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## Information and Notices

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## I

(Information)

## COURT OF AUDITORS

**Corrigendum to Special Report No 2/2001 concerning the management of emergency humanitarian aid for the victims of the Kosovo crisis (ECHO), together with the Commission's replies**

*(Official Journal of the European Communities C 168 of 12 June 2001)*

(2002/C 159/01)

The Commission's replies to the Court of Auditors' Special Report No 2/2001, which were published in Official Journal No 168 of 12 June 2001 (pages 18 to 25), included some errors in the paragraph numbering. This correction contains the correct version of these replies. The report has been reprinted in full so as to help readers who wish to study the replies, but pages 1 to 17 of Official Journal C 168 have been reproduced without change.

**SPECIAL REPORT No 2/2001  
concerning the management of emergency humanitarian aid for the victims of the Kosovo crisis  
(ECHO), together with the Commission's replies**

*(pursuant to Article 248(4), second subparagraph, EC)*

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#### LIST OF ABBREVIATIONS

ECHO	European Community Humanitarian Office
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
FPA	Framework Partnership Agreement
FRY	Federal Republic of Yugoslavia
FYROM	Former Yugoslav Republic of Macedonia
ICRC	International Committee of the Red Cross
IFRC	International Federation of Red Cross and Red Crescent societies
KFOR	Kosovo Force
NATO	North Atlantic Treaty Organisation
NGO	Non-Governmental Organisation
OSCE	Organisation for Security and Cooperation in Europe
SCR	Service commun des relations extérieures
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
UNMIK	United Nations Mission in Kosovo
USAID	United States Agency for International Development
WFP	World Food Programme



Map No. 4069 UNITED NATIONS  
October 1998

Department of Public Information  
Cartographic Section

**SUMMARY**

I. The Kosovo crisis was characterised by large population movements in the region between March and July 1999 as well as large scale destruction. Through the European Community Humanitarian Office (ECHO) the European Union (EU) provided 400 million euro of humanitarian aid in response to the needs of the population (see paragraphs 1 to 4). A particular feature of these events was the unforeseeable immediate return in June 1999 of virtually all displaced Kosovars to Kosovo, necessitating major modifications to the humanitarian aid programme.

II. The main objective of the audit was to assess ECHO's management of the EU aid for the victims of the Kosovo crisis, as well as the administrative framework for this assistance. A sample of contracts was selected to review whether the emergency aid was provided promptly, efficiently, according to needs, in good cooperation with the main partners and whether it was properly monitored. As the audit was undertaken between July 1999 and February 2000, it did not seek to establish what ultimate impact the expenditure had achieved (see paragraphs 5 and 6).

III. The context within which EU humanitarian aid is implemented does not facilitate a rapid response to emergencies. Decision-making and payment procedures at Community level do not allow a rapid reaction. The contractual procedures for implementing ECHO activities take only limited account of the urgency of a given situation. ECHO has identified many of the shortcomings internally and is in process of taking action to remedy them (see paragraphs 12 to 18 and 27).

IV. The revised Framework Partnership Agreement (FPA) which regulates the relationship between ECHO and its implementing partners, contains a number of improvements, but still has some shortcomings. The FPA does not take into account the special characteristics and mandates of the UN agencies and the Red Cross (see paragraphs 19 and 20).

V. The Agreement between the European Community and the United Nations of August 1999, concerning all EU funding of UN agencies, has not resolved all the problems which have troubled relations between the two organisations. The 'project'-based approach used to comply with ECHO's contractual requirements means that a large part of the drafting, reviewing and editing of ECHO's contracts becomes a costly administrative exercise. This does not always enable the Commission to obtain a meaningful account of how funds are used (see paragraphs 21 to 25).

VI. ECHO field offices were short of staff. The experts in the field offices faced many implementation problems without having officials with decision-making powers supporting them locally. This created a gap between ECHO in Brussels, which had the decision-making powers, and its field offices. ECHO experts had to spend a lot of time on practical and administrative matters instead of discharging their primary operational responsibilities (see paragraphs 31 and 32).

VII. It was generally hard for ECHO experts to form an opinion on the execution of the activities. Financial and operational reporting, as required by the contracts, was not prepared by ECHO partners early enough to be a monitoring tool. No system existed to provide ECHO with a regular and systematic overview of the situation. The United Nations High Commissioner for Refugees (UNHCR), the World Food Programme (WFP) and the International Committee of the Red Cross/International Federation of the Red Cross (ICRC/IFRC) had difficulties in reporting on the share of their activities that was financed by ECHO (see paragraphs 40 to 46).

VIII. Planning was difficult during the Kosovo crisis due to the fast moving situation. However, activities continued for longer than initially planned because they were launched late, were sometimes accompanied by the partners' desire to use up the budgets for the contracts that had been signed or ECHO's concern to keep its partners present on the spot (see paragraphs 27 to 30). In many cases the advances paid to ECHO's partners had not been fully used by the time the contract was scheduled to end. In some cases this could have had the effect of further encouraging contract extensions (see paragraphs 47 and 48).

IX. ECHO staff and experts displayed considerable commitment in an extremely complicated emergency situation. However, the regulatory and procedural framework and the lack of decision-making power in local offices had an adverse impact on the capacity of ECHO to respond quickly and effectively to the changing circumstances (see paragraphs 50 to 54).

X. ECHO's administrative procedures should be tailored according to the degree of urgency. A more realistic and more active approach to the financing and to the participation in the decision-making of United Nations agencies is required (see paragraphs 55 to 58).

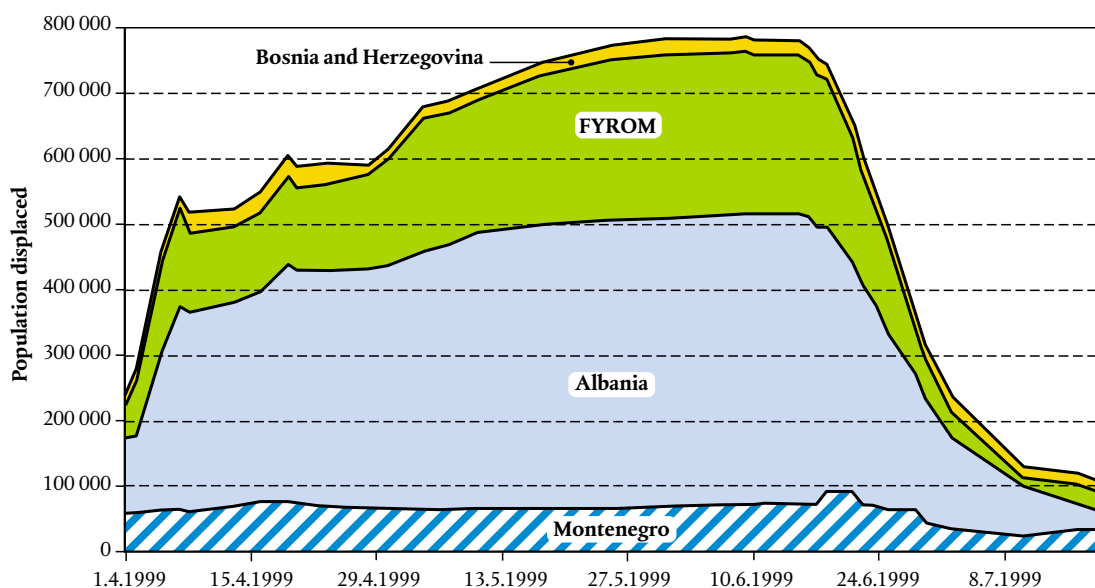
## INTRODUCTION

1. The tensions which had existed between Serbs and Albanians in Kosovo since the province's autonomy was rescinded in 1989, developed into armed conflict from March 1998 onwards. After the failure of diplomatic attempts to find a solution <sup>(1)</sup>, the North Atlantic Treaty Organisation (NATO) intervened militarily in March 1999 until it forced the complete withdrawal of Serb troops from the province in June 1999 <sup>(2)</sup>. The deployment of the Kosovo Force (KFOR) and the establishment of the United Nations Mission in Kosovo (UNMIK) <sup>(3)</sup> followed immediately.

2. The violence precipitated significant population flows from within Kosovo itself towards neighbouring countries (Albania, Bosnia-Herzegovina and the Former Yugoslav Republic of Macedonia (FYROM)), the other provinces of the Federal Republic of Yugoslavia (FRY), towards other countries of asylum and lastly a return to Kosovo as soon as KFOR was deployed. *Diagram 1* shows the scale of population shifts during the principal stages of the crisis <sup>(4)</sup>. These shifts were accompanied by considerable destruction in the province of Kosovo, affecting housing, productive capacity and all areas of economic and social life.

Diagram 1

### Movement of population from Kosovo to neighbouring countries



Source: UNHCR.

<sup>(1)</sup> Agreement reached with Belgrade in October 1998 to withdraw part of the Yugoslav forces and to deploy in Kosovo 2 000 OSCE inspectors, who were evacuated on 19 March 1999 after the failure of the Rambouillet negotiations on the status of the province.

<sup>(2)</sup> On the basis of the Peace Agreement of 10 June 1999, the Yugoslav forces withdrew completely before 20 June 1999.

<sup>(3)</sup> United Nations Resolution No 1244 of 10 June 1999 decided to deploy in Kosovo an international civilian and security presence placed under its jurisdiction. The civilian presence (UNMIK) was organised into four branches: a civilian administration (run by the United Nations), humanitarian aid (coordinated by the UNHCR), reconstruction (creation of a Task Force by the EU) and institutional consolidation (OSCE). In order to guarantee security, NATO opted to join forces with an international force (KFOR).

<sup>(4)</sup> Estimates of the population of Kosovo prior to the crisis vary. The Yugoslav Federal Bureau of Statistics put the figure at 1,96 million in 1992, whilst other estimates were 1,5 million and 2,1 million. On 9 June 1999, the UN estimated that there were approximately 500 000 people left in Kosovo. In addition to the population movements described above, more than 130 000 inhabitants of Kosovo sought asylum after February 1998 outside the region, in particular in Germany and in Switzerland, and 91 000 refugees in the FYROM were evacuated temporarily as part of the UNHCR's humanitarian evacuation programme.

