

# COURT OF AUDITORS



In accordance with the provisions of the Treaties (Article 78 f (4) ECSC; Article 206 a (4) EEC; and Article 180 a (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 1985, adopted its

## ANNUAL REPORT

**concerning the financial year 1984**

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 on 29 November 1985.

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## Annual report concerning the financial year 1984

### INTRODUCTION

1. This is the eighth annual report of the European Court of Auditors, which relates to the accounts of the financial year 1984 <sup>(1)</sup>. The Commission is required, by the Treaties <sup>(2)</sup> and the Financial Regulation <sup>(3)</sup>, to draw up a revenue and expenditure account for the Communities for each financial year and a balance sheet as at the end of that year, and to forward them to the Parliament, the Council and the Court of Auditors by 1 June of the following year. These financial statements are used by the Court in drawing up its annual report. The accounts together with the annual report of the Court and the replies of the institutions to the Court's observations, are to be examined by the Parliament and the Council in connection with the discharge to be given by the Parliament to the Commission in accordance with the Treaties <sup>(4)</sup>.

2. In Part I of the report, general matters arising from the Court's work are covered in Chapter 1. Chapters 2 to 13 relate to the general budget of the Communities. Chapter 14 deals with loans and borrowings operations under the EEC and EAEC Treaties and related interest subsidies financed by the budget.

3. Part II is concerned with the European Development Funds. These Funds, which provide aid to developing countries, are managed by the Commission but they are financed by specific contributions by the Member States and do not form part of the general budget of the Communities.

4. Annex I gives the allocation of responsibilities amongst the Members of the Court as at 29 November 1985 and Annex II is a list of all reports and opinions issued by the Court during the five years up to 29 November 1985.

5. Summaries and some 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 issued separate reports to the relevant discharge authorities on the 1984 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 the 1983 accounts of the European Schools. Comments on the Commission contributions to the budgets of the Schools are included in Chapter 13. The Court has also drawn up the separate annual report on the accounting for the functional activities of the ECSC and the financial management of the Commission relating thereto, as required by Article 78f(5) of the ECSC Treaty.

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

7. The accounts for the financial year 1984 were rendered by the Commission by 1 June 1985. The Court's comments were sent to the institutions on 12 July 1985. All the comments contained in this report were sent to the Commission. Relevant extracts of Chapters 1, 2, 11 and 12 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 address its reply to the Court by 31 October. In practice, the formal replies are generally preceded by discussions between the institutions and the Court which cover both the Court's comments and draft replies which are provided on an informal basis. These arrangements enable changes to be made, where necessary, in both the comments and the replies, to ensure that the issues would be readily understood by the reader. This is more likely to be achieved if there is a full and confidential exchange of views with the audited body before the report is finalized and made available with the formal replies.

9. The formal replies were sent by the institutions by 31 October and, after studying them, the Court adopted the final text of the report on 19 November 1985. The report, accompanied by the replies of the institutions, was sent to the institutions on 29 November 1985 in accordance with Article 84 of the Financial Regulation.

The Court has not found it necessary this year to add remarks in the light of the replies but this does not imply that it necessarily agrees with the replies.

10. The Court regrets that Council, in replying to the comments about its own administration, has seen fit to raise once again the suggestion that all comments concerning each institution should be presented in separate parts of the annual report. As in previous years, the Court is unable to follow this suggestion — for reasons already explained in the past<sup>(1)</sup>. Apart from the fact that the Court is free to choose the content and presentation of its annual report which it considers most appropriate, the solution recommended by the Council would result, in practice, in a totally inadequate presentation. Responsibility for certain activities is shared between several Community institutions. It is not always practicable, therefore, for the Court to divide, institution by institution, the observations relating to such activities, especially where it wishes to make a comparison of practices. This can apply to observations concerning legality and regularity or sound financial management (for example, cash management in Chapter 2 of this report).

11. The Court has continued the arrangements introduced in 1983 for the audit of its own accounts. The Member responsible for the examination of a particular subject in other institutions also examines the use of corresponding appropriations in the Court's budget. Any observations arising are included in the relevant chapter of this report and the replies are included with the replies of the other institutions.

## SPECIAL REPORTS

12. As mentioned earlier, Annex II is a list of reports and opinions adopted by the Court during the past five years. The Court would mention that, during its examination of the 1984 accounts, it has followed up issues raised in its report on the sound financial management

of Community activities adopted on 6 October 1983 in response to the conclusions of the European Council of 18 June 1983; the question of budgetary management is treated in Chapter I and other observations arising appear in the relevant chapters of this report.

## MEMBERSHIP AND ORGANIZATION OF THE COURT

13. There have been no changes of Membership of the Court since the last annual report was presented. Bearing in mind the forthcoming enlargement of the Communities, the Court has further developed, during 1985, the group structure for work of a preparatory nature. This provides for three groups of four Members; the allocation of responsibilities as at 29 November 1985, which is without prejudice to the decisions to be reached following enlargement, is given in Annex I.

## COURT BUDGET AND STAFF

14. The Court's expenditure in 1983, including carry-overs to 1984, amounted to some 15,3 Mio ECU, and in 1984, including carry-overs to 1985, amounted to some 17,3 Mio ECU. The main element in these amounts is for salaries and allowances.

15. The budgets for 1983 and 1984 provided for the following numbers of posts:

	1983	1984
A category staff	107	107
LA category staff	36	36
B category staff	63	63
C category staff	78	78
D category staff	19	19
<b>Total</b>	<b>303</b>	<b>303</b>

<sup>(1)</sup> Produced in accordance with ECSC Treaty, Article 78f(4); EEC Treaty, Article 206a(4); EAEC Treaty, Article 180a(4); Article 83 of Financial Regulation of 21 December 1977, OJ L 356, 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, 11.6.1964; Council Decision 71/68/EEC, OJ L 31, 8.2.1971; Council Decision 76/647/EEC, OJ L 229, 20.8.1976; Council Decision 81/215/EEC, OJ L 101, 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> In particular, in paragraph 12 of the introduction to the Court's annual report for the financial year 1982, OJ C 357, 31.12.1983.

## PART I

### CHAPTER 1

#### General matters

1.0. TABLE OF CONTENTS	Paragraph reference
General budget of the European Communities	1.1 — 1.26
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Year of account and balance sheet questions	1.3 — 1.5
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#### GENERAL BUDGET OF THE EUROPEAN COMMUNITIES

these appropriations by the institutions is shown in Table 1.1 and the sources of revenue provided to finance them are shown in Table 3.1 of Chapter 3.

#### *Accounts for the year ended 31 December 1984*

1.1. The accounts of the general budget of the European Communities for the year ended 31 December 1984 are contained in a five-volume document (doc. COM(85) 185 to 189) presented by the Commission. Volume V (doc. COM(85) 189) of the document contains the consolidated revenue and expenditure account and balance sheet, together with a summary of the principles applied in drawing them up. It also provides general information about the outturn of the budget for each of the institutions.

1.2. The total final appropriations for commitment and payment for 1984 amounted to 30 278,0 Mio ECU and 28 967,3 Mio ECU respectively. The utilization of

#### *Year of account and balance sheet questions*

1.3. During the audit of the 1984 accounts, various questions arose concerning the regularity of transactions and the consequent effect on the amounts shown as revenue and expenditure in the accounts which are submitted to the discharge authority in accordance with the Treaties <sup>(1)</sup>. The amounts involved are shown in Table 1.2 and further details are provided in the chapters dealing with the specific areas concerned.

1.4. The Court pointed out in its annual report for the financial year 1981 <sup>(2)</sup> that the present regulations con-

Table 1.1 — General budget: appropriations available in 1984 and their utilization, by institution

(Mio ECU)

Institution	Commitments		Payments	
	† Appropriations for commitment available in 1984	Commitments entered into in 1984	Appropriations for payment available in 1984 <sup>(1)</sup>	Payments made in 1984
Operating appropriations (Commission, part B)	29 032,5	28 101,2	27 621,2	26 307,5
Administrative appropriations:	1 245,5	1 223,1	1 346,1	1 216,1
— Parliament	239,1	235,4	268,7	245,5
— Council (of which Economic and Social Committee)	137,1 (24,9)	129,6 (24,6)	149,5 (25,4)	126,7 (24,2)
— Commission, part A	819,9	811,2	876,2	798,4
— Court of Justice	31,3	29,6	33,0	28,6
— Court of Auditors	18,1	17,3	18,7	16,9
<b>Total</b>	<b>30 278,0</b>	<b>29 324,3</b>	<b>28 967,3</b>	<b>27 523,6</b>

<sup>(1)</sup> Including carry-overs from 1983.

Note: For further details and analyses see Annex III.

tain no specific provisions for dealing with amounts relating to irregular transactions which are included in the Community accounts. The Court considers, however, that the discharge authority should take account of these irregularities in the discharge procedure by instructing the Commission, in the resolution accompanying discharge, to take the necessary measures to regularize the situation.

1.5. There are a number of other matters, while not themselves affecting the regularity of the accounts, which the Court considers are of sufficient significance to be drawn specifically to the attention of the discharge authority (see paragraphs 4.5 to 4.9, 4.18 to 4.21, 4.30 to 4.33, 5.5, 9.13, 14.15 to 14.19 of this report).

### The Community budget

1.6. The operation of the Community budgetary system has given rise, particularly during recent years, to a series of problems affecting the accounts on which the Court is required to report.

### The own resources system

1.7. Council Decision 70/243/EEC of 21 April 1970 <sup>(3)</sup> provided for the introduction of a system of

Communities' own resources. The intention was that, by 1975, the Communities' budget would be financed entirely by these own resources, consisting of Common Customs Tariff duties, agricultural (including sugar production and storage) levies, and value-added tax (VAT) not exceeding 1 % of a uniform Community-wide basis of assessment.

1.8. The basic system was not fully implemented until 1980, by which time the rate of VAT own resources required had already reached 0,73 %; and the system has since been subject to a series of *ad hoc* modifications <sup>(4)</sup>, culminating in a revised Council Decision 85/257/EEC of 7 May 1985 <sup>(5)</sup> which provides, *inter alia*, for

- (a) the present 1 % ceiling on VAT own resources to be raised to 1,4 % from 1 January 1986, and possibly 1,6 % in 1988, in order to alleviate the growing problem of balancing revenue and expenditure as required by the Treaties <sup>(6)</sup>; and,
- (b) an ongoing 'correcting' mechanism designed to limit the VAT own resources payable by one Member State.

This decision also provides for the continuation of GNP-based financial contributions for VAT own resources by those Member States not yet applying the uniform basis of assessment for VAT.

Table 1.2 — Adjustments which the Court considers should be made during discharge procedure for the financial year 1984

(ECU)

Paragraph	Revenue 1984			Expenditure charged to 1984			Payments against carry-overs from 1983	Commitments entered into in 1984
	Receipts of 1984	Carry-overs from 1983 cancelled or prolonged	Exchange rate differences	Payments against 1984 appropriations	1984 appropriations carried over to 1985	Earmarked revenue to be repaid		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.25 (d)								+ 65 000 000
2.2	- 89 000						+ 89 000	
2.3				- 2 400 000				- 2 400 000
3.26	+ 82 000 000							- 75 000 000
4.34 - 4.38				- (1)				
4.39 - 4.42				- 95 100 000				- 95 100 000
5.8				- 5 388 000				- 44 428 000
5.23								+ 50 000 000
8.33				- 160 000				
11.18				- 35 000				- 35 000
12.11 (b)	+ 250 000			+ 250 000			- 250 000	+ 250 000
Commission account figures	26 052 434 892	305 136 486	25 016 688	26 119 177 060	1 090 095 453	652 970	1 404 388 655	29 324 291 566
	26 382 588 066			27 209 925 483				
	Balance 1984 (deficit): - 827 337 417							

(1) Amount cannot be quantified by the Court.

1.9. As part of the own resources system, Member States receive a refund of 10 % of customs duties and agricultural levies to cover the collection costs. The relationship between this percentage and the actual costs involved has never been justified.

#### Imbalance between revenue and expenditure

1.10. In 1983 available appropriations were insufficient to meet all EAGGF, Guarantee Section expenditure — because the limit of own resources had been reached — and 825 Mio ECU was deferred to 1984 (7). During 1984 it became apparent that revenue would again be insufficient to cover expenditure. The Mem-

ber States decided, in the circumstances, to make 'reimbursable advances' totalling 1 003,4 Mio ECU towards meeting the forecast shortfall (see paragraphs 3.4 to 3.6).

1.11. Notwithstanding these emergency measures, the financing problems have contributed to the difficulties in the operation of the EAGGF, Guarantee Section (see in particular paragraphs 4.5 to 4.9), and have also been cited by the Commission as causing delay in bringing Social Fund commitments to account and making related payments (see paragraphs 8.6 to 8.10). Furthermore, the Communities' consolidated revenue and expenditure account for 1984 shows a deficit of some 827 Mio ECU, after taking into account 593,5 Mio ECU of reimbursable advances received before 31 December 1984.

1.12. The problem of matching revenue and expenditure became even more acute in the preparation of the budget for 1985. To keep the draft budget in balance, having regard to the limits of the own resources expected to be available, the provision for total expenditure was understated. Parliament was not satisfied with a draft budget prepared on this basis and rejected it in December 1984 — thereby bringing the emergency 'provisional twelfths' system into operation for 1985, pending the adoption of a proper budget.

#### Factors affecting budgetary control

1.13. These successive difficulties have highlighted weaknesses in the present budgetary procedures. The underlying causes of the difficulties have been the lack of coherence between the mechanisms for generating own resources and those for determining expenditure, and the absence of clear responsibility for ensuring that revenue and expenditure remain in balance.

1.14. The biggest item of compulsory expenditure <sup>(8)</sup>, agricultural guarantee, has resulted from the fixing of prices at the annual review — a process quite distinct from the budgetary procedure. For non-compulsory expenditure, annual increases are permitted in accordance with a formula laid down in the Treaties <sup>(9)</sup>. But in neither case is the consequent level of expenditure related to the potential growth in own resources. Table 1.3 and the accompanying diagram compare the development of expenditure during the past seven years with the growth in the maximum available revenue. Columns 6 and 7 of the table demonstrate the marked differences in the rates of growth during the past three years.

1.15. The ceiling of VAT own resources has not in itself proved to be an effective instrument for restraining the growth in the general budget, which is essentially expenditure-determined. The European Council meeting at Fontainebleau in June 1984 considered that a more rigorous approach to decisions which determine the level of Community expenditure was needed. This was reflected in the conclusions adopted by the Council on 4 December 1984 <sup>(10)</sup> about improved budgetary discipline.

1.16. A crucial element in these conclusions was the statement of intention (based on earlier suggestions of the Commission) to hold the rate of growth of EAGGF, Guarantee Section expenditure below the rate of

growth of the own resources base. In the Court's view, this means that, in addition to a realistic approach to price-fixing, a considerable effort is needed to increase the efficiency and effectiveness of agricultural guarantee expenditure. A similar effort is also needed in other fields of Community activity. The Court has pointed out in the past (in the 'Stuttgart' report <sup>(11)</sup>, and special reports), and does so again in this report (see paragraphs 5.15, 7.10 to 7.15), that the additional effects of Community structural funds expenditure has yet to be demonstrated in many areas.

1.17. The shifting of the financial burden for such activities from national budgets to the Community budget can only be justified if it is accompanied by an increase in the overall effectiveness of the expenditure for the benefit of the Community as a whole. Likewise, any new initiatives at Community level should only be launched if the benefits will be superior to those which would result from national programmes of a similar total cost. It is also imperative that any decision to launch major new Community programmes should be subject to the availability of the funds which will be needed to ensure their financing over the years.

#### Collection of revenue

1.18. In the case of revenue, all funds to which the Community budget is entitled must be fully and promptly collected and handed over. In its resolution accompanying the discharge for the 1983 financial year, Parliament noted inconsistencies between the resources made available by the Member States and statistical information which might be expected to indicate the shares of revenue among the Member States. The inference was drawn that substantial amounts of revenue were being lost to the Community budget. This problem and other cases of actual or potential loss are described in paragraphs 3.11 to 3.33.

#### Conclusions

1.19. The own resources system decided upon in 1970 was intended to provide the Communities with a degree of financial autonomy. But that concept becomes meaningless when the limit of available funds is constantly under pressure from the demands of a single Community policy. There is an obligation on all the

Table 1.3 — Development during 1978-84 of payments compared with maximum available own resources

(1978-80: Mio EUA)  
(1981-84: Mio ECU)

Year	Actual own resources					Maximum available own resources	Payments made in the year
	Customs duties and levies	Financial contributions and/or VAT					
		Financial contributions	VAT (including adjustments for previous years)	Total	Total financial contributions and VAT on a 1 % <sup>(1)</sup> basis		
(1)	(2)	(3)	(4)=(2)+(3)	(5)=(4)/VAT rate	(6)=(1)+(5)	(7)	
1978	6 674,2	5 329,7	—	5 329,7	5 329,7	12 003,9	11 973,1
1979	7 332,6	2 302,1	4 737,7 (0,7444 %) <sup>(1)</sup>	7 039,8	9 457,0	16 789,6 (+ 39,9 %) <sup>(2)</sup>	14 367,1 (+ 20,0 %) <sup>(2)</sup>
1980	7 908,1	—	7 519,5 (0,7322 %) <sup>(1)</sup>	7 519,5	10 269,7	18 177,8 (+ 8,3 %) <sup>(2)</sup>	16 290,4 (+ 13,4 %) <sup>(2)</sup>
1981	8 139,9	151,5	9 732,6 (0,7868 %) <sup>(1)</sup>	9 884,1	12 562,4	20 702,3 (+ 13,9 %) <sup>(2)</sup>	17 792,8 (+ 9,2 %) <sup>(2)</sup>
1982	9 043,1	196,3	11 924,8 (0,9248 %) <sup>(1)</sup>	12 121,1	13 106,7	22 149,8 (+ 7,0 %) <sup>(2)</sup>	20 422,7 (+ 14,8 %) <sup>(2)</sup>
1983	9 283,8	215,6	13 514,2 (0,9980 %) <sup>(1)</sup>	13 729,8	13 757,3	23 041,1 (+ 4,0 %) <sup>(2)</sup>	24 313,0 (+ 19,0 %) <sup>(2)</sup>
1984	10 397,2	222,5	14 260,3 (1,0000 %) <sup>(1)</sup>	14 482,8	14 482,8	24 880,0 (+ 8,0 %) <sup>(2)</sup>	27 523,6 (+ 13,2 %) <sup>(2)</sup>

<sup>(1)</sup> VAT own resources rate.<sup>(2)</sup> % increase compared with preceding year.

Diagram relating to Table 1.3: Comparative development of payments and maximum available own resources

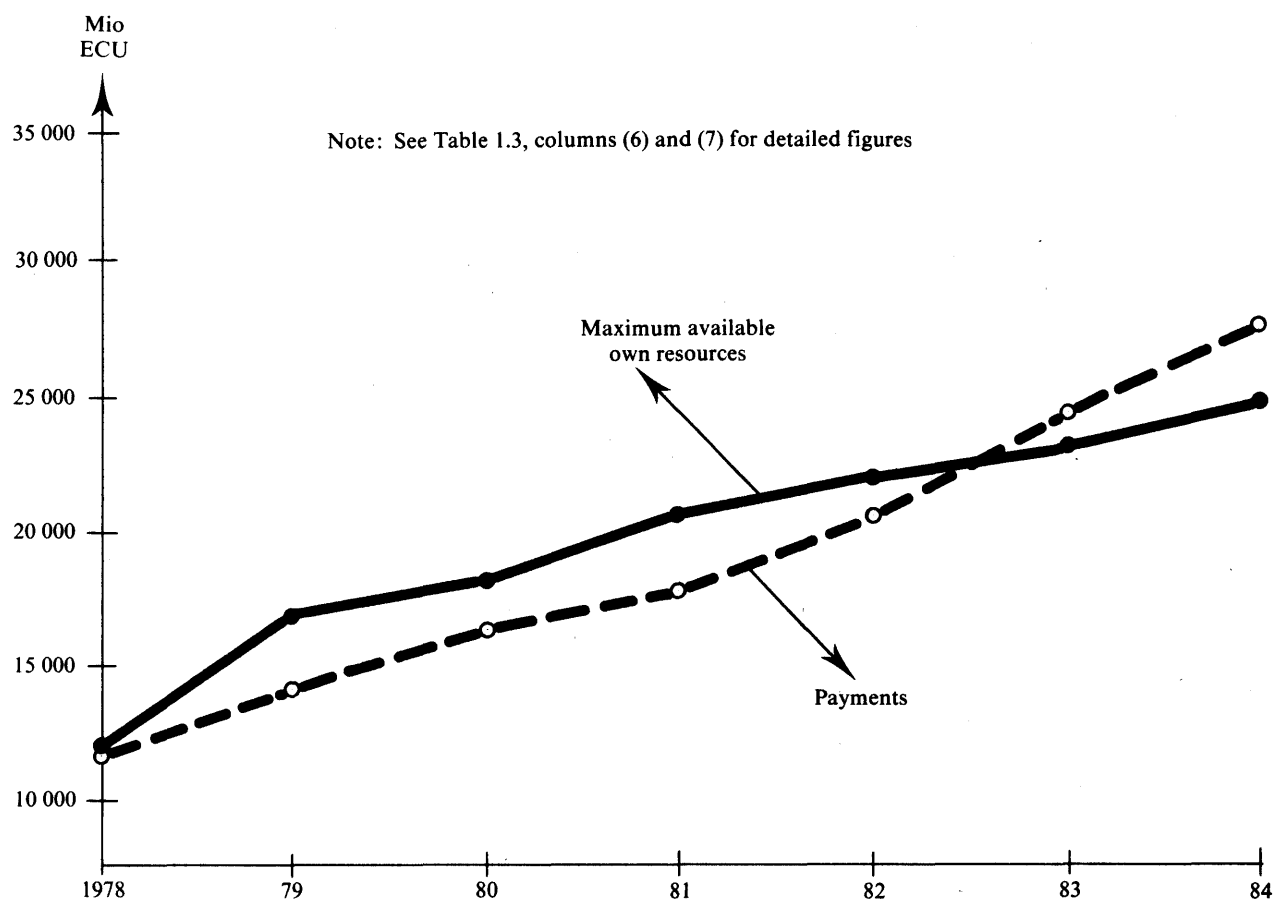


Table 1.4 — Utilization of appropriations for payment (1979-84)

(Mio ECU)

Year	Type of appropriations PA = payment appropriations NDA = non-differentiated appropriations	I. Carry-overs from previous year				II. Appropriations of current year				
		Appropriations carried-over (after transfer)	Payments	Carry-overs to following year <sup>(1)</sup>	Cancellations	Final appropriations	Commitments (on NDA)	Payments	Carry-overs to following year	Cancellations
		(1)	(2)	(3)	(4) = (1) - (2) - (3)	(5)	(6)	(7)	(8)	(9) = (5) - (7) - (8)
1979	PA	1 214,4	1 037,0	—	177,4	1 841,3	—	726,5	1 095,7	19,1
	NDA	884,5	404,8	457,9	21,8	12 647,0	12 543,9	12 198,8	355,0	93,2
	<b>Total</b>	<b>2 098,9</b>	<b>1 441,8</b>	<b>457,9</b>	<b>199,2</b>	<b>14 488,3</b>	<b>—</b>	<b>12 925,3</b>	<b>1 450,7</b>	<b>112,3</b>
1980	PA	1 056,9	953,8	7,5	95,6	1 991,2	—	1 384,4	606,3	0,5
	NDA	812,9	469,9	321,9	21,1	14 242,1	13 998,6 <sup>(2)</sup>	13 482,3	502,1	257,7
	<b>Total</b>	<b>1 869,8</b>	<b>1 423,7</b>	<b>329,4</b>	<b>116,7</b>	<b>16 233,3</b>	<b>—</b>	<b>14 866,7</b>	<b>1 108,4</b>	<b>258,2</b>
1981	PA	611,1	510,5	10,9	89,7	2 524,2	—	2 084,1	434,0	6,1
	NDA	824,0	570,3	220,4	33,3	15 917,3	14 992,6	14 627,9	738,8	550,6
	<b>Total</b>	<b>1 435,1</b>	<b>1 080,8</b>	<b>231,3</b>	<b>123,0</b>	<b>18 441,5</b>	<b>—</b>	<b>16 712,0</b>	<b>1 172,8</b>	<b>556,7</b>
1982	PA	444,9	349,5	8,6	86,8	3 659,4	—	2 683,0	953,6	22,8
	NDA	959,2	752,9	126,8	79,5	18 334,9	17 393,1 <sup>(2)</sup>	16 637,3	431,9	1 265,7
	<b>Total</b>	<b>1 404,1</b>	<b>1 102,4</b>	<b>135,4</b>	<b>166,3</b>	<b>21 994,3</b>	<b>—</b>	<b>19 320,3</b>	<b>1 385,5</b>	<b>1 288,5</b>
1983	PA	962,2	749,0	7,5	205,7	4 134,4	—	2 915,6	1 133,0	85,8
	NDA	558,8	462,4	—	96,4	20 934,4	20 759,0	20 186,0	573,8	174,6
	<b>Total</b>	<b>1 521,0</b>	<b>1 211,4</b>	<b>7,5</b>	<b>302,1</b>	<b>25 068,8</b>	<b>—</b>	<b>23 101,6</b>	<b>1 706,8</b>	<b>260,4</b>
1984	PA	1 122,7	871,9	4,8	246,0	4 317,6	—	3 631,4	682,9	3,3
	NDA	573,9	532,5	—	41,4	22 953,1	22 894,5	22 487,8	407,2	58,1
	<b>Total</b>	<b>1 696,6</b>	<b>1 404,4</b>	<b>4,8</b>	<b>287,4</b>	<b>27 270,7</b>	<b>—</b>	<b>26 119,2</b>	<b>1 090,1</b>	<b>61,4</b>

(<sup>1</sup>) Appropriations for years before 1977 relating to EAGGF, Guidance Section and aid to Friuli (system now lapsed) and carry-overs of 'earmarked revenue' in the field of research (system still in force).

(<sup>2</sup>) Including commitments on non-automatic carry-overs.

institutions to ensure the optimum use of Community resources as well as compliance with the principles set out in the Treaties. As long ago as May 1981, in its opinion (<sup>12</sup>) on the Commission proposal to amend the Financial Regulation, the Court suggested measures to strengthen the management of the Communities' financial affairs — including placing a clear obligation on the Commission to monitor the execution of the budget and to take action in the event of a deficiency developing. The Court regrets that, after five years of preparatory work, a revised Financial Regulation and implementing measures have still not been adopted.

1.20. Furthermore, there appears to be room for considerable improvement in the forecasting of both revenue

and expenditure. Subsequent chapters of this report show that agricultural levies collected were some 686,5 Mio ECU (35 %) less than forecast (see paragraph 3.7), while appropriations for payment provided for the EAGGF, Guidance Section, the Regional and Social Funds, for research and for development aid were underspent by some 900 Mio ECU (16 %) (see paragraphs 5.4, 7.6, 8.2, 9.2, 10.2 and 10.17).

1.21. In this context, the Court drew attention in 1981 (<sup>13</sup>) to the need for more detailed pluriannual budgetary forecasts. Such forecasts should include projections of the expected effect on revenue of raising the VAT own



resources ceiling to 1,4 % or 1,6 %, as well as the growth in expenditure which these ceilings would permit. The need has become even greater in the light of the outstanding liabilities of some 14 000 Mio ECU that had accrued by the end of 1984 (see paragraphs 1.24 to 1.26 below), as well as the budgetary deficit likely to occur in 1985.

1.22. The Court regrets that a situation has been allowed to arise which contravenes the Treaty requirements for a balanced budget (6), and that the institutions have 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' (14). To fulfil these obligations, it is essential for decisions which in effect determine the levels of Community revenue and expenditure to reflect the need for budgetary discipline.

### *Availability and management of appropriations*

#### **Underutilization of appropriations for payment**

1.23. Table 1.4 shows the amount of appropriations for payment remaining unused at the end of 1984. This represents revenue made available by the Member States in 1984 but not needed during the year for the purposes shown in the budget. The amount involved (1 094,9 Mio ECU) is lower than in recent years, due *inter alia* to a cut back by the budgetary authority in the provision of funds in cases where payment appropriations had been consistently underspent. However, the disparity between the funds provided and the real need in the areas of expenditure concerned remains significant.

#### **Build-up of outstanding commitments**

1.24. Table 1.5 shows that, in the areas covered by differentiated appropriations, there has been a further increase to 10 346,1 Mio ECU, in the amount of outstanding commitments at the end of 1984. After allowing for the corresponding payment appropriations car-

**Table 1.5 — Build up of outstanding commitments (differentiated appropriations)**

(Mio ECU)

Year	Net commitments entered into in the year (1)	Payments made in the year	Increase in unliquidated commitments during the year	Cumulative outstanding commitments at the end of the year
	(1)	(2)	(3) = (1) - (2)	(4)
1977				1 802,7
1978	1 623,5	918,8	704,7	2 507,4
1979	2 797,6	1 763,5	1 034,1	3 541,5
1980	3 262,0	2 338,2	923,8	4 465,3
1981	3 700,6	2 594,6	1 106,0	5 571,3
1982	4 554,9	3 032,5	1 522,4	7 093,7
1983	5 466,1	3 664,6	1 801,5	8 895,2
1984	5 954,1	4 503,2	1 450,9	10 346,1
Breakdown of 1984 figures by budget titles:				
— Agricultural structures (Title 3)				1 151,7
— Fisheries (Title 4)				89,8
— Regional policy (Title 5)				4 646,3
— Social policy (Title 6)				2 527,0
— Research, energy etc. (Title 7)				812,7
— Cooperation with developing countries (Title 9)				1 118,6

(1) Taking account of cancellations of commitments and, for 1978, of adjustments of balances due to the EUA variations.

ried forward (563,8 Mio ECU), a balance of some 9 800 Mio ECU remained to be financed out of future Community budgets. The years in which the liabilities are expected to mature are shown on page 30 of volume V of the Commission accounts.

#### **Other liabilities and contingent liabilities**

1.25. At 31 December 1984 these were as follows:

- (a) 202,4 Mio ECU of EAGGF, Guarantee Section advances normally chargeable to 1984 (see paragraph 4.8), and a further 330,0 Mio ECU of second category EAGGF, Guarantee Section expenditure for December 1984 which were deferred to 1985 (see paragraph 4.31 of the Court's annual report for the financial year 1983 (15));

- (b) a contingent liability of some 2 500 Mio ECU on the future disposal of intervention stocks (see paragraphs 4.18 to 4.20);
- (c) obligations for the reimbursement to a Member State of at least 50 Mio ECU of EAGGF, Guidance Section expenditure, for which no commitment was recorded in the accounts (see paragraph 5.23);
- (d) 65 Mio ECU of legal obligations entered into in 1984 in connection with food aid expenditure for which no commitment was recorded in the accounts (see paragraph 2.17(d));
- (e) the reimbursable advances of 593,5 Mio ECU provided by certain Member States in 1984 towards the deficit forecast in the amending and supplementary budget for 1984;
- (f) the deficit of some 827 Mio ECU shown by the Communities' consolidated revenue and expenditure account for 1984.

#### Conclusion on management of appropriations

1.26. The net liabilities at the end of 1984, which will have to be financed by Community revenue during the immediately following years, total at a conservative estimate some 14 000 Mio ECU. This is after taking account of the 1 094,9 Mio ECU of unused appropriations for payment mentioned in paragraph 1.23. There has been some improvement in the information presented in the accounts for the financial year 1984, but they still do not fully reflect the financial situation of the Communities. The Court considers that the situation at the end of 1984 underlines the need to review the relevant aspects of the Community financial system and management, which it identified in paragraph 1.11 of its annual report for the financial year 1983 <sup>(15)</sup>.

#### SUMMARY OF OBSERVATIONS IN THIS REPORT

1.27. The Court has noted that certain subjects dealt with in subsequent chapters of this report reflect problems of a general character, as set out in the following paragraphs. Some general problems were drawn to attention in paragraphs 1.16 to 1.22 of the annual report for the financial year 1983 <sup>(15)</sup>. The aim of a presentation of this kind is to demonstrate the scope for

improvements in the administration of Community policies in general — not only in the specific areas giving rise to observations.

1.28. In important areas of Community activity, particularly where a key role is played by government departments and agencies of Member States (or developing countries), there is a need for the Commission to take a more active coordinating and monitoring role in order to ensure that Community interests are served to the maximum (see paragraphs 3.34 to 3.36, 4.27, 5.30, 7.33 to 7.36).

1.29. In some areas the degree of cooperation received by the Commission from Member States is insufficient to enable it properly to carry out its coordinating and monitoring role (see paragraphs 4.43 to 4.44).

1.30. Control and supervision by the Commission could be strengthened by improving the financial and management information which it has available (see paragraph 7.33, and paragraph 1.17 of the Court's annual report for the financial year 1983 <sup>(15)</sup>).

1.31. There is a need to ensure that Community policies are adequately coordinated and that fundamental conflicts are avoided. Particularly in the agriculture field, measures designed to improve structures and consequently production may not be consistent with market conditions or Community pricing policies (see paragraph 5.63).

1.32. In the field of structural funds, the tendency for Community aid to degenerate into a partial reimbursement of national budgetary expenditure, due to a lack of clear Community objectives and criteria, is notable. The implementation during 1984 of a new Social Fund regime does not seem to have had a significant positive impact in this respect (see paragraphs 7.10 to 7.15, 8.15 to 8.30).

1.33. The Court's observations on issues of principle concerning financial and budgetary management suggest that the advisory and monitoring responsibilities of the Commission's central services should be reinforced (see paragraph 9.15).

1.34. The institutions should devote more attention and resources to the management of treasury operations; in particular there is a need to improve forecasting procedures, thereby reducing cash needs, and to obtain optimum banking terms by exploiting the possibilities of competition (see paragraphs 2.18 to 2.53).

## SPECIAL REPORTS AND OTHER DOCUMENTS

1.35. Special reports adopted by the Court since its last annual report are:

- (a) Special report on the system of aid for liquid skimmed milk used as animal feed.
- (b) Special report on the common organization of the market in olive oil (requested by Parliament).
- (c) Special report on certain aspects of technical cooperation financed by Community development aid.
- (d) Special report on the system for the payment of refunds on agricultural exports (Audit of the export of agricultural products).

1.36. On 30 October 1985 the Court adopted a document, for the attention of the Commission, containing

its reflections on perspectives for the common agricultural policy (Green Paper of 13 July 1985).

## REFUSAL OF APPROVAL BY FINANCIAL CONTROLLERS

1.37. In accordance with the Financial Regulation the Court has been informed that, in relation to 1984, refusals of approval by Financial Controllers were overruled on 10 occasions by the Commission, on one occasion by the Economic and Social Committee and on one occasion by the Court of Auditors. Those cases which the Court considered to be of sufficient importance to bring to the attention of the discharge authority are the subject of observations in paragraphs 2.5, 4.32 to 4.42, 8.11 to 8.14 and 12.15 to 12.20. The other institutions have informed the Court that none of the decisions of the Financial Controller was overruled during 1984.

(<sup>1</sup>) ECSC Treaty, Articles 78d and 78g; EAEC Treaty, Articles 179a, 180b; EEC Treaty, Articles 205a, 206b.

(<sup>2</sup>) OJ C 344, 31. 12. 1982.

(<sup>3</sup>) OJ L 94, 28. 4. 1970.

(<sup>4</sup>) See Chapter 14 of the Court's annual report for the financial year 1981, see footnote (<sup>2</sup>) and paragraphs 7.43 to 7.55 of its annual report for the financial year 1983 (OJ C 348, 31. 12. 1984).

(<sup>5</sup>) OJ L 128, 14. 5. 1985.

(<sup>6</sup>) EEC Treaty, Article 199; EAEC Treaty, Article 171.

(<sup>7</sup>) See paragraph 4.63 of the Court's annual report for the financial year 1983 (OJ C 348, 31. 12. 1984).

(<sup>8</sup>) Compulsory expenditure is that resulting necessarily from the Treaties or from acts adopted in accordance with them.

(<sup>9</sup>) EEC Treaty, Article 203(9); ECSC Treaty, Article 78(9); EAEC Treaty, Article 177(9).

(<sup>10</sup>) Council document 11178/84 annex 1.

(<sup>11</sup>) Report of the Court in response to the conclusions of the European Council of 18. 6. 1983, OJ C 287, 24. 10. 1983.

(<sup>12</sup>) OJ C 232, 11. 9. 1981.

(<sup>13</sup>) See the Court's opinion on the Commission proposal to amend the Financial Regulation, OJ C 232, 11. 9. 1981.

(<sup>14</sup>) EEC Treaty, Article 203(10); ECSC Treaty, Article 78(10); EAEC Treaty, Article 177(10).

(<sup>15</sup>) OJ C 348, 31. 12. 1984.

## 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, the balance sheets of the institutions and the Communities' balance sheet<sup>(1)</sup> and, on the other hand, cash management in respect of the implementation of the general budget.

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

2.2. The amount of 4,1 Mio BFR, included in the balance sheet at 31 December 1983 as deferred expenditure under the heading 'Cash deficit', also appears in

the balance sheet as at 31 December 1984. In the absence of new information on this affair, the Court must refer the reader to paragraphs 2.5 to 2.7 of its annual report for the financial year 1983<sup>(2)</sup>.

## COMMISSION

### *Recoverable taxes and duties*

2.3. The system of procedures governing recoverable taxes and duties calls for the following observations:

- (a) Expenditure is charged to the budget inclusive of all taxes and duties. The amount of recoverable duties and taxes is then determined from evidence other than accounting evidence, on the basis of invoices received by the authorizing departments. This system does not provide the means for checking that all recoverable taxes and duties initially charged to the budget are in fact covered by a request for reimbursement.
- (b) What is more, the amount of recoverable taxes and duties is only entered in the accounts once the request for reimbursement has been sent to the Member State in question. For this reason approximately 2,4 Mio ECU of recoverable taxes and duties for 1984 had not been entered in the balance sheet at 31 December 1984.
- (c) There is always some delay in recovering the sums due. On 1 May 1985, requests for reimbursement of recoverable taxes and duties had been submitted to only two Member States, even though sums were due to the Commission from other Member States.

The Court must refer the reader back to its previous observations<sup>(2)</sup> on the accounting treatment and recovery of taxes and duties.

2.4. The invoicing of value-added tax (VAT) to the Communities is governed by rules that vary from Member State to Member State. Three Member States (Belgium, Italy and Luxembourg) authorize invoicing net of VAT for all purchases made on behalf of the Communities. In the case of the others a formal application for reimbursement has to be made in order to recover VAT, and the procedures vary. As a general rule, applications for reimbursement must be accompanied by the original invoices. The United Kingdom asks, in addition, for written evidence to show that the invoice has been paid. The Federal Republic of Germany, on the other hand, has simplified its procedures by sending its auditors to make on-the-spot visits to the Commission,

which obviates the need for any movements of documents. The Court hopes that the Commission will negotiate with the Member States with a view to harmonizing and simplifying the procedures in respect of exemption from VAT, the ideal obviously being to arrive at a situation where all the Member States accept invoicing net of VAT.

### *Principle of consistency of accounting methods*

2.5. In May 1984 the Commission decided to overrule the Financial Controller's refusal to approve payments (amounting to 0,2 Mio ECU) made in 1983 in excess of available appropriations by the press and information offices and external delegations. The Commission took the view that this amount, which was made up of rents, paid in advance on behalf of certain officials but recoverable by the Commission, could not be charged to the financial year 1983 and should be entered under an extra-budgetary 'Advances' account in the balance sheet at 31 December 1983. In paragraphs 2.20 to 2.24 of its annual report concerning the financial year 1983<sup>(2)</sup>, the Court accepted this line of argument, but pointed out nevertheless that changes in accounting methods should not be justified by reasons of expediency and should be implemented consistently and permanently.

2.6. Although the Commission acknowledged the justice of this observation in 1983, the accounting method used for this type of payment was further modified during the financial year 1984. As a result, the balance sheet as at 31 December 1984 does not include under 'Advances' the expenditure relating to recoverable rents. The fact that the Commission changed its mind regarding the change of method which it had advocated for the closure of the financial year 1983 would seem to indicate that the change of accounting method at the end of 1983 was made purely in order to avoid spending in excess of available appropriations, and not for the purpose of improving the presentation of the accounts. The Court must repeat that changes in accounting methods cannot be justified on grounds of expediency.

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

2.7. In 1981, the Commission's attention was drawn to the excessively long time-lags between the arrival of final statements of expenditure from the imprest

accounts of the press and information offices and external delegations and their entry in the accounts. The Commission replied that it was aware of the problem and that efforts to improve the situation would be continued. At the end of November 1984, however, the average delay in entering these statements in the accounts had reached four and half months.

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

2.8. On 31 December 1984 total advances to staff amounted to 2,5 Mio ECU and total balances on staff current accounts amounted to 0,1 Mio ECU. These sums are supported by computer print-outs which were forwarded to the Court in May 1985 and which contain various anomalies:

- (a) the total of the amounts on the print-outs does not agree with the total for advances set out in the balance sheet because of mistakes in three of the print-outs;
- (b) the debit balance on the printouts does not correspond to the difference between the total of the debit balances and the total of the credit balances on these same print-outs;
- (c) an advances account normally has a debit balance, so that the presence of numerous credit balances (amounting to a total of 1,5 Mio ECU) in these print-outs is hard to understand;
- (d) the print-outs contain numerous foreign exchange differences which should already have been cleared (about 0,1 Mio ECU in all);
- (e) the print-outs contain numerous balances going back to before 1984, and even to before 1983, which constitutes an irregularity, since Article 65 of the Financial Regulation<sup>(3)</sup> provides that, with the exception of certain types of clearly defined advance, all advances must be settled at the latest during the financial year following the payment of the advance.

2.9. These anomalies are partly the result of the unsuitability of the data-processing systems which the Commission has installed and partly the result of weaknesses in the administrative organization. For example:

- (a) the print-out for advances on mission expenses to Brussels-based staff (1 Mio ECU) has not been verified since June 1983;
- (b) DG IX does not use print-outs but prefers a manual system of auxiliary accounts for the purpose of monitoring advances;

- (c) there is no print-out giving the total amounts advanced to each person, in chronological order.

### *Reconciliation of bank accounts*

2.10. On many occasions the Court has drawn attention to the need to carry out regular reconciliations between the balances of bank accounts as entered in the accounts and the bank statements sent by the banks. During the financial year 1984 the Commission made undeniable efforts in this respect. All the same, on 31 December 1984, in the case of the clearing bank accounts, there were still some unreconciled amounts awaiting reconciliation (totalling about 50 000 ECU) which went back to 1981, 1982, 1983 and the first six months of 1984.

### *Accounting deadlines*

2.11. The first general balance of the accounts at 31 December 1984, before the closing entries, was not available until 25 April 1985. The first provisional balance sheet of the Commission as at 31 December 1984 was not available till 8 May 1985. The final versions of the general balance of accounts and the balance sheet of the Commission were not available till 15 May 1985 and the first Community balance sheet only on 23 May 1985. These dates are far too late and the Court must therefore call upon the Commission to review all its internal procedures for the recording and the preparation of the accounts in order to reduce these abnormally long delays in submitting the accounts.

### *Open transfer at the end of the financial year*

2.12. In December 1984, by transfer No 45/84, the Commission increased the appropriations available under Article 950 by 90 Mio ECU. This transfer was financed partly by a transfer of 53 Mio ECU from a large number of different budget titles and chapters and partly by an 'open transfer' of 37 Mio ECU. This latter technique consists of not debiting the transfer to any specific chapter or article. The implication, if this technique is to succeed, is that some chapters or articles must show a surplus at the end of the financial year, which means that it is left up to the institution to select the chapters or articles from which the transfers in question are to be made. The Court must reiterate its reservations (c.f. paragraph 1.13 of its annual report on the financial year 1980<sup>(4)</sup>) with regard to this procedure, which amounts to having a decision taken by the budgetary authority on the basis of conditions which may not be achievable. What is more, the Court also

observes that the 90 Mio ECU by which Article 950 was increased were not even spent during 1984, but were covered by an accounting commitment and were carried forward.

## ECONOMIC AND SOCIAL COMMITTEE

### *Imprest accounts*

2.13. By a decision of September 1984 the Committee set up an imprest account to handle the reimbursement of travel costs and allowances due to the Members of the Committee. This imprest account is not in line with the provisions of the Financial Regulation<sup>(3)</sup> and its implementation measures<sup>(5)</sup>. For example:

- (a) the decision to set up the imprest account did not specify either the maximum advance that could be granted, or the maximum amount of each item of expenditure that could be paid;
- (b) there are no separate accounts for the imprest account: payments made out of it are in practice included in the accounts covering payments made by the central cash office;
- (c) the administrator of the imprest account, along with one of the deputy administrators, also performs the duties of assistant accounting officer; these duties should not be performed by the same person.

2.14. Apart from those made out of the imprest account, some payments made by the central cash office do not receive the prior approval of the Financial Controller on the payment order. These payments are therefore irregular because only an imprest accounts office is permitted to make payments without the prior approval of the Financial Controller.

### *Bank accounts*

2.15. In paragraph 2.30 of its annual report on the financial year 1983<sup>(2)</sup>, the Court pointed out that certain sums placed in deposit accounts had not been entered correctly in the accounts (the amounts placed in the deposit accounts had been entered in the accounts under current accounts). On that occasion the Court reminded the Committee that all transactions must be entered correctly in the accounts. During 1984 the Committee once again placed sums in deposit accounts without entering them correctly in the accounts. The Court must ask the Committee to take the necessary steps to ensure that transactions of this kind are correctly accounted for.

## THE COMMUNITY BALANCE SHEET

2.16. The Community balance sheet and revenue and expenditure account are the result of the consolidation of the balance sheets and budgetary accounts of the Community institutions and bodies<sup>(1)</sup>. All the preceding observations therefore have a bearing on the Community balance sheet. In addition, this balance sheet calls for the following observations.

2.17. Article 76 of the Financial Regulation<sup>(3)</sup> states that the balance sheet should show the situation of the Communities' assets and liabilities as at 31 December of the financial year. If the balance sheet is to give a faithful reflection of the Communities' assets and liabilities as at 31 December, that implies that it should include all significant claims and obligations where the amounts are known, and that cases where the amounts are not known should be shown in an annex. The balance sheet as at 31 December 1984 should thus have included:

- (a) claims on the Member States in respect of non-observance of milk quotas (see paragraph 4.7);
- (b) claims on individuals or on the Member States in respect of certain irregularities (see paragraph 4.25);
- (c) potential claims and debts with regard to the Member States in respect of the clearance of the accounts (see paragraph 4.30);
- (d) the amounts necessary for mobilizing food aid outstanding at 31 December 1984 under the Food Aid Conventions (chargeable to Title 9 and to the EAGGF, Guarantee Section of the Budget).

## OBSERVATIONS ON CASH MANAGEMENT IN RESPECT OF THE IMPLEMENTATION OF THE GENERAL BUDGET

2.18. The Court has looked into the question of cash management in respect of the implementation of the general budget of the Communities. The aim of the exercise was to look mainly at the systems of cash management and assess their suitability for making reliable forecasts, so as to determine the extent to which they satisfy the requirements of sound financial management. By way of example, during 1983, as part of the

implementation of the general budget, the institutions made payments amounting to a total of 23 102 Mio ECU (26 119 Mio ECU in 1984). The Court did not look at cash needs arising from extra-budgetary activities (loans and borrowings, restaurants, staff shops, foundations, schools etc.), the European Development Funds, the European Coal and Steel Community, etc.

2.19. Certain items of information and certain documents (banking terms, scales of interest etc.) were indispensable to the execution of this exercise. None of the institutions, however, was able to produce a document setting out in detail, for each bank, the conditions applying to its accounts or giving in their entirety the scales of interest rates paid on those same accounts. In order to make good this deficiency, the Court was obliged to obtain this information from the banks, which considerably delayed the progress of its investigation, since the information relating to 1983 was largely unavailable until the end of 1984. It was not even possible to obtain all the basic information required in the case of the Commission and the Parliament, as certain banks, including the European Investment Bank (EIB), did not reply to the Court's questionnaire.

2.20. What is more, the cooperation of the departments concerned by this enquiry varied considerably from one institution to another. For example, Directorate General XVIII (Credits and investments) at the Commission did not supply the Court with any document setting out all of its banking conditions, and in addition refused to forward to its bankers a questionnaire which had been adapted for this purpose. This refusal is all the more regrettable as DG XVIII is often likened to a financial institution, so that the banking terms which it has obtained could have set a standard for the rest.

### *Aims of Community cash management*

2.21. In accordance with the constraints imposed by the regulations<sup>(6)</sup>, the Commission may only draw upon the Community's own resources up to the limit of its actual needs and those of the other institutions. The aim of cash management, therefore, must be to keep the balances of bank accounts as low as possible, whilst always ensuring that there is enough on hand to meet all obligations, which results in the following consequences:

- (a) The notion of profit is considerably diminished, as a result of the fact that in theory there should be no surpluses. Nevertheless, the constraints imposed by the regulations are not meant to prevent the institutions from ensuring sound financial management of their cash resources. So any temporary surpluses, though contrary to the letter of the regulations and

evidence of inaccurate forecasting of needs, oblige the institution in question to take steps to invest them in such a way as to secure a reasonable return.

- (b) The importance of the forecasting systems is vital. The fact is that optimum management of the funds held in Community bank accounts would consist of reducing the balances as far as possible to nil, which means arranging perfect synchronization between calls for funds made available by the Member States and the execution of disbursements necessary for the implementation of the budget.

In addition, the Commission's system of cash management should be such as to satisfy the requirements of Article 12, Title IV, of Council Regulation No (EEC) 2891/77<sup>(6)</sup>. This article states that 'the difference between the overall assets and the cash resource requirements shall be divided amongst the Member States, as far as possible, in proportion to the estimated budget revenue from each of them.'

### *Cash management by the Commission on the basis of estimates*

#### **Description of the system**

2.22. In order to fulfil its responsibilities<sup>(6)</sup>, the Commission has set up a system of cash management based on estimates. Starting with the actual balances of accounts opened in its name with the treasuries and the central banks of the various Member States and its own estimate of receipts and payments for the period in question, the Commission calculates at the beginning of each month the forecast balances for each of these accounts at the end of the following month. These estimated balances are then compared with the balances which ought theoretically to be held by the Member States, according to Regulation No 2891/77<sup>(6)</sup>. The differences which are thus brought to light normally result in the Commission's Treasury department issuing a series of transfer orders in order to restore equilibrium between the Member States.

2.23. The system lacks consistency; since for some receipts and payments it includes estimates for both the month in question and the following month while for others it includes only estimates for the month in question. The result is that estimates of own resources and of expenditure by the EAGGF, Guarantee Section, and food-aid expenditure are taken into account for one month only.



### Origins and reliability of the estimates

2.24. In preparing estimates the system makes insufficient use of the authorizing departments, which only forward to the Treasury department information concerning receipts and payments relating to the EAGGF, Guarantee Section, food aid, Social Fund and the ERDF (approximately 80 % of total expenditure). There is no formal procedure for the forwarding of these estimates; the information is usually transmitted by telephone. Nor is there any systematic procedure for the *ex post facto* identification of discrepancies between the actual results and the estimates, nor for explaining such variances. The degree of reliability of the estimates forwarded to the Treasury department varies, depending on the authorizing department concerned.

2.25. Apart from the receipts and payments connected with the Funds mentioned in paragraph 2.24, no recourse is made to the relevant authorizing departments in order to calculate the estimated level of other financial movements. This relates in particular to the other regulations involved in the implementation of the budget, supplying the institutions with funds, administrative expenditure, miscellaneous expenditure etc. The method followed by the Treasury department involves grouping this whole heterogeneous mass under the heading 'cash needs', and the amount is calculated by extrapolation from the graph showing the extent to which the Commission needs to supply its banks with funds. The accuracy of forecasts of this kind is questionable, and it is a pity that they are not calculated more finely, in closer liaison with the Commission's authorizing departments and, where appropriate, with the other institutions.

### Extent to which calls for funds correspond to needs

2.26. Payments relating to the Funds mentioned in paragraph 2.24 are carried out by direct transfer from accounts opened on behalf of the Commission with the Treasuries of the Member States to accounts opened on behalf of the Member States with their own Treasuries. They do not normally go via the commercial banks.

2.27. Payments other than those mentioned in the preceding paragraph (approximately 20 % of the total) are made from accounts held with the Commission's banks and therefore involve genuine calls for funds. As the Commission did not have information available on all the scales of interest rates it was not possible to cal-

culate the average monthly balance of the Commission's accounts with the commercial banks (see Table 2.3); for this very reason, it was also impossible to determine with any accuracy whether or not the forecasting system had helped the Commission to abide by the first obligation arising from the regulations, which is not to call for funds in excess of needs. Nevertheless, apart from the absence of effective contact with the authorizing departments, various other factors affecting the calculation of the Commission's cash needs at its commercial banks call for comment by the Court.

2.28. In a traditional cash management system the banks which are to be used for each payment are selected by the treasurer according to their specific characteristics and, in particular, according to the degree of availability of the funds deposited with them. The Commission's practice differs from this model. The choice of bank to be used is made *a priori*, without any attention being paid to the balances of the accounts, which are, if necessary, subsequently supplied with the requisite funds. The general rule is to have the payment made, as far as possible, by the same bank as the beneficiary's bank. Consequently, in order to be sure of being able to honour payments whilst abiding by this criterion of choice regarding the banks to be used, the Treasury department is tempted to adopt a 'safety first' policy and to maintain high balances on the various accounts.

2.29. The Commission has some degree of obligation in respect of centralization, but also, inevitably, it has an obligation to supervise all the forecast needs of the other institutions which it supplies with funds. In fact, since it can only call upon Community funds to cover actual needs, the Commission ought to check the validity of requests for funds emanating from other institutions. In reality advances to the institutions are granted by the Commission without any checks being carried out, and there is not even a requirement to produce evidence to justify the amount of the advance requested. In addition, looked at as a whole, the Commission's supply deadlines are on the whole too long (generally ten working days on average) and vary from one month to another. It is essential that the institutions, on the one hand, should accurately state their needs and that the Commission, on the other hand, should establish fixed and reasonable deadlines which it must then abide by. The absence of suitable and reliable forecasting systems, added to supply deadlines which are too long and too variable, has the main consequence of encouraging the various institutions to maintain, in the interests of security, excessively high balances on their bank accounts (see paragraph 2.36).

2.30. The Court's enquiries also revealed that, during the financial year 1983, the Commission had overdrafts

Table 2.1 — Payments made retroactively from the EIB bank account

Budget heading	Amount of payment (in Mio ECU)	Date of first request for payment sent by the EIB	Date of the Commission's payment order	Value date applied by the EIB	Retroactivity in days
Article 963 <sup>(1)</sup>	1,5	11. 10. 83	14. 12. 83	8. 11. 83	36
	8,2	31. 10. 84	7. 12. 84	20. 11. 84	17
Article 520 <sup>(2)</sup>	21,2	7. 2. 83	7. 3. 83	2. 2. 83	30
	6,6	7. 2. 83	7. 3. 83	3. 2. 83	32
	6,9	7. 2. 83	7. 3. 83	4. 2. 83	31
	10,1	11. 2. 83	7. 3. 83	11. 2. 83	24
	15,0	10. 3. 83	4. 5. 83	1. 1. 83	123
	1,3	19. 4. 83	31. 5. 83	21. 1. 83	130
	1,2	18. 4. 83	31. 5. 83	21. 1. 83	130
	4,6	19. 4. 83	31. 5. 83	7. 2. 83	113
	1,4	8. 3. 83	13. 4. 83	8. 3. 83	36
	6,3	9. 3. 83	7. 4. 83	9. 3. 83	29
	0,8	15. 3. 83	4. 5. 83	15. 3. 83	50
	1,9	19. 4. 83	31. 5. 83	24. 3. 83	68
	12,5	25. 3. 83	27. 5. 83	25. 3. 83	63
	7,2	27. 5. 83	22. 6. 83	27. 5. 83	26
	5,9	31. 5. 83	29. 6. 83	31. 5. 83	29
	0,5	16. 6. 83	12. 7. 83	16. 6. 83	26
	5,8	30. 6. 83	26. 7. 83	30. 6. 83	26
	3,2	11. 7. 83	28. 7. 83	11. 7. 83	17
	7,2	5. 8. 83	31. 8. 83	5. 8. 83	26
	21,1	18. 8. 83	22. 9. 83	18. 8. 83	35
	22,6	9. 9. 83	11. 10. 83	9. 9. 83	32
	7,1	25. 10. 83	22. 11. 83	26. 10. 83	27
	9,3	28. 10. 83	22. 11. 83	28. 10. 83	25
	7,4	8. 11. 83	25. 11. 83	4. 11. 83	21
	1,4	16. 11. 83	25. 11. 83	4. 11. 83	21
	4,5	9. 11. 83	25. 11. 83	9. 11. 83	16
	7,0	19. 12. 83	12. 1. 84	10. 1. 84	2
<b>Total Article 520 <sup>(2)</sup></b>	<b>200,0</b>				

<sup>(1)</sup> Payments charged to Budget Article 963 'Financial cooperation with Turkey'.

<sup>(2)</sup> Payments charged to Budget Article 520 'Interest-rate subsidies on Community loans to the less prosperous Member States participating in the European Monetary System'.

with several banking institutions of variable size and duration and on which it was obliged to pay interest. The most important was an overdraft with the EIB, the average amount of which was 18,7 Mio ECU for the period from 19 January 1983 to 12 April 1983. This overdraft reached a maximum of 52 Mio ECU at the end of February 1983. The interest which the Commission was thus obliged to pay to the EIB amounted to 0,6 Mio ECU. The responsibility for this overdraft and its consequences is not directly attributable to the Commission's Treasury department. This department was obliged to make a series of payments, in some cases for large amounts, with value dates which were most usually extremely retroactive (up to 130 days, see Table 2.1). These anomalies arose mainly because of problems of transmission of information between the

authorizing departments at the Commission and the Treasury department. It may also be noted that, in the case of some payments, the EIB informed the Commission after the repayment date whilst at the same time charging it overdraft interest.

2.31. The Treasury department should have been given adequate notice of the payments which were to be made so that it could take the necessary steps. In addition, the Financial Controller ought not to have authorized methods of this kind, which are contrary to the principles of sound financial management since they result in considerable costs to the Commission. The Treasury department's reaction, which is quite

understandable, is to leave a high enough balance on each account in future to be able to cope with any payments. Such a practice amounts to making calls for funds which are not occasioned solely by the implementation of the budget, which is contrary to the regulations.

### Distribution of surpluses among the Member States

2.32. The transfers intended to restore equilibrium amongst the Member States, which are determined according to the system followed by the Commission, cannot guarantee that unutilized funds will be equally distributed amongst the Member States for the whole of the period in question (two months). In fact, as they are usually carried out at the beginning of the period, these transfers can only try to correct in advance a theoretical imbalance which, in the absence of such transfers, would appear at the end of the period. It must also be admitted that strict and continuous observance of this 'regulation obligation' proves in reality to be practically impossible. Nevertheless, the present result could be improved by reducing the length of the period covered by the estimates.

2.33. The distribution of unused balances amongst the Member States, which is mentioned in Regulation No 2891/77<sup>(6)</sup>, only concerns balances on accounts opened with the national treasuries. The system followed by the Commission, however, also includes balances held with the central banks. Though no Member State pays interest on accounts opened by the Commission with its Treasury, Ireland and the United Kingdom pay interest on accounts opened with their central banks. The Commission, whilst abiding by the principle of equal distribution of surpluses according to the

system which it applies, might therefore be tempted to give preference, in the two Member States in question, to transfers of funds from the treasuries to the central banks.

2.34. The correct distribution of surpluses amongst the Member States depends very closely on the reliability of estimates of receipts and payments. An examination of this distribution may therefore be considered to be a valid test of the overall efficiency of the forecasting system used. Using the bank statements for the accounts in question, therefore, the Court retraced movements of average monthly balances expressed in value terms for the last nine months of the financial year 1983<sup>(7)</sup>. In accordance with the logic of the Commission's system. The examination also covered accounts with national treasuries and central banks. Table 2.2 therefore reveals the monthly discrepancies in percentage terms between, on the one hand, the proportion of unused funds held at the treasuries and the central banks of each Member State, and, on the other hand, the requirements of the regulations. The results show clearly that the system followed by the Treasury department often did not result in a correct distribution of surpluses during the nine months in question. These discrepancies point up the lack of reliability and accuracy in the forecasting system used by the Commission's Treasury department.

### *Cash management by the other institutions on the basis of estimates*

2.35. Apart from the Commission, only the Parliament uses a forecasting system. As is the case at the Commission, this system is only partly based (or rather,

**Table 2.2 — Discrepancies between the theoretical and the actual distribution of surpluses in 1983 (April to December)**

Month	Belgium		Denmark		FR of Germany		Greece		France		Ireland		Italy		Luxembourg		Netherlands		United Kingdom	
	Mio ECU	%	Mio ECU	%	Mio ECU	%	Mio ECU	%	Mio ECU	%	Mio ECU	%	Mio ECU	%	Mio ECU	%	Mio ECU	%	Mio ECU	%
April	17	2,27	-11	-1,42	-17	-2,22	68	8,92	-67	-8,87	15	1,98	11	1,41	2	0,27	-27	-3,52	9	1,18
May	39	4,65	-3	-0,32	88	10,43	42	4,96	-129	-15,41	1	0,14	-13	-1,52	1	0,11	-7	-0,78	-19	-2,26
June	69	5,16	-21	-1,58	221	16,52	11	0,85	-133	-9,94	3	0,22	-39	-2,93	1	0,06	-20	-1,50	-92	-6,86
July	16	1,26	-12	-0,98	65	5,15	47	3,73	-75	-5,88	17	1,33	-8	-0,64	1	0,05	-	-0,02	-51	-4,00
August	-11	-1,32	-4	-0,43	43	4,98	26	3,07	-108	-12,67	22	2,57	44	5,18	6	0,75	9	1,06	-27	-3,19
September	-13	-1,48	-3	-0,32	36	4,02	13	1,44	-118	-13,11	24	2,68	38	4,23	10	1,10	-23	-2,55	36	3,99
October	5	0,54	-4	-0,46	-45	-4,83	21	2,26	-120	-12,90	13	1,45	132	14,17	10	1,12	-20	-2,17	8	0,82
November	-21	-0,73	-27	-0,96	50	1,76	-16	-0,57	-76	-2,65	-4	-0,14	106	3,72	9	0,33	-98	-3,45	77	2,69
December	-38	-1,44	-31	-1,15	-88	-3,31	29	1,08	37	1,40	10	0,36	101	3,80	11	0,43	-79	-2,95	48	1,78

Table 2.3 — Rate of coverage of net needs for the financial year 1983

(Mio ECU)

Institution	Payments from appropriations carried forward	Payments from appropriations for the financial year	Revenue for the financial year	Net needs for the financial year	Total of the 12 average monthly balances on bank accounts in 1983	Rate of coverage of net needs <sup>(3)</sup>
	(1)	(2)	(3)	(4) = (1) + (2) - (3)	(5)	(6) = % (5)/(4)
Parliament <sup>(1)</sup>	25,1	191,3	19,1	197,3	246,4	125 %
Council	6,6	87,6	10,2	84,0	96,6	115 %
Commission <sup>(2)</sup>						
Court of Justice	1,4	25,7	3,8	23,3	59,5	255 %
Court of Auditors	0,6	14,8	2,0	13,4	16,2	121 %
Economic and Social Committee	0,7	21,7	2,4	20,0	23,5	118 %

(1) As the Parliament had no interest-rate scales for the imprest account bank accounts, both the bank balances and the payments made out of the imprest accounts have been excluded from these figures. In addition, as interest-rate scales were also unavailable for certain bank accounts held by the Treasury Department, the average balance of these bank accounts (equal to 4 % of the total average balance) had to be estimated on the basis of the average balances on the 15th and the 31st of each month.

(2) In view of the fact that 16 % of the interest-rate scales were missing, the idea of reconstituting these amounts for the Commission had to be abandoned.

(3) The rate of coverage represents the surplus of cash over actual needs in percentage terms. A rate of 150 %, for example, would mean that, as an average over the year, available assets were equal to one and a half times the cash needs of the institution in question.

very often, is not based at all) on the authorizing department's estimates. With the exception of the Council, which does partly make use of estimates, the other institutions calculate the level of their monthly cash needs without making proper estimates. Some details may vary, but as a general rule the procedure consists of dividing total forecast needs for the implementation of the annual budget by 12.

cash situation was usually in surplus did not, however, prevent the appearance during the financial year of periodic overdrafts in the case of the Council, the Court of Justice and the Economic and Social Committee. The scale and the duration of these overdrafts, which were usually minimal, varied from one institution to another.

2.36. The Court recalculated the average monthly balance during 1983 of all the bank accounts held by institutions other than the Commission. Comparison of the figures thus obtained with the net financing needs provided a basis for calculating for each institution the extent to which its needs were covered by its assets. Table 2.3 shows clearly how far the results are from the ideal of nil balances. The disparity between the quantity of funds supplied to the institutions and their actual needs resulted during most of the financial year 1983, and also during the financial year 1984, in the accumulation of surpluses which were transferred to deposit accounts. The Economic and Social Committee, for example, converted its cash surpluses into term deposits. Under the terms of present Community regulations, this practice of immobilising funds in deposit accounts can only be accepted in special, isolated cases, where there is a cash surplus. Frequent use of term deposits is not at all in line with the objectives of cash management in the Communities and only serves to emphasize the unsuitability of the forecasting system used by the Economic and Social Committee. The fact that the

### Resources employed

2.37. The equipment, in particular the data-processing equipment used, is very frequently not up to the required standard. In numerous cases the situation is still unacceptable, in particular in the Commission's central treasury departments. In view of the large quantities of funds handled, the complexity of the Community regulations and the fact that the transactions are carried out in several currencies, the inadequacy of the resources employed by the Commission and the complete unsuitability of the data-processing system — to which attention has already been drawn by the Court<sup>(8)</sup> — are surprising. Thus, the computer print-outs giving details of the bank accounts are produced after such long delays that the treasury department has been obliged to keep a parallel, manual set of accounts in order to be able to monitor the situation of its bank accounts on a day-to-day basis.

## Procedures

2.38. The absence of any regulation dealing with the question of cash management has not been made good by precise and complete internal rules. None of the institutions has a written document setting out in precise terms the tasks and responsibilities of the department responsible for cash resources and cash management. Similarly, there is, in general, no description of the way the various back-up systems for cash management should operate. Nevertheless, the Court noted that efforts had been made by the Commission's central treasury departments to define in writing the tasks and responsibilities of the officials employed there.

## Number of bank accounts

2.39. The Court has already criticized the excessive number of bank accounts maintained by some institutions<sup>(9)</sup>. This criticism may be extended to all institutions, except for the Court of Justice and the Court of Auditors, which have concentrated their banking transactions on a limited number of banks (in the case of the Court of Auditors, one bank only). For example, the number of bank accounts maintained by the Commission at 31 December 1984 was 57. The number of the Parliament's bank accounts is still too high (it fell from 42 on 31 December 1983 to 39 on 31 December 1984 and in each case respectively 20 and 19 accounts were for the sole use of the General Treasury department); there are, for example, still accounts at five different banks in Luxembourg, for no apparent reason. Most usually this practice may be explained by the institutions' desire to accommodate their various creditors (officials, suppliers etc.) by using, as far as possible, an account at the same bank as the creditor in order to reduce the delay before payment is received. The Court also observed that during the financial year 1983 some institutions maintained bank accounts where the volume of business was too low to justify their retention.

## Banking terms

2.40. At this point the Court would reiterate the fact that the institutions were unable to supply it with a document setting out all the terms governing their banking arrangements. Some institutions are more or less accurately informed regarding the interest rates paid on their credit balances, whereas their lack of knowledge of the other conditions applying to their bank accounts, on the other hand, is almost total.

- (a) The institutions do not always use the bank which offers the best conditions for carrying out a particular transaction. For example, during the financial

year 1983, the two banks in Luxembourg which offer the best conditions for drawing cheques were not used for this type of transaction by the Parliament.

- (b) The checks carried out by the institutions *ex post facto* (for the purpose of checking that the banks have correctly applied the terms that they have granted) are completely inadequate and the task is rendered almost impossible because of the institutions' unawareness of these terms, because of the absence of full information on interest scales (which constitute an indispensable tool for any check on some of the terms), because of the inadequacy (Parliament) of certain supporting documents supplied by some banks and because in one case (Commission) such supporting documents are not supplied at all.

2.41. Generally speaking, these terms are not negotiated sufficiently thoroughly by the institutions, in spite of the fact that considerable gains may be achieved in this field. For example, whilst this study was being carried out, the Council renegotiated the interest rate which it receives from one of its banks in Brussels. Whereas previously the Council had received on this particular account an annual interest rate of only 0,5 %, it was able to obtain with effect from 1 January 1984 the same interest rate as had been granted by the bank concerned to the Commission, which during the financial year 1983 was equivalent on average to approximately 9,6 %. This enormous difference highlights the importance for all the institutions of harmonized and, if possible, centralized, negotiations with the banks.

2.42. The fact is that there are considerable differences between the terms granted by the banks. For example, in 1983, for the Commission:

- (a) average interest rates paid on credit balances in Belgian francs in accounts held in Belgium varied in a ratio of 1:3;
- (b) some banks, with very low volumes of business, offered interest rates which were slightly higher than those offered by the three banks most frequently used by the Commission;
- (c) average interest rates varied from 2,5 % to 3,4 % in the case of DM accounts in the FR of Germany and from 11,688 % to 15,383 % in the case of lira accounts in Italy;
- (d) the interest rate on credit balances on current accounts in ECU varied from 6,983 % to 9,625 %.

Getting the banks to compete with regard to the entire range of banking services offered, including value dates (for example, it is sometimes more profitable to obtain a reduction of one day's value in the case of frequently-repeated transactions rather than a slight increase in the interest rate paid on credit balances) is

the only way of securing good terms. So far, however, only the Parliament has used the tendering procedure as part of the reorganization of its cash management system.

### *Internal control*

2.43. The Court noted a certain number of weaknesses in internal control.

- (a) The organization of, and the rules governing, security, in particular for the cash offices, should be reviewed (Economic and Social Committee).
- (b) The principle of separation of responsibilities between the authorization of an item of expenditure and the transfers of funds connected with the payment should be observed (Council).

### *Centralization of management*

2.44. Little is said in the regulations about cash management and they are absolutely silent regarding the need for harmonization and centralization of this task. But if the regulations are followed to the letter, control of cash resources in each institution is the almost exclusive responsibility of the accounting officer. For example, the Commission's Treasury department, in spite of the fact that it obviously plays a key role in such matters, has no responsibility, and does not even have any rights, regarding the monitoring of the management of funds in the other institutions, with unfortunate consequences.

### **Overall financial flows**

2.45. The transfer circuits for funds within the Communities are sometimes too long. For example, funds intended for the Economic and Social Committee are transmitted via the Council. The time taken to transmit these funds could be usefully reduced if the Commission was able to transfer them directly to the Economic and Social Committee.

2.46. In addition, transfers of funds between the institutions often result in the deduction by the banks of days of value, which reduces the amount of interest received on credit balances. In most cases this happens because the same bank was not used by the two institutions in question, or because same-day value dating was not included amongst the terms offered by the

bank, or else because the bank did not abide by the agreed terms. Highlighting cases of this kind demonstrates the need for a stricter form of *ex post facto* control than that which at present exists in the various institutions.

### **Powers of negotiation with the banks**

2.47. The fact that the various institutions approach the banks singly obviously weakens their overall powers of negotiation. This is particularly true of the small institutions: they could certainly obtain better banking terms if they could avail themselves of the same 'European Communities' label and present themselves under it. Organized and centralized negotiation with the banks ought to make it possible to avoid the considerable discrepancies observed by the Court between conditions obtained by the different institutions. By way of example, in the case of one bank with which all the institutions, except the Economic and Social Committee, had an account, the rate of interest paid on credit balances varied during the financial year 1983 from 2,5 % to more than 10 %.

2.48. Organized negotiations should go beyond the question of interest rates and should include other terms, including the question of the deduction of days of value. Bearing in mind the financial weight of the Communities, in particular, the institutions should insist on obtaining same-day value-dating for transactions between institutions, but perhaps also the 'combining' of accounts, as well as any condition and service which may reasonably be demanded.

### *Use of the ECU*

2.49. The Commission's Treasury department attempts to make use of the ECU whenever possible, in particular for transfers to other institutions and for exceptional payments. It is undeniable that increased use of the ECU would limit exchange risks and reduce transfer operations and would considerably facilitate the setting-up of a centralized system for cash management. The fact that financial transactions within the Community are carried out in an excessively varied number of currencies clearly constitutes one of the main handicaps to the setting-up and the success of a system of this kind.

2.50. Nevertheless, in spite of the effort that has been made, the proportion of payments made in ECU is still

low (approximately 6 % of all payments made by the Commission in the implementation of the 1983 budget). This low rate is due to the attitude of certain Member States, but also of the Council, which, as an institution, refuses to accept the ECU as a payment instrument. Consequently the monthly advances of funds from the Commission to the Council and then from the Council to the Economic and Social Committee are effected in different national currencies and not in ECU, as is the case with all the other institutions. This practice increases both the number of transfer operations and the exchange risks.

### Conclusions

2.51. In general, the Court's investigation has shown that the institutions do not attach enough importance to cash management, which explains the inadequacy of the resources employed and the lacunae in the existing system.

2.52. In the short term, the Court believes that the Community institutions and bodies must:

- (a) formalize procedures and tasks concerning cash management,
- (b) set up (or improve in cases where it exists) a system for determining estimated financial needs, using, wherever possible, forecasts made by the authorizing departments,
- (c) drastically reduce the number of bank accounts and select, through a process of competitive tendering, a limited number of banks which offer the best terms,
- (d) regularly check that the terms granted by the banks are being implemented;
- (e) ensure that adequate resources, in terms of equipment and manpower, are available to them;
- (f) standardize as far as possible the use of the ECU as a means of payment.

2.53. In the longer term, the Court recommends that thought should be given to the extent to which the present Community regulations are designed to achieve sound cash management.

(<sup>1</sup>) Revenue and expenditure account and balance sheet of assets and liabilities relating to operations under the 1984 budget, Volumes IV, Doc. (COM(85)188 FR — Final), and V, Doc. (COM(85)189 FR — Final).

(<sup>2</sup>) Annual report concerning the financial year 1983, OJ C 348, 31. 12. 1984.

(<sup>3</sup>) Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities, OJ L 356, 31. 12. 1977.

(<sup>4</sup>) Annual report concerning the financial year 1980, OJ C 344, 31. 12. 1981.

(<sup>5</sup>) Commission Regulation of 30. 6. 1975 on measures of implementation of certain provisions of the Financial Regulation of 25. 4. 1973, OJ L 170, 1. 7. 1975.

(<sup>6</sup>) — EEC Treaty, Articles 207 and 208.  
— Regulation No (EEC) 2891/77 of the Council, of 19. 12. 1977 implementing the Decision of 21. 4. 1970 on the replacement of financial contributions from Member States by the Communities' own resources, OJ L 336, 27. 12. 1977, Article 12.

— Financial Regulation of 21. 12. 1977 applicable to the general budget of the European Communities, OJ L 356, 31. 12. 1977, Articles 20, 46, 48, 49 and 70.

— Commission Regulation of 30. 6. 1975 on measures of implementation of certain provisions of the Financial Regulation of 25. 4. 1973, OJ L 170, 1. 7. 1975, Titles VIII and IX.

(<sup>7</sup>) The discrepancies concerning the first three months of the financial year 1983 were the subject of observations by the Court in its annual report concerning the financial year 1982, OJ C 357, 31. 12. 1983, Chapter 9.

(<sup>8</sup>) — Annual report concerning the financial year 1980, OJ C 344, 31. 12. 1981, paragraphs 2.6 and 2.7.

— Annual report concerning the financial year 1982, OJ C 357, 31. 12. 1983, paragraph 2.29.

(<sup>9</sup>) Annual report concerning the financial year 1982, OJ C 357, 31. 12. 1983, paragraphs 2.11, 2.12, 2.14 and 2.30.

## CHAPTER 3

### Revenue

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#### INTRODUCTION

3.1. This chapter relates to own resources and certain miscellaneous revenues of the European Communities included in 'Revenue' of the general budget. Revenues of the European Coal and Steel Community are considered in a separate report by the Court, while revenues of the European Development Fund, negative expenditures, contributions by certain Member States to Euratom research programmes, and pension, tax and other deductions from staff remuneration are relevant to other chapters of this present report.

and value-added tax (VAT) not exceeding 1 % of a uniform Community-wide basis of assessment. Exceptionally, Greece continues to pay a financial contribution in lieu of VAT, based on its gross national product, in accordance with Article 4(2) of the aforementioned decision and pending the introduction in that Member State of the common system for this tax.

#### SUMMARY OF FINANCIAL INFORMATION

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>, that is to say, Common Customs Tariff duties; agricultural levies, including sugar and isoglucose production and storage levies;

3.3. A summary of the general budget revenue of the Communities for 1983 and 1984 is set out in Table 3.1. This shows the figures estimated in the 1984 original budget<sup>(2)</sup>, the figures after amendment by amending and supplementary budget No 1<sup>(3)</sup>, and the actual out-turn of revenue for the financial year in question (see paragraph 3.7 below).



Table 3.1 — Revenue 1983 and 1984

(Mio ECU)

Type of revenue	1983 Actual revenue	1984				
		Original budget	Amending and supplementary budget	Final budget	Actual revenue	Variation (5) — (4)
	(1)	(2)	(3)	(4)	(5)	(6)
Customs duties	6 988,6	7 623,5	+ 260,0	7 883,5	7 960,8	+ 77,3 (+ 1,0 %)
Agricultural levies	1 347,1	1 946,7	—	1 946,7	1 260,0	— 686,7 (— 35,3 %)
Sugar and isoglucose levies	948,0	1 003,3	+ 222,0	1 225,3	1 176,4	— 48,9 (— 4,0 %)
VAT own resources	13 699,0	14 565,9	— 188,9	14 377,0	14 372,1	— 4,9 (— 0,04 %)
Financial contributions	217,7	—	+ 224,2	224,2	222,5	— 1,7 (— 0,8 %)
<b>Sub-total</b>	<b>23 200,4</b>	<b>25 139,4</b>	<b>+ 517,3</b>	<b>25 656,7</b>	<b>24 991,8</b>	<b>— 664,9 (— 2,6 %)</b>
Adjustments to VAT own resources						
for 1983	—	p.m.	— 198,5	— 198,5	— 198,5	
1982	— 256,6	p.m.	+ 5,2	5,2	38,7	
1981	26,8	p.m.	— 7,9	— 7,9	19,4	
1980	35,6	p.m.	— 6,1	— 6,1	12,7	
1979	7,3	p.m.	—	—	15,9	
Miscellaneous revenue	265,3	222,1	+ 0,7	222,8	271,8	
Balance from previous year	1 486,7	p.m.	+ 307,1	307,1	307,1	
<b>Total revenue available</b>	<b>24 765,5</b>	<b>25 361,5</b>	<b>+ 617,8</b>	<b>25 979,3</b>	<b>25 458,9</b>	
Revenue required to finance expenditure	24 458,4	25 361,5	+ 1 887,2	27 248,7	26 879,7	
Deficit		—	1 269,4	1 269,4	1 420,8	
To be financed partially by repayable advances		—	1 003,4	1 003,4	593,5	
Final balance of year — see paragraphs 3.6(b) and 4.6	+ 307,1	—	— 266,0	— 266,0	— 827,3	

### Financing of the budget

#### Exhaustion of own resources

3.4. Article 199 of the EEC Treaty provides that all items of revenue and expenditure of the Communities shall be included in estimates to be drawn up for each financial year and shall be shown in the budget, and that the revenue and expenditure shown in the budget shall be in balance. The original budget for the financial year 1984<sup>(4)</sup> showed that, after revenue from the traditional own resources of customs duties, agricul-

tural levies and sugar levies, the amount remaining to be financed from own resources accruing from VAT necessitated application of a VAT own resources rate of 0,9971 %. In March 1984, the Commission concluded that revenue would fall short of expenditure by 2 726 Mio ECU, and it informed the budgetary authorities in April 1984 that only 43 Mio ECU remained available within the 1 % ceiling. The Commission therefore proposed the introduction of other measures to cover the balance of budgetary requirements in 1984.

