

Overview of implementation by International Organisations

1. INTRODUCTION

The volume of development assistance which the European Commission decides to implement through International Organisations (IOs) has increased significantly over the last few years. EuropeAid's financial contributions to the World Bank (WB) group and the United Nations (UN) system - which account for the bulk of contracts signed with IOs - have risen from just below €250 million in 1999 to over €1430 million in 2005¹. This compares with total spending of €6.2 billion in 2005.

This increase results from initiatives taken a few years ago in Commission policy towards the IOs – for the UN system, this was first expressed in the Commission's communication of 2001 on "Building an effective partnership with the UN", reinforced in 2003 by a further Communication entitled "EU-UN relations: The choice of multilateralism". The intensive EU and Commission participation in the UN Summit of September 2005 underlined the importance of this relationship. This cooperation has also resulted in the conclusion of strategic partnerships with several of our UN partners. 6 have been signed to date: with the UNDP (June 2004), WHO, ILO (July 2004), FAO (September 2004), UNHCR (February 2005) and WFP (September 2005). An EU convention existed with UNRWA even before the strategic partnerships were introduced.

The Financial and Administrative Framework Agreement (FAFA) signed in 2003, provides the legal, financial and administrative framework for contracts concluded between the Commission and the UN, and is applicable to most of our UN partners. A series of specific agreements based on the FAFA apply to other organisations (2 concluded², others under discussion).

In the case of the World Bank, our cooperation is also underpinned by strong policy considerations - the Limelette process, the annual review of co-ordination and co-operation between staff of the Commission and the World Bank, provides a forum to nurture the relationship. This discussion is complemented by the annual consultations on the implementation of the World Bank Framework Agreement, the simplified contractual arrangement applying to contracts concluded between the Commission and the World Bank, which was signed in 2001 and revised in 2003.

¹ Data provided in this overview in respect of the UN and other IOs is recorded in terms of contracts signed; data for the World Bank is recorded as payments.

² Concluded with OECD (April 2006) and EBRD (September 2004)

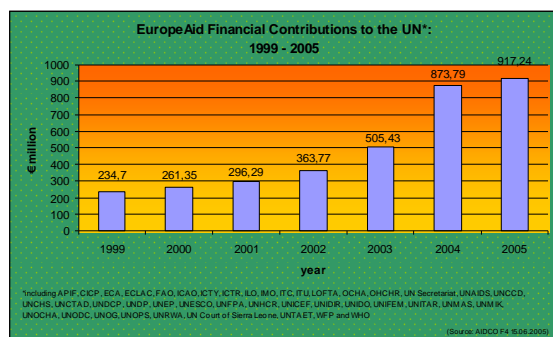
These agreements have facilitated our contractual relations with IOs. This has allowed the Commission more flexibility in the delivery of external assistance than would otherwise have been possible, and has shifted the focus towards results, and away from micro-management.

The increased co-operation has also had the effect of advancing the harmonisation agenda, through the adoption of common and simplified procedures. The EU commitment to increase aid volumes even further necessitates a close relationship between the Commission and the IOs.

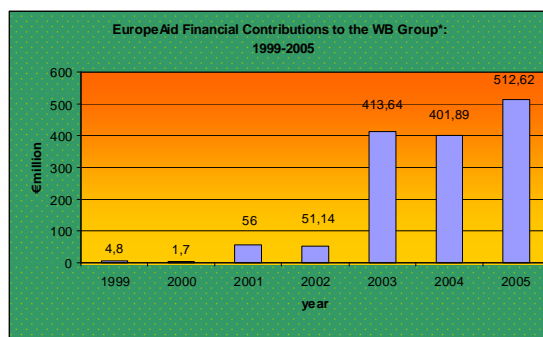
The trend is illustrated in graphs nos. 1 and 2 below.

Over the last six years, EuropeAid’s financial contributions to the UN family have increased steadily, rising from €235 million in 1999 to €917 million in 2005.

The same period witnessed a dramatic rise in financial contributions to the World Bank Group, jumping from just under €2 million in 2000 to €56 million in 2001, and reaching a peak of €513 million in 2005.



