



COMMISSION OF THE EUROPEAN COMMUNITIES

16 May 2000 Rev 8

COMMUNICATION TO THE COMMISSION

on the Reform of the Management of External Assistance

TABLE OF CONTENTS

INTRODUCTION	3
1. TOWARDS MORE EFFICIENT MANAGEMENT OF COMMUNITY EXTERNAL AID	5
1.1 Growth in aid volumes has outstripped the pace of administrative change	5
1.2 The Common Service for External Relations (SCR) has delivered concrete results	7
1.3 The main objective of the RELEX Reform is to make radical improvements in the speed, quality and profile of EU external aid.	7
1.4 Reforming the management of external assistance programmes is central to the wider process of administrative reform.	8
2. AN AMBITIOUS REFORM PROGRAMME	11
2.1 A radical overhaul of programming of assistance	11
2.2 Reunification of the project cycle	13
2.3 Creation of a successor to the SCR	16
2.4 Extensive devolution to delegations and, where possible, to partner countries	21
2.5 Developing a common administrative culture within the RELEX services	22
2.6 A package of urgent measures	22
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Annex 1 Multiannual Programming of Aid	23
Annex 2 Action Plan	26

INTRODUCTION

Improving the management of EU external assistance programmes is a vital and visible part of Commission reform with a direct impact on the international standing of the Union. This communication presents an ambitious programme of measures to make significant improvements in the quality and timely delivery of projects while ensuring robust financial management and increased impact of EU external assistance. Building on the principles in the White Paper on Reforming the Commission (COM(2000)200), the aim is to reshape the external relations services of the Commission to equip them to meet the challenge of directly managing one of the largest and rapidly increasing chapters of EU expenditure. This Communication also responds to commitments made by the Commission last September to review responsibilities within the project cycle.

Commission manages one tenth of Official Development Assistance worldwide.

The European Union is one of the major actors in international co-operation and development assistance. In total, the European Community and the Member States provide some 55 per cent of total international Official Development Assistance (ODA) and more than two thirds of grant aid. The share of European aid managed by the Commission and the European Investment Bank (EIB) has gradually increased from 7 per cent thirty years ago to 17 per cent today. The European Commission has the political and financial responsibility for more than 10% of total ODA world-wide an increase from 5% in 1985. It is also the largest donor of humanitarian aid in the world.

In terms of its grant aid the European Commission is ranked fifth, behind the United States, Japan, Germany and France. EC grant aid today exceeds concessional loans granted by the World Bank (International Development Association - IDA). The equivalent figure was less than half this level fifteen years ago.

Over the past fifteen years Community external assistance, originally concentrated on ACP countries, has acquired a global reach. Two-thirds of it now goes to areas outside the ACP - to Central and Eastern Europe, the Newly Independent States, Balkans, the Middle-East, the Mediterranean countries, Asia and Latin America. At the same time, the coverage of EU external assistance has been extended well beyond development policy for example to include reconstruction, institution-building, macroeconomic support, or human rights. The network of delegations and offices ensures the political presence of the Commission and the management of Community aid in 128 countries throughout the world.

As far as humanitarian aid is concerned, the Commission is now one of the major donors in the world. The programmes and projects which have increased tenfold since 1985 are managed through the Humanitarian aid Office (ECHO) and are by their nature characterised by a faster disbursement than ODA.

RELEX Directorates-General are responsible for more than half of the funds directly managed by the Commission.

Unlike many other major EU spending programmes (agriculture, Structural Funds) external aid is directly managed by the Commission. External assistance (€ 9.6 billion in 2000) accounts for 62% of all programmes directly managed by the Commission (€ 5.3 billion from the Community Budget and € 4.3 billion from the European Development Fund - EDF¹). By comparison, research spending, which is the other main area of direct management, amounts to some € 3.6 billion a year.

¹ This figure includes « High Indebted Poor Countries » (HIPC) which amounts to € 1 billion in 2000.

1. TOWARDS MORE EFFICIENT MANAGEMENT OF COMMUNITY AID

1.1 The growth in EC external assistance has outstripped the pace of administrative change.

Because the exponential growth of RELEX spending has not been matched by appropriate changes in human resources, structures and management tools, the Commission faces a critical situation. Its management performance has deteriorated over time to the point of undermining the credibility of its external policies and the international image of the European Union. EC external assistance programmes have a reputation for slow and unresponsive delivery, poor quality and excessively centralised and rigid procedures. The balance of external aid spending is also heavily influenced by the political priorities of the European Parliament, Member States and events in the world that are beyond the Commission's control.

Acute staff shortages have had a direct and negative impact on the speediness and quality of EC aid delivery.

Human resources have failed to keep pace with the growth in the volume of funds to be managed: EC aid volumes have increased by a factor of 2.8 over the last ten years whereas staff levels have increased by only 1.8 times. Extrapolating numbers of management staff to match the growth in the corresponding budgets from 1989 to 1999 suggests a current shortfall in excess of 1 300 posts. Comparison with other international aid donors underlines the scale of the challenge: the Commission has a half to a third as many staff per € managed by comparison with other donors. Where member States or the World Bank have between 4 and 9 officials to manage € 10 millions, the Commission has 2.9 officials.

