

I

(Information)

COURT OF AUDITORS

SPECIAL REPORT No 10/2004

concerning the devolution of EC external aid management to the Commission delegations, together with the Commission's replies

(pursuant to the second subparagraph of Article 248(4) of the EC Treaty)

(2005/C 72/01)

TABLE OF CONTENTS

	<i>Paragraphs</i>	<i>Page</i>
SUMMARY	I-IX	3
INTRODUCTION	1-14	4
Background	1-5	4
The Court's audit	6-14	5
OBSERVATIONS	15-63	6
Process of devolution	15-38	6
Overall management of devolution	15-18	6
Preparation of delegations	19-26	6
Preparation of headquarters for monitoring and support role	27-38	7
Results of devolution	39-63	9
Indicators for measuring results	39-42	9
Speed	43-55	10
Quality	56-60	11
Robust financial procedures	61-63	12
CONCLUSIONS	64-73	12
RECOMMENDATIONS	74-82	13
ANNEX		15
The Commission's replies		16

GLOSSARY OF ABBREVIATIONS

ACP	African, Caribbean and Pacific (countries)
ALAT	Local technical assistance agent
CRIS	Common Relex Information System
DEV	Directorate-General Development
EAMR	External assistance management report
EC	European Community
EDF	European Development Fund
EuropeAid	EuropeAid Cooperation Office
F & C	Finance and contracts (unit)
FR	Financial Regulation
HQ	Headquarters
IAS	Internal Audit Service
NGO	Non-governmental organisation
OLAS	On-line accounting system
RAC	'Restant à contracter' = commitments to be contracted
RAL	'Restant à liquider' = commitments to be paid
RELEX	Directorate-General External Relations
SINCOM	Accounting system of the Commission
TAO	Technical assistance office

SUMMARY

I. In May 2000 the Commission announced a major reform of the management of its external aid programme, the main objectives being to make radical improvements in the speed and quality of EC external aid, while ensuring robust financial procedures. A key component of the reform is the extensive devolution of aid management tasks and responsibilities to the Commission delegations. As a result of devolution, delegations are now responsible for project preparation, contracting, and financial and technical implementation, and have received substantial extra human and technical resources. Devolution also has important consequences for the central services of the EuropeAid Cooperation Office (or EuropeAid) in Brussels, as their role is moving away from direct management of projects towards monitoring and supporting delegations (see paragraphs 1 to 5).

II. The Court has visited 10 delegations as well as the central services in Brussels, to examine whether the Commission has managed the devolution process successfully and whether devolved management in the delegations is starting to achieve the intended results (given that the delegations had only worked under devolved management for a fairly short period) (see paragraphs 6 to 14).

III. The devolution of aid management responsibilities to 78 delegations constituted a major reorganisation of the Commission's services in the area of external aid and its implementation is a considerable achievement, with almost all delegations operating under devolved management by summer 2004 (see paragraphs 15 to 17).

IV. **Regarding the Commission's management of the devolution process**, it can be considered reasonably successful, at least as far as the delegations themselves are concerned. Its planning process, however, did not incorporate a number of elements which could have facilitated its control over that process, and some problem areas need further attention (see paragraph 18).

V. In general, delegations have been reasonably well prepared to operate under devolved management, although there are problems with filling posts and there is a continuing need for training. The preparation of the headquarters' (HQ) services has been less well planned, lacking both analysis and consultation. Delegations still require considerable support in adjusting to their new role, and central services find it difficult to provide delegations with the support required, as thematic expertise is becoming thinly spread across geographical directorates due to reductions in HQ staffing. Although HQ services have developed a number of monitoring instruments and have provided substantial support to delegations, there is scope for improvement in both areas (see paragraphs 19 to 38).

VI. **Regarding the results of devolution**, it is still too early, after less than two years of devolved management, to see the envisaged improvements in the speed and quality of EC external aid. Also, the lack of a complete set of performance indicators at an early stage in the devolution process makes it difficult to measure progress against the main objectives (see paragraphs 39 to 42, 48 to 51, 53, 56 and 57).

VII. However, in the majority of delegations visited there are signs that devolved management is on the right path to achieving the intended results. The speed and quality of project management are benefiting from the increased capacity in the operational units of the delegations and from having the finance and contract staff available on the ground. This leads to a better problem-solving capacity within the delegation and to increased contacts with beneficiaries and other relevant parties as well as to a better understanding of local conditions, risks and opportunities. Robust financial management procedures are generally ensured under devolution but are not yet sufficiently developed in respect of the financial monitoring of implementing organisations (see paragraphs 43, 46, 54, 58, 61 and 62).

VIII. For the time being, problems in recruiting staff with appropriate expertise and using this expertise in an optimal way, difficulties experienced by HQ in providing support to delegations, as yet inadequate financial information systems and complicated procedures are limiting the expected results of devolution in terms of increased speed and improved quality of project management (see paragraphs 44, 45, 47, 52, 55, 59, 60 and 63).

IX. The main recommendations made on the basis of the Court's observations and conclusions are the following:

- appropriate indicators should be introduced, relating to both speed and quality of aid, which measure progress from year to year and against standards to be set,
- the actual costs of devolution should be monitored against the estimated costs,
- the Commission should ensure that its recruitment procedures, salaries and other conditions of employment can attract staff with the appropriate expertise to fulfil the increased staffing needs of its delegations,
- thematic expertise present within HQ services should be organised in order to provide good quality support to delegations in an efficient way,
- HQ's monitoring and support role should be further developed, notably by improving the financial information systems and addressing outstanding training needs,
- the Commission should increase its efforts to try to reduce delays in project implementation, particularly delays in making payments, which occur outside the delegation,
- in order to optimise the results of devolution, the Commission should continue to pay particular attention to the simplification, harmonisation and clarification of financial and contractual procedures.

INTRODUCTION

Background

1. In May 2000, the Commission announced a major reform of the management of its external aid programme ⁽¹⁾ based on the principles in its White Paper on the reform of the Commission in general ⁽²⁾. Its main objective, as stated in the Commission's Communication, is to make radical improvements in the speed, quality and profile of EC external aid. More specifically, the basic aims are described as follows:

- to reduce substantially the time taken to implement projects,
- to make significant improvements in the quality and responsiveness of project management,
- to ensure robust financial, technical and contract management procedures, in line with the best international standards of propriety and accountability,
- to improve the impact and visibility of EC development cooperation and aid.

⁽¹⁾ Communication to the Commission on the reform of the management of external assistance, 16 May 2000, also referred to as document SEC(2000) 814/5.

⁽²⁾ COM(2000) 200.

2. A key component of the reform is devolution i.e. the delegation of tasks and responsibilities concerning the management of EC-financed cooperation activities from the Commission's headquarters in Brussels (i.e. EuropeAid) to its delegations in the beneficiary countries across the world ⁽³⁾. Final responsibility still remains with the headquarters of the Commission in Brussels. Other important elements of this reform are: strengthening multi-annual programming; integration of the project cycle; creation of a single body in charge of project implementation (EuropeAid); developing a common administrative culture within the External Relations services; and actions to eliminate old and sleeping commitments.

⁽³⁾ On many occasions in the past the Court has criticised the Commission's overly-centralised management of external aid programmes and the lack of responsibilities and resources in its delegations. See, for example, the following reports by the Court:

- Special Report No 21/2000 on the Management of the Commission's aid programmes, in particular on country programming, project preparation and the role of Delegations, paragraphs 51 to 53, (OJ C 57, 22.2.2001, p. 1).
- Special Report No 1/98 in respect of bilateral financial and technical cooperation with non-member Mediterranean countries, paragraph 39 (OJ C 98, 31.3.1998, p. 1).
- Special Report No 3/97 concerning the decentralised system for the implementation of the Phare programme, paragraphs 2.13 to 2.22 (OJ C 175, 9.6.1997, p. 4).
- Annual Report 1997, paragraph 5.23 (OJ C 349, 17.11.1998, p. 1).

