

I

(Information)

COURT OF AUDITORS

SPECIAL REPORT No 21/2000

on the management of the Commission's external aid programmes (in particular on country programming, project preparation and the role of Delegations), together with the Commission's replies*(pursuant to Article 248(4), second subparagraph, EC)**(2001/C 57/01)*

CONTENTS

	<i>Paragraph</i>	<i>Page</i>
GLOSSARY OF ABBREVIATIONS		2
EXECUTIVE SUMMARY	1-8	3
INTRODUCTION	9-15	3
COUNTRY PROGRAMMING	16-27	6
The legal framework	17-21	6
Procedures for the preparation of country programming papers	22-24	6
Content of individual country programming papers	25-27	7
PROJECT PREPARATION AND APPRAISAL	28-47	8
Financing proposals and financing agreements	35-40	9
Financing Proposals	36-38	9
Financing Agreements	39-40	9
Role of the Advisory Committees in the decision-making process	41	9
Project start-up	42-47	9
THE ROLE OF DELEGATIONS	48-71	10
The responsibility and decision-making authority	50-53	10
Resources	54-60	11
Project monitoring	61-65	12
Management tools	66-71	13
CONCLUSIONS AND RECOMMENDATIONS	72-81	14
Country programming	72-74	14
Project preparation and appraisal	75-77	14
The role of Delegations	78	14
Overall conclusion and recommendations	79-81	14
The Commission's replies		16

GLOSSARY OF ABBREVIATIONS

ACP	African, Caribbean and Pacific countries
CRIS	Common RELEX Information System
CSP	Country Strategy Paper
DG	Directorate-General
EDF	European Development Funds
EU	European Union
FP	Financing Proposal
ISPA	Structural pre-accession Instrument
MEDA	A programme of financial and technical measures to accompany the reform of economic and social structures in the Mediterranean
NGO	Non-governmental organisation
NIP	National Indicative Programme
NPAA	National Programmes for the Adoption of the <i>Acquis</i>
OECD-DAC	Organisation for Economic Cooperation and Development — Development Assistance Committee
OJ	<i>Official Journal of the European Communities</i>
OLAS	Online Accounting System (EDF)
PCM	Project Cycle Management
Phare	Programme governing aid to the candidate countries of central and eastern Europe
RAP	System used in Mediterranean Delegations for managing payments to projects under the Protocols
RELEX DGs	Directorates-General dealing with External Relations
Sapard	Special accession programme for agriculture and rural development
SCR	A Joint Service which manages the implementation of Community aid to non-member States
Sincom	The Commission's accounting system
Tacis	Programme of technical assistance in favour of economic reform and recovery in the newly independent States of the former Soviet Union

EXECUTIVE SUMMARY

1. Aid to the different geographical areas is provided through a variety of programmes, and governed by different regulations. In the African, Caribbean and Pacific (ACP) countries it is mainly provided through the European Development Funds (EDF). In the other geographical areas the different programmes are funded directly from the general budget of the European Communities (see paragraph 9). In 1999 a total of 7 927 million euro of commitments was made (see *Table 1*).

2. Further to observations made in several annual and special reports of the Court and following the European Parliament's request, the Court examined the adequacy and effectiveness of the Commission's systems and procedures for country programming, project preparation and appraisal, and aid management by Delegations (see paragraphs 10-15). The Commission is making attempts to address some of the problems previously observed, notably in its document, 'The European Community's Development Policy' ⁽¹⁾ which highlights areas where improvements are urgently needed.

3. The Commission has not established common procedures for the elaboration and approval of country programmes in the different geographical areas. The governments of the beneficiary countries and the Delegations of the Commission are not always actively involved in the preparation of the country programmes — especially in Asia, Latin America and the Mediterranean countries. In addition, the Commission should reinforce the consultation with the EU Member States, both on the spot and in the Advisory Committees. The country programmes adopted by the Commission do not systematically contain performance indicators and do not always analyse essential issues, such as donors' coordination or human rights issues (see paragraphs 16-27).

4. Project preparation shows weaknesses. Subjects requiring analysis, such as the economic, environmental, and institutional justification, organisational matters, and the chances for sustainability are not treated systematically. Objectively verifiable indicators are inadequately defined or are missing (see paragraphs 28-40). As a result, there are frequently long delays before projects start their activities. This is also due to the cumbersome nature of the Commission's procedures (see paragraphs 42-47).

5. Whilst the role of the Commission's Delegations has expanded considerably in recent years, their responsibilities still need to be clearly defined. Decision-making in the Commission is overly centralised; Delegations should have more responsibility together with the necessary resources. The number and skills of the staff needed should be assessed taking into account the different tasks involved and the change in the type of projects financed (see paragraphs 48-60).

⁽¹⁾ Communication to the Council and the European Parliament; The European Community's Development Policy (COM(2000) 212 final).

6. Detailed monitoring of projects is largely left to implementing agencies and consultants. Delegations have only limited time available for project monitoring (see paragraph 66) and in several cases the monitoring of project implementation by Delegations has shown shortcomings. A limited number of standardised monitoring tools should be used consistently to ensure rigorous follow-up (see paragraphs 61-65).

7. Many of the weaknesses observed in country programming, project preparation, appraisal and monitoring can be related to the Commission's organisational structure, its procedures and its use of human resources. The splitting of the project cycle following the introduction of the Joint Service (SCR) has made matters worse; implementation of projects is the responsibility of the SCR, whilst project preparation remains the responsibility of the various RELEX DGs (see paragraphs 68-70).

8. Having accepted that splitting the project cycle is not satisfactory, the Commission is undertaking a further reorganisation of its External Relations' services which seems to address many of the problems presented in this report. The Commission's proposal should help to improve its delivery of aid, but only if these changes of structure and procedures are accompanied by changes in the Commission's management culture towards a greater flexibility and a results-oriented approach (see paragraphs 79-81).

INTRODUCTION

9. Aid to the different geographical areas is provided through a variety of programmes, and governed by different regulations ⁽²⁾. In the African, Caribbean and Pacific (ACP) countries it is mainly provided through the European Development Funds (EDF). In the other geographical areas the different programmes are funded directly from the general budget of the European Communities. *Tables 1 to 3* show the funds going to the different areas and the number of transactions managed by the Commission.

⁽²⁾ Aid to the ACP countries is governed by the Lomé Convention. Aid to Asia and Latin America (ALA) is governed by Council Regulation (EEC) No 443/92 on financial and technical measures to and economic cooperation with the developing countries in Asia and Latin America. Aid to the Mediterranean countries is governed by Council Regulation (EEC) No 1488/96 on financial and technical measures to accompany (MEDA) the reform of economic and social structures in the framework of the Euro-Mediterranean partnership. Aid to the candidate countries is governed by Phare programme Council Regulation (EEC) No 3906/89, modified by Council Regulation (EC) No 753/96 and by the new Phare orientations document (COM(97)112) adopted by the Commission on 19 March 1997.

Table 1
Amounts committed and paid in 1999 per main programme

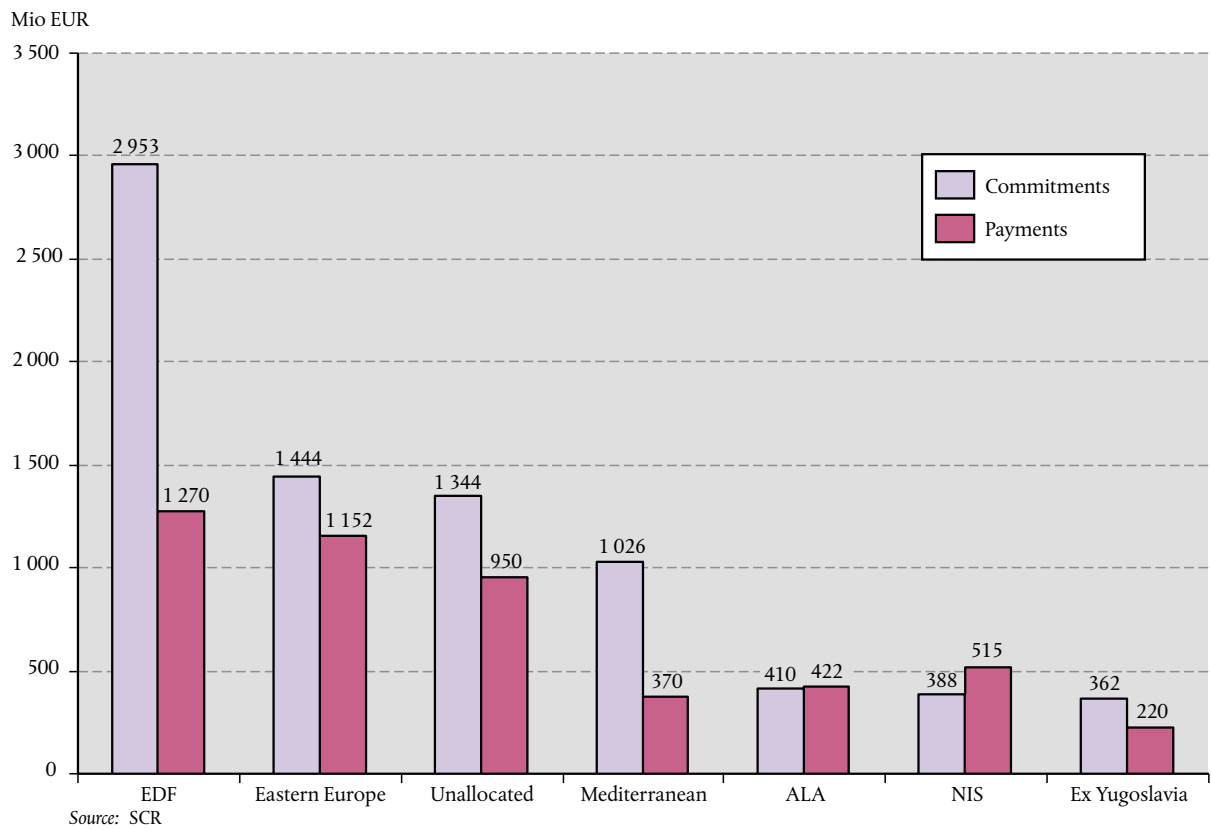


Table 2
Amounts committed by main programme

	1990		1999	
	Mio EUR		Mio EUR	
CEEC	493	18 %	1 444	18 %
EX-Y		0 %	362	5 %
NIS		0 %	388	5 %
ALA	379	14 %	410	5 %
MED	228	8 %	1 026	13 %
Miscellaneous	748	27 %	1 344	17 %
EDF	953	34 %	2 953	37 %
Total	2 801	100 %	7 927	100 %

Source: SCR

Table 3
Transactions handled by the SCR in 1999

	Total entered into in 1999
Value of commitments	Mio EUR 7 927
Number of commitments	2 883
Value of payments	Mio EUR 4 899
Number of payments	40 097
Number of contracts	7 465
<hr/>	
	Total outstanding at end of 1999
Total value of commitments remaining to be paid (RAL)	>Mio EUR 20 000
Total number of contracts managed	16 448
Total number of projects managed	11 640

Source: SCR

10. In recent years there have been increased concerns that the Commission's structure, organisation, resources, procedures, and management of external actions are inadequate. These concerns have been highlighted in the OECD-DAC reviews ⁽¹⁾, in various evaluations carried out at the request of the Council and the Commission ⁽²⁾ and in many of the Court's Annual and Special Reports ⁽³⁾. In 1997, as part of its resolution concerning the discharge on the 1995 accounts, the European Parliament requested the Court to examine the adequacy and effectiveness of the Commission's structure, procedures and allocation of human resources relating to development cooperation ⁽⁴⁾.

