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THE EFFICIENCY AND EFFECTIVENESS
OF EU CONTRIBUTIONS CHANNELLED
THROUGH UNITED NATIONS ORGANISATIONS
IN CONFLICT-AFFECTED COUNTRIES



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(pursuant to Article 287(4), second subparagraph, TFEU)

EUROPEAN COURT OF AUDITORS
12, rue Alcide De Gasperi
1615 Luxembourg
LUXEMBOURG

Tel. +352 4398-1
Fax +352 4398-46410
e-mail: euraud@eca.europa.eu
Internet: <http://www.eca.europa.eu>

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REPLY OF THE COMMISSION

ABBREVIATIONS AND GLOSSARY

EC: European Commission

EU: European Union

EuropeAid: Cooperation Office of the European Commission

FAFA: Financial and Administrative Framework Agreement between the European Commission and the United Nations

SMART: Specific, measurable, attainable, realistic and time-based

TFEU: Treaty on the Functioning of the European Union

UN: United Nations

UNDP: United Nations Development Programme

UNRWA: United Nations Relief and Works Agency for Palestine Refugees in the Near East

Effectiveness: Attaining the specific objectives set and achieving the intended results

Efficiency: The best relationship between resources employed and results achieved

Sustainability: Results are maintained after the EU funding has ended

Input: Resources needed to carry out an activity e.g. implementing a project

Output: The products, capital goods and services which result from a development intervention; may also include changes resulting from the intervention which are relevant to the achievement of outcomes

Outcome: The longer-term impact usually expressed in terms of broad socioeconomic consequences

Direct costs: Costs directly attributable to an activity

Indirect costs: Costs which are not directly attributable to an activity, like overheads

Trust fund: Funding instruments through which donors pool resources

Joint management: The implementation of activities through international organisations

EXECUTIVE SUMMARY

I.

The European Commission has intensified its cooperation with the United Nations as part of its commitment to the better coordination of aid. The amount of EuropeAid funds channelled through United Nations Organisations increased from 144 million euro in 2001 to 935 million euro in 2009, reaching a peak of over 1 billion in 2006.

II.

This is the second phase of a two-part audit. The overall audit question was whether the Commission achieves value for money when channelling funds through the United Nations. Part one looked at decision-making and monitoring. It concluded that the process for deciding to implement aid through the UN did not demonstrate that that is the most effective and efficient option and that the monitoring systems should be further improved. Special Report No 15/2009 for phase 1 was published in January 2010.

III.

The second phase evaluates the achievement of objectives. It complements the first phase by assessing whether EU contributions channelled through United Nations organisations are an effective, efficient and sustainable way of delivering aid in conflict-affected countries. The audit examined a sample of projects in Afghanistan, Iraq and Sudan covering the period 2006–08.

IV.

The Court concludes that:

- (a) The audit of a sample of projects confirmed a key observation of phase 1, that the Commission does not receive sufficient timely information from UN reports. A large proportion of reports are still delayed, not detailed enough and focus on activities rather than results.
- (b) Frequent weaknesses in project design were noted which had negative consequences for the implementation and assessment of projects.
- (c) By channelling funds through the UN the Commission has delivered aid in areas which would otherwise have been very difficult to target. Given the high inherent risk in conflict-affected countries, the activities funded had an overall positive impact, with 10 out of 19 projects in the sample achieving all or at least the main objectives.
- (d) For the majority of interventions in Afghanistan, Iraq and Sudan the planned implementation period was exceeded, in general due to the unrealistic timeframe set out in the contribution agreements, which underestimated the difficult situation in these countries. Four out of 19 projects were implemented within the initial timeframe, and for several projects the original duration was more than doubled.
- (e) Given the challenging circumstances in which the projects were implemented, sustainability of results is in general difficult to guarantee. However, the majority of the results achieved were assessed as having reasonable chances of sustainability.

EXECUTIVE SUMMARY

- (f) The Commission has not sufficiently focused on efficiency aspects given that the cost assessments carried out were limited and not systematically documented. In addition, the Court identified shortcomings in this area in almost half (nine out of 19) of the sampled projects while for seven projects sufficient information was not available.

V.

On the basis of its observations, the Court makes the following recommendations to further improve the effectiveness and efficiency of the interventions:

- (a) The contribution agreements should include objectives which are well adapted to the specific circumstances, quantified indicators to measure the achievement of these objectives, where possible, and a realistic timeframe.
- (b) The reporting of the funded activities should be further improved in order to enable the Commission to assess the effectiveness and efficiency of the projects financed on a timely basis. The Commission should follow up all instances where reporting is judged to be unsatisfactory.
- (c) A systematic assessment of the efficiency of funded projects should be carried out and benchmarks should be developed for standard costs where feasible.

MAP SHOWING THE COUNTRIES COVERED BY THIS AUDIT



Source: Eurostat.

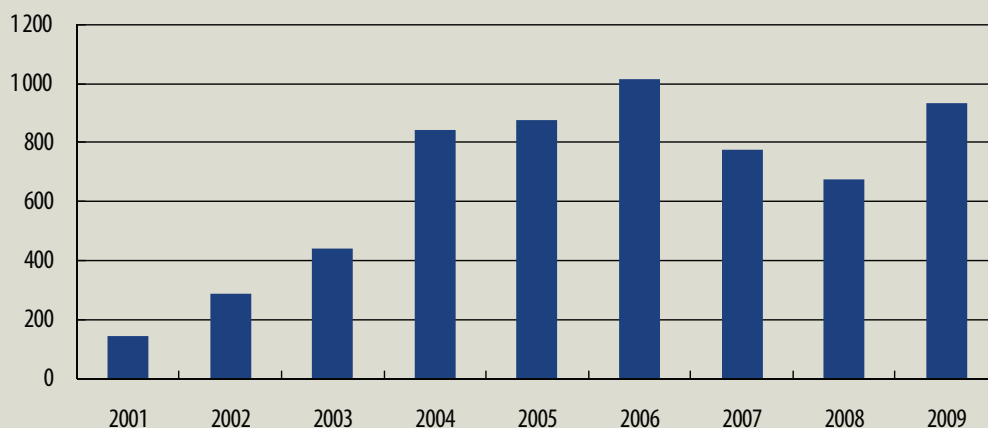
INTRODUCTION

AUDIT AREA

1. Over the last two decades efforts have been made to coordinate and harmonise development cooperation with the objective of further increasing aid effectiveness. This focus on results was most notably reflected in the 2000 millennium development goals.
2. The Commission continued this policy with its commitment in 2005 in the Paris Declaration on Aid Effectiveness as well as in the European Consensus on Development to coordinate aid in close cooperation with international organisations like the United Nations.
3. As a result of the decision to intensify cooperation with the UN, but also due to the major crises in Afghanistan, Iraq and Sudan, Commission aid implemented through UN organisations increased considerably. For the Commission's EuropeAid Cooperation Office (EuropeAid) alone the funds channelled through the UN rose from 144 million euro in 2001 to 935 million euro in 2009, reaching a peak of over 1 billion euro in 2006 (see **Figure 1**).

FIGURE 1

EUROPEAID CONTRIBUTIONS TO UN ORGANISATIONS 2001–09 (MILLION EURO)



Source: European Commission.

POLICY FRAMEWORK

4. The method of implementing the EU budget through international organisations like the UN is called *joint management*¹. The basic principle of joint management is to delegate certain implementation tasks to international organisations by relying on their control systems. However, the overall responsibility for the management of the budget and for ensuring value for money remains with the Commission².
5. EU funds channelled through United Nations organisations can be implemented in the following ways:
- (a) contributions to specific projects either as the only donor or together with other donors;
 - (b) contributions to Multi-Donor Trust Funds³, typically used in crisis (either post-conflict or post-disaster) situations. The basic idea of trust funds is that donors contribute to the fund without allocating the money to specific activities or objectives (no 'earmarking'). General objectives are then set for the fund as a whole, which might be further specified in objectives for the underlying projects or activities. About 26 % of the contributions to UN organisations are through Multi-Donor Trust Funds⁴. Examples are the interventions in Afghanistan and in particular Iraq, where Commission funding has, until recently, almost exclusively been channelled through Multi-Donor Trust Funds;
 - (c) contributions to the general budget of a UN organisation. This specific approach is used for the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) in the occupied Palestinian territory. The Commission's annual contribution of 66 million euro represents about a quarter of the UNRWA general budget.

¹ Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002, p. 1). Article 163 of Title IV relating to external actions states that actions may be implemented either on a centralised basis by the Commission or on a decentralised basis by the beneficiary third country or countries, or **jointly with international organisations**.

² Article 317 TFEU states that the Commission shall implement the budget on its own responsibility and having regard to the principles of sound financial management.