Chronic understaffing of services has forced the Commission to resort to the system of Technical Assistance Offices (TAOs). Unfettered sub-contracting has shown its drawbacks: the annual cost of TAOs in the RELEX field is estimated at around € 170 million out of € 190 million for the whole Commission. To give an indication of the order of magnitude, this figure is equivalent to around 80% of the total administrative budget of the Commission's delegations worldwide.

Overload has weakened the Commission's proper financial and political control over the implementation of its aid.

Together with the rapid increase in funds, the explosion of the number of projects to be managed (14,500 committed and 30,000 contracted in 1999) and the proliferation of legal bases (around 80 regulations) and budget lines, the heavy constraint on resources has increased the risk of non-respect for rules. Heterogeneous procedures and inadequate or disjointed IT systems have made management extremely complex and onerous. The need to resort to TAOs without proper monitoring has undermined proper financial and political control on implementation of EC aid. This situation has

been harshly criticised by the Committee of Independent Experts, the Court of Auditors and the European Parliament.

The effectiveness of Community aid management is undermined by slow implementation and weak programming.

The average length of project/programme implementation has continuously increased over the last few years with a corresponding trend in the backlog of outstanding commitments that reached over €20bn by the end of 1999. In the last five years the average delay in disbursement of committed funds has increased from 3 years to 4.5 years. For certain programmes, the backlog of outstanding commitments is equivalent to more than 8.5 years' payments. The huge time-lag between the decision in principle and implementation of projects inevitably undermines their responsiveness to changes in the situation of the beneficiary. The problem is not made easier by the EU's strict annual budget cycle and is compounded by excessively rigid and centralised ex-ante controls that make it difficult to adapt projects to take account of changing needs.

Multi-annual programming documents do not define the framework for the management of the different phases of the project cycle in sufficient detail. Expected results are often vaguely described and therefore difficult to monitor and control. Without any clear priority and weak or inappropriate policy direction, dispersion across many different sectors aggravates management shortcomings. Effectiveness of projects/programmes and their sound financial management are not subject to a satisfactory dialogue with beneficiary countries. In addition, co-ordination with other donors in policymaking and implementation remains inadequate. The consequence of all this is that the Commission cannot exert the influence over the policies of beneficiary countries as the overall size of its development programmes would suggest that it should.

The present weakness of multi-annual programming encourages Member States (through a range of approximately 50 management committees) to give disproportionate attention to the Commission's decisions on individual projects, rather than to concentrate on more strategic issues. This can be a further source of delay and complexity in the system. However, this way of proceeding is not the best for the Council to guide the overall aid strategy in a given region or individual country or sector. Nor is it particularly effective in ensuring that EC aid better complements that of Member States, as required by the Amsterdam Treaty.

Fragmentation and instability of administrative structures have diluted responsibilities.

The RELEX field has experienced considerable instability in its structures in the last fifteen years. The number of Directorates-General in charge of external relations increased from two in 1984 to six in 1997. This has led to a dispersion of human resources, a compartmentalisation of methods, a weakening of management capacities and a failure to define clearly the responsibilities of each service.

1.2 The Common Service for External Relations (SCR) has delivered concrete results.

The creation of the Common Service for External Relations (SCR) in 1998 was a first attempt to unify services responsible for implementation of aid projects. It has helped to introduce greater coherence in the way different programmes are managed.

The new system is now starting to deliver concrete improvements:

- during 1999, a determined effort to reduce payment delays means that today valid invoices are generally paid within the normal 60-day deadline (provided budgetary resources are available);
- last year the rate of growth in outstanding commitments declined for the first time since 1990 and the absolute level of commitments and payments were at record levels.
- in November 1999, the Commission agreed a manual of harmonised tendering procedures for external aid contracts. The number of different tendering procedures will now be reduced from 46 to 8.
- a standardised contract for grants has already been in use since the beginning of the year;
- a standardised contract for procurement of services, works and supplies has already been agreed and will be implemented from 1 January 2001;
- transparency has been considerably improved thanks to the publication of the various stages of RELEX contract-award procedures on the Internet. Information is now easily accessible to all economic operators and to the general public.

However a difficult transition and unclear allocation of responsibilities between geographical DGs and the SCR have reduced the benefits of the new arrangements. And they do nothing to address the fundamental mismatch between aid volumes and administrative resources.

1.3 The main objective of the RELEX reform is to make radical improvements in the speed, quality and profile of EU external aid.

The Commission is convinced that the present situation is unsustainable. Far-reaching reform is urgently needed and requires the support of other EU institutions, in particular the Council and the European Parliament. The basic aims should be:

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

Quantified performance indicators would help to measure progress against these objectives and to ensure that success of programmes is no longer judged in terms of whether a budget allocation in a given year has been committed. Relex Directors General are therefore working to have suitable indicators and deadlines in place by the end of July 2000.

1.4 Reforming the management of external assistance programmes is central to the wider process of administrative reform.

Many of the proposals in the Commission's reform White Paper tackle the problems identified in the management of Community aid. They will have a decisive impact on the success of the RELEX reform initiative. RELEX reform should be a 'flagship' for the overall Commission reform process. Efficient management of Community aid will have a direct and visible impact in a field of major political interest to the Member States and Parliament.

