

**EuropeAid Co-operation  
Office  
Annual Activity Report  
2010**



EUROPEAN COMMISSION

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## 1. POLICY ACHIEVEMENTS

### 1.1. Achievements by policy area

#### 1.1.1. EuropeAid's Policy Objectives

This report reviews the work of the EuropeAid Co-operation Office during 2010. In line with the objectives set at the start of the year, EuropeAid delivered, in financial terms, commitments of €7.5 billion and signed contracts to the value of €7.8 billion. Payments made amounted to €4.3 billion from the EU General Budget and €3.3 billion from the European Development Funds.

We know, however, that the relationship between money spent on development aid programmes and development itself is not necessarily linear. So what lessons do we draw from this year's events to inform our current and future work? Firstly, as the 2010 review of progress towards meeting the Millennium Development Goals showed, this progress has been and still can be made, but only where country strategies are really those of the country concerned, and are supported by international donors. EuropeAid is in the vanguard of donors pushing to make aid more effective by working together, and efforts were intensified in this year to move forward the three main aid effectiveness priorities: the use of a country's own systems to channel bilateral assistance; coordination between donors to avoid fragmentation of aid programmes; and reform of the way in which the Commission provides technical support.

Secondly, donors need to ensure that all our work is geared to the alleviation of poverty, and that the impact of this work can be measured, and increased. Together with other donors at the UN summit in September, the Commission committed itself to the global action agenda. As explained in the Green Paper on EU development policy, if we are to achieve the MDGs we need to ensure that every euro we spend is making the greatest possible difference. We must continue to develop alternative and innovative funding solutions, and we cannot allow institutional matters to distract from our ambition to achieve these goals.

In 2011, EuropeAid will change as it becomes EuropeAid Development and Cooperation Directorate-General, responsible not only for the implementation of actions in a given country, but for the developmental vision underpinning that action. The European External Action Service began work on 1 January. The European Union now has a real opportunity to coordinate better European foreign and development policy.

The year 2010 began with the earthquake in Haiti and ended with uprisings on the streets of Tunis. In between, Southern Pakistan suffered devastating floods in July. Two of these three big events were humanitarian disasters but their impact was all the greater for hitting people already living in great poverty. The effects of the food and economic crises continue to fall disproportionately on the poorest people living in developing countries.

The Commission responded to these crises with speed and efficiency, both with emergency aid and with the longer-term development aid which is the subject of this report. Promises were made, and EuropeAid delivered on those promises. This year we disbursed as promised €74 million in development assistance for Haiti, of the total €522 million pledged. The €1 billion Food Facility, agreed in 2008 to help to mitigate food price rises, was almost entirely contracted and paid during 2010, programming and securing of funds having been completed in 2009. After the floods in Pakistan, the Commission rapidly reviewed existing programmes to adapt them to the needs of the internally displaced and malnourished survivors of the floods, and a further €100 million was pledged. The Commission came to the help of 17 countries badly affected by the global economic crisis, mostly, but not exclusively, in sub-Saharan Africa. The Vulnerability-Flex mechanism of the European Development Fund had been used to earmark €500 million, of which 82% was paid in 2010.

This report summarises the actions and gives some examples of initiatives taken in this year in pursuance of our commitment to achieving the MDGs and to delivering high quality

and effective aid. It also presents, in its second part, the institutional framework within which we work.

**Objective 1: Contribute to poverty reduction through sustainable development**

This objective covers an extremely broad range of actions, including reconstruction following disasters or conflict, measures to improve social and economic cohesion and the development of social and economic services, contributions to health, education and vocational training programmes, and the promotion of regional integration strategies. For instance:

Several programmes are ongoing which support **Haiti's** mid and long term rehabilitation and development. In the aftermath of the earthquake, one of the biggest challenges for the relief effort was the poor state of Haitian roads. The 200km road between Port-au-Prince and Cap Haitien, a crucial link between the north and south of the country, is one of many roads which Commission aid will improve, cutting eight hours travel to only three. Some other areas of Commission support in Haiti include: the creation of an industrial park in the north of the country; support for the education system; water, sanitation and hygiene programmes; support for sustainable mango production, and support to decentralisation, reinforcing the capacities of local authorities to provide basic services to the population.

In the Middle East the PEGASE mechanism continues to provide direct financial support for the **Palestinian** Reform and Development Plan (PRDP). PEGASE is implemented in full coordination with Palestinian partners and in full co-operation and transparency with EU Member States, the European Parliament and other donors. It is particularly appreciated by the Palestinian Authority for its alignment with the PRDP and the strong sense of ownership on the part of Palestinians as well as for its flexibility and its catalytic nature in attracting funds from other donors without multiplying transaction costs.

The Commission welcomed the Cancun Agreements on climate change and the environment. EuropeAid's objective is to pursue high quality implementation of EU initiatives and internationally agreed commitments. One target is to involve developing countries in adopting substantive strategies to mainstream resilience to climate change in developmental activities by 2013. To this end and with EU assistance, 44 out of 49 Least Developed Countries have prepared a National Adaptation Programme of Action. Climate-proofing activities continued under the umbrella of the Global Climate Change Alliance in four developing countries with a further eight identified, and substantial technical assistance is being provided. EUroCLIMA, an environmental programme generated by the Lima Declaration, was launched in 2010. The programme aims to fight climate change through knowledge sharing, structured and regular dialogue between the EU and Latin America at all levels, and coordination of current and future actions.

EuropeAid projects supported the strengthening of **health** systems and health services, providing training for health workers. For example, the Commission continues successfully to fund the primary health care delivery in ten provinces and hospital services in five provinces of Afghanistan. In Colombia the final evaluation of the PASSE programme found that the programme had successfully contributed to the transformation of the health sector and the identification of a new model for primary health care since 2007. Upgraded infrastructure, equipment, and training of health workers has improved the quality of services and broadened access to the population. This form of bilateral support to partner governments is one of EuropeAid's main approaches to health improvement but not the only one: in Benin and Congo, for example, the Commission worked with a voluntary organisation to support an integrated approach to HIV and tuberculosis care. The national healthcare systems in both countries have been reinforced through capacity building measures to manage a more holistic care for patients. At the global level the Commission also works actively with other donors, supporting for example the Global Alliance for Vaccines and Immunisation, which has prevented 5.4 million premature deaths through its vaccination programmes.

**Education** is a priority sector for EuropeAid and the focus of many sectoral support programmes. For example, the Commission is funding Education Reform Programmes in Khyber Pakhtunkhwa and Sindh in Pakistan. The Sindh programme has been very successful in strengthening the capacity of school management committees, assessing learning achievement, and delivering stipends to girls. 309 good quality middle schools and 656 primary schools were also completed in districts which had been affected by earthquakes. The Commission cooperates in this sector with governments and other donors, for example through continued support to the Education for All Fast Track Initiative.

The €1 billion Food Facility continued to be the most significant additional global contribution to stimulate agricultural development and **fight hunger** in developing countries. Over one hundred of the programmes initiated in 2008 could already be monitored and results show that the design and relevance of the programmes is likely to lead to good results and impact. EuropeAid disbursed € 536 million for food security programmes in 2010.

**Objective 2: Contribute to peace and security outside the EU through targeted external assistance activities**

The Commission contributes to the attempts to resolve the Middle East conflict, supports stability in Central Asia, reconstruction in Iraq and Afghanistan, and helps the African Union in its work in conflict and post conflict areas.

In **Afghanistan** Commission assistance continues to contribute to the reconstruction process and to furthering the rule of law, in particular through continued funding for the Law and Order Trust Fund (LOFTA). LOFTA finances police, border management and customs support. Just one example is an initiative supported by the Commission to upgrade the general level of border security to counter drug trafficking through the Afghan-Tajik border and to improve the level of border enforcement on the southern Tajik border. A training border guard academy was set up in Dushanbe; computer classrooms were established at four locations along the Tajik-Afghan border and in the capital to implement field training activities; equipment was provided for four mobile units, and seven dog-handling units were set up on the Tajik-Afghan border

The **Instrument for Stability** is used to promote trans-regional cooperation in the fight against drugs trafficking. The programme also continues to fund work on export controls in the Balkans, the former Soviet Union, South-East Asia, the Middle East and North Africa. To increase levels of maritime security and safety along critical maritime routes, work in three countries in the Horn of Africa and the Gulf of Aden was initiated. A training centre in Djibouti and a regional information centre in Sana'a, Yemen, were established. The Commission continues to be a leading actor in nuclear safety in the neighbourhood region.

The **African Peace Facility** is the first EU development instrument which focuses exclusively on peace and security in Africa. Since its establishment the EU has channelled €1040 million through it, and its scope was broadened in 2007 to include conflict prevention and post-conflict stabilisation. The instrument is holistic, combining capacity building, peace support operations and a rapid response mechanism which can supply, for example, immediate mediation or reconnaissance services where an emergency threatens.

### ***Objective 3: Promote democracy and human rights outside the EU through targeted external assistance activities***

Under this objective the Commission promotes democracy and respect for human rights by encouraging political dialogue and by mainstreaming democratic values in all its development instruments. Specific programmes focus on four areas: promoting fair, free and transparent electoral processes; strengthening the capacities of parliaments; promoting an independent and professional media, and encouraging pluralistic political systems.

To give just two examples: the Commission supported the 2010 **electoral process** in Southern Sudan using a variety of instruments: co-chairing the Donor Working Group on Elections; contributing to the UN-led programme which provided electoral materials as well as logistics and operational support, development of electoral awareness and the training of electoral staff, but also funding smaller projects run by NGOs. The Commission also better equipped the Ministry of Legal Affairs and the judiciary of Southern Sudan better to carry out their legislative and judicial functions: offices and accommodation were constructed in three states, and 93 legal counsellors and 56 judges received training on civil and criminal procedure, the new legislation of the country, legal English and judicial skills.

EuropeAid promotes the mainstreaming of good **governance** in all areas of co-operation and also supports targeted interventions in key governance areas. One such intervention, the results of which could be seen in 2010, was the independent observation mechanism of the forest law and governance of the Congo Basin. Involving several countries, the programme aimed to improve the control of forestry activity, to reinforce the capacity of civil society to perform an independent observation role, and to support legal and institutional reform in the forestry sector.

In Part 1 and Annex 8 of this report, some indicators are used which mirror our [Management Plan](#) but many of the indicators we use are not shown given space constraints. Please see the section in the management plan explaining how EuropeAid uses indicators in practice.

Similarly with evaluations: some are mentioned in this report but for more detail please visit our website [Evaluation](#)

## **1.2. EuropeAid's General Objectives 2010**

### **1.2.1. Introduction**

EuropeAid Cooperation Office has been responsible for the implementation of the European Commission's external aid instruments, tasked with managing these in an efficient and effective manner, ensuring a high level of quality and speed of implementation, and thus contributing to the visibility of the European Union's development aid. In this context EuropeAid Cooperation Office contributed its knowledge of work in the field to the design of development and sectoral policy, while being responsible for putting these policies into action via a range of innovative implementation instruments and mechanisms, together with guidelines and tools to help disseminate expertise.

On October 27 of this reporting year, the Commission announced its intention to merge EuropeAid Co-operation Office with the Commission's Directorate-General for Development, creating a new DG: EuropeAid Development and Cooperation DG. The merger took place formally on January 3, 2011, although a few months are needed to put a new structure into place. On July 26, 2010, the Council of the European Union adopted a Decision on the establishment and functioning of the European External Action Service (EEAS). Staff were transferred to this new service on January 1, 2011, some of them from the former DG Development. EuropeAid Development and Co-operation DG will be the main Commission interlocutor for the EEAS, and will have new resource management and coordination responsibilities with regard to Commission staff posted in EU Delegations.

EuropeAid Development and Co-operation DG will be responsible for designing European development policy and delivering aid throughout the world. It will enhance policy coherence for development while further improving implementation and delivery mechanisms. It will also define future development policy drawing from the objectives of the EU's Green Paper on development policy. EuropeAid Development and Co-operation will play a leading role in the international debate for development involving donors, international institutions, developing and emerging countries and non State actors.

The three general objectives which were set up for the work of EuropeAid Cooperation Office are shown below. The new EuropeAid Development and Co-operation DG is currently redefining its objectives.

A series of indicators are used to monitor the implementation of development policy. Indicators relating to the three general objectives are shown below. An overview of indicators for each of the main activities of the DG is available in Annex 8. Main events in 2010 for each of these activities are presented in sections 1.3.1 to 1.3.11.

## Objective 1. Contribute to poverty reduction through sustainable development

Contribute to poverty eradication outside the EU, as agreed in the European Consensus on Development, through sustainable economic and social development of countries in the neighbourhood region, Africa, Asia, Central Asia, Latin America, and in the Caribbean and Pacific regions, and this in line with the objectives of the UN Millennium Declaration and the objectives agreed between the international donor community and recipient countries in the Paris Declaration on aid effectiveness.

### Impact indicators

Indicator	Target (long-term)	Milestones (if any)	Current situation (n-1) Source: UN MDG progress report 2010 unless otherwise stated
<p><b>Millennium Development Goals, mainly in Africa as well as Asia, Latin America</b></p> <p><b>MDG 1 progress indicators:</b></p> <p><b>Income per capita (calculated at Purchasing Power Parity exchange) in poor countries.</b> Defined by: World Bank</p> <p><b>Share of the Poorest Quintile Consumption/Income</b> Defined by: UN</p>	<p>International target is to halve by 2015 the number of people living on less than \$1.25 a day.</p> <p>Allied with this international target is a commitment to improve aid effectiveness, in line with the Paris Declaration and the Accra Agenda for Action, which includes commitments to increase use of country systems, apply in-country division of labour, further untie aid, address conditionalities and improve predictability &amp; transparency of aid.</p>	<p>Second UN review of progress towards MDGs (2010) where donors and recipients will show how they contributed to the targets.</p>	<p>Despite the check to growth caused by the global economic and financial crisis, the global poverty rate has continued to fall, and this target is likely to be achieved at the global level: the number of people living on less than \$1.25 a day fell from 1.8 billion in 1990 to 1.4 billion in 2005, while the poverty rate fell from 46% to 27% and is still expected to fall to 15% by 2015, which will translate into around half of the 1.8 billion people. In sub-Saharan Africa, however, the number of poor people increased by 100 million between 1990 and 2005, and sub-Saharan Africa, together with Western Asia, and parts of Central Asia and Eastern Europe, may not achieve the target. In Latin America, social inequality remains high. EuropeAid will implement (2007-2013) €33 billion in country-specific programmes (both OECD ODA and Official Aid) via the Commission's external aid instruments and (2008 - 2013) €23 billion via the 10th EDF Joint EU-Africa strategy.</p>
<p><b>MDG 2 and 3 progress indicators, such as:</b></p> <p><b>% Pupils Starting Grade 1 who Reach Grade 5</b></p> <p><b>Literacy Rate of 15-24 year-olds</b></p> <p><b>Ratio of Literate Women to Men 15-24 years old</b> Defined by: UNESCO</p>	<p>MDG 2 aims to achieve universal primary education, ensuring that all boys and girls complete primary school. MDG 3 focuses on promoting gender equality to empower women, eliminating gender disparities in primary and secondary education and at all levels by 2015.</p>	<p>Second UN review of progress towards Millennium Development Goals</p>	<p>In the developing world, enrolment coverage in primary education reached 89% in 2008, with encouraging progress in sub-Saharan Africa and South Asia. The gender gap is closing — albeit too slowly — in primary school enrolment in the developing world: 91:100 girls to boys in 1999 rose to 96:100 in 2008. Though progress is being made, women still lack equal representation at the highest levels of decision-making, accounting for only 6% (9 out of 151) of elected heads of state and 6% (11 out of 192) heads of government of UN Member States. In 2010 women occupied 19% of the parliamentary seats worldwide: 23% in Latin America and the Caribbean, 18% in Sub-Saharan Africa and Southern Asia, and under 10% in Oceania, North Africa and Western Asia.</p>
<p><b>MDG 4 and 6 progress indicators, such as:</b></p> <p><b>Under-5 children malnutrition (weight/age, %)</b> Defined by: WHO</p> <p><b>Malaria (cases per 1,000 people)</b> Defined by: UNDP</p> <p><b>People living with HIV/AIDS (15-49 years)</b> Defined by: UNAIDS</p>	<p>MDG 4 aims to reduce child mortality, by decreasing the mortality rate among children under five by two thirds.</p> <p>MDG 6 concerns the combat against HIV/AIDS, malaria and other diseases</p>	<p>Second UN review of progress towards Millennium Development Goals</p>	<p>Death rates in children under age 5 are dropping. The highest death rates are still in Sub-Saharan African countries and sub-Saharan Africa accounts for half of the worldwide 8.8 million deaths of under-5 children in 2008. The absolute number of deaths of children under 5 has risen from 4.2 million in 1990 to 4.4 million in 2008. While striking progress has been made in some of the poorest countries, many countries currently remain off-track.</p> <p>The number of yearly new infections by HIV/AIDS has continued to decrease in Sub-Saharan Africa. However, the rate of new HIV infections continues to be higher than the rate of increase in the provision of antiretroviral therapies. 67% of all people living with HIV live in Sub-Saharan Africa.</p> <p>In 2008 89% of deaths due to malaria occurred in Africa. However, considerable progress is being made in the struggle against malaria. In Sub-Saharan Africa, the use of insecticide treated nets increased from 2% in 2000 to 22% in 2008.</p>

<p><b>Number of reforms implemented, delivered under the Action Plans for the Neighbourhood area</b></p> <p>Defined by: EC</p>	<p>Approximation of legislative and regulatory framework with European and international standards.</p>	<p>Periodic assessment through reports of approximation of framework in the Neighbourhood region.</p>	<p>Commitment to reform has been uneven amongst Neighbourhood countries, but by and large there has been progress in those areas where specific programmes are in place;</p> <p>Tracking of reform measures is done through programme-specific disbursement decisions with the various sector programmes;</p> <p>Additional momentum is provided in the East through the Eastern Partnership Programme. Potential for momentum in the South via the Union for the Mediterranean continued to be dampened by the Middle East conflict throughout 2010 and the approach is being reviewed and revised in 2011 also taking account of recent developments in the Southern Neighbourhood.</p>
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## Objective 2. Contribute to peace and security outside the EU through targeted external assistance activities

Indicator	Target (long-term)	Milestones (if any)	Current situation (n-1)
<p><b>Number of (state-based and non-state) armed conflicts outside the EU</b></p> <p>Data from UCDP, Uppsala Conflict Data Program, University of Uppsala</p>	<p>Reduction and prevention of (state-based and non-state) armed conflicts.</p>		<p>In 2009 a total of 51 active armed conflicts were recorded: 35 were state-based and 16 non-state conflicts.</p> <p>(UCDP, Uppsala Conflict Data Program, University of Uppsala)</p>
<p><b>Number of refugees, asylum-seekers and internally displaced people (IDPs)</b></p> <p>Data annually compiled and published by UNHCR</p>	<p>Long-term target is to reduce the number of refugees, asylum-seekers and internally displaced people.</p>		<p>There are 15.2 million refugees, 983,000 asylum-seekers and 27.1 million IDPs around the world (2009).</p>

## 3. Promote democracy and human rights outside the EU through targeted external assistance activities

Indicator	Target (long-term)	Milestones (if any)	Current situation (n-1)
<p><b>Number of countries that have ratified four or more of the nine UN human rights treaties</b></p> <p>Defined by: OHCHR</p>	<p>By 2015 there will be an increase of the number of UN Member States having ratified four or more of the nine core human rights treaties.</p>		<p>All UN Member States have ratified at least one of the nine core human rights treaties and 82% have ratified four or more.</p>
<p><b>Number of elections monitored which are carried out in conformity with international standards</b></p> <p>Defined by: EC</p>	<p>Increased trust in public institutions in partner countries.</p>	<p>Continue to deliver at least 10 election observation missions per year.</p>	<p>12 electoral observation missions, 5 electoral expert missions and 2 electoral assessment missions were carried out in 2010, in conformity with international standards. These missions provided an impartial assessment of the electoral process, of particular value where election results were contentious.</p>
<p><b>Number of countries where there is both a strong need for more effective action on the part of civil society organisations and sufficient freedom and/or room for manoeuvre for human rights and democracy advocacy, so as to allow the CBSS - "Country-Based Support Schemes" - to support local civil society</b></p> <p>Defined by: EC</p>	<p>By 2013 at least 90 countries will have benefitted from the country-based support schemes targeting countries where there is sufficient room for human rights and democracy advocacy. This result will already be reached in 2010 and we expect the number of countries to stabilise</p>		<p>91 countries were covered by CBSS in 2010</p>

## **1.3. Achievements by ABB activities (operational activities)**

### **1.3.1. Activity: European Neighbourhood policy and relations with Russia**

The objective of the European Neighbourhood Policy (ENP) is to build, together with partner countries, a secure, stable and prosperous neighbourhood on the basis of shared values and common interests. To achieve its objective, and build an increasingly close relationship between the EU and each of the partner countries, the ENP uses jointly agreed Action Plans. In 2004, the Commission adopted a Proposal for a Regulation on a European Neighbourhood and Partnership Instrument (ENPI), which provides EU financial assistance, including for cross-border co-operation and support for Action Plan priorities, to the ENP countries and Russia. The EuropeAid website carries more information: [European Neighbourhood Policy](#)

#### **Results in 2010**

##### **Bilateral cooperation with Eastern European countries and relations with Russia**

Following the creation of the Eastern Partnership in 2009, the original Regional Indicative Programme 2007-2010 for this region was reprogrammed and now covers 2010-13, with a substantial increase in the funds devoted to democracy and good governance (31% of the total). Progress in the implementation of the Eastern Partnership included the launch of preparations for Comprehensive Institution Building Programmes in five Eastern Partnership countries, with decisions to be taken in 2011. Support has been provided for political meetings (e.g. Eastern Partnership platforms) in 2010, and will continue in 2011

Bilateral assistance for Russia came to a stop when in 2008 the Russian government decided not to sign any more bilateral Financing Agreements. Assistance now focuses on civil society, people-to-people contacts, Cross Border Cooperation (CBC) and the Baltic Sea Strategy. Other initiatives have been taken, such as the Partnership for Modernisation agreed at the June 2010 summit, although these do suffer from a lack of dedicated funding.