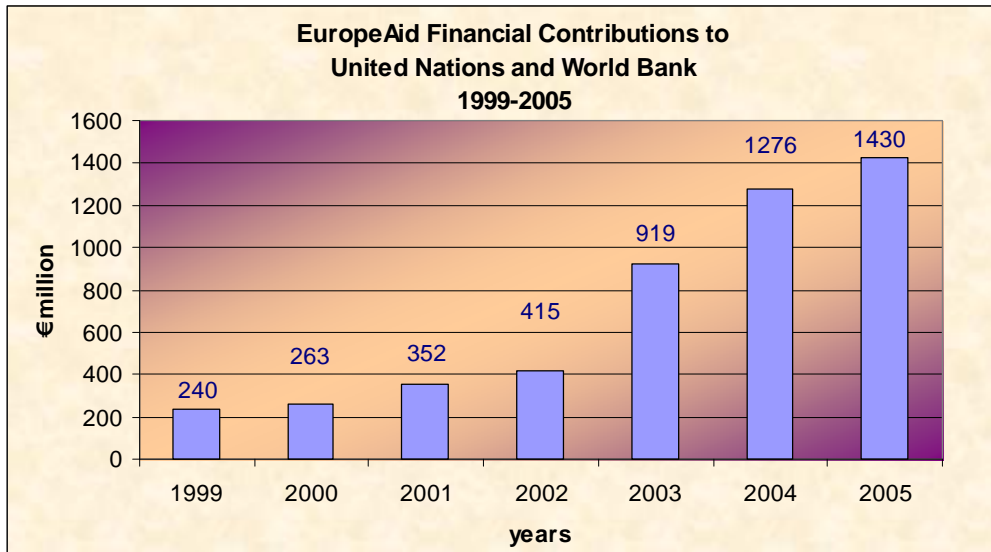
GRAPH n°1



GRAPH n°2

A single graph covering both the UN and WB is shown below. While EuropeAid’s overall financial contributions to these two organisations have increased gradually since 1999, a sharp rise becomes evident both in 2003 and 2004, when contributions more than doubled from €415 million in 2002 to €919 million in 2003, and subsequently jumped by nearly 40% from €919 million in 2003 to €1276 million in 2004.

This report looks at the increase from 2004, the year when financial contributions to the UN and WB passed the “billion threshold”, and analyses the contribution agreements concluded over the two-year period from 1 January 2004 to 1 January 2006.

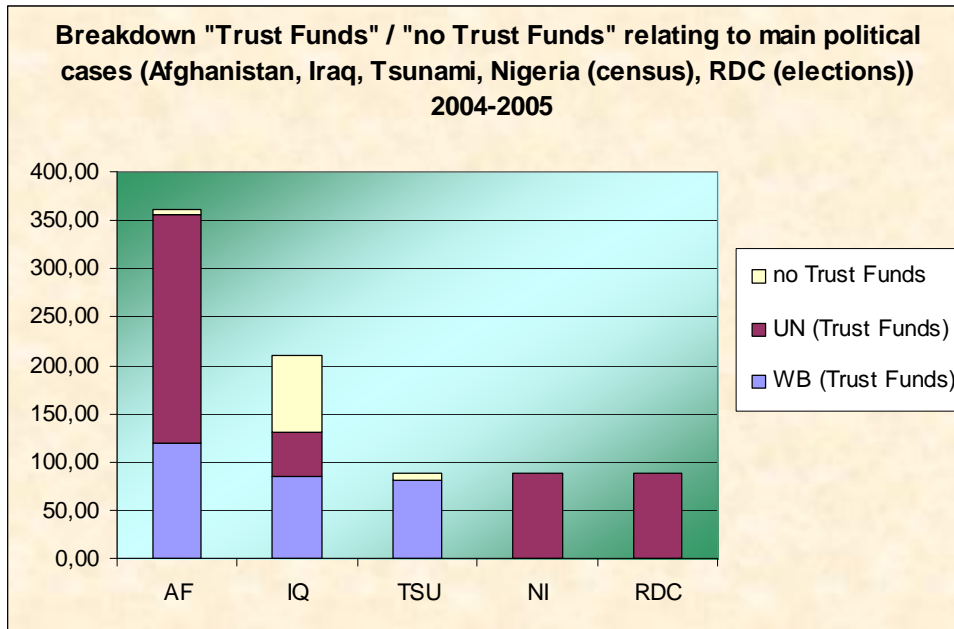


GRAPH n°3

The following table highlights the contributions made over this period to major, politically visible programmes. The amounts devoted to reconstruction in Afghanistan (€210 million), Iraq (€361 million) and following the Asian Tsunami (€89 million) are included as are the funds provided in support of the Nigerian Census programme and the Elections programme to the RDC (€89 million each).

Funds in support of these programmes have been channelled exclusively through our UN and World Bank partners and represent 58% of allocations to these organisations. Of this amount (total €838 million), €745 million has been provided via trust funds (i.e. 89%). For these particular operations, the trust funds have been managed by the World Bank (€286 million) and UN (€458 million).

It should be noted that from 1997 to 2005 an amount of €827 million was paid to the World Bank in respect of debt cancellation (HIPC – Heavily Indebted Poor Countries Initiative). This amount is not included in the overview.