A central theme of Commission reform is to focus scarce resources on core activities such as policy formulation, political initiatives and enforcing Community law. In external relations the key policy objective is to ensure a stable and enlarged Europe with a stronger voice in the world. This goes hand in hand with more effective management of external aid, which for many partner countries, is a central and highly visible part of their relations with the EU.

The Commission's proposals for Activity Based Budgeting (ABB) and Activity Based Management (ABM) should help to ensure a better match between administrative resources and the scale of the programmes the Commission manages. It should also make it easier to identify clear objectives, focus priorities and allow for the coherent integration of the planning, budgeting and management processes.

The present comprehensive review of the Commission's priorities and staffing needs, and the work of the Peer Group, provides an opportunity to address the specific problems in external aid management.

In the first instance, there is an urgent need to focus activities on core tasks for the Commission's staff in headquarters and delegations. EU external assistance must provide results-oriented, high-quality support to countries in a way which is complementary to the action of other donors (in particular EU member states, multilateral institutions and NGO's). The Commission cannot in this context expect to achieve excellence in all areas of co-operation. It must concentrate its scarce staff resources first of all on a limited number of key policy areas. On this basis, it should prepare and agree with beneficiary countries the nature and volume of support to be provided on the framework of multiannual programmes.

Secondly the Commission has to establish the most appropriate and cost-effective way of delivering the assistance it provides. Where the institutional and administrative capacities exist within beneficiary countries, sector-wide programmes managed by the national authorities or other bodies within the country offer the best scope to achieve

good results. They place the country in the driving seat and they provide a good framework for donors to deliver support on a complementary basis. Where these capacities do not exist, the design and implementation of schemes will have to remain in the hands of intervening agencies (public donors or NGO's). In these circumstances, the Commission must assess, country by country and sector by sector, whether it should retain the capacity to manage projects and programmes 'in-house' (that is in headquarters and in its delegations) or whether it should let other donors take the negotiating lead and limit its role to supply of additional funding, providing the necessary arrangements are made to monitor and control expenditure and to ensure visibility. Even where the Commission needs to retain overall management responsibility for a scheme, it can also mobilise the resources and expertise of other implementing agencies within the EU Member states rather than creating the necessary capacities within its own services.

Finally the Commission must examine how it can develop an effective alternative to the nearly 80 Technical Assistance Offices (TAO's) that operate in the RELEX field. While existing contractual obligations need to be respected, there is an urgent need to have recourse to staff who are under the direct political and managerial responsibility of accountable EU institutions (whether the Commission itself or other agencies).

Overall, the Peer Group exercise should therefore identify how existing staff resources in the RELEX field should be regrouped around core policy and management tasks. It will then be possible to identify clearly what the additional staff needs are in order to reach high and consistent standards of aid delivery. On current estimates, these needs will be concentrated in the area of project and programme implementation, in particular within delegations. If these resources are not made available, the Commission would have to indicate how far the volume of external assistance would have to be reduced if it is to be managed securely and safely.

The adoption of a new legal framework for externalisation will create new possibilities and may provide the most appropriate type of body for implementing Community aid in the long term. Moreover the RELEX aid management reform needs to be conducted in parallel with the reorganisation of the delegations in the Commission's External Service which implies significant staff redeployment and additional resources.

Giving staff greater individual responsibility for the financial consequences of their decisions, another key part of the reform proposals, should improve the effectiveness of controls and cut through time-consuming bureaucracy. A clear definition of tasks and responsibilities and a clear structure of command from the political level all the way to the actual execution should give all collaborators and, in particular, "line managers" more ownership and accountability. Forthcoming proposals to modify the Financial Regulation aim to make it easier to devolve management of external aid to the field and improve and simplify tendering procedures.

The Commission is also proposing changes to the Financial Regulation to fix tight time limits to ensure speedy implementation of commitments. These will need to be responsive to the specific situation in certain programmes, in particular those which depend on management through national authorities in third countries. However, the

general rule that a commitment in year n should result in a contract signed in year n+1 at the latest should ensure greater discipline and more timely execution of projects and therefore reduce significantly the backlog of commitments awaiting implementation. Meeting this new requirement will be a significant challenge. In some areas, in particular for projects jointly managed with the authorities of partner countries, there may be a need to extend this period to year n+2.

Proposals to amend the Conditions of Employment of Other Servants (“RAA”) would create a new type of contract governed by Community law and cut down the number of categories of staff involved in aid management.

2. AN AMBITIOUS REFORM PROGRAMME

The attribution of portfolios last summer on functional rather than geographical criteria already gave the direction of the reform to be expected. The present reform action plan reflects this functional approach; it is designed to form a whole and should be implemented coherently as part of an overall strategy. It breaks down into the following strands:

- A radical overhaul and unification in the programming of external assistance to reflect the EU's policy objectives and priorities;
- Integration of the project cycle, from identification of projects through full implementation;
- Creation of a single body in charge of project implementation;
- Extensive devolution of project management to the Commission's external delegations and, where conditions permit, the authorities in beneficiary countries;
- Developing a common administrative culture within the RELEX services;
- A package of urgent measures including action to eliminate old and dormant commitments.