Cooperation with Azerbaijan, new in 2010, suffered from implementation delays, although in the second half of the year the government sent positive signals of its commitment to speed up the implementation of ongoing programmes.

##### **Bilateral Cooperation with Southern countries of the Mediterranean**

The lack of progress in the Middle East Peace Process continues to be a reason for concern: substantial support is needed for salaries, pensions, and to support the poorest in Palestine but there is little opportunity for more sustainable initiatives. An agreement was made to bring forward the decision for 2011 funds to the end of 2010 to provide the Palestinian Authority with sufficient resources to meet its obligations in the early months of 2011 (To that end an amount of €60 million was allocated for direct financial support to the Palestinian Authority through PEGASE, with a further €40 million being allocated to the General Fund of UNRWA, which is also facing increasing financial difficulties in meeting its statutory obligations to Palestinian refugees. before other donor funding comes on stream. Additional funds were provided in order to assist the PA to meet its wage bill later in the year. A mid-term review of the PEGASE Mechanism was completed, the results of which showed that the flexibility in planning and implementation, the highly competent and professional staff and the use of well proven management systems while continuously seeking new, improved approaches, contributed to the success of this mechanism

Budget Support has been introduced for some Mediterranean partner countries, notably Algeria, where the first Sector Reform Support Programme via the budget was introduced in 2010. This €30 million programme, which will support the water and sanitation sector, was prepared in 2009-2010 in close dialogue with the partner government, with other international organisations and with EU Member States.

##### **Multilateral and regional cooperation**

Although delayed in their commencement, 13 out of the 15 cross-border cooperation (CBC) programmes are now fully operational. All have launched their first (and sometimes second or third) calls for proposals and more than 2,000 applications have been received. The budget allocated to the first calls was €239.2m. Preliminary findings from the mid-term review of the CBC programmes were available at the year-end and these have not revealed any significant deviations from the original strategy.

Twinning projects bring together public sector expertise from EU Member States and beneficiary countries with the aim of enhancing co-operative activities. They must yield real operational results

for the beneficiary country under the terms of the Association Agreement between that country and the EU. Short-term Institutional Building tools made available to the ENP partner administrations include TAIEX (1578 requests since 2006; 572 in 2010 alone) and SIGMA (around 80 operations in the field of governance since 2008).

In the first half of 2011 we will receive the results of a first evaluation of the implementation of this key instrument since it was extended from accession countries to the ENP region partners. It is already apparent that, in terms of actual implementation of the reforms or modernisation which were planned, most of our partners (including front-runners like Morocco and Ukraine) still have to deliver more and better results if they are to respect the political commitments they have made.

### **Lessons learned from evaluations published in the year – evaluations of EU cooperation in Egypt (1998 – 2008) and Ukraine (2002 – 2009)**

The country-level evaluation of EU co-operation strategy in Egypt in this period makes interesting reading in the current climate. In the three main areas of support, the evaluation report indicated important recent progress in the implementation of reform measures in social sectors, and positive specific contributions to economic change but few tangible results in the area of governance. The use of budget support had facilitated reforms affecting the institutional, regulatory and managerial framework of key sectors but it did not sufficiently influence the policy and budgeting framework of the sectors concerned.

The evaluation report on the Commission's co-operation with Ukraine concludes that this cooperation underpins institutional, legal and economic reforms which are facilitating the rapprochement of Ukraine with the EU to the benefit of both parties. Negotiations on the Association Agreement and on the Deep and Comprehensive Free Trade Area have given a new impetus to policy dialogue. Significant results have been achieved in assisting reform of the legal framework, the management of economic activity and trade, development and modernisation of the energy sector, and in improving nuclear safety and fighting illicit cross-border activities. In the absence of structural reforms, the expected impact in the areas of justice, health and local development did not fully materialise. Most of the projects delivered their expected outputs, but no attempt was made to assess their outcomes and impacts.

### **1.3.2. Activity: Relations with Asia, Central Asia and Middle Eastern (DCI) countries**

Asia, Central Asia and countries east of Jordan are important partners for the EU, economically and politically. The region accounts for more than half of the world's population and a quarter of global economic wealth created every year. Poverty remains a significant challenge as the region is still home to two thirds of the world's poorest people. The added value that the EU can offer is reflected by its experience in building the largest single market in the world, its role as the largest source of global foreign direct investment, and the largest single source of Official Development Aid (ODA) and humanitarian assistance. The EuropeAid website carries more information: [Cooperation with Asia](#)

#### **Results in 2010**

#### **Asia: promotion of sustainable development, eradication of poverty, facilitation of integration into the world economy**

During 2010 the Commission contributed to the alleviation of extreme poverty and hunger in Asia by deploying Food Security programmes in six countries, and financing rural, social and economic development programmes throughout Asia. The Commission made substantial contributions to advances towards universal primary education and to improve access to secondary education in Bangladesh, Burma-Myanmar, Cambodia, India, Indonesia, Nepal, and Pakistan, wherever possible through Sector Support Programmes. The Commission engaged with the government of Indonesia in a large Education Sector Budget Support programme.

In general, MDG indicators for the region continue their upward trends, but some countries still register a high percentage of the population living below the poverty line (Nepal, Lao PDR, Bangladesh), and others have seen the percentage of extremely poor people increasing (Yemen, Philippines, Indonesia)

Substantial assistance to health sectors was delivered in Afghanistan, India, the Philippines and Vietnam. Burma/Myanmar also benefited from support to the three diseases fund. The EU is the

largest contributor to the UN-run Avian and Human Influenza trust fund, and a large programme is devoted to preventing and responding to emerging infectious diseases.

The Commission has deployed programmes to strengthen the rule of law and security in Afghanistan, Pakistan, Vietnam and Indonesia and supported dialogue on governance in the Philippines and in Vietnam. It has sustained *policy dialogue and public administration in China*; and contributed to improve public financial management in Bangladesh, Cambodia and Laos and improve governance and human rights in Cambodia and Laos.

The Commission is enhancing trade capacity in most of the Asian countries, and, at the regional level, to ASEAN. ASEAN received support in the areas of air transport, intellectual property rights and for its FTA negotiations. The Multilateral Trade Policy Assistance Project for Vietnam has supported the ministries involved in the process of accession to the WTO.

### **EU assistance to Afghanistan and Pakistan since 2007 and implementation of the EU Action Plan for Afghanistan and Pakistan from 2009**

**Afghanistan** is the largest beneficiary in Asia of EU financial aid (Commission and Member States combined).

The Commission continued to support health care policy and management in Afghanistan, managed by the Ministry of Public Health and NGOs. The Afghan health policy is based on the Basic Package of Health Services and the Essential Package of Hospital Services, which are widely credited for being the engine behind the increased access to health care over the few last years, benefitting an estimated five million Afghans in ten provinces, including some of the most insecure and underserved districts. The other main focus of the 2010 AAP was support to rural governance and development. The National Solidarity Programme of the Ministry for rural rehabilitation and development aims to develop the ability of communities to identify, plan, manage and monitor their own development projects through block grants. The programme lays the foundation for a sustainable form of inclusive local governance, rural reconstruction and poverty alleviation. It has already assisted more than 22,000 communities in 346 districts in all 34 provinces to elect Community Development Councils.

Commission assistance contributed to reconstruction and the rule of law, with continued funding for the LOTFA - Law and Order Trust Fund - financing salaries and civic capacity development of police; border management; and customs support. The EC contributed to improving the flow of revenues to the Afghan budget through fiscal improvement, for example through the construction of three border crossing-points and support for the Afghan customs academy.

Currently EC assistance to **Pakistan** focuses on education, rural development and sustainable natural resource management. The Northern Provinces Education Programme contributed to improving access for children to schooling by 30%. The Sindh Education Plan Support Programme supports the provincial government's effort for a comprehensive and sound medium-term strategy to improve access, equity, quality and governance in elementary and secondary education from 2007-12.

In the aftermath of the floods of 2010 the Commission prepared a re-orientation of ongoing and planned programmes towards an early recovery package, but despite close coordination with the local stakeholders and immediate consultation of the Government, the Pakistani Government did not approve the proposed community-based flood response programme, and insisted on the exclusive use of the Government's Citizen's Damage Compensation Fund for the flood response. As this did not offer all the necessary guarantees of sound operating and financial management the Commission could not contribute to this fund.

The long term strategy for the country is defined by two plans: an EU internal "Plan for Strengthening EU Action in Pakistan", decided by EU Foreign Ministers in 2009, and the EU comprehensive EU-Pakistan 5-year Engagement Plan, decided at the EU-Pakistan Summit in June 2010. The 5-year plan outlines joint actions by the Commission, the EU Member States and the Government of Pakistan in political, trade and development cooperation fields, with focal areas being Rural Development and Education. It is expected that the final Plan will be agreed next year.

### **Central Asia**

Development cooperation with Central Asia evolves within the framework of the 2007 EU Strategy for the region but – in contrast with the rest of Asia - neither Country Strategy Papers (CSPs) nor Multiannual Indicative Programmes (MIPs) are signed with the beneficiary countries. The regional actions – in line with EU initiatives for Central Asia for water and environment, education and rule of law - focus on key issues common to the five countries such as border management, fight against drug trafficking, water resources and energy. The EU Strategy has provided an improved political

framework for assistance at regional and bilateral levels. The two poorest and most "fragile" countries, Tajikistan and Kyrgyzstan, receive bilateral assistance, with larger sector interventions supporting the achievement of the MDGs, whenever possible through sector budget support. Interventions in the other three energy-rich countries, and particularly Kazakhstan, are mostly limited to technical cooperation. There was a major innovation during the first half 2010 in blending grants and loans, with the launching of the new Investment Facility for Central Asia (IFCA).

Through active engagement to implement its development cooperation activities, the EU has contributed to the improvement of social protection systems and governance and has facilitated economic transition. The EU also strived to improve governance and Public Finance Management in Central Asia: in Tajikistan, for example, the Commission is supporting the Public Finance Management reform strategy. The Tajik authorities have already approved a new independent audit body.

Violence between ethnic Kyrgyz and Uzbeks gave rise to a political and humanitarian crisis in **Kyrgyzstan** which obliged the Commission to re-orientate assistance and focus on emergency relief efforts and a "stability package". EU support in the country had previously helped set up a system of non-residential social service institutions, and had contributed to establishing the legal and institutional framework for social and child protection reforms, strengthening the institutional capacity to manage their implementation.

Central Asia Border Management and anti-drug programmes complement the Afghan programmes. In this area the EU programmes assist with institutional reform in border management, strengthened training capacities, securing the Tajik-Afghan border, improving the infrastructure along trade and transit routes and countering drug smuggling in Central Asia.

EU support for quality higher education and vocational training has helped people in Central Asia to make the most of employment opportunities provided by a growing business and SME sector. The SME sector also benefits from the Central Asia Invest programme, which funds capacity building for Business Intermediary Organisations.

### **Regional programmes and other issues**

Within MIPs 2007-2010, **Civil aviation** programmes were planned for China, India, and regional programmes in Southeast Asia and South Asia. After some initial difficulties, the call for proposal for the South Asia project has now been successful. Commission services are proposing a phasing out of DCI-funding for **China**; MS and the EP have supported the Commission's proposal for the MIP 2010-13 where annual indicative DCI funds are being reduced. Myanmar and the DPRK continue to present challenging implementation contexts.

### **Relations with countries East of Jordan (Iraq, Iran and Yemen)**

For Iraq, in line with commitments made, the Commission moved towards bilateral cooperation and multi-annual programming, building on the two-year integrated assistance package for 2009-2010. For Yemen, the terror threat added to the deteriorating security and social situation require a co-ordinated response by different Commission services and the co-ordinated use of different instruments. Given the suspension of the Comprehensive Dialogue with Iran, and as in earlier years, no bilateral cooperation initiatives were pursued with this country in 2010.

### **1.3.3. Activity: Relations with Latin America**

In Latin America the EU is developing a strong partnership that focuses on political dialogue, reinforcement of social cohesion, support to regional integration, the facilitation of trade and economic relations between the EU and Latin America, the promotion of multilateralism, peace and security and continued institutional support for the consolidation of democratic processes. The added value of the EU's activity is its capacity, through its own experience, to support regional integration in other regions of the world and its ability to offer a comprehensive partnership. It is also important from a strategic global perspective to have Latin America as an ally in global governance. The EU and Latin America have shared interests, common values and strong cultural links. The EuropeAid website carries more information: [External assistance and Latin America](#)

### **Results in 2010**

The 6th EU-LAC Heads of State and Government summit, the main forum for the political dialogue with Latin America, took place in Madrid in May 2010. The event saw the positive conclusion of two negotiations (Multi-party Trade Agreement EU-Colombia; Association Agreement EU-Central America), the re-launch of the negotiation on an Association Agreement with MERCOSUR and the

creation of an EU-LAC foundation. The Latin America Investment Facility (LAIF) was also officially launched

In 2010, in line with the priorities set in the strategy documents, the Commission approved 24 actions with Latin American countries (at bilateral, regional and sub-regional levels) mainly promoting social cohesion, regional integration and mutual understanding,

In May 2010, the Commission adopted the first Country Strategy Paper (2011-2013) for cooperation with **Cuba** which will constitute the basis for future bilateral cooperation with the country.

### **Social cohesion**

Several projects were approved in the field of social cohesion, among them a programme supporting Guatemala's justice and security sector (€22.5 million), an action contributing to poverty reduction in El Salvador (€24.2 million) and a programme for water and sanitation in suburban areas in Bolivia (€20 million).

The € 60.8 million EU support to the implementation of Peruvian Articulate Nutritional Programme (PAN), aims at reducing chronic malnutrition and effectively fighting poverty. Euro-PAN, officially launched in February 2010 in Lima with a speech by Peruvian President Alan Garcia, went through its first year of implementation fostering the implementation of PAN in the 20% most vulnerable population of the three poorest Peruvian regions. The Peruvian International Cooperation Agency (APCI) is requesting that all cooperation in the nutritional sector is associated to the national programme PAN, following the Commission's example.

### **Regional integration**

Support to the *regional integration* processes in Latin America was also a high priority during the year. In the Andean Community, two actions were approved in 2010: one to sustain the regional participative integration (€8 million) and the other contributing to institutional strengthening (€1 million). Concerning MERCOSUR, one action was approved in 2010: the EU-MERCOSUR study centres (€6.7 million).

In order to support regional integration and consolidate peace between Peru and Ecuador, the Commission financed the rehabilitation and modernization of the Piura-Guayaquil Highway 1, for an amount of €51m. The action, which lasted five years ending in November 2010, has improved the quality of life of border communities by reducing the time for transport and increasing trade between the two countries.

### **Horizontal Regional programmes**

The Regional AAP, which includes EUROsociAL II and the second tranche of the Latin American Investment Facility (LAIF), was adopted and committed for a total amount of €64m. Based on the successful experience of blending grants with loans to increase the leverage effect and to optimise the financial package for the beneficiaries, LAIF focuses on energy, environment and transport investments and will also provide support to SME development and to social sector infrastructures, including in the context of regional integration projects. In 2010 the LAIF board approved five grants, supporting investments in infrastructure, climate change mitigation and adaptation, worth more than €1.1bn. The pipeline of operations planned for 2011 - 2012 amounts to €5.5bn. Two other horizontal regional programmes approved at the end of 2009, EUroCLIMA and ALFA III, were officially launched during the first half of 2010. The calls for proposals concerning ALFA III, COPOLAD, and EUROsociAL II were published and contracts signed in 2010.

RALCEA, a network of knowledge centres in the water sector, was officially launched in October 2010, contractual and coordination arrangements having previously been put in place. The 3rd EURO-SOLAR Programme Regional Workshops were held in Quito, Ecuador.

### **Honduras, Nicaragua**

Implementation of full cooperation with Honduras, temporarily suspended after the 2009 coup d'état, was resumed in 2010 after the presidential elections of late 2009.

The political situation in Nicaragua did not allow the Commission and other donors to lift the suspension of disbursements of aid channelled through budget support. The suspension has been in place since January 2009. The Commission pursued its other aid activities in the country while maintaining a dialogue with the Nicaraguan government, and will review the situation in the light of action taken by the government.

### **Lessons learned from evaluations published in the year – evaluation of EU cooperation with El Salvador (1998-2008)**

The study concluded that the strategy was in line with the main needs of the population and had demonstrated flexibility over time. Positive results were achieved in combating social violence, and

in the fields of secondary technical education and access to drinkable water and sanitation, while limited results were achieved for the support of small enterprises and for the development of a legal framework in the water sector. The report highlighted the flexible use of budget support, demonstrating the leading role of the European Commission, which in turn had allowed for EU involvement in the new national poverty reduction programme. It was observed that pilot projects with significant financial support responding to demand had shown positive results encouraging changes in national policy. However, ready-made legal proposals from the outside proved to be ineffective, due to a lack of policy dialogue on obtaining political consensus.

#### **1.3.4. Activity: Relations with sub-Saharan African, Caribbean and Pacific (ACP) countries and EU member states' overseas countries and territories (OCTs)**

The activity covers EU relations with the 78 states that have signed the Cotonou ACP-EU Partnership Agreement, and EU Member States' 20 Overseas Countries and Territories (OCTs). An Association Decision by the Council in 2001, modified in 2007, governs EU-OCT relations. The activity comprises political and trade relations and development co-operation. The European Development Fund (EDF) funds most of the EU's ACP and OCT programmes, whilst the Community Budget funds programmes in South Africa, support to ACP banana- and sugar-producing states, and thematic programmes.

