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# REPORT

on the budgetary control of EU humanitarian aid managed by ECHO  
(2011/2073(INI))

Committee on Budgetary Control

Rapporteur: Martin Ehrenhauser

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## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### on the budgetary control of EU humanitarian aid managed by DG ECHO (2011/2073(INI))

*The European Parliament,*

- having regard to Article 214 of the Treaty on the Functioning of the European Union (TFEU), which deals with humanitarian aid,
- having regard to the Financial Regulation<sup>1</sup> and its implementing rules<sup>2</sup>,
- having regard to Council Regulation (EC) No 1257/96 of 20 June 1996 concerning humanitarian aid<sup>3</sup>,
- having regard to its previous resolutions of 27 September 2011 on ‘Towards a stronger European disaster response: the role of civil protection and humanitarian assistance’<sup>4</sup>, of 19 January 2011 on ‘the situation in Haiti one year after the earthquake: humanitarian aid and reconstruction’<sup>5</sup>, of 10 February 2010 on ‘the recent earthquake in Haiti’<sup>6</sup>, of 29 November 2007 on ‘the proclamation of a European Consensus on Humanitarian Aid’, and of 18 January 2011 on ‘Implementation of the European consensus on humanitarian aid: the mid-term review of its Action Plan and the way forward’<sup>7</sup>,
- having regard to its resolutions of 5 May 2010 on the discharge for implementation of the European Union general budget for the financial year 2008<sup>8</sup> and of 10 May 2010 for the financial year 2009<sup>9</sup>,
- having regard to the Annual Reports of the European Court of Auditors (ECA) on the implementation of the budget concerning the financial year 2008<sup>10</sup> and the financial year 2009<sup>11</sup>, together with the Institutions’ replies,
- having regard to the ECA’s Special reports No 3/2006 on the ‘European Commission Humanitarian Aid Response to the Tsunami’, No 6/2008 on ‘European Commission Rehabilitation Aid following the Tsunami and Hurricane Mitch’, No 15/2009 on ‘EU assistance implemented through United Nations Organisations: decision-making and monitoring’ and No 3/2011 on ‘The Efficiency and Effectiveness of EU Contributions Channelled through United Nations Organisations in Conflict-Affected Countries’,

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<sup>1</sup> OJ L 248, 16.9.2002, p. 1.

<sup>2</sup> OJ L 357, 31.12.2002, p. 1.

<sup>3</sup> OJ L 163, 2.7.1996, p. 1.

<sup>4</sup> Texts adopted P7\_TA-PROV(2011)0404.

<sup>5</sup> Texts adopted P7\_TA-PROV(2011)0018.

<sup>6</sup> Texts adopted P7\_TA(2010)0015.

<sup>7</sup> Texts adopted P7\_TA(2011)0005.

<sup>8</sup> OJ L 252, 25.9.2010, p. 1.

<sup>9</sup> Texts adopted P7\_TA-PROV(2011)0194.

<sup>10</sup> OJ C 269, 10.11.2009, p. 1.

<sup>11</sup> OJ C 303, 9.11.2010, p. 1.

- having regard to the Annual reports and Annual Activity reports for the financial years 2009 and 2010 of the Directorate General for Humanitarian Aid and Civil Protection (DG ECHO) and its annexes,
  - having regard to the Annual Report on Humanitarian Aid Policy and its implementation in 2009 (COM(2010)0138) and to the Commission staff working paper accompanying it (SEC(2011)0398),
  - having regard to the Annual Report on the European Union's Humanitarian Aid and Civil Protection Policies and their implementation in 2010 (COM(2011)0343) and to the Commission staff working paper accompanying it (SEC(2011)0709),
  - having regard to the Financial and Administrative Framework Agreement (FAFA) between the European Commission and the United Nations,
  - having regard to the Framework Partnership Agreement between the Commission and humanitarian organisations (FPA),
  - having regard to Rule 48 of its Rules of Procedure,
  - having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Development (A7-0444/2011),
- A. whereas the number, frequency, scope and severity of humanitarian disasters have dramatically increased, affecting more parts of the world;
- B. whereas the EU's leading global role as a humanitarian actor and the increase in the number and frequency of interventions inside and outside the EU, in conjunction with the current budgetary constraints, highlight the significance of sound financial management based on the principles of economy, efficiency and effectiveness;
- C. whereas the mega catastrophes in Haiti and Pakistan have demonstrated once again that the instruments at the EU's disposal for responding to disasters have to be improved in terms of effectiveness, speed and coordination;

#### **Efficiency and effectiveness of the ECHO control, monitoring and supervision system**

1. Notes the determination of DG ECHO and the measures taken to improve the efficiency and effectiveness of EU humanitarian aid;
2. Recalls the ECA's opinion, as set out in its annual reports, that the overall ex-ante controls, monitoring and supervision systems, ex-post audit activity, and the internal audit functions of DG ECHO are generally effective; stresses, however, that in all these respects there is room for improvement;

#### *Framework Partnership Agreement (FPA) partners: NGOs*

3. Notes that the relations between ECHO and its partner NGOs are governed by the FPA, while the method used for budget implementation is direct centralised management;