GRAPH n°4

2. METHODOLOGY:

This report covers all contribution agreements signed between EuropeAid and IOs during 2004 and 2005. In absolute terms, the total reaches 483 contracts accounting for €3,388 million. Of those, 312 contracts, accounting for €1,764 million, were concluded with the UN; and 52 contracts, representing €924 million, were concluded with the World Bank. Contribution agreements with other IOs account for €380 million, with the EIB representing the balance of €320 million. The EIB has been included in the analysis, representing as it does almost 10% of contribution agreements signed.

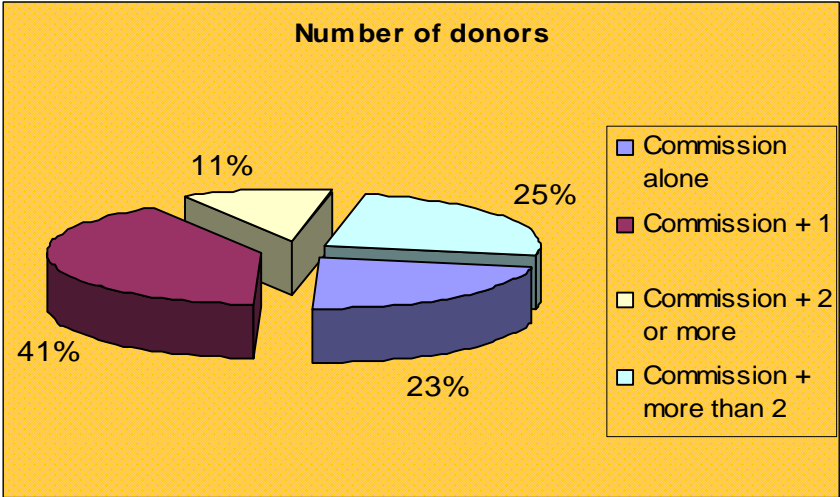
EIB operations have been concentrated on the MEDA and ACP regions and most contracts are concluded on the basis of a specific framework agreement between the Commission and the EIB.

3. RESULTS:

1. Number of donors contributing to the project/programme implemented by the IO

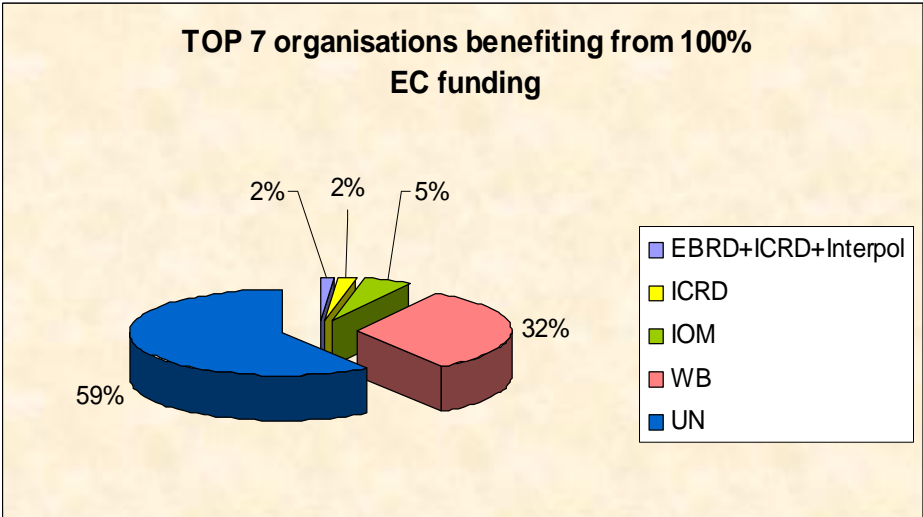
41% of all contribution agreements signed between the Commission and IOs in 2004 and 2005 are co-financed between the Commission and one single partner. This percentage compares to 23% of contribution agreements where the Commission is single donor, i.e., where it made a 100% contribution, 11% where it co-financed with two partners and 25% where the Commission co-financed with more than two partners.

In other words, over three quarters of all contribution agreements are multi-donor arrangements, which demonstrates that the Commission actively uses IOs for donor co-ordination.



