

## REVISION OF ANNEX V

### **Third meeting between ECHO and the Task Force of the FPA Watch Group (8 February 2006)**

#### MAIN CONCLUSIONS

#### **1. Discussion of the Watchgroup's latest comments to the draft revised Annex V**

##### **a) Validation of NGOs' procurement procedures**

Following Recommendation 10 of the document drafted by the FPA Watch Group (on 7th November 2005), the Task Force reiterated its wish to have a reference in the revised Annex V to the validation of NGOs' procurement procedures by DG ECHO, for reasons of legal security.

DG ECHO explained that it already examines NGOs' procurement procedures as part of its overall assessment of these organisations' suitability and eligibility to sign the FPA, as well as in the framework of the Annual Partners' Assessment. However, such an examination does not result in a "validation" or "certification" of Partners' procurement procedures. Instead, it is part of an overall assessment of NGOs' administrative, financial and operational capacity.

Indeed, as is stipulated by the FPA, Annex V and the General Conditions, the primary responsibility for establishing appropriate procurement procedures lies with the NGOs. The latter must ensure that their procedures are compliant with the FPA and its Annexes. Procurement procedures are not any different in this respect from other internal rules and procedures of the NGOs (recruitment procedures, financial and accounting procedures,...) , for which the exclusive responsibility also rests with the NGOs.

DG ECHO also drew the Taskforce's attention to Article 53 of the EC's Financial Regulation. In application of the latter, some form of "validation" of rules is only envisaged in the framework of joint management with international organisations, a form of management of the budget that is not to be confused with DG ECHO's centralised direct management of grants.

DG ECHO stated that it is open to examining ways other than validation to improve NGOs' legal security.

##### **b) Annual Partners' Assessment**

DG ECHO's Annual Assessment exercise for 2004 is reaching its final stages. DG ECHO is considering the possibility of using standardised letters, rather than fully individualised replies, for the communication of the results of the assessment to its Partners.

As regards future Partners' Assessments, DG ECHO is examining ways of facilitating the regular assessment exercise, whilst respecting the annual assessment requirement of Article 11 of the FPA. A possibility would be to limit the annual assessment to a limited number of NGOs, but this idea needs further reflection.

#### **c) Criteria to be complied with during the award of contracts**

The Taskforce and DG ECHO agreed that the original drafting of draft Paragraph 2.1.2 will be preserved.

Hence, Partners will continue to comply with all three criteria mentioned in this Paragraph: satisfactory quality; timely delivery or completion; and price corresponding to market prices.

#### **d) Rules of nationality and origin**

In draft Paragraph 3.1.1.1, the reference to publication in the European Union will be removed, as agreed during the last Watch Group meeting. DG ECHO will also explore possibilities to update the publication requirement to introduce electronic tendering.

#### **e) Financial and administrative penalties**

Draft Paragraph 3.8.9 includes references to Articles 96 of the Financial Regulation and Article 133 of the Financial Regulation's Implementing Rules, which are also applicable to grants.

DG ECHO proposed to move these references from the footnote to the text of the Paragraph.

#### **f) Prequalification of pharmaceuticals and medical products**

DG ECHO is open to an adaptation of draft Section 5.4, taking into account the opinion of external evaluators (drug quality review) on the proposed text. Feedback from the evaluators is expected on 10 February. A reference to prequalification will in any case be maintained in the final text of Annex V, having regard to the link with procurement.

#### **g) Framework contracts for services**

It was agreed that draft Paragraph 5.7.3 (conclusion of framework service contracts for services other than transport or insurance) does not contradict Paragraph 3.8.2 (no outsourcing of core functions).

Hence, it is possible to conclude framework contracts for services other than transport or insurance (subject to DG ECHO's written approval), except where this would lead to an outsourcing of core functions.

As regards framework contracts concluded before an ECHO-financed operation, it is the use of these framework contracts in the framework of such an operation that will need DG ECHO's written consent.

#### **h) Handling fee for Humanitarian procurement Centres (HPCs)**

The handling fee charged by the HPC to the DG ECHO Partner (maximum 7 %) may include, besides the HPC's indirect costs (overheads), those handling costs incurred by the HPC (for transport, packaging,...) which cannot be attributed to a specific purchase.

This principle is set out in the Background Document on HPCs, available on the DG ECHO Website ([http://europa.eu.int/comm/echo/partners/procurement\\_en.htm](http://europa.eu.int/comm/echo/partners/procurement_en.htm)). DG ECHO will reformulate Section 5.8 in order to also specify this principle more clearly in Annex V.

The handling fee charged by the HPC to the DG ECHO Partner should not be confused with the indirect costs which NGOs may claim to DG ECHO to cover their overheads in DG ECHO-funded operations. These indirect costs are a percentage (maximum 7%) of all direct costs incurred by the DG ECHO Partner in the framework of the operation, including any possible handling fees paid by the Partner to HPCs.

For a good purchased by an HPC from a manufacturer at the price of EUR 75, for which the HPC incurred direct handling costs of EUR 25 and charged a handling fee of 7%, the calculation will be as follows:

- Historical purchase cost for the HPC: EUR 75
- Port charges, laboratory costs, transport and packaging costs, other identifiable handling costs incurred by the HPC for this specific product (= direct costs) : EUR 25
- Handling fee, to cover the HPC's overheads plus any possible remaining handling costs (for transport, packaging ...) which have been incurred for this particular product but of which the exact amount cannot be identified (maximum 7 %) = EUR 7

---

➤ Total price charged by the HPC to the NGO = EUR 107

Therefore:

- Direct costs charged by the NGO to the project = 107
- Indirect costs charged by the NGO for this purchase (max. 7%) = EUR 7,49

---

➤ Total eligible costs for this purchase = EUR 114,49.

The NGO's invoice should contain sufficient detail to enable a clear distinction to be made between the direct costs and the handling fee charged by the HPC to the DG ECHO Partner.

## **2. Calendar of the revision of Annex V**

The timescale for the finalisation and adoption of Annex V depends to a large extent on two factors: progress made in the WTO negotiations on food aid, and possible input from the evaluators to whom DH ECHO has entrusted the task of elaborating a review on “quality assurance of pharmaceutical products”.

As to a possible revision of the remaining parts of the FPA, the calendar has not yet been established.

| **L**

## List of Participants

### FPA Task Force:

Concern	<del>Miriam Cue-Brid</del> <u>Barrett</u>
CARE	<del>Leboue</del> Jerome <u>Lebouc</u>
MDM	<del>Bacos</del> Laurent <u>Bacos</u>
MSF (B)	Inma Vazquez
Red Cross (B) – <u>as observer</u>	Jeannette Adriaenssens <u>and Harri Hiekkänen</u>
VOICE	Sonia Giannone

### ECHO 4:

Stefan de Keersmaecker, Pablo Ibanez, Martine Fouwels, Silvia Ermini