3. The main features of the humanitarian crisis in Kosovo, which was one of the fastest evolving crises of the modern times, were:

- (a) immediately after significant assistance programmes were set up in the neighbouring countries, there was a rapid, massive and spontaneous return of the refugees in June 1999. This disrupted the newly-drafted plans for a gradual return and necessitated major modifications to the humanitarian aid programme;
- (b) Albania, the poorest country in Europe, took in the largest number of refugees. Because of the high level of poverty and deprivation in the country, it was difficult to differentiate between the need for aid for the victims of the crisis and aid for basic infrastructure and for host populations in Albania;
- (c) in the absence of any national authorities in Kosovo, the United Nations took over the administration of the province

as from June 1999; the coordination of humanitarian aid was entrusted to the UNHCR;

- (d) many countries showed considerable interest in direct humanitarian intervention in addition to their contribution via international organisations and, in the EU's case, via ECHO. The result was a large number of participants and a large proportion of bilateral funding.

4. Table 1 shows the international community's main contributions to emergency humanitarian aid for the victims of the Kosovo crisis in 1998 and 1999, totalling 1 495 million euro, and the main channels through which they were implemented. ECHO's contribution of 400 million euro accounted for approximately a quarter of these contributions. During the same period, in addition to emergency humanitarian aid, the EU allocated 100 million euro to budgetary aid for Kosovo's neighbours <sup>(1)</sup>, and 147 million euro to make a start on reconstructing Kosovo.

#### Emergency humanitarian aid allocated by the international community in response to the Kosovo crisis

(Mio EUR)

Principal donors	Amount	%
ECHO (1998: 22 Mio euro; 1999: 378 Mio euro)	400	27
EU Member States	408	27
United States of America	465	31
Other contributions to UN agencies, IFRC, ICRC	222	15
Other bilateral measures	n.c.	
<b>Total</b>	<b>1 495</b>	<b>100</b>

Main channels of implementation	Amount	%
UN agencies	590	39
Red Cross Movement (IFRC, ICRC)	107	7
NGOs financed by ECHO and EU Member States	244	16
Bilateral or non-specified aid from EU Member States	269	18
Other bilateral or non-specified aid	286	19
<b>Total</b>	<b>1 495</b>	<b>100</b>

Figures do not add up due to rounding-off differences.

Source: ECHO 14 point fax system; site [www.info.usaid.gov](http://www.info.usaid.gov); revised 1999 UN consolidated interagency appeal; ICRC.

<sup>(1)</sup> 62 million euro for Albania, 25 million euro for the FYROM and 13 million euro for Montenegro.

5. The aim of the Court's audit was to assess the management by ECHO of the emergency humanitarian aid provided by the EU for the victims of the Kosovo crisis. More specifically, the main objective was to verify whether ECHO's procedures and structures allowed a rapid response and effective cooperation with its main partners. The audit also sought to ascertain whether the emergency aid was provided at the right time, efficiently and corresponding to needs, and was properly monitored. The audit was undertaken between July 1999 and February 2000, at a time when almost all contracts were ongoing. The audit did not therefore seek to establish what ultimate impact the expenditure had. An extensive audit of ECHO's management and activities between 1992 and 1995 was published by the Court in 1997 (Special Report No 2/97).

6. The review included an examination of a sample of 29 contracts which covered 24 % of the value of the commitments and 32 % of the value of the contracts concluded as at 31 December 1999. The sample was selected so as to cover ECHO's main partners, the main geographical areas and sectors of intervention as well as the consecutive Commission Decisions in order to follow the evolution of the assistance (see *Annex*). Further checks were carried out on the spot in November 1999 in Albania, the FYROM and Kosovo, as well as at the headquarters of the UNHCR, the WFP and the Red Cross (ICRC and IFRC).

## CONTEXT OF ASSISTANCE

### *Allocation of funds*

7. In 1998, 22 million euro were allocated to the initial Kosovo crisis. Of the 378 million euro allocated to the Kosovo crisis in 1999, 32 million euro came from regular ECHO budget headings, and 346 million euro were rapidly transferred in two tranches from the emergency aid reserve.

### **ECHO's role**

8. When ECHO was established by the Commission in 1991 its aims were defined as:

- (a) 'focusing of administrative responsibility ... to ensure managerial consistency and the expertise needed to handle emergencies and adopt the appropriate procedures;
- (b) capacity to take direct action at various stages, enhancing the Community's presence on the ground: identification of requirements, mobilisation of personnel and material for the relief operation, monitoring and checks, *ex post* evaluation;
- (c) improved coordination with the Member States, other donors, non-governmental organisations (NGOs) and specialist international agencies;
- (d) easier mobilisation of the necessary budgetary resources in major emergencies' <sup>(1)</sup>.

9. ECHO operates as an active donor, funding the programmes of UN and international agencies and NGOs, taking responsibility for monitoring and evaluation and, in some cases, for needs assessments, also for emergency situations. During the early stages of the Kosovo crisis, ECHO had limited capacity for needs assessments and monitoring of activities. The assessment of needs was primarily carried out by the major humanitarian organisations such as the UNHCR, the Red Cross and the NGOs and formed the basis for the development of ECHO's strategy.

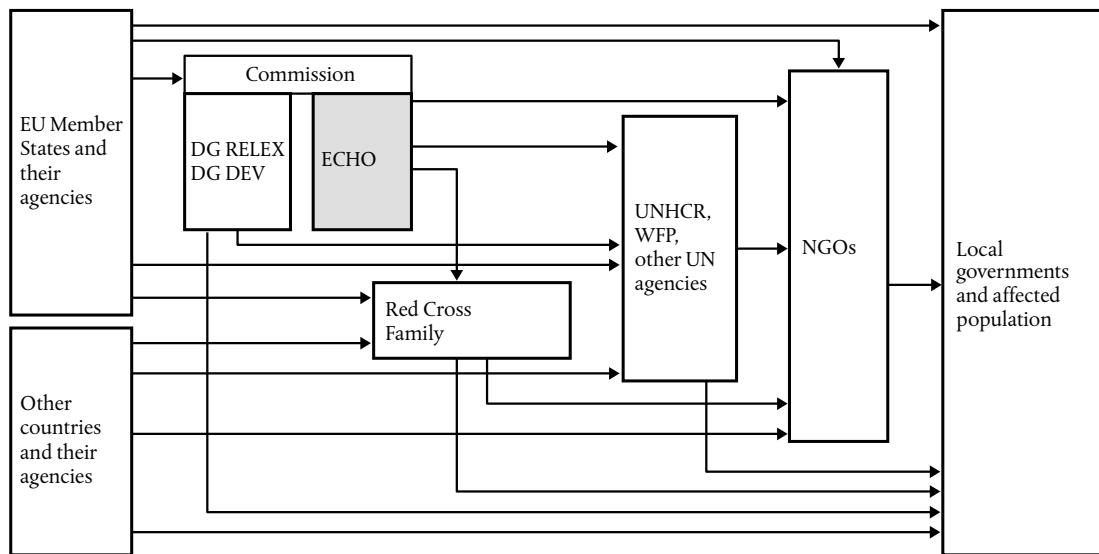
10. *Diagram 2* shows the place of ECHO in the system of providing aid to the victims of the Kosovo crisis. It illustrates the large number of actors as well as the complexity of their relations.

11. During the height of the Kosovo crisis, the EU Member States requested ECHO to prepare daily crisis situation reports. These reports were to describe the events in Kosovo, the FYROM, Albania, Serbia and Montenegro. Scarce resources had to be allocated to this task.

<sup>(1)</sup> Mandate from the Commission to ECHO, 6 November 1991.



Diagram 2

**The place of ECHO in the provision of aid to the affected population**

NB: The role of the private sector (experts, suppliers, transporters etc) has been excluded.

**Emergency procedures**

12. The Regulation <sup>(1)</sup> provides for the speeding-up of Commission decisions up to 10 million euro. Furthermore, the Regulation enables the Commission to determine detailed implementing rules which it has done through the Framework Partnership Agreement (FPA), which the Commission signs with its implementing partners.

13. The provisions in the general conditions applied to operational contracts signed under the FPA relating to emergencies are:

- (a) ECHO can decide to finance expenditure incurred by a partner prior to the partner's request for financing (Article 7(3));
- (b) in exceptional and duly substantiated cases, a non-itemised sum may be included in the budget (Article 10(6));
- (c) purchases may be made by ECHO's partners without recourse to the tendering procedure (Article 16(3)).

<sup>(1)</sup> Article 13 of the Council Regulation of 20 June 1996 governing humanitarian aid empowers the Commission, in an emergency, to take decisions in respect of measures costing up to 10 million euro without seeking a prior opinion from the Humanitarian Aid Committee.

14. The procedures for authorising activities are centralised and adhere to the Commission's usual arrangements for circulating documents. The resulting deadlines are ill-suited to the preliminary financing of emergency activities. This can be illustrated as follows. The procedure and maximum payment periods (60 days) are identical to those which apply to EU budget activities in general. The average time taken to pay advances in the sample examined was 28 days, of which ECHO itself accounted for nine days (appraisal of the file) but of which 19 days, i.e. more than twice as long, were accounted for by the remainder of the Commission's administrative channels. As NGOs can seldom provide preliminary financing for sizeable activities, these periods delay the start of activities accordingly.

15. Article 10(6) of the general conditions lays down that in exceptional, duly motivated cases (no reference is made to emergencies), an unspecified amount may be included in the budget provided that the partner undertakes to provide details thereof no later than 15 days after the supplies have been dispatched or the services provided. ECHO did have difficulty with certain of its partners in fully enforcing this. When and whether more detailed financial information under the FPA (document 8) should be provided under emergency contracts in Kosovo was not clearly established. In fact, no contradiction exists between emergencies and partners' ability to provide a detailed budget in good time. The absence of more detailed financial information hindered ECHO's own monitoring capacity.