11. At the end of 1997 the Commission decided to reorganise its services by establishing a Joint Service (SCR) to manage Community aid to non-member States. Concerns relating to this reorgani-

sation were raised with the Commissioners responsible at the time. Subsequently, the audit focused on those key areas that were in principle the least affected by the reorganisation: the systems and procedures used in relation to country programming, project preparation and appraisal, which remained the responsibility of geographic Directorates-General ⁽⁵⁾, and aid management by Delegations ⁽⁶⁾. The audit does not examine the organisation, procedures and systems and resources of the SCR.

12. Specific audits were undertaken in four geographical areas:

(a) Asia, in particular Bangladesh and the Philippines;

⁽¹⁾ OECD-DAC, 'Development Cooperation Review Series: European Community', 1998 and 1996.

⁽²⁾ In 1995 the Council requested a full and detailed evaluation of the European Community's development instruments and programmes. Independent evaluations were carried out into European Community aid to ACP countries, Mediterranean countries, Asian and Latin American countries and the European Community's humanitarian assistance. The final report was delivered in May 1999.

⁽³⁾ In particular the Court of Auditors' Annual Report concerning the financial year 1991, (OJ C 330, 15.12.1992), which examined procedures and resources for the management of appropriations for financial and technical cooperation in the Asian and Latin American countries. The Court of Auditors' Special Report No 1/98 in respect of bilateral financial and technical cooperation with non-member Mediterranean countries together with the Commission's replies, (OJ C 98, Volume 41, 31.3.1998). Annual Report concerning the financial year 1997 (OJ C 349, 17.11.1998). Special Report No 3/97 concerning the decentralised system for the implementation of the Phare programme (period 1990-1995), (OJ C 175, 9.6.1997).

⁽⁴⁾ Paragraph 63 of the resolution containing the comments which form part of the Decision (OJ L 162, 19.6.1997).

⁽⁵⁾ RELEX DGs (from the French term 'Relations extérieures') is used as a general term for all the geographical DGs dealing with development issues. At the time of the audit these were:

DG VIII: 'Development' — Bilateral and development cooperation relations with Africa, the Caribbean and the Pacific: Lomé Convention. Plus certain budgetary headings such as non-emergency food aid, and the co-financing of NGOs.

DG IA 'External Relations' — Central and eastern Europe, ex-USSR, Mongolia, Turkey, Cyprus, Malta and other non-member European countries. Responsible for Phare and Tacis.

DG IB 'External Relations' — South Mediterranean, Middle and Near East, Latin America, South and South-east Asia and North-South Cooperation.

DG I 'External Relations' — Relations with China, Korea, Hong Kong, Macao and Taiwan as well as international negotiations such as the Uruguay Round.

⁽⁶⁾ In addition to their involvement in the development of country programmes and in project preparation, Delegations have monitoring responsibilities during the implementation phase.

- (b) Latin America, in particular Bolivia and Guatemala;
- (c) the Mediterranean countries ⁽¹⁾, in particular Egypt and Morocco;
- (d) the African, Caribbean and Pacific (ACP) countries ⁽²⁾, in particular, Cameroon, Central African Republic, Chad, Ethiopia, Eritrea, Gabon, Malawi and Swaziland.

13. Unless otherwise specified in the text, comments relate to these four areas.

14. In addition the report draws upon work carried out by the Court in central and eastern Europe, in particular Romania, Bulgaria, Estonia and Poland, as some of the problems relating to the management of funds for pre-accession candidate countries are of the same nature as those affecting development cooperation ⁽³⁾. When comments apply to all five regions, this is mentioned specifically.

15. The audit was carried out in the technical, geographical and financial services of the Commission and in the countries listed above. Several Member States' development agencies and other major donors were also visited.

COUNTRY PROGRAMMING

16. The purpose of country programming papers ⁽⁴⁾ is to set out agreed objectives for development assistance to individual countries, together with a strategy for achieving them.

The legal framework

17. Each of the different programmes of financial and technical assistance has its own regulatory framework, which governs in varying degrees of detail the preparation of country programmes.

⁽¹⁾ For activities under the present MEDA programme.

⁽²⁾ Excluding South Africa.

⁽³⁾ Tacis was not covered in this report as this was examined in Special Report No 6/97 (OJ C 171, 5.6.1997) concerning Tacis subsidies allocated to the Ukraine.

⁽⁴⁾ Country programming papers have different names depending on the geographical region. In ACP and the Mediterranean countries there are National Indicative programmes (NIPs) and Country Strategy Papers (CSPs). In Asia and Latin America there are Country Strategy Papers. There are no country programming papers as such for central and eastern Europe. Programming is done according to Accession Partnership priorities and takes account of the National Programme for the Adoption of the *Acquis*.

18. For the ACP countries, the Lomé Conventions and the programming instructions issued by the responsible RELEX DG provide a framework for the elaboration of a National Indicative Programme (NIP) as well as for aid not included in the NIP, e.g. emergency aid.

19. The specific Council Regulation governing financial and technical cooperation with Asia and Latin America is not very detailed. It merely provides that 'wherever possible, indicative five-year programming shall be established for each country' ⁽⁵⁾.

20. Specific guidelines ⁽⁶⁾ were adopted concerning the national indicative programmes (NIPs) as part of the MEDA programme ⁽⁷⁾. Although these guidelines contain some positive points, in some areas they are too general and repetitive and they do not provide definitions for the various concepts used. They point to the need to 'avoid dispersion of the cooperation effort over too wide a number of activities ...' but then set out a long list of issues that should be included in the NIP. The guidelines do not provide a methodology explaining how a NIP should be prepared.

21. New Phare orientations ⁽⁸⁾ were adopted by the Commission in March 1997 for the candidate countries in central and eastern Europe. Priorities identified in the Commission's opinions on candidate countries' applications for membership of the EU are set out in Accession Partnerships complemented by National Programmes for the Adoption of the *Acquis* (NPAA) containing details of how the candidate country will adopt the *acquis*. Annual Financing Memoranda, agreed between the Commission and the candidate country, including details of projects to be financed, are based on measures identified as priorities in the opinions and Accession Partnerships. These documents provide the new framework for the annual programming of Phare.

Procedures for the preparation of country programming papers

22. In Asia, Latin America and the Mediterranean countries a number of common weaknesses were identified in the way in which the country programming papers were prepared. The procedure was highly centralised. The papers were mainly prepared

⁽⁵⁾ Article 9 of Council Regulation (EEC) No 443/92 of 25 February 1992 on financial and technical assistance to, and economic cooperation with, the developing countries. Internal notes setting out formats for CSPs have been prepared however.

⁽⁶⁾ Council Decision of 6 December 1996 concerning the adoption of the guidelines for the indicative programmes concerning financial and technical measures to accompany the reform of economic and social structures in the framework of the Euro-Mediterranean partnership (MEDA) (OJ L 325, 14.12.1996).

⁽⁷⁾ Country programmes had also been prepared under the earlier Protocol regime.

⁽⁸⁾ New Phare orientations document (COM(97)112/8) adopted by the Commission on 19 March 1997 and by the Council on 9 June 1997.

in Brussels with little involvement of the Delegations or the beneficiary countries' authorities. This is inefficient, as the knowledge of the Delegations is not fully exploited. Although Delegations were asked to comment on draft papers, they were often not given sufficient time to do so properly, and their comments were not always taken into account. There was also insufficient consultation with EU Member States' representatives in the field. Although Member States' Advisory Committees (see paragraph 41) have had an opportunity to discuss the various country programming papers this has been too hurried. Large numbers of papers have generally been presented at the same meeting, e.g. 11 South American CSPs were presented at one meeting and Member States have complained that they have had inadequate time to study the documents ⁽¹⁾. In addition, their comments were not always taken into account ⁽²⁾.

23. In the ACP countries the Delegations are heavily involved in the programming process. Although it is the responsibility of the ACP State ⁽³⁾ to draw up a draft NIP, in practice this was done by the Delegation, involving negotiations with the National Authorising Officer and key ministries and stretching over roughly a two-year period. Commission's guidelines for drafting the NIP existed for the eighth EDF but they were marked 'for official use by the Commission and the Delegations only'.

24. For the candidate countries in central and eastern Europe, the Commission underestimated the resources and time needed for changes introduced by the new Phare orientations and consequently the 1998 programming timetable was not realistic. The Council did not decide on the principles and objectives of Accession Partnerships until March 1998 and formal guidelines for the 1998 programming exercise were not adopted until June 1998. Consequently, projects in the 1998 programme were conceived in the framework of the Phare approach for previous years and then incorporated into the framework of the new orientations, resulting in pressure on the timetable. The changes in Phare programmes and related procedures were not accompanied by effective systems for defining, planning, monitoring and reviewing such major changes.

⁽¹⁾ Minutes of the 139th meeting of the PVD-ALA Committee held 27 October 1998, (3 November 1998).

