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DRAFT REPORT

on budgetary control of financing NGOs from the EU budget
(2015/2345(INI))

Committee on Budgetary Control

Rapporteur: Markus Pieper

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The European Parliament,

- having regard to the Treaty on European Union (TEU) and Article 2, 3, 11(2) and 15 thereof,
- having regard to Article 322(1a) of the Treaty on the Functioning of the European Union (TFEU) on the financial rules determining procedures to implement the budget,
- having regard to Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (the Financial Regulation)¹, in particular Article 58 on methods of implementation of the budget and Title VI on grants,
- having regard to its study of 15 November 2010 entitled ‘Financing of Non-Governmental Organisations (NGO) from the EU Budget’ and its follow-up study of 24 January 2017 entitled ‘Democratic accountability and Budgetary Control of Non-Governmental Organisations Funded by the EU Budget’,
- having regard to the Court of Auditors Special Reports 11/2003 entitled ‘Financial instrument for the Environment (LIFE)’, 11/2009 entitled ‘The Sustainability and Commission’s management of the LIFE-Nature projects’, 7/2011 entitled ‘Is agri-environment support well designed and managed?’ and 12/2014 entitled ‘Is the ERDF effective in funding projects that directly promote biodiversity under the EU biodiversity strategy to 2020?’,
- having regard to the Court of Auditors Special Report 15/2012 entitled ‘Management of conflict of interests in selected EU agencies’,
- having regard to the Court of Auditors Special Reports 4/2009 entitled ‘The Commission’s management of Non-State Actors’ involvement in EC Development Cooperation’, 9/2016 entitled ‘EU external migration spending in Southern Mediterranean and Eastern Neighbourhood countries until 2014’ and 14/2016 entitled ‘EU policy initiatives and financial support for Roma integration: significant progress made over the last decade, but additional efforts needed on the ground’,
- having regard to its study of 15 January 2014 entitled ‘EU financing of NGOs in the area of home affairs, security and migration’, its in-depth analysis of 8 May 2015 entitled ‘Financial accountability of civil society organisations: improving cooperation with EU institutions’, and its briefings of 12 March 2015 entitled ‘NGOs and money laundering: adapting EU rules to engage NGOs better’ and of 1 December 2015 entitled ‘Transparency of lobbying at EU level’,

¹ OJ L 298, 26.10.2012, p 1.

- having regard to other studies on the topic of NGO financing, such as the ‘Value for money’ series of reports by NGO Monitor and the report published by New Direction entitled ‘Helping Themselves – six ways to reform EU funding of NGOs’,
 - having regard to Rule 52 of its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control and the opinions of the Committee on Budgets, the Committee on Development, the Committee on Employment and Social Affairs and the Committee on the Environment, Public Health and Food Safety (A8-0000/2017),
- A. whereas the Commission, in a communication issued in 1997 (COM(1997)0241), identified five defining elements for NGOs, and in 2000 presented a discussion paper that outlined a series of common characteristics for NGOs to comply with¹; whereas despite these initiatives, there is still no such definition of NGO that is common to all DGs of the Commission;
 - B. whereas the way in which European taxpayers’ money is used to fund European support programmes must be comprehensively and credibly documented;
 - C. whereas in 2015 the EU budget funded NGOs to a total amount of EUR 1.2 billion, with more than 90 % allocated to the multiannual financial framework (MFF) heading ‘Global Europe’, around 4 % to ‘Sustainable growth within natural resources’, almost 4 % dedicated to ‘Security and citizenship’ and less than 0.5 % to ‘Smart and inclusive growth’;
 - D. whereas in 2015 almost 60 % of the funding available under the EU’s environmental, social, health and human rights programmes was allocated to just 20 NGOs;
 - E. whereas in 2010 NGOs received almost EUR 1.5 billion in grants, of which almost 70 % (EUR 1.12 billion) went to just 273 NGOs, amounting to an average of EUR 1.5 million for each NGO;
 - F. whereas the Commission funding award procedures favour larger organisations and smaller NGOs are not properly taken into account;
 - G. whereas smaller NGOs receive EU funds directly from larger organisations with no checks carried out by the Commission to determine whether they meet EU funding award criteria;
 - H. whereas monitoring and control procedures for the funding of NGOs active in the areas of environmental, social and health policy and development aid are currently ineffective because individual DGs apply the guidelines for grant funding laid down in the Financial Regulation differently, leading to a lack of traceability of the funds granted;
 - I. whereas in 2016 the Commission proposed a revision of the Financial Regulation, which included proposals to reduce costs and the administrative burden in the allocation

¹ http://ec.europa.eu/europeaid/sites/devco/files/working-paper-commission-ngo-partnership-com200011-20000118_en.pdf

of EU funds, and to abolish the ‘not for profit’ rule;

- J. whereas financial accountability in the EU is based on four key elements, which are currently laid down in the Financial Regulation: i) compliance with legal obligations; ii) transparency about the use of resources; iii) sound financial management; iv) prudent use of resources, especially to avoid pursuing activities that run counter to the not-for-profit status;
- K. whereas the main source of publicly available information on EU funding is the Financial Transparency System (FTS);
- L. whereas in September 2016 the Commission presented a proposal for an Interinstitutional Agreement on a mandatory Transparency Register (COM(2016)0627);