16. The procedure for the recruitment of external experts, with the involvement of the Service commun des relations extérieures (SCR) and the external company responsible for the management of the experts' contracts, takes a minimum of three months. This is too long to react rapidly to an emergency situation. In the Kosovo crisis, ECHO was able to detach some experts from other areas, thereby reducing the time needed for their deployment to four to six weeks.

17. ECHO acknowledged that the Kosovo crisis revealed significant shortcomings in the way it was able to react to humanitarian emergencies. In order to identify these shortcomings, and to propose solutions, ECHO organised the 'Kosovo crisis lessons learned seminar' in November 1999. It included all international field experts, senior national programme staff and representatives from ECHO Brussels. The seminar succeeded in identifying structural inadequacies in ECHO, such as:

- (a) ECHO does not have the necessary means to respond rapidly to crisis situations and to provide emergency aid without delay;
- (b) there is no clear, unambiguous policy for emergency situations;
- (c) the lack of coordination between and with Member States resulted in widespread duplication of effort and inefficiency;
- (d) there is no rapid response emergency team in ECHO which can be sent to a crisis area, 'forcing each operational unit to improvise in each individual situation, leading to a dramatic loss of time and impact of ECHO emergency aid' <sup>(1)</sup>.

18. The participants of the seminar identified possible remedial action. ECHO is in the process of taking action to remedy the shortcomings identified.

### **Framework Partnership Agreements (FPAs)**

19. A revised FPA was introduced with effect from 1 January 1999 <sup>(2)</sup>. The objectives of the revision were to strengthen partnership, improve quality and efficiency, simplify and clarify the Agreement, and improve flexibility, while maintaining control over the use of funds. Although the revised FPA contains a number of improvements, the Kosovo crisis nevertheless exposed persisting shortcomings, in particular in the areas of mobilisation

time and reporting. Moreover, important parts of the FPA user guide, notably those concerning procurement procedures <sup>(3)</sup>, were still to be drafted at the end of 1999. This shortcoming had a negative effect on the economy and efficiency of activities implemented by partners who were still without appropriate internal controls and know-how in this area. Thus, in two of the cases examined, bids of subcontractors selected by ECHO's partners were not the most advantageous economically.

20. The FPAs did not take into account the special characteristics and mandates of the UN agencies and the ICRC/IFRC. Therefore contracts with the UN agencies were agreed upon on a case-by-case basis through exchanges of letters and governed by the overall EC-UN Agreement.

### **EC-UN Agreement**

21. United Nations' entities are multilateral bodies which have been given mandates by their Member States to whom they are accountable. They obtain most of their funds from the Members of the United Nations. The EU, a major provider of funds to the United Nations, is not a member and therefore as such not part of this accountability scheme.

22. In 1997, the Commission and the UN entered into negotiations towards a global Framework Agreement for all EU funding of UN agencies <sup>(4)</sup>. These discussions resulted in an Agreement signed on 9 August 1999, on the principles applying to the financing or co-financing by the Community of programmes and projects administered by the United Nations. It was intended to resolve the problems which have troubled relations between the Commission and the UN agencies <sup>(5)</sup>. However, as the Court pointed out in paragraph 5.96 of its annual report concerning the financial year 1999, it has not solved all these problems.

<sup>(3)</sup> Documents 14 and 15 concerning procurement procedures.

<sup>(4)</sup> The question of the EU-UN Agreement has been raised in a wider context in the Court's 1999 Annual Report (OJ 342, 1.12.2000, paragraphs 5.94 to 5.103).

<sup>(5)</sup> The Commission stated in its communication regarding the strategic objectives for 2000 to 2005 (COM(2000) 154 dated 9 February 2000 to the European Parliament, Council, the Economic and Social Committee and the Committee of the Regions) that 'We are a global actor and a leader in areas of trade, aid and finance. Yet the Union is not fully represented in international institutions or United Nations agencies. This is an anomaly which needs to be corrected.' For its part, in a motion for a resolution, the European Parliament 'calls on the Commission and the Member States to back the efforts made to ensure that the EU's presence and influence in international organisations are more representative of its political strength and the extent of its contribution to humanitarian aid' (PE 286.789, point 15).

<sup>(1)</sup> ECHO note 'OHRID seminar 6 and 7 November, preliminary summary impression and conclusion'.

<sup>(2)</sup> See the 1998 Annual Report, paragraphs 5.85, 5.86, 5.89 (OJ C 349, 3.12.1999).

*The WFP and ECHO were not able to conclude contracts respecting the Agreement signed in August 1999. Consequently, two WFP proposals amounting to 15 million euro and submitted on 2 July 1999, could not be agreed upon even though ECHO recognised the urgent need for the projects and the funds had already been allocated. 15 million euro available for urgent food aid therefore remained blocked until December 2000 due to administrative problems between ECHO and the WFP.*

### Relevance of earmarking funds

23. The Commission considers that its contributions should cover specific activities ('projects') <sup>(1)</sup>, individualised and authorised in advance, with strict limitations on the amendments that can be made by the contractor without the Commission's prior authorisation. Financial contributions are often expressed in the form of detailed lists of expenditure allocated to a precise destination and period, an approach known as 'earmarking'. However, the objectives pursued can be achieved only if the contracts genuinely correspond to the partners' actual activities and if partners keep accounts for individual projects which link each instance of expenditure with a financial contribution. This approach may correspond to the actual situation in the case of small-scale NGOs which implement specific projects. Indeed, the managers of these organisations often consider that ECHO's detailed guidelines are an aid to the sound financial management of the projects.

24. However, this approach is less appropriate for the activities of the major international humanitarian organisations. For example, in the case of individual ECHO contracts with the UN and the Red Cross, normally items of expenditure that form part of these organisations' large scale programmes are selected, and combined to form a 'project' to be financed by ECHO. This complies with ECHO's contract requirements. It does not, however, necessarily relate to a discrete activity that is managed and accounted for separately within the organisation's system. In this context a large part of the drafting, reviewing and settlement of ECHO contracts became a costly administrative exercise, primarily aimed at ensuring compliance with formal requirements. This exercise can also be a reason behind delays in the provision of funds.

25. The Court has commented several times in the past that, apart from the delays that are caused in mobilising contributions quickly, this does not always enable the Commission to obtain a meaningful account of how funds were used. It was confirmed again by the review of ECHO contracts concluded with UNHCR for the Kosovo crisis.

*Through contract 99/6001 with the UNHCR (20 million euro), ECHO financed 44 sub-projects attached to five different UNHCR projects, accounting for a total budget of approximately 180 million euro. These projects evolved with the situation, with the result that the UNHCR submitted to ECHO on 8 October 1999 a reallocation request, the effect of which was substantial for practically all activities. ECHO experts were unable to express an opinion on the validity of the request owing to a lack of information on the UNHCR projects concerned. However, UNHCR's financial management system showed in December 1999 that most of the projects submitted to ECHO for financing had in fact been financed by other donors, whereas most of the ECHO funds (around 16 million euro) had been allocated to another project, ex post approval of which was still to be sought from ECHO.*

*ECHO contract 99/6108 (10 million euro) was allocated in its entirety by the UNHCR to the financing of a project worth more than 60 million euro and comprising 55 sub-projects, and was amended seven times in the course of 1999 so as to reflect work actually done. The ECHO contract financed 16 % of this vast project and the allocation of this contribution to specific expenditure is purely theoretical.*

### MANAGEMENT OF ACTIVITIES

#### Mobilisation of funds

26. The Commission took six decisions to allocate funds for humanitarian aid. In total 378 million euro were available in 1999. On 31 December 1999, only 299,5 million euro (79 %) had been accounted for in terms of contracts. Additional contracts worth 16,3 million euro were signed by 6 March 2000.