3.5. In its opinion No 1/84 of 7 June 1984<sup>(5)</sup>, the Court took the view that the combined provisions of

Article 5 of the EEC Treaty (which requires the Member States to 'take all appropriate measures... to ensure fulfilment of the obligations...resulting from action taken by the institutions of the Community') and of Article 199 placed upon Member States an obligation to make available the balance of funds necessary to cover budgetary requirements.

3.6. The amending and supplementary budget No 1, adopted on 25 October 1984, increased the VAT own resources rate to the 1 % ceiling. The shortfall was covered within the budget by two new budget lines. The Court considers that these do not comply with normal budgeting principles, nor with the requirement of Article 199 of the EEC Treaty that annual revenue and expenditure of the Communities should be in balance:

- (a) Article 820 — 'amount to be financed by reimbursable advances granted by the Member States in 1984' — 1 003,4 Mio ECU.

The Court adheres to the view which it expressed in its opinion No 1/84, that financing the budget by means of reimbursable advances does not fulfil the obligations placed on the Member States by the EEC Treaty.

- (b) Article 302 — 'expected balance from current year' 266 Mio ECU.

The Court considers that the introduction of this article into the budget of the current year was simply a device for disguising the fact that the budgeted expenditure exceeded available revenue, that is own resources plus the reimbursable advances, which is contrary to the provisions of Article 199 of the EEC Treaty.

#### Outturn of the budget

3.7. Customs duties, sugar levies and VAT own resources were each very close to the revised estimate contained in the amending and supplementary budget No 1. On the other hand, revenue from agricultural levies was 686,5 Mio ECU (35%) below the estimate. The Commission has explained this as being due to a combination of reduced imports, lower levy rates on cereals and a high exchange rate for the dollar. The Court considers that the effect of these facts should, to a great extent, have been taken into account during the adoption of the budget.

3.8. Neither in the budget nor in the accounts, is the figure for agricultural levies own resources analysed by

commodity, nor is the income from levies shown gross of the EAGGF expenditure on monetary compensatory amounts. This global accounting, which was commented on in the Court's annual report on the financial year 1979 <sup>(6)</sup>, paragraph 3.22, does not facilitate financial analysis, and it may be that the introduction of more detailed accounting would have assisted more precise revision. In any case, the trend in agricultural levies over the preceding five years clearly demonstrates that the estimate of some 1 900 Mio ECU was unrealistically high (see Annex III, Table 19).

3.9. Without prejudice to the comments made in paragraph 3.6 above, the Court also notes that the outturn was affected by the articles mentioned therein. The outturn for Article 302 is shown in the accounts as zero. For Article 820, only 593,5 Mio ECU of the 1 003,4 Mio ECU budgeted for was in fact made available by 31 December 1984. Some of the consequences on expenditure of the budgetary problems are referred to in paragraph 4.8 of this report.

#### RECORDING AND RECOVERING REVENUE DUE

3.10. In its annual reports on the financial years 1980 <sup>(7)</sup> and 1983 <sup>(8)</sup>, the Court commented on the system of recording and recovering revenue due. Despite some corrective action taken by the Commission, 51 receivable orders for unquantified amounts were recorded as at 31 December 1984.

#### VALUE-ADDED TAX

##### *Option between transitional Methods A and B*

3.11. The Council Decision of 21 April 1970 introduced the concept of financing the Communities' budget entirely from own resources, including a VAT element on a uniform base for all Member States. Council Regulation (EEC, Euratom, ECSC) No 2892/77 of 19 December 1977 <sup>(9)</sup> introduced a transitional measure giving the Member States the alternative of paying on the basis of either Method A (returns) or B (revenue).

3.12. These transitional arrangements were intended to continue in force pending a uniform definitive system, to be decided upon on the basis of proposals to be put forward in a report by the Commission, before 31 December 1984 (as required by Regulation No 2892/77, as amended by Council Regulation (EEC, Euratom, ECSC) No 3625/83 of 19 December 1983<sup>(10)</sup>). It was the intention that the amounts of VAT own resources were to be the same whether determined under the Method A or B.

3.13. The Court considers that the choice between Method A and Method B under the present transitional arrangements is not neutral. Based on enquiries it has made of the Member States, it draws attention to the following aspects:

(a) Each Member State is free to apply whichever method it prefers. Only Denmark and Ireland initially chose to follow Method A, and Denmark exercised its right to change to Method B for the year 1983, as first presented in summary accounts submitted on 1 July 1984. The Court has calculated that this changeover has reduced the amount of own resources payable by Denmark by some 6 Mio ECU (2,2%) for the year 1983.

(b) Own resources determined under Method B depend principally upon the amounts of national VAT collected by the Member States, whereas Method A relates to the amounts established as due. In a questionnaire sent by the Court to each of the Member States (excluding Greece), they were asked 'under what circumstances, if any, would a sum recorded as *prima facie* due, and still believed to be a valid assessment, be altered or cancelled by administrative decision, and to evaluate the economic impact of these administrative decisions'. Broadly, the replies indicated that amounts due may be written off in whole or in part where the national administration decides that the sum is irrecoverable, either because of formal insolvency or disappearance of the trader, or where enforcement would create indefensible hardship. The amounts written off by the five Member States from whom data are so far available, expressed as a percentage of VAT collected during 1983, varied from 0,23% to 2,8%, with a weighted average of 1,3%. By extending this to the eight Member States concerned, the Court estimates that the amount of VAT own resources made available under Method B is less than that which would be made available

under Method A by at least 170 Mio ECU per year in this respect.

(c) The Court also asked the Member States to evaluate the national totals of sums recorded as VAT outstanding as at 31 December 1982 and 1983. According to the limited information available to the Court, the accumulated arrears at the end of 1983 amounted, on average, to 4,8% of VAT collected during that year. This is based on the information provided by five Member States, whose individual rates of arrears varied from 4,2% to 6,6%. Extended to all VAT collected under Method B (i.e. excluding Greece and Ireland), and calculating with VAT own resources at 1%, this implies that an amount of 655 Mio ECU potential own resources was outstanding, due for collection, at 31 December 1983.

(d) In 1984, the Court noted that legislation had been enacted in Italy which allowed taxable persons to submit supplementary returns during a period in 1982. These returns could be made only by taxable persons whose previous returns were either under dispute or had not been properly completed, and the amounts due under this form of, in effect, 'self-assessment' had to be within a fixed percentage of the amounts estimated by the Italian authorities and had to be paid without further delay. This measure was intended to bring about settlement in some of the long outstanding cases known to the Italian authorities, but at the cost of remission of a certain percentage of VAT otherwise due. It would thus have a direct effect on own resources under Method B, but the Court has yet to receive data to evaluate this.

3.14. Invited by the Court to comment on aspects (b) to (d) above, the Commission agreed that amounts written off did effectively make a difference between the two methods, and that arrears would be of interest in the context of any modification. However, the Commission repeated its view that these were not matters with which it could concern itself because, it argued, current Community legislation limited its competence under Method B to amounts collected and calculations thereafter.

3.15. The Court, on the other hand, considers that it is of relevance to the Communities to ensure the completeness of own resources, and that this implies monitoring that all returns, establishments and collections of

VAT arising therefrom are properly undertaken, whether the own resources are thereafter calculated on the basis of returns under Method A or from amounts collected under Method B.

3.16. The Court therefore regrets that the report presented by the Commission <sup>(11)</sup>, as referred to in paragraph 3.12 above, does not take any account of the differences between the methods as noted above by the Court. It considers further that the reference in the report to an exercise carried out by the Statistical Office, which, *prima facie*, raises certain questions as to the completeness of Member States' VAT bases for own resources purposes when compared with national statistics, should have been developed. Similar questions also arose during an exercise carried out independently by the Court wherein it noted that the data on which the weighted average of the national rates of VAT was determined led, for some Member States, to a higher expectation for VAT collections than those actually reported in the Annual Summary Accounts.

3.17. The questions posed by the Court in paragraphs 3.13 and 3.16 above involve very material amounts of potential own resources. The Court therefore suggests that the Commission should appoint an expert working group to study them in more depth. Meantime, the Court considers that, having regard to the real differences between the transitional Methods A and B, the Commission's recent proposal to maintain the status quo disregards the objective of a uniform definite assessment basis, as required by Article 4 of the Council Decision of 21 April 1970.

### *Inspection and enforcement by national services*

3.18. Under current Community legislation, the prime responsibility for inspection and control of collection procedures within the Member States is placed upon the national authorities. The Court notes that the incidence of inspections and controls of VAT records on-the-spot in taxable persons' premises is uneven. Clearly, this is only one of the control measures used, but a definite relationship has been noted between the efforts allocated by Member States to such activities and the additional revenue resulting therefrom; the amount of additional own resources resulting from some inspections carried out in 1983 by seven Member States totalled 216 Mio ECU. The Court asked the Commission whether it has formed an opinion as to what might be an optimum and a minimum frequency

for such controls, but the Commission replied that it felt unable to do so, having regard to the different circumstances applying in each Member State. Nevertheless, the Court considers that the Commission should monitor the effectiveness of national collection procedures, and controls over them.

### *Difficulties in application of VAT own resources*

3.19. In paragraphs 3.14 to 3.20 of its annual report on the financial year 1983, the Court commented on a report made by the Commission on 14 September 1983 which described several of the fiscal 'difficulties' that had been encountered in the application of the Sixth Council VAT Directive of May 1977. Twelve of the cases concerned led to a loss of VAT own resources, and the Court expressed its concern that these matters were taking so long to resolve. The Commission agreed to put all such cases on record in the accounts (see paragraph 3.10 above), but defended the delay in pressing these matters to conclusions by the need for the formal aspects of judicial proceedings to be scrupulously prepared.

3.20. The Commission's proposal for a 19th Council VAT Directive <sup>(12)</sup> dated 5 December 1984 included amendments designed to eliminate some of these 'difficulties'. The Court notes however, that only one of these was to be found amongst the 12 cases which had a negative effect on own resources.

3.21. The Court examined in relation to 1984 two other 'difficulties' which it considers should rapidly be resolved. The first relates to the practice in Denmark whereby a new car is valued for VAT purposes without taking into account the registration tax; this tax amounts to 105% on the first 2 500 ECU of the value of the car and 180% of the value above that level. Taxes imposed on new cars by the Irish, Netherlands and United Kingdom authorities are included in the valuation for VAT purposes under Article 11.A (2) (a) of the Sixth VAT Directive <sup>(13)</sup>. The Court invites the Commission to examine this difference of treatment, which could have an effect on own resources of some 8 Mio ECU.

3.22. The second difficulty concerns the lack of clarity as to the inclusion or not of hire-purchase or financing charges in the value for VAT purposes of sales transactions. This matter is not covered directly by the Sixth VAT Directive, and practices vary among the

Member States. The Court is of the opinion that the Commission should continue to insist on uniformity.

(25 000 tonnes to each of systems A and B). This decision was estimated in the Commission's proposal to result in a suspension of possible levy amounting to 82 Mio ECU, plus a further EAGGF expenditure of 75 Mio ECU for the compensating export of an equivalent quantity of Community produced beef. In the Court's view, this decision was contrary to Article 14 (2) of Regulation No 805/68.

#### AGRICULTURAL LEVIES: SUSPENSION OF LEVIES ON BEEF AND VEAL IMPORTS

3.23. Council Regulation (EEC) No 805/68 of 27 June 1968<sup>(14)</sup>, which established a common organisation of the market in beef and veal, provides for a system of levies to be applied to imports of these goods from third countries. This Regulation, and subsequent amendments, introduced provisions whereby these levies could be totally or partially suspended under certain circumstances. The following paragraphs concern the scheme for suspension of levies in respect of imported frozen beef intended for processing.

##### Quota

3.24. The quantity of meat on which levy may be suspended is to be determined each year by the Council, in accordance with Article 14 (2) of the Regulation, by reference to the amount by which industrial needs are expected to exceed Community supplies of meat suitable for industrial use.

3.25. Import quotas are to be established for this purpose within:

- (a) system A, concerning meat imported for the manufacture of preserved food, which does not contain characteristic components other than beef and jelly, and for which 100% suspension of levies is allowed;
- (b) system B, concerning meat imported for the processing industry for the manufacture of products other than the preserved food mentioned above, for which suspension of 55% of levy applies.

3.26. For the period 1 January to 31 December 1984, the needs of the processing industries were estimated to stay below the available supplies by 60 000 tonnes. Nevertheless, on the basis that import concessions must be determined in the light of existing international agreements and the reciprocal concessions granted to the Community, the Commission proposed, and the Council decided to adopt, a quota of 50 000 tonnes

##### Application within the Member States

3.27. The Court noted that there were variations and weaknesses in the application of this suspension system in the three Member States visited. While most of these referred to the technical implementation and control of documentation, in one Member State insufficient distinction was being made between the system A and system B importations, and it appeared that suspension of levy at 100% was being granted in all cases. Some cases of fraud have been previously noted wherein high quality meat, normally attracting a high rate of levy, has incorrectly benefited from exemption through this scheme. The control of such a quota scheme can thus have a real effect on own resources.

3.28. The Court has drawn the Commission's attention to these aspects. The Commission admitted that so far it had carried out an on-the-spot inspection of this long-existing suspension system in only one Member State. The Court therefore welcomes its response, in which it stated that, following the Court's initiative, it would examine the problems identified with the Member States concerned and would undertake its own inspection visits in each of the Member States.

#### CUSTOMS DUTIES: EXEMPTIONS FROM CUSTOMS DUTIES APPLIED UNILATERALLY BY MEMBER STATES

3.29. Article 223 (1) of the EEC Treaty states that 'any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions or war material; such measures shall not adversely affect the conditions of competition in the common market regarding products which are not intended for specifically military purposes'.

3.30. Several Member States have unilaterally decided that they have the power under this Article to exempt

certain imported goods from customs duties. The Commission does not accept that Article 223 was intended to cover exemption of customs duties and has been in correspondence with the Member States for several years. In this correspondence, the Commission censured such exemptions made by Member States based on Article 223 (1) (b). In so doing, it did not make any distinction between material having an exclusively military nature and material which could equally be used for civilian purposes.

3.31. For its part, the Court referred to this problem in its annual reports on the financial years 1977<sup>(15)</sup> and 1979 (paragraphs 12.15 and 3.34 respectively), and, in particular, asked the Commission to quantify its effect on own resources. In reply, the Commission stated that it would continue to search for a solution enabling uniform rules to apply throughout the Community in full compliance with the provisions of the EEC Treaty relating to decisions altering or suspending Common Customs Tariff duties.

3.32. It was not until 1 October 1984, however, that the Commission began infringement procedures under Article 169 of the EEC Treaty by sending out formal notices to seven Member States, which have continued to apply exemption. The Commission stated that it considered these Member States to be in breach of obligations provided for by Council Regulation (EEC) No 950/68 of 28 June 1968<sup>(16)</sup> on the Common Customs Tariff. However, the infringement action did not cover materials having a specifically military nature. The Commission has reserved the right to return to this aspect at a later date.

3.33. The actions of the Member States would appear to be based more on national financial and economic factors than on military security. The Court hopes that there will be no further delay in resolving the matters now subject to the Article 169 procedure, and, regarding other aspects that remain outstanding, has asked the Commission:

- (a) when will it decide what action to take regarding materials of an intrinsically military nature which have not been included in the Article 169 procedure even though the argument that these should not be exempted from customs duties appears to be equally valid?
- (b) whether it can quantify the customs duties that might be charged both for goods usable for either civilian or military purposes, and for those of an

intrinsically military nature, and what is the total of these amounts since the Court's first enquiry in 1977?

## GENERAL COMMENT ARISING ON THE MANAGEMENT OF OWN RESOURCES

3.34. There appears to be a fundamental difference of approach between the Court and the Commission to questions arising on own resources, well illustrated by the observations raised in paragraphs 3.11 to 3.33 of this report, and by many of the observations in previous years. The Commission feels constrained in its role by the terms of Community legislation (much of which it drafted) which place the prime responsibility for the application and control operations upon the Member States. Thus for VAT, it replied to the Court's enquiries that, since the legislation defined Method B as being related to amounts collected by the Member States, questions relating to the waiving of amounts otherwise due were outside its competence. Similarly, on VAT and the beef suspension of levy system, it has taken the view that legislation provides for the Member States to set up monitoring and control systems, and it 'will depend on the competent authorities' judgement as to what controls are necessary'. The Commission considers that it 'cannot lay down rules on control'.

3.35. The Court acknowledges that the Commission has in the last few years made several proposals to obtain more autonomy in its powers to inspect and monitor the systems applying in the Member States, though most of these proposals have yet to be enacted. It welcomes, too, the recent positive response from the Commission to accept that it has a role in this respect, as given in relation to the suspension system considered in paragraphs 3.23 to 3.28 above.

3.36. The Court will continue to encourage the Commission to undertake a stronger role as part of the auto-controlling process. It considers that there is a responsibility on all parties to work towards ensuring the completeness of own resources, particularly having regard to the remarks in paragraphs 1.6 to 1.22 of this report. It emphasizes the importance of quantifying the effect on own resources of all outstanding problems and of resolving rapidly the most material of these. In line

with this approach, it is clearly the Commission's responsibility to take the initiative in examining the monitoring and control measures applied by the Member

States, to report on their adequacy, and to take steps to improve and increase their effectiveness where there is suspicion as to incompleteness.

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(<sup>1</sup>) OJ L 94, 28. 4. 1970, p. 19.  
(<sup>2</sup>) OJ L 12, 16. 1. 1984.  
(<sup>3</sup>) OJ L 329, 17. 12. 1984.  
(<sup>4</sup>) OJ L 12, 16. 1. 1984, p. 65.  
(<sup>5</sup>) OJ C 228, 30. 8. 1984, p. 5.  
(<sup>6</sup>) OJ C 342, 31. 12. 1980.  
(<sup>7</sup>) OJ C 344, 31. 12. 1981.  
(<sup>8</sup>) OJ C 348, 31. 12. 1984.

(<sup>9</sup>) OJ L 336, 27. 12. 1977, p. 8.  
(<sup>10</sup>) OJ L 360, 23. 12. 1983, p. 1.  
(<sup>11</sup>) Doc. COM(85) 170 final.  
(<sup>12</sup>) Doc. COM(84) 648 final: OJ C 347, 29. 12. 1984, p. 5.  
(<sup>13</sup>) OJ L 145, 13. 6. 1977, p. 1.  
(<sup>14</sup>) OJ L 148, 28. 6. 1968, p. 24.  
(<sup>15</sup>) OJ C 313, 30. 12. 1978.  
(<sup>16</sup>) OJ L 172, 22. 7. 1968, p. 1.

## CHAPTER 4

## European Agricultural Guidance and Guarantee Fund Guarantee Section

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## INTRODUCTION

4.1. In 1984, the management of the EAGGF, Guarantee Section, 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 No 729/70 is that the management is partly decentralized:

(a) at central level, within the limits of the total appropriations of the EAGGF, Guarantee Section, entered under Titles 1 and 2 of the operational part of the budget and under Chapter 40, which concerns the common organization of the market in fishery products<sup>(2)</sup>, the Commission decides upon the advances to be granted each month to the Member States in their national currency, sets aside the corresponding appropriations in ECU by a provisional global commitment and effects the payment by transfer to the account opened for this purpose at the national treasury or other financial institution;

(b) at local level, the financial resources thus made available to the Member States enable them to effect, through the paying agencies or bodies which they have designated, the expenditure financed by the EAGGF, Guarantee Section. The Member States send the Commission monthly declarations, broken down by type of expenditure, in accordance with the budgetary nomenclature. At the end of the financial year, the Member States forward to the Commission an annual summary account;

(c) at central level, this expenditure, converted into ECU, is dealt with in two ways:

(i) the expenditure declared each month is committed by chapter, article or item within two months following receipt of the statements and is then charged as payments, in general within the same period. The section of the revenue and expenditure account relating to the EAGGF, Guarantee Section, which is drawn up before 1 June, summarizes all the preceding information;

(ii) the annual summaries of accounts drawn up by the paying agencies are examined *ex post facto* by the Commission under the procedure for clearing the accounts. The clearance decision constitutes the final stage of the budgetary management procedure relating to a specific financial year. Its financial consequences, whether positive or negative, are entered into

the accounts of the financial year during which the clearance decision is taken.

## SUMMARY OF FINANCIAL INFORMATION

4.3. The principal financial data on the management of the EAGGF, Guarantee Section, appropriations are given in Table 4.1. Total appropriations available for the financing of EAGGF, Guarantee Section, expenditure in 1984 were 18 375,9 Mio ECU. The Commission made available to the Member States appropriations amounting to 18 370,2 Mio ECU. The Member States declared 18 340,8 Mio ECU in expenditure, which the Commission charged to the accounts of the financial year, together with 3,1 Mio ECU for payments made directly, i.e. total expenditure entered in the revenue and expenditure account amounted to 18 343,9 Mio ECU, representing a 16 % increase over 1983.

## COMMENTS ON THE IMPLEMENTATION OF THE BUDGET

### *Presentation of the accounts*

#### **Volume of expenditure to be audited**

4.4. In so far as the practice of negative expenditure, introduced by the agricultural regulations separately from the financial regulations, tends to persist despite criticisms by the Court and the Parliament, it is necessary at least to show the consequences of the practice from the point of view of budgetary transparency. After grossing up the net balances of expenditure entered in the revenue and expenditure account, the actual amounts to be audited for the financial year 1984 are as follows:

	(Mio ECU)
(a) gross expenditure	19 938,4
(b) negative expenditure (receipts)	— 1 594,5
net expenditure	18 343,9

In this connection, the 1 594,5 Mio ECU of receipts incorporated in the EAGGF fund should be compared with the 2 436,4 Mio ECU in agricultural receipts entered as own resources.

Table 4.1 — Summary of accounts 1984

(Mio ECU)

Appropriations		Commitments		Sums charged to revenue and expenditure account	
Automatic carry-overs from 1983: 0,1		—		Payments against automatic carry-overs from 1983: 0,1	
Cancellations of appropriations: 0,0					
Appropriations used: 0,1					
Appropriations from initial budget (Titles 1 and 2, Chapters 40 and 100): 16 542,9		Balance of appropriations available in the Member States at 1. 1. 1984: 35,7 (1)			
Appropriations from amending and supplementary budget No 1: 1 833,0		Advances to Member States:		Sums charged as payments (2):	
		Total normal advances: 9 468,1		Total charged as normal payments: 1 408,4	
		Total advances paid in instalments: 8 630,1		Total charged in instalments and/or as late payments: 16 932,4	
		Total special advances: 234,1			
		Total advances: 18 368,0			
		Repayment of funds (GR): 2,8			
		Exchange difference: -0,6			
		Total amount of provisional total commitments: 18 370,2		Total: 18 340,8	
		Expenditure committed directly by the Commission: 5,7		Sums paid directly by the Commission: 3,1	
Total available: 18 375,9		Total: 18 375,9		Total payments: 18 343,9	
		Decommitment of balance available in the Member States at 31. 12. 1984: 29,4			
Cancellations of appropriations: 29,4				Automatic carry-overs to 1985: 2,6	
Total appropriations used: 18 346,5		Total commitments: 18 346,5		Total: 18 346,5	

<sup>(1)</sup> This balance was included in the commitment of the advance for April.<sup>(2)</sup> The sum charged for May takes into account the consequences of the clearance of the accounts for 1978/79 (-25,5 Mio ECU) and corrections to expenditure in Italy totalling 23 Mio ECU.

## *Implementation of the budget in 1984*

### **Questions of regularity**

4.5. The various financial constraints which had adversely affected the operation of the EAGGF, Guarantee Section, in previous financial years were present to an even greater extent in 1984. The inadequacy of appropriations in the initial budget plus the problems related to the tardy adoption of the supplementary and amending budget gave rise to a whole series of problems which obliged the Commission to make numerous departures from the provisions applicable to the EAGGF, Guarantee Section, <sup>(3)</sup>. For example:

- (a) granting and paying advances to the Member States using procedures which were not in accordance with the regulations;
- (b) delaying detailed commitments and the booking of payments, or making them in instalments and consequently deferring the accounting of expenditure — procedures not provided for in the regulations.

### **Collection of the additional levy in the milk sector**

4.6. In connection with the introduction of a system of production quotas to be allocated amongst the milk producers of each Member State, Council Regulation No 857/84 of 31 March 1984 provided for the collection of an additional levy of up to 100 % of the target price for milk on any excess quantity produced. The levy was to be collected provisionally at the end of each quarter, then calculated definitively on the basis of an annual account at the end of the marketing year. However, for the first two quarters of the year 1984/85, Commission Regulation No 1371/84 provided for the collection of the levy on one occasion only, on 15 November 1984. The revenue entered (as negative expenditure) in the supplementary and amending budget for 1984 totalled 247 Mio ECU.

4.7. Under pressure from the Member States, the Commission adopted a series of amendments which deferred the first payment to 15 December 1984 and reduced the amount to be paid to 50 % of the amount due. In view of the Member States' continuing reluctance to fulfil their obligations, the Commission then

decided, on the basis of its estimate at that time, to reduce the December advances by a total of 96,1 Mio ECU. The only levy actually collected and entered into the accounts for 1984 by the Commission was an amount of 49,5 Mio ECU paid by the FR of Germany. The amount due from the other Member States as at 15 December 1984 was estimated at 63 Mio ECU. Under regulations then applicable, the situation in respect of the sums owed to the Commission by the Member States, and *vice versa*, should have been shown in the balance sheet as at 31 December 1984 <sup>(4)</sup>.

### **Final shortfall of appropriations**

4.8. Despite the cancellation of 29,4 Mio ECU, the outturn for 1984 resulted in the deferment to the financial year 1985 of a total of 202,4 Mio ECU of expenditure chargeable to the financial year 1984. This shortfall of appropriations was mainly due to the non-receipt of expected revenue from the additional levy. It should however be added that the budget did not allow for a consistent reduction in the financial value of the stocks either in 1984 or in 1983. Such a reduction, within the limits set by Regulation No 1883/78, Article 8, could have applied to half the potential loss of 2 500 Mio ECU attributable to these stocks, i.e. 1 250 Mio ECU (see paragraph 4.19).

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

4.9. In sum, the Commission was obliged to make increasingly frequent departures from the provisions of Title VIII of the Financial Regulation and from those derived from Regulation No 729/70, because of the unreasonable demands made on the budgetary management. Most of these irregularities doubtless resulted from the pressure of circumstances over which the Commission's management services had very little control. Nevertheless, the large number of detailed irregularities and the fact that they recur frequently does suggest that a system of regulations which tends to function only in exceptional cases or when infractions are expressly tolerated may not be the most suitable one. In this context, a substantial improvement may well result from the new system currently being studied at the Commission with a view to making direct payments to the national paying agencies and centralizing these agencies' accounts <sup>(5)</sup>.

## COMMENTS ON THE FINANCIAL MANAGEMENT

### *Public storage*

4.10. 'Second-category' or public storage expenditure is to a large extent unavoidable, since intervention purchases of a given product — financed by the Member States at a cost and under conditions fixed by law — are compulsory. The volume of expenditure repayable by the EAGGF during a particular financial year, however, depends on how strictly management determines the technical and financial costs and, in particular, on the disposal policy applied. Generally speaking, any long-term retention of stocks will ultimately result in increased losses, although the extent will depend on the product involved.

### **Evolution of expenditure on storage**

4.11. Expenditure on public storage amounted to 2 700 Mio ECU in 1984, i.e. an increase of 35 % over 1983 expenditure, which itself represented a doubling of the level reached over the previous three years. Expenditure in the milk sector increased by 71 % between 1983 and 1984 and its relative proportion of total expenditure rose from 44 % to 55 %. There was also a large increase in expenditure in respect of beef (+ 29 %) and olive oil (+ 446 %).

### **Overall evolution of stocks and problems experienced with certain products**

4.12. At 30 November 1984, the date prescribed by Regulation (EEC) No 3184/83<sup>(6)</sup> as the end of the accounting year for second-category expenditure, the value at purchase costs of products in public storage was 8 750 Mio ECU (see Table 4.2). This represents an increase of 24 % over the level at 30 November 1983 and a tripling of the value of the stocks compared to their average value over the period 1978-82. The position of the stocks experiencing the greatest problems is examined below (see Tables 4.3 and 4.4).

### *Stocks of milk products*

4.13. In 1984 milk products accounted for 55 % of the total value of stocks, but more than 80 % of the potential loss. The quantities of butter stocks were equivalent to almost two years' purchases. After about two years, butter may well become unfit for human consumption, which obviously affects the sales price and therefore the real value of the stock.

### *Stocks of common wheat*

4.14. As at 30 November 1983, 99,8 % of the common wheat stock was described as suitable for making bread'; this percentage had fallen to 68,8 % by 30 November 1984, the balance being made up of wheat unsuitable for bread-making. This situation resulted from the decision to limit the amount accepted for intervention to 3 Mio tonnes per year at the price fixed for common wheat suitable for making bread. The fact that about a third of the stock was thus replaced by a nominally inferior quality, combined with a reduction in the intervention price, should logically have led to a reduction in the average value per tonne, whereas, on the contrary, it has increased from 187,9 to 195,4 ECU/tonnes. This anomaly — which is due to the accounting methods used by the Commission, particularly when fixing the carry-over price — can only leave a question mark over the true value of the stock and, consequently, the apparent lack of potential loss.

### *Beef stocks*

4.15. As at 30 November 1984, a third of the Community stocks of beef carcasses was to be found in Italy, where the intervention price scale encourages the sending of such stocks into intervention. The disposal price is particularly low in Italy, resulting in the greatest loss — 42 %, compared with an average of 30 %. On the basis of the method referred to in paragraph 4.18 below, the future loss on beef carcasses in Italy may be estimated at 180 Mio ECU.

### **Presentation and closing of the annual accounts**

4.16. In general, the monthly and annual statements of account submitted by the Member States in respect

Table 4.2 — Quantity and value of products in public storage

Product	Position at 30. 11. 1983 <sup>(1)</sup>		Position at 30. 11. 1984 <sup>(1)</sup>	
	Quantity (1 000 tonnes)	Value <sup>(2)</sup> (Mio ECU)	Quantity (1 000 tonnes)	Value <sup>(2)</sup> (Mio ECU)
<b>Cereals:</b>				
— Common wheat	6 806	1 279	4 448	872
— Common wheat unsuitable for making bread	14	3	2 015	391
— Barley	1 673	323	1 636	320
— Rye	312	63	441	92
— Durum wheat	737	187	853	227
<b>Total cereals</b>	<b>9 542</b>	<b>1 855</b>	<b>9 393</b>	<b>1 902</b>
<b>Sugar</b>	—	—	43	26
<b>Fats:</b>				
— Olive oil	121	175	167	272
— Colza	—	—	58	26
<b>Total fats</b>	<b>121</b>	<b>175</b>	<b>225</b>	<b>298</b>
<b>Tobacco:</b>				
— Leaf tobacco	4	3	3	3
— Processed tobacco	11	9	7	5
— Baled tobacco	15	19	4	6
<b>Total tobacco</b>	<b>30</b>	<b>31</b>	<b>14</b>	<b>14</b>
<b>Milk products:</b>				
— Skimmed-milk powder	957	1 458	773	1 242
— Butter	686	2 475	973	3 537
<b>Total milk products</b>	<b>1 643</b>	<b>3 933</b>	<b>1 746</b>	<b>4 779</b>
<b>Beefmeat:</b>				
— Beef carcasses	301	762	468	1 297
— Boneless beef	89	280	127	435
<b>Total beefmeat</b>	<b>390</b>	<b>1 042</b>	<b>595</b>	<b>1 732</b>
<b>Grand total</b>	<b>—</b>	<b>7 036</b>	<b>—</b>	<b>8 751</b>

<sup>(1)</sup> According to the provisions of 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-over value in national currencies the budgetary rates valid for the conversion of the November expenditure.

Source: Fourteenth EAGGF Financial Report 1984, doc. COM(85) 492 final.

of second-category transactions and expenditure are very poorly presented: they require numerous corrections which in most cases, due to the system of accounting, are not made by the Commission departments until the end of the year.

4.17. For 1984, according to the procedure laid down in Article 9(7) of Regulation No 3184/83<sup>(7)</sup>, these corrections will be charged to the 1985 budget as negative expenditure for May 1985, totalling 9,6 Mio ECU. This situation shows clearly that the Commission's objective, as set out at the time of the submission of the above-mentioned Regulation — i.e. to avoid the need to enter unforeseen amounts into the accounts at the end of the financial year — has only been achieved by having recourse to a regulation, adopted by the Com-

mission, which derogates from the general provisions of the Treaty and the Financial Regulation as regards annuality.

#### Entry of potential losses into the accounts

4.18. Neither in 1984 nor in 1983 was the Commission able to make use of the possibility of writing down the value of stocks, as provided for in Article 8(2) of Regulation No 1883/78<sup>(8)</sup>. This provision does, however, limit the maximum admissible loss in value to half the difference between the historical purchase price and the foreseeable disposal price. In practice, the Commission uses as its basis for calculating any loss in value,

Table 4.3 — Changes in potential losses on public stocks

Product	1983		1984	
	Difference <sup>(1)</sup> between selling price and purchase price (%)	Potential loss <sup>(2)</sup> (Mio ECU)	Difference <sup>(1)</sup> between selling price and purchase price (%)	Potential loss <sup>(2)</sup> (Mio ECU)
Barley	—	—	4	12,9
Rye	—	—	7	5,8
Olive oil	—	—	8	21,9
Skimmed-milk powder	83	1 154,2	66	739,0
Butter	64	1 493,3	40	1 310,5
Tobacco	87	16,8	87	11,8
Beef carcasses	18	134,9	30	356,5
Boneless beef	6	16,1	15	61,0
<b>Total</b>	<b>—</b>	<b>2 815,3</b>	<b>—</b>	<b>2 519,4</b>

(1) This figure is calculated as the difference between the average selling prices in the financial year and the average purchase prices as used in the accounts, expressed as a % of the average purchase prices.

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

Table 4.4 — Distribution of stocks by accounting age <sup>(1)</sup>

Products stored	Level of stock at 30. 11. 1984 (1 000 tonnes)	Distribution by accounting age (%)		
		Up to 1 year <sup>(2)</sup>	Between 1 and 2 years <sup>(3)</sup>	Over 2 years <sup>(4)</sup>
Common wheat suitable for making bread	4 448	64 %	22 %	14 %
Olive oil	167	78 %	14 %	8 %
Skimmed-milk powder	773	52 %	48 %	—
Butter	973	52 %	48 %	—
Beef carcasses	468	75 %	25 %	—
Boneless beef	127	69 %	31 %	—

(1) Comparison between the levels of public stocks at 30. 11. 1984 and the volumes of intervention purchases during the periods preceding this date.

(2) Quantities purchased between 1. 12. 1983 and 30. 11. 1984.

(3) Quantities purchased between 1. 1. 1983 and 30. 11. 1983.

(4) Quantities purchased prior to 1. 1. 1983.

on the one hand, the carry-over prices fixed in accordance with Article 8(1) of Regulation No 1883/78, in the case of the historical purchase price, and, on the other hand, the weighted average selling prices for the financial year, in the case of the foreseeable disposal price. In present circumstances, this results in an optimistic estimate of the realizable value of the stock.

4.19. If this method is nevertheless applied to the products in stock as at 30 November 1984, the potential

loss may be estimated at 2 519 Mio ECU (see Table 4.3 for details); this would have allowed a writing-down of 1 259 Mio ECU if the above-mentioned rules had been compulsory. Bearing in mind, on the one hand, the limited opportunities for sales in 1984, whether due to the state of the market or budget constraints, and, on the other hand, the observations made about the ageing of products in stock and the limitations of the method applied, it is important to stress that the amount quoted above is the very minimum future loss, which is concealed in the book value of the stocks.

4.20. The Court notes that, after submitting its revenue and expenditure account for 1984, the Commission annexed to it a note concerning intervention stocks and related potential costs. This step is in line with the observations submitted in this connection by the Court, which nevertheless reserves the right subsequently to check the amounts in question and to evaluate the assessment criteria adopted.

#### Conclusion with regard to the financial management

4.21. Since the book value of public stocks increased by 24 %, and related expenditure by 35 %, over the financial year 1984, it is clear that the Commission cannot really control this category of expenditure under the present circumstances. Although the future cost of losses on sales can be estimated at 2 500 Mio ECU — according to the method described in paragraphs 4.18 and 4.19, which is itself open to criticism — the situation is aggravated by the fact that products in stock have been allowed to age more than is normal, giving rise to an alarming reduction in their disposal value. This qualitative aspect is likely to increase the potential cost which will have to be borne by subsequent budgets.

#### OBSERVATIONS ON THE INTERNAL CONTROLS

4.22. Community legislation has set up different types of controls which normally complement one another.

- (a) The Member States are primarily responsible for checking that the operations financed by the EAGGF conform to the rules for the organization of markets and the decisions on the implementation of those rules. They are also required to prevent and follow up irregularities and recover the amounts paid in error.
- (b) The Commission's task is to manage the information and early warning system for irregularities that have occurred in the Member States. Within the context of its *ex post facto* checks for the purpose of clearing the accounts of the Member States, the Commission also has to ensure that these accounts are consistent with the underlying operations. The Commission's Financial Controller has, among other things, to ensure that the central budgetary and accounting operations conform to the rules.

#### Frauds and irregularities

##### Value of statistics

4.23. In 1984 the Member States reported 126 cases of irregularity which had had financial consequences, amounting to 5,8 Mio ECU, nine cases with no financial consequences, two attempted cases of fraud and 204 cases relating to premiums for the conversion of herds. The breakdown of these figures is given (by type of measure, market and Member State) by the Commission in its 14th financial report on the EAGGF (Doc. COM(85) 492 final). Generally speaking, the Court can only confirm the doubts it expressed in previous annual reports about the value of such statistics. It should be noted that, until 1984, cases of overpayments which had already been recovered when the corresponding irregularity was reported were recorded as 'irregularities with no financial consequences'. This accounting error considerably reduced the estimated financial effects of fraud.

4.24. There are, of course, grounds for hoping that the computerization of information on frauds and irregularities will improve the situation<sup>(9)</sup>. The Commission has in fact done considerable research on the types of frauds and irregularities which have affected the EAGGF, the control methods and techniques used to detect them and the means of administering, analysing and following up the information at its disposal. It has also tried to optimize the information to be redistributed to the national control authorities in order to increase their effectiveness. This computerized file is not yet however in operation.

4.25. At the end of 1984, the total to be recovered for frauds was 100 Mio ECU; this amount is not shown in the balance sheet.

##### Inadequate results of the campaign against fraud

4.26. The Court again noted far too many weaknesses in the fraud prevention measures undertaken jointly by the Commission and the Member States for the situation to be considered generally satisfactory.

*At Commission level*

4.27. Taking into account the number of staff employed on this task, the Commission has in fact been able to monitor the most sensitive cases, but a number of shortcomings still limit the effectiveness of its activities:

- (a) the Commission's use of its powers of investigation appears to be over-cautious. Although Article 9(2), subparagraphs 1 and 2, of Regulation No 729/70 confers on officials appointed by the Commission particularly far-reaching powers to carry out on-the-spot inspections, the Commission usually adheres to the procedure set out in Article 6 of Regulation No 283/72, which depends on the willing cooperation of the Member States. However, goodwill on the part of the Member States is too often lacking (cf. paragraph 4.28 below);
- (b) the research activity undertaken by the Commission often does not result in any really useful conclusions because the methods of intervention and the penalties are inadequate. The Commission has not attempted to be a party to litigation procedures at national level in cases where the financial interests of the Community are at stake. Nor does it seem to have contemplated using the legal means available to it under the Treaty to compel negligent Member States to take action;
- (c) finally, it would be desirable for the Commission to learn the lessons arising from the irregularities it uncovers even more frequently than hitherto so as to amend the regulations that have been violated in order to strengthen the control mechanisms or to single out those elements that gave rise to the fraud.

*In the Member States*

4.28. The main thing the Court noted was a certain indifference on the part of the Member States to the financial interests of the Community and a more or less general lack of cooperation in a number of areas:

- (a) the Member States generally refrain from reporting to the Commission cases of frauds and irregularities detected prior to payment (cases of attempted fraud), although reporting such cases would highlight the quality and effectiveness of their preventive checks. It would also enable the Commission and other Member States to note areas where there

is a risk of fraud and to direct their subsequent inspections accordingly;

- (b) with regard to the implementation of Directive 77/435, it should be noted that two Member States have still not achieved the required rate of scrutiny, while a third Member State has not reported on the inspections made in this context. More generally, the scanty information received about the content and results of the checks is far from helping the Commission to take appropriate action to guide the control programmes of the Member States with regard to the procedures or systems which are most susceptible to fraud;
- (c) finally, the Member States have frequently shown little inclination to cooperate with the Commission's enquiries, particularly when frauds or irregularities within their territory were involved. Some even refused to cooperate in carrying out enquiries when it appeared that national beneficiaries were involved. In another case, a Member State released sums lodged as surety despite requests to the contrary from the Commission.

**Conclusion with regard to the system of fraud prevention**

4.29. Altogether, the present system set up by the regulation concerning EAGGF irregularities, the directive on the scrutiny of commercial documents and the texts relating to customs cooperation does not allow the Commission to carry out properly the prompting and coordinating role which it should play. Short of substantially expanding the legal and material resources needed for direct Commission intervention, the effectiveness of the campaign against fraud could be improved only by a far closer supervision of the Member States' activities and a far more systematic questioning of their responsibility.

*Clearance of the accounts***Financial effect of the clearance decisions**

4.30. The decisions taken in respect of clearance during the financial year 1984 related to the accounts



submitted by the Member States for 1978 and 1979. These decisions gave rise to a net recovery of 25,5 Mio ECU, bringing to 359,2 Mio ECU the amounts recovered since 1971, the year in which the EAGGF, Guarantee Section, financing system was introduced. The figure of 25,5 Mio ECU includes, in addition to various accounting adjustments, refusal of expenditure totalling 123,6 Mio ECU for the financial years 1978 and 1979 and acceptance of expenditure totalling 111,5 Mio ECU which had previously been refused pending submission by the Member States of the requisite supporting documents. The total amounts financed by the EAGGF, Guarantee Section, from the outset (1971-84) come to 115 887 Mio ECU and, according to the regulations, 97 442 Mio ECU should have been cleared at the end of 1984 (1971-83). However, the amount actually cleared was 46 057 Mio ECU (1971-79) and the failure to deal with the balance of 51 385 Mio ECU (1980-83) is due to delays in the clearance procedure. Furthermore, the 46 057 Mio ECU cleared cannot be considered final because of a number of reservations. Following the clearance decisions relating to 1978 and 1979, these reservations, together with previous reservations which still apply, can be divided into:

- (a) provisional acceptances of expenditure (positive reservations) totalling 1 039 Mio ECU, including 438 Mio ECU resulting from the 1978 and 1979 clearance decisions and 601 Mio ECU from previous decisions for which the reservation has not explicitly been withdrawn;
- (b) provisional refusals of expenditure (negative reservations) totalling 46 Mio ECU, including 44 Mio ECU under the 1978 and 1979 clearances.

These amounts are not mentioned in the balance sheet of the Communities although they are likely to affect future financial years.

4.31. Overall, there is no assurance as to the definitive nature of the clearance decisions taken as a whole, since the Commission leaves open the possibility of going back on its previous positive reservations without setting a deadline for final adoption, by a decision at the same level, of the expenditure in question.

#### **Refusal of approval and overruling of refusal in connection with the 1978 and 1979 clearance operations**

4.32. The verifications which led to the clearance decisions mentioned in paragraph 4.30 were analysed by the Court. The results of these checks, contained in the decisions of 8 February 1984, do not give rise to any special comments, with the exception of four cases, three of which occasioned a refusal of approval by the Financial Controller, followed by a decision by the Commission to overrule this refusal. Two of these cases relate to conflicts with the United Kingdom and France which are of considerable financial significance. They are analysed below in paragraphs 4.34 and 4.39. The third case relates to the acceptance of questionable export refund expenditure by Belgium for powdered milk under conditions already criticized by the Court in its annual report for 1983 with reference to the 1975 and 1976 financial years (financial impact not calculated).

#### *Criticism by the Financial Controller of the reservations*

4.33. The fourth case, relating to aid to tobacco in Belgium, is interesting in so far as it gave the Financial Controller the opportunity to reiterate his objection in principle to the reservations to which the clearance decisions are subject. As the case in point involved a negative reservation (provisional refusal of expenditure), he was unable to withhold his approval but could only stress the need for a definitive refusal on the grounds that the substantial conditions laid down by the regulations for placing leaf tobacco under control at the time of processing were not fulfilled. This position is in any case akin to that adopted by the Court itself with regard to the practice of both positive and negative reservations.

#### *The case of the Milk Marketing Boards, United Kingdom*

4.34. The special situation of the Milk Marketing Boards (MMBs) with regard to the rules of the Treaty and secondary legislation arises from the fact that these bodies have a monopoly over the purchase and sale of milk. The situation should have been regularized before the end of the transitional period following the accession of the United Kingdom, i.e. by 1 January 1978, but no change was made until 20 June 1978, when Council Regulations No 1421/78 and No 1422/78<sup>(10)</sup> were adopted:

- (a) Council Regulation (EEC) No 1421/78 amended the basic Council Regulation (EEC) No 804/68 of 27 June 1968<sup>(11)</sup> to make it compatible with the existence of the MMBs and with some of their practices;
- (b) Council Regulation (EEC) No 1422/78 specified the rules which the MMBs should observe in order to receive and to retain their authorizations.

4.35. Among these measures, Article 9 of Regulation No 1422/78 laid down the provisions which must apply to the selling price of milk to consumers and specified that these prices should be communicated beforehand to the Commission, which would itself notify them to the other Member States. The transitional measures, designed primarily to facilitate the changeover to the new arrangements, could not, in the case of Article 9, apply for more than a period of four months. However, Commission Regulation No 1565/79<sup>(12)</sup> did not lay down the procedures for implementing Regulation No 1422/78 until 25 July 1979. Neither its objective nor its effect could therefore have been to extend the transitional period for the application of Article 9. Furthermore, Article 6 of Regulation No 1565/79 was itself intended merely to specify, in relation to the selling prices, the detailed provisions necessary to ensure their compliance with Article 9 of Regulation No 1422/78.

4.36. The Commission departments were therefore fully entitled to wonder — during the preparation work for the decisions on the clearance of the accounts for 1978 and 1979 in January 1984 — whether the expenditure incurred on milk in the United Kingdom had been effected under conditions compatible with the rules of the Treaty, particularly the rules on freedom of movement of goods and non-discrimination, and with the provisions of the basic regulation as amended in 1978, particularly as regards consumer prices. The file which the Court has examined shows clearly that:

- (a) the Commission knew for certain in both 1978 and 1979 that differentiated selling prices were applied by the MMBs;
- (b) the terms of the authorization decision contained in Article 1 of Regulation No 1565/79 of 25 July 1979 could not under any circumstances have been intended to approve practices contrary to the provisions of Article 9 of Regulation No 1422/78, which were directly applicable at the latest from 2 November 1978;
- (c) the Commission was therefore justified in considering ineligible all or part of the expenditure effected by the MMBs during the financial years covered by the clearance of the accounts for 1978 and 1979;
- (d) the only fundamental questions related, not to the substance of the case, but to the following points:

- (i) firstly, the date from which the legality of the facts of the case could be called into question;

- (ii) secondly, the fact that the Commission, although aware of the irregular situation of the MMBs, had allowed the British authorities to believe that their present system was satisfactory, to the extent of granting them the authorization provided for in Article 1(3a) of Regulation No 1422/78 and never making provision for withdrawing it, as laid down in (b) of the same paragraph;

- (e) the Financial Controller, to whom a draft decision was referred, found it impossible to state that 'the expenditure had been effected in a proper and lawful manner with regard to the provisions applicable' and, 'in the absence of any other proposal enabling a more detailed assessment of the sector to be made, if appropriate', found himself 'obliged to refuse his approval altogether' in the case of the respective amounts of 201 Mio UKL (1978) and 236 Mio UKL (1979) (755 Mio ECU);

- (f) the Commission nevertheless overruled this refusal in the decision which it took the same day on the grounds 'that the expenditure borne by a Member State must be charged to the EAGGF, even if the transactions do not comply with the provisions of Community law applicable, in so far as the Commission's conduct may have justified an action taken by a Member State which did not comply with Community law';

- (g) in addition, the Commission instituted proceedings against the United Kingdom on two counts of infringement:

- (i) infringement A 78/82: proceedings were instituted by a formal notice on 10 June 1982, which led to the case being brought before the Court of Justice on 25 January 1984. The main charge is that the MMBs applied differentiated prices to milk, according to the final use of the derived products (for example: butter intended for intervention or placed directly on the market), giving rise to discrimination between British producers and those of the other Member States;

- (ii) infringement A 61/83: legal proceedings were initiated on 27 May 1983 and are at present at the reasoned opinion stage. The charge is that prices were further differentiated according to

their destination in non-Member States and that this amounted to an additional refund being granted to British exporters and therefore further discrimination against exporters in the other Community countries.

Financial Controller favoured disallowance of the full amount due to serious control weaknesses of long standing which had come to light during visits on the spot carried out under his aegis in November 1976 and June 1977.

4.37. Under these circumstances, and independently of the case pending before the Court of Justice, the Court of Auditors is obliged to make the following observations:

- (a) the Council regulations necessary to rectify a situation which was contrary to the general principles of the Treaty and to the rules of the market organization were only adopted belatedly in 1978, more than five years after accession and in any case several months after the end of the transitional period;
- (b) according to the Commission itself, equality of treatment between Community operators had still not come into effect when, after a four-year delay, it had to decide on the clearance of the accounts for 1978 and 1979, i.e. on 8 February 1984;
- (c) the first measures designed to secure the application of the provisions of the basic regulation, as amended in 1978, were not seriously implemented until almost four years after it had entered into force;
- (d) the time taken for the Commission to react helped to prolong an abnormal state of affairs; this finally led the Commission to invoke the failures of its own management as a reason for regarding as inevitable a decision which was contrary to the strict budgetary standpoint recommended by its Financial Controller.

4.38. Overall, the Commission's action in this matter was not consistent with the principles of sound financial management.

#### *The case of wine distillation, France*

4.39. Another case involving the overruling of the Financial Controller was the acceptance by the Commission in February 1984 of the greater part of the expenditure incurred by the French intervention agency on aid for wine distillation. Although the clearance decisions were for the financial years 1978 and 1979, the expenditure related to the five financial years 1975 to 1979. The total amount accepted was 95,1 Mio ECU. Some 13,5 Mio ECU were disallowed, whereas the

4.40. No serious attempt was made by the relevant Commission departments to follow this up by a detailed investigation of the situation until 1982. In the meantime the Commission decided on the clearance of accounts for 1975, 1976 and 1977 but entered a reservation in relation to the expenditure on wine distillation pending the detailed investigation referred to above, which was carried out jointly with the French authorities and which formed the basis for the eventual acceptance of a substantial part of the expenditure involved.

4.41. Having examined the results of this investigation, the Court is of the opinion that the Commission's decision to accept this expenditure, notwithstanding the views of the Financial Controller, was unjustified for the following reasons:

- (a) although the regulations<sup>(13)</sup> left the detailed controls to be decided by the Member States, the aid could only be paid for table wine (or in some cases, other wine belonging to expressly defined categories) which was the subject of a distillation contract concluded before a certain date between the producer and the distiller. The distiller was obliged to pay a minimum price for the wine and to complete distillation within a certain period. The control system operated by the French authorities, though suited to the needs of their own fiscal arrangements, paid scant regard to the foregoing requirements. Thus, although the detailed investigation led the Commission to conclude that all materials entering the distillery were eventually distilled into alcohol, the system gave no guarantees regarding observance of the other provisions,
- (b) the national authorities concerned were unable, even subsequently, to state the number of cases which had been handled in accordance with the Community's requirements,
- (c) the detailed investigation carried out on a sample basis in 1982 revealed, nevertheless, that 87,3 % of the cases examined were in fact covered by valid distillation contracts and this percentage was used as a basis for the final clearance decisions. However, the statistical reliability of the sample chosen for this investigation is open to serious questions. Thus:

- (i) almost 50 % of the total of 135 distilleries had to be excluded when it was discovered that essential supporting documents had been destroyed;
- (ii) in view of the very large number of cases involved, the sample was limited to distillation operations carried out in 1975 at 14 distilleries;
- (iii) no cases were chosen for examination from the financial years 1976, 1977, 1978 and 1979, which accounted for some 33 % of the total expenditure in question;
- (iv) the test results varied greatly as between the distilleries actually examined.

In these circumstances, extrapolation<sup>(14)</sup> of the test results to the totality of the transactions for all the years in question is of doubtful validity;

- (d) even in the cases examined, the investigation was unsatisfactory in two important respects:
  - (i) the status of the wine as 'table wine' was insufficiently attested. In the complete absence of controls on the nature of these deliveries (particularly as regards the minimum acidity required), the favourable presumption made by the Commission in this regard, however justified it might be in normal circumstances, was not sufficient to allow the expenditure as a charge on the Community budget;
  - (ii) there was insufficient evidence to show that the time limits for distillation had been respected.

4.42. Two perplexing aspects of the matter, for which no satisfactory explanation can be found in the Commission's files, are:

- (a) why the systems weaknesses were not brought to light until 1977;
- (b) why the Commission waited until 1982 to carry out a detailed investigation, the necessity for which must have been clear as early as 1977. Had the investigation taken place then, it would have been significantly simpler and the problem of missing documentation would have been less acute. Furthermore, three consecutive reservations in the clearance decisions relating to the accounts for 1975, 1976 and 1977, respectively, could have been avoided and the dimensions of the problem largely reduced.

#### **Problems posed by the non-cooperation of the Member States**

4.43. In reply to the observations made earlier by the Court in its special report<sup>(15)</sup> and in subsequent annual

reports, the Commission said that it was attempting to improve its control methods by carrying out audits on the basis of systems analysis. This approach, which is the one followed by the Court itself, has indisputable advantages, in that it fully covers the area of audit and uses necessarily limited resources in the best possible way in auditing the most important and most sensitive operations. However, in order to be fully effective, it presupposes certain conditions which have proved particularly difficult to fulfil where management is decentralized and responsibility is shared with the Member States, as in the case of the EAGGF, Guarantee Section.

4.44. Audit and control at Community level obviously requires information not only on the national audit systems in principle, but also on their actual operation and their results. The Commission and its departments responsible for auditing are far from achieving this. Although Article 1 (b) of Regulation No 1723/72 <sup>(16)</sup> imposes an obligation on the Member States to submit to the Commission their audit reports in support of the annual summaries of accounts used as the basis for clearance verifications, these documents are most often missing or are of a purely formal nature. Although, more generally, Articles 4, 8 and 9 of Regulation No 729/70 imply the use in the management of the EAGGF of an administrative procedure capable of being checked by the Community departments, the latter most often do not have access to the results of national internal audits. Under such circumstances, this method is unworkable and the Community auditors have no other choice but to carry out more thorough audits, in so far as their own limited means permit.

#### **GENERAL CONCLUSIONS**

4.45. After examining the financial management and activities of the Commission with regard to the EAGGF, Guarantee Section, in 1984, the Court's main findings were as follows:

- (a) the large number and frequent recurrence of detailed irregularities in the operation of the procedures for implementing the budget pose the problem of whether a system of regulations which tends to function only in the case of exemptions and derogations is in fact suited to the task;
- (b) because of inadequate control over the level of stocks and related expenditure, and a management which has not attached proper importance to the problem of the ageing of products in stock, future

budgets will inevitably be burdened by considerable costs;

- (c) clearance delays, irrespective of whether they are aggravated by the accumulation of reservations, have delayed the resolution of important management disputes, such as those which arose in connection with the Milk Marketing Board in the United Kingdom or wine distillation in France. On this account, the Commission found itself in a situation where its own negligence was revealed and it had to take decisions based on grounds which were open to criticism. This is likely to weaken consider-

ably the regulatory effect of the clearance procedure and its value as a deterrent;

- (d) the attitude of the Member States, both with regard to the checks for which they are responsible (daily management, prevention of fraud) and those to which they are subject (clearance), is not calculated to aid the Commission in the exercise of its own management responsibilities. These checks are, however, the necessary counter-balance to the present financing system based on advance payments of Community funds and on the decentralized administration of payments to recipients.

(<sup>1</sup>) OJ L 94, 28. 4. 1970, p. 13.

(<sup>2</sup>) The management of the measures financed by means of appropriations entered under Chapter 40 forms the subject of observations in Chapter 6 of this report.

(<sup>3</sup>) This point has been discussed in previous annual reports (see, for the 1983 financial year, OJ C 348, 31. 12. 1984, paragraphs 4.8-4.26) and, for the 1984 financial year, in a letter sent to the Commission departments.

(<sup>4</sup>) New regulations made after the end of the financial year resulted in all payments being carried forward to the end of the marketing year, most of the Commission's claims being cancelled and reimbursement to the FR of Germany being required. According to generally accepted accounting principles, such post-balance-sheet events should also be mentioned.

(<sup>5</sup>) Cf. annual report for the financial year 1983, paragraph 4.26.

(<sup>6</sup>) Commission Regulation (EEC) No 3184/83 of 31. 10. 1983, OJ L 320, 17. 11. 1983.

(<sup>7</sup>) Commission Regulation (EEC) No 3184/83 of 31. 10. 1983, OJ L 320, 17. 11. 1983.

(<sup>8</sup>) Council Regulation (EEC) No 1883/78 of 2. 8. 1978, OJ L 216, 5. 8. 1978.

(<sup>9</sup>) Cf. Commission's reply to paragraph 4.38 (b) of the annual report for the financial year 1983.

(<sup>10</sup>) OJ L 171, 28. 6. 1978, pp. 12, 14.

(<sup>11</sup>) OJ L 148, 28. 6. 1968, p. 13.

(<sup>12</sup>) OJ L 188, 26. 7. 1979, p. 29.

(<sup>13</sup>) For example: Nos 267/75, 1036/75, 567/76 and 1971/76 together with the relevant implementing regulations.

(<sup>14</sup>) The extrapolation was applied in a modified form for transactions occurring after improved arrangements had been introduced by the French authorities on 1 September 1977. These transactions accounted for some 3 % of the total allowed.

(<sup>15</sup>) Cf. OJ C 313, 29. 11. 1982.

(<sup>16</sup>) Cf. Commission Regulation (EEC) No 1723/72 of 26. 7. 1972, OJ L 186, 16. 8. 1972.

## CHAPTER 5

## European Agricultural Guidance and Guarantee Fund, Guidance Section, and specific agricultural measures

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## INTRODUCTION

5.1. 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>, finances common measures adopted in order to attain the objectives set out in Article 39 (1) (a) of the EEC Treaty, including the structural modifications required for the proper working of the common market. 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 by the EAGGF, Guidance Section.

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 929/79 of 8 May 1979<sup>(3)</sup> earmarked a sum of 3 600 Mio ECU for EAGGF, Guidance Section operations in the period 1980-84, which was raised to 3 755 Mio ECU by Council Regulation (EEC) No 3509/80 of 22 December 1980<sup>(4)</sup> as a result of the accession of Greece to the Community. At 31 December 1984, the overall amount of Fund commitments came to 3 620,6 Mio ECU. The Commission has no documents which provide accurate information on the related payments.

SUMMARY OF FINANCIAL  
INFORMATION

5.2. The commitments and payments for the financial year are summarized in Table 5.1, which also shows the

5.4. Commitments for Title 3 as a whole amounted to 870,5 Mio ECU in 1984, i.e. 90,7 % of the funds avail-

**Table 5.1 — Expenditure in the agricultural structures sector (Title 3): Appropriations available in 1984 and their utilization***(Mio ECU)*

Budget chapter	Commitments		Payments	
	Appropriations for commitment available in 1984 <sup>(1)</sup>	Commitments entered into in 1984	Appropriations for payment available in 1984 <sup>(2)</sup>	Payments made in 1984
Chapter 30: Projects for the improvement of agricultural structures	240,8	238,4	165,3	164,9
Chapter 31: General socio-structural measures	132,6	114,5	132,4	114,5
Chapter 32: Measures to assist less-favoured areas	403,2	356,3	354,6	307,3
Chapter 33: Structural measures connected with the common organization of markets	104,2	87,0	66,9	60,1
<b>EAGGF, Guidance Section — Total <sup>(3)</sup></b>	<b>880,8</b>	<b>796,2</b>	<b>719,2</b>	<b>646,8</b>
Chapter 38: Expenditure in the agricultural sector	79,0	74,3	78,9	56,0
<b>Title 3 — Grand total</b>	<b>959,8</b>	<b>870,5</b>	<b>798,1</b>	<b>702,8</b>

<sup>(1)</sup> Taking into account transfers, decommitments, adjustments and appropriations remaining from 1983.<sup>(2)</sup> Taking into account transfers and carry-overs from 1983.<sup>(3)</sup> Except for Chapter 46 which is included in Chapter 6 of this report (Fisheries).

able. The corresponding figures for 1983 were 899,3 Mio ECU and 86,3 % respectively. Total payments made in 1984 amounted to 702,8 Mio ECU, i.e. 88,1 % of the funds available. The corresponding figures for 1983 were 749,6 Mio ECU, representing 70,3 % of the funds. The amount of commitments entered into in 1984 and still to be settled at the close of the financial year was 414 Mio ECU.

cations for aid submitted to it and that these decisions shall be taken not later than 30 June and 31 December of each year. The Commission found itself with a partial shortfall of appropriations at the time of the decision on the second 1984 instalment. It therefore decided to grant in January 1985 a part of the aid included in the second 1984 instalment, thus allocating an amount of 19,8 Mio ECU from the appropriations for the financial year 1985. The Court considers that this procedure does not comply with either Regulation No 355/77 or the principle of budgetary annuality.

## OBSERVATIONS ON BUDGETARY MANAGEMENT

### *Settlement of former commitments in respect of Regulation No 17/64*

5.5. Article 13 (2) of Council Regulation (EEC) No 355/77 of 15 February 1977 <sup>(5)</sup> lays down that the Commission shall take decisions twice yearly on appli-

5.6. The shortage of appropriations mentioned above resulted from a series of transactions carried out by the Commission in order to cope with a new situation which arose in 1984. Until 1983 old, non-differentiated appropriations, originally committed for projects under Regulation No 17/64, were retained by making use of the option of carrying over appropriations afforded by Article 108 (3)(b) of the Financial Regulation. This practice, which was, moreover, criticized by the Court in its annual report for the financial year 1983 <sup>(6)</sup>, was abandoned in 1984. As a result, an amount of 55,7 Mio ECU still to be paid at 31 December 1983 was cancelled.

5.7. In 1984, in order to fulfil legal obligations still existing at the time of the cancellation, the Commission recommitted appropriations totalling 44,4 Mio ECU and spread over budget headings 300 and 301, using appropriations intended to finance new projects under Regulation No 355/77 for 1984.

5.8. The Court noted that:

- (a) no satisfactory explanation could be obtained for the difference between the amount cancelled (55,7 Mio ECU) and the amount recommitted (44,4 Mio ECU);
- (b) the use of appropriations intended for new projects to refinance old projects is unacceptable: appropriate budget estimates should have been made in respect of the appropriations required for the commitments;
- (c) most of the commitments concerned were for global amounts. Apart from the fact that this type of operation is contrary to Article 33 of the Financial Regulation (which stipulates that commitments should be entered into individually), it also makes it impossible to check, on the basis of the accounts, whether the projects are consistent with the amounts committed.

#### *Accounting treatment of differentiated appropriations under Article 300*

5.9. Up to 1984, the differentiated appropriations included under Article 300 of the budget were intended to cover the settlement of projects provided for in Regulation No 17/64, which have been financed from 1977 onwards on the basis of differentiated appropriations. The 1983 revenue and expenditure account recorded an amount of 53 259 837,83 ECU as outstanding from previous years at 31 December 1983 in respect of these appropriations. The 1984 revenue and expenditure account should have taken over this amount when the accounts were opened. It showed, however, a different sum, i.e. 64 421 477,25 ECU. This difference is due to the fact that the Commission entered commitments concerning non-differentiated appropriations which had been cancelled in 1984 as commitments still be to be paid from differentiated appropriations (see also paragraphs 5.6–5.8 above). Auditing the revenue and expenditure account and, in particular, operations concerning individual projects is made more difficult by such operations.

5.10. The Court found, moreover, that this difference of 11 161 639 ECU, less 103 801 ECU for decommitments and fluctuations in the rate of the ECU, had been recorded twice in the revenue and expenditure

account, since this amount had already been recorded as a recommitment charged to the financial year 1984. The Commission is requested to correct this double entry in 1985.

#### *Charging of appropriations to Article 388 and Item 3892 of the budget*

5.11. With regard to Article 388 (Community action relating to protection of forests against fire and acid deposits) the Commission decided on 25 July and 12 December 1984, by written procedure, to authorize commitments amounting to 4,5 Mio ECU and 0,5 Mio ECU respectively without having determined beforehand the legal obligations to be entered into for the sums committed. These commitments do not comply with Article 33 of the Financial Regulation, which requires that the purpose of the expenditure, the estimated amount involved and the description of the creditor be shown.

5.12. With regard to Item 3892 (Slaughter of pigs and processing of pigmeat in the United Kingdom) the Commission departments used, during the financial year and without prior transfer, 6 780 178,28 ECU in commitment appropriations and 497 281,58 ECU in payment appropriations to finance individual projects in accordance with Regulation No 355/77. The decisions on expenditure were taken within the overall context of two annual instalments of aid granted for individual projects on the basis of Regulation No 355/77. These decisions should have involved the charging of appropriations to Article 301 of the budget, where necessary after transfer, and not to Item 3892.

#### **APPLICATION OF THE DIRECTIVE ON MOUNTAIN AND HILL FARMING AND FARMING IN CERTAIN LESS-FAVoured AREAS**

##### *General comments*

5.13. The major objective of Council Directive 75/268/EEC of 28 April 1975 (7) is to ensure the continuation of farming in areas affected by various natural handicaps. In 1984 the payments made under this Directive amounted to 136 Mio ECU i.e. approximately 21 % of the payments of the EAGGF, Guidance Section. They involved more especially the award of a compensatory allowance, which is granted to farmers in



eligible areas in order to compensate for the effects of natural handicaps.

5.14. The checks made in various countries (FR of Germany, France, Greece, Ireland, Italy and the United Kingdom) during the financial year 1984 confirmed the observations that the Court had already made in its special report <sup>(8)</sup> on the implementation of the Directive.

5.15. Neither the Commission nor the Member States have established quantified objectives in respect of the influence of the operations and very few statistics on the effect of the aid are available. The high concentration of expenditure on compensatory allowances, compared with the other measures provided for by the Directive, suggests that its application consists mainly in granting farmers an income supplement which does not bring about lasting structural changes. Moreover, the compensatory allowance is sometimes paid with considerable delay and under conditions which can only lessen any impact it may have on the beneficiaries' behaviour.

5.16. The conditions governing the granting of aid are complex, as regards both the Directive and the implementing acts adopted by the Member States. The farmers have difficulty in understanding the provisions applied to them, which, to a large extent, are not easy to audit. The forms to be completed when applying for aid are so technical that, in the majority of cases, the beneficiary has to consult socio-professional organizations. The information required for calculating the allowance, particularly the areas farmed by type of cultivation, is difficult to determine and check. Sometimes even the land registers are not up to date.

5.17. The demarcation of eligible regions on the basis of the criteria set out in the Directives adopted for this purpose may produce results which differ considerably. When these criteria are applied to relatively large territories the use of averages may result in the inclusion of areas which are not always obviously less-favoured and which may also offer less flexibility in the revision of area boundaries.

5.18. The Commission, whose work is centred mainly on the budgetary management of the measure and the processing of the Member States' applications for reim-

bursement, should scrutinize more closely the effects of the Directive, as compared with its objectives. This finding is borne out by the following remarks.

### *The delays in the implementation of the measure in Italy*

5.19. Over 10 years after its adoption, the legal instruments required for the application of the Directive in Italy were still not all available, although Article 17 had stipulated a period of one year for the Member States to take the necessary measures to conform to the provisions of the Directive.

5.20. A national law was enacted on 10 May 1976, but at the end of 1984 the Commission had still not declared whether the regional legislation complied with the Directive. Sicily still had no legislation, Friuli-Venezia-Giulia had no such legislation for Title II (compensatory allowance) while Calabria only had such legislation for this Title. The regions of Molise and the Marches have had legislation approved by the Commission since March and December 1984, six years having been necessary to change the legal texts in order to bring them into line with Community law.

5.21. Even though in most cases a start was made on implementing the regional legislation without waiting for a Commission decision on compliance, the problems and delays in enacting the legal instruments have considerably reduced the Directive's effect.

5.22. In reality, the beneficiaries receive the allowance late and the Community reimbursement itself may only be applied for after long delays. From the end of 1978-82. Upon receipt of the accounting returns sub-made available to the regions a sum of approximately 300 000 Mio LIT from the total allocation of 436 000 Mio LIT for the compensatory allowance and the joint investments relating to the five-year period 1978-82. Upon receipt of the accounting returns submitted by the regions, the Member State requested and obtained the Community reimbursement from the EAGGF, Guidance Section, (i.e. 35 % of the expenditure up until 1980 and 50 % thereafter), for a total which, at 31 December 1984, amounted to 62 600 Mio LIT (i.e. approximately 50 Mio ECU).

5.23. By the end of 1984 a significant part of the expenditure covered by the national appropriations of 436 000 Mio LIT had still therefore to be accounted for

in returns in order to obtain Community reimbursement. The sums still to be paid by the EAGGF, Guidance Section on that date, which were at least equivalent to the 50 Mio ECU already covered, are not mentioned in the balance sheet.

5.24. In July 1984 the Court noted that in certain provinces of Tuscany the payment of five years' allowance had ceased in 1982, while for other provinces the operations were still being completed. On the other hand, in the Marches the first year's allowance, corresponding to 1978, was paid at the beginning of 1981 and since then, two other years, corresponding to 1979 and 1980, have been paid. This shows the extent of the delays with which the aid is paid to the beneficiaries and the resulting reduction in its effectiveness.

#### *Other observations relating to the effectiveness of the measure*

5.25. While Directive 75/268 does not specify any time limits, Article 1 of the Italian Law of 10 May 1976, which was declared by the Commission to be in compliance with the Directive on 7 December 1976<sup>(9)</sup>, stipulates that the compensatory allowance should be granted for a period of five years only. No explanation was given to the Court to justify this limitation, which reduces the impact of the measure and helps to explain the delays in getting it off the ground. There is a risk that in some cases these delays may result in the measure being applied retroactively, thus reducing its effectiveness. Moreover, an extension of national measures would require the introduction of new provisions, which would probably create fresh delays.

5.26. Neither at national level nor within the three regions examined by the Court was there any provision stipulating that checks be made to ensure compliance with the undertaking to pursue a farming activity for five years (Article 6 of the Directive). Moreover, this undertaking is only entered into in the initial application form for aid relating to the first year of the allowance and therefore has the same five-year duration in the case of a beneficiary who receives the allowance for one year only as it has in the case of one who receives it several times. Such a situation, also observed in Greece, is not likely to increase the effectiveness of the aid from the point of view of the continuance of farming activities.

5.27. In the region of Emilia-Romagna, the appropriations received from the central authorities for the

granting of the compensatory allowance for the period prior to 1979 were not used for this purpose but were utilized to finance agricultural infrastructures, which reveals a difference of objectives between the national and regional authorities.

#### *Problems relating to the regularity of expenditure*

5.28. In order to prevent the awarding of trivial annual amounts, Emilia-Romagna decided that the allowance would be biennial and that its minimum amount would be 26 ECU for the period examined during the Court's audits. Since the operation had begun in 1979-80, settlement of the third allowance, corresponding to the years 1983-84, was under way during the financial year 1984. The solution adopted poses a problem of regularity in respect of the annual nature of the allowance laid down by the Directive, as also in respect of the observance of the minimum rate, which the Directive set at 16 ECU per year for the period under consideration.

5.29. In the same region, but in respect of joint investments (Article 11 of the Directive), the audits carried out in certain areas of the lower part of the province of Ferrara revealed that the aid available was distributed between the communes and granted to farmers on the basis of expenditure that they had incurred, which was however in no way joint expenditure, and without even requiring documentary evidence of the existence of the investments. The aid awarded covered 10 % to 30 % of certain costs for work or supplies incurred by the applicants. These cases of expenditure are not in line with the provisions of the Directive and should not have been charged to the Fund. A decision should be taken to recover the refunds granted in these cases.

#### *Conclusion*

5.30. The Commission should be better acquainted with and have a greater influence on the implementation of the Directive, in order to ensure with greater certainty that the objective of the operations is attained. The above findings reveal that the procedures for the granting of aid have reduced the incentive value of such aid for the beneficiaries and have undermined its effectiveness.

**THE DEVELOPMENT OF BEEF CATTLE PRODUCTION IN IRELAND AND NORTHERN IRELAND AND THE STIMULATION OF AGRICULTURAL DEVELOPMENT IN THE LESS-FAVOURLED AREAS OF NORTHERN IRELAND.**

*Council Regulation (EEC) No 1054/81 of 21 April 1981 <sup>(10)</sup>*

5.31. With a view to improving the quality of beef cattle production in Ireland and Northern Ireland, the Council, in its Regulation No 1054/81, established a common measure for a period of two years, the estimated cost of which to the EAGGF, Guidance Section was 27,5 Mio ECU. The common measure provides for improved initial or final selection of bulls, in order to improve beef production, increased use of artificial insemination, increased use of lime in order to improve meadows and pastures and the production of silage in order to improve supplies of winter fodder.

5.32. It should be noted, first of all, that the only measures out of those quoted above which are exclusively directed towards the production of beef cattle are those concerning improved selection of bulls. According to Article 4 of Regulation No 1054/81, however, the expenditure earmarked for selection represented less than 6 % of the total. This figure was later reduced to a little over 4 % by an amending Regulation adopted in 1983 <sup>(11)</sup>. Moreover, the expenditure on selection reported up to 1984 for Ireland and Northern Ireland accounted for 3,8 % and 3,4 % respectively of total expenditure declared.

5.33. In the case of artificial insemination, (50 % of the expenditure earmarked by the Regulation), the Commission took steps to exclude expenditure on breeds which are unsuitable for beef production from the category of eligible expenditure. However, a significant number of artificial insemination cases (46 % in Ireland and 42 % in Northern Ireland, according to the data available at the time of the audits carried out in 1984) concern breeds which are more suitable for the production of milk.

5.34. The use of lime and the production of silage (36 % and 10 % respectively of the expenditure earmarked by the Regulation) are both subsidized without any consideration being given as to whether or not such measures favour milk production or beef production.

5.35. In conclusion, therefore, the Court is obliged to observe that a considerable proportion of operations receiving aid from the Fund are likely to encourage the whole range of livestock production, rather than meat production in particular. Moreover, the implementation of the measure at farm level has been subject to delays which have resulted in an extension of the period of application for the measures provided for in an initial amending Regulation of 1983 (except that concerning the production of silage) and the adoption in 1985 of a second Regulation <sup>(12)</sup> designed to extend the duration of the measure promoting better selection of beef bulls.

*Council Regulation (EEC) No 1942/81 of 30 June 1981 <sup>(13)</sup>*

5.36. The Court also looked at the implementation of Regulation No 1942/81 concerning the stimulation of agricultural development in the less-favoured areas of Northern Ireland. The common measure established by this Regulation is expected to last for ten years and the Fund's total contribution is estimated at 48 Mio ECU. The measures subsidized concern the improvement of farm roads, land improvement and the guidance of agricultural production; they are being implemented as part of a programme established by the United Kingdom and approved by the Commission on 10 November 1981 <sup>(14)</sup>.

5.37. An examination of the progress of the implementation of the various measures provided for by the Regulation revealed considerable discrepancies compared with the estimates, which shows that the information included in the programme is of little value. The amount of 19,5 Mio UKL for the improvement of farm roads provided by the programme for a period of ten years was entirely used up during the first two years. The length of farm roads built or improved is nonetheless distinctly less than was forecast, since only 1 667 km of roads have been completed instead of the forecast 2 580 km. Moreover, as regards the guidance of agricultural production, which is, after all, of vital importance for the success of the measure, expenditure during the first two years amounted to only about 12 % of the sums available.

5.38. A by no means negligible proportion of the expenditure on land improvement consists solely of the cost of supplying and spreading fertilizers, in the absence of any other land improvement work, although the programme specifies that these operations can only be assisted within the context of a land improvement scheme. Fifty-nine cases of this kind were observed out

of a total of 300 files examined by the Court in County Down, and there were 29 cases out of 82 files examined in County Fermanagh. These were, in fact, cases of expenditure on normal running costs, which do not fall within the scope of the programme (Article 12, addendum) and should not have been charged to the Fund. A decision to recover the refunds granted in these cases should be taken.

### *Conclusion*

5.39. The findings of the Court's audit visits to Ireland and Northern Ireland reveal that the wording of the measures provided for by Regulation No 1054/81 is too imprecise as regards the priorities to be adopted and that, in the case of the application of Regulation No 1942/81, the implementation of the measures departs considerably from the programme estimates.

### FLOOD PROTECTION IN THE HÉRAULT VALLEY

5.40. Council Directive 79/174/EEC of 6 February 1979<sup>(15)</sup> aims to improve the agricultural situation in the lower and middle areas of the Hérault Valley (France) by means of water-engineering works to prevent flooding. It introduced for this purpose a common measure of seven years' duration which, by the construction of a barrage and dams, is designed to prepare the conditions necessary for the conversion of vineyards to other types of production.

5.41. The total cost of the measure provided for in the Directive was estimated at 23 Mio ECU, and the Community contribution was estimated at 9 Mio ECU, to be used under the programme applying to all the measures for flood protection in the valley.

5.42. The programme was submitted by the Member State concerned in February 1984, i.e. five years after the adoption of the Directive, and it was approved by the Commission on 10 May 1984<sup>(16)</sup>. The delay in submission, due to problems in drawing up the programme which necessitated a technical readjustment of the project, obviously has repercussions on the implementation of the programme, which, at the moment it was examined by the Court in October 1984, was still in a preparatory stage.

5.43. Moreover, instead of protecting the lower and middle areas of the valley, the programme covered

solely the lower area, i.e. approximately half of the area provided for in the Directive, the rest remaining exposed to floods. The cost of the work per hectare amounted to approximately 10 000 ECU, i.e. two to three times the maximum amounts accepted by the EAGGF, Guidance Section for other structural measures<sup>(17)</sup>.

