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*Committee on Budgets*

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## **WORKING DOCUMENT N° 14**

on the role of NGOs in implementing EU development policy

Committee on Budgets

Rapporteur: James Elles

## **The role of NGOs in implementing EU development policy**

*"However fragmented the world, however intense the national rivalries, it is an inexorable fact that we become more interdependent every day."*

*Jacques Yves Cousteau*

### **Introduction**

1. This working document is in three parts. The first section provides data on the involvement of non-governmental organisations (NGOs) in implementing EU development policy, in the context of earlier work conducted by the European Parliament in this regard. Section two briefly sets out the link between this issue and the 2007 budget procedure, in particular the value for money approach and the hearing on external policies that was held on 30 May in the committee on budgets and included a presentation by Ashraf Ghani, Chancellor of Kabul University and former Finance Minister of Afghanistan. The third section sets out options for further work and analysis in this area by the European Parliament and committee on budgets.

### **Section I - NGOs and EU development policy**

2. Taken together with bilateral development assistance by EU member states and monies paid through the European Development Fund (EDF), the European Union is the world's largest provider of development assistance. NGOs are involved in the implementation of each of these channels of EU development assistance. This working document focuses on development assistance provided through European Community channels, on which the European Parliament has co-decision powers and discharge authority and thus an obligation to scrutinise implementation. NGOs are extensively involved in the implementation of the EU's external relations and development programmes. Out of a total volume of approximately € 5.1 billion under heading 4 of the EU Budget in 2005, it can be estimated that some € 800 to € 900 million are allocated to NGOs alone, i.e. some 15-18%<sup>1</sup>.
3. It should be noted, however, that the previous Commission at one point put the figure at some € 1.6 billion. Following various demands for clarifications by the Committee on Budgets, these figures were eventually adjusted downwards as they also included various other "non-state actors", such as universities, churches, foundations, trade unions etc. In the 2004 procedure, the general rapporteur (Mr Mulder, ALDE) concluded an estimated figure of € 1 billion going to NGOs.
4. If all non-state actors are included, counting also "international organisations" such as the UN agencies and the Red Cross family, the relevant figure is likely to amount to over € 2 billion, possibly even up to € 2,5 billion, i.e. half of the total aid volume disbursed under heading 4 of the budget.

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<sup>1</sup> Estimation based on NGO data provided by the Commission in 2004, and the cost-benefit study on development in the framework of the 2007 budget procedure.

5. The share of NGO funding in the external actions budget seems to have been relatively stable, and relatively high, over the 2000-2006 financial perspective.
6. The main areas of NGO spending under heading 4 are the following (nomenclature re-structured in PDB 2007):
  - Non-State actors in development (21 03), which was formerly the two lines for NGO co-financing and decentralised cooperation (nomenclature change in 2007 PDB)
  - Interventions under thematic programmes/budget lines (such as human rights and democracy)
  - Interventions under geographical programmes
  - Interventions through ECHO (humanitarian aid)

The bulk of interventions here lie with the thematic actions and NGO co-financing, whereas the NGO participation in the geographical programmes seems to be more limited.

7. The Budgets Committee has looked into various budgetary and accountability aspects of NGOs during this period. The committee has scrutinised aspects such as:
  - overall share of NGO funding in heading 4;
  - elements of such funding that follow the normal rules of tendering;
  - elements of such funding that are given using the exception of "direct allocation" in the financial regulation;
  - indications as to the administrative costs of NGO projects funded by the Commission;
  - Commission activities to monitor the accountability of NGO beneficiaries;
  - overall funding structure of NGOs (share of funding from government and non-government sources respectively).
8. In the budgets for 2004 and 2005 especially, this led to the creation of various reserves which received broad support in the committee on budgets. The Commission was asked to provide extensive evidence to the committee. It should be noted that the Commission complied with the requests, producing quite extensive reports. Eventually, the reserves were lifted either in 2nd reading or through transfers during the budget year.
9. In the Budget 2006 procedure similar reserves were created, this time with the objective of shedding more light on funding going to international organisations, most notably the UN system, the World Bank and the Red Cross family. The Commission again provided quite detailed replies in the form of a new report sent to the EP in November, which allowed the reserves to be lifted in 2nd reading.
10. The Budgets Committee has thus probed quite deeply into the organisation and "grip" on NGO-funding the Commission has been able to demonstrate. When this process

started, there were no adequate systems and procedures in place to produce aggregate figures. In the last few years, there has been considerable improvement, at least from a budgetary information point of view, and the Commission has been cooperative.