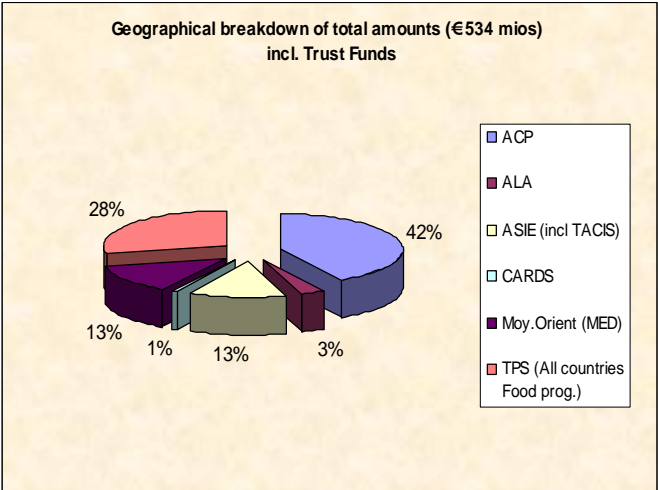
GRAPH n°5

The following table provides further information on those cases where the Commission is the sole donor. It indicates the organisations which have benefited from funding of 100% - the total figure is €534 million. Of this amount trust funds account for €184 million or 34%.

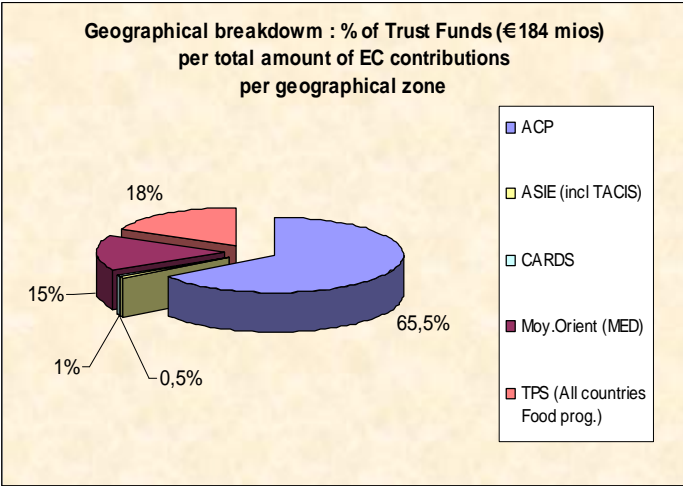


GRAPH n°6

The regions which have benefited from such arrangements are also shown :

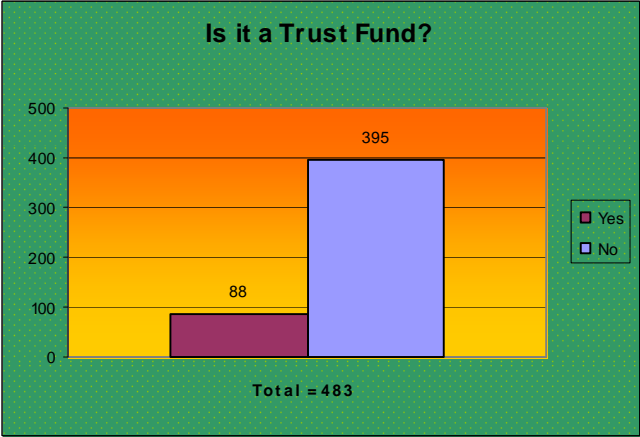


GRAPH n°7



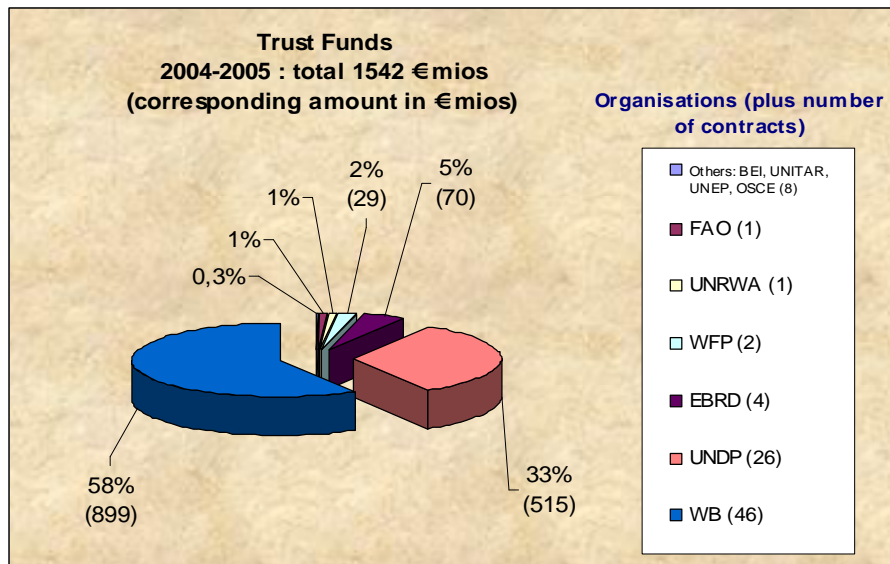
GRAPH n°8

Trust funds are the preferred means of delivering aid through our IO partners. While trust funds represent less than 20% of all contribution agreements signed with IOs, they account for almost 50% (€1541 million) of the funds granted to IOs.



