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Interdepartmental Working Group on

Award and Monitoring of Community Subsidies

Final Report to the Commission

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1. INTRODUCTION

This report summarises the conclusions of the Interdepartmental Working Group on Community Subsidies. In this introductory chapter, the Group briefly recalls its mandate, describes its working methods, and clarifies the nature of the grant instrument. In the second chapter, the Group outlines its main suggestions for new minimal procedural rules for the award and monitoring of grants. The detailed rules are contained in the "Vade-mecum on Grant Management", a user-oriented reference guide which is appended to this Report. Finally, the third chapter summarises some horizontal topics that merit further attention.

1.1 The use of grants in the Community budget

Grants account for the greatest share of Community expenditure. The Community thus disposes of a flexible instrument, which it has adapted to its objectives in the different areas of Community policies. The rules for managing grants are mostly defined by sector-specific legislation of e.g. EAGGF, Structural Funds, 4th RTD Framework Programme, to name only those that are most important in budgetary terms. In some areas of direct spending, however, award procedures are not specifically regulated. At present, no horizontal provisions exist which would apply in such cases. Consequently, a variety of administrative practices have evolved, making grant management both less transparent and more costly.

This need for transparent general rules led to the Working Group being set up.

Identified weaknesses in particular areas have also been the object of critical observations by the European Court of Auditors and the European Parliament. The Court's Annual Report on 1996 included a chapter on grants awarded from Part A of the Budget, and Special Reports have focused on award practices in particular sectors. In July 1997, in the context of the 1998 budget procedure, the Committee on Budgets approved a working document on Community subsidies demanding transparency, fairness, coordination, and political control.¹ In March 1998, Parliament formulated a number of conditions for granting the Commission discharge for the financial year 1996. These conditions included improvement of the regulatory and administrative aspects of the management of grants, and more generally of contracts.

1.2 The Group's working mandate

Early in 1997, as part of its wider effort to improve financial management, the Commission launched an in-depth survey by its Inspectorate-General of Services (IGS) on practices of grant management in those cases where there were no sector-specific award provisions. The survey found that such "non-regulated" grants were spread across 26 Commission departments and

¹ Tillich, S. and Brinkhorst, J.B.: Working Document no. 9 on Community subsidies, 15 July 1997.

161 budget headings, located in both parts A and B of the budget. Overall, they amounted to about ECU 1 billion. A series of issues were identified where common standards seemed desirable. In July 1997, the Commission mandated this Working Group to define such common standards.²

In particular, the following general issues were to be covered: appropriate forms of publicity before and after the award, selection criteria and procedures, monitoring and control procedures, standardisation of forms (application form, contract), and clarification of definitions with a view to transparent budget execution. In addition, specific issues such as recurrent grants, dependency issues, contributions in kind, co-financing and the particular problems of small organisations were to be looked into. An interim report was to be presented to the Commission before the end of 1997 and a final report by mid-1998. Finally, a Vade-mecum for the use of departments managing grants was to be elaborated.

1.3 The working steps

The Working Group, chaired by DG XIX and composed of experts from both operational and horizontal Commission departments (IA, IB, V, VIII, XIII, SG, XIX, XX) began its work in September 1997. To establish best Commission practices, seven subgroups were set up, each dealing with specific aspects and open to all Commission departments. Overall, more than 80 Commission officials involved with grant management participated in these sub-groups.

The Group presented its interim report to the Commission in November 1997. The Commission adopted it on November 18 and transmitted it, for information, to the European Parliament and the Council.³

The Interim Report was discussed in Parliament's Committee on Budgets on 25 November, in the context of the 1998 budget procedure. The Committee welcomed the Group's main conclusions and urged the Commission to enact rules which ensured broad and equitable access to Community funds. It also stressed the importance of separating the management function of the Commission from the control function of Parliament. Finally, it invited the Commission to take positive action in favour of small non-governmental organisations.

The Group then worked out the different stages in the life cycle of a grant, from the programming and budgeting phase through to auditing and evaluation. A particular concern was to find a workable balance between the need for customised solutions according to the variety of Community policies while harmonising their management as far as possible. In some areas, these considerations led the Group to suggest several options. The

² SEC(97) 1442

³ SEC (97) 2194 final

Group summarised its recommendations in a first draft of the "Vade-mecum on Grant Management" in March.