4. Welcomes the enhanced flexibility and efficiency afforded by the 2008 FPA, by comparison with the 2005 FPA, including a more result-oriented approach, the introduction of the A- and P-control mechanisms, greater simplification and less ambiguity resulting from the introduction of guidelines; calls on the Commission to continue refining the measures which will improve the efficiency of cooperation with FPA partners in the post-2012 FPA; stresses that improving the efficiency of cooperation and reducing the excessive administrative burden for FPA partners is important, while at the same time ensuring a high level of accountability and transparency;
5. Calls on the Commission to improve the methods for and practice of assessing whether a potential partner qualifies for the FPA or not; recalls that the experience gained prior to the signing of the 2008 FPA indicates that the initial assessment in favour of the partners under P-control mechanism, based on the reliability of their internal control systems and financial solidity, was too optimistic; notes that, once they have been granted this status on the basis of an initial assessment, partners under P-control mechanism are audited less frequently on their internal control systems and are allowed to use their own procurement procedures, and their actions are not subject to contractual limits on funding; recalls that, as a result of the assessment under the 2008 FPA, many of them had to be downgraded to A-partner status, i.e. brought under the A-control mechanism;
6. Calls on the Commission to ensure that the weaknesses identified during regular audits of the partners' systems are addressed by them in a timely manner and that the necessary measures are taken if they are not; recalls that the external auditors have to continue working on improving the quality of their recommendations to the partners, taking into account partners' specific structures so as to ensure their acceptance and feasibility; stresses that the documentation of evaluations of proposals for humanitarian aid actions needs to be further streamlined and standardised in order to allow an overall comparison to be made;
7. Believes that, thanks to the audit and monitoring mechanisms in place, there is greater accountability with regard to evaluating the efficiency and effectiveness of the FPA partners than in the case with the UN partners; points out that, however, an international organisation such as the UN cannot be compared to FPA partners;

*International organisations, UN*

8. Notes that relations between ECHO and its UN partners are governed by the Financial and Administrative Framework Agreement (FAFA), whereas relations with the Red Cross family and the International Organisation for Migration are governed by the FPA with International Organisations (IOs); recalls that in both cases the method used for budget implementation has been joint management;
9. Points out that the terms for and the implementation of control and follow-up of EU funds under joint management have demonstrated serious weaknesses; urges the Commission to agree, notably with the UN agencies, on the measures required to be able to rely on the audit work carried out by UN bodies and to reinforce and enhance the assurance gained from the existing checks, including verifications;
10. Recalls that the ongoing revision of the Financial Regulation (FR) suggests that EU funds

channelled through the UN and IOs are to be managed in accordance with the rules on indirect management;

11. Stresses that the control requirements for indirect management of the EU funds must be as rigorous as those for shared management; insists that the same level of accountability be established for the indirect management of EU funds by ECHO partners as that indicated in Article 57(5) of the Commission proposal for the FR; stresses that access to the audit reports of ECHO partners is essential in verifying sound financial management of actions financed from the EU budget;
12. Insists that audit results be made available in a timely fashion to the discharge authority, without prejudice to the ECA's or OLAF's powers and competences;
13. Regrets the general character of UN reports, in which insufficient information is provided on results; points out that, because of the single audit principle of the UN and the fact that the scope of the Commission's control remit is limited to verifications and monitoring, the UN reports are, however, an essential source of information with a view to ensuring accountability and transparency;
14. Calls on the Commission to ensure that UN reports contain sufficient information concerning the results – i.e. the output and outcome – of projects within the reporting time scale; stresses that measurable output and impact indicators must be an integral part of the reporting criteria; deplores the fact that over 70% of ECHO's replies to the ECA's questionnaires for its Special Report 15/2009 reveal that UN reports were late, and asks the Commission to indicate the latest situation in this regard;
15. Points out that there are differences between the Commission and the FAFA signatories regarding the interpretation of the FAFA verification clause, particularly on the issue of conducting checks; welcomes the adoption of standard Terms of Reference (ToR) for verifications in July 2009 as a means of providing further guidance for, and clarification on, the operation of the verification clause; recalls that, according to the latest findings of DG ECHO's External Audit Sector (EAS) and the ECA within the framework of the annual DAS exercise, there is room for further clarification on the agreed ToR and the verification clause;
16. Notes that the External Audit Service has hardly benefited at all from the increase in staff numbers at DG ECHO's headquarters in 2010 (from 247 to 289);
17. Deplores the difficulties the ECA has encountered in accessing information about the actions carried out by UN partners; recalls that, under the FAFA verification clause, the EU, and therefore the ECA, may carry out on-the-spot financial checks and that the UN is to provide all relevant financial information; stresses that the UN must provide the ECA with the necessary access to information and thus fulfil the FAFA verification clause;
18. Welcomes the positive results of the discussions with the World Food Programme (WFP) and the United Nations Children's Fund (UNICEF), as a result of which the WFP and UNICEF changed their rules to make their internal audit reports available to DG ECHO; calls on DG ECHO to conduct similar negotiations with the other UN agencies without delay in order to ensure easy and unbureaucratic access to their internal audit reports; calls

on the Commission to inform Parliament's competent committees on the progress of the negotiations on a six-monthly basis; stresses that all the internal audit reports should be made available to the Commission electronically and not only on the premises of the relevant UN agencies;