2.1 A radical overhaul of programming of assistance

Multiannual programming of aid will be given greater substance.

The quality and consistency of programming needs to be enhanced in order to reflect the EU's policy objectives and priorities. It should feed into management of all stages of the project cycle. Starting with overall assessments of the EU's strategic priorities, to be reflected in comprehensive "Strategic framework papers", programming should subsequently produce the right "policy mix" for each country or region incorporating both external assistance and other Community/EU policies and priorities (trade, CFSP etc). It also needs to take into account EU interregional priorities, synergies and complementarities with Member States, IFI's and other donors, the country-specific macro-economic context and the policy dialogue with the beneficiary countries. Delegations and the implementation service will make an important contribution to the preparation of programming. It is also at this stage that the Member States should make their major contribution (in the "comitology" procedure). Headquarters will keep full responsibility for the final design and completion of programming.

Multi-annual programming of aid will be used to set out a budget and expected results for each priority sector or subject area, and to draw up a specification ("order") for implementation.

The new implementing body will have to give its approval to both the programming documents and the specific orders for implementation.

The consistency and quality of programming will be closely monitored.

This will be done by an interdepartmental Quality Support Group (QSG), whose functions will be:

- to ensure programming documents respect minimum quality standards and compliance with evaluation results and the objectives set by the Group of RELEX Commissioners;
- to identify best practice inside and outside (benchmarking) so as to promote excellence and innovation;
- to disseminate results;
- to inform the Group of RELEX Directors-General of the course of the programming exercises and to propose any necessary improvements.

The Quality Support Group will have a small number of members, selected for their skills and experience by the Group of RELEX Commissioners. Their views will not bind the Directorates-General from which they come. The Quality Support Group will fall under the responsibility of the Group of RELEX Commissioners. A secretariat of the Quality Support Group is placed in DG DEV reflecting M. Nielson's responsibility for development co-operation.

To enhance coherence and reinforce inter-service co-operation, draft programming documents will be agreed by the whole Group of RELEX Commissioners rather than by any one 'lead' Commissioner before being submitted to the College. DGs with direct responsibility for external assistance programmes (DG RELEX, DG DEV and SCR) will clearly be most heavily involved in preparing these texts.

The RELEX Directors-General should prepare multi-annual and annual programming proposals including a breakdown of activities, with respective financial envelopes, by country and by region, in order to allow Relex Commissioners and the College as a whole to take decisions on the basis of political considerations as well as schedules of budgetary commitments and payments.

Under the authority of the Commissioners with responsibility for the SCR, the Director-General of the SCR will prepare every year a consolidated budgetary proposal based on the programming defined by RELEX Directorates-General, taking into account the resources available (ABB/ABM). This consolidated proposal will be presented to the Group of RELEX Commissioners.

Evaluation will be given a higher profile.

Evaluation of individual projects is a function integral to the project cycle and as such is a core task of the new implementing body. However evaluation of the results of regional and sectoral policies, programmes and programming performance is crucial to the success of external assistance policies as a whole, and needs to feed back into the programming cycle. To ensure objectivity, this level of evaluation should be carried out independently and serve as a feedback to from the services responsible for policy, programming and implementation. The evaluation service would be accountable to the Group of RELEX Commissioners. The Group will decide on the work programme of the evaluation service and act on its reports and recommendations.

The implementation of committee procedures (comitology) needs to be improved.

This is essential to speed up implementation, and to provide more complementarity with the Member States and allow them to play their role more effectively. When legislation comes up for review the Commission's objective should be to concentrate the input from Committees on the programming stage where the important issues of policy and strategy arise, rather than at the level of specific projects. This would allow a more effective dialogue between the Commission and the Member States. It will be important however to avoid a situation where the Committees get more heavily involved in programming while maintaining micro-management oversight of individual projects.

Operational conclusions: :

- to apply the above orientations on reinforced programming of aid, evaluation and improved application of comitology procedures;
- that draft programming documents including country/region multi-annual and annual programming and budgetary forecasts will be agreed by the Commission at the initiative of the Group of RELEX Commissioners as a whole rather than by any one 'lead' Commissioner. The Budget Commissioner will be associated with preparation of budgetary forecasts;
- that work should continue on suitable performance indicators and associated deadlines for improvements.

2.2 Reunification of the project cycle

The six stages of the "full project cycle" are:

1. programming: the starting point is an overall political strategy (strategic framework) which also specifies the amount allocated. Within this, programming gives concrete expression to the guidelines for each country and/or region in terms of objectives, priorities, focal sectors and the general thrust of global and sectoral conditionality. Programming is multi-annual, indicative, and is negotiated with the recipient country. .
2. identification of projects and actions, i.e. deciding on the relevance of a project in terms of the programming objectives and an initial assessment. This sets terms of reference for subsequent studies.
3. appraisal: determining the feasibility of a project, carrying out an economic and financial analysis, and stipulating conditions for its execution.
4. the financing decision defined as the financial commitment leading to a legally binding document, the financing agreement.
5. implementation, i.e. undertaking the agreed activities, including procurement, conclusion of contracts, technical and financial supervision, monitoring of project/programme conditions, payments, audit.
6. evaluation: assessing the results and the degree to which objectives have been attained.

