

FPA Watch Group Meeting
15 January 2003
13.30-16.30 at VOICE
Minutes

Participants:

Pierre Gallien (ACF), Annette Frick (ADRA), Giovanna Solari (CISP), Cecile Bjornskov-Johansen (DanChurchAid), Diana White (EU-CORD), Simonetta Risaio (Handicap International), Ad Ooms (ICCO), Farida Chapman (IRC-Belgium), Encarnacion Guirao (IRC-Spain), Swithun Mason, Renee Richardson (IRC-UK), Floris Faber (Mission East), Marc Schakal (MSF), Rachel Hastie, Orla Quinlan (Oxfam GB), Samantha Chaitkin, Arne Piel Christensen, Kathrin Schick (VOICE), Jane Backhurst (World Vision).

Major points on the agenda:

1. Reactions to the note from Adinolfi on the application of the new financial regulations
2. Consultation process, Discussion of the documents given by ECHO at the December 13 meeting.

1. Concerns arising from the application of the new financial regulations

A letter will be written in response to ECHO Note on using the old FPA under the new financial regulations. It should express surprise at the timing and lack of information, and request clarification on a list of issues. It was agreed that the letter would be important for legal reasons (e.g. in future audits). It was suggested that NGOs' practical experiences be collected over the next few months as implementation continues under the new regulations, and this set of questions or problems could serve as a FAQ on ECHO's website.

The letter would be addressed to ECHO Director C. Adinolfi, and copied to ECHO 4 and ECHO 6. It would be signed by the FPAWG, as this body represents all ECHO partners.

The WG felt that the rules are applied in their strictest sense without taking into account the special nature of HA, where many risks are already taken. Risks demand flexibility, not a streamlined policy such as that of AIDCO or DG Dev.

The NGO Unit has informed some WG members that ECHO plans to write an explanatory note to clarify how implementation should be done, to be put on the ECHO website, in order to facilitate interpretation of the original note.

The following are comments and questions which should be clarified with ECHO:

- **Retroactivity:** Interest is not retroactive for projects started in 2002 and continuing in 2003. Lump sums are also not retroactive: reporting on such projects will be the same as before.
- **Equipment depreciation:** Some WG members received clarification from Stephanie Hardy of ECHO 6 that NGOs should charge ECHO for equipment depreciation in the same way they charge themselves, each NGO using its own rules. Telephone/fax/VHF/Telsat? (it should be real cost of purchase plus communications cost)
- **Lump sums:** ECHO made lump-sum exceptions in Afghanistan; perhaps the same can be made elsewhere. The practice is contradictory with Document 13. Certain NGOs have reported being given permission to use a higher category for lump sums.
- **Exchange rate:** Exchange rate risk should be covered somehow. (One WG member has an informal agreement with ECHO to ignore their exchange rate.)

- **Interest:** Is it just interest accrued at HQ, or also elsewhere? What about interest loss? What is considered “significant”? Can NGOs demand to net off interest on the funds that NGOs pre-finance, or charge ECHO interest for the liquidation period?
- **Per diems:** Can per diems be applied to local staff? Expatriate costs are real costs: can the Commission per diem be used to cover all kinds of costs? What are the definitions of local and expatriate staff? Can the 15% flexibility be used for staff as well? The scale to be used for local staff is out of date. ECHO has said to various partners that the only rules they will apply to per diems is proof that the NGO paid the per diem to the staff, and an entry in the NGO’s ledger.
- **Chapter 18- “Other”** What goes in that line? Does it include office expenses?
- **7% Administrative expenses.** A positive step.

Floris Faber volunteered to draft the letter and send it to a drafting group (Farida Chapman, Simonetta Risaio). The questions for clarification should be formulated very simply, and include examples wherever possible.