The EuropeAid website carries more information: [External assistance and ACP countries](#)

### **Results in 2010**

#### **Haiti**

An earthquake measuring 7.0 on the Richter scale struck Haiti on 12 January. In response to this devastating earthquake, the EU provided both immediate humanitarian relief and mid and long-term development aid. At the International Donor's Conference in New York on 31 March 2010, the EU made a single pledge for medium and long-term reconstruction aid amounting €1.235 billion, which included pledges from the Commission, 18 EU Member States and the European Investment Bank. The Commission pledged €460 million; this pledge has since been increased to €522 million. Five financing agreements were signed in April, totalling more than € 200 million. A new General Budget Support programme was adopted. By April, two months after the earthquake, General Budget Support for a total amount of € 35 million had been disbursed. The fragile situation in Haiti was further aggravated by the cholera outbreak and political fallout from the first round of presidential elections at the end of November, marred by irregularities and political instability. The budget support payments due were postponed until after the second round of elections in February 2011 when the situation will be reviewed.

#### **Infrastructure**

2010 saw the EU-Africa Infrastructure Trust Fund accelerating in terms of contributions from EU Member States and commitments to projects. Additional contributions from the UK, Austria and France were announced in 2010, bringing the total of all contributions to € 392.7 million. In terms of commitments to individual projects, significant progress has been achieved, bringing the total grant allocations to more than € 209 million as at 31 December 2010. These grants are expected to leverage total financing of about € 2.5 billion.

A pooling mechanism was approved for both the Energy and the Water Facilities with the objective of scaling up investments through blending of resources with Member States, European financing institutions and the private sector. The financing available from the Water and the Energy Facility so far amounts to € 191 million, with € 110 million committed for Water and € 81 million for Energy: three calls for proposals were in progress in 2010.

#### **MDG Initiative**

In support of the "Twelve-point EU Action Plan in support of the MDGs" and of the Council conclusions of June 2010, President Barroso launched a € 1 billion "MDG Initiative" during the United Nations summit. Financed for the biggest part from unallocated funds from the 10<sup>th</sup> EDF, the general scheme envisaged is that for "well performing countries", € 300 million is foreseen on the basis of the results of the 10<sup>th</sup> EDF mid-term review, and a further € 700 million would be available for all ACP countries, based on proposals to accelerate the implementation of off-track MDGs.

#### **Climate change**

The € 40 million EDF programme for Global Climate Change Alliance has started its implementation, along with new additional country allocations under the Environment and Natural Resources Thematic Programme (ENRTP).

### **Vulnerability-FLEX**

The 2010 V-FLEX allocation was put into place. The vulnerability FLEX mechanism aims at maintaining spending programmes without jeopardising macro-economic stability in the countries concerned. € 239.5 million was committed in favour of 17 countries during the second half of 2010. V-FLEX is disbursed in the form of additional budget support, thereby meeting our objective of helping to mitigate the negative impact of the global economic downturn in the most affected countries.

### **Commitment performance, Budget and EDF**

So far 52% of the 10<sup>th</sup> EDF has been committed. Pending the completion of the Mid-Term Review, it is expected that the whole of the 10<sup>th</sup> EDF will be committed by end 2013. The 8<sup>th</sup> EDF is expected to be closed by mid-2011. The ACP budget lines (for South Africa, Greenland, and accompanying measures for Sugar Protocol Countries) reached 100% commitments and payments. In total €152 million were committed under the sugar accompanying measures and payments also reached a record level of €102 million.

### **Cotonou Agreement**

The revised Partnership agreement (the Cotonou agreement) entered into force on 1st November 2010. The Mid term review of the 10<sup>th</sup> EDF, however, was delayed and will not be finalised before mid-2011.

Equatorial Guinea and Sudan have not ratified the Cotonou Agreement and are therefore not eligible for funding from the 10<sup>th</sup> EDF. However, € 150 million have been allocated to Sudan from de-commitments made from previous EDFs.

### **EU-Africa Summit**

The **EU-Africa Summit** was held in Tripoli on 29-30 November 2010. Outcomes included: the Tripoli Declaration on the future political dialogue and areas of common interest between the EU and Africa; a new Action Plan for the period 2011-2013 in the 8 thematic cooperation fields of the strategic partnership; joint declarations of European and pan-African parliaments. The expected joint Declaration on Climate Change did not materialise.

### **African Union**

The African Union Commission is undergoing an **institutional assessment** to review its institutional capacity and the conformity of its procedures with internationally accepted standards (see 3.1.2.1.2). Results are expected in June 2011 and will have a direct impact on the way the European Commission delivers APF financing (Contribution Agreements under the system of joint management or Grants under centralised management). Initial findings available in April, however, indicated that considerable improvement in overall African Union Commission (AUC) governance has taken place over recent years.

### **Contribution of the European Development Funds to reinforce peace, security and stability in the ACP states**

Under the 10th EDF, contributing to the tri-annual African Peace Facility Action Plan, €200 million is earmarked for Peace and Security operations, €65 million for capacity building programmes, and €15 million for the Early Response Mechanism.

€ 71.7 million was contracted under the 10th EDF in 2010 for the APF. The APF continued during 2010 to support African-led peace operations in Somalia (AMISOM) and the Central African Republic (MICOPAX). The APF Early Response Mechanism has endowed the African Union and African sub-regional organisations with a source of immediately-available funds for the first stages of actions aimed at prevention, management or the resolution of crises (i.e. crisis mediation, fact finding, and operations planning). A new programme to support AUC Personnel in the Peace and Security Department was developed in 2010 worth € 10 million.

The political situation following recent elections in Côte d'Ivoire is also a cause for grave concern. The Commission is monitoring the evolution on the ground and the possible introduction of prudential measures is currently being considered by the EU delegation and Commission services. Implementation necessarily slowed in those countries already under prudential measures in accordance with article 96 of the Cotonou Agreement: Fiji, Madagascar, Mauritania, Zimbabwe, Niger and Guinea. The Commission took over the role of National Authorising Officer in Guinea in

early 2010 but since then positive progress has been made, which was also the case in Mauritania and Niger.

The Commission's ability to use flexible procedures in delegations in general (derogations and negotiated procedures replacing various degrees of competition) depends on a valid declaration of crisis at any time. 20 countries in the ACP region are fully or partially declared in crisis for a period of 12 months until early March 2011.

### **Lessons learned from evaluations published in the year**

Country evaluations were completed for **Burkina Faso, Nigeria, Liberia, Senegal and Niger**. These evaluations assessed cooperation over periods of 8 - 12 years. Although it is impossible to aggregate the findings of these evaluations some key themes do nevertheless stand out. In the Maldives, Burkina Faso, Nigeria and Niger, cooperation strategy was judged to have been relevant to partner needs at the time of implementation. The evaluation of Senegal was carried out jointly with Spain, and the evaluation of Niger was a joint evaluation between the Commission, Belgium, Denmark, France and Luxembourg: the five donors together providing more than 50% of ODA to Niger. The Senegal report is on the whole favourable as regards the division of labour between the two donors, but the Niger report is less so, finding a fragmentation of aid between the Commission and the four Member States, and the lack of a long term common strategy.

### **1.3.5. Activity: Human rights and democratisation**

The protection of human rights, together with the promotion of pluralistic democracy and effective guarantees for the rule of law, are among the European Union's fundamental objectives in development and other forms of co-operation with third countries. This constitutes a cross-cutting dimension in the Union's co-operation programmes. The "European Instrument for Democracy and Human Rights" (EIDHR), expresses the EU's intention to integrate democracy and human rights into all its external policies. One of its key assets is its autonomy, as the instrument can grant aid where there are no development cooperation links and it can intervene without the agreement of the governments of third countries.

The EuropeAid website carries more information: [Human rights and democracy](#)

#### **Results in 2010**

12 Election observation missions (EOMs) were deployed (Togo, Sudan, Ethiopia, Burundi, Guinea Conakry, Tanzania, Ivory Coast, South Sudan (referendum), Niger, Chad, and Uganda). These missions provided an impartial assessment of the conduct of the elections in line with international standards, of particular value where the elections take place in unstable conditions. Expert missions were deployed to assess the elections in Nicaragua, the Solomon Islands, Zambia, and Zimbabwe, and to observe voter registration in South Sudan.

All available 2010 commitment appropriations under the EIDHR were committed, of which almost 10% (roughly €13 million) are implemented through cooperation with international organisations such as the UN Office of the High Commissioner for Human Rights and the Council of Europe. For the rest, two global calls for proposals and fifty local calls for proposals were organised to select projects implemented by civil society organizations.

The European Neighbourhood region remained the biggest beneficiary of objective 1 under the EIDHR i.e. projects in countries and regions where fundamental freedoms are most at risk

### **1.3.6. Activity: Food security**

The Food Security Thematic Programme (FSTP) is part of the EU's commitment towards achieving the MDG1 on hunger, which appears to be elusive as 2015 approaches, particularly in Sub-Saharan Africa. The EuropeAid website carries more information: [Fighting hunger](#)

#### **Results in 2010**

##### **Food Security Thematic Programme and Food Facility**

The 2010 AAP of the Food Security Thematic Programme addresses inter alia the long-neglected need for agricultural research for development, the need for improved information systems for better decision-making as well as rural development.

All available 2010 commitment appropriations have been committed. The overall budget of € 238 million supported actions in 23 countries under the "Linking Relief and Rehabilitation to Development" component and the innovative approaches component. These actions are expressly meant to help achieve MDG1 by following the main objective of tackling the structural causes of food insecurity at country level. One global action in support of agricultural research for development through the CGIAR and three regional actions of the same kind in Asia, West Africa and South America were launched.

The €1 billion Food Facility was the most significant additional global contribution to stimulate agricultural development and fight hunger in developing countries, with project formulation and contracting done in record time. In 2010, all commitment appropriations were made and only 2 actions still need to be contracted in the first half of 2011. More than 135 projects were monitored via a Results Oriented Monitoring mission and the majority (75%) of these projects scored an average rate of "good" or better. Some delays were noted but remedial actions had also been taken.

### **1.3.7. Activity: Multilateral relations, co-ordination in the areas of migration and asylum, general external relations matters**

This Activity covered in 2010 both the EU external policies linked to the multilateral relations frameworks (United Nations, Council of Europe etc.) as well as the thematic programme on asylum and migration. The activity can be divided into 4 main elements: promotion of global governance; support to regional organisations in the multilateral system; relations with the Council of Europe and the OSCE; migration and asylum. The EuropeAid website carries more information: [Migration and Asylum](#)

#### **Results in 2010**

In 2010 the thematic programme on Migration was implemented through a €75 million multi-annual call for proposals, resulting in 65 projects being contracted with International Organisations, Member States' agencies and civil society organisations. A number of targeted projects worth €21.5 million were also launched, including regional protection programmes in Africa and Eastern Europe and three projects in the framework of Mobility Partnerships with Georgia, Moldova and Cape Verde. Deconcentration of the programme to EU delegations started at the beginning of 2010 for ongoing projects and was also applied to 53 grants awarded through the 2009/2010 call for proposals.

The new strategy for the period 2011-2013 was in the process of adoption by the end of 2010. Better complementarity with geographical programmes will be sought and different co-funding options will be investigated for the 2011-2013 period in to increase the impact of projects' results.

### **1.3.8. Activity: Crisis management and global threats to security**

This activity covers a range of actions implemented through different instruments to prevent violent conflict and to address global threats to security. The two main financial instruments are the Instrument for Stability (IfS) and the Nuclear Safety Instrument.

The IfS implements the EU's strategy to fight weapons of mass destruction and other global threats. The pooling of EU resources allows a more efficient intervention in crisis situations, economies of scale, and the development of a wide range of crisis management tools and know-how. The instrument aims to address security and political challenges, to respond immediately to crisis situations in third countries world-wide, and to address global and regional trans-border challenges with a security or stability dimension.

The Instrument for Nuclear Safety Cooperation focuses on activities designed to improve nuclear safety and security, including studies, development of legislation, institution building, improvement of nuclear procedures and methodologies and, in some exceptional cases for existing nuclear power plants, in supplying equipment.

The EuropeAid website carries more information: [Security & conflict](#)

#### **Results in 2010**

##### **Instrument for Stability (IfS)**

During 2010 "Centres of excellence" were introduced in five regions of the world to exchange best practice in the management of chemical, biological, radiological and nuclear (CBRN) technologies. The first secretariat will be hosted in Amman, Jordan. Other initiatives included: assistance in export controls of dual-use goods; bio-safety and bio-security improvement at the Ukrainian anti-plague

station (UAPS) in Simferopol, and border monitoring activities in the Republic of Georgia, Central Asia and Afghanistan.

The Commission also continued to support the Expert Support Facility mechanism, enabling the Commission and beneficiary countries to draw on people with particular expertise to support programming and implementation in areas of trans-regional threats to security

The IfS also delivered actions dealing with piracy/maritime security and organised crime: an information sharing and training centre are being set up in Yemen and Djibouti respectively to target piracy, complemented by an ongoing pilot project on providing relevant surveillance information for the region. In the fight against organised crime on the cocaine route an operation took place covering 22 countries resulting in significant seizures. Actions aiming to reduce the illegal trafficking of small arms contributed to the formation of a more organised and enduring network and agenda in Central America. The EU Strategy on Security and Development in the Sahel obtained a tangible result with the launch of the first major programme on counterterrorism. By the end of 2010 the long term component of the IfS covered 78 countries in 3 continents, enabled synergies with CFSP/CSDP - most notably on piracy - and was promoting coherence between external and internal aspects of EU security policy.

### **Instrument for Nuclear Safety Co-operation (INSC)**

The INSC programme has graduated from being an important initiative in CIS countries to a tool to promote the EU approach to nuclear safety worldwide. During 2010 cooperation activities in the nuclear safety field were extended to the Philippines, Morocco, Vietnam and Brazil, as well as some projects implemented by the International Atomic Energy Agency. Exploratory missions and contacts have been made with new countries and regions - Brazil, Argentina, Mexico, South East Asia, Mongolia, and China - which should lead to further projects and involvement in the new multiannual action programme 2012-13. Contacts with Russia re-started in order to create the conditions for cooperation in 2011.

Implementation of actions under the INSC continues with CIS countries but the emphasis is on Ukraine, the more so as the 25th anniversary of the Chernobyl nuclear disaster approaches and a sizable G-8 effort is under way to raise additional funding to complete the shelter.

### **1.3.9. Activity: Non-state actors and local authorities in development**

The objective of the thematic programme on non-state actors and local authorities in development is to support initiatives carried out by civil society organisations and local authorities originating from the Community and partner countries in the area of development as well as to strengthen their capacity in the policy making process. The EuropeAid website carries more information: [Civil society & local authorities](#)

#### **Results in 2010**

##### **Non-State Actors and Local Authorities**

The mid-term evaluation for the NSA-LA programme was completed in consultation with stakeholders, with the results and conclusions discussed and shared. Based on these findings, the new Strategy 2011-2013 is currently under elaboration. A new strategic approach for the Development Education and Awareness Raising part of the programme has also been developed, involving internal and external stakeholders and mapping out an innovative approach for the future.

**CISOCH** (Civil Society Helpdesk), a Wikipedia-like searchable website hosting a wealth of information on development-related topics, was launched in 2010. The aim is for CISOCH to become a central access point for CSOs and local authorities working in development, facilitating for example information-sharing for initiatives such as the Structured Dialogue.

##### **Structured Dialogue**

The Structured Dialogue on the involvement of civil society and [local](#) authorities in EU development cooperation was officially launched by Commissioner Piebalgs in March 2010. In line with the global [aid](#) effectiveness agenda, this initiative aims at increasing the effectiveness of all stakeholders involved in EC development cooperation. Regional seminars, Brussels-based working sessions and a thematic seminar on human rights were successfully organised in 2010, bringing together MEPs, representatives of Member States' governments and hundreds of local and European CSOs and LAs. The process will last until May 2011, with a final conference producing formal recommendations to be organised in Budapest under the auspices of the Hungarian Presidency. As part of the Structured Dialogue three support initiatives on (i) local authorities, (ii) human rights and (iii) development education have also been launched.

### **1.3.10. Activity: Environment & sustainable management of natural resources, including energy**

In this activity area, the Commission promotes and implements the policy applicable to the Community's relations with developing countries and Europe's neighbours on environment and sustainable management of natural resources, including energy, promotes coherence with other Community policies and conducts forward studies to these ends. Financial support is provided to projects within 5 priority areas: (1) working upstream on MDG7: promoting environmental sustainability; (2) promoting implementation of EU initiatives and internationally agreed commitments; (3) better integration by the EU (4) strengthening environmental governance and EU leadership; and (5) support for sustainable energy options in partner countries and regions. The EuropeAid website carries more information: [Environment and natural resources](#)

#### **Results in 2010**

##### **Renewable and Efficient Energies**

Through the Global Energy Efficiency and Renewable Energy Fund (GEEREF) the Commission is seeking to create a leverage effect to scale up investments in new technologies. The fund size as of January 2011 was €108 million. The shortage of risk capital in the renewable energy and efficiency sector in developing countries and transition economies is estimated at over €9 billion.

##### **The Cancun Agreements**

Emission reduction pledges were formally adopted and monitoring, reporting and verification aspects strengthened. Financial commitments from developed countries were confirmed at €100 billion by 2020. A Green Climate fund was established, together with the launch of REDD+, a mechanism seeking the reduction of emissions from deforestation. Implications for EC Development Cooperation are that we must get early financing right, intensify outreach activities (via our delegations), improve reporting on climate change financing and continue to improve coordination with Member States and other partners.

##### **ENRTP**

The AAP 2010 was split in two parts and amounted in total to € 200 million. The thematic programme received additional funds of €50 million for 2010 for "Fast start climate change action" as a result of the Copenhagen Conference of December 2009. Yearly additional funding of €50 million is also promised for 2011 and 2012. The fast start funds were split between €25M for adaptation (Global Climate Change Alliance) and €25M for mitigation (Measurement, Reporting and Verification capacity building, REDD+ and technology cooperation).

### **1.3.11. Activity: Human and social development**

This activity concerns strategies on good health for all, education, knowledge and skills, gender equality and other areas of human and social development (employment and social cohesion, children, youth and culture) in development policy. The programme contributes to translating high-level strategies into action, through cross-regional initiatives to share good practices, develop indicators and improve the data situation. The EuropeAid website carries more information: [Human and social development](#)

#### **Results in 2010**

##### **Investing in People**

The 2010 AAP for the Investing in People thematic programme, amounting to EUR 147 million, includes 9 calls for proposals, covering the full range of the programme's themes (health, education, gender equality, social inclusion, employment and decent work, children and youth, cultural diversity). Five of the calls combine 2009 and 2010 credits so as to make a more efficient use of resources. Four joint management projects have also been contracted with international organisations, including continued support for the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) – the main instrument to fight these three main poverty-related diseases at a global level – with a contribution of €50 million.

##### **Lessons learned from evaluations published in the year (all thematic activities) – Support to the Education sector**

The evaluation of support to the Education sector covered the period between 2000 and 2007. The Commission contracted €1.9 billion for direct support to primary and secondary education and an additional €3.2 billion in General Budget Support with Education as a condition. Commission support focused mainly on primary and basic education, supporting secondary levels in some targeted countries. The evaluation found that Commission investments were "highly relevant", and successful in increasing access to schools. However much remains to be done to bring quality of education to a minimum acceptable level for all pupils, and learning achievements remain limited, although the Commission had taken steps to address this, and quality indicators, such as outcome indicators related to learning achievements, are now being used. Commission capacity development support geared towards improving the delivery of educational services was often too much impeded by the lack of adequate resources and realistic timetables to allow for real ownership by the partner government. The EC's shift to sectoral and general budget support have helped the partner countries to start reforms in this sector but these reforms depend on their integration in wider public reform including decentralisation and better public finance management. There is a need for EU delegations to improve their capacity to deal with this new cross-sectoral approach. The Fast Track Initiative (FTI) has not consistently delivered on its aspirations and the Commission is recommended to engage with the FTI's reforms, at both HQ and country levels, to promote better alignment and mutual accountability.