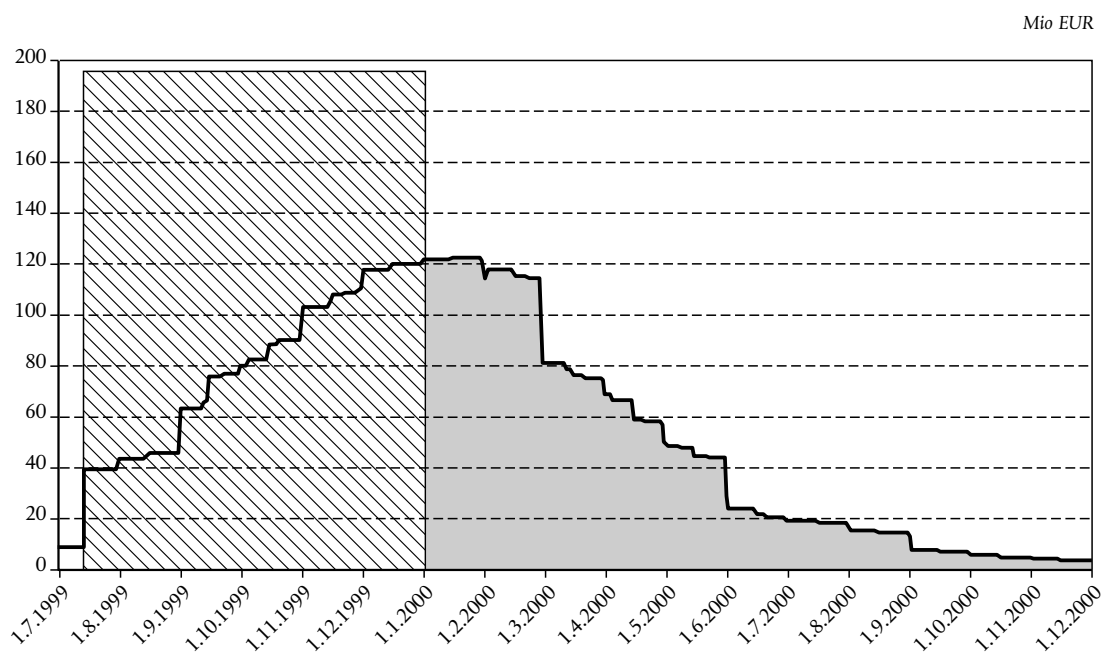
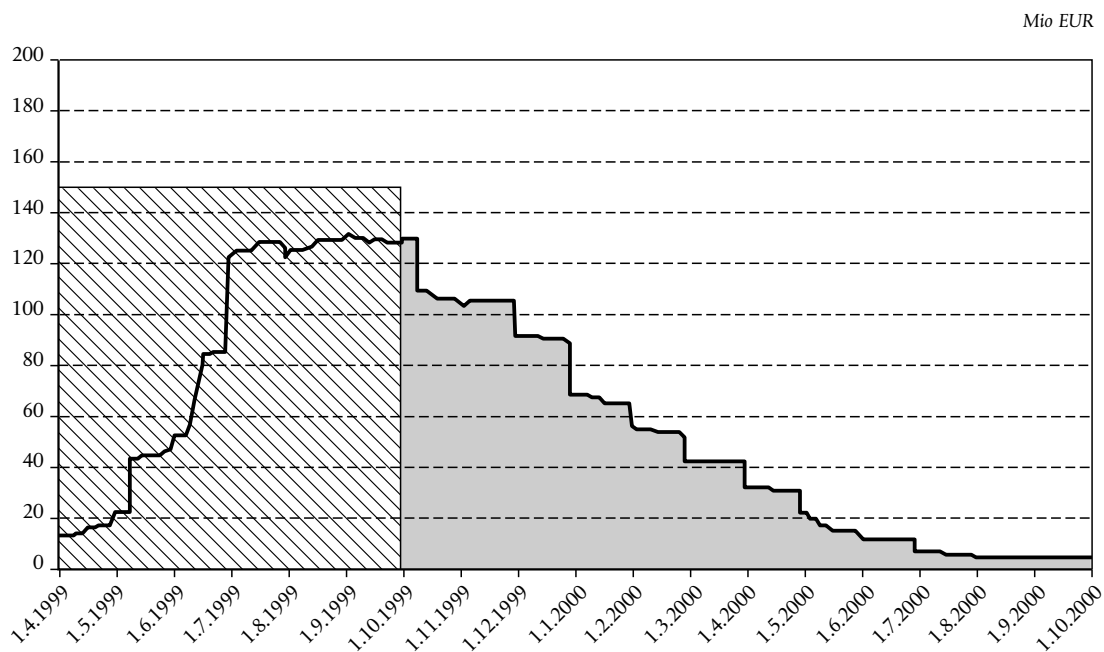
27. On 15 April 1999, the Commission transferred 150 million euro from the contingency reserve. It decided on 12 May 1999 on the allocation to its implementing partners. This decision of 150 million euro was intended to cover the period 1 April to 30 September 1999. The 196 million euro decision of 16 July 1999 was to cover the most urgent needs until 31 December 1999. In reality, funds were slowly contracted during these periods, and deployed long after the period foreseen had ended. For instance, only 61 % of the 196 million euro had been contracted on 31 December 1999. According to ECHO, the complexity of the crisis and the massive and unforeseen return of refugees to Kosovo justified the extension of the two decisions until 30 September 2000 for the 150 million euro decision and until 31 August 2001 for the 196 million euro decision. *Diagram 3* shows, for both decisions, the slippage between the periods which were initially planned and the period of implementation of the contracts <sup>(2)</sup>. For each decision, the barred area shows the period during which the funds were intended to be used, as specified in the decision. The graph line shows at any time the total value of contracts under implementation. The grey area shows the slippage.

<sup>(1)</sup> See clause 1.6 of the Agreement.

<sup>(2)</sup> The implementation period is from the date on which the expenditure was eligible until the date on which the operation ended. Dates are as recorded in ECHO's accounts on 6 March 2000.

Diagram 3

## Planned and actual implementation periods

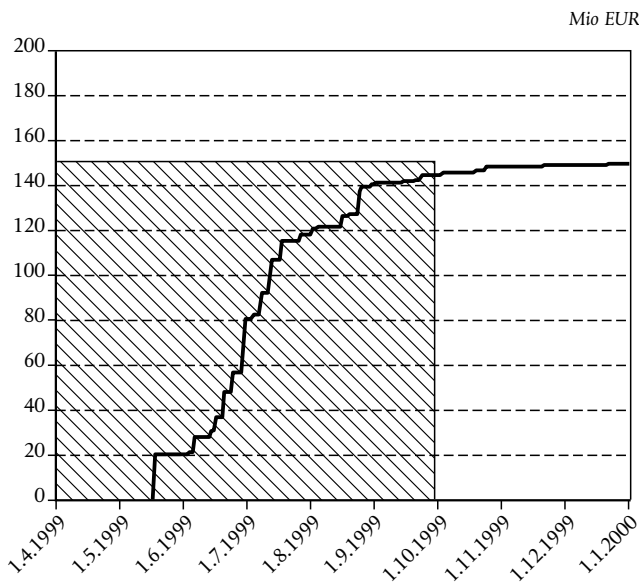


28. ECHO's general conditions for financing humanitarian activities allow that the day as from which expenditure can be incurred (the eligibility date) may be prior to the contract date. Of all contracts concluded as at 6 March 2000, 260 out of 318 contracts had eligibility dates before the date of contract signature by ECHO. In seven cases, this period exceeded 100 days. This retroactivity, however, did not in practice have a significant impact on the

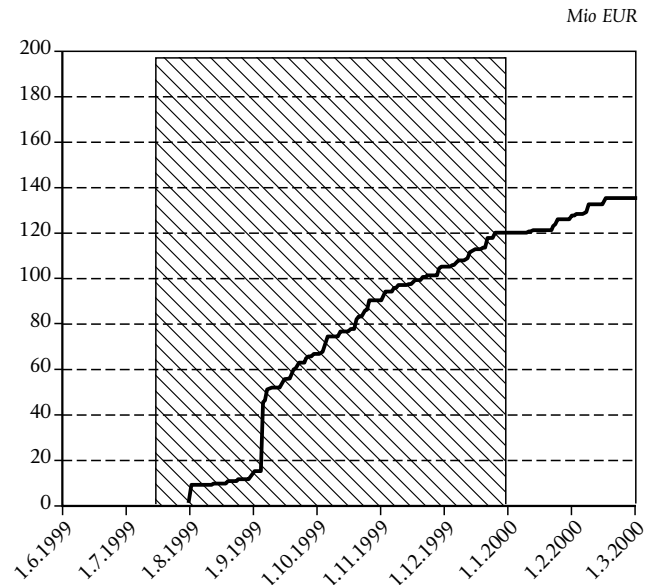
effective period of execution of projects, since NGOs did not make significant commitments before receiving an advance payment and Red Cross and UN agencies start their projects regardless of ECHO financing. The cumulative value of contracts signed by ECHO, as shown in *Diagram 4*, is thus the only way to measure implementation.

Diagram 4

## Cumulative value of contracts signed by ECHO



Source: ECHO.



Source: ECHO.

29. As the situation on the ground changed rapidly, especially in June 1999, delays in raising funds by ECHO or in starting up and then implementing activities reduced the relevance and usefulness of the measures concerned.

occasionally the partners' keenness to finance their continued presence pending future activities. It is questionable whether these extensions were always fully justified by needs.

In response to the integrated call for funds of 7 April 1999 by the Red Cross, six contracts worth a total of 15,5 million euro were signed with the IFRC or the ICRC between 24 June 1999 and 21 July 1999. The activities concerned were either at an early stage when the contracts were signed or were no longer appropriate because of the sudden change in the situation in June. Most of the items financed by ECHO under contract 99/6084 with the IFRC (3 million euro) were not available for distribution in Albania until September 1999. By this time the refugees had left, with the result that certain articles were not needed any more. Distribution of goods under contract 99/6082 with the ICRC (6,5 million euro, expiring on 31 July 1999) did not commence until August 1999. At the end of November 1999, 26 % by value of the goods purchased at a cost of 3,1 million euro remained in storage, including the entire supply of powdered milk worth 0,4 million euro.

For contract 99/6050, ECHO agreed that 'the amendment will allow the NGO to cover its operational costs until the end of February 2000 (a six-month extension), which will cover the second distribution of fertiliser'. Despite piecemeal results and an unclear project proposal, ECHO decided to finance these running costs in order to keep its presence in the region.

### ECHO resources and organisation

30. The majority of all the contracts with an initial end date before the end of February 2000 were extended. On the basis of the activities examined, the main reasons for extensions of contracts were the reorientation of activities justified by changes in the crisis situation. However, in some cases, contracts were also extended for reasons of the staggering or reallocation of activities so as to use the budget provided rather than scale it down, and

31. ECHO's original global budget for 1999 was approximately 500 million euro. The 346 million euro transferred from the emergency aid reserve to the Kosovo crisis was additional spending which needed to be managed over and above this original budget. ECHO had to manage these funds without any additional staff. Due to a lack of staff and a lack of written reports from both the NGOs and the ECHO office, it was not always possible for desk officers in Brussels to identify implementation problems at an early stage and take the necessary corrective actions. Apart from the missions of ECHO staff, operational functions in the field were exclusively the remit of external experts, while only certain authorised officials based in Brussels could take decisions committing ECHO. There was therefore insufficient decision-taking capacity in the field at the emergency stage of the crisis.

32. In Pristina and Skopje, the ECHO experts spent a considerable part of their time arranging logistical matters, such as setting up the office, procurement of necessary equipment, managing the running cost budget, etc. The use of experts' time spent on arranging these practical matters was not an efficient use of resources.