19. Recalls that discussions started with the WFP in 2010 in order to agree on a common methodology under which the WFP would conduct audits of EU-funded projects; calls on the Commission to successfully complete this objective and to conduct similar negotiations with the other UN partners;
20. Welcomes the current efforts of the Working Group on Accountability for and Audit of Disaster-Related Aid established in the framework of the International Organisation of Supreme Audit Institutions (INTOSAI) and led by a Member of the European Court of Auditors; recalls that the two main objectives are: (i) establishing guidance and good practice with a view to ultimately arriving at a single integrated reporting model and (ii) establishing guidance and good practice in the area of disaster-related aid auditing;
21. Is of the opinion that this is an important step forward in addressing the challenges of transparency and accountability in cooperation with the UN and other international organisations; encourages the working group to fulfil its mandate within the set time frame;
22. Points out that, since the revelations of misuse of UN funds for humanitarian and development activities by the Government of North Korea in late 2006, there has been broad criticism regarding the lack of transparency, accountability, efficiency and effectiveness of the management of funds by the UN; regrets that the UN reform in matters of transparency and accountability has not yet made any significant progress; stresses that EU Member States need to demonstrate more political will, determination and coherence to advance the reform and ensure greater accountability; calls on the High Representative of the Union for Foreign and Security Policy to prioritise this issue and play a facilitating role;

#### **Efficiency and effectiveness of the implementation of EU humanitarian aid managed by DG ECHO**

23. Recognises the benefits of seeking new arrangements for the provision of funding by DG ECHO, together with its partners; calls at the same time for the diversity of the actors involved in financing and implementing the European humanitarian programmes – the United Nations, the International Red Cross and Red Crescent Movement, NGOs – to be borne in mind, given that disasters often transcend national borders and require multilateral, coordinated responses; encourages the work being done to strengthen the capacities of local stakeholders and increase assessment and rapid response capabilities on the ground through DG ECHO's offices as well as field experts;
24. Points out that accurate and coherent needs assessment is an essential prerequisite for the effective implementation of humanitarian aid; acknowledges that, thanks to the Global Needs Assessment (GNA) and Forgotten Crisis Assessment (FCA), the humanitarian

assistance managed by ECHO fulfils the vital criterion of being strictly needs-based; stresses the necessity for the Commission to continue its efforts in engaging in debate on setting up better coordinated and more coherent needs assessment; welcomes the dialogue between the Commission and the UN in this respect;

#### *FPA partners*

25. Draws attention to the high-quality work carried out by DG ECHO's partners, achieved by means of an effective selection method – in particular through the FPA – and the development of standards and practices applicable in the humanitarian field; stresses also that effective monitoring of the use of funds in the form of audits of the partners carried out by private audit firms is essential and helps to legitimise the humanitarian sector; notes, however, in the interests of safeguarding the diversity of the partners and guaranteeing access for small and medium-sized NGOs, the complexity of the administrative access procedures, the excessive administrative charges, which are very high for NGOs, and the difficulties experienced with undergoing audits, given the lack of human resources, and calls for the tools used to be appropriate to the specific requirements of the humanitarian sector and to local requirements, so that humanitarian aid is targeted appropriately and coordinated action by the various aid organisations involved begins at an early stage;
26. Commends DG ECHO's efforts to promote the use of innovative approaches such as the cash-based approach, and in particular unconditional transfers, which are directed at the most vulnerable groups; notes that, by using local markets, these approaches can be more efficient than assistance in kind, and do not necessarily carry a greater fiduciary risk; urges DG ECHO, therefore, to continue to develop these cash-based approaches and to encourage its partners to use them;
27. Recalls the conclusions reached following the three cycles of headquarter (HQ) audits carried out by DG ECHO's External Audit Sector (EAS) on the nature and solidity of financial relations between DG ECHO and its partners, to the effect that funds made available by the Commission have been used, on the whole, with reasonable care and in accordance with the rules and regulations in force;
28. Notes that most of the recommendations resulting from EAS HQ audits of the FPA partners refer to the procurement rules of the partners; draws attention to one of the main findings of the HQ audits, which is that not all FPA partners (coming under both the A- and the P-control mechanisms) have procedures in place which are fully compliant with the principles of Annex IV to the 2008 FPA; notes that there are issues relating to the provision of complete procurement files and the establishment of better-documented and solid procurement procedures;
29. Notes that the following issues must be addressed by the FPA partners: establishing appropriate internal control mechanisms, improving their financial cost allocation systems and making them more transparent, improving weaknesses in their accounting systems and their management's commitment to quality standards, establishing a risk management process for the whole organisation and raising awareness of the dangers of fraud and corruption;