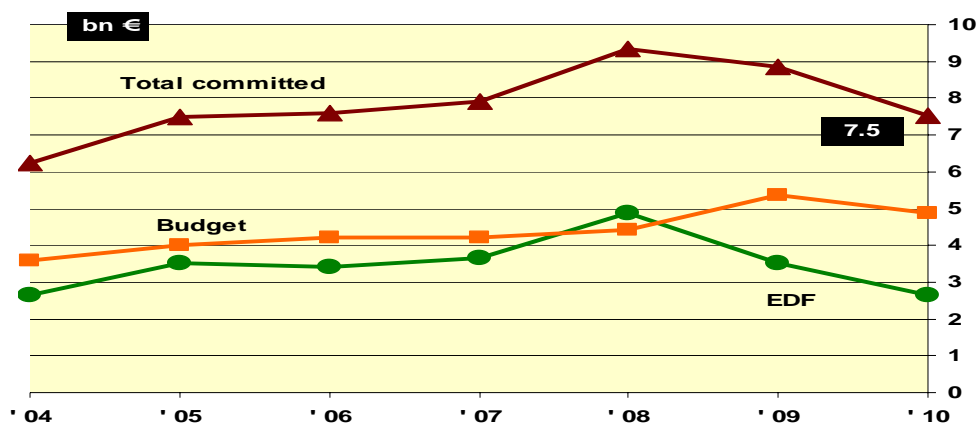
## 2. MANAGEMENT AND INTERNAL CONTROL SYSTEMS

### 2.1. The DG in 2010

#### 2.1.1. The service environment

EuropeAid's mission is to implement the large majority of the external assistance instruments<sup>1</sup> of the European Commission financed from the General Budget of the European Community and the European Development Funds (EDFs). To this end EuropeAid currently has an annual transaction turnover of approximately € 8 billion, just under half of which is financed by the EDFs.

**General Budget and EDF commitments 2004 - 2010 (€bn)**



The Director General of EuropeAid is the authorising officer by delegation for the expenditure under the EC Budget and the EDFs. He shared the responsibility of the external aid cycle with the Directors General of DG External Relations and DG Development who were responsible for multi-annual programming in 2010. Projects/programmes are either managed directly by EuropeAid, or by EU Delegations in third countries under EuropeAid's overall responsibility (devolved management). The portfolio devolved to delegations comprises approximately 81% of geographical and 56% of thematic budget lines for EC Budget funding and 86% for the EDFs.

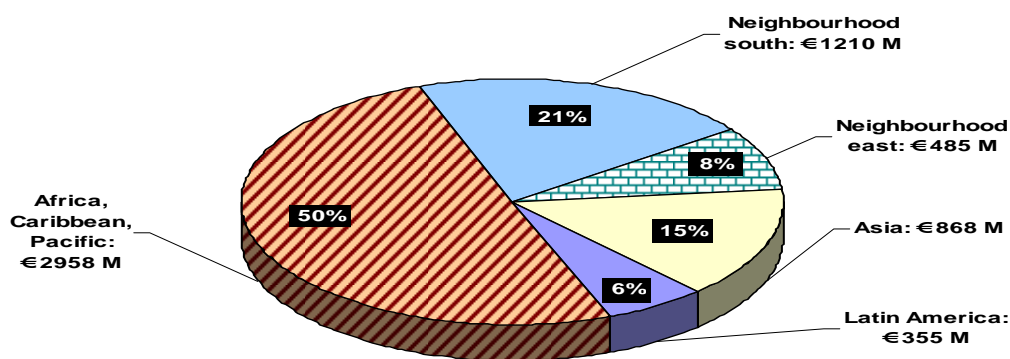
The relationship between delegations and headquarters is supported by a matrix of lines of accountability in which DG External Relations has been responsible for administrative questions in delegations (logistics, personnel, administrative expenditure) as well as, together with DG

<sup>1</sup> Except pre-accession aid, assistance to the Western Balkans, humanitarian aid, and macro-financial aid, Common Foreign and Security Policy and the Rapid Reaction Mechanism.

Development (for the EDFs), for political and programming aspects, while EuropeAid oversees the implementation of projects/programmes. An inter-service agreement has defined the roles and responsibilities of each DG. These arrangements come to an end at the close of 2010 with the creation of the European External Action Service (and the Foreign Policy Instruments' Service), the dissolution of DG External Relations and the merger of EuropeAid with DG Development.

At the end of 2010, EuropeAid (HQ) was staffed by 620 (58%) official posts and 445 (42%) of contract agents or other staff on short-term contracts (full time equivalents). In the 111 EU delegations in third countries where aid management falls within the remit of EuropeAid, another 2486 people were responsible for managing external aid. 20% of these posts are staffed by officials on a 2 to 4 year rotation basis and the remaining 77% of the workforce are contract agents or local agents who can be employed on longer-term or permanent contracts. In addition, in 2010 84 posts (3%) in Delegations were provided by Member States for contracts of 1 to 4 years for 'Young Experts' and 'Seconded National Experts'.

### Geographic Distribution of EuropeAid's funds<sup>2</sup>



#### 2.1.2. Risk environment and management

The operational environment of EC external aid is characterised by the:

- geographically dispersed activities (covering more than 150 states/territories/regions);
- high number of operations and associated financial transactions<sup>3</sup>;
- diversity of partners and beneficiaries with their diverse management and control capacities; (ranging from small local NGOs to international organisations e.g. the United Nations)
- seven different cooperation instruments<sup>4</sup> each with their own comprehensive financial rules.
- a diversity of aid delivery methods (traditional projects, budgetary support, sectoral policy support programmes, contributions to global instruments, blending etc),
- a high level of risk in the 'developing country' context due to the geo-political, social, institutional and administrative environment, frequently associated with instability.

Given this high risk environment (in relation to sound financial management / legality and regularity objectives), it is clear that systems need to anticipate a significant occurrence of potential error in transactions and build in a high level of prevention, detection and correction controls as early as possible in the payment process. This means in practice that - unlike other Commission DGs whose primary control mechanism is ex-post audit and seek to recover funds *after* payment if problems are found - EuropeAid's control architecture has evolved to place most reliance on significant ex-ante checks by both external auditors and Commission staff in the field *before* final project payments. EuropeAid therefore performs a high level of ex-ante control both in terms of the coverage and in the nature of these controls, going well beyond the financial safeguards required by legislation.

Other ways in which EuropeAid mitigates the level of risk in its external aid environment include the design of cooperation instruments (tailored to local circumstances and specific needs); the use of

<sup>2</sup> Based on payments not including thematic programmes. ACP includes South Africa, Bananas and Sugar budget lines.

<sup>3</sup> More than 60 000 transactions (decisions, contracts, payments, guarantees, recoveries) were made in the accounting system in 2010.

<sup>4</sup> European Neighbourhood and Partnership Instrument; Development Cooperation Financing Instrument; Financing Instrument for the Promotion of Democracy and Human Rights worldwide; Instrument for Stability; Instrument for Nuclear Safety Cooperation; Facility for Rapid Response to soaring Food Prices in developing countries; European Development Fund(s).

different management systems (on the basis of the management capacity of the beneficiary state or implementing partners); and rigorous procedures for the selection of implementing partners. In addition, EuropeAid provides substantial training opportunities, HQ/Delegation support and well documented guidance (including via internet). For more information on EuropeAid's risk management process see 2.2.2.1 below.

### **2.1.3. Mission statement and Commissioner / DG working arrangements**

EuropeAid's mission statements at DG, Directorates and Units level has been in place since 2009 and are available on the EuropeAid intranet. In line with the "Code of Conduct Governing Relations between Commissioners and Services" adopted by the College in 2004, specific working arrangements between the Cabinet of Commissioner Piebalgs and EuropeAid were put in place in 2010. An overview of budget execution against targets and a summary of developments on OLAF cases is provided to the Commissioner on a monthly basis.

### **2.1.4. Major events of the reporting year**

The major event of the reporting year was the decision on the creation of the European External Action Service outside the European Commission. This institutional change triggered a series of restructuring decisions within the Commission – mostly taking effect from 2011 - including the creation of the Foreign Policy Instruments Service, the dissolution of DG External Relations and the merger of EuropeAid and DG Development. These changes have had a major impact on arrangements for the programming of external aid and the management of EU Delegations in 3rd countries. Service Level Agreements have been established to govern these new relationships.

The revised Partnership (Cotonou) Agreement with African, Pacific and Caribbean countries came into force on 1<sup>st</sup> November 2010.

Information was received from several EU Delegations about weaknesses in the management of the Global Fund to fight AIDS, Tuberculosis and Malaria at country level in the course of 2010. The Commission representative at the Board of the Fund (DG Development) is tracking the corrective measures taken by the Fund to address these issues. The Inspector General of the Fund has initiated enquiries and reported on the results, concluding for the time being on frauds and misuse of funds for a total amount of US\$ 43 million of which US\$ 34 million remains unrecovered. These amounts may change either as resources are recovered or additional losses are detected in the future.

### **2.1.5. Education, Audiovisual and Culture Executive Agency**

EuropeAid worked with the Education, Audiovisual and Culture Executive Agency using centralised indirect management for the implementation of two programmes known as 'Erasmus Mundus Action II' (which replaced 'Erasmus Mundus External Cooperation Window' in 2009), and Tempus IV actions. These are financed under the relevant external cooperation instruments (ENPI, DCI, EDF).

EuropeAid's responsibility is executed through the Steering Committee of the Executive Agency, composed of five members from the three parent DGs<sup>5</sup>. The steering committee meets four times a year and is the main control and communication body whose tasks derive directly from the Framework Regulation on Executive Agencies. It adopts inter alia the following documents of the agency: its annual work programme, annual management plan, annual activity report as well as its budget. The president of the steering committee informs the parent DGs' Directors General of the decisions taken by the committee as well as all relevant topics concerning the work of the agency. Every steering committee is prepared by the 'horizontal affairs meeting' chaired by the director of the agency with the participation of the relevant services of the parent DGs.

The Annual Activity Report of the agency can be found in Annex 7. Although its Director makes a reservation on the basis of error rates in grant payments being above 2% of the 2010 programme budgets for the Culture programme (2007-2013) and the Youth programme (2007-2013) these are not programmes financed by the EuropeAid portfolio and therefore have no direct bearing on assurance for the Director General of EuropeAid.

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<sup>5</sup> 2 from EAC including the President, 1 from EuropeAid - the Deputy Director General - and 1 from INFSO.

## 2.2. The functioning of the entire internal control system

EuropeAid carried out the annual review of internal control in 2010 through a desk review on compliance with the baseline requirements of the Internal Control Standards (ICS) and a self assessment of the effectiveness of the internal control system via an online management survey involving Directors and Heads of Unit. Unlike previous years, no similar exercise was carried out in Delegations by instruction of the EEAS. The main outcomes of these exercises are presented below.

### 2.2.1. Compliance with the requirements of the control standards

Compliance with the 61 baseline requirements of the 16 Internal Control Standards for EuropeAid HQ was checked via a desk review, involving those units with key responsibility for each internal control standard baseline requirement. The desk review confirmed that EuropeAid remained compliant with all the requirements of the Commission's internal control standards in 2010.

A number of significant developments have taken place in EuropeAid to further improve compliance with and effectiveness of the Internal Control standards. These are covered in more detail in:

- Mission and values - See 2.1.3.
- Human resources – see 2.2.2.1
- Planning and risk management processes – see 2.2.2.1
- Operations and control activities - for ICS 10 on business continuity see (3.2.2)
- Information and financial reporting – see 3.1.2.1.1 below on ICS 12.
- Evaluation and audit - for ICS 15 'Assessment of Internal Control Systems' see 2.2.2. For ICS 16 'Internal Audit Capability' see 3.2.2. and 3.3).

<b>Key developments on compliance with requirements of the Internal Control Standards in 2010 included:</b>	
ICS 3 'Staff allocation and Mobility'	Vacancy rate for officials (HQ) further decreased to a new record low of 2.5% at the end of 2010, i.e. at less than half of the 5% target.
ICS 4 'Staff evaluation and development'	85% of staff (officials and contract agents) had prepared a training map in 2010, slight increase from the previous year.
ICS 6 'Risk management process'	New risk management methodology approved in 2010 and 42 staff members involved in the risk assessment process.
ICS 7 'Operational structure'	Sensitive functions were reviewed and a new list of sensitive tasks has been established.  25 officials (2 senior managers, 6 middle managers, 12 non management officials and 5 assistant officials) are affected by the mandatory staff mobility requirement for sensitive functions during the reporting year. At the end of 2010, the Director-General decided to implement the necessary corrective measures for staff (exercising the same sensitive tasks for five year or more) in the framework of the 2011 reorganisation in the context of the AIDCO/DEV merger.
ICS 11 'Document management'	End 2010: filing rate in percentage of total documents registered in ARES at 66%, a clear increase from the 2009 number (52%).
ICS 14 'Evaluation of activities'	12 strategic evaluations completed and 16 new ones launched in 2010; 17 ongoing evaluations at the end of the year which had been initiated in 2009 and 2008.

### 2.2.2. Effectiveness of implementation of the internal control standards

#### 2.2.2.1. Actions in relation to the 2010 prioritised Internal Control Standards

The Annual Management Plan 2010 of EuropeAid indicated ICS 3 'Staff Allocation and Mobility' and ICS 6 'Risk Management Process' as the Internal Control Standards prioritised for 2010. A number of actions to improve the implementation of these standards were taken in 2010, in particular:

- A complete revision of the risk management approach was achieved which included a series of half-day training courses on risk, development of an on-line course, one-to-one interviews on risk assessment and a one day risk assessment workshop<sup>6</sup>;
- Particular attention was paid to the reintegration of staff returning from delegations and recruitment of EU10-EU2 laureates. EuropeAid managed to further decrease the vacancy rate for officials at HQ, which was at a new record low of 2.5% at the end of 2010, i.e. at less than half of the 5% target. At the end of December 2010 the vacancy rate for HQ contract agents stood at 5.4%<sup>7</sup> and the average vacancy rate was estimated at 8.2% for the year. The overall level of vacancy rates of contract agents in Delegations was reduced from 14.5% at the end of December 2009 to 7.6% at the end of December 2010 and for officials stood at 3.7%. The level of vacancy rates of contract agents in Delegations with living conditions allowance rates of 35% and 40% (i.e. Delegations in 'difficult' countries) was also reduced from 20.4% to 10.9% by the end of December. This vacancy rate reduction demonstrates the significant efforts made in 2009 / 2010 including the simplification of recruitment procedures and the recent proposals (in the revision of the Staff Regulations) to introduce the concept of 'rotation' of Delegations' Contract Agents.

Given the merger of EuropeAid and DG Development in January 2011 and the subsequent restructuring of the organisation, the Internal Control Standards proposed as priorities in 2011 are ICS 1 (Mission) and ICS 12 (Information and Communication), particularly as the risk management workshop run in 2010 revealed improvements to internal communication to be a key issue for staff. Final decisions will be taken in the context of the finalisation of the 2011 management plan for the newly merged EuropeAid Development and Cooperation DG.

### 2.2.2.2. Results of the internal control standards effectiveness survey

The overall results of the ICS 'effectiveness' management survey show that 81%<sup>8</sup> of the respondents assess the control measures in EuropeAid as effective and confirm the generally satisfactory perception of management about the functioning of the internal control system.

The Internal Control Standards which achieved the highest effectiveness assessments across the organisation were ICS 13 relating to 'Accounting and Financial Reporting' (98% of *total respondents*), ICS 16 on the 'Internal Audit Capability' (95%), ICS 2 on 'Ethical and Organisational values' and ICS 9 on 'Management Supervision' (both 90%). At the other end of the scale, ICS 3 'Staff Allocation and Mobility' achieved the lowest effectiveness rating at 32%, still substantially below the nearest lowest scores (ICS 6 'Risk Management Process' at 72% and ICS 4 'Staff Evaluation and Development' at 73%). Ratings for these three ICS are down from 2009<sup>9</sup>.

Only 41% of Directors and 30% of Heads of Unit consider the measures taken on ICS 3 'Staff Allocation and Mobility' to be effective in 2010. This remains the Internal Control Standard which EuropeAid's management has judged to be least effective over some years, and 2010 has shown the lowest scoring to date. The low effectiveness rating of human resources policy was also reflected in the interviews carried out in the framework of the extensive risk assessment exercise and the subsequent risk assessment workshop. Recurrent issues discussed at these occasions included high staff turnover due to a high number of contract agents and - linked to that - a loss of information with detrimental effects on the continuity of operational management in headquarters and workload distribution.

### 2.2.3. Conclusion

Procedures in place have mitigated the key risks which EuropeAid flagged at the beginning of the year in its risk assessment exercise. For example 2010 has been a year in which the services have been very focussed on preparing the transition to the new institutional structures which will come fully into place in 2011 for external policy. This work has been successfully completed with a comprehensive range of legal texts and inter-service agreements governing the rules of and relationships between the various external policy actors. Risk management has been a particular

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6 75% of Directors and 72% of Heads of Unit believe the risk management process to be effective (down from 79% in 2009). 77% of all respondents said the DG risk management process is user-friendly and pragmatic (up from 68% in 2009).

7 In 2011, it has been decided to follow-up the recruitment procedure for the contract agent through the budgetary execution of the specific CA budget lines given the need to relate CA posts to available budget.

8 The results cannot fully be compared with previous surveys as there were six answer options compared with four in previous surveys.

9 Effectiveness ratings 2009: ICS 3: 55%, ICS 6: 79% and ICS 4: 90%.

focus in 2010, as have efforts to improve preventative controls such as improving guidance and training opportunities (see 3.1.2.1 below).

While the last annual reports of European Court of Auditors have judged EuropeAid's supervisory and control systems to be partially effective, EuropeAid considers that given the multi annual nature of its control architecture and the need to take cost effectiveness into account, that controls are working well and as intended in 2010<sup>10</sup>.

The work of internal auditors has been particularly helpful over the year in pinpointing and improving inefficiencies and the organisation has worked hard to significantly improve its responsiveness to audit recommendations (see 3.2.3). Improvements continue to be made on compliance with the Internal Control standards. In particular the transition to the ARES system has vastly improved EuropeAid's document management, business continuity plans have been overhauled and 2010 also saw the launch of a major drive to improve our monitoring and reporting tools to move towards a more 'results based' performance framework. These developments will also help to mitigate some of the weaknesses highlighted by the IAS in EuropeAid's ability to disaggregate its management information to be able to give better assurance on particular instruments (see 3.2.2) and a review of sensitive tasks.

In the context of the 'zero growth' staffing commitment made in the 2007 Screening Report, and the continuing budget freeze on non permanent staff financed from operational programmes, finding ways to do 'more with less' has continued to be the significant challenge of 2010. EuropeAid's 'Control Pyramid Action Plan' therefore also addresses the need for a long-term human resources strategy including EU Delegation cooperation staff (who are to be moved to EuropeAid's Establishment Plan in 2011). This is clearly needed given the overwhelming message sent from EuropeAid' middle and senior management in the ICS 'effectiveness' survey on our human resources weaknesses. While there is no magic bullet, with the optimisation of staff resources (and higher official to contract agent staff ratio) coming with the merger of EuropeAid and DG Development, the more direct management of EuropeAid's cooperation staff in the field (with the dissolution of DG External Relations) and the progress made on vacancy rates over the last year, it is hoped that EuropeAid will be in a stronger position to better provide and manage human resources in relation to its needs in the medium to long term.

On the basis of these and other wide ranging indicators, there is good evidence that the internal control systems are working well in EuropeAid and continuing to show solid improvement over time.

## **2.2.4. Information to the Commissioner**

The main elements of this report and assurance declaration have been brought to the attention of Commissioner Piebalgs.

## **3. BUILDING BLOCKS TOWARDS THE DECLARATION OF ASSURANCE**

The materiality 'threshold', above which the Director General would require a reservation to his Statement of Assurance (see Part 4) is set out in detail in Annex 4. In summary, any weaknesses identified in 2010 should lead to a reservation on the Director General's Statement of Assurance if it is judged that more than 2% of moneys entrusted to EuropeAid have not been spent on the purposes for which they were intended, or if particular events in 2010 have so significantly undermined the reputation of the Commission as a whole that there has been a loss of confidence in the institution by its stakeholders.