### **Appraisal of projects**

33. In the case of emergency contracts, project proposals received from the NGOs did not specify the allocation of staff costs, and there is no evidence that ECHO undertook a systematic evaluation of these costs when approving contracts or granting reallocations of operational budgets to staff costs through successive addenda. Evaluation of staff costs was further hindered by the lack of detailed budget breakdowns. Thus ECHO did not insist that all NGOs mobilise sufficient staff resources to implement the best practices in the field. For shelter, for example, knowing the key success factors in advance, ECHO could have ensured that sufficient budget resources were allocated to the preparation and tailoring of the distribution to the local communities' needs.

### **Tailoring assistance to needs**

34. ECHO entrusted implementing NGOs with the assessment of needs, and also with the monitoring of the appropriateness of assistance delivered. This was a key element to adapting activities as necessary, given the rapid fluctuations of the number of refugees and the unknown situation in Kosovo. In some of the projects the NGOs failed in their task of monitoring needs, which led, in some cases, to inefficient use of resources.

*The quantities of fresh food delivered to two refugee camps in Fyrom between June and October 1999 (contract 99/4006 for 2 million euro) were not adjusted to take account of the actual number of refugees in the camps. Although the original intention was to deliver 2 kg of fresh food per week to each person, an average of 12 kg per week per person was delivered to these camps in July and 10 kg in August. At the same time, refugees in another camp in Fyrom received 0,2 kg per week in July and 0,4 kg in August.*

*The emergency shelter programme in Kosovo used 'shelter kits' as a logistical unit for planning and procurement. Some NGOs assessed the needs for each damaged house and distributed individual items from the kit accordingly, which was cost-efficient. However, other NGOs distributed a single kit per house regardless of the specific need of each house. This was not in accordance with the requirement to tailor distribution according to needs (size and type of the damage, size of the house, number of persons in the house) and the latest population movements.*

35. The question of surplus goods, delivered after the refugees had gone home, is of particular relevance in the case of the Red Cross. Despite efforts to redirect the aid towards areas in need, logistical immobility prevented activities from being cancelled or redirected in good time. For its part, ECHO was unable to intervene in order to prevent a mobilisation of resources which were not needed.

*The 26 500 radios purchased for 1 million euro under contract 99/6082 with the ICRC were of limited use in the technological context of the Kosovo crisis. They were delivered to the refugees after they had gone home, and not used as means for emergency communication as was intended. They were not kept in storage, in order to preserve ECHO funding. Their potential use in other emergencies was not envisaged.*

### **Organisation of procurement and delivery**

36. Procurement and distribution of basic food and non-food items co-financed by ECHO through financing of WFP and UNHCR programmes, was efficient. Goods were centrally procured and implementing NGOs were made responsible for distribution. However, for the emergency shelter programme in Kosovo, the three main donors decided that all of them would operate all over the province, instead of each taking the responsibility for a certain area or assigning responsibility to one of them. ECHO followed the UNHCR approach by assigning seven NGOs in the seven areas identified for this purpose. Since USAID also appointed NGOs, each of the three main donors had its own NGO in each region, which, due to the duplication of work, was not an efficient use of resources.

37. The seven NGOs contracted by ECHO were each to undertake procurement. The whole procedure of selecting suppliers (often including several international trips), concluding contracts, arranging complicated transportation to Kosovo and finding and renting warehouses was undertaken by each of them. The NGOs lacked the expertise for this as well as the means to ensure their deliveries, which caused delays in programme implementation and coordination problems.

38. The scheme, with seven primary and 13 secondary distributors <sup>(1)</sup>, was unnecessarily complex. Cases were observed where secondary distributors were faced with two primary distributors or had overlapping regions. Allocation of materials and coordination between primary and secondary distributors was difficult, especially in view of the delays in the delivery of materials. In addition, prioritisation could be managed only at local level instead of at regional level.

<sup>(1)</sup> Primary distribution is from the supplier to a local warehouse, secondary distribution is from the local warehouse to the beneficiary.

39. Six different agencies (the ICRC, three NGOs funded by USAID and two NGOs funded by ECHO) were made responsible for the procurement and distribution of winter wheat seeds and fertiliser, instead of a single entity. This led to delays, cost-efficiency problems, coordination and quality problems also experienced with shelter material. Due to the limited number of potential suppliers able to supply the specific seeds needed, NGOs competed with each other to obtain the quantities they needed. The Food and Agriculture Organisation of the United Nations (FAO) had to make considerable efforts to verify that the same seeds had not been purchased several times.

### Operational reporting

40. Monitoring reports are still based on the administrative timetable for projects and all too often are drawn up only when a request is made to amend a contract or when the final reports are submitted. There is thus no regular report on the status of the projects and consequently no general assessment of activities.

41. Interim progress reports were drawn up for about half of the contracts examined. By disguising a general contribution to wide-ranging activities as specific projects, ECHO contracts with the UNHCR and the Red Cross made it difficult to draft reports, both for the partner and for ECHO (see paragraph 24). For this reason, both organisations sought exemption from this.

42. ECHO's contributions to UNHCR and WFP programmes are difficult for ECHO experts to assess and monitor. On the ground, the UNHCR implements its programmes within the framework of its internal letters of instruction and the results obtained in the context of the ECHO operational contract which contributes to financing them cannot always be assessed separately. The current on-the-ground monitoring procedures are ill-suited to this kind of operation, as are the arrangements for preparing budgets and presenting accounts.

*For contract 99/07001 with the WFP, neither ECHO Brussels nor the ECHO office in Pristina was able to provide information on the execution of the contract. Basic information as to what was provided, or even in which country the ECHO humanitarian aid was provided, was not available. Since ECHO had no information on how WFP funds were used, there is a risk of overlap with assistance provided from the 6 March 1999 decision in favour of the victims of the conflict in former Yugoslavia <sup>(1)</sup>. Funds from this decision are also used for ECHO-funded food aid to the most vulnerable.*

### Financial monitoring

43. The Commission usually measures the progress of its activities by the rate at which payments have been made from the Community budget. This indicator does not reflect the degree to which ECHO activities are being implemented, because advance payments are made as soon as contracts are signed (an average of 65 % of contract value for the Kosovo crisis).

44. The only financial information which ECHO in practice received on the implementation of activities was the final financial report, which is due three months after contracts have expired. In the absence of a financial progress report or statement of expenditure, operational progress reports, where they are drafted, do not always provide a useful indication of the status of activities as regards the sound management of funds. In several cases funds were tied up unproductively without the situation being detected. The period during which ECHO has no financial information at its disposal increases in proportion to the reorientations and extensions which it grants.

45. Dissociating progress reports from financial reports is not justified for management purposes and is detrimental to the monitoring of activities. In several of the cases examined, the partners provided a detailed budget of activities in support of requests to extend contracts. However, ECHO never asked for a statement of expenditure to date, even though such a statement is necessary for a genuine assessment of the situation, in particular where requests are made at the end of the period initially scheduled for implementation of the contract.

*Contract 99/5009 to manage the Durres camp in Albania expired on 5 July 1999. Only when the final financial report was submitted on 3 November 1999 did ECHO note that only 0,25 million euro of the 1 million euro budget had been spent, even though 84 % of the staffing budget had been used. Thus, 0,6 million euro of the 80 % advance paid remained needlessly unused. No recovery order was issued by ECHO until March 2000.*

### Management information systems

46. The Commission's decisions provide for an indicative allocation based on geographical destination and for regional appropriations which are mainly intended for the Red Cross and United Nations agencies. However, ECHO's management information system does not provide a reliable description of the activities implemented for each country (and, in the case of the FRY, for each province) mainly for the following reasons.

<sup>(1)</sup> echo/tps/214/1999/01000; 69 million euro.

- (a) Geographical descriptions do not correspond to needs. Although Serbia, Montenegro and Kosovo are distinct intervention areas both in the Commission's decisions and in practice, the management information system refers only to the FRY.
- (b) Implementation is monitored on the basis of individual Commission decisions, which also include non-emergency aid such as that provided to Albania. Thus there is no global information available concerning the Kosovo crisis.
- (c) Activities which were identified as regional actually focused on a geographical area which was not identified.
- (d) Many activities were reoriented geographically without this being recorded.

*Regional contract 99/6029 with the Danish Red Cross (1,25 million euro signed on 21 June 1999) was supposed to benefit displaced people in Albania, the FRY and the FYROM. When the situation changed unexpectedly in June, it was actually implemented in full in Serbia. This change was not recorded in ECHO's management information system.*

### **Justification for advances**

47. In the case of 48 % of all contracts concluded under the 1999 decisions for the Kosovo crisis, ECHO paid an advance of 80 % when the contract was signed, the remaining contracts receiving an advance of 50 %. In the case of eight <sup>(1)</sup> of the contracts examined, expenditure incurred on the date the contract was scheduled to end was less than the amount advanced. There can be acceptable operational reasons which justify contract extensions. However, in situations where initial advances turned out to be excessive due to changing circumstances, it was not always clear from the files that contract extensions were justified.

*For one of the NGOs, which received an advance of 80 %, direct expenditure accounted for only 25 % of the budget on the date activities were initially scheduled to end. Following the return of the refugees, ECHO accepted the NGO's proposal to redirect its activities, despite the fact that the UNHCR, which was responsible for the coordination of those activities, had already contracted local organisations to carry them out.*

48. Article 21(3) of the general conditions for ECHO contracts provides for the payment of an advance of 50 %, with the possibility of a further payment of 30 % where a partner provides justification of a sufficient rate of implementation. According to Article 21(2) of the general conditions, the payment of an advance of 80 % rather than 50 % must be justified by the nature of the activities or by a schedule of expenditure. The contract-appraisal files do not contain such justification.

### **Financial settlement**

49. ECHO is late in calculating and making final payment in respect of completed activities. A review of activities completed at the end of February 2000 showed that 51 out of 64 contracts which were completed before November 1999, i.e. more than three months previously, had not been settled. The amount to be settled for these contracts was 54 million euro. In the case of activities under way before the evacuation of Kosovo in March 1999, the loss of files belonging to ECHO or to its partners delayed the drawing-up of final accounts.