General remarks

1. Welcomes the substantive work of NGOs as a valuable contribution to political decision-making;
2. Acknowledges that the fields of social policy, environmental policy and development aid require public support in addition to private donations;
3. Calls for it to be made easy to trace publicly the use of EU public funding to support the work of NGOs;
4. Regrets the opacity of and the data inconsistencies between and within Commission systems, and the inconsistent application of rules between the Commission DGs on the funding of NGOs; recommends that the Commission establish harmonised rules to be applied to any grants awarded by the EU;
5. Is concerned about possible conflicts of interests arising in cases where NGOs are members of multiple networks in receipt of EU funding; calls on the Commission to address this subject within a review of the ECHO visibility guidelines, and to extend application of the revised guidelines to all Commission DGs that manage EU funds;
6. Calls for the public procurement directives to be amended in such a way that organisations are eligible for funding only if they argue by means of verifiable facts; calls for recipients, before they receive funding, to give a corresponding undertaking and for the Commission and Court of Auditors to conduct appropriate random checks; rejects any funding of organisations which demonstrably disseminate untruths and/or whose objectives are contrary to the fundamental values of the European Union, democracy, human rights and/or strategic commercial and security-policy objectives of the European Union Institutions;
7. Points out the tendency of certain bodies of the Commission which are not responsible for policy design but for the implementation of the policies decided by the co-legislators to exploit the distribution of EU grants for their own political agenda; calls on the Commission to provide an overview of corresponding practices in other Member States; observes that the conflict exists within the European Union Institutions that the legislature is lobbied from within the executive; calls on the Commission to draw up an

opinion by 1 February 2018 on how this issue is approached in the EU Member States and how the relationship between the executive and the legislature is regulated in democratic countries outside the EU;

8. Calls for a comprehensive analysis by the Commission on whether and by what means it is providing training on the financial rules applicable to the EU budget for lobbyists, including NGOs; calls for this analysis to be submitted by 1 February 2018 with a list of corresponding training events and identification of the beneficiaries;

Financial Transparency System

9. Notes that the Financial Transparency System (FTS) lacks clear and unified organisational typology, which is hampering analysis at policy and operational levels; deplores the fact that data concerning NGOs in the FTS cannot be analysed;
10. Calls for a more user-friendly FTS, which should be consistent with specific programme databases and should include final payments and an inter-institutionally agreed definition of NGO that allows beneficiaries to be searched by category; calls on the Commission to draw up an opinion with a schedule of further administrative action by 1 February 2018;
11. Calls on the Commission to develop a single, centralised system for recording and managing grant funding, such as a single portal where applicants could look for assistance throughout the entire application process; calls for initial binding proposals on the procedure that should be adopted to be submitted by 1 February 2018;

Financial Regulation

12. Notes that self-regulation within NGOs has not proven to be sufficiently adequate to ensure proper accountability; believes that NGOs should adopt standards to improve their accountability as an accompaniment to the accountability principles laid down in the Financial Regulation;
13. Urges the Commission to introduce harmonised rules on transparency, monitoring and control mechanisms to the grants system in the next revision of the Financial Regulation, scheduled for 2018, when the MFF will also be revised;
14. Urges the Commission, in parallel with the revision of the Financial Regulation, to consider the introduction of an EU-wide code of conduct for NGOs applying for EU funding; points out that this code of conduct would provide guidance to NGOs on how to comply with legal and transparency obligations, sound financial management and an appropriate use of resources; calls on the Commission to establish simplified procedures for small NGOs to ensure a level playing field in the application procedures;

Transparency

15. Calls on the Commission to ask NGOs, in addition to meeting clear and uniform criteria governing their eligibility for EU funding, to fulfil certain minimum criteria; calls on the Commission to establish the legal basis for such minimum criteria, which should include: the requirement to disclose information about staff working at NGOs and their

corresponding membership links, about details of involvement in and links between networks and the amounts of EU funding forwarded to other organisations, inclusion in the EU Transparency Register, the requirement to disclose information about funding arrangements and the main financial donors in particular and about the name of the organisations partly or fully co-funded by the EU, including precise information about the sums involved; calls for proposals to this effect to be submitted by 1 February 2018;