2. On the Consultation Process and the new FPA

The Watch Group is disappointed both with the results of the FPA consultation process, and with the process itself. This disappointment is summed up in four points:

1. We have the impression that while the FPA consultations were suspended, since priority was given by ECHO to achieving derogations under the new Financial Regulations, work on the FPA draft continued.
2. The FPA revision documentation currently available does not seem to have taken into account the main concerns of the NGOs during the consultation process.
3. The resulting FPA is not well suited to humanitarian action (as it causes increased administrative workload, financial risks for NGOs, etc.).
4. The above points leave the Working Group with the impression that ECHO and the partners might have two different conceptions of “partnership”

Therefore the FPAWG will write a second letter to Mrs. Adinolfi expressing its disappointment, and stressing the NGO perspective, as well as the added value of NGOs in executing ECHO’s mandate. The letter should focus on 3-4 main issues, making a distinction between the process and result of the consultation.

The following are some of the WG’s concerns based on the documentation available so far, which will inform the content of the letter:

- There is need for a larger, global evaluation of what “partnership” means.
- ECHO needs NGOs in the longer term both at operational and political level and to relate to wider audiences, such as the EP, the media, etc. The added value and diversity of NGOs should be recognized in this context.
- Which bits of the revised FPA are most difficult to accept, and why these elements are incompatible with humanitarian action: e.g. the clause “not applicable in emergencies” is no longer found in the operation proposal.
- The stated principles concerning funding levels and limitations reflect a trend towards “true cost accounting”, e.g. the “new approach” to co-financing and “real costs” with maximum amounts. These measures may save money, but they do not increase transparency:

who will pay what ECHO will not cover?

- Related to transparency, co-financing as proposed is unacceptable. What would be the difference between ECHO and the rest of the EC? What will it do to small NGOs? What can be done in emergency situations? Which costs are eligible for co-financing? It is inappropriate to talk about co-financing when real costs are not applied in practice.

The nature of humanitarian assistance requires a certain level of flexibility in order to be operational. This affects the following areas:

- Payment being linked to the achievement of the project is very problematic. NGOs understand that they need to be evaluated, but the problem is with the financial emphasis of the evaluation. It seems now that ECHO partners will be punished financially if they do not achieve the objectives proportionally to stated risks and budget. This might push partners to work in less risky areas – which will change the focus of humanitarian aid and where NGOs work.
- Who are the experts that judge whether project objectives are achieved? What are the criteria – especially in projects dealing with, e.g., psycho-social support, not just numbers? Project quality could suffer if quality indicators are not used in addition to financial and quantitative indicators.
- Humanitarian assistance situations often make it difficult to give exact numbers of beneficiaries from the beginning. An “unambiguous” description of the beneficiaries would be subjective and difficult to predict.
- Transparency as described in the revision notes: a “region” is not defined, and the requirement goes against the principle of confidentiality of humanitarian operations. Other donors could have problems with this.
- Though the partners welcome the possibility of budget revision during the operation, time frames for the interim and final reports, as stated in the latest documentation, are too short. The interim report, crucial for project flexibility, would be very difficult to prepare in only two weeks.
- 20% flexibility is allowed between chapter 1 and chapter 2, but it seems that the ratio will determine the amount of flexibility actually available (cf. pp. 6-7 footnote). In reality, that 20% would come out to some 4% overall flexibility in most cases.
- With the increase in bureaucracy, every NGO will need at least one administrator to manage ECHO contracts. More funds will be needed for training and recruiting administrative staff. New NGOs would be unlikely to be able to join this kind of framework, especially those from Enlargement countries.
- The partners understand the reasoning behind these rules, but humanitarian assistance demands a certain flexibility in order to function. ECHO seems to be moving away from the flexibility it offered before. As any deviation from the written rules could now cause troubles both for ECHO and for its implementing partners, greater flexibility should be formally allowed for in the new FPA.

ACTION POINTS:

1. Letter to Mrs. Adinolfi on implementation during the transitional period (1st Letter).
2. Letter to Mrs. Adinolfi on the New FPA and the consultation process (2nd Letter).

NOTE:

Following the meeting, the Task Force agreed to write a third letter to the Nielson and Schreyer Cabinets concerning the impact the increased bureaucracy which the new Financial Regulation and procedures will impose on NGOs.