Currently project cycle management is generally split between DG RELEX / DG DEV, which are responsible for the first four of these stages, and the SCR, which handles the last two.

The project cycle should be reunified from identification through full implementation and placed in the hands of a new implementing body.

This system will apply to over 80% of the annual € 9.6 billion external assistance from the budget and the European Development Fund. This means that the new allocation of responsibilities would be between the geographical Directorates-General (responsible for programming) and a new implementing body (responsible for managing the rest of project cycle). In a first phase, this new implementing body will grow out of the existing SCR. In this stage the SCR will be transformed into an office, and might be renamed to reflect its new status. This Office will remain subject to the normal operating procedures of the Commission.

This solution fits in with Action 64 of the Administrative Reform Action Plan², which gives authorising officers (“*ordonnateurs*”) responsibility from the planning stage through full implementation. In the RELEX field, the function of authorising officer will be delegated to the Director- General of the implementing body.

Measures to give effect to these new provisions (changes to staff structures, transfers of resources and new recruitment needed) should be prepared by the end of July 2000. Obviously, the full implementation of these changes will be subject to agreement by the budgetary authority on the arrangements for funding the necessary human resources (see below point 2.3).

However, in a number of specific areas programming and implementation should be managed by a single administrative structure

- Management of pre-accessions instruments³ by DG ELARG

This option fits in with the very specific situation of the countries involved, in which the Community acquis motivates the implementation of the programmes. These are countries which are in any case going to be covered eventually by the Structural Funds. An additional consideration is that PHARE’s budget allocations are now under Heading 7, in contrast to other Community aid, which comes under Heading 4 or the European Development Fund.

The DGs involved (ELARG, SCR, IGS, ADMIN together with BUDG) will work out the arrangements needed to give effect to this decision (organigramme, transfers of staff, other ancillary measures) with a view to having them in place by June 2000. Specific arrangements for Cyprus, Malta and Turkey will be made accordingly. The function of authorising officer will be delegated to the ELARG Director-General.

² “The person who takes the operational decision to go ahead with an action involving expenditure should be the person acting as authorising officer”

³ Phare, aid to Cyprus, Malta and Turkey. ISPA and SAPARD are managed by DG Regio and DG Agriculture respectively.

- Management of humanitarian activities by ECHO

ECHO will continue to manage the full project cycle for humanitarian action programmes but with a greater degree of devolution to allow management functions to be carried out in the field. The function of authorising officer will be delegated to ECHO's Director.

- Management of macro-financial assistance by DG ECFIN

DG ECFIN will continue to manage the full cycle for macro-financial assistance programmes, according to the established procedures. The implementation of this type of assistance is related to the global macro-economic framework of the recipient countries. It requires therefore, at all stages, a high degree of political dialogue with the relevant national authorities and the IFIs concerned, so as to ensure that the associated economic policy conditions are adequately fulfilled. Furthermore, this type of instrument is, by its nature, disbursed rapidly usually in two or three large tranches. The function of authorising officer will be delegated to the ECFIN Director-General.

A number of other areas merit specific consideration.

A number of other areas deserve special attention because they involve either particularly intense political sensitivity at all stages in the life of a project or because it is difficult to distinguish between programming and implementation or because it concerns grant management only. In these areas a case can be made for the Directorate General with the policy lead to be responsible for both programming and implementation to minimise the number of actors involved and to ensure direct and clear lines of political control.

On the other hand, this would mean that DG RELEX and DG DEV would need the capacity to prepare contracts and make payments. This could imply an additional administrative cost and extra effort to ensure coherent procedures. It is therefore clear that any exceptions to the general model should be properly justified and should only be decided after detailed consideration on a case by case basis.

The main areas involved are:

- Management of "specific activities" (Human Rights, CFSP and Rapid-
Reaction Facility) by DG RELEX.

For some specific activities such as human rights, CFSP and the Rapid-Reaction Facility, special project cycle management provisions are called for in order to keep management and political decisions sufficiently close together. The possibility of externalising the management of the human-rights budget headings should be explored.

- Management of the partnership with NGOs by DG DEV

Similarly the management of the partnership with NGOs requires particular attention. The contractual arrangements for grants to NGO's are subject to regulations which

differ significantly from those covering private undertakings and consultants. The budget lines concerned are the “co-financing with NGOs” heading⁴, a collection of “social development” headings and “environment” headings. In order to ensure effective implementation of assistance to NGOs it is also necessary to examine scope for decentralising management of small grants for European NGOs to a network of institutions in the Member States.

Operational conclusions :

- to apply the principle of the reunification of the project cycle from identification through full implementation;
- that the function of authorising officer will be delegated to the Director-General of the new implementing body that will replace the SCR;
- that measures to implement the reform anticipating the future successor to the SCR should be prepared by the end of July 2000, for implementation once the budgetary authority has confirmed the necessary resources;
- that specific provisions for the management of pre-accession instruments should be in place by June 2000;
- that the present arrangements for ECHO are unchanged
- to delegate to the Director General of DG ECFIN the function of authorising officer for macro-financial assistance;
- that further consideration should be given to whether specific solutions are justified for Human Rights/CFSP/Rapid Reaction Facility budgetary lines and partnership with NGOs.