5.44. This is, therefore, a programme which, on the most favourable assumptions, will only be achieved with several years' delay, will only concern about a half of the area in question and will involve a level of expenditure per hectare which bears little relation to the production forecasts.

5.45. The above findings provide evidence of delays in the drawing-up of the programmes and show that the Commission needs to improve its supervision of the implementation of the measures provided for by the provisions in force.

### ACCELERATION OF AGRICULTURAL DEVELOPMENT IN CERTAIN REGIONS OF GREECE

5.46. Council Regulation (EEC) No 1975/82 of 19 July 1982 introduced a common measure of five years' duration aimed at accelerating agricultural development in certain less-favoured areas of Greece. The Community contribution earmarked for this common measure is 198,6 Mio ECU. The measure is to be implemented within the framework of a programme which the Member State submitted on 21 March 1983 and the Commission approved on 29 July 1983<sup>(18)</sup>.

5.47. The nature of the programme is such that the administrative regions concerned have the option of choosing the projects they wish to carry out without reference to the guidelines contained in the programme, as a comparison between the final expenditure for 1983 and that estimated in the request for advance payment for the same year (see Table 5.2) shows. Although the total amount of final expenditure, which amounted to 1 523 Mio DR (i.e. approximately 18,6 Mio ECU) corresponds approximately to the level of estimated expenditure, the disparities for the different types of operation are quite considerable.

5.48. An examination of the work in respect of which requests for advance payment and payment were submitted revealed various anomalies: in some cases, advances were requested for work which had not been carried out and, in others, payments were requested for work in respect of which no application for an advance had been made, or which was not provided for in the programme. These differences are all the more irregular in view of the fact that the request for advance pay-

**Table 5.2 — Expenditure estimated and incurred for the financial year 1983 within the framework of Regulation (EEC) No 1975/82**

Type of measure	(Mio DR)	
	Expenditure estimated on request for advance payment for 1983	Final expenditure declared in 1984 for the financial year 1983
Rural infrastructure	633,5	493,1
Irrigation	40,0	91,8
Land improvement	177,9	119,3
Stock-farming	62,8	6,9
Forests	685,7	811,5

ment was submitted in November 1983, at a time when the location and the nature of the operations to be financed should have been known.

## APPLICATION OF STRUCTURAL MEASURES IN THE WINE-GROWING SECTOR

5.49. In order to induce the wine-growing sector to limit its production of wines which are not classified as 'quality wines produced in specific regions' (wines psr), the Community instituted a series of structural measures:

- (a) a common measure provided for by Council Regulation (EEC) No 456/80 of 18 February 1980<sup>(19)</sup> aiming to reduce areas under vines less suited to wine-growing and comprising a system of premiums granted by the Member States for temporary abandonment (until the wine-growing year 1986/87 between 1 813 ECU and 3 022 ECU per hectare) or for permanent abandonment (until the wine-growing year 1994/95, 2 418 ECU per hectare). The Member States are reimbursed 40 % of the eligible expenditure;
- (b) a system of aid, provided for by Council Regulation (EEC) No 457/80 of 18 February 1980<sup>(20)</sup>, to French and Italian farmers aged between 55 and 70 who cease farming and for whom wine-growing is a major source of income;
- (c) a common measure provided for by Council Regulation (EEC) No 458/80 of 18 February 1980<sup>(21)</sup> — planned for a duration of seven wine-growing years as from 1 September 1980 — having the objective of improving the basic wine-growing structures by means of collective restructuring operations<sup>(22)</sup> involving replanting and, where necessary, the new

planting of vines, within the limit of 10 % of the replanted and newly-planted area;

- (d) special measures provided for by Directive 78/627/EEC<sup>(23)</sup> relating to the programme to accelerate the restructuring and conversion of vineyards applicable until August 1985 in the Languedoc-Roussillon region and the departments of Ardèche, Bouches-du-Rhône, Var and Vaucluse and in respect of which Regulation 458/80 is now applicable;
- (e) general measures to assist the improvement of the conditions under which agricultural products are processed and marketed. These measures were laid down by Regulation No 355/77 which provides for the granting of subsidies to individual projects in the wine sector on the basis of the specific programmes submitted by the Member States.

5.50. The Court carried out on-the-spot audits of the achievements of this legislation in the regions concerned of the FR of Germany, France and Italy.

### *The situation in France*

5.51. Regulation No 456/80 providing for the temporary or permanent abandonment of vine cultivation resulted in a 42 000 hectare reduction of the area under vines at 31 December 1984.

5.52. On the other hand, the incentive to cease farming (Regulation No 457/80) has not resulted in the submission to the EAGGF of any requests for reimbursement, although the 'Centre National d'Aménagement des Structures des Exploitations Agricoles' (CNASEA) (National Centre for the Improvement of Farm Structures) paid 858 872 FF under this measure for land clearance. This practically worthless result may be explained by the farmers' desire to retain the financial benefits attaching to the right of replanting<sup>(24)</sup>.

5.53. The application of the conversion measures provided for in Regulation No 458/80 was effective and regular, especially since the country concerned had set up beforehand a highly reliable organization involving a viticultural land register and a system of entitlement to plant vines administered by the Directorate-General for Taxes. This Regulation, however, introduced the possibility of additional planting (cf. paragraph 5.49) and is thus in conflict with the objective of

the former Council Regulation (EEC) No 1162/76 of 17 May 1976<sup>(25)</sup>, which provided for a total ban on areas planted within the Community. Its economic effect was therefore diminished in France, where this ban had been strictly applied.

5.54. In the case of the regions covered by Directive 78/627/EEC, the slowness of administrative procedures, in particular in the drawing-up of plans for water-engineering works, and similarly the technical impossibility of effecting grubbing-up and water-engineering operations simultaneously, would not have allowed the Languedoc-Roussillon region to benefit fully from the aid provided for within the framework of this Directive, which has since expired. Only 1 000 hectares out of the estimated 22 000 for this region, the main beneficiary, were affected by the water-engineering part of this measure: if these operations are to be carried out, the plots of land made available need to be sufficiently big and should be grouped together in the same area.

5.55. Within the framework of the general measures provided for by Regulation No 355/77 to assist individual projects:

- (a) out of 12 projects audited in France it was noted that where the projects were close to the stage of wine production (as in the case of the nine wine cooperatives visited by the Court) and the purpose of the aid was the gradual adaptation of production to the manufacture of quality wine, such projects complemented the Community objectives of restructuring. On the other hand, if commercial undertakings which have reached a high level of development are financed (as in the case of three marketing firms, which received 860 877 FF, 1 203 393 FF and 6 095 296 FF respectively), the complementary effect is practically nil;
- (b) in the case of a certain number of projects examined in Languedoc-Roussillon, the national subsidy promised at the time approval was given was reduced from 15 % to 11 %, which is contrary to the commitments entered into under the financing plan finally adopted as part of the Commission's decision.

### *The situation in Italy*

5.56. The cases of abandonment where premiums have been granted in accordance with Regulation No 456/80 are impossible to quantify on account of the delay in the payment of the grubbing-up premiums by

the national authorities; payment of the Community subsidy depends upon the prior payment of the premiums<sup>(26)</sup>. Regulation No 457/80 has not been applied in Italy, since its application presupposes the prior receipt of a premium for permanent abandonment, as provided for by Regulation No 456/80.

5.57. Three points need to be made in respect of the conversion measures set out in Regulation No 458/80:

- (a) the joint aspect is often limited to the submission of a project drawn up by one applicant only (usually a wine cooperative) bringing together wine-growers scattered over a fairly wide area. It is doubtful whether such a form of collective operation, in the absence of any reparcelling of holdings or subsequent land improvement, will result in a real improvement in the basic structures of these vineyards. The spirit of this Regulation is not concerned with financing the replanting of new varieties of vine-stock, but with restructuring and, where necessary, redividing the areas under vines;
- (b) in addition, the restructuring projects approved at regional level also provide for the replacement of vine-stocks which are near the end of their vegetative life with younger, more productive vine-stocks of standard quality. Such projects result in an increase in the production of wine grapes, which is contrary to the Community objectives of reducing surpluses of table wine;
- (c) the Community Regulations intended to stop new plantations and define replanting conditions are not always applied in a uniform manner. The two regions visited (Emilia-Romagna and Tuscany) adopted very different attitudes as regards the origin and proof of the right of replanting<sup>(24)</sup>. Thus, in Emilia-Romagna only those wine-growers who had not yet carried out grubbing-up operations were allowed to participate in the restructuring projects: this means that the right to replant arises at the very beginning of the implementation of the projects, and observance of the conditions required by Community legislation may easily be checked by the authorities responsible. In Tuscany, however, wine-growers who declared that they had effected grubbing-up operations prior to the submission of the projects were allowed to participate in the collective restructuring operations. The right to replant is based, in this case, on a simple declaration by the parties concerned stating that they carried out, after 27 May 1976, grubbing-up operations on areas of an equivalent surface area to those to be replanted. Such grubbing-up operations may not be considered as 'duly substantiated and certified by the Member State', which, in this case,

should result in a refusal of aid by the Commission.

5.58. The following observations may be made in respect of those projects visited by the Court from among the individual projects financed within the framework of Regulation No 355/77:

- (a) in one cooperative visited, it does not look as if the objective set out in the specific national programme of replacing individual wine-making by communal wine-making will be easy to achieve, as the members of the cooperative prefer to deliver only grapes intended for the production of table wine to the cooperative, while keeping the better grapes for their own production of quality wine;
- (b) moreover, the objective of producing quality wine rather than table wine is not always sure to be a commercial success in areas which are traditionally big producers, and even exporters, of table wine, mainly because quality wine can often only be sold at a price close to that of table wine. It must be added that the price differences do not usually afford a sufficient increase in profit margins to allow the producers to compensate for the loss of revenue resulting from a reduction in the total quantities produced;
- (c) a major Italian distillery, which was subject to an on-the-spot audit, received assistance from the EAGGF on several occasions from 1970 to 1983 amounting to a total of 3 005 153 829 LIT in order to facilitate the setting-up and enlargement of a plant for the production of alcohol and concentrated must. The prospect of a reduction in the level of intervention, which might be necessary on account of the seriousness of the present situation as regards surpluses, raises questions regarding the justification for this type of subsidy.

### *The situation in the FR of Germany*

5.59. The German projects financed by the EAGGF on the basis of Regulation No 458/80, the only one applicable to this country, concern the replanting of vineyards within the framework of reparaelling operations decided upon a long time before the adoption of this Regulation and financed on the basis of national legislation which was already in force. The EAGGF projects thus add nothing new to the existing situation and boil down to a partial reimbursement to the Member State of expenditure resulting from the application of national legislation prior to, and independently of, the Community measure.

5.60. With regard to the individual projects that were audited and which come within the scope of Regulation No 355/77, it was observed that one of the objectives of the wine-growing programme in the Land of Rheinland-Pfalz was for the cooperatives to achieve sufficient storage capacity to cover the production of two wine-growing years. This capacity should allow the cooperatives to regulate the market themselves, without having recourse to intervention. It is not certain, however, that such an effect may be guaranteed in all cases: one of the cooperatives visited, which had already achieved the storage capacity target, continued to distil none the less, the price paid on distillation being sufficiently profitable.

### *Conclusions*

5.61. It may be seen from the figures below that the main objective of promoting the production of quality wine and reducing the quantity of table wine is far from being achieved.

- (a) In order to reduce the areas cultivated (Regulation No 456/80), an amount of 134,3 Mio ECU was earmarked to be charged to the EAGGF at 31 December 1984. On this date the repayments made to the Member States amounted to only 61 Mio ECU.
- (b) The aid to assist growers who cease farming (Regulation No 457/80) had not given rise to any Community expenditure at 31 December 1984, although an amount of 11,1 Mio ECU had been earmarked to be charged to the EAGGF.
- (c) In the case of Regulation No 458/80, intended to promote the restructuring of vines, the total estimated cost at 31 December 1984 was 188,9 Mio ECU. At the same date, Community expenditure amounted — in commitments — to 60 Mio ECU (France: 52 Mio ECU, Italy: 5,4 Mio ECU, FR of Germany: 2,6 Mio ECU) and — in payments — to 41 Mio ECU (France: 3 Mio ECU, Italy: 0,4 Mio ECU, FR of Germany: 0,6 Mio ECU).
- (d) With regard to the Directive relating to certain regions in the south of France (Directive 78/627/EEC), the estimated cost was 105 Mio ECU; at 31 December 1984 expenditure amounted to only 37,4 Mio ECU.

5.62. The general reduction of areas under vines and the selection of better vineyards and better vine varieties should contribute to the production of higher added-value, guaranteeing the producer a more profitable income per hectare for a smaller quantity. However, in France, as in Italy, it appeared that the so-called

'minor' wines psr were selling at prices which were very close to those of table wines. A simple calculation is enough to see that under such conditions a wine producer has an economic interest in producing table wines whose quantities are not limited, whereas quantity limitations are laid down in the rules on wines whose designation of origin is registered. In extreme cases, the producer even has an interest in concentrating solely on his income from distillation, which, in the opinion of the beneficiaries concerned, is quite profitable.

5.63. There is a need for greater consistency between measures undertaken in the Guidance and Guarantee Sections of the EAGGF. Restrictive measures contained in the legislation on agricultural structures are not alone in influencing producers' decisions. Price-relationships also determine how far incentives created by legislation on structures are successful.

5.64. In its choice of priorities when it takes decisions on the annual instalments for the individual EAGGF-Guidance projects, the Commission should ensure that the projects constitute true measures to accompany a wine-growing policy intended to reduce surpluses and thereby reduce the support costs charged to the EAGGF, Guarantee Section.

5.65. As regards the requirements of the audit, the Court can only reiterate<sup>(27)</sup> that it is very difficult, if not impossible, to verify the existence of replanting rights in the absence of documents which specifically determine the areas and the nature of the vine varieties cultivated and similarly the changes introduced over recent years. The observations set out above, for countries other than France, lend weight to the arguments which the Commission considered unfounded in its reply to the report referred to above.

(1) OJ 30, 20. 4. 1962, p. 991.

(2) OJ 34, 27. 2. 1964, p. 586.

(3) OJ L 117, 12. 5. 1979, p. 4.

(4) OJ L 367, 31. 12. 1980, p. 87.

(5) OJ L 51, 23. 2. 1977, p. 1.

(6) OJ C 348, 31. 12. 1984, p. 53.

(7) OJ L 128, 19. 5. 1975, p. 1.

(8) OJ C 358, 31. 12. 1980, p. 1.

(9) OJ L 364, 31. 12. 1976, p. 62.

(10) OJ L 111, 23. 4. 1981, p. 1.

(11) Council Regulation (EEC) No 2967/83 of 19 October 1983, OJ L 293, 25. 10. 1983, p. 3.

(12) Council Regulation (EEC) No 1980/85 of 16 July 1985, OJ L 186, 19. 7. 1985, p. 6.

(13) OJ L 197, 20. 7. 1981, p. 17.

(14) OJ L 338, 25. 11. 1981, p. 32.

(15) OJ L 38, 14. 2. 1979, p. 18.

(16) OJ L 139, 25. 5. 1984, p. 40.

(17) 3 000 ECU/ha in Council Directive 79/173/EEC of 6 February 1979 on collective irrigation works in Corsica — OJ L 38, 14. 2. 1979, p. 15, 1 500 to 4 800 ECU/ha in Council Regulation (EEC) No 1975/82 of 19 July 1982 on the acceleration of agricultural development in certain regions of Greece, OJ L 214, 22. 7. 1982, p. 1.

(18) OJ L 222, 13. 8. 1983, p. 43.

(19) OJ L 57, 29. 2. 1980, p. 16.

(20) OJ L 57, 29. 2. 1980, p. 23.

(21) OJ L 57, 29. 2. 1980, p. 27.

(22) By collective operation is meant those measures effected within the framework of a binding agreement concluded

between growers. This factor should, as indicated in the recital of the Regulation, guarantee the effectiveness of the restructuring operations.

(23) OJ L 206, 29. 7. 1978, p. 1.

(24) By the replanting of vines within the meaning of Regulation No 458/80 is meant the exercise of the 'right of replanting' as defined by Council Regulation (EEC) No 337/79 of 5 February 1979 (Annex IV (a)) (OJ L 54, 5. 3. 1979, p. 1), i.e. 'the right to plant vines, during the eight years following the year in which regularly declared grubbing took place, on a pure cultivation area equivalent to that in which vines were grubbed'. However, the Community entitlement grants an exception for the producers of Member States whose legislation did not provide for the right to replant at 27. 5. 1976. These producers were authorized, on a transitional basis, to replant before 27. 5. 1984 where they had effected since 27. 5. 1976 grubbing operations duly substantiated and certified by the Member State concerned (Article 30 (a) of Regulation No 337/79).

(25) OJ L 135, 24. 5. 1976, p. 32.

(26) Cf. annual report of the Court of Auditors for the financial year 1982, paragraph 5.37, OJ C 357, 31. 12. 1983, p. 57.

(27) Cf. annual report of the Court of Auditors for the financial year 1982, paragraph 5.32, OJ C 357, 31. 12. 1983, p. 57.



## CHAPTER 6

**Common fisheries policy**

## 6.0. TABLE OF CONTENTS

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## INTRODUCTION

6.1. The Community regulations concerning the common fisheries policy were set out in the introduction to Chapter 6 of the Court's annual report for the financial year 1983 (1).

## SUMMARY OF FINANCIAL INFORMATION

6.2. The appropriations are entered under Title 4 of the budget. The position regarding commitments and payments for the financial year is summarized in Table 6.1 and the evolution of appropriations available in 1984 is shown in Table 6.2.

## OBSERVATIONS ON THE RATE OF UTILIZATION OF AVAILABLE APPROPRIATIONS

6.3. Commitments for the whole of Title 4 amounted to 96,1 Mio ECU in 1984, i.e. 62 % of the available appropriations. The corresponding figures for 1983 were 87,8 Mio ECU and 83 % respectively.

6.4. Payments made in 1984 amounted to 57,1 Mio ECU, i.e. 57 % of the available appropriations. The corresponding figures for 1983 were 54,8 Mio ECU and 72 % respectively.

6.5. The main reason for the low rate of utilization of budget appropriations in 1984 was as follows. Chapter 45, increased by 4,5 Mio ECU following supplementary and amending budget No 1, provided differentiated appropriations totalling 30,5 Mio ECU for commitments and payments on two new structural measures decided on by the Council in October 1983. While the costs of these measures are partly reimbursed by the Community, their implementation is primarily the responsibility of the Member States, and it takes time for measures of this type to become operational. In fact, the Commission did not receive any applications for reimbursement in 1984. Notwithstanding that the appropriations in question are differentiated, the Commission, having regard to the requirements of the EAGGF, Guarantee Section, should have made use of the funds involved by effecting transfers of appropriations as it had done for certain non-differentiated appropriations in Articles 400 and 401 (transfers of 25 Mio ECU). In this case, too, the Commission could have increased the transfer with the balance of appropriations remaining at the end of the year.

## OBSERVATIONS ON EXPENDITURE ON BIOLOGICAL STUDIES AND FISHING AGREEMENTS WITH CERTAIN DEVELOPING COUNTRIES

*Biological studies*

6.6. The appropriations for biological studies, entered in Article 412 of the 1984 budget and amounting to

**Table 6.1 — Fisheries (Title 4): Appropriations available in 1984 and their utilization***(Mio ECU)*

Budget chapter	Commitments		Payments	
	Appropriations for commitment available in 1984 <sup>(1)</sup>	Commitments entered into in 1984	Appropriations for payment available in 1984 <sup>(2)</sup>	Payments made in 1984
Chapter 40: Common organization of the market in fishery products	17,9	15,6	17,9	15,6
Chapter 41: Specific measures	4,4	3,0	3,7	2,8
Chapter 42: Agreements on fishing rights in non-Community waters	13,0	13,0	15,4	9,2
Chapter 43: Social measures	0,3	0,3	0,3	0,1
Chapter 45: Adjustment and redeployment of capacity	30,5	—	30,3	—
Chapter 46: Improvement of structures — common measures	88,0	64,2	32,3	29,4
<b>Total</b>	<b>154,1</b>	<b>96,1</b>	<b>99,9</b>	<b>57,1</b>

<sup>(1)</sup> Taking into account transfers, decommitments, adjustments and appropriations remaining from 1983.<sup>(2)</sup> Taking into account transfers and carry-overs from 1983.**Table 6.2 — Evolution of appropriations available in 1984***(Mio ECU)*

Type of appropriations	Appropriations for commitment	Appropriations for payment
Initial budget	148,1	101,4
Supplementary budget	11,0	11,0
Appropriations remaining	20,0	—
Appropriations carried over from 1983	—	12,5
Transfers	-25,0	-25,0
<b>Total</b>	<b>154,1</b>	<b>99,9</b>

640 000 ECU, are intended to enable the Commission to obtain, by means of specialized studies commissioned from external bodies or experts, the scientific information needed for the implementation of the policy for the conservation and management of resources.

6.7. Up to the end of 1984, contracts for biological studies were mainly concluded on the basis of proposals submitted by research institutes in the Member

States. These studies should meet needs identified in advance by the Commission and set out in clear and precise terms; this has not been the case up until the financial year in question.

6.8. Except where Commission departments are directly acquainted with those applying for Community finance for carrying out a study, no objective criteria exist at present for checking the qualifications and capabilities of candidates for study contracts. This being so, the Court considers that the Commission should introduce an appropriate system for checking the qualifications of contractors. In addition, competitive tendering, as provided for in Article 51, paragraph 2, of the Financial Regulation, should be considered for studies which consume substantial technical and financial resources, so as to ensure that the best price is obtained. Decisions to dispense with competitive tendering should be fully justified in each case.

#### **Publication of the conclusions of studies**

6.9. Studies financed from the appropriations in Article 412 are, by definition, in the interest of the Community. They improve the level of scientific know-

ledge regarding the available Community fishery resources. It is desirable therefore that, in addition to using these studies for its own internal requirements, the Commission should publish the main conclusions at Community level.

*Payments under the fishing agreements with certain developing countries*

6.10. The agreements concluded between the Community and certain developing countries (Senegal, Guinea, Guinea Bissau, Equatorial Guinea, the Seychelles and Sao Tome and Principe) provide for the payment of compensation in return for fishing rights granted to Community vessels.

6.11. These Fishing Agreements lay down that the financial compensation paid by the Community will be used to finance the execution of development projects, generally in the fisheries sector. The Protocol annexed

to the Agreement with Guinea Bissau also states that the recipient will inform the Community of the use it intends to make of the compensation.

6.12. The Commission has no information on the way in which the recipient developing countries allocate sums obtained by way of financial compensation, not even in the case of Guinea Bissau. It is therefore in no position to ensure that the sums paid are used in accordance with the terms of the agreements.

6.13. Payments of compensation to Senegal, made under the agreement on the interim two-month extension of the Financial Protocol, which expired on 15 November 1983, were entered into the accounts on 19 January 1984, the relevant payment orders having been issued on 13 January 1984. In a Decision taken only on 31 January 1984, the Council approved the Agreement and authorized the President of the Council 'to designate the persons empowered to sign the Agreement in order to bind the Community'. Even though the payments had been approved by the Financial Controller, they should not have been made at that time, before the Agreement had been officially signed.

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(<sup>1</sup>) OJ C 348, 31. 12. 1984, p. 61.

## CHAPTER 7

**Regional aid expenditure**

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**INTRODUCTION**

7.1. The objective of the European Regional Development Fund (ERDF) is to correct the Community's principal regional imbalances resulting in particular from the preponderance of agriculture, industrial change and structural underemployment.

7.2. The Fund continued to be managed in 1984 according to the same regulations as in the past <sup>(1)</sup>, since the new Regulation on the ERDF, adopted in 1984 <sup>(2)</sup>, did not come into force until 1 January 1985.

7.3. On the basis of the provisions applicable in 1984, the Fund comprises:

- (a) Community action in support of regional policy measures adopted by the Member States, known as 'quota measures'. The financing of these measures accounts for 95 % of the Fund's resources and the total is divided between the countries by quota. For the most part, these measures consist of financial assistance for investments in industrial, craft or service activities or for investments in infrastructure projects;
- (b) specific Community regional development measures, called 'non-quota measures', which account for the remaining 5 % and involve financing the implementation of certain special programmes.

**SUMMARY OF FINANCIAL INFORMATION**

7.4. Table 7.1 traces the utilization of the appropriations in Title V of the budget 'Appropriations for operations in the regional sector'.

7.5. For the quota measures (Chapter 50), 99,8 % of the commitment appropriations and 97,4 % of the payment appropriations were used in 1984. The aid, which was divided between industry (14,1 %), infrastructure (84,9 %) and study projects (1 %), was granted under 974 decisions covering 4 394 projects. Thus, since 1975, over 4 700 decisions have been taken, 3 000 of which still have to be closed, i.e. almost 500 more than in 1983. The average amount of aid granted per project was 529 000 ECU, which is the lowest level recorded in recent years. Annex III, § 13 to this report shows the distribution of commitments and payments by Member State. Commitments still outstanding at 31 December 1984 amounted to 4 543 Mio ECU, or 41,7 % of the aid granted by the Fund since it was first set up.

7.6. The commitment and payment appropriations available for the non-quota section for the financial year 1984 amounted to 126,9 Mio ECU and 157,9 Mio ECU respectively, of which 61 Mio ECU and 24,6 Mio ECU had been used. This shows the continuing underutilization of the appropriations allocated to this section which, since its introduction in 1979, has used only

**Table 7.1 — Regional aid: appropriations available in 1984 and their utilization***(Mio ECU)*

Budget chapter	Commitments		Payments	
	Appropriations for commitment available in 1984	Commitments entered into in 1984	Appropriations for payment available in 1984	Payments made in 1984
Chapter 50: Quota measures	2 327,1	2 322,2	1 361,9	1 326,0
Chapter 51: Non-quota measures	126,9	61,0	157,9	24,6
<b>Total Chapters 50 and 51 (ERDF)</b>	<b>2 454,0</b>	<b>2 383,2</b>	<b>1 519,8</b>	<b>1 350,6</b>
Chapter 54: Other regional policy operations	49,5	47,8	42,4	27,9
Chapter 55: Mediterranean programmes	10,0	10,0	15,8	4,9
<b>Grand total</b>	<b>2 513,5</b>	<b>2 441,0</b>	<b>1 578,0</b>	<b>1 383,4</b>

140 Mio ECU of the commitments and 63,4 Mio ECU of the payments, even though it has theoretically been granted 5 % of the Fund's resources.

7.9. Recoveries are effected by deducting appropriate amounts from subsequent payments in respect of other decisions, but the documents that the Commission has sent to the Court contain no precise record of this. The overall statement of the amounts to be recovered and those already recovered appears in neither the accounting nor the non-accounting records. This makes it difficult to monitor these operations and reduces the scope for checking the annual accounts. Steps should be taken to ensure that aid recovery operations are monitored in summary statements.

#### OBSERVATIONS ON THE BUDGETARY MANAGEMENT OF THE ERDF

7.7. Only slow progress is being made with the closure of old decisions. 14,5 Mio ECU of commitments entered into during the period 1975 to 1977 were outstanding at 31 December 1984. The corresponding amount for the period from 1978 to 1980 was 314,1 Mio ECU. Also at 31 December 1984, the decisions not yet closed for these same periods totalled 69 and 503 respectively, corresponding to about 8 % and 44 % of all the decisions taken during the periods in question.

7.8. The closure operations give rise to decommitments and in some cases reimbursements, which explains why they are proceeding slowly. A total of 234 decisions relating to the financial years 1975 to 1980 were closed in 1984. Of these 234 closure operations, 155 gave rise to at least a partial decommitment of the aid previously granted and 57 resulted in the recovery from the Member State concerned of advances totalling 15,1 Mio ECU, most of which had been paid out under the accelerated payments procedure. This helps to explain why national administrations have little incentive to close decisions rapidly.

#### THE ADDITIONAL NATURE OF THE ERDF'S AID

7.10. The Court has already expressed its concern <sup>(3)</sup> that ERDF assistance may not in fact have met the objective of the Community legislation of achieving real increases in Member States' own regional development efforts. In order to attain this objective, the Regulation nevertheless leaves it up to the Member States themselves to decide whether:

- (a) to add ERDF aid for a particular project to national aid granted for the same project (individual additionality), or

- (b) to add the reimbursements paid by the ERDF (received for investments assisted by the Community) to expenditure allocated generally for regional development (global additionality).

7.11. As the Court found during its audit inquiries, Member States have opted almost invariably for the global additionality procedure. Under this procedure the Community subvention is received by the Member State and not by the investor.

7.12. Moreover, in general, global additionality is difficult to verify. Such information as is available, however, suggests that this additionality is applied in a manner that is far from satisfactory and in any case with results that differ quite considerably from one Member State to another. Furthermore, inasmuch as Community funds are supposed to be added to those allocated to regional development policies at national level, there is no means of ensuring that they will be used in accordance with the priorities set under the Community regional policy.

7.13. In the light of the situation described above, the Court examined the extent to which work on assisted projects had started before or after the application had been lodged and the Commission's aid decision taken. This scrutiny was based on a sample of 626 decisions covering the period 1975-84 and representing 40 % of the regions and types of investment in eight Member States (representing in all 16 % of the total decisions). Two main findings resulted from this work:

- (a) In 92 % of the projects examined, work had already started by the time the application for Fund aid was made and this figure rises to 98 % by the date of the decision granting aid;
- (b) The figures were found to vary according to the type of project and the Member State concerned. Industrial projects account for the greatest number of cases of work having already started at the time of the aid application. Disparities between the Member States are sometimes substantial. Some Member States show a high percentage of projects not yet begun when the aid application is lodged. But for these countries too, the percentages decrease when the reference point is the date of the Commission's aid decision.

7.14. It follows from (a) above that in practice there is no direct relationship between the execution of a given project and the Commission's aid decision. Rather it is

the terms attached to the granting of national aid which have a determining impact. It should be borne in mind, however, that the projects that best satisfy the objectives laid down by the national authorities and that also meet the ERDF's formal eligibility criteria, are not necessarily the best from the Community's point of view.

7.15. There is therefore an imperative need to increase the effectiveness of the Fund as an instrument of the Community regional policy by stressing the additional nature of the aid granted by the Community, both at global level and at the level of individual projects. To this end, the Commission should take all the necessary steps at the level of its management and bring all its influence to bear on the Member States in order to achieve genuine additionality. The new Regulation which came into force in 1985 should give the Commission the opportunity to exert increasing influence on the Member States' regional policies and help to attain the Community's objectives more efficiently. This possibility does exist, as shown by the differences noted between the dates of the commencement of work and the dates of ERDF aid being granted.

#### INVESTMENTS FINANCED IN THE WATER-ENGINEERING SECTOR IN SICILY

7.16. The water-engineering investment projects in Sicily are the main operations financed by the ERDF in this region. The audit inquiries made by the Court in this field dealt in particular with the dam on the Gibbesi torrent and the complexes at Naro, Furore, San Leonardo, Irminio, Olivo and Castello, which were the subject of two Fund aid decisions in 1981 for commitments of 13 100 Mio LIT and 162 800 Mio LIT respectively, i. e. a total of approximately 140 Mio ECU on the basis of the 1981 exchange rate, and for payments of 9 800 Mio LIT and 36 000 Mio LIT respectively.

7.17. No quantified analysis of either the water resources available or the priority needs and the methods to be employed for satisfying them was made prior to the decision, taken in the early 1960s, to carry out big investment projects in the water-engineering sector in Sicily. In 1984, the Court found that, despite the high-priority rating given to the water-power resources sector by the three-year Sicily development plan for 1982-84, the regional plan, provided for by Regional Law No 39 of 1977, had still not been drawn up. Furthermore, none of the complexes the Court examined was operational, not even those for which the projects dated back almost 20 years.

7.18. No overall design plan whatsoever was made, before construction work commenced, concerning the lay-out of each complex, which comprised a reservoir and a supply network; this applied at all levels of the lay-out. For example, the 1976-77 preliminary study for the Naro complex concerned solely the dam. The overall study was not made until 1981, when it was decided to construct the supply network.

7.19. This approach results in the sites and the technical features of the structures being selected without the socio-economic implications of these choices being known because, prior to the decision, no analysis has been made of the pipeline system and the use which will be made of the new resources. Moreover, the various structures lie idle until all of them are finished, since their lay-out has not been designed in such a way as to allow them to come into use step by step as they are completed.

7.20. The lack of planning is most evident in respect of the financial cover. The programme drawn up under Regional Law No 35 of 1974 provided for 20 structures to be built or completed, including the six complexes mentioned in paragraph 7.16, without any indication of the way the global allocation of 128 800 Mio LIT was to be divided up between them. The amount of work thus proved to be disproportionate to the corresponding overall budget available.

7.21. Between 1977 and 1982, various laws authorized a total of about 350 000 Mio LIT of additional finance. A draft regional law of April 1983 (No 581 of 28 April 1983), which provided for a new allocation of 350 000 Mio LIT, estimated the finance still required to complete the six complexes already mentioned to be around 1 400 000 Mio LIT. Since the draft law remained only a draft, work was suspended for lack of finance. During its on-the-spot audit visit in October 1984, the Court thus found that the investment projects were unfinished and unused.

7.22. Better planning and greater caution in deciding to invest would probably have enabled the funds available to be used better. In particular, it is hard to justify the decision to put new complexes in hand in 1976, at a time when the necessary finance was not even assured for the completion of the structures already under construction. Pending correct utilization of the investments financed, Fund aid can therefore be paid only after lengthy periods of time and its effect on the region's production and development will be markedly reduced.

7.23. This situation illustrates the need for the Commission in future to define precisely the objectives to

be pursued in terms of planning, to find out more beforehand about the contribution to regional development of the projects it finances and meticulously to follow up the execution of the assisted projects until their completion.

## INDUSTRIAL PROJECTS

### The execution of industrial projects in France

7.24. Audit inquiries made by the Court during the financial year 1984 revealed a high proportion of shortcomings in the assisted industrial projects in France. Out of 42 projects selected (aid granted: 146 Mio FF) in Brittany, Lorraine and Languedoc-Roussillon, representing almost 10 % of the total number of industrial projects assisted by the ERDF up to and including 1983 in the three regions, 12 (aid granted: 12 Mio FF) related to undertakings that had ceased or suspended trading at the time of the audit and 13 others (aid granted: 110 Mio FF) had not achieved the job targets set. Of the remaining 17 projects, six (aid granted: 7,4 Mio FF) had encountered difficulties after completion and the firms concerned had in some cases been obliged to cut back on the number of staff.

7.25. There are various reasons, such as the economic climate, sectoral difficulties and the nature of the schemes assisted, for the high incidence of problems, which proved to be similar from one region to another.

7.26. Such a large number of failures does however show that, for the decisions examined, the Commission did not satisfactorily apply the provisions of Article 5 (1)(c) of the Fund Regulation, which lays down that, when granting aid, special account must be taken of the situation of the economic sector concerned and the profitability of the investment. Even when such aid decisions do not lead ultimately to expenditure, they have the effect of tying up appropriations which could have benefited the region's development.

7.27. About 10 of the projects included in the Court's sample related to the agri-foodstuffs sector. Of these, seven were financed by the ERDF instead of by the EAGGF, Guidance Section, even though they fell within the sectors covered by the agricultural sector programmes drawn up under Council Regulation (EEC) No 355/77 of 15 February 1977 on common

measures to improve the conditions under which agricultural products are processed and marketed <sup>(4)</sup>.

7.28. ERDF aid was granted even though, on the whole, it had not been proved that the investments in question met the criteria of feasibility and Community interest laid down by the EAGGF, Guidance Section programmes (size, productivity, resources to be employed, etc.). In fact, the documents which the Member States have to submit with ERDF aid applications do not make it possible to prove this.

7.29. Of the seven firms assisted (aid granted: 1 Mio FF), three had ceased trading when the Court carried out its audit and the solvency of a fourth hung in the balance. Through better coordination of the Community's structural measures it ought to have been possible to avoid ERDF financing of projects in the agri-foodstuffs sector which had not been shown to comply with the conditions laid down by the EAGGF and which thus involved a particularly high risk of failure.

#### **The skilled nature of jobs in the FR of Germany**

7.30. Continuing with industrial projects, the audit inquiries made in 1984 by the Court in the *Land of Baden-Württemberg* in the FR of Germany focused on the financing of investments intended to create skilled jobs. The Member State's provisions relating to the improvement of the region's economic structures considered the creation of skilled jobs to be one of the primary goals of the aid in question, in particular so as to prevent a young, skilled labour force from migrating to other areas.

7.31. However, none of the statistical or other data available in the Member State concerning the planning and execution of these projects enabled any distinction to be drawn between skilled and unskilled jobs. The job-creation objectives subscribed to by the aid recipients related to a specific number of jobs, without regard to their quality, and certificates of execution also failed to mention this aspect. The Commission should have ensured that the stated aim of the regional development programme was more faithfully reflected in the system employed for implementing it, and should have drawn the necessary conclusions regarding the granting of aid.

#### **Conclusion regarding the industrial projects**

7.32. The observations made during the audit of industrial projects in France point to the need for better coordination with other Community measures and for greater effectiveness. The audit of the FR of Germany projects reveals a failure to monitor the attainment of objectives. These findings highlight the need for even more stringency when selecting projects and, as regards the management of the Fund, the need for full, periodic information on the progress of the projects subsidized and on their results.

#### **SYNTHESIS OF OBSERVATIONS ON THE APPLICATION OF REGULATION (EEC) No 724/75**

7.33. The main findings arising from the 1984 audits corroborate certain observations which the Court has been making since 1977 on the implementation of Regulation No 724/75 establishing the ERDF. These observations have highlighted the need to:

- (a) strengthen the procedures for scrutinizing the regional development programmes, the statistical summaries and the aid applications to ensure that Fund aid is allocated to the investments that contribute most to correcting regional imbalances;
- (b) define more precisely the operational criteria to be applied in selecting projects so as to improve the effectiveness of the appraisal of aid applications;
- (c) set up, if need be with the aid of a suitable computerized system, a more comprehensive monitoring scheme that would enable the Commission to make a systematic analysis of the Fund's activity.

7.34. If this action is not taken, it will be difficult to increase the effectiveness of the aid with a view to achieving better convergence of the Member States' economies and it will be hard to obtain a better evaluation of the Commission's measures to help disadvantaged regions.

7.35. The new ERDF Regulation (Regulation No 1787/84) tackles some of these areas of concern, in particular those regarding documentation of the implementation of ERDF aid measures. The Commission has in addition clarified the implementing criteria covering the general principles of project selection.



7.36. Nevertheless, these new provisions are not in themselves sufficient to prevent a recurrence of the situations pointed out by the Court. It is important in this connection that the Commission should make full

use of the scope offered by the new Regulation to ensure, in its role of manager of the Fund, that Community aid is more effective in achieving its objectives.

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(<sup>1</sup>) Council Regulations (EEC) No 724/75 of 18. 3. 1975 (OJ L 73, 21. 3. 1975, p. 1), No 214/79 of 6. 2. 1979 (OJ L 35, 9. 2. 1979, p. 1) and No 3325/80 of 16. 12. 1980 (OJ L 349, 23. 12. 1980, p. 10).  
(<sup>2</sup>) Council Regulation (EEC) No 1787/84 of 19. 6. 1984 (OJ L 169, 28. 6. 1984, p. 1).

(<sup>3</sup>) See in this connection paragraph 3.3.3 of the Court's report in response to the conclusions of the European Council of 18. 6. 1983 (OJ C 287, 24. 10. 1983, p. 1).  
(<sup>4</sup>) OJ L 51, 23. 2. 1977, p. 1.

## CHAPTER 8

**Social sector**

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**INTRODUCTION**

8.1. Community expenditure in the social sector comes under Title 6 of Part B of Section III 'Commission' of the general budget. It relates mainly to the activities of the European Social Fund (Chapters 60 and 61) and to other social expenditure shown in Chapters 63 to 67 and in Chapter 69 (see Table 8.1).

**SUMMARY OF FINANCIAL  
INFORMATION (EUROPEAN SOCIAL  
FUND)  
(CHAPTERS 60 AND 61)**

*Implementation of the budget*

8.2. Tables 8.1 and 8.2 show details of the appropriations available and their utilization. During the finan-

cial year 1984, the Commission took three decisions approving applications for assistance, on 23 July, 13 September and 19 December 1984. This last decision superseded the two earlier ones.

8.3. Four countries received more than three quarters of the commitments entered into in 1984 (the United Kingdom 32 %, Italy 22 %, Ireland and France 11 % each). Payments in the form of automatic advances <sup>(1)</sup> accounted for 47 % (12 % in 1983) of the total commitments. For the Netherlands, however, this figure was only 12 %, as it had agreed, in view of the Community's financial difficulties, to have payment of its advances deferred until January 1985.

Table 8.1 — Social sector: appropriations available in 1984 and their utilization

(Mio ECU)

Budget heading	Commitments		Payments	
	Appropriations for commitment available in 1984	Commitments entered into in 1984	Appropriations for payment available in 1984	Payments made in 1984
Chapter 60: General measures including:	1 939,6	1 810,7	1 762,3	1 593,6
— Young people under 25, less-favoured regions (6000)	529,7	501,4	249,0	235,8
— Young people under 25, other regions (6001)	976,3	909,1	457,5	435,4
— Persons aged 25 and over, less-favoured regions (6010)	239,8	224,8	113,9	110,4
— Persons aged 25 and over, other regions (6011)	190,8	175,4	99,0	85,6
Measures proposed before 1984:				
— Former Chapter 60 (607)	0,7	—	474,8	454,7
— Former Chapter 61 (608)	1,0	—	365,8	269,5
— Former Chapter 62 (609)	1,3	1,0	2,3	2,2
Chapter 61: Specific measures (610)	85,0	42,5	25,5	12,7
<b>Total Chapters 60 and 61 (Social Fund)</b>	<b>2 024,6</b>	<b>1 854,2</b>	<b>1 787,8</b>	<b>1 606,3</b>
Chapter 63: Education and vocational training	16,8	16,6	22,2	15,0
Chapter 64: Employment, social protection and health	297,0	294,8	301,4	290,0
Chapter 65: Contribution to the ECSC for social measures in connection with the restructuring of the steel industry	62,5	62,5	62,5	62,5
Chapter 66: Protection of the environment and consumers	21,2	12,1	25,0	9,7
Chapter 67: Cultural action and the European Foundation	2,2	2,2	2,7	2,0
Chapter 69: Aid to disaster victims in the Community	34,1	33,2	54,2	50,8
<b>Total Chapters 63 to 69</b>	<b>433,8</b>	<b>421,4</b>	<b>468,0</b>	<b>430,0</b>
<b>Total Title 6 (Social sector)</b>	<b>2 458,4</b>	<b>2 275,6</b>	<b>2 255,8</b>	<b>2 036,3</b>

8.4. Commitments outstanding at the beginning of 1984 totalled 2 493,8 Mio ECU; 726,1 Mio ECU (29 %) were paid (36 % in 1983) and 98,5 Mio ECU (4 %) were

cancelled (5 % in 1983). The latter amount relates to commitments outstanding from financial years prior to 1983.

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

(Mio ECU)

Type of appropriations	Commitment appropriations	Payment appropriations
Initial budget 1984	1 846,0	1 220,0
Appropriations remaining from 1983	71,5	—
Carry-overs from 1983	—	575,9
Appropriations arising from decommitments of 1983 commitments	94,6	—
Appropriations arising from the revaluation of outstanding commitments	29,2	—
Transfers of appropriations	- 16,7	- 8,1
<b>Total of final appropriations</b>	<b>2 024,6</b>	<b>1 787,8</b>

8.5. The balance outstanding at 31 December 1984 was 2 519,5 Mio ECU, of which 34 % concerned Italy, 22 % the United Kingdom and 14 % France.

## OBSERVATIONS ON REGULARITY AND LEGALITY

### *Entry of commitments and payments in the accounts*

8.6. The commitments of appropriations decided on 23 July (1 734,4 Mio ECU) and 13 September (200,3 Mio ECU) were not entered in the accounts until October, and payment of advances against them did not start until November.

8.7. The Court has failed to obtain any more satisfactory explanation than that given by the Commission Member responsible during the European Parliament sitting of 12 February 1985 (2): i. e. that due to the budgetary situation, the commitments could not be entered in the accounts until late October following the adoption of the supplementary budget on 25 October 1984.

8.8. Notwithstanding this explanation by the Commission, the Court notes that, at the time of the decision of 23 July, the necessary commitment and payment appropriations were available.

8.9. Approval decisions entail the immediate payment of 50 % advances to most of the promoting bodies, in

accordance with Article 5 of Council Regulation (EEC) No 2950/83 of 17 October 1983 (3).

8.10. The Court considers that the accounts should reflect these approval decisions, in accordance with the Financial Regulation (Articles 32 and 33) and with the measures for its implementation (Article 27).

### *Observations on an overruling of the Financial Controller's refusal to grant approval*

8.11. The Commission decided at its meeting on 19 December 1984 to overrule the Financial Controller's refusal to grant approval of 18 December 1984.

8.12. In his refusal to grant approval, the Financial Controller objected to persons wishing to become self-employed being granted the aid for recruitment referred to in Article 1(c) of Council Regulation (EEC) No 2950/83 (4) and in paragraph E. 3 of the Commission guidelines for the management of the European Social Fund in the financial years 1984 to 1986 (5), which clearly repeat the concept of 'recruitment to additional jobs'.

8.13. The Commission considered that the Financial Controller had not taken account of the social and economic impact of the aid in question, especially the reduction of unemployment which can be achieved by creating jobs or by making it easier for unemployed persons to become self-employed.

8.14. The Court considers that in this particular case the commitment of appropriations did not in fact comply with the provisions and the refusal to grant approval was therefore justified. Insofar as job creation in the form of helping unemployed persons to become self-employed is in keeping with the true objective of the aid, it is the Court's view that in this instance the Commission ought to modify the regulations; in so doing it would, moreover, put all the Member States on an equal footing.

## IMPLEMENTATION OF THE NEW EUROPEAN SOCIAL FUND

### *Procedures for preparing the approval decisions*

8.15. The conditions of eligibility of the categories of persons and the operations are chiefly defined in Arti-

cles 1, 2, 3 and 4 of Council Decision 83/516/EEC of 17 October 1983 on the tasks of the European Social Fund (6), whilst the eligible expenditure is specified in Article 1 of Regulation No 2950/83 on the implementation of Decision 83/516/EEC (4). The Commission guidelines for the management of the European Social Fund in the financial years 1984 to 1986 (5) lay down the order of priority of eligible applications and the principles and procedure to be followed with regard to reductions.

8.16. Applications for assistance must now be made on the form shown in Commission Decision 83/673/EEC of 22 December 1983 on the management of the European Social Fund (7). Furthermore, the Commission has developed its own codification system which is designed to standardize the appraisal of these applications. It has also begun compiling a guide to the interpretation of the rules governing the tasks and the operation of the European Social Fund.

### *Observations on the procedures for preparing the approval decisions*

#### **Guidelines**

8.17. The guidelines drawn up in consultation with the Member States are too general in that they do not make it possible to define the priorities precisely.

8.18. There is no adequate handbook for appraisal and interpretation, drawn up prior to the lodging of aid applications. Such a handbook would be an invaluable aid for the national authorities responsible for appraising applications.

8.19. Notwithstanding some clarifications provided by the internal note of 18 July 1984 (8), several concepts concerning selection have still not been adequately explained. This applies, *inter alia*, to the following concepts: new technologies, prospects of employment, methods of calculation, local initiatives, public need, part-time work, socio-occupational integration, preparation for working life, undertakings not employing more than 500 persons and the innovatory element of specific operations.

8.20. Some of the guidelines are not precise enough to prevent overlaps, which does not facilitate the examination of applications. This applies, *inter alia*, to voca-

tional training operations which include an element of job-creation, and operations concerning recruitment to or employment in additional jobs involving some kind of training or apprenticeship.

#### **Codification**

8.21. The main aim of the codification system developed by the European Social Fund is to enable Commission staff to appraise applications for assistance in a uniform way. Several of the codes used in the examination of applications for assistance, however, do not correspond to adequate definitions of the various cases of non-admissibility, non-eligibility and non-priority.

### *Observations on the decisions concerning applications for assistance*

8.22. Out of some 3 300 applications for assistance submitted in 1984, a sample of 480 were examined to check whether they were complete and met the requirements as to admissibility, eligibility and priority. In addition, in several national bodies responsible for submitting applications for assistance to the European Social Fund, an analysis was made of 350 of these applications on the basis of official files and/or of questionnaires. This scrutiny led to the following observations.

8.23. As well as the weaknesses in the documents clarifying the guidelines (paragraphs 8.18 to 8.20), the Court found that the Commission does not adhere strictly enough to the concepts that it itself has developed. For example, although it has drawn up a form for applications for assistance that is designed to supply it with much of the information it requires, many of the applications fail to provide the relevant data. Similarly, it was found that, having laid down selection rules, the Commission then quite frequently ignores them without good reason.

8.24. An audit, whether internal or external, cannot function properly in the absence of sufficiently precise application criteria. This is particularly so where the audit involves analysing decisions relating to the priority and eligibility of applications for assistance. The Commission should, therefore, provide clear explanations for any changes which it makes to the classification of applications for assistance submitted by the Member States under certain categories of the guidelines. It is the overlapping of some categories of the guidelines that leads to these changes and that is also to blame for serious inconsistencies which can arise when classification procedures are changed for some applications but not for others of the same kind.

8.25. Some decisions contain mistakes as regards the amounts approved.

8.26. Lastly, attention must be drawn to the lack of transparency of the appraisal carried out by the staff responsible for the European Social Fund. Apart from the imprecision of the codes developed for appraisal purposes (paragraph 8.21), there is sometimes no explanation of the Commission's position in the files.

### *Observations on the application of the weighted reduction on a linear basis of applications for assistance*

8.27. The Court has examined the results of the application of the weighted reduction on a linear basis, a procedure which is defined in paragraph 6 of the guidelines for the management of the European Social Fund and is intended to balance the amount of commitment appropriations available with the volume of applications for assistance. This examination gives rise to the following observations.

8.28. The Commission, as is its right, has not always acted in accordance with the Member States' reduction proposals. Nevertheless, it is desirable that the choice made in this case be clear.

8.29. In making reductions, the Commission has always maintained that it was not its intention to call into question the execution of planned operations. Proportional reduction applied without precise proposals from a Member State, however, has meant that it has not been possible to keep some operations going in their entirety.

### *Conclusions*

8.30. From analysis of the first year of operation of the new Fund, it seems that the problems encountered are, on the one hand, the lack of precise rules and, on the other, the failure to apply the rules that do exist sufficiently strictly.

## WINDING UP OF THE OLD EUROPEAN SOCIAL FUND

### *Observations on final payments*

8.31. As part of its audit of final payments effected by the Commission in 1984, the Court scrutinized files and

made a number of on-the-spot visits. The many observations arising in consequence relate, as in the past, to the certification of accounts, the eligibility of expenditure and the methods of calculating it, the financing of projects and the content of files.

8.32. For example, in four cases the Commission made the final payment despite the fact that the Member State's certification, stipulated in the Regulation, did not even appear on the payment claim. In another case, a training centre received aid from the Fund from 1973 to 1981 even though its expenditure was funded entirely by the national administration: as a result, there was double cover for the amount financed by the Community; this fact was endorsed by the Commission staff; at the time of the Court's audit visit, over half the amount received (equivalent to some 2,5 Mio ECU) was still available. The Court also found that, for several projects, the execution reports did not contain information essential for assessing the operations, such as results in terms of jobs created or maintained, the types of courses held and their duration.

8.33. Furthermore, attention should be drawn to the case in which the certifier stated the estimated expenditure in the global breakdown of a grouped final payment claim instead of the actual expenditure, since the breakdown of the latter was not available. Lastly, there are the three cases where the amount entered in the certified global breakdown was higher than the amount approved as eligible — subsequently — by the certifier. The Court requests the Commission to pursue the recovery of the overpayment in the national currency (equivalent to some 160 000 ECU).

8.34. In one region — which was acting as certifier — it was not possible to establish the financial data for each project in support of the global final payment claim. If the Commission cannot obtain these details — which would, moreover, make any check impossible — it ought to refuse the assistance.

### *Observations on recoveries*

8.35. During the financial year 1984, as in 1983 (see in substance paragraphs 8.26, 8.28 and 8.29 of the annual report for the financial year 1983, page 76, OJ C 348 of

31. 12. 1984), the Court examined the problem raised by the 84 recoveries (in particular 27 French recoveries, 32 Italian and 10 United Kingdom ones) made as a result of payments of advances that were too high in comparison with the aid actually due. These recoveries amounted to 6,2 Mio ECU, of which 1,9 Mio ECU for France, 3,5 Mio ECU for Italy and 0,4 Mio ECU for the United Kingdom.

8.36. By analysing these 84 cases in respect of the length of time these advances remained in the hands of

the recipients prior to their recovery, it was found that this period varies between 3 and 61 months, the average period being over two years, and that the various sums amount to nearly 1 Mio ECU.

8.37. The number of these recoveries, the sums involved and the abnormally long period elapsing between the excess payment and its recovery make an improvement in the management in this field necessary.

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- (<sup>1</sup>) In accordance with the provisions of Article 5(1) and (2) of Regulation (EEC) No 2950/83, OJ L 289, 22. 10. 1983.
- (<sup>2</sup>) Report of proceedings, 12. 2. 1985, pp. 31-32.
- (<sup>3</sup>) OJ L 289, 22. 10. 1983. According to this Article, 'a decision of approval shall be followed by the payment of an advance of 50 % of the assistance approved on the date on which the operations are scheduled to begin. Where this date precedes the date of the decision of approval, payment shall be made immediately after that decision.' It was the latter situation that was generally the case in 1984.
- (<sup>4</sup>) OJ L 289, 22. 10. 1983. This Regulation concerns the implementation of Council Decision 83/516/EEC on the tasks of the European Social Fund.

- (<sup>5</sup>) OJ C 5, 10. 1. 1984. These guidelines are adopted before 1 May of each year and for the three following financial years, under Article 6(1) of Council Decision 83/516/EEC on the tasks of the European Social Fund. The Commission forwards them to the European Parliament and the Council for information. Furthermore, pursuant to the same Article, they are drawn up in close consultation with the Member States, taking account of any views expressed by the European Parliament.
- (<sup>6</sup>) OJ L 289, 22. 10. 1983.
- (<sup>7</sup>) OJ L 377, 31. 12. 1983.
- (<sup>8</sup>) Memorandum from Mr. I. Richard to the Commission in agreement with Mr. A. Giolitti, V/995/84.

## 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 for commitment and payment are contained in Chapters 70 to 78 of part B of the Commission section of the budget.

ject of 22 Mio ECU made on 15 January 1985, and charged to the 1984 budget. In view of the high level of JET's liquidity at the time in question, the Commission's acquiescence in JET's decision to call for funds was inconsistent with the recommendation in paragraph 9.32 of the Court's annual report for the financial year 1983 <sup>(1)</sup> about the level of JET's bank balances;

## OBSERVATIONS ON FINANCIAL MANAGEMENT

9.2. Table 9.1 summarizes the use of appropriations in 1984. Arising from its audit activities the Court's comments on the utilization of appropriations are as follows:

- (a) for energy, the rate of utilization of appropriations for payment, though it is the highest for five years, remains low. This is due partly to technical problems encountered by contractors but also to the time consuming Community procedures;
- (b) for indirect action research, the utilization rate for appropriations for payment is inflated by 6 % as a result of a payment of contribution to the JET pro-

- (c) for Esprit, the low rate of utilization of appropriations for payment is due to delays in procedures leading up to the signing of contracts under the 1984 work plan (see also paragraph 9.13 (a));

- (d) for transport policy, the low rate of utilization of appropriations for both commitment and payment arises mainly because Council decisions were not taken until December 1984.

## ENERGY: COST SHARING PROJECTS

9.3. Chapter 70 provides for the Commission's share of 'technological development' and 'demonstration' projects. An objective of these cost-sharing contracts is to help new technology achieve the stage of commercial exploitation, subsidies being normally repayable if



Table 9.1 — Research, energy, etc.: Appropriations available in 1984 and their utilization

(Mio ECU)

Expenditure area (chapter of budget)	Commitments			Payments		
	Appropriations for commit- ment available in 1984 <sup>(1)</sup>	Commitments entered into in 1984	Utilization rate (%)	Appropriations for payment available in 1984 <sup>(2)</sup>	Payments made in 1984	Utilization rate (%)
Energy:						
— Energy policy (70 excluding 707)	216,9	204,8	94,4	206,0	133,7	64,9
— Specific Community measures (707)	456,0	456,0	100,0	457,8	412,0	90,0
Research and investment: (73)						
— Direct action research	219,3	189,3	86,3	220,0	189,9 <sup>(5)</sup>	86,3
— Indirect action research <sup>(3)</sup>	386,6	268,9	69,5	307,9	249,3 <sup>(6)</sup>	80,1
— Information technology (Esprit)	207,0	134,4	64,9	45,0	1,8 <sup>(7)</sup>	4,0
Industry and the internal market: (77)						
— Industrial policy	29,0	26,8	92,4	36,4	17,7	48,6
— Information and telecommunications technologies other than Esprit	45,7	17,6	38,5	50,8	26,3	51,8
Transport:						
— Transport policy (78 excluding 783)	96,7	16,7	17,3	45,4	6,8	15,0
— Special projects (on transport infrastructure) (783)	471,0	471,0	100,0	471,0	423,9	90,0
Other activities:						
— Nuclear safeguards (71)	3,0	3,0	100,0	4,2	2,5	59,5
— Information market and innovation (75)	23,9	13,6	56,9	20,1	8,9	44,3
— Miscellaneous (72)	3,7	3,6	97,3	6,0	2,9	48,3
<b>Total</b>	<b>2 158,8</b>	<b>1 805,7</b>	<b>83,6</b>	<b>1 870,6</b>	<b>1 475,7</b>	<b>78,9</b>
Note: Comparable figures for JET <sup>(4)</sup>	114,3	83,5	73,0	142,2	95,2	66,9

<sup>(1)</sup> Appropriations in the 1984 budget, plus appropriations remaining at the end of 1983, after transfers.<sup>(2)</sup> Appropriations in the 1984 budget, plus carry-overs from 1983, after transfers.<sup>(3)</sup> Including contribution to JET (89 Mio ECU).<sup>(4)</sup> Based on JET's budget (i.e. including Commission contribution).<sup>(5)</sup> Of which 106,2 Mio ECU are shown as research personnel expenditure.<sup>(6)</sup> Of which 18,9 Mio ECU are shown as research personnel expenditure.<sup>(7)</sup> Of which 0,9 Mio ECU are shown as research personnel expenditure.

such a stage is reached. The proportion agreed as recoverable should provide some measure of the success of the programme. Table 9.2 shows the position as at 31 December 1984. In the light of its examination of contracts, it appears to the Court that the status of a substantial proportion of projects remains uncertain.

9.4. The Court recommends that the present systems of internal and external technical evaluation should be

expanded to provide a clearer assessment of the likelihood of commercial exploitation for each objective within a completed project. This assessment could be used as a basis for an improved follow-up of projects. At present a standard letter is issued to contractors which requests a forecast of commercial exploitation prospects but this is not followed up. The Commission should introduce a system of periodic requests to all contractors for information about the state of completed projects, with follow-up in case of non-reply.

**Table 9.2 — Recoverable subsidies at 31 December 1984 <sup>(1)</sup>**

Kind of project	A. Potentially recoverable sums paid on projects selected between 1975 and 1979 <sup>(2)</sup> (Mio ECU)	B. Sums, the recoverability of which has been negotiated (Mio ECU)	B as % of A
Technological development projects	140,2	44,5	31,7
Demonstration projects	15,9	1,1	6,9
<b>Total</b>	<b>156,1</b>	<b>45,6</b>	<b>29,2</b>

(1) Based on figures supplied by the Directorate-General responsible for Energy.

(2) Projects which should have been completed by 1984 and in respect of which reimbursement of subsidies might be expected.

## INDIRECT ACTION RESEARCH

### *Management procedures*

9.5. Once again <sup>(2)</sup> the Court must stress the need for comprehensive instructions covering all financial and contract management procedures for indirect action. No such manual has yet been issued. The Court wishes to emphasize the importance it attaches to this task and, in particular, to the need for precise instructions on the following points:

- (a) scrutiny of calls for funds to ensure consistency between contract payments and contractual terms;
- (b) use of external audit firms;
- (c) monitoring of outstanding commitments;
- (d) use of management information systems;
- (e) procedures of scientific services for selecting contractors and monitoring contracts;
- (f) documentation and filing procedures.

### *Use of external audit firms*

9.6. In 1981, following previous criticisms by the Court <sup>(3)</sup> of the Commission's internal control over

cost-sharing contracts, the Commission engaged external audit firms to conduct on-the-spot financial verification of these contracts. This now constitutes its primary internal control over indirect action expenditure (other than JET).

9.7. The Court welcomes this development. However, a review by the Court of the management of these audits suggests that the Commission has not yet derived full benefit from them. The arrangements could be improved in the following ways:

- (a) the selection of all contracts for audit should be explicitly justified against agreed criteria in order to facilitate better coordination and more efficient use of the audit firms;
- (b) the issue of more precise written instructions to the audit firms would lead to greater consistency in approach and objectives, clearer audit conclusions and more thorough verification of certain aspects of research contracts;
- (c) the introduction of systematic procedures for the prompt follow-up of audit reports would ensure that all significant findings are properly raised with contractors.

9.8. The first set of contracts comes to an end in 1985. The Court has asked the Commission to take its recommendations into account when evaluating the use of this form of internal control and when placing and managing any new set of contracts.

## INFORMATION AND TELECOMMUNICATIONS TECHNOLOGIES

9.9. On 28 February 1984 the Council approved <sup>(4)</sup> a Commission proposal for a multiannual European strategic programme for research and development in information technologies (Esprit). In order to manage this programme and to link it with other related activities in the fields of information and telecommunications technologies the Commission decided <sup>(5)</sup> on an autonomous task force drawn from its own services and from outside experts.

9.10. The Esprit programme consists essentially of research work carried out under the terms of shared-cost contracts; the share of the costs borne by the Com-

mission is 50%. Each contract must involve the participation of at least two independent undertakings (that is, companies including small and medium-sized undertakings, universities and other bodies established in the Community) which may not all be established in the same Member State. It also involves coordination work. The appropriations necessary for the duration of the programme (1984 to 1988) were estimated in the Council decision at 750 Mio ECU. The Esprit appropriations are classified under Chapter 73 of part B of the general budget and the related information and telecommunications technologies managed by the task force are being funded by Chapter 77.

9.11. In 1984 most of the administrative and internal control systems of the task force, whether manual or computerized, were in the process of development. This was particularly the case for the management of contract execution which for Esprit started early in 1985. In order to deal with the 1984 call for Esprit proposals, therefore, procedures were developed for the evaluation and selection of contractors and negotiation of contracts; these resulted in commitments of 134 Mio ECU against the 1984 budget.

9.12. The Court has carried out an initial examination of the systems of internal control, in particular the organization, legal bases, accounting and contract procedures up to the commitment stage. It has communicated its detailed findings and recommendations to date on these areas to management.

9.13. The following important matters have arisen from the examination:

- (a) In paragraphs 9.4 and 9.5 of its report for the financial year 1983 <sup>(1)</sup> the Court recommended greater consistency in the treatment of commitments and the Commission agreed to give careful consideration to the question. The audit of 1984 commitments of the Esprit programme has confirmed that some differences of treatment remain. For example commitments totalling 71 Mio ECU were made in December 1984, more than two months before the terms of the contracts were finalized. Yet in other expenditure areas commitments were only made after finalization.
- (b) The Council decision for the Esprit programme placed a limit of 4,5 % (i.e. 33,8 Mio ECU) on staff

expenditure but did not specify how staff expenditure was to be defined in this context. The Commission's present method of calculation appears to run the risk of understating the real staff costs in that, *inter alia*, significant expenditure on certain personnel on short term contracts has been excluded, and no provision has been made for including residual staff costs which continue beyond the official end of the programme in 1988. The Court recommends that the Commission adopts a more accurate and consistent basis for the calculation of staff expenditure which will permit comparison of actual expenditure with the 4,5% limit.

- (c) The audit also revealed aspects of the procedures used for evaluating the 1984 research proposals and for drafting the contracts which require improvement.

9.14. The Court suggests that, in finalizing the task force's internal control procedures, the Commission should bear in mind the detailed recommendations which have been communicated to it on the above questions and also those observations made in the present and previous annual reports on the management of research contracts in other fields.

## CONCLUDING COMMENTS

9.15. All the observations in this chapter relate to contract expenditure. As such they are of a potential relevance to a wider field than the area of energy, research and allied activities. Moreover, several of the observations raise issues of principle concerning financial or budgetary management. In addition to the issue of central guidance in those areas where it is evidently and urgently needed (cf. paragraph 9.5 above), the Court recommends that the Commission should consider whether there is now a need for a clearer statement (perhaps via the Commission's internal rules on the implementation of the Community budget) of the advisory and monitoring responsibilities of the central financial services in the budgetary and financial management field.

<sup>(1)</sup> OJ C 348, 31. 12. 1984.

<sup>(2)</sup> OJ C 344, 31. 12. 1982, paragraph 8.22, OJ C 357, 31. 12. 1983, paragraph 8.44. OJ C 348, 31. 12. 1984, paragraph 9.21.

<sup>(3)</sup> OJ C 326, 31. 12. 1979, paragraph 6.59 and OJ C 342,

31. 12. 1980, paragraph 8.28 (see also OJ C 344, 31. 12. 1982, paragraphs 8.28 and 8.29).

<sup>(4)</sup> OJ L 67, 9. 3. 1984.

<sup>(5)</sup> Doc. COM(84) PV 731.

## 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, cofinancing 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.

tions for payment for Chapters 94 and 95 were more than offset by the improved rates for Chapters 92, 93 and 96.

**OBSERVATIONS ON FOOD AID (CHAPTER 92)**

10.3. The quantities mobilized (see Table 10.2) increased considerably in 1984, partly catching up with the delayed 1983 programme (see paragraph 10.9).

**SUMMARY OF FINANCIAL INFORMATION**

10.2. Table 10.1 shows how appropriations available from the 1984 budget and from previous years were used for commitments and payments in 1984. The total value of commitments was 13 % higher than in 1983 and total payments were 42 % higher. The overall rate of utilization of available appropriations for commitment improved from 82 % in 1983 to 89 % in 1984, while the overall rate for payments rose from 61 % to 78 %. Decreases in the rates of utilization of appropria-

*Financial management***Unsettled accounts**

10.4. In 1984 the Commission department responsible for the clearing of food aid accounts submitted by intervention bodies made a considerable effort to reduce the backlog. Accounts for the financial years

Table 10.1 — Title 9: Appropriations available in 1984 and their utilization

(Mio ECU)

Chapter of the budget	Commitments			Payments		
	Appropriations for commitment available in 1984	Commitments entered into in 1984	Utilization rate	Appropriations for payment available in 1984	Payments made in 1984	Utilization rate
(1)	(2)	(3)	(4) = % (3)/(2)	(5)	(6)	(7) = % (6)/(5)
Chapter 92: Food aid	505,0	504,9	100 %	721,6	709,2	98 %
Chapter 93: Cooperation with non-associated developing countries	366,9	270,0	74 %	201,2	153,6	76 %
Chapter 94: Specific measures for cooperation with developing countries	46,6	39,1	84 %	56,0	27,9	50 %
Chapter 95: Exceptional measures to assist developing and other non-member countries	209,5	209,0	100 %	271,5	93,7	35 %
Chapter 96: Cooperation with Mediterranean countries	160,2	117,5	73 %	167,7	107,8	64 %
Chapter 98: Operation of Commission delegations in developing countries	56,0	56,0	100 %	56,0	56,0	100 %
Chapter 99: Cooperation with non-member countries	2,5	2,5	100 %	3,8	2,4	63 %
<b>Total</b>	<b>1 346,7</b>	<b>1 199,0</b>	<b>89 %</b>	<b>1 477,8</b>	<b>1 150,6</b>	<b>78 %</b>

Table 10.2 — State of implementation of cereals, skimmed-milk powder and butteroil food aid programmes

(in tonnes)

State of implementation		Cereals	Skimmed-milk powder	Butteroil
1983	Balance 1982	339 185	65 673	25 092
	Programme 1983	1 043 369	150 000	36 500
	Implemented in 1983	759 633	111 210	22 636
1984	Balance 1983	622 921	104 463	35 718
	Programme 1984	1 127 663	122 500	32 760
	Implemented in 1984	1 384 199	165 218	49 442
1985	Balance 1984	366 385	56 598	18 410

1976 to 1979 were cleared on 12 November 1984 and clearing 1980 to 1983 was in process at the end of the year.

10.5. For 1979 and subsequent financial years, audit visits by the Commission to intervention bodies are only made if particular problems have come to light, if beneficiaries have complained, or if costs have to be checked on the spot. This approach is unsatisfactory. Audits on the spot should be more frequent and systematic.

10.6. Furthermore, significant amounts of indirect aid have not been finally cleared, in particular 8,58 Mio ECU for operations carried out by the World Food Programme (WFP), some of them in 1978, and 1,67 Mio ECU of Euronaid claims for 17 indirect aid operations, the oldest of which date back to 1980.

#### **Supervision of counterpart funds**

10.7. In three of the six countries where this matter was examined by the Court, it was clear that the authorities were not following the correct procedures with regard to the accounting for and use of the counterpart funds from the proceeds of the sale of food aid. In Ghana, counterpart funds which had been wrongly calculated and inadequately accounted for were then withheld from projects agreed with the Commission and spent on others. In Indonesia, no procedure had been established between the Commission and the government, and the authorities were not providing annual reports on the use of the funds. In Guinea Conakry, counterpart funds should have been operating since before 1980. The first report on their use, received in 1985, covered only a third of the funds.

#### **Late payments to UNHCR**

10.8. The EEC has provided finance from Chapter 92 for the purchase in Thailand by the United Nations High Commission for Refugees (UNHCR) of rice rations for refugees. The conditions of supply state that payments of advances will be made 'as soon as possible after UNHCR has notified the Community of its acceptance of these conditions'. In May 1984, the Commission took the allocation decision for the 1984 programme. On 6 June 1984, UNHCR requested a cash advance to purchase, under its 1984 allocation, 10 000 tonnes of rice in Thailand. However, the Commission then suspended the transaction whilst considering, for

the first time, whether rice should not be supplied from the Community market, although it was clear from the beginning that Thailand, as a rice exporting nation, would not accept imports. To avoid interruption of rice supplies to refugees in the second half of 1984, UNHCR spent 1,32 Mio USD of its own reserves. The rice was labelled 'gift of the EEC'. A decision to proceed with the Thailand purchase was finally made in March 1985. This delay means that expenditure which should have been incurred in 1984 has been brought to account in 1985. Similar late payments occurred in previous years.

#### ***Supply of aid***

##### **Shipment times**

10.9. A sample of normal shipments of food aid sent in 1984 showed that the mobilization regulation for cereals was published, on average, two weeks after the mobilization request had been made by the food aid department to the Directorate-General for Agriculture. The procedure took 11 weeks in the case of milk powder and six weeks in the case of butteroil. The average period of time between publication of the regulation and shipping of the goods was nine weeks for each of the three categories of products. The average time taken by sea transport was three weeks for cereals and milk powder and four weeks for butteroil. From the time of initiating mobilization until the arrival of the ships in the port of unloading, allowance had to be made for a total of 14 weeks for cereals, 23 weeks for milk powder and 19 weeks for butteroil. These delivery times are similar to those already observed by the Court in the case of 1983 shipments.

10.10. An analysis of a sample of 'emergency' consignments (Chapter 92) showed that these same stages of delivery took only slightly less time than normal aid shipments. On average, about 5 % less time was taken for cereals and 21 % less time for other products.

##### **Late shipments**

10.11. Amongst the 47 cereals consignments for the financial year 1984 examined by the Court were five consignments shipped from Italy after the dates fixed in the mobilization regulations. Flour was shipped to

Somalia a month late; consignments of rice for Mozambique and Senegal were delayed by 7 and 14 weeks respectively; emergency aid rice for Ghana was 5 weeks late and for Senegal 10 weeks.

### *Quality of aid*

10.12. The Community regulations should give clear specifications of standards for both the products delivered and their packaging, as aid is otherwise likely to be inadequate. In Ghana, as appropriate precautions had not been taken, part of the skimmed milk powder supplied was found to be of too low a heat stability for the intended reconditioning. Moreover, although an attempt has been made at improving the packaging of milk products through the adoption of Commission Regulation (EEC) No 1354/83, skimmed milk powder sent to Ghana from the Federal Republic of Germany, Denmark and the Netherlands in badly closed sacks suffered water damage and more than 5 % of 5 kg tins of butteroil supplied to Burundi leaked, even though the cartons in which they were packed had not been seriously damaged. Despite complaints from the recipients, the Commission has still not taken adequate action in response to this type of problem. (In the case of Ghana, see, in particular, Commission Regulation (EEC) No 1572/85 of 10 June 1985 with regard to the mobilization of skimmed milk powder.)

10.13. The Indonesian authorities stated that in the most recent programmes 1 119 tonnes of skimmed milk powder, costing 0,75 Mio ECU, had been wasted because of unacceptable quality. Breakages of bags and excessive humidity were reported, but for one consignment from Germany the main cause was a strong flavour of peanut oil, which had apparently been mixed in to give the required vitamin supplement. This spoilt skimmed milk powder was sold as cattle feed.

10.14. Poor quality deliveries of food aid have occurred despite the fact that intervention bodies are required either to certify product quality or to have quality checks carried out. To improve matters, the Commission made increased use in 1984 of appropriations for food aid quality control to pay for quality checks by an inspection firm. The number of complaints from food aid beneficiaries is diminishing.

10.15. Insurance claims had not been lodged by beneficiaries for losses from cif shipments to Ghana, Gui-

nea Conakry and Cape Verde. Whilst it is not the Commission delegation's duty to intervene, it would clearly be useful if it were to do so to help obtain settlement for losses and thus prevent the insurance premium being wasted.

## **OBSERVATIONS ON COOPERATION WITH NON-ASSOCIATED DEVELOPING COUNTRIES (CHAPTER 93)**

### *Financial management*

#### **Use of appropriations**

10.16. Article 930 represents about 90 % of total appropriations for Chapter 93 for the financing from differentiated appropriations of projects and measures in non-associated developing countries.

10.17. The rate of use of commitment appropriations in Article 930 continues to be low, as 41 % of the 218 Mio ECU in the 1984 budget remained available for 1985. Payments totalled 146 Mio ECU; 79 % of available 1984 appropriations (1984 budget plus carried over appropriations) were used, compared with 57 % in 1983 and 39 % in 1982.

#### **Delays in management of certain projects**

10.18. For eight projects launched between 1977 and 1982 no payments had been made by 31 December 1984. The three most important projects involved Bangladesh (13 Mio ECU), Pakistan (12 Mio ECU) and the Central American Bank for Economic Integration (2 Mio ECU, dating from 1977).

#### **Payments made prior to execution of related operations**

10.19. Analysis of the payments does not indicate the actual progress of projects. Many payments which

appear as such in the accounts are in fact advances. The projects cofinanced with the Asian Development Bank (ADB) in Indonesia illustrate this point (see paragraph 10.29). In many other cases, the Commission pays 60 % of the expected cost when supply orders for equipment of Community origin are placed and finances the initial on-site works before they have even been carried out.

### *Projects in Thailand and Indonesia*

10.20. In 1984 Court audit teams visited the 24 projects for which significant expenditure had been incurred in Thailand and Indonesia; they represent about 13 % of commitments (1 110,9 Mio ECU) and 10 % of payments (500,9 Mio ECU) for Chapter 93 for the years 1976 to 1984. Aid to Thailand is partly linked to the limitation of cassava imports by the Community (see paragraph 10.36 below) and in Indonesia four of the eight projects are cofinanced with the ADB, which manages EEC grants totalling 26,9 Mio ECU under a mandate from the Commission.

#### **Incomplete files**

10.21. For many projects in Thailand and Indonesia, as for the other South-East Asian countries which the Court had previously visited, the files in Brussels were found to be inadequate. Details of contract awards were missing from technical files and the financial files contained few contract documents against which payment requests could be checked.

#### **Co-financing activities**

10.22. Aid would be easier to manage and more clearly identified with the Community if it were concentrated on projects with a simple management structure. The participation of the Community as a minority partner in projects involving too large a number of suppliers of finance leads to serious difficulties in various respects, as the Court has already noted in Pakistan and Sri Lanka.

10.23. Thus, in Thailand a crop development project for the North-East region was only a minor component of larger programmes financed by other donors, so that

the project lost its Community identity and it was very difficult to obtain information on its implementation. In contrast, a project with only one implementing agency (pilot project on integrated soya and food crops production, Ministry of Agriculture) was most successful in the end, despite a very bad start (see paragraph 10.26 below).

#### **Inadequate selection of consultants**

10.24. Shortlists should have been drawn up, even though this was not a legal requirement in the early years, in order to afford the maximum guarantee of an objective and serious selection. In two cases in Thailand (one for four projects with total fees of 2,1 Mio ECU) and in two others in Indonesia, however, firms were chosen without shortlists having first been drawn up.

10.25. The poor performance of one of the firms in Indonesia was subsequently mentioned in an internal Commission report. Three out of the four expatriates employed by this firm arrived a year after the start of the project, in 1979; two stayed less than a year and were then replaced with under-qualified assistants. Lack of familiarity with local conditions was the inevitable result.

#### **Poor studies and planning of projects**

10.26. The pilot project on integrated soya and food-crops production in a transmigration area of Sumatra was launched on the basis of a consultant's unrealistic initial study for a large soya production estate which failed to cover basic agricultural and technical questions. The financing agreement drafted for this project contained no breakdown of costs. EEC finance has subsequently been more than quadrupled to 4,7 Mio ECU. Only by virtually abandoning the original idea, which would have involved the destruction of 1 000 ha of primary forest, was the project later transformed into a very successful seed multiplication centre, thanks to the technical assistance of another consultant, who was responsible for follow-up and not for the initial planning of the project.



10.27. Responsibility for the study (1978 programme) and the implementation (1980 programme) of the Baturraden dairy development project in Central Java was entrusted to one of the firms mentioned in paragraph 10.24. The project was intended to convert a cattle breeding centre, set up by the government in 1952, into a 'National Dairy Development Centre', to create a dairy farmers' cooperative and to establish a milk processing and marketing unit. Almost 1 Mio ECU has been spent on technical assistance and 1,5 Mio ECU on infrastructure. In mid-1984, when the buildings were almost complete and the dairy equipment had reached Jakarta, the Indonesian authorities found themselves in a difficult situation. The fact is that the project left most of the basic local realities out of account. The sole market for pasteurized milk is in Jakarta, 10 hours' drive away; the packaging alone costs twice as much as the milk contained in it; the quality of forage from local crop by-products on the very small farms is poor and it is uneconomic to provide the cattle with food appropriate to their potentially high production, with the result that yields per cow are very low.

which required the submission of an evaluation report on the tenders and proposed awards of contracts.

#### **The intervention of the Asian Development Bank**

10.29. The Bangkok delegation has responsibility for Indonesia, Malaysia, the Philippines, Singapore and Thailand. Its supervision of aid in Thailand has been good. Elsewhere its task is made intrinsically difficult by distance. In Indonesia very complex and centralized administrative arrangements mean that lack of a delegation on the spot makes efficient preparation and follow up of projects virtually impossible. The Commission has therefore mandated the ADB to manage certain Community projects, for which it receives 1% commission on the aid granted. In addition the ADB receives money transferred to it by the Commission long before (often several years before) the funds are needed to reimburse government agencies for their project expenditure and credits the projects with interest corresponding to any profit made from investing the funds.