## **Section II - from improved budgetary information to qualitative value for money**

11. The three key themes of the European Parliament's approach to the 2007 budget procedure as set out in its resolution on the Commission's Annual Policy strategy are: setting policy priorities; qualitative value for money; and preparing for the 2008/ 2009 mid-term review of the 2007 - 2013 multi-annual financial framework (MFF). The committee on budgets has implemented a number of innovative approaches during its examination of the 2007 budget with a view to delivering improved qualitative value for money. These approaches included: policy hearings; the production of cost-benefit studies on a number of areas of EU policy, including development policy; and a reinforced linkage between the annual budget and discharge procedures through a number of budget amendments linked to a thorough examination of documents examining the implementation of EU policies, such as the special reports of the Court of Auditors.
12. The Committee held a policy hearing in May 2006 on external policy issues. One of the political conclusions drawn from the hearing on external actions in the 2007 budget was that the role of NGOs must be compatible with the aim of "ownership" of external assistance programmes by the recipient countries. Care should be taken that the NGOs (and the international aid system in general) should not directly take over tasks that should really be provided by states themselves. There is a need for countries to take responsibility for their own development and international aid should support the strengthening of domestic capacities to achieve this rather than substituting them. It is important that NGO interventions do not neglect or contradict efforts made by emerging democratic states. This point was particularly emphasised by Ashraf Ghani, who argued strongly that the state must be the primary channel through which development assistance should flow in order to foster strong domestic institutions. Strong institutions were, he said, a necessary condition for development assistance to be translated into durable progress in economic, social and democratic terms.
13. The next logical step for the Parliament would be to build on the earlier work on NGO financing in the committee on budgets and the initial output of the external policies hearing through analysis focussing on the qualitative value-for-money of EU funds in the area of development assistance. The cost-benefit analysis report by Economisti Associati on "assessment of budgetary resources and means in the area of development and co-operation" conducted on behalf of the committee on budgets in the context of the 2007 budget procedure could be seen as first step in this process.
14. The need for such an approach and for further work in this area would seem to be supported by the findings of this study, the key elements of which can be summarised as:

- high diversity between NGOs (good performers and bad performers) but insufficient evaluations in many areas to properly assess cost effectiveness;
- high variance of support costs between NGOs, some managing to channel over 80% of funds to the final beneficiaries whereas others only manage 30%;
- no systematic evidence that NGOs are more cost-effective than government institutions.

### **Section III - options for further work in the committee on budgets**

15. Based on the above analysis of previous work in this area and analysis conducted in the context of the 2007 budget procedure, the rapporteur would like to propose three ideas as regards future work in this area.
16. Firstly, the rapporteur considers that in light of the success of the policy hearings held in May and June 2006 (summarised in the rapporteur's working document 12), the committee on budgets might consider holding further similar hearings during 2007. As regards, the role of NGOs in implementing development assistance, this might be the subject of a hearing focussed on external policies in the early part of 2007 and aiming to inform the Parliament's approach to priorities for external policies for the 2008 budget. Any such hearings should, in the rapporteur's view, be conducted in close co-operation with the relevant specialised committees.
17. Secondly, the rapporteur considers that further analysis might be conducted looking more specifically at the role of NGOs in ensuring qualitative value for money in EU external development assistance. This might be done using the research budget to which the committee on budgets has recourse. Analysis might make a qualitative comparison of the effectiveness of aid implemented through a variety of channels. In order to come to well-grounded conclusions, such analysis would likely need to be based on detailed case-study work on a small selection of programmes. The geographical and sectoral breadth of the programmes to be analysed would probably have to be carefully selected and controlled in order to ensure a reasonable degree of comparability of results.
18. Thirdly, the rapporteur suggests that the committee on budgets might reflect on the tools available to it in the annual budgetary and discharge procedures that might enable it to ensure better qualitative value for money as regards NGO involvement in development assistance. Where appropriate and reliable information is available from cost-benefit studies, reports of the court of auditors and other sources, this might be used as a basis for budgetary amendments that aim to ensure that money is being spent in the most effective and efficient way possible given the difficult conditions that often pertain in poorer countries.