⁽²⁾ For example, at the MED-Committee in June 1996 there were a number of critical comments regarding the NIPs submitted; e.g. papers should include more on cross-sectoral issues, on sustainability, on evaluations and on coordination with other donors. This general discussion took up the whole meeting, resulting in the discussion of the individual NIPs being postponed to the next meeting. Following this discussion, in the July 1996 meeting of the Committee, the NIPs were formally approved in the Committee's September 1996 meeting without any changes.

⁽³⁾ Article 281(2) of the Lomé IV Convention.

Content of individual country programming papers

25. Overall the ACP NIPs examined were considered to be fairly comprehensive documents providing a useful framework for the implementation of the seventh EDF financed development cooperation. There were, however, weaknesses in certain areas: the description of government undertakings and actions; coordination matters; timetables; gender issues, and poverty alleviation. There were no performance indicators, so it will be difficult to evaluate future performance and no requirement for future evaluation was included ⁽⁴⁾. The NIPs of the least developed countries ⁽⁵⁾ did not reflect what particular treatment and specific measures they should benefit from. In addition, NIPs do not cover all areas of intervention financed by the Commission.

26. The Asian, Latin American and Mediterranean papers examined ⁽⁶⁾ were overly descriptive and lacked analysis in many aspects. In particular, they did not identify what lessons had been learned from the Commission's past development efforts in the country concerned. As in the ACP papers, performance indicators were not included, so it will be difficult to evaluate future performance and nor was there a requirement to carry out any future evaluations. Coordination between the EU and the Member States and/or other donors was not covered. The Asian and Latin American papers contained many objectives, described in very general terms, without proper focus or priority. The Asian papers did not follow a standard format, although one had been provided. For some countries in Asia and Latin America significant elements of the Community's policy, such as human rights issues, have not been described in the programming paper, even though the Commission has significant projects in this area. The Mediterranean NIPs, according to their guidelines are supposed to deal with a long list of issues ⁽⁷⁾, many of which were inadequately dealt with in the Egyptian or Moroccan NIPs.

27. At the end of 1998 the National Programmes for the Adoption of the *Acquis* (NPAA) for candidate countries of central and eastern Europe, did not provide a sufficiently reliable overview to ensure that all objectives were covered by national budgets, Phare programmes or other forms of assistance. Candidate countries would have preferred a stronger link between the NPAA and annual country programmes and consider that the NPAA should now be developed more as a practical programming and monitoring tool. In addition, the structure and classification of the

⁽⁴⁾ For the eighth EDF mid-term reviews are foreseen.

⁽⁵⁾ Article 329 of the Lomé IV Convention.

⁽⁶⁾ The CSPs/NIPs for a number of countries, including those visited, were examined.

⁽⁷⁾ These include, *inter alia*, environmental issues, financial and economic sustainability, women in development, local institutional capacity, and an assessment of the problems relating to the introduction of free trade with the European Community.

programmes was specific to each candidate country, which makes it hard to compare them.

PROJECT PREPARATION AND APPRAISAL

28. In the 1991 Annual Report ⁽¹⁾ the Court identified significant weaknesses in project preparation, notably:

- (a) over-hasty preparation of project documents without any real appraisal stage;
- (b) lack of clearly identified, quantified objectives;
- (c) lack of realism in the definition of objectives and implementation time scales, with insufficient analysis of risks and constraints.

29. In order to improve its project management, including preparation, in 1992 the Commission adopted the Project Cycle Management (PCM) methodology ⁽²⁾ and guidelines on the format and contents of Financing Proposals and on the requirements to draw up a logical framework ⁽³⁾. The projects examined during the audit were mostly prepared using this methodology. Although there has generally been some improvement in the quality of project preparation and documentation, various weaknesses remain which are considered below.

30. Projects still suffer in general from insufficient appraisal. The usual procedure after a project has been initially identified is for a team of consultants to spend two or three weeks on the spot examining the project and preparing a project design. The Financing Proposal (see paragraph 35) is drafted directly by the desk officer on the basis of these consultants' reports ⁽⁴⁾ and in consultation with the technical units. In practice, in all regions, identification and appraisal are not dealt with as distinct stages of the project cycle.

⁽¹⁾ Court of Auditors Annual Report concerning the financial year 1991 (OJ C 330, 15.12.1992).

⁽²⁾ PCM methodology provides a framework for the management of projects over their whole lifecycle, from project identification and preparation to *ex post* evaluation.

⁽³⁾ The logical framework is a tool which makes explicit the underlying logic of project design, i.e. how particular inputs should produce certain outputs which will help meet objectives which will contribute to wider goals. It also includes information on indicators of achievement, on sources of data and on assumptions and risks, related to the project. The results are usually expressed in the form of a matrix with four rows and four columns.

⁽⁴⁾ In practice, consultants often prepare drafts of the FP, and are required to draft a logical framework.

31. In the case of the EDF, the identification and preparation of projects are the responsibility of the ACP State with the assistance of the Delegate if requested, while the appraisal is to be done jointly by the ACP State and the Community ⁽⁵⁾. In practice, projects are usually prepared by Delegations with the cooperation and support of European individual experts made available to the ACP States' own institutions. These experts become increasingly involved in the process because of the workload of Delegations. Their roles should be clearly defined to ensure transparency in respect of the execution of the tasks of the ACP States' authorities and the Delegations (which do not always have the same priorities).

32. For EDF expenditure a useful initiative was introduced in 1997 ⁽⁶⁾ in the form of a 'Quality Support Group' ⁽⁷⁾, which aims to improve the quality of the project/programme preparation and appraisal. This group examines project preparation documents ⁽⁸⁾ for all projects/programmes and has had some success in improving their quality, although procedures for the following-up of the Group's recommendations are weak.

33. In many cases, the project preparation process is carried out under time pressure. For non-EDF expenditure the annual cycle of the budget still influences to an excessive extent the rhythm of project preparation and approval ⁽⁹⁾. The rush to commit funds before the year-end means that a large number of projects are presented to the Member States' advisory committees in December. This reduces the time available for their appraisal and is not conducive to improving the quality of the project preparation.

34. For Phare the annual programming process takes over a year. This duration is unsuitable, particularly for projects following on from previous activities. The repetition each year of the complete programming cycle, based on the timing of the budgetary procedure, is not compatible with the complexity of Phare. A programming cycle more closely related to the duration of projects, i.e. three to four years, would improve the quality of programming and project preparation at country level.

⁽⁵⁾ Articles 285, 287 and 317(a) of the Lome IV Convention.

⁽⁶⁾ Decision of DG VIII of 25 November 1996.

⁽⁷⁾ The group is composed of senior officials representing all Directorates of DG 'Development' and three Directorates of the SCR.

⁽⁸⁾ For each project this consists of a project identification sheet, a Financing Proposal and an end-of-appraisal report.

⁽⁹⁾ See Annual Report 1998, paragraphs 5.3-5.6 (OJ C 349, 3.12.1999).

Financing Proposals and Financing Agreements

35. The Financing Proposal is the internal Commission document which is presented to the Advisory Committee of Member State representatives, and on which the financing decision of the Commission is based. The Financing Agreement ⁽¹⁾ is the contract signed between the Commission and the authorities of the recipient country.

Financing Proposals

36. The introduction of PCM methodology (see paragraph 29) has resulted in some improvement in these documents. The descriptive part of the Financing Proposals, giving the background to the project, and the project components or activities are generally adequate.

37. The logical frameworks ⁽²⁾ annexed to the Financing Proposals are often not well prepared. The distinctions between the overall objective, project purpose, results and activities are often not clear and objectively verifiable indicators are frequently missing. The analysis of risks and constraints is often superficial. Logical frameworks are not always known to the recipient authorities. In some cases in Asia, project management was not given a copy of the original logical framework in the Financing Proposals, so that when they prepared a logical framework for the global work plan, they had to start from scratch ⁽³⁾.

38. Other elements in the Financing Proposals need improvement; organisational matters, information on other donors' activities, or on the results of relevant evaluations are often limited. Timetables in all the regions are unrealistic. For Asia, Latin America and the Mediterranean countries, the more analytical aspects of the preparation, notably the economic, environmental, and institutional justification, gender assessments and the chances for sustainability are often neglected, or treated only superficially. In the candidate countries of central and eastern Europe, when a proposed project was a continuation of an earlier project, the Financing Proposal did not always provide sufficient information regarding the previous project ⁽⁴⁾.

⁽¹⁾ Sometimes the final beneficiary is not a government authority but an NGO, for example. In this case the document may have a different name, but the basic principle, that there is one contractual document with similar contents to those of the Financing Proposal remains the same. In Phare countries these Financing Agreements are known as Financing Memoranda.

⁽²⁾ The logical framework is a tool which makes explicit the underlying logic of project design, i.e. how particular inputs should produce certain outputs which will help meet objectives which will contribute to wider goals. It also includes information on indicators of achievement, on sources of data and on assumptions and risks, related to the project. The results are usually expressed in the form of a matrix with four rows and four columns.

⁽³⁾ It was also found that, in some cases, Project Management Units did not have copies of the consultants' project preparation reports.

⁽⁴⁾ For example, a proposed project in the area of customs in Bulgaria did not mention the failure of two previous projects.

Financing Agreements

39. The Financing Agreement is a key document for project management. As the legal contract between the Commission and the recipient countries' authorities, it provides a binding framework for project management's actions. However, the following weaknesses were found in several cases: inadequate description of the counterpart's contribution to the project, confusion over the length of the project, inadequate description of what happens to assets at the end of the project, poorly structured budgets, and an inadequate description of responsibilities, in particular when there are several organisations involved. In addition, regular, independent financial audits were not always provided for. General project managers who had to work with the Financing Agreements were critical of them for failing to give them a sufficiently clear idea of the intentions of the Commission and of the recipient government's authorities.

40. The weaknesses of the Financing Agreement indicate that the function of the document in its current form should be reviewed. The Financing Agreement should focus on the objectives, resources and the mutual obligations of the donor and the beneficiary. The detailed planning required for successful project implementation could be included in another, more flexible, document.

Role of the Advisory Committees in the decision-making process

41. The various Council regulations governing external actions require the Member States, through Advisory Committees, to give opinions on Financing Proposals over a certain size ⁽⁵⁾ before the Commission takes a financing decision. The members of the relevant Advisory Committee receive a copy of the draft Financing Proposals before the proposal is to be discussed. They usually pass it on to their local representation in the country in question for comments. However, this consultation at field level comes too late in the project preparation process for any substantive comments to be incorporated. Member States' representatives submit written questions on the Financing Proposals before the meetings, but although Commission officials spend a lot of time preparing replies, they tend to concentrate on trying to reassure the representatives rather than resolve any weaknesses in project design.