### **3.1. Building Block 1: Assessment by management**

#### **3.1.1. Main elements of the control strategy**

##### **3.1.1.1. Responsibilities and lines of accountability**

Each operational Director in EuropeAid is responsible for the implementation of a number of programmes or budget lines within the framework of a sub-delegation he/she receives from the

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<sup>10</sup> The ECA gave an unqualified opinion on the EDFs in 2009 (i.e. error rate estimated below 2%). There was also a significant reduction in the frequency of errors in the Court's sampling. The number of transactions found to contain error in the external aid chapter as a whole fell from 26% in 2007 to 13% in 2009. For EuropeAid, the frequency of finding an error was down to 10% last year.

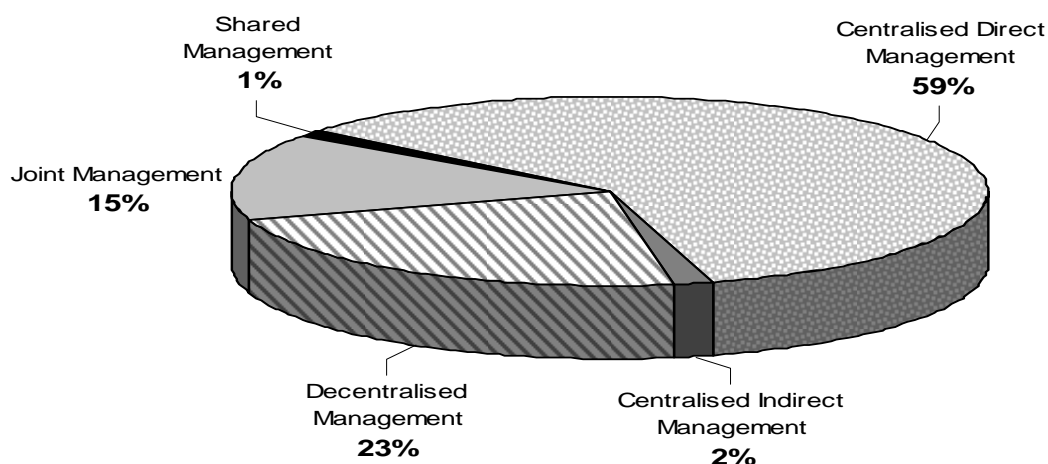
Director-General. All stages of the authorising procedure – financial, contractual and operational - are under the direct hierarchical responsibility of the Authorising Officer by sub-delegation. The same principle is applied in EU Delegations where this role is sub delegated to the Head of Delegation. This single and clear chain of command enhances personal responsibility.

### 3.1.1.2. Management systems

External assistance programmes are mainly implemented under three management systems (see below). In addition a small number of programmes under the European Neighbourhood Policy Instrument operate under shared management with EU Member States for cross border cooperation, and a fifth (centralised indirect) management system emerged more prominently in 2008 / 2009 in the context of the aid effectiveness agenda through delegation agreements with donor bodies (see Annex 6). It is also used for cooperation through the European Investment Bank and through the Commission's executive agencies (see also 2.1.5). The choice of management system is based on the risk environment, the appropriate implementing partners and other qualitative criteria.

- 'Centralised - direct' management means that the Commission, at headquarters or in delegations, undertakes the contract award procedures and payments to final beneficiaries. This management system is used, inter alia, for the management of thematic budget lines, budget support and some regional programmes and is most commonly used for activities financed by the EC General Budget.
- 'Decentralised' management implies that certain implementation tasks are entrusted (partially, substantially or fully) to a beneficiary country or regional organisation. The degree of compliance with internationally accepted standards for accounting, audit, internal control, procurement and grant award procedures of the organisation determines the degree of decentralisation e.g. for the transfer of responsibilities for contracting and paying (see 3.1.2.1.2 below). EuropeAid does not yet operate full decentralisation although new arrangements (for 'substantial' decentralisation) are being developed. Partially decentralised management is most commonly used for activities financed by the EDF, although the share has been decreasing over time as budget support (centralised management) assumes a greater proportion of the EDF portfolio (see Annex 5).
- 'Joint' management means that certain implementation tasks are entrusted to an international organisation who may then use their own management procedures provided the accounting, audit, control and procurement procedures of the organisation offer guarantees equivalent to internationally accepted standards.

#### EuropeAid's external aid (commitments) by management system



Further details of EuropeAid's internal control strategy by management system and key contract type can be found in Annex 5.

### 3.1.1.3. Management assessment framework

The management assessment contributing to the reasonable assurance given by the Director General is informed by EuropeAid's performance in the following areas:

- Legality and regularity of transactions including:

- Preventative actions
- Detective and corrective measures
- Sound financial management including:
  - Contents of management reporting
  - Results of independent operational monitoring

The coverage of each of these controls in relation to EuropeAid's key management systems is shown below in very simplified terms. Please refer to text below and Annex 5 for a more complete explanation of the relationship between management system and key controls.

### 3.1.2. Legality & regularity of transactions

#### Preventative, detective and corrective controls in relation to management system

Management system						
		Centralised indirect (national development bodies)	Centralised direct (Commission)	Decentralised (beneficiary states) <sup>11</sup>	Joint (international organisations)	Shared (EU Member States)
Legality and regularity checks	Institutional compliance assessments	√		(√)	√	√
	External audits & verifications (Commission)		√	√	√	
	Ex-ante transactional controls		√	(√)		
	Retrospective checks	√	√	√	√	√
Sound financial management measures	Management reporting	√	√	√	√	√
	Independent operational monitoring	√	√	√	√	√

#### 3.1.2.1. Preventative Actions

##### 3.1.2.1.1. Support and guidance of operations

EuropeAid offers a significant amount of guidance via internet, paper, and HQ support (by email / telephone / field visits), particularly on contractual issues. Comprehensive and up to date guidance for beneficiaries and implementing organisations provides a central component of the preventative measures designed to build the Director General's assurance and mitigate the risks associated with a complex financial management environment.

The main procedural tools within EuropeAid have been radically simplified in 2010. The 'Practical Guide to contracts procedures for EU external actions', has been revised and was reissued in November 2010 to take into account the entry into force of the amended Cotonou Agreement (01/11/2010) and to clarify and make more flexible a number of guidance issues. To complement this guide, a new single manual called the "DEVCO Companion" has consolidated approximately 20 instruction notes on procedural and financial issues in order to set out the internal financial and contractual procedures to be applied from 3rd January 2011. In addition, a new 'Financial Management Toolkit' was issued at the end of 2010 to aid implementing organisations to comply with financial management conditions required in external aid contracts.

##### 3.1.2.1.2. Institutional compliance assessments

EuropeAid contracts with external auditors to undertake institutional assessments for compliance with internationally recognised standards of financial management (notably audit, accounting,

<sup>11</sup> Controls architecture depends on the level of decentralisation (partial / substantial / full).

internal control and procurement) with third party bodies wishing to implement aid programmes on the Commission's behalf under delegated management systems. Country level ex-ante eligibility assessments are also made prior to any decision being taken on Budget Support programmes.

*International organisations: Institutional compliance assessment (joint management)*

Eight new assessments were contracted and eleven completed on the conformity of international organisations' procedures with internationally accepted standards by EuropeAid framework contractors in 2010. Additional assessments were contracted in the field through other procurement methods. This brings the cumulative total at the end of the year to 70 assessments covering 105 international organisations<sup>12</sup>. The analysis is currently on-going for 23 organisations, among them Interpol and the UN Framework Convention on Climate Change. Most international organisations with which the European Commission has had a long lasting collaboration have now been assessed and future exercises will focus on new partners and on the review of older assessments.

The results of the assessments of international organisations are satisfactory, showing that the organisations generally meet internationally accepted standards regarding their accounting, auditing, internal control and procurement procedures. Of the eleven assessments completed, five received critical recommendations, and joint management cooperation was put on hold until remedial action was taken. Following recommendations of the European Court of Auditors in 2010<sup>13</sup> guidance on joint management with regional organisations in ACP countries has been clarified in relation to performance on the four pillars assessment and as a result fewer projects have been agreed with ACP regional organisations in joint management than originally planned for 2010. These compliance assessments, together with verification missions (see below) and reporting provide the most substantial elements of assurance for joint management.

*Beneficiary organisations: Institutional compliance assessment (decentralised management)*

Traditionally, the level of decentralisation practised by EuropeAid has been partial, since beneficiary countries use EC procedures and all payments to third parties are made by the Commission, with the exception of those payments made under programme estimates<sup>14</sup>. However, in accordance with its commitments on aid effectiveness as part of the Accra Agenda, EuropeAid is committed to an increasing use of beneficiary countries' systems. In practice this means a move towards 'substantial decentralisation' in which the beneficiary country uses its own financial procedures, notably for payments in a first stage. This approach implies a higher level of risk in terms of the likelihood of legality and regularity errors. If procedures other than those of EC are to be applied to implement the action the Commission needs first to obtain assurance that the control environment complies with the conditions provided for in the relevant Financial Regulations. Terms of Reference for these assessments were issued in 2009, together with specific guidance. At the end of 2010 EuropeAid formally adopted a targeted approach to a compliance assessment process with beneficiary countries. A list of 14 countries has been made, where - after a positive desk review - a formal pillar review could be launched for not more than 5 countries per year.<sup>15</sup> Pending this change, assurance for partially decentralised management is informed primarily through ex-ante transactional controls (see 3.1.2.2.2), ex-ante audits (see 3.1.2.2) and ex-post controls (see 3.1.2.2.3) as well as monitoring and reporting.

*National donor bodies: institutional compliance assessment (centralised indirect management)*

One assessment of a national development body has been finalised in 2010 (and two contracted). On 3 others important recommendations have been issued, which need some time for implementation. As a result, follow-up visits have been agreed with the entities and the auditors. The analysis is currently on-going for 6 national development bodies, one of which is the first non-EU one - the Australian Agency for International Development. Four more assessments are to be launched in the first quarter of 2011, as a result of earlier requests.

The overall results of these assessments have been positive, showing that the national development agencies meet internationally accepted standards of financial management and where critical recommendations have been made by the auditors, swift remedial action has been taken. The

12 The assessment of the UN Secretariat covers 30 different UN organisations.

13 Special Report No 18/2009 on the effectiveness of EDF Support for regional economic integration in East Africa and West Africa.

14 A formal agreement between the National Authorising Officer and the Commission under (partially) decentralised management to undertake/contract/execute payments for activities.

15 The compliance assessments contracted in 2009 in Ghana were positive and two projects ("Voice and Accountability" and "Rwanda Institutional Support to Statistics and Public Financial Management") have subsequently gone forward there under substantial decentralised management. Egypt was already the subject of a full compliance assessment in 2008 and has been operating under this management system since that time.

assessments, (complemented by monitoring and reporting), provide the primary control for assurance under centralised indirect management.

<i>Performance Indicators –ex-ante institutional compliance assessments</i>	<b>2009</b>	<b>2010</b>
<i>Input - resources devoted to ex ante institutional compliance assessments</i>		
International organisations – amount contracted under framework contracts for the 4 pillar compliance assessments (joint management) (+ number)	-	€ 0.4 M (8)
Beneficiary countries – amount contracted for the 5 pillars compliance assessment of beneficiary states and regional organisations (decentralised management) (+ number)	-	€ 0.2 M (4)
National development bodies - amount contracted for the 6 pillar compliance assessments (centralised indirect management) (+ number)	€ 0.03 M	€ 0.06 M (2)
<i>Output - Level and nature of controls carried out</i>		
number of international organisations' assessments (joint management) completed (+ cumulative)	22 (56)	11 (70) <sup>16</sup>
number of beneficiary countries' assessments (decentralised management) completed (+ cumulative since 2009)	2 (3) <sup>17</sup>	3 (6) <sup>18</sup>
number of national development bodies' assessments (centralised indirect management) completed (+ cumulative)	6 (12)	1 (13)

### *EU Member States: compliance assessment (shared management)*

Cross Border Cooperation Programmes under the European Neighbourhood Policy instrument are run under shared management with EU Member States. Prior to the adoption of the Joint Operational Programme, EuropeAid needs to certify that "the management capacity of the Joint Management Authority is commensurate with the volume, content and complexity of the operations planned under the programme. In particular, [...] sufficiently qualified human resources, [...] requisite computerised management and accountancy tools and financial circuits, [...] and internal control and audit systems." The full certification process started in 2010.

Thirteen Programmes have been established. An assessment of four Joint Management Authorities has already been undertaken by EuropeAid (in Poland, Romania, Hungary and Italy). Outcomes were limited and did not lead to any interrupted or suspended payments nor to any financial corrections. The assessment of the national control systems was deemed satisfactory and led to a reasonable assurance with regard to the management capacity of the Joint Management Authority. Further assessments are planned in 2011 and 2012 to cover the remaining programmes

In addition, the ENPI Regulation<sup>19</sup> foresees that a declaration signed by the representative of the Joint Managing Authority shall be provided on an annual basis and shall give an assurance that the management and control systems set up by the programme in the course of the previous year continue to comply with the model approved by the Commission and that they have operated in such a way as to warrant a reasonable degree of confidence in the correctness of the financial report and in the legality and regularity of the transactions to which it relates. Declarations pertaining to 2010 shall be provided by the Joint Managing Authority by the 30th of June 2011.

#### *3.1.2.1.3. Budget Support eligibility assessments (centralised direct management)*

Operations financed through Budget Support fall into the centralised direct management category of the Financing Regulations. The eligibility to Budget Support is categorised in all relevant Regulations in a very similar manner (Cotonou Agreement, ENPI, DCI, etc.). Three main eligibility criteria are spelled out: (i) a stability oriented macro-economic policy; (ii) a credible programme to improve public financial management (PFM); (iii) a well defined national development policy (and that this policy is supported by the EU). Delegations and HQ services are called to demonstrate that such eligibility criteria are in place both prior to and throughout the subsequent life of a budgetary support financed programme. The continuous assessment of the eligibility criteria enables the

16 3 assessment during 2010 which make up the cumulative total were contracted by DGs Economic and Financial Affairs and ECHO.

17 Ghana National Electoral Commission and Ghana National Institute for Statistics. Egypt's assessment was completed in 2008.

18 Liberia, Jordan and Ghana Ministry of Finance and Economic Planning.

19 Article 28.c of the Commission Regulation (EC) No 951/2007 of 9 August 2007 laying down implementing rules for cross-border cooperation programmes financed under Regulation (EC) No 1638/2006 (ENPI Regulation)

Commission to exert a strong control on the legality of the different phases of a programme, through commitments to payments. The European Court of Auditors and the European Parliament have been encouraging the Commission to improve the demonstration of the eligibility conditions for several years<sup>20</sup> and in response in 2010 the Commission established a new Annual Monitoring Report on Public Finance Management which provides a more clear and refined framework in order to monitor and demonstrate progress in the field of PFM.

Some examples of how eligibility controls contributed to assurance in 2010 include:

- In Zambia a corruption case (public finance management) emerged in the Health Sector. All donors including the Commission asked for corrective measures and withheld disbursements.
- In Uganda public finance management eligibility became a serious concern. As a result the annual performance tranche of the MDG Contract was cancelled.
- In Cambodia serious concerns on transparency on land sales (public finance management) led to the cancellation of a tranche disbursement.
- In Malawi, Democratic Republic of Congo and Saint Kitts & Nevis the Commission's eligibility concerns led to suspended / delayed budget support payments.

The possibility of reducing or withholding payments based on eligibility assessments substantially mitigates EuropeAid's risks in budget support operations, thereby contributing directly to the Director General's assurance.

### 3.1.2.2. Detective and corrective measures

#### 3.1.2.2.1. External audits and verifications

##### *Audit framework*

The audit and verification coverage of EuropeAid's activities results from a mix of mandatory and risk based external audits and verifications using external auditors contracted (either by the Commission or by third parties e.g. beneficiaries). The large majority of audits used by EuropeAid are financial and systems' audits (including the combination of these two) which provide assurance on the legality and regularity of external aid operations.

In verifications, auditors make use of the same methods as in audits but verifications give factual findings rather than providing audit assurance. The large majority of the verifications used by EuropeAid are expenditure verifications with a financial focus on the eligibility of expenditure. Such verifications are mandatory for programme estimates<sup>21</sup>, grants above €100 000<sup>22</sup> and fee-based service contracts (both to be contracted by beneficiaries). These mandatory audits and expenditure verifications are ex-ante audit procedures before the Commission clears final payments. They make up the majority of EuropeAid's audits and verifications and results are taken into account by, for example, the subtraction of non eligible expenditure from claimed amounts. EuropeAid also makes use of verifications for international organisations operating in joint management, which are more limited in scope (see *Verification missions to international organisations (joint management)* below).

Risk-based audits are a response to the specific risks perceived by the responsible Authorising Officer. The objective is to have an additional layer of controls available which the responsible Authorising Officer can use if he/she perceives specific risks e.g. where mandatory audits are not required or where the results of mandatory audits are too limited in scope or are not considered satisfactory. They are often carried out ex-post i.e. after payments.

#### **EuropeAid external audit requirement by management system/instrument<sup>23</sup>**

20 The ECA through the DAS, particularly of the EDF, and different Special Reports (on PFM, Technical Co-operation, Health in Sub-Saharan Africa, Education and the recent GBS Management by the Commission in ACP, Asia and Latin America) has engaged in constructive relation with the Commission relevant services. This has led to the acknowledgement by the Court of the improved capacity by the Commission to demonstrate progress in the areas of eligibility.

21 A formal agreement between the National Authorising Officer and the Commission in a (partially) decentralised management mode to undertake/contract/execute payments for activities.

22 It should be noted that the scope of these checks goes well beyond the provisions of the Financial Regulation which sets the threshold for mandatory audits concerning grant contracts at € 750 000.

23 This simplified table sets out the main categories of audit approaches in external aid and is not comprehensive. For grants, programme estimates, Delegation Agreements and procurement contracts further audits can and are made at the discretion of the Commission.

<b>Management system</b>						
	Centralised with development bodies	indirect national bodies	Centralised direct by the Commission	Partially decentralised with beneficiary states	Shared with EU Member States	Joint international organisations with
<b>Grants</b>			All grants $\geq$ € 100 000 = mandatory expenditure verification by beneficiary before final payment			
<b>Procurement</b>			- Mandatory expenditure verifications for fee based service contracts by beneficiary			
<b>Programme estimates</b>				Mandatory Expenditure verifications $\geq$ € 200 000 by the Commission		
<b>Contribution Agreement</b>						- International organisations' own audit framework applies - Commission may conduct verification missions
<b>Delegation Agreement</b>	Development body's own audit framework applies					
<b>Joint Operational Programme</b>					- annual external audit - annual internal audit - Commission may conduct verification missions	

### *Audit planning*

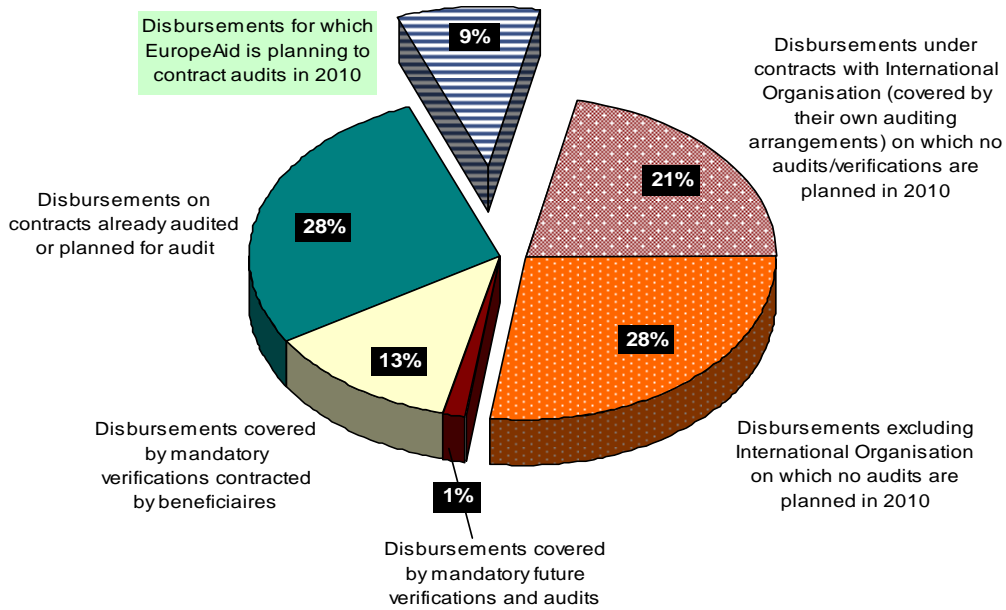
Since 2004, the annual planning of audits and other engagements (e.g. verifications and institutional compliance assessments) results in audit plans which include mandatory and risk-based audits. Improvements have been made to the audit planning methodology year on year - including a major revision in 2009 - allowing more and better analyses. In particular, a better and more uniform calculation of the planned audit coverage ratio has been developed over 2009/2010<sup>24</sup>.