16. Calls on the Commission to systematically carry out on-the-spot/annual risk-based checks of the information referred to above, which should be included in the annual reports drawn up by NGOs, in order to verify the accuracy of self-reporting by NGOs; calls on the Commission to go beyond the minimum requirement and increase the number of NGOs on which it conducts checks; requests that these annual reports be made publicly available;
17. Asks the Commission to encourage NGOs in receipt of EU funding above a certain threshold to submit declarations of assets and of remuneration of their executives (at director and manager level) as a precondition for future funding; calls for proposals on the subject to be submitted by 1 February 2018;
18. Calls on the Commission to submit an opinion by 1 February 2018 on the criteria according to which outcome agreements and work programmes with NGOs receiving funding should be worked out; expects corresponding agreements to be drawn up by 1 February 2018;
19. Considers that NGOs in receipt of EU funding are transcribing EU visibility guidelines differently and those guidelines should therefore be reviewed with a view to harmonisation;
20. Urges the Commission to impose a requirement that any NGO receiving more than 10 % of its total grant funding (operational and project funding) from the EU be required to advertise this fact by including a logo with the words 'EU supported' on its homepage and annual reports; calls for this logo to include a link to details of the amounts received and projects funded over the last five years; calls for a corresponding administrative instruction in the revision of the Financial Regulation in 2018;
21. Calls on the Commission to ensure that every EU funding beneficiary, including NGOs either in receipt of or applying for EU funding, be required to publish on an annual basis details of the number and nature of the lobbying contacts it has with the Commission and MEPs; stresses that such information must be included in the NGOs' annual reports and that this requirement should be a prerequisite for obtaining EU funding;
22. Calls on the Commission to ensure that NGOs are given the opportunity to voluntarily take part in an EU certification scheme for trustworthy organisations; calls on the Commission to lay down criteria to govern the award of such certification, to put forward a proposal on the introduction of such a scheme and, in due course, to relax the reporting and verification requirements for certified NGOs; expects initial proposals to be submitted by 1 February 2018;
23. Welcomes the draft interinstitutional agreement between the Commission, Parliament and the Council for a mandatory register of lobbyists and other interested

representatives involved in EU policy; supports a mandatory register with increased resources for monitoring and enforcement; calls for an effective sanctioning mechanism for entering wrong information in the register;

24. Is of the opinion that the FTS and the Transparency Register should be streamlined to ensure that the systems of both registers are compatible with regard to the data included and the information provided in order to avoid inconsistencies;
25. Calls for lobby groups and NGOs to receive EU funding only if they are entered in the Transparency Register; considers the listing of EU funds (including subcontracts) to be both necessary and easy to implement under the various registration numbers;
26. Considers that the Potential Applicant Data On-Line Registration (PADOR) system used by the Commission's Directorate-General for International cooperation and Development (DG DEVCO) and Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) is a good example of a legal entity registration tool for calls for proposals published by the Commission; calls on the Commission to extend PADOR to other policy areas, where appropriate, in order to ensure a unique identification number for the potential applicants to calls for proposals, and to update regularly the information on the profiles of those applicants;
27. Stresses that the managers and board members of major NGO networks in some cases fulfil similar functions in smaller NGOs to which EU funds are transmitted without the eligibility of those smaller NGOs being verified on the basis of EU funding award criteria, calls on the Commission to draft a study of the links in terms of staffing between NGOs in the fields of the environment, social affairs, health and development aid by mid-2018;
28. Draws attention to the fact that calls made in this report for greater transparency in the funding of NGOs will form part of the next discharge procedure for the Commission budget, on which Parliament will vote in early 2018;

Control and monitoring

29. Calls for the introduction of a uniform checklist on the basis of which the Commission, the Court of Auditors and Parliament's Committee on Budgetary Control can scrutinise the activities of individual NGOs; calls on the Commission to submit such a list in connection with the next Financial Regulation and submit corresponding guidelines for the DGs concerned; calls for a status report on the subject to be submitted by 1 February 2018;
30. Condemns the fact that under the Commission's central system for monitoring the payment of grants to NGOs (ABAC), individual DGs have the discretion to decide what type of data should be included; laments the fact that the system contains contradictory items of information, that links cannot be identified and that it is patently clear that no arrangements have been made for its overall supervision; requests that besides the coordinator all beneficiaries should be systematically registered;
31. Regrets that, in the context of provision of support under environmental, social, health and development aid programmes, there is no uniform requirement to publish details of

the ultimate beneficiaries of EU funding and that the beneficiaries, particularly the largest ones, are not required to publish this information;

32. Recommends that the Commission develop a common monitoring system so that final beneficiaries may be identified, as is currently the case in regional policy; recommends that such a system be based on the shared management principles on monitoring which apply to the EU Member States; calls on the Commission to submit a binding proposal on the subject for the next funding period, by means of which Member States should also be assigned supervisory duties; expects the Commission to submit a communication on the subject by 1 February 2018;

Other institutions concerned

33. Calls on the Court of Auditors to draw up a special report on the transparency of EU funding for NGOs; calls on the Court of Auditors, in that special report, to take up and address the criticisms made in this report; asks the Court of Auditors to submit its report no later than 2018, and to commit to a follow-up thereafter; calls for the funding of NGOs to become an explicit element in the annual report of the Court of Auditors on EU expenditure;
34. Laments the fact that it is impossible for the European Anti-Fraud Office (OLAF) to obtain information about the financial misconduct of individual NGOs; expects that the development of the monitoring system will make it easier to identify organisations that have been guilty of misconduct and for those organisations to be named, investigated and properly sanctioned;

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35. Instructs its President to forward this resolution to the Commission, the Council and the Court of Auditors.