#### **Inadequate performance of local partners**

10.28. Local partners, at central or local level, have sometimes failed to fulfil their obligations.

- (a) Two financing agreements cover a total EEC contribution of 7,9 Mio ECU to the establishment of the National Agricultural Cooperative Training Institute of Thailand (NACTI). Neither the government nor the cooperative league have provided their share of the project financing (3,5 Mio ECU). The Institute was operating at the time of the Court's visit, but its future seemed in jeopardy as it had no legal identity.
- (b) The implementation of the Rubber Smallholdings' Yield Improvement project in Thailand has also been hindered by the government's failure to make its contribution available in accordance with the agreed work plan.
- (c) The Indonesian authorities failed to provide the Commission with the periodic progress reports stipulated in the financing agreement on the 6,1 Mio ECU grant for a drainage project on the Talunga-gung river and did not respect the special condition

10.30. The ADB's reporting to the Commission was inadequate on each of the four projects it managed in Indonesia and the Commission did not react to the difficulties and delays in the Lower Citanduy project. ADB appraisal of claims for reimbursement from government agencies is superficial, as is its on-the-spot checking.

#### **Failure of the Sulawesi transmigration and area development project**

10.31. Analysis of the South-East Sulawesi transmigration and area development project in Indonesia provides further illustration of the weaknesses already mentioned. The Community grant (5 Mio ECU from the 1977 and 1978 programmes) forms part of a much larger operation (originally 60 Mio USD). As a result, the Community identity of the aid is lost, to such an extent that local management are unaware of it. Ten or 11 ministries have responsibility and half of the EEC grant is spread over 30 contracts for various civil engineering works, some of which will not be completed before 1988 at the earliest. The other half is allocated to the study of similar future projects.

10.32. The Commission signed the financing agreement before the project had been appraised in sufficient detail by the ADB, which finances an important part of it by loans and which was entrusted with the administrative management of the whole project. The cost of the project was estimated at 60 Mio USD in 1977 and 67,1 Mio USD (49,0 Mio ECU) in 1979. At present no one is able to evaluate the final cost.

10.33. The project management unit set up by the Indonesian authorities on the spot lacks suitable staff, and does not have the necessary management or financial powers: at a distance of 3 000 km from Jakarta, the head of the unit has no power to commit or pay funds under the appropriations of the 10 ministries concerned, or any hierarchical authority over their local representatives. He has no control over contractors.

10.34. Generally speaking, the progress reports on the project which the ADB sent to the Commission were completely inadequate. As regards the monitoring of the project, which was the ADB's responsibility, the Court noticed, for example, that a works contract was increased from 1,6 Mio USD to 2,3 Mio USD, without the required prior approval of the ADB having been obtained, or even sought.

10.35. Land preparation and the grant of land titles to the 'transmigrating' families, although foreseen in the original project, were neglected. The Court noted during its visit that project works were of poor quality and already considerably behind schedule.

### *Compensation for the cassava agreement*

10.36. Total Thai export earnings are about 7 000 Mio USD, of which cassava represents about 12,5 %. In response to strong European demand, the area under cultivation in Thailand increased from 0,5 Mio ha in 1974 to 1,3 Mio ha in 1981, most of the increase occurring in the poorer North-Eastern region, which is unsuitable for other cash crops. The EEC was taking more than 90 % of production when a 1982 agreement limited cassava exports to the Community for the period 1982 to 1986. In 1984, they were only 63 % of production. The reduction in Thai export earnings as a result of the decline in output and, especially, prices is estimated at approximately 100 Mio USD per year. In connection with this self-limitation, which Thailand has just asked to be renegotiated, the Community agreed to provide aid of 35 Mio ECU in 1983-1984 to technical assistance or on-farm investment projects for crop diversification in the North-East.

10.37. The technical assistance has consisted mainly of a series of studies and field research which, although 4 Mio ECU have been paid, have not so far been of benefit to farmers because no viable alternative crops have been found. As to farm investment, mainly the purchase of fertilizers, the Community has contributed 20 Mio ECU to a programme, co-financed with the ADB, of loans to farmers for crop diversification. It is nevertheless important to recognize that such expenditure is by no means the determining factor in resolving the problem; only if prices fall far enough will farmers be forced to turn to other crops and stop growing cassava.

## CHAPTER 11

**Staff expenditure**

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## INTRODUCTION

11.1. In the general budget of the European Communities the appropriations to cover staff expenditure appear under Title 1 of each section and for the Commission (Section III) under Title 1 of Part A and Title 7 of Part B (research and investment) <sup>(1)</sup>. This expenditure is effected under the provisions of the Staff Regulations of Officials of the European Communities and annexes and the Conditions of Employment of Other Servants.

SUMMARY OF FINANCIAL  
INFORMATION AND STAFF NUMBERS*Volume and utilization of appropriations*

11.2. The financial year 1984 was characterized by budgetary austerity in respect of staff expenditure. In particular, a flat-rate abatement varying between 3 and

3.5% was applied by the budgetary authority to the remuneration appropriations (Chapter 11) of each section of the general budget except for the Parliament.

11.3. Table 11.1 shows the distribution by budget chapter and by institution of the staff appropriations and expenditure under Titles 1 of the budget. Payments under these titles amounted to 837 Mio ECU. To this should be added staff expenditure out of the appropriations for research and investment (Part B, Chapter 73, of Section III, 'Commission') which amounted to 124,6 Mio ECU. Thus total staff expenditure in 1984 was 961,6 Mio ECU.

11.4. The overall utilization rate of appropriations reached the high level of 98%. Cancellations have fallen sharply over the last four years: 84,0 Mio ECU in 1981, 40,4 in 1982, 17,1 in 1983 and 19,7 in 1984. The rate of carry-overs of appropriations decreased from 2,8% in 1983 to 1,2% in 1984.

Table 11.1 — Utilization of staff appropriations — by budget chapter and institution

(Mio ECU)

Budget chapter and institution	1984 budget					Carry-overs from 1983		
	Final appropriations	Commitments	Payments	Carry-overs to 1985	Cancellations	Appropriations carried over from 1983	Payments	Cancellations
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>A. By budget chapter</b>								
10 Members of the institutions <sup>(1)</sup>	49,4	48,9	47,4	1,5	0,5	7,0	6,7	0,3
11 Staff	749,9	736,2	734,5	1,7	13,7	3,6	3,0	0,6
12 Allowances and expenses on entering and leaving the service and on transfer	17,2	15,2	13,5	1,7	2,0	1,6	1,2	0,4
13 Expenditure relating to missions and duty travel	21,2	21,0	16,7	4,4	0,1	7,6	6,2	1,4
14 Socio-medical infrastructure	2,3	2,2	1,7	0,5	0,1	0,6	0,5	0,1
15 Graduate traineeships and further training of staff	4,0	3,9	3,3	0,6	0,1	0,5	0,3	0,2
16 Expenditure on social welfare	1,8	1,7	1,6	—	0,2	0,4	0,4	—
<b>Total</b>	<b>845,8</b>	<b>829,1</b>	<b>818,7</b>	<b>10,4</b>	<b>16,7</b>	<b>21,3</b>	<b>18,3</b>	<b>3,0</b>
<b>B. By institution</b>								
Parliament	160,4	158,7	154,4	4,4	1,7	13,8	12,1	1,7
Council	74,0	67,8	67,3	0,6	6,1	0,4	0,3	0,1
Commission <sup>(2)</sup>	556,4	549,5	544,2	5,3	6,9	6,8	5,6	1,2
Court of Justice	23,7	22,4	22,3	—	1,3	0,1	0,1	—
Court of Auditors	15,2	14,7	14,6	0,1	0,5	0,1	0,1	—
Economic and Social Committee	16,1	16,0	15,9	—	0,2	0,1	0,1	—
<b>Total</b>	<b>845,8</b>	<b>829,1</b>	<b>818,7</b>	<b>10,4</b>	<b>16,7</b>	<b>21,3</b>	<b>18,3</b>	<b>3,0</b>

<sup>(1)</sup> Parliament, Commission, Court of Justice, Court of Auditors, Economic and Social Committee.<sup>(2)</sup> Including Office for Official Publications.

### Staff numbers

11.5. Table 11.2 compares, for each institution, the posts authorized in the general budget and the officials and temporary staff actually employed at the end of the financial year. There has been a slight reduction in the difference between these two factors compared with 1983: it appears, however, that the proportion of vacancies has remained similar to that of the previous year.

11.6. The distribution by institution as at 31 December 1984 of staff categories not provided for in the list of posts, i.e. auxiliary and local staff and special advisers, is given in Table 11.3.

### OBSERVATIONS ON THE GENERAL MANAGEMENT OF APPROPRIATIONS AND STAFF

#### Trends in budgetary management

11.7. The budgetary 'profile' laid down when the appropriations were approved was not strictly observed at the moment the expenditure was actually incurred. In all the institutions the tightness of the financial margins of manoeuvre resulted in many transfers of appropriations, affecting 49% to 87% of the budget items and 3% to 12% of initial appropriations.

Table 11.2 — Officials and temporary staff

Institution	1983			1984		
	Posts authorized	Staff at 31. 12. 1983	Difference (2) — (3)	Posts authorized	Staff at 31. 12. 1984	Difference (5) — (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Parliament	2 941	2 790	151	2 966	2 826	140
Council	1 798	1 702	96	1 792	1 711	81
Commission:						
(a) Administration excluding Office for Official Publications	9 840	9 357	483	10 037	9 587	450
(b) Office for Official Publications	292	254	38	312	287	25
(c) Research and investment:						
— Direct action	2 279	2 188	91	2 222	2 155	67
— Indirect action	500	454	46	629	551	78
Court of Justice	478	441	37	480	438	42
Court of Auditors	303	275	28	303	283	20
Economic and Social Committee	391	391	—	398	398	—
<b>Total</b>	<b>18 822</b>	<b>17 852</b>	<b>970</b>	<b>19 139</b>	<b>18 236</b>	<b>903</b>

Table 11.3 — Auxiliary staff, local staff and special advisers

Institution	31. 12. 1983				31. 12. 1984			
	Auxiliary staff	Local staff <sup>(1)</sup>	Special advisers	Total	Auxiliary staff	Local staff <sup>(1)</sup>	Special advisers	Total
Parliament	72	—	—	72	83 <sup>(2)</sup>	—	—	83
Council	18	—	—	18	42 <sup>(3)</sup>	—	—	42
Commission:								
— Administration	138	492	47	677	77	498	46	621
— Research and investment	55	—	—	55	67 <sup>(4)</sup>	—	—	67
Court of Justice	19	11	—	30	20 <sup>(5)</sup>	10	1	31
Court of Auditors	8	6	—	14	3 <sup>(6)</sup>	5	—	8
Economic and Social Committee	20	6	—	26	17 <sup>(7)</sup>	—	—	17
<b>Total</b>	<b>330</b>	<b>515</b>	<b>47</b>	<b>892</b>	<b>309</b>	<b>513</b>	<b>47</b>	<b>869</b>

<sup>(1)</sup> This total does not include local staff paid by extra-budgetary bodies (restaurants, crèches, etc.).

<sup>(2)</sup> 83 at 31. 12. 1984 but 244 during the financial year.

<sup>(3)</sup> 42 at 31. 12. 1984 but 52 during the financial year.

<sup>(4)</sup> 67 at 31. 12. 1984 but 124 during the financial year.

<sup>(5)</sup> 20 at 31. 12. 1984 but 34 during the financial year.

<sup>(6)</sup> 3 at 31. 12. 1984 but 12 during the financial year.

<sup>(7)</sup> 17 at 31. 12. 1984 but 49 during the financial year.

11.8. These positive and negative transfers were effected within Titles I and therefore offset each other, except in the case of the Parliament and the Commission, where net amounts of 3,9 Mio ECU and 13,4 Mio ECU respectively were added to the initial allocation under these Titles. A further 7,5 Mio ECU was added for the Commission by supplementary and amending budget No 1.

### *Inconsistency between the lists of posts and the remuneration appropriations*

11.9. For the financial year 1984 (except at the Parliament) there was a disparity between the level of initial appropriations for staff remuneration, as reduced by the flat-rate abatement, and the number of posts entered in the lists of approved posts. The latter were maintained at their existing levels and, in the case of the Commission, were even increased by the granting of 2,1% of additional posts.

11.10. The institutions were therefore faced with a twofold restriction, the existence of which raised a problem of priorities connected with the very nature of the lists of approved posts: should priority be given to the need for strict observance of the level of initial appropriations, which had been expressly limited, or to the filling of approved vacant posts, even though this would entail exceeding the approved appropriations by effecting budgetary transfers?

## **PARLIAMENT**

### **OBSERVATIONS ON THE BUDGETARY MANAGEMENT OF ITEM 1004**

11.11. Automatic carry-overs of appropriations were again effected in 1984, for an amount of 1,4 Mio ECU, in respect of item 1004 'Travel and subsistence allowances; attendance at meetings and associated expenditure' for the Members of the Parliament. As the Court has already pointed out in respect of the financial year 1983 <sup>(2)</sup>, the principle of these carry-overs is contrary to Article 6 (1) (a) of the Financial Regulation and Article 47 of the internal rules in force at the Parliament.

### **OBSERVATIONS ON THE MANAGEMENT OF OVERTIME**

11.12. Having established that the initial appropriations to cover overtime (500 000 ECU) had been used

up by April 1984 and that no overtime payments had then been made for four months, the Court examined the system of management in operation at the Parliament. It proved to be inadequately organized, being based, on the one hand, on a highly decentralized power to authorize overtime coupled with only cursory checks of the work done and, on the other, on purely passive financial management.

11.13. According to internal instructions, the responsibility for deciding whether overtime needs to be worked and for subsequently authorizing it is allocated to senior staff within the different departments. There is no general procedure for checking that overtime authorizations are justified, nor for monitoring overtime as it is being worked or the results achieved. There is only a record of overtime kept by the secretariat of each department. There are no specific rules concerning overtime worked on mission (e.g. during parliamentary sessions), which is of particular significance for this institution.

11.14. The financial management is effected *ex post facto*, on the basis of data contained in the monthly declaration forms, for which adequate supporting documentation is sometimes not available. The prior agreement of the Appointing Authority, as laid down in the Staff Regulations for the payment of overtime, is not required by the existing procedure, which prevents the Appointing Authority from exercising its power to monitor the overtime worked.

11.15. In the final analysis such a system is designed only to record and pay overtime and not to control it. The setting of quotas for appropriations for departments is not in itself sufficient to make any fundamental improvement to the situation.

## **COUNCIL**

### **OBSERVATIONS ON THE BUDGETARY MANAGEMENT OF OVERTIME**

11.16. Overtime is a continual problem at the Council. The Court has already observed <sup>(3)</sup> that the system of remuneration for overtime does not comply with certain provisions of the Staff Regulations. This situation remained unchanged in 1984. An examination of the implementation of the budget revealed that for the last three years payments have been twice the level of the initial appropriations and in 1984 a transfer of

650 000 ECU had to be made. Between 1982 and 1984 expenditure on overtime rose from 690 167 to 1 164 614 ECU.

## OBSERVATIONS ON THE MANAGEMENT OF TRAVEL EXPENSES

### *Management of appropriations*

11.17. At the Council the management of travel expenses was ill-suited to the constraints of the financial year. In 1984 the sum of 517 000 ECU (56%) was added by transfer to the initial allocation of 930 000 ECU. The appropriations available were not fully utilized for payments, however, and automatic carry-overs to the financial year 1985, amounting to 333 988 ECU (23%), were effected.

11.18. Moreover, the appropriations carried over are not always sufficient to cover the outstanding costs of official travel carried out during the previous financial year. For example, the sum of 152 994 ECU, which had been carried over to 1984 from the financial year 1983, fell short by 35 000 ECU of the amount needed to reimburse the 945 outstanding claims for reimbursement of travel expenses. In the circumstances, the balance had to be met from 1984 appropriations. This procedure is irregular in that it is contrary to the principle of annuality laid down in Articles 5 and 32 of the Financial Regulation, according to which all measures which may give rise to expenditure chargeable to the budget must be preceded by a proposal for commitment of expenditure.

11.19. This situation can arise because official travel is financed by advances managed outside the budget and without a sufficiently close link with budgetary management.

11.20. The Court noted long delays in the settlement of the Council's travel expenses due to its practice of granting advances to the staff concerned almost equal to the estimated full costs.

### *Non-utilization of reduced fares*

11.21. Considerable price reductions are sometimes available, on regular train journeys. For example, there are travel cards in France while cards giving 50% reductions are available in Belgium. In 1984 the saving which could have been made on a first-class return journey between Brussels and Luxembourg was 70 BFR on the first journey and 720 BFR for subsequent journeys. The travel office at the Council does not take advantage of these fare reductions, notwithstanding the savings that could be expected, as a high proportion of official travel at the Council consists of train journeys or is reimbursed on the basis of train fares.

11.22. This failure is all the more regrettable as it is also evident in the field of air travel, where the possibilities for special fares are not systematically exploited. In this connection, the provisions of the Staff Regulations ought to be modified so that they no longer effectively prevent the Council from adapting its practice to suit prevailing commercial conditions.

## COMMISSION

### OBSERVATIONS ON THE BUDGETARY MANAGEMENT OF 'FIXED ENTERTAINMENT ALLOWANCES'

11.23. The appropriations for item 1143, 'Fixed entertainment allowances', are provided to reimburse certain categories of Commission officials for part of their regular entertainment expenses. The Court notes that for three years the increase of expenditure under this item has been substantial, rising from 1 351 388 ECU in 1982 to 2 404 910 ECU in 1983 and to 2 883 507 ECU in 1984. In order to meet these payments a transfer of 1 423 814 ECU, i.e. 73% of the initial appropriations, was effected in 1984. This situation is quite out of line with the general trend of budgetary expenditure.

### OBSERVATIONS ON THE MANAGEMENT OF TRAVEL EXPENSES

#### *Appropriations carried over*

11.24. Appropriations relating to travel expenses give rise to periodical provisional commitments. The differ-

ence between the commitments and payments for the financial year, as entered in the accounts up to the following 15 January and approved by the Financial Controller before 31 December, constitutes, according to the Commission's practice, an automatic carry-over (1 905 311 ECU carried over to 1985).

11.25. Article 6(1)(b) of the Financial Regulation states that only appropriations in respect of payments still outstanding by virtue of commitments entered into on a regular basis between 1 January and 31 December constitute automatic carry-overs, which are limited to the next financial year only.

11.26. This provision, reiterated in Annex II, Article 2(1) of the internal rules for the implementation of the budget, implies that the automatic carry-over should be justified by legal commitments, in this case travel orders. It is the calculation of these travel orders which makes it possible to determine the amount of payments outstanding by virtue of commitments entered into on a regular basis, and thus the amount of appropriations to be carried over automatically.

11.27. The Commission's practice and the provisions of Annex II, Article 2(2), of the internal rules for the implementation of the budget, from which it derives, consist in carrying over the entire remaining balance of provisional commitments. This practice does not therefore comply with the Financial Regulation.

### *Weaknesses in internal control*

#### **Absence of tickets**

11.28. As a rule, train tickets are only required to support the payment of expenses in the case of official travel outside the European Community, although Article 41 of the Financial Regulation requires that the payment order shall be accompanied by supporting documents in all cases. The risk of malpractice is all the greater as most official travel is within Europe.

11.29. In certain cases, where staff had been authorized to travel first class by plane when they travelled in conditions considered to be particularly tiring, the tickets, although issued in the regulation manner, were not attached to the mission statements. In order to check

the exact conditions under which these tickets were actually used, the Court requested the Commission to carry out a detailed enquiry. The latter has not yet been able to reply.

#### **Absence of correlation between travel expenses and daily subsistence allowances**

11.30. The Staff Regulations lay down<sup>(4)</sup> that the daily subsistence allowance paid to an official on recruitment shall be reduced by half during any period when the official receives the daily subsistence allowance for officials on mission. In order to apply this provision, there should be direct liaison between the department which determines entitlement to daily subsistence allowances and the travel office. At present, however, there is no formal liaison of this type at the Commission, the departments concerned working solely within the limits of their own responsibilities. It would be advisable therefore to remedy this weakness by setting up a procedure for the routine exchange of information between the two departments.

#### **Travel by air taxi**

11.31. In special cases certain officials travel, for all or part of the journey involved, in a chartered air taxi made available to Commission Members. At present, no information on these journeys is sent to the department dealing with travel expenses, which accordingly is unable to calculate the corresponding expenses taking due account of any journeys or parts of journeys which have involved the air taxi.

11.32. It is therefore desirable that:

- (a) the list of passengers who have travelled in an air taxi should be sent automatically to the department dealing with travel expenses;
- (b) the air taxi firm should issue tickets to be attached to every application for reimbursement of travel expenses.

#### *Non-utilization of reduced fares*

11.33. As pointed out in paragraph 11.21 above, regular train journeys, in particular those between Brussels and Luxembourg, afford the opportunity of considerable price reductions (50%). The Commission does not take up these opportunities, in spite of the large savings



that may be made on account of the many journeys by train and the large number of car journeys reimbursed on the basis of the train fare.

11.34. As regards air travel, the possibilities for special fares should be exploited to a greater extent.

The travel agency instructed by the institution to order tickets has not been doing its job properly in this respect and the travel office, as presently organized, has not been able to compensate. The Court must reiterate, moreover, the observation it made at the end of paragraph 11.22 above.

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(<sup>1</sup>) Appropriations also appearing under Title 9 of Section B (food aid) for certain staff expenditure of the European Association for Cooperation (EAC) and the Commission delegations. They are not taken into account in this chapter.

(<sup>2</sup>) Paragraphs 11.8 to 11.13 of the annual report for the financial year 1983, OJ C 348, 31. 12.1984.

(<sup>3</sup>) Paragraphs 11.33 to 11.36 of the annual report for the financial year 1982, OJ C 357, 31. 12.1983.

(<sup>4</sup>) Article 10 (3) of Annex VII.

## CHAPTER 12

**Operational expenditure**

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**INTRODUCTION**

12.1. Operational expenditure is met from the appropriations under Title 2, Part A, of Section III 'Commission' and under Titles 2 and 3 of the other sections of the general budget.

**SUMMARY OF FINANCIAL INFORMATION**

12.2. Table 12.1 summarizes, by chapter and by institution, the appropriations available for operational expenditure during the financial year 1984 and the use made of them.

- (a) The institution has not so far carried out any inventory check of the central library stock (115 000 volumes).
- (b) Books that have been declared obsolete are disposed of without any decision being taken by the head of the central library.
- (c) In the case of certain current loans, some of which date back to 1961, the borrowers referred to in the records have since left the service.

The internal rules (dating back to 1961) should be revised.

**PARLIAMENT***Documentation and library expenditure*

12.3. The expenditure relating to the central library of the European Parliament, amounting to 439 145 ECU in 1984, calls for the following observations:

**COUNCIL***Documentation and library expenditure*

12.4. The Court carried out an examination of documentation and library expenditure (approximately

Table 12.1 — Administrative expenditure: utilization of appropriations — by budget chapter and institution

(Mio ECU)

Budget chapter and institution	1984 budget					Carry-overs from 1983		
	Final appropriations	Commitments	Payments made	Carry-overs to 1985	Cancellations	Appropriations carried over from 1983	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	123,2	121,3	99,1	22,7	1,4	17,9	15,5	2,4
21 Expenditure on data-processing	30,5	30,5	22,0	8,5	0,0	7,7	7,3	0,4
22 Movable property and associated costs	21,6	21,2	13,0	8,2	0,4	9,1	8,3	0,8
23 Current administrative expenditure	47,4	46,7	32,7	14,0	0,7	10,6	9,5	1,1
24 Entertainment and representation expenses	1,4	1,4	1,1	0,3	0,0	0,3	0,3	0,0
25 Expenditure on formal and other meetings	23,7	22,8	20,1	2,7	0,9	3,0	2,2	0,8
26 Expenditure on studies, surveys and consultations	11,3	11,2	3,2	8,0	0,1	7,6	7,4	0,2
27 Expenditure on publishing and information	54,1	53,5	36,3	17,2	0,6	20,7	18,1	2,6
28 Subsidies for balancing budgets <sup>(1)</sup>	52,2	51,7	48,6	3,1	0,5	1,0	1,0	0,0
29 Subsidies and financial contributions	6,5	6,3	5,4	0,9	0,2	0,9	0,6	0,3
37 Expenditure relating to certain institutions and bodies	27,5	27,4	27,1	0,3	0,1	0,5	0,4	0,1
<b>Total</b>	<b>399,4</b>	<b>394,0</b>	<b>308,6</b>	<b>85,9</b>	<b>4,9</b>	<b>79,3</b>	<b>70,6</b>	<b>8,7</b>
<b>B. By institution</b>								
Parliament	78,7	76,7	65,7	11,0	2,0	15,7	13,3	2,4
Council	37,9	37,1	25,1	12,4	0,4	11,6	9,8	1,8
Commission <sup>(1)</sup>	263,5	261,7	203,4	58,3	1,8	49,5	45,3	4,2
Court of Justice	7,6	7,2	4,8	2,4	0,4	1,6	1,4	0,2
Court of Auditors	2,9	2,6	1,8	0,9	0,2	0,5	0,4	0,1
Economic and Social Committee	8,8	8,7	7,8	0,9	0,1	0,4	0,4	0,0
<b>Total</b>	<b>399,4</b>	<b>394,0</b>	<b>308,6</b>	<b>85,9</b>	<b>4,9</b>	<b>79,3</b>	<b>70,6</b>	<b>8,7</b>

<sup>(1)</sup> Including administrative expenditure for the Office for Official Publications.

164 000 ECU in 1984). This examination revealed that there was no system of physical stocktaking for the library's books and that no checks were made on loans. In addition, there was also no proper system of internal rules.

## COMMISSION

### Subletting of buildings

12.5. The Court audited the revenue collected by the Commission from the subletting of space within its

buildings in Brussels and Luxembourg. In Brussels the premises are utilized by third parties, viz. newspaper kiosks, a travel agency and a bookshop, and other premises are occupied by the secretariat of the European Schools. In Luxembourg, for example, a newspaper's and two banks occupy premises within the Jean Monnet building.

12.6. The Court noted significant differences between contracts as regards conditions, and that the conditions were more favourable to the concessionaire in Commission contracts than in contracts with other institutions in comparable circumstances. The revenue received by the Commission from one newspaper kiosk, for example, was less than 50 % of that received

by another institution for smaller premises. What is more, the Commission contracts had not been preceded by competitive tendering and the Court found no explanation in the Commission's files for the differences in the subletting conditions.

### *Expenditure relating to data-processing equipment*

12.7. Whereas the Computer Centre contains only a limited amount of equipment, a good deal of data-processing material is held in the various departments of the Commission. For the most part, this material is financed from the appropriations of Article 211 of the budget.

12.8. Inventory procedures, as described in the Financial Regulation, apply only to purchased equipment. Most of the equipment used by the Commission, however, is leased and is thus not covered by inventory procedures. In addition to the official inventory, therefore, the Commission keeps a list of leased equipment held by the departments which is valued at about 20 Mio ECU.

12.9. An on-the-spot inspection of a representative sample of data-processing equipment revealed that certain purchased or leased items were located in offices other than those indicated in the records and that others could not be traced immediately.

12.10. The purchased equipment was, as a rule, included in the official inventory in accordance with Article 59 of the Financial Regulation. None the less, the Court has the following comments to make:

- (a) contrary to Article 59(2) of the Financial Regulation, the Commission has never carried out its own inspection to ascertain that entries in the inventory correspond to the facts;
- (b) in some cases, purchased equipment with a value exceeding 30 ECU and an operational life of over one year did not appear in the inventory.

12.11. Finally, with regard to the procedure for incurring expenditure, it should be noted that:

- (a) the Commission pays part of the hire and day-to-day maintenance costs of equipment in advance. The Commission should review this practice and bring it more into line with the requirements of Article 41 of the Financial Regulation;

- (b) several payments (amounting to about 250 000 ECU) concerning day-to-day services for the year 1984 (such as, for example, the hire of the equipment) were made against appropriations carried over from 1983, in contravention of the principle of the annuality of the budget.

### *Fitting-out of a canteen in Luxembourg*

12.12. The Commission has extended its canteen facilities (self-service restaurant and kitchen) in Luxembourg and opened an 'à la carte' restaurant in the Jean Monnet building, at a cost of 658 500 ECU. It failed to observe the provisions in force relating to the award of contracts in this case, in that there was no invitation to tender for the work of extending the kitchen (443 000 ECU), the contract for which was placed by private treaty.

### *Air-conditioning at the Computer Centre*

12.13. Since its initial installation the system of air-conditioning at the Commission Computer Centre in Luxembourg has never achieved its expected output. In order to limit the risk of the computers overheating and thereby ceasing to function, the Commission installed two additional cooling units at a cost of some 120 500 ECU. Again, the contract for this work was placed by private treaty and not after an invitation to tender.

12.14. Despite additional work (inversion of the direction of the air flow and increase in output at a total cost of approximately 651 500 ECU), the air-conditioning system still only supplies about a half of the pressure stipulated in the tender specification. Moreover, given its nature, the work undertaken would appear to be the responsibility of the owner of the building rather than of the Commission.

### *Installation of a telephone system*

12.15. In December 1982 the Commission delegation in Washington concluded a contract for the renewal of its telephone system for an amount of 183 595 USD. The contract covered both the installation of the equipment and its hire over six years.

12.16. The responsible departments in Brussels were incorrectly informed of the real cost of the contract. An amount of 35 529 USD was notified by the delegation

as covering all of the expenditure, whereas this figure related solely to the installation of the system, the cost of its hire amounting to an additional 148 066 USD.

12.17. The Commission in turn informed the Advisory Committee on Procurements and Contracts (ACPC) of the figure of 35 529 USD as the total cost of a six-year leasing agreement. The ACPC, having requested other tenders (which ranged from 77 000 USD to 95 000 USD for a five- or six-year leasing agreement), gave a favourable opinion on the offer of 35 529 USD. At this stage, the Financial Controller raised no objection and approved the expenditure.

12.18. The Washington office realized towards the middle of 1983 that the contract concluded involved an amount of 183 595 USD, and not 35 529 USD, and approached the contractor to seek a solution. An offer for the sale of the equipment installed at the delegation and at the residence (this work having been added to that of the delegation) was received for an amount of 115 029 USD, in addition to the amount of 35 484 USD already paid.

12.19. When the new proposal was submitted for a commitment of expenditure, the Financial Controller considered it advisable to refuse his approval, pointing out that the principles of sound management had not been observed. Since the Commission had been legally committed with the contractor since 1982, it could only overrule the refusal of approval and, in July 1984, approved the offer for the sale of the equipment.

12.20. It should be noted in this connection that:

- (a) this is a case where various internal control procedures have proved to be inadequate. In fact the price of 150 513 USD finally paid is four times

higher than that approved by the ACPC and clearly higher than the other bids. Considering the differences in the bids, it is surprising that the error was not detected earlier;

- (b) moreover, the regulations in force regarding the placing of contracts were not observed. The installation of the telephone system in the residence was not subject to a tendering procedure;
- (c) finally, it should be noted that no study of the requirements was made prior to the conclusion of this major contract for equipment.

## ECONOMIC AND SOCIAL COMMITTEE

### *Application of the Financial Regulation*

12.21. The Financial Regulation (Article 32 onwards) lays down that any commitment *vis-à-vis* a third party (conclusion of contracts, orders for the supply of goods and services etc.) must be preceded by a proposal for commitment of expenditure from the relevant authorizing officer and approved by the Financial Controller. A test audit of the expenditure allocated to nine budget headings revealed, however, that the proposals for commitment relating to 45 payment orders (for an amount of approximately 120 000 ECU) were not drawn up by the authorizing officers until after receipt of the related invoices. Moreover, as a consequence of the fact that the proposals for commitment were drawn up *ex post facto*, the costs of certain supplies and services for work carried out during the financial year 1983 had to be charged to the financial year 1984, as the appropriations for 1983 were exhausted.

## CHAPTER 13

**Commission subventions to certain external bodies**

## 13.0. TABLE OF CONTENTS

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## Introduction

13.1

## Observations on Commission subvention to the European Schools

13.2 — 13.7

## INTRODUCTION

13.1. The Court is responsible for the annual audit of the accounts of a number of bodies which, though external to the Community institutions, are wholly or mainly supported by the Community budget. The reports on these are included in the list in Annex II. The European Schools and the Office of the Board of Governors of the European Schools are among the bodies concerned. During 1984 the Court audited the schools' 1983 accounts. Total expenditure by the schools in that year was 2 666 Mio BFR, towards which the Commission contributed 1 833 Mio BFR (equivalent to 39,4 Mio ECU). The Court's report has subsequently been forwarded to the Board of Governors as the discharge authority.

## OBSERVATIONS ON COMMISSION SUBVENTION TO THE EUROPEAN SCHOOLS

13.2. The audit of the schools give rise to a number of questions about the Commission's management of its subvention to them. For example, although the European Schools submit detailed budgets to the Board of Governors, and the Commission participates in the budgetary preparation process, they have been allowed to build up reserve funds totalling 140 Mio BFR (3 Mio ECU), as at 31 December 1983. In addition, the results of the Court's audit raise some broader questions about the quality of the Commission's financial management with regard to this subvention.

13.3. The European Schools are funded mainly from three sources:

- (a) the Member States, mostly in the form of 'national salaries' paid to seconded teachers;
- (b) organizations which enter into special agreements with the Board of Governors to provide resources in return for the children of their employees having rights of access to the schools, and
- (c) the Commission which effectively makes up the difference (68% of the income in 1983) between the expenditure and income from other sources.

13.4. As both the principal and the residual source of finance for the schools, and the steward of the Community's financial interest in them, the Commission has a responsibility to ensure that all the other parties pay their proper shares. During its audit of the 1983 accounts the Court has found that this was not the case:

- (a) The governments of the FR of Germany and the United Kingdom have not yet signed agreements with the Board of Governors concerning conditions under which the schools may operate in these countries. As a result the financial responsibilities of these host governments towards the schools remain unclear and they have not yet exempted the schools from the payment of VAT.
- (b) The Belgian Government originally undertook to maintain the buildings and furnishings of the European School in Belgium. However, its level of contribution has remained unchanged since 1959, despite inflation and the addition of two European Schools in Belgium since then.
- (c) The contribution to the cost of Varese School by the Italian Government has remained unchanged since 1967. The Italian Government has failed,

throughout this period, to exempt the school from the payment of VAT.

- (d) The Dutch Government undertook to contribute to the maintenance costs of the European Schools in the Netherlands on the same basis as for Dutch schools, but no payment has either been sought or received.
- (e) The Board of Governors has agreed to suspend a financial contribution from the organization CEN <sup>(1)</sup> to the cost of running Mol School. The organization Eurochemic has not increased its contribution since 1961. Less than 10% of the pupils at Mol are children of Community employees.
- (f) Several governments have agreed to provide contributions towards the cost of splitting classes caused by the attendance of children whose parents worked for the organizations NATO, Eurocontrol and Namsa. Despite the fact that classes have had to be split for this reason neither the Board of Governors nor the Administrative Boards of the schools concerned have sought reimbursement.
- (g) Children of parents who work for the EIB and JET are admitted as of right to the Luxembourg and Culham Schools respectively. However, neither organization contributes to the school budgets.
- (h) In 1983 66 children whose parents worked for the Dutch Energy Centre, attended the Bergen School. Similarly 54 children of parents from the Kernforschungszentrum attended Karlsruhe. The Board of Governors has made no attempt to enter into financial agreements with these organizations.

13.5. The most important factor determining the size of the Commission's subvention to the schools is the

cost of salaries, which accounted for 93% of the expenditure in 1983. In paragraph 13.11 of its last annual report <sup>(2)</sup>, in referring to the schools' accounts for 1982, the Court expressed its concern about serious deficiencies in the complex salary system. This concern has been confirmed and reinforced by the audit of the 1983 accounts. The Court has again urged the Board of Governors to carry out an in-depth re-examination of the salary system, and has expressed the view that a solution can only be found in a new agreement with the Member States on the conditions of secondment of teachers.

13.6. Timely and effective action on the matters identified in 13.4 above would have reduced the Commission subvention by up to 2 Mio ECU a year. The school's Statute (Article 10) requires unanimity for financial decisions by the Board of Governors, on which the Commission is represented. The Commission could therefore have insisted on appropriate action by the Board of Governors on the above matters, had it wished to do so. As regards paragraph 13.5 above, the Commission could also have drawn on its knowledge of the schools and the statutory rules governing employment in the Community to put forward considered recommendations of its own to the Board of Governors about reform of the salary system.

13.7. The Commission's Directorate-General of Budgets does not appear to have been involved in consideration of the school's annual budget proposals, nor has the Financial Controller made any report to the Commission about financial management of the schools under Article 11 of the Implementing Measures of the Financial Regulation. <sup>(3)</sup>

<sup>(1)</sup> Centre d'étude de l'énergie nucléaire.

<sup>(2)</sup> OJ C 348 of 31. 12. 1984.

<sup>(3)</sup> OJ L 170 of 1. 7. 1975.

## CHAPTER 14

**Loans, borrowings and interest-rate subsidies**

## 14.0. TABLE OF CONTENTS

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## INTRODUCTION

14.1. 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. NCI loans towards the cost of reconstructing areas devastated by earthquakes in Italy and Greece receive interest-rate subsidies. 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.

14.2. The Community loans and borrowings are administered on an extra-budgetary basis. The 'Commission' section of the general budget includes token entries which represent the budgetary guarantees for 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. The loans and borrowings are set out in the Communities' balance sheet.

14.3. In 1984 the Court's examination paid particular attention to Euratom and NCI loans. Euratom loans are granted by the Commission and administered by the European Investment Bank (EIB) as the Commis-

sion's agent. In the case of NCI loans, on the other hand, the Commission only decides on the eligibility of the project; the loans themselves are approved and administered by the EIB, acting under a mandate from the Commission.

## SUMMARY OF FINANCIAL INFORMATION

14.4. Tables 14.1 and 14.2 give a summary of the evolution of loans and borrowings during the financial year 1984 and also show the extent to which the ceilings fixed by the Council were utilized. Table 14.2 shows, for NCI earthquake transactions, the figures calculated by the Commission on the basis that, as the governing legislation lays down identical ceilings for both borrowings and loans, it is permitted to take the loans ceiling as the determining ceiling. If, on the other hand, the determining ceiling for these transactions is the borrowings ceiling, as it now is for all other borrowing and loan instruments, following the Court's recommendation in paragraph 14.15 of the last annual report, the figures have to be amended as follows:

(Mio ECU)

	Loans disbursed	Loans undisbursed	Balance available
Italian earthquake	510,4	89,7	399,9
Greek earthquake	80,9	—	-0,9



Table 14.1 — Evolution of loans and borrowings during 1984

(Mio ECU)

Mechanism	Outstanding at 31. 12. 1983		Operations carried out in 1984 <sup>(1)</sup>			Outstanding at 31. 12. 1984 ( <sup>1</sup> )
	At the ECU exchange rate of 31. 12. 1983	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	2 687,6	2 866,3	1 194,0	—	26,2	4 034,1
Euratom	1 668,7	1 723,7	186,0	4,0	32,4	1 881,3
Balance of payments	4 609,9	5 354,9	—	—	423,2	4 931,7
<b>Total</b>	<b>8 966,2</b>	<b>9 944,9</b>	<b>1 380,0</b>	<b>4,0</b>	<b>481,8</b>	<b>10 847,1</b>
<b>Borrowings:</b>						
NCI	3 268,8	3 484,1	966,7	—	19,2	4 431,6
Euratom	1 679,9	1 741,6	214,1	—	63,3	1 892,4
Balance of payments	4 609,9	5 354,9	—	—	423,2	4 931,7
<b>Total</b>	<b>9 558,6</b>	<b>10 580,6</b>	<b>1 180,8</b>	<b>—</b>	<b>505,7</b>	<b>11 255,7</b>

<sup>(1)</sup> At the ECU exchange rate of 31. 12. 1984.

The Court recommends that the Commission should obtain a legal opinion on the correct interpretation of the relevant legislation in order to clarify the position.

14.5. In 1984 24,4 Mio ECU were disbursed as interest-rate subsidies on NCI and EIB loans for reconstruction measures in areas which had been devastated by earthquakes. Of this sum, Italy received 21,7 Mio ECU and Greece 2,7 Mio ECU.

#### OBSERVATIONS ON THE BALANCE SHEET AND REVENUE AND EXPENDITURE ACCOUNT OF THE NEW COMMUNITY INSTRUMENT AND EURATOM MECHANISMS

14.6. Bearing in mind the weaknesses which came to light during the audit of the previous financial year, the Court carried out an in-depth examination of the balance sheet <sup>(2)</sup> as at 31 December 1984 and the revenue and expenditure account <sup>(2)</sup> of the NCI and Euratom mechanisms for the financial year 1984 to a searching scrutiny. This examination revealed that there were no significant irregularities.

14.7. At 31 December 1984 the cumulative deficit of the NCI mechanism for all previous financial years amounted to 4,6 Mio ECU. This amount does not, however, include the results, where appropriate, of the operation of the NCI Treasury, which are dealt with more fully in paragraphs 14.15 to 14.19 below. The Court is of the opinion that these results should be per-

iodically scrutinized and should be mentioned in an annex to the financial statement.

#### OBSERVATIONS ON LEGALITY AND SOUND FINANCIAL MANAGEMENT

##### *New Community Instrument loans*

##### **Agreement concerning the audit of NCI loans**

14.8. The Court found that the documents available at the Commission concerning the approval and administration of these loans were not sufficient to enable either the Court or the Commission to carry out a satisfactory examination. The negotiations entered into, subsequently, in Autumn 1984, with the Commission and the EIB resulted in an agreement regarding the documents and information to be made available by the EIB in future to the Commission and to the Court. This agreement was implemented on a trial basis for the audit of the financial year 1984 and will be reviewed in the light of experience.

14.9. In implementation of this agreement, the Court's audit of NCI loans in 1984 was restricted to the examination of documents. The audit included reviews of the implementation of projects financed under NCII and the eligibility of loans approved under

Table 14.2 — Main characteristics and ceilings of the various mechanisms at 31 December 1984

(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	984,5	15,5 <sup>(1)</sup>	—
	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	896,3	19,0 <sup>(1)</sup> 69,6 <sup>(2)</sup>	15,1
	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>	1 100,4	444,9 <sup>(2)</sup>	1 354,7
	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>	495,8 <sup>(5)</sup>	89,7 <sup>(2)</sup>	414,5 <sup>(4)</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 <sup>(4)</sup>	79,8 <sup>(5)</sup>	—	0,2
Euratom*	Council Decisions 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.	2 000	1 783,8	—	216,2
Balance of payments	Council Regulations Nos (EEC) 397/75 of 17. 2. 1975 and (EEC) 682/81 of 16. 3. 1981 To alleviate balance of payments difficulties in the Member States.	3 000 Mio USD <sup>(6)</sup>	2 547,8 Mio USD <sup>(6)</sup>	—	— <sup>(7)</sup>
		6 000 Mio ECU	3 997,2 Mio ECU	—	2 002,8 Mio ECU

\* Sources: DG XVIII, Commission, from information supplied by the EIB.

<sup>(1)</sup> Loans converted into their equivalent in terms of borrowings, i.e. including the issue costs of the selected borrowing operations, at the ECU conversion rate at the date on which the loan was signed.<sup>(2)</sup> Loans undisbursed but contracted, at the exchange rate at 31. 12. 1984.<sup>(3)</sup> On 31. 12. 1984 two tranches (amounting to a total of 2 900 Mio ECU) had been approved.<sup>(4)</sup> Ceiling applicable to NCI and EIB loans and borrowings. At the end of 1984 the EIB had granted loans to Italy amounting to 260 Mio ECU but had not granted any to Greece.<sup>(5)</sup> At the exchange rate ruling two working days before each disbursement.<sup>(6)</sup> Principal and interests.<sup>(7)</sup> Balance not available (measure expired).

NCI III. The Court also examined the operation of the NCI Treasury and the scale of management commissions received by the European Investment Bank in return for administering these loans.

#### Review of eligibility of NCI III projects

14.10. The eligibility criteria laid down by the Council for NCI loans are of a general nature. Following the Court of Auditors' recommendation in its Special Report on Loans and Borrowings<sup>(3)</sup> and in accordance with Article 5 of the cooperation agreement between the Commission and the Bank with regard to NCI decisions taken by the Council, the Commission sent the EIB detailed guidelines governing the eligibility of projects for NCI III loans, including the setting of an order of priorities for the different fields of application established by the Council. The guidelines sent to the EIB in June 1983 made the first priority of NCI III loans productive investments, particularly in small and medium-sized businesses; the second priority was investments in the energy sector and the third was investments in infrastructure projects. Within these broad categories, more specific sub-categories were also identified as worthy of support. The Commission's guidelines for NCI III also indicated that ways and means should be sought to extend the advantages of the NCI facility to those Member States which have not benefited, or have not benefited to any great extent, from previous NCI facilities. The Court has examined the loans granted under NCI to assess the extent to which these guidelines have been followed in practice.

14.11. As is evident from Table 14.3, the priorities set in the guidelines have been substantially observed, with the reservation that fewer loans have been granted in the energy sector than in the sector of infrastructure projects.

14.12. The intention of broadening the spread of NCI loans was not achieved in 1984. Four Member States were not granted any loans under NCI III (nor did they receive loans under NCI I or NCI II). Two Member States, on the other hand, accounted for about 77 % of loans approved under NCI III.

14.13. The main reason for this uneven geographical distribution of NCI loans is that, under the present terms for these loans, they are only attractive in those Member States where domestic interest rates are high and where the national authorities are willing to provide exchange rate cover for loans contracted in foreign currencies.

14.14. One of the main aims of the NCI is to combat unemployment in the Member States, particularly by

making available global loans for the assistance of small and medium-sized businesses. The Commission has informed the Council and the European Parliament<sup>(4)</sup> that these loans have led to the creation or maintenance of 90 000 jobs. This figure, however, is based on estimated employment effects at the moment loans are applied for, and not on the actual number of jobs created or maintained on completion of the assisted projects. The Court's analysis of this figure also shows that it is made up of 80 000 jobs which were expected to be retained and only 10 000 planned new jobs. As global loans are a relatively new facility, it is too early to carry out a comprehensive review of employment achievements, but experience elsewhere indicates that the actual number of jobs created is frequently much smaller than the number estimated at the loan application stage.

#### NCI

14.15. In paragraph 14.23 of its annual report for the financial year 1983<sup>(5)</sup> the Court drew attention to losses which can occur, and had occurred, in operating the NCI. Following the Court's recommendation, the Commission has taken steps to reduce the level of the NCI Treasury, or liquidity reserve, and thereby limit the corresponding net cost of interest charges. The Court notes that the average level of this reserve decreased from 625,8 Mio ECU in the first half of 1984 to 316,8 Mio ECU in the second half of the year and, in particular, that the balance at 31 December 1984 was 321,7 Mio ECU, compared with 546,7 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 1,7 % 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 5,3 Mio ECU over a full year.

14.16. Although, as stated above, good progress has been made in reducing the overall balance of the NCI Treasury, the position on certain individual borrowings still gives cause for concern. For example, 40,0 Mio SFR of a 100,0 Mio SFR borrowing contracted in November 1983 remained undisbursed at 31 December 1984. The net cost of maintaining these undisbursed, borrowed funds in the NCI Treasury had already reached 2,1 Mio SFR at 31 December 1984.

14.17. The legislation governing the NCI lays down that the lending terms as regards the reimbursement of the principal and the rate and payment of interest shall be fixed in such a way that, overall, they cover the costs and expenses incurred in concluding and performing

**Table 14.3 — Distribution of NCI III loans according to priority sectors and Member States at 31 December 1984 <sup>(1)</sup>**

Member State	Manufacturing		Energy		Infrastructure		Total	
	Contracts signed		Contracts signed		Contracts signed		Contracts signed	
	Mio ECU	% <sup>(2)</sup>	Mio ECU	% <sup>(2)</sup>	Mio ECU	% <sup>(2)</sup>	Mio ECU	% <sup>(2)</sup>
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Belgium	—	—	—	—	—	—	—	—
Denmark	49,2	3,2	61,0	4,0	76,6	5,0	186,8	12,2
FR of Germany	—	—	—	—	—	—	—	—
Greece	47,7	3,1	—	—	37,0	2,4	84,7	5,5
France	411,9	26,8	—	—	43,7	2,8	455,6	29,6
Ireland	—	—	—	—	18,9	1,2	18,9	1,2
Italy	613,2	39,9	56,0	3,6	61,3	4,0	730,5	47,5
Luxembourg	—	—	—	—	—	—	—	—
Netherlands	—	—	—	—	—	—	—	—
United Kingdom	27,9	1,8	—	—	33,8	2,2	61,7	4,0
<b>Total</b>	<b>1 149,9</b>	<b>74,8</b>	<b>117,0</b>	<b>7,6</b>	<b>271,3</b>	<b>17,6</b>	<b>1 538,2</b>	<b>100,0</b>

<sup>(1)</sup> At the ECU exchange rate at the date on which the loan was signed.

<sup>(2)</sup> As a proportion of the total of 1 538,2 Mio ECU.

both the borrowing and lending sides of the transactions <sup>(6)</sup>. It is inherent in the characteristics of the NCI Treasury system that losses or gains can occur on individual transactions, essentially as a result of the following factors:

- (a) The borrowings with which NCI loans are funded are contracted at prevailing market rates. The proceeds of these borrowings are passed to the EIB, where they may remain for some time before being disbursed as loans. As it is the practice of the EIB to grant loans at the interest rates prevailing in the market at the date when the loans are made, if interest rates fall during this interval, loans may be made at interest rates which are below the level of the corresponding borrowing.
- (b) Under the terms of the Commission's arrangement with the EIB, income from disbursed loans is credited to Commission accounts with the Bank and expenditure on servicing Commission borrowings is debited to these accounts. The Commission receives interest on credit balances and pays interest on debit balances on these accounts at rates based on bid rates quoted by reference banks. These rates, which reflect the cost of short-term money, are generally below the rates of the Commission's borrowings, which reflect the cost of long-term money. The combination of these factors can give rise to losses when the account of a parti-

cular borrowing is in credit (conversely, a debit balance works in favour of the Commission).

14.18. In order to monitor and, as far as possible, minimise the consequences of these factors, the Court recommended in paragraph 14.25 of its 1983 annual report that regular checks should be made on the payment flows of these operations. A procedure for such checks was introduced by the Commission in 1984 in collaboration with the EIB.

14.19. These checks are, perforce, based on certain assumptions and should be seen as indicating trends over a period of time rather than an absolute position at any point in time. These assumptions are: that interest rates paid on the balances on the Commission's account with the EIB in force at the end of the reference period will continue unchanged; similarly that currency/ECU exchange rates remain unchanged; and that for partly disbursed borrowings undisbursed balances remain undisbursed. Based on these assumptions, the checks showed that at 31 December 1984 there were potential losses of 40 Mio ECU on borrowings fully disbursed and 25 Mio ECU on borrowings only partly disbursed. The Court stresses the potential character of these figures; the final outcome will not be known until all the borrowings and loans have been repaid.

### *EIB management commissions*

14.20. The administration of Euratom and NCI loans by the EIB involves the following tasks:

- (a) the search for and the selection of potential projects, borrowers and guarantors;
- (b) the appraisal of loan applications from the technical and financial standpoint, as well as economic analysis;
- (c) the negotiation and drawing up of contracts;
- (d) the monitoring of project implementation;
- (e) supervision of the servicing of loans, including monitoring the financial situation of loan beneficiaries.

The EIB, however, bears no financial risk, as the transactions are carried out on behalf of, for and at the risk of the Community.

14.21. The EIB receives a management commission for administering these loans which was reduced on 1 April 1984. In 1984 the management commissions received by the bank for the administration of NCI and Euratom loans amounted to 6,2 Mio ECU. This commission is borne by the loan beneficiaries and represents a not inconsiderable burden for them, particularly in the case of global loans, where a further commission is levied by the credit institution which administers the loan in the Member State in question.

- (a) For example, the Bank's commission on an NCI direct loan of 27 Mio ECU with a term of 20 years will amount to about 0,43 Mio ECU.
- (b) For a global loan amounting to 36 Mio ECU and with a life of 12 years, where the administrative costs ought actually to be less, the EIB's commission will amount to about 0,36 Mio ECU. On top of that, there will also be a commission of 2,6 Mio ECU charged by the national credit institution to the loan beneficiary.
- (c) For a series of Euratom loans for the same project, totalling 355 Mio ECU and with an average life of 12,5 years, the commission received by the EIB will amount to some 3 Mio ECU.

14.22. The Parliament, the Council, the Commission and the EIB have always agreed that, as far as management commissions are concerned, the object is to strike a balance between costs and income relating to operations carried out under mandate, and not to make a profit (?). As it was unable to discover any information in the Commission's files concerning the costs incurred by the Bank in the administration of these loans, the Court has been unable to ascertain to what extent the present level of management commission is consistent with the costs involved.

14.23. The Court considers that this situation is unsatisfactory and recommends that the Commission

should require the Bank to make available an annual account of costs and income relating to NCI and Euratom loans. This should not present the bank with an undue burden, as it already has a system of cost-accounting and computer-assisted management techniques. The Court further recommends that consideration should be given to introducing differential scales of commission, to reflect more accurately the degree of administrative effort required by the different types of loan involved.

### *New Community Instrument and Euratom borrowings*

#### **Premature redemption of borrowings**

14.24. Certain borrowing contracts contain clauses permitting the Community to effect premature redemption of the borrowings. Where interest rates for current borrowings are less than the rates included in existing borrowing contracts these clauses open up the possibility of refinancing existing borrowings at lower costs.

14.25. In 1984 the Commission refinanced one Euratom borrowing in this way and thereby achieved a saving over the remaining life of the operation of some 2,7 Mio ECU. The Court's examination of Euratom borrowings outstanding in 1984 revealed three other instances where it appeared that refinancing would have been advantageous. The Court's calculations showed that refinancing these borrowings would have reduced their costs by between 3 Mio ECU and 4,5 Mio ECU. The Court recommends, therefore, that the relevant procedures should be tightened up in order to ensure that future opportunities of this kind are not missed.

14.26. The net benefit of 2,7 Mio ECU arising from the refinancing of the Euratom borrowing mentioned in paragraph 14.25 was not at the time passed on by the Commission to the loan beneficiary. In the Court's opinion, benefits from the refinancing of borrowings should be passed on to the corresponding loan beneficiaries, in order to comply with the requirements of the relevant Council Decision <sup>(8)</sup> on Euratom loans. The decision in question requires that borrowing transactions and the related lending transactions shall be carried out on the same terms as regards the repayment of principal and the repayment of interest.

#### **Negotiation of borrowing terms**

14.27. The Commission's internal rules for NCI and Euratom borrowings require negotiators to seek out, as a general rule, the most advantageous terms prevailing on the markets for an issuer of the quality of the Com-

munities. To this end, maximum advantage is to be taken of competition between lenders, to the extent allowed by the market situation and the nature of the borrowing operation, without, however, compromising the security of subsequent transactions and the general interest of the Communities. The Court examined Commission borrowings contracted during 1984 in order to test whether, and with what result, the above-mentioned Commission internal rules had been complied with.

14.28. The approach adopted was to compare the costs of the Commission's borrowings with independent indicators <sup>(1)</sup>. This comparison enabled the Court to identify those borrowings where the cost (exclusive of issuing costs) was above the average cost level revealed by the independent indicators, adjusted to take account of the approximate nature of the exercise. These cases were then examined in greater detail from

the point of view of the degree of competition involved in the negotiations.

14.29. The examination showed that some borrowings had been negotiated with single lenders or with a single syndicate of lenders. The Commission's files covering the negotiations of these loans did not reveal the reasons for dispensing with competitive bidding, nor did they provide adequate justification for the decision in favour of the chosen financing instrument.

14.30. The Court reiterates a view it has expressed in the past that, where public funds are concerned, there is in principle no substitute for effective competition. It recommends that competition should be introduced to the maximum practicable extent into the negotiation of the Community's borrowings. It also recommends that decisions regarding the choice of financing instrument should be fully substantiated and should be recorded in writing in the borrowings files concerned.

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(1) Report (Annex to the Annual Report ECSC 1984) on the accounting and financial management of the European Coal and Steel Community.

(2) Revenue and expenditure account and balance sheet of the European Communities in respect of budgetary transactions during the financial year 1984, Volume II.

(3) OJ C 319, 6. 12. 1982.

(4) Six-monthly report from the Commission to the Council and the Parliament on operations under the New Community Instrument for borrowing and lending (NCI), Doc. COM(84) 387 final.

(5) OJ C 348, 31. 12. 1984.

(6) Council Decision 83/200/EEC, 19. 4. 1983, OJ L 112, 28. 4. 1983.

(7) Reply by the Commission to the special report of the Court of Auditors on the management of Community development aid funds by the European Investment Bank (available at the Court).

(8) Council Decision 77/270 Euratom, 29. 3. 1977.

(9) OECD, Financial Statistics, Part I.

## PART II

### European Development Funds

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#### INTRODUCTION

15.1. 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.

governed by the First Yaoundé Convention, which expired in 1970.

15.3. Of the 916,6 Mio ECU allocated to the third EDF — governed by the Second Yaoundé Convention, which expired in 1976 —, 41,0 Mio ECU, of which 15,0 Mio ECU were still not earmarked for any specific purpose, remained to be disbursed at 31 December 1984, as opposed to 48,4 Mio ECU at 31 December 1983.

15.4. At 31 December 1984, about 100 projects financed out of the third EDF were completed but not closed. In the case of a number of them, no financial operation had been recorded for several years.

#### SUMMARY OF FINANCIAL INFORMATION

##### *Second and third EDF*

15.2. During 1984, the final disbursements were made from the 730,0 Mio ECU allocated to the second EDF,

##### *Fourth and fifth EDF*

15.5. Out of an allocation of 3 155,9 Mio ECU, the financing decisions adopted by 31 December 1984 for

the fourth EDF — governed by the First Lomé Convention, which expired in 1980 — totalled 3 037,0 Mio ECU. Payments made in 1984 for this EDF amounted to 185,2 Mio ECU.

15.6. Out of an allocation of 4 802,3 Mio ECU, the financing decisions adopted by 31 December 1984 for the fifth EDF — governed by the Second Lomé Convention, which expired in 1985 — totalled 3 102,1 Mio ECU. Payments made in 1984 for this EDF amounted to 509,5 Mio ECU.

## OBSERVATIONS ON THE FINANCIAL MANAGEMENT

### *Preparation and presentation of the accounts*

15.7. The Commission did not officially send the Court the balance sheet and the revenue and expenditure account of the EDF until 7 May 1985, despite the fact that, according to the financial regulations in force, these documents should have been sent by 31 March 1985 at the latest for the first four EDF and by 15 April for the fifth EDF.

15.8. Certain items in the accounts cannot be properly understood without explanation, and the accounting principles adopted by the Commission in respect of the EDF are not stated in the annual accounts. As the Court mentioned in its annual report for the financial year 1981<sup>(1)</sup>, it would be helpful, and in line with generally accepted accounting practice, if the different accounting principles employed and the meaning of certain data were given in explanatory notes, as has been the practice since 1980 in the revenue and expenditure account and the balance sheet relating to the general budget.

### *Advances*

15.9. An advance of 4,5 Mio ECU, the repayment of which by an ACP State is six years overdue, should not continue to be shown in the accounts of the third EDF as a readily convertible asset.

15.10. There has been marked progress in the identification and correction of the discrepancies between the Commission's books and those of the bodies receiving

advances from the EDF. As regards scholarships, however, there continues to be a discrepancy of 6 Mio BFR between the Commission's books and those of the European Association for Cooperation (EAC).

### *Member States' contributions*

15.11. Four Member States consistently fail to meet the due dates for payment of their quarterly contributions. Italy did not pay the three instalments due on 2 April, 2 July and 1 October until 30 October 1984. France, Luxembourg and Ireland paid their contributions on average 25, 22 and 12 days late respectively.

### *Cash at bank*

15.12. In its communication to the Council of 14 October 1983, the Commission had estimated that its cash requirements at the end of the financial year 1984 would be 130 Mio ECU. Because of the overestimation of the disbursements expected in 1984 (810 Mio ECU estimated, but only 703 Mio ECU disbursed), the bank balances at 31 December 1984 amounted to 342 Mio ECU. The contributions paid for 1984 thus proved to be 212 Mio ECU in excess of requirements, which is equivalent to the total value of the contributions called in the last quarter of 1984.

15.13. As the Court mentioned in its annual report for the financial year 1982<sup>(2)</sup>, the Commission does not record any EDF payments until after it has received the statement from the relevant bank certifying that the payment has been charged. This practice is incorrect, as the delay in the recording of payment orders means that it is not possible to monitor the bank balances adequately. As a result, the Commission might make the same payment twice over or have overdrawn bank balances.

## OBSERVATIONS ON THE ACCOUNTING SYSTEMS AND PROCEDURES

15.14. The Commission delayed the closing of the EDF accounts for the financial year 1984 for three months, until 15 April 1985, so that it could include in them a large proportion of the payments that had already been made but had not yet been definitively entered in the accounts at 31 December 1984. No transactions executed in 1985 were recorded by the Com-



mission during this time; as a result, for three months it was not possible to make any reconciliation on the basis of the official accounts with regard to either bank-account balances, which nevertheless amount to 500 Mio ECU, or disbursements, which total 125 Mio ECU.

15.15. Despite the belated closing of the EDF accounts, items still under verification on the EDF balance sheets totalled 49,5 Mio ECU, of which 1,8 Mio ECU (78 transactions) remained uncleared for over nine months. These transactions included two payments totalling 0,2 Mio ECU for which no commitment had been made. Furthermore, an amount of 0,2 Mio ECU, payable as emergency aid, was disbursed three times in succession.

15.16. As is shown in Table 15.1, the time required to execute the 76 payments selected by the Court for scrutiny in terms of their legality and regularity is excessive and shows no improvement over the payment times recorded in 1983. The contractors, who were forced to wait over three months for settlement of 19% to 23% of their claims payable in a European currency, and contractually due within 60 days, will probably seek to recoup the extra costs they have incurred through price increases.

15.17. On average, a period of around five months elapses after the issue of a claim by a creditor before a payment in a recipient country's currency is entered in

the EDF accounts, to which period is added a delay of up to three months before the accounts are physically made available to the officials responsible for the management.

15.18. Recovery orders have not been issued for a number of sums due to the EDF. As a result, the Court is unable to put a figure to the debts due to the EDF. For instance, 0,2 Mio ECU is still to be reimbursed by Madagascar under the third EDF and 0,1 Mio ECU is to be recovered from the United Kingdom in respect of VAT paid by the Commission on some of its purchases. Since the sums have not been recorded, no recovery of these claims can be made within the prescribed time-limits.

15.19. Some of the supporting documents examined by the Court concerning both commitments and payments recorded in 1984 were unsatisfactory. For 16% of the payments examined, the files of the finance department of the Directorate General for Development Aid were inadequate to support the expenditure, either because the payment claim was not presented in sufficient detail, or because the finance department did not have all the contract documents against which to check the claim. The finance department's files rarely contained the documents necessary for the authorizing officer and the Court to ensure that a contract presented for finance had been awarded to the tenderer whose bid had been accepted.

15.20. As the Court mentioned in its annual report for the financial year 1983<sup>(3)</sup>, the Commission does not record in the EDF accounts the commitments relating to works contracts, supply contracts or technical assistance contracts financed by special loans, whereas it does record this information for projects financed by grants. The accounts do not therefore show whether the total value of the contracts entered into exceeds the amount of the loan, or whether the payments in respect of the contracts are higher than the amounts stipulated in the contracts.

15.21. As the Court has already pointed out on several occasions, the many delays or anomalies noted in respect of commitments and payments indicate the need to rationalize commitment and payment transactions. At present they involve many unnecessary duplications of paperwork, without however ensuring that documents essential to the work of the officials responsible for authorizing transactions are available to them. No manual of procedures or other written accounting instructions exist, so that the staff concerned encounter difficulties in harmonizing the nature of the work they perform.

**Table 15.1 — Analysis of the time required in 1984 for payment from the EDF**

Period of time elapsing between the claim <sup>(1)</sup> being made and the corresponding payment being executed	% of the payment orders according to the places of issue and of execution		
	Issued and executed in an ACP country	Issued in an ACP country and executed in Brussels	Issued and executed in Brussels
Up to 30 days	27	9	44
Between 31 and 60 days	47	45	31
Between 61 and 90 days	13	23	6
More than 90 days	13	23	19
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

<sup>(1)</sup> Only claims deemed to be admissible were taken into consideration, i.e. claims accompanied by all the supporting documents necessary for their authorization. Moreover, the sample covered only those claims that were payable within 60 days.

## OBSERVATIONS ON THE GRANTING AND MANAGEMENT OF THE AID

### *Execution of indicative programmes*

15.22. At 31 December 1984, 81% (fourth EDF) and 22,1% (fifth EDF) of the allocations to the ACP countries for their respective indicative programmes had been paid out overall. Each recipient's utilization of its overall budget is shown in Table 15.2.

15.23. Under the fifth EDF, the indicative programme of Papua New Guinea was initially adopted for an amount of between 22 and 27 Mio ECU. Even though this country has proved to be incapable of implementing this programme, its allocation was in the end increased from 22 to 23 Mio ECU. This sum has for the most part been left sterile for five years.

15.24. As the Court has already mentioned in its annual report for the financial year 1982<sup>(2)</sup>, the Commission does not have any centralized system which, simply by comparing the results and the planned objectives, could rapidly warn its responsible officials when execution difficulties arose. The management's records do not contain any forecasts of rates of implementation or of disbursement, and the delegations often omit to send regular reports on the progress of the various projects, despite the fact that such reports are *sine qua non* for the efficient monitoring of these projects' administrative and physical progress.

### *Development projects*

15.25. In 1984, the Court audited 51 projects and various micro-projects (in the fields of agriculture, the agricultural processing industry, road and water-engineering infrastructure, education and health) located in eight countries: Rwanda, Zaire, Burundi, Fiji, Samoa, Vanuatu, Papua New Guinea and Sierra Leone. In each of these countries (except for Zaire, where only the tea projects were audited), the proportion in financial terms of the aid audited as against the total aid granted under the fourth and fifth EDF varied between 51,4% and 93,8%, as shown in Table 15.3. These data show clearly that the audits related in each of the countries visited to a substantial proportion of the aid granted and therefore bring out the representative nature, for the countries concerned, of the observations that arise from them.

### **Feasibility studies**

15.26. At the appraisal stage of several projects, the quantities and cost of the work to be carried out were considerably underestimated. For the Sauniatu power station in Samoa, for example, the civil engineering works cost over 6 Mio ECU, whereas they were estimated at only 2,8 Mio ECU, with the result that the Community aid had to be increased from 4,1 Mio ECU to 5,6 Mio ECU. In the same country, the Samasoni hydro-electric power station, whose cost was initially estimated at 3 Mio ECU, in the end cost 3,9 Mio ECU. The actual cost of the Hiritano road in Papua New Guinea exceeded the initial forecast by 68% whilst the cost of supplying this country with two research ships was twice as much as forecast in the financing proposal. These erroneous financial forecasts have upset the financing plans for the projects and are likely to jeopardize the completion of the projects. Moreover, they affect any comparison of the various alternatives, thus making it unlikely that the best possible use will be made of the resources available.

15.27. The feasibility study for the rural development project for the central area of the Zaire-Nile watershed in Rwanda gave hardly any explanation of how the project was to be carried out, and on a number of points it resembled a preliminary study. That led to numerous problems regarding the coordination and linking together of the various operations. For example, the 'agronomic research' section, which should logically have preceded the development of food crops, was not carried out until after the latter. The development of the link between food crops and stock-farming, an essential aspect of the project, had not even been started at the time of the Court's visit in June 1984. Against this background, it seems unlikely that the aim of opening up and developing the area in question will be achieved.

15.28. The detailed analysis of the physical and human environment of the projects, which is an important stage in any feasibility study, does not always seem to have been made with the necessary thoroughness. The fishing development project in the district of Kambia in Sierra Leone illustrates this. The initial study, on which the financing proposal was based, stated that the region had little wind and no undertows, whereas the exact opposite is in fact the case. According to this document, those benefiting from the project would be fishermen of slender means, whereas in fact they work in a semi-industrial fishing business and

their financial situation is not particularly difficult. As a result of this ignorance of local conditions, it was proposed that catamaran-type boats be imported, whereas the existing local boats, with a few inexpensive improvements, are in fact better suited to the natural conditions of the area and cost less.

15.29. The feasibility study for the Mukungwa hydro-electric power-station project in Rwanda, which the Commission staff considered to be second-rate, led to a lawsuit concerning the civil-engineering lot and an increase of approximately 15% in the cost of the investment. The successful tenderer for the civil-engineering

Table 15.2 — Fourth and fifth EDF: utilization of the overall budgets by recipient at 31 December 1984

Recipient country	Fourth EDF		Fifth EDF		Recipient country	Fourth EDF		Fifth EDF	
	Overall budget (Mio ECU)	Rate of utilization (%)	Overall budget (Mio ECU)	Rate of utilization (%)		Overall budget (Mio ECU)	Rate of utilization (%)	Overall budget (Mio ECU)	Rate of utilization (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<b>I. ACP States:</b>					<b>Sub-total brought forward</b>	<b>1 809,2</b>		<b>2 207,5</b>	
Ethiopia	118,2	84,9	141,0	32,4	Swaziland	12,0	94,2	18,5	10,3
Tanzania	103,4	84,0	120,7	22,1	Gambia	11,3	88,5	14,0	22,1
Zaire	96,5	81,2	104,0	22,1	Papua New Guinea	10,0	73,0	23,0	3,9
Sudan	90,6	84,2	103,0	50,2	Fiji	9,9	97,0	13,0	39,2
Uganda	73,6	66,2	87,0	16,3	Gabon	9,5	91,6	16,0	40,0
Mali	73,5	88,6	96,0	23,8	Solomon Islands	9,3	72,0	12,0	7,5
Kenya	72,0	96,1	88,0	18,5	Nigeria	9,0	63,3	50,0	2,2
Madagascar	69,2	87,1	78,0	25,0	Zimbabwe	—	—	49,0	15,9
Niger	68,5	89,6	80,5	26,7	Antigua and Barbuda	—	—	2,7	0,0
Burkina Faso	68,0	79,0	84,5	31,8	Bahamas	1,8	61,1	2,1	4,8
Malawi	67,9	89,5	80,0	13,1	Barbados	2,6	73,1	3,7	27,0
Guinea	64,0	96,4	80,0	21,6	Belize	—	—	5,5	1,8
Somalia	63,6	74,7	79,3	27,4	Cape Verde	4,0	92,5	16,0	4,4
Senegal	59,0	89,2	69,0	21,9	Comoros	6,3	82,5	14,5	9,7
Rwanda	58,7	95,9	79,0	30,0	Djibouti	3,9	53,8	5,4	27,8
Burundi	58,1	78,5	77,0	17,7	Dominica	2,0	25,0	3,5	5,7
Cameroon	55,3	76,5	69,0	11,0	Grenada	2,0	95,0	3,5	5,7
Chad	51,9	90,6	62,0	21,9	Equatorial Guinea	7,0	94,3	8,5	4,7
Ghana	48,0	97,7	60,0	10,2	Kiribati	3,5	45,7	4,0	12,5
Zambia	45,1	86,3	58,0	9,3	Sao Tome and Principe	1,8	94,4	4,0	52,5
Benin	44,3	71,8	55,0	12,4	Saint Lucia	3,2	25,0	3,7	40,5
Ivory Coast	40,0	72,8	54,0	30,9	Saint Vincent	3,0	0,0	3,7	64,9
Central African Republic	37,3	90,9	49,0	35,7	Western Samoa	4,6	93,5	6,2	72,6
Togo	35,7	88,0	43,0	48,4	Seychelles	2,4	95,8	3,6	16,7
Mauritania	33,6	93,5	43,0	28,8	Tonga	3,2	84,4	4,1	7,3
Sierra Leone	31,1	83,0	48,5	12,2	Trinidad & Tobago	10,3	27,2	10,5	10,5
Congo	30,0	97,3	31,5	36,5	Tuvalu	0,6	100,0	1,0	40,0
Liberia	25,0	69,2	31,0	7,7	Vanuatu	—	—	4,5	26,7
Lesotho	22,0	75,0	29,0	18,3	<b>II. Regional projects</b>	<b>303,9</b>	<b>74,2</b>	<b>631,5</b>	<b>20,5</b>
Guinea-Bissau	20,0	88,0	25,0	19,2	Administrative costs	104,0	95,2	—	—
Jamaica	20,0	63,0	26,4	12,1	Contingency reserve	47,2	—	2,2	—
Botswana	19,0	86,3	23,0	17,8	<b>Total ACP (I + II)</b>	<b>2 397,5</b>	<b>81,2</b>	<b>3 147,4</b>	<b>22,3</b>
Suriname	18,0	45,0	18,0	10,6	<b>III. OCT/FOD</b>	<b>67,6</b>	<b>70,9</b>	<b>50,6</b>	<b>12,6</b>
Mauritius	15,3	68,6	20,5	22,9	<b>Total</b>	<b>2 465,1</b>	<b>81,0</b>	<b>3 198,0</b>	<b>22,1</b>
Guyana	12,8	98,4	14,6	28,1					
<b>Sub-total to be brought forward</b>	<b>1 809,2</b>	<b>—</b>	<b>2 207,5</b>	<b>—</b>					

Table 15.3 — Percentage of the aid audited by the Court, per country visited

Samoa	Vanuatu	Fiji	Papua New Guinea	Burundi	Rwanda	Sierra Leone
88,6 %	92,7 %	93,8 %	84,3 %	51,4 %	81,7 %	55,4 %

lot, who, before the start of work, had obtained a guarantee of indemnification against any unforeseen geological conditions, has made frequent use of this clause, with the result that there have been many lawsuits between the contracting parties.

15.30. A Community operation in Sierra Leone was intended to open up the district of Koinadugu, where the EDF has financed an integrated rural development project. For this purpose the road between Makeni and Kabala had to be improved and asphalted. These works, however, were carried out on the Makeni-Fadugu section only. The remaining 40 kms, between Fadugu and Kabala, are hard to negotiate during the rainy season, so that access to the district of Koinadugu is still difficult for much of the year. The authorities concerned could have opted, at equivalent cost, for a road that was less elaborate but that provided a continuous link between Makeni and Kabala.

#### *Coordination of Community and national aid operations*

15.31. Some projects are financed jointly by the EDF and the recipient country. Failure by the latter to meet its obligations is likely to delay the operation considerably, and may even jeopardize its completion. In Sierra Leone, for example, a training school for ancillary medical services which had been built with an EDF grant as part of a development programme for the medical sector, remained unused for two years because the government had been slow to meet the obligations it had undertaken. In fact, the school had not been connected to the water and electricity supply and the Ministry of Health had not managed to recruit teachers for the school or finalize the syllabuses by the required deadline. In the end the EDF paid for the school to be connected to the water and electricity supply.

15.32. A project, financed by the Community, to supply this same country with medical equipment had still not been concluded five years after the stipulated deadline. Equipment for the radiology department was installed four years late because the Ministry of Health had been slow to honour its commitments to construct the buildings and ensure that they were connected to the electricity supply. Equipment of this kind ought not to have been delivered until the buildings and services necessary for it to function properly were ready. In addition, the technical assistance staff responsible for the maintenance of the equipment and staff training were unable to carry out their duties because the government delayed the purchase of a vehicle in which to transport the equipment and did not select in good time the staff who were to be trained.

15.33. Still in Sierra Leone, the community clinics financed as part of a programme of micro-projects concerned with health matters are either unused or underused because the government has not yet supplied the furniture and medical equipment needed for them.

15.34. The difficulties which these three projects have come up against provide evidence of a lack of consistency in the Commission's approach, inasmuch as it financed the supply of equipment without ensuring that the material and human conditions for the proper use of the equipment had been satisfied. What is more, it appears that the Commission does not always treat commitments entered into by certain recipient countries with the requisite degree of caution. In many cases a careful examination of the countries' budgetary situation would doubtless be enough to anticipate future failures to meet obligations.

#### *Role of technical assistance in the execution of projects*

15.35. In the case of several of the projects examined by the Court, the tasks entrusted to technical assistance had not been carried out very satisfactorily. For example, the siting of the staff houses, offices and official buildings for the Zaire-Nile watershed development scheme in Rwanda was rather irrational: the fact that they were scattered over a very wide area increased the cost of the water and electricity supply.

15.36. During the first stage of the Koinadugu integrated rural development project in Sierra Leone, the technical assistance was not very effective. Irrigation channels which had been dug too deep, for example, made it difficult to regulate the water level in the paddyfields. In spite of the inadequacy of the services it had provided, the same consultancy firm was awarded the technical assistance contract for the second stage of the project.

#### **Conclusions**

15.37. The failings noted by the Court in several of the 51 projects examined in depth in 1984 have already been commented upon by the Court in previous financial years. These observations concern:

- (a) the quality of the studies;
- (b) the planning of some agro-industrial complexes;
- (c) the role of technical assistance;

- (d) the maintenance of the finished projects;
- (e) the operation of the management bodies.

15.38. The fact that these observations recur time and again proves that the Commission has not drawn all the conclusions from them as far as its methods of granting and managing development aid are concerned. In this respect, the Court can only regret once again the lack of any instrument for the systematic centralization and exploitation of the lessons learnt from the implementation of projects of the same type financed by the EDF. An instrument of this kind would make it easier to profit from the lessons of experience and thus to avoid repeating past mistakes.

#### *Price-variation clauses*

15.39. The Commission approved the financing of certain contracts, whose conditions in respect of price variations may result in contractors being paid sums greater than the extra costs which they have actually incurred. Such unwarranted profits occur when the price adjustment calculations are based only on the price indices in the recipient country, rather than, as is normally the case, also on the European indices for the part of the contract that is payable in European currencies.

15.40. By way of example, a contract valued at 4,6 Mio ECU was awarded in April 1984 for works to be carried out in Guinea-Bissau. The contract, which was expressed in Guinean pesos, provided that 91,5% of the value of the contract and of the sums intended to compensate for price fluctuations would be paid in French francs at a fixed rate of exchange, established before the 50% devaluation of the peso in January 1984. Whilst for the contractor the cost in French francs of the materials and fuel will not be affected by the devaluation of the peso, the price-variation clauses based on the price indices in force in Bissau will have the effect of virtually doubling the payments made to him in French francs.

#### *Financing procedures and special loans*

15.41. A project to set up two beef-cattle ranches at Bogia and Rigo in Papua New Guinea received Community aid in the form of a 0,5 Mio ECU grant and a loan of 1,3 Mio ECU, at an interest rate of 1%, repay-

able in 40 years, with a 10 year grace period. In accordance with the details of the financing agreement, the recipient country then on-lent part of the proceeds of the loan, which it had itself contracted, to the farm in Bogia. This operation was carried out on the following terms: an initial tranche of 140 000 ECU was lent at an interest rate of 9% whilst a second tranche of 90 000 ECU was lent at 7,5%, the two tranches together being repayable in 12 years, including the four years' grace period.