Project start-up

42. In the ACP countries the average time scale to prepare a project (defined as the period between elaborating the Project Identification Sheet and signing the Financing Agreement) is 14 months. In some cases the preparation took two years or more.

⁽⁵⁾ Over 2 million euro for ACP and the Mediterranean countries and over 1 million euro for ALA. For Phare all annual Financing Agreements are adopted with each country after consultation with the Phare committee.

In the Asian, Latin American and Mediterranean countries the average delay between the initial project identification mission and the signing of the Financing Agreement was 21 months ⁽¹⁾. In two cases in Asia it took over three years.

43. Even after the signature of the Financing Agreement, projects do not always start promptly. Delays are frequently experienced in the recruitment of technical assistance to manage the project ⁽²⁾. In ACP countries, a number of projects reviewed started activities several years after the Financing Agreement was signed.

44. Reasons for delays vary. Some are due to poor project preparation, which makes projects hard to implement. Others relate to the slowness of the Commission procedures; the Commission has been slow even when it has joined other donors in supporting ongoing projects. In some cases the reason for the delay is outside the control of the Commission, e.g. when the counterpart authority in the recipient country goes back on previously agreed positions and seeks modifications. Sometimes it indicates a lack of 'ownership' of the project by the authorities, which may be the result of them being inadequately involved at the project preparation stage.

45. In the case of EDF projects, delays seem to arise not so much from the procedures themselves as from an overly formalistic application of rules, in particular relating to tendering, together with a lack of knowledge of these procedures by different parties in the process.

46. The new Phare reorientations led to delays in project start-up: especially as the Commission had introduced the new orientations without preparing the corresponding procedures that would be needed. As the Commission's procedures were developed, this led to further modification of some projects, adding to the pressure on the timetable. Swift project start-up is particularly important for a country undergoing rapid change, but 1998 projects, conceived in mid-1997 by the Estonian administration, could only begin in the second half of 1999.

⁽¹⁾ In practice, delays may be even longer: in cases where the projects had not started at the time of the audit visit, the dates of these audit visits were taken as the basis for the calculation.

⁽²⁾ The tendering process rarely runs smoothly: delays occur at many stages of the procedure; experts proposed in the winning bid become unavailable and must be replaced; sometimes the whole tendering process must be restarted.

47. It is clear that projects will not always be able to start implementation as soon as the Financing Agreement is signed. Many projects, especially 'process' projects ⁽³⁾, require an inception period while diagnostic studies to establish baseline data etc. are prepared. In these cases, it is not uncommon for the inception phase to identify significant changes that are needed to the project. In Asia, Latin America and the Mediterranean countries this leads to amendments to the Financing Agreement ⁽⁴⁾, which, in recent years, have taken a long time to process (see paragraph 52). Amendments to Financing Agreements requiring no change to the budget but simply an extension in time are also often required. Even these simple amendments take a long time to process. The frequency with which projects are extended is also an indication that most project timetables are unrealistically short.

THE ROLE OF DELEGATIONS

48. The role of the Commission's Delegations has expanded considerably in recent years. Responsibilities related to the implementation of external aid programmes are only one of their main areas of activities. Delegations now increasingly perform a political role representing the Union, are active in the economic, commercial, and cultural spheres, and provide information on the Union and its policies and programmes. The proportion of time and resources that Delegations had available for external aid programmes was on average 41 % ⁽⁵⁾.

49. The degree of responsibility of the Delegations for the different phases of the project cycle varies considerably. The ACP Delegations, under the rules of the Lomé Conventions, have had more responsibility than the Delegations in Asia, Latin America and the Mediterranean countries. The new Phare orientations provide for greater deconcentration of responsibilities to Delegations. All Delegations, however, have important responsibilities during the implementation phase, which can be put under the overall heading of project monitoring (see paragraphs 61-65).

The responsibility and decision-making authority

50. In all regions the duties to be carried out by the staff in the Delegations and at headquarters in Brussels in relation to the

⁽³⁾ A process project is one where the objective is to set in motion a development 'process', which will continue after the end of the project period. It compares with a 'blueprint' project, such as the construction of a road, which involves the simple execution of something fully designed in advance.

⁽⁴⁾ In ACP countries, changes are often made to projects without any corresponding change being made to the Financing Agreement.

⁽⁵⁾ 'Designing tomorrow's Commission: A review of the Commission's organisation and operation; the External Relations service, 24 February 1999.

different stages of the project cycle, are not clearly defined. Nor has the Commission clearly defined the content, duties, and responsibilities of each post. Job descriptions for staff in the Delegations, where they exist, are too broad to be useful.

51. This lack of clarity in the division of responsibilities leads to duplication and delays. In 1998, the Ting report ⁽¹⁾ made a number of recommendations to clarify the situation, and to increase the responsibilities of the staff in the Delegations. It highlighted the fact that there are certain tasks which only the Delegations can reasonably be expected to perform, for which they have been given responsibility, yet for which they are still required to obtain approval from headquarters, approval which is given entirely on the basis of information supplied by the Delegation.

52. This over-centralisation of decision-making procedures in Brussels is inefficient. Responses of headquarters' services to questions or proposals from the Delegations are generally very slow or sometimes even not forthcoming at all. For the operations examined by the Court there were significant delays where decisions were required on preparing missions, modifying Financing Agreements, tender documents, or technical assistance contracts. In addition, these decisions appear to be taken without clearly analysing their impact on the implementation of the project. The highly centralised decision-making in the Commission ⁽²⁾ contrasts with that of other donors ⁽³⁾, which have a stronger field presence, reinforced with professional staff, and a greater Delegation of responsibility.

53. The reorganisation of the services in Brussels in 1998 and the reallocation of responsibilities exacerbated problems for all regions, at least in the short-term, as initially people were not sure who was responsible for what. Apart from the delays that were experienced, responses were sometimes unpredictable and there was uncertainty over relatively routine administrative matters. The Commission's recent intention to devolve more responsibility to Delegations, together with reinforced resources, is very encouraging ⁽⁴⁾. Up to the time of the audit, only a limited number of posts was redeployed from the central services to the Delegations.

⁽¹⁾ Report by the analysis group on relations between Brussels and the Delegations.

⁽²⁾ Although the degree of centralisation varies between the programmes, and indeed within them, in some cases depending on the individuals involved, in general, decision-making in all the programmes is centralised.

⁽³⁾ Such as in Sweden, the United Kingdom, the Netherlands, and USAID.

⁽⁴⁾ Communication from the Commission to the Council and to the European Parliament, The European Community's Development Policy (COM(2000) 212 final).

Resources

54. The successful functioning of the Delegations depends on the adequacy of staff, in terms of their number, but also of their professional background compared to the actual workload. Therefore posts should not be left vacant for significant periods ⁽⁵⁾ of time, and the specialist knowledge needed to carry out the work should be easily available.

55. The extent to which officials or local staff are employed varies in the different geographical regions. In general, Delegations in ACP countries rely largely on Commission officials. Few local staff (apart from local expatriates) are used for management functions, either administrative or for the management of aid ⁽⁶⁾. Considering that qualified staff are available now in most ACP countries, it should be examined to what extent local staff could be more actively used. The Commission has also not clearly determined what tasks local staff can do, e.g. there is no clear policy on whether local staff should carry out financial functions and different situations have been found in different countries (see also paragraph 63).

56. The Commission has not developed criteria to determine what the workload of a Delegation should be, or the level of staffing required, in relation to its tasks and responsibilities. This is particularly important in situations of considerable political or economic change, such as in the candidate countries of central and eastern Europe. It is therefore not possible to judge on the basis of any objective information whether and to what extent Delegations are over- or understaffed.

57. The change in the focus of the Commission's development programmes, to include sectoral support in social areas means that the traditional profile of staff in the Delegations is no longer appropriate ⁽⁷⁾. The Staff Regulations are rigid, which prevent the Commission from changing skills quickly. Training and 'conversion' courses could improve the staff mix, but so far the Commission has made little progress in this area. In particular, the Delegations in Asia, Latin America and the Mediterranean countries lack staff with specific expertise in financial management, and in matters such as tendering and contracting.

58. The Commission has sought to support its staff resources in Delegations by supplementing them with various forms of

⁽⁵⁾ Six out of the sixteen ACP Delegations examined had vacancies for more than one year. The total number of vacancies was 12. In none of these cases was local staff hired to fill the vacancy (even on a temporary basis).

⁽⁶⁾ According to the communication to the Commission (Doc. SEC(97) 605, 1.4.1997 there were 20 local agents in 14 out of 63 ACP Delegations and offices carrying out these types of functions.

⁽⁷⁾ See, for example the OECD-DAC Development Cooperation Review Series: European Community: 1998.

external personnel. In some cases, technical assistants ⁽¹⁾ have been contracted to help implement specific programmes such as food security, with the personnel working very closely with the Delegation even if formally located outside it. External consultants have also been recruited to perform specific tasks such as carrying out preliminary studies and analyses for the preparation of country strategy papers. Twenty Phare Delegations and representative offices obtained additional staff resources, financed through Part B of the budget. Between 1996 and 1999 the number of such staff increased from 29 to 195 ⁽²⁾. This type of staff financing, which was intended to be linked to the duration of the programme, has become a structural solution for overcoming shortages of personnel.

59. In a few cases Technical Assistance Offices have been established alongside Delegations to provide technical support for the implementation of programmes. This was authorised by the Budgetary Authority in the Mediterranean region with the establishment in 1998 of MEDA teams ⁽³⁾, and in Bosnia. This support has played an important role in helping the Commission to implement its programmes by enabling it to compensate for the missing in-house technical expertise. The flexibility of these mechanisms is, however balanced by less positive aspects. Many of the solutions are short term, as there is a high turnover of staff, and the experience and knowledge obtained does not remain in-house.

60. While there will remain a legitimate role for external expertise at Delegation level, the Commission needs to find longer-term solutions to the problem of inadequate staff resources. This is particularly so in the context of devolution of competencies from headquarters to the field.