3. The guiding principle for the devolution exercise was formulated in the May 2000 Communication as follows: 'all that can be better managed and decided on the spot, close to the field, should not be managed or decided in Brussels'. In operational terms, the most significant changes for delegations resulting from devolution are that they are responsible for the identification of projects/programmes and the preparation of financing proposals (but with approvals required from HQ), as well as for contracting and financial and technical implementation ⁽¹⁾. At the same time, the devolution process was also used to address the problem of general understaffing of delegations to enable them to carry out operational functions more effectively or to assume the aid management functions previously performed by technical assistance offices (TAOs) ⁽²⁾.

4. Devolution also has important consequences for the central services in Brussels as their role evolves away from direct management of projects towards monitoring and supporting delegations (including coordination, quality control and improvement in working practices).

5. The devolution process involves all geographical areas covered by the Commission's external aid programme, whether financed through the Commission's budget or through the European Development Funds. Devolution was planned in three 'waves' of some 20 to 30 delegations each, in the years 2001 to 2003, covering 78 delegations in total ⁽³⁾. The first group of 21 delegations started to operate with devolved management from the beginning of 2002, the second group of 26 delegations (plus the Kabul Office) started at the end of 2002/early 2003, and the third group of 30 delegations (all of which are in ACP countries) started at the end of 2003/early 2004. Devolution will concern all programmes, but the geographical programmes ⁽⁴⁾ are dealt with first, to be followed by 'horizontal' programmes such as food security, human rights, NGO cofinancing, and regional programmes (but excluding humanitarian aid, which is not devolved). According to the Commission, a total amount of 14 billion euro of financial commitments to be paid, relating to the geographical programmes, was under devolved management at the end of 2003. This amount represents some 72 % of the total of such financial commitments.

⁽¹⁾ In the case of budgetary aid the situation is somewhat different, with delegations responsible for preparing financing proposals and evaluating conditions for disbursements, whilst HQ remains responsible for the approval of payments.

⁽²⁾ TAOs were for instance involved in the preparation of financing proposals and monitoring of project implementation. They were phased out by the end of 2001.

⁽³⁾ In February 2004 a decision was taken by the Commission also to devolve operations to its Delegation in Israel, and if the Delegation in Bosnia is included, which was already devolved before the devolution process itself started, the total number of delegations operating under devolved management will be 80.

⁽⁴⁾ Geographical programmes are targeted to specific geographical regions, such as TACIS (former Soviet Union), CARDS (the Balkans), MEDA (Mediterranean countries), ALA (Asia and Latin America), EDF (ACP countries) and EPRD (South Africa).

The Court's audit

6. The Court's audit has focused on two main questions:

- has the Commission managed the devolution process successfully?
- is devolved management in delegations starting to achieve the intended results?

7. To answer the first question the audit has looked at the way in which delegations have been prepared for devolved management and how the central services have been prepared for their monitoring and support role.

8. As for the second question, the audit has specifically looked at the results in terms of improving the speed and quality of aid and of ensuring robust financial procedures.

9. The Court recognises that the devolution process was not yet completed at the time of the audit (October 2003 to May 2004) and that the period during which delegations have worked under devolved management has been fairly short. Yet it was considered that the preparation and implementation of devolution had sufficiently advanced since its start in 2000 for the Court to be able to carry out this audit and produce relevant results, particularly regarding the process of devolution.

10. Rather than expecting outright improvements in quality to already become visible in such a short time span, the Court has been looking, as a first step, for indications of increased involvement of delegation staff in the various phases and activities of the project cycle. For the same reason the audit has not paid specific attention to another major reform objective, i.e. to improve the impact and visibility of EC aid.

11. Ten delegations ⁽⁵⁾ were visited in the context of this audit, seven of these belonged to the 'first wave' delegations and three to the 'second wave', while no delegations were chosen from the 'third wave' delegations, as these were expected to start operating under devolved management, at the earliest, by the end of 2003.

12. At central level, extensive interviews were held within EuropeAid (including all its geographical directorates), and within the Directorates-General for External Relations (RELEX) and Development (DEV).

⁽⁵⁾ The 10 delegations visited (in November 2003 or in March 2004) were the following: Indonesia, Kenya, Mali, Morocco, Russia, Senegal, South Africa (all first wave) and Albania, Ethiopia and Uruguay (second wave). The delegations in Nicaragua and Tunisia were visited in early 2003 as part of the preliminary study in preparation for the audit.

13. Concurrently with the Court's audit, the Commission services carried out an evaluation of the devolution process. The draft report of the evaluation became available to the Court at the end of 2003, just after the Court had completed its first round of (six) delegation visits. The report was analysed and compared with the Court's findings at that stage, from which it was concluded that there were no significant differences between the main findings of the two exercises (particularly concerning the major risk factors involved). The final report of the Commission's evaluation became available in May 2004 ⁽¹⁾.

14. In 2003 the Commission carried out an in-depth audit of EuropeAid. This audit had a different objective, aiming to provide a reasonable assurance on the EuropeAid internal control system, but some of its observations are nevertheless relevant to the Court's audit, as they confirm several of the Court's findings, in particular concerning the Common Relex Information System.

OBSERVATIONS

Process of devolution

Overall management of devolution

15. Detailed preparation of the devolution process started following the Commission's Communication of May 2000. A list of the key actions and dates in the overall preparatory process of devolution is included in the *Annex*.

16. The process of devolution to all 78 delegations was initially planned to be completed before the end of 2003. In order to make this process more manageable, and to benefit from lessons learned, delegations were to be devolved in three waves. The devolution of each delegation involved consultations to assess the delegation's needs, followed by the recruitment and training of agreed staff, the increasing of office capacity and IT equipment and the establishment of computer connections. Progress towards these objectives in each delegation was monitored using action plans. In addition, changes to the staffing and structure of HQ were being planned and implemented.

17. Reviewing the whole preparation period and the available documentation covering this period, it is clear that during the one and a half years between the official decision in May 2000 and the actual start of devolved management in the first delegations in early 2002, there has been extensive planning, consultation and implementation carried out, in particular by EuropeAid and by the DGs RELEX and DEV and coordinated through the Devolution inter-service working group. Since then a similar process of preparation has been followed in relation to the second and third wave delegations. By April 2004 devolution was operational in 66 delegations and the remaining 12 delegations of the third wave were expected to be devolved by mid-2004.

18. However, the planning process did not incorporate a number of elements which could have facilitated the Commission's control over the devolution exercise. For instance, although the Commission decision of May 2000 included an action plan, it did not link devolution activities with expected results. In the Communication to the Commission of January 2002 ⁽²⁾ the total annual cost of delegations when fully devolved in 2005 was estimated to be some 177 million euro higher than before devolution. This estimate did not incorporate savings from reductions in HQ staffing. The monitoring of actual costs against estimated costs was not done in a way which enables the overall evolution of costs (and staffing levels) in delegations and HQ to be clearly understood. Other such missing elements which are developed further in this report are reference standards for allocating resources to delegations (see paragraphs 19 to 21), a global plan and definition of the new role for HQ (see paragraphs 27 to 28) and performance indicators for the speed and quality of aid management (see paragraphs 39 to 42).

Preparation of delegations

19. Delegations chosen in the first 'wave' were informed by HQ in November 2000, and asked to prepare an estimate of their needs for additional resources (such as staff, office space and equipment). Second 'wave' delegations were similarly approached in December 2001. Delegations were told to take into account indicators such as the volume of aid or the number of projects and payments, but also particular constraints like the local work environment and the quality of the local public administration. No specific methodology was provided to delegations to explain how to translate such factors into an assessment of the additional resources required.

⁽¹⁾ Evaluation of the devolution process: final report — 6 May 2004 — SEC(2004) 561.