15.42. These loan terms, which are very close to those imposed by commercial credit institutions, seriously jeopardize the Bogia ranch's chances of achieving trading equilibrium throughout the whole repayment period for the loan. In fact, the ranch's current operating expenditure, not including the cost of technical assistance, is probably in the region of 40 000 ECU, leaving only 35 000 ECU, taking into account the development of its revenue, for investment and the annual debt servicing, even though the latter will amount to 43 000 ECU in 1987 and 65 000 ECU in 1992. If cash flow forecasts had been made when the financing proposal was being drafted, the unrealistic nature of the financing plan proposed would have been apparent.

#### *Stabilization of export earnings (Stabex)*

##### **Analysis of the trend of exports and production (Article 39 (3) of the Second Lomé Convention)**

15.43. Article 39 (3) states that 'should examination of the trend of the requesting ACP State's exports to all destinations and of the production of the product in question and of demand in the Community reveal significant changes, consultations shall take place between the Commission and the requesting State to determine whether those changes are such as to affect the amount of the transfer, and if so to what extent'. The example of Western Samoa for the 1982 year of application (cocoa beans — transfer of 0,6 Mio ECU) raises some questions regarding the criteria used by the Commission to implement these provisions. It appears, in fact, that during 1982 only 30,6% of the marketed production of cocoa beans was exported, as compared with 100% during the previous seven years. It might therefore have been expected that the right to a transfer would be reduced in the same proportion, but in fact the Commission applied a reduction of only 62,1%, on the assumption that it had not been possible, for the first time in seven years, to market the total amount of production for December 1982.

### Accuracy of the statistics

15.44. Export statistics supplied by some ACP States are, in some cases, lacking in accuracy. For example, as regards:

- (a) Western Samoa: 1981 year of application (cocoa beans — transfer of 1,2 Mio ECU).  
The data supplied by the recipient State reveal that for seven consecutive years (1975-81) exports to all destinations exceeded the amount marketed by a total of 596 tonnes. This surplus represents 6,6% of production. During initial consultations, prior to fixing the amount of the reduction to be applied to the transfer (amendment of trade flows and reduction of the proportion of total production exported), the Commission referred to this discrepancy as an abuse of statistics but did not take any steps to rectify the situation;

- (b) Sierra Leone: no transfer.  
The unreliability of the statistics may be illustrated by the fact that, for the 1983 year of application, five different sets of statistics for coffee exports were forwarded to the Commission by this country.

### Over-compensation for lost export earnings

15.45. In some of the cases examined by the Court, shortfalls in export earnings were made good by the Commission by amounts which, when added to the actual export earnings for the year, provided the recipient State with total earnings in excess of those for the reference period. This practice, which it is hard to justify, is illustrated by the following two examples:

- (a) Papua New Guinea: 1982 year of application (coffee — transfer of 16,3 Mio ECU).  
In respect of coffee, a transfer of 16,3 Mio ECU, added to the total export earnings for the year of 107,9 Mio ECU, provided Papua New Guinea with earnings of 124,2 Mio ECU, whereas the average total export earnings for the reference period amounted to only 118,3 Mio ECU. Export earnings were thus overcompensated for by 5,9 Mio ECU;
- (b) Sierra Leone: 1982 year of application (cocoa beans — transfer of 2,4 Mio ECU).  
In respect of cocoa beans, Sierra Leone received a transfer of 2,4 Mio ECU, which, added to the 14,9 Mio ECU of export earnings for the year, resulted in total earnings of 17,3 Mio ECU, whereas the average of total export earnings for the reference period amounted to only 16,9 Mio ECU. In this case, the over-compensation amounted to 0,4 Mio ECU.

### Utilization of funds transferred (Article 41 (2) and (3) of the Second Lomé Convention)

15.46. Requests for aid generally contain some indication of the probable use to which the transfer will be put, as required by Article 41 (2), but such indications are often couched in general terms.

15.47. All the same, the ACP States rarely inform the Commission within the period stipulated in paragraph 3 of the same article, which states that 'within the 12 months following the signing of the transfer agreement the recipient ACP State shall inform the Commission of the use to which the funds transferred have been put'.

15.48. This observation can be illustrated by two specific cases:

- (a) Vanuatu: 1981 and 1982 years of application.  
No report was sent to the Commission and a Court audit team was able to obtain information on the utilization of the funds received only from an on-the-spot visit in July 1984.
- (b) Papua New Guinea: 1981 and 1982 years of application.  
The equivalent value of the transfers was initially entered as revenue in the 1983 and 1984 budgets of this State, and it was only after a Court audit visit, also in July 1984, that the government of Papua New Guinea forwarded a list of projects which had supposedly benefited from this source of finance.

### Projects which can be carried out rapidly

15.49. By a decision of the ACP-EEC Committee of Ambassadors dated 5 August 1982, an additional contribution of 40 Mio ECU was distributed amongst various ACP States in order to finance projects which can be carried out rapidly. The process of singling out and implementing projects of this type has not been as rapid as it might have been. On 31 December 1984, in fact, commitments amounted to 35,1 Mio ECU, that is, 88% of the total, but payments were only 11,2 Mio ECU, or 28% of the total sum made available.

### Regional cooperation

15.50. The allocation for regional cooperation under the fourth EDF is 339 Mio ECU and that under the fifth EDF 631,5 Mio ECU. The projects financed include infrastructure investments, particularly in the

field of transport and communications, which are of benefit to a limited number of ACP States, but also operations of more general interest, such as sectoral studies, trade promotion activities and subsidies to joint bodies, such as the Centre for Industrial Development and the Technical Centre for Agricultural and Rural Cooperation.

15.51. In the case of regional investment projects, the administrative procedures followed are very similar to those applied to non-regional projects of this type. In contrast, the procedures applied to operations of more general interest that are managed in Brussels are not clearly established. In two thirds of the 70 regional projects examined by the Court, no financing request was included in the files of the finance department of the

Directorate General for Development Aid and the Commission committed the appropriations in accordance with accelerated procedures which were not followed by financing agreements. It appears that in some cases the Commission negotiates and signs contracts on the basis of a simple proposal from the ACP Secretariat and no longer goes on to submit the results of its negotiations for assessment by the recipient ACP States. Nor does it forward any information on the subsequent progress of the project and six contracts it awarded did not require the submission of supporting documents. Furthermore, some of the contracts offer particularly generous terms, for example a monthly remuneration of 9 500 ECU, plus reimbursement of expenses in the Caribbean region and a daily allowance of 170 ECU in Europe.

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(1) OJ C 344, 31. 12. 1982, p. 119, para. 15.11.

(2) OJ C 357, 31. 12. 1983, p. 134, para. 15.15.

(3) OJ C 348, 31. 12. 1984, p. 123, para. 15.14.





*ANNEX I***Allocation of responsibilities among Members of the Court of Auditors at 29 November 1985**

Secretariat, personnel and administration of the Court, external relations

Marcel MART,  
President

**Audit Group I**

European Agricultural Guidance and Guarantee Fund, Guarantee Section

Michael N. MURPHY  
.....

Own resources

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

Research and investment, energy and industry expenditure

Charles J. CAREY

External bodies

*ANNEX II***Reports and opinions of the Court of Auditors**

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 in the five-year period ending 29 November 1985 are listed below.

Title	Date of adoption	Publication
Opinion on the proposal for a Council Regulation compensating Greece for its contribution to the cost of the financial mechanism and the supplementary measures for the United Kingdom.	9 December 1980	OJ C 30, 11. 2. 1981
Opinion on the draft financial regulation applicable to the fifth European Development Fund.	9 December 1980	OJ C 45, 4. 3. 1981
Opinion on the proposal for a Council Regulation introducing a tax on catches of salmon in the Baltic Sea by Community vessels.	18 December 1980	OJ C 358, 31. 12. 1980
Special report concerning publishing, printing and reproduction practices of the institutions of the European Communities.	8 January 1981	OJ C 150, 19. 6. 1981
Observations on the proposal for a Council Regulation relating to the financing by the EAGGF, Guarantee Section of certain intervention measures, particularly those involving the buying-in, storage and sale of agricultural products by intervention agencies.	19 February 1981	Not published
Study on the European Centre for the Development of Vocational Training (Berlin).	5 March 1981	Not published
Study on the development of the European Foundation for the Improvement of Living and Working Conditions (Dublin).	5 March 1981	Not published
Report on the accounts of the European Schools for 1979.	9 April 1981	Not published
Report on the 1980 accounts of the Euratom Supply Agency.	30 April 1981	Not published
Report on the 1980 JET financial statements.	30 April 1981	Not published
Opinion on the proposal for a Financial Regulation on the application of the agreement in the form of an exchange of letters between the European Economic Community and the Portuguese Republic concerning the implementation of pre-accession aid for Portugal.	14 May 1981	OJ C 156, 25. 6. 1981, p. 10.

Title	Date of adoption	Publication
Observations on the management of the ECSC for 1979.	21 May 1981	Not published
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.	21 May 1981	OJ C 232, 11. 9. 1981
Observations on the farm accountancy network (FADN).	18 June 1981	Available from the Court of Auditors.
Special report on the securities, deposits and guarantees furnished in respect of operations that give rise to expenditure from the EAGGF, Guarantee Section.	18 June 1981	OJ C 249, 29. 9. 1981
Report on the financial statements of the European Coal and Steel Community for the financial year 1980.	26 June 1981	Not published
Report on the 1980 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin).	26 June 1981	Not published
Report on the 1980 accounts of the European Centre for the Development of Vocational Training (Berlin).	26 June 1981	Not published
Opinion on the proposal for a Council Regulation compensating Greece for its contribution to the cost of the financial mechanism and the supplementary measures for the United Kingdom.	10 September 1981	OJ C 282, 5. 11. 1981, p. 15
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	Not published
Special report (observations) on the members' cash office of the European Parliament.	6 July 1982	OJ C 202, 5. 8. 1982

Title	Date of adoption	Publication
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
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

Title	Date of adoption	Publication
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
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	Not published
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

Title	Date of adoption	Publication
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	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
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	Not published
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 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

Title	Date of adoption	Publication
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.	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
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	Not published
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 1984 accounts of the Euratom Supply Agency.	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 European Coal and Steel Community.	19 November 1985	Not published
Eighth annual report concerning the financial year 1984.	19 November 1985	This edition



*ANNEX III*

**Financial information relating  
to the general budget of the European Communities  
and  
to the European Development Funds  
(1984)**

**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**

For the general budget the financial data are given in the monetary unit in force during the financial years covered, i.e. for 1980 in European units of account (EUA) and from 1981 in ECU (see § 1 (1.5) for details).

For the European Development Funds all financial data are given in ECU.

The financial data are presented in millions (Mio) of monetary units, in Mio EUA or Mio ECU respectively, rounded to one decimal place.

**3. Change in nomenclature of the general budget from 1982**

In 1982 a new nomenclature was used for the general budget.

The Court has therefore used the budgetary nomenclature applicable as from the financial year 1982 for the presentation of all the historical data in this annual report and has adapted the financial data of the financial years 1980 and 1981 in accordance with this new budgetary 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 1984: revenue and expenditure account and balance-sheet of assets and liabilities relating to operations under the 1984 budget (Doc. COM(85) 185, 186, 187, 188, 189).

**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
DR	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)
Mio u.a.	Millions of units of account
EUA	European unit of account (from 1978 to 1980)
Mio EUA	Millions of European units of account
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 9/10	Total of the 9 or 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
§	Section 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 (1) (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 (2) (Article 10).

#### 1.2. Legal basis

The general budget is governed by the financial provisions of the Treaties of Paris (3) (Article 78 ECSC) and Rome (4) (5) (Articles 199 to 209 EEC and Articles 171 to 183 Euratom) and by amendments resulting from the Merger Treaty (1), the Council Decision on own resources (6), the Treaty of Luxembourg (2), the Treaty of Accession (7) and the Treaty of Brussels (8). The Financial Regulation (9) 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 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 DR.

The rates of conversion at 31 December 1984 between the ECU and the national currencies were as follows: 1 ECU = 2,23176 DM = 0,609846 UKL = 6,83069 FF = 1 371,10 LIT = 2,51853 HFL = 44,7168 BFR/LFR = 7,98805 DKR = 0,715023 IRL = 91,0428 DR.

#### 1.6. Financing of the general budget (budgetary revenue)

The general budget is mainly financed by the **own resources of the Communities** (6): customs duties, agricultural levies, sugar and isoglucose levies and VAT up to a maximum of 10% of a uniform EC assessment basis (10); there are also other smaller sources of revenue.

As from 1 January 1971, pursuant to the Council Decision of 21 April 1970 (6), 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 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. In 1981, 1982, 1983 and 1984 all the Member States paid VAT with the exception of Greece which paid a financial contribution based on the GNP.

(1) Merger Treaty (8 April 1965): Treaty establishing a Single Council and Single Commission of the European Communities.

(2) Treaty of Luxembourg (22 April 1970): Treaty amending certain budgetary provisions of the Treaties establishing the European Communities and of the Merger Treaty.

(3) Treaty of Paris (18 April 1951): Treaty establishing the European Coal and Steel Community (ECSC).

(4) Treaty of Rome (25 March 1957): Treaty establishing the European Economic Community (EEC).

(5) Treaty of Rome (25 March 1957): Treaty establishing the European Atomic Energy Community (Euratom).

(6) Council Decision 70/243/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).

(7) Treaty of Accession (22 January 1972): Act concerning the Conditions of Accession and the Adjustments to the Treaties.

(8) Treaty of Brussels (22 July 1975): Treaty amending certain financial provisions of the Treaties establishing the European Communities and of the Merger Treaty.

(9) Financial Regulation of 21 December 1977 (OJ L 356, 31. 12. 1977).

(10) 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:

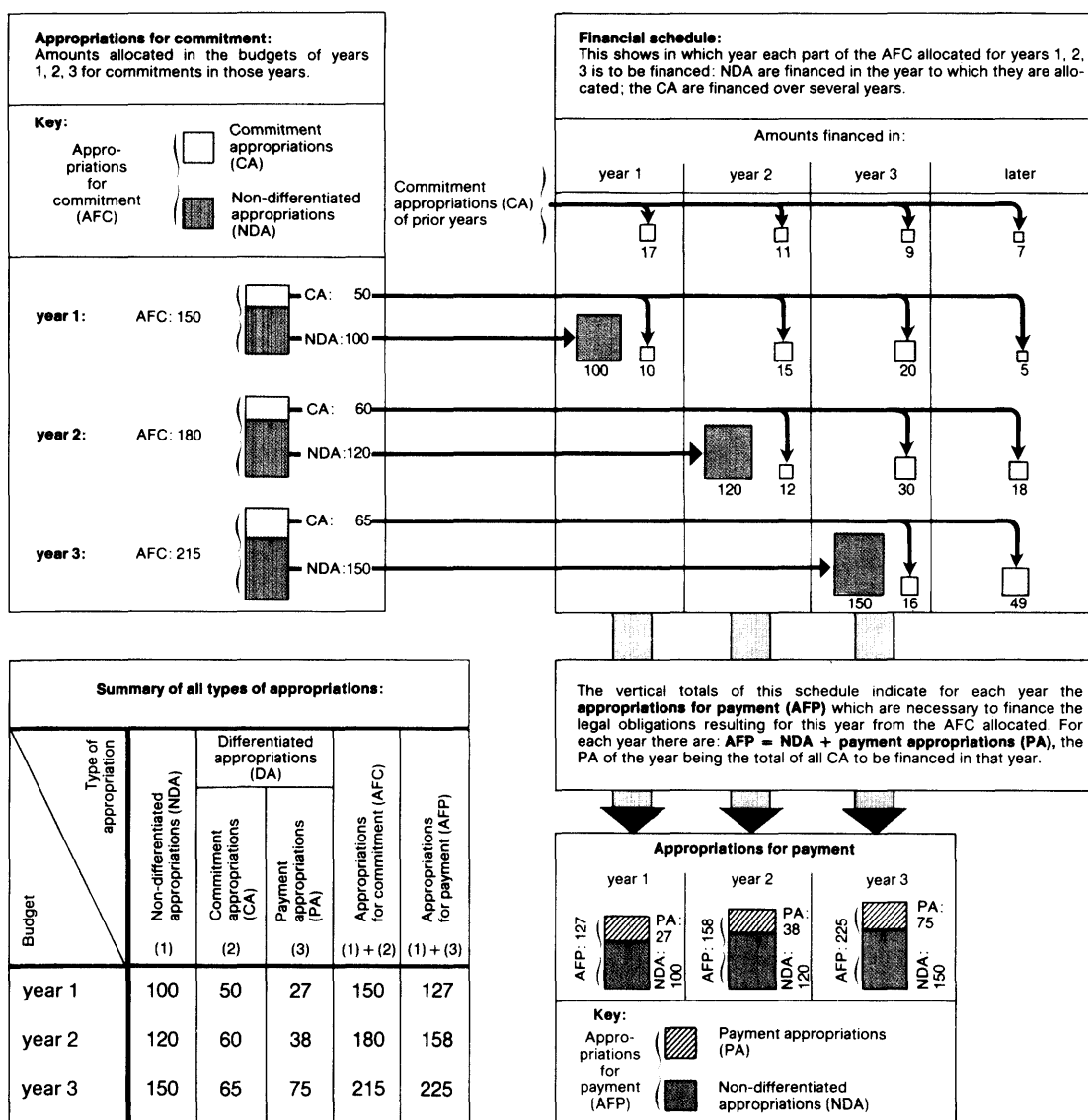
- a) **Differentiated appropriations (DA)** are used to finance multiannual activities in certain sectors. They comprise commitment appropriations and payment appropriations:
- **commitment appropriations (CA)** cover, for the current financial year, the legal obligations to be entered into for activities whose implementation extends over several financial years;
  - **payment appropriations (PA)** cover expenditure arising from commitments entered into in the current 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:



(1) *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)  $\pm$  amending and supplementary budgets <sup>(4)</sup> + supplementary receipts <sup>(9)</sup>  $\pm$  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)  $\pm$  amending and supplementary budgets <sup>(4)</sup> + supplementary receipts <sup>(9)</sup>  $\pm$  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>.

(1) Compulsory expenditure is that resulting necessarily from the Treaties or from acts adopted in accordance with them.

(2) For details concerning the budgetary procedure see Articles 78 ECSC, 203 EEC and 177 Euratom.

(3) Article 8 of the Financial Regulation.

(4) Article 1 (5) of the Financial Regulation.

(5) Article 21 of the Financial Regulation.

(6) Articles 78d ECSC, 205 EEC, 179 Euratom and Article 18 (2) of the Financial Regulation.

(7) Articles 17 to 49 and 68 to 72 of the Financial Regulation.

(8) 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).

(9) Article 87 of the Financial Regulation and Article 91 (2) of the modified Financial Regulation.

(10) Articles 6 (2) (a) and 88 (3) of the Financial Regulation.

(11) Article 6 (1) (b) of the Financial Regulation.

(12) Articles 6 (1) (c), 6 (2) (b) and 88 (4) of the Financial Regulation.

(13) Articles 6 (4) and 108 (3) (a), (b) of the Financial Regulation.

(14) 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).

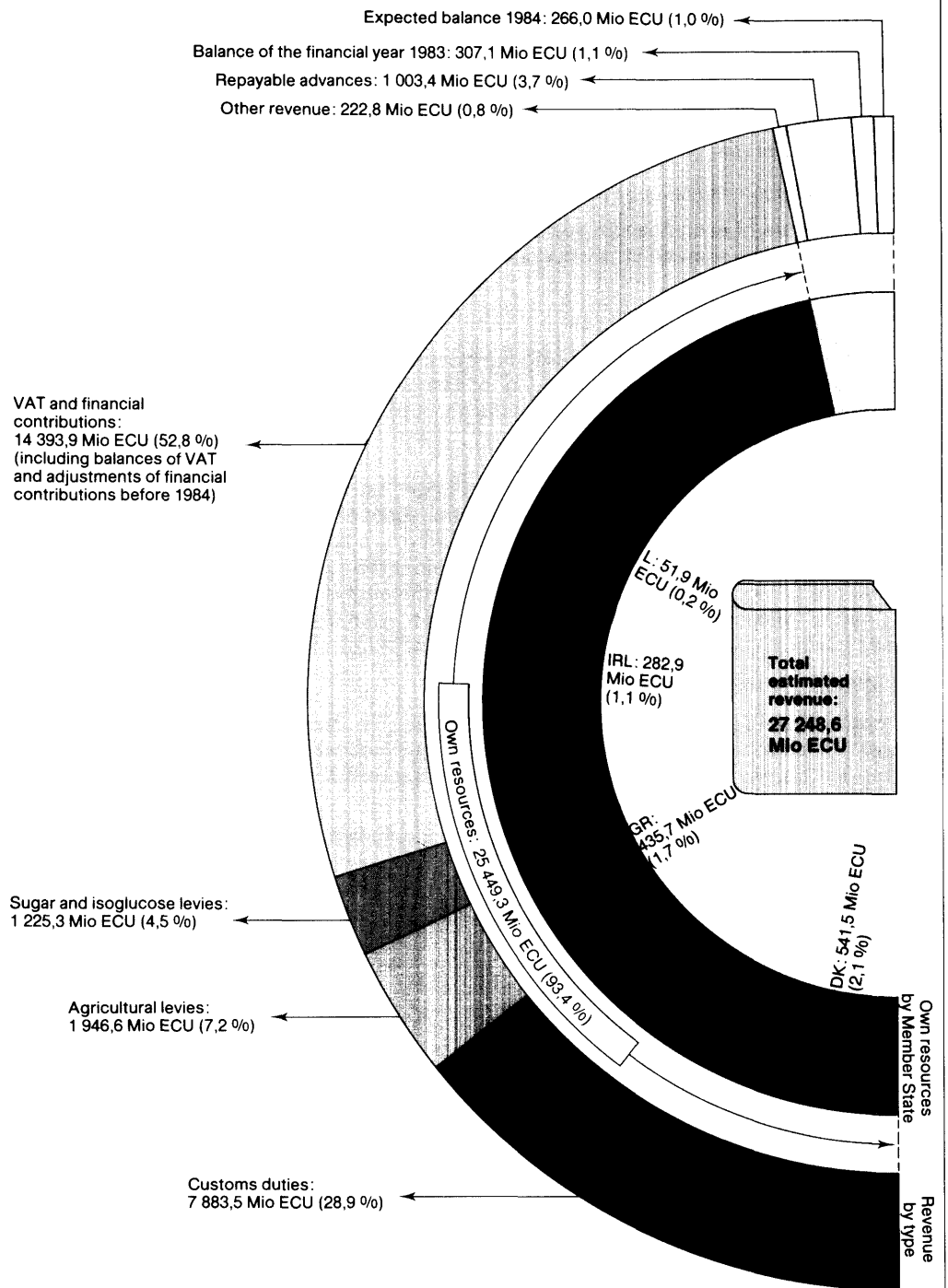
(15) Articles 73 to 77 of the Financial Regulation.

(16) Articles 78e, 78f ECSC, 206 and 206a EEC, 180 and 180a Euratom and Articles 78 to 84 of the Financial Regulation.

(17) Articles 78g ECSC, 206b EEC, 180b Euratom.

(18) Article 85 of the Financial Regulation.

**§ 2. General budget 1984: estimated revenue**  
(after amending and supplementary budget No 1: see also § 5)

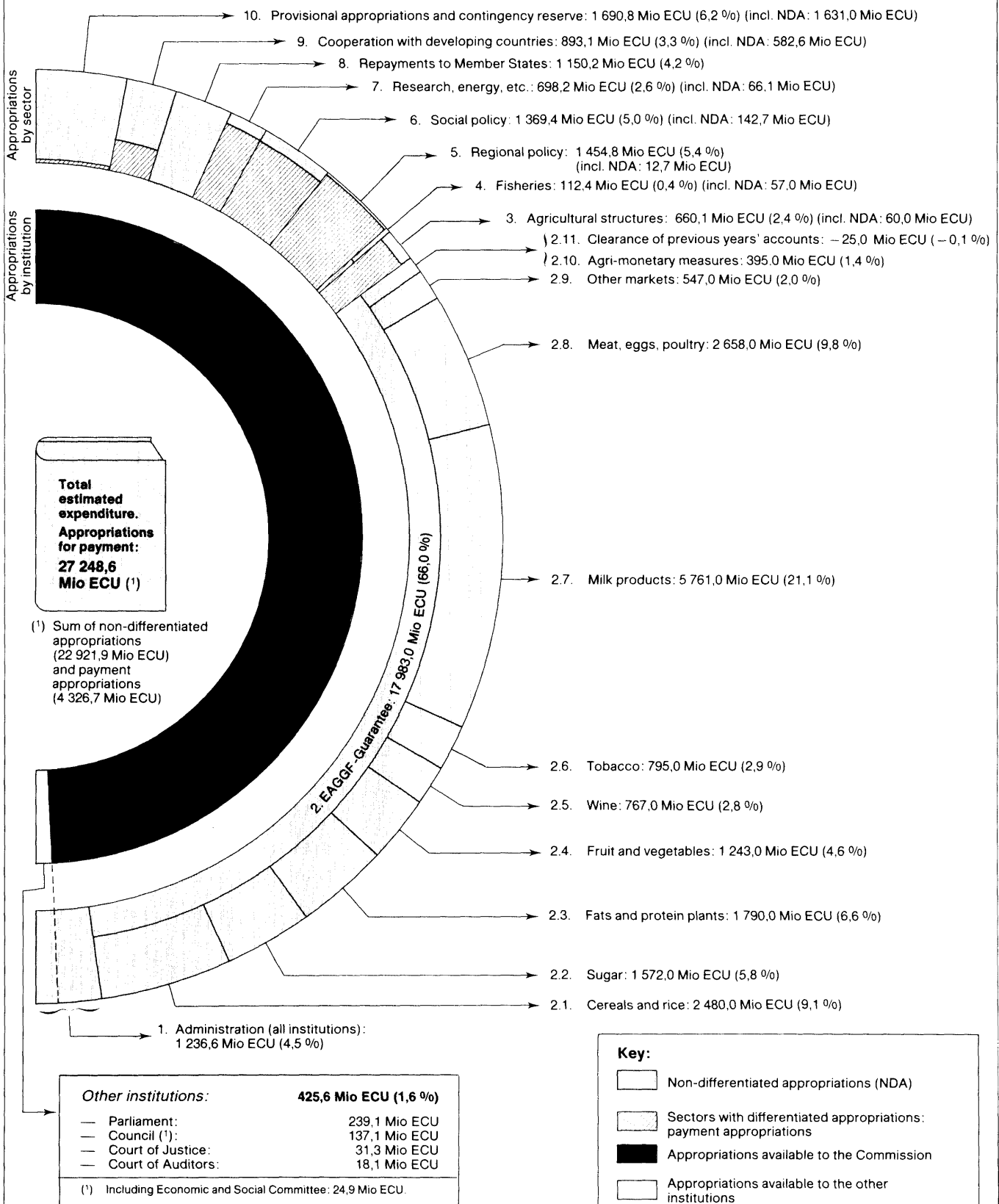


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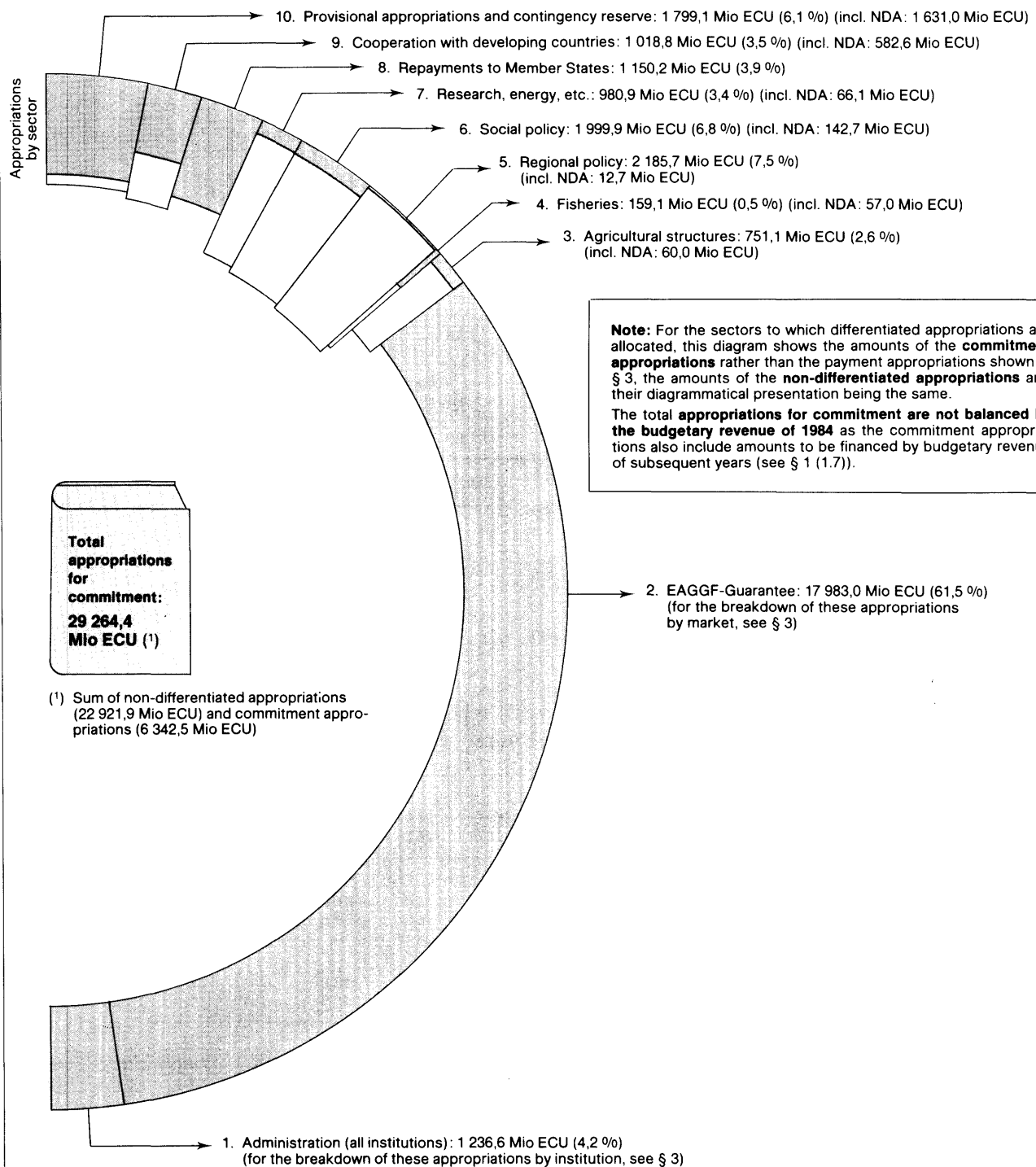
Own resources		Total own resources (by Member State)
		Customs duties
		Agricultural levies
		Sugar and isoglucose levies
		VAT/financial contributions
		Other revenue/Repayable advances/ Balance of the financial year 1983/Expected balance 1984



**§ 3. General budget 1984: estimated expenditure — appropriations for payment**  
(after amending and supplementary budget No 1: see also § 7, column 4)



**§ 4. General budget 1984: appropriations for commitment**  
(after amending and supplementary budget No 1: see also § 6, column 4)



### § 5. Estimated and actual revenue in 1984

#### A. Estimated and actual revenue in 1984:

Type of revenue	Estimated revenue of the 1984 budget (after amending and supplementary budget No 1)		Actual revenue in 1984	
	Mio ECU	%	Mio ECU	%
1. Own resources:				
— Customs duties	7 883,5	28,9	7 960,8	30,6
— Agricultural levies	1 946,6	7,2	1 260,0	4,8
— Sugar and isoglucose levies	1 225,3	4,5	1 176,4	4,5
— VAT 1984	14 377,0	52,8	14 372,1	55,2
— Financial contribution (GNP) 1984 Greece	224,2	0,8	222,5	0,8
— Balance of VAT and adjustments of financial contributions before 1984	-207,3	-0,8	-111,8	-0,4
<b>Total own resources</b>	<b>25 449,3</b>	<b>93,4</b>	<b>24 880,0</b>	<b>95,5</b>
2. Other revenue (ECSC contributions; Member States' contributions to supplementary Euratom programmes; deductions from staff remuneration; miscellaneous revenue)	222,8	0,8	271,8	1,0
3. Repayable advances	1 003,4	3,7	593,5	2,3
4. Balance of the financial year 1983	307,1	1,1	307,1	1,2
5. Expected balance 1984	266,0	1,0	—	—
<b>Total revenue</b>	<b>27 248,6</b>	<b>100</b>	<b>26 052,4</b>	<b>100</b>

#### B. Estimated and actual own resources in 1984 by Member State:

(Mio ECU)

Type of resource	Belgium	Denmark	FR of Germany	Greece	France	Ireland	Italy	Luxembourg	Netherlands	United Kingdom	EUR 10
Customs duties:											
— estimated	467,0	195,0	2 285,0	96,0	1 083,0	124,0	716,0	6,5	737,0	2 174,0	<b>7 883,5</b>
— actual	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>
Agricultural levies:											
— estimated	311,3	10,0	281,0	96,1	135,0	6,0	450,0	0,1	247,1	410,0	<b>1 946,6</b>
— actual	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:											
— estimated	91,7	46,7	344,8	21,6	419,0	17,0	86,0	—	100,1	98,4	<b>1 225,3</b>
— actual	83,9	38,0	350,2	16,6	406,3	16,8	84,1	—	76,9	103,6	<b>1 176,4</b>
VAT 1984 <sup>(1)</sup> :											
— estimated	504,0	291,0	4 200,0	224,2	3 327,0	126,0	2 238,0	36,0	728,0	2 927,0	<b>14 601,2</b>
— actual	504,4	290,8	4 203,6	222,5	3 330,6	126,0	2 235,0	36,0	728,2	2 917,5	<b>14 594,6</b>
Balance of VAT and adjustments of financial contributions before 1984:											
— estimated	-31,0	-1,2	30,3	-2,2	-128,8	9,9	-10,6	9,3	10,1	-93,1	<b>-207,3</b>
— actual	-31,0	-1,2	30,3	-2,2	-128,8	9,9	84,9	9,3	10,1	-93,1	<b>-111,8</b>
Total own resources:											
— estimated	<b>1 343,0</b>	<b>541,5</b>	<b>7 141,1</b>	<b>435,7</b>	<b>4 835,2</b>	<b>282,9</b>	<b>3 479,4</b>	<b>51,9</b>	<b>1 822,3</b>	<b>5 516,3</b>	<b>25 449,3</b>
— actual	<b>1 238,3</b>	<b>532,9</b>	<b>7 052,4</b>	<b>355,8</b>	<b>4 802,3</b>	<b>286,3</b>	<b>3 443,4</b>	<b>51,3</b>	<b>1 687,8</b>	<b>5 429,5</b>	<b>24 880,0</b>

<sup>(1)</sup> Greece paid a financial contribution based on its GNP.

## § 6. Appropriations for commitment available in 1984 and their utilization

(Mio ECU)

Sector (the Sections (S), Titles (T) and Chapters (Ch) corresponding to the 1984 budgetary nomenclature are shown in brackets)		Type of appropriations: non-differentiated appropriations (NDA); commitment appropriations (CA)	Evolution of appropriations			Commitments entered into in 1984	Appropriations remaining available for 1985 <sup>(3)</sup>	Cancellations
			Initial budget 1984	Final budget 1984 <sup>(1)</sup>	Final appropriations 1984 <sup>(2)</sup>			
(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8) = (5) - (6) - (7)
All institutions	1. Administration	NDA	1 229,1	1 236,6	1 245,6	1 223,1	0,5	22,0
	1.1. Parliament (S I)	NDA	239,1	239,1	239,1	235,4	—	3,7
	1.2. Council (S II)	NDA	137,1	137,1	137,1	129,6	0,5	7,0
	(of which: Economic and Social Committee)	(NDA)	(24,9)	(24,9)	(24,9)	(24,6)	(0,1)	(0,2)
	1.3. Commission (S III, Part A) <sup>(4)</sup>	NDA	803,5	811,0	820,0	811,2	—	8,8
	1.4. Court of Justice (S IV)	NDA	31,3	31,3	31,3	29,6	—	1,7
Commission (Section III, Part B)	1.5. Court of Auditors (S V)	NDA	18,1	18,1	18,1	17,3	—	0,8
	2. EAGGF-Guarantee (T 1, 2)	NDA	16 150,0	17 983,0	18 358,0	18 330,8	—	27,2
	2.1. Cereals and rice (Ch 10)	NDA	2 633,3	2 480,0	1 698,0	1 697,8	—	0,2
	2.2. Sugar (Ch 11)	NDA	1 386,9	1 572,0	1 631,5	1 631,5	—	0,0
	2.3. Fats and protein plants (Ch 12, 13)	NDA	1 956,0	1 790,0	1 968,0	1 967,5	—	0,5
	2.4. Fruit and vegetables (Ch 15)	NDA	1 025,3	1 243,0	1 454,6	1 454,6	—	0,0
	2.5. Wine (Ch 16)	NDA	576,4	767,0	1 222,6	1 222,6	—	0,0
	2.6. Tobacco (Ch 17)	NDA	727,7	795,0	777,3	776,4	—	0,9
	2.7. Milk products (Ch 20)	NDA	4 894,1	5 761,0	5 446,7	5 441,7	—	5,0
	2.8. Meat, eggs, poultry (Ch 21 - 24)	NDA	2 031,9	2 658,0	3 259,5	3 246,1	—	13,4
	2.9. Other markets (Ch 14, 18, 19, 25)	NDA	561,7	547,0	547,8	541,9	—	5,9
	2.10. Agri-monetary measures (Ch 27, 28)	NDA	356,7	395,0	377,0	376,2	—	0,8
	2.11. Clearance of previous years' accounts (Ch 29)	NDA	p.m.	- 25,0	- 25,0	- 25,5	—	0,5
	3. Agricultural structures (T 3)	NDA + CA	751,1	751,1	959,8	870,5	88,7	0,6
	(of which: non-differentiated appropriations)	(NDA)	(60,0)	(60,0)	(51,8)	(51,2)	(—)	(0,6)
	3.1. EAGGF-Guidance (Ch 30 - 33)	CA	674,5	674,5	880,8	796,3	84,5	0,0
	3.2. Specific measures (Ch 38)	NDA + CA	76,6	76,6	79,0	74,2	4,2	0,6
	4. Fisheries (T 4)	NDA + CA	148,1	159,1	154,1	96,1	55,7	2,3
	(of which: non-differentiated appropriations)	(NDA)	(50,5)	(57,0)	(32,2)	(29,9)	(—)	(2,3)
	4.1. Common organization of the market (Ch 40)	NDA	42,9	42,9	17,9	15,7	—	2,2
	4.2. Other measures (Ch 41 - 43, 45 - 46)	NDA + CA	105,2	116,2	136,2	80,4	55,7	0,1
	5. Regional policy (T 5)	NDA + CA	2 185,7	2 185,7	2 513,4	2 440,9	71,3	1,2
	(of which: non-differentiated appropriations)	(NDA)	(12,7)	(12,7)	(12,7)	(11,5)	(—)	(1,2)
	5.1. Regional Fund (Ch 50, 51)	CA	2 140,0	2 140,0	2 454,0	2 383,2	70,8	—
	5.2. Measures in favour of the United Kingdom (Ch 53)	NDA	p.m.	p.m.	—	—	—	—
	5.3. Other measures (Ch 52, 54, 55, 56)	NDA + CA	45,7	45,7	59,4	57,7	0,5	1,2
	6. Social policy (T 6)	NDA + CA	1 999,8	1 999,9	2 458,4	2 275,7	177,9	4,8
	(of which: non-differentiated appropriations)	(NDA)	(142,6)	(142,7)	(419,0)	(416,2)	(—)	(2,8)
	6.1. Social Fund (Ch 60 - 61)	CA	1 846,0	1 846,0	2 024,7	1 854,3	168,4	2,0
	6.2. Other measures (Ch 63 - 67, 69)	NDA + CA	153,8	153,9	433,7	421,4	9,5	2,8
	7. Research, energy, etc. (T 7)	NDA + CA	846,4	980,9	2 158,8	1 805,7	342,9	10,2
	(of which: non-differentiated appropriations)	(NDA)	(54,0)	(66,1)	(1 028,9)	(1 028,2)	(—)	(0,7)
	7.1. Energy (Ch 70)	NDA + CA	62,7	64,7	672,9	660,8	12,1	0,0
	7.2. Research and investment (Ch 73)	CA	656,6	744,5	812,8	592,6	210,6	9,6
	7.3. Industry and transport (Ch 77, 78)	NDA + CA	111,6	135,2	642,4	532,1	110,1	0,2
	7.4. Other measures (Ch 71, 72, 75, 79)	NDA + CA	15,5	36,5	30,7	20,2	10,1	0,4
	8. Repayments to Member States (T 8)	NDA	1 103,5	1 150,2	1 083,2	1 082,5	—	0,7
	8.1. Costs incurred in collecting own resources (Ch 80)	NDA	1 057,3	1 105,3	1 038,3	1 038,3	—	—
	8.2. Other repayments (Ch 81 - 86)	NDA	46,2	44,9	44,9	44,2	—	0,7
	9. Cooperation with developing countries (T 9)	NDA + CA	1 018,8	1 018,8	1 346,7	1 199,0	147,0	0,7
	(of which: non-differentiated appropriations)	(NDA)	(582,6)	(582,6)	(721,7)	(721,1)	(—)	(0,6)
	9.1. Food aid (Ch 92)	NDA	502,1	502,1	505,0	504,9	—	0,1
	9.2. Financial aid (Ch 93 - 99)	NDA + CA	516,7	516,7	841,7	694,1	147,0	0,6
	10. Provisional appropriations and contingency reserve (Ch 100, 101)	NDA + CA	1 944,8	1 799,1	—	—	—	—
	(of which: non-differentiated appropriations)	(NDA)	(1 649,8)	(1 631,0)	(—)	(—)	(—)	(—)
Grand total		NDA + CA (NDA) (CA)	27 377,3 (21 034,8) (6 342,5)	29 264,4 (22 921,9) (6 342,5)	30 278,0 (22 953,1) (7 324,9)	29 324,3 (22 894,5) (6 429,8)	884,0 (0,5) (883,5)	69,7 (58,1) (11,6)

<sup>(1)</sup> After amending and supplementary budget No 1.<sup>(2)</sup> Budget appropriations amended after taking account of commitment appropriations remaining from 1983, appropriations corresponding to receipts for services performed on behalf of outside bodies and transfers between budget headings.<sup>(3)</sup> Non-differentiated appropriations not automatically carried over to 1985 and commitment appropriations remaining at the closure of the 1984 accounts.<sup>(4)</sup> Including amounts corresponding to provisional appropriations and contingency reserve in Section III, Part A.

## § 7. Appropriations for payment available in 1984 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 1984						B. Carry-overs from 1983				C. Total pay- ments made in 1984
		Evolution of appropriations			Payments made in 1984	Carry-overs to 1985	Cancellations	Appropriations car- ried over from 1983 (after transfers)	Payments made in 1984	Carry-overs to 1985	Cancellations	
		Initial budget 1984	Final budget 1984 (1)	Final appro- priations 1984 (2)								
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) = (5) - (6) - (7)	(9)	(10)	(11)	(12) = (9) - (10) - (11)	(13) = (6) + (10)
1. Administration	NDA	1 229,1	1 236,6	1 245,6	1 127,2	96,4	22,0	100,6	88,9	—	11,7	1 216,1
1.1. Parliament	NDA	239,1	239,1	239,1	220,0	15,4	3,7	29,6	25,5	—	4,1	245,5
1.2. Council	NDA	137,1	137,1	137,1	116,1	14,0	7,0	12,4	10,6	—	1,8	126,7
(of which: ESC)	(NDA)	(24,9)	(24,9)	(24,9)	(23,7)	(1,0)	(0,2)	(0,5)	(0,5)	(—)	(0,0)	(24,2)
1.3. Commission (3)	NDA	803,5	811,0	820,0	747,6	63,6	8,8	56,3	50,8	—	5,5	798,4
1.4. Court of Justice	NDA	31,3	31,3	31,3	27,1	2,5	1,7	1,7	1,5	—	0,2	28,6
1.5. Court of Auditors	NDA	18,1	18,1	18,1	16,4	0,9	0,8	0,6	0,5	—	0,1	16,9
2. EAGGF-Guarantee	NDA	16 150,0	17 983,0	18 358,0	18 328,2	2,6	27,2	0,1	0,1	—	0,0	18 328,3
2.1. Cereals and rice	NDA	2 633,3	2 480,0	1 698,0	1 697,8	—	0,2	—	—	—	—	1 697,8
2.2. Sugar	NDA	1 386,9	1 572,0	1 631,5	1 631,5	—	0,0	—	—	—	—	1 631,5
2.3. Fats and protein plants	NDA	1 956,0	1 790,0	1 968,0	1 965,6	1,9	0,5	0,0	—	—	0,0	1 965,6
2.4. Fruit and vegetables	NDA	1 025,3	1 243,0	1 454,6	1 454,6	—	0,0	—	—	—	—	1 454,6
2.5. Wine	NDA	576,4	767,0	1 222,6	1 222,6	—	0,0	—	—	—	—	1 222,6
2.6. Tobacco	NDA	727,7	795,0	777,3	776,4	—	0,9	—	—	—	—	776,4
2.7. Milk products	NDA	4 894,1	5 761,0	5 446,7	5 441,7	—	5,0	—	—	—	—	5 441,7
2.8. Meat, eggs, poultry	NDA	2 031,9	2 658,0	3 259,5	3 246,1	—	13,4	—	—	—	—	3 246,1
2.9. Other markets	NDA	561,7	547,0	547,8	541,2	0,7	5,9	0,1	0,1	—	0,0	541,3
2.10. Agri-monetary measures	NDA	356,7	395,0	377,0	376,2	—	0,8	—	—	—	—	376,2
2.11. Clear. prev. years' accounts	NDA	p.m.	— 25,0	— 25,0	— 25,5	—	0,5	—	—	—	—	— 25,5
3. Agricultural structures (of which: NDA)	NDA + PA (NDA)	655,6 (60,0)	660,1 (60,0)	666,9 (51,8)	611,1 (45,9)	55,2 (5,3)	0,6 (0,6)	131,2 (5,5)	91,7 (4,9)	— (—)	39,5 (0,6)	702,8 (50,8)
3.1. EAGGF-Guidance	PA	583,6	586,6	595,6	560,0	35,6	—	123,6	86,8	—	36,8	646,8
3.2. Specific measures	NDA + PA	72,0	73,5	71,3	51,1	19,6	0,6	7,6	4,9	—	2,7	56,0
4. Fisheries (of which: NDA)	NDA + PA (NDA)	101,4 (50,5)	112,4 (57,0)	87,4 (32,2)	46,6 (23,0)	38,4 (6,9)	2,4 (2,3)	12,5 (2,8)	10,5 (2,7)	— (—)	2,0 (0,1)	57,1 (25,7)
4.1. Common organ. of market	NDA	42,9	42,9	17,9	15,7	—	2,2	—	—	—	—	15,7
4.2. Other measures	NDA + PA	58,5	69,5	69,5	30,9	38,4	0,2	12,5	10,5	—	2,0	41,4
5. Regional policy (of which: NDA)	NDA + PA (NDA)	1 454,8 (12,7)	1 454,8 (12,7)	1 462,9 (12,7)	1 309,5 (0,2)	152,2 (11,3)	1,2 (1,2)	115,2 (7,9)	74,0 (6,7)	— (—)	41,2 (1,2)	1 383,5 (6,9)
5.1. Regional Fund	PA	1 412,5	1 412,5	1 412,5	1 283,3	129,2	—	107,3	67,3	—	40,0	1 350,6
5.2. Measures for the United Kingdom	NDA	p.m.	p.m.	—	—	—	—	—	—	—	—	—
5.3. Other measures	NDA + PA	42,3	42,3	50,4	26,2	23,0	1,2	7,9	6,7	—	1,2	32,9
6. Social policy (of which: NDA)	NDA + PA (NDA)	1 369,3 (142,6)	1 369,4 (142,7)	1 638,1 (419,0)	1 509,4 (391,5)	125,9 (24,7)	2,8 (2,8)	617,7 (37,7)	526,9 (35,7)	— (—)	90,8 (2,0)	2 036,3 (427,2)
6.1. Social Fund	PA	1 220,0	1 220,0	1 211,9	1 116,4	95,5	—	576,0	489,9	—	86,1	1 606,3
6.2. Other measures	NDA + PA	149,3	149,4	426,2	393,0	30,4	2,8	41,7	37,0	—	4,7	430,0
7. Research, energy, etc. (of which: NDA)	NDA + PA (NDA)	644,5 (54,0)	698,2 (66,1)	1 696,4 (1 028,9)	1 346,4 (906,1)	346,1 (122,1)	3,9 (0,7)	174,2 (21,7)	129,3 (20,8)	4,8 (—)	40,1 (0,9)	1 475,7 (926,9)
7.1. Energy	NDA + PA	74,3	75,2	592,6	504,3	88,3	0,0	71,2	41,4	—	29,8	545,7
7.2. Research and investment	PA	477,2	510,2	515,1	390,0	121,9	3,2	57,8	51,0	4,8	2,0	441,0
7.3. Industry and transport	NDA + PA	77,0	79,7	567,9	445,8	121,8	0,3	35,8	28,9	—	6,9	474,7
7.4. Other measures	NDA + PA	16,0	33,1	20,8	6,3	14,1	0,4	9,4	8,0	—	1,4	14,3
8. Repayments to Member States	NDA	1 103,5	1 150,2	1 083,2	1 073,8	8,7	0,7	99,5	99,4	—	0,1	1 173,2
8.1. Costs incurred in collecting own resources	NDA	1 057,3	1 105,3	1 038,3	1 033,4	4,9	—	76,5	76,5	—	—	1 109,9
8.2. Other repayments	NDA	46,2	44,9	44,9	40,4	3,8	0,7	23,0	22,9	—	0,1	63,3
9. Coop. with developing countries (of which: NDA)	NDA + PA (NDA)	893,1 (582,6)	893,1 (582,6)	1 032,2 (721,7)	767,0 (591,9)	264,6 (129,2)	0,6 (0,6)	445,6 (298,1)	383,6 (273,3)	— (—)	62,0 (24,8)	1 150,6 (865,2)
9.1. Food aid	NDA	502,1	502,1	505,0	497,5	7,4	0,1	216,6	211,7	—	4,9	709,2
9.2. Financial aid	NDA + PA	391,0	391,0	527,2	269,5	257,2	0,5	229,0	171,9	—	57,1	441,4
10. Provisional appropriations and con- tingency reserve (of which: NDA)	NDA + PA (NDA)	1 760,2 (1 649,8)	1 690,8 (1 631,0)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
Grand total	NDA + PA (NDA) (PA)	25 361,5 (21 034,8) (4 326,7)	27 248,6 (22 921,9) (4 326,7)	27 270,7 (22 953,1) (4 317,6)	26 119,2 (22 487,8) (3 631,4)	1 090,1 (407,2) (682,9)	61,4 (58,1) (3,3)	1 696,6 (4) (573,9) (1 122,7) (4)	1 404,4 (532,5) (871,9)	4,8 (—) (4,8)	287,4 (41,4) (246,0)	27 523,6 (23 020,3) (4 503,3)

(1) After amending and supplementary budget No 1.

(2) Budget appropriations amended after taking account of transfers between budget headings, receipts for services performed on behalf of outside bodies and 1983 carry-overs transferred to the 1984 appropriations.

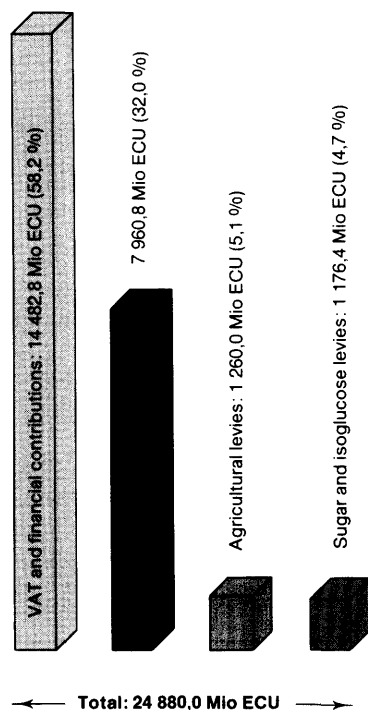
(3) Including amounts corresponding to provisional appropriations and contingency reserve in Section III, Part A.

(4) After transfers of 17,7 Mio ECU to the non-differentiated appropriations of the financial year 1984.

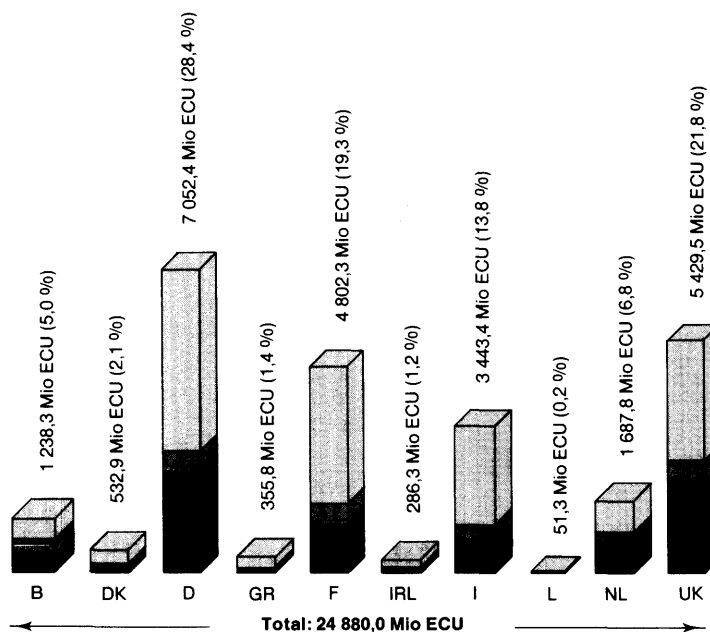
### § 8. Actual own resources in 1984

(for basic figures, see § 5)

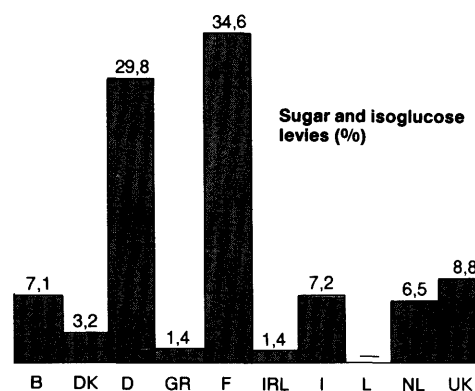
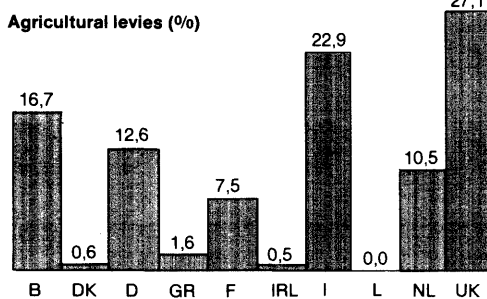
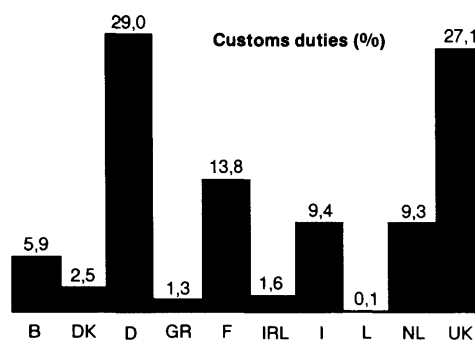
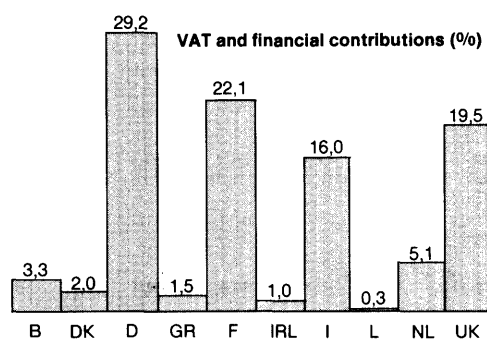
A. Actual own resources in 1984 — by type



B. Actual own resources in 1984 — by Member State and by type



C. Shares of Member States in each type of own resources



### § 9. Rate of utilization of appropriations available in 1984

#### I. Final appropriations for commitment in 1984 (see § 6, columns 5 to 8)

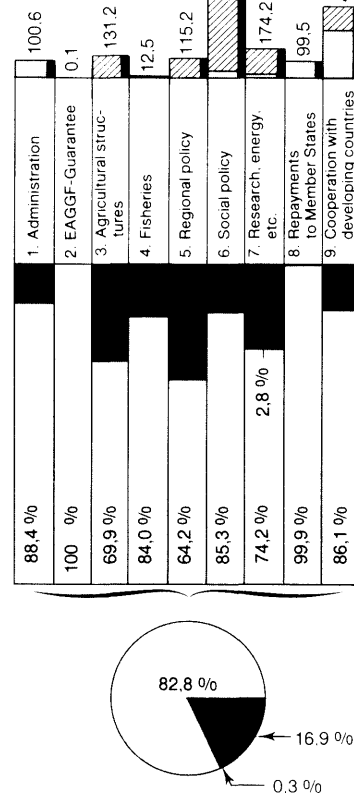
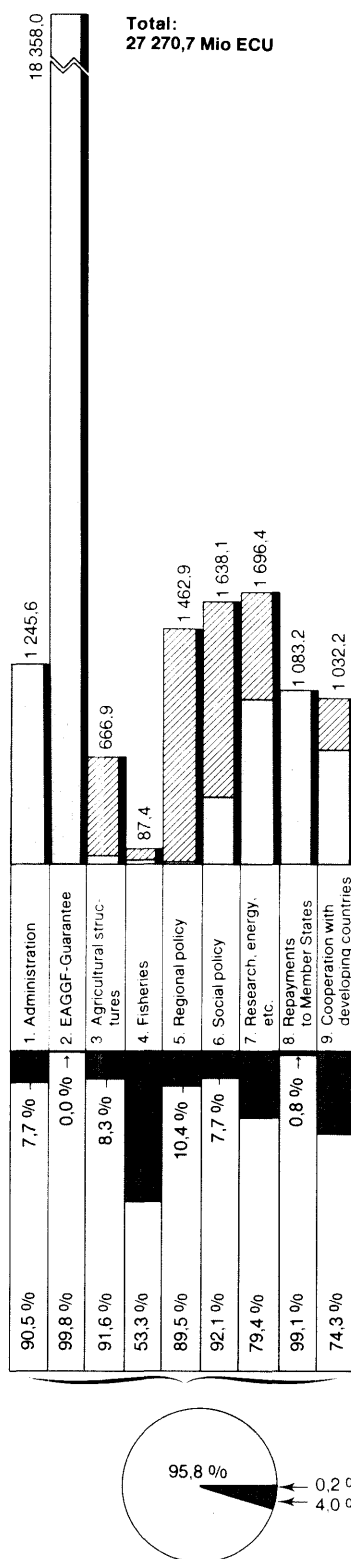
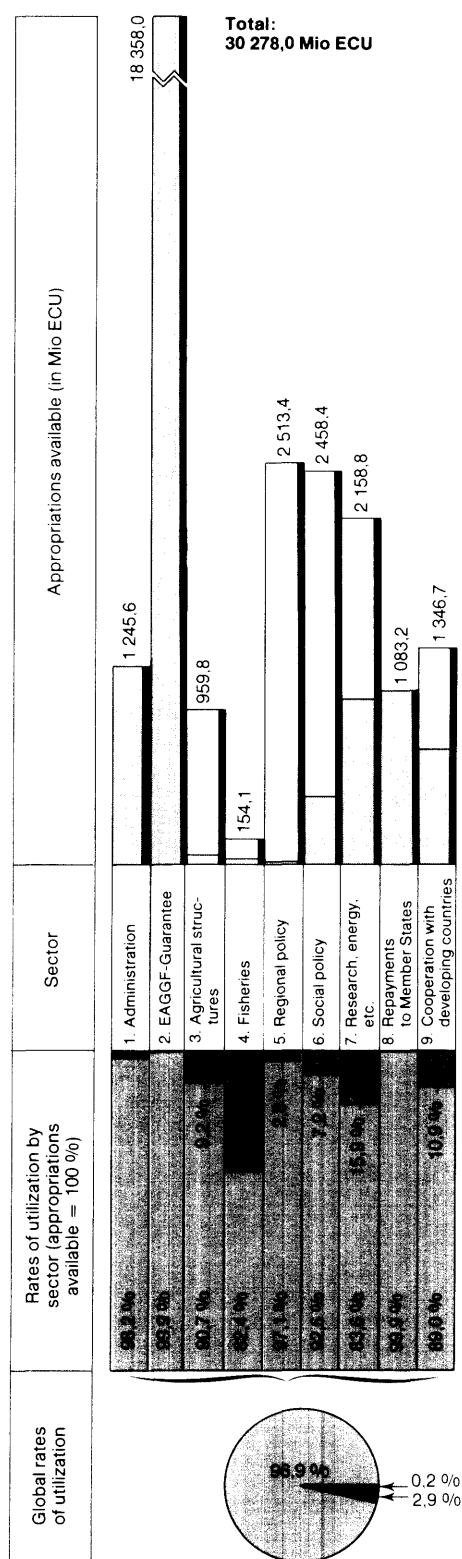
#### II. Final 1984 appropriations for payment (see § 7, columns 5 to 8)

#### Key:

- Non-differentiated appropriations
- Commitment appropriations
- Payment appropriations
- Rate of commitment
- Rate of payment
- Rate of unused appropriations remaining available for 1985 (appropriations remaining and/or carried over)
- Cancellations

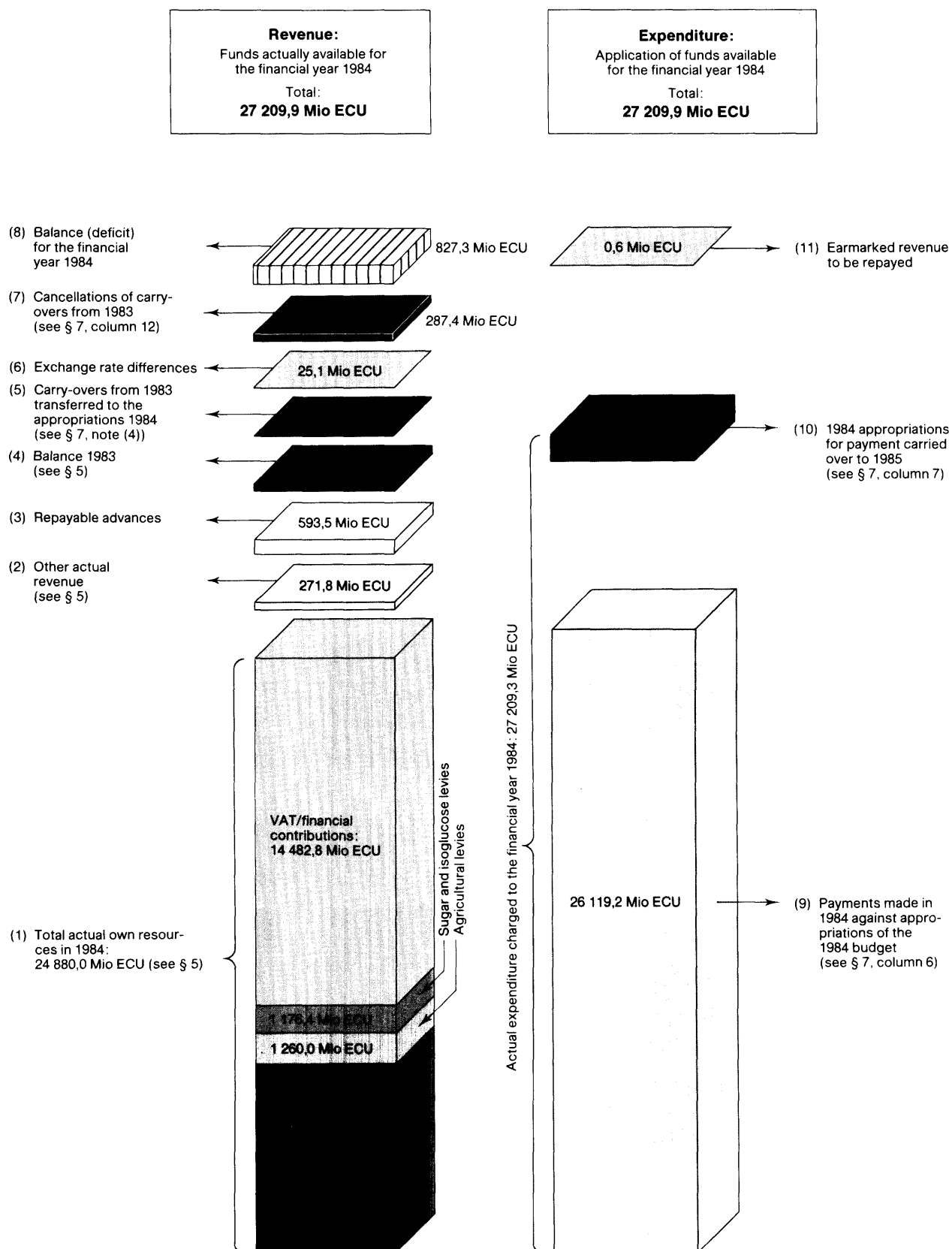
#### III. Appropriations for payment carried over from 1983 (see § 7, columns 9 to 12)

Total: 1 696,6 Mio ECU



# **§ 10. The consolidated revenue and expenditure account and the balance of the financial year 1984**

(application of Article 15 of Council Regulation (EEC, Euratom, ECSC) No 2891/77)



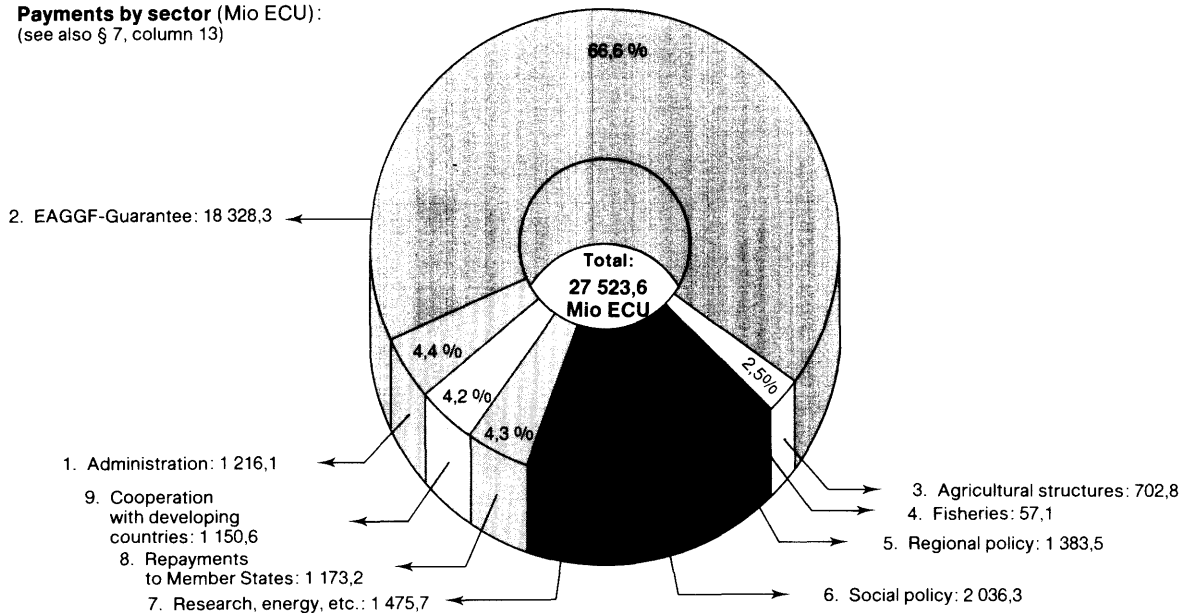
**Note:** The result of the financial year 1984, defined as (1) + (2) + (3) + (4) - (9) - (10), is - 1 156,9 Mio ECU.



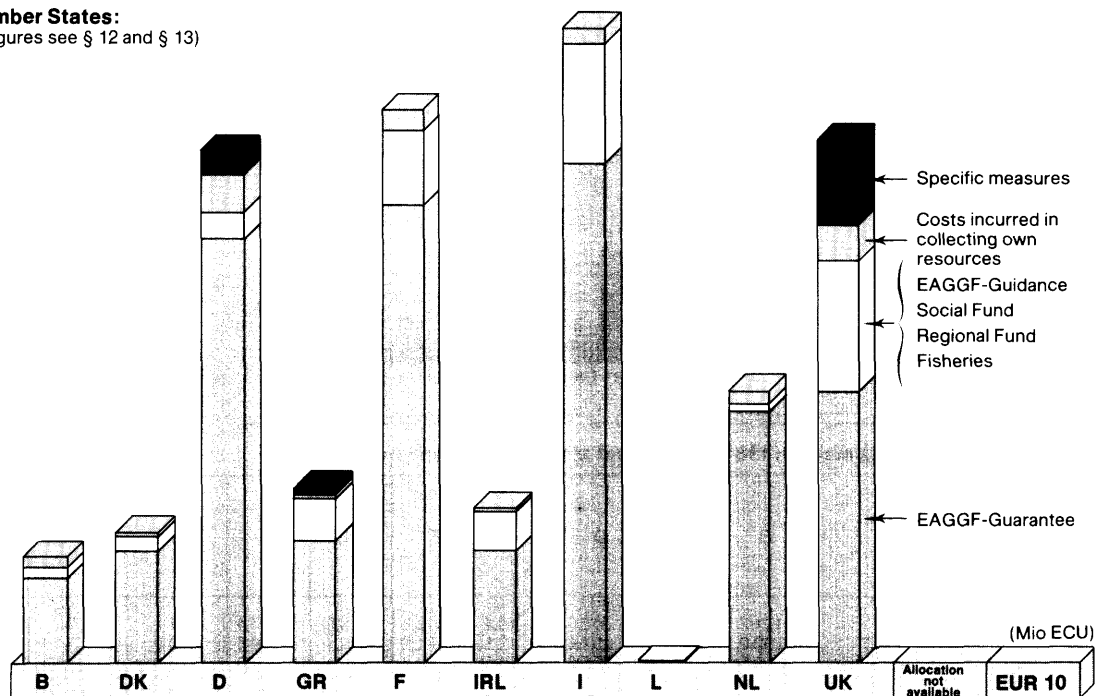
### § 11. Payments made in 1984 — by sector and by recipient Member State

**Note:** Payments made in 1984 = payments against 1984 appropriations plus payments against carry-overs from 1983

#### A. Payments by sector (Mio ECU): (see also § 7, column 13)



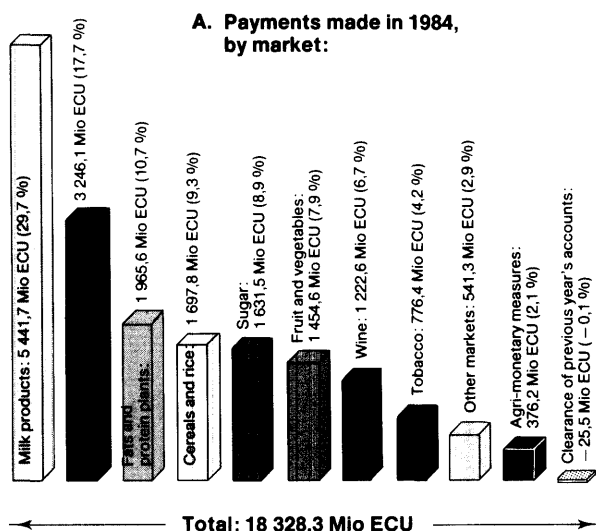
#### B. Payments to Member States: (for more detailed figures see § 12 and § 13)



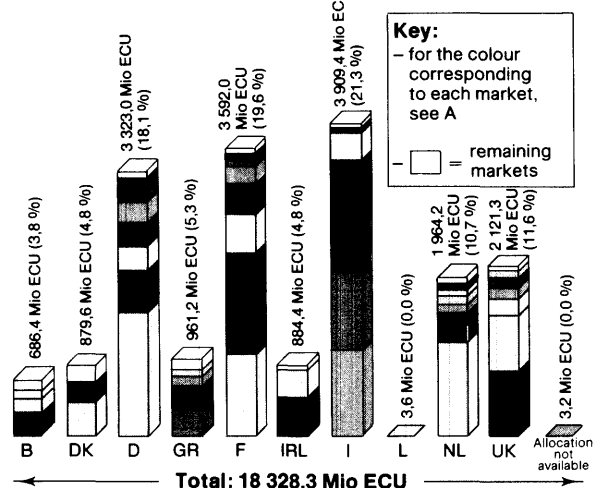
	B	DK	D	GR	F	IRL	I	L	NL	UK	Allocation not available	EUR 10
EAGGF-Guarantie (T1-2)( <sup>1</sup> )	686,4	879,6	3 323,0	961,2	3 592,0	884,4	3 909,4	3,6	1 964,2	2 121,3	3,2	18 328,3
EAGGF-Guidance (Ch 30 — 33)	12,9	13,9	89,3	52,8	143,9	64,2	127,8	3,9	24,8	113,3	—	646,8
Social Fund (Ch 60 — 61)	52,1	68,7	63,8	71,3	225,7	131,4	368,5	0,5	14,1	610,2	—	1 606,3
Regional Fund (Ch 50 — 51)	6,0	28,1	43,9	216,7	201,7	104,1	435,1	2,5	14,8	297,7	—	1 350,6
Fisheries (Ch 40 — 43, 45 — 46)	0,7	3,8	5,1	0,6	9,5	10,3	4,1	—	3,6	9,5	9,9	57,1
Costs incurred in collecting own resources (Ch 80)	82,0	26,0	302,5	14,8	169,7	16,0	117,5	0,7	101,1	279,6	—	1 109,9
Specific measures (Ch 82, 86; articles 707, 783)	—	—	191,7	46,6	—	—	—	—	—	660,9	—	899,2
<b>Total</b>	<b>840,1</b> (3,5 %)	<b>1 020,1</b> (4,2 %)	<b>4 019,3</b> (16,7 %)	<b>1 364,0</b> (5,7 %)	<b>4 342,5</b> (18,1 %)	<b>1 210,4</b> (5,0 %)	<b>4 962,4</b> (20,7 %)	<b>11,2</b> (0,1 %)	<b>2 122,6</b> (8,8 %)	<b>4 092,5</b> (17,1 %)	<b>13,1</b> (0,1 %)	<b>23 998,2</b> (100 %)

(<sup>1</sup>) For the EAGGF-Guarantee these figures include adjusted monetary compensatory amounts (see § 12 D, footnote (1)).

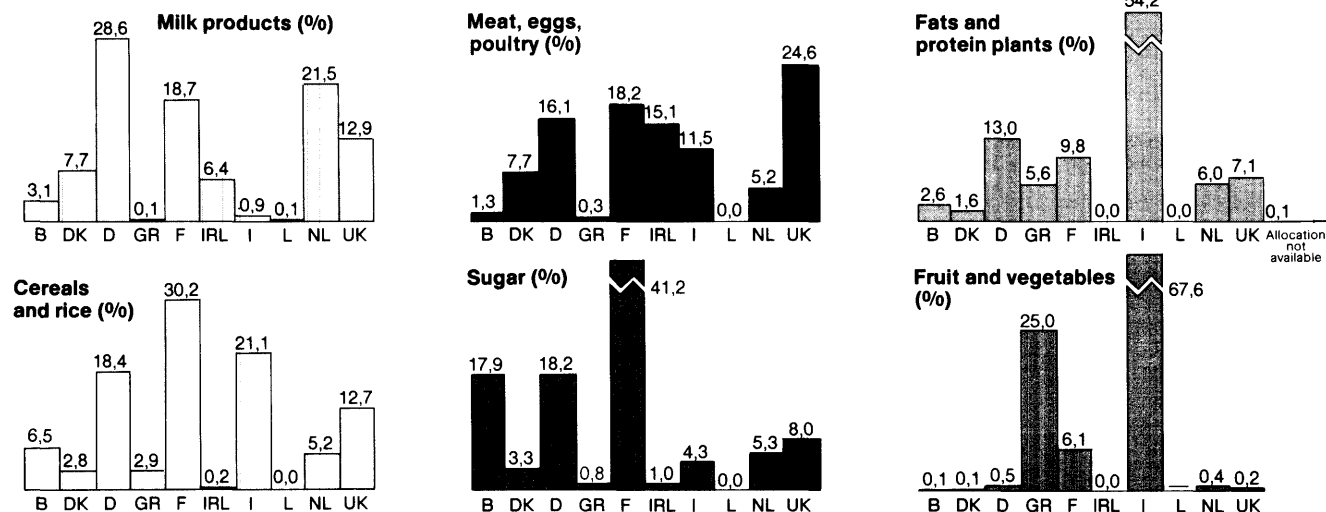
## § 12. EAGGF-Guarantee: payments made in 1984 — by market and by recipient Member State



### B. Payments made in 1984, by recipient Member State:



### C. Distribution by recipient Member State of payments made in 1984 for the principal markets:



### D. Record of payments made in 1984, by recipient Member State and by market:

(Mio ECU)

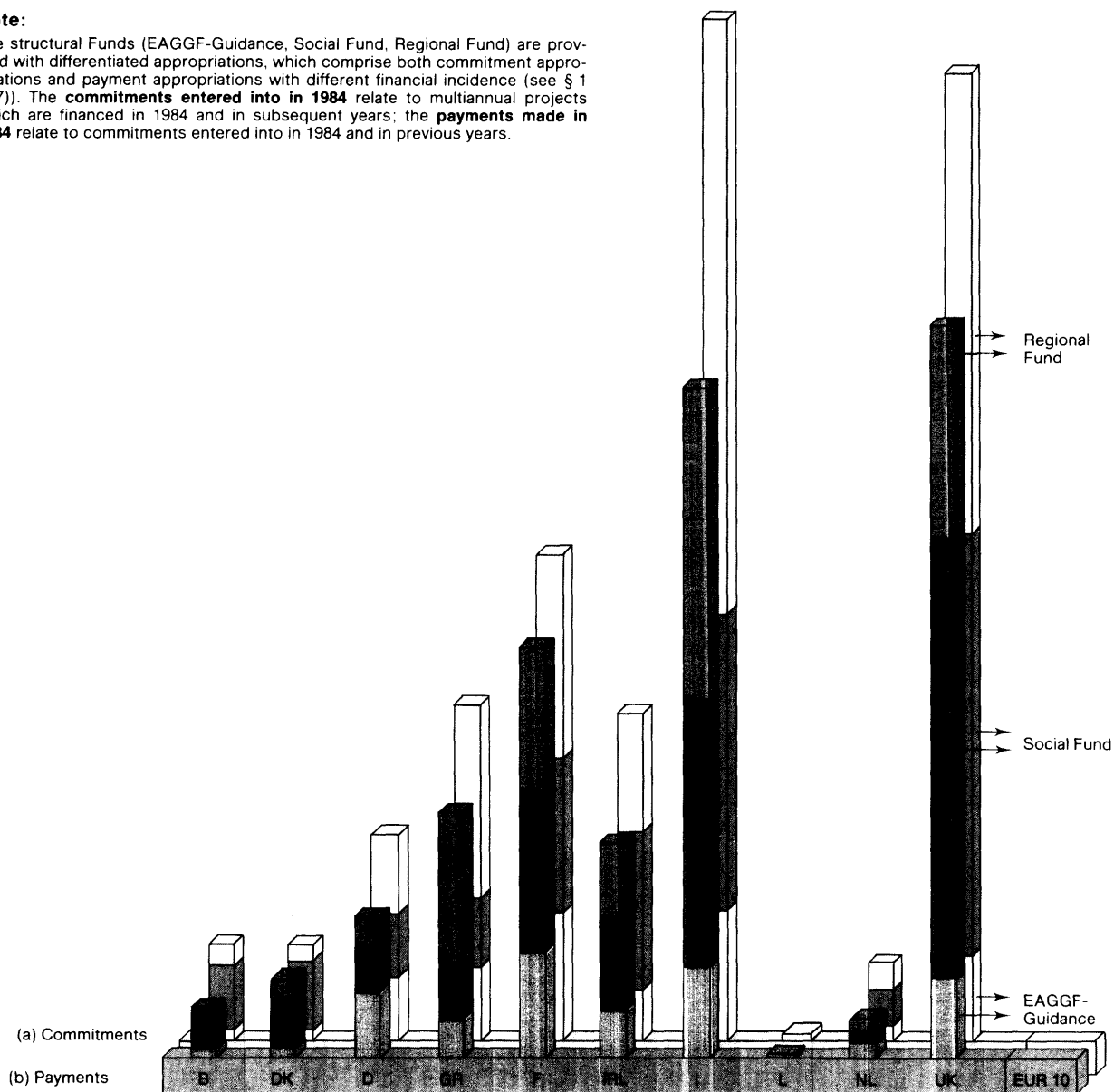
Market	B	DK	D	GR	F	IRL	I	L	NL	UK	Allocation not available	EUR 10
2.1. Cereals and rice	111,2	47,0	312,0	49,4	513,6	3,6	357,4	0,1	88,7	214,8	—	1 697,8
2.2. Sugar	292,0	54,6	297,6	12,8	671,9	16,3	69,8	0,0	85,7	130,8	—	1 631,5
2.3. Fats and protein plants	50,5	31,1	255,0	109,9	193,4	0,4	1 066,3	0,0	118,0	138,6	2,4	1 965,6
2.4. Fruit and vegetables	1,8	1,7	363,6	88,3	0,1	983,4	—	—	5,5	3,5	—	1 454,6
2.5. Wine	—	0,0	114,9	34,5	380,4	—	692,0	0,2	—	0,6	—	1 222,6
2.6. Tobacco	6,9	—	63,3	261,7	81,6	—	362,8	—	0,1	—	—	776,4
2.7. Milk products	168,3	421,5	1 559,0	4,7	1 016,3	347,1	50,6	3,1	1 171,1	700,0	—	5 441,7
2.8. Meat, eggs, poultry	43,5	249,7	522,8	11,5	589,8	489,4	373,0	0,1	168,3	798,0	—	3 246,1
2.9. Other markets	22,7	45,5	59,0	92,0	59,3	33,8	37,7	0,1	100,8	89,6	0,8	541,3
2.10. Agri-monetary measures (1)	4,8	26,3	130,8	21,1	-84,6	0,4	-0,2	0,0	223,1	54,5	—	376,2
2.11. Clearance of previous year's accounts	-15,3	2,2	1,9	—	82,0	-6,7	-83,4	0,0	2,9	-9,1	—	-25,5
<b>Total</b>	<b>686,4</b>	<b>879,6</b>	<b>3 323,0</b>	<b>961,2</b>	<b>3 592,0</b>	<b>884,4</b>	<b>3 909,4</b>	<b>3,6</b>	<b>1 964,2</b>	<b>2 121,3</b>	<b>3,2</b>	<b>18 328,3</b>

(1) 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 1984 — by recipient Member State

**Note:**

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 1984** relate to multiannual projects which are financed in 1984 and in subsequent years; the **payments made in 1984** relate to commitments entered into in 1984 and in previous years.