³ Multi-Donor Trust Funds as defined by UNDP are 'a funding instrument through which donors pool resources to support national priorities and facilitate UN agencies to work and deliver in close coordination and collaboration' (see <http://www.undp.org/mdtf/trustfunds.shtml>).

⁴ European Commission: Information Note for the Committee on Budgetary Control of the European Parliament on Multi-Donor Trust Funds supported by the European Community General Budget since 2003 (10.2.2009).

- 6.** The EU contributions are governed by the following regulations and agreements:
- (a) the **Financial Regulation** of the European Communities sets out the basic principles for channelling funds through international organisations. It specifies the cases in which joint management can be used and states as a condition for joint management that the international organisation shall apply internationally accepted standards for accounting, auditing, internal control and procurement;
 - (b) the 2003 **Financial and Administrative Framework Agreement (FAFA)** between the EU and the UN together with the other related agreements, aim to translate the requirements of the Financial Regulation into contractual terms. The FAFA applies to all funding agreements between the Commission and the UN and sets out a framework intended to enhance cooperation by allowing UN organisations to manage contributions in accordance with their own procedures;
 - (c) a **contribution agreement** is signed for each UN action funded by the Commission, stating the amount of funding, the objectives of the action, the activities to be carried out, their timing and the reporting requirements.

AUDIT SCOPE AND APPROACH

7. The subject of this audit is Commission aid channelled through United Nations organisations. It is the second part of an audit divided into two phases⁵.
8. The overall audit question for phase 1 and phase 2 was whether the Commission achieves value for money when channelling funds through the United Nations.
9. The first phase addressed decision-making and monitoring systems. The main findings were:
 - (a) the process for deciding to implement aid through the UN did not demonstrate that that is the most efficient and effective option;
 - (b) monitoring arrangements did not provide adequate information on the robustness of financial procedures and on the achievement of objectives.
10. The second phase evaluates the achievement of objectives. It complements the first phase by assessing whether EU contributions channelled through United Nations organisations are an effective, efficient and sustainable way of delivering aid in conflict-affected countries⁶. It does not review the action taken by the Commission to address the issues raised in the first phase.
11. The audit focused on conflict-affected countries mainly for reasons of materiality. Seven of the 10 countries which received **most funding** channelled through the UN in the period 2006–08 were conflict-affected: Iraq, Palestine, Afghanistan, Sudan, Côte d'Ivoire, Somalia and Sri Lanka. These seven countries received 39 % of total EuropeAid funding channelled through the UN, whilst the remaining 61 % was spread across more than 80 countries (see **Figure 2**).

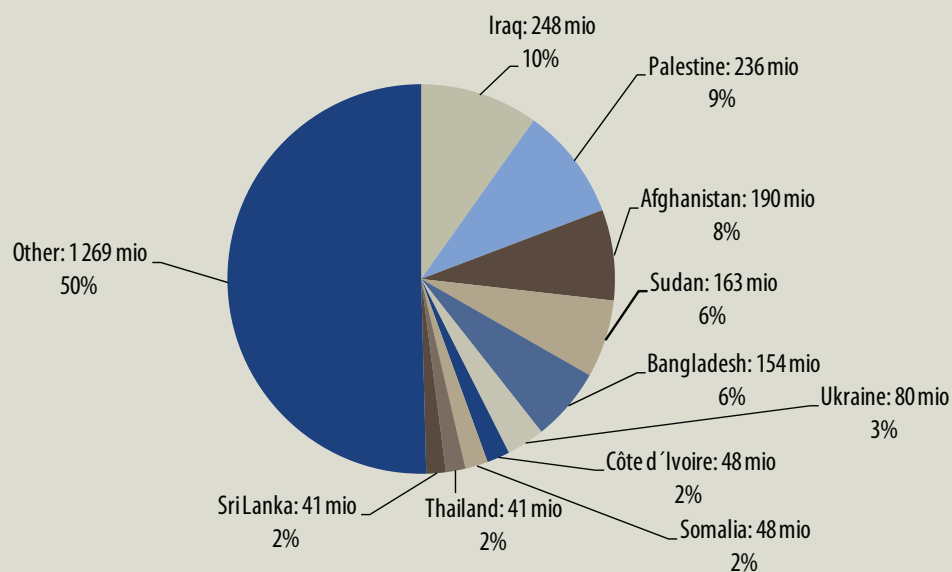
⁵ The first phase has been completed with the Special Report published in January 2010 (European Court of Auditors, Special Report No 15/2009 'EU assistance implemented through United Nations organisations: decision-making and monitoring').

⁶ The Financial Regulation states in Article 27 that 'Budget appropriations should be used in accordance with the principle of sound financial management, namely in accordance with the principles of economy, efficiency and effectiveness.'

12. The audit question was addressed by examining a sample of projects in Afghanistan, Iraq and Sudan during the period 2006–08. These three countries roughly represent one quarter of all EU funds channelled through UN organisations during this period. The projects were selected on the basis of materiality. They represented about 80 % of the total contributions to the three countries concerned during the period 2006-08 (see **Figure 3**).
13. The most common activities of the projects in the sample were de-mining, support to refugees, the preparation of elections, rehabilitation and capacity building.

FIGURE 2

COUNTRIES RECEIVING EU FUNDS CHANNELLED THROUGH THE UN 2006–08 (MILLION EURO AND %)



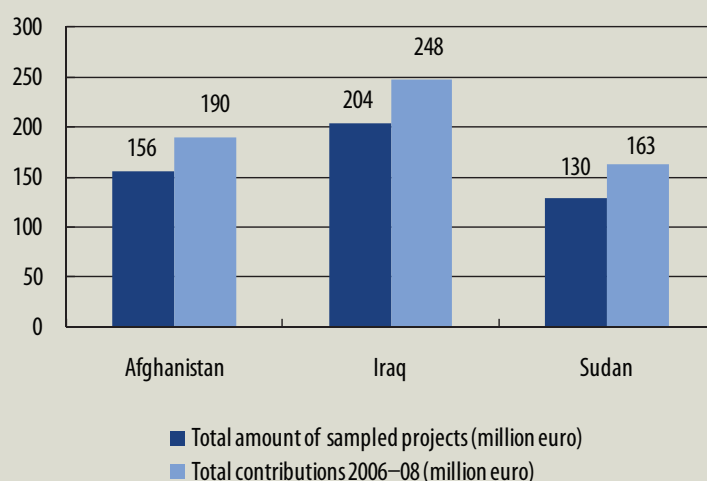
Source: European Commission.

14. The audit results are based on:

- (a) an analysis of general documentation concerning funds channelled through the UN including the Commission's evaluation of its cooperation with the UN;
- (b) a documentary review of a sample of 23 contributions to 19 projects (including three trust funds) on the basis of contribution agreements and financial, progress and audit reports (see **Annex**);
- (c) interviews with Commission and UN staff;
- (d) an on-the-spot audit in Sudan;
- (e) meetings at the UNDP's Multi-Donor Trust Fund Office in New York.

FIGURE 3

TOTAL FUNDING 2006-08 AND SAMPLE SIZES



Source: European Commission.

- 15.** The decision to fund projects in conflict-affected countries entails a substantial level of risks, which can only to a certain extent be mitigated. The question of whether these inherent risks are acceptable is a political decision and therefore not the subject of this audit.

- 16.** No on-the-spot visits could be carried out for two out of the three countries (Iraq and Afghanistan), due to the fact that these countries were in a post-conflict if not conflict situation at the time of the audit. This limited the assessment of effectiveness, efficiency and in particular sustainability.

OBSERVATIONS

MONITORING SYSTEMS AND PROJECT DESIGN AS KEY FACTORS FOR EFFECTIVENESS AND EFFICIENCY

17. This part of the report outlines the audit findings relating to the key aspects of efficiency, effectiveness and sustainability. To ensure that these are attainable it is essential to put in place the necessary building blocks, two of the most important being solid project design and adequate monitoring and reporting. These influence all stages of the process from commencement to ensuring that the funded actions continue into the foreseeable future.
18. The subject of monitoring was treated in phase 1 of the audit from the point of view of assessing the strength of the systems in place. This, phase 2 of the audit, complements the previous one, as indicated in paragraph 10.

THE MONITORING OF PROJECTS NEEDS IMPROVEMENT

19. The decision of the Commission to direct aid towards conflict-affected countries implies the acceptance of a substantial level of inherent risks in terms of the results. Furthermore the decision to intervene in these countries often requires the use of intermediaries, like the UN, and results in limited possibilities to monitor the interventions funded on-the-spot. To a larger extent than for other activities financed by the EU, the Commission therefore depends on information produced by third parties, with hardly any possibility to corroborate it.
20. In these circumstances, the Commission has, to a large extent, to rely on UN reports. In line with the FAFA, reports for each contribution agreement are required at least annually and a final report should be provided within six months after the end of the implementation period.