Project monitoring

61. The Commission defines monitoring as the continuous process of examining the delivery of programme outputs to intended beneficiaries, which is carried out during the execution of a programme with the intention of immediately correcting any deviation from operational objectives ⁽⁴⁾. Delegations play an important, though not exclusive, role in monitoring projects. Much

detailed monitoring is left to the people actually implementing the project ⁽⁵⁾, who are normally required to establish a monitoring and evaluation system. Monitoring is also heavily dependent on external consultants who carry out support missions and mid-term reviews. In the Asia and Latin America Delegations, where there are few specialist staff, monitoring of the technical progress of projects is left almost entirely to project management and external consultants. Delegation staff maintain regular contact with project management, participate in steering committees, and undertake, as far as possible, regular field visits. Many of their monitoring tasks, however, are based on reviewing a large variety of documents.

62. Although project monitoring is acknowledged by Delegation staff to be one of their main responsibilities, as seen in paragraph 48, the time available for monitoring is limited. A great deal of the work is focused on project inputs rather than outputs and much time is spent on the administrative aspects of project implementation. The concentration of even minor decision-making in Brussels (see paragraphs 51-52) and the fact that the duties to be carried out by the staff in the Delegations, and at headquarters in Brussels, are not clearly defined (see paragraph 50), means that a lot of time is lost whilst documents are sent to and fro between the Delegations and the central services.

63. In practice the attention paid by Delegations to financial monitoring varies considerably. In the ACP Delegations responsibilities in this area are clearly laid down, but this is not the case in the Asia, Latin America and Mediterranean Delegations. In some ⁽⁶⁾ a comprehensive system for financial monitoring exists, with staff specifically allocated to this task, whereas in others arrangements are much looser, with very little checking of payment requests from projects before they are forwarded to Brussels for payment.

64. Although numerous monitoring activities are undertaken, corrective action was not always taken even in cases where the project's operational objectives were not being achieved. Delegations lack guidance on monitoring procedures.

65. It is often unclear how much use is made of the progress or activity reports prepared by project management which are sent to central services ⁽⁷⁾. Moreover, the contents of these reports can

⁽¹⁾ In the past notably through AEC and now directly by the Commission.

⁽²⁾ Part B of the budget is supposed to finance operating expenditure such as projects. Part A of the budget finances administrative costs such as staff. For comparison there was an increase of 87 posts financed by Part A of the budget over the same period in these Delegations.

⁽³⁾ Both in headquarters and at each Delegation.

⁽⁴⁾ Evaluating EU expenditure programmes — a guide — first edition January 1997 — European Commission.

⁽⁵⁾ In Asia, Latin America and the Mediterranean region this is usually a Project Management Unit that has one local and one European Director. In Phare countries this is usually within the government's ministries. In ACP countries different arrangements exist.

⁽⁶⁾ Often where at some stage the development counsellor has come from an ACP Delegation.

⁽⁷⁾ In some cases the reports are accompanied by Delegation comments in most of the cases they are not; Delegations rarely receive feedback on these reports from Central services.

vary considerably ⁽¹⁾; sometimes they constitute merely a description of the activities of the project management without, analysing the project's implementation and problems. For several projects the monitoring of project implementation by Delegations has shown shortcomings, e.g. project evaluations mentioned in the Financing Agreement have not always been carried out. Delegations do not always consistently monitor the implementation of actions and measures to be taken by governments of recipient States. Indeed in one Delegation they did not consider the monitoring of the government's contribution to be their responsibility.

Management tools

66. The Delegations also suffer from inadequate management tools. At the basic level of procedural manuals, the ACP Delegations have a detailed procedures manual developed in 1978, but no comprehensive up-to-date manual existed for the Asian and Mediterranean Delegations. One was prepared for the Latin America programme, but is available in Spanish only. The different notes issued by headquarters services at various times have not been consolidated. In these circumstances, it is not surprising to find that the level of knowledge of the precise procedures to be followed, amongst headquarters and Delegation staff, is not sufficient and this leads to delays.

67. The Delegations in all regions do not have adequate basic management information systems to inform them about implementation progress ⁽²⁾. Most do not have access to the Commission's accounting system, Sincom. Other management information tools are also inadequate or lacking. For example, in the Mediterranean, the system used by Delegations for managing payments to projects under the Protocols (RAP) is not technically suitable for MEDA but no new system had been introduced at the time of the audit. In the case of the EDF, the Online Accounting System (OLAS) in Brussels is of limited value to Delegations, as they do not have direct access to it; accounting information has to be transmitted from Brussels manually, which gives rise to

delays. Similarly at the end of 1998 several Delegations in the candidate countries had difficulties in obtaining access to financial data relating to programmes. As a result Delegations operate their own computer and/or manual systems to account for project-related transactions, which is inefficient.

68. The establishment of the SCR, with its task of simplifying, standardising and codifying procedures, and developing common management tools, is an important step in overcoming these weaknesses. The CRIS ⁽³⁾ information system is being developed to provide Delegations and headquarters with an adequate tool for management, but it will be some time before a reliable, complete tool is available.

69. The regulatory framework governing the financial management of the assistance programmes from the general budget is not well adapted to requirements. The Financial Regulation itself, both the general provisions and those dealing specifically with actions outside the Community, is unsatisfactory ⁽⁴⁾ and, in the context of the total revision being carried out since 1999, needs to be re-examined ⁽⁵⁾.

70. The Phare countries face a particularly complex regulatory environment which has been subject to rapid change: centralised and decentralised, cross-border cooperation, special funds, new orientations in 1998. Candidate countries are now becoming concerned that in addition from 2000 they will have to cope with three distinct management environments for Phare, ISPA ⁽⁶⁾ and Sapard ⁽⁷⁾.

71. ACP countries also face problems of a regulatory nature, as they receive aid not only from the EDF but also from the general budget. This complicates the management of aid considerably, as the various sources of funding have to follow different rules, and different departments in the Commission are responsible for them ⁽⁸⁾.

⁽¹⁾ According to the Project Cycle Management Manual (p. 59) such reports should also follow the basic format used for the project implementation phase, adding the technical and financial details necessary for a proper understanding of the project's implementation.

⁽²⁾ The Court has been pointing this out in various reports since 1992: Annual Report concerning the financial year 1991 (OJ C 330, 15.12.1992); Annual Report concerning the financial year 1996 (OJ C 348, 18.11.1997); Special Report No 1/98 in respect of bilateral and technical cooperation with non-member Mediterranean countries together with the Commission's replies, (OJ C 98, 31.3.1998); Special Report No 7/98 in respect of the European Community Development Aid Programme regarding South Africa (1986-1996) (OJ C 241, 31.7.1998).

⁽³⁾ CRIS = Common RELEX Information System. This is being developed initially by bringing together the various systems developed previously in the different programme areas. These systems are of varying degrees of reliability and usefulness, and a great deal of work is required to transform them into a common tool.

⁽⁴⁾ The second report of the Independent Experts highlights many of the main weaknesses in the regulatory framework, e.g. paragraphs 2.1.29-2.1.34. See also Court Opinion No 4/97 on the proposal for a Council Regulation (Euratom, ECSC, EC) amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities (OJ C 57, 23.2.1998).

⁽⁵⁾ Since 1998 in order to fill some of the gaps the Commission has developed 'Vade-mecums' on grant management and on Technical Assistance Offices which set out key rules to be followed by the services.

⁽⁶⁾ Structural Pre-accession Instrument.

⁽⁷⁾ Special accession programme for agriculture and rural development.

⁽⁸⁾ See Annual Report 1998, Report on the Activities of the sixth, seventh and eighth European Development Funds, Chapter III, paragraphs 37-43, (OJ C 349, 3.12.1999).

CONCLUSIONS AND RECOMMENDATIONS

Country programming

72. Whilst country programming has now become a feature of all the Commission's external aid programmes and improvements have been noted both in the way in which the programmes are prepared and in their content, there is still scope for further improvement. Country programming should become an integral part of the process of transforming overall policy goals into operational activities (see paragraphs 16-27) ⁽¹⁾.

73. Delegations, in all areas, should have an active management role. They should be fully involved in the preparation of country programming papers and there should be close consultation with the government of the beneficiary country. Consultation with EU Member States, both on the spot and in the Advisory Committees, and with the beneficiary countries' authorities should be reinforced (see paragraphs 22-24).

74. Individual country programming papers should better identify objectives and priorities, and provide a focused framework for planned interventions. They should cover all areas of intervention financed by the Commission and identify what lessons can be learned from previous programmes and projects (see paragraphs 25-27).

Project preparation and appraisal

75. The introduction of the Project Cycle Management methodology has led to some progress in the quality of project preparation and project documentation, however there remains room for further improvements (see paragraphs 28-47).

76. Sufficient time must be allowed for the identification and appraisal stage of project preparation (see paragraphs 30-34). Financing Proposals should systematically include information on other donors' activities and on the results of relevant evaluations. Timetables should be more realistic. More attention should also be paid to the identifying and specifying of objectively verifiable indicators (see paragraphs 36-38).

77. Closer consultation and cooperation with the representatives of the Member States' Advisory Committees for project prepara-

tion should be encouraged at field level. The Advisory Committees' meetings in Brussels should concentrate more on strategic matters such as the definition of an overall policy framework, rather than on individual projects ⁽²⁾. The Advisory Committees should also be used as a forum for increased two-way information and could thereby ensure better coordination among Member States' bilateral development programmes, one of the stated aims of the Commission's proposed new development policy ⁽³⁾.

The role of Delegations

78. The role of the Commission's Delegations has expanded considerably in recent years as Delegations now increasingly perform a political role representing the Union, are active in the economic, commercial, and cultural spheres, and provide information on the Union and its policies and programmes. This limits the time available for development aid and for project monitoring. The Commission has now accepted that it has to devolve more authority and responsibility to the Delegations (see paragraphs 48-53) and the Commission has introduced a programme of pilot exercises for increased decentralisation of responsibilities to the Delegations. To that effect, the Commission should clearly define the role and responsibilities of the Delegations (see paragraphs 50-52) and the profile and number of staff (see paragraphs 54-60). In this context it is necessary to establish clear qualitative and quantitative indicators for the workload to be performed for each of the Delegations and to what extent staff of the central services could be redeployed to the Delegations. More attention should be paid to monitoring the results of projects and the quality of project reporting. A limited number of standardised monitoring tools should be used consistently to ensure rigorous follow-up (see paragraphs 61-65).