*In the case of contract 98/2002 with the ICRC which expired on 17 February 1999, the final report was submitted on 15 June 1999, and the final accounts had still not been drawn up by the beginning of March 2000.*

## **CONCLUSIONS**

### **Overall appraisal**

50. The extent and speed of population movements, together with unexpected changes in the situation, posed problems to all of the major humanitarian organisations responsible for channeling the considerable amount of aid mobilised by the international community in response to the Kosovo crisis. The main problems encountered were the difficulty in responding immediately to large-scale needs (see paragraphs 26 to 32) and of coordinating large numbers of participants each concerned with their own priorities (see paragraphs 36 to 39), and the inertia of the resulting complex aid mechanism (see paragraphs 34 and 35).

51. The staff and experts of ECHO displayed considerable commitment in identifying and approving numerous humanitarian aid activities. The speed, effectiveness and efficiency with which resources were mobilised and subsequently implemented were nevertheless hampered by a regulatory and procedural framework which was ill-suited to the urgency of the situation (see paragraphs 12 to 20) and to the major role played by the agencies of the United Nations (see paragraphs 21 and 22).

<sup>(1)</sup> 99/4006, 99/5006, 99/6007, 99/6049, 99/6050, 99/6082, 99/6100, 99/6108.



52. Due to the practice of earmarking funds, ECHO's contributions were difficult to integrate into the assistance mechanism in spite of their considerable volume (see paragraphs 23 to 25).

53. The monitoring resources available did not enable ECHO adequately to control the development of activities on the ground in a rapidly evolving context. Priority was given to project-appraisal procedures and the signing of contracts (see paragraphs 40 to 46).

54. ECHO's role and obligations in emergencies are those of an active donor (see paragraphs 9 to 11). Mechanisms to mobilise human and financial resources quickly (see paragraphs 27 to 32) and to draw lessons from earlier crisis situations were not in place. This had an adverse impact on the capacity of ECHO to respond quickly to the Kosovo crisis.

### **Recommendations**

55. Administrative procedures (decisions, authorisation of activities and payments) could be genuinely tailored according to the degree of urgency. If ECHO assistance is to be more credible and swift, appropriate decision-making procedures in the field have to be established for the emergency phase of humanitarian crises. In addition, sufficient staff needs to be allocated to operational units

managing emergency contracts, the management information systems need to be developed and local offices require appropriate logistical support.

56. If the European Union is to continue to allocate large parts of ECHO's emergency aid to United Nations agencies, a more realistic and more active approach to the financing of these organisations is required. Genuine participation by the EU in the programming and administrative organs of the UN agencies and involvement in the audit arrangements of such agencies would be appropriate, given the extent of the EU's contribution to their financing (see also Annual Report 1999 <sup>(1)</sup>).

57. United Nations and Red Cross programmes need to be understood in their entirety if their implementation on the ground is to be properly monitored, which is not feasible under ECHO's current arrangements. ECHO should examine whether there are possibilities for shifting the present focus on measuring inputs, which does not always reflect the real situation, to the measurement of outputs based on quantified performance indicators.

58. ECHO should ensure that partners can provide appropriate logistics when it finances sizeable purchase programmes. ECHO should consider whether specialised supply agencies could provide this service with greater speed, economy and coordination than NGOs acting separately.

This report was adopted by the Court of Auditors in Luxembourg at the Court meeting of 21 and 22 March 2001.

*For the Court of Auditors*

Jan O. KARLSSON

*President*

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<sup>(1)</sup> 1999 Annual Report, paragraph 5.102 (OJ C 342, 1.12.2000).

## ANNEX

**BREAKDOWN OF THE 29 CONTRACTS EXAMINED:****By partner type**

Type of partner	Number of contracts examined	Total contract amount (million euro)
NGO	15	33,0
Red Cross family	7	18,4
UNHCR	5	34,3
WFP	2	10,0
Total	29	95,7

**By geographical area**

Area	Number of contracts examined	Total contract amount (million euro)
Kosovo	10	35,9
Albania	10	19,2
Regional	6	36,5
Fyrom	2	2,8
FRY	1	1,3
Total	29	95,7

**By sector of intervention**

Sector	Number of contracts examined	Total contract amount (million euro)
General	10	49,6
Shelter	5	11,7
Food	4	14,0
Medical	3	6,1
Water/Sanitation	2	6,8
Agriculture	2	3,8
Education	1	1,6
Monitoring	1	1,1
Refugee Camp	1	1,0
Total	29	95,7

**THE COMMISSION'S DEFINITIVE REPLY TO THE 'KOSOVO' SPECIAL REPORT****SUMMARY**

I. The Commission would like to underline that the EUR 400 million budget used in the Kosovo crisis represented almost a doubling of ECHO's original budget, with virtually no additional staff. In practice this meant that ECHO had to manage 12 additional decisions and 500 extra contracts.

II. The Commission accepts that the sample of contracts examined by the Court reflects ECHO's main partners (in terms of those partners having contracts with larger individual budgets), and the main geographical areas and sectors of intervention. However, this may have led to insufficient focus on ECHO's NGO partners, which together ultimately received more than half of the funds.

In any case the Commission believes a review of the performance of all the organisations involved in the crisis would show that ECHO's overall performance was at least equal to that of other similar donor organisations. The Commission also notes that one of the conclusions drawn by the independent evaluation of the functioning of ECHO submitted in April 1999 under Article 20 of the Humanitarian Regulation was that 'ECHO is currently financing the delivery of humanitarian assistance at least as well as any other organisation, and probably better and in a more cost-efficient manner than any other comparable international organisation'.

III. In respect of the context within which EU humanitarian aid is implemented and its effect on the speed of implementation, ECHO, as a Commission service, has to ensure that the humanitarian imperative is answered whilst at the same time practising sound financial management, an obligation that is explicitly imposed by the Treaties. In the meantime ECHO has taken a number of steps to streamline procedures further.

IV. The special characteristics of the UN are taken into account contractually by virtue of the fact that the UN agencies agree to respect the conditions of the FPA on a contract by contract basis subject to the supremacy of the separate EC-UN Agreements as far as the specific issues covered in those agreements are concerned.

V. The UN-EC Agreement itself recognised that certain points remained unresolved and needed further discussions between the UN and the EC which have been started but not yet completed. The Commission agrees that it is important to pursue these discussions.

In respect of the drafting of project-based budgets for the UN, there are cases where the Court is broadly correct in suggesting that this had little bearing on the related programme activities. However, in other cases the project does have a clear identity of its own which permits separate management and also, in many cases they form part of programmes designed in consultation with ECHO.

The Commission is, in any case, considering the option of financing shares of programmes and discussing the issue with the UN but believes that, not only are there many implications to the change, but also there are other linked issues to discuss at the same time (e.g. the accountability of the UN for output performance if controls of inputs are weakened and the involvement of the Commission in the UN's accountability scheme). The Commission believes that such a change could create as many new problems as it solved if it was not managed carefully.

Even if those issues were resolved, the Commission believes that such a change could only be made after a revision of the Financial Regulation, to obtain more flexibility in the financing arrangements that the Commission can construct with international organisations, including the UN. The Commission has made proposals which would move in this direction.

VI. A number of ECHO headquarters staff did undertake missions to the field in order to assist with operational and administrative matters which meant that in most cases communication between Brussels and the field was not a problem. The only gap the Commission recognises is that in some cases delays did arise due to the need to get contract approvals from Brussels. However, recognising the need to improve on this, ECHO has now identified specific staff within its organisation who are on standby to carry out these tasks when necessary in the future.

VII. Given the scale, complexity and speed of the crisis on the ground it would have been astonishing if ECHO's experts had not encountered the kinds of problems with monitoring mentioned by the Court. It is necessary to keep in a realistic perspective the extent to which regular systematic monitoring is possible in such large-scale and complex crises, if a donor or agency wants to have an impact within a useful time frame.

VIII. In respect of the continuation of contracts longer than initially planned, the Commission wishes to underline that contracts were extended in large part due to the complexity and speed of the crisis and considers that these decisions were based on operational needs.

In any case, it would clearly be inefficient if ECHO ended contracts under which considerable costs have been incurred, when, by extending the contracts, substantial tangible benefits could be gained for very low marginal additional costs.

IX. The Commission believes that in fact ECHO did respond in an effective timescale although the fast-changing situation on the ground meant that much of the effort needed to be re-orientated. The Commission does accept that there can be difficulties in finding a balance between financing humanitarian actions in good time whilst at the same time maintaining financial controls. This is an ongoing challenge faced by ECHO and all major public sector donor organisations.

Certain of the Commission's actions to simplify the regulatory and procedural framework have been referred to already, most specifically the proposed changes to the financial regulations and changes to the decision making process. The Commission appreciates the Court's support on the need for change on some of these issues.

X. The Commission has already approved, at ECHO's request, the principle of a new framework decision procedure for emergencies to give further flexibility in responding to such situations. This will be implemented shortly.

In respect of future relations with the UN, the Commission has instigated meetings both with the UN and the Court to discuss these matters. Insofar as the issue relates to the possible move to funding shares of programmes rather than whole projects, the Commission is actively considering this but believes its implications require careful study and that it would require a modification of the Financial Regulation to which has already been proposed.

## INTRODUCTION

5. In any case the Commission believes a review of the performance of all the organisations involved in the crisis would show that ECHO's overall performance was at least equal to that of other similar donor organisations. The Commission also notes that one of the conclusions drawn by the independent evaluation of the functioning of ECHO from 1996 to 1998 submitted in April 1999 under Article 20 of the Humanitarian Regulation was that 'ECHO is currently financing the delivery of humanitarian

assistance at least as well as any other organisation, and probably better and in a more cost-efficient manner than any other comparable international organisation'.

6. The Commission accepts that the sample examined by the Court reflects ECHO's main partners (in terms of those partners having contracts with larger individual budgets), and the main geographical areas and sectors of intervention. However, this may have led to insufficient focus on ECHO's NGO partners, which together ultimately received more than half of the funds.