21. The information to be provided in reports is set out in the contribution agreement for each activity financed⁷. In order to improve the quality of UN reports, guidelines on reporting were introduced in 2007⁸. In line with these guidelines project reports should focus on results rather than activities and therefore allow a comparison between the objectives in the contribution agreement and actual achievements.
22. The sample of projects assessed during the second phase confirmed the main findings of phase 1 of the audit because a large proportion of reports were:
- (a) considerably delayed;
 - (b) focusing on activities rather than interim and final results;
 - (c) not detailed enough to assess effectiveness and efficiency.

⁷ FAFA Article 2.1 states that 'the contribution-specific agreement sets out the information to be provided in reports by the United Nations to the Commission.'

⁸ See 'Joint Guidelines on reporting obligations under the FAFA'. The purpose of the guideline is to provide practical guidance in addition to the relevant articles in the FAFA.

Photo 1 — Building works in the context of the project 'Enhancing the capacity of Khartoum State in the formulation and implementation of urban planning policies' (Sudan)



Source: European Court of Auditors.

BOX 1

REPORTING WEAKNESSES IN THE SAMPLED PROJECTS

Delayed reports**Support to the fifth Sudan population census:**

The implementation period for a census project in Sudan was April 2006 to June 2009. At the time of the audit the only available report was from 2007, which means that neither the 2008 report nor the final report, which was due in December 2009, had been provided.

Emergency infrastructural support to the Ministry of Legal Affairs and Constitutional Development and the Judiciary of Southern Sudan:

The final report, although due in September 2009, was not yet available at the time of the audit.

Insufficient information**Interim disarmament, demobilisation and reintegration programme (IDDRP):**

Although the final report shows substantial alterations in terms of the scope of work (expenditure reduced by more than 70 % and several activities not carried out) there was no indication of these modifications in previous reports or any other evidence that the Commission had been informed.

Capacity building for the new administration of Southern Sudan:

65 % of the expenditure in the final report was declared as 'previous expenditure' without providing any further explanations on the nature or content of the costs involved.

Further support to elections in Afghanistan:

There was no specific report related to this project, although all payments had been made. The only available documents were in fact general reports on the election.

WEAKNESSES IN PROJECT DESIGN IMPAIR EFFECTIVENESS, EFFICIENCY AND THEIR ASSESSMENT

- 23.** An adequate project design is the basis not only for effectiveness but also for efficiency. The Court examined whether:
- the objectives set out in the contribution agreement were clear and realistic;
 - indicators were defined where possible;
 - the time frame was well adapted to the specific circumstances and the budget sufficiently detailed to assess in particular the efficiency⁹.
- 24.** The large majority of contribution agreements in the sample (18 out of 19) had one or more of the following weaknesses:
- (a) **Unspecific objectives:** have the effect that performance cannot be measured as it is unclear what should have been achieved. This also applies for objectives that are so vague that they will always be achieved (typically characterised by formulations like 'to support...'). In addition the results and in particular the impact of a project are more likely to be limited if the objectives to be achieved are not clear from the beginning.
 - (b) **Missing indicators:** in the absence of indicators neither the Commission nor the UN can measure performance and track results, monitor activities and broader outputs adequately and thus take corrective actions in time.
 - (c) **No baseline criteria:** without baseline criteria improvements cannot be measured because there is no information on what the situation was like before the intervention started and therefore what the results should be measured against.

⁹ The FAFA states in Article 1.1: 'UN submissions of proposals will include objectives and indicators of achievement to be agreed in contribution specific agreements. Performance measures will be based on objectives that are specific, measurable, attainable, realistic and time based.'

- (d) **Weak logical link between activities and objectives:** the funds used to finance the project's activities should result in the achievement of the project's objectives. However, the logical link between the activities and the overall objectives, in particular those that are longer term, is not always clear. Consequently, although activities may have been successfully completed, the projects' intended impact may not be achieved.
- (e) **An unrealistic timeframe:** results in an extension of the project at a later stage, which requires additional work and therefore resources from both, the Commission and the UN.
- (f) **Underestimated risks:** although risks are particularly high and difficult to assess in conflict-affected countries it is of importance that they are given due consideration at the planning stage.

EFFECTIVENESS AND SUSTAINABILITY OF THE ACTIVITIES FUNDED

THE COMMISSION-FUNDED ACTIVITIES ACHIEVED SOME GOOD RESULTS IN DIFFICULT CIRCUMSTANCES

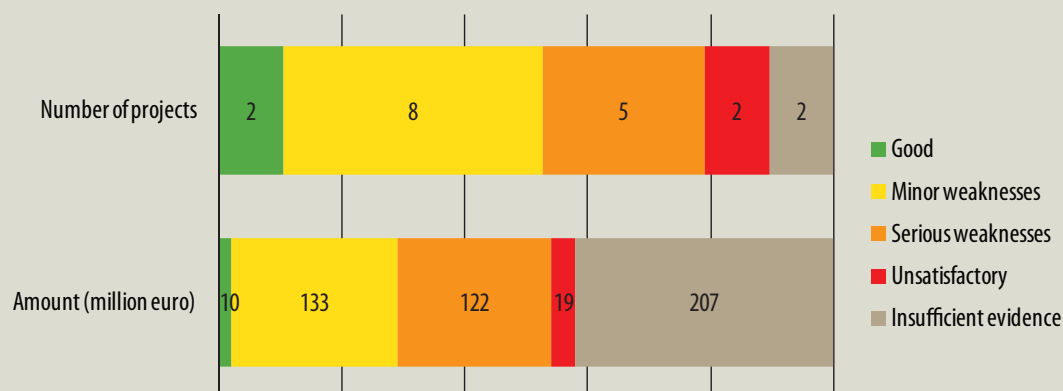
25. Effectiveness in the context of this audit is, in line with the Financial Regulation, defined as the attainment of objectives and the achievement of results. The Court assessed the effectiveness of a sample of 19 projects by comparing the intended objectives in the contribution agreement with the actual achievements. The effectiveness was rated as:

Good	If all objectives in terms of output as well as outcome have been achieved or are likely to be achieved
Minor weaknesses	If only the main objective(s) are likely to be achieved
Serious weaknesses	If the project will only partially achieve the main objective(s)
Unsatisfactory	If the main objectives were not or will not be achieved

26. The cooperation with organisations of the UN has made aid possible in a very difficult operational environment. Whereas two projects achieved their objectives in full and were therefore rated as 'good', eight showed 'minor weaknesses' and five 'serious weaknesses'. Two projects were not fully implemented due to specific circumstances and therefore they did not achieve their main objective and are thus considered 'unsatisfactory'. Examples of the weaknesses noted can be found in **Box 2** and for the overall result see **Figure 4** and the **Annex**.
27. Due to insufficient information, the results could not be assessed in the following cases:
- for one project, although all payments had been made, there was no specific report for the funded project;
 - one major project was a trust fund for which the objectives stated in the contribution agreement concerned the fund as a whole and were therefore of a more general nature. Although more specific objectives were defined for the underlying projects, there can be no clear link between the achievement of the project objectives and the general objectives in the contribution agreement. Consequently the effectiveness can only be assessed when the fund itself will be closed, which was not yet the case at the time of the audit.

FIGURE 4

THE EFFECTIVENESS OF SAMPLED PROJECTS (BY NUMBER OF PROJECTS AND AMOUNTS REPRESENTED)



Source: European Court of Auditors.

BOX 2

EFFECTIVENESS EXAMPLES

Project likely to achieve the intended results**Support to the return and reintegration of returnees and internally displaced people inside Iraq:**

The project was still ongoing at the time of the audit. However, according to the September 2009 report the programme was progressing according to plan with several activities already achieved, like provision of shelters and safe drinking water, and others even exceeding the expected results.

Projects which have not achieved the intended results**Mine clearance in Afghanistan:**

The project has not achieved its intended results as only 1,6 km² out of the 26,6 km² as stated in the contribution agreement were actually de-mined.

Emergency infrastructural support to the Ministry of Legal Affairs and Constitutional Development and the Judiciary of Southern Sudan:

The project ended in March 2009 without providing the main output, to construct buildings for the Ministry of Legal Affairs and for the Judiciary of Southern Sudan. After several delays and extensions of the contract, the sub-contracted building company became insolvent and the bank guarantees turned out to be falsified. The amount to be recovered was still under discussion at the time of the audit.