GRAPH n°9

Breaking this down further shows the number of trust funds by organisation, in terms of number of funds and value. On both counts, it can be seen that the World Bank accounts for the greatest number of trust funds.



GRAPH n°10

Trust funds have been particularly appropriate in crisis, post-conflict and other ‘sensitive’ situations (tsunami, Gaza/PA, Nile Basin), addressing financing for Global Public Goods and for new challenges (e.g. AIDS) where donors and beneficiaries have neither the resources nor the technical expertise to address the problem.

The advantages of global funds and partnerships include their ability to mobilise expertise and redeploy aid towards emerging global concerns. Trust funds have the potential to further the harmonisation and alignment agenda of the Paris Declaration of March 2005, often have a strong policy agenda and tend to consider issues of capacity-building.

The World Bank, with whom many of the trust funds are concluded has recently outlined an approach to Infrastructure global partnerships which looks at ways to measure impact or build capacity, how to improve strategic coherence, including alignment at the country level and how to streamline management.

Trust funds pose challenges in terms of visibility and accountability. Traditional visibility needs increasingly to be complemented by a stronger Commission presence in the governance of these funds. The Commission has conducted a study of the UN and World Bank's compliance with international accounting standards to confirm the soundness of their control systems. In turn, the reporting provisions included in the respective framework agreements need to be respected.

The UN is the IO that benefits most from contribution agreements signed with the Commission, with 52% of all the agreements signed in 2004 and 2005 concluded with an organisation from within the UN family. The amounts allocated to individual UN agencies over the 2004-2005 period vary significantly, with UNDP ranking top (€ 861 million), followed by WFP (€ 292 million), UNRWA (€ 183 million) and WHO (€ 105 million). A detailed list of the amounts that EuropeAid contributed to UN organisations in 2004 and 2005 is attached to the annex. The UN is followed by the World Bank Group, which accounts for 27% of all agreements. The EIB and other multilateral banks account for a further 16%, with other international organisations accounting for the remaining 5%.

The number of agreements concluded indicates that the FAFA and the other standard agreements available have indeed facilitated our contractual relationships with the IOs. While it is true that a small number of organisations account for a large percentage of funds contracted, the number of organisations with which agreements are concluded shows that they are of general interest. The Commission's ability to support a wide range of IOs through the mechanism of joint management provides it with the opportunity to participate in the definition of policies in specialist areas and to work with those organisations which are leaders in the field.

Through its financial contribution, the Commission is making a strong statement in favour of the policies proposed - it will have discussed the policy and approach in detail with the IO before agreeing to provide funding. Ongoing discussion and development of these policies occurs throughout the implementation phase, in particular at key stages such as interim reporting and the results oriented monitoring as well as through the regular management information and reporting systems. The Commission is often a member of Trust Fund steering committees, exercising the role of co-chair when the Commission contribution is significant (for example, the Commission, as the largest donor to the Multi-Donor Tsunami Reconstruction Trust Fund, which is managed by the World Bank, is one of its co-chairs).

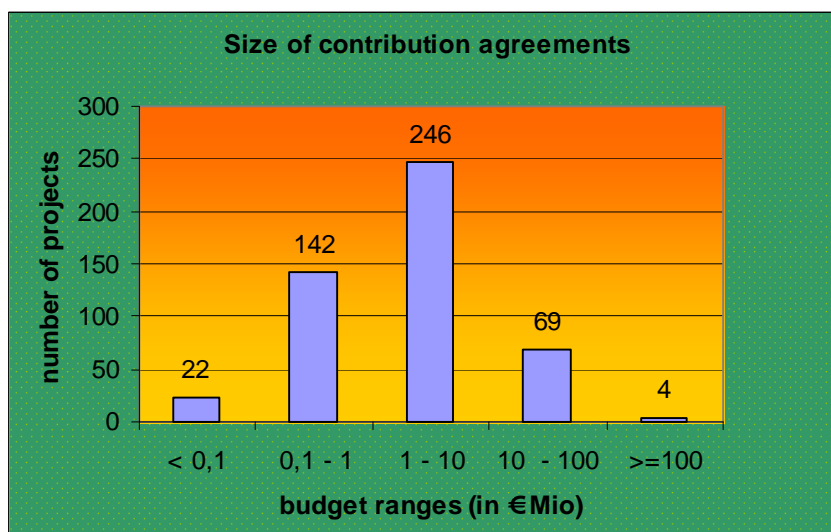
II. Nature and scope of the measures being implemented

The Commission funds a wide array of activities through contribution agreements signed with IOs. These activities range from capacity building to electoral support, health, peace-building (disarmament, demobilisation and reintegration), environment, food, education, water and human rights, among others. This information informs policy discussions with individual IO partners and guides decisions on future interventions.