EAGGF-Guidance:												
(a) Commitments	12,8	15,2	87,9	102,6	181,0	71,7	182,9	4,3	19,8	118,1	796,3	
(b) Payments	12,9	13,9	89,3	52,8	143,9	64,2	127,8	3,9	24,8	113,3	646,8	
Social Fund:												
(a) Commitments	90,9	95,8	86,3	93,8	215,7	219,2	412,5	0,5	52,1	587,5	1 854,3	
(b) Payments	52,1	68,7	63,8	71,3	225,7	131,4	368,5	0,5	14,1	610,2	1 606,3	
Regional Fund:												
(a) Commitments	33,2	24,5	110,1	269,9	277,8	162,8	823,5	4,7	35,8	640,9	2 383,2	
(b) Payments	6,0	28,1	43,9	216,7	201,7	104,1	435,1	2,5	14,8	297,7	1 350,6	
Total:												
(a) Commitments	136,9	135,5	284,3	466,3	674,5	453,7	1 418,9	9,5	107,7	1 346,5	5 033,8	
(b) Payments	71,0	110,7	197,0	340,8	571,3	299,7	931,4	6,9	53,7	1 021,2	3 603,7	

(Mio ECU)

# § 14. Evolution and utilization of the appropriations for payment for the period 1980 – 1984 — by sector

(1980: Mio EUA)  
(1981 – 1984: 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 (4)
		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- (5)</b>	1980	15 683,1	16 182,5	16 233,3	14 866,7	1 108,4	258,2	1 869,8	1 423,7	329,4	116,7
	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
<b>1. Administration (all institutions)</b>	1980	929,6	929,6	896,8	771,5	66,3	59,0	56,2	48,2	—	8,0
	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
<b>2. EAGGF-Guarantee</b>	1980	11 485,5	11 485,5	11 482,2	11 283,2	8,7	190,3	—	—	—	—
	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
<b>3. Agricultural structures</b>	1980	320,1	320,1	324,2	285,6	38,5	0,1	648,4	316,3	305,2	26,9
	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
<b>4. Fisheries</b>	1980	50,7	50,7	58,0	29,8	28,1	0,1	17,0	13,9	0,1	3,0
	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
<b>5. Regional policy</b>	1980	603,5	723,2	797,1	722,2	71,8	3,1	381,1	381,1	—	—
	1981	1 674,8	1 797,9	2 416,9	2 164,6	242,5	9,8	71,8	71,8	—	0,0
	1982	2 823,0	2 823,0	2 957,8	2 765,8	174,4	17,6	242,5	242,5	—	—
	1983	1 469,8	2 383,0	2 383,0	2 265,5	115,2	2,3	174,4	140,3	—	34,1
	1984	1 454,8	1 454,8	1 462,9	1 309,5	152,2	1,2	115,2	74,0	—	41,2
<b>6. Social policy</b>	1980	410,2	776,6	775,5	522,2	252,8	0,5	267,8	249,6	16,6	1,6
	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
<b>7. Research, energy, etc.</b>	1980	371,9	371,9	384,9	195,4	188,6	0,9	125,8	116,1	7,5	2,2
	1981	302,0	309,0	318,0	214,3	96,5	7,2	193,5	162,9	11,0	19,6
	1982	410,4	410,4	462,6	345,7	112,9	4,0	107,5	92,0	8,6	6,9
	1983	541,7	1 374,9	1 395,2	1 216,2	166,7	12,3	121,5	91,5	7,5	22,5
	1984	644,5	698,2	1 696,4	1 346,4	346,1	3,9	174,2	129,3	4,8	40,1
<b>8. Repayments to Member States</b>	1980	834,5	847,8	847,8	761,0	86,8	—	85,4	85,4	—	0,0
	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
<b>9. Cooperation with developing countries</b>	1980	620,4	620,4	666,8	295,8	366,8	4,2	288,1	213,1	—	75,0
	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

(1) After amending and supplementary budgets.

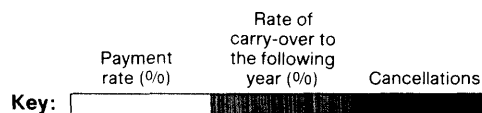
(2) After supplementary receipts and transfers.

(3) After transfers between budget headings and 'transfers' to the appropriations for the current financial year.

(4) For certain sectors, including adjustments of balances of commitments due to variations in the EUA and ECU rates.

(5) For columns (1), (2), (3) and (6), including the amounts appearing in the provisional appropriations and contingency reserve.

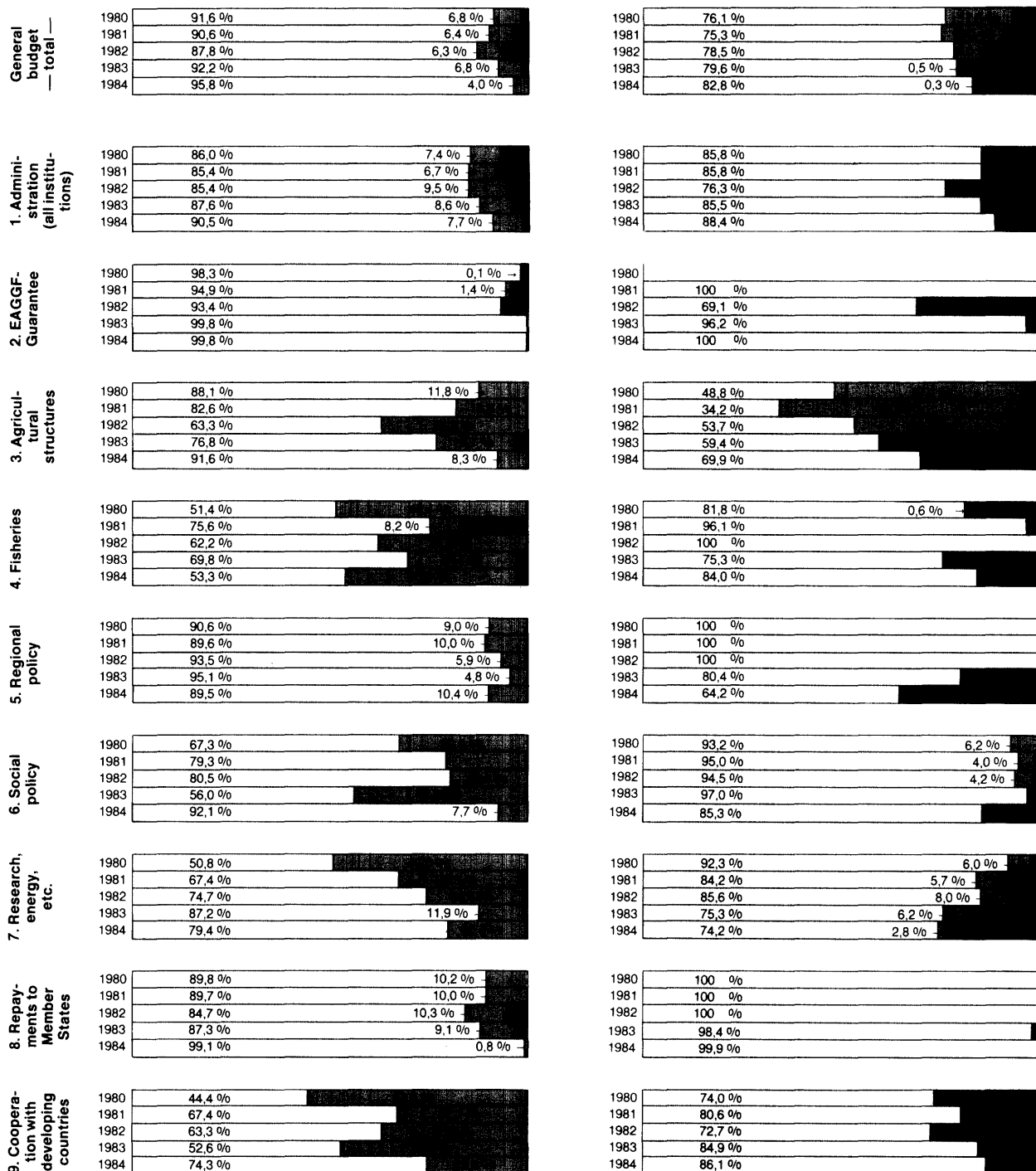
# § 15. Utilization rates of the appropriations for payment from 1980 to 1984 — by sector



## A. Appropriations for the financial year (final appropriations = 100 %)

## B. Carry-overs from the previous financial year (appropriations carried over = 100 %)

(for basic figures see § 14)



### § 16. Annual payments during the period 1980 – 1984, by sector

**Notes:**

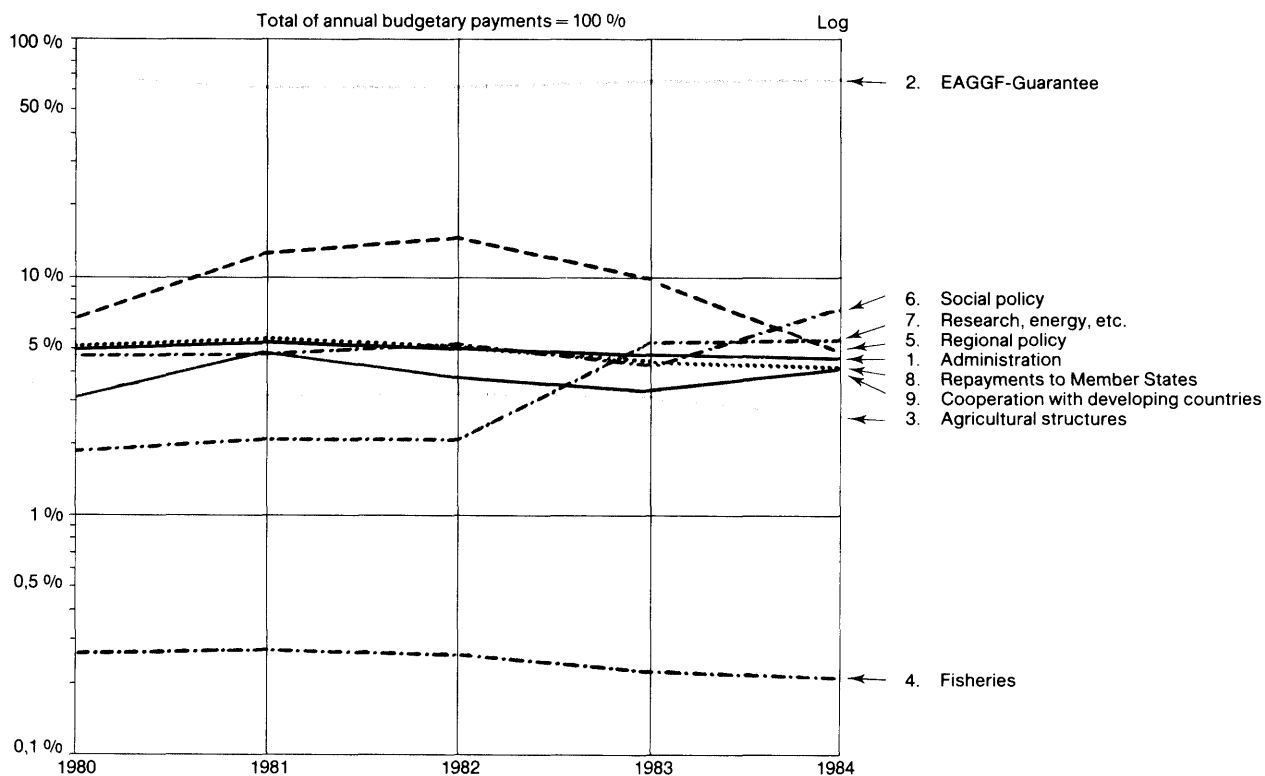
1. Annual payments = payments against appropriations of the financial year plus payments against carry-overs from the previous financial year.
2. For the budget headings corresponding to the 1984 budgetary nomenclature, see § 6, column (1).

Sector	1980		1981		1982		1983		1984	
	Mio EUA	%	Mio ECU	%	Mio ECU	%	Mio ECU	%	Mio ECU	%
1. Administration	<b>819,7</b>	<b>5,0</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>
1.1. Parliament	135,1	0,8	168,0	0,9	173,3	0,9	214,8	0,9	245,5	0,9
1.2. Council	94,5	0,6	103,9	0,6	109,7	0,5	116,7	0,5	126,7	0,4
(of which: the Economic and Social Committee)	(16,8)	(0,1)	(20,0)	(0,1)	(20,6)	(0,1)	(22,4)	(0,1)	(24,2)	(0,1)
1.3. Commission	560,0	3,4	635,4	3,6	688,3	3,4	736,3	3,0	798,4	2,9
1.4. Court of Justice	19,3	0,1	23,1	0,1	25,4	0,1	27,2	0,1	28,6	0,1
1.5. Court of Auditors	10,8	0,1	12,5	0,1	13,6	0,1	15,4	0,1	16,9	0,1
2. EAGGF-Guarantee	<b>11 283,2</b>	<b>69,3</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>
2.1. Cereals and rice	1 719,0	10,6	1 951,8	11,0	1 874,8	9,2	2 534,1	10,4	1 697,8	6,2
2.2. Sugar	575,2	3,5	767,5	4,3	1 241,8	6,1	1 316,2	5,4	1 631,5	5,9
2.3. Fats and protein plants	747,8	4,6	1 090,7	6,1	1 295,0	6,3	1 764,7	7,2	1 965,6	7,1
2.4. Fruit and vegetables	687,3	4,2	641,1	3,6	914,3	4,5	1 196,1	4,9	1 454,6	5,3
2.5. Wine	299,5	1,9	459,4	2,6	570,6	2,8	659,2	2,7	1 222,6	4,4
2.6. Tobacco	309,3	1,9	361,8	2,0	622,6	3,0	671,3	2,8	776,4	2,8
2.7. Milk products	4 752,0	29,2	3 342,7	18,8	3 327,8	16,3	4 396,1	18,1	5 441,7	19,8
2.8. Meat, eggs and poultry	1 617,9	9,9	1 867,0	10,5	1 625,9	8,0	2 310,3	9,5	3 246,1	11,8
2.9. Other markets	276,6	1,7	400,8	2,3	583,6	2,9	559,7	2,3	541,3	2,0
2.10. Agri-monetary measures	298,6	1,8	238,4	1,3	313,1	1,5	488,6	2,0	376,2	1,4
2.11. Clearance of the accounts	—	—	— 161,0	— 0,9	—	—	— 108,1	— 0,4	— 25,5	— 0,1
3. Agricultural structures	<b>601,9</b>	<b>3,7</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>
3.1. EAGGF-Guidance	592,9	3,6	566,5	3,1	638,2	3,2	719,7	3,0	646,8	2,3
3.2. Specific measures	9,0	0,1	8,2	0,1	7,9	0,0	30,0	0,1	56,0	0,2
4. Fisheries	<b>43,7</b>	<b>0,3</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>
4.1. Common organization of the market	23,3	0,2	28,0	0,2	34,0	0,2	25,8	0,1	15,7	0,0
4.2. Other measures	20,4	0,1	21,9	0,1	20,8	0,1	29,0	0,1	41,4	0,2
5. Regional policy	<b>1 103,3</b>	<b>6,8</b>	<b>2 236,4</b>	<b>12,6</b>	<b>3 008,3</b>	<b>14,7</b>	<b>2 405,8</b>	<b>9,9</b>	<b>1 383,5</b>	<b>5,0</b>
5.1. Regional Fund	726,7	4,5	798,7	4,5	973,0	4,8	1 255,9	5,2	1 350,6	4,9
5.2. Measures in favour of the United Kingdom	174,1	1,1	1 248,4	7,0	1 819,2	8,9	887,6	3,7	—	—
5.3. Other measures	202,5	1,2	189,3	1,1	216,1	1,0	262,3	1,0	32,9	0,1
6. Social policy	<b>771,8</b>	<b>4,7</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>
6.1. Social Fund	735,2	4,5	745,8	4,2	905,6	4,4	890,9	3,7	1 606,3	5,8
6.2. Other measures	36,6	0,2	90,9	0,5	155,0	0,8	130,0	0,5	430,0	1,6
7. Research, energy, etc.	<b>311,5</b>	<b>1,9</b>	<b>377,2</b>	<b>2,1</b>	<b>437,7</b>	<b>2,1</b>	<b>1 307,7</b>	<b>5,4</b>	<b>1 475,7</b>	<b>5,4</b>
7.1. Energy	40,3	0,2	63,1	0,3	44,0	0,2	828,0	3,4	545,7	2,0
7.2. Research and investment	249,8	1,5	295,6	1,6	367,6	1,8	423,3	1,7	441,0	1,6
7.3. Industry and transport	12,0	0,1	8,3	0,1	16,3	0,1	44,7	0,2	474,7	1,7
7.4. Other measures	9,4	0,1	10,2	0,1	9,8	0,0	11,7	0,1	14,3	0,1
8. Repayments to Member States	<b>846,4</b>	<b>5,2</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>
8.1. Costs incurred in collecting own resources	791,2	4,9	807,0	4,6	909,3	4,4	921,9	3,8	1 109,9	4,1
8.2. Other repayments	55,2	0,3	149,3	0,8	140,0	0,7	142,8	0,6	63,3	0,2
9. Cooperation with developing countries	<b>508,9</b>	<b>3,1</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>
9.1. Food aid	318,8	1,9	601,7	3,4	540,2	2,6	388,7	1,6	709,2	2,6
9.2. Financial aid	190,1	1,2	256,8	1,4	245,9	1,2	422,1	1,7	441,4	1,6
Grand total	<b>16 290,4</b>	<b>100</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>

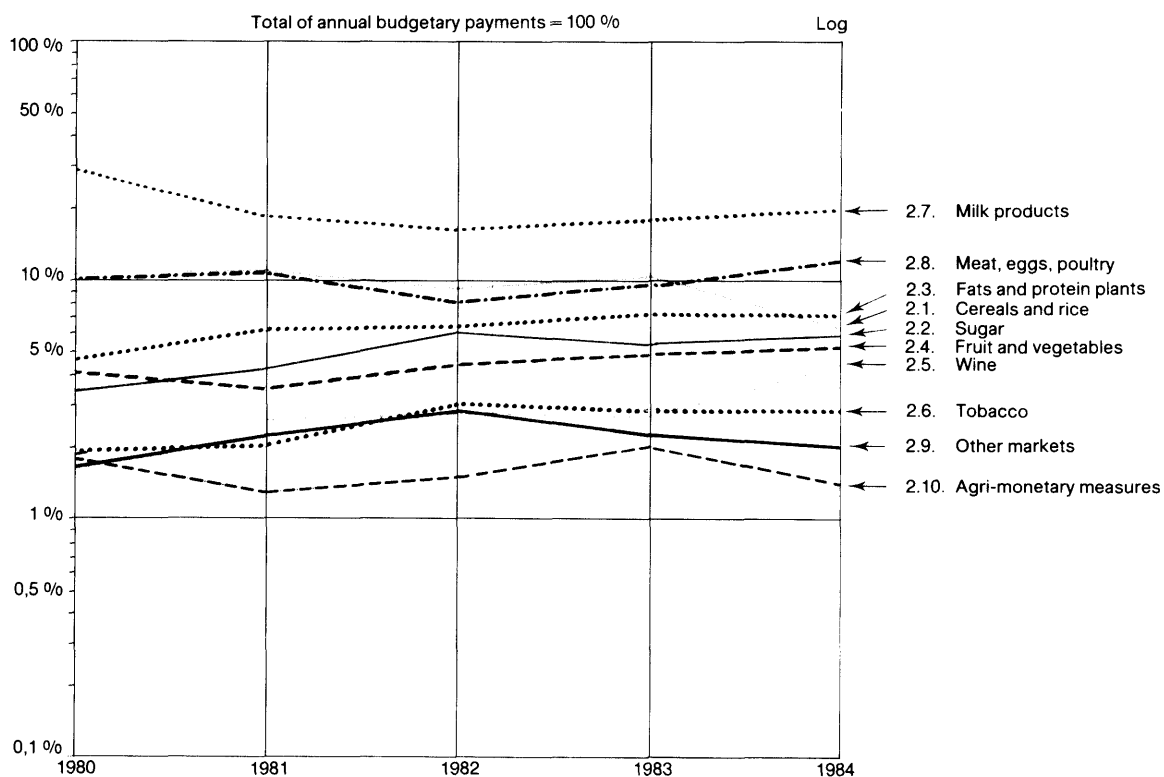
# **§ 17. Evolution of the ratio of 'annual payments by sector' to 'total of annual budgetary payments' (1980 – 1984)**

(for detailed figures see § 16)

## **A. General budget (all sectors):**



## **B. EAGGF-Guarantee (all markets):**



### § 18. Annual payments to the Member States (1980 – 1984)

#### Notes:

1. This table summarizes the annual payments to the Member States under the principal sectors. For the period under consideration these payments represent 88,2 % of total budgetary payments (= the aggregate of the totals in § 16).
2. Annual payments = payments against appropriations for the financial year plus payments against carry-overs from the previous year.
3. Payments under the EAGGF-Guarantee include adjusted monetary compensatory amounts (see § 12 D, footnote (1)).

(1980: Mio EUA)  
(1981 – 1984: Mio ECU)

Financial year/sector		Belgium	Denmark	FR of Germany	Greece	France	Ireland	Italy	Luxembourg	Netherlands	United Kingdom	Allocation not available	EUR 9/10
1980	EAGGF-Guarantee (T 6 – 7)	571,1	614,5	2 451,4	—	2 827,6	563,6	1 824,0	11,6	1 538,8	880,5	0,1	11 283,2
	EAGGF-Guidance (Ch 80 – 83)	25,2	24,5	142,1	—	133,0	39,8	97,0	1,0	26,4	103,9	—	592,9
	Social Fund (Ch 50 – 52)	12,1	14,7	80,5	—	195,8	72,5	194,4	0,4	5,1	159,7	—	735,2
	Regional Fund (Ch 55 – 56)	6,6	9,4	50,4	—	99,7	69,6	249,1	1,0	7,7	233,2	—	726,7
	Fisheries (Ch 86 – 89)	0,7	1,3	3,1	—	2,5	6,3	4,6	—	6,2	6,7	12,3	43,7
	Costs incurred in collecting own resources (Ch 40)	61,5	15,7	212,7	—	113,8	7,6	106,7	0,5	82,9	189,8	—	791,2
	Specific measures (Ch 57, 58)	—	—	—	—	—	67,1	134,7	—	—	229,3	—	431,1
	<b>Total</b>	<b>677,2</b> (4,6 %)	<b>680,1</b> (4,7 %)	<b>2 940,2</b> (20,1 %)	<b>—</b> (— %)	<b>3 372,4</b> (23,1 %)	<b>826,5</b> (5,7 %)	<b>2 610,5</b> (17,9 %)	<b>14,5</b> (0,1 %)	<b>1 667,1</b> (11,4 %)	<b>1 803,1</b> (12,3 %)	<b>12,4</b> (0,1 %)	<b>14 604,0</b> (100 %)
1981	EAGGF-Guarantee (T 6 – 7)	489,1	507,8	2 031,5	146,2	3 014,2	437,9	2 092,1	4,1	1 157,2	1 080,1	—	10 960,2
	EAGGF-Guidance (Ch 80 – 83)	21,7	20,7	134,1	—	120,8	57,6	78,5	2,3	21,9	108,9	—	566,5
	Social Fund (Ch 50 – 52)	15,3	18,5	72,3	6,6	155,3	60,4	207,1	0,6	14,3	195,4	—	745,8
	Regional Fund (Ch 55 – 56)	9,2	10,7	36,2	122,0	66,8	80,3	211,7	0,9	5,7	255,2	—	798,7
	Fisheries (Ch 86 – 89)	0,8	1,4	2,8	—	4,3	5,4	6,7	—	8,4	8,2	11,9	49,9
	Costs incurred in collecting own resources (Ch 40)	61,8	16,2	225,4	8,9	123,1	8,8	94,9	0,4	77,3	190,2	—	807,0
	Specific measures (Ch 49, 57, 58)	—	—	—	111,0	—	66,6	122,3	—	—	1 286,7	—	1 586,6
	<b>Total</b>	<b>597,9</b> (3,9 %)	<b>575,3</b> (3,7 %)	<b>2 502,3</b> (16,1 %)	<b>394,7</b> (2,5 %)	<b>3 484,5</b> (22,5 %)	<b>717,0</b> (4,6 %)	<b>2 813,3</b> (18,1 %)	<b>8,3</b> (0,1 %)	<b>1 284,8</b> (8,3 %)	<b>3 124,7</b> (20,1 %)	<b>11,9</b> (0,1 %)	<b>15 514,7</b> (100 %)
1982	EAGGF-Guarantee (T 1 – 2)	535,1	556,7	2 027,5	684,6	2 866,2	496,5	2 502,6	2,6	1 416,7	1 278,3	2,7	12 369,5
	EAGGF-Guidance (Ch 30 – 33)	17,7	20,8	107,1	14,5	167,4	84,3	125,0	1,6	32,2	67,6	—	638,2
	Social Fund (Ch 60 – 62)	16,8	17,6	89,9	23,5	119,3	115,0	235,1	1,1	9,0	278,3	—	905,6
	Regional Fund (Ch 50 – 51)	10,8	14,6	61,6	152,3	130,0	93,5	281,8	0,1	3,2	225,1	—	973,0
	Fisheries (Ch 40 – 42, 46)	0,6	3,2	3,7	—	3,6	7,8	8,9	—	8,3	9,8	8,9	54,8
	Costs incurred in collecting own resources (Ch 80)	68,3	17,6	237,0	18,3	134,7	10,2	102,6	0,4	83,9	236,3	—	909,3
	Specific measures (Ch 52, 53, 82, 86)	—	—	—	92,7	—	72,7	142,6	—	—	1 866,5	—	2 174,5
	<b>Total</b>	<b>649,3</b> (3,6 %)	<b>630,5</b> (3,5 %)	<b>2 526,8</b> (14,0 %)	<b>985,9</b> (5,5 %)	<b>3 421,2</b> (19,0 %)	<b>880,0</b> (4,9 %)	<b>3 398,6</b> (18,8 %)	<b>5,8</b> (0,0 %)	<b>1 553,3</b> (8,6 %)	<b>3 961,9</b> (22,0 %)	<b>11,6</b> (0,1 %)	<b>18 024,9</b> (100 %)
1983	EAGGF-Guarantee (T 1 – 2)	611,9	680,7	3 075,8	1 007,4	3 566,6	619,4	2 820,5	4,2	1 707,8	1 691,0	2,9	15 788,2
	EAGGF-Guidance (Ch 30 – 33)	18,1	20,5	107,7	21,9	182,0	84,1	103,0	0,6	32,2	149,6	—	719,7
	Social Fund (Ch 60 – 62)	20,6	14,7	81,5	20,4	140,5	134,2	221,2	0,3	12,6	244,9	—	890,9
	Regional Fund (Ch 50 – 51)	7,0	16,7	45,0	214,6	219,3	94,5	344,5	0,0	18,1	296,2	—	1 255,9
	Fisheries (Ch 40 – 43, 45 – 46)	0,2	3,6	2,8	0,1	3,9	21,6	5,1	—	6,4	8,4	2,7	54,8
	Costs incurred in collecting own resources (Ch 80)	77,7	20,3	241,8	16,6	142,5	11,6	105,9	0,5	83,4	221,6	—	921,9
	Specific measures (Ch 52, 53, 82, 86; article 707)	—	—	270,7	70,4	—	60,8	174,8	—	—	1 471,9	—	2 048,6
	<b>Total</b>	<b>735,5</b> (3,4 %)	<b>756,5</b> (3,5 %)	<b>3 825,3</b> (17,7 %)	<b>1 351,4</b> (6,2 %)	<b>4 254,8</b> (19,6 %)	<b>1 026,2</b> (4,7 %)	<b>3 775,0</b> (17,4 %)	<b>5,6</b> (0,0 %)	<b>1 860,5</b> (8,6 %)	<b>4 083,6</b> (18,9 %)	<b>5,6</b> (0,0 %)	<b>21 680,0</b> (100 %)
1984	EAGGF-Guarantee (T 1 – 2)	686,4	879,6	3 323,0	961,2	3 592,0	884,4	3 909,4	3,6	1 964,2	2 121,3	3,2	18 328,3
	EAGGF-Guidance (Ch 30 – 33)	12,9	13,9	89,3	52,8	143,9	64,2	127,8	3,9	24,8	113,3	—	646,8
	Social Fund (Ch 60 – 61)	52,1	68,7	63,8	71,3	225,7	131,4	368,5	0,5	14,1	610,2	—	1 606,3
	Regional Fund (Ch 50 – 51)	6,0	28,1	43,9	216,7	201,7	104,1	435,1	2,5	14,8	297,7	—	1 350,6
	Fisheries (T 4)	0,7	3,8	5,1	0,6	9,5	10,3	4,1	—	3,6	9,5	9,9	57,1
	Costs incurred in collecting own resources (Ch 80)	82,0	26,0	302,5	14,8	169,7	16,0	117,5	0,7	101,1	279,6	—	1 109,9
	Specific measures (Ch 82, 86; articles 707, 783)	—	—	191,7	46,6	—	—	—	—	—	660,9	—	899,2
	<b>Total</b>	<b>840,1</b> (3,5 %)	<b>1 020,1</b> (4,2 %)	<b>4 019,3</b> (16,7 %)	<b>1 364,0</b> (5,7 %)	<b>4 342,5</b> (18,1 %)	<b>1 210,4</b> (5,0 %)	<b>4 962,4</b> (20,7 %)	<b>11,2</b> (0,1 %)	<b>2 122,6</b> (8,8 %)	<b>4 092,5</b> (17,1 %)	<b>13,1</b> (0,1 %)	<b>23 998,2</b> (100 %)



# § 19. Actual own resources — by Member State (1980 — 1984)

(1980: Mio ECU)  
(1981 — 1984: Mio ECU)

		Bel- gium	Den- mark	FR of Germany	Greece	France	Ireland	Italy	Luxem- bourg	Nether- lands	United Kingdom	EUR 9/10
1980	Customs duties	392,6	130,2	1 799,1	—	900,0	67,1	636,9	4,3	535,5	1 440,1	<b>5 905,8</b>
	Agricultural levies	193,1	7,5	223,7	—	91,6	3,9	379,3	0,1	234,7	401,5	<b>1 535,4</b>
	Sugar and isoglucose levies	27,2	19,1	130,7	—	158,0	4,6	54,4	—	40,8	32,1	<b>466,9</b>
	VAT <sup>(1)</sup>	337,7	189,4	2 456,7	—	1 842,4	63,7	858,7	15,2	461,6	1 294,1	<b>7 519,5</b>
	<b>Total</b>	<b>950,6</b> (6,2 %)	<b>346,2</b> (2,2 %)	<b>4 610,2</b> (29,9 %)	—	<b>2 992,0</b> (19,4 %)	<b>139,3</b> (0,9 %)	<b>1 929,3</b> (12,5 %)	<b>19,6</b> (0,1 %)	<b>1 272,6</b> (8,3 %)	<b>3 167,8</b> (20,5 %)	<b>15 427,6</b> (100 %)
1981	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>
	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>
	VAT <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	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>
	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>
	VAT <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	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>
	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>
	VAT <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	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>
	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>
	VAT <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 %)

<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 1984)

### § 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 2nd and 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 1975,
- 5th EDF: internal agreement of 20 November 1979.

d) Financial Regulations:

- 4th EDF: Council Decision 76/647/EEC of 27 July 1976,
- 5th EDF: Council Decision 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 (4th EDF) 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**

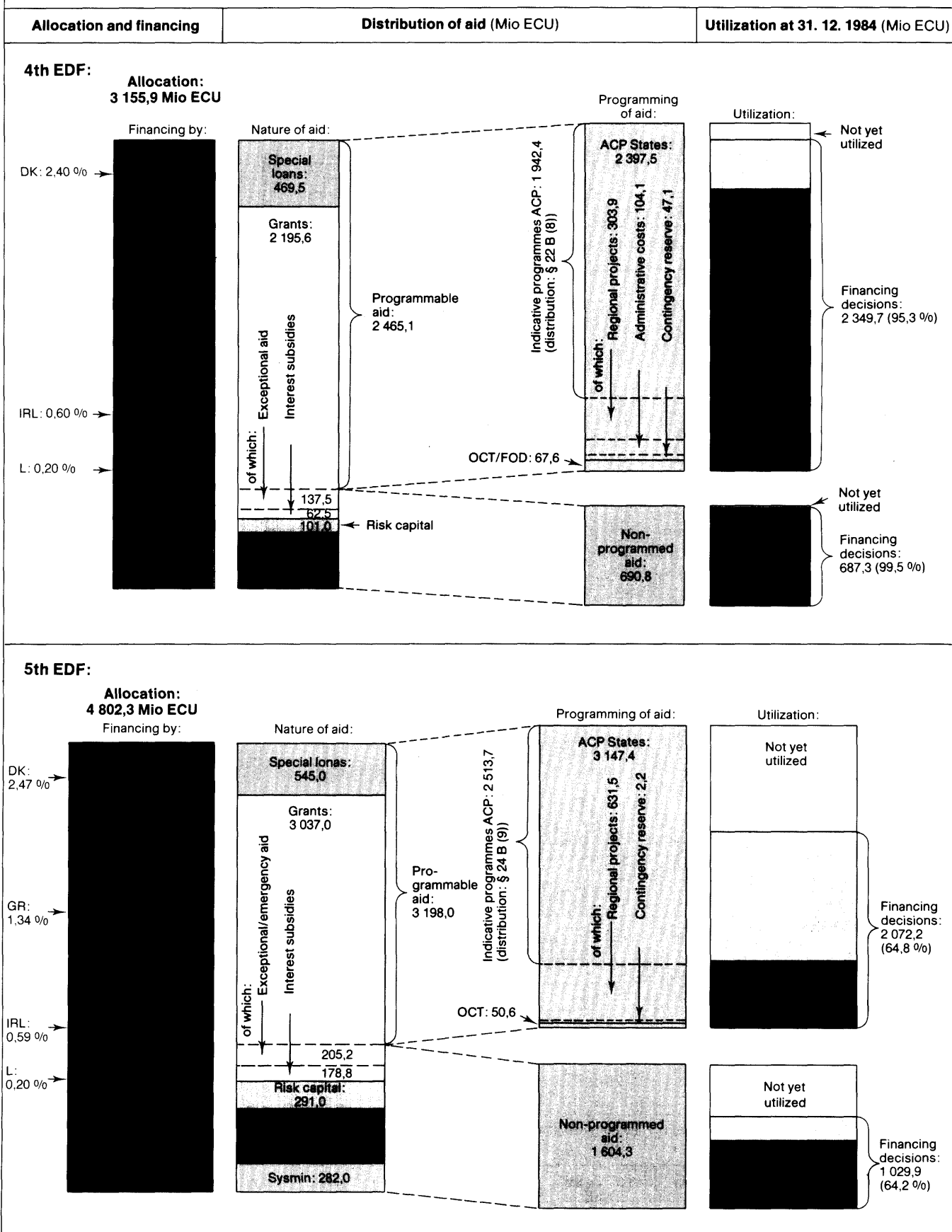
The European Parliament gives discharge of the financial management of the EDF, on the recommendation of the Council (in accordance with internal agreements).

<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

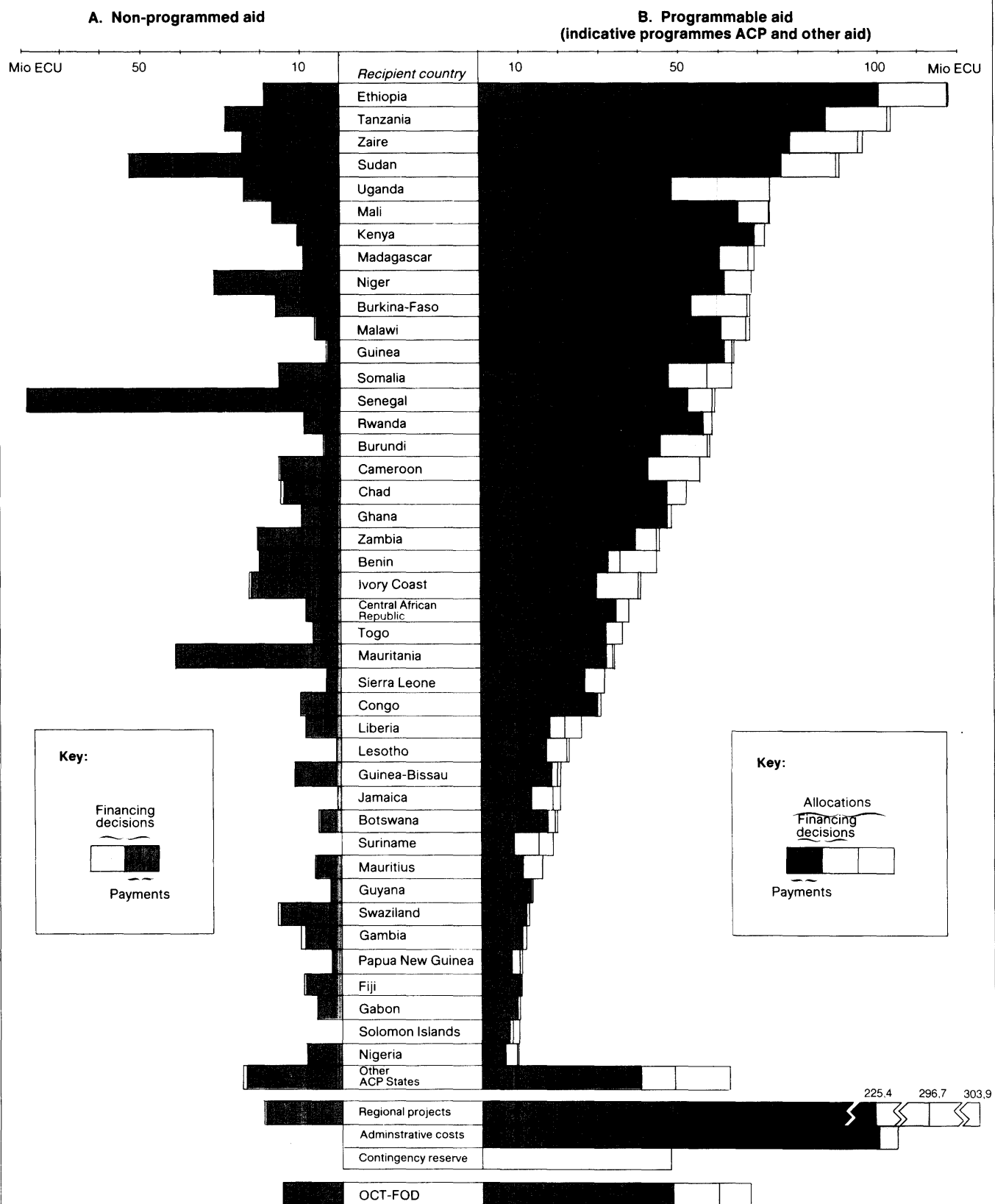


**§ 22. The 4th EDF: aid by type and by recipient country**  
(financial implementation: situation at 31 December 1984)

(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:	57.8	90.9	125.8	377.5	652.0	645.6	1 942.4	1 530.1	359.3	1 889.4	1 623.2	2 541.4	2 268.8
Ethiopia	—	—	4.7	14.4	19.1	19.1	118.2	118.1	—	118.1	100.3	137.2	119.4
Tanzania	0.1	7.7	0.3	20.7	28.8	28.9	103.4	69.9	32.8	102.7	86.9	131.5	115.8
Zaire	—	5.6	19.0	—	24.6	24.5	96.5	87.7	8.0	95.7	78.4	120.3	102.9
Sudan	—	6.5	4.9	41.8	53.2	53.1	90.6	74.8	15.0	89.8	76.3	143.0	129.4
Uganda	—	0.3	3.3	20.6	24.2	24.2	73.6	63.9	9.7	73.6	48.7	97.8	72.9
Mali	—	6.4	1.0	9.8	17.2	17.1	73.5	71.8	1.4	73.2	65.1	90.4	82.2
Kenya	8.5	1.2	1.3	—	11.0	10.8	72.0	34.2	37.8	72.0	69.2	83.0	80.0
Madagascar	—	2.3	1.5	5.7	9.5	9.5	69.2	61.7	6.0	67.7	60.3	77.2	69.8
Niger	0.9	0.9	7.7	22.7	32.2	32.2	68.5	68.4	—	68.4	61.4	100.6	93.6
Burkina-Faso (Upper-Volta)	1.6	7.6	—	7.3	16.5	16.5	68.0	60.3	7.0	67.3	53.7	83.8	70.2
Malawi	2.3	1.6	2.6	—	6.5	6.1	67.9	55.2	11.7	66.9	60.8	73.4	66.9
Guinea	0.4	0.3	3.0	—	3.7	3.5	64.0	38.1	25.4	63.5	61.7	67.2	65.2
Somalia	—	0.2	13.3	1.9	15.4	15.5	63.6	57.2	—	57.2	47.5	72.6	63.0
Senegal	1.8	7.4	4.6	65.1	78.9	78.9	59.0	39.3	19.3	58.6	52.6	137.5	131.5
Rwanda	—	3.0	5.9	0.6	9.5	9.5	58.7	56.0	2.6	58.6	56.3	68.1	65.8
Burundi	—	0.5	2.1	1.5	4.1	3.9	58.1	52.3	5.0	57.3	45.6	61.4	49.5
Cameroon	4.2	5.0	2.3	4.1	15.6	15.3	55.3	33.3	22.0	55.3	42.3	70.9	57.6
Chad	—	7.5	0.3	7.3	15.1	14.6	51.9	44.3	7.6	51.9	47.0	67.0	61.6
Ghana	1.9	0.2	2.7	5.2	10.0	10.0	48.0	28.0	20.0	48.0	46.9	58.0	56.9
Zambia	1.5	3.3	16.4	—	21.2	21.2	45.1	27.1	17.6	44.7	38.9	65.9	60.1
Benin	—	0.4	0.0	20.4	20.8	20.7	44.3	34.8	0.3	35.1	31.8	55.9	52.5
Ivory Coast	7.1	0.9	0.1	15.0	23.1	22.8	40.0	16.9	22.8	39.7	29.1	62.8	51.9
Central African Republic	—	—	1.0	7.8	8.8	8.8	37.3	37.3	—	37.3	33.9	46.1	42.7
Togo	0.4	3.0	—	3.6	7.0	7.0	35.7	33.3	2.3	35.6	31.4	42.6	38.4
Mauritania	3.6	—	1.4	37.0	42.0	42.0	33.6	33.4	—	33.4	31.4	75.4	73.4
Sierra Leone	—	—	—	4.0	4.0	4.0	31.1	27.3	3.8	31.1	25.8	35.1	29.8
Congo	—	3.1	0.2	7.4	10.7	10.7	30.0	23.2	6.7	29.9	29.2	40.6	39.9
Liberia	1.2	0.4	—	7.6	9.2	9.1	25.0	20.8	—	20.8	17.3	30.0	26.4
Lesotho	—	0.1	1.1	—	1.2	1.2	22.0	18.6	3.0	21.6	16.5	22.8	17.7
Guinea-Bissau	—	—	0.5	11.3	11.8	11.8	20.0	19.1	—	19.1	17.6	30.9	29.4
Jamaica	—	—	1.2	—	1.2	1.1	20.0	9.2	8.6	17.8	12.6	19.0	13.7
Botswana	1.3	1.7	2.7	—	5.7	5.2	19.0	17.9	0.6	18.5	16.4	24.2	21.6
Suriname	—	—	—	—	—	—	18.0	3.4	11.0	14.4	8.1	14.4	8.1
Mauritius	2.2	0.0	4.5	—	6.7	6.5	15.3	4.6	10.6	15.2	10.5	21.9	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	15.4	12.0	8.4	3.5	11.9	11.3	28.2	26.7
Gambia	—	2.4	0.7	7.5	10.6	9.3	11.3	11.1	—	11.1	10.0	21.7	19.3
Papua New Guinea	1.1	1.6	—	—	2.7	2.7	10.0	6.0	3.5	9.5	7.3	12.2	10.0
Fiji	4.0	0.1	3.6	2.1	9.8	9.4	9.9	3.1	6.7	9.8	9.6	19.6	19.0
Gabon	—	—	—	6.7	6.7	6.7	9.5	2.0	7.4	9.4	8.7	16.1	15.4
Solomon Islands	—	—	—	—	—	—	9.3	0.8	6.8	7.6	6.7	7.6	6.7
Nigeria	9.0	—	—	—	9.0	9.0	9.0	8.8	—	8.8	5.7	17.8	14.7
Other ACP States:													
Bahamas	—	—	—	—	—	—	1.8	0.7	1.1	1.8	1.1	1.8	1.1
Barbados	1.2	—	0.1	—	1.3	0.9	2.6	0.9	1.0	1.9	1.9	3.2	2.8
Cape Verde	—	3.6	1.4	1.2	6.2	6.1	4.0	4.0	—	4.0	3.7	10.2	9.8
Comoros	—	0.0	3.0	—	3.0	2.9	6.3	6.2	—	6.2	5.2	9.2	8.1
Djibouti	—	1.0	1.3	—	2.3	2.3	3.9	2.6	—	2.6	2.1	4.9	4.4
Dominica	—	—	3.9	—	3.9	3.9	2.0	0.5	—	0.5	0.5	4.4	4.4
Grenada	—	—	0.4	—	0.4	0.5	2.0	2.0	—	2.0	1.9	2.4	2.4
Equatorial Guinea	—	—	0.3	—	0.3	0.3	7.0	7.0	—	7.0	6.6	7.3	6.9
Kiribati	—	—	—	—	—	—	3.5	3.2	—	3.2	1.6	3.2	1.6
Sao Tome and Principe	—	—	0.3	—	0.3	0.3	1.8	1.8	—	1.8	1.7	2.1	2.0
Saint Lucia	—	0.2	1.0	—	1.2	1.2	3.2	0.9	—	0.9	0.8	2.1	2.0
Saint Vincent	—	—	—	—	—	—	3.0	—	—	—	—	—	—
Western Samoa	—	—	—	2.8	2.8	2.8	4.6	3.7	0.9	4.6	4.3	7.4	7.1
Seychelles	—	0.6	—	—	0.6	0.6	2.4	2.4	—	2.4	2.3	3.0	2.9
Tonga	—	—	0.2	1.2	1.4	1.4	3.2	3.1	0.1	3.2	2.7	4.6	4.1
Trinidad and Tobago	1.5	—	—	—	1.5	1.4	10.3	3.0	2.9	5.9	2.8	7.4	4.2
Tuvalu	—	—	—	—	—	—	0.6	0.6	—	0.6	0.6	0.6	0.6
Vanuatu	—	—	—	—	—	—	—	0.0	—	0.0	0.0	0.0	0.0
(Total other countries)	(2.7)	(5.4)	(11.9)	(5.2)	(25.2)	(24.6)	(62.2)	(42.6)	(6.0)	(48.6)	(39.8)	(73.8)	(64.4)
II. Regional projects	2.6	6.1	11.2	—	19.9	19.7	303.9	224.6	72.1	296.7	225.4	316.6	245.1
Administrative costs	—	—	—	—	—	—	104.1	104.1	—	104.1	99.1	104.1	99.1
Contingency reserve	—	—	—	—	—	—	47.1	—	—	—	—	—	—
Total ACP (I + II)	60.4	97.0	137.0	377.5	671.9	665.3	2 397.5	1 858.8	431.4	2 290.2	1 947.7	2 962.1	2 613.0
III. OCT/FOD	1.5	1.1	0.5	12.3	15.4	15.3	67.6	38.2	21.3	59.5	47.9	74.9	63.2
Total 4th EDF	61.9	98.1	137.5	389.8	687.3	680.6	2 465.1	1 897.0	452.7	2 349.7	1 995.6	3 037.0	2 676.2

**§ 23. The 4th EDF: financial implementation of aid by recipient country (31 December 1984)**  
(for detailed figures see § 22)



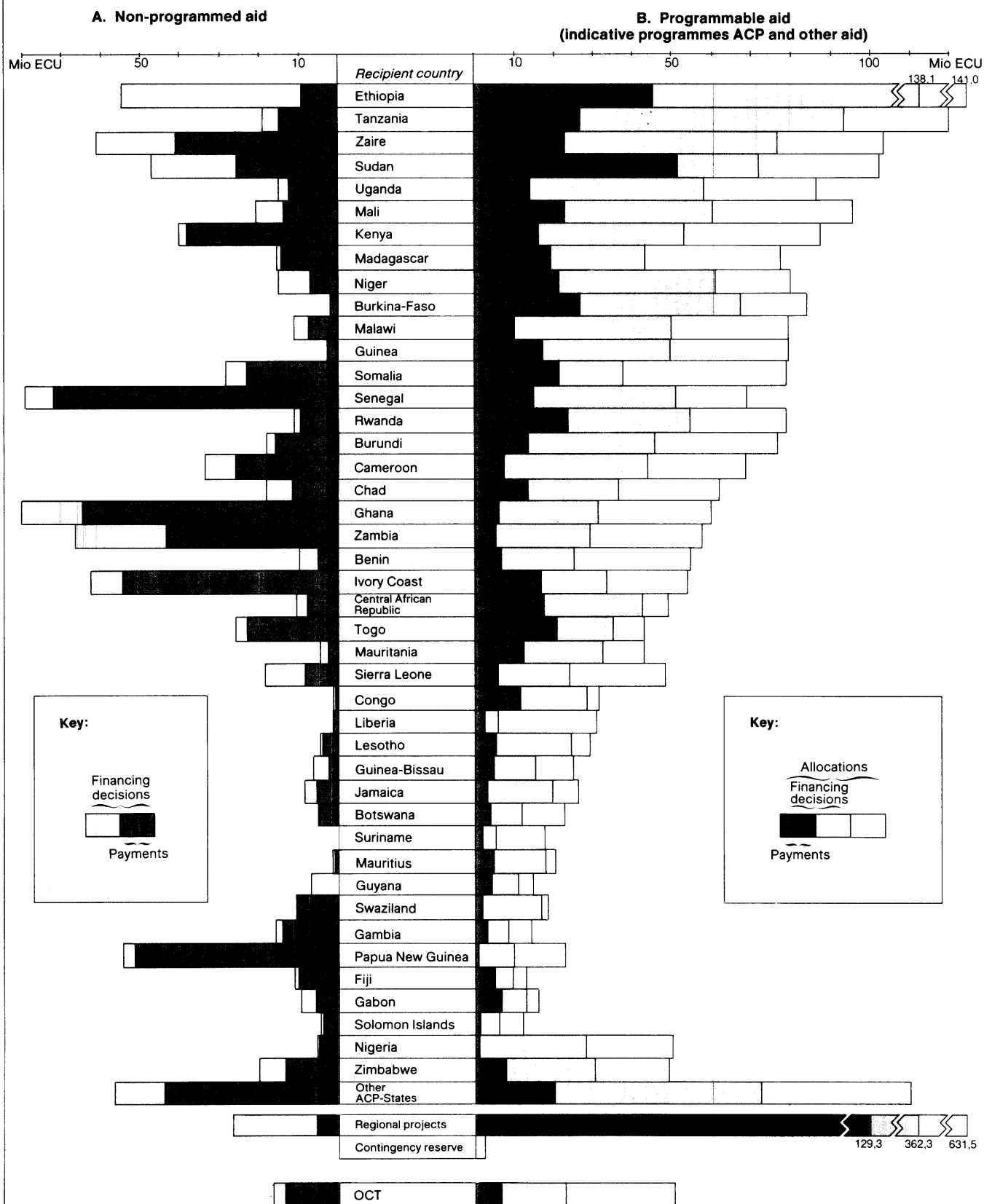
**§ 24. The 5th EDF: aid by type and by recipient country**  
(financial implementation: situation at 31 December 1984)

(Mio ECU)

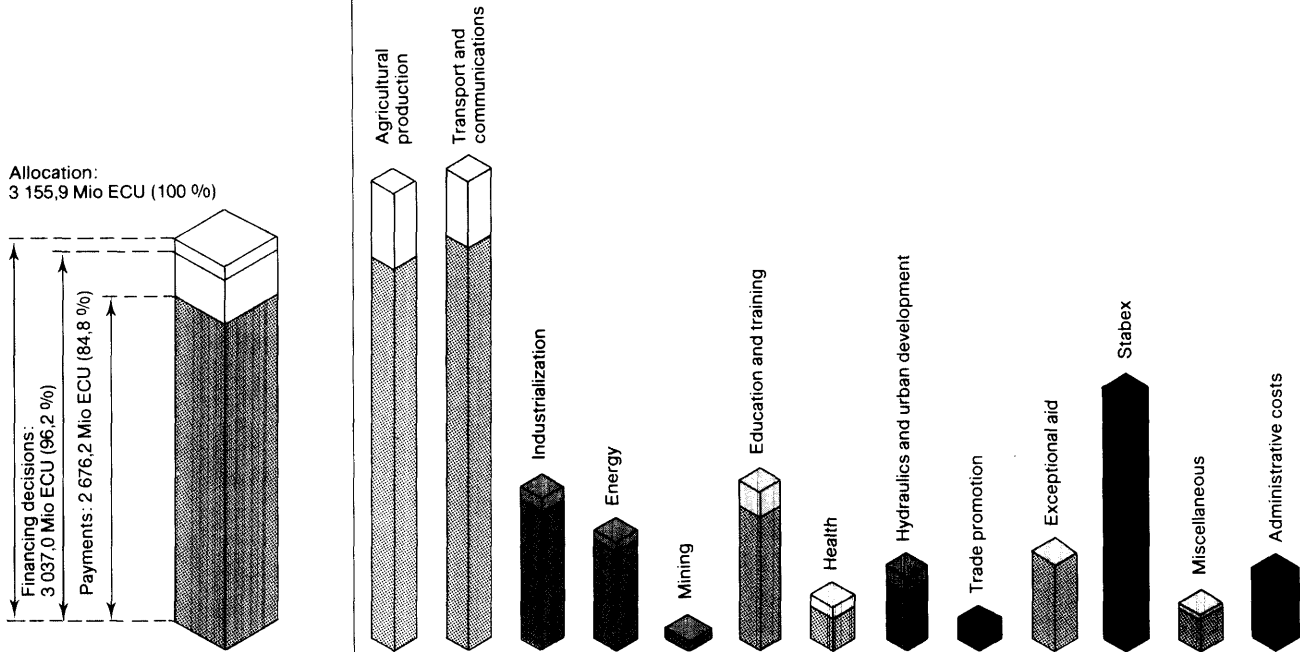
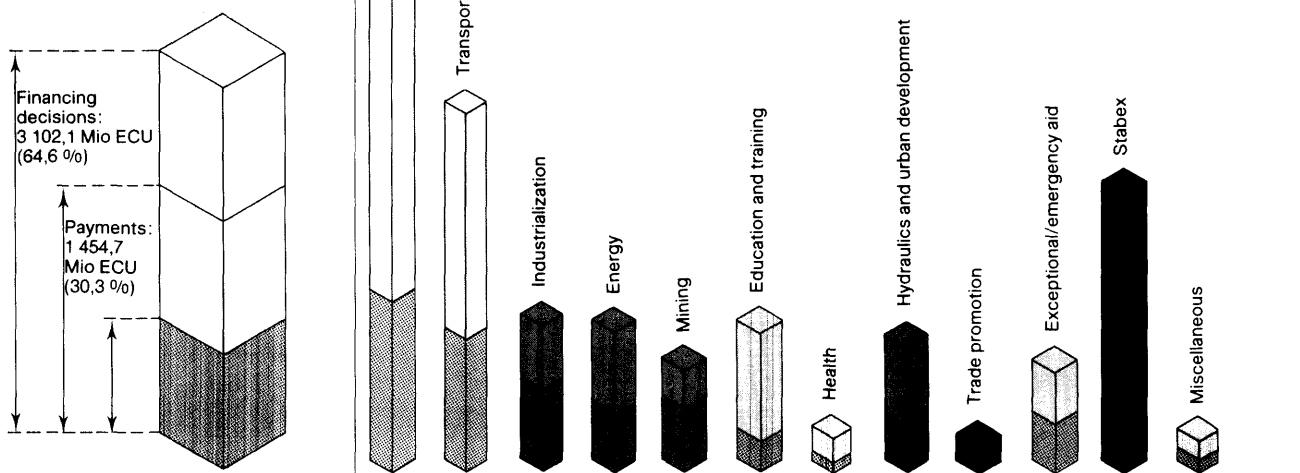
Recipient country	A. Non-programmed aid							B. Programmable and (indicative programmes ACP and other aid)					Total (A + B)	
	Financing decisions						Payments made	Financing decisions				Payments made	Financing decisions	Payments made
	Interest subsidies (grants)	Risk capital	Exceptional/emergency aid (grants)	Stabex	Sysmin	Total (2) + (3) + (4) + (5) + (6)		Allocations	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:	86,9	178,1	160,5	463,1	98,0	986,6	727,5	2 513,7	1 414,2	272,8	1 687,0	572,4	2 673,6	1 299,9
Ethiopia	—	0,5	48,3	5,8	—	54,6	8,6	141,0	109,8	28,3	138,1	45,7	192,7	54,3
Tanzania	—	11,0	0,5	6,9	—	18,4	14,4	120,7	86,6	7,5	94,1	26,7	112,5	41,1
Zaire	—	18,2	2,8	—	40,0	61,0	41,0	104,0	60,6	16,7	77,3	23,0	138,3	64,0
Sudan	—	0,2	14,5	32,2	—	46,9	25,3	103,0	72,6	—	72,6	51,7	119,5	77,0
Uganda	—	10,0	4,4	—	—	14,4	11,8	87,0	58,4	—	58,4	14,2	72,8	26,0
Mali	—	—	10,4	9,9	—	20,3	13,3	96,0	47,2	13,4	60,6	22,8	80,9	36,1
Kenya	5,1	1,5	2,4	31,1	—	40,1	38,1	88,0	44,4	9,0	53,4	16,3	93,5	54,4
Madagascar	—	7,2	1,8	6,1	—	15,1	14,1	78,0	41,0	2,6	43,6	19,5	58,7	33,6
Niger	3,6	—	11,3	—	—	14,9	6,4	80,5	53,2	8,0	61,2	21,5	76,1	27,9
Burkina-Faso (Upper-Volta)	—	—	0,5	1,0	—	1,5	1,5	84,5	60,6	7,0	67,6	26,9	69,1	28,4
Malawi	—	6,0	0,4	4,7	—	11,1	6,9	80,0	40,3	10,0	50,3	10,5	61,4	17,4
Guinea	1,1	—	1,1	—	—	2,2	2,2	80,0	43,2	6,9	50,1	17,3	52,3	19,5
Somalia	—	9,6	16,0	2,6	—	28,2	22,8	79,3	37,9	—	37,9	21,7	66,1	44,5
Senegal	5,6	6,3	2,1	64,9	—	78,9	72,3	69,0	33,9	17,3	51,2	15,1	130,1	87,4
Rwanda	—	0,7	2,0	7,7	—	10,4	9,1	79,0	42,9	11,9	54,8	23,7	65,2	32,8
Burundi	—	6,5	0,2	11,0	—	17,7	15,5	77,0	34,4	11,6	46,0	13,6	63,7	29,1
Cameroon	16,4	—	—	17,3	—	33,7	25,4	69,0	26,3	18,0	44,3	7,6	78,0	33,0
Chad	—	—	11,8	6,1	—	17,9	11,7	62,0	36,4	—	36,4	13,6	54,3	25,3
Ghana	—	13,6	4,4	62,2	—	80,2	64,8	60,0	24,4	7,0	31,4	6,1	111,6	70,9
Zambia	8,5	1,5	1,5	—	55,0	66,5	43,2	58,0	27,4	2,0	29,4	5,4	95,9	48,6
Benin	—	4,5	1,3	3,6	—	9,4	4,8	55,0	25,3	—	25,3	6,8	34,7	11,6
Ivory Coast	7,0	—	0,8	54,5	—	62,3	54,6	54,0	15,1	18,3	33,4	16,7	95,7	71,3
Central African Republic	—	5,1	0,5	4,2	—	9,8	7,3	49,0	37,9	4,7	42,6	17,5	52,4	24,8
Togo	1,5	3,0	0,5	20,8	—	25,8	22,9	43,0	29,0	5,8	34,8	20,8	60,6	43,7
Mauritania	—	—	4,4	—	—	4,4	2,6	43,0	23,8	8,7	32,5	12,4	36,9	15,0
Sierra Leone	—	10,0	—	8,4	—	18,4	8,2	48,5	21,6	2,4	24,0	5,9	42,4	14,1
Congo	0,5	0,5	—	—	—	1,0	0,5	31,5	18,3	10,0	28,3	11,5	29,3	12,0
Liberia	0,5	0,7	—	—	—	1,2	1,2	31,0	6,0	—	6,0	2,4	7,2	3,6
Lesotho	—	3,0	0,1	1,3	—	4,4	3,8	29,0	15,8	8,8	24,6	5,3	29,0	9,1
Guinea-Bissau	—	3,8	—	2,5	—	6,3	2,4	25,0	15,4	—	15,4	4,8	21,7	7,2
Jamaica	—	5,0	—	3,3	—	8,3	5,2	26,4	11,2	8,6	19,8	3,2	28,1	8,4
Botswana	4,8	—	0,2	—	—	5,0	5,0	23,0	11,1	0,8	11,9	4,1	16,9	9,1
Suriname	—	—	—	—	—	—	—	18,0	2,8	2,7	5,5	1,9	5,5	1,9
Mauritius	0,7	0,5	0,1	—	—	1,3	0,8	20,5	11,5	6,3	17,8	4,7	19,1	5,5
Guyana	—	4,0	—	—	3,0	7,0	—	14,6	11,1	—	11,1	4,1	18,1	4,1
Swaziland	2,1	—	0,1	8,2	—	10,4	10,4	18,5	12,3	4,7	17,0	1,9	27,4	12,3
Gambia	—	1,6	0,1	14,3	—	16,0	14,3	14,0	8,4	—	8,4	3,1	24,4	17,4
Papua New Guinea	1,4	13,8	—	39,2	—	54,4	51,8	23,0	5,7	4,5	10,2	0,9	64,6	52,7
Fiji	4,5	1,8	2,8	2,1	—	11,2	10,6	13,0	9,6	—	9,6	5,1	20,8	15,7
Gabon	9,4	—	—	—	—	9,4	5,8	16,0	7,9	5,1	13,0	6,4	22,4	12,2
Solomon Islands	—	0,4	—	3,8	—	4,2	3,8	12,0	5,8	—	5,8	0,9	10,0	4,7
Nigeria	5,1	—	0,2	—	—	5,3	5,1	50,0	28,2	—	28,2	1,1	33,5	6,2
Zimbabwe	6,7	5,4	8,0	—	—	20,1	13,5	49,0	26,2	4,2	30,4	7,8	50,5	21,3
Other ACP States:														
Antigua and Barbuda	—	—	0,2	—	—	0,2	0,2	2,7	0,2	—	0,2	0,0	0,4	0,2
Bahamas	—	—	—	—	—	—	—	2,1	1,4	—	1,4	0,1	1,4	0,1
Barbados	0,9	—	—	—	—	0,9	0,9	3,7	2,3	—	2,3	1,0	3,2	1,9
Belize	0,3	0,6	—	—	—	0,9	0,3	5,5	0,1	—	0,1	0,1	1,0	0,4
Cape Verde	—	6,8	1,2	0,2	—	8,2	2,9	16,0	11,0	—	11,0	0,7	19,2	3,6
Comores	—	0,2	0,4	2,2	—	2,8	2,7	14,5	9,4	—	9,4	1,4	12,2	4,1
Djibouti	—	2,3	0,4	—	—	2,7	2,4	5,4	3,2	—	3,2	1,5	5,9	3,9
Dominica	—	1,0	0,5	3,0	—	4,5	4,4	3,5	3,4	—	3,4	0,2	7,9	4,6
Grenada	—	2,4	—	3,0	—	5,4	5,1	3,5	3,3	—	3,3	0,2	8,7	5,3
Equatorial Guinea	—	—	—	—	—	—	—	8,5	2,6	—	2,6	0,4	2,6	0,4
Kiribati	—	0,2	—	1,6	—	1,8	1,7	4,0	1,1	—	1,1	0,5	2,9	2,2
Sao Tome and Principe	—	—	0,1	7,0	—	7,1	3,7	4,0	3,5	—	3,5	2,1	10,6	5,8
Saint Lucia	—	1,0	0,2	1,4	—	2,6	2,4	3,7	3,7	—	3,7	1,5	6,3	3,9
Saint Vincent	—	—	0,2	—	—	0,2	0,2	3,7	3,4	—	3,4	2,4	3,6	2,6
Western Samoa	—	3,3	0,2	4,9	—	8,4	7,8	6,2	6,1	—	6,1	4,5	14,5	12,3
Seychelles	—	1,0	0,2	—	—	1,2	0,8	3,6	3,3	—	3,3	0,6	4,5	1,4
Tonga	—	2,3	1,4	4,0	—	7,7	7,1	4,1	2,9	—	2,9	0,3	10,6	7,4
Trinidad and Tobago	1,2	—	—	—	—	1,2	1,2	10,5	6,6	—	6,6	1,1	7,8	2,3
Tuvalu	—	0,1	—	0,1	—	0,2	0,2	1,0	1,0	—	1,0	0,4	1,2	0,6
Vanuatu	—	1,0	—	—	—	1,0	0,5	4,5	4,2	—	4,2	1,2	5,2	1,7
(Total other countries)	(2,4)	(22,2)	(5,0)	(27,4)	(—)	(57,0)	(44,5)	(110,7)	(72,7)	(—)	(72,7)	(20,2)	(129,7)	(64,7)
II. Regional projects	1,3	25,4	—	—	—	26,7	5,3	631,5	289,0	73,3	362,3	129,3	389,0	134,6
Contingency reserve	—	—	—	—	—	—	—	2,2	—	—	—	—	—	—
Total ACP (I + II)	88,2	203,5	160,5	463,1	98,0	1 013,3	732,8	3 147,4	1 703,2	346,1	2 049,3	701,7	3 062,6	1 434,5
III. OCT	1,6	4,3	0,8	9,9	—	16,6	13,8	50,6	17,0	5,9	22,9	6,4	39,5	20,2
Total 5th EDF	89,8	207,8	161,3	473,0	98,0	1 029,9	746,6	3 198,0	1 720,2	352,0	2 072,2	708,1	3 102,1	1 454,7

# § 25. The 5th EDF: financial implementation of aid by recipient country (31 December 1984)

(for detailed figures see § 24)



# § 26. The 4th and 5th EDF: utilization of aid by economic sector (situation at 31 December 1984)

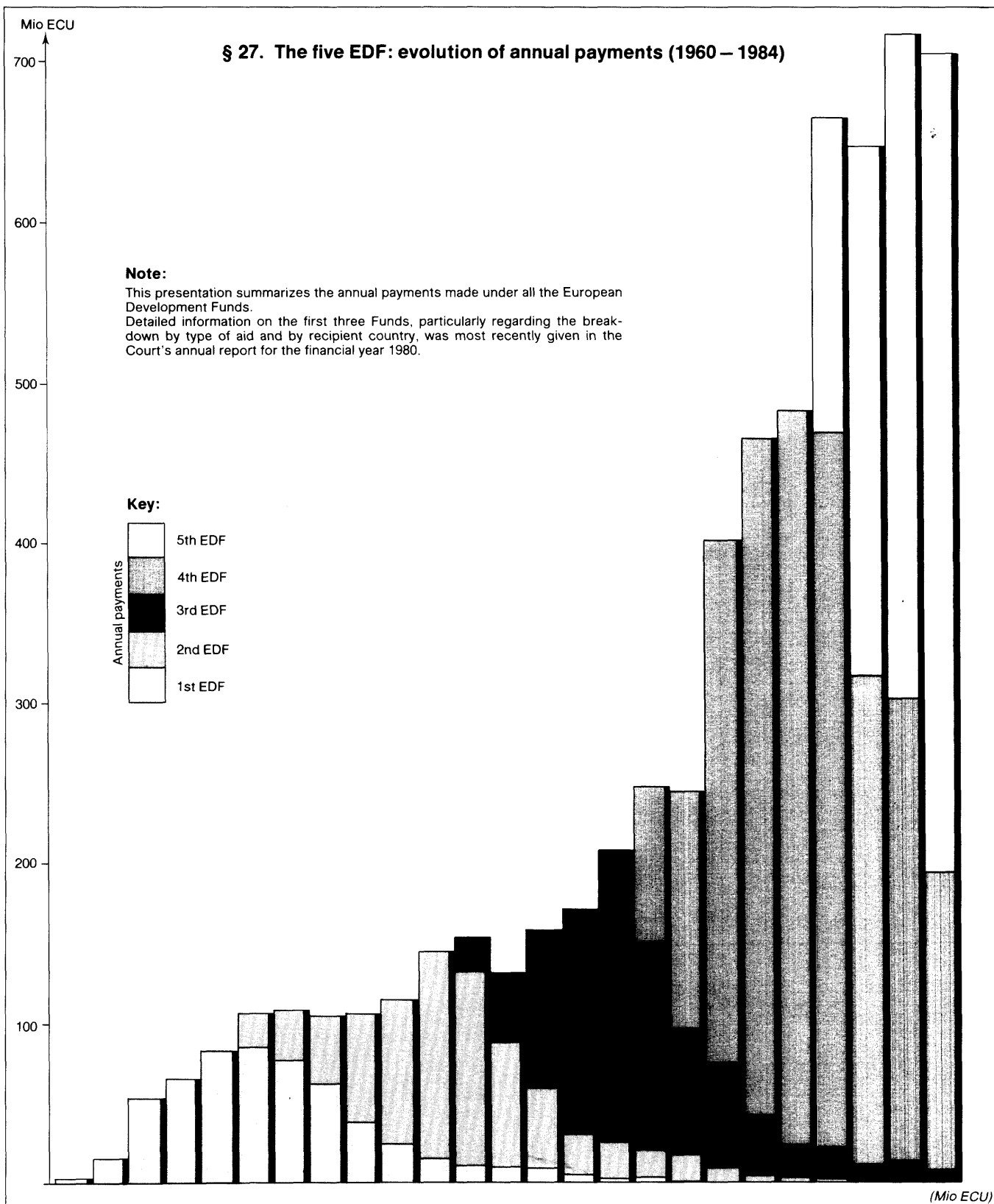
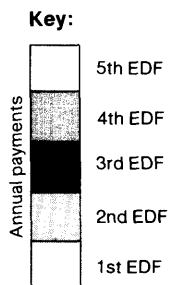
Allocation and total utilization		Financing decisions and payments by economic sector													
<b>4th EDF:</b>															
Allocation: 3 155,9 Mio ECU (100 %)															
Financing decisions: 3 037,0 Mio ECU (96,2 %)															
Payments: 2 676,2 Mio ECU (84,8 %)															
Financing decisions (Mio ECU)	3 037,0	720,9	733,3	237,8	171,0	18,8	249,4	66,6	113,1	34,2	137,5	389,8	56,3	108,3	
Payments (Mio ECU)	2 676,2	598,0	630,3	217,6	156,9	17,4	207,9	51,5	91,4	24,0	137,2	389,8	51,1	103,1	
<b>5th EDF:</b>															
Allocation: 4 802,3 Mio ECU (100 %)															
Financing decisions: 3 102,1 Mio ECU (64,6 %)															
Payments: 1 454,7 Mio ECU (30,3 %)															
Financing decisions (Mio ECU)	3 102,1	770,8	558,3	229,0	220,3	162,1	221,0	53,7	197,3	41,2	161,3	438,6	48,5		
Payments (Mio ECU)	1 454,7	268,5	206,2	129,4	88,9	96,3	47,0	16,3	68,2	12,5	78,4	421,5	21,5		



# § 27. The five EDF: evolution of annual payments (1960 – 1984)

## **Note:**

This presentation summarizes the annual payments made under all the European Development Funds. Detailed information on the first three Funds, particularly regarding the break-down by type of aid and by recipient country, was most recently given in the Court's annual report for the financial year 1980.



	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	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	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	875,5
4th EDF																	97,5	148,0	326,3	423,4	459,3	445,8	305,5	285,2	185,2	2 676,2
5th EDF																						195,9	330,1	419,2	509,5	1 454,7
<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>6 306,2</b>



## **Replies of the institutions to the observations of the Court concerning the financial year 1984**

The institution responsible for the replies is indicated either at the beginning of each chapter (if appropriate) or before the individual reply or series of replies within each chapter.

### **Preliminary comment**

### **Council**

The Council would reiterate its wish that the comments by the Court of Auditors on each Institution should be brought together in separate parts of the Court's report.

It does wonder why — although it has already expressed this wish several times — the Court of Auditors has not yet acted accordingly.

## **PART I**

### **REPLIES OF THE COMMISSION TO**

#### **CHAPTER 1**

### **General comments**

#### **INTRODUCTION**

In the first chapter of its Annual Report for 1984, the Court of Auditors makes a series of general comments prompted by its analytical assessment of the execution of that year's budget as set out in the chapters that follow (2 to 14).

As soon as it took office in January, the present Commission made a point of stressing the importance it attaches to sound management of the Community's financial resources. This has, of course, always been a matter of concern to the Commission, but it is clear

that in times of budgetary difficulties its responsibilities in this field assume very special importance. It accordingly decided to improve the control of Community revenue and expenditure, thereby unequivocally demonstrating its political will to give a leading role to this activity.

It is against this background that the Commission is replying to the Court of Auditors' general comments. The replies in points I to VI below are themselves general and set out the Commission's position and planned action. Specific replies to individual comments are to be found in the chapters concerned.

## I. IMPLICATIONS OF POSSIBLE IRREGULARITIES REPORTED BY THE COURT OF AUDITORS

As early as February, the Commission arranged a working meeting with the Court of Auditors, followed by talks between the Members of the Commission and the Members of the Court of Auditors responsible for the same areas of activity. These meetings were extremely useful, demonstrating the Commission's and the Court of Auditors' common desire to eliminate the shortcomings found in the management systems. The Court of Auditors' report and the Commission's replies both testify to this.

As soon as it was apprised of the comments (dated 15 July) which the Court of Auditors planned to include in the annual report, the Commission held an initial discussion on the subject (meeting of 24 July). The first conclusion was a commitment to do its utmost to rectify the management of its affairs so that the Court of Auditors would not have to repeat its criticism in future, always assuming that such criticism was justified. The Commission has taken a positive attitude in the preparation of its replies to the comments and has given instructions for action to be taken at the same time to put right practices subject to criticism.

The replies below bear witness to the Commission's desire to bring about the changes it considers necessary. It will be found that, in many significant cases, the Court of Auditors' recommendations have already been or will be acted upon.

## II. PROBLEM OF BALANCE BETWEEN REVENUE AND EXPENDITURE AND LACK OF COHERENCE BETWEEN REVENUE-GENERATING MECHANISMS AND THOSE DETERMINING EXPENDITURE

The Commission has always shared the concern expressed by the Court of Auditors. Suffice it to recall the following:

- (1) As regards the problem of equilibrium, it is true that the past few years, since 1983 in particular, have been marked by an extremely tight budgetary situation on the revenue side, which in 1984 made it necessary to take special decisions on additional finance by means of intergovernmental agreements. However, it should be remembered that the

Commission, for its part, had presented appropriate proposals in good time, both for revenue (proposal for a new own resources decision) and for expenditure (improved control of agricultural expenditure), which, had they been accepted in good time by the competent authority, would undoubtedly have prevented and obviated most of the problems which finally arose as regards budgetary balance.

Unfortunately, for a number of highly political reasons, the authorities responsible took too long over the negotiations and it was May 1985 before they took a series of decisions (only partly in line with the Commission's proposals); the main decisions will only enter into force in conjunction with the third enlargement of the Community, once they have been ratified by the national parliaments.