Project for which the impact is unclear**International Reconstruction Fund Facility for Iraq:**

Apart from the objective to halve the infant mortality rate, where targets were set and the information available suggests that it has not been achieved, there was no means of assessing the extent to which the other long-term objectives were achieved as no indicators or baselines were defined and no reliable statistics were available.

28. For the sample audited, no connection has been noted between the size of the project or the type of the activity financed and its effectiveness.
29. The serious weaknesses noted in several projects were in general a result of deficiencies in project design and the lack of monitoring at a later stage.

Photo 2 — Construction of offices for the 'Emergency infrastructural support to the Ministry of Legal Affairs and Constitutional Development and the Judiciary of Southern Sudan'



Source: European Court of Auditors.

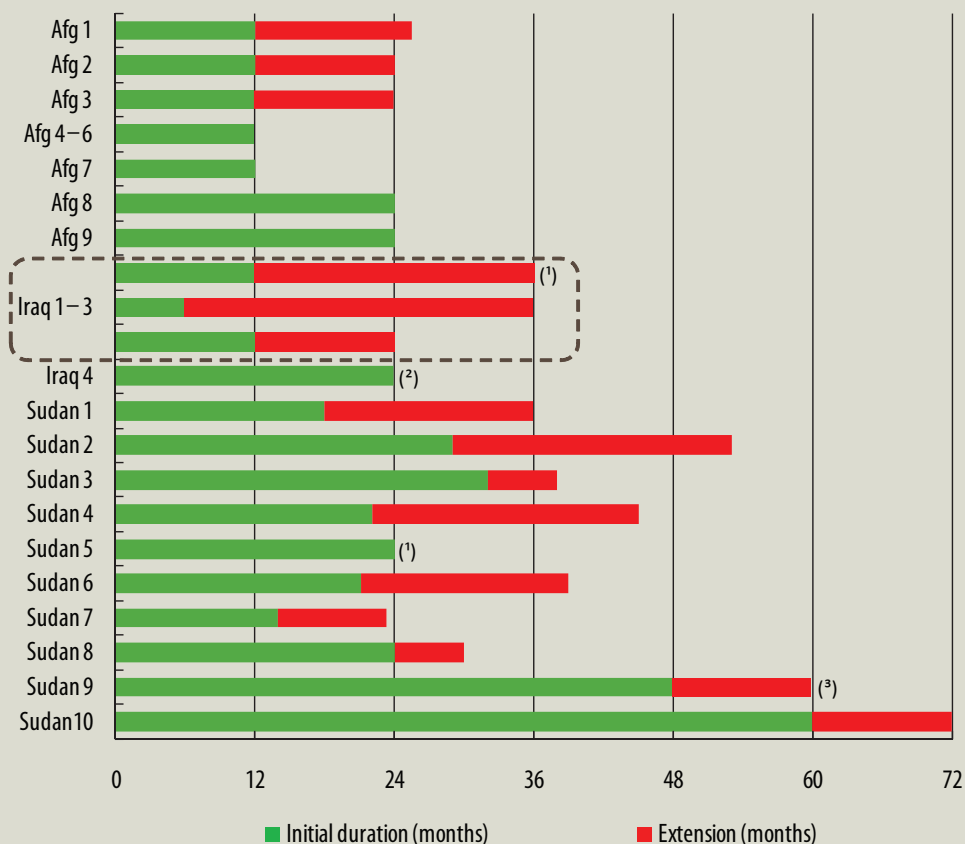
RESULTS ARE OFTEN NOT ACHIEVED WITHIN THE PLANNED IMPLEMENTATION PERIOD

- 30.** The time frame for each project is defined in its contribution agreement. The respect of this timeframe impacts effectiveness as well as efficiency due to the fact that:
- (a) delays result in extensions of the projects, which require additional work for the Commission staff;
 - (b) time extensions result in the increase of certain costs categories, like staff costs, which have to be funded from the Commission's fixed contribution. Less funding will then be available to finance the core activities of the project. Unless other funding is available, project activities will thus have to be curtailed;
 - (c) delays in the implementation lead to a lack of confidence among the concerned parties and can affect the reputation of the Commission, as was clearly observed for two projects in Sudan.
- 31.** For the vast majority of projects in the sample the initial implementation period was considerably exceeded. This was to a large extent due to the fact that the time needed to achieve certain results had been underestimated in the contribution agreements, as not enough consideration was given to the difficult circumstances in the countries.
- 32.** Four out of the 19 projects were implemented within the timeframe initially foreseen. In 12 cases the timeframe was exceeded and for five of these the implementation period was doubled or more than doubled. Notably two out of the four projects which were implemented within the initial timeframe were de-mining projects. For details on the delays noted see **Annex** and **Figure 5**.

- 33.** For the remaining three projects the assessment of timely implementation is of limited significance for the following reasons:
- for two of the three trust funds (in Sudan and Iraq) the implementation periods set out in the contribution agreements had, although legally binding, no practical effect as the relevant time schedules were those for the funds as such;
 - for one other project the assessment of the timeframe is still preliminary as the project was at an early stage of implementation.

FIGURE 5

EXTENSION OF THE INITIAL IMPLEMENTATION PERIOD BY PROJECT



(¹) For these two trust funds, although implementation periods were set in legally binding documents, they hardly had any practical effects.

(²) At the time of the audit, the implementation of this project was still at an early stage.

(³) At the time of the audit, a 12-month extension was under discussion but not yet approved.

Source: European Court of Auditors.

MOST RESULTS ARE LIKELY TO BE SUSTAINED

- 34.** Sustainability in the context of this audit is defined as the extent to which results have been maintained after the Commission funding has ended.
- 35.** As the majority of projects in the sample had not yet been closed, the audit examined the likely sustainability of project results. The basis for this assessment was the extent to which the necessary conditions for sustainability, i.e. ownership by the beneficiary, further funding, the necessary expertise and the political situation in the country or region, were fulfilled. The sustainability was rated as follows:

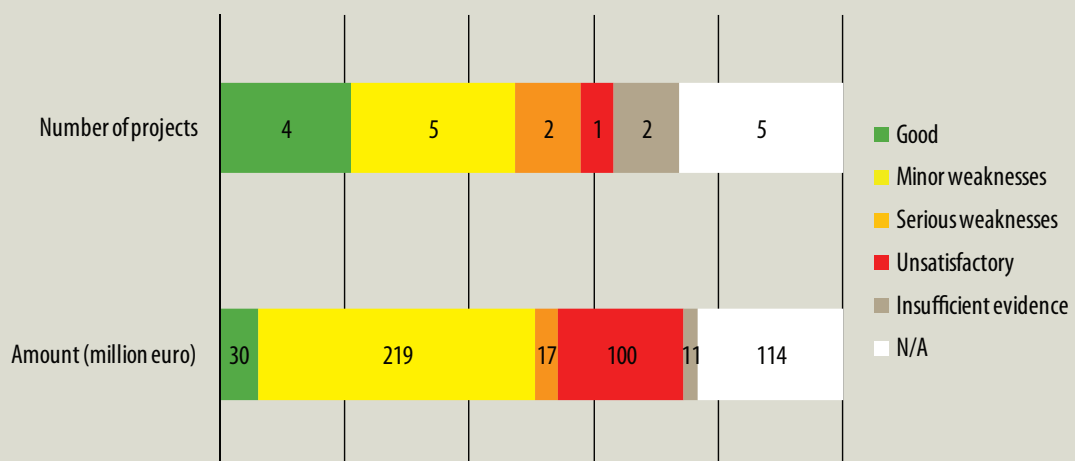
Good	If the results were or will most likely be sustained as all conditions for sustainability are fulfilled
Minor weaknesses	If not all conditions for sustainability are fulfilled but nevertheless the main results are likely to be sustained
Serious weaknesses	If several or very important conditions for sustainability are not fulfilled and therefore there are reasonable doubts about the sustainability of the main project results
Unsatisfactory	In case there was evidence that the results will not be maintained

- 36.** Four projects in the sample were rated as 'good' in terms of sustainability. Five projects had 'minor weaknesses', two 'serious weaknesses' and one was considered 'unsatisfactory'. For seven projects no assessment could be made as they were either still in an early phase of implementation (three cases), the information available was insufficient (two cases) or they had not achieved their main objectives and therefore there were no results to be sustained (two cases). For an overview of the results see **Annex** and **Figure 6** and examples can be found in **Box 3**.

37. The sample of projects audited showed that the conditions for sustainability vary in importance. Those projects which were characterised by a strong ownership in combination with political stability were in fact the ones most likely to be sustainable.

FIGURE 6

SUSTAINABILITY OF RESULTS (BY NUMBER OF PROJECTS AND AMOUNTS REPRESENTED)



Source: European Court of Auditors.

