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SPECIAL REPORT

on the Community contribution
towards schemes concerning
developing countries carried out by
non-governmental organizations (NGOs)

(Observations, Article 206a,
paragraph 4, of the EEC Treaty)

This report was adopted by the Court of Auditors at its meeting of
12 December 1985. The draft report had been sent on 5 June 1985 to the
Commission, whose replies are attached.

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TABLE OF CONTENTS

	<u>Paragraph reference</u>
1. INTRODUCTION	1 - 4
2. DESCRIPTION OF THE SYSTEM FOR MANAGING PROJECTS JOINTLY FINANCED WITH THE NGOs	5 - 22
Legal basis	5
The NGOs	6 - 8
The projects	9
Financial provisions	10 - 14
Submission of applications	15
Appraisal by the NGO Division at the Commission	16
Monitoring and control	17 - 22
3. OBSERVATIONS	23 - 65
Legal basis	23 - 28
The NGOs	29 - 31
The projects	32 - 34
Financial provisions	35 - 44
Submission of applications	45 - 51
Appraisal within the NGO Division at the Commission	52 - 54
Monitoring and control	55 - 65
4. CONCLUSIONS AND RECOMMENDATIONS	66
	<u>Page</u>
<u>Annex</u>	
The General Conditions of the scheme for cofinancing in developing countries between the European Communities (represented by the Commission of the European Communities) and non-governmental organizations (NGOs)).	32
REPLIES OF THE COMMISSION	55

1. Introduction

1. Since 1976 the European Communities have jointly financed microprojects with NGOs⁽¹⁾. As from 1978, the appropriations of Article 941 have also made possible the financing of public information campaigns in Europe by the NGOs, as well as subsidizing the coordination of the NGOs between themselves (NGO liaison committee). The jointly-financed projects accounted for 95% of the expenditure. Food aid distributed via the NGOs is financed under Chapter 92 of the budget and is not discussed in this report. The report covers the system of administration by the Commission of appropriations allocated to the joint financing of projects with NGOs and therefore does not claim to assess the effectiveness of these schemes in the field.

2. The Court examined the extent to which the Commission, when it grants the subsidies, follows the regulations which it has itself laid down, and how far the NGOs fulfil their obligations. It checked the above-mentioned expenditure for the financial years 1976 to 1983. The Court's observations consequently cover a period during which two versions of the General Conditions of the scheme for project cofinancing in developing countries between the European Communities and NGOs were applicable, the first version up to 31 December 1981 and the second since that date. The cases mentioned by the Court may therefore, depending on the period

(1) Projects financed jointly by the European Communities and one or more other sources of external aid.

within which they occurred, be covered by the previous regulations, the new regulations or, as is most often the case, by both versions. In the absence of any explicit reference, the observations contained in this report may be taken to relate to both versions of the General Conditions. Those few observations which the Commission, during its discussions with the Court, considered insufficiently clear, have all been amended, so that the report no longer contains any observations which could be interpreted as not referring clearly to one or other of the versions of the General Conditions.

3. The audits were based on records and performed on the spot, on the Commission's premises and at the registered places of business of 27 NGOs in nine Member States. Thus, 15% of the bodies with which the Commission jointly financed projects and 24% of the projects (i.e. approximately 270 schemes) were audited. The observations below are also based on visits by the Court to 38 NGO projects during official trips to developing countries.
4. Tables 1, 2 and 3 below show the evolution and distribution of the Community measures implemented by the NGOs and financed from the appropriations entered under Chapter 94 of the budget.

Table 1 - Schemes concerning developing countries carried out by the NGOs; available appropriations and the use made of them, from 1976 to 1983

(1976 - 1977 · Mio u.a.
1978 - 1980 · Mio EUA
1981 - 1983 · Mio ECU)

Financial year	Commitments		Payments		Number of projects jointly financed
	Appropriations for commitment available	Commitments entered into	Appropriations for payment available	Payments made	
1976	2,5	2,5	2,5	0,8	(75)
1977	4,0	4,0	4,0	3,6	(113)
1978	12,0	11,9	6,0	5,7	(173)
1979	12,5	12,2	8,0	10,4	(150)
1980	14,4	14,3	10,8	10,5	(179)
1981	14,1	13,9	12,7	12,8	(162)
1982	28,4	26,9	28,0	18,5	(261)
1983	32,8	26,5	28,2	21,4	(214)
Total	120,7	112,2	100,2	83,7	(1 327)

Table 2 - Geographical distribution of commitments relating to projects jointly financed between 1976 and 1983

Continent	Mio ECU	%
Africa	51,1	49
Asia	26,6	25
Latin America	25,9	25
Oceania	0,9	1
Total	104,5(1)	100

(1) Commission statistics, which do not take account of any adjustments, recoveries and exchange rate differences. It is therefore impossible to compare these figures with those in the revenue and expenditure accounts (Table 1)

Table 3 - Distribution, by registered place of business of the NGOs, of the commitments relating to projects jointly financed between 1976 and 1983

Member State	Mio ECU	%	Number of projects
Belgium	18,1	17	(225)
Denmark	3,4	3	(30)
FR of Germany	20,6	20	(185)
France	18,7	18	(237)
Ireland	3,7	3,5	(123)
Italy	14,9	14	(141)
Luxembourg	0,6	0,5	(17)
Netherlands	8,3	8	(94)
United Kingdom	16,2	16	(271)
Total	104,5(1)	100	(1 327)

2. Description of the system for managing projects jointly financed with the NGOs

LEGAL BASIS

5. The basic guidelines and the procedure to be followed for utilizing appropriations jointly financed with the NGOs were approved by the Council on 28 November 1977⁽²⁾. The Council thereby agreed to the provisions contained in a Commission document and applicable to the appraisal, implementation, monitoring and control of jointly-financed projects. These provisions are set out in the General

(1) Commission statistics, which do not take account of any adjustments, recoveries and exchange rate differences. It is therefore impossible to compare these figures with those in the revenue and expenditure accounts (Table 1).