Overall conclusion and recommendations

79. European external action is governed by a variety of legal frameworks depending on the source of funding, the geographical area and the instruments or the channels through which aid is provided. This results in different procedures at all stages: country programming, project preparation and implementation and in the degree of involvement of beneficiary countries and the Commission's Delegations in those countries, which complicate the efficient implementation of the different programmes.

⁽¹⁾ The Commission has now recognised the importance of country programming and in the communication from the Commission to the Council and to the European Parliament, The European Community's Development Policy (COM(2000) 212 final), says that 'the Commission will present to Council a framework for Country Strategy Papers to become the main instrument for guiding, managing and reviewing Community assistance programmes'.

⁽²⁾ Other evaluation reports have also recommended this; for example, Evaluation of the MEDA Regulation: Final report, Euronet Consulting, 12.2.1999.

⁽³⁾ Communication from the Commission to the Council and to the European Parliament, The European Community's Development Policy (COM(2000) 212 final).

80. The weaknesses noted in the management of external aid have been pointed out in previous reports, notably the 1997 Annual Report ⁽¹⁾, and similar observations have also been made in the reports of the external evaluations commissioned by the Council and the Commission ⁽²⁾. The attempts so far to improve the Commission's organisational structure to implement aid, such as the establishment of the SCR, have, however, been only partial.

81. The SCR is responsible for the implementation of projects once the Financing Agreement has been signed. The geographic RELEX DGs ⁽³⁾ are responsible for overall programming, country

strategies and project preparation. This effectively splits the project cycle, making decision-making procedures and the interface between the Delegations and headquarters even more complex. The Commission has now accepted that splitting the project cycle is not satisfactory. A further reorganisation of the External Relations services is, therefore, being undertaken which seems to address many of the problems presented in this report. The Commission's proposal should help to improve its delivery of aid, but only if these changes of structure and procedures are accompanied by changes in the Commission's management culture towards a greater flexibility and a results-oriented approach.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 29 and 30 November 2000.

For the Court of Auditors

Jan O. KARLSSON

President

⁽¹⁾ Court of Auditors — Annual report concerning the financial year 1997, (OJ C 349, 17.11.1998, paragraphs 5.19-5.44).

⁽²⁾ In 1995 the Council requested a full and detailed evaluation of the European Community's development instruments and programmes. Independent evaluations were carried out into European Community aid to ACP countries, Mediterranean countries, Asian and Latin American countries and the Community's humanitarian assistance. The final report was delivered in May 1999.

⁽³⁾ DG 'Development', DG 'Enlargement', DG 'External Relations'.

THE COMMISSION'S REPLIES

EXECUTIVE SUMMARY

The Commission welcomes this report, which identifies weaknesses in the Commission's management of external aid programmes. The Commission has itself recognised these weaknesses, which arise, as indicated by the Court, from the different circumstances in which the various geographical programmes have arisen, and have been exacerbated by the rapid growth in most of these programmes leading to complex procedures and unclear responsibilities. There has not been a corresponding increase in staff. The Commission has recently taken steps to harmonise and simplify procedures and structures and these considerations are being taken into account in the proposals for new regulations, as they are presented.

Additional reform measures are also set out in the communication on 'the reform of the management of external assistance', SEC(2000) 814.

3. The Commission has acknowledged the need for improved programming. In particular, the following measures have been introduced:

- i) greater involvement of partner countries, Member States and other donors in the process of consultation on country strategies;
- ii) harmonisation, to the extent possible, of the format and content of strategy documents in the different regions;
- iii) setting up an interservice quality support group to help improve the quality of country strategies.

4. The generalisation of the application of PCM (project cycle management) techniques has undoubtedly improved the standard of project preparation. The long delays before projects are due in part to the need to ensure correct application of the complex, centralised and diverse procedures, which have been the subject of simplification and harmonisation since 1999.

5. The Commission accepts that decision-making has been over-centralised, and has proposed measures for a major deconcentration of responsibilities and resources to the Delegations. However, after the peer group process has exhausted the possibilities of reallocation of personnel within the Commission, the provision of adequate additional resources as requested in letter of amendment 1/2001 is an absolute precondition for it to succeed, and this lies in the hands of the Budgetary Authority.

6. The Commission is developing a simple but effective monitoring system which is rooted in the PCM approach. So far the system has been tested on some 70 projects in 13 sample countries.

7 and 8. From the start of 2001, a new office, EuropeAid, will take responsibility for the project cycle from project identification right through implementation.

8. The Commission is introducing various measures to increase flexibility and develop a more results-oriented approach. It looks forward to cooperating with the Court in assessing and further developing such measures.

INTRODUCTION

12 to 14. In accordance with the structure of the Court's report, the general comments made in the Commission's replies cover the four geographical areas listed in paragraph 12.

COUNTRY PROGRAMMING

Legal framework

16 to 18. One of the priorities identified by the communication of 16 May 2000 on the reform of the management of external assistance is to ensure that there is improved programming of the Commission's aid programmes. The Commission has established the interservice quality support group (QSGI) with a secretariat in the Directorate-General for Development. The QSGI will improve and harmonise programming guidelines and ensure that country strategy papers and national indicative programmes are of consistently high quality. The Commission has also recently adopted the standard framework for country strategy papers which applies to ACP, ALA and MED programming documents and which should be applied progressively to other regions. This standard framework promotes a coherent approach to programming which enhances coordination and complementarity with the Member States. Finally, the Commission intends to give a higher profile to evaluation and ensure that it feeds back into the programming phase.

In the case of ACP countries the country programming process has in the past been in two stages, with both a country strategy paper and an ensuing national indicative programme being produced. Starting with the programming of the ninth EDF this dual process will be replaced by a single programming document containing both the strategic analysis and the indicative work plan. This unified document will be known as the country support strategy, and will be based on a standard analytical framework shared also with the ALA and MED country programmes.

19. As part of the reform the Commission intends to improve programming to ensure that it becomes genuinely operational and a useful basis for discussion of objectives and priorities with Member States and partner countries. As part of this process, the Commission will inevitably be required to provide more explicit quantified targets and performance indicators than in the past.

20. The guidelines for MEDA national indicative programmes constitute a legal and political text negotiated with Member States, according to Article 9(1) of the MEDA Regulation, which takes the legal form of a Council decision. It represents a compendium of various currents of interest and analysis.

The first set of MEDA national indicative programmes, and the country strategy papers which preceded them, did reflect some of the repetition and inconsistency referred to by the Court. However the latest (2000 to 2006) financial period draws on the lessons of the past and is considerably more coherent. These improvements have been incorporated into the new MEDA II Regulation, adopted by the Council on 9 October 2000.

Procedures for the preparation of country programming papers

22. The standard framework for country strategy papers which has recently been adopted for ACP, ALA and MED programming documents promotes greater involvement by Member States in country programming, but correspondingly less micromanagement of individual projects. The intention is not to introduce a further layer of systematic consultation, but to simplify procedures in general.

The practice of consultation with beneficiary countries and with European Community (EC) Delegations on programming priorities is well established, as is the need for Member States and the Commission to exchange information and coordinate their multilateral and bilateral cooperation activities. Every effort is made to ensure that this is reflected in programming documents. Consultation does not oblige the Commission to incorporate all the comments and views expressed: these represent a range of sometimes conflicting interests.

23. The guidelines for programming the ninth EDF are not only the most comprehensive ever produced, but are also being shared

and discussed from the outset with the ACP partners, not only in written form but also via a series of regional discussion and training seminars which will cover all ACP states and EC Delegations by the end of 2000.

See also response to paragraphs 16 to 18.

24. The coherent set of changes introduced during 1998 was aimed at refocusing the Phare programme on helping the candidate countries prepare for accession, as well as at improving the management of the programme and at remedying a number of deficiencies which had been identified during Commission monitoring and evaluation, successive reports by the Court of Auditors and observations by the European Parliament. Although the formal programming documents were not approved until mid-1998, they represented only one step in a process of reorientation that began in 1997. The Commission accepts that the demands on partner countries and Commission staff in the transition year of 1998 were heavy. The Phare 2000 review concludes that the benefits of the reforms are now being realised. However, it also concludes that a basic stability in procedures will be necessary for the foreseeable future, that changes necessary to bridge to the Structural Funds should be planned for over a longer period than was attempted in 1998, and that new tasks should be adequately resourced in the Commission and candidate countries.

Content of individual country programming papers

25. The Commission services largely concur with the list of weaknesses identified in respect of past ACP national indicative programmes. Correcting these weaknesses has been one of the principal goals of the programming provisions of the recently signed Cotonou Agreement, which will govern the implementation of the ninth EDF. Under the new provisions, which will apply henceforth to all ACP country programming exercises, country strategies will provide the starting point of the exercise. There will be a wide-ranging analysis of the situation in each country, which will include paying special attention to the opportunities for complementary action with other donors, including EC Member States. Furthermore a comprehensive review of all available Community instruments, including budget resources, will form an integral part of the proposed Community response strategy, which will be transparently outlined in the text, particularly in the indicative work plan which will be annexed to the main text.

Least developed countries and vulnerable States will be given special attention in the indicative resource allocations which will be announced at the outset of the programming process, and there will be a strong poverty reduction focus in all aspects of the programming process, in keeping with the objectives recently outlined in the Commission's communication on development policy (COM(2000) 212).

The new approach for ACP countries is based on a system of rolling programming with regular review procedures and provision for modifying the initial resource allocations twice during the five-year life of the ninth EDF Financial Protocol. Jointly agreed benchmarks and indicators will be established at the outset of the programming process, and these will be used to measure and evaluate progress and to assist in making any adjustments that may be necessary in the programming.

Along with other country strategy papers, new ACP country support strategies will be submitted at the outset to the new interservice quality support group (QSGI) under the supervision of the group of RELEX Commissioners, which will have the task of ensuring that the proposed strategies meet the high standards laid down in the respective programming guidelines; the strategies will also be scrutinised by Member States in the appropriate management committees.

The procedures for the annual and mid-term reviews of the national indicative programmes for the eighth EDF have established a clear set of criteria for judging the implementation of the agreed undertakings, and the reviews form the basis for decisions on the provision of the second tranche of 30 % of the programme.

26. The purpose of the country strategy paper for Latin America is to set out, on the basis of the analysis of the country's situation, a set of guidelines for Community cooperation. In preparing the final version of the country strategy papers, approved by the Member States in the ALA Committee, the Commission took into account as far as possible the proposals of the Delegations and the suggestions of the Member States.