BOX 3

SUSTAINABILITY EXAMPLES

Projects which are likely to be sustained**Support to the fifth population census, Sudan:**

Although there was no exit strategy, there is adequate ownership from the beneficiary and future funding foreseen in the budget. Therefore the results had been sustained at least until the time of the audit which was one year after the implementation period had ended.

Enhancing the capacity of Khartoum State in the delivery of vocational training services, Sudan:

The training centres financed under this project are not yet operational. However, it is likely that the main results will be sustained, in particular due to the strong ownership by the beneficiary.

Projects with weaknesses in terms of sustainability**Law and Order Trust Fund, Afghanistan:**

The main objective of the Law and Order Trust Fund is to pay salaries of police officers in Afghanistan. Due to the limited financial capacity of Afghanistan the fund will, in the medium to longer term, remain dependent on further donor funding to continue its activities.

Photo 3 — Equipment for a training centre financed under the project ‘Enhancing the capacity of Khartoum State in the delivery of vocational training services, Sudan’



Source: European Court of Auditors.

EFFICIENCY OF THE ACTIVITIES FUNDED

- 38.** One of the principles of sound financial management, as specified in the Financial Regulation, is efficiency¹⁰. Efficiency is also one of the objectives agreed upon in the 'European Consensus on Development'¹¹.
- 39.** In line with the Financial Regulation, efficiency in the context of this audit is defined as the best relationship between resources employed and results achieved.
- 40.** The Court aimed to establish to what extent the Commission's cost assessments and monitoring ensured that the costs included in budgets and financial reports were reasonable in relation to the services provided. In this context the Court observed examples of projects which show indications of sub-optimal cost / result relations, in particular instances of high administrative costs.

INADEQUATE ASSESSMENT OF PROJECT COSTS

- 41.** The level of detail in budgets, specified in the contribution agreements, is often not adequate to properly assess the reasonableness of costs and to facilitate the assessment of efficiency.
- 42.** The Commission's cost assessments, during the lifespan of a project, focus on the eligibility of costs with considerably less attention being devoted to aspects of efficiency. They are generally neither systematic nor adequately documented.

¹⁰ The Financial Regulation states in Article 27 that 'Budget appropriations should be used in accordance with the principle of sound financial management, namely in accordance with the principles of economy, efficiency and effectiveness.'

¹¹ 'The European Consensus on Development' (OJ C 46, 24.2.2006) states in paragraph 25 that 'As well as more aid, the EU will provide better aid. Transaction costs of aid will be reduced and its global impact will improve.'

- 43.** No systematic use is made of available cost comparison mechanisms such as:
- comparing the same cost categories of different projects (e.g. staff costs for similar functions);
 - calculation and comparison of cost ratios (e.g. proportion of international staff costs to total staff costs, maintenance in relation to equipment);
 - comparison with benchmarks (e.g. average costs of determining a certain area and average cost per capita for a census).

SHORTCOMINGS HAVE BEEN IDENTIFIED IN THE SAMPLED PROJECTS

- 44.** In nine out of the 19 projects examined, high levels of costs were identified without evidence that these resulted in the improvement of the services provided (examples are given in **Box 4**). No assessment could be made for seven projects as the information available in financial reports was not sufficient. A summary of the results can be found in the **Annex** and **Figure 7**.

FIGURE 7

THE EFFICIENCY OF SAMPLED PROJECTS (BY NUMBER OF PROJECTS AND AMOUNTS REPRESENTED)



Source: European Court of Auditors.

45. Incidences of high costs were particularly noted in the following areas:

- (a) **Indirect costs:** in line with the FAFA the Commission contributes up to 7 % of direct costs in respect of the UN organisation's indirect costs. The FAFA also requires in Article 5.1 that subcontracting should not lead to higher costs. However, the audit identified projects in which implementing partners, often other UN organisations, charged indirect costs that were additional to the 7 % of direct costs provided for in the FAFA agreement, and subcontractors were engaged without evidence that this did not lead to higher costs.
- (b) **Reduction of the scope of activities not reflected in the costs:** the follow-up of instances where problems arise due to the curtailment of the level of activities, or where there is insufficient information in the UN reports, was inadequate. In two projects a reduction of the scope of the work has not led to an equivalent reduction of the EU contribution.

Photo 4 — Offices constructed under the 'Sudan productive capacity recovery programme'



Source: European Court of Auditors.

BOX 4

EXAMPLES OF SHORTCOMINGS IN RELATION TO PROJECT COSTS

Indirect costs**Capacity building for the new administration of Southern Sudan:**

This trust fund, to which the EU contributed 1,9 million euro, was implemented by a UN organisation, which received a 3 % contribution for indirect costs. However the actual (financial) management of the project was subcontracted to a private company which charged another 10 % of the total costs, resulting in total administrative costs of more than 13 %.

Sudan productive capacity recovery programme (SPCRP):

In addition to the 7% indirect costs, a management fee (187 338 USD) was paid to another UN organisation for services provided in the context of this project (e.g. building of offices).

Reduction of the scope**Mine clearance in Afghanistan:**

Although the implementation period was reduced from 12 to three months and the project has in fact only partly achieved its objectives, the amount charged to the Commission was not reduced.

Interim disarmament demobilisation and reintegration programme (IDDRP):

The final report states a reduction of the scope of work and with it a decrease of the total costs by 70 %. However, this has not resulted in an equivalent reduction of the Commission's contribution, which has only decreased by 12 % and now represents 65 % of the total costs instead of the planned 20 %.

Photo 5 — A communication and information centre for the 'Sudan community-based recovery and rehabilitation programme (RRP)'



Source: European Court of Auditors.

CONCLUSIONS AND RECOMMENDATIONS

- 46.** The presence and activities of the UN, in conflict-affected areas, provide the Commission with the opportunity to channel its aid in difficult circumstances. However, providing aid in conflict-affected areas presents special difficulties, only some of which can be overcome. As the amount of checking that can be done by the Commission on the spot, is severely curtailed, more reliance must be placed on the implementing body to compensate for the lack of direct monitoring by the Commission.
- 47.** The Court concludes that in the circumstances some good results were achieved and the majority of the results of the projects concerned have reasonable prospects of being sustainable. Inadequate project design and deficiencies in monitoring and reporting have contributed, however, to the weaknesses identified in projects. Regarding efficiency, the Commission does not focus sufficiently on this element and on ensuring that it receives the necessary feedback from the UN reports.

PROJECT DESIGN

- 48.** The project design is generally inadequate, as 18 out of the 19 projects examined were affected by deficiencies in this planning process. As a result, there was a lack of clarity as to what was to be achieved and how the success of the projects' activities could be assessed. Poor project design was also a factor contributing to the weaknesses noted in the projects examined.

RECOMMENDATION 1

The Commission should ensure that clear practical objectives are set for the projects to which its funds are committed. Objectives should be quantified where possible to facilitate the execution and monitoring of the projects and to provide useful feedback for the Commission. The link between the projects' activities, the projects' objectives and the wider objectives should be clearly specified.

In addition, the time frame set out in the contribution agreement should be better adapted to the project environment to avoid timely and costly extensions of the implementation period at a later stage.

As the level of detail in the budget forms the basis for subsequent reports, it should include all information necessary to assess in particular the efficiency of the activities funded.

EFFECTIVENESS AND SUSTAINABILITY

49. The **Annex** illustrates that approximately half of the projects achieved at least their main objectives and that there is a reasonable likelihood that the majority of the results obtained will be sustained, provided there is no further deterioration in the security and political situation. The **Annex** also shows, however, that major weaknesses were noted in certain of the projects. The results are best for Sudan, where due to the improved security situation the Commission is able to take a more active role in the monitoring of its funded projects. However, for the majority of projects in the sample the planned implementation period was considerably exceeded.
50. As the Commission is generally dependent on the UN for its information on the progress and achievements of the projects it needs reports that are on time and that give sufficient information, particularly on the achievement of results. However, for the projects examined, many reports were either late or were not comprehensive.

RECOMMENDATION 2

The Commission should insist on receiving the necessary reports on time and continue its efforts to ensure that these reports give the information that it needs for assessing the progress and success of the projects.

The follow-up by the Commission should be prompt, systematic, clearly evidenced and comprehensive throughout the project duration.

Following each project the Commission should identify the lessons learnt for future interventions having special regard to the aspect of sustainability.

EFFICIENCY

- 51.** The lack of information for seven out of the 19 projects considerably hampered the Court's assessment of efficiency. For most of the projects it was not possible to ascertain what work the Commission did to assess efficiency as this exercise was neither systematic nor adequately documented. The emphasis was more on the eligibility of costs rather than the need to incur certain of these. The lack of detail in the individual budgets relating to the contribution agreements reduced the extent to which the reasonableness of costs could be assessed and monitored. Very little use was made of comparative information in the cost assessment process.