(2) Doc. R 207/78 (GCD) of 26 January 1978.

Conditions, the first version of which was in force from 1976 to 1981. Since 1 January 1982 the Commission, in consultation with the NGOs, has issued a revised version (1) of these General Conditions.

THE NGOS

6. Chapter 1 of the General Conditions lays down the eligibility criteria for cofinancing of projects by the Community. An NGO must, in particular, have a legal identity as a non-profit-making body with its head office in a Member State, and it must have activities and experience in overseas development. In addition, it should be able to prove "its efficiency as an organization and its capacity to ensure the competent formulation and viable implementation of the projects it undertakes or supports, on the initiative of the populations concerned, and of its capacity to meet the reporting and other obligations"

7. Amongst the 200 or so NGOs which benefited from Community funds between 1976 and 1983, the 10 major NGOs (i.e. 5% of the NGOs with which the Commission works) received 38% of the total appropriations allocated by the Commission.

8. This is a result of the selection criteria for the projects, management methods and the Commission's wish to observe a certain geographical balance both between the NGOs in the Member States and between the ACP and non-ACP countries. Moreover, the "big" NGOs have the advantage of being familiar with the conditions governing eligibility and the submission of files applying to the

(1) See annex.

main providers of capital. They are thus in a position to make good use of the criteria and submit their projects selectively by choosing the source of joint financing most likely to accept the envisaged measure.

THE PROJECTS

9 Chapter II of the General Conditions lays down the project criteria and in particular recommends certain priorities to be taken into consideration by the Commission when it makes its selection. The priority projects are those which:

- (a) "promote the economic and social progress of the most deprived sections of the population. .",
- (b) "strengthen counterpart organizations in developing countries" in order to ensure the continuity of the project;
- (c) "permit . the accumulation of financial resources which can be reutilized for other projects",
- (d) "expect to be viable upon completion",
- (e) "lend themselves to replication in contiguous regions"

FINANCIAL PROVISIONS

10. Chapters IV and VII of the revised version⁽¹⁾ of the General Conditions lay down the principles governing the Community contribution and those of the NGOs, as well as the payment procedures.

(1) The provisions governing the NGOs' own contributions (paragraph 12) and bank interest (paragraph 14) were not laid down in the first version of the General Conditions

11. "The Commission will normally contribute up to 50% of the total cost of a project, with an upper ceiling of 120 000 ECU a year for a maximum of three years (i.e. a maximum of 360 000 ECU). The Commission's contribution may exceptionally cover up to 75% of the total costs in the case of projects to be implemented in least developed countries, or in least developed areas in other developing countries"

12 "The NGO contribution may include funding from its own resources, from other NGOs, from governmental cofinancing schemes and from the local beneficiaries (including public funds). Projects with a predominant Community financial component will be given preference", along with "projects where the own non-public NGO financial contribution is at least 15% of the total cost".

13. The payment procedures stipulate that: "the Commission's contribution shall be paid in one or more instalments as specified in the contract letter. Commission funds shall only be released on the basis of a request showing either that the implementation has already commenced or is due to commence in less than three months from the date of such request and indicating how the Commission funds will be used".

14 In addition, "the NGO shall inform the Commission of any interest accruing to Commission funds already advanced. Any such interest must, after consultation with the Commission, be used to directly further the project's aims and objectives. In cases where such an interest is not required for these purposes, the NGO shall return the sums involved to the Commission"

SUBMISSION OF APPLICATIONS

15. The data sheet for the projects proposed for Community cofinancing is set out in the General Conditions. The application should contain in particular

- (a) information on the environment of the project,
- (b) a description and justification of the project (involvement of the local population, technical and financial viability);
- (c) financial details. "the NGO shall provide a full breakdown by amount and source of all contributions".

APPRAISAL BY THE NGO DIVISION AT THE COMMISSION

16. The NGO Division constitutes a separate unit within the Directorate-General for Development (DG VIII). The cofinancing files are distributed between the staff of the department according to the Member State in which the head office of the NGO making the application is situated. Appraisal involves an official checking that the application complies with the General Conditions and requesting the opinion of the technical departments of DG VIII and that of the Commission delegations for those projects to be carried out in the ACP States or of the Directorate-General for External Relations (DG I) for those to be carried out in other countries. The project files are discussed within the NGO Division at "selection meetings". The financing decision is taken by the Director-General of DG VIII, the authorizing officer delegated by the Commission.

MONITORING AND CONTROL

17. In accordance with the provisions of the General Conditions, the NGOs are obliged to submit to the Commission, for each project, progress reports (in the case of projects in respect of which the subsidy is paid in instalments), a project implementation report and an operational report. The first version of the General Conditions provided for similar reports, although the periods within which they had to be submitted differed.

18. The purpose of the project progress report is to indicate to the Commission the progress achieved in the implementation of the project and the uses to which the instalment of Community contribution has been put. It is the document which the NGO Division uses as justification for the payment of the next instalment for the project. "On completion of the works for a project . . . and not later than twelve months following payment of the final Commission instalment . . . , the NGO shall submit a project implementation report to the Commission. This report, the purpose of which is to enable the Commission to verify that the project was carried out in accordance with the contract, must give a complete account of all aspects of the project: works, purchases, labour employed, involvement of the local population and authorities, expected viability etc."

19 "The NGO shall also prepare an operational report on the functioning of the project two years following the presentation of the project implementation report. This operational report shall give an account of the effectiveness of the completed project from the technical, economic, social and humanitarian angles, particularly as regards the functioning and maintenance of the project, and shall thus be centred on the following two key aspects: population involvement and viability."