**CONTEXT OF ASSISTANCE*****ECHO's role***

11. The Commission agrees that the requirement upon ECHO to prepare daily situation reports probably did create an administrative burden where a similar result could probably have been achieved with a more simplified process.

***Emergency procedures***

12. The Commission is seeking to simplify its decision-making processes generally as part of the Reform process. In addition, for ECHO the Commission is considering delegating power to ECHO's Director to take decisions immediately within certain parameters in certain predefined emergency situations.

13. The three specific FPA items mentioned by the Court, under which derogations are allowed for emergencies, are in practice the key areas where emergency flexibility is required.

14. In order to accelerate the payments process for ECHO, ECHO has requested Directorate-General (DG) AUDIT to make one official specifically responsible for fast track clearance of ECHO payments.

ECHO shares the recognition by the Court that, NGOs can seldom provide preliminary financing for sizeable activities. It is one of the reasons that advances of 80 % under many contracts were felt to be necessary in the Kosovo crisis.

15. In respect of the absence of more detailed financial information under emergency contracts, it is true that ECHO did have difficulty with certain of its partners in fully enforcing this. The questions of when and whether to provide more detailed financial information under the FPA are to be clarified. In the next revision of the FPA, ECHO intends to make more explicit the requirement to provide supplementary information within a specified time period.

Furthermore it should be noted that only a minority of the contracts in the Kosovo crisis were under the emergency format which gave rise to this problem.

16. In respect of the speed of recruitment of experts, ECHO is examining the possibility of setting up a framework contract in order to establish a nominated list of experts on standby, which should allow an even quicker deployment.

17. In respect of the Court's comments that cite the findings from the seminar which ECHO organised, at its own initiative, in FYROM, the Commission makes the following remarks.

- (a) ECHO's ability to react in emergencies should be improved by the facts that ECHO's staffing is increasing and that from 2001 onwards it is proposed that the Director of ECHO will have delegated powers to take decisions within certain parameters in predefined emergency situations.
- (b) ECHO's concerns on emergencies have not been primarily over the need for policies but more on whether its procedures were sufficiently adapted for dealing with emergencies. As a consequence, since the appointment of the new Director of ECHO in March 2000 several changes to ECHO's organisation and amendments to procedures have been implemented.
- (c) ECHO made many efforts to coordinate activities including providing daily updates on operations to Member States. The Commission does not believe that any lack of coordination between or, with Member States can be held to be primarily the Commission's or ECHO's responsibility.
- (d) ECHO is at present researching the possibility of launching a tender to have a technical assistance capacity available on demand, for specific use in emergencies.

18. In respect of remedial actions to address problems identified at the ECHO seminar, in June 2000 ECHO adopted a new organisation structure following the approach of activity based management by rationalising the organisation and clarifying tasks. This new structure led to a redeployment of human resources where today more than 60 % of the personnel are concentrated on ECHO's core activities.

These factors have also led ECHO to define its programming principles for 2001 to include, for example, to seek more balanced per-beneficiary allocations; to focus on unstable post-crisis situations; to make more systematic use of lessons learnt and evaluations; and to continue to intervene in 'forgotten crises'.

The Reform White Paper has also led ECHO to undertake a number of actions. These have included, for example, the reinforcement of ECHO's budget unit; the creation of an independent audit capability jointly with the SCR (action 81); and a review and assessment of current internal controls and financial processes (action 84).

***Framework Partnership Agreements (FPAs)***

19. Following experience of the revised FPA in 1999 and 2000, ECHO is in the process of further updating and adapting it. It is

intended to complete this process in a shorter time frame than the previous exercise. A first technical phase came into force on 1 Feb 2001. A second phase, to be completed by the end of the first semester 2001, will address a limited number of more substantial questions; ECHO will consult with its partners during this process.

#### **EC-UN Agreement**

21. Since the EU is not a Member of the UN, accountability for EU contributions has to be established through contracts on a case-by-case basis. The 1999 EC/UN Financing Framework Agreement has facilitated cooperation with the UN system.

22. The Commission agrees that not all the problems in EC/UN relations have yet been solved, indeed the EC/UN Agreement of 9 August 1999 explicitly identified certain areas which required further review. It is essential that a mutually satisfactory solution is found to the problems encountered in the concrete application of certain elements of the EC/UN Agreement, such as reporting. However, the Commission believes that both the UN and Commission will need to change and that the changes will require careful thought.

The failure to conclude contracts with the WFP at an earlier stage was largely due to the WFP's initial outright refusal to allow access to original documents during an ECHO verification visit in July 1999. This led to the temporary suspension of payments in 2000. There were also problems on the specific contracts mentioned due to the WFP's refusal of many requests to supply details of budgets. ECHO, with the agreement of the Legal Service and DG AUDIT, continued to maintain contacts with the WFP in order to find solutions to the problems. The WFP finally made the information requested available both for the verification and for the budgets in accordance with ECHO's original requests. Since then the WFP and ECHO succeeded in using the funds concerned.

#### **Relevance of earmarking funds**

24. There are cases where the Court is correct that the projects identified by major international organisations within their programmes for ECHO's contracts are somewhat theoretical. However, this is not always the case as in some cases the projects have a clear life of their own and can be separately managed. In any case, ECHO is often involved with the partners in the construction of the programme in the first place so that in practice ECHO's role can be wider than simply the project in the contract.

In any case, items of expenditure brought together for an ECHO project should all be logically linked together and not random collections of costs which exist within the programme.

25. The Court is correct that the UN does not always provide ECHO with adequate information about its performance at the project level. However, changing the basis of the relationship so that ECHO contracted at a programme level rather than project level could create other problems if the change was not managed carefully. Issues which need to be considered include the need to move from input controls to output controls and the possible inclusion of the Commission in the UN accountability scheme.

The Commission also believes that such an approach would not be totally consistent with the current Financial Regulation. A revision of the Financial Regulation is under way and, in that context, the Commission has proposed a modification that would allow it to negotiate appropriate implementation modalities with international organisations should they be agreed.

In respect of the example cited of the UNHCR use of ECHO funds, it has clearly been difficult for the UN to track project level changes in its accounting systems, but hopefully this will be overcome with the improved software and financial reporting system being installed at the UNHCR.

#### **MANAGEMENT OF ACTIVITIES**

##### ***Mobilisation of funds***

26. (No Commission response to this point).

27. In respect of the rate of use of funds during 1999 as a whole, a number of issues are relevant:

- (a) of the EUR 378 million, EUR 50 million was a contingency which was specifically reserved for later use — thus 91 % of the specifically allocated funds (excluding this contingency) were accounted for in terms of contracts before 31 December 1999;
- (b) a major problem was the way the nature of the crisis was completely changed when the Kosovars all returned to Kosovo suddenly and unexpectedly after KFOR entered the area;

- (c) one of the problems that ECHO faced was getting proposals from its partners that corresponded to ECHO's strategy as many partners were more concerned with infrastructure reconstruction than humanitarian relief.

Given the circumstances then existing, the time frame and the resources available to ECHO, the fact that 91 % of the specifically allocated funds were entered into contracts counts as a significant achievement.

The relatively slow rate of use of funds in the middle of 1999 was primarily caused by the unforeseeable, rapid, massive and spontaneous return of Kosovar refugees in June 1999. The entire humanitarian aid community was required to take time to reassess the needs and modify their contracts at that time.

28. Dates of eligibility of expenditures are agreed with the partners for each of the contracts. It is usually the partners that request retroactive dates, although ECHO may suggest that the facility exists.

29. Delays in the start up of operations and the signing of contracts were of course also linked to the difficulties with the situation in the field.

The Commission believes that delays in using funds in 1999 did not materially reduce the relevance and usefulness of Commission financed activities, indeed EUR 53,6 million of humanitarian aid was already contracted by April 1999. In the context of the complexity of the crisis the Commission does not consider that the delays were unreasonable or that any other alternative was available.

In respect of the difficulties encountered by the IFRC and ICRC the return of refugees in June 1999 was spontaneous, massive and rapid, as a result the major assistance programmes just under way in the neighbouring countries, planned on the assumption of a progressive return of refugees, were wrong-footed. ECHO's actions were mirrored by other humanitarian actors.

30. The Commission believes that the contract extension given in the Court's example was fully justified on operational grounds. In any case, it is worth presenting the dilemma that frequently arises in deciding whether or not to extend a contract, particularly in situations as fluid as in the Kosovo crisis. The majority of humanitarian contracts signed by ECHO take place in two stages. A disproportionately large share of total contractual expenditures (e.g. commodity procurement) are committed in this first stage. The second stage takes place in the field where the partner

carries out distribution, rehabilitation etc. In the second stage there can be many unforeseeable reasons for which operations are temporarily prevented from being carried out or the implementation is slowed. Even leaving aside humanitarian reasons, given the large funds committed in the first stage, it would usually be against the principles of sound financial management to refuse a contract extension where that extension would achieve tangible results for a low marginal cost — even if the results are sometimes inferior to what was initially intended.

In respect of the example contract amendment which the Court believes was agreed in order to keep the NGO's presence in the field without sufficient operational justification, the operational background to this is that the project was originally a shorter-term project to supply food but, after the return of the Kosovars to their homes, this was changed to a longer-term project to supply agricultural inputs. The Commission considers that the amendment was justified for the following reasons. Firstly, the Commission believes that clear proposals were presented both for the original project and for the amended project. Secondly, due to its changed nature, the amended project was for a longer period than the original project which led to the justified need to keep staff in the field. Thirdly, whilst it is true that, as with most partners, the NGO did suffer some delays in deliveries due to the logistical problems in the local area, following his field review — which included obtaining the direct opinions of the beneficiaries — ECHO's expert considered that the final result of the project was 'efficient' and 'coherent'.

#### ***ECHO resources and organisation***

31. (No Commission response to this point).