However, the need to harmonise the papers for each country at regional level meant that not all the suggestions or comments received following the dialogue established between the Delegations and the Member States' representations on the spot could be taken into account. The country strategy papers identify a certain number of priority fields, in principle five, in which there should be Community cooperation, without however the obligation to cover them all. The number of priority fields may seem high, but in fact it has already been reduced from what it was previously.

The new framework created will allow some flexibility in the negotiations with the governments when the multiannual programming is prepared.

It is true that the country strategy papers make no reference to the quantification of objectives or procedures for evaluating progress in implementation, because this was outside the framework of the country strategy paper.

In the future performance indicators and evaluation of past results

will be one of the key elements to be taken into account in the new standard framework for CSP.

27. The Commission would also like to see the development of the national programmes for the adoption of the *acquis* to ensure that accession requirements are covered by the different sources of finance. The Commission expects that as candidate countries grow to use the NPAA more as a planning tool it will improve and become the basis for longer term commitments by the Commission to priority sectors.

PROJECT PREPARATION AND APPRAISAL

28 to 30. As part of the reform of the management of external assistance, the project cycle from identification to project *ex post* evaluation is being placed under the responsibility of the SCR, while geographical Directorates-General (External Relations, Development) will continue to be responsible for the overall strategy and programming. The exceptions to this general rule will be Phare, managed entirely by the DG Enlargement, humanitarian aid managed by ECHO, CFSP actions and the rapid reaction facility managed by DG RELEX and the macrofinancial assistance programmes run by DG Economic and Financial Affairs. At the beginning of 2001, the SCR will be replaced by a new office, EuropeAid, which will be managed by a Board composed of the RELEX Commissioners. The Commission believes these changes will result in more coherent and efficient management of projects.

29. The Commission accepts there is still room for improvement in project preparation. Various measures are being taken based on 'best practice' which are explained below.

30. EuropeAid, which will be responsible for project identification and appraisal, will develop thorough procedures which will distinguish more clearly between identification and appraisal, and will further develop the existing guidelines on thematic questions such as gender and environment.

31. The use of European individual experts is necessary to provide adequate technical expertise. Their role will be clarified in the course of the RELEX reform process.

32. As a result of the progress made since the setting-up of the quality support group by DG Development for improving the quality of ACP project/programme preparation and appraisal, the Commission decided as part of the reform introduced in May this year to extend the remit of this group to all developing countries. With this in view and account being taken of the lessons drawn from experience, the workings of the group will be improved as part of the reform and extended to all the programmes, with particular focus on the procedures for following up its recommendations.

33. The Commission is still making efforts, within the present legislative framework, in order to avoid an excessive concentration of commitments at the end of each financial year. With the aim of improving the situation as far as possible within the present budgetary constraints, the Commission has proposed reforming the management of external aid in order to:

- target the role of management committees (Member States) on strategy issues rather than examining individual projects,
- strengthen the multiannual approach of programming,
- have the tasks carried out in a more consistent manner by EuropeAid,
- increase resources.

These measures should make it possible to spread commitments more evenly over the year.

34. The Commission accepts that a planning cycle of a year is unsatisfactory for many projects. It will introduce from 2002 multiannual programming based on improved NPAs and national development plans and drawing on Structural Funds practices. This will allow longer term indications of support for priority sectors to be given and to allow activities to be phased more effectively within a given period.

Financing proposals and financing agreements

Financing proposal

37. Concerning the necessity of the improvement of the quality of financing proposals, the Commission wants to emphasise that the format of those proposals to the ALA Committee has changed. In the past limitation in the number of pages for financing proposals did not always permit the inclusion of details on some important issues. The actual format, agreed between the Commission and Member States, and in application since 1999, foresees specific references on all the items mentioned by the Court: coordination with Member States and other donors, economic and environmental impact assessment, evaluation of recent projects in the same sector, institutional set-up. The Commission is confident that this will considerably improve the quality of financing proposals.

The format of EDF financing proposals was revised in early 2000 to focus on the relevance, feasibility and sustainability of a project. New sections deal with lessons learnt from past experiences and coordination with other donors. The new formats are accompa-

nied by detailed guides on their preparation. The new format is a definite improvement on the previous one, setting the project in context and clearly setting out the intervention logic.

The Commission could accept that detailed information on previous projects was not always provided in the financing proposal. However, the lessons to be learned from the previous projects were taken fully into account.

Financing Agreements

39. The financing agreements have to be differentiated according to the areas concerned.

For Latin America and Asia, the financing agreements drawn up over the last few years represent a significant improvement in quality, although it must be recognised that there are still some problems owing to a lack of definition, a lack of provisions in the event of non-observance of obligations by the national counterpart, etc. For Latin America, a number of criticisms have been definitively and specifically resolved with the signing of the Framework Agreement, a solution which will be considered for Asia.

The Commission accepts that there is still room for improvement in project preparation and will address the issues in the framework of the new office, which will cover all the project cycle.

40. The Commission intends to review the format for financing agreements.

Role of the Advisory Committees in the decision-making process

41. A major part of the reform of the management of external assistance aims at changing the way Member State committees deal with external aid. The Commission would like to focus input from Member States on programming and country programmes rather than on micromanagement of individual projects. In this regard, the Commission is currently in the process of analysing the different comitology procedures and evaluating the possibility of either proposing a 'horizontal' regulation defining the comitology aspects of all external aid instruments of the European Communities or adjusting existing regulations accordingly.

In Asia for example, if the ceiling below which projects do not need to be screened by the ALA Committee were raised from the current level of EUR 1 million to EUR 25 million, then the number of projects passing through that particular Committee would fall by 58 % while the Member States would still control 51 % of the financial volumes.

In the case of Phare countries, the Commission arranges an annual policy discussion with the Phare Management Committee on each country before the annual programme is finalised to allow Member States' concerns to be taken into account.

At the General Affairs Council of 9 October 2000, it was agreed to reinforce coordination in the field between the Commission's Delegations and the representatives of the Member States.

The new MEDA II Regulation, adopted by the Council on 9 October 2000, has been adapted to allow for increased involvement by Member States.

In the ACP countries there has been significant progress on the issue of coordination in the field, and considerable changes have been introduced and welcomed by the Commission in the involvement of Member States in the elaboration of country strategies and programming. However, corresponding reform efforts have not been accepted by Member States, in particular as far as the threshold for referral of financing proposals to the EDF Committee and the Committee's decision-making procedure are concerned. ⁽¹⁾

Project start-up

42. The Commission considers that it should be expected that there is a significant time lapse while complex project proposals are properly prepared and considered. Some delays may particularly occur during the interservice consultation which takes place at the appraisal/decision stage, especially for projects which have fundamental weaknesses. Delays are often a consequence of the Commission's objective of funding high-quality programmes, or relate to the nature of the programmes: programmes which promote the exchange of know-how usually take much longer to implement than straightforward construction projects.

It was exactly to avoid over-long delays in start-up that the start date was included in the Financial Regulation of the eighth EDF, and it has been successful in giving an impetus to projects, or, in

some cases, allowing them to be annulled where there is no real commitment to carrying out the project.

43. Because of the need to ensure correct application of the complex, centralised tender procedures, and uncompetitive fee rates, the prompt recruitment of TA has often been difficult.

44 and 45. The simplification and harmonisation of tendering procedures was begun in 1999 and is now nearing completion. This should facilitate the rapid award of contracts and prepare the way for a greater involvement of Delegations in managing the procedures.

46. In the Phare countries, there were inevitably difficulties in finalising programmes in the first year of a radically new approach. There were several parties involved and in a number of candidate countries there was a lot of internal debate about responsibility for and financial control of external funds such as Phare before decisions could be reached enabling financing memoranda to be signed. In others delays were due to lengthy internal procedures before the country was in a position to sign. The position has improved since, with a reducing interval between financing memorandum and contracting as a result of the Commission's insistence that projects for funding should be 'mature'. The Commission is continuing to explore practical measures to reduce the time taken to sign the financing memorandum after Phare Management Committee approval.

Following a recent review of twinning, procedures have been lightened to cut project start-up times.

47. The Commission takes note of the Court's observation concerning unrealistic timetables of some projects and does agree that some types of projects need more time for start-up and implementation. Therefore, estimated project duration has been prolonged recently, and the inception process, including diagnostic studies, is incorporated in this estimation.

ROLE OF DELEGATIONS

48. The deconcentration of responsibility for implementing and monitoring aid projects to Delegations is one of the key elements of the communication of 16 May 2000 on the reform of the management of external assistance. Deconcentration is already the

⁽¹⁾ The Commission has formally stated its disappointment in a Declaration annexed to the new ninth EDF Internal Agreement (statement 17 concerning Article 34(b)), in which it also stresses its concern that the cumbersome procedures which have been decided will hamper the efficiency of the ninth EDF and result in lower disbursement rates than those expected. In the same Declaration, the Commission also stated that its acceptance of the Member States' decision did not pre-judge its position for the revision of the threshold and decision-making procedure in 2003.

norm in central and eastern Europe. The list of 20 Delegations which will be included in the next wave of deconcentration in 2001 has already been agreed. The Commission has carefully assessed the necessary human resources, IT systems and training which are needed for the smooth implementation of deconcentration and has included these in the amending letter to the 2001 draft budget. These resources will allow the Commission to launch the next phase of deconcentration in the autumn of 2001 with a view to completing the process by early 2003.

Responsibility and decision-making authority

50. With deconcentration, the Commission will be applying the principle that anything that can be better managed and decided on the spot should not be managed or decided in Brussels. New deconcentration instructions have recently been issued clarifying the relative roles and reporting lines of the Phare and financial sections of the Delegation and removing areas of overlap.

The generalisation of job descriptions for each staff member based on the mission statement of each Directorate-General is part of the Commission reform programme and is being implemented in Delegations as in all other units of the Commission.

51. For Latin America, the Ting Report describes the role which the Delegations must play for the 'cooperation function' throughout the project cycle.

For the Delegations in Latin America responsibilities had been deconcentrated, in 1994 and 1995, to a number of Delegations, for the implementation stage of projects. The approval of the Ting Report meant the extension of this deconcentration to all the Delegations of Latin America and also deconcentration in the programming-identification-preparation stage.