20. For its part, the Commission is required to report to the Council on the implementation of the programme of projects jointly financed with the NGOs.

21. Annex IV of the Council document⁽¹⁾ which records the latter's agreement to the procedures for utilizing the appropriations for joint financing with the NGOs, stipulates that "the Commission shall submit to the Council a yearly report on the state of utilization of the NGO funds during the previous year", in order that they may "examine the financial implications of this aid".

22. Chapter X of the General Conditions lays down the principles in respect of accounting control and on-site verification of projects. In particular, the General Conditions stipulate that the NGO must keep separate accounts for each project and all expenditure must be justified by a supporting document, which may be requested by the Commission. Finally, the General Conditions also state that the cofinancing contracts are subject to the provisions of the last paragraph of Article 82 of the Financial Regulation, which concern the Court of Auditors' right of control

3 Observations

LEGAL BASIS

Lack of strictness in the General Conditions

23. The General Conditions do not constitute a legal act within the meaning of Article 189 of the Treaty

(1) Doc. R 207/78 (GCD) of 26 January 1978.

Although the Council has given its agreement to the contents of this document, the General Conditions are not a Council Regulation. It is a document produced by the Commission, to which the Council has delegated full responsibility for the utilization of the appropriations intended for joint financing with the NGOs.

24 In the chapter of the revised General Conditions concerning the submission of applications (Chapter III, paragraph 3), it is stipulated that "applications for the retrospective cofinancing of projects which have, at the date of the request, already been substantially completed, shall not be admissible." This imprecise wording and the fact that it is impossible to be sure of the progress of a project at the time of the application, encourages the non-observance of this provision. In the case of one NGO (OXFAM, United Kingdom) the majority of the 80 projects jointly financed had already been implemented at the time of the application for the Community subsidy. The Commission's Financial Control Department had already drawn attention to this problem following its audit visit to the head office of this organization in 1980, but its comments were ignored.

Application of certain provisions of the revised
version of the General Conditions

25. The text of the new version of the General Conditions was drafted in the light of the experience acquired by the Commission over six years (1976 to 1981) of projects jointly financed with the NGOs.

26. The main changes concern:

- (a) the conditions to be fulfilled by the NGOs, in respect of which more information is requested;
- (b) the participation of the European NGOs' partners in the developing countries in the different stages of the project, and the viability of the project after the cessation of all external aid;
- (c) the presentation of the project and reports, the financial section of which should be more detailed as regards the sources of financing and the operations financed;
- (d) the financial provisions, in particular the abolition of automatic payments, the raising of the subsidy ceiling, the use of bank interest and giving priority to projects where "the own non-public NGO financial contribution is at least 15% of the total cost."

27. Though, in theory, these changes amount to substantial improvements, their application still leaves much to be desired. During audits carried out towards the end of 1983, the Court noted that, within the framework of the projects financed under the 1982 and 1983 programmes, certain provisions applicable as from 1 January 1982 were not observed and there had been no reaction to this by the Commission's NGO Division. This was the case for the financial provisions and for those relating to the participation of local partners and the submission of reports.

28. The provision according to which the signatory of the cofinancing contract "shall confirm to the Commission the precise nature of its relationship with all its partners involved" was not applied for any of the thirty 1982 and 1983 projects audited.

THE NGOS

Actual role of certain NGOs

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29. Twenty-seven NGOs were visited by the Court. It transpired that two of them - which had received a total of 595 000 ECU - had hardly been involved at all in the design and monitoring of the projects that they had submitted for joint financing by the Community. They had confined their activities to automatically passing on the subsidies they received to their counterparts in the developing countries. Had these cases been isolated, these facts would be of little significance, especially since as from 1982 the two NGOs concerned have no longer received Community subsidies. However, many factors indicate that the problem of NGO "letter boxes" is a permanent one. There is a risk that the Commission is dealing with merely nominal NGOs, which act as forwarding agents for applications from local NGOs in a developing country or from international NGOs, which in this way become eligible for Community financing. The Court must therefore remind the Commission that Article 3 of Chapter I of the General Conditions requires great vigilance in this area.

The local partners of the European NGOs

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30. The local partners of the European NGOs are either local NGOs or subsidiaries of international organizations

(European or otherwise) or confessional organizations. The General Conditions contain no provisions concerning them. The local partners, however, are responsible for the design of the project, the preparation of the application for joint financing, relations with the local authorities and the implementation of the project on the spot. During the implementation of the work they are supposed to inform the European NGO and, through the latter, the Commission, of the progress achieved and any delays or problems. It is the local partners who are meant to provide the European NGO with the information required on the project and the documents in support of the expenditure so that the latter can draw up the required reports for the Commission.

31 Since the implementation and the monitoring of the projects is up to the local partners, they ought to be parties to the contract concluded between the European NGO and the Commission. The latter could perhaps amend the legislation in force so as to cofinance projects directly with the organizations in the recipient countries, which would, amongst other things, obviate the need for payment to the European NGOs of administrative costs which are not always justified (see paragraph 42)

THE PROJECTS

The choice of projects to be jointly financed

32 The Commission's NGO Division regularly organizes "selection meetings", during which Commission officials responsible for appraising the projects propose particular projects for Community joint financing. The aim of these meetings is to coordinate the entire programme of jointly financed projects. However, an objective method of selection was not found to have been

established. The factors taken primarily into account were the maintenance of some degree of balance between the Member States and the geographical distribution of the projects

33. There is a danger that some measures, which are supposed to be of limited duration, may develop into projects financed jointly for an indefinite period. This risk is all the greater if the project is imprecise, too ambitious or too extensive. Thus, in an integrated rural development project in Zambia, jointly financed to the extent of 394 000 ECU with the German NGO, "Gossner Mission", the technical assistance, set up in 1982 and involving many expatriates, will have to be extended for another ten years approximately on account of the complex nature of the various stages of the project and the local circumstances. The project is being carried out in a region which is not very accessible and where it is difficult to mobilize the population. When the project was being appraised a Commission technical expert gave the following opinion "Despite the large number of expatriates providing technical assistance, the project has hitherto only affected a small part of the population. It is hard to see how the project can be successfully concluded" The persons responsible at the NGO with which the Commission is cofinancing the project have undertaken to support the project until 1991

34 Other measures do not observe the objectives of the NGO projects

(a) a printing works in Malawi, which has been legally incorporated as a non-profit-making body, received, for this reason, a Community subsidy of 35 000 ECU from a Belgian NGO ("Wereld Solidariteit") in July 1979 (Decision of 17 April 1979) which enabled it to

finance the construction of a canteen for its employees.