⁽²⁾ Communication to the Commission by Commissioners Patten, Nielsen, Kinnock and Schreyer: 'Réforme de l'aide communautaire: Plan de mise en œuvre et de financement de la déconcentration'. SEC(2002) 85, adopted by the Commission on 30 January 2002.

20. The audit has shown that, in general, delegations were not able to make such an analysis on their own and requests were made without any clear indication of how the numbers had been arrived at. Estimates for additional office space, computers and other office facilities were easier to make, as these would generally be based on the manpower estimates.

21. Although not supported by a specific methodology to assess resource requirements, extensive consultations took place between HQ and delegations, concluded by a final hearing between the Head of Delegation and the Directors-General of the main DGs involved (RELEX, DEV and EuropeAid). The outcome of this process has been that delegations' requests were largely fulfilled and staff in delegations increased considerably. In general, delegations received two officials and several support staff for a new Finance and Contracts (F & C) unit, as well as significant reinforcements for the operational unit or units responsible for cooperation activities (1).

22. As part of the preparatory process, two separate verifications for all devolved delegations were carried out by HQ, to make sure that all basic conditions were fulfilled. The first verification was the basis for the subdelegation of responsibility for commitments and payments from the geographical director of EuropeAid to the Head of Delegation. The second verification was carried out a few months later involving visits to the delegations, making sure that devolved management was operating satisfactorily.

23. While delegations visited during the Court's audit were generally satisfied with the number of extra posts allocated, six of the 10 delegations had experienced problems in getting the posts filled in time and/or with the relevant expertise. Contributing factors have been:

- long recruitment process (for officials, individual experts (2) and ALATs (3)),
- unattractive conditions (e.g. salary scales, leave entitlements for ALATs),

(1) By way of example, the Delegation in Indonesia, which before devolution had 25 staff, received in the first instance 14 extra staff, six for the F & C unit, three experts for the cooperation unit and five administrative and support staff.

(2) Individual experts are specialists with a considerable experience (in areas such as health, forestry, private sector etc.), with a temporary contract on terms more or less comparable with officials.

(3) ALAT stands for: 'agent local assistance technique' (local technical assistance agent); these are temporary agents of European nationality, with different degrees of experience, but usually less experienced than individual experts, with a local contract.

- shortage of certain types of expertise (F & C staff, civil engineers),
- restrictions because of local legislation (limited possibilities to renew temporary contracts),
- uncertainty regarding the future possibilities and conditions for temporary staff, resulting from the new category of 'contract agent' provided for in the new Staff Regulations introduced with effect from 1 May 2004.

24. As for other necessary resources, such as office infrastructure, computers and communication facilities, these were, with few exceptions, provided to delegations without major problems.

25. Major efforts have been undertaken to provide training for delegation staff. This included training for officials (in particular the F & C staff) before they take up their posts in the delegation, training courses given by HQ staff in delegations for all delegation staff and specialised training courses on a regional basis. Course subjects covered, in particular, the Commission's financial and contract procedures, the CRIS financial information system and the reinforcement of managerial capacities.

26. Audits at the delegations have shown, however, that despite all the training efforts undertaken, which were mostly considered to have been very useful, there still remain unfulfilled training needs, partly because of the regular rotation of staff, and partly because of inadequate budget provisions for delegations for local training and for training-related travel expenses. Recently, due to the reduction in HQ staff, the planned training programme for 2004 in the Asia region had to be reduced. Topics on which further training in delegations is considered desirable include in particular the CRIS system, the new Financial Regulations (FR) (4) and their implications, project implementation and monitoring, and management of staff.

Preparation of headquarters for monitoring and support role

Structure and staffing of Headquarters

27. EuropeAid was established in January 2001. However, a detailed description of the role of HQ in a devolved environment was first available in November 2002 (5) following seminars and workshops during 2002, and further developed in July 2003 (6).

(4) The FR applicable to the general budget and the FR for the ninth EDF.

(5) 'Définition des fonctions du Siège d'EuropeAid dans le cadre d'un environnement déconcentré'.

(6) 'Mission statement, Responsabilités et tâches des services'.

28. There was no analysis in any of the abovementioned documents which quantified the resources necessary for HQ to carry out its new tasks and responsibilities following devolution, such as monitoring (see paragraphs 34 and 35) and support (see paragraphs 36 to 38). Although the needs assessment for delegations also lacked a quantified analysis of the appropriateness of staffing levels in delegations relative to the tasks to be carried out, it was, nevertheless, an iterative process based on extensive discussions and consultations between delegations and HQ ensuring ownership by the delegation. There was, however, no comparable process involving Heads of Units concerning the assessment of needs for HQ, which consequently lacked both analysis and consultation.

29. The January 2002 Communication on the implementation and financing of devolution secured funding for the 1 400 additional staff in delegations (including 375 officials) but did not indicate how many would be redeployed from HQ. Nevertheless, according to the Commission, the number of new posts for officials allocated for devolution is only 158 (44 for the first phase in 2001 and 114 for the second phase in 2002). The 217 posts allocated to delegations in 2003 and 2004 were redeployed from HQ, although it is not clear on what kind of analysis the decision to reduce HQ posts was based.

30. Geographic directorates in EuropeAid have been requested to contribute to the reduction of 217 posts in 2003 and 2004. Most of these reductions will be met by the thematic units and by the finance and contracts units. The audit has shown that as a result some thematic units are no longer in a position to provide effective support to Delegations.

31. In order to meet their quota of the overall reduction in posts, thematic units have sometimes not been able to offer posts to experienced staff returning from delegations. Staff remaining in thematic units who were previously responsible for managing and processing project files may not be able to adapt easily to the new role of providing support, sectoral knowledge and advice.

32. The Commission did not consider that a global planning approach towards the structure of HQ was realistic, and so a pragmatic, evolutionary approach was adopted instead. However, although at the time of the audit there was no overall plan for restructuring EuropeAid, some consideration had been given to the idea of reorganising thematic units in order to concentrate thematic expertise. In this way the knowledge and experience of HQ can be provided more rationally and efficiently to delegations.

33. As for the Finance and Contracts units of the different EuropeAid directorates, a comparative workload assessment showed great variation between the units in the ratio of number of posts to number and volume of payments.

Monitoring role of headquarters

34. With the devolution of responsibilities, in particular those for implementation of cooperation programmes, to its delegations, the role of the Commission's HQ is evolving towards one of monitoring of, and providing support to, its delegations, as described in detail in the EuropeAid document 'Mission statement, Responsabilités et tâches des services' of July 2003. Concerning its monitoring role, HQ uses a number of instruments to monitor the activities of delegations, the main ones being the following:

- external assistance management reports (EAMR), prepared every four months by the delegations,
- quarterly schedules of commitments, payments, RAC and RAL ⁽¹⁾,
- annual management plan prepared by delegations,
- 'pipeline' overview of projects under preparation,
- results-oriented monitoring reports on projects,
- financial information systems, CRIS and for the EDF, OLAS,
- field visits,
- audits of internal control systems,
- workload assessments.

35. Although these monitoring instruments provide HQ with useful information on the performance of delegations, because of a lack of operational instructions the application of these instruments was not always clear for the staff concerned in terms of the required scope and depth of the monitoring, and problems have been encountered in the following areas:

- (a) the workload assessments aim to gradually identify internal reference standards or the relationship between resources and workload within delegations, as proposed by the Communication of January 2002. However, because of the small number of delegations visited and the variety of local conditions, the reference standards have not yet been developed. Therefore, the workload assessments carried out so far do not demonstrate whether staffing levels in delegations are appropriate on the basis of factors such as the delegation's tasks and responsibilities, the volume of aid managed, the number and value of payments made and the quality of the national administration. Neither do the workload assessments show whether less or more time should have been dedicated to a particular task or process, whether all tasks were relevant or whether additional tasks should have been undertaken;

⁽¹⁾ RAC = 'Restant à contracter' = commitments to be contracted.
RAL = 'Restant à liquider' = commitments to be paid.