2.3 Creation of a successor to the SCR

Ensuring coherence with the wider reform process

Like all other areas of activity, external aid management will need to be carefully examined in the Peer Group review of the Commission’s priorities and administrative resources. Whatever the outcome, it is clear that muddling through with the present system is not an option. The aim must be to attain acceptable levels of quality, timely delivery and financial security of external assistance. A workable alternative to TAOs is urgently required. Even with the resources of existing TAO’s, the Commission is also not capable of effective delivery of external assistance to the required standards.

Beyond a radical redeployment to core tasks, the Commission will therefore need (a) to replace TAO’s with more secure administrative arrangements and (b) to obtain the necessary resources to reach acceptable standards of aid delivery.

⁴ In terms of year 2000 Budget’s nomenclature, the proposed headings would regroup :
- for « co-financing with NGO » : B7-6000 (co-financing of NGOs) and B7-6430 (decentralised cooperation)
- for « social development » : B7-6110 (gender), B7-6211 (aids), B7-6212 (reproductive health), B7-6310 (demography)
- for « environment » : B7-6200 (environment) and B7-6201 (tropical forests).

The external aid programmes are a vital instrument in ensuring the EU continues to have a strong voice in the world. However, if the necessary resources are not made available, the Commission will have no alternative but to propose a very substantial reduction in the volume of EU aid programmes managed by the Commission (to perhaps as little as a third of present levels). The clear message to the budgetary authority is that without the necessary administrative underpinning, assistance programmes will have to be scaled back to what can be effectively and securely managed.

That is why the Peer Group and work on externalisation in the reform context are so important for RELEX reform. The Commission's definitive conclusions in these areas will only be available in September. However, in view of the scale and urgency of problems with management of external aid, there is a need for contingency planning. It will therefore be necessary to make appropriate specific arrangements for RELEX DGs to prepare the Peer Group process (including creation of a dedicated working group to concentrate on Relex issues).

Creating a new implementing body for external aid

As noted above, in a first stage the new body for the implementation of external aid should be built out of the SCR which should be converted into an Office, operating under the control of a Board composed of all the RELEX Commissioners. The possibility of creating an Office-type structure has already been highlighted in the Reform White Paper. The advantage of this new status is to underline the significance of the changes involved and to facilitate collective oversight of the implementing body by Relex Commissioners. It is clear however that the Office will remain a service of the Commission subject to the normal operating procedures.

The long-term status of the Office can only be decided in the light of experience and the emerging legal and budgetary framework for externalisation. In its final form, it might be floated out of the Commission itself. The legislative framework envisaged for externalisation will inevitably take some time – which is why workable interim arrangements are needed.

Aims

There are four main aims behind the establishment of a new entity for managing Community aid:

- to ensure that the Commission can maintain proper political control of the entity;
- to find a rapid model compatible with the reform objectives (reliable, fast and efficient management);
- to make up the staffing shortfalls and fulfil the aims of Community aid by mobilising the appropriate human resources with the necessary professional skills through flexible personnel management arrangements (speed and quality of recruitment, tailoring contracts to programmes);

- headquarters based in Brussels to ensure geographical proximity of staff involved in programming and implementing aid programmes.

The staff in charge of managing Community aid should be brought under the Commission's authority and managed in a transparent way.

The way forward

As explained above, action cannot wait upon legislative changes.

1. In a first stage, therefore:

Taking full account of the Peer Group exercise, action will have to begin with the 2001 Budget, using the existing regulatory basis for the various RELEX programmes (MEDA, ALA, TACIS, OBNOVA and other subject-based budget headings). It will have to:

- add a commentary to Heading 4 budget lines where justified using a rectifying letter to the 2001 budget proposals to allow a percentage for operating expenditure connected with programme management by the Commission departments including staff costs and expenditure on equipment. The Commission will draw up guidelines for the use of temporary personnel under the current staff rules to ensure that temporary staff can work in these areas under the supervision of permanent officials. The objective would be to promote efficiency and flexibility whilst safeguarding against possible improprieties. This means that the level of staffing would vary as a function of the programme expenditure: at the end of a project/programme, the associated staff would clearly no longer be required. The exact needs will be assessed as part of the Peer Group process;
- put forward parallel proposals to disband TAOs (they will be phased out in step with the phasing-in of the interim solution).

Similar arrangements should be adopted for the management of the European Development Fund.

2. The second stage can only be decided as a function of the evolving legal framework and in the light of the experience gained during the first stage solution. Moreover, this decision will have to dovetail with the development of the Commission's overall policy on externalisation. In particular, the Commission will be making proposals in the following areas:

- Amendment of Article 19 of the Financial Regulation to abandon the distinction between Part A of the Budget, for "staff and administrative expenditure of the institution", and Part B of the Budget, for "operating expenditure" as part of the move to Activity Based Budgeting. This would allow greater flexibility to ensure adequate administrative resources to implement aid programmes effectively and securely.