30. Notes that ECHO partners can subcontract implementing partners to carry out activities to support humanitarian actions; deplores the lack of proper procedures, and of oversight and proper management by FPA partners of their implementing partners; calls on the Commission accordingly to address this issue, considering the risk to which this may give rise in cases of fraud, the lack of access to underlying documents and the fact that ECHO does not have mechanisms to identify the subcontracted implementing partners;
31. Believes that genuine and continuous involvement of beneficiaries in the planning and management of aid is one of the essential preconditions for high-quality, prompt humanitarian responses, particularly in the case of long-term crises; points out that in many cases there are no formal mechanisms in place to provide complaints/feedback from the beneficiary to the partner concerned or clear rules on the protection of whistleblowers; stresses that this is an important measure for improving the effectiveness and accountability, and preventing potential misuse of, aid materials; calls on DG ECHO to establish such mechanisms without delay;
32. Recalls the EAS recommendation according to which there is a need for improved distribution and post-distribution monitoring by staff not involved in the process itself, so as to evaluate whether needs assessment has identified all requirements and whether these requirements have been met; calls on the Commission to implement the lessons learned from these monitoring activities;

#### *UN partners*

33. Recalls the ECA opinion, as set out in its Special Report 15/2009, that the strategic and legal requirements for selecting partners in an objective and transparent way are insufficiently translated into practical criteria to support decision-making in the case of UN partners; calls on the Commission to systematically carry out and document formal appraisals comparing the aid delivery mechanisms of UN partners and those of other partners;
34. Notes that, in addition to its contribution to indirect costs (up to 7% of the budget for an activity), i.e. costs that are not directly related to the implementation of a specific project, the Commission funds a variety of costs related directly (direct costs) to the project, including the support costs for local offices, staff and transport directly related to activities; points out that the level of support costs, such as transport, storage and handling (e.g. of food assistance) varies strongly; acknowledges that the reason for this can be country-specific, depending on the conditions, but points out that it can also be due to the need to streamline operations, in order to make them more cost-effective; suggests that the Commission assess the level of support costs with reference to a normal range or benchmark for the type of project concerned, in order to establish whether it is reasonable;

#### *Various other issues*

35. Stresses that, alongside essential criteria such as experience and expertise, past performance, coordination, dialogue and speed, cost-effectiveness must also be an important criterion for selecting partners; welcomes the fact that ECHO is currently working on the development of a comparative cost information system ('Cost Observed for Results') based on comparable unit costs; stresses the importance of using the

information provided by this tool to analyse the cost-effectiveness of project proposals;

36. Draws attention to the frequent topping up of DG ECHO's budget, either through the use of the Emergency Aid Reserve or through transfers from other budget lines from the external aid heading of the EDF; considers budget top-ups to be a structural issue; stresses the necessity to draw up a realistic budget, allocating appropriations for natural disasters or humanitarian actions on the basis of confirmed experience with spending in previous years;
37. Stresses the fact that the European Union must strengthen its reaction capacity, given the growing number of major natural disasters; recalls, with this in mind, that Parliament has for many years been calling for a more realistic humanitarian budget in the interests of remedying the chronic underfunding of the relevant budget lines, making it possible to provide some financial leeway throughout the financial year, and maintaining a coherent balance between the financing of measures to prevent humanitarian disasters and of measures to ensure rapid responses to natural and man-made disasters;
38. Welcomes the recent Commission communication on the 2014-2020 multiannual financial framework, which provides for an increase in the humanitarian aid instrument budget of EUR 6.4 billion over this period (i.e. an annual average of EUR 915 million, as against EUR 813 million in 2007-2013); also notes with satisfaction the increase in the Emergency Aid Reserve for the same period, bringing it up to EUR 2.5 billion, as well as the proposal for unspent funds in the reserve to be carried over to the following year, and asks the Commission to ensure that these funds continue to be earmarked principally for urgent humanitarian needs;
39. Asks for the EU budget to support actions designed to anticipate disasters, prepare for them, avert them and react more quickly to them, as well as measures to ensure greater flexibility in launching development measures as a means of emerging from crisis situations; finds it regrettable that concrete progress on the link between emergency aid, rehabilitation and development remains limited despite the many political commitments made in recent years;
40. Calls therefore for more and better-managed resources to be deployed to guarantee continuity of aid in the transition phase between emergency and development, and for thought to be given to achieving greater flexibility and complementarity of the existing financial mechanisms, particularly in the context of EDF and DCI country/regional strategy papers; calls for particular care for children, as well as expectant mothers and mothers of young children, with regard to the provision of food, clothing, evacuation and transportation, and of medical facilities with a view to preventing unwanted pregnancies and sexually transmitted diseases, as priority areas under the existing financial mechanisms;
41. Recommends that the primary focus of this transitional, rehabilitation-oriented phase between emergency aid and development should be capacity-building in local institutions and a high level of involvement of local NGOs and associations in the planning and implementation phases in order to facilitate and build a basis for high-quality and effective human development programmes;

42. Considers that there is satisfactory visibility for ECHO-funded actions; recognises the significance of measures to ensure visibility in terms of accountability and helping to reduce the risk of double financing; stresses that this should not become a means of brand promotion for humanitarian agencies and should not result in people competing for visibility at the expense of meeting the real needs of beneficiaries;
43. Considers that the increasingly large role accorded to consortia has a potentially positive effect in terms of scaling up the humanitarian response and improving coordination; calls on the Commission to provide clearer guidance to guarantee transparency and ensure that consortia do not negatively affect the diversity of the NGO community, with particular reference to small and medium-sized organisations;