- (b) there was initially no requirement to provide feedback to delegations on their EAMR reports although it was sometimes given. This has now been addressed and since the end of 2003 providing feedback to devolved delegations on their EAMR reports is required. However, EuropeAid sometimes has difficulty identifying from the EAMR reports what action is expected from HQ, if any ⁽¹⁾;
- (c) there is a lack of user-friendly reporting facilities in CRIS, to the extent that several delegations had set up their own parallel databases requiring duplicate input of financial project data. In one geographical area, missing or erroneous country codes entered into CRIS made it unreliable as a source of management information. The potential of CRIS as a monitoring tool has not yet been fully realised for ACP countries. It is intended that forecasting information will be included in CRIS at the end of 2004 and full integration of OLAS into CRIS is scheduled for 2006. The Commission audit (see paragraph 14) concluded in this respect that CRIS was not yet a mature reporting system.

Support role of headquarters

36. With the transfer of its implementation responsibilities to the delegations the new role of HQ, in addition to monitoring, consists of providing support to the delegations in the preparation, implementation and evaluation of projects. The geographical coordination units in EuropeAid in particular will be the focal point for the delegations' requests, supported by the thematic units.

37. The audit has shown that considerable support has been provided by HQ to delegations, for example in the following areas:

- a wide range of training in aid management and financial procedures, systems and audits, both before staff go to delegations and whilst they are there: for example, courses on aid delivery modalities such as project cycle management, budgetary support and sector wide approaches,
- substantial assistance in project preparation including contributions from quality support groups ⁽²⁾,

⁽¹⁾ As evidenced in a note from a director in EuropeAid to a head of delegation requesting a clear indication of when action was required from HQ.

⁽²⁾ There are six quality support groups in EuropeAid for Directorates A to F which are intended to screen all new projects twice, firstly at the identification stage and then at financing proposal stage.

- thematic networks which are intended to play a key role in quality support to delegations ⁽³⁾. They aim to provide guidelines and practical tools for designing projects,
- substantial financial and contracts support including a CRIS helpdesk, a mailbox for questions, and the drafting of manuals and guidelines.

38. However, there is still scope for improvement in the transition of HQ towards its new support role in a devolved environment in the following areas:

- (a) the websites of the thematic networks are at variable stages of development and many need important updating work;
- (b) there are still outstanding training needs in delegations (see paragraph 26);
- (c) the quality support group for the ACP currently only has the capacity to screen a sample of 20 % of financing proposals;
- (d) EuropeAid did not always make guidance available in the working language of the delegation. There are now clear instructions to do so, although translation delays remain;
- (e) the Commission was slow to clarify to delegations how decentralised management of EC aid by beneficiary countries should be implemented in the context of the new FR and to provide guidance on financing procedures for the ninth EDF;
- (f) lack of sufficient capacity in the directorate responsible in DG RELEX, resulting in delays in approval of staff recruitment proposals from delegations.

Results of devolution

Indicators for measuring results

39. The Communication to the Commission of 16 May 2000, concerning the reform of the management of external aid, stated that performance indicators would be introduced to measure progress made towards the objectives of the reform (increasing speed of implementation, improving quality of aid management and robustness of financial procedures) and to ensure that the success of programmes was no longer judged in terms of whether a budget allocation in a given year had been used.

⁽³⁾ The thematic networks have existed since 2001 with the creation of EuropeAid and there are now 11 thematic networks and three networks of correspondents. The main method of communicating with delegations is through websites, created in July 2003.

40. A number of indicators were adopted by the Commission in 2001, mainly based on financial data then available. These included commitments and disbursements, the related RAC and RAL, the percentage of invoices paid within 60 days, distribution of commitments and payments throughout the year and the number of years needed to complete a project.

41. The indicators mentioned above may be useful in the long term and at a global level, but they should be complemented by other indicators to provide a complete picture of the speed and quality of project preparation and of implementation on the ground. At the end of 2003 EuropeAid was still considering additional performance indicators which would meet this objective.

42. The delay in introducing such indicators has resulted in difficulties in establishing base line data on the situation at the start of devolution (or the reform). In addition, it is difficult to identify indicators which isolate the impact of devolution from the impact of the elements of the wider reform. Moreover, indicators may also be affected by other Commission initiatives such as the introduction of project cycle management, sector-wide approaches or new Financial Regulations and by developments in beneficiary countries, such as changes in the local political environment or in the quality of the national administration.

Speed

43. Through its audit, the Court has tried to find evidence of any improvements in speed in relation to different activities within the project cycle for which the Delegation now has specific responsibility, in particular the preparation of financing proposals, the conclusion of contracts, the payment of invoices, and project implementation. The first phase of the project cycle, i.e. of programming, is not dealt with here because this is still the responsibility of HQ, albeit with an expected greater involvement of the delegations.

Preparation of financing proposals

44. Although the 'pipeline' schedule of projects under preparation is closely monitored to ensure deadlines are met, in some cases devolution has slowed down the speed of project preparation as delegations pass through the necessary learning process. For example in 2003 Delegation HQ had to assist some delegations in Asia in preparing draft financing proposals, deadlines had to be postponed and in the end a higher percentage of commitments were concluded in the fourth quarter than in previous years (80 to 90 %, against some 50 % before).

45. Several delegations visited during the audit had encountered specific problems in 2003 in the preparation of new financing proposals, following the introduction of the new FR applicable to the general budget from 1 January 2003. Delegations were unsure how to interpret and apply new provisions of the FR relating to the concept of 'decentralised management' of aid activities by beneficiary countries. Repeated requests for clarification were left unanswered by HQ, where the subject in question was apparently still being studied at the time of the second round of the Court's audit visits to the delegations in March 2004. As a result, a number of project proposals could not be finalised for lack of a clear understanding and agreement on the implementation mechanisms to be put in place.

Contracting and payments

46. The overall conclusion on the basis of the visits to delegations is that the routine processes of making contracts and payments are managed adequately by the delegations. The main contributory factor has been that the bigger, first wave delegations in particular have received well qualified, experienced staff for their Finance and Contracts units (F & C), which has facilitated the smooth introduction of the basic financial systems and procedures.

47. In countries where the national administration plays an important role in the contract and payment process ⁽¹⁾, delays within these administrations are sometimes more serious constraints to speedy project implementation than any delays occurring in the delegations ⁽²⁾.

48. Many delegations do not keep track of specific indicators to measure the periods used to make payments or to conclude contracts, nor do they usually set themselves specific objectives in this respect, other than the formal compulsory periods set by the FR, by contracts or by published tender procedures ⁽³⁾.

⁽¹⁾ This is specifically the case in the ACP countries but also in other countries where decentralised project management is being applied, such as in Morocco.

⁽²⁾ The audit in the Delegation in Senegal for instance showed that, where the period used inside the Delegation to process a payment had come down to about 20 days, this was only a fraction of the time taken by the project management units or the national administration to perform their part of the payment process, which could be counted in months rather than days. In Morocco, the national administration's procedures to process payments or conclude contracts took so long that the Delegation had decided, rather than trying to assist the government in improving its local procedures, to take over complete responsibility for all payments and commitments in order to reduce delays.

⁽³⁾ An exception was found in Senegal, where the routing slips for payment visas contained a target number of working days for each stage of the verification process amounting to an overall total of 21 working days for processing an invoice for payment at the Delegation.

49. The financial information systems used in delegations, CRIS and (for EDF) OLAS, in principle allow the calculation of the period used to make a payment, but the checks carried out at a few delegations indicate a number of errors in the underlying data ⁽¹⁾. The reliability of the EuropeAid performance indicator, which shows the overall percentage of invoices paid within 60 days, is therefore uncertain.