In a similar vein, the size of the contribution agreements signed between the Commission and IOs varies significantly, including small projects amounting to less than €100,000 and big agreements of more than €100 million. As illustrated in the graph below, the bulk of the agreements signed by the Commission with IOs during 2004 and 2005 fall within the range of €1,000.000 to €10,000.000.

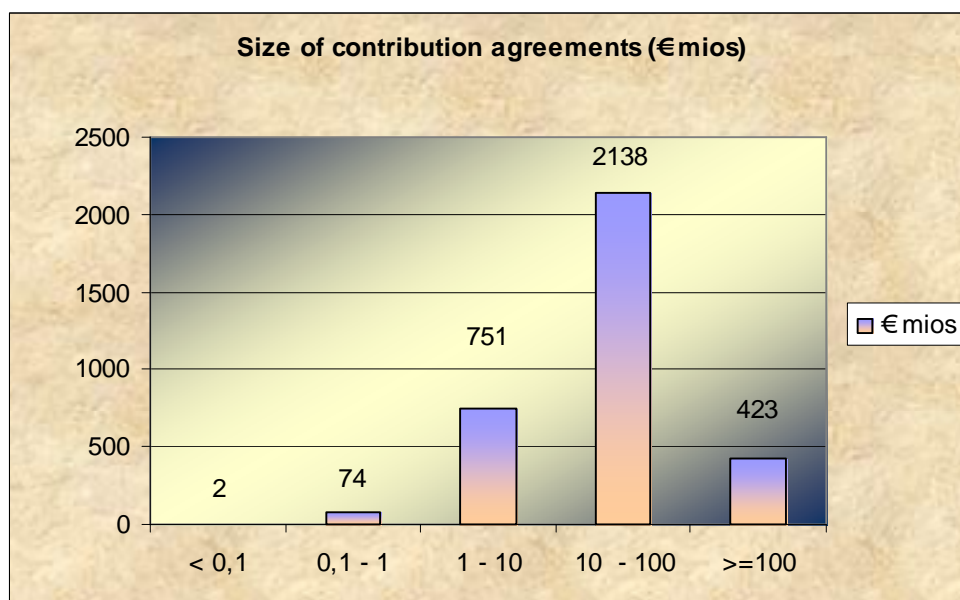
74 agreements or only 15% of all agreements cover almost €2562 million or 73% of the value of external assistance contracted with IOs in 2004-2005.

The organisations which benefit from these agreements do so because in many cases they have been mandated by the international donor community as the organisation of choice to coordinate the donor response in a given context. Examples are the International Reconstruction Fund Facility for Iraq, where donors go through a joint UN WB fund, or food aid operations which are managed by WFP.



GRAPH n°11

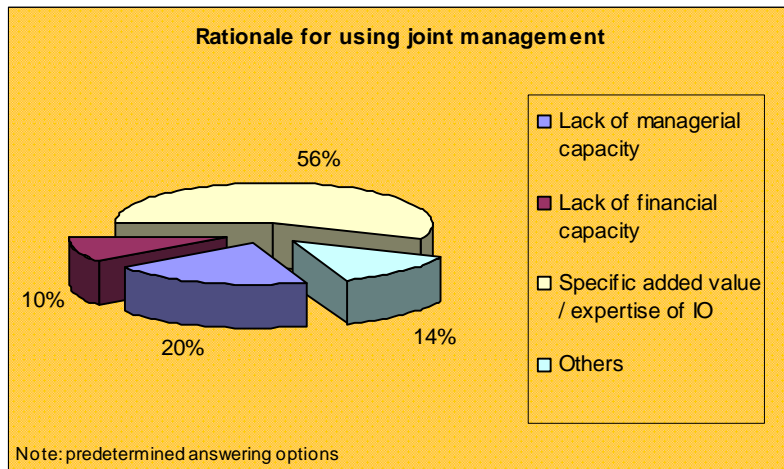
The following table provides this information in financial terms. It also indicates the size of contribution agreements that has, for the period covered, given rise to most trust funds.



GRAPH n°12

III. Rationale for using joint management

The major reasons for using joint management with IOs are summarised in the graph below.