*Need for sustainability, coherence and complementarity*

44. Points to the significance of linking relief, rehabilitation and development (LRRD) in order to strengthen the links between relief, recovery and development and to ensure a smooth transition from humanitarian aid to development aid; stresses that there is still much work to be done to improve the coordination, efficiency, effectiveness and consistency of LRRD;
45. Welcomes the fact that DG ECHO promotes disaster risk reduction (DRR) through the DIPECHO programme and as an integral part of humanitarian actions;
46. Calls on DG ECHO to focus more closely on the sustainability of humanitarian actions; urges DG ECHO and other relevant Commission services to put greater emphasis on DRR and disaster preparedness, strengthen the resilience of the population at risk through capacity building, training and public awareness measures, and establish efficient early-warning systems in disaster-prone and crisis-hit countries, in order to enable them to react appropriately;
47. Believes that cultural sensitivity and knowledge is a key factor in delivering effective humanitarian aid; stresses, for example, that the products delivered during humanitarian actions must be suitable and acceptable to the local population;
48. Calls on DG ECHO to carefully consider the possible negative effects of humanitarian aid; points out that, for example, a surplus of food aid can discourage local food production and have a negative effect on the local markets, thus endangering food security in the long term;
49. Urges the Commission to ensure better coherence and complementarity between humanitarian aid and development aid, both on the policy level and in practice;
50. Believes that the current acute food crisis in the Horn of Africa is also the tragic consequence of a lack of coherence and complementarity in international humanitarian and development aid; points out that, unlike natural disasters, this has been a slow-onset crisis that has gradually escalated into a humanitarian disaster; recalls that, unfortunately, droughts and food shortages have taken on a chronic character in the Horn of Africa; deplores the fact that, despite this reality and the vast amount of development assistance

that has flowed into the region over the past decades, there are no visible results in terms of strengthening the self-sufficiency of local farmers and thus ensuring sustainability;

*Haiti and Pakistan*

51. Regrets that 2010 will be remembered as the year of two mega disasters: the devastating earthquake in Haiti, followed by a cholera epidemic, and the unprecedented floods in Pakistan;
52. Notes that in 2010 ECHO allocated EUR 122 million to Haiti and EUR 150 million to Pakistan, and that the humanitarian assistance allocated to Pakistan by ECHO was the largest intervention ever conducted in one year;
53. Recognises that the scale of the disasters and the inherent difficulties, including physical access and security concerns, made the conditions extremely complex; points out that both disasters brought similar problems to light;
54. Points out that efficient international coordination is an essential prerequisite for efficient and effective humanitarian assistance, recognises the added value of operating – as well as the need to operate – under the umbrella of the UN Office for the Coordination of Humanitarian Affairs (OCHA) during humanitarian aid operations;
55. Notes that the Commission provides the OCHA with significant support; deplores the fact that the experience in Haiti and Pakistan highlighted the currently insufficient coordinating ability of the OCHA; stresses that the OCHA's ability to fulfil its coordinating role was undermined by low capacity, inadequate needs assessment and only partially functional electronic tools for processing the information;
56. Notes that the Commission has provided the UN with significant support in its efforts to develop and implement the cluster system; stresses that both disasters revealed that there is still much work to be done to improve its effectiveness, efficiency and coordination and to reinforce ownership and accountability;
57. Points out that the Commission did not provide Parliament's rapporteur with the final narrative and financial reports of the ECHO partners on the implementation of humanitarian actions in the aftermath of the catastrophes in Haiti and Pakistan in 2010, on the grounds that they included sensitive information on ECHO partners; stresses that Parliament must have access to such reports, or at least to the main facts about the efficiency and effectiveness of the implementation of actions, in order to be able to judge as to their sound financial management;
58. Points out that the Committee on Budgetary Control will send a delegation to Haiti in light of the problems reported in connection with the aid allocated to Haiti;
59. Calls on the Commission to raise the matters relating to the UN with the relevant UN bodies;
60. Instructs its President to forward this resolution to the Council and the Commission.

## EXPLANATORY STATEMENT

### *ECHO as a humanitarian actor*

The EU (the Commission together with the Member States) is the world's largest donor of humanitarian aid. The EU's total contribution of humanitarian aid including the Member States, in 2010 was EUR 2 957 million, whereas the share of the EU MS was 64% and the funds channelled through the Commission amounted to 36%.

ECHO is the Directorate General (DG) of the European Commission responsible for the implementation of EU humanitarian aid (Regulation (CE) 1257/96). DG ECHO's mandate encompasses humanitarian assistance and civil protection, the two main instruments at the EU disposal to ensure delivery of humanitarian assistance to the victims of disasters and protracted conflicts.

ECHO implements its mandate by funding about 200 partners: NGOs, UN agencies international organisations and specialised agencies of Member States. The Commission manages its humanitarian activities from its headquarters in Brussels via a network of more than 40 field offices all over the world.