50. Indicators on the speed of payments are not available prior to devolution. A manual test was therefore carried out at two delegations, whereby a number of similar payments was chosen, some made before devolution (and therefore by HQ) and some made after devolution, and the periods used to process the payments were compared. The results were inconclusive, showing an improvement in the case of one delegation (average time taken went down from 61 days before devolution to 47 days after devolution), but no apparent change in the case of another delegation (average time taken remained around 50 days).

51. A number of delegations experienced difficulties in relation to managing payments and contracts as a result of the many errors which they encountered in the data previously entered in the CRIS financial information system, after this system became operational in the course of 2002.

52. EC procedures in the area of tendering and contracting are complicated. The audit indicates that delegation staff, project staff and local government officials sometimes meet serious difficulties in this respect even when there is room for derogation or more flexible interpretation. Often, tender procedures have to be cancelled and restarted for lack of a sufficient number of interested parties or of valid offers. Derogations are not easily approved by HQ and in certain cases not even possible under specific rules, which require that the tender process be repeated until a sufficient number of valid offers is received. In these cases preparation or implementation of projects is seriously hindered.

Project implementation

53. The effect of devolution on the speed of project implementation as a whole can not easily be measured (as the audit visits at delegation level have shown), certainly not yet considering the relatively short period during which devolved management is in place in the delegations ⁽²⁾. For more than

half of the delegations visited, the conclusion of the audit was that the positive effects of devolution are being offset by other factors.

54. One common finding of the audit visits is that project implementation is benefiting from having the Finance and Contracts unit's staff available on the ground and from the increased capacity in the operational units of the delegations. Both factors contribute to a better understanding of local conditions and together create a better problem-solving capacity regarding any problems affecting projects and programmes. Interviews held with delegations' counterparts (government officials, project staff, representatives of other donors) confirm the increased capacity of delegations following devolution, which allow closer contacts with, and more involvement by, delegation staff.

55. However, constraints discussed earlier in the report in the context of the preparation of delegations and HQ for devolution, may offset improvements in speed resulting from devolution (see paragraphs 23, 26, 35(c) and 38).

Quality

56. Regarding the second main objective of the reform and of devolution, i.e. to make radical improvements in the quality of EC external aid, it is too early, after less than two years of devolved management, to see the full potential effect of devolution on the quality of aid throughout the whole project cycle. This would require a period of at least four to five years, until a significant number of projects and programmes prepared under devolved management are being implemented.

57. In addition, it would be necessary to identify at an earlier stage the most appropriate set of indicators for determining the quality of aid. The results-oriented monitoring system, which the Commission expanded in 2002 to cover all regions concerned by EC external cooperation programmes, is meant to give an appreciation of a project's or programme's performance. In the longer term, these assessments could form an important indicator of the level of quality of EC aid and, provided that the reports are of a consistent standard so that they are comparable over time, of any improvements in quality.

58. The positive factors referred to above in relation to the speed of project implementation are also at work in relation to the quality aspect. The audit has shown that in the majority of delegations visited there are signs of an increased capacity within the delegations to deal with the different aspects of development activities, leading to increased contacts with beneficiaries and other relevant parties and to a better understanding of local conditions, risks and opportunities. File reviews carried out during the audit also confirm an increased involvement of delegation staff in project monitoring activities, such as examination of, and commenting on, project work plans and progress reports.

⁽¹⁾ Errors found included the wrong date of issue of an invoice, the non-entry of the period during which a payment request is suspended, e.g. for lack of supporting documents and payments made once but recorded twice in the system.

⁽²⁾ An ongoing project, for instance, may suffer from a design weakness or a change in circumstances, which cannot be changed (easily) by devolution.

59. On the other hand, there are also constraints at work, discussed earlier in the report (see paragraph 56) which may offset improvements in quality resulting from devolution.

60. In addition, in most delegations visited there were several categories of staff (such as individual experts, ALATs and local agents) working in the operational units and sharing the workload, usually in such a way that each of them was responsible for a number of projects. This practice does not ensure that the different types of resources are used in an optimal way, because it means that the more experienced experts sometimes spend a considerable part of their time on relatively simple administrative tasks.

Robust financial procedures

61. The overall opinion from the devolution audit visits to the delegations, supported by the findings of a number of concurrent financial audits to the same delegations ⁽¹⁾, is that robust financial management procedures are generally ensured under devolved management. However, the financial monitoring of implementing organisations is not yet sufficiently developed. In particular, although the system of audits of implementing organisations has improved since 2002, discussions on the approach are still under way and in general the use and follow-up of audit reports is not yet adequate for the purpose of deriving overall assurance concerning the legality and regularity of transactions managed by implementing organisations.

62. There are signs that devolution is having a positive effect, leading to improvements in supervisory systems and controls. The early establishment of a Finance and Contracts unit in a delegation, often staffed with a strong and experienced team, has led in many delegations to a strong emphasis on financial procedures. It also contributed to quicker problem-solving and to improved practices being followed, e.g. through the introduction

of standard documents or formats for checklists, routing slips, and guidelines to be used both inside the delegation and by project management. In at least two delegations visited the F & C units have started to address the problem of monitoring implementing organisations, and have developed an approach for external audits of projects, including their systematic follow-up.

63. However, the existence of complicated procedures (see paragraph 52) and inadequate guidance on financial issues (see paragraph 45) have in some cases had an adverse effect on the achievement of the two other objectives of improving speed and quality of aid.

CONCLUSIONS

Conclusions on the process of devolution

64. The devolution of aid management responsibilities to 78 delegations constituted a major reorganisation of the Commission's services in the area of external aid. Its implementation, with almost all delegations operating under devolved management by summer 2004, is a considerable achievement (see paragraphs 15 to 17).

65. The Commission's management of the devolution process can be considered reasonably successful, at least as far as the delegations themselves are concerned. Its planning process, however, did not incorporate a number of elements which could have facilitated its control over that process, and some problem areas need further attention (see paragraph 18).

66. In general, delegations have been reasonably well prepared to operate under devolved management, although there are problems with filling posts and there is a continuing need for training in financial systems and project management, despite all the training efforts undertaken (see paragraphs 19 to 26).

67. The preparation of HQ services has been less well planned, lacking both analysis and consultation. Delegations still require considerable support in adjusting to their new role, and central services find it difficult to provide to delegations with the support required, as thematic expertise is becoming thinly spread across geographical directorates due to reductions in HQ staffing (see paragraphs 27 to 33).

⁽¹⁾ Financial audits were carried out in all the countries visited for the purpose of this audit except Ethiopia and Uruguay. See for more details the Court's 2003 Annual Report, in particular Chapter 7 on External action, and the report on the activities of the EDFs. In this context it is further noted that, although the Commission adopted internal control standards in 2001, these will only be applied to Delegations from 2004.

68. Although HQ has developed instruments to monitor delegations, such as external assistance management reports (EAMR), its monitoring role and instruments are not yet fully developed (see paragraphs 34 and 35).

69. Similarly, although HQ has provided substantial support to delegations through training initiatives, quality support groups, thematic networks and helpdesks, there are still shortcomings in providing guidance and meeting training needs (see paragraphs 36 to 38).

Conclusions on the results of devolution

70. It is still too early, after less than two years of devolved management, to see the envisaged improvements in the speed and quality of EC external aid. Also, the lack of a complete set of performance indicators at an early stage in the devolution process makes it difficult to measure progress against the main objectives. In the meantime, the Commission continues to use mainly financial data (such as the level of commitments and disbursements) as indicators of speed, although these can vary for reasons unconnected with devolution or the reform and are precisely the very criteria for judging EC aid which the reform intended to replace (see paragraphs 39 to 42, 53, 56 and 57).