This draft was discussed with prospective users in April 1998 during three one-day workshops, two in Brussels and one in Luxembourg. About 150 Commission officials attended. The prospect of having a generally accepted reference guide was unanimously welcomed, and the balance between standardisation and flexibility was considered broadly appropriate. A series of concrete suggestions were made, based on experience. They were gathered in writing and subsequently discussed by the Group. Most of them were taken into account in the final draft, as the Group recognised them as genuine improvements.

The Commission staff in general has been informed about the mandate and work of the Group by two articles in "Commission en direct".⁴

1.4 Grants, subsidies and financial contributions

For the purpose of establishing horizontal standards for managing Community assistance, the Group suggests a definition of the term "grant"⁵ that includes all direct spending other than that on administration, procurement and loans. This residual amounts to about 10 % of the Community budget. The definition of a grant reads as follows: "a direct payment of a non-commercial nature by the Commission to promote an EU policy aim". It can take the form of a financial contribution or of a subsidy. However, the distinction between the two varies greatly across Commission departments, and it is not relevant in a management perspective. For these reasons, it is not further explored. By contrast, the distinction between grants and procurement spending, which is not always well understood, received great attention by the Group.

For only a small part of these grants, award procedures are not specifically regulated and are thus the subject of the general "fall-back" provisions that the Group is suggesting. These proposed rules are meant to cover what up to now have been "non-regulated" grants whether or not they belong to a series of pre-defined operations (a "programme"). Thus, all grants will now be "regulated".

1.5 Some characteristics of Community intervention

Community spending has some important characteristics that distinguish it from national budgets. Overall, they entail greater challenges for financial management than on a national level.

⁴ In issue 87 of 19 March 1998, the project was presented and officials were invited to participate; a second article summarising the participants' opinions appeared in early July (CenD issue 99).

⁵ Since indirect spending, i.e. transfers to Member States, e.g. in the context of the EAGGF and the Structural Funds, is outside the scope of this Report, for simplicity reasons the qualification "direct" ("direct grant") is omitted.

One such characteristic is that the Community budget has a much greater operational content than national budgets, reflecting both a small share of spending on administration and the absence of large income transfer schemes.

Another characteristic is that the geographic coverage of the Community's operations is very large, both inside and outside the Union.

Third, the Community budget has expanded rapidly over the past decade, and important new tasks have accrued. Consequently, the Community is involved in numerous policy domains today, with very heterogeneous management requirements.

Finally, in implementing its policies, the Community - unlike the Member States - cannot rely on a multi-layered structure of government and in-house management is not always adequate or even feasible.

In the context of indirect spending, which covers more than 80% of the Community budget, Member States have been entrusted with the primary responsibility for financial management. According to the results of the European Court of Auditors' Statement of Assurance, this form of policy implementation is more error-prone and provides less visibility for the Community than direct spending. Recent initiatives to improve the financial management of indirect spending have included a clearer definition of responsibilities as well as a simplification of rules (SEM 2000, Agenda 2000).

For direct spending, the Community currently lacks an administrative instrument that would allow it to combine the control and visibility of in-house management with the flexibility of delegating implementation of policies and programmes to third parties. However, neither the decentralised agencies decided by the European Council in October 1993 nor the technical assistance offices can fill this gap.

1.6 The main conclusions

1.6.1 Confirming the interim results

The Interim Report recognised transparency and efficiency as the two guiding principles. It was considered that the most effective instruments for ensuring transparency were wide publicity for operations, collective assessment of proposals and effective monitoring procedures. Regular evaluation, simple procedures, and standardised forms, in turn, were regarded as the main factors ensuring efficiency. Several specific issues, like those related to recurrent awards, dependency of beneficiaries, the specific difficulties encountered by small organisations, and budgetary presentation were identified as important areas for further work of the Group.