32. Members of ECHO's finance unit spent several weeks in Pristina to help with logistical matters. In practice, ECHO believes, that at the time there was no alternative left open other than to react in this manner. Since that time, regional administrative assistants have been appointed in the Ivory Coast on 1 July 1999, in the Horn of Africa on 1 September 2000, and in Skopje on 18 September 2000, to offer more flexibility on this issue and certain members of ECHO's finance unit are permanently on standby for deployment into these situations.

#### ***Appraisal of projects***

33. Most project proposals included enough detail to allow *ex ante* control of the staff resources although some emergency contracts did not. One of the means of accelerating the implementation of emergency contracts was to accept that full details were

not required at the *ex ante* stage. In any case, the Commission would like to draw attention to the realities of emergency actions. Uncertainties are always present: the difficulty in predicting how the crises will evolve, difficulties in identifying needs, difficulties in coordination with other donors and aid agencies, difficulties in locating experienced personnel and suppliers etc. Balance has to be found between the time needed for complying with the procedural and regulatory frameworks under which public sector humanitarian aid takes place and the humanitarian imperative of meeting needs in the field.

#### ***Tailoring assistance to needs***

34. The Commission accepts that some NGOs' monitoring was inadequate and this may have led to some inefficient use of resources. It is, however, not altogether surprising to find that some NGOs faced difficulties in this area in this complex and fast-changing crisis.

Although the allocation of food in FYROM may not have been optimal it is not clear that food was actually wasted.

Although the allocation of shelter kits in Kosovo may not have been optimal it is not clear that any were actually wasted. In fact, in some cases ECHO did identify this problem at the time and requested NGOs to improve the adaptation of their kits.

35. The IFRC was only one agency among many to have been wrong-footed by the unforeseeable return of the refugees.

The delivery of radios to refugees after they returned home was certainly less useful than it would have been in Albania but, given the continuing uncertainties of the situation and the fragile infrastructure they did have some value to the returned refugees. Part of the problem was the difficulty in getting a swift response from the ICRC at the time in order to adjust the contractual arrangements.

#### ***Organisation of procurement and delivery***

36. In respect of division of the emergency shelter logistical operation into seven regions, in fact the UNHCR acted as coordinator between UNHCR, OFDA and ECHO and all NGOs financed by one of those donors were allocated a list of villages for which they took responsibility and for which effective coordination took place once a week. It is probably the case that some NGOs with independent funding implemented shelter programmes which they did not coordinate under the UNHCR's umbrella coordination.

37. Please refer to the Commission's response to paragraph 39.

38. Please refer to the Commission's response to paragraph 39.

39. In respect of secondary distributors and multiple contracting for procurement, not all of the difficulties encountered by the NGOs in the area of procurement were foreseeable and even if they could have been they weren't necessarily avoidable. In any case, it is not clear that there would have been any direct cost-efficiency in all the seeds being purchased by one entity whereas the use of several NGOs did give ECHO a lower level of risk and some greater flexibility than would have been the case if only one or two organisations had been used.

Whether or not the use of one organisation would have been more efficient remains hypothetical.

#### ***Operational reporting***

40. Under the FPA contract, monitoring reports should be drawn up on a regular basis and in many cases they are. Where NGOs do not provide this information, ECHO attempts to ensure that it is received.

41. ECHO has had difficulties obtaining progress reports on operations from some of its major partners. This is a matter of ongoing discussion between the different parties. However, the Court's remarks in paragraph 40 indicate the difficulties which can arise when such progress reports are not followed.

42. Difficulties for ECHO's experts in monitoring the operations of some of its major partners, have to be considered in the context of the wider complex issues underlying those relations, and also of the obligations on ECHO to 'earmark' its funds to projects and the fact that the Commission is making proposals to adapt this obligation.

In respect of possible overlaps of funding of WFP contracts, to the extent this was a problem it arose due to the difficulty of obtaining information from the WFP on the execution of its contracts.

#### ***Financial monitoring***

43. In most contracts advances are usually consumed very soon after they are paid. Given the complexity of the Kosovo crisis this was probably less true in this case than usual.



44. For the standard operational contracts, quarterly reporting by ECHO's partners is required, on document 4 of the FPA. This document requires the partner to give financial details as to the execution rate of the budget, to state any changes to initial and/or modified budget, to state the proposed reallocation of unused amounts. Whilst this is not a detailed report this is useful financial information.

Emergency contracts are intended to be of short duration and thus there is relatively little opportunity to make interim reports.

In all cases, where the partner requests a budget amendment or complementary payment ECHO requires a detailed interim financial report.

45. ECHO's partners are already obliged to provide financial reports in all cases which concern the reallocation of contract budgets or complementary payments. This principle should probably be extended to include extensions of contracts.

In respect of the low usage of funds for the Durres camp, having become aware of this in November 1999 through the NGOs' final financial report, the Commission contacted the NGO to obtain further details and understanding of the situation. A recovery order was established on 10 March 2000 and the partner reimbursed the amount on 29 May 2000.

#### **Management information systems**

46. It is more difficult to prepare data on humanitarian crises where the crises may involve several geographical regions and refugees themselves may cross several State frontiers. The information is always obtainable. It is just that it requires more manual intervention in the more complex crises than in the less complex crises. ECHO is currently improving its management information systems which should eventually allow such information to be more easily accessible.

#### **Justification for advances**

47. Given the high level of expenditure incurred in the early part of every operation and the fact that the vast majority of ECHO's partners have been operating for a number of years and thus present a lower level of financial risk, advances of funds of up to 80 % can be justified.

For contracts signed between ECHO and its major UN partners after the EC/UN Agreement entered into force in August 1999 an advance of 80 % became more common. Indeed advances to UN bodies can be up to the level of 95 % with justification.

Please also see the Commission's response to paragraph 48 below.

48. The question of whether to give 50 % or 80 % advance is always given consideration by both the desk officer and the finance unit. It is true that their reasoning is not systematically noted on the file but the fact that the majority of contracts received only 50 % advances indicates that such consideration does take place.

It is also the case that for all contracts signed with UN partners after the EC/UN Agreement entered into force in August 1999 it was envisaged that an 80 % advance would be more usual, with the possibility of advances up to 95 % upon justification.

#### **Financial settlement**

49. ECHO's contracts with partners stipulate that their final financial reports, which are required to support their request for final contract payments, should be submitted within three months of the end of the projects. In practice, most partners take most of the three months (and sometimes more) to submit their reports. Following receipt, the Commission needs to perform validity checks before making the final payment and closing off the contract and then put in motion the actual process of raising payment. It is therefore unsurprising that the final payments for the contracts completed by November 1999 had not been paid by February 2000.

The delay in liquidating contract 98/2002 was caused by a number of factors: the operational unit staff members responsible for evaluating the final reports were overstretched; this contract and a number of others signed before the evacuation of Kosovo in March 1999 suffered from delays in liquidation as the local offices of ECHO and the ICRC were ransacked and papers were lost; the ICRC claimed that it requested an amendment to this contract from ECHO Brussels but no trace of such an amendment request was found. The contract was finally paid by end June 2000.

#### **CONCLUSIONS**

##### **Overall appraisal**

50. The Commission agrees with the Court that there were many extreme features in this particular crisis which made it particularly difficult to manage.

Please see the Commission's detailed responses to paragraphs 27 to 32, 36 to 39, 34 and 35.

51. Considerable efforts have been and continue to be made within the Commission to seek a constant improvement and to alleviate unnecessary difficulties. However, this is always within the context that procedures will inevitably be required to protect public funds.

Please see the Commission's detailed responses to paragraphs 14, 15 and 17 to 19, and 21 to 22.

52. Changing the practice of earmarking of funds to specific projects could have many consequences which require careful consideration. For example, the Commission is not yet satisfied that the UN's programme reporting procedures (which are still orientated towards inputs rather than outputs and outcomes) would yet justify reducing the element of control which ECHO currently gains by operating with project funding. The Commission is considering this and in any case is making proposals to simplify the Financial Regulation on this point. However, it believes that changing this approach requires careful consideration and negotiation.

Please see the Commission's detailed responses to paragraphs 24 and 25.

53. In respect of monitoring the use of resources, this is among the most difficult parts of the whole process. Though controls on project-appraisal and contract-signing were more evident, considerable efforts — which were sometimes frustrated — were also going into monitoring, indeed the Commission had 9 field experts working on monitoring by the peak of the crisis.

Please see the Commission's detailed responses to paragraphs 46 and 49 to 51.

54. (No Commission response to this point).

#### **Recommendations**

55. The Commission believes that substantial efforts have been made in order to adapt the procedures to allow for speedy and effective reactions. These efforts are continuing.

Please see the Commission's detailed responses to paragraphs 12 and 17 and in the summary.

The Commission's responses to the Court's summary lists some of the considerable number of improvements to its systems which ECHO and the Commission have undertaken since the date of the audit, in order to be capable of responding even more effectively to emergencies. However, the Commission does accept the need for this process of procedural improvement to continue.

At the same time, the Commission believes that the huge scale of the crisis and the speed with which matters changed on the ground were bigger adversities in the Kosovo crisis than were ECHO's or the Commission's procedures.

56. Concerning the development of the EU's role within the UN, the Commission has taken the initiative to try to strengthen the dialogue with the UN in the past year and is currently awaiting a response from the UN for a date to start negotiations on some of the matters outstanding from the EC/UN Agreement.

57. The Commission has already started the discussion, internally and with the UN, on the issue of programme or project focus although it will take some time to consider all the many implications of this change, particularly as it will require changes for both the Commission and UN and if not managed properly may lead to more work for both sides.

The Commission welcomes the Court's recommendation to examine moving from a focus on inputs to the measurement of outputs based on performance indicators.

58. In respect of considering whether specialised supply agencies could provide logistical services this point was raised by ECHO in its FYROM report. There are a number of international agreements that affect procurement by public sector bodies. These would have to be examined before the Commission could create framework contracts with specialised agencies for procurement, logistics and supply functions. However, the Court's support for this idea is welcome.

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