71. However, in the majority of delegations visited there are signs that devolved management is on the right path towards achieving the intended results. The speed and quality of project management are benefiting from the increased capacity in the operational units of the delegations and from having the Finance and Contracts staff available on the ground. This leads to a better problem-solving capacity within the delegation, and to increased contacts with beneficiaries and other relevant parties, and to a better understanding of local conditions, risks and opportunities. Robust financial management procedures are generally ensured under devolution but are not yet sufficiently developed in respect of financial monitoring of implementing organisations (see paragraphs 54, 58, 61 and 62).

72. For the time being, problems in recruiting staff with appropriate expertise and using this expertise in an optimal way, difficulties experienced by HQ in providing support to delegations, as yet inadequate financial information systems and complicated procedures are limiting the expected results of devolution in terms of increased speed and improved quality of project management (see paragraphs 52, 55, 59, 60 and 63).

73. There are also indications that project preparation may slow down in the short term until delegations have adapted to their new responsibilities in this area. Although the reliability of indicators on speed of payments is uncertain due to errors in the underlying data, contracts and payments are generally managed in a timely manner by delegations. However, serious delays still occur outside the delegation, for example in the national administration and programme management units (see paragraphs 43 to 51).

RECOMMENDATIONS

74. A system of appropriate indicators, based on reliable underlying data, should be introduced, relating to both speed and quality of aid, which measures progress from year to year and against standards to be set, at the global level and at the level of individual delegations.

75. The actual annual costs of devolution should be monitored against the estimated costs.

76. The Commission should ensure that its recruitment procedures, salaries and other conditions of employment can attract staff with the appropriate expertise to fulfil the increased staffing needs of its delegations.

77. Thematic expertise within HQ services should be organised in order to provide good quality support to delegations in an efficient way.

78. HQ's monitoring role should be developed by establishing reference standards for assessing staffing levels in delegations, by providing more systematic and constructive feedback to delegations and by continuing to improve the financial information systems.

79. HQ's support role should be developed, in particular by providing more clarification on the new FR (applicable to the general budget), ensuring guidance is available promptly in the working language of the delegation and continuing to address outstanding training needs.

80. The Commission should increase its efforts to try to reduce delays in project implementation, which occur outside the delegation at the level of the national administration or project units, particularly delays in making payments.

81. The good example set by some devolved delegations in developing a comprehensive and systematic approach to external audits of implementing organisations, including their systematic follow-up, needs to be extended to all delegations.

82. In order to optimise the results of devolution the Commission should continue to pay particular attention to the simplification, harmonisation and clarification of financial and contractual procedures.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 8 and 9 December 2004.

For the Court of Auditors
Juan Manuel FABRA VALLÉS
President

ANNEX

List of key actions and dates in the preparatory process of devolution

- preparatory work on devolution started in 1999 (questionnaire to delegations),
 - Commission Communication on the overall external aid reform in May 2000,
 - start of Inter-service working group meetings in October 2000,
 - announcement of first wave of 22 delegations in November 2000,
 - adoption of the 'Concept opérationnel de déconcentration' in March 2001,
 - hearings on extra resources for first wave delegations in March to May 2001,
 - start of devolved management in first wave delegations as from January 2002,
 - Commission Communication 'Plan de mise en oeuvre et financement de la déconcentration' in January 2002,
 - EuropeAid seminar on the role of HQ in the context of devolved management, February 2002,
 - EuropeAid internal reference document presenting a 'Définition des fonctions du Siège d'EuropeAid dans le cadre d'un environnement déconcentré', November 2002,
 - Reorganisation of EuropeAid, following the devolution process, February 2003,
 - EuropeAid Cooperation Office: 'Mission Statement, Responsabilités et tâches des services', 25 July 2003.
-

THE COMMISSION'S REPLIES

SUMMARY

I. The wide-ranging reform of the management of external assistance, launched by the Commission in May 2000, included both the creation of EuropeAid, which was specifically designed to cope with the transitional period of the reform, and the devolution of the management of the whole project cycle to the delegations. Devolution also increased the role of the delegations in matters such as the policy dialogue with the authorities on complex public service and governance-related reforms, and in coordination with other donors. The reform was implemented in conjunction with Commission-wide reforms (such as the introduction of a new Financial Regulation, and the abolition of technical assistance offices) which also had an impact on the devolution process.

IV. The toolbox of planning and monitoring instruments applied proved to be effective and appropriate for the management of the devolution process.

V. As devolution progressed, a first reorganisation of the services in EuropeAid took place with the adoption of a new organigramme on 17 February 2003. Moreover, adjustments in response to the change of functions are now addressed through the headquarters' management plan. The Commission is examining measures to organise thematic expertise in full respect of the respective responsibilities of the directorates-general concerned as reflected in the Inter-service Agreement of 2001.

The entire exercise for human resource allocation took place against a background of huge staffing deficit compared with all major donors, including Member States.

The Commission is committed to overcoming remaining constraints.

VI. Devolution was just one element of the overall reform package. The results of the reform are closely monitored, and Council and Parliament are kept regularly informed. It is not possible to dissociate the results of devolution from the results of the rest of the package. Nevertheless, not only was devolution largely completed within the timescale envisaged, but it did not result in the losses of quality, or reduction in speed, which many observers feared. For instance, prior to the reform, the number of years needed to design, implement and complete a project was increasing; since 2000, this trend has been reversed, and projects are now completed faster.

VII. With devolution, stricter financial controls on implementing organisations (for instance, NGOs or project management units) can be applied on the spot by the delegations. Over recent years, the introduction of standard contractual documents has contributed to improving the level of control; moreover, since June 2003, project accounts are subject to an audit before the final payment is made, and an external audit strategy was finalised in 2004.

VIII. While some skilled posts are difficult to fill in a number of clearly identified countries, the Commission feels that the variety of staff categories in the delegations generally guarantees a certain measure of staff flexibility and adaptability to requirements.

Measures are being taken to adapt the structure of the services at EuropeAid, to improve financial information systems and to simplify procedures in order to provide more effective support to delegations. However it is essential to maintain strict standards of financial control.

IX. The Commission's position on the Court's recommendations is as follows:

- A set of indicators based primarily on financial data was put in place from the beginning of the reform. Work on the development of complementary indicators, to measure improvement in speed and quality of aid delivery is ongoing.
- At the end of 2005, after the completion of the devolution process, the monitoring of costs will allow for a comparison with initial estimates.
- Devolution has focused attention on improving the recruitment procedures and conditions in the delegations. Efforts are underway to find more effective ways of filling posts in reputedly difficult countries.
- The Commission is examining measures to organise thematic expertise in full respect of the respective responsibilities of the directorates-general concerned as reflected in the Inter-service Agreement of 2001.
- Enhancing the role of CRIS (Common Relex Information System) as a planning and management tool will further improve EuropeAid's capacity of monitoring and support. Significant efforts are being made to ensure proper training of delegation staff. More training sessions are now being organised overseas, and e-learning modules are being developed.
- EuropeAid is taking measures to improve the performance of national administrations.
- Pursuant to Action 73 of the White Paper on 'Reforming the Commission' the Commission established a centralised unit to harmonise model contracts and grant agreement management. Furthermore, the review of the Implementing Rules to the Financial Regulation launched by the Commission in October 2004 proposes a simplified system for awarding contracts for the Commission's own account, including those managed by the delegations.

INTRODUCTION

2 to 4. The reform of the management of external assistance included both the creation of EuropeAid, which was specifically designed to cope with the transitional period of the reform, and the devolution of the management of the whole project cycle to the delegations. Devolution also increased the role of the delegations in matters such as the policy dialogue with the authorities on complex public service and governance-related reforms, and in coordination with other donors. The reform was implemented in conjunction with Commission-wide reforms (such as the introduction of a new Financial Regulation, and the abolition of technical assistance offices) which also had an impact on the situation.

OBSERVATIONS

16. It was not possible to complete the devolution by the end of 2003 for budgetary reasons and for some logistical and staffing issues.