1.6.2 The Group's final results and outlook for future work

The Final Report and the Vade-mecum introduce no new principles or core rules. Their main difference over the Interim Report is that they are broader

in scope, as they cover the full range of issues included in the Group's mandate, and set out the concrete practical modalities of award and monitoring procedures.

For this reason, the **proposed binding procedures** are identical to those already presented in the Interim Report. These are: comprehensive prior publicity, the use of a standard application form, the collective assessment of proposals, the publishing of each grant awarded, the use of a standard contract, and an adequate form of monitoring.⁶ The obligation to use the SINCOM coding system for all expenditure types exists already.

With the presentation of this Report and Vade-mecum, the Group has completed its mandate. The documents contain the set of rules and instruments necessary to achieve the proposed minimal standards, a new, lightened, classification of expenditure for encoding in SINCOM, as well as a standard contract for grants which contains the minimum rules necessary to protect the legal interests of the Community.

2. MAIN RECOMMENDATIONS OF THE "VADE-MECUM ON GRANT MANAGEMENT"

Many DGs have expressed their concern that any new standards may prove to be as detailed and binding as those on public procurement. The Group recognises that, given the variety of policy areas, grants have to be maintained as a flexible instrument. It is therefore in favour of only a few and simple binding rules which are summarised below. The remaining rules and examples are recommendations, which offer the advantage of being accepted by Financial Control. In line with the Group's mandate to provide minimum standards, **authorising departments are always free to apply stricter rules** if they consider it appropriate.

It is proposed that the new rules enter into force on 1 January 1999. Initially they should be included in the Manual of Procedures, and would thus apply to the Commission only. After some experience has been gained, the relevant parts should also be included in the Financial Regulation and its Implementing Rules, where such provisions are lacking at present. The impending global overhaul of the Financial Regulation will provide a natural opportunity for such an inclusion.

2.1 Function of the Vade-mecum

The Vade-mecum and its recommendations will be useful in all areas of grant management. All examples and rules proposed have been accepted by Financial Control as appropriate practices for sound financial management. Practitioners have suggested that the Vade-mecum also be used to train new staff.

As a guide for day-to-day management, it is open to progress and can and should be amended periodically in the light of forthcoming experience.

⁶ See below chapter 2.

2.2 Transparency and cost efficiency as the basic principles

Transparency of award and monitoring procedures is crucial both in terms of the right of the public to fair access to public funds and the equal treatment of applicants, as well as in terms of appropriate control over actual spending. It also offers greater visibility for Community operations.

Cost efficiency is also a horizontal principle of sound financial management.

In practice, the choice of which of these basic principles should have priority is not always easy. In its deliberations, the Group encountered several issues where the two principles point in different directions, in particular in the context of small grants and small beneficiaries.

2.3 The core rules

2.3.1 *Wide Access to Community funding*

The Group's proposals start from the principle that sound grant management involves, first, defining clearly what the policy goals and desired impacts to be pursued are. Secondly, that the selection of organisms to benefit from Community grants should be on the basis of open competition or of wide access.

The core rules contained in the Vade-mecum may be summarised as follows:

The availability of grants must be publicised widely and in an easily accessible way. They should at least be publicised on "Europa", the Commission's Internet server, mentioning the programme, its scope and size, and where to address applications. It should be possible to obtain information, as well as an updated version of the publication "Grants and loans from the European Union" through Europa and in print.

The criteria for awarding grants must comply with this rule on wide access. While limiting the target population for grants is necessary to achieve a measurable impact, this must not rule out previously unknown or new applicants. Thus targeting should be achieved by clearly defining the purpose of grants, as derived from the policy goals and desired impact.

2.3.2 *Transparent Award Procedures*

The following three principles are obligatory when awarding a grant:

– Collective assessment

Proposals must be selected by a committee of Commission staff, with at least one member who does not belong to the unit awarding the grant. The committee acts independently in an advisory capacity. Minutes of its meetings should be taken and signed by all the members. If necessary, depending on the technicality of a proposal, advice from outside experts may be sought. They will have to give a formal declaration that they do not stand to benefit in any way from the grant and are not associated with

it in any way. They must observe strict confidentiality regarding the committee's deliberations. The authorising officer takes the final award decision.