The situation in 1984 was also aggravated by the underestimation of revenue by the budgetary authority (supplementary and amending budget No 1/84).

- (2) As regards the lack of coherence between the revenue-generating mechanisms and those determining expenditure, the Commission generally speaking agrees with the Court of Auditors' comment. However, it is quite clear that the conclusion reached here does not relate specifically to the implementation of the 1984 budget but to the Communities' financial and budgetary system, which is rooted in the Treaty itself, in particular in the provisions governing the exercise of legislative powers (notably Articles 145 et seq. EEC) and those relating to budgetary powers (Articles 201 and 203 EEC).

With these provisions, and despite the constant efforts made wherever possible, especially in recent years, to achieve coordination and convergence through the various consultation and conciliation procedures provided for in basic instruments or established over the years, it must be accepted that, in the present legal framework, there is indeed a division of responsibility such as might lead to a lack of coherence, as the Court of Auditors rightly states. It need only be pointed out that:

- Legislative power is vested in the Council. Consequently, decisions on basic regulations, notably in agriculture — which accounts for the bulk of budget expenditure — are taken by the Council;

- in accordance with Article 201 EEC, the Council also decides on any increase in own resources, although the decision has then to be ratified by the Parliaments of the Member States;
- the European Parliament has special responsibility for noncompulsory expenditure.

Seen objectively, there is a division of responsibility as regards the main items generating revenue and expenditure such as might lead to certain differences of opinion, especially in difficult periods such as the Community has just experienced. The system being what it is at the present time, the Commission feels that the only constructive answer is for each institution concerned to make a constant effort to strive towards the highest possible degree of convergence in the exercise of its responsibilities. The Commission, for its part, is doing its utmost to this end.

### III. IMPROVEMENTS IN FINANCIAL MANAGEMENT

The steps taken by the Commission in this field may be grouped under four headings:

#### 1. *Monitoring the implementation of the budget*

To help cope with the budget situation created when the ceiling on own resources was reached, the Commission introduced new procedures at the beginning of 1984 for monitoring and controlling expenditure. This mechanism enabled it to implement the budget as efficiently as possible in the light of the constraints imposed upon it, which were at the root of many of the Court of Auditors' criticisms this year.

#### 2. *Tighter control of the implementation of the budget*

The first point to note is that the three-year financial forecasts were improved in the 1986 preliminary draft budget and this process will continue in future years. The Commission agrees with the European Parliament that excessive concentration on the most immediate

aspects of implementation should give way to real multiannual financial forecasting. The limited resources available make it all the more important for the budget to form an integral part of a long-term financial strategy, rather than being simply the sum of the costs of individual decisions.

The Commission has also decided to act on the requests made by Parliament in the follow-up to the 1983 discharge for further items of information to be included in the revenue and expenditure account and balance sheet. Finally it has agreed to improve the budgetary authority's means of control in respect of the current year by providing figures and notes on the implementation of the various Community policies by 30 September.

#### 3. *Improved management of Community policies*

The Commission is always concerned to improve management of Community policies and to this end it has always subjected to constructive analysis the criticisms made by the Court of Auditors, whether in its annual report or in its special reports

The Commission would draw attention to recent steps it has taken in three areas to explore policy-management options. The first was the presentation on 13 July of the green paper on the perspectives for the common agricultural policy (doc. COM(85)333 final). This will provide a basis for analysis, both for the Commission and the other political, social and agricultural bodies concerned, and will permit the establishment of guidelines for the CAP in the coming years which will take account of the costs of the policy. Secondly, the Commission has set up a working party to look at ways of improving the efficiency of its food aid policy. Finally, within its own administrative structure, the Commission has set up a high-level working party chaired by the Secretary-General to look at the use of the Commission's human resources and the Community's financial operations and to make recommendations in various areas.

In addition to the above measures the Commission is of course constantly striving, to some extent in response to the comments of the Court of Auditors, to

improve the efficiency of Community policies. In this connection the Commission intends to work out internal procedural arrangements to ensure that the Court of Auditors' special reports (see paragraph 1.36. of the Court of Auditors' report) are systematically followed up in the appropriate manner.

The Commission would reiterate that it is constantly seeking ways of improving the efficiency of the Community's structural policies and especially of its structural funds. It would point to a number of recent actions: implementation of the guidelines in the Commission's communication to the Council of 29 July 1983 on ways of improving the efficiency of the structural funds (doc. COM(83)501 final of 29 July 1983), recent changes in the regulations governing operation of the ERDF and the Social Fund, the launching of the integrated Mediterranean programmes and placing the Task Force for the Coordination of Financial Structural Instruments under the direct authority of the President of the Commission.

#### 4. *Improved monitoring of the implementation of Community policies (frauds and irregularities)*

Monitoring the implementation of Community policies managed by the Commission is a complex matter. The ways in which it is done vary from case to case and depend on a series of political, legal and administrative factors: inspections within the Community or in non-member countries, the degree of delegation permitted to the Member States for the administrative and/or financial implementation of Community policies, the problem of the Commission's staff complement and the sharing of tasks with national authorities, and the amount and content of information to be handled at Community level.

It is unlikely that progress would be achieved through unduly systematic harmonization of the arrangements for monitoring the various Community policies because they differ too much. Some progress on harmonization should, however, be possible and would produce qualitative improvements in:

- the definition of the Commission's legal powers to carry out controls;
- relations with national authorities in the Member States;
- the necessary harmonization of the methods applied in the various Member States for monitoring any one policy, or similar policies, in order to

ensure that such methods are sufficiently and equally effective;

- the information to be obtained and distributed on the results of controls.

The Commission is aware of the need, which has been emphasized on a number of occasions by the Court of Auditors, to find ways of improving the monitoring of the implementation of Community policies, despite the various difficulties which this task poses. It is continuing its efforts in this direction.

#### IV. FORECASTING APPROPRIATIONS AND REVENUE

The Commission is glad that the Court of Auditors, like the other institutions, is concerned that the efforts being made to improve forecasts of appropriations required, and hence budget revenue too, should continue. The Court of Auditors draws particular attention (paragraph 1.20.) to the need to try and improve forecasts both of EAGGF Guarantee Section expenditure and of payment appropriations for the structural funds.

As the Commission has demonstrated over the years, it has always striven towards this goal. It will of course continue its efforts, despite externally imposed constraints, and those arising from political considerations<sup>(1)</sup>, of which the budgetary authority is well aware.

For instance:

- (1) it is well known that any forecasts of EAGGF Guarantee Section expenditure are fraught with uncertainty; but, since the causes are external factors largely beyond the Community's control (mainly market and monetary movements), it is not possible to find any real solution;
- (2) progress has been made on differentiated payment appropriations; here too, however, it is impossible to achieve perfection, mainly for the reasons explained on a number of occasions. These are principally:

##### (a) **The inevitable uncertainty of some forecasts of appropriations**

The Commission's departments prepare initial estimates of budgetary needs for the prelimi-

nary draft budget in April and May of year n-1 (some seven or eight months before the start of the financial year, which lasts for twelve months). This means that there is a gap of at least seven and as much as nineteen months between the preparation of estimates and actual implementation. It is hardly surprising that disparities occur. The budgetary authority is, in any case, well aware of this problem, but experience has shown that it is unable to make any significant improvements to the Commission's figures in certain areas during the budget procedure (which takes place in the second half of year n-1).

#### (b) External factors

Implementation of the budget, and particularly of payment appropriations, is subject to a number of external constraints. This is especially true of the structural funds, development aid, and research, energy, technology, etc.

The rate of payments in this case depends to a decisive extent on progress made, i.e. the speed at which various operations are performed by outside bodies. Accordingly, neither the Commission nor the budgetary authority can be automatically held responsible for shortcomings.

To conclude on this point, the Commission, while not dismissing the Court of Auditors' proposals, would point out that:

- in its proposal for revision of the Financial Regulation it asked for greater flexibility in the utilization of payment appropriations. If this request is accepted, a more global approach will make forecasting easier;
- if in certain budget areas some amounts still remain unused at the end of the year, they should be regarded, as is logically and appropriately provided by the rules in force (the Treaties and the Financial Regulation), as eligible for carryover to ensure the most appropriate possible continuity and transition from one year to another.

The Commission strives to keep carryovers within reasonable limits and the greater effort made in 1984

meant that the amount involved was far smaller than 1983. This policy will be actively pursued. (In 1985 there will inevitably be some delay in implementation as a result of the application of the provisional twelfths arrangements during the first half of the year.)

## V. FINANCIAL COMMITMENTS ARISING FROM THE PAST

The Court of Auditors is rightly concerned about two sources of expenditure to be effected in coming years but originating in the past: commitments entered into by the Commission which are still to be settled and expenditure on the disposal of agricultural stocks. The Commission has taken important initiatives to deal with both cases.

### 1. *Commitments outstanding*

These are estimated by the Commission (and by the Court of Auditors) at 10 300 Mio ECU at the end of 1984 (see p. 30 of Volume V of the revenue and expenditure account and balance sheet for 1984).

It is quite natural for there to be a balance of outstanding commitments; it is the result of the differentiation of commitment and payment appropriations in accordance with the Financial Regulation. The 'cost of the past' is a consequence of the free choice of the budgetary authority, acting on the Commission's proposals, to develop all the Community's structural policies and new actions.

Technically, the Commission has no difficulty in explaining the origins and the future consequences of these outstanding commitments; in accordance with Parliament's request in the 1983 discharge, and as the Court of Auditors noted, the Commission gave a breakdown by title and a likely schedule of payments on page 30 of Volume V of the revenue and expenditure account and balance sheet for 1984.

The Court of Auditors is right to draw attention to the way in which the outstanding commitments have grown. In the case of differentiated appropriations, since 1978 commitment appropriations have grown considerably faster than payment appropriations to reach the figure quoted by the Court of Auditors of 10 300 Mio ECU, including 8 200 Mio ECU for the three structural funds alone. If this trend continues and

own resources are not increased, the margin available to finance new Community policies, which is already slim, will be further eroded. In 1986, for instance, it is estimated that 4 400 Mio ECU in payment appropriations will be required to meet commitments outstanding (including about 4 000 Mio ECU for non-compulsory expenditure).

In its preliminary draft budget for 1986, the Commission took steps to provide the payment appropriations needed to honour past commitments; at the same time the requests for new commitment appropriations reflected the need to contain their growth.

## 2. *Expenditure on the disposal of agricultural stocks*

Like the Court of Auditors, the Commission is gravely concerned about the size and increasing age of stocks and the heavy and growing costs they entail.

Large stocks, which will have to be disposed of at considerable cost, are the result mainly of market conditions inside and outside the Community and are closely linked to the development of structural and technical production factors, whose trend is difficult to change. Estimates of the likely costs of disposing of stocks are themselves largely dependent on market developments and cannot be estimated with the same precision as outstanding balances arising from earlier commitments under the structural funds.

The existence of large stocks is nevertheless a factor which overshadows both the budget and reflections on the future of the common agricultural policy (See III.3. above). Hence the Commission has decided to facilitate discussion by accepting Parliament's request in the 1983 discharge and to add from 1984 a note to the revenue and expenditure account and balance sheet giving technical data on the financing by the EAGGF Guarantee Section of intervention stocks and the likely cost of their disposal. The Commission also entered in its 1986 preliminary draft budget appropriations to cover the depreciation of stocks in public storage. The depreciation of stocks gives the Commission greater flexibility in disposing of them under the most favourable market conditions.

## VI. ACTIVITIES OF THE COMMISSION'S CENTRAL DEPARTMENTS WITH RESPONSIBILITIES IN THE FINANCIAL FIELD

At paragraph 1.33. in particular the Court of Auditors indicates its desire to see 'the advisory and monitoring responsibilities of the Commission's central services in the financial field' strengthened in order to standardize budget and treasury management and procedures, especially with regard to commitments.

The following explanatory observations are designed to clarify the Court of Auditors' comments and to show that the 'central departments' responsible for budgetary matters have indeed performed their tasks correctly in compliance with the specific sectoral requirements of the authorizing officers in their various fields of responsibility. Nevertheless the Commission will bear the Court of Auditors' recommendations in mind in its effort to improve financial management (see Section III. above).

The Commission would draw attention to the following points:

- Very strict measures have been taken for monitoring budgetary and treasury operations; instructions have been issued to the central budget departments to enable the Commission to monitor changes in the situation constantly so that it can take any necessary management decisions. The budgetary authority is informed of such action in the reports on the implementation of the budget. Particular mention should also be made of the special arrangements adopted by the Commission at the beginning of 1984 (specifically the freezing of certain payment appropriations until the last quarter of the year).
- As regards horizontal financial regulations — the Financial Regulation, the Implementing Rules and the Regulation concerning the making available of own resources — the Commission has presented a number of proposals in recent years designed to improve budgetary management. Like the Court of Auditors, it regrets that the authorities concerned have not yet taken the decisions needed to complete these essential revisions and it recently took steps to set matters in motion again.
- As regards internal management arrangements, each year the Commission adapts its 'Internal



Rules' on the implementation of the budget in line with requirements. These rules are, so to speak, the basic handbook governing the exercise of powers at the various levels and lay down the procedures for every significant aspect of budgetary life.

— With respect to the differences noted by the Court of Auditors in the way that various authorizing officers handle commitments, the Commission would point out that:

- the existence of methods specific to individual fields, and hence of differences between sectors is due to the great diversity of the contents of the gen-

eral budget and of the specific regulations. In order to illustrate the situation more clearly, the Commission's departments have carried out a study designed to give an overall view and so allow an objective judgment to be made;

- seen in this light, certain purely administrative differences — in particular the stage, i.e. the moment in time, when a commitment is recorded in the accounts — can easily be explained and it can be seen that the basic principles of the relevant rules have been respected.

- (1) It is impossible to ignore, for example, the considerable impact of the annual farm price review and related measures and the dynamic considerations which have led the budgetary authority to increase appropriations for the

structural Funds, development, etc., sometimes to a greater extent than the Commission had requested. Because of its political repercussions, this important aspect is not discussed further here.

## REPLIES OF THE INSTITUTIONS TO

### CHAPTER 2

#### Accounting matters

##### *General remark*

##### OBSERVATIONS ON THE GENERAL ACCOUNTS AND THE BALANCE SHEETS

##### Parliament

##### PARLIAMENT

As far as the Parliament is concerned, it is to be regretted that the Court failed to take into account the important improvements already brought about with the introduction of the Institution's new banking system during the latter part of 1984 and 1985. As the Court well knows, the Parliament has already set up a multi-currency ECU netting system to take care of its considerable banking business outside Luxembourg and will be extending the same system to its banking business involving transfers of funds within Luxembourg during 1986. Many of the Court's criticisms have already been or are in the process of being eliminated by the introduction of the ECU netting system which is specifically designed to reduce the risk of exchange losses to a minimum and to achieve the best results possible as regards the cash management conducted by the Treasury service of the European Parliament. The comments below refer to some specific points raised by the Court.

##### *Cash deficit*

2.2. The Court refers to the continuing existence of a 'cash deficit' in the balance sheet. As the Court itself noted in paragraph 2.6 of its annual report for the year 1983, the official holding the post of accountant during the period in question instituted legal proceedings before the Court of Justice.

In a recent judgment, handed down on 20 June 1985, the Court struck out — on procedural grounds — the disciplinary sanction which had been applied. The appointing authority is reviewing the implications of this judgment, both with regard to the official concerned and the recovery of any cash shortage in accordance with article 70 of the Financial Regulation.<sup>(1)</sup> Similarly, it remains for the Committee for Budgetary Control to report to Parliament on the matter in the context of the discharge for the 1982 financial year.

## COMMISSION

### *Recoverable taxes and duties*

**2.3–2.4.** The situation described by the Court of Auditors as regards recoverable taxes and duties is largely the result of existing procedures (application of the Protocol on the Privileges and Immunities of the European Communities annexed to the Treaty establishing a Single Council and a Single Commission of the European Communities); it should be possible to simplify these procedures and thus make them more effective. The Commission is having the matter examined with a view to achieving this and will then make the necessary approaches to the Member States.

The revision of the Financial Regulation, which is still pending, should also clarify certain aspects of the rules governing the procedures involved.

The Commission is also examining the possibility of recording the relevant amounts of VAT in its accounts.

### *Principle of consistency of accounting methods*

**2.5–2.6.** The Commission shares the Court of Auditors' view that changes in accounting methods should not be justified by reasons of expediency.

As regards the case from 1983 referred to by the Court of Auditors, the Commission's decision was accompanied by arrangements to ensure that all measures were taken to tighten up control of the expenditure of external delegations. These measures involved the introduction of a method for managing rents paid in advance for periods depending on local practice. The method adopted from 1984 onwards thus takes account of management requirements. The new rule is that the extra-budgetary 'Advances' account may be used only for advance payments of the official's share of rents covering a period of more than twelve months.

In 1984 there were no payments for rents covering a period of more than one year and therefore no entries were made in extra-budgetary accounts.

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

**2.7.** The Commission wants the statements of expenditure from the imprest accounts to be referred to

the accounting departments soon after reaching Brussels. It is therefore having a study conducted to see what measures should be taken to achieve this.

Although the average time taken for the initial entry in the accounts was 4,5 months at the end of the first week of December, all the imprest account statements had been entered in the accounts at 28 March 1985.

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

**2.8.** The need for a computerized system better suited to the Commission's accounting requirements is clearly shown in studies and other work which the Commission has undertaken. <sup>(2)</sup>

Improvements are being sought for those aspects involving administrative management (print-outs for auxiliary accounts in order to monitor advances).

The current difficulties in this field are due:

- to the extremely limited resources at the Commission's disposal as regards not only its data-processing systems but also the number of staff in its accounting departments. This situation has been further aggravated by the fact that a number of managerial staff have been on extended sick leave;
- to the application of ECU rates which change every month. The artificial exchange differences which arise between the date on which the advance is granted and the date on which it is recovered seriously complicate the management of the accounts.

The Commission would point out that:

- (a) The print-outs sent to the Court of Auditors in May 1985 have been drawn up before the definitive closure of the 1984 accounts. The differences noted by the Court of Auditors have since been clarified.
- (b) The difference noted by the Court of Auditors was caused by a computer programming error which has since been rectified.
- (c) The unforeseeable absence of senior staff for extended periods, as mentioned above, seriously affected the examination of the staff advance accounts, which could not therefore be cleared in an entirely satisfactory manner. A detailed examination will explain — and perhaps justify — the existence of credit balances and will enable this state of affairs to be remedied.

- (d) The exchange differences were cleared in 1985 after the Court of Auditor's audit.
- (e) The Commission is endeavouring to improve the monitoring of the accounts and the clearance of advances.

**2.9 (a) and (b).** The computer print-outs are regularly sent to the authorizing officers, in particular the print-out of advances on mission expenses, which dropped from 1,52 Mio ECU to 1,01 Mio ECU between 31 December 1983 and 31 December 1984, clearly indicating that an effort had been made in 1984 to clear the advances.

**2.9 (c).** A special computer programme would be required to produce print-outs showing advances granted in chronological order. The matter is being studied.

### *Reconciliation of bank accounts*

**2.10.** In addition to the 'undeniable efforts' made in 1984 (which the Court of Auditors itself mentioned), the Commission has decided to computerize the records of its bank accounts. This operation is in progress and will permit permanent reconciliation of the accounts.

### *Accounting deadlines*

**2.11.** The Commission would point out that the 31 May deadline depends on a whole series of other intermediate time-limits (in particular, those provided for in Articles 74 and 98 of the Financial regulation). The whole timetable is therefore extremely tight, as the Court of Auditors in fact indicates.

### *Open transfer at the end of the financial year*

**2.12.** The budgetary authority was perfectly aware of what it was doing when it authorized the open transfer. This exceptional procedure was justified by the tragic situation which demanded immediate action (famine in the Sahel and Ethiopia).

The Commission maintains that in this matter it acted in full accordance with the provisions of the Treaties and proved that it is able to act promptly when the situation requires, without exceeding the powers vested in it.

## *ECONOMIC AND SOCIAL COMMITTEE*

### *Imprest accounts*

**2.13.** At the request of the Court of Auditors, the ESC set up in 1984 an imprest account office to handle the reimbursement of the meeting expenses of members of the Committee. The ESC notes the lacunae underlined by the Court of Auditors and will endeavour in particular to change the system so as to specify the maximum advance and the maximum amount of each item of expenditure.

The ESC also intends to bring about a complete separation between the imprest account office and the central cash office, but in the present circumstances it cannot ignore the constraints due to the shortage of staff and of space or the constraints arising out of the urgent nature of members' refunds at meetings. Most of the problems should be solved when the entire imprest account operations are computerized in 1986.

**2.14.** The ESC acknowledges that a number of payments were effected without the prior approval of the Financial Controller. These were payments in connection with competitions for the recruitment of staff or individual invitations to candidates to present themselves, and such payments will in future be covered by a special imprest account.

### *Bank accounts*

**2.15.** The ESC has found a solution that takes account of the Court of Auditors' comments.

## *THE COMMUNITY BALANCE SHEET*

### *Commission*

**2.17.** The Commission's position on the matters at (a), (b) and (c) is set out in its replies to paragraphs 4.6, 4.7, 4.25, 4.30 and 4.31.

The Commission understands the Court of Auditors' concern about the issue at (d). Past food aid debts not

covered by carryovers of non-differentiated appropriations were one of the reasons why differentiated appropriations were introduced in the sector in 1985. Payment appropriations now cover, without distinction, all commitments entered into in the past.

Food aid debts should therefore be treated no differently from any other past commitments covered by differentiated appropriations.

Beginning with the revenue and expenditure account and balance sheet relating to operations under the 1985 budget, food aid commitments outstanding (differentiated appropriations) will appear in Volume V together with those for the other titles of the budget.

## OBSERVATIONS ON CASH MANAGEMENT IN RESPECT OF THE IMPLEMENTATION OF THE GENERAL BUDGET

### Commission

**2.19.** Interest accruing on bank accounts is covered by a receivable order drawn up by the authorizing officer and duly approved by the Financial Controller. In recent years, the Commission has endeavoured to compile comprehensive information on all its bank accounts so that the details the Court of Auditors deems necessary will be readily available.

**2.20.** As the Court of Auditors states in paragraph 2.18 where it defines the scope of its examination, it was concerned with cash management in respect of the implementation of the general budget of the Communities. No account kept by DG XVIII relates to these activities. Furthermore, the ECSC's bank accounts are different in nature to those used for the implementation of the general budget.

### *Management by the Commission on the basis of estimates*

#### Description of the system

**2.22–2.23.** The Commission would point out that cash forecasts were made every fortnight in 1984 when

it was seen that cash resources were in short supply. The Commission was thus better equipped to cope with the constraints imposed by the lack of flexibility in the cash management aspects of budget implementation.

#### Origins and reliability of the estimates

**2.24–2.25.** Although the Commission considers that the simple and informal system so far applied has operated satisfactorily in practice, it has issued instructions for a formal, systematic procedure to be devised, which will then be adapted in the light of the results obtained, to produce something along the lines suggested by the Court of Auditors.

#### Extent to which calls for funds correspond to needs

**2.27.** Throughout 1984 the Commission had to contend with cash flow difficulties and accordingly had the situation monitored carefully every fortnight by senior staff.

In view of the use made of Article 12 of Council Regulation (EEC) No 2891/77 over the year (advance payment of own resources — overdrawing of accounts), the Commission provided the financial counsellors in the Offices of the Permanent Representatives (meeting within the Council's Budget Committee) with precise figures on funds held and foreseeable developments, including the minimum balance which is considered indispensable on accounts with commercial banks.

In 1985 this monitoring has continued with the same aim, which the Commission shares with the Court of Auditors, of covering no more than essential requirements; these can only be assessed correctly if account is taken of the fact that the Community must be able to cover day-to-day payments in the currencies of all the Member States and in ECU.

**2.28.** The Commission, in its past and present bilateral contacts with the banks, has been trying to obtain harmonized conditions for its transactions. If this objective is attained, there will no longer be any justification for the Court of Auditors' criticisms concerning the choice of the bank of payment and the level of the balances.

**2.29.** As far as the Commission is aware, the flexibility of the procedures employed between the accounting

officers of the various institutions and bodies has never raised any real problems. The Commission would point out that it has to respect the powers of each of the institutions and the organs and that the dates and procedures for supplying them with funds are agreed jointly; however, it is prepared to examine any request by the institutions on this subject.

**2.30.** Apart from the case referred to by the Court of Auditors, the Commission would point out that the other overdrafts were limited in number and value.

**2.30 – 2.31. and Table 2.1.** The Commission has taken the necessary measures to avoid any recurrence of the situation criticized by the Court in paragraph 2.30 (a situation caused by factors largely beyond the control of the authorizing departments and accounting officer).

The Court's comment that the balance of the Commission's account with the EIB was excessive no longer appears valid, since it was gradually reduced to a normal level once the need for funds to make retroactive payments was no longer so urgent.

As regards the operations for 1983, the retroactive payments referred to by the Court reflect the new arrangements for calculating and paying interest subsidies under the European Monetary System. These new arrangements took effect in the final year of the operations in question, i.e. in 1983. They were laid down in an amendment to the cooperation agreement which the Commission and the EIB already had in this sector.

This amendment automatically had the following consequences:

- (1) The budgetary cost of each subsidy was considerably reduced, with the result that a larger volume of loans could be subsidized from the fixed amount of budget appropriations.
- (2) The principle of retroactive payment is enshrined in the new system. The value dates thus coincide with the dates on which the loans are actually paid out, i.e. the dates from which interest is charged. The transmission procedure introduced was an interest-bearing account which the Commission keeps with the EIB.
- (3) Other procedures styled on these arrangements are being introduced, notably in the Financial Regulation of the Sixth EDF.

The replacement of an established system which had operated for four years led to a large number of the initial payments under the new method having to be made retroactively: the EIB made its first applications two to three months after the loans in question had been paid out, while the Commission's financial departments encountered practical difficulties. However, as Table 2.1 shows, retroactive payments quickly returned to normal.

#### **Distribution of surpluses among the Member States**

**2.32.** At the beginning of 1984 the Commission changed to fortnightly estimates, which restored the balance required by Article 12 of Regulation No 2891/77<sup>(3)</sup>. The Court of Auditors' comment does not apply to 1984 or 1985 since the Commission itself reduced the length of the period covered by the estimates, thus anticipating the Court's concern at the way in which the situation was developing.

**2.33.** The accounts with the central banks of Ireland and the United Kingdom are mainly used for funds being transferred to and from the national treasuries. The Commission has only some tens of thousands of pounds with the Bank of England. The Commission has more funds with the Central Bank of Ireland which, unlike other central banks, conducts current payment operations like commercial banks.

These explanations show that the Commission does not make use of the possibility referred to by the Court of Auditors.

**2.34.** The discrepancies noted by the Court of Auditors may be attributed as much to the inadequate frequency of the Commission's balancing transfers, coupled with variations in the speed with which expenditure (and revenue) operations are executed in each Member State, as to a lack of reliability and accuracy in the financial forecasting system.

Since balancing transfers are now made more frequently, the discrepancies have been further reduced. It is, however, materially impossible to reduce them to zero.

#### ***Management by the other institutions on the basis of estimates***

#### **Parliament**

**2.35.** Whilst agreeing with the Court's recommendation on this matter, the decentralised responsibility of

the accounting officers makes a sophisticated system of cash forecasting very difficult to operate. The current method, built up over the past three years, has proved to be reasonably accurate. In addition, it should be pointed out that, with the phased introduction of the ECU netting system, both the loss of potential interest and the risk of exchange losses are reduced to a minimum, since all funds held by the Institution's Treasury service remain in interest-bearing ECU accounts until such time as payment is actually made.

**2.36.** As stated in the footnote to Table 2.3 which shows the rate of coverage of net needs in the financial year 1983, all balances concerning the imprest accounts are excluded. The Parliament doubts the pertinence of the data provided, which omits the Commission, an Institution whose administrative appropriations exceed the sum of the administrative appropriations of all the Community Institutions. In any event, on the basis of the Courts' own figures, the European Parliament's rate of coverage of net needs is within very acceptable limits.

## Council

**2.35.** Requests for funds are submitted monthly by the Council to the Commission. They are based on proper estimates in the case of salaries of officials, rents and maintenance expenses (cleaning etc.). However, in the case of other expenses (mission expenses, delegates' travel expenses, property taxes, telephone and postage expenses, etc.), these cannot be forecast accurately; they are estimated each month in the light of such expenses in previous financial years.

The Council would point out that its cover rate for net requirements, namely 115 % (see Table 2.3) is lower than that of any of the other Institutions. It will endeavour to reduce that rate by referring even more if possible to proper estimates.

**2.36.** Three cases dating from 1983 are involved. All were minimal in scale and duration.

## Court of Auditors

**2.35.** The appropriations to cover the Court's recurrent and periodic expenditure, which are entered under Chapters 10 and 12 and Article 200 of the Court's

budget, account for more than 89 % of the budget total. The Court is aware of the problem and has adopted a simple and reliable system for making estimates which is suited to the specific characteristics of its management.

**2.36.** The Court will endeavour to come closer to the ideal situation.

## Economic and Social Committee

**2.35 – 2.36.** The ESC can only endorse the Court of Auditors' call for optimum cash management. This principle involves three requirements:

- cash balances should be kept to a minimum;
- expenditure should be adequately covered;
- the minimum balance resulting from reconciliation of the above two requirements should be used in an optimum manner.

The ESC's cash management has always been guided by this philosophy.

Given the size of the ESC's budget, as well as the regular pattern of its expenditure (salaries and meeting expenses, which account for 80 % of the appropriations, are generally known in advance with a great degree of accuracy), and in the absence of a more elaborate system, the system of monthly advances of one twelfth has been considered by the ESC to be not too inconsistent with its needs.

Nevertheless, the ESC recognizes the validity of the comments, so that on average the cash balances held by the ESC in 1984 covered expenditure for a period of 3-4 weeks.

## *Resources employed*

## Commission

**2.37.** Because of the continuing increase in budgetary and financial operations in recent years, combined with the major complications caused by the introduction of the ECU in the accounts on top of the current utiliza-

tion of national currencies, the Commission has taken wide-ranging measures to reorganize the accounts department, although the increase in its staff had to be limited because of the Commission's general staffing problem. A separate directorate now consisting of four specialized departments was set up in 1983/84.

A great deal has already been achieved and work is still continuing to adapt data-processing resources to increased requirements. The Commission has always tried to act on the many demands made by the Court of Auditors in its earlier reports; it will do so again in response to the comments contained in the current report.

Apart from the reforms made as regards accounting entries, progress has already been made in cash management, and the situation of bank accounts is now published daily. These improvements and those to be made in relations with the banks (see paragraph 2.28) should satisfy the Court of Auditors' requests.

### *Procedures*

### Parliament

**2.38.** Following the introduction of the ECU netting systems for banking transactions outside and within Luxembourg, an internal document will be drawn up setting out the tasks and responsibilities of the personnel attached to the Treasury service.

### Council

**2.38.** The tasks and responsibilities of the officials responsible for cash management have been the subject of replies by the Secretariat to questionnaires from the Court of Auditors. A description of tasks and systems will be included in the manual or procedure.

### Court of Justice

**2.38.** The Court of Justice shares the Court of Auditors' concern and emphasizes that it made considerable improvements in 1984.

The changes which it has introduced are designed to ensure a clearer separation of the duties of the financial

controller, the authorizing officer and the accounting officer. This has led to a re-organization of all the departments responsible for the implementation of the Budget of the Court of Justice and its control. The aim of the new rules relating to cash management is to define much more clearly and precisely than in the past the tasks and responsibilities of the treasury department.

### Economic and Social Committee

**2.38.** The ESC will endeavour to progressively establish rules for the various financial transactions, particularly in the case of the computerized systems that are to be developed to assist cash management.

### *Number of bank accounts*

### Parliament

**2.39.** As the Court is aware, the phased introduction of the ECU netting system has already contributed to the sharp reduction in the number of bank accounts. It is the Parliament's intention, once the new systems for its banking business within and outside of Luxembourg are fully operational and proven, that the Treasury service should operate with only two bank accounts (both ECU denominated) together with the Compte Chèques Postaux account in Luxembourg which will be denominated in Luxembourg Francs. This target will be met during 1986.

Specific currency accounts in various locations will continue to be held for the particular needs of imprest accounts. The number of Treasury bank accounts currently stands at 11.

### Council

**2.39 and 2.52 (c).** The Council takes note of the Court of Auditors's comments.

### Commission

**2.39.** In response to a previous request by the Court of Auditors, the Commission has considerably reduced

the number of its accounts (from 111 in 1982 to 57 in 1984).

## Economic and Social Committee

**2.39.** In response to the Court of Auditors comments, the ESC has carefully examined this matter and decided to close two bank accounts. However, enlargement means that two new accounts will have to be opened, bringing the total to thirteen (one in each Member State and two in Belgium), which represents the minimum essential for the ESC's operations.

### *Banking terms*

## Parliament

**2.40. (a)** The number of cheques issued by the Treasury service of the European Parliament for payment is minimal, thus it is not considered necessary to introduce any special treatment. Thanks to the new banking system for transactions outside Luxembourg, the rates of interest are now clearly established. The most advantageous banking conditions for transactions within Luxembourg will be obtained following the review foreseen in the reply under paragraph 2.39 above.

(b) Specific officials are assigned to control on a regular basis the negotiated banking terms for the existing ECU netting system.

## Council

**2.40.** The Council has noted the Court of Auditors' comments.

**2.41 and 2.47.** The Council asks banks to grant it the same terms as those granted to the Commission. It considers that it is up to the Commission — in view of the latter's cash management facilities — to negotiate with the banks the best possible terms to be granted to all the Institutions.

## Commission

**2.40.** Further to the replies given to paragraphs 2.28 and 2.37, the Commission does indeed consider that

the banks are not always used for the terms they offer, but sometimes for other criteria such as practical facilities for working relations, speed of business or particular specialization.

As regards point (b), the Commission is examining what action could usefully be taken in response to the Court of Auditors' requests but would also point out the major difficulties it faces because of the general staffing problem.

**2.41 – 2.42.** The Court of Auditors' comments do not take account of some aspects inherent in the methods for managing bank accounts.

In the case of current accounts, for instance, banks may pay a higher rate of interest on accounts used for only a few transactions than on accounts used for a large number of operations.

If it is to be accurate, any assessment of interest must take account of the workload involved in the various types of operation.

From the year covered by the report (1984) the Commission has made it standard practice to break down costs and interest in line with a suggestion made by the Court of Auditors.

As for paragraph 2.42(d), the negotiations now being conducted with the banks referred to in paragraph 2.28. will narrow the spread of rates.

To step up competition among banks and explore the problems which may result, the Commission, as desired by the Court of Auditors, is planning as a trial to put up for tender its future operations in Portugal and Spain, after enlargement, in connection with the implementation of the general budget.

## Economic and Social Committee

**2.40.** The ESC considers that its policy of monitoring closely the terms offered by banks (which does not pose any difficulties) has always given good results. The ESC will, however, make an effort to check all bank terms in future and will draw up a document to this end.



### *Internal control*

#### **Council**

**2.43.** Separation of responsibilities between the authorization and the payment of an item of expenditure:

The Council Secretariat will look again at the cases pointed out by the Court of Auditors, taking particular account of the provisions in the Council's rules of procedure.

#### **Economic and Social Committee**

**2.43.** The security arrangements recently introduced by the ESC should be to the satisfaction of the Court of Auditors.

### *Centralization of management*

#### **Overall financial flows**

#### **Parliament**

**2.46.** The Parliament will in future insist upon same day value for transfers between Community institutions where such transfers are made with the same bank.

#### **Council**

**2.45.** Transfer of funds from the Council to the Economic and Social Committee:

The practice followed is in accordance with a Council Decision and is the result of integration of the Economic and Social Committee's budget into the Council's budget.

**2.46.** The Council will examine solutions making possible a maximum reduction in days of value lost.

#### **Commission**

**2.46.** In response to the Court of Auditors' recommendation, the Commission will in future give the

banks a copy of its instructions containing a value date. A check will then be made that this date is correctly applied.

#### **Powers of negotiation with the banks**

#### **Parliament**

**2.47.** Although banking requirements within the Community vary considerably from Institution to Institution, as does the volume of payments and receipts, the European Parliament is ready to cooperate in any inter-institutional initiative in this direction.

#### **Council**

**2.47.** See reply to paragraph 2.41.

#### **Commission**

**2.47 – 2.48.** The Commission has always acted in the way recommended by the Court of Auditors whenever the other institutions have asked it to; this subject is to be examined at the meetings between the institutions' accounting officers.

### *Use of the ECU*

#### **Parliament**

**2.49.** The European Parliament has been endeavouring to extend the use of the ECU, with some success, in respect of large contracts, payments of certain rents and certain categories of payments to some members. Settlements with the Commission have, for a number of years, been carried out in ECU and instructions will shortly be issued that financial transactions with all other Community institutions will be carried out in ECU. The Parliament welcomes the extended use of the ECU and will continue to promote it wherever and whenever possible.

## Council

**2.50.** Payments into the bank accounts of the Economic and Social Committee by the Council involve 12 accounting operations per annum.

## Commission

**2.49.** With the aim of promoting the use of the ECU and making its cash management easier, the Commission, within the limits imposed on it, has, since the establishment of the EUA in 1975, which became the ECU in 1979, encouraged wider use of this unit of account which, partly thanks to the Commission's action, has now become a means of settlement. In this action, which affects the Member States and their residents, the Commission soon encountered difficulties which it was not always possible to overcome. This explains why progress is achieved on a pragmatic basis, with advances being made as and when possible.

The Commission, which had ECU bank accounts, soon asked the other Community institutions with which it had bookkeeping relations under the general budget to open ECU accounts so that transfers could be made direct in ECU. Although the other institutions, including the EIB, agreed, the Council has always refused.

At the level of institutional relations, in October 1976 the Commission sent the Council a proposal for a Regulation relating, in particular, to the role of the ECU as an instrument of management and settlement (doc. COM(76)513). This document provided for a central system for managing and implementing the budget in ECU and, by expressing budgetary commitments in ECU, transferred the exchange risk from the Commission to the beneficiaries of its measures. The Council did not approve this proposal and, although it was completely recast after being discussed almost every week for two years, it was never adopted because of the election of the European Parliament, which caused the conciliation procedure, to which it had to be submitted, to be interrupted. Some Member States are still strongly opposed to the proposal that they or their residents bear the ECU/national currency exchange risk and the wish expressed by other delegations in 1980 to revive this document was not followed up.

In a situation ruling out any systematic approach to the problem, the Commission has adopted the pragmatic

and limited approach of expressing and making payments in ECU wherever possible; contract studies (since 1982), the reimbursement of experts' expenses (since 1983) and the fees of free-lance interpreters (since 1984) are now expressed and paid in ECU. The Commission has also taken a large number of important steps in connection with ECU loans. The appropriate Commission departments will soon begin work on having the ECSC levies paid in ECU. Until now, despite being expressed in ECU, they have been paid in national currency.

The Court of Auditors' comments on the use of the ECU are perfectly justified and the Commission will use them as a support for its action. On the strength of these comments, the appropriate Commission departments will in particular again contact the Council's treasury department. However, in the absence of a regulation, the need for which should be underlined by the Court, the proportion of payments made in ECU will inevitably remain negligible.

## Economic and Social Committee

**2.49.** In order to encourage greater use of the ECU the ESC intends to open an ECU subdivision of its main bank account.

## Conclusions

## Council

**2.52 (c).** See reply to paragraph 2.39.

## Commission

**2.51 – 2.53.** While asking that note be taken of the differing viewpoints evident in the above replies, the Commission intends to pursue its present course of action which clearly corresponds to the recommendations made by the Court of Auditors in paragraph 2.52.

(<sup>1</sup>) By letter of 30 July 1985, the Institution approached the insurance companies concerned once again on this matter.

(<sup>2</sup>) Annual report concerning the financial year 1982, OJ C 357, 31. 12. 1983, paragraph 2.39.

(<sup>3</sup>) OJ L 336, 27. 12. 1977, p. 1.

## REPLIES OF THE COMMISSION TO

## CHAPTER 3

## Revenue

## SUMMARY OF FINANCIAL INFORMATION

*Financing of the budget*

## Exhaustion of own resources

**3.6 (a).** On 6 May 1983, the Commission presented to the Council <sup>(1)</sup> a draft decision on new own resources which amongst other things provided for an increase in the maximum VAT rate that could be set. The Council, however, was unable to take the necessary decision in time because an increase in the amount of own resources available to the Community was linked to a number of other problems.

In order therefore to ensure that Community obligations could be met and that Community policies could continue to be implemented, whilst respecting the requirement in Article 199 of the EEC Treaty, that the budget be in balance, the Commission made a proposal based on Article 235 of the EEC Treaty, for the Member States to make supplementary finance available to the Community in 1984 which would be repaid when new own resources became available.

The Legal Service of the Council shared the Commission's opinion that Article 235 was an entirely proper basis for the regulation.

In the event, the Council did not adopt such a regulation. The Member States decided rather to make an intergovernmental agreement to provide additional finance in 1984. The Commission regrets that this agreement was entered into outside the framework of the Community treaties.

**3.6 (b).** At each year end certain appropriations are cancelled. Moreover, in 1984, the Commission had undertaken, in the explanatory memorandum to the proposal for a Council Regulation <sup>(2)</sup> introducing measures to cover budgetary requirements in 1984 given the exhaustion of own resources, to endeavour to make cuts in payment expenditure of 350 Mio ECU. In the

event, the Commission cancelled appropriations at the year end totalling 329,31 Mio ECU. Entering the expected cancellations in the budget reflected an event that was foreseeable. It was in no sense a device for disguising the fact that the budgeted expenditure exceeded available revenue. On the contrary, the entry of the expected cancellations produced a more transparent budget and one that matched expenditure and income more accurately.

It does not conflict with the requirements of Article 199 of the Treaty. These requirements are in fact confirmed by the entry.

## Outturn of the budget

**3.7.** In its preliminary draft amending and supplementary budget No 1 the Commission proposed a reduction of 498,5 Mio ECU in the estimates of agricultural levies. It listed in the explanatory memorandum the factors which led it to make this reduction.

Neither the Council nor the Parliament included the revised figures in the draft or final budget.

**3.8.** The estimates for agricultural levies analysed by commodity and the figures for monetary compensatory amounts are shown in Volume 7 of preliminary draft budget for each year.

Following the installation of the new revenue accounting system, agricultural levies are now systematically analysed by commodity and the monetary compensatory amounts are separated out for those Member States which provide the necessary data.

## RECORDING AND RECOVERING REVENUE DUE

**3.10.** Most of the receivable orders for unquantified amounts refer to disputes with Member States over the omission of certain items from their VAT statements. Since in the current system only the Member States dis-

pose of the information necessary to evaluate the omissions, the Commission is obliged to issue receivable orders for unquantified amounts in such cases. The actual amounts will only be known when the disputes are settled.

## VALUE-ADDED TAX

### *Option between transitional Methods A and B*

#### 3.11 – 3.19.

##### I. General

Quite apart from the specific replies set out hereafter, the Commission notes that most of the Court's comments relate to matters that are no more than the correct application of the current rules deriving from three fundamental acts: 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, and Council Regulations (EEC) Nos 2891/77 and 2892/77 of 19 December 1977 implementing that Decision.

The Commission has sent the Council a number of proposals amending these acts and is continuing its efforts to improve them. Although the comments in Chapter 3 of the Court of Auditors' report are addressed to the Commission alone, criticism on this score should in fact be aimed at the Council, since the Council has the power to enact legislation. Any questions as to the substance of the legislation should be dealt with under the procedures for revision of Regulations Nos 2891/77 and 2892/77 initiated by the Commission.

It is unfortunate that the Court should have quoted figures which give the impression that there has been a loss of own resources, whereas the situation described in fact accords with the current rules. The presentation of such figures can only mislead the unsuspecting reader.

##### II. Technical aspects

The Commission has the following further comments to make on the specific points raised by the Court:

(a) Under Article 6 (1) of Regulation No 2892/77 as amended, the VAT own resources base is derived from the total net VAT revenue collected by a Member State for a given year. The situation described at (b) and (c) in paragraph 3.13. of the Court of Auditors' report is consistent with the provisions of the Regulation. The figures given by the Court for revenue lost as a result of applying one method give rise to the following remarks:

(i) Under the Communities' VAT own resources system, the call-in rate applied to the VAT base is designed to cover that part of the financing of the Community budget which is not covered by traditional own resources. Hence any reductions in the base require an increase in the rate fixed under the budget procedure.

(ii) The estimate given by the Court of Auditors is only an approximation based on information obtained from five Member States (Belgium, Denmark, Luxembourg, Netherlands, and United Kingdom).

(iii) The sole consequence of the failure to include the amount not collected in a given year in the VAT base for that year under method B is to put back the time when certain transactions are taken into account, since these amounts 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. Apart from this, 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, and even these fluctuations tend to even out over a sufficiently long period.

(b) Under Article 3 of Regulation No 2892/77 each Member State may opt for whichever method it chooses. The reasons for Denmark's choice are the difficulties posed by the application of method A and the fact that it has only one VAT rate. The reduction in the Danish VAT base for 1983 following the change of method (see (a) in paragraph 3.13.) occurred because amounts written off and arrears were not included — as described above. It should be added, however, that the amount to be recovered at the end of 1984 was lower than at the end of 1983, a sign that the phenomenon was partly eliminated in the following year.

(c) The type of operation allowed under national legislation of the kind referred to at (d) in paragraph 3.13. results in the amount actually paid over

to the national authorities being included in a later VAT base and in part of the amount owed being written off. Nevertheless, this type of legislation cannot but yield more national and Community revenue than would otherwise have been collected.

- (d) The Commission's controls of the Member States' VAT bases cover the entire process of centralization of revenue, and are designed to check that the system operates properly from the moment of establishment through to the calculation of the Community VAT base. Like the Court of Auditors, the Commission wishes to gain a better idea of the amounts not included in the base and it therefore plans to examine, together with the Member States within the Advisory Committee on Own Resources (ACOR), whether additional information can be obtained, in particular as regards matters under dispute. The Commission would point out that this is the essence of its 1979 proposal to the Council for a Regulation on measures to be taken in the event of irregularities affecting the own resources referred to in the Decision of 21 April 1970 and the organization of an information system for the Commission in this field. Until the regulation is adopted, as the Commission still very much hopes it will be, the transmission of information depends on the Member States, and under the present rules they alone are responsible for control visits to individual taxpayers and for decisions on subsequent action. In particular the Commission has no power at the moment to issue instructions to the Member States on the frequency of such control visits.

### III. Comments regarding the report on the implementation of Regulations Nos 2891/77 and 2892/77

In its report the Court of Auditors refers on several occasions to the report on the implementation of Regulations Nos 2891/77 and 2892/77 and the proposal to extend the latter, which the Commission presented jointly to the Council in April 1985. The Commission feels that certain clarifications are called for.

Firstly the Commission's report describes the problems raised by the two methods and, in its view, presents a full and balanced picture of the situation. It is true that the Commission's original proposal was only for Method A; moreover it has never sought to deny the differences between the two methods ultimately adopted by the Council and it is also aware of the difficulties of applying Method B; but the Commission now finds from its experience of working with Method A

that this, too, in its current form, gives rise to many problems.

Secondly the Commission indicated in the report its clear preference for a single method for determining the VAT base. However, it must emphasize that this objective cannot now be considered in isolation from the everyday realities of operating the own resources system and developments since the adoption of Regulation No 2892/77. That Regulation allows Member States to choose, during a transitional period, between two methods based on fundamentally different principles and arrangements; eight of the nine Member States paying over VAT own resources have opted for Method B. As the time approaches when the additional resources made available by the raising of the maximum VAT call-in rate to 1,4% will all be taken up, the Community will once again have to consider the future of its financing system; the situation created by the preference for Method B cannot be regarded as a matter of mere secondary importance.

### *Difficulties in application of VAT own resources*

**3.21.** The Commission is still examining the question of the registration tax on cars in Denmark. At the moment it is primarily concerned with the compatibility of the tax with the principle of the free movement of goods within the Community and on this score has decided to initiate the procedure provided for under the Treaty.

**3.22.** The Commission accepts the Court of Auditors' suggestion and will continue to insist on the introduction of uniform arrangements.

### AGRICULTURAL LEVIES

**3.23–3.26.** The Commission does not accept the Court of Auditors' view that this decision was contrary to Article 14(2) of Council Regulation (EEC) No 805/68 of 27 June 1968.

The reason for the Commission's proposal to the Council was clearly set out in the memorandum to document COM (84) 49, paragraph 4 which states: 'The Commission considers, however, that the import concessions for beef/veal must be adapted in the light of existing international agreements and the reciprocal concessions granted to the Community'.

The possibility of subsequent international agreement being made in parallel or interacting with Regulation

No 805/68 appears to have been foreseen in Article 17 of this regulation which states: 'This regulation shall be applied with due regard to the obligations under international agreements by which the Community is bound'.

In the opinion of the Commission, Article 14(2) of Regulation No 805/68 must be read in conjunction with Articles 17 and 31, which obliges the Community to respect the obligations resulting from international trade agreements, and also with the authorization given to the Commission by the budgetary authority in the 1984 budget (remarks relating to Chapter 29/B), and clearly covers the circumstances and conditions under which the Commission's proposal for 1984 was drawn up.

The quantity of 50 000 tonnes of beef mentioned by the Court of Auditors must be seen in this context. Furthermore, this quantity falls within the overall allocation of beef imports, reference to which was introduced into the remarks column mentioned above.

#### **Application within the Member States**

3.28. The Commission has already informed the Court that an inspection of the special scheme (total or partial suspension of levies) for imports of certain types of frozen beef for the processing and manufacturing industries had been carried out only in the Netherlands. It will be proposing checks in the other Member States in the context of the joint inspections provided for under Regulation No 2891/77 and Council Regulation (EEC) No 165/74 of 21 January 1974.

## **CUSTOMS DUTIES**

### *Exemptions from customs duties applied unilaterally by Member States*

3.29 – 3.32. The infringement procedures are still under way.

3.33. (a) As regards materials of an intrinsically military nature which have not been included in the Article 169 procedure, the Commission is confident that the outcome of this procedure will confirm its position on the applicability of the Common Customs Tariff to military equipment in general, thereby making further recourse to infringement proceedings superfluous. The Commission will then be better placed to develop a policy framework at Community level for arms imports taking full account of all the political, economic and legal aspects of this matter.

(b) The Commission is not in a position to supply figures on the impact of these infringements on own resources.

In this regard, it is the responsibility of Member States under the Treaty to calculate the amount of customs duties to be made available to the Community budget. The Member States alone have the details necessary for this calculation and the Commission is only able to calculate very approximately and very exceptionally the amounts in question. In this case, the problem is reinforced by the secret character of national defence invoked by Member States.

(1) OJ C 145, 3. 6. 1983, p. 5.

(2) Doc. COM(84)250 final of 17. 4. 1984.

## **REPLIES OF THE COMMISSION TO CHAPTER 4**

### **European Agricultural Guidance and Guarantee Fund, Guarantee Section**

#### **COMMENTS ON THE IMPLEMENTATION OF THE BUDGET**

##### *Implementation of the budget in 1984*

##### **Questions of regularity**

4.5 and 4.9. The Commission was indeed faced with a difficult budgetary situation. In discharging its finan-

cial obligations it endeavoured to overcome as many as possible of the problems this created and to apply the principles of sound financial management. It considers claims that it acted other than in accordance with the regulations or resorted to minor irregularities as exaggerated.

(a) Decisions on and payments of advances are dependent on the availability of resources; the Commission cannot pay unless it has the means to do so. However, the Commission intends to accept

the Court of Auditors' request and initiate the necessary procedures.

- (b) The practices followed with regard to the booking and commitment of expenditure are the result of a shortage of appropriations, either in general or in particular budget headings, and were intended to reduce to a minimum the problems which this caused for the Commission's accounting system, while respecting the provisions of the Financial Regulation.

Preparatory work on a new system to replace monthly advances is continuing and the Commission hopes to take a decision at the end of this year or the beginning of 1986. In any case, changes to the present system will take quite some time, since they will raise many problems, involving twelve Member States, each with its own administrative and accounting system, and some fifty paying agencies.

#### Collection of additional co-responsibility levy on milk

**4.6 and 4.7.** The Commission would emphasize that the purpose of introducing quotas in the milk sector was to contain total production. To achieve this, the additional levy for exceeding quotas was fixed at the deterrent level of 75% for milk producers and 100% for dairies. Collection of the levy is a last resort, to be employed only if producers or dairies exceed the quotas laid down for them under Community rules as implemented by the Member States in one of the ways provided for.

The first payment, due on 15 December 1984, was provisional pending a definitive calculation at the end of the 1984/85 milk marketing year. On the basis of the provisional figures available to it, the Commission, as a warning to a number of Member States who had disputed this operation and the amounts due, reduced their advances for December.

The Commission considers that it was not necessary to enter debts owed by the Member States to the Commission in the balance sheet drawn up at 31 December 1984 for the following reasons:

- the rules stipulate that the additional levy due in each case must be based on a final statement to be drawn up after twelve months' production;

- because of the time required to introduce the quota system, the provisional figures available to the Commission were not sufficiently reliable for it to produce firm calculations of the amounts due on 15 December 1984;
- the trend of milk production and developments in Community rules in the early months of 1985 have confirmed that only comparatively small payments of additional levy are due in respect of production in excess of the overall quotas allocated to each Member State for 1984/85.

#### Final shortfall of appropriations

**4.8.** In its supplementary and amending budget for 1984 the Commission put revenue from the additional co-responsibility levy at 247 Mio ECU. This estimate was made in the second quarter of the year before national implementing procedures were notified and before the reactions of producers were known. This led to an overestimate of revenue but the fact that the figure arrived at was close to the 202 Mio ECU shortfall referred to by the Court of Auditors is purely coincidental.

The Commission notes, with interest, that the Court of Auditors favours a reduction in the financial value of stocks. Since the original 1984 budget contained no specific appropriations for this purpose and since there were no surplus appropriations at the end of the year, the Commission was unable to carry out such an operation. It should be noted that, in its preliminary draft budget for 1986, the Commission has, for the first time, proposed an appropriation of 423 Mio ECU for a reduction in the financial value of stocks.

## COMMENTS ON THE FINANCIAL MANAGEMENT

### *Public storage*

#### Increase in expenditure on storage

**4.11.** Expenditure on public storage increased in 1984 because of mounting stocks for which it was difficult to find an outlet. This is one of the reasons why the Com-

mission has pursued its efforts to reform the common agricultural policy, particularly in relation to the milk sector.

The percentage increase quoted by the Court of Auditors for olive oil (up by 446% on the 1983 figure) should be put into perspective in that expenditure rose from 12,2 Mio ECU to 66,6 Mio ECU in the same period.

In 1982/83 the olive oil harvest in Italy was particularly poor so that little intervention was required and oil had to be imported from Greece; which led to gains. In 1983/84, by contrast, the harvest in Italy was good so that more intervention was required and imports from Greece declined.

#### **Overall increase in stocks and problems experienced with certain products**

##### *Stocks of milk products*

**4.13.** There is absolutely no doubt that butter stored for more than two years will decline in value. To avoid this situation outlets were sought but this proved difficult. Title II of Commission Regulation (EEC) No 2956/84 of 18 October 1984 introduced measures to dispose of butter which had been in store for more than 18 months.

##### *Stocks of common wheat*

**4.14.** Each year the Commission fixes prices for the carryover to the following year of products in public storage on 30 November. These are based on buying-in prices paid by the intervention agencies (first paragraph of Article 8 of Council Regulation (EEC) No 1883/78 of 2 August 1978).

These prices take account of the prices of stocks carried over from the previous year and of the cost of new interventions in the first nine months of the year. This method, applied consistently each year, made no allowance for buying-in prices for October and November, which were particularly low that year given an exceptional harvest.

The Commission will reconsider its method of fixing carry-over prices to see whether it is possible to deal with cases of the kind mentioned by the Court of Auditors and arrive at a more representative price for stocks carried over.

##### *Stocks of beef and veal*

**4.15.** Council Regulation (EEC) No 869/84 of 31 March 1984 provides for the application of a single buying-in price throughout the Community for each quality of meat from the 1986/87 marketing year. This is to be achieved in three equal stages and should lead to a reduction of some 10% in buying-in prices in Italy, making public intervention there considerably less attractive.

The lower disposal prices noted in Italy are largely due to the fact that stocks there are older than elsewhere and hence more difficult to sell. This situation should improve as older stocks are run down and the reasons for the build up of stocks are eliminated.

##### *Presentation and closing of the annual accounts*

**4.16.** The accounting system now in force does allow accounts to be checked as they are presented by the Member States. In fact checks were carried out and corrections made throughout the year. The Commission is asking its departments to step up monitoring during the year as far as this is administratively possible.

**4.17.** The EAGGF-Guarantee accounts are on a cash basis which means that expenditure is charged to a given year by reference to the date of payment (see in particular Article 98 of the Financial Regulation).

This being so the corrections made to the public storage accounts, amounting to approximately 9,6 Mio ECU in all, and the Commission's corresponding request to the Member States for the payment are in complete accord with the Financial Regulation.

##### **Entry of potential losses into the accounts**

**4.18.** The Commission's comments on the reduction in the financial value of stocks are to be found in paragraph 4.8. It would emphasize that this facility, granted by Regulation No 1883/78, can be used only if appropriations are available. Furthermore, the second paragraph of Article 8 imposes the following criteria:

- (a) depreciation is conditional on the estimated disposal price being substantially below the value of the stocks to be carried over;



- (b) the scale of depreciation is limited by the fact that the price which replaces the buying-in prices paid by the intervention agencies 'may not be below the average of the purchase prices obtained on disposal of intervention stocks.'

#### Conclusion with regard to financial management

4.21. The formation of public stocks is the result either of Community rules which give farmers security in the form of an intervention price or, in certain sectors, of an imbalance between production and consumption. The failure to control expenditure on public storage which the Court of Auditors appears to regret cannot therefore be attributed to day-to-day management of these stocks by the Commission.

#### OBSERVATIONS ON THE INTERNAL CONTROLS

##### *Frauds and irregularities*

##### Value of statistics

4.23. The Commission is currently investigating why some Member States report considerably more irregularities than others.

As suggested by the Court of Auditors, the Commission departments concerned have agreed to change the system of recording irregularities which have no financial impact because the amounts involved have been recovered before the irregularity is reported.

4.25. Basing itself on Article 8 of Council Regulation (EEC) No 729/70 of 21 April 1970, which makes the Member States responsible for recovering amounts due as a result of irregularities and, where appropriate, deducting them from expenditure by the national paying agency, the Commission continues to maintain that such amounts do not constitute debts due to the Community within the meaning of Articles 23 and 24 of the

Financial Regulation. It is nevertheless willing to consider this matter further when it receives the departmental report it has asked for by the end of the year.

It should be noted that the amounts involved in cases of fraud and the sums subsequently recovered are published each year in the Commissions's annual financial report on the EAGGF.

##### **Inadequate results, at all levels, of the campaign against fraud**

4.26. The Commission shares the Court of Auditors' view that the deficiencies and shortcomings of the fraud prevention campaign need to be remedied.

##### *At Commission level*

4.27. (a) Availability of resources limits the number of investigations which can be carried out. The precise type of investigation depends on the specific circumstances of the individual case and the powers available to the Commission.

It is true that a large number of 'pre-six' investigations (which precede the initiation of formal proceedings under Article 6 of Council Regulation (EEC) No 283/72 of 7 February 1972) are carried out. These involve a request to the Member State concerned to follow up certain information and depend on its cooperation.

If the Commission is not satisfied with the information received, it launches an official in-depth investigation. This formal phase, based on Article 6 of Regulation No 283/72, no longer depends on voluntary cooperation from the Member State which is now obliged to undertake an investigation. No formal investigation of this kind proved necessary in 1984.

The number of checks under Article 9 of Regulation No 729/70 far exceeds the number of investigations under Article 6 of Regulation No 283/72.

(b) Where national law allows it to act in conjunction with national authorities, the Commission cannot take legal action over and above that decided on by the national authorities since its involvement is limited to the subsidiary role of intervenor.

Article 8 (2) of Regulation No 729/70 would only allow the Commission to act against Member States who do

not pursue fraud with sufficient vigour. In the circumstances it is difficult to see how the Commission could take direct action.

(c) The Commission does endeavour to learn from difficulties encountered in implementing various Community provisions on agriculture. Although irregularities are the main problem, there are others.

On the basis of past experience, the departments concerned consider the most appropriate means of monitoring each new provision or amendment to an existing provision.

As far as existing provisions are concerned, the detection of irregularities or abuses has in fact led to changes in the rules. However, the decision on whether or not to introduce an amendment sometimes hinges on factors such as proof that an irregularity has occurred, the scale of the fraud and the amounts involved, and the time the measure has still to run. Sometimes detection leads to improved monitoring in one or more Member States rather than amendments to Community rules.

#### *In the Member States*

**4.28.** (a) The Member States recognize no legal obligation to report cases of attempted fraud under Regulation No 283/72, except where the irregularity involves a new fraudulent practice or is liable to affect other Member States very quickly (Article 4). The Commission would like to see all Member States making intensive use of this provision.

Member States occasionally report attempted frauds not covered by this provision when they consider that the Commission should be informed.

(b) Eight Member States are now carrying out inspections under Directive 77/435/EEC at the required rate and providing the Commission with details, if not always on time.

#### **Conclusion with regard to the system of fraud prevention**

**4.29.** The Commission appreciates the Court of Auditor's comprehensive and balanced survey and accepts its conclusions.

It would refer the Court of Auditors to point III.4 of its general reply to Chapter 1.

#### *Clearance of the accounts*

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

**4.30 – 4.31.** The Commission agrees with the Court of Auditors that, ideally, clearance decisions should be definitive. Positive or negative reservations were confined to a limited number of cases either in the interests of sound financial management or to avoid referring a large number of similar cases to the Court of Justice. In any event, positive reservations only affected a fraction of the figure of 1 039 Mio ECU mentioned by the Court of Auditors. Positive reservations as such cannot be entered in the balance sheet. However, the Commission will consider how it can attach a note to future balance sheets to accommodate the Court of Auditors' wishes.

On more general issues the Commission, as indicated in paragraphs 34 to 39 of its interim report on measures taken following the discharge decision for 1983 (<sup>1</sup>), has set itself the goal of clearing the accounts for 1985 by 30 June 1987, assuming that it receives Member States' statements at least a year before that date. It will ask the Member States to do all in their power to meet the deadlines laid down in the rules and it will use all the means at its disposal to secure the information required from the Member States on time.

The Commission has also taken appropriate internal measures not only to meet this goal but also to ensure that the backlog for 1982, 1983 and 1984 will be cleared no later than 30 June 1987.

#### **Refusal of approval and overruling of approval in connection with the 1978 and 1979 clearance operations**

#### *The case of the Milk Marketing Boards, United Kingdom*

**4.34 – 4.38.** The Commission would make the following comments on the observations of the Court of Auditors:

(a) The Treaty of Accession allowed the Milk Marketing Boards to remain in existence until the end of the transition period (end 1977). In December 1977 the Commission sent the Council proposals for regulations allowing the United Kingdom to retain the Milk Marketing Boards system in a modified form; these were adopted in June 1978. Almost all the points which required changes to national rules or to the trading practices of the Milk Marketing Boards were subsequently settled within a reasonable period of time. The only problem to which a satisfactory solution could not be found was price differentiations. Given the number and complexity of the questions to be settled, the Commission regards the charge that it was slow to react as unjustified.

(b) The Commission has never invoked its alleged inaction to justify financing in 1978 and 1979. On the contrary, the Commission's conclusion is based on the simple point that it would have been acting inconsistently, had it disallowed part of the expenditure for those years while at the same time proposing retention of the Milk Marketing Boards subject to changes to be made by the United Kingdom within a reasonable time after the adoption of Council Regulation (EEC) No 1421/78 of 20 June 1978, Council Regulation (EEC) No 1422/78 of 20 June 1978 and Commission Regulation (EEC) No 1565/79 of 25 July 1979.

#### *The case of wine distillation, France*

4.41. It is clear that the control system used in France during the period in question left much to be desired. Indeed, it has been considerably improved since then. Nevertheless, the Commission still maintains that Community financing, despite certain shortcomings in national controls, was strictly limited to expenditure on the distillation of table wine satisfying all the requirements for the grant of aid. While the sample analysed was of necessity confined to distilleries for which all the supporting documents were still available, the Commission took care that the choice was unbiased. Given the large number of cases examined, the result appears reasonably reliable. In any case, this wide-ranging investigation revealed nothing that would cast doubt on the claim that the wine distilled under Community auspices was table wine as defined by Community rules.

4.42. The weaknesses of the national control system were brought to light in the course of checks carried out by Financial Control. At first these appeared to indicate that all French expenditure should be disallowed.

It was only in the final phase of the account clearing exercise that the French authorities produced evidence which, if proved relevant by a detailed enquiry, would justify acceptance of part of the expenditure. Had the Commission received this information following the checks carried out by Financial Control, the detailed investigation could obviously have been carried out earlier and in more propitious circumstances.

#### **Problems posed by the non-cooperation of the Member States**

4.43 and 4.44. The Commission agrees that access to the results of national audits is particularly important in the context of audits based on systems analysis. It is making fresh representations to the Member States in an effort to improve the general situation. It should be noted that the Commission has been given access to certain internal audit reports by Member States on request.

#### **GENERAL CONCLUSIONS**

4.45. (a) The Commission would emphasize that generally speaking the payment of advances depends on the availability of resources. It therefore intends to accede to the Court of Auditors' request and initiate the necessary procedures.

(b) The failure to control expenditure on public storage is attributable either to Community rules which give farmers security in the form of intervention prices or, in certain sectors, to an imbalance between production and consumption.

The Commission, like the Court of Auditors, is aware of the problem posed by the aging of products in storage. It is continuing its efforts to dispose of stocks but is faced with inadequate outlets, on both the world and the Community market.

(c) The Commission, like the Court of Auditors, is aware of the disadvantages of present delays in clearing accounts. In July it took steps to speed up matters so as to ensure that the accounts for 1982 to 1985 will be cleared no later than 1987 (?).

The Commission would draw the Court of Auditors' attention to its replies to paragraphs 4.34 to 4.38. The

Milk Marketing Boards case involved more than the clearance of accounts and the appropriate procedure is being pursued.

(d) The Commission agrees that Member States' attitudes are not always calculated to make it easier for

the Commission to discharge its responsibilities. It will pursue its efforts to step up cooperation with the Member States, particularly with regard to checks.

(1) COM(85) 413 final of 2 September 1985.

(2) See point 2, Part I and points 34 to 39 to Part II of COM(85) 413 final.

## REPLIES OF THE COMMISSION TO

### CHAPTER 5

#### **European Agricultural Guidance and Guarantee Fund, Guidance Section, and specific agricultural measures**

##### **SUMMARY OF FINANCIAL INFORMATION**

5.3. The payment figures required by the Court of Auditors may be found in the accounts for the years in question. The Commission agrees with the Court of Auditor's findings concerning commitments entered into during the period 1980-1984. Since the 5-year financial envelope is expressed in terms of commitment appropriations, the Commission has not felt the need, given the complexities of the task, to prepare a statement of the corresponding payments.

##### **OBSERVATIONS ON BUDGETARY MANAGEMENT**

##### *Settlement of former commitments in respect of Council Regulation No 17/64 of 5 February 1964*

5.5-5.8. (a) In view of the shortage of budgetary appropriations in 1983 and 1984, the Commission decided to cancel as many carried-over appropriations as possible. In this context it also decided not to request the carry-over of non-differentiated appropriations covering the projects referred to by the Court of Auditors. After re-examination of the files remaining open, it was found that the amount required was 11,3 Mio ECU lower than the cancelled appropriations.

This overall operation was not without its drawbacks, including the impossibility of committing on the 1984 budget the whole of the second 1984 tranche of projects agreed on by the Commission in December 1984.

In the interests of sound financial management, the Commission therefore adopted general guidelines for the second tranche in December 1984. It took some formal decisions in December 1984 and a number of others in January 1985.

As to the difficulties referred to by the Court of Auditors in paragraph 5.8. (c), the Commission acknowledges that it made a global recommitment of the amounts in question for essentially practical reasons, since the details of the individual project-by-project breakdown were already clear from existing accounting data.

The Commission is fully prepared to take due account of the Court of Auditors' comments in the event of similar situations arising in future.

##### *Accounting treatment of differentiated appropriations under Article 300*

5.9 and 5.10. The switching of items from non-differentiated to differentiated appropriations inevitably entailed various operations and accounting documents which, while practical, are difficult to understand. The Commission shares the Court of Auditors' concern and will ensure that presentation of the 1985 accounts is as transparent as possible.

### *Charging of appropriations to Article 388 and Item 3892 of the budget*

5.11. The proposal for the commitments in question, concerning Community measures for the protection of forests against fire and acid rain, specified the estimated amount of the expenditure and specified in detail the action to be taken in each Member State. Whilst it is true that the recipients of aid were not named at that stage, the Commission had to start this preparatory work as quickly as possible in view of widespread public concern about the issue, as indicated in the European Parliament's resolution of 23 May 1984. Instead a description of the type of creditors was given and individual contracts with the appropriate agencies were drawn up as soon as practicable.

5.12. While recognizing that the position adopted by the Court of Auditors is in accordance with the rules governing charging of appropriations to items of the budget, the Commission felt that in this case 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.

### APPLICATION OF THE DIRECTIVE ON MOUNTAIN AND HILL FARMING AND FARMING IN CERTAIN LESS-FAVOURED AREAS

#### *General comments*

5.14. The Commission would remind the Court of Auditors of its reservations about certain aspects covered in the special report referred to. (1)

5.15. The primary objective of Council Directive 75/268/EEC of 28 April 1975 is to maintain the agriculturally active population of the less-favoured areas by compensating farmers for permanent natural handicaps affecting the areas where they farm.

The objective is qualitative in nature and it is therefore not possible to measure the extent to which it has been attained. Even if it were to be defined in terms of rural population, which is of course measurable, it would be impossible to determine the impact of the Directive as compared with all the other factors concerned in regional demographic changes.

As regards delays in payment by Member States, the Commission regrets these as does the Court of Auditors. However, it should be pointed out that such delays are not typical of this measure. The situation in Italy has been affected by the progressive decentralization of the administration to the regions. This has adversely affected both the adoption of implementing legislation and the provision of finance, since both had to be carried out during the period when regional administrations were being created.

5.16. In the Commission's view the conditions of the Directive and of its application are not excessively complex. The sound administration of the scheme and the prevention of abuses demand that a certain amount of detail be supplied by beneficiaries. This may cause difficulties in some parts of the Community but the Commission has received no evidence of widespread difficulties for beneficiaries nor of particular control problems.

5.17. As a general rule the regions are defined at the level of the smallest administrative unit (commune, parish, etc.). However, the criteria of selection may depend on statistics which are only available over wider areas and, whilst the Directive requires that the zones be composed of agricultural areas which are homogeneous from the point of view of the natural conditions affecting production, it is inevitable that there is some variation within zones.

#### *The delays in the implementation of the measure in Italy*

5.19 and 5.20. Whilst the Commission shares the Court of Auditors' concern about the delays in applying the Directive in some regions in Italy, all the necessary national legislation does now exist. Most regions had adopted legislation between 1976 and 1978 and the last to do so was Sicily in 1980.

Delays in the Commission's decisions on the conformity of regional legislation to the provisions of the Directive are largely a reflection of the difficulties of dealing with a highly decentralized national administration. Moreover such delays do not prevent the legislation being applied in the meantime, as the Court of Auditors writes in paragraph 5.21.

5.23. While the sum outstanding was still considerable at the end of 1984, the Commission would point out that, according to the latest information, it has now received declarations covering 276 000 Mio LIT of the 300 000 Mio LIT actually distributed to the regions.

The Commission will examine the possibility of inserting an explanatory note in the next balance sheet.

**5.24.** The Commission regrets that the Italian authorities, having decided to make use of these optional provisions of the Directive, should do so in a way which reduces their benefit to the farmers concerned.

#### *Other observations relating to the effectiveness of the measure*

**5.26.** The Commission considers that the commitment to continue in agricultural activity for a period of five years does not need to be renewed each year. The Commission has insisted that each beneficiary's claim should be checked at least once every five years. This check would include the verification that the beneficiary was still engaged in agricultural activity.

#### *Problems relating to the regularity of expenditure*

**5.28.** The Commission has written to the Member State to ask for clarification of this matter and is examining how the scheme may be revised so as to give beneficiaries the minimum amount each year.

**5.29.** The Commission has asked the Member State to supply the complete files on collective investments in Bassa Faraese, so that it be in a position to decide on the appropriate action.

#### *Conclusion*

**5.30.** Many of the Court of Auditors' remarks stem from certain common features of measures financed by the EAGGF-Guidance. The Community legislation in this and in many other cases lays down a broad outline for the measure, leaving the Member States to determine the precise way in which it should be applied, on the basis of particular regional and local conditions. In fact the Member State is not obliged to apply the measures contained in Directive 75/268 at all. Moreover, the initial financing is provided entirely by the Member State, from national financial resources, the Community's contribution consisting of a partial reimbursement after payment at the national level.

### **THE DEVELOPMENT OF BEEF CATTLE PRODUCTION IN IRELAND AND NORTHERN IRELAND AND THE STIMULATION OF AGRICULTURAL DEVELOPMENT IN THE LESS-FAVoured AREAS OF NORTHERN IRELAND**

#### *Council Regulation (EEC) No 1054/81 of 21 April 1981*

**5.33.** The primary objective of the measure is to improve farm incomes in an area where beef and milk production are interdependent. It is inevitable that the dairy sector will benefit to some degree even if the emphasis of the aids is directed towards beef production. The relationship between the two sectors even goes beyond the usual situation whereby most beef calves are a by-product of the dairy herd. In the areas affected by the measure, most farms produce milk and rear the surplus calves for sale as store or as fat cattle. In these circumstances it would be unrealistic to try to convert dual purpose dairy-beef herds to single purpose beef herds. The objective of the measure is therefore simply to improve the contribution which beef production makes to producers' incomes by improving the beef qualities of the herd. The Commission has therefore ensured that aid goes only to insemination by bulls of beef or of dual purpose breeds with the capacity to improve the beef potential of the herd.

**5.35.** The Court of Auditors' conclusion does not take sufficient account of the basic objective of the measure which was to improve farm incomes, with an emphasis on beef production. In practice this meant that the measure would also benefit milk and possibly even sheep production. As regard the rate of the uptake by farmers, it should be remembered that with this type of aid the farmer must also contribute to the cost and his decisions are affected by wider economic considerations.

#### *Council Regulation (EEC) No 1942/81 of 30 June 1981*

**5.37.** These aids also depend on contributions by the farmer and so are not entirely programmable. Whilst it is true that the average cost of farm road improvements was higher than forecast, the United Kingdom has con-

tinued to finance this part of the action from purely national resources and by the end of 1984 the total length of roads concerned has risen to 2 654 km, thereby fulfilling the programme.

**5.38.** The Commission has asked the Member State for further information on the way in which this aid has been implemented, with a view to taking appropriate action.

### *Conclusion*

**5.39.** The Commission feels that, in drawing up Regulation No 1054/81, the Council took proper account of the socio-economic and agricultural realities of the region concerned.

As regards Regulation No 1942/81, it is too early to assess the results of this 10-year programme.

### FLOOD PROTECTION IN THE HERAULT VALLEY

**5.43.** The works involved in the flood protection measures provided for in this action are not comparable with the irrigation works in the examples cited by the Court of Auditors since the objective is much wider than in the case of irrigation.

**5.44–5.45.** The measure in question benefits only one limited area of one Member State, though it should also yield benefits to the Community budget in the longer term if it succeeds in shifting agricultural production from wine to other products. In these circumstances the measure can only be put into effect with the consent and cooperation of the local authorities concerned.

### ACCELERATION OF AGRICULTURAL DEVELOPMENT IN CERTAIN REGIONS OF GREECE

**5.47.** The Court of Auditors criticizes the fact that the nature of the programme has left the administrative regions concerned the option of choosing the projects they wish to carry out without reference to the guidelines contained in the programme. In the Commission's view this situation corresponds with the intention of the Regulation. The measure is intended to accelerate

the agricultural development of the chosen regions by means of Community financial participation in a range of measures.

Since the programme is a multiannual one, it is premature to draw conclusions regarding overall implementation on the basis of one year.

**5.48.** As regard the differences shown in Table 5.2., these may in many cases be explained by unforeseen circumstances. Moreover it is to be expected that a new Member State during the first year of application of an extensive specific programme, should have some difficulties with its implementation. The flexibility shown by the Greek authorities, which enabled virtually the whole of the advance to be used on measures covered by the Regulation, is in keeping with the primary objective of the action, i.e. to accelerate agricultural development in the regions concerned.

### APPLICATION OF STRUCTURAL MEASURES IN THE WINE-GROWING SECTOR

**5.49.** The Commission agrees with much of the Court of Auditors' analysis of the difficulties encountered with the wine market organization. However, there have been substantial reforms of the sector since the end of the period covered by the Court of Auditors' report. These reforms include:

- a reduction in the price support given to table wines (removal of short-term storage aids, a more central role for compulsory distillation and a drastic reduction in the price for such distillation);
- the extension of the prohibition on new plantings to cover all types of wines, including the 'V.Q.P.R.D.' types;
- an agreement in principle to introduce a vineyard register; this reform, already suggested by the Court of Auditors in its report on the 1982 financial year, requires an implementing Regulation for which the Commission is preparing a proposal;
- the reinforcement of the wine grubbing measures, now provided for in Regulation (EEC) No 777/85 of 26 March 1985; (2)
- stricter control on the conditions for access to aid under Regulation (EEC) No 335/77 of 15 February 1977; in its new criteria for 1985 the Commission announced that aid would no longer be given for distilleries nor for wine manufacturing unless for rationalization without any increase in capacity.

The replies which follow should be seen in the light of these reforms.

### *The situation in France*

**5.53.** The latitude of 10% new planting permitted under Regulation (EEC) No 458/80 of 18 February 1980 is only allowed when such new planting is technically indispensable to the restructuring. Moreover it should only lead to the production of wine of a quality which has no difficulty in finding a commercial outlet, since Article 3 of the Regulation specifies that the restructuring projects must

- guarantee an improvement in the quality of the wines produced, and
- offer an adequate guarantee as to their economic effectiveness.

Further comment on this measure is given in reply to paragraph 5.57.

**5.55.** (a) Whilst it is clearly beneficial to link, where possible, the marketing measures to those concerned with the structure of production, this should not preclude aid to other projects which meet the principal objective of improving the conditions under which the product is marketed. In France, for example, the national aid to commercial enterprises, the granting of which is a condition for aid under Regulation No 355/77, is only given on condition that there is a linked export development programme.

(b) The amended provision adopted in Regulation (EEC) No 1932/84 of 19 June 1984<sup>(4)</sup> (Article 13(3) of Regulation No 355/77) requires that, for projects introduced after 30 April 1986, the national aid be formally granted, so guaranteeing its amount to the beneficiary.

### *The situation in Italy*

**5.56.** An infringement procedure against Italy for the non-payment of aids under Regulation (EEC) No 456/80 of 18 February 1980 is currently before the Court of Justice.

**5.57.** The Commission understands many of the Court of Auditors' doubts about the cost-effectiveness of the action under Regulation No 458/80 and about

the coherence of its objectives with the wine market organization in general. Indeed in its report<sup>(5)</sup> which led to the recent reforms of the wine market organization, the Commission proposed that the measure should not be rolled-over when it expires at the end of the 1986/87 wine marketing year.