The audit coverage ratio<sup>25</sup> planned by the Commission (for direct contracting) for 2009 was 5%, for 2010 it was 9% and for 2011 will be 6%. However the Commission's planned coverage of audits is only one part of the auditing environment of EuropeAid's activities. Audits are also launched by beneficiaries and by partners under delegated cooperation management systems. In addition the multi-annual framework in which projects run means that audit plans from other years also widen coverage. For example the analysis below shows that a significant part of the contracts portfolio (i.e. 13% in the AP 2010) is already covered by mandatory verifications – launched by beneficiaries - which were either already performed or will be performed at a later stage. Moreover, a substantial part of the contracts portfolio (i.e. 28%) is covered by audits of previous audit plans. As a result, more than half (51%) of the EuropeAid portfolio of contracts by value was planned for checking by auditors in 2010 and this coverage rises to 54% in the 2011 planning. Of the remaining portfolio – i.e. expenditure not currently planned for audits - over half is managed by international organisations and therefore subject to auditing by bodies already achieving international standards of audit and internal control as verified by EuropeAid's institutional compliance assessments (see 3.1.2.1.2 above)

### **Planned coverage of EuropeAid portfolio by audits and verifications (by € payments) in 2010**

24 E.g. the basic portfolio of contracts which will be used to calculate the Audit Coverage Ratio from 2011 has been redefined to exclude the contracts which cannot normally be subject to a financial audit e.g. budget support. This development is linked to the design of web based performance indicator reporting at Delegation level to allow HoDs to better monitor what % of the expenditure they (could) audit.

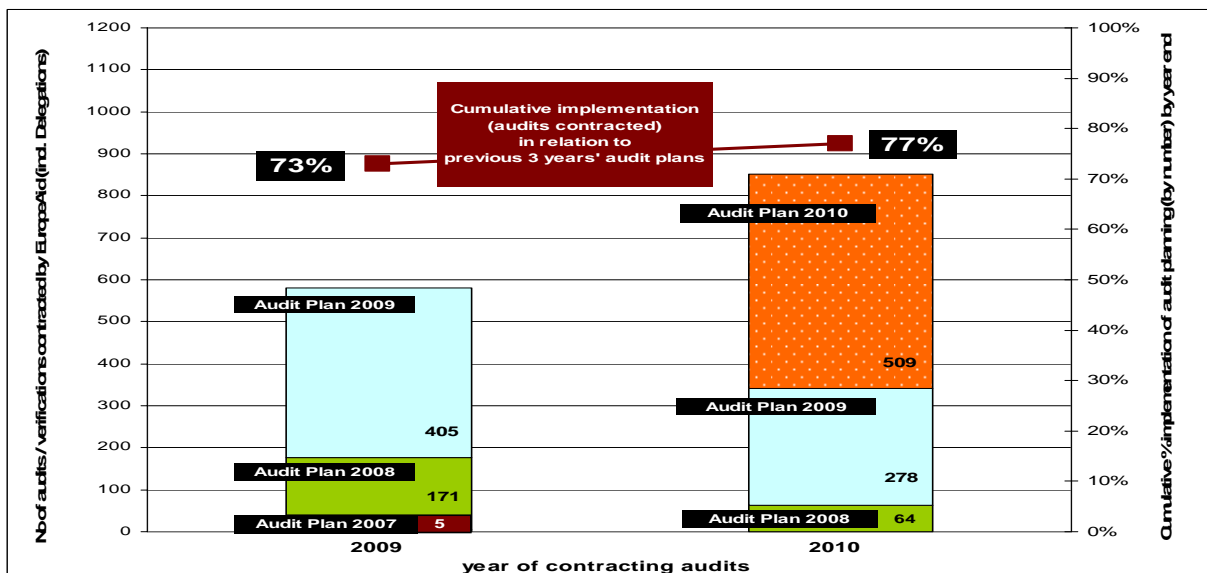
25 Total amount paid for contracts subject to audit divided by total amount paid for all contracts in the basic population of contracts.



### Audit implementation

EuropeAid regularly monitors the implementation of its audit plans. The launch of a planned audit depends largely on the progress in implementation of the contract to be audited. The Audit Plan for 2010 included 889 audits. Of these 509 (57%) had been contracted by year end. Experience shows that full implementation of an audit plan takes about three years. Taking into account audit plans over this three year perspective, the large majority (77%) of the audits planned for 2008/2009/2010 were contracted by 31 December 2010. The graph below shows EuropeAid's audit contracting performance over 2009 and 2010 in relation to cumulative planning totals (over previous three years). The audit plan established for 2007 is now fully contracted.

### Implementation (contracting) of audits in 2010



### Audit results - summary reports of audit framework contractors

Audit firms which have signed a Framework Contract with EuropeAid provide annual summary reports on the audits they have performed during the year. The results of the 336 audits which were completed in 2010 (i.e. final report issued by the audit firm) by these contractors are described in EuropeAid's Annual Report 2010 on Framework Contract audits. The main outputs and results are summarised in the table below.

<b>Performance Indicators – External (ex-ante) audit of operations (all management systems)</b>	<b>2009</b>	<b>2010</b>
<b>Input - resources devoted to external (ex-ante) audit of operations</b>		
• Cost of the external audits contracted by the Commission (by framework contract and other procurement)	€ 15 M	€ 17 M <sup>26</sup>
• Cost of the expenditure verifications launched by beneficiaries <sup>27</sup>	€ 13.7M	€ 14 M
<b>Output - Level and nature of controls carried out</b>		
• Number of financial and systems FWC audit reports finalised		
- % financial audits / all audits	69% (127)	63% (212)
- % financial and systems audits / all audits	28% (52)	17% (56)
- % other audits / all audits <sup>28</sup>	3% (5)	20% (68)
• % audits contracted by year end / all audits planned during last 3 years (cumulative)	73%	77%
<b>Result - What the controls allowed us to discover/remedy</b>		
• Conclusions of FWC financial audits <sup>29</sup>		
- % unqualified opinions on financial audits / all audit opinions	42% (75)	51% (136)
- % qualified opinions on financial audits / all audit opinions	54% (97)	45% (120)
• Total amount of FWC financial findings / expenditure subject to audit	12% (€ 93 M) <sup>30</sup>	7% (€ 62 M)
• Total amount of FWC financial findings 'for further consideration of the Commission' / expenditure subject to audit	18% (€180 M)	2.5% (€ 23 M)

The auditor's opinion is the essential part of the auditor's report. In 51% of all the FWC reports issued in 2010 the auditor expressed an unqualified opinion<sup>31</sup>. In 45% of the FWC financial audit reports issued in 2010, the auditors qualified the audit opinion for material audit findings made. In these cases the Authorising Officer had good guidance from the auditor with regard to the issues to be addressed. More rigorous mandatory terms of reference for audits were issued in October 2007, with clear materiality thresholds, which are now resulting in more consistently categorised auditors' opinions<sup>32</sup>.

The main findings made by the Audit Framework Contractors in 2010 relate to financial, management control and other compliance issues resulting from shortcomings and weaknesses in the financial management and internal control systems of beneficiaries of EC funds. The most important financial findings concern ineligible costs as a result of a lack of (adequate) supporting documents, and the use of incorrect procurement procedures. A distinction is made between financial audit findings which were considered to be clear-cut (a total amount of € 62 M (i.e. 7% of the total expenditure subject to audit)) and those which the auditors believed warranted further consideration by the Commission (€ 23 M (i.e. 2.5%)). These financial findings represent potential errors that the control system has discovered and which will be further investigated and remedied as necessary at final payment. The audit firms have made recommendations in line with the findings they detailed. The audit firms have also provided useful general recommendations, focusing on preventative measures to avoid the financial findings, and/or reduce them. These include the development of specific guidance for beneficiaries; training and communication actions and more focused monitoring. A number of measures have already been put into place, notably the Financial Management Toolkit for beneficiaries<sup>33</sup>. The quality of the above engagements is subject to a review by EuropeAid. The result of this work is presented in an annual report.

26 In 2010 the contracted costs for verification missions to international organisations and for other audits / verifications contracted by the Commission have been differentiated. Verification mission costs can be found in the next section.

27 These are estimates based on 80% of the average verification costs multiplied by the number of grants  $\geq$  €100 000.

28 Other audits were mainly made up of systems audits in 2009. The increase in this category for 2010 is due to expenditure verifications for programme estimates the terms of reference for which were released at the end of 2009.

29 These findings are not based on a representative sampling methodology but on a risk based architecture in which mandatory audits / verifications are required for the most risk prone contract types, and additional audits are planned on an annual risk assessment.

30 It should be noted that the findings for 2009 were unusually high as a result of a small number (6) of specific audits which heavily influenced the overall results. In fact findings over 2009-2010 are relatively stable.

31 For financial audits this means the financial report of the project for the period subject to audit presented, accurately, the expenditure actually incurred and the funds of the project were, in all material respects, used in accordance with the applicable terms and conditions.

32 More than 95% of the 2009 (and 100 % of 2010) FWC audit reports were presented in the 'post 1 Oct 2007' audit report format (compulsory since the introduction of new ToR on 1st October 2007) as opposed to about 40% in 2008.

33 The Toolkit was finalised at the end of 2010 and has been online (internet) since January 2011.

External audits provide assurance on the legality and regularity of external aid operations and this is primarily related to compliance with applicable regulations and rules. They also contribute to assurance on sound financial management and the principles of economy, efficiency and effectiveness, and apply to all management systems.

#### *Verification missions to international organisations (joint management)*

Standard Contribution Agreements with international organisations allow the Commission to carry out checks, including on the spot, in order to acquire an understanding of the international organisation's system of accountability and to be able to report on the proper use of European Community funds. Such verifications are affected by the Framework Agreements that can be in place with certain international organisations. For example, the EC-UN Financial and Administrative Framework Agreement (FAFA) defines in details the scope of these missions, other agreements are not so specific and generally allow for a broader verification.

The number of annual verification missions over the last few years has fluctuated, but the number of contracts verified has remained constant at approximately 60 per year. During 2010, 37 verification missions were finalised through the audit Framework Contract (23 for the UN, 13 for the World Bank and 1 for the Institute Of Migration (with the remainder (5) being contracted through other procurement).

<i>Performance Indicators – External (ex-ante) verification missions to international organisations (joint management)</i>	<i>2009</i>	<i>2010</i>
<i>Input – resources devoted to verification missions to international organisations</i>		
• Amount contracted by the Commission for verification missions	-	€ 0.7 M
<i>Output - Level and nature of controls carried out</i>		
• Number of verification missions contracted	27	34
• Number of reports finalised	15	42
<i>Result / Outcome - What the controls allowed us to discover/remedy</i>		
• Total financial findings (/ total amount of EC expenditure audited)	-	€ 15.7 M (5%) <sup>34</sup>

The quality and consistency of the verification reports by framework contract audit companies have enabled EuropeAid to get an informed overview of the issues to be tackled to improve the overall control framework of funds under contribution agreements with international organisations. The main types of findings of the verification missions completed in 2010 include:

- financial findings e.g. ineligible expenditure, insufficient or missing documentation, procurement procedures not followed, expenditure outside contractual period etc;
- management control findings e.g. absence of adequate accounting records to support EC report, weaknesses in controls over procedures, absence of adequate monitoring/controls over sub-projects, inadequate auditing and assurance arrangements; and
- compliance issues e.g. incorrect exchange rates or publicity requirements not respected.

Some positive results regarding access to documents was achieved in 7<sup>th</sup> FAFA Working Group in 2010 (Joint EC-UN Guidelines on Reporting) and should contribute to a reduction in the number of findings in the future. Nevertheless the Commission continues to insist on better access to information with partner international organisations.

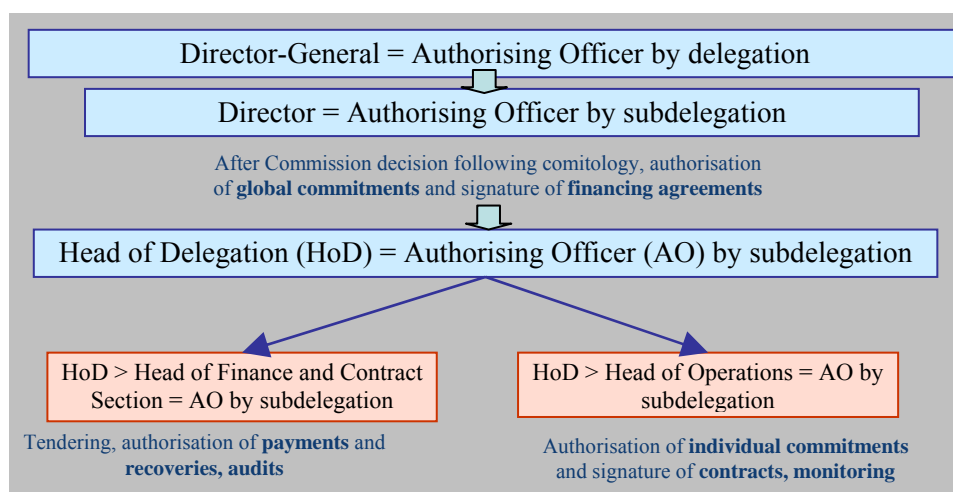
#### *3.1.2.2.2. Ex-ante transactional checks performed by the Commission*

Comprehensive and rigorous ex-ante transactional controls, performed by Commission staff in delegation and at headquarters form the core of financial controls on contracts and payments under centralised direct and partially decentralised management. Before any operation is authorised, the operational and financial aspects are initiated and verified by two different (operational/financial)

<sup>34</sup> The financial findings relate only to the finalised 37 verification missions by Framework Contract auditors and include all findings not just those of a 'clearcut' nature..

entities. This is the "four eyes" principle of the Financial Regulation, which EuropeAid, taking account of the specific high risk environment of external aid actions, reinforces by requiring controls by two separate agents for each of these two stages. Staff check, for example, the eligibility of costs and key documents such as valid financial guarantees (tender guarantee, pre-financing guarantee, performance guarantee) and certificates of acceptance issued by the project managers or supervisors. These controls apply equally to grants, procurement, programme estimates and budget support, and financial circuits and checklists are regularly reviewed and updated to respond to feedback from controls and subsequent risk analysis (see Annex 5). For example financial circuits for budget support payment were revised in 2009 to more fully involve delegation financial and contract staff in preparing payments dossiers and further revised in 2010 to include the SubDelegated Authorising Officer's (Director's) visa at HQ (see 3.3.1).

### EuropeAid financial circuits



Further details can be found in the Internal Control Templates in Annex 5.

The table below indicates the investment and coverage of ex-ante transactional controls by the Commission. Preliminary analysis indicates that - in 2010 - an amount of € 36 million (1.2% of total invoiced amounts) claimed was found to be ineligible as a result of these checks during the lifetime of contracts closed in 2010. Relatively small amounts of ineligible claims were made over a high number of transactions, showing that on average Commission staff discovered ineligible claims - as last year - on more than one in five contracts, indicating a high level of financial verification. The detective and corrective actions increased in absolute figures (doubling corrections since 2009) and as a proportion of the amounts contracted. These corrections represent a control over and above adjustments already made by beneficiaries and implementing organisations prior to submitting their invoices/requests for payment following an external audit (see 'Audit results - summary reports of audit framework contractors' above). Indicators show that this corrective action is increasing, for example taking simply payments made in the course of 2010 (and not all previous payments on contracts closed in that year), € 73 M in ineligible claims were detected and corrected by Commission staff.

For budget support, the Commission's main instrument to mitigate risks is the withholding or reducing of disbursements. Thus the ex-ante transactional checks performed by Commission staff at the point of payments claims on continuing eligibility and fulfilment of disbursement performance criteria are fundamental to the budget support control structure. In such cases the Commission can withhold or reduce (variable) disbursements, often in a co-ordinated manner with other donors, until corrective measures are undertaken by the partner Government.

<i>Performance Indicators – ex-ante transactional controls (centralised direct and partially decentralised management)</i>	<i>2009</i>	<i>2010</i>
<i>Output - Level and nature of controls carried out</i>		

• Number of registered financial/contractual derogation procedures	529 <sup>35</sup>	362
• Coverage of the Commission ex ante control on tendering and contracting procedures launched by the beneficiary or the Commission	100% if ≥ € 50 000	100% if ≥ € 50 000
• Coverage of the Commission ex ante control on calls for proposals launched by the beneficiary or the Commission	100%	100%
• Verification of budget support eligibility and disbursement criteria	100%	100%
<b>Result / Outcome - What the controls allowed us to discover/remedy</b>		
• % of closed contracts on which some claimed expenditure was found to be ineligible (frequency) <sup>36</sup>	22%	22%
• Total of invoiced funds over project lifetime found to be ineligible by closure <sup>37</sup>	€ 18 M (0.7%)	€ 36 M (1.2%)
• Total ineligible amounts corrected by ex-ante checks on payment claims	-	€ 73 M (1%)

### 3.1.2.2.3. Retrospective checks and recoveries

#### *Ex post desk controls performed by the Commission*

The aim of the transactional ex-post control is to assess the correct application of the required (ex ante) checks in the payment control chains (financial circuits) in order to test the internal control systems and gather systemic information for the continuous improvement of EuropeAid's financial management. These 'desk' checks are carried out by Commission staff at HQ and are based on a quarterly sample of transactions, selected following a risk analysis. The transactions concerned are payments, recovery orders, and clearance of pre-financing. The main aspects of the control itself are eligibility (substantial and formal), regularity and legality.

From the total of 408 files checked for the EDF and the Budget, the controllers noted 306 errors, of which 153 errors relate to classification / data input error and 53 to procedural errors such as an incorrect or missing checklist. The total of 206 data input/procedural errors represents 67% of the sample, which is lower than last year (79%), but higher than 2008 (57%). By far the most frequent type of error noted in 2010 (as in 2009), was the incorrect input of data into the accounting and management information system (CRIS), for example incorrect encoding of the contract start or finish date (i.e. not the same date as stipulated in the contract). These are formal errors, in the sense that no ineligible expenses were found to have been paid as a result of these incorrect dates. Nevertheless incorrect dating could potentially have an effect on the Commission's accounts, since accruals will be made at the year-end according to the start dates registered in the accounting system, and decisions on the eligibility of payments rely on correct contract start and end dates.

The remaining 100 errors can be considered as substantial errors (late payment, missing guarantee, etc.). Out of these, 10 errors with financial impact were found amounting to € 5.7 million, mostly related to an unjustified clearing of advances. Over €5 million of this total can be corrected with subsequent payments and the remainder with recovery orders. The percentage of all financial impact errors related to the value of the total sample in the year 2010 is 1.2%.

Taking into account the new 'Manual for ex-post controls' which includes an extension of control scope to financing agreements and tender selection procedure, (following a recommendation of the Court of Auditors in 2009) the controls in all directorates did not show errors related to incorrect selection procedure, or to contracts not in conformity with the legal base. All errors were communicated to the Authorising Officers for follow-up.