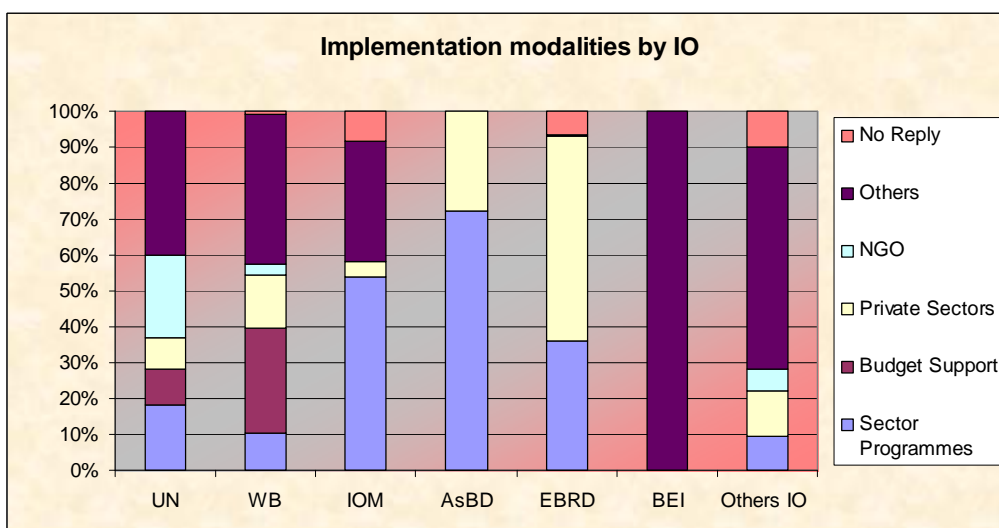
GRAPH n°13

More than half (56%) of the cases involve the specific added value/expertise of the IO as the major reason for having recourse to these bodies.

This is followed by insufficient capacity to manage the action alone (20%), by other reasons (14%) and, to a lesser extent, by insufficient financial capacity (10%) of the Commission.

The actual management of a large project by an international organisation can include many subsidiary contracts and payments, which are managed by the international organisation. Not having to micro-manage frees up Commission staff to focus on results, impact and monitoring.

IV. Implementation modalities used by IOs



GRAPH n°14

As illustrated in graph 14 above, IOs use a range of methods to implement Commission funded programmes. In 30 % of the cases IOs are used to deliver budget (13%) or sector (17 %) support. This represents values of €438 million and €590 million respectively.

While this prompts the question why the Commission does not channel its funds directly to the national budget of the government concerned, this modality has generally been used in specific circumstances. For example, budget support for a post conflict community based recovery and rehabilitation programme in Sudan (€ 49 million in 2005) was channelled through the UNDP as the government lacked the capacity to manage the action.

Budget support in respect of the third phase of the Law and Order Trust Fund for Afghanistan was channelled through UNDP (€30 million in 2005) and contributions to the Afghanistan Reconstruction Fund (€85 million in 2004-2005) were managed by the World Bank.

All assistance to the Palestinian refugees (€ 63 million in 2005) is managed by UNRWA, including budget support. Sector support takes place mainly in the context of multi-donor programmes – i.e. in cases where the Commission co-finances with more than one partner. This accounts for €590 million (as shown by graph 14 above)

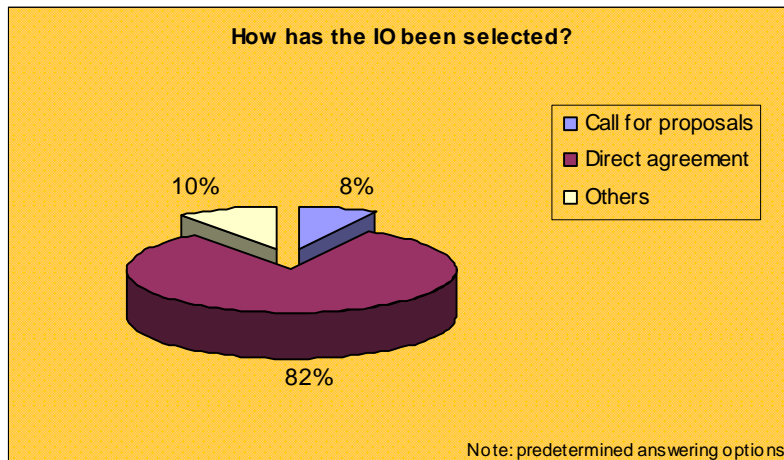
However, under the FAFA, subcontracting is foreseen. Indeed, in the case of a large trust fund, the international donor community has often given the IO a coordinating role on the understanding that it will sub-contract to implementing partners. In 12% of the cases these implementing partners are private sector contractors; in 13% NGOs. This represents values of €390 million and €441 million respectively.

44% however concern other implementation modalities. These include direct execution by the IO and its staff present in the field, contribution agreements with other IOs, and implementation by local authorities and community based organisations, government agencies and research institutes.