18. As devolution was only one part of the reform process, it is not possible to dissociate the results of the devolution process from the rest of the reforms.

At the end of 2005, after the completion of the devolution process, the monitoring of costs will allow for a comparison with initial estimates.

Regarding the other elements mentioned by the Court, see replies under respective paragraphs.

19. The methodology used allowed due account to be given to particular situations (e.g. regional delegations, size/complexity of portfolio, easiness/difficulty of recruiting staff, etc.) avoiding an inflexible 'one size fits all' approach.

The outcome of the first devolution phase was used as a guide and benchmark in assessing demands on resources made by the heads of delegation in subsequent devolution phases. The entire approach allowed for adaptations and fine-tuning throughout, retaining the flexibility needed to deal with many different scenarios. The human resources allocation process took place against a background of a huge staffing deficit compared with all major donors, including EU Member States. Hence, the approach chosen was to use devolution also as an opportunity to put Delegations in a situation where they would finally have the necessary human resources to discharge all their responsibilities in the management of external assistance with the level of quality, speed, management robustness, impact and visibility envisaged by the RELEX Reform.

20. Extensive consultations and continuous dialogue ensured ownership of the process by the heads of delegation and led, as the Court also points out, to general satisfaction in delegations with the number of posts allocated. Moreover, in the course of the first wave of devolution more sophisticated guidelines and benchmarks were developed for allocation of resources in the subsequent waves.

23. — The rapid increase in staff in the delegations resulted in a slow-down in the recruitment process, which can be blamed on the excessively low growth rate of management resources in the delegations and in Brussels. The pre-assignment training programmes also have an impact on deadlines for the filling of posts.

— The Commission is striving to offer local and ALAT staff contractual conditions comparable to those of similar employers in the locality. The forthcoming general introduction of the 'contract staff' category should contribute to a significant improvement in the conditions of employment in the delegations.

— The increasing scarcity of certain candidate profiles and the creation of posts with new job profiles have caused delays in the filling of posts. Various measures have been introduced or planned to resolve this situation.

— The aid-management posts created in local-agent or ALAT categories are covered by fixed-term contracts. The reasons for this are not only budgetary but also a concern that expertise should be more closely matched to the cooperation programmes to be carried out. Constraints arising from local legislation should diminish considerably with the forthcoming general introduction of the 'contract staff' category.

— Work is under way to draw up the conditions to govern the application of the new 'contract staff' category from 2006.

26. During 2004, with the limited resources at its disposal (particularly as regard mission expenses), the Commission conducted some 10 training courses in the Asia region covering CRIS and Finance and Contract procedures. New staff recruited locally should be trained in delegations by colleagues.

The Commission will maintain its substantial training program. Distance and eLearning courses are under development, and a first module on CRIS should become available early 2005. This should facilitate the access of local staff to training possibilities.

27. The initial structure of EuropeAid was designed to ensure the stability of the organisation throughout the devolution process by opting for a predominantly geographical structure.

Based on the first experience of the first wave of deconcentration, the description of the new role of headquarters of November 2002 was drawn up. This new role was at that time relevant for a quarter of the work of EuropeAid.

As devolution progressed, a first reorganisation of the services in HQ has taken place with the adoption of a new organigramme on 17 February 2003.

28. The adjustment in terms of allocation of human resources to the change of functions is ongoing. A workload assessment of units in EuropeAid was carried out in September/October 2004 as part of the preparations for restructuring which should lead to a new organisational structure by early 2005.

Moreover, staffing needs for HQ are addressed through the annual activity based management (ABM) exercise and reflected in the management plan. The management plan is the key planning, management and monitoring tool in headquarters. It allows directorates to plan for and manage change.

29. Sufficient staff has been redeployed from headquarters for the identified core needs in delegations. This redeployment takes place within the annual ABM exercise. As the redeployment occurs in a phased manner and in conjunction with other staffing movements, the process may not be immediately apparent or easy to reconstruct. It is nonetheless, and has been from the outset, a key aspect of the reform, and of devolution in particular.

30. EuropeAid is aware of the difficulties in providing effective support to delegations after the reduction in posts. For this reason (and the reasons highlighted under the reply to point 27) the present review process should lead to a new organisational structure for EuropeAid by early 2005.

31. EuropeAid has consistently attached major importance to training staff for the roles they will have to accomplish in a devolved environment. A large proportion of staff participated during 2002 and 2003 in exercises to help to adjust to their new roles and to identify problems which might arise between HQ and delegations.

EuropeAid has tried to ensure reintegration of staff returning from delegations. In 2003, 21 officials in the rotation exercise were thus reintegrated within EuropeAid.

32. The Commission is examining measures to organise thematic expertise in full respect of the respective responsibilities of the directorates-general concerned as reflected in the Inter-service Agreement of 2001.

35. Many of the monitoring instruments were new as part of the devolution exercise. They required a period of fine tuning in terms of use and operational application.

(a) All the criteria mentioned by the Court were covered in the decisions surrounding the allocation of additional staff and the reviews of organigrammes (see reply to paragraph 19).

As already foreseen in the 2002 Communication, the workload assessment has since been developed as a more general exercise that can go beyond the effects of devolution and give assessment criteria that can mirror the changing environment of delegation tasks and practical work in the future. The pilot phase of this exercise was finished in October 2004 and the general exercise was launched in November 2004.

The workload assessment methodology is based on a delegation's tasks and responsibilities, and demonstrates the adequacy of staffing to carry those out.

(b) Initial inconsistencies in providing feedback on the external assistance management report (EAMR) have now been overcome and steps have been taken in 2004 to ensure coordinated, appropriate and timely replies to delegations.

(c) In respect of the observations of the Court on parallel databases, some delegations have tended to develop their own internal excel tables. However, as the CRIS system is continually being developed and made more user-friendly. The need for such tables should diminish over time.

Efforts have been taken to ensure the accuracy of the non-financial data registered in CRIS. In May 2004 a number of non-financial CRIS functions were introduced for the EDF, including the project monitoring system (Implementation reporting).

38. A reorganisation in early 2005 should improve the support role of HQ. At the same time, the issues raised by the Court are already being dealt with in the following way:

(a) the vast majority of the websites maintained by the thematic networks have been updated in 2004. A newsletter is now being distributed to relevant staff in HQ and delegations informing them on new updates;

(b) significant efforts are made to ensure proper training of delegation staff (see reply to paragraph 26);

- (c) the work of the QSG (for the ACP countries) is based on a sampling principle. The sampling rate for 2004 was set at 20 %. This approach was adopted in full awareness of the annual volume of proposals (over 300). None the less, all proposals of an innovative or complex nature have been examined by the group.

Furthermore, all the ACP project identification sheets are subject to a 'quality assessment' at an earlier stage in the project cycle when intervention and support from HQ is more appropriate and more effective;

- (d) owing to EuropeAid's multilingual environment, instruction notes and manuals have to be translated, implying longer distribution times;
- (e) problems with making preparations and adjustments for the entry into application in January 2003 of the Financial Regulation and Implementing Rules were experienced in many services in the Commission. These difficulties were explicitly recognised in the readiness assessment made at the end of 2002 ⁽¹⁾.

For those financing agreements financed on the 2003 budget which were furthest advanced in their preparation, the Commission issued a written instruction to delegations in December 2003 that tendering could be proceeded with by the third country under a suspensive clause.

By early June 2004 the Commission had issued a revised Financing Agreement/Technical and Administrative Provisions template taking into account the agreed application of Article 164 FR;

- (f) please refer to the Commission's reply to point 23.

40. The Commission is seeking to improve and expand the range of indicators in all areas of management.

41. EuropeAid is studying various options for aggregate indicators of quality, which would complement the already existing indicators of financial execution.