- Amendment of the Conditions of Employment of Other Servants (“RAA”) to cut down the number of categories of staff involved and to set up a new contract governed by Community law.
- Proposals to establish a new legal framework for externalisation.

The aim is to set up a new kind of body with appropriate staffing levels, including:

- officials (previously paid for by Part A of the Budget);
- staff dealing directly and exclusively with the management of aid programmes, paid out of operational expenditure from the Budget and EDF comprising:
 - some staff to be “internalised” (assigned to) headquarters and the Delegations (to replace staff of the TAOs due to be disbanded);
 - further staff needed to make up the shortfalls, particularly in the Delegations to allow devolution (*déconcentration*), a central plank of reform, to go ahead.

Operational conclusions:

- as part of the budget procedure for 2001, to seek a commentary in the budget which will enable the Commission to hire necessary staff using Part B of the budget;
- to set up the Board of the Office with Mr Patten as Chairman, Mr Nielson as Chief Executive, and Mr Verheugen, Mr Lamy and Mr Solbes as members. Political responsibility for the actions of the new body will lie with the Chairman and Chief Executive in line with their respective policy portfolios. The Chairman will preside over meetings of the Board, setting its agenda and overseeing its strategic direction. Within this context the Chief Executive, with the Director General of the successor body to the SCR, will ensure that issues come to the Board in good order, and maintain proper implementation of the policy guidelines of the Board;
- to allow the Board to start operations on the basis of the existing SCR;
- to ensure all possible speed for the nomination procedures for the directors general of DG DEV and the SCR;
- To evaluate the new structures by June 2002.

2.4 Extensive devolution to delegations and, where possible to partner countries

Extensive devolution to the Commission's external delegations

Anything that can be better managed and decided on the spot, close to what is happening on the ground, should not be managed or decided in Brussels. It will be far easier to ensure effectiveness and "ownership" of aid management.

An analysis of various RELEX programmes, in all geographical areas, shows that almost 60% of the amounts committed in 1999 already went to either decentralised or devolved programmes. It is proposed to make the best use of the comparative advantages of certain models: Phare, European Development Fund, South Africa, Sarajevo.

The option proposed is that of extensive devolution to the Delegations. The successor to the SCR should not act, in other words, exclusively from its Headquarters in Brussels. It should also be represented with delegations. Project management would follow instructions from Headquarters and be backed up by the Office's higher-profile sectoral, technical and financial departments. Local staff of the Office would work under the authority of the Head of delegation. RELEX Directors-General will draw up appropriate guidance for staff to ensure smooth and effective reporting lines and suitable arrangements for subdelegating authorising officer powers.

This reform will imperatively require:

- human resources for the delegations (redeployment of officials' posts within the External Service and additional resources to boost numbers at delegations which are currently understaffed and to allow new offices or delegations to be opened; assigning of some of the office's staff to the delegations);
- computer equipment and systems (including SINCOM II);
- ancillary measures: appointments policy, training plan, revision of financial procedures, checking and auditing arrangements.

Decentralisation of project management to partner countries where conditions permit

Decentralisation is a desirable objective, though it is not appropriate in every partner country. It requires that all the necessary measures and precautions (checks, monitoring, auditing, penalties) are put in place to ensure that the partner countries manage the funds properly (co-management).

Operational conclusions :

- on the principle of in the field management of the project cycle on the basis of extensive devolution to the Commission's external delegations and, where conditions permit, to the authorities in beneficiary countries;
- that Relex Directors General should prepare guidance on reporting lines and responsibilities for staff working on project implementation in Delegations;
- that proposals for staff redeployment within the External Service should be submitted shortly.

2.5 Developing a common administrative culture within the RELEX services

The aim is to create a new atmosphere within the RELEX family and to foster a common administrative culture. There are plans for a memorandum to the Commission on this matter by the end of 2000.

The Commission intends to discuss a communication on the management of Relex DGs human resources by the end of 2000.

2.6 A package of urgent measures

Measures are already in hand to overcome some of the present shortcomings ahead of the reforms proposed in this communication, in particular in five areas:

- immediate introduction of new joint working methods for the geographical departments and the SCR: establishment of joint financial forecasts for 2000 and a work programme backed up by a monthly monitoring system (from April) and arbitration machinery;
- launch of a major programme to clear the accumulated backlog: examination of commitments prior to 1995 with a view to closing them and review of 1995/96/97 dormant commitments. A substantial programme to clear the accumulated backlog has been launched thanks to the allocation of 20 "auxiliary" posts to the SCR on the 2000/2001 Budget;
- reduction of the number of budget headings (to prevent further accumulation of management problems upstream) ;
- substantially increasing appropriations for the modernisation of computer systems in delegations under the 2001 PDB (initially South Africa, ex-Yugoslavia, Manangua, and candidate countries);
- taking advantage of the proposed revision of the Financial Regulation to improve direct management in the RELEX field.

to invite the Director General of DG Relex, in close liaison with 5 representatives of DG Relex, DG Dev, SCR, DG Budg, DG Admin to implement the work plan in Annex 2

ANNEX 1: Multiannual Programming of Aid

1. Problems and objectives

The multiannual programming exercise is, to varying degrees, of insufficient quality in all areas and in all programmes. This aggravates the difficulties encountered at the implementation phase.