- (b) The Commission agreed (Decision of 4 July 1979) to finance jointly with the British NGO, "OXFAM", for a sum of 32 500 ECU, a vegetable research centre and a vegetable root stocks bank in the United Kingdom. This project was selected in contravention of the criteria set out in the General Conditions, which in no way provide for the possibility of financing a project anywhere else than in a developing country. Moreover, the benefits of such a project for the people of the Third World are not proven and there is no report available to justify it.

FINANCIAL PROVISIONS

Payment of subsidies

35. The Commission does not follow the principles of sound financial management in paying its subsidies to the NGOs. Prior to 1982, the subsidies paid in full as soon as the contract letter was signed and the first instalments of subsidies to be paid by part-payments were not conditional on the submission of any supporting evidence. On the other hand, the revised General Conditions state that "CEC⁽¹⁾ funds shall only be released on the basis of a request showing either that the implementation has already commenced or is due to commence in less than three months from the date of such request and indicating how the CEC funds will be used". However, an examination of 37 payments of the first instalment for projects subject to the new provision

(1) CEC = Commission of the European Communities.

revealed that 19 were insufficiently substantiated and that, in the case of 14 others, there were no supporting documents to comply with the new provision.

Method of utilization of subsidies

36. The provisions of the General Conditions lay down that, in its request for payment of Community funds, the NGO should indicate "how the Commission funds are to be utilized". The NGO should either pay the funds on the spot to its local partner or purchase equipment for the project in Europe. In the case of a Belgian NGO (Institute of Cultural Affairs), an American-backed organization, the Commission did accept that the Community funds paid should be used to cover some of the operational expenditure of its head office in Europe. The NGO had, however, undertaken to pay an equivalent amount (approximately 25 000 ECU) to the project through its subsidiary in the recipient country. The accounts held at the NGO's head office which were audited during a visit by Court staff do not, however, clearly reveal the off-setting payments. The Court would like to know what the Commission intends to do with regard to this matter.

Bank interest

37. The Court carried out audits on the premises of 27 NGOs and found that only one was observing the provisions of the revised General Conditions relating to bank interest (cf paragraph 14 of this report)

38. In the case of many projects, the procedure for paying subsidies makes it possible for the funds to remain unused in the NGOs' bank accounts without the

latter informing the Commission of the amount of interest received. As it is ignorant of these amounts, the Commission is unable to authorize use of them for projects or request payment of them to the Commission, as it is required to do under the terms of the revised General Conditions

39. Some NGOs claim not to take account of interest received, given that they often pre-finance the projects so that the amounts that they advance and those that they subsequently receive from the Commission balance out. They are not however able to justify this statement. The Commission should, in any event, insist on the legislation laid down in this area being observed

Rate of subsidy
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40. The files of projects which the Commission agreed to finance jointly for up to 75% of the costs (cf. paragraph 11 of this report) do not give any information justifying derogation from the 50% rule.

The system used by the Commission for the recovery of
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claims on the NGOs
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41. When a project has not been implemented, or has been only partially implemented, the NGO is supposed to repay all or part of its subsidy to the Commission. The Commission's NGO Division, which issues the claim certificates, has a list of the sums that the Commission has to recover from the NGOs. Their follow-up, however, is lacking in effectiveness since the financial departments of the Directorate-General for Development do not inform the NGO Division of those claims still

outstanding The latter is therefore unable to send reminders to the NGOs.

Administrative costs
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42. The revised General Conditions lay down that the NGOs may include administrative costs, subject to a maximum of 6% of the total cost of the project, in the budget of each project. The application of this provision has led to an increasing tendency for many NGOs no longer to enter a sum corresponding to their actual administrative costs, but rather the maximum of 6%, in the budget for a given project. Even if some NGOs are continuing only to budget for their actual costs and the share of administrative costs in the total appropriations remains on average less than 6%, the increasingly common practice of applying the flat maximum rate should be reviewed, since it could be abused. In the case of those NGOs, for example, which merely transfer the Community subsidy to a local partner (cf. paragraph 29 of this report), 6% is certainly too much. In addition, some NGOs work with very few staff, who are often unpaid, which consequently limits their costs. In spite of this however, all NGOs that claim the 6% for administrative costs automatically receive it, whilst those NGOs that submit and manage numerous projects receive substantial amounts for administrative costs. Since the fixed charges do not change in proportion to the number and size of the projects, the 6% becomes too high a percentage. For many NGOs, development projects only represent one part of their activities and do not impose any significant burden on their administrative expenditure.

Block grants
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43 NGOs which have had experience of cofinancing with the Commission for three consecutive years qualify to apply for a block grant of a maximum annual amount of 150 000 ECU. This grant enables the recipient NGOs to finance measures costing between 2 500 and 12 000 ECU, which would otherwise be barred from Community cofinancing. The Commission draws up "an annual list of NGOs meeting this requirement and individually informs eligible NGOs of the amount they can request". In order to receive the block grant, the NGOs are required to send the Commission applications including "a brief justification of the individual projects". According to the General Conditions, "preference shall be given to projects which aim at assisting counterpart organizations in developing countries and to projects for the supply of small scale equipment and human development"

44 The Court of Auditors audited about thirty block grants and noted that:

- (a) the Community subsidy sometimes represents a marginal addition to large scale projects;
- (b) the reports that are supposed to justify the use that is to be made of the Community subsidy are usually too brief.