<b>Performance indicators – Ex - post transactional controls (all management systems)</b>	<b>2009</b>	<b>2010</b>
<b>Input - resources devoted to ex-post transactional controls</b>		
• Number of staff devoted to ex-post controls	7.5	7.5
<b>Output - Level and nature of controls carried out</b>		
• Amount of financial transactions actually controlled ex-post		

35 The 2009 AAR reported 583 (not 529) registered derogations. Following new draft guidance from DG Budget, the definition of derogations no longer includes prior (HQ) approvals for certain transactions. With the former definition the 2010 total would be 376 (not 362). EuropeAid only currently registers derogations on financial and contractual procedures.

36 Number of closed contracts on which ineligible expenditure was found / total number of contracts closed in 2010.

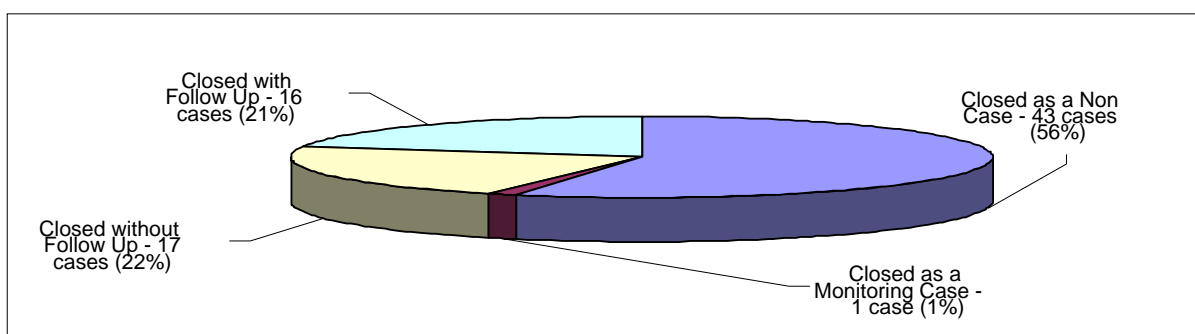
37 Amount not accepted (ineligible) on claims for all contracts closed in 2010 (/ total of invoiced amounts on all contracts closed in 2010).

- number of transactions ( no of transactions / total population <sup>38</sup> )	469 (1.9%)	408 (1.6%)
- volume of funds (value of transactions / total population <sup>39</sup> )	€ 348 M (4%)	€ 474 M (5%)
<b>Result - What the controls allowed to discover/remedy</b>		
• Frequency of transactions with errors	176 (38%)	188 (46%)
• Total number of errors registered	256	306
• Procedural errors and errors related to incorrect data input	202 (79%)	206 (67%)
• Substantial errors without financial impact	50	90
• Substantial errors with financial impact		
- number of errors with financial impact	4	10
- volume (value) of financial impact of errors (financial findings)	€ 0.9 M (0.3%)	€ 5.7 M (1.2%)

### Monitoring of OLAF investigations

OLAF opened 61 new investigations in 2010 – continuing the downward trend since the 2008 peak of 83 new cases. By the end of 2010, 20 of these new cases had been closed by OLAF as non cases and 41 were under assessment or active investigation.

### EuropeAid OLAF Cases Closures during 2010 (77 cases)



In 2010, EuropeAid recorded 77 case closures (vs. 67 in 2009). Of these 77 case closures, 43 were closed as "Non-Cases", 1 as a "Monitoring Case"<sup>40</sup> and 33 after active investigations. Of those 33 cases, 17 were closed without follow-up<sup>41</sup> and 16 with follow-up<sup>42</sup>. As a result, there are, at the end of 2010, a total of 125 ongoing cases which are being either assessed (62) or investigated (63).

In terms of longer term indicators, during the reference period 2001-2010, OLAF has closed, out of a total of 464<sup>43</sup>, 148 cases with follow-up and 20 as a 'Monitoring Case'. The sum of both figures represents 36 % of all closed cases and is probably nearing the best possible estimate of the number of cases involving irregular activities detected by OLAF in EuropeAid's area of activity.

38 25278 transactions (payments, recoveries, clearance of prefinancing).

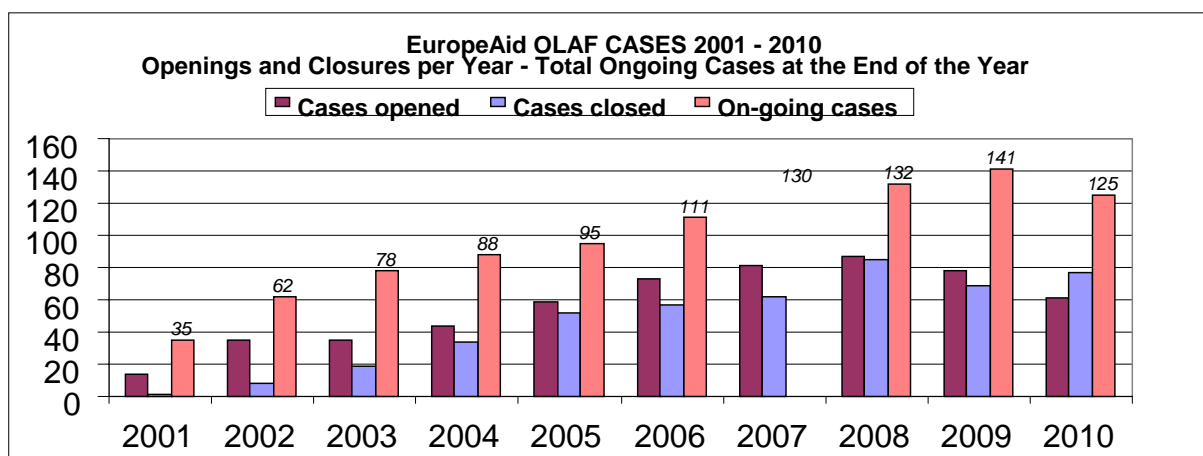
39 € 9 773 million.

40 Monitoring cases are cases where OLAF would be competent to conduct an external investigation, but in which a Member State or other authority is in a better position to do so (and is usually already doing so). Monitoring cases are passed directly to the authority judged competent to handle them. No OLAF investigation resources are required, but, as the interests of the EU are at stake, OLAF will follow up, via the appropriate follow-up unit, with requests for reports on developments at regular intervals

41 A case is closed as a "Case without Follow Up" when, for example the investigation carried out has concluded in the absence of findings which would have undermined the EU financial interests or findings have been disclosed but corrective actions were no longer possible given for example the time span elapsed between the occurrence of the irregularity and the time it was brought to the attention of OLAF.

42 A follow up can be either administrative and/or financial and/or judicial

43 This figure includes closures of cases which were opened before the reference period (22 cases).



### Recovery of undue payments

In 2010 EuropeAid issued 676 recovery orders for a total of € 149<sup>44</sup> million under the EC General Budget, of which 18 % (€ 26.8 million) were for undue payments, as result of: errors (€ 5.5 million), irregularities (€ 16.6 million) and fraud (€ 4.6 million). Under the EDF, EuropeAid issued 997 recovery orders for a total of € 91 million, of which 12.5 % (€ 11.4 million) was recovered for undue payments, as result of: errors (€ 2.4 million), irregularities (€ 8.2 million) and fraud related OLAF cases (€ 0.8 million).

#### 3.1.2.2.4. Results – Detection and Correction of errors

As a result of the comprehensive checks undertaken by external auditors and Commission staff both at HQ and in the field (see 3.1.2.2.4), the Commission estimates that a minimum of € 179 million was recouped to the EU budget in 2010 on EuropeAid's portfolio, in the main relating to ineligible claims. This was achieved through controls both before and after payment. Taking the example of external audits contracted by the Commission with framework contractors 'clear cut' potential financial findings totalled € 62 million (i.e. 7% of the total expenditure subject to audit - see 3.1.2.2.1 above), all of which will have been corrected prior to final payment.<sup>45</sup> In addition, subsequent ex-ante transactional checks remedied a further € 73 M million on payments last year (see 3.1.2.2.2 above). HQ desk controls corrected a further € 6 M. Problems discovered after final payments are reflected in recoveries, for which Commission issued about 1673 recovery orders in 2010, totalling € 240 million of which € 38 million is estimated to be linked to error, irregularities or fraud (see 3.1.2.2.3 and Annex 3). This means that at least 2.4% of claimed payments were refused or recovered by the Commission during 2010 as a direct result of controls. Additional sums were corrected through auditors' work procured both by beneficiaries and by the Commission outside of framework contract arrangements (see 3.1.2.2.1), (or through verification missions to international organisations,) for which centralised figures are not yet available.

EuropeAid is currently working on a methodology to provide an indication of what 'residual' level of error might remain after all these controls have taken place.

<i>Performance indicators –Detection and Correction of errors (all management systems)</i>	<b>2009</b>	<b>2010</b>
<b>Result - What the controls allowed to discover/remedy</b>		
• FWC Audit / P. E. verifications – clear-cut financial findings <sup>46</sup>	€ 93 M	€ 62 M
• Corrections made in the context of invoice checks (ineligible amounts)	€ 18 M	€ 73 M
• HQ desk controls – financial findings	€ 1 M	€ 6 M
• Recoveries for error / irregularity / fraud	€ 22 M	€ 38 M
<b>Minimum amount of potential errors recouped by EuropeAid's controls</b>	<b>€134 M</b>	<b>€179 M</b>

44 The large majority of recovery orders relate to the reimbursement to the Commission of unspent prefinancing at clearance of advances and the use of bank guarantees. For further details of recovery orders please see Annex 3.

45 These results are not representative of potential error throughout the portfolio as they include a risk (not sample) based assessment of audits to be carried out. However this approach has the merit of targeting the highest likely sources of errors for correction.

### 3.1.3. Sound Financial Management

#### 3.1.3.1. Management reporting

##### 3.1.3.1.1. Operational reporting

Management reporting in EuropeAid is based on a six monthly cycle which includes the External Assistance Management Reports submitted by Delegations and HQ operational units, the reports from Authorising Officers by sub-delegation (Directors) of EuropeAid and the assessment of the functioning of internal control resulting in the annual declaration of the Internal Control Coordinator. The major recurrent issue raised in these reports related to staff allocation and mobility (see 2.2.2.1) and IT concerns. The statement of the resources director (see Annex 1) confirms this comprehensive regular reporting on the overall state of internal control in EuropeAid.

##### 3.1.3.1.2. Verification missions to delegations

The devolution process of transferring aid management tasks from Brussels to the field was accompanied by a verification process to guarantee that Delegations could take on devolved management responsibilities. Verification missions are a management tool at director level. They provide assurance to the Sub-delegated Authorising Officer (SDAO), as well as an insight for Delegations regarding their capacity to manage external assistance and the achievement of the Delegations' goals. The March 2008 guidelines were revised in December 2009. The new methodology aims to help EuropeAid assess: 1) performance on the aid effectiveness agenda and Commission positioning; 2) quality of aid delivery, results and outputs; and 3) adequacy of the internal organisation, systems and processes. For newly devolved delegations, the emphasis is on the third area. Delegations are reviewed once every 3 to 6 years.

In 2010 an analysis of the recommendations included in the missions' final reports was carried out. The report is based on 14 verification missions reports of missions conducted between March 2008 - September 2010. Results have broadly confirmed the adequacy of the internal organisation, systems and processes in delegation and thereby positively contributed to the DG's assurance. The specific findings are contributing to improving the design of available support to delegations.

#### 3.1.3.2. Independent operational monitoring of activities

EuropeAid contracts with external providers to independently monitor external aid activities using relevance, efficiency, effectiveness, sustainability and impact criteria. The aim is to monitor all projects in all management systems - with the exception of general budget support<sup>47</sup> - using this Results Orientated Monitoring (ROM) method. This usually means several visits during the projects' lifetime, although frequency is staggered to avoid multiple monitoring / evaluation / audit missions on project staff in the same year. Approximately € 17 million was spent on this monitoring in 2010, which covered over € 7.6 billion in ongoing projects i.e. 26% of the overall EC development cooperation portfolio and produced more than 2000 ROM reports.

<i>Performance Indicators</i>	<i>2009</i>	<i>2010</i>
<b><i>Independent operational monitoring of activities (all management modes)</i></b>		
<b><i>Input - resources devoted to ' Results Orientated Monitoring'</i></b>		
Volume of funds contracted for Results Orientated Monitoring	€ 17 M	€ 17 M
<b><i>Output - Level and nature of controls carried out</i></b>		
Volume of operational funds covered by Results Orientated Monitoring (/portfolio)	€ 7 513 M (28%)	€ 7 631M (26%)
<b><i>Result - What the controls allowed to us discover/remedy</i></b>		
% of projects monitored judged good to very good <sup>48</sup>	76%	73%

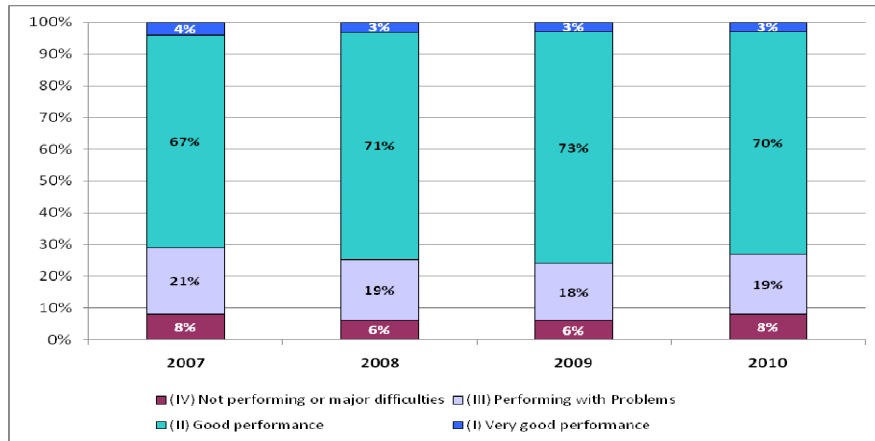
46 This includes only clear-cut financial findings on audits and programme estimate verifications contracted by the Commission under framework contracts. The total amounts corrected for 2010 due to audit will be substantially higher as only 54% (by number) of audits were procured by the Commission under framework contracts in 2010 and almost all grants (and all fee based service contracts) were subject to audit contracted by beneficiaries.

47 Budget support commitments represented 32% of the EuropeAid new contracts portfolio in 2010.

48 The percentage figure is based on the core portfolio of total of 1284 ongoing 'national' projects, and 213 on ongoing Regional Programmes (in addition to which 360 Regional Programme components, 29 Support Programmes for Sector Policies and 233 ex-post reports on projects/programmes were produced to total 2119 reports over 2010).

These 'on the spot' independent checks provide feedback to project managers and at the same time contribute significantly to the Director General's assurance that funds have been used for the purposes for which they were intended. Projects assessed by ROM are graded regarding five criteria - relevance and design, efficiency, effectiveness, impact prospects and potential sustainability. Based on these grades, projects can be grouped into performance categories. As shown below the large majority (73%) of projects assessed by ROM were judged to be 'good' or 'very good' in 2010. 8% had major difficulties requiring rapid and substantial action to ensure success.

**Results Orientated Monitoring – Performance of projects assessed by ROM by category 2007- 2010**

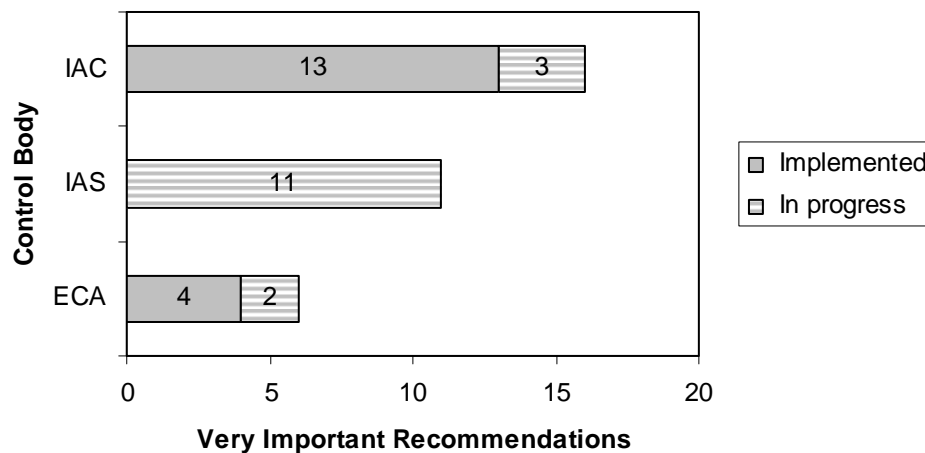


**3.2. Building Block 2: Results from audits during the reporting year<sup>49</sup>**

**3.2.1. Recommendations and implementation status**

In 2010, 33 very important new recommendations were issued by internal audit bodies and the European Court of Auditors and 17 had been implemented by year end.

**New very important internal audit / ECA recommendations in 2010**



<sup>49</sup> Unless otherwise notified, all statistics relating to internal and ECA audits relate to very important recommendations only (as there were no critical recommendations).

### 3.2.2. Internal Audit reports published in 2010

The Internal Audit Capability (IAC) finalised six new audits of EuropeAid's management systems: *Business Continuity Management*, *Management of PEGASE<sup>50</sup>*, *Procurement of Works*, *Food Facility*, *Aid Implementation under Crisis Situations*, and *ABAC Access Rights*. The IAC also did follow up audits on *Business Continuity Management* and the *Management of PEGASE* within the same year. 16 new very important recommendations were issued in 2010, of which 13 were implemented by year end (see 3.2.6.1). The outstanding recommendations relate to *Aid Implementation under Crisis Situation*: development of set of criteria for the monitoring of the use of flexible procedures, further review of guidelines and a crisis training package and should be implemented by the first half of 2011 (see 3.2.6.2).

The Internal Audit Service finalised two new audits during the second half of 2010: *Management of Thematic Budget Lines* and *Compliance with Payment Deadlines*. The thematic budget lines audit judged there to be significant deficiencies in the effective implementation of the internal control system for the management of thematic budget lines and that the combined impact of the four very important observations limited significantly the level of assurance which could be gained from the key control layers. The auditors indicated the need to further substantiate assurance by the use of data which could be aggregated flexibly and by clarifying reporting and accountability lines and tools.

All the recommendations made under both audits were still in progress at year end (see 3.2.6.2). (In addition, the IAS finalised in January 2011 an audit on the *Financial Management of Programme Estimates funded by the EDF and the EU Budget*, with two very important observations. The IAS considers that the ineffective implementation and limited monitoring of compliance with the control layers impact the level of assurance with regards to the legality and regularity of expenditure and sound financial management. All recommendations were accepted and an action plan is underway.)

### 3.2.3. IAC Opinion in the context of the Declaration of Assurance 2010

The opinion of the Internal Audit Capability was that, for 2010, based on the results of their audits as described in the objectives and scope of the engagements carried out during 2010, the internal control system in place in EuropeAid provided reasonable assurance regarding the achievement of the business objectives set up for the processes audited. In addition the EuropeAid internal auditor declared himself unaware of anything not reported which might lead to a potential reservation in the Annual Activity Report. He also highlighted the substantial improvements achieved on speeding up the response to audit recommendations on which the 2009 Annual Activity Report had reported his concerns. (This included a reduction from an average of 36 calendar days in 2007-2009 to 18 calendar days in 2010 in the time taken by the services to comment on draft audit reports, and a reduction from 5 months in 2007-2009 to 1.5 months in 2010 between the request by the DG to the services for an action plan until his final validation of the draft action plan for IAC submission.)

