jointly an agreement on information to be supplied by the Bank in respect of projects managed by the Bank which receive Community development aid, including, if necessary, any changes to the information currently supplied. A first meeting was held with the Court of Auditors in March 1986 when the Commission representative agreed that it would ensure that information on development projects was consistent with what the Bank might agree in future to supply to the Court of Auditors on NCI-aided investment. Further meetings may be held.

At all events the Commission is prepared to consider any new request from the Court of Auditors in order to provide it with any document it requires for audit purposes.

Projects financed from the Bank's own resources which receive interest subsidies are managed by the Bank totally in accordance with the rules, conditions and procedures provided for in the Bank's statute and in the Lomé Conventions. As such, the auditing of those projects falls with the provisions of the Bank's statute. The grant of interest subsidies on loans to finance projects is automatic under the Convention. The purpose of an interest subsidy is not to provide finance for an investment as such but to lighten the burden of future debt obligations incurred by the ACP borrower. The Commission feels that the information provided by the Bank on all interest subsidies is sufficient to enable the Court of Auditors to check that that purpose has been achieved.

Community legislation has allocated responsibilities for on-the-spot checks of Bank-managed projects. Specifically, Article 29(4) of the Internal Agreement concerning the Lomé II Convention states that EDF operations managed by the EIB are subject to the discharge procedures laid down by the Bank's statute.

Notwithstanding these provisions, the accepted practice of the Commission and the Bank is that the Court of Auditors may carry out on-the-spot checks of EDF financed projects managed by the Bank where such projects are cofinanced by the Bank and the Commission.

On a more general level, the Commission would point out that the problems of on-the-spot checks by the Court of Auditors are being examined. In view of the difficulties involved in determining the practical arrangements for such checks, this examination is taking place at the highest levels.

(1) See also the comments made by the Court of Auditors at paragraphs 41 and 42.

(2) OJ L 39 of 14.2.1972 and corrigendum in OJ L 214 of 2.8.1973.