The block grants could, however, be reserved for the financing of clearly specified measures, such as the purchase of pumps, furniture or vehicles, which could be effected, where possible, within a limited period.

SUBMISSION OF APPLICATIONS

Project data sheet
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45 The project data sheet for submitting the files is attached to the General Conditions. The Court noted that this data sheet constituted a standard framework adapted almost solely to projects consisting mainly of physical measures. In the case of projects which comprise many aspects at the same time, such as the construction of buildings, agricultural production, technical assistance, staff training or loans, or projects which are spread over several years or have several sources of financing, the data sheet is difficult to use in the form provided.

Documents accompanying the application for joint
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financing and analysis of certain costs
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46. The General Conditions lay down that in order "to qualify for cofinancing assistance from the Commission", projects must be accepted "by the appropriate authorities in the country concerned".

47 Moreover, the revised version of the General Conditions states that "the Commission may accept the inclusion in the total costs of a project, provided they are duly justified, of the estimated cash value of in-kind contributions such as land, labour etc. as well as the estimated cash value of existing infrastructure or previously implemented related projects, provided they are less than two years old".

48. In the absence of precise details on the nature of the documents justifying the local contributions and on those of the supporting documents, during its audits the Court was not able to ascertain the admissibility of the documents submitted. The NGO Division accepts very varying types of document whose authenticity is often difficult to assess. In the majority of projects audited where there had been a contribution towards existing infrastructures, the Commission did not request proof of the fact that they were less than two years old, as required by the General Conditions.

Submission of applications
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49. Prior to 1982, one German NGO ("Misereor") submitted several projects at once both for Community cofinancing and for cofinancing by the Ministry of Cooperation of the Member State in which it had its head office and each provider of capital contributed 50% of the total cost of the projects. However, neither the Commission nor the Ministry were informed by the NGO of the real sources of financing of the projects. In fact, in its application to the Commission, the subsidy obtained from the Ministry was included under the heading "NGO contribution" whilst in its application to the Ministry the NGO treated the Community subsidy as its own contribution.

50. This disguised submission, which although not officially prohibited in the texts is counter to the spirit of the legislation, which assumes that the NGO will make a contribution of its own, prevents any assessment of the overall financing and enables the NGO to implement projects without making any contribution

51. In order to avoid this procedure being used, the revised version of the General Conditions now states that "the NGO shall provide a full breakdown by amount and source of all contributions to a project"

APPRAISAL WITHIN THE NGO DIVISION AT THE COMMISSION

Appraisal and management of the files

52. The management of projects jointly financed with the NGOs for each Member State (cf. paragraph 16 of this report) is entrusted to a specific official at the NGO Division. When an NGO submits an application for cofinancing, this official appraises the file and proposes the project for joint financing at the "selection meetings". Once a project has been accepted for cofinancing, this official alone monitors it and there is no other systematic supervision at this stage. Thus, for example, the quality of the reports to be supplied by the NGO or the value of the supporting documents is left to the sole discretion of the official responsible for appraisal. There is therefore a danger of different criteria being used for the management of the projects.

53. Moreover, with the expansion of the cofinancing programmes since 1976, the NGO Division has gradually increased in size, which has involved repeated staffing changes, so that at different times NGOs have found themselves dealing with different people for the same project. Several NGOs complained that they had had to deal with at least four different people within the space of six years.

Utilization of information on the NGOs
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54. Every year the Commission receives the accounts of each NGO. It also has their articles of association on file. However, when a representative number (cf. paragraph 3) of files was inspected, no trace was found of any assessment of the amount of the NGOs' administrative costs or their financial resources. The need for such an assessment, however, follows naturally from the provisions of the General Conditions.

MONITORING AND CONTROL

Monitoring of projects
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55. As regards the majority of projects audited, the project progress reports are not submitted within the period laid down in the General Conditions and their content often leaves much to be desired. However, these reports constitute the only documentary evidence available to the Commission as justification for the payment of subsequent instalments.

56. Most of the project implementation reports found in the files had also been sent some months or several years late by the NGOs. Moreover, reports are submitted in a form that makes it difficult to draw comparisons between the various items in the budgets and what is actually implemented.

57. The operational reports are, as a rule, completely missing from the files. The Commission does not therefore have any information on the operation of the projects which it cofinances or on their socio-economic impact.

Reminders for missing reports
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58. The Commission has not instituted an effective system of reminders for missing reports. It does not have an adequate index of information on the projects which it finances. Under these conditions it is incapable of taking the appropriate steps vis-à-vis the NGOs. In 1983 the Commission launched a campaign of systematic reminders. However, while the NGO Division has started to receive positive results for relatively recent projects (since 1979-1980), this is not the case for projects prior to 1979. In these cases the NGO has often lost contact with the local partner who is supposed to provide the information for drawing up a report

Supporting documents
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59. The accounting control of the projects and the provisions governing supporting documents are laid down in Chapter 10 of the General Conditions. Since these provisions are not very precise, they are applied by the NGOs in very different ways. Some organizations keep all the supporting documents at their head office, others systematically send copies to the Commission and some have the documents kept on the spot, on the premises of the local partner

60 In certain cases, however, in particular for the documents relating to small amounts of expenditure, when the cost of transmission is too high, or when, for fiscal reasons, they must be kept on the spot, the Commission should accept that they may remain with the local partner. In that case the latter should provide the NGO

with a summary statement of the documents in his possession. This statement would be certified as a true copy by an audit body in the recipient country. In the case of projects financed in the ACP countries, the delegations could verify the supporting documents held on the spot.