### *ECHO financial and human resources*

The average budget managed by DG ECHO for its humanitarian aid activities between 2006 and 2010 is EUR 889 million annually. In 2010 the initial humanitarian budget of EUR 835 million was reinforced to EUR 1.115 million several times to respond to the new crises and natural disasters occurring during the year, i.e. the two mega disasters in Haiti and Pakistan and to the food crises in Sahel. Compared to the budget in 2009 this is an increase of 21.8%. The budget in 2009, compared to 2008, decreased by 0.8%.

The humanitarian operations are financed under the EC budget Title 23 for humanitarian aid and civil protection. With the approval of the budgetary authority, the budget of EU humanitarian aid can be reinforced, mobilising funds from the Emergency Aid Reserve (EAR) - Title 40 in order to respond to the needs arising from unforeseeable events. Other sources are transactions from other budget lines such as the External Aid heading and in case of ACP countries the EDF reserves (B-envelope). In the 18 years of its existence, DG ECHO has had to seek budgetary reinforcements every year. The average use of the Emergency Aid Reserve over the last 5 years is EUR 127 million per year, whereas the average use of EDF funds during the same period is EUR 44 million per year.

At the end of 2010 human resources at DG ECHO's headquarters totalled 289 staff. The number of experts in the field under contract was 107 and 306 local staff working at DG ECHO's field offices. Thus at the end of 2010 a total staff of 413 were working at DG ECHO's field offices. Compared with 2009, there was an increase in the number of staff both at the HQ and in the field. The number of HQ staff increased by 17%, while the number of total staff working in the field increased by 5%.

In 2010, the share of ECHO funding channelled through NGOs increased from 44% in 2008 to 50% in 2010. Over the same period the share of funding taken by the UN decreased from 46% to 39%. In 2008 the percentage of funding allocated to the UN (46%) was particularly high due to the food crisis, for which operations were mainly implemented by WFP. In 2010, other IOs received 11% of the ECHO funding. This was a decrease as compared to 14% in 2009 and a slight increase as compared to 10% in 2008.

According to the geographical breakdown of the ECHO funding of humanitarian assistance, the largest recipient in 2010 was Africa with 42% of the funding, followed by Asia, Latin America, Caribbean & Pacific with 39%. In comparison with 2009, the funding for Africa in 2010 decreased by 9%, whereas the funding for Asia, Latin America, Caribbean and Pacific increased by 12%. The reason for the latter increase was the two massive disasters in Haiti and Pakistan in 2010.

The funding for non geographical assistance i.e. capacity building, grants and services, information, the network and study initiative NOHA<sup>1</sup> in the humanitarian field remained 4%.

### *ECHO system of checks and balances*

ECHO agreements for humanitarian operations with partner NGOs are implemented according to the method of direct centralised management. Agreements with the UN and other IOs are managed according to the joint management mode.

In 2010, 53.4% of the contracts signed by ECHO were managed according to central direct management and 46.4% according to the principle of joint management.

Due to its nature, direct centralised management ensures higher accountability. Despite its name, the tasks related with the budget implementation and control are not jointly managed in the case of joint management. Instead, they are delegated to international organisations to be implemented in accordance with their own accounting, audit, internal control and procurement procedures, provided these conform to internationally accepted standards. Due to the principle of exclusive or single audit, the Commission does not carry out audit. Instead, it conducts field monitoring and verification missions. There has been recurrent criticism both by the ECA and the Parliament in the context of discharge procedure over the joint management method of international organisations. The subject of criticism has been the lack of coherence, the rigidity and the various sources of confusion stemming from the many added layers of legislation, which are a major cause for errors. An important point of criticism has also been the weaknesses in terms of control and follow-up of the use of EU funds.

The Commission proposal for the revision of the Financial Regulation (FR) addresses this issue, replacing the method of joint management with indirect management. In order to strengthen the responsibility of the parties managing the budget for the Commission, it would oblige them to provide the Commission:

- a) with a report on the implementation of the tasks entrusted,
- b) the accounts drawn up for the expenditure made in the execution of the tasks entrusted,
- c) a summary of the results of all available audits and controls carried out, including an

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<sup>1</sup> Network on Humanitarian Assistance

analysis of systematic or recurrent weaknesses as well as corrective actions taken or planned, d) a management declaration of assurance complemented by the opinion of an independent audit thereon.

Nevertheless, according to the FR proposal, the obligations mentioned above should be without prejudice to provisions made in agreements concluded with international organisations (IOs), in order to take into account the specificities of external relations. IOs are not subject to the FR and any obligation concerning the implementation of EU funds needs to be agreed upon with them through the negotiation of framework or contribution agreements. Your rapporteur is of the opinion that the accountability and control requirements set for the indirect management, notably in terms of access to audit reports must be valid for the IOs, i.e. the UN, the Red Cross Family and the IOM. The access to the internal audit reports of ECHO partners is essential in order to verify their sound financial management.