52. The Commission agrees with the Court's observations and has begun preparations for a major exercise of deconcentration to the Delegations. However this exercise can only be successful if the necessary resources are approved by the Budgetary Authority.

53. Deconcentration to the Delegations of the Commission's role in the implementation of programmes has progressively been put into practice since 1998 in central and eastern Europe and is being implemented in Nicaragua. Some 26 posts, including those of financial officer, have been redeployed from HQ to Delegations to achieve this initial phase of deconcentration.

The process of deconcentration is now a clear decision of the Commission. A further 20 Delegations to which deconcentration is to be applied in 2001 have been identified and implementation is now under preparation.

Resources

54. The Commission's recent communication undertook to prepare an analysis of the workload of each Delegation. This will help to verify that the Commission's human resources are being best used. While every attempt is made to ensure all posts are filled as soon as possible it is not always possible to find suitable candidates for some of the less attractive posts.

55. The Commission has introduced a policy of rebalancing the staff in Delegations to achieve a better equilibrium between local staff and home-based staff. This applies in particular to ACP Delegations which have traditionally employed few senior-level local agents. There are now 71 such local staff in ACP Delegations. The Commission's communication of July 2000 envisages the transfer of a further 30 home-based officials and their probable replacement by Group I local staff.

The Commission believes that financial management is primarily the responsibility of the Head of Delegation and the other officials in the Delegation. This responsibility cannot be totally subdelegated to local staff, and in May 1999 Heads of Delegation were reminded to ensure proper supervision.

56. The Commission is developing criteria to establish the workload of each Delegation. This will enable a better appreciation of the staffing of Delegations to be made.

57. The creation of EuropeAid (see response to paragraphs 28 to 30) should enable a greater flexibility in the employment of staff and thus a more appropriate profile for staff dealing with aid matters.

58. In central and eastern Europe, a large proportion of staff are local nationals, and the Delegations have a wide measure of discretion about taking on staff to cope with fluctuating pressures.

59. The Commission has accepted the need to dismantle the BATs, and most of them will be closed by the end of 2001. The necessary financial adjustments have been proposed for incorporation in the 2001 budget year. As contracts for the existing 80 offices in the RELEX sector expire, their activities will be assumed

directly by the services of the Commission, in particular in Delegations and in the new office, EuropeAid, that will be created out of the present SCR.

60. One of the preconditions for deconcentration to be successful is that Delegations be reinforced with extra personnel, particularly in the area of financial management. In the amending letter to the 2001 budget, the Commission has requested a total of 261 new grade A posts for the wider area of external relations. Of these, 40 will be used for strengthening Delegations. Furthermore, the Commission has requested the Budgetary Authority to allow the funding of 320 external staff through operational credits (BA budget lines) in view of deconcentration. This staff is additional to the 280 additional external staff for Delegations that have been requested in view of the dismantling of the technical assistance offices/bureaux d'assistance techniques (BATs). All these measures add up to a significant reinforcement of staffing levels in Delegations, allowing them to effectively manage the additional tasks which will be entrusted to them with deconcentration.

Project monitoring

61 to 63. The Commission recognises much of the situation described as regards the varying depth, quality and follow-up of monitoring. It has already been diagnosed and described in evaluations and progress/monitoring reports, and is the direct consequence of the inadequate staff resources both in field and headquarters. In the absence of adequate resources, those available have concentrated on essential (often financial management) tasks, to the detriment of formal monitoring and reporting.

The solution envisaged by the Commission consists of several elements, in particular obtaining additional resources — as part of the reorganisation of the external services, including deconcentration, and setting up a project monitoring system to cover all external aid programmes. The Phare and Tacis programmes have external monitoring systems in place, and a similar system is being designed and tested for the ACP, ALA and MED programmes for extensive application beginning in early 2001. It is expected that practically all projects will have been monitored by the end of 2002: given the scale of the exercise (notably the number and complexity of projects to be visited by monitors) it is unlikely that it could be done earlier. In the meantime, existing supervision by Delegations will continue and, depending on the speed and effectiveness of deconcentration, it may prove possible to reinforce and accelerate the coverage of monitoring.

The monitoring exercise and system will strengthen many aspects of project preparation and design criticised elsewhere in the Court's report, by improving the quality of project logframes (including indicators) and implementation schedules which constitute the necessary basis for monitoring.

65. It is clear that the monitoring of the government contribution (being an integral part of the project) must be subject to the same monitoring as the Community's contribution. However, it must be underlined that direct project implementation and monitoring activities are carried out by the project implementing agency and/or other specific bodies such as project implementation unit (PIU), project management unit (PMU), Project Coordination and Monitoring Committee, steering committees, etc.

Management tools

66. The Commission is well aware of the problems raised by the Court. The improvement of monitoring procedures is part of the global overhaul of Commission financial management, control and audit as described in the White Paper on reform.

With deconcentration, Delegations will have greater responsibilities for implementation and financial management of projects. The subdelegation of the authorising officer function to the Head of Delegation is also foreseen. The elimination of *ex ante* controls and increased responsibility will be incentives for Delegations to apply strict financial control procedures. In view of this transfer of responsibilities, the Commission will harmonise and improve management and monitoring tools (manuals, monitoring, inspections, audits). It will also establish instructions on reporting lines and the chain of command within Delegations and between headquarters and Delegations for staff responsible for implementing projects.

67 to 69. The Commission shares the concerns expressed by the Court. As part of the reform of the RELEX Directorates-General, it plans to give absolute priority to computerising its Delegations with a special plan aimed first of all at improving the computer infrastructure of the Delegations, then installing Sincom and lastly introducing a more wide-ranging management tool, CRIS. A priority request will be made, in the letter of amendment to the 2001 preliminary draft budget, to the Budget Authority, for action to be taken on the first stage of this plan at the beginning of 2001, in particular in South Africa and in the Delegations responsible for implementing MEDA.

A similar effort will be made at the same time for the EDF. Since it was not possible to include in Sincom — as initially planned — the accounts kept on OLAS, the SCR launched a pilot experiment to decentralise disbursements and intends actively to pursue a policy aimed at progressively giving EDF Delegations the necessary accounting and contractual management tools.

Delegations in central and eastern Europe have access to a financial reporting system, Perseus, which gives them up-to-date information on financial progress. Sincom has been installed in these Delegations. However, a wider improvement in management information for Phare is necessary, and DG Enlargement is preparing to develop a new system based on existing financial reporting systems.

69. This summer, the Commission sent the Budgetary Authority a proposal for revising the Financial Regulation to take account of the requirements and specific features of external relations.

70. In order to simplify the operating context for candidate countries the Commission has integrated Phare activities as far as possible into country programmes, begun to align cross-border cooperation with the main Phare programme and reduced the number of multi-country programmes to a minimum. The establishment of Sapard and ISPA adds to the challenge of coordination for these countries, but in each case they are being required to develop the structures for programme implementation which will be needed after accession.

71. The Commission is fully in agreement with the Court of Auditors' opinion on certain overlaps between the EDF and development budget headings and considers that it would be advisable to put an end to this situation in 2001, as part of the implementation of the preliminary draft budget and the discussions of the Peer Group and also in the context of the reform adopted by the Members of the Commission on 16 May 2000.

CONCLUSIONS AND RECOMMENDATIONS

Country programming

72. Improved programming is a central part of the Commission's plans for reform. The two main features are the establishment of the interservice quality support group (QSGI) and the standard framework for country strategy papers (see response to paragraphs 16 to 27).

73. The Commission's reform programme includes greater involvement of Member States and other partners in country programming, with correspondingly less micromanagement of individual projects (see response to paragraphs 22 to 24).

74. The Commission is already giving greater attention to the quality and content of country programming papers (see response to paragraphs 25 to 27).

Project preparation and appraisal

75 and 76. As already stated in paragraph 37, a new format for financing proposals has been developed which is a definite improvement on the previous one. Having said this, there is still more work to be done on the correct use of project cycle manage-

ment concepts and also the quantification of objectively verifiable indicators, though the quality support group established by DG Development does play a role in controlling both of these aspects and has led to some improvements.

77. The Commission has formally stated its disappointment that the Member States have not accepted its recent proposals concerning the threshold for referring financing proposals to the EDF Committee and the Committee's decision-making procedure. It is concerned that the cumbersome procedures will hamper the efficiency of the ninth EDF and result in lower disbursement rates than expected. As far as the other programmes are concerned, the Commission will propose either a 'horizontal' regulation defining the comitology aspects of all European Union external aid, or adjustments to existing regulations.

See also response to paragraph 41.

Overall conclusion and recommendations

79 to 81. The Commission shares the Court's view that the variety of different procedures often complicates the management of the external aid programmes. The reasons are historical: new programmes were introduced to respond to new circumstances, such as the accession of new Member States with interests in different parts of the world, the fall of communism, etc. The Commission's chronic lack of resources and the unclear division of responsibilities within the Commission governing the management of the entire external aid effort hindered attempts to achieve greater harmonisation of procedures, although the establishment of the SCR in 1998 was the first stage in this process. Real progress was made in developing unified tendering procedures and operational manuals.

On the initiative of the new Commission, new and further reaching plans for reform are now being instituted, as set out in the communication on the reform of the management of external assistance adopted on 16 May 2000. These aim to improve both the speed of delivery and the quality of the Commission's external assistance.

The interservice quality support group (QSGI), with a secretariat in DG Development, will ensure improved programming. The Commission would like to see all Member States Advisory Committees focusing on programming and country programmes rather than on the micromanagement of individual projects. The project cycle from identification to implementation will be placed under the responsibility of a single organisation, EuropeAid, which will replace the SCR. The geographical Directorates-General (External Relations and Development) will continue to be responsible for the overall strategy and programming. The backlog of old and dormant projects is being tackled as a matter of urgency. And possibly the most ambitious part of the reform programme is the decision to deconcentrate responsibility to Delegations and, where possible, national authorities in partner countries.

The key to realising these plans will be the acquisition of extra human resources. In early September the Commission presented an amending letter to the 2001 preliminary draft budget to the Budgetary Authority to secure the additional funding required. The Commission also proposed that the operational appropriations of the 2001 budget be used to contract staff to work in the

SCR/EuropeAid on tasks previously performed by the technical assistance offices and to reinforce the staff of Delegations. Without these additional resources, the Commission will reluctantly be required to reduce the existing aid programmes so that they can be managed effectively.