V. Procedure employed by the Commission for selection of the IO

As to the procedure that gives rise to the contract signed between the Commission and the respective IO in the first place, direct agreements are the most common mechanism deployed to select partners for contribution agreements.

This is reflected in the graph below, where in 82% of cases IOs are selected through direct agreement, while only 8% are chosen through calls for proposals. The remaining 10% is a combination of specific agreements and negotiated procedures.



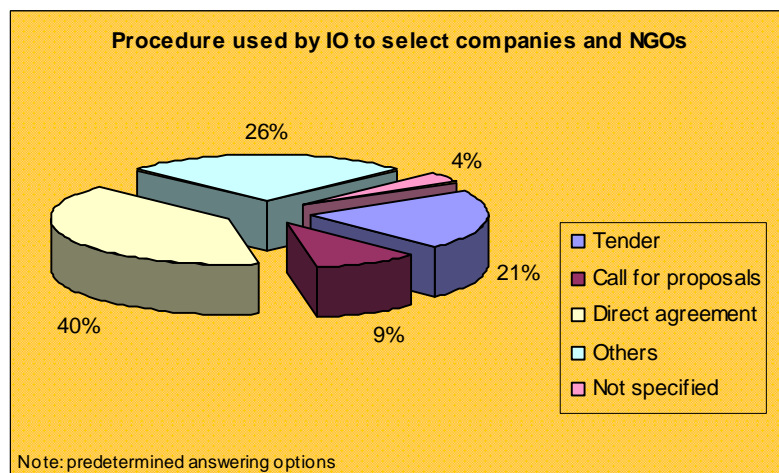
GRAPH n°15

VI. Procedure employed by IO for selection of companies, NGOs or other organisations

The Commission agrees in all cases that the IO uses its own rules and procedures, based on the understanding that they conform to internationally accepted standards. It has conducted a review of the compliance of the UN organisations' procedures with the "four pillars" or Internationally Accepted Standards on accounting, audit, internal control and procurement.

This review has been completed for the following IOs (UNDP, UNFPA, UNWRA, UNMAS, UNCTAD, WHO, FAO, UNHCR, UNICEF, WFP as well as the World Bank) – Taken together, these IOs account for € 2573 million or 76% of the contribution agreements concluded in 2004-2005 and €1466 million or 95% of all trust funds. This exercise helps to provide greater insight on the quality and reliability of the international organisations we use.

It can be seen from Graph 14 that at least 25% of all contribution agreements result in a sub-contracting arrangement (with NGOs or private sector contractors). Graph 16, below, shows that IOs make use of direct agreements to sub-contract in 40% of cases. “Other” procedures than those mentioned in the questionnaire account for 26% of all contribution agreement sub-contracting arrangements, referring predominantly own procedures used by the IO, which varies depending on the organisation. This is followed by tender (21%) and call for proposals (9%).



GRAPH n°16

VII. Costs of using IOs

The Commission has negotiated a percentage of the cost of a project to cover the IO's administrative expenditure to implement operations financed by the Commission. For the UN this amount is set at a maximum of 7% of direct eligible costs; in the case of the World Bank the maximum is 5%. Where the Commission uses international organisations and these organisations subsequently subcontract to NGOs or other international organisations, the administrative costs of implementing a programme cannot escalate. For example, clause 5.1 of the FAFA with the UN states that contracting to other entities “should not lead to increased costs over direct implementation by the UN itself”.

5. CONCLUSIONS

- § International organisations are now a major channel for our external assistance. This is the result of a firm policy choice in favour of multilateralism, which has resulted in the conclusion, with both the World Bank and the UN, of framework agreements that have facilitated our contractual relations with both organisations.
- § Working with IOs in multi-donor arrangements, including trust funds, is an effective way to achieve donor co-ordination. Three quarters of the contribution agreements signed with IOs are such arrangements. This reduces transaction costs for partner countries and makes more effective use of external assistance funds.
- § Involving IOs helps the Commission process far greater volumes of external assistance than would otherwise be possible and makes significant economies of scale possible - just 70 contribution agreements account for over €2 billion.
- § Working with IOs gives the Commission the opportunity to influence policy at a broader level and, in so doing, to promote policies in areas of concern to the EU.
- § By working with those organisations which are leaders in the field, the Commission can access the necessary specialist expertise.
- § Achievement of the goals of the European Consensus and the MDGs necessitates co-operation on a global scale. The increasing volumes of aid that will need to be disbursed in a co-ordinated and effective manner demand extensive co-operation between all actors so that their comparative advantages and skills can be harnessed in the service of developing countries.

* *
*