Problems	Objectives and expected outcomes
<p>Length of execution The absence of or insufficient programming is an obstacle to timely implementation.</p>	<ul style="list-style-type: none"> - Define framework for the management of different phases of the project cycle including monitoring (indicators, early warning system) - Structured management of project cycle phases (annual financial forecasts, immediate launch of implementation at the start of the budget exercise)
<p>Performance and quality of aid The absence of or insufficient programming does not allow:</p> <ul style="list-style-type: none"> - development and international co-operation policy objectives to be met, - the exercise of political influence on the policies of beneficiary countries, - effective co-ordination with other donors to take proper account of the experience of delegations and the policy dialogue with beneficiary countries; - the concentration of aid on priority sectors/themes reflecting administrative management capacity. 	<ul style="list-style-type: none"> - Improved quality of projects/programmes (cost-effectiveness) through programming based on : <ul style="list-style-type: none"> . priorities . conditionality . complementarity . best practice among other donors - Exchange of experience among the different services involved in programming.
<p>Division of responsibilities Confusion between different types of responsibilities (programming, financial responsibility)</p>	<ul style="list-style-type: none"> - Distinction between the responsibilities of programming and implementation - Financial responsibility from conception (identification) through to implementation (action 64 of the White Paper : ‘as far as possible, the person who takes the operational decision to go ahead with an action involving expenditure should be the person acting as authorising officer’)
<p>Blocked comitology Weaknesses in programming lead to micro-management by Member States. Negative impact on timely execution and complementarity.</p>	<ul style="list-style-type: none"> - Content and quality of programming documents sufficiently define subsequent implementation to provide necessary information and guarantees to Member States - Ensure EU action complements the actions of Member States - Application of Council resolution of 21 May 1999 on the complementarity to ensure the adoption of a standard framework that will follow the reference model for the documents of Member States.

2. Recommendations

2.1 The multiannual programming of aid must be in line with and implement the global orientations and financial envelopes of the strategic framework. It must be coherent with the other aims of the strategic framework (political, commercial, other community policies).

2.2 Implementation (management of the ‘small project cycle’) must be compatible with the multiannual programming of aid. A description of the mechanism follows :

a) substance: the programming must include the following elements :

- global objectives;
- financial envelopes by sector / theme;
- specific objectives and results connected to each sector / theme;
- implementation specifications ; ‘order’ agreed between the Service responsible for programming and the Service responsible for implementation to include:
 - . intended results (to be ‘specific’, ‘measurable’, achievable’ and ‘compatible’)
 - . the criteria for identifying projects/programmes: sub-sectors affected, scale of actions, range of implementation instruments (technical assistance, involvement of beneficiary, centralised or decentralised) ;
 - . a timetable for implementation;
- these specifications may include indications of project/programme ideas.

The Service responsible for implementation must indicate its agreement to the ‘order’. The choice of project/programme idea and the launch of a feasibility study must be approved by the programming Service.

b) format : the ‘order’ must be clear and concrete. Before agreement with the beneficiary country on programming, the implementing Service will have indicated its acceptance (or the reason for refusal) of the ‘order’.

c) resources and procedures :

- the implementation Service should provide, at all phases of programming, technical support to the programming Service, in accordance with procedures in advance, if necessary having recourse to sub-contractors. The monitoring of sub-contracted studies must be undertaken by the programming Service, the contractual and financial management will be ensured by the implementation Service.

- the agreement of the programming Service is required at three stages of the project cycle :

- . programme/project identification
- . the financing decision
- . evaluation

- the comitology : chair of Committees by geographic DGs, presentation of the financial information by the Service responsible for implementation.

- the Service responsible for implementation should keep the programming Service informed and regularly report to it on the implementation process.

- an “Interservice Quality Support Group” (IQSG) will assume the following functions :

- . to assure programming documents respect minimum quality standards and compliance with evaluation results and the objectives set by the Group of RELEX Commissioners;
- . to identify best practice (benchmarking) so as to promote excellence and innovation ;
- . to disseminate results ;
- . to inform the Group of RELEX Directors-General of the course of the programming exercises and to propose any necessary improvements.

The Quality Support Group will have a small number of members, selected for their skills and experience by the Group of RELEX Commissioners. Their views will not bind the Directorates-General from which they come.

- arbitration: in case of disagreement, in particular on the 'order', the Board shall arbitrate.

An interservice co-operation agreement should make clear the rights and obligations of each service and maximise the deployment of human and material resources.

3. Responsibilities and service organisation

- geographical DGs will have lead responsibility for programming; programming decisions taken by headquarters (after discussion with beneficiaries and comitology): Commission decisions proposed by the Group of RELEX Commissioners;

- although delegations will make an important contribution, the responsibility for programming cannot be decentralised;

- nor can the responsibility for programming be 'externalised';

- the Service in charge of implementation will provide technical support to the Service in charge of programming throughout the programming phase according to procedures agreed in advance.