Project accounts held by the NGOs
=====

61. During audit visits made by the Court to the NGO head offices, it was noted, in many cases, that the project accounts were badly kept. It is often impossible to differentiate between the Community subsidy, the NGO contribution and the local participation. While, at the time of the audits, it was always possible to justify the utilization of Commission funds, it was, on the other hand, often difficult to verify the other contributions and their utilization. The sources of financing are all totally mixed up in the accounts of the projects implemented. In the majority of cases the headings used in the financial statements for the project implemented do not correspond to those of the draft budget.

62. The creation of a system of accounting by project, however, would enable each NGO to justify, at any time, the implementation of the whole of the budget submitted in support of its application. Such an accounting system should afford improved financial transparency (source of funds, proof of all the contributions).

Observations made by the Commission's Financial Control
=====

Department
=====

63 The Court would like to know the reasons why certain comments made by the Financial Control Department concerning the management of the NGOs were not followed

up. These comments dealt with the keeping by each NGO of separate accounts by contract, the question of bank interest, the recovery of debts, the examination of supporting documents and the incomplete nature of certain project implementation reports.

The role of the Commission delegations (NGO projects
implemented in the ACP States)

64. The digest of instructions for use by the Commission delegates stipulates that the collaboration of the delegations is desirable during the appraisal stage of projects implemented in the ACP States. The delegations deliver an opinion on the application submitted by the NGO, but subsequently their role is very restricted. The delegate only takes part occasionally in the implementation of the project.

65. While it is not currently laid down that the delegations are entitled to control the implementation of projects, they should at least be kept informed on a regular basis, which is not the case. Moreover, all NGO projects should undergo at least one audit visit and not solely "when the delegate is passing through the premises"

4. Conclusions and recommendations

66. In June 1981, after five years of projects jointly financed with the NGOs, the Commission published a report on the "comparative evaluation of projects cofinanced with NGOs and microprojects". The improvements suggested

in the area of the NGOs concerned the role of the delegation, the choice of NGOs, the knowledge of local partners, the geographical concentration of projects, the drafting and appraisal of applications, the financing conditions, block grants and the assessment of projects. The Commission could have paid more attention to the results of this evaluation when drafting the revised version of the General Conditions (applicable since 1 January 1982). Sound financial management would be encouraged by improvements in the following areas:

- (a) the systematic processing of information on the NGOs (see paragraph 54) and the establishment of closer relations with the local partners (paragraphs 30 and 31);
- (b) the selection of projects (paragraphs 32 to 34);
- (c) a more detailed and better documented submission of applications for joint financing (paragraphs 45 to 51);
- (d) the creation of a reference file (possibly computerized) on the projects, to make possible an effective and uniform analysis and monitoring of jointly-financed projects (paragraphs 52 to 54 and 58);
- (e) the clarification of the provisions governing supporting documents (paragraphs 59 and 60);
- (f) specific accounting for each project financed (paragraphs 61 and 62),

- (g) more active participation by the Commission delegations, particularly in respect of the control of the measures (paragraphs 64 and 65).

This report was adopted by the Court at its meeting of 12 December 1985.

For the Court of Auditors

A handwritten signature in black ink, appearing to read 'M. MART', with a long horizontal flourish extending to the right.

Marcel MART
President

COMMISSION
OF THE EUROPEAN COMMUNITIES
Directorate-General for Development

Brussels, 11 January 1981

non-governmental organizations

The General Conditions of the scheme for project cofinancing
in developing countries between the European Communities
(represented by the Commission of the European Communities
(CEC)) and non-governmental organizations (NGOs)

VIII/174/81/EN-Rev 2

CONTENTS

		<u>Page</u>
	<u>INTRODUCTION</u>	34
<u>Chapters</u>	I Eligibility Criteria for NGOs	36
	II Project criteria	36
	III. Guidelines for submission of applications	37
	IV Contributions from the CEC and the NGO	38
	V Appraisal	40
	VI The Cofinancing Contract	40
	VII. Payment modalities - Progress Reports	41
	VIII. Implementation and Operational Reports	41
	IX Block grants	42
	X Accounting control and on-site verification of projects	44
	XI. Project Evaluation	44
	XII. General provisions	45
	XIII. Publication of contracts	45
<u>Annexes</u>	I NGO Data Sheet	46
	II Project Data Sheet	47
	III Declaration of acceptance of General conditions	49
	IV The Cofinancing Contract	50
	V Outline Form for Financial Reporting	51
	VI List of CEC Delegations in Developing Countries	53

INTRODUCTION

- 1 Since 1976 the CEC has provided financial support for the overseas projects of NGOs from the Member States of the European Community.* In the period 1976-1980 its total commitments exceeded 43 0 *ECU in grants for almost 700 projects undertaken by 124 NGOs in 91 developing countries. Projects were concentrated in the agricultural (30%), technical training (25%) and health (20%) sectors**. These figures demonstrate in a very clear way the eclectic character of the cofinancing scheme which is based in the first instance on an acceptance by the CEC of the collective pluralism of the NGOs and of their individual autonomy.
- 2 In cofinancing NGO projects, the CEC recognizes the commitment and support which the general public in the European Community gives to member State NGOs involved in development.
- 3 While the heterogeneity of the CEC's NGO partners is reflected in the wide range of projects supported there are two elements common to all projects
 - (a) the initiative for a project should originate from its beneficiaries who should also be involved as partners at all stages of a project's planning, implementation and, on completion, management - a primary aim of all projects being to increase the local partner's confidence for self development,
 - (b) projects should be economically, financially, technically, sociologically and culturally viable and, as such, they should offer the maximum probability that they will continue, in all of these respects, after external financial and other aid has ceased.
- 4 Participation in the scheme is open to NGOs legally established in a Member State of the European Community which satisfy a number of criteria particularly those of a financial, experience and organizational nature. One of the most important criteria used by the CEC in approving funds for projects will be the applicant NGO's proven capacity to implement projects that fulfill the following two conditions which are considered to be essential for effective development - beneficiary involvement and project viability.