### 3.2.4. European Court of Auditors (ECA) reports published in 2010

The European Court of Auditors (ECA) published its European Development Funds (EDF) and General Budget Annual Reports for 2009 in November 2010. These reports found there to be a level of estimated error lying between 2 and 5% for actions financed by the General Budget and to be immaterial i.e. below 2% for the EDFs. Two very important recommendations were issued, of which one (on the development of an indicator for the residual rate of error) is still in progress. The ECA also published two special reports related to EuropeAid: *EU assistance implemented through UN organisations* (15/2009) and *Effectiveness of EDF support for regional economic integration in East and West Africa* (18/2009). Out of four new very important recommendations, only one is still outstanding (on exploring opportunities to rely on audit work carried out by UN bodies).

### 3.2.5. Analysis of Significant Weaknesses highlighted by the ECA in 2010

Whilst the Court's estimation of the error rate is above 2% i.e. their given range is between 2% and 5% for the General Budget and below 2% for the European Development Funds, given the design

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and the results of its multiannual control architecture EuropeAid does not believe that the residual error rate on its portfolio merits a reservation in the Director General's Statement of Assurance.

As previously set out, EuropeAid works in a high risk environment (see 2.1.2) in which it is recognised that multiple potential errors in financial execution are likely to occur due, for example, to the multiplicity of actors, currencies, regulations in force etc. With this in mind, EuropeAid's control architecture is multilayered and designed to operate over the lifetime of projects and other interventions with key financial checks to discover and remedy a maximum amount of errors. EuropeAid undertakes the most major verifications prior to final payment as deductions at this point is a much surer means of correction than a recovery order. For most interventions, two major financial checks are in place, external audits and checks made on every transaction by Commission staff. EuropeAid estimates that at least € 179 M of claims were refused or recovered in 2010 as a direct result of these checks (see 3.1.2.2.4). These figures reflect the Court's 'annual' finding that a material level of potential error occurs, but what they also crucially show is that a high proportion of errors (including those discovered by the Court) are picked up by the Commission and remedied, even though that is likely to be in a later year – most likely at the point of final payment – given the multi-annual nature of our projects.

The Court of Auditors' approach is annual, looking at all the different types of transactions made and accounted for in one year. Only corrections made in the year in which the error occurred will 'cancel out' an error. In addition EuropeAid does not always share the same interpretation as the Court on the definition of errors due to a different knowledge of the activities and procedures under question.

The broad range of results from key financial controls on operations – both ex-ante and retrospective – indicate a low level of residual error (see 3.1.2) which also contributes to the context in which the Director's General's assesses the conclusions from the Court of Auditors' annual results.

### **3.2.6. Analysis of new very important recommendations**

#### **3.2.6.1. New very important recommendations implemented**

Regarding the operational and financial implementation of PEGASE, new instructions related to documentation and eligibility of expenditure were issued. Concerning procedures, amendments were made to the new Financing and Contracting Guides as regards procurement of works and aid implementation under crisis situations. The 'Financial Management Toolkit' for recipients of EU funds for external actions was also finalised in 2010. Delegations received instructions on selecting international organisations, reporting, monitoring of the works implementation, and on the payment process for food facility contracts with international organisations. The Management Scoreboard, which is a permanent monitoring tool for Food Facility, was adapted and communicated. One recommendation partially accepted was related to the minimum performance of international/regional organisations on compliance assessments for eligibility for joint management. This has been implemented with the issue of new guidelines for regional programme management at the end of 2010. Concerning HR issues, contracts for staff in Delegations were extended.

#### **3.2.6.2. New very important recommendations still in progress**

Regarding *Aid Implementation under Crisis Situation (IAC)*, the development of set of qualitative and quantitative criteria, further review of guidelines and a crisis package should be implemented by the first half of 2011.

For the *thematic budget lines (IAS)* (see 3.3.2), the agreed action plan will enable EuropeAid to reinforce the reporting and accountability for the thematic lines, decide on any specific criteria that should be taken into account when applying our control system to the thematic lines, and ensure that the system is cost effective. These actions will take place within a wider revision of EuropeAid's management strategy which will take into account changes in the institutional context under the Lisbon Treaty. Three recommendations should be implemented by June 2011 and the last one by December.

As far as *payment deadlines (IAS)* are concerned, actions in progress relate to process improvement, awareness and training, data encoding and IT developments. The full action plan should be implemented partly by the end of 2011 and partly by the end of 2012 (due to the requirement for IT developments).

As regards implementing organisations, one (ECA) recommendation on exploring opportunities to rely on audit work carried out by UN bodies remains in progress. The Commission also started work on the consideration of possible methodologies for the development of a key indicator for the

estimated financial impact of residual errors in 2010, as set out in the Commission replies to the 2008 European Court of Auditors Annual Report.

### 3.3. Building Block 3: Follow-up of action plans for audits of previous years

The chart below summarises the status of recommendations at year end from audits with very important recommendations still open at the beginning of the year (January 2010). Details are given below of actions taken on the recommendations during the year.

Control body	Audit	Very Important Recommendations Open in January 2010	Implemented	In Progress
IAC	Annual Management Process	1	1	-
	Procurement of Goods & Services	1	-	1
	Financial Management of ACP countries	4	4	-
	oQSG formulation phase & link with ROM	2	1	1
	HR development in delegations	3	-	3
	<b>Total IAC</b>	<b>11</b>	<b>6</b>	<b>5</b>
IAS	NGO's Funding	1	1	-
	FAFA Implementation	-	-	3*
	Financial Management of Asia & Central Asia	2	-	2
	Financial Management of Regional Programmes	6	4	2
	Financial Management of Latin America	2	-	2
	Financial Management of Europe, Southern Mediterranean, Middle-East and Neighbourhood Policy	3	1	2
	<b>Total IAS</b>	<b>14*</b>	<b>6</b>	<b>11*</b>
ECA Annual & Special Reports	ECA Annual Report 2005	1	-	1
	ECA Annual Report 2007	1	1	-
	ECA Annual Report 2008	5	2	3
	<b>Total ECA Annual Reports</b>	<b>7</b>	<b>3</b>	<b>4</b>
	9/2008 - TACIS	1	-	1
	1/2009 - Banking Measures in the Mediterranean Area in the Context of the MEDA Programme	1	-	1
	<b>Total ECA Special Reports</b>	<b>2</b>	<b>-</b>	<b>2</b>
<b>TOTAL</b>		<b>33</b>	<b>15</b>	<b>22</b>

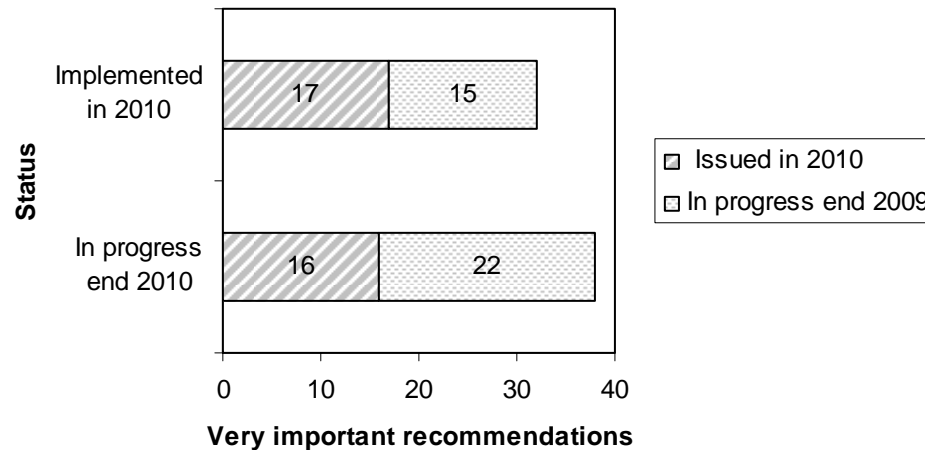
In 2010, the IAC carried out only one follow-up on audits from previous years (on human resource development in Delegations). Other follow up were made in the same year as the original audit (see 3.2.1 above). Of the 11 IAC open recommendations at the beginning of the year, six recommendations were considered as implemented and five were still in progress by year end.

The IAS finalised three follow-up audits in 2010: Second Follow up Audit on NGOs funding in EuropeAid, Second Follow up Audit on Eligibility of costs under FAFA with UN, Follow up Audit on Ex Post Control Activities. Of the 17<sup>51</sup> IAS open recommendations at the beginning of the year, 6 recommendations were considered as implemented and 11 were still in progress by year end.

The chart below summarizes the status of implementation of both new recommendations and the ones from previous audits still open in January 2010.

51 3 out of the 11 recommendations in progress were re-opened by the IAS in 2010.

### Progress in the implementation of very important recommendations in 2010



#### 3.3.1. Recommendations implemented

Regarding human resources, a number of significant actions have taken place to implement IAC (and other audit) recommendations. Preparations for the rotation of contract agents have been made. The vacancy rate of contract agents (particularly in the ACP zone) was significantly improved<sup>52</sup> and more 'floaters' support made available. More e-learning courses have been developed on key subjects which has substantially increased the immediately available supply of training to contract agents and other staff in the field. The review of the 'Activity Based Management' training package took place in January 2010. More generally, the Control Pyramid action plan adopted by EuropeAid in November 2010 includes a long term human resources strategy.

As regards IT developments, an electronic notification was introduced at least two months before the expiry date of the financial guarantee.

Concerning procedures, checklists for transactions are now posted on the intranet with their version number and date of implementation, and there is a systematic notification to the Delegations when changes are made. Revised guidelines on the functioning of the office Quality Support Groups replaced the previous handbook. Training on filing and archiving for Delegations has been improved. A practical toolkit, which is based on the experience of the 2008 cleaning operation of the EuropeAid archives, was also sent to all Delegations in May 2010. In addition, a 'Financial Management Toolkit' for implementing organisations and beneficiaries is available on EuropeAid internet website.

A new guidance note for managing regional programmes was a major action implemented in 2010. The specific objectives of the guidance note were to clarify the division of labour between Delegations, strengthen communication and information flows, raise awareness on and increase ownership of regional cooperation and clarify procedures in relation to joint management with regional organisations.

#### 3.3.2. Recommendations in progress

In the field of information technology, a prototype has been developed concerning the 'Project Cycle Management Pipeline' linked to a common EuropeAid IT Platform. This development work is planned for 2011 and the first phase should be operational by July 2011. Concerning regional projects, an information breakdown in CRIS will be developed by June 2011. Completion of the development of a central monitoring tool of amendments to service contracts, with a view to detecting any patterns regarding firms and experts involved, has been postponed to 2011.

The three remaining very important recommendations of the IAC audit on human resources in delegations<sup>53</sup> were delayed due to an internal reorganisation of EuropeAid and the European

52 For the ACP from 16.4% at 31/12/2009 to 6.6% at 31/12/2010

53 The main objective of the original audit was to assess the adequacy and effectiveness of the internal control in the management of human resources selection process, training process, and support process. The audit focused on the contribution of EuropeAid HQ to the

External Action Service (EEAS). A service level agreement between these two bodies has been concluded. Remaining recommendations are related to the pre-posting phase, the design of mandatory training packages for contract agents, and the definition of a human resources inventory system to map its expertise in the Delegation network. The aim of the EuropeAid Control Pyramid action plan is also to improve the identification and the mobilisation of expertise where/when needed.

As regards on-the-spot missions, guidelines for financial management controls were finalised in 2009 and the related IT system (CRIS) update has been delayed to July 2011. Indicators related to on-the-spot missions will help geographic coordinators to monitor the adequacy of the planned missions. The second follow up audit on *eligibility of costs under FAFA with UN* re-opened three recommendations for which some additional actions were required. EuropeAid is pursuing a package of actions that would close/downgrade the level of importance of these three recommendations.

Work is ongoing to finalise the new guidelines for Budget Support which will implement the remaining ECA 2008 recommendation on Budget Support eligibility and payment conditions. Regarding ECA annual reports covering the years 2005-2007, one recommendation remains still open (dating from 2005), relating to financial instruments and banking activity. The Court recommended that the Commission should take appropriate actions to liquidate the European Community Investment Partners (ECIP) programme. The closing of this programme has proved very challenging and it is hoped that this recommendation will be closed by the end of 2011<sup>54</sup>. Concerning the ECA's Special Report 1/2009 - *Banking Measures in the Mediterranean Area in the Context of the MEDA Programme*, one outstanding very important recommendation relates to the conclusion of a new management agreement between the EIB and the Commission. Although almost finalised, the new Convention between the Commission and the EIB could not be concluded as envisaged by 31/12/2010 since no agreement could be found on the level of fees to be paid to the EIB. However, since 2007, the follow-up of Risk Capital Operations (RCOs) and interest rate subsidies has been improved and the EIB has improved its contractual requirements towards financial intermediaries and borrowers. Work remains ongoing for the one very important recommendation on ECA Special Report 9/2008 - *The Effectiveness of EU Support in the area of freedom, security and justice for Belarus, Moldova and Ukraine* - TACIS concerning the improvement of the supervision of funds implemented by international organisations, on which substantial progress has been made with the agreement on Terms of Reference for verification missions with the United Nations.

### 3.4. Building block 4: Assurance received from other Authorising Officers

In accordance with article 59 of the Financial Regulation, article 46 of the Implementing Rules, and article 4.13 of the Charter of the Authorising Officer of the EDF, the Director General of EuropeAid had received crossed sub-delegations from six other Directors-General<sup>55</sup> and had granted crossed sub-delegations to fifteen other Directors-General. Of these, one is a subdelegation signed with OLAF in December 2009 but for which no credits were allocated in 2010. Similarly a subdelegation was granted to DG Regional Policy very late in the year and no credits were allocated in 2010. Seven subdelegations were received by EuropeAid at the very end of 2010 and beginning of 2011 in connection with the arrangement made between the Commission and the EEAS whereby funding from other Commission DGs to cover their costs relating to EU delegations would all be channelled through EuropeAid, giving the EEAS only one Commission interlocutor. These subdelegations all relate to the 2011 budget and are not listed here. The table below lists the remainder. Conditions covering these cross delegations given by EuropeAid include a written convention, setting out the conditions governing the sub-delegation, in particular the frequency of reports, the controls to be carried out by the authorising officer by sub-delegation, and the requirement to inform the authorising officer by delegation in writing of any management problems encountered and the solutions proposed to remedy them. At 31/03/2010 EuropeAid had received all reports from Directors General to whom a crossed sub-delegation had been awarded and these have been scrutinised by EuropeAid's services. No major problems or weaknesses have been raised in these reports concerning the activities sub-delegated.

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implementation of these three processes related to the Operations Sections and Contract & Finance Sections in Delegations. The follow up was finalised in December 2010.

54 On 31.12.2010 there remained 12 files to be closed. Out of these, five are subject to legal action in Tunisia; one is subject to an agreed repayment schedule; five are potentially liable to legal action and one is expected to be closed in 2011.

55 DGs HR, AGRI, DEV, ELARG, RELEX, and TRADE

## List of Activities covered by crossed sub-delegations granted to AODs in another Directorate General or service

DG receiving cross delegation	Type of activities
CLIMA	Priority 4 "Strengthening international environmental governance and policy development" of the "Thematic Programme on Environment and Sustainable Management of Natural Resources, including Energy" as defined in the Communication COM (2006)020 and in the "thematic strategy for environment and sustainable management of natural resources, including energy (ENRTP) 2007-2010 (C(2007)2572)".
DEV	Administrative expenses of the EDF
EAC	Activities under the Erasmus Mundus External Co-operation Window ( <i>Tempus &amp; Euromed-Jeunesse</i> ).
ECFIN	Closure of old files TACIS/JOP (Joint Venture Programme).
ECHO	EDF funds for the implementation of provisions on humanitarian and emergency assistance to ACP countries in the ACP-EC partnership agreement and to OCTs.
ELARG	Follow-up to Turkey files and TAIEX activities.
ENV	Priority 4 "Strengthening international environmental governance and policy development" of the "Thematic Programme on Environment and Sustainable Management of Natural Resources, including Energy" as defined in the Communication COM (2006)020 and in the "thematic strategy for environment and sustainable management of natural resources, including energy (ENRTP) 2007-2010 (C(2007)2572)".
HOME	Projects for cooperation with third countries on migration issues, years 2001, 2002 & 2003.
PMO	Management of the files for special advisors, electoral observation.
RELEX	EDF credits for the administrative expenditure of delegations
SCIC	Projects under the 'interpreters training programme'.
MOVE	Closure of files on 'Sustainable development' activities.
SANCO	Raising awareness of sanitary and phytosanitary standards in the production and distribution of food in Africa.

### 3.5. Completeness and reliability of the information reported in the building blocks

The information reported in the building blocks for this statement of assurance is complete and reliable as regards the coverage of the budget delegated to the Authorising Officer by Delegation.

### 3.6. Conclusions

A number of key indicators of EuropeAid's performance in financial management have shown a positive trend in 2010. Firstly the European Court of Auditors in its annual report on 2009 (published in November 2010) gave the European Development Funds (which represent approximately half of the EuropeAid portfolio) an unqualified opinion (the first since 2004). While the annual ECA error rate for *Budget* transactions remains above 2% - which indicates that more work still has to be done - the frequency of errors is substantially reducing over time<sup>56</sup>, and the direction is therefore clearly positive.

As pointed out by the DG's internal audit unit last year, EuropeAid needed to improve its speed of responsiveness to internal audit recommendations and this has been achieved, as evidenced by the

<sup>56</sup> The number of transactions found to contain error in the external aid chapter as a whole fell from 26% in 2007 to 13% in 2009. For EuropeAid alone, the frequency of finding any error on a sampled transaction was down to 10% last year.

number of audit recommendations issued during 2010 which had already been implemented by year end. This is an important component of assurance.

Improvements in the methodology and coverage of *external* auditing have also been notable, and it is now clear that audit coverage on the portfolio is substantial, with more than half the 'photograph' of disbursements on ongoing/recent contracts at the end of the previous year either planned for checking by auditors in 2010 or already audited (see 3.1.2.1.2 above)<sup>57</sup>. This comprehensive audit coverage is a significant contribution to assurance, particularly given the level of funds being recouped to the Community budget through the process. In addition, the financial findings of the framework contract auditors show a lower level of potential error in 2010 than in 2009, with the majority of financial audits producing unqualified opinions this year. Nevertheless the level of financial corrections and recoveries being made by these type of rigorous checks is impressive with a minimum of 2.4% of irregular claims being recouped last year through painstaking detective and corrective measures in the field (see 3.1.2.2.4).

In relation to the actions taken in 2010 contributing to assurance the two most significant have been the improvement in vacancy rates for officials both in delegation and at HQ and the substantial work launched to improve the effectiveness and efficiency of EuropeAid's internal control system. These actions will pay substantial dividends in the medium term – including in the future a clear indicator of the residual level of error once all of EuropeAid's multiannual controls have been exhausted. Nevertheless, human resources policy has continued to be an internal control weakness for EuropeAid this year as evidenced by the effectiveness survey for 2010 (see 2.2.2.2). EuropeAid is aware of the risk of delegations not being able to fully implement instructions due to lack of capacity and mitigating action is being taken. For 2011 there will be a particular focus on our medium to long term human resources strategy given the new responsibilities of EuropeAid for cooperation staff in Delegations from January 2011. This strategy will include a workload assessment and any necessary 'rebalancing' of staff in relation to needs and to development priorities.

These elements, together with an appreciation of the wider context of the performance of EuropeAid's management framework as a whole (see 2.2.3) underlie the reasonable assurance given for 2010.

### **3.7. Reservations**

Not applicable.

### **3.8. Overall conclusions on the combined impact of the reservations**

Not applicable.

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57 Of the remaining portfolio – i.e. expenditure not currently planned for audits - over half is managed by international organisations and therefore subject to auditing by bodies already achieving international standards of audit and internal control as verified by EuropeAid's institutional compliance assessments. Given the multiannuality of EuropeAid's control architecture, expenditure on contracts not audited in 2010 are likely to be subject to audit in a future year.

#### 4. DECLARATION OF ASSURANCE

I, the undersigned,  
Director-General of EuropeAid Co-operation Office

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view<sup>58</sup>.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex post controls, the work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

Brussels, 31 March 2011

- signed -

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58 True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.