The Commission would make the following observations on the specific questions raised by the Court of Auditors:

(a) the Regulation does not require that reparacling be part of the restructuring process. It provides for aid for replanting with a view to rationalizing the work on the vineyard and to improve the quality of the wine produced;

(c) As regards the proof of previous grubbing, in Tuscany, the Commission will pay particular attention to this aspect when it has received claims for payment. In the meantime, it is examining to what extent a possible infringement of Community legislation on replanting rights may be involved.

**5.58.** (a) A cooperative must build up its volume of business gradually. Also producers accustomed to acting independently need time in order to commit themselves totally to cooperative action. Further growth in cooperation will depend on how successful the cooperative is in marketing their production. It is in any case highly desirable that the vinification of table wine grapes should also be carried out under the conditions which can be provided in a cooperative winery.

(b) The price of quality wines depends not only on the essential characteristics of the products but also on the market balance for that particular type of wine. It is primarily the duty of producers to ensure that a balance is maintained by producing wines for which there is a commercial demand. Moreover, it is the Commission's view that the problems cannot simply be expressed in terms of table wines and VQPRD wines, without reference to the range of quality within each of these categories (see reply to paragraph 5.62.).

(c) The Commission has always been careful about aid to distilleries and it has only been given in special cases where the need was established under the Italian programme. No further aid has been given to this sector since 1984.

### *The situation in the Federal Republic of Germany*

**5.60.** Wine production in Germany is subject to greater fluctuations than in other wine producing countries.



In these circumstances, increased storage capacity is indeed capable of better regulating the market. However, the distillation referred to by the Court of Auditors resulted from two consecutive years with exceptionally large harvests (16,1 million HI in 1982/83 and 13,4 million HI in 1983/84 as compared with an average production of around 8 million HI).

### *Conclusions*

**5.62.** Whilst agreeing with the Court of Auditors' analysis suggesting that in general terms the difficulties

facing both producers and the market organization would be lessened by a move to lower yielding and higher quality wines, the Commission does not see this simply in terms of table wine versus 'VQPRD' wine.

It believes that there is a place in the market for table wines of a marketable quality and the production of better quality table wines can be remunerative for the producer as well as improving the overall market balance. As indicated in the reply to paragraph 5.49., the recent reforms to the market organization should facilitate such a development.

(<sup>1</sup>) OJ C 358, 31. 12. 1980.

(<sup>2</sup>) OJ L 88, 28. 3. 1985, p. 8.

(<sup>3</sup>) OJ C 78, 26. 3. 1985, p. 7.

(<sup>4</sup>) OJ L 180, 7. 7. 1984, p. 1.

(<sup>5</sup>) Doc. COM(84) 440 final of 25 7. 1984.

## REPLIES OF THE COMMISSION TO

### CHAPTER 6

### **Common fisheries policy**

#### **OBSERVATIONS ON EXPENDITURE ON BIOLOGICAL STUDIES AND FISHING AGREEMENTS WITH CERTAIN DEVELOPING COUNTRIES (LDCs)**

#### *Biological studies*

**6.8.** The Commission has decided to introduce a system of checking and, as far as possible, competitive tendering. The requirements will depend on the amounts involved.

In the fisheries sector, however, the specialized nature of the studies to be undertaken plus the geographical constraints severely limits the number of research institutes potentially capable of satisfying the requirements. Consequently, the Commission's choice is inevitably restricted from the outset.

#### **Publication of the conclusions of studies**

**6.9.** The Commission would refer to its reply in the interim report on action taken in response to the 1983 discharge, a copy of which was sent to the Court of Auditors on 2 September (doc. COM(85) 413 final, pp. 61, 62 and 63).

#### *Payments under the fishing agreements with certain LDCs*

**6.10, 6.11, 6.12.** The very nature of the agreements, which involve the provision of a financial consideration to these non-member countries for facilities offered (fishing rights in exclusive economic zones), and the need to respect the sovereignty of the countries concerned mean that the Community cannot insist on being informed about the use to which the countries put the sums involved.

## REPLIES OF THE COMMISSION TO

## CHAPTER 7

**Regional aid expenditure**

1. The Commission would begin by emphasizing that it is in agreement with the Court of Auditors on the objective of the ERDF. It would point out however that the ERDF operates within a legislative framework which imposes limits, if not constraints, on management in the strict sense of the term. Some of the less than satisfactory aspects are inherent in the regulations in force until the end of 1984.

The Court of Auditors itself recognizes that the new Regulation, which was proposed by the Commission in November 1983 and entered into force on 1 January 1985, will help to make the ERDF more effective.

*2. Opportunities for improving the effectiveness of the ERDF offered by the new Regulation*

On the question of objectives pursued, the Commission is in fact seeking to increase the effectiveness of the ERDF as an instrument of regional policy. The qualitative improvements the Commission proposed to the Council were consistent with the principles set out in its report on ways of increasing the effectiveness of the Community's structural funds <sup>(1)</sup> and have, for the most part, been incorporated into the new ERDF Regulation. <sup>(2)</sup>

Thus the provisions governing coordination of Community policies with each other and with national regional policies should contribute to the achievement of a higher degree of convergence between the economies of the Member States (paragraph 7.34) and a more balanced distribution of economic activity within the Community.

Similarly, the definition of guidelines and priorities for Community regional policy — drawn up on the basis of a periodic report on socioeconomic changes in the regions, an analysis of the regional impact of other policies and development programmes — should allow clarification of the regional development objectives to be pursued in terms of planning (paragraph 7.23).

The increased weight given to Community programmes in ERDF operations should help to improve integration of the various Community policies and instruments (paragraph 7.32).

Moreover, the results of profitability assessments and socioeconomic cost-benefit assessments which the new Regulation requires Member States to submit in support of aid applications for major investment projects in industry and infrastructure should give the Commission a better idea of their viability and the contribution they could make to economic and regional development (paragraphs 7.23 and 7.32).

Moreover, the progress reports Member States are required to submit, combined with on-the-spot checks and *ex post* assessment, will clearly make it easier to keep a closer eye on attainment of the objectives of the programmes (paragraphs 7.23, 7.32 and 7.36).

The Commission is also aware that, given the number of ERDF operations (some 26 000 at the end of 1984), progress monitoring and systematic analysis of the Fund's activities are no longer possible without the help of computers. It is making every effort to complete the computerization process and bring it into operation as soon as possible. This will also enable it to produce lists of operations to recover aid (paragraph 7.8).

*3. Additionality*

The Commission shares the Court of Auditors' concern that the ERDF may not have produced a real increase in Member States' own regional development efforts (paragraph 7.10). The shift from a project financing system to programme co-financing system should help to increase complementarity and make it more obvious. However, it is clearly impossible to make a mathematical check on global additionality since this would necessarily involve comparing actual regional expenditure by the Member State with what it would have spent if the ERDF did not exist. The Court of Auditors itself admits that global additionality is difficult to

verify (paragraph 7.12). The Commission is prepared to consider any ideas the Court of Auditors may have as to a method for verifying global additionality.

#### *4. Less than satisfactory aspects inherent in the old regulations*

The Court of Auditors rightly wishes to see old decisions being closed more quickly (paragraph 7.7). It should be pointed out, however, that the regulations in force until 31 December 1984 contained no binding provisions in relation to closure or to the completion date indicated in the aid application. Consequently, the fact that the completion date has passed does not, of itself, constitute grounds for decommitment and hence automatic closure.

The Court of Auditors claims that there is no direct relationship between the execution of a given project and the aid decision. It notes that work on many assisted projects, particularly industrial projects, had started before the aid decision was taken (paragraphs 7.13 and 7.14). The fact is however that public expenditure incurred from the twelfth month preceding lodgement of the aid application is regarded as eligible under the ERDF Regulation. Before applying for ERDF aid, the Member State decides how much it will provide itself, since ERDF assistance is determined by reference to national aid.

Thus ERDF rules themselves are often the root cause of the situation noted by the Court of Auditors, the situation which led it to question the additionality of ERDF operations, notably those relating to productive investment.

#### *5. Specific observations made by the Court of Auditors*

In support of its observations the Court of Auditors analyses a number of specific projects in the regions inspected in 1984. It quotes two 1981 decisions granting aid to Sicily (paragraphs 7.16 to 7.23) to illustrate the overall need for more stringent selection of investment projects and better monitoring of the implementation of assisted projects. The Commission took the view that these projects met a fundamental need in the region concerned and were fully justified, even though they were later abandoned, in the face of mounting costs due to serious inflation in the years before and after 1980. The projects were inspected and monitored by the Commission, which may well make a decommitment.

As to the 42 industrial projects inspected in France, selected from several hundred projects so far financed in the regions concerned (paragraphs 7.24 to 7.26), the Court of Auditors notes that 12 related to firms that had discontinued or suspended business and goes on from this to assert, in general terms, that the Commission does not take sufficient account of the situation of the economic sector concerned or of the profitability of the investment when assessing projects. However, it is generally recognized, in the present economic climate, that there are no guarantees that investment in any industry will prove successful.

Lastly, the claim that the Commission did not ensure that certain industrial projects in the FR of Germany were consistent with the regional development programme and failed to monitor achievement of objectives (paragraphs 7.30 to 7.32) is not entirely justified. In fact, only the first generation regional development programme had the stated aim of creating skilled jobs. This was subsequently broadened to cover job creation in general.

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(<sup>1</sup>) COM(83) 501 final of 28 July 1983.

(<sup>2</sup>) Council Regulation (EEC) No 1787/84 of 19 June 1984 on the European Regional Development Fund (OJ L 169, 28. 6. 1984).

## REPLIES OF THE COMMISSION TO

### CHAPTER 8

#### Social sector

#### SUMMARY OF FINANCIAL INFORMATION (EUROPEAN SOCIAL FUND) (CHAPTERS 60 AND 61)

##### *Implementation of the budget*

8.2. The decision of 19 December 1984 dealt with:

- a number of applications which had not been covered by the decision of 23 July 1984;
- the utilization of appropriations which had become available again, which meant that the (weighted linear) reductions had to be recalculated:

Partly because of this second factor, and partly to make the position regarding commitments clearer, the decision of 19 December 1984 replaced the two earlier decisions.

8.3. The Netherlands agreed to payment of only part of its advances before the end of 1984, payment of the remainder being deferred until the beginning of 1985.

#### OBSERVATIONS ON REGULARITY AND LEGALITY

##### *Entry of commitments and payments in the accounts*

8.6–8.10. The information given to Parliament on 12 February 1985 was full and explicit. Further details have been supplied to the Court of Auditors in the interval.

##### *Observations on an overruling of the Financial Controller's refusal to grant approval*

8.14. In response to the Court of Auditors' observations, the Commission presented a proposal to the Council for a Regulation amending Council Regula-

tion (EEC) No 2950/83 of 17 October 1983. This would allow the self-employed to be treated in the same way as employed persons for the purposes of aid for the creation of additional jobs.

#### IMPLEMENTATION OF THE NEW EUROPEAN SOCIAL FUND

##### *Observations on the procedures for preparing the approval decisions*

##### **Guidelines**

8.17. The guidelines for management of the Fund from 1984 to 1986 were a transitional arrangement. The Commission adopted more specific guidelines for 1986 to 1988 in Decision 85/261/EEC of 30 April 1985.

8.18–8.20. A handbook for potential aid recipients is being prepared. The departments responsible for the Fund also intend to compile a compendium of documents covering questions of interpretation and matters arising in connection with appraisal, based on specific cases encountered in everyday practice. This will comprise departmental memos on Commission decisions, comments by departments, and descriptions of the practices and procedures to be followed.

The Commission will do all it can to solve the problems referred to in paragraphs 8.19. and 8.20. It must be remembered, however, that the 1984 guidelines were purely transitional. It follows that in certain cases specific choices had to be made on the basis of the general guidelines. Indeed, given the very varied nature of the Fund's operations, some guidelines are bound to be rather general.

##### **Codification**

8.21. The Court of Auditors refers to a checklist of the grounds on which aid applications can be refused. This

was drawn up specifically for the first year in which the rules and guidelines adopted at the end of 1983 were to be applied. In the light of experience gained, a more systematic and comprehensive checklist for use in appraising the admissibility, eligibility and priority of aid applications was drawn up by the Fund's administration in 1984. This new checklist will be used for the scrutiny of applications relating to 1985 and subsequent years.

### *Observations on the decisions approving or rejecting applications for assistance*

**8.23.** Since 1984 was a transitional year, the Commission decided to adopt a flexible approach in applying the guidelines to applications for assistance. However, the requirements laid down in Council Decision 83/516/EEC of 17 October 1983, Regulation No 2950/83 and Commission Decision 83/673/EEC of 22 December 1983 were strictly observed except as regards certain formal requirements.

The Commission has made it clear, both to the Fund Committee and to the national authorities, that the guidelines will be strictly applied from 1985; this is in line with the Court of Auditors' recommendation.

**8.24.** The Commission finds it difficult to imagine how application criteria could be more precise than those already laid down in the rules governing the Fund.

The eligibility of operations is assessed when applications are examined in the light of Decision 83/516 and Regulation No 2950/83. The provisions of those acts are sufficiently clear and require no further clarification except on certain points of interpretation; these are resolved on a case-by-case basis (see reply to paragraphs 8.18 to 8.20) and may lead to proposals for amendments to the rules, as was the case in 1985 when assistance for job creation was extended to the self-employed (see reply to paragraph 8.14.).

The question as to whether an operation has priority or not is determined in each case by reference to the management guidelines. These are in fact implementing criteria designed to make it as clear as possible, in advance of the lodging of applications, which operations are to have priority for assistance among the many that are eligible.

The way in which the rules and guidelines have been applied is set out in an explanatory document similar

to the 18 July 1984 document accompanying the draft approval decisions submitted to the Commission.

The Commission appreciates that all rules are capable of improvement. It will always welcome specific suggestions as to the rules the Court of Auditors feels to be in need of further refinement. It could take such suggestions into account in drawing up proposals for presentation to the Council and revising acts it has adopted itself. The Court of Auditors might be interested to know that Commission departments are currently preparing a revision of Decision 83/673; the amounts of assistance for expenditure on aid for recruitment and employment are reviewed annually (Article 2 of Regulation No 2950/83 and Commission Decisions 83/621/EEC of 30 November 1983, 84/829/EEC of 27 July 1984 and 85/420/EEC of 30 July 1985).

The same considerations apply to the guidelines for management of the Fund, which complement the legislative provisions as regards exercise by the Commission of its powers of discretion in the selection of projects for financing. These guidelines are also reviewed annually (Article 6 of Decision 83/516) (see also reply to paragraph 8.17.).

Changes were made to the classification of certain applications in 1984 because the Member States had not had sufficient time to adjust fully to the new guidelines. In any event changes were confined to cases where it could be deduced from the content of an application qualified for under a category other than that proposed by the Member State.

**8.25.** As to the mistakes referred to by the Court of Auditors in respect of certain amounts approved, the precise nature of the expenditure and its compatibility with Article 1 of Regulation No 2950/83 will be assessed when the request for payment of the balance is examined.

**8.26.** The checklist referred to in paragraph 8.21. of the Court of Auditors report (see also reply to that paragraph) was used by Commission departments when appraising applications.

The grounds for the Commission's decision are to be found in the individual files but may require further elucidation on occasions.

### *Conclusions*

**8.30.** The Commission intends to pursue its activities in the social sector in line with clearly defined rules,

with the same strictness it applies to all its financial operations. In this spirit it will continue to do all it can to act on the constructive comments made by the Court of Auditors.

## WINDING UP THE OLD EUROPEAN SOCIAL FUND

### *Observations on final payments*

**8.32.** The Commission has ordered a review of these cases and will inform the Court of Auditors directly of the outcome.

**8.33.** The first case referred to by the Court of Auditors involves a body which went bankrupt and was consequently unable to submit a final breakdown of expenditure in time. Under the circumstances the national authorities took the view that submission of a claim for payment of the balance was nevertheless justified since all the operations approved had been carried out and failure to meet the prescribed deadline would invalidate the claim. The Commission will forward the missing document to the Court as soon as it is received. If it is not forthcoming within a reasonable length of time the Commission will ask the Member State to repay the sum in question.

In the other three cases raised by the Court of Auditors Commission departments have established the sum overpaid and requested repayment.

**8.34.** During an on-the-spot inspection postdating that carried out by the Court of Auditors Commission officials managed to obtain the financial data needed to establish the final global breakdown. This revealed that expenditure actually incurred on the operations approved had exceeded the sum taken as the basis for determining assistance from the Fund.

### *Observations on recoveries*

**8.34–8.37.** The time taken to effect recovery is determined by the time limits which operate between payment of an advance and the point at which it becomes possible to establish that overpayment has occurred — generally when the final payment claim is submitted. In the case of commitments prior to 1984 the Member States had to submit a final payment claim within 18 months of the date of completion of the operation (Article 4 (1) and (2) of Commission Decision 78/706/EEC of 27 July 1978, as amended by Commission Decision 82/540/EEC of 26 July 1982). To this must be added the actual duration of the operation itself: this precedes the period allowed for the submission of final payment claims and may be as long as 36 months in the case of pluriannual commitments.

The Commission is confident that the arrangements adopted following the 1983 review, in particular Article 4 (approval of general operations for a period not to exceed the Community financial year) and Article 6 (ten-month time limit for submission of the final payment claim after completion of an operation) of Decision 83/673, will speed up recovery procedures significantly to the Court of Auditors' satisfaction.

## REPLIES OF THE COMMISSION TO

### CHAPTER 9

### **Research, energy, etc.**

### OBSERVATIONS ON FINANCIAL MANAGEMENT

**Table 9.1.** When supplementary and amending budget 1/84 was approved most of the appropriations remaining in Chapter 100 were transferred to the rel-

evant headings by the budgetary authority. This was done despite a statement by the Commission to the effect that these appropriations would not be used by 31 December 1984, unless programme decisions were adopted straight away. In fact no decisions were taken until 12 March 1985. It therefore proved impossible to use a sizeable volume of Chapter 73 appropriations in 1984.

**9.2.** (a) Although the utilization rate for appropriations for payment for energy cannot be regarded as ideal, the Commission would nevertheless point out that it went up from 35% in 1983 to approximately 65% in 1984.

The Commission has imposed strict limits on appropriations for payment for this sector in the 1986 preliminary draft budget with a view to achieving maximum utilization.

(b) The point should be made in relation to Table 9.1. that, while the Chapter 73 utilization rate for cost sharing and concerted action projects fell short of the 90% achieved in 1983, this is solely due to the fact that the Commission was unable to use appropriations entered in the supplementary and amending budget (81 Mio ECU in commitment appropriations and 28 Mio ECU in payment appropriations) in the absence of a Council decision (taken on 12 March 1985). Were it not for this factor, the utilization rate for appropriations for cost sharing/concerted action projects would be 88% for commitment appropriations and 89% for payment appropriations.

As regards the fourth and final contribution to the JET budget for 1984, the Commission was obliged to make this payment under the terms of JET's Financial Regulation, that is to say, in response to the call for funds made by the Projects Director.

The final payment was made on the last day allowed by the Financial Regulation. Once a call for funds has been made the use JET makes of its appropriations for payment is outside the Commission's control.

## ENERGY: COST SHARING PROJECTS

**9.3 and 9.4.** The Commission has taken careful note of the Court of Auditors' recommendation at 9.4. 'that the present systems of internal and external technical evaluation should be expanded to provide a clearer assessment of the likelihood of commercial exploitation for each objective within a completed project.'

The Commission is examining the best ways to introduce a system of periodic requests to all contractors for information about the state of completed projects, with follow-up in case of non-reply.

## INDIRECT ACTION RESEARCH

### *Management procedures*

**9.5.** Under the general rules applicable to the institution, the Directorate-General concerned has always had instructions covering financial and contract management procedures for indirect action.

To meet the Court of Auditors' main concerns, the Directorate-General concerned began to revise these instructions in mid-April 1985 to produce a manual which became effective on 1 November 1985.

### *Use of external audit firms*

**9.7 and 9.8.** The Commission confirms its intention of making full use of the verifications carried out by audit firms. It will pay particular attention to the Court of Auditors' recommendations.

## INFORMATION AND TELECOMMUNICATIONS TECHNOLOGIES

**9.13.** (a) The Commission has had a detailed investigation carried out into the treatment of commitments as requested by the Court of Auditors and has sent it a working paper on this study.

(b) Commission departments have produced a basis for calculating staff expenditure which makes it possible to compare actual expenditure with the ceiling of 4.5% of total appropriations deemed necessary. Steps will be taken to ensure that this percentage is not exceeded throughout the life of the programme.

(c) The Commission has taken careful note of the Court of Auditors' comments and is introducing the desired improvements as part of the procedure for 1985.

**9.14.** The Commission can assure the Court of Auditors that it will give every consideration to the detailed recommendations referred to.

## REPLIES OF THE COMMISSION TO CHAPTER 10

### Cooperation with developing and other non-member countries

#### FOOD AID (CHAPTER 92)

**10.3.** If current requests for mobilization were included, the figures in Table 10.2., would read as follows:

— Cereals	1 505 167 t
— Milk powder	173 094 t
— Butteroil	49 854 t

#### *Financial management*

##### Unsettled accounts

**10.5.** Systematic audit visits have been made to national intervention bodies since 1984 in connection with the clearance of food aid accounts.

**10.6.** Indirect aid operations are highly complex. Apart from the allocation of food products, they involve cash contributions to cover the cost of sea and land transport plus a contribution to distribution costs. These financial operations are staggered over time since reimbursement generally depends on presentation of a mass of documentation which often reaches the Commission late and requires painstaking examination.

##### Supervision of counterpart funds

**10.7.** The Commission has analysed the information available on counterpart funds.

The revision of management procedures now under way should lead to greater integration of counterpart funds into the Community's technical and financial cooperation.

#### Late payments to UNHCR

**10.8.** The late payment referred to by the Court was due to a legal difficulty which arose in 1984 in connection with the interpretation of the framework food aid regulation. This called for a novel solution which took some time to devise.

#### *Supply of aid*

##### Late shipments

**10.11.** Compliance with the loading deadlines laid down in the food aid mobilization regulations is a precondition for release of the security guaranteeing delivery.

Except in cases of *force majeure*, the contractor is penalized if he fails to comply.

*Force majeure* was invoked by the contractors in connection with the cif deliveries to Somalia, Mozambique, Senegal and Ghana referred to by the Court of Auditors. It is for the Member State concerned to accept this or not. The grounds for releasing the security will be examined when the accounts are cleared.

#### *Quality of aid*

**10.12.** The problem which arose in connection with supplies of milk powder to Ghana was due to the fact that the beneficiary was not specific enough in indicating the quality required. In the 1985 allocation Ghana will receive the type of milk requested and the specifications will be written into the special mobilization regulation.

It is true that the provisions on packaging were not strict enough. Council Regulation (EEC) No 1354/83 of 17 May 1983 <sup>(1)</sup> was adopted with this in mind.



**10.13.** It was instances of the kind raised by the Court that led to the systematic quality controls mentioned in paragraph 10.14. These could be supplemented by the damage reports referred to in paragraph 10.15.

As already stated in paragraph 10.12, Regulation No 1354/83 has been amended as regards the packaging of food products.

Taken together these measures should reduce if not rule out cases in which supplies are unacceptable in terms of quality.

**10.15.** The Commission is well aware of the problem raised by the unwillingness of recipient countries to lodge insurance claims.

It therefore proposes to follow up individual representations with a circular reminding recipient countries and bodies of the steps to be taken. It is also examining the possibility of financing damage reports from the Community budget as a logical extension of the systematic quality controls carried out on loading.

## COOPERATION WITH NON-ASSOCIATED DEVELOPING COUNTRIES (CHAPTER 93)

### *Financial management*

#### **Low use of appropriations**

**10.17.** The differentiated appropriations system allows the Commission to spread commitments under Article 930 over two years. It is over this period that the utilization rate of commitment appropriations must be assessed. From the outset all commitment appropriations for aid to non-associated developing countries have in fact been used up during the period in which they were valid. There will be a 100% utilization rate for 1984 appropriations too.

As the Court of Auditors has noted, the utilization rate for payment appropriations (79% of available appropriations in 1984 as against 57% in 1983 and 39% in 1982) is increasing because of the experience gained by the Commission with regard to the pattern of payments.

#### **Seriously delayed projects**

**10.18.** The projects begun prior to 1982 were delayed because, in addition to the difficulties normally encountered in recipient countries, there were problems with cofinancing partners. However, since the end of 1984 seven of the eight projects referred to by the Court of Auditors have started, the exception being a project where amendments had to be made to the agreement between the EEC and the cofinancing partner. This means that Community funds can now be paid out.

#### **Payments prior to operations**

**10.19.** Although cofinancing offers advantages to the recipient country it complicates project administration. This is why the management of cofinanced projects is often entrusted to the cofinancing partner in countries where the Commission is not represented. The Commission monitors progress via the periodic reports the cofinancing partner is required to submit.

### *Projects in Thailand and Indonesia*

#### **Incomplete files**

**10.21.** The Court of Auditors exaggerates when it claims that for many projects the files kept in Brussels are inadequate. It is possible, given departmental responsibilities, that contract documents are filed in different departments.

#### **Co-financing activities**

**10.22.** When it first provided aid to non-associated developing countries, the Commission had to agree — given the limited range of possibilities — to finance projects proposed by the government institutions receiving aid.

The Commission recognizes the advantages of a simple management structure but application of this principle often raises problems.

**10.23.** The lack of information on implementation of a crop development project in the North-East region of Thailand is not due to the scale of Community aid but rather to poor coordination between the various donors. This would normally be ensured by the Thai authorities, but they are not well represented in this backward region.

#### **Inadequate selection of consultants**

**10.24.** Objectively the Court of Auditors comments are justified but they refer to a period when a shortlist was not compulsory. Selection procedures are now strictly applied in accordance with the rules in force. In the case in point the Government authorities chose another consultant subsequently from a shortlist drawn up by the Commission.

**10.25.** The frequent switching of technical assistants was mainly due to the personal problems of the individuals concerned. This did undoubtedly have an adverse effect on implementation of the project. However, despite this setback in a province where working conditions were difficult, the firm concerned produced satisfactory implementation reports for other components of the project.

#### **Poor studies and planning of projects**

**10.26.** Most of the initial difficulties in project implementation may be ascribed to the fact that this project was the first ever EEC-funded project in South East Asia. The Commission was not at that time fully familiar with local conditions and in particular with the very intricate national administrative and financial procedures.

These difficulties were gradually overcome, however, and a review mission sent out in 1979 resulted in a reshaping of the project allowing for its subsequent successful completion, as noted in the report by the Court of Auditors.

**10.27.** The project is part of a national plan for dairy development which was initiated in the late 1970s and is designed to fit into the objectives set by the Indone-

sian authorities to extend dairy herds among small farmers in areas best suited for milk production. The association of livestock and agriculture can often be a significant factor in the progress of small farmers. A large number of cooperatives to collect and distribute milk has been organized throughout Java and has been in operation for many years. The cooperative and processing unit of the Baturraden project will be integrated into this network.

The policy adopted by the Indonesian government is to replace some imported products by locally produced products. Although powder imports may be available at a lower price on the world market, Indonesia, like other major developing countries, such as India or Pakistan, has decided that a degree of self-sufficiency is necessary for the country's social and economic development. Local production is therefore encouraged.

Marketing prospects in the vicinity of the project are reasonable; local demand for milk has been expanding in the region, with unorganized producers developing production to meet growing demand in Puwokerto and Cilacap urban areas. Any additional output can be channelled to established market outlets through the existing cooperatives system.

Although modern-style stables do exist, using technology unsuitable for small production, most milk production in Java comes from peasant production. Java's peasant agriculture has been able over the years to evolve a remarkable small scale intensive production system for dairy cattle compared to conditions prevailing in developing countries. A small number of cows are kept in the sheds all year round under controlled conditions. The state of hygiene and health of these animals, which are often Friesian cows, is quite good, with milk production averaging over 8 l/day, and sometimes up to 15 l/day. The fodder used is generally obtained from local by-products such as rice bran, copra meal and other fodder, which provide adequate nutrition and promote good lactation.

#### **Inadequate performance of local partners**

**10.28.** (a) It is true that the Thai Government has not fulfilled its obligations so far. However it is examining various financing options in association with the National Agricultural Cooperative Training Institute and other bodies. The Commission is taking a keen interest in developments.

(b) Recent information would appear to indicate that the payment problem is being settled. Technically speaking, the project has achieved its objectives.

(c) Despite the Court of Auditors' finding that the Indonesian authorities had failed to supply the reports provided for in the financing agreement, the project was a good one which was correctly implemented.

#### **The intervention of the Asian Development Bank**

**10.29.** The need to improve and rationalize cooperation procedures has been recognized by the Bank and by the Commission for some time. Following detailed discussions in 1981 and 1982, a precise agreement on cofinancing procedures has been reached. Three distinct types of cofinancing 'model arrangements' have been defined, spelling out procedures and considerably improving the implementation of joint projects.

The Bank has also improved the information it provides to cofinancing partners on project execution, establishing a separate cofinancing unit within the Bank's country department to improve contacts.

As to the role of the Delegation *vis-à-vis* implementation of cofinanced projects, the situation has evolved since it was first established. Under new arrangements with the Asian Development Bank, the Delegation does have a more active role to play, particularly under the parallel type of cofinancing, which clearly allows for their joint supervision, and which has been seen to be the preferred form of association in recent years. While the Delegation has foremost devoted its limited resources to autonomous projects, its staff has participated in joint missions, and more so in recent years.

**10.30.** It is true that the reports sent to the Commission by the Asian Development Bank (ADB) were inadequate, which is why the Commission took steps to obtain fuller reports, at least on those projects where Community involvement was significant. Furthermore, to improve its own monitoring of projects, the Commission has decided to provide additional staff for the Bangkok Delegation and open a suboffice in Jakarta.

#### **Disastrous result of the Sulawesi transmigration and area development project**

**10.31.** This project should be seen in the general context of the large-scale transmigration programme undertaken by the Indonesian Government since the beginning of the seventies with financial backing from the IBRD and the ADB. Projects of this kind are intrinsically complicated, not least because of the problem of coordinating the large number of authorities and administrative departments implementing them in inaccessible regions. The Sulawesi project is further complicated by the fact that it attempts to counter earlier criticism by maintaining a balance between development measures in favour of the local population and the migrants. A further point is that the Commission, as a relatively minor donor, does not have the same influence as its cofinancing partners (IBRD and ADB). For these reasons, the Commission has financed no projects of this kind since 1978 and has no intention of financing others.

Half the Community aid was spread among a number of projects because, under Indonesian rules and regulations, projects are systematically divided into small or medium-sized components, the Commission financing local expenditure only. As to the financing of feasibility studies for similar projects in the future, it would appear to be a good idea for the Community to contribute to these projects at the planning stage, even though it does not intend to finance implementation, given the Government's ambitions and the need to improve quality.

**10.32.** Since the Commission embarked on this cofinancing project with other major donors (ADB, Islamic Development Bank), it had to accept their procedures and *modus operandi*. Following a feasibility study, their practice is to submit the project to the decision-makers before the precise shape of the project has been defined by detailed technical studies.

**10.33.** The agency implementing the project was manifestly inadequate. It is to be hoped that the 1984 decision to grant it full ministry status will lead to improved coordination of responsibilities in the field.

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(<sup>1</sup>) OJ L 142, 1. 6. 1983.

## REPLIES OF THE INSTITUTIONS TO CHAPTER 11

### Staff expenditure

#### OBSERVATIONS ON THE GENERAL MANAGEMENT OF APPROPRIATIONS AND STAFF

#### PARLIAMENT

#### OBSERVATIONS ON THE BUDGETARY MANAGEMENT OF ITEM 1004

#### *Inconsistency between the lists of posts and the remuneration appropriations*

11.11. As it explained in its reply to paragraphs 11.8 to 11.10 of the Court's report on the 1983 financial year (1984 OJ C 348), Parliament does not consider that this expenditure, which meets members' costs of travelling to and attendance at meetings, to constitute an allowance on payment related to salaries. Article 6 (1) (a) of the Financial Regulation does not thus apply. A modification to Parliament's internal rules, to this effect, will be introduced when they are next revised generally. As foreseen in that same reply, the budgetary commentary to item 1004 for 1986 contains a note to the effect that these appropriations shall be entitled to be carried forward automatically. It should also be noted that the carry-overs in 1984 were in any case reduced by 80% compared with those in 1983.

#### Council

11.9–11.10. The Administration is indeed faced with a dual limit, constituted on the one hand by the list of posts, and on the other by the initial appropriations for staff remuneration.

#### Commission

11.9–11.10. The budgetary authority quite rightly increased the initial appropriations for 1984 to allow recruitment of officials and other staff to posts entered in the list of approved posts.

#### OBSERVATIONS ON THE MANAGEMENT OF OVERTIME

11.12. The trend in annual expenditure since 1980 is as follows:

1980	760 050 ECU
1981	910 682 ECU
1982	807 639 ECU
1983	816 869 ECU
1984	696 781 ECU (1)

Taking into account the fact that the hourly cost increases in line with salary adjustments, the amount of paid overtime has fallen in recent years.

11.12–11.15. In December 1984 the Secretary General adopted a new system for the management of overtime:

- (i) at the beginning of the financial year each Directorate General is allocated a 'global appropriation';

#### Economic and Social Committee

11.9–11.10. Having the narrowest financial margin of all the institutions, the ESC is fully aware of the situation described by the Court of Auditors — a situation the ESC has always criticized. However, for an appreciation of the real extent of the difficulties the institutions are faced with, the expenditure should be compared with the initial budget appropriations.

It can then be observed that the ESC was obliged to spend a sum representing 102% of the appropriations granted by the budget authority, an operation made possible by the transfer of appropriations.

- (ii) each Directorate General is required to centralize information relating to overtime which is compensated by leave;
- (iii) priority must be given to compensation in the form of leave;
- (iv) internal instructions on the subject issued on 22 April 1982 must be strictly applied.

The internal instructions referred to in (iv) above indicate the authority responsible for requesting the staff concerned to work overtime and lay down the procedure for declaring overtime.

## COUNCIL

### OBSERVATIONS ON THE BUDGETARY MANAGEMENT OF OVERTIME

**11.16.** Regarding the compliance of the system of remuneration of overtime with certain provisions of the Staff Regulations, it should be pointed out that, in accordance with previous replies (see replies to sections 11.31 and 11.36 of the comments on the 1982 financial year), the internal regulations which apply at the General Secretariat of the Council are of an exceptional nature and are in response to exceptional situations created by the working conditions themselves, which have no equivalent in the other Institutions.

Nevertheless, at the Council's request, in the very near future the General Secretariat of the Council will be opening negotiations with staff representatives on the provisions which currently apply to overtime, in order to adjust them better to the Council's requirements and working methods.

### OBSERVATIONS ON THE MANAGEMENT OF MISSION EXPENSES

#### *Management of appropriations*

**11.17.** The increase in appropriations referred to (517 000 ECU) was mainly due to the mission to Fiji, which was not planned when the Council's estimates for 1984 were drawn up.

It should be pointed out that the appropriations under this item were fully utilized, and that only a balance of 770 ECU remained unused.

The high automatic carry-overs (333 988 ECU) were justified by the complexity of clearing items of expenditure for the Fiji mission.

In view of the number of participants, and the organizational details of this mission, the expenses had to be settled collectively, which necessitated a certain amount of time for gathering all the necessary data.

**11.18.** In December 1983, that is to say at a time when it was no longer possible to obtain an increase in appropriations for the item 'mission expenses' from the Council, a number of relatively large missions were organized, the final cost of which exceeded the estimates which had been made for normal missions (Councils in Athens, mission to South America, etc.).

It was therefore unavoidable that the excess expenditure should be covered by appropriations for the following financial year.

**11.19.** Advances are managed outside the budget for practical reasons. In any event, they do not exceed the amount committed in the budget for the expenditure concerned.

**11.20.** The advances made to mission staff never exceed 90% of estimated mission expenses and are granted in accordance with the provisions of Staff Note 89/83 of 4. 5. 1983 (page 4, section 2).

A reminder is sent to all those who have still not sent in their claims for mission expenses 2 months after the mission.

#### *Non-utilization of reduced fares*

**11.21 – 11.22.** On the question of train journeys, the Council will make a study, based on statistical data, to determine whether the systematic use of travel cards for Belgian railways would indeed constitute a real saving, in view of the fact that it is rare for the same official to travel to Luxembourg or Strasbourg more than once in the same month, and that it is relatively frequent for officials to be replaced at the last minute.

For air travel, the Council uses reduced rates wherever possible. However, the various conditions attached to these fares (class of travel, length of stay, inability to change company and/or date, etc.) and the special working conditions obtaining for most missions, mean that it is not possible to take systematic advantage of them.

## COMMISSION

### OBSERVATIONS ON THE BUDGETARY MANAGEMENT OF 'FIXED ENTERTAINMENT ALLOWANCES'

**11.23.** The increase in expenditure under item A 1143 was unavoidable for several reasons: the opening of two delegations and an increase in the number of staff, a marked increase in rents, entry in the accounts of advance payments made between 1979/80 and 1983, and unfavourable fluctuations of exchange rates against the ECU. <sup>(2)</sup>

It is partly to take account of this situation that the Commission has embarked on a revision of certain provisions of the Staff Regulations relating to staff working outside the Community.

### OBSERVATIONS ON THE MANAGEMENT OF MISSION EXPENSES

#### *Appropriations carried over*

**11.24–11.27.** The calculation of commitments and automatic carry-over of appropriations for mission expenses is subject to objective constraints which the Commission must take into account while abiding by the Financial Regulation. Essentially, there are two constraints:

- (1) The legal commitment cannot be determined accurately until the final cost of a mission has been calculated.
- (2) Missions can take place at the very end of a financial year.

The Commission, anxious to respect the principle of the annuality of the budget, insists that a mission which takes place in a given financial year should be charged to that year and should therefore be the subject of a carry-over.

Moreover, a check on the carry-over of appropriations for previous years will show that utilization has been satisfactory.

With a view to a further improvement in the utilization of these appropriations, the Commission intends to set specific deadlines for the filing of claims for the reimbursement of mission expenses.

#### *Weaknesses in internal control*

##### **Absence of tickets**

**11.28.** — Tickets issued by travel agency:

To rule out the risks referred to by the Court of Auditors, the Commission has circulated a memorandum to all staff reminding them that they are required to attach all necessary supporting documents to claims for reimbursement. This applies in particular to tickets, including tickets issued without charge to officials by the Commission's travel agency.

To increase the impact of this measure, the travel agency has been attaching a label to rail and air tickets since the end of April reminding officials sent on mission of the obligation referred to above.

— Tickets paid for by the official:

Where rail or air tickets are paid for by the official, no reimbursement is made unless the used tickets are attached to the claim for reimbursement. No distinction is made in this respect between journeys inside and outside Europe.

**11.29.** The Commission is pursuing its enquiries. A major difficulty here is the fact that airlines have not replied in every case with information on tickets issued in connection with the missions singled out by the Court of Auditors.

##### **Absence of correlation between mission expenses and daily subsistence allowances**

**11.30.** The procedure for the exchange of information between the departments concerned has been

improved. Pending computerization of the management of missions, contacts are taking place on a quarterly basis. These will be replaced by monthly contacts in due course.

#### Missions effected by air taxi

11.31 – 11.32. The Court of Auditors' recommendations will be borne in mind in future.

#### *Non-utilization of reduced fares*

##### 11.33. Railways:

Reduced fares on the railways, in particular for journeys between Brussels and Luxembourg, have been in use since September 1985.

##### 11.34. Airlines:

Since the beginning of 1984 in particular the Commission has been actively promoting the use of 'special'

fares (PEX, APEX, excursion fares, etc.) for missions by its staff. The experiment was confirmed in a Commission instruction dated 28 November 1984, which was published in the normal way.

Commission departments have become increasingly aware of the need to comply with this directive, which has led to substantial savings. The results are encouraging, as evidenced by:

- the virtual disappearance of first class air travel, and
- a saving of over 18 Mio BFR in 1984.

The campaign is continuing and is updated periodically at meetings of the interdepartmental working party on missions, set up at the end of 1984.

The travel agency, which is closely associated with the campaign, is cooperating with Commission departments in seeking ways and means of making further savings in this area. The new invitation to tender made this a contractual obligation.

(<sup>1</sup>) The financial year 1984 is not entirely comparable with the other years because of the European elections which brought about a reduction in Parliamentary activity, particularly in the second quarter of the year.

( <sup>2</sup> )	January 1983	December 1984
USD	0,968876	0,715991
YEN	225,845	177,781
FS	1,94279	1,83952
Baht*	22,0732	18,9219

\* Thailand

## REPLIES OF THE INSTITUTIONS TO CHAPTER 12

### Operational expenditure

#### PARLIAMENT

##### *Documentation and library expenditure*

12.3. Parliament's library will very soon have new internal rules which should satisfy the Court of Auditors' concerns regarding the inventory, the disposal of obsolete material and loans.

#### COMMISSION

##### *Letting of immovable property*

12.5 – 12.6. The Commission is considering appropriate arrangements to give the fullest satisfaction to the Court of Auditors' requests in relation to the conditions on which space is sublet, to procedures and to competitive tendering.

### *Expenditure relating to data-processing equipment*

**12.9.** The Court of Auditors' inspections have prompted the departments concerned to devise ways and means of keeping a closer eye on transfers and the precise location of equipment.

**12.11.** Computers are leased (rental accounts for the bulk of the expenditure) and maintained under combined contracts which provide for the possibility of advance payments.

There are separate maintenance contracts for purchased equipment. These are usually of the 'all in' type and are therefore analogous to regular servicing. The possibility of advance payments is standard practice.

The Commission will ensure that the rules governing the use of appropriations carried over are scrupulously adhered to in future.

### *Fitting-out of a canteen in Luxembourg*

**12.12.** The work of extending the kitchen was similar to that involved in extending the self-service restaurant and fitting out the 'à la carte' restaurant, which had been the subject of an invitation to tender. The Commission therefore considered that the conditions for awarding a contract by private treaty had been satisfied, in accordance with Article 52(d) and (e) and Article 54 of the Financial Regulation.

Nevertheless the Commission has taken careful note of the Court of Auditors' observation.

### *Air-conditioning at the Computer Centre*

**12.13.** Since this was a problem requiring prompt attention, the Commission, after consulting the bodies responsible for technical inspection, decided to proceed by private treaty, in accordance with Article 52(b) and (d) and Article 54 of the Financial Regulation.

### *Installation of a telephone system*

**12.15 – 12.20.** As the Court of Auditors notes, the Commission had to deal with a *de facto* situation. It has taken the necessary steps to ensure that there will be no recurrence. In this context the Commission has reminded the departments and officials concerned that they must comply with existing administrative rules in force and has widened the responsibilities of Heads of Delegations and Heads of Information Offices.

## **ECONOMIC AND SOCIAL COMMITTEE**

### *Application of the Financial Regulation*

**12.21.** The Court of Auditors points out that certain proposals for commitment were not drawn up until after the invoices were received. The invoices in question were for work the cost of which it was difficult to estimate accurately; nevertheless, the ESC will see to it that proposals for commitment are made in all cases.

## **REPLIES OF THE COMMISSION TO**

### **CHAPTER 13**

### **Commission subventions to certain external bodies**

#### **OBSERVATIONS ON COMMISSION SUBVENTION TO THE EUROPEAN SCHOOLS**

**13.2.** The reserve fund proved very useful in 1984 when large and unforeseeable payments of salary arrears to staff had to be met. By the end of 1984 the reserve had been reduced to 2 211 000 ECU. Appropriations in the 1985 budget are 4 067 145 ECU less

than the Commission subventions shown in the European Schools budgets as adopted by the Board of Governors despite reservations expressed by the Commission.

**13.4.** The Commission regrets that agreements exempting the European Schools from the payment of VAT have not yet been concluded with all governments.



In April 1985, the Board of Governors took the precaution of creating a subitem for reimbursement of VAT with a token entry on the revenue side of the budgets of the European Schools in Karlsruhe, Munich and Varese, and keeping complete records of VAT paid by these schools.

The Commission has made repeated calls, without success, for the harmonization of the financial conditions applying to the various organizations and institutions involved in the running of the schools. However, for the first time, it has succeeded in securing entry of an appropriation of 78 300 ECU to be paid by the Italian Government for the admission of children of Italian NATO staff.

13.5. The Commission has suggested that the Board of Governors should employ an outside consultant to investigate the problems referred to by the Court of Auditors and draw up the necessary guidelines for reorganizing administrative structures, devising a new salary scheme and creating an information system. Unfortunately, the Board of Governors was not prepared to do this. The Administrative and Financial Committee was unable to devise a new salary system.

13.6. The Commission is continuing to impress upon the Board of Governors the need to improve administrative and financial management. To this end, it has offered, in particular, to second an experienced, well-qualified Community administrator to work with the Representative of the Board of Governors.

## REPLIES OF THE COMMISSION TO

### CHAPTER 14

#### Loans, borrowings and interest-rate subsidies

##### OBSERVATIONS ON THE FINANCIAL STATEMENT AND REVENUE AND EXPENDITURE ACCOUNT OF THE NEW COMMUNITY INSTRUMENT AND EURATOM MECHANISMS

14.7. The Commission would point out that during the first eight months of 1985 the NCI mechanism showed a surplus of 2,6 Mio ECU as a result of the measures taken in collaboration with the EIB in the first half of 1984.

In view of the excellent results in the first eight months of 1985, the 4,6 Mio ECU deficit will be substantially reduced this year.

The Commission does not share the Court of Auditors' view that the potential results of NCI operations should be included in an annex to the financial statement.

The calculations to determine these potential results (which are kept under constant review) are based on financial projections of a non-accounting nature derived from financial market data at a given date, and these data are subject to constant substantial fluctuations in both directions. Owing to these very unpredictable and variable factors, which are explained in greater detail in the reply to paragraphs 14.17 to 14.19, the calculations may show either a gain or a loss. The Commission therefore considers that inclusion of the

results in an annex to the financial statement is not justified, particularly since they are liable to be misinterpreted.

##### OBSERVATIONS ON LEGALITY AND SOUND FINANCIAL MANAGEMENT

##### *New Community Instrument loans*

##### Review of eligibility of NCI III projects

14.10–14.13. The guidelines laid down by the Commission constitute a scale of priorities which it would like to see applied as far as possible. Having said this, however, it must be remembered that the operations in question are purely banking operations aimed at private or public investors and do not involve Community subsidies in any form. Thus loans are not 'spread' among or 'granted' to either Member States or particular economic sectors; rather it is a question of individual investors deciding whether to undertake a project or not, regardless of the country or industry involved.

Although the factors referred to by the Court of Auditors do affect investors' decisions, other factors are also involved — such as the conditions for Community loans and in particular their currency breakdown, duration and interest-free period, repayment and guarantee terms and their complementarity with other sources of finance. National authorities' policies on foreign currency debts can also act as a brake — if only temporarily — on the taking-up of Community loans.

**14.14.** The priority objectives of NCI III are in the fields of energy, infrastructure projects and productive investments, primarily in small and medium-sized businesses. The need to combat unemployment and the regional impact of operations are secondary objectives adopted by the Council *'inter alia'* (Article 1 of Council Decision 83/200/EEC).

The Commission agrees with the Court of Auditors that combating unemployment is important and would emphasize the effort it has made and the very positive results achieved so far. The (estimated) figures given by the Commission in its report for the first half of 1984 (doc. COM(84)387) signal an undeniable success: nearly 90 000 jobs created or secured by means of loans totalling 430 Mio ECU in 10 months. A year later, at 30 June 1985, the impact has been boosted substantially by the second tranche of NCI III loans (decision of 23 July 1984) and the 1 555 Mio ECU lent to small and medium-sized firms.

As regards the ratio of jobs created to jobs maintained, the importance of 'saving' jobs at a time of widespread unemployment should not be underestimated, the objective of investment being to modernize rather than to expand capacity. The Commission feels bound to contribute to the maintenance of viable jobs just as much as to their creation and considers that the effects on employment expected from the NCI III loans granted so far are very encouraging.

The Commission would also like to emphasize the multiplier effect of sustained growth in investment by small and medium-sized firms, which stimulates economic growth in general and helps maintain and create employment in other enterprises.

## NCI

**14.15.** The amount in the NCI Treasury, or liquidity reserve, is determined by payments of loans signed and to be signed — in other words by contractual obligations.

Clearly this reserve must be managed as rationally as possible and the Commission's departments and the EIB endeavour to do so with maximum efficiency. However, they are also bound to seek the best terms obtainable on the capital market for NCI customers. It is therefore natural that the reserve should be replenished as funds are taken up. The net cost highlighted by the Court of Auditors results from the difference between interest rates for short-term investments and long-term borrowings and is offset in financial terms by the margin allowed for treasury costs, which is included in the actual interest rate paid by the borrower, and in economic terms by the optimum conditions thus obtained for him. In reality the net cost tends to zero as interest payments are received on the loans granted.

The Commission takes note of the Court of Auditors' remarks on the substantial reduction in the average level of the liquidity reserve during 1984 and the savings achieved as a result. Throughout the current year it has continued its efforts to reduce the balances on the NCI Treasury accounts in those currencies where this was still possible.

**14.16.** One of the results of the continued effort to reduce the amount in the NCI Treasury account (see paragraph 14.15) was that the undisbursed portion of the 100 Mio SFR borrowing fell from 40 Mio SFR at 31 December 1984 to practically nil at the time of writing.

The net cost will be considerably lower than 2,1 Mio SFR because the interest rates charged to the final borrowers include an allowance for treasury costs designed to balance out the gains and losses on a large number of operations over a long period.

**14.17 – 14.19.** In the Commission's view it is not right to use the cash flow analyses now regularly carried out by the Commission and the EIB to produce firm figures since the results of these analyses are not accounting data. They are, in fact, extremely fragile and volatile projections, the main purpose of which is not to provide reliable absolute figures but to show up, by means of a rolling programme of successive projections, any adverse long-term trend that might ensue from the operations already concluded so that this can be corrected through the terms under which new operations are concluded in future.

The main factors giving rise to uncertainty are as follows:

- the projections relate only to borrowings and loans already concluded;

- it is assumed that the portion of loans not disbursed at the time of the projection will never be disbursed;
- the interest rates (debit and credit balances) on funds in the liquidity reserve are fixed at the prevailing rates at the time of the projection;
- the final results in the various currencies used are converted into ECU at the conversion rate applicable at the time of the projection.

The Court of Auditors is thus right to stress — and here the Commission agrees — that 'the final outturn will not be known until all the borrowings and loans have been repaid', that is, until 2004 simply for the operations already concluded.

### *EIB management commissions*

**14.20 – 14.23.** Following an analysis of data on administrative costs to assess the extent to which they were covered by commissions, it was decided on 1 April 1984 to reduce the commission (as noted by the Court in paragraph 14.21).

The Commission will try to find a way to enable the Court to exercise its prerogatives under the Treaty while respecting the autonomy of the EIB as guaranteed by the legislator.

### *New Community Instrument and Euratom borrowings*

#### **Premature redemption of borrowings**

**14.25.** The Commission has a detailed statement of all the borrowing contracts (ECSC, NCI, Euratom) which provide for premature redemption and it regularly reviews the market conditions for the currency in question to see whether refinancing can be obtained on better terms and does so where appropriate. A Euratom borrowing was refinanced in this way in 1984. The three other Euratom borrowings referred to by the Court were not refinanced until 1985 as the Commission considered the rates too high in 1984 for refinancing to be worthwhile.

**14.26.** The Commission agrees with the Court of Auditors' recommendation and had already adopted the principle of passing on the benefits of refinancing to the recipients of loans. Implementing instructions were issued some time ago for both the 1984 Euratom operation and the 1985 Euratom operations.

#### **Negotiation of borrowing terms**

**14.28.** In the Commission's view the Court of Auditors' approach, which involved comparing independent indicators with the cost of its borrowings, is valid merely as a method of selection.

At all events it feels that it is not a suitable way of assessing the borrowing costs themselves.

**14.29.** The Court of Auditors' comment relates to four operations (two public issues, a bank loan and a private placing) for which the Commission dispensed with direct competitive bidding for the following reasons:

- In two cases the Commission followed market practice and designated a lead manager, who was, however, required to obtain the assistance of two other representative houses to make a joint offer reflecting the precise state of the market. Parallel discussions with other establishments enabled the Commission to check that the offer was fair.
- The two remaining cases were special instances covered by the internal rules (in particular for a private placing, where the number of lenders is, by definition, limited) and the Commission did no more than follow those rules.

In all the other cases the Commission still believes that it scrupulously followed the internal rules and negotiated terms that fully accord with its status as one of the most respected borrowers in the world.

**14.30.** In the Commission's view the Court of Auditors' express recommendation that competition should be used to the maximum practicable extent is unnecessary since it already adheres to the internal rules.

Although there is no agreement or regulation explicitly requiring the Commission to include in the files its reasons for dispensing with competitive bidding, it is prepared to examine with the Court what further information might be added to what is already contained in the files.

## PART II

### REPLIES OF THE COMMISSION

#### European Development Funds

##### SUMMARY OF FINANCIAL INFORMATION

###### *Second and third EDF*

**15.4.** In 1984 the Commission was able to close definitively 22 projects under the third European Development Fund (EDF) and virtually complete the closure operations for 42 other projects. Implementation of the third EDF is thus as follows: at 30 June 1985 a total of 576 projects out of 697 (82,6%) had been closed. A total of 121 projects have still to be closed and a reminder has been sent to all the ACP delegations concerned so that all projects no longer giving rise to disbursements can be closed on 31 December 1985. Any unused appropriations and those not yet allocated will then be transferred to the fourth or fifth EDF.

However, the definitive closure of operations under this fund will not be possible before the end of 1986 because of the time that closing so many cases will inevitably take.

##### OBSERVATIONS ON THE FINANCIAL MANAGEMENT

###### *Preparation and presentation of the accounts*

**15.7.** — The revenue and expenditure accounts of the second and third EDF were sent unofficially to the Court of Auditors, at its request, on 18 March 1985.

— The revenue and expenditure accounts for the fourth and fifth EDF and the balance sheets for the various funds were also sent unofficially on 12 April 1985.

— The Commission approved these documents on 30 April and sent them officially to the Court of Auditors, Parliament and the Council on 7 May.

**15.8.** The Court of Auditors' observation that 'certain items in the accounts cannot be properly understood without explanation, and the accounting principles adopted by the Commission in respect of the EDF are not stated in the annual accounts' merely repeats a similar comment in its annual report for 1981. In its reply to these observations, the Commission explained in detail <sup>(1)</sup> why it did not share the Court of Auditors' opinion.

The reasons may be summarized as follows: As regards both the statistical information about the state of play of projects in relation to the indicative programmes and the accounts themselves, where the financial statements adopted at the end of each year faithfully reflect the application of the accounting plans, the Commission considers that it is easy to understand and interpret the various items in the accounts. Neither the national authorities of the countries receiving the aid nor the delegations responsible for the day-to-day monitoring of projects with the aid of the analytical accounts have so far made any major criticism of the clarity of the accounts.

The Commission would again point out that, in view of the number of staff currently available, the drafting of explanatory notes or comments on certain items in the balance sheets and revenue and expenditure accounts would not fail to impede and delay the production of the year-end documents, without presenting any real advantage.

###### *Advances*

**15.9.** For several years the Commission has been unremitting in its efforts to recover the 4,5 Mio ECU advance granted to the Banana National Board in Somalia. Despite these efforts, the Somali Government has refused to repay its debt to the Commission. The Commission accordingly proposed to the Somali authorities that this amount be set against the appro-

priations remaining available under the third and fourth EDF. Although this solution has been accepted in principle, there are still difficulties about the rate of exchange to be applied for repayment of the advance. The Commission is determined to settle this issue as soon as possible, if necessary by taking unilateral measures.

**15.10.** As the Court of Auditors notes, the Commission had a good record in the year in question in reconciling the accounts of the bodies administering scholarships with its own accounts, despite the difficulties encountered with certain bodies in detailing their cash positions or standardizing their management and the presentation of their accounts. As regards the European Association for Cooperation (EAC), the efforts made have not yet produced results because of the difficulties the Association has encountered in reconstituting the exact expenditure and revenue situation in its accounts for every year since it was set up. The Commission, for its part, has all this information at its disposal and has entered it in each year's accounts; the picture produced is perfectly clear. It will not take long to reconcile the accounts once the EAC is able to communicate its definitive situation.

### *Member States' contributions*

**15.11.** The problems with late payment of contributions which have occurred over the years have led the Commission to propose in the Financial Regulation for the sixth EDF that penal interest be charged for any future delay. As regards 1985 the situation to date has improved considerably with only one Member State being significantly in arrears.

### *Cash at bank*

**15.12.** The Commission shares the Court of Auditors' concern about the excessive levels of bank balances in Treasury accounts in past years bearing in mind in particular that it is the EDF which bears the exchange risk on amounts held in national currencies in those accounts. Two sets of measures have recently been introduced in an effort to economize on contributions. Firstly stricter control has been exercised in respect of balances in paying agent accounts with a view to reducing them to levels consistent with good management of payments. Secondly, provision has been made in the Internal Regulation for the sixth EDF whereby the Commission shall wholly or partially refrain from calling for an instalment of contributions due during a financial year when the amounts available are suffi-

cient to cover payment requirements until the next due date. In anticipation of the application of this provision, the Commission, in an effort to scale down bank balances in 1985 to minimum levels, has already reduced its demands for contributions for the third quarter with effect from 1 July.

**15.13.** The Commission will investigate whether it is practicable to account for payments prior to receipts of bank statements. However, even if this were to be done it would not lead to a reduction in balances.

### **OBSERVATIONS ON THE ACCOUNTING SYSTEMS AND PROCEDURES**

**15.14.** Since the accounts for the various EDFs are kept on a cumulative basis, there is automatically a time lag before the accounts of the new financial year are reopened.

The Commission does all it can to close and reopen the accounts as quickly as possible, but there are still a number of constraints arising from the need to compile accounting data from more than 60 overseas paying agents.

Although no reconciliation is possible with the official accounts, the commitment and authorization operations are still recorded provisionally during the intervening period while the cash balances are monitored daily from the bank statements which are received regularly. The system thus offers every guarantee of security.

**15.15.** The figure of 49,5 Mio ECU in the balance sheet of the various EDFs at 31 December 1984 as items of expenditure still under verification represents the monthly average volume of operations carried out and payments made in the national currency of the ACP countries. Compared with total monthly average expenditure of around 60 Mio ECU, this figure may be considered normal with the exception of the 78 operations involving 1,8 Mio ECU which have been awaiting clearance for over nine months. As a means of dealing with this situation, which arises because some operations cannot be entered in the accounts immediately in the absence of substantiating documents or precise identification, the Commission has instructed its delegates in the ACP countries to send to headquarters only

those documents which have been duly reconciled, i. e. matched with a bank's debit advices.

Thus, in the first case referred to by the Court of Auditors, it is only very recently that the two payments totalling 0,2 Mio ECU could be finally identified since a mistake had been made locally in the indication of the project to which the payments related.

In the second case referred to by the Court, the first two payments, provided as part of an emergency aid measure, were placed in a special account from which withdrawals required the joint signature of the authorizing officer for the project and the Commission delegate. This dual operation did not involve the Commission in any losses. The third payment was the transfer of the aid to the recipient government. These operations finally led to an exchange gain of 83 923,97 ECU.

**15.16.** If another sample of this type is taken, the Commission would like to know the details so that it can state its position and take whatever action is appropriate. In 1985 the Commission has not repeated the survey it conducted in 1984 which enabled it to inform the Court of Auditors in its last reply that of the 3 100 payment orders covered only 17 complaints about late payments were justified (0,55% of cases). The Commission is able to state that the number of complaints has dropped still further, thus raising serious doubts about the Court of Auditors' allegation that 19% to 23% of claims were settled over three months late.

**15.17.** The average of five months mentioned by the Court covers two completely different procedures — the making of the payment and the subsequent entry of this payment in the accounts. An immediate entry procedure could of course be devised to reduce considerably the time taken for recording the operations in the accounts and making them available to the management officials. However, this system would involve two additional constraints. Firstly, the delegations would have to be connected by computer to the central accounting unit in Brussels (which is not realistic at the present time); secondly, this arrangement would inevitably lead to a substantial increase in the volume of accounting work, since the provisionally recorded operations would have to be regularized definitively at a later date — in accordance with the Financial Regulation — involving a correction in ECU to each accounting entry.

**15.18.** The Court of Auditors' comments should be seen in the light of the following considerations.

- The authorizing officer's accounts regularly record recovery orders before they are sent to the accounting officer. At 31 December 1984 the balance of claims to be recovered amounted to 341 630,49 ECU for the fourth EDF and 1 006 322,42 ECU for the fifth EDF.
- In line with the Commission's guidelines concerning recovery, the EDF's financial departments have, since 1 January 1985, also been keeping a register of all receivable orders so that the recovery procedure can be monitored more closely and reconciliation effected with the accounting officer's entries.

In the cases involving Madagascar and the United Kingdom referred to by the Court of Auditors, the amounts in question were entered in the accounts as advances to be cleared. Recovery orders could not therefore be issued until the clearance operations had been completed.

**15.19.** As regards the inadequacy of the supporting documents for commitments and payments, analysis of the specific cases has shown that the supporting documents were often filed with the departments concerned (technical departments or delegations) when they were not included in the files kept by the financial departments.

**15.20.** The accounts management for special loans has always been based on a different approach from that for subsidies. While the accounts for subsidies are kept for each contract forming part of a project, mainly because of the Commission's responsibility for the execution of payments, special loans are different, since it is the borrower who pays the contractors from funds made available by the Commission upon request in line with cash requirements. The arrangements for requesting these funds are specified in the financing contract, regardless of the number or size of contracts concluded under the project. This financing contract, signed after the financing agreement, also lays down the other details concerning the financial implementation of the project and is thus essential for the definitive overall commitment of the loan. In the absence of such a contract the authorizing department quite rightly refuses to give its authorization to requests for funds. As can be seen, this management method is basically different from that for projects financed through subsidies, on which the Court of Auditors has based its observations. It is true that, in view of the difficulties encountered by some borrowers in prefinancing their operations, the Commission has introduced some flexibility into its procedures since the fifth EDF and accepted that the methods of payments applied to sub-

sidies may be used in certain cases on condition that the borrower expressly requests this and obtains the agreement of the monetary authorities in his country. In these cases, the management of the special loans in accordance with the method used for subsidies is applied by the Commission's financial departments. This system could be extended in future to all special loans wherever possible. This possibility is now being examined. However, because of the difficulties involved in any retrospective change to payment operations, the original accounting rules will remain unchanged for all special loans where payments began before this new procedure was put into effect.

**15.21.** The Commission does not see any direct link between the rational or imperfect nature of commitment and payment operations and the existence of a manual of procedures or other written accounting instructions.

The accounting plans drawn up for each EDF have been adapted in line with developments and the requirements of each association agreement; they have never been the target of serious criticism concerning the structure of the accounts. Indeed, the Court has recognized the reliability of the accounting arrangements.

It is true that there is no manual of procedures containing all the instructions scattered throughout the various rules and regulations and implementing documents. However, the Manual of Instructions for Commission Delegates, which is now being revised, contains many administrative, financial and accounting instructions applicable to the management of the EDF.

## OBSERVATIONS OF THE GRANTING AND MANAGEMENT OF THE AID

### *Execution of indicative programmes*

**15.23.** Papua New Guinea has been accustomed to aid from other sources in the form of simple budgetary transfers. It has therefore found it difficult to adapt to the EDF procedures. The Commission did not consider that it should penalize the country for that.

**15.24.** The Commission stands by the reply it gave to the comment by the Court of Auditors in the annual report for 1982<sup>(2)</sup> and would add the following. In order to compare the outcome with the planned objectives Article 110(4) of the Second Lomé Convention states that 'a comparative account of commitments and

payments shall be drawn up each year by the National Authorizing Officer and the Commission Delegate to determine the causes of delays recorded in the execution of the indicative timetable so that the necessary remedial measures can be proposed'. Under Article 123(7)(b) the delegate is to 'make regular checks to see that operations are proceeding in accordance with the schedules laid down in the advance timetables established under Article 110'. The Third Lomé Convention confirmed and even extended these provisions in Articles 216(2) (timetable of commitments), 216(4) (comparative account of commitments and payments) and 220 (advance timetable for technical and financial implementation). All these provisions are applied and the results are contained in the annual reports drawn up by the delegates on all Fund operations in each country (Article 123(4)); the Court of Auditors is given these reports on all its missions to these countries.

### **Feasibility studies**

#### **15.26. — Sauniatu power station, Samoa**

The savings made as a result of a redesign of the project, after the call for tender for civil engineering works, were to some extent artificial. The essential parts of the works were omitted from the contracts and had to be added later. In the event the cost of the civil engineering works contract will in fact reach the level of the lowest bid of the initial call for tender. The consultant's original estimate is open to valid and serious criticism.

#### **— Samasoni power station, Samoa**

The civil engineering works contract was, in accordance with the convention, awarded to a local company. The difficulties in the implementation of the project are centred around that decision. At one stage, civil engineering works had to be retendered. Problems occurred with the landowners, with supervision, materials, equipment and finance, with serious flooding, with shortages in skilled manpower and equipment, with changes in design required by the Electric Power Corporation. This reflects the general problem faced by the Commission when dealing with local companies.

#### **— Hiritano road, Papua New Guinea**

Costs in Papua New Guinea are undeniably high. The cost of this particular road is not excessive by local

standards. The accepted tender was indeed very close to the engineers' final estimate.

— Fishery research ships, Papua New Guinea

The original financing proposal was based on estimates obtained in early 1980 from Australian shipyards, the 'normal' origin of vessels operating in Papua New Guinea. These estimates proved to be far too low. To make matters worse, the ECU/kina exchange rate changed dramatically between 1980 and 1982. On average an ECU was worth 0,947 kina in 1980; 0,763 kina in 1981 and 0,724 kina in 1982. Finally, some modifications were made to the design of the vessel, as a result of Papua New Guinea Government's change of mind as to how the vessels were to be used.

The Delegation has calculated that the difference between the estimated cost of 1,26 Mio ECU (first financing proposal) and the eventual 2,38 Mio ECU can be accounted for approximately as follows:

Original financing proposal	1,26 Mio ECU
Underestimate of the costs of the vessels	0,74 Mio ECU
Result of exchange rate variation plus inflation	0,38 Mio ECU
	2,38 Mio ECU

With the benefit of hindsight, it is evident that it would have been better to call for tenders before submitting any financing proposal.

**15.27.** The feasibility study clearly reveals the coherence of the development measures corresponding to the project's objectives. It contains a precise timetable of activities and a detailed estimate of the manpower and funds required. It was for the national and expatriate officials to determine the stages in greater detail. The fact that all the interested parties were aware from the beginning that this was a pilot operation provides even greater justification. The feasibility study was itself preceded by an appraisal study and a pre-feasibility study.

If there were 'numerous problems regarding the coordination and linking together of the various operations', this was because of the very nature of the project. Furthermore, the consultants sensibly proposed that the project should be preceded by three years of agronomic research before the first migrants were settled. However, this would have delayed considerably the implementation of the indicative programme in the fifth EDF. The Rwandese Government and the Commission therefore adopted the more pragmatic approach of starting with the accompanying research and the open-

ing-up and reforestation of the area, while at the same time curbing the number of migrants settled.

The agricultural and stock-farming aspect has now got off to a good start, with particular emphasis on stock-farming in view of the initial research findings.

It is indeed regrettable that the start of this research was delayed, but this was because of the time required by the other aid donor to take the financing decision and was in no way the fault of the EDF.

**15.28.** The two errors which the Court of Auditors discovered in the initial study were corrected in good time and did not lead to a cost overrun or any delay in implementation. No boats were imported. Instead, a small number of new boats, better adapted to local requirements, were built locally under the supervision of the technical assistant.

**15.29.** As regards geological conditions, any shortcomings in a study are revealed only when the work is being carried out and thus after the contracts has been awarded.

**15.30.** The updated economic study of 1983 concluded that completion of the road using the same standard as the section already constructed would yield a return varying between -4,3% and +14,6% depending upon the assumptions made concerning the development benefits which would be derived from the road. If lower technical standards were to be considered the rate of return could be important, but the road would undoubtedly be more dangerous and in any case more difficult to maintain.

*Coordination of Community and national aid operations*

**15.31.** Sierra Leone is often prevented from meeting its obligations because of the poor state of its public finances. That is why the additional investment needed for the project to work had to be covered by the EDF, as the Court of Auditors notes.

**15.32.** The case in question shows that it can be necessary to supply goods late because of administrative delays caused by the general difficulties indicated at 15.31.

**15.33.** The plan now is for the furniture and equipment which the Sierra Leone Government is unable to provide to be supplied under a forthcoming EDF health project.



**15.34.** The difficulties caused by recipient countries which have difficulty in honouring commitments entered into all too easily were one of the main reasons for the stricter approach which the Commission will endeavour to take under the Third Lomé Convention, when it will concentrate its support on a small number of productive sectors and make it conditional on specific commitments which the recipient country enters into as part of genuine development strategies.

#### *Role of technical assistance in the execution of projects*

**15.35.** The siting of the staff houses, offices and official buildings of the Zaire-Nile watershed scheme was mainly determined by the geography and topography of the area.

Since the area is mountainous, these buildings could not be sited closer together, hence the relatively high costs for water and electricity supply.

**15.36.** As far as the continuation of the technical assistance is concerned, it should be pointed out that the terms of reference for the second phase do not cover the management of the project but are limited to the provision of assistance to the road and livestock component of the project.

#### *Conclusions*

**15.37.** The Court of Auditors' repeated allegations of 'failings' is doubtless due, at least in part, to the fact that it bases its observations on the reports drawn up following visits during which it checks a broadly representative sample of projects which, since they were sometimes begun in 1959, have been in progress for over 25 years. The disadvantage of this is that it probably does not make sufficient allowance for the efforts made by the Commissioner in recent years to remedy most of these shortcomings.

These efforts are described in the replies to the Court of Auditors' observations on the various projects. Attention will continue to be directed at the various points raised by the Court of Auditors.

**15.38.** In its resolution on the discharge for the 1983 financial year Parliament recommended that the Commission establish a data base by 30 April 1986 to centralize information on the positive or negative experience gained in implementing projects financed by the

Fund. The preliminary studies required are now in progress and, when appropriate, the Commission will announce whether it is possible to set up a central data base of this type and, if so, when. It should be borne in mind that, if a complete data base is to be set up, it will have to contain information on several thousand projects (5.515 at 31 December 1984), some of which were completed a long time ago. The amount of work this would involve should not be underestimated.

#### *Price-variation clauses*

**15.39 and 15.40.** The contractor asked to be paid in full in foreign currency since virtually all the materials and services were payable in foreign currency (even within Guinea-Bissau where the most frequently used currency is the CFA franc). The delegation proposed that 75% should be paid in foreign currency. However, after negotiations in Brussels between the firm, the consultants representing the Guinea Government and the Commission's technical departments, it was agreed that 91,5% of the amount involved in the contract would be paid in French francs.

So far, there has been no price adjustment. If the price-variation clause is to be applied, the Commission will try to obtain agreement on the following arrangements in order to limit the effects:

- Cement and steel: to be based on Senegal prices since these materials are paid for in foreign currency (CFA francs).
- Labour and fuel oil: to be based on prices in Bissau in accordance with the invitation to tender and the statement in the letter of contract that fuels and lubricants would be assumed to be purchased in Guinea-Bissau (however, the contractor purchases the fuel in Senegal and pays the full price in foreign currency).
- Spare parts: the procedure contained in memo VIII-6 of 4 March 1983, which the Court of Auditors may consult.

The Court of Auditors can see from these explanations that the problems raised in connection with this project have not escaped the attention of the Commission, which has attempted to strike a reasonable balance between the rights and obligations of the contracting parties in performing this contract.

#### *Financing procedures and special loans*

**15.41 and 15.42.** There is nothing exceptional about the financing arrangements. All projects, which have

similar on-lending conditions, whether supported by aid donors or not, which are managed by statutory authorities such as the Papua New Guinea Development Bank (PNGDB) have to be financed on commercial terms. The benefits of soft loans accrue to the State which in turn guarantees repayment of the loans. The PNG Development Bank (in receipt of Government money at 3,5% and on-lending at 9%) regards the interest spread as payment for its technical, managerial and supervisory contribution to 'their' projects.

Even if the hypothesis on which the Court of Auditors' 'cash flow' estimates for Bogia are based (net annual income of 35 000 ECU) is accepted, the effect would be to extend the loan term by six years for both the PNGDB and the National Investors Scheme (NIS) — to 1997 and 2000 respectively. This would not be desirable but would equally not be an unacceptable result for the PNG authorities.

More appropriate assumptions, in the light of experience, would be to expect a slower build up of income and a lower annual expenditure than in the Court of Auditors' estimates. Operating expenditure, less manager's cost, in 1982 and 1983 was 33 000 K and 35 000 K respectively. Projected costs this year are 40 000 K. The Bank considers that reasonable assumptions from 1985 onwards in constant kina would be as follows:

	Income	Expenditure	Surplus
1985	70 000	50 000	20 000
1986	80 000	50 000	30 000
1987	100 000	55 000	45 000
Subsequent years	110 000	55 000	55 000

If these assumptions proved accurate, PNGDB loan repayments would be unchanged and the NIS loan repayments extended.

### *Stabilization of export earnings (Stabex)*

#### **Analysis of the trend of exports and production (Article 39(3) of the Second Lomé Convention)**

**15.43.** The reduction to the transfer made to Western Samoa to compensate for losses of revenue from the export of cocoa beans in 1982 was calculated in accordance with the same principles which the Com-

mission always applies in such cases. The reduction was thus determined as a percentage reflecting the difference between the average proportion of marketed production that was exported in the reference period and the proportion for the year of application.

When marketed production in 1982 (the year of application) was calculated, account was taken of the fact that half of December's production could not be processed early enough to be exported before the end of the year.

When calculated in relation to this figure for marketed production, exports in the year of application came to 37,9% as against an average 100% in the reference period. The reduction to be applied to the transfer should thus be 62,1%.

#### **Accuracy of statistics**

##### **15.44. (a) Western Samoa — Cocoa beans, 1981**

Export volume is often higher than marketed production of the same product for the same period, even over several consecutive periods. As was established in this case, this is usually due to the existence of stocks. In cases of this type the reference level should not be lowered. Similarly, Article 39(3) does not apply.

##### **(b) Sierra Leone**

Unreliable statistics are a widespread phenomenon. The drafters of the rules on the implementation of the Stabex system were well aware of this problem, as Article 30(2) of the Second Lomé Convention shows. The Commission, which is responsible for administering the system, attempts to find the most appropriate solutions to these problems. It has accordingly developed a certain standard practice designed to achieve the highest possible degree of accuracy in each specific situation.

The Commission accepts the ACP statistics if they are only marginally different from its own figures. Larger differences may be accepted for the individual amounts in each year of the period of reference provided that they balance each other out and do not therefore affect the reference level.

The Commission does not look into the reason for discrepancies between the ACP statistics and the EEC figures where they do not affect the examination of a transfer request. This is the case when the request is withdrawn or when it is considered by reference to the figures for losses on exports to all destinations, assuming that this is lower than the loss for exports to the Community.

Under Article 30(3) of the Second Lomé Convention, the ACP State making the request may choose between the two options contained in Article 30(2). However, if comparison between the ACP statistics and the Community figures shows that the ACP statistics are in no way acceptable, the Commission insists on application of the formula in Article 30(2)(b), according to which the volume is determined from EEC statistics.

#### Over-compensation for lost export earnings

##### 15.45. (a) Papua New Guinea

When it examined Papua New Guinea's request for a Stabex transfer in respect of coffee for the 1982 year of application, the Commission found that the Community's share of total exports of this product had dropped from an average 50% during the reference period to 35,5% during the year of application. This change led to application of Article 39(3) of the Second Lomé Convention, i.e. a reduction of the transfer base reflecting this change and calculated as follows:

	Total exports (tonnes)	EEC share	
		Tonnes	%
1978	45 801	22 184	48,4
1979	49 586	26 255	52,9
1980	51 007	30 395	59,6
1981	47 212	18 013	38,2
Average over reference period	48 402	24 212	50,0
1982	41 174	14 634	35,5
Difference	7 228	9 578	14,5

Transfer base	19 116 310 ECU
14,5 % reduction	2 771 865 ECU
Final transfer (Stabex/18/82/PNG)	<u>16 344 445 ECU</u>

##### (b) Sierra Leone

The Commission has changed the method of calculation and the comparison between losses according to

destination is now made in the national currency of the ACP State instead of in ECU, as was the case until 1981.

It is obvious that the results of the new method are not always the same as in the case of the transfer to Sierra Leone in respect of cocoa for the 1982 year of application. The new method will be to the ACP State's advantage where its national currency has depreciated and to its disadvantage where it has appreciated. It may therefore also lead to a greater reduction in transfers than under the old approach: the new approach has been accepted by all the ACP States concerned.

#### Utilization of funds transferred (Article 41(2) and (3) of the Second Lomé Convention)

##### 15.48. (a) Vanuatu

The Commission shares the Court's concern at the absence of the utilization reports which the Vanuatu authorities should have sent within 12 months of the transfer agreements being signed. The Vanuatu authorities have been repeatedly reminded of this obligation, so far without result. Unlike the Third Lomé Convention, the Second Lomé Convention does not provide for any specific penalty which the Commission can impose for the failure to comply with this obligation.

##### (b) Papua New Guinea

The utilization report concerning the transfer for the 1981 year of application was received in July 1984. The report concerning the transfer for 1982 should have reached the Commission by 18 November 1984. The Commission has reminded the Papua New Guinea authorities that they are required to submit this utilization report.

#### Regional cooperation

15.51. Procedures for operations of more general interest and managed from Brussels (e.g. technical assistance, studies, training seminars) are, in principle, exactly the same as those for operations of the same nature outside regional cooperation.

At any rate no financing agreement is required for such operations if they can be approved under accelerated

procedure. Financing requests are, however, required and should originate, in principle, from national authorizing officers. In a few cases concerning a very large number of ACP States and handled by the ACP Group in Brussels, exceptions were made in accepting requests from this group.

It should be noted that the Commission, being aware of the problems that could arise from dealing directly with the ACP Group in Brussels in regard to regional cooperation, has come increasingly to adopt a policy where any proposals from this group have to be endorsed by at least two requests from national authorizing officers. This policy led directly to the Lomé III texts which now contain very clear provisions on the right to make requests.

It is not unusual for the financing requests not to be contained in the files kept by the Commission's financial departments. These documents are normally to be

found in central archives or in the files of the geographical directorates responsible for examining them.

Most contracts concluded with this type of specialist organization expressly provide for supporting documents to be submitted with the statements of expenditure. It is true that in some rare cases supporting documents have not been demanded because of the close and extremely satisfactory relations between the organization in question and the Commission. This procedure was an exception which was never repeated.

The level of the fees paid is above the norm but was agreed by the national administration and the Commission given the highly specialized nature of the expertise in question and the fact that much of the work at the Caribbean Research and Development Centre (CTRC) was carried out by European staff. The subsistence allowances granted by the contract seem reasonable for the Commission given the high cost of hotel accommodation and of all other normal expenses.

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(1) OJ C 344, 31.12.1982, p. 208.

(2) OJ C 357, 31.12.1983, p. 235, paragraph 15.17.