* The ten Member States of the European Community are Belgium, Denmark, F.R.G., Germany, France, Greece, Ireland, Italy, Luxembourg, the Netherlands and the United Kingdom.

** For a more complete picture see Doc. COM(81)220 available from the address overleaf.

- 5 The CEC cannot accept applications directly from organizations in developing countries who should, in the first instance, interest a European NGO, qualified to submit projects, in its work. Furthermore the CEC is unable to act as a "project marriage broker" in this respect.
- 6 Projects submitted for cofinancing should aim at fulfilling the basic needs of the most deprived in the areas of food production, health, education and employment and in this regard, preference will be given to multi-disciplinary integrated projects.
- 7 Applications for cofinancing grants, drawn up in an official language of the European Community, may be made at any time of the year and should be addressed to

Division "Non-governmental organizations" (DG VIII/3)

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200, rue de la Loi

B - 1049 BRUSSELS

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Telex 21877 COMEUR B

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where they will be examined in the light of their conformity to these General Conditions and in the context of available funds. The 1985 Budget allocation is MECU

- 8 Please address all enquiries about the scheme to the above address. Information may also be obtained from Delegations of the Commission of the European Communities in developing countries (see Annex VI) although it should be borne in mind that the rôle of the delegations in the cofinancing scheme is consultative.

I Eligibility criteria for NGOs

- 1 Applications for CEC cofinancing grants may be made only by organizations
 - (i) which have a legal identity as non profit making, autonomous non-governmental organizations in a Community Member State and
 - (ii) which are clearly identifiable as being European Community organizations in that, apart from meeting the legal requirements in (i) above, their head office must be established in a Community Member State and the major proportion of their financial and human resources must be of Community origin

- 2 In determining an organization's eligibility to receive financial assistance consideration will be given to
 - (i) the extent to which it is able to mobilize private support from within the European Community for its overseas development activities
 - (ii) the priority which it gives to overseas development assistance
 - (iii) its previous experience in overseas assistance and, in particular in cofinancing with the CEC or similar schemes administered by the Member States of the Community,
 - (iv) its efficiency as an organization and its capacity to ensure the competent formulation and viable implementation of the projects it undertakes or supports, on the initiative of the populations concerned, and of its capacity to meet the reporting and other obligations
 - (v) the nature and extent of its links with local counterpart organizations in the developing countries,
 - (vi) the nature and extent of its links with other NGOs from both inside and outside the European Community

- 3 Applications made by NGOs who meet the above requirements, but who are in fact acting as agents for other organizations not qualified to submit applications and who have no say in the implementation and funding decisions related to the projects, will not be eligible for Community assistance

II Project criteria

- 1 In order to qualify for cofinancing assistance from the CEC, projects must
 - (i) be compatible with the development objectives of the recipient country and have been, in principle, accepted by the appropriate authorities in the country concerned,

- (iii) reflect the priorities and needs of the beneficiary population in the country concerned and involve them in all stages of a project's planning, implementation management and exploitation upon completion,
 - (iiii) have clearly identifiable local partners
 - (iv) have clearly defined objectives that are attainable within a specified timetable
- 2 In appraising projects the CDC will give preference to development oriented rather than to welfare/relief projects and, in particular, to projects which
- (i) promote the economic and social progress of the most deprived sections of the population especially projects aimed at improving their self development capacity - in this regard the training and educational content of projects will be of prime importance,
 - (ii) strengthen counterpart organizations in developing countries so that projects can be sustained if necessary after Community and other external assistance has been phased out
 - (iii) permit, especially in the case of directly productive projects, the accumulation of financial resources (e.g. revolving or other funds) which can be reutilized for other projects
 - (iv) expect to be viable upon completion,
 - (v) lend themselves to replication in contiguous regions
- 3 Applications for cofinancing assistance may cover a variety of projects in a wide range of fields, for example - agricultural development, social infrastructure, preventive medicine, vocational training, human development etc. On the other hand, projects aiming solely at formal education, curative medicine and basic research, as well as seminars, study trips etc. will have a much lower priority
- 4 Projects will normally be eligible for cofinancing assistance on a once-off basis only. However applications for extensions or improvements to existing projects may be submitted. Different aspects of the same overall investment programme may be cofinanced by the CDC with different NGOs

III Guidelines for the submission of applications

- 1 Organizations making an application for the first time shall provide all the data requested in Annex I. Any changes in the information originally supplied shall be notified immediately to the CDC. In any event, the NGO shall provide details of its finances and report on its overall activities annually.

- 2 Details of the project to be supported shall be submitted on the basis of the outline application contained in Annex II herewith where the application for cofinancing concerns only a portion of a larger programme full details of the latter shall also be provided by the NGO. The NGO shall attach to the application the signed declaration set out in Annex III.
- 3 NGOs who prefinance from their own funds, projects also submitted for CEC cofinancing do so on their own responsibility. However, applications for the retrospective cofinancing of projects which have, at the date of the request, already been substantially completed, shall not be admissible.

IV Contributions from the CEC and the NGO

- 1 The CEC will normally contribute up to 50% of the total cost of a project with an upper ceiling of 120 000 ECU a year for a maximum of three years (i.e. a maximum of 360 000 ECU)*. On the other hand applications for grants of less than 12 000 ECU shall not be considered**. The CEC contribution may exceptionally cover up to 75% of the total costs in the case of projects to be implemented in least developed countries or in least developed areas in other developing countries.
- 2 The total CEC contribution to a programme embracing a number of projects submitted by different NGOs may in exceptional cases exceed the maximum of 360.000 ECU quoted in paragraph 1 above without, however, exceeding the overall ceiling of 720 000 ECU.
- 3 The NGO shall provide a full breakdown by amount and source of all contributions to a project.
The NGO contribution may include funding from its own resources, from other NGOs, from governmental cofinancing schemes and from the local beneficiaries (including public funds). Projects with a predominant Community financial component will be given preference.
In allocating its cofinancing funds the CEC shall give priority to projects where the own non-public NGO financial contribution is at least 15% of the total cost.