42. Devolution is indeed only one, albeit an important, element of the overall reform of the Commission's management of external assistance. Hence, the improvements in aid delivery over the recent years can not be explained by Devolution alone, but are the results of all efforts combined. The Commission regularly reports on progress of the overall reform to the Parliament and the Council.

⁽¹⁾ See SEC(2002) 1362 final: Communication by Mrs Schreyer to the Commission: Overall assessment of the readiness of the Commission services for integrating the new Financial Regulation in their internal control systems of 17 December 2002.

44. While it is true that the percentage of commitments for Asia in the last quarter was 80 % in 2003, this improved in 2004 to 61 %, and a planned improvement to +/- 50 % is forecast for 2005. This more even spread of commitments has become possible as a result of delegations having adapted to their new role under devolution, in which they have been assisted by training initiatives and planning seminars. The QSG system has assisted in improving the quality of projects presented to the management committees.

It is part of the function of HQ to assist delegations to prepare financing proposals which meet increasingly stringent quality standards.

45. Please refer to reply to point 38(e).

47. EuropeAid is taking measures to improve the national administrations' performance (i.e. providing proper institutional support rather than just technical assistance). An additional incentive has been provided by setting deadlines for implementation of projects.

48. The Commission (whether headquarters or delegations) is required to make payments within the deadlines set by the Financial Regulations and the relevant contracts. The respect of these deadlines has been regularly monitored by EuropeAid since 2002 for all payments made on the budget lines managed by EuropeAid and delegations.

49. Though errors may occur in entering data in CRIS, these are occasional and do not question the reliability of the system. Efforts are constantly being made to ensure the accuracy of data registered in CRIS.

52. The subdelegated authorising officer accords derogations within a reasonable delay, when a well-founded justification is provided.

The outcome of tendering procedures cannot be predicted in advance and depends on various factors, some elements being out of the influence of the subdelegated authorising officers. The problem described does not appear to be particularly specific to delegations and the present Implementing Rules provide already for the possibility of using 'negotiated procedures' in case of unsuccessful tendering procedures.

53. It will clearly take some time for the effect of devolution, as well as the other aspects of the reform package, to have their full impact. However, prior to the reform, the number of years needed to design, implement and complete a project was increasing; since 2000, this trend has been reversed, and projects are now completed faster.

55. See replies to 23, 26, 35(c) and 38. Steps are being taken to overcome these constraints mentioned by the Court.

57. The concept of quality performance indicators is not a simple one. EuropeAid is taking stock of the various approaches for tracking the quality of its operations and intends to adopt sufficiently reliable, and hence credible, quality indicators.

The results oriented monitoring system has proved to be very helpful in building expertise on the monitoring of the quality of aid. However, further development is needed before the statistics produced can be converted into indicators of quality.

59. Please refer to the Commission's reply to point 55.

60. For efficiency reasons, posts have been identified by reference to project responsibilities rather than the various project-management tasks. The variety of staff categories in the delegations allow appropriate responses to be made to the various expertise requirements. Deficiencies and mismatches can be remedied by redefining job profiles when organigrammes are revised and contracts are renewed. The new Staff Regulations that entered into force on 1 May 2004 will gradually help to reduce the number of job categories in the delegations.

61. With devolution, stricter financial controls can be applied on the spot by the delegations. Moreover, since June 2003, in line with the revised grant contract provisions, the project accounts are subject to an audit before the final payment is made. The Commission's monitoring and control systems at the level of HQ and delegations aim at ensuring the compliance of contract partners (NGOs, public 'project management units', ...) with the contractual requirements. Checks and audits of the contract partners' internal control systems are carried out on the basis of risk assessments since in many cases a detailed examination of their overall internal control systems would be disproportionate on top of normal checks concerning legality and regularity of payments.

63. All these problems were addressed as part of the reform programme. Further improvements are being introduced as the reforms are followed up. Moreover, EuropeAid decided in November 2004 to establish a task force to review all procedural instructions in order to simplify and harmonise them.

CONCLUSIONS

65. The Communication of 16 May 2000 on the Reform of the Management of External Assistance included a timetable of actions to be completed. The toolbox of planning and monitoring instruments applied proved to be effective and appropriate for the management of the devolution process.

66. Measures are being taken to try to overcome recruitment problems, and to adapt the structure of the services at EuropeAid in order to provide more effective support to delegations. Significant efforts have been made to ensure proper training of delegation staff. More training sessions are now being organised overseas, and elearning modules are being developed.

67. As devolution progressed, a first reorganisation of the services in EuropeAid took place with the adoption of a new organigramme on 17 February 2003. Moreover, adjustments in response to the change of functions are now addressed through the headquarters' management plan. The management plan is the key planning, management and monitoring tool in headquarters. It allows directorates to plan for and manage change. The Commission is examining measures to organise thematic expertise in full respect of the respective responsibilities of the directorates-general concerned as reflected in the Inter-service Agreement of 2001.

The entire exercise for human resource allocation took place against a background of huge staffing deficit compared with all major donors, including Member States.

68. Many of the monitoring instruments, such as the EAMR, were new as part of the devolution exercise. They required a period of fine tuning in terms of use and operational application.

69. A reorganisation in early 2005 should improve the support role of HQ.

70. The indicators were based more on financial data than on quality indicators, although some of them also reflect quality concerns; the concept of quality performance indicators is not a simple one. EuropeAid is taking stock of the various approaches for tracking the quality of its operations and that should translate into the adoption of sufficiently reliable, and hence credible, quality indicators.

71. With devolution, stricter financial controls of implementing organisations can be applied on the spot by the delegations. Over recent years, the introduction of standard contractual documents has contributed to improving the level of control; moreover, since June 2003, project accounts are subject to an audit before the final payment is made, and an external audit strategy was finalised in 2004.

72. Measures are being taken to try to overcome recruitment problems, and to adapt the structure of the services at EuropeAid in order to provide more effective support to delegations.

Efforts have been taken to ensure that the reporting possibilities within CRIS correspond to the most common needs of the users. EuropeAid is paying special attention to the development of the CRIS financial forecasting module and a module for the management of the project pipeline including appropriate reporting possibilities. Finally, attention will be given to develop a limited number of standardised management indicators on the basis of information registered in CRIS.

73. The Commission is aware of the need to improve the national administrations' performance.

RECOMMENDATIONS

74. A set of indicators based primarily on financial data were put in place from the beginning of the reform. Work on the development of complementary indicators, both to measure improvement in speed and quality of aid delivery is ongoing.

75. At the end of 2005, after the completion of the devolution process, the monitoring of costs will allow for a comparison with initial estimates.

76. In recent years, major efforts have been made to improve staff management within the External Service. Other measures planned under the administrative reform of 2002 are now gradually being implemented. None the less, the Commission acknowledges that improvements are still needed and is studying ways of achieving them.

77. The Commission is examining measures to organise thematic expertise in full respect of the respective responsibilities of the directorates-general concerned as reflected in the Inter-service Agreement of 2001.

78. All these problems were addressed as part of the reform programme. Further improvements are being introduced as the reforms are followed up.

79. The Commission is already acting upon this recommendation to develop the support role of EuropeAid.

80. EuropeAid is taking measures to improve the performance of national administrations.

81. The follow-up of audit results is part of the line-management functions in delegations and headquarters. Each audit report should be given appropriate attention and follow-up. Certain information will be provided, however, by CRIS audit, in particular on audits undertaken within the framework of the annual audit plans and other audits launched by headquarters and delegations.

82. Pursuant to Action 73 of the White Paper on 'Reforming the Commission', the Commission established a centralised unit to harmonise model contracts and grant agreement management. Furthermore, the review of the Implementing Rules to the Financial Regulation launched by the Commission in October 2004 proposes a simplified system for awarding contracts for the Commission's own account, including those managed by the delegations. EuropeAid decided in November 2004 to establish a task force to review all procedural instructions in order to simplify and harmonise them.