#### *Framework Partnership Agreement*

Relations between ECHO and NGOs are governed by Framework Partnership Agreements (FPA), which define the roles and responsibilities in humanitarian operations financed by the EU. The current FPA entered into force on 1 January 2008 and shall remain valid until 31 December 2012. The FPA internal control mechanisms consist of regular partner assessments, ex-ante controls on the selection of projects and before their signature, regular monitoring during their implementation, ex-post audit after their completion and evaluations.

#### *Partners' selection and assessment*

The signature of the FPA is based on an assessment by the Commission, of humanitarian organisations' compliance with the conditions laid down in the *Humanitarian Aid Regulation* and the *Financial Regulation*. Upon the signature of FPA, partners are assigned to either *A-* or *P-control mechanisms*. This division was introduced by the FPA 2008 in order to facilitate and improve the efficiency of the cooperation between the Commission and its partners.

The status of *P-control Mechanism* (P for 'Prior assessment' or own Procedures) is granted to ECHO partners based on ex-ante assessment. DG ECHO assesses the technical capacity, i.e. internal control system and risk management, organisation procedures, financial solidity and the procurement rules and procedures of its partners. P-control mechanism is thus applicable to actions where the financial, internal control and procurement procedures of the contracting authority are recognised as equivalent to internationally accepted standards. P-control partners can thus:

- a) apply their own procurement procedures,
- b) comply with the provisions of chapter 2 (general provision on e.g. ethical, transparent procurement and tender) and 4 (Special Rules) of FPA Annex IV,
- c) the actions of P-control partners are not subject to contractual limits on funding.

P-control mechanism foresees some controls related to final reporting, monitoring, *ex post* audits on the implementation of the humanitarian organisation's own rules and procedures. In contrast with partners under A-control mechanism fewer audits of the internal control systems are carried out.

A-control mechanism ('A' for Action related monitoring) does not require the same level of ex ante assurance with respect to the financial, internal control and procurement procedures of

ECHO partners. It focuses on the monitoring of the actions' implementation, more extensive controls related to the final report and supported by ex post audits of the actions and the compliance with the FPA conditions. Thus partners implementing actions under the A-control mechanism have:

a) maximum funding ceiling; and

b) are required to comply with the full text of Annex IV, including Section 3 laying down detailed procurement procedures and with DG ECHO's Humanitarian Aid Guidelines on Procurement.

ECHO also carried out periodic assessment of signatory Humanitarian Organisations (FPA Article 12 in a two-phase procedure.

#### *Results of the periodic assessment 2008, 2009 and 2010*

The results of the annual assessments in 2008, 2009 and 2010 demonstrate that since signing the FPA the number of the partners under A-control mechanism rose from 22% to 44%, whereas the percentage of P-partners sank from 78% to 56%. Currently out of the 182 partners, 79 are under A- control mechanism and 93 are under P-control mechanism.

#### *Monitoring during the implementation of projects*

Besides the regular partner assessment and the ex-ante control to assess the suitability of partner, DG ECHO desk and field experts closely monitor the implementation of projects through regular day-to-day monitoring of progress of each project. The outcome of the monitoring is recorded on so-called fichops (project appraisal worksheet). Apart from this, the Commission carries out project monitoring by a network of field experts and regular visits by geographical desks, auditors and management. Partners are also obliged to submit reports after the end of the operation to substantiate their expenses. Approximately 10 evaluations are undertaken on average each year, focusing on major country operations (i.e. operations that receive funding totalling about EUR 50 million and have not been evaluated in the last three years), partners and thematic issues.

#### *Audits*

The External Audit Sector (EAS) of DG ECHO carries out audit on the activities of the external partners and contractors. This audit strategy is based on twin-track approach: i.e. audits in the headquarters (HQ audits) on a cyclical basis for finalised projects and in the field for ongoing projects. The audits at the HQ of partners take place once every two to four years, which should ensure an annual coverage of 25-30%. These audit findings are analysed by the Commission officials and appropriate follow-up action is taken, such as recovery of funds.

The Internal Audit Capability provides assurance and consulting services designed to add value and improve the operations of ECHO. It makes recommendations on improving the effectiveness of risk management, control and governance processes.

#### *UN*

The relations between ECHO and the UN are governed by the Financial and Administrative Framework Agreement (FAFA).

The Commission first carries out an assessment of the financial control mechanisms of its UN partners through 4 pillar analysis to ensure they meet international standards. The Commission also conducts field monitoring and verification missions. Although not part of



the Commission's monitoring procedures, ECA checks the eligibility of a sample of expenditure implemented through UN organisations as a part of its annual financial audit of the Commission's accounts.