– Avoiding multiple funding for the same operation

In order to avoid multiple funding for the same operation, authorising officers must consult SINCOM before making an expenditure commitment proposal and create a third-party record if none already exists.

– Ex post publicity

A list of all grants awarded should be published at least once a year, giving the names and addresses of the beneficiaries, what the grants were for, the amount granted and the co-financing rate, and whether or not there was specific prior publicity (such as a call for proposals). The only exceptions allowed are where the beneficiary's security would be jeopardised.

2.3.3 Less Paperwork

Better prior publicity, the use of a standardised application form, standard contract, and other documents appended to the Vade-mecum should help to avoid unnecessary consultations on financial and legal issues both among Commission departments and with beneficiaries.

2.4 Specific issues

2.4.1 Core funding

Where institutions perform a function of a general European interest, core funding of running costs can be an appropriate and efficient means of promoting an EU policy aim.

The Group recognises this particular function, but proposes to subject core funding to particular transparency by requiring special information to be supplied. This type of funding is only to be allowed if provided for in the remarks to the relevant budget heading, either by reference to a named recipient or to a particular purpose. Surpluses exceeding 5 % of annual income should be reimbursed or deducted in the following year.

The Preliminary Draft Budget for 1999 names as many as 76 organisations as entitled to this type of funding, of which 31 are budgeted in Part A and 45 in Part B. A large number of recipients under Part B are active in the social field (social dialogue, education, non-discrimination), others also operate in the context of the EAGGF Guidance Fund, or of external policies.

Further work will have to include examining whether this instrument is the most appropriate in all cases, identifying unintentional core funding, and defining a standard core funding contract with specific rights and obligations.

2.4.2 Partnerships

In some policy areas their very nature calls for a longer-term perspective. It may also be that the scale of the geographical coverage of a programme or the number of related projects make it inevitable to rely on outside support.

A notable case in point is development cooperation where projects may take many years to become sustainable and where NGOs have an important role in the context of both policy and programme management. Further important examples are social action and statistical cooperation with Member States and with the candidate countries of Central and Eastern Europe.

In such cases, the Group proposes that Commission intervention should focus rather on the concrete programme of eligible beneficiaries rather than on each individual project.

It will depend on the nature of the activity and the characteristics of the beneficiary whether the grant instrument is adequate. If it is, the Group proposes that in these cases relations be defined in the framework of a multi-annual partnership contract, for duration of, say, 3 to 5 years, in which mutual rights and obligations, including monitoring procedures, would be defined. The obligations and general orientations of the Vade-mecum, in particular as to ex-ante and ex-post publicity, collective assessment, and control and audit, should equally apply to such grants.

2.4.3 Spontaneous grants

Most projects financed under a given budget should be specified in advance through a call for proposals. However, in policy areas where innovative ideas and pilot projects play a particular role it may be appropriate for a limited portion of the total budget to be earmarked for proposals received spontaneously. In such cases a grant could be awarded without prior publication of a call for proposals. To provide a programming framework, the possibility of grants being awarded in response to spontaneous applications must be announced when the managing department informs the target population of the broad lines of the programme. However, all spontaneous grants must be indicated as such in the *ex post* publicity exercise.

2.4.4 Issues related to small beneficiaries

Small beneficiaries often encounter specific difficulties. First, access to EU funding seems easier for the experienced and those that devote some extra resources to EU fund raising. Secondly, small beneficiaries who need a grant to carry out their operation do not have sufficient resources to take a financial risk and sometimes not even to pre-finance the operation.

To facilitate access to EU funds by small organisations, these characteristics were taken into account throughout the Group's discussions, in particular in defining standards for prior publication and for payment periods (maximum

of three months for the first instalment for organisations receiving core funding), defining eligibility rules (simple rules; allowing services in kind to be taken into account), and drafting standard forms (clear and well-structured).

Other issues (e.g. replacement of the *ex post* obligation to prove that expenditure really has been incurred by a proof of verifiable output) need further analysis and debate before further simplifications can be envisaged.

However, difficulties encountered by small organisations often have their origin in certain administrative practices. The recent initiative to shorten payment periods throughout the Commission will benefit small organisations in particular.