- 52.** In nine out of the 19 projects in the sample the Court identified incidences of high costs without evidence that these resulted in an increase or improvement of the services provided.

RECOMMENDATION 3

A systematic assessment of the costs should be performed and the results should be adequately documented. More focus should be put on efficiency and the assessment of costs should not be limited to questions of eligibility.

Where feasible, benchmarks should be developed for common cost items in order to facilitate the assessment of costs in project proposals and financial reports.

This report was adopted by Chamber III, headed by Mr Jan KINŠT, Member of the Court of Auditors, in Luxembourg at its meeting of 8 March 2011.

For the Court of Auditors



Vítor Manuel da SILVA CALDEIRA
President

Number	Title	Effectiveness	Likely sustainability	Respect of the timeframe	Efficiency	Amount (million euro)
Afgh 1	Anti-personnel mine and ammunition stockpile destruction	Serious weaknesses	Minor weaknesses	No	Shortcomings identified	6
Afgh 2	Support to governance in the Islamic Republic of Afghanistan — Census	Unsatisfactory	N/A (main objectives not achieved)	No	Shortcomings identified	15
Afgh 3	Further support to elections in Afghanistan	Insufficient evidence	Insufficient evidence	No	Insufficient evidence	9
Afgh 4-6	Law and Order Trust Fund for Afghanistan (LOTFA)	Serious weaknesses	Unsatisfactory	Yes	Insufficient evidence	100
Afgh 7	Mine clearance in Afghanistan	Serious weaknesses	Good	Yes	Shortcomings identified	2
Afgh 8	Regional programme in support of Afghan refugees in Iran and Pakistan, and of returnees in Afghanistan	Minor weaknesses	Good	Yes	Insufficient evidence	4
Afgh 9	Support to the mine action sector in Afghanistan	Minor weaknesses	Good	Yes	Insufficient evidence	20
Iraq 1-3	International Reconstruction Fund Facility for Iraq (IRRFI)	Insufficient evidence	Minor weaknesses	N/A (fund)	Insufficient evidence	198
Iraq 4	Support to the return and reintegration of returnees and internally displaced people inside Iraq	Good	N/A (project still at an early stage)	N/A (project still at an early stage)	Insufficient evidence	6
Sudan 1	Interim disarmament, demobilisation and reintegration programme (IDDRP)	Serious weaknesses	Serious weaknesses	No	Shortcomings identified	12
Sudan 2	Capacity development for aid management and coordination	Minor weaknesses	Minor weaknesses	No	No shortcomings identified	2
Sudan 3	Support to the fifth population census Sudan	Good	Good	No	Insufficient evidence	4
Sudan 4	Enhancing the capacity of Khartoum State in the formulation and implementation of urban planning policies	Minor weaknesses	Minor weaknesses	No	No shortcomings identified	2
Sudan 5	Capacity-building for the new administration of Southern Sudan	Serious weaknesses	Insufficient evidence	N/A (fund)	Shortcomings identified	2

Sudan 6	Enhancing the capacity of Khartoum State in the delivery of vocational training services	Minor weaknesses	Minor weaknesses	No	No shortcomings identified	11
Sudan 7	Emergency infrastructural support to the Ministry of Legal Affairs and Constitutional Development and the Judiciary of Southern Sudan	Unsatisfactory	N/A (main objectives not achieved)	No	Shortcomings identified	4
Sudan 8	De-mining in Southern Sudan	Minor weaknesses	Serious weaknesses	No	Shortcomings identified	5
Sudan 9	Sudan productive capacity recovery programme (SPCRP)	Minor weaknesses	N/A (project still at an early stage)	No	Shortcomings identified	39
Sudan 10	Community-based recovery and rehabilitation programme (RRP)	Minor weaknesses	N/A (project still at an early stage)	No	Shortcomings identified	51

REPLY OF THE COMMISSION

EXECUTIVE SUMMARY

I.

The United Nations (UN) is a key partner for the Commission. Working with the UN allows the Commission to intervene in situations from which the EU might otherwise be absent — such as situations where cooperation has been interrupted, conflict affected situations, post conflict-recovery or where the legitimacy, specialist mandate or neutrality of the UN are needed. It also means that the Commission can contribute to larger initiatives, both financially and through the governance structures in place, ensuring that the EU always has a say, both at a policy and programme management level. The decision to work with the UN is taken following consideration of the available alternatives.

II.

The Commission has issued instructions that its decisions to work with an international organisation should be taken with due concern for value for money and be fully documented and that alternatives should be systematically considered to ensure that the most effective channel for aid delivery is selected. The Commission is also exploring the development of joint monitoring methods with the UN.

The second phase of this two-part audit focuses on EU assistance to conflict-affected countries, managed by the Directorate-General for Development and Cooperation — EuropeAid. However, this is only part of the total development assistance and humanitarian aid provided by the Commission through the UN.

REPLY OF THE COMMISSION

III.

The audit of the Court highlights the difficulties of implementation met by the Commission and the United Nations in conflict-affected situations.

IV. (a)

The Commission recognises that improvements can be made to reporting, both in terms of quality and timing, and revised guidelines have recently (December 2010) been agreed with the UN for implementation on a trial basis.

IV. (b)

In conflict-affected countries the situation is unstable and difficulties in project design are frequent. The Commission seeks, as far as possible, to ensure that actions can be implemented flexibly so as to achieve a satisfactory impact.

IV. (c)

The Court's conclusions that, by channeling funds through the UN, the Commission has been able to deliver aid in areas which would otherwise have been very difficult to target, confirm the findings of an independent evaluation report entitled *Evaluation of the Commission's external cooperation with partner countries through the organisations of the UN family*, which was published in May 2008.

IV. (d)

The Court based its audit work on three major conflict situations and the difficulties of implementation in such situations are to be expected. In such circumstances, the time frame will necessarily be affected by events as they unfold and it may be necessary to revise plans and extend the timeframe to ensure satisfactory implementation.

IV. (e)

The Commission agrees with the Court's conclusion on the sustainability of projects.

IV. (f)

Commission staff are asked to ensure that they understand the headings and items of the budget, their content and purpose. Where the level of detail is insufficient, staff are expected to seek further information and document the results of their discussions in the file.

Staff received further instructions in June 2009 requiring them to take account of alternatives and cost effectiveness issues.

It should nevertheless be noted that the Standard Contribution Agreement does not impose a budget template and hence international organisations are free to use their own format, save for calls for proposals.

In fact, international organisations are encouraged to use their own budget structures in line with their accounting systems, which allows for more robust financial reporting and a clearer audit trail.

V. (a)

The Commission has the tools at its disposal to ensure that projects include all necessary objectives and indicators. The question of timeframe in conflict-affected countries is dependent on the situation in a particular political context and can be modified without necessarily affecting the overall outcome.

V. (b)

The Commission recognises that improvements can be made to reporting and revised guidelines have recently (December 2010) been agreed with the UN for implementation on a trial basis.

REPLY OF THE COMMISSION

AUDIT SCOPE AND APPROACH

Cases of unsatisfactory reporting are followed up with the UN by project managers and any payment of amounts due on a project are dependent on acceptance by the authorising officer of interim and final reports.

V. (c)

The Commission continually seeks to ensure sound financial management, even in difficult environments, in line with the Financial Regulation. Nevertheless, it is to be expected that costs may be higher in such environments. This will be the case for all donors.

Cost comparisons are difficult in various countries, and are even more challenging in a conflict-affected environment. Cost categories may vary significantly between the regions of one single country and over time.

9. (a)

The Commission took measures in 2009 to improve the management of funds channelled through the UN. The process for deciding to work with an international organisation has been improved. In addition, the need for better documentation of decisions taken and greater consideration of the alternatives is fully recognised.

It should also be noted that Council has also adopted conclusions on the report at the end of March 2010, which recognise the steps already taken by the Commission to meet these recommendations.

9. (b)

The Commission has indicated that robustness of financial procedures is assessed by the four-pillar review of the organisations and at project level by the verification missions for which the Commission and the UN agreed on terms of reference. The Commission recognised the importance of improving the quality and timing of reporting and revised guidelines have recently (December 2010) been agreed with the UN for implementation on a trial basis. It is also exploring the development of joint monitoring methods with its partners.

REPLY OF THE COMMISSION

OBSERVATIONS

19.–20.

The Court's inability to visit two of the selected countries reflects the difficulties inherent in working in such environments.