15.11.2011

## **OPINION OF THE COMMITTEE ON DEVELOPMENT**

for the Committee on Budgetary Control

on budgetary control of EU humanitarian aid managed by ECHO  
(2011/2073(INI))

Rapporteur: Michèle Striffler

### **SUGGESTIONS**

The Committee on Development calls on the Committee on Budgetary Control, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Stresses the fact that the European Union must strengthen its reaction capacity, given the growing number of major natural disasters; with this in mind, recalls that the European Parliament has for many years been calling for a more realistic humanitarian budget in the interests of remedying the chronic underfunding of the relevant budget lines, making it possible to provide a margin of financial manoeuvre throughout the financial year, and maintaining a coherent balance between the financing of measures to prevent humanitarian disasters and measures to ensure rapid responses to natural and man-made disasters; welcomes the recent Commission Communication on the 2014-2020 Multiannual Financial Framework, which provides for an increase in the humanitarian aid instrument budget of EUR 6.4 billion over this period (i.e. an annual average of EUR 915 million, as against EUR 813 million in 2007-2013); also notes with satisfaction the increase in the emergency aid reserve for the same period, bringing it to EUR 2.5 billion, as well as the proposal for unspent funds in the reserve to be carried over to the following year, and asks the Commission to ensure that these funds continue to be earmarked principally for urgent humanitarian needs;
2. Asks for the EU budget to support actions designed to anticipate disasters, prepare for them, avert them and react more quickly to them, as well as those enabling greater flexibility in launching development measures as a means of emerging from crisis situations; finds it regrettable that concrete progress on the link between emergency aid, rehabilitation and development remains limited despite the many political commitments made in recent years; calls therefore for more and better-managed resources to be deployed to guarantee continuity of aid in the transition phase between emergency and

development, and for thought to be given to achieving greater flexibility and complementarity of the existing financial mechanisms, particularly in the context of EDF and DCI country/regional strategy papers; calls for particular care for children, as well as expectant mothers and mothers of young children, with regard to the provision of food, clothing, evacuation and transportation, and of medical facilities with a view to preventing unwanted pregnancies and sexually transmitted diseases, as priority areas under the existing financial mechanisms;

3. Recommends that this transitional, rehabilitation phase between emergency aid and development should primarily focus its attention on the capacity-building of local institutions and a high level of involvement of local NGOs and associations in the phases of planning and implementation in order to facilitate and build the basis for high-quality and effective human development programmes;
4. Recognises the benefits of seeking new arrangements for financing by DG ECHO, together with its partners; calls at the same time for the diversity of the actors involved in financing and implementing the European humanitarian programmes – the United Nations, the International Red Cross and Red Crescent Movement, NGOs – to be borne in mind, given that disasters often transcend national borders and require multilateral, coordinated responses; encourages the work of strengthening the capacities of local stakeholders and increasing assessment and rapid response capabilities on the ground through DG ECHO's offices as well as field experts;
5. Emphasises the high-quality work carried out by DG ECHO's partners, achieved by means of an effective selection method – such as the Framework Partnership Agreement – and the development of standards and practices applicable in the humanitarian field; stresses also that effective monitoring of the use of funds in the form of audits of the partners carried out by private audit firms is essential and helps to legitimise the humanitarian sector; notes, however, in the interests of safeguarding the diversity of the partners and guaranteeing access for small and medium-sized NGOs, the complexity of the administrative access procedures, the excessive administrative charges, which are very costly for NGOs, and the difficulties experienced with undergoing audits, given the lack of human resources, and calls for the tools used to be appropriate to the specific requirements of the humanitarian sector and to local requirements, so that humanitarian aid is targeted appropriately and coordinated action by the various aid organisations involved begins at an early stage;
6. Commends DG ECHO's efforts to promote the use of innovative approaches such as the cash-based approach, and in particular unconditional transfers, which are directed at the most vulnerable groups; notes that, by using local markets, these approaches can be more efficient than assistance in kind, and do not necessarily carry a greater fiduciary risk; urges DG ECHO, therefore, to continue to develop these cash-based approaches and to encourage its partners to use them.

## RESULT OF FINAL VOTE IN COMMITTEE

<b>Date adopted</b>	7.11.2011
<b>Result of final vote</b>	+: 24 -: 0 0: 0
<b>Members present for the final vote</b>	Thijs Berman, Leonidas Donskis, Charles Goerens, András Gyürk, Eva Joly, Franziska Keller, Miguel Angel Martínez Martínez, Norbert Neuser, Birgit Schnieber-Jastram, Michèle Striffler, Alf Svensson, Patrice Tirolien, Ivo Vajgl, Anna Záborská
<b>Substitute(s) present for the final vote</b>	Santiago Fisas Aixela, Fiona Hall, Krzysztof Lisek, Isabella Lövin, Horst Schnellhardt, Giancarlo Scottà, Jan Zahradil
<b>Substitute(s) under Rule 187(2) present for the final vote</b>	Josefa Andrés Barea, Sophie Auconie, João Ferreira

## RESULT OF FINAL VOTE IN COMMITTEE

<b>Date adopted</b>	8.12.2011
<b>Result of final vote</b>	+ : 11 - : 0 0 : 0
<b>Members present for the final vote</b>	Inés Ayala Sender, Zigmantas Balčytis, Jorgo Chatzimarkakis, Martin Ehrenhauser, Jens Geier, Ingeborg Gräßle, Ville Itälä, Cătălin Sorin Ivan, Bart Staes
<b>Substitute(s) present for the final vote</b>	Zuzana Brzobohatá, Christofer Fjellner, Ivailo Kalfin, Theodoros Skylakakis, Barbara Weiler