3. RECOMMENDATIONS FOR FURTHER WORK

3.1 Adjusting current practices to the recommendations of the Vade-mecum

The Vade-mecum will be available in English, French, and German on-line on Europa plus and in print as from autumn 1998.

It is clearly understood that grant procedures that have already begun would not necessarily have to resume on the basis of these rules. The Group suggests, however, that spending departments adapt to the suggested standards as early as possible, even before the binding date of 1 January 1999.

The Group recommends that each spending department assesses what changes are needed to conform to the minimum or desired (higher) standards of grant management, establishes a list of actions and deadlines, and designates a responsible person to pursue the necessary actions.

3.2 Improving interdepartmental cooperation

At present there is no institutionalised form of interdepartmental cooperation between operational units equivalent to the existing network for financial units. This lack of communication may be the major reason behind the fact that until now no common standard for awarding and monitoring grants has evolved.

In addition, there is a lack of technical support instruments in the form of a register of contracts and contractors accessible to all Commission grant managers. This makes it difficult to control double funding, and in practice more organisations will be receiving core funding than is visible on the basis of the budgetary remarks.

Therefore, the Group proposes a specific organisational framework for interdepartmental coordination, and underlines the importance of the recently created "contracts cell" for developing these lacking registers.

For the purpose of interdepartmental cooperation, the Group considers it necessary to create an appropriate organisational framework immediately, i.e. as of September 1998. This could take over the role of the former "Subsidies Coordination Group" in the form of a result-oriented light working structure chaired by the Secretariat General. It could consist of a Board on which a few DGs are represented and rely on a network of "grant managers" from the various operational units.

The consulting of experts at officer level in drafting the Vade-mecum has proven very advantageous, both in terms of the quality of the feed-back received and of the opportunity provided for the participants to discuss horizontal problems related to day-to-day management issues.

The Group therefore suggests that practical questions linked to managing grants be further explored in ad-hoc workshops. The results from these would be translated, if appropriate, into formal proposals to the Commission on matters relating to the implementation or extension of the Vade-mecum on grants management. The objective would be to make the administrative practices of grant-managing departments converge further.

In the view of the Group, the first task to be taken on by this "Grants Coordination Network" should be to deepen the Group's preliminary thinking on "partnerships" with long-term beneficiaries and to develop the elements of a partnership contract in cooperation with the newly established "contract cell" in DG XIX. It would be a good thing if exchanges were to develop in the network about practical application of the vademecum rules, in particular the standard agreement. Specific clauses could be produced for areas such as aid to non-member countries.

This "contract cell" was recently created as part of a broader effort to improve the contract policy of the Commission.⁷ Besides standardising contracts, its mandate includes establishing registers of contractors and contracts. In addition to helping avoid double funding and unintentional core funding, these registers will also facilitate the coordination of monitoring and auditing, including the recovery of unduly paid amounts, and switching from single contract management to more targeted relationships.

Financial control will be responsible for checking that, as of 1 January 1999, practices conform to the proposed binding minimum rules of the Vade-mecum.

3.3 Improving information for potential beneficiaries

In the interests of greater transparency, equality of treatment and efficiency, it seems desirable to provide more information for potential beneficiaries than is currently available, on the procedures for applying for and being awarded grants. The Grants Coordination Network shall therefore consider

⁷ SEC (98) 761 final

ways of meeting the information needs of potential beneficiaries and in particular of small organisations.

3.4 Budgetary issues

Several budgetary issues have arisen.

The issues of minimum co-financing and core funding are likely to re-appear in the procedure for the 1999 Budget, and DG XIX will be contacting DGs separately on this. An important aspect will be the drafting of the relevant budget remarks.

Finally, given the inconclusive result of an interdepartmental survey carried out by the Group, dependent organisms funded from Part B of the budget (core funding and full-funding of organisations) could not be fully identified.

As regards core funding, DG XIX is preparing data in the context of the 1999 budget procedure. For the future, three options are available: recognising the long-term aspect of contractual relations, phasing out core funding or concluding procurement contracts. Decisions on future relations with these organisms are related to other issues currently under discussion, in particular technical assistance bureaus.