The Commission considers that it is able to monitor programmes in conflict-afflicted countries by relying on reports produced by the implementing partners. Reporting by implementing partners is a key source of information and monitoring for all donors in such circumstances and, in line with the principles of aid effectiveness and good donorship, the Commission is confident that it can rely on common reports produced for donors as a whole.

The Commission recognised that there are improvements to be made to reporting and revised guidelines have recently (December 2010) been agreed with the UN for implementation on a trial basis.

21.

Reporting is one element of the systems developed by the Commission to monitor and check the management of EU funds apply equally to programmes in conflict-affected countries. The Commission has a comprehensive control framework, including compliance assessment of an organisation's financial control systems, the possibility to perform on-the-spot checks of systems and procedures, field missions and results-oriented monitoring.

22.

The Commission has already raised its concerns about the quality and delays in reporting with the UN. Problems have also been flagged through the twice yearly external assistance management reports. Revised guidelines have recently (December 2010) been agreed with the UN for implementation on a trial basis.

The updated guidelines will address the three issues raised by the Court. In particular, they will stress the need for timely reporting and focusing on results and will provide guidance on the level of details expected. Furthermore, they will highlight the sanctions at the disposal of the EU in the case of late or incomplete reports.

Box 1:

Delayed reports

Support to the fifth Sudan population census

The UN organisation managing the census project in Sudan received several reminders but was unable to submit a final report before the activities of other donors were completed. The final report was received in early December 2010.

Emergency infrastructural support to the Ministry of Legal Affairs and Constitutional Development and the Judiciary of Southern Sudan

Following reminders by the Commission and a threat to recover funds, the final report was received in September 2010.

Insufficient information

Interim disarmament, demobilisation and reintegration programme (IDDRP)

The Commission was in constant communication with the UN on the implementation of the 'Interim disarmament, demobilisation and reintegration programme'. This project was considered to be of crucial importance for the comprehensive peace agreement implementation and overall security and peace in Sudan.

REPLY OF THE COMMISSION

Capacity building for the new administration of Southern Sudan

In the case of the capacity building for the new administration of Southern Sudan, the Commission contributed to a trust fund that pre-dated the peace agreement and the moment of the Commission contribution (2007) by several years for which project expenditure had previously been accepted by the steering committee. However, the Commission agrees that the 'previous expenditure' referred to by the Court needs to be clarified, and is taking the necessary steps to do so. The Commission chose this mechanism to coordinate technical assistance provided by donors more effectively.

Further support to elections in Afghanistan

Given the high political importance and in an effort to contribute to free and fair elections, the Commission accepted to work with an experienced UN partner and to rely on general reports available to the international donor community to assess the outcome of the elections in Afghanistan. It did not therefore receive detailed financial information. However, the Commission is satisfied that it received value for money. The final report covering the national assembly and provincial council elections for 2005 contained financial information showing the cost of elections per registered voter at 14 USD, which compares positively with other post-conflict countries.

24.

The Commission acknowledges the importance of project design but considers that only two of the 18 cases had weaknesses that could directly influence the project results.

The Commission has taken measures, through the update of the reporting guidelines, to improve project design, which it considers meets the concerns of the Court.

The question of time frame in conflict-affected countries is dependent on the situation in a particular political context and can be modified through amendments to the contract, without necessarily affecting the overall outcome. Questions of establishment of reliable baseline information and assessment of risk in conflict-affected countries are necessarily problematic and both the Commission and its partners endeavour to ensure that information is as reliable as possible.

26.

One of the projects identified by the Court as having serious weaknesses is the LOTFA project. The Commission would like to highlight that police reform is both highly complex and politically important in rebuilding a stable and secure environment in Afghanistan. Police officers are receiving their salaries regularly and on time which is one of the main outputs of the project. In addition, the electronic payment system is applied countrywide, thereby improving the reliability of the system. The Commission would also like to highlight that independent reports have shown good progress. In particular perceptions of, and respect for, the Afghan national police have improved and Afghans are more confident about their personal security. The Commission does not therefore consider that LOTFA presents serious weaknesses; it is in fact a major contributing factor to a more effective police system.

REPLY OF THE COMMISSION

The Afghan National Police undoubtedly faces serious ongoing problems with corruption and lack of capacity. However, these problems are being countered through a comprehensive approach to police reform, which needs to focus on institutional reform and proper civilian police training. LOTFA is just one (albeit a very important) of the many facets in overall police reform.

29.

The Commission recognises the need to improve project design, but considers that monitoring is adequate in general in the context of conflict-affected countries.

Box 2

Projects which have not achieved the intended results

Mine clearance in Afghanistan

Regarding the project 'Mine clearance in Afghanistan', it is true that the project proposal erroneously stated that 25 manual clearance teams could clear a total of 27 million m² of contaminated land, including 1,4 million m² of minefield and 25,7 million m² of battlefield, over a three-month period. The final report stated that the contribution agreement should have read that 25 manual clearance teams could have cleared either 1,4 million m² of minefield **or** 25,7 million m² of battlefield based on average productivity rates. Besides, the number of devices removed was much higher than originally planned (74 893 devices removed rather than 64 800 initially planned).

Emergency infrastructural support to the Ministry of Legal Affairs and Constitutional Development and the Judiciary of Southern Sudan

As regards the project 'Emergency infrastructural support to the Ministry of Legal Affairs and Constitutional Development and the Judiciary of Southern Sudan', the partner submitted an extension request towards the end of the implementation period. The related costs and overall achievement of the objectives were unjustifiable and the request was not accepted by the Commission. Although the project ended without the main objectives being realised, the partner did manage to procure the planned equipment and furniture for the offices and residences which are now safely stored in anticipation of the completion of the works in phase II (currently under procurement).

Project for which the impact is unclear *International Reconstruction Fund Facility for Iraq*

Setting specific and quantifiable indicators and baselines in general contributions to Multi-Donor Trust Funds can be unfeasible and counterproductive, as contributions cannot be earmarked for specific projects. In the case of the Iraq Trust Fund, EU contributions had generic objectives, since their ultimate purpose was the overall improvement of the living conditions of the population. Indicators and baselines can and should be set at project level, once the projects are submitted for approval. The Commission, through its participation in the ITF Steering Committee where projects are approved, has been checking the inclusion of measurable objectives at project level.

REPLY OF THE COMMISSION

30.

Respect of projects' initial time frames in conflict-affected countries is dependent on the situation in a fragile political context. In most of the contribution agreements where implementation periods were extended, the Commission and the UN partners were constrained by outside elements like government decisions or the deterioration of the security situation. Flexibility in these environments is therefore needed and is secured through no cost extension amendments to the contract, without necessarily affecting the overall outcome.

30. (b)

No cost extension of contribution agreements may result in a redistribution of certain costs to the detriment of others but such aspects are part of the risks associated with operating in these environments. However, during negotiations of no cost extension requests, the Commission makes every effort to ensure that any additional staff costs resulting from such extensions are kept to a minimum so as not to jeopardise the success of the project.

30. (c)

The lack of confidence of the parties arose as a result of the failure of the project as well as because of delays in implementation. The Commission has now received all reports and is in discussion with the UN to establish the amount of funds to be recovered. While it is regrettable that there were failures, the lessons learnt are very useful for future work in Sudan.

31.

Due consideration was given to difficult circumstances but projects were constrained by outside elements beyond the control of the partners that implied adaptation and therefore the initial implementation period had to be extended through a no cost extension amendment to the contract (see reply to paragraph 30).

32.

Where extensions have occurred there are valid reasons. For example, extensions have taken place to continue a programme or for security or political reasons.

Box 3

Projects which are likely to be sustained *Support to the fifth population census, Sudan*

The Commission agrees with the observation of the Court and can confirm that to date, the results of the project 'Support to the fifth population census', Sudan can be considered as sustainable.

Enhancing the capacity of Khartoum State in the delivery of vocational training services, Sudan

Four training centres are operational since September 2010 and the strong commitment of the beneficiary prevails.

REPLY OF THE COMMISSION

Projects with weaknesses in terms of sustainability

Law and Order Trust Fund, Afghanistan

One of the outputs for the next phase for LOTFA covering the period 1 January 2011 to 31 March 2013 is 'Government and state institutions responsible for security and the maintenance of the rule of law are better empowered, ensuring long-term sustainability'. Discussion and dialogue with government on the fiscal sustainability needs to improve. At the same time, there is also an understanding that donor funding will continue to be required at least in the medium term, in view of the growing police force over the next years, and for security to be maintained through professional and progressive financially sustainable security institutions.

41.

Commission staff are asked to ensure that they understand the headings and items of the budget, their content and purpose. Where the level of detail is insufficient, staff are expected to seek further information and document the results of their discussions in the file.