* As CEC contribution to projects will be made in the currency of the Member State of the NGO all applications and reports must be expressed in that currency. The ECU is an internal Community accounting calculation the value of which fluctuates according to market trends. Its value in terms of other currencies is published daily in the Official Journal of the European Communities and by the financial press.

** See however Section IX below.

- 4 The total costs of a project may include the following
- Project planning costs (subject to a maximum of 5%)
 - purchases and transport costs of equipment, materials and supplies
 - construction and other related costs
 - remuneration for personnel directly and substantially involved in a project's implementation on the spot,
 - a project's starting-up, as distinct from its running costs
 - provisions for inflation and contingencies,
 - all other costs necessary for the implementation of the project,
 - the NGO's home office, administrative including accounting costs (subject to a maximum of 6%)
 - the NGO's costs for development education work in the European Community related to the project (subject to a maximum of 7.5%)

The CEC expressly reserves the right to reduce or exclude from the total costs those elements of a project, for which maximum percentages are indicated depending on the nature of the project. Its participation in such costs shall be on a pro rata and cofinancing basis. The proportion of the total costs taken up by the starting-up costs, inflation and contingencies shall reflect the nature and duration of the project.

- 5 The CEC may accept the inclusion in the total costs of a project, provided they are duly justified, of the estimated cash value of in-kind contributions such as land, labour etc. as well as the estimated cash value of existing infrastructure or previously implemented related projects provided they are less than two years old*
6. In making an application the NGO shall confirm that its contribution to a project is assured. Under no circumstances shall the CEC contribution under a given contract be increased once the said contract has been signed. While for the larger projects to be implemented over a number of years, the NGO may be unable to provide detailed costings for all aspects of the project the estimates must reflect the reality of the funding situation. In this regard therefore provisions for inflation and contingencies should be taken into account.
- 7 For projects involving expenditure on equipment and construction the NGO

*In the case of land and infrastructure documentary proof of the estimated value is to be included

shall take all steps to ensure that these materials are the most suitable in terms of quality, cost, adaptation to local needs, availability, maintenance facilities and contribution to the project. The NGO shall normally give preference to equipment and materials of local origin where these conditions are fulfilled.

- 8 The NGO shall indicate precisely, either by amount or percentage, for which components of the project the CEC's participation is requested.

V Appraisal

- 1 The project submitted by the NGO shall be appraised by the staff of the CEC for the purpose of verifying that
 - the applicant NGO is qualified to submit projects for cofinancing
 - the application is compatible with the development policy of the European Communities and is in accordance with the criteria listed above
 - the funds to be mobilized are appropriate to the aims of the project
- 2 The initial application form for the submission of the project shall, where necessary, be supplemented and/or amended by mutual agreement between the NGO and the CEC.

VI The Cofinancing Contract

- 1 If on completion of the appraisal the CEC approves the project, a cofinancing contract shall be drawn up in two originals to be signed by the authorized representatives of the CEC and of the NGO respectively (see Annex IV).
- 2 The signatory NGO shall be solely responsible to the CEC for the implementation of the whole contract, for its effectiveness for all financial aspects thereof and for the suitability and qualifications of the personnel involved in its implementation. In addition, the signatory shall confirm to the CEC the precise nature of its relationship with all its partners involved.
- 3 All equipment, materials, buildings purchased with the CEC contribution shall remain the property of the local partner of the NGO who shall not be a private individual(s).

VII Payment modalities - Progress Reports

- 1 The contribution from the CEC shall be paid in one or more instalments as specified in the contract letter. CEC funds shall only be released on the basis of a request showing either that the implementation has already commenced or is due to commence in less than three months from the date of such request and indicating how the CEC funds will be used. The first instalment shall not normally exceed 60 000 ECU nor 50% of the total CEC commitment except where it is established that the full contribution shall be used within six months of payment. The contract may be unilaterally cancelled by the CEC in the absence of a call for funds by the NGO within six months from the date of the transmission of the contract letter by the CEC to the NGO. In principle, no single project will receive payments exceeding 120 000 ECUs per annum.
- 2 Further instalments (where applicable) will be paid out by the CEC, normally at nine monthly intervals and upon receipt of the NGO's project progress report the purpose of which is to indicate the state of advancement of the project, the uses to which the previous CEC instalment and other funds have been put (see Annex V) and a request for funding the continuation of the implementation of the project for the following nine monthly period.
- 3 For projects of a capital works or capital equipment nature the CEC may withhold the final 5% of its contribution pending receipt and approval of the NGO's project implementation report which should include, if specifically requested by CEC, a full set of copies of all the invoices (see Chapter VIII below).
- 4 The NGO shall immediately inform the CEC of any delays in the envisaged timetable which would endanger its original objectives.
- 5 The NGO shall inform the CEC of any interest accruing to CEC funds already advanced. Any such interest must, after consultation with the CEC, be used to directly further the project's aims and objectives. In cases where such an interest is not required for these purposes, the NGO shall return the sums involved to the CEC.

VIII Implementation and Operational Reports

- 1 On completion of the works for a project which is the subject of a cofinancing contract, the NGO shall submit a project implementation report to the CEC. This report, the purpose of which is to enable the CEC to verify that the project was carried out in accordance with the contract, must give a

complete account of all aspects of the project works purchases labour employed, involvement of the local population and authorities, expected viability etc. The financial