Staff received further instructions in June 2009 requiring them to take account of alternatives and cost-effectiveness issues.

It should nevertheless be noted that the Standard Contribution Agreement does not impose a budget template and hence international organisations are free to use their own format, save for call for proposals.

In fact, international organisations are encouraged to use their own budget structures in line with their accounting systems, which allows for more robust financial reporting and a clearer audit trail.

42.

The instructions referred to in paragraph 41 above require staff to gain a complete understanding of the budget, to take account of alternatives and cost effectiveness issues and to document their deliberations.

43.

Cost comparisons are difficult in various countries, and are even more challenging in a conflict-affected environment. Cost categories may vary significantly between the regions of one single country and over time.

The Commission continually seeks to ensure sound financial management even in difficult environments, in line with the Financial Regulation. Nevertheless, it is to be expected that costs may be higher in such environments. This will be the case for all donors.

44.

The Commission does not consider that the costs are necessarily high in relation to what can reasonably be expected in conflict-affected countries.

45. (a)

It is important to distinguish between two possible scenarios which are subject to two different regimes, as provided for in Articles 1, 10 and 14 of the General Conditions of the Standard Contribution Agreement, which applies Commission-wide.

REPLY OF THE COMMISSION

Where the UN chooses to implement the action with an implementing partner, the amount the UN and the implementing partner together claim as indirect costs may under no circumstances exceed 7 % of the direct eligible costs.

If, however, the action is subcontracted, including to another UN organisation, any costs related to administrative expenditure will appear as part of the price of this contract charged to the contracting authority. Whatever option is chosen, Article 5 of the FAFA clearly states that it must be cost effective and may not result in increased costs.

Box 4

Indirect costs

Capacity building for the new administration of Southern Sudan

As mentioned by the Court, the financial management of the action was subcontracted to a private company through a service contract. Costs related to administrative expenditure are therefore part of the price of the contract and not part of the indirect costs for which the FAFA foresees a maximum 7 %. In this particular case the UN organisation will receive 3 % of the direct costs.

Sudan productive capacity recovery programme (SPCRP)

The project did pay a management fee to another UN organisation for the office construction activities. However, according to the description of the action (Sub Annex 1.2 to the contribution agreement), the UN organisation in question is considered as a subcontractor and therefore the management fee should be considered as part of the price of its service and not as additional indirect costs, just as it happens for any service contract signed with private companies.

Reduction of the scope

Mine clearance in Afghanistan

The reduction of the implementation period of the project 'Mine clearance in Afghanistan' did not necessarily lead to a decrease in costs for the following reasons:

The policy dialogue and work carried out by the UN in meeting its objectives, which are by far the most important issues;

The fact that the actual number of devices removed exceeded the planned amount;

Furthermore and as mentioned under Box 2 above, there was an error in the contribution agreement, which was corrected in the final report.

Interim disarmament demobilisation and reintegration programme (IDDRP)

The scope of work was indeed reduced. However, the EU contribution was expressed in terms of a maximum amount of 12 million euro and not in terms of a percentage, reflecting the commitment of the Commission to this project which was considered to be of crucial importance for the comprehensive peace agreement implementation and overall security and peace in Sudan. As a surplus remains, the Commission is discussing with the UN the amount to be recovered and a recovery order will be issued in due course.

REPLY OF THE COMMISSION

CONCLUSIONS AND RECOMMENDATIONS

46.

The Court's inability to visit two of the selected countries reflects the difficulties inherent in working in such environments.

The Commission considers that it is able to monitor programmes in conflict-afflicted countries by relying on reports produced by the implementing partners. Reporting by implementing partners is a key source of information and, in line with the principles of aid effectiveness and good donorship, the Commission is confident that it can rely on common reports produced for donors as a whole.

The Commission recognised that there are improvements to be made to reporting and revised guidelines have recently (December 2010) been agreed with the UN for implementation on a trial basis.

47.

The Commission thanks the Court for recognising that even in extremely difficult circumstances projects implemented with the UN in conflict-affected countries achieve good results and are reasonably sustainable. The Commission recognises that improvements can be made to reporting, both in terms of quality and timing, and revised guidelines have recently (December 2010) been agreed with the UN for implementation on a trial basis. These guidelines stress the importance of good project design and the development of appropriate objectives and indicators and clarify the expectations of the Commission on what it expects reports to contain.

48.

The Commission acknowledges the importance of project design but considers that only two of the 18 cases had weaknesses that could directly influence the project results.

The Commission has taken measures, through the update of the reporting guidelines, to improve project design, which it considers meets the concerns of the Court.

In the case of contributions to Multi-Donor Trust Funds objectives can be generic but clear and quantifiable objectives should be set at project level.

In cases of joint management, the project is often designed jointly — thus the Commission and the UN will have a very clear understanding of the outcomes expected and how these should be assessed. In addition, the Commission has a rigorous internal peer review system.

Recommendation 1

The Commission agrees that clear and practical objectives should be set for projects. It has taken measures, through the update of the reporting guidelines, which meets the concerns of the Court.

The respect of projects' initial time frames in conflict-affected countries is dependent on the situation in a fragile political context. Flexibility in these environments is therefore needed and is secured through no cost extension amendments to the contribution agreement, without affecting the overall outcome.

REPLY OF THE COMMISSION

International organisations are encouraged to use the budget structure normally used in their own accounting systems so as to include more robust financial reporting and an audit trail showing the link between the financial report and the underlying accounting methods.

Commission staff are asked to ensure that they understand the headings and items of the budget, their content and purpose. Where the level of detail is insufficient, staff are expected to seek further information and document the results of their discussions in the file.

50.

The Commission recognises that improvements can be made to reporting, both in terms of quality and timing, and revised guidelines have recently (December 2010) been agreed with the UN for implementation on a trial basis.

Unsatisfactory reporting is followed up with the UN by project managers and payment of instalments and the final balance due on a project is dependent on acceptance by the authorising officer of interim and final reports.

Recommendation 2

The revised reporting guidelines agreed between the Commission and the UN address the question of reporting delays and also the quality of reporting.

Whereas follow-up can always be improved, the control and monitoring systems outlined above (see paragraph 21) are already quite comprehensive. Release of interim and final payments is dependent on approval by the Commission of the respective reports. In addition, detailed follow-up on all programmes financed by the Commission takes place through the twice yearly external assistance management reports.

The Commission already includes information on lessons learnt at the project preparation stage. This information is then translated into an action fiche which forms part of the financing decision and contains a section (2.2) on 'lessons learnt'.

51.

The Commission agrees that lack of information hampered the Court's assessment of efficiency. However, as noted by the Court (paragraph 17), its assessment of efficiency was also limited by the impossibility to conduct work on the spot for two countries.

The Commission furthermore notes that instructions issued in June 2009 ask staff to pay attention to cost effectiveness issues.

52.

The Commission does not consider that the costs are necessarily high in relation to what can reasonably be expected in conflict-affected countries.

REPLY OF THE COMMISSION

Recommendation 3

The Commission agrees with the recommendation of the Court and has already taken measures to address it.

In March 2007, the importance of checking the eligibility of costs prior to signature of a contribution agreement and prior to making a payment was highlighted in instructions to staff.

Staff received further instructions in June 2009 requiring them to record their assessment, when identifying proposals for financing through the UN, of the added value of this approach and to take account of alternatives and cost effectiveness issues.

All of these matters should now be documented and assessment of costs is not limited to questions of eligibility.

Whereas the development of benchmarks for standard costs may be desirable, cost comparisons are difficult in various countries, and are even more challenging in a conflict-affected environment. Cost categories may vary significantly between the regions of one single country and over time.

European Court of Auditors

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EUROPEAID FUNDS CHANNELLED THROUGH UNITED NATIONS ORGANISATIONS INCREASED FROM 144 MILLION EURO IN 2001 TO 935 MILLION EURO IN 2009. A HIGH PROPORTION OF THESE CONTRIBUTIONS WAS SPENT IN CONFLICT-AFFECTED COUNTRIES.

IN THIS REPORT, THE COURT EXAMINES WHETHER CHANNELLING FUNDS THROUGH UNITED NATIONS ORGANISATIONS IS AN EFFECTIVE, EFFICIENT AND SUSTAINABLE WAY OF DELIVERING AID IN CONFLICT-AFFECTED COUNTRIES.

THE AUDIT CONCLUDES THAT WHILE SOME GOOD RESULTS WERE ACHIEVED IN VERY DIFFICULT CIRCUMSTANCES, MORE ATTENTION NEEDS TO BE PAID TO PROJECT DESIGN, OBTAINING SUFFICIENT INFORMATION ON PROJECTS AND THE ASSESSMENT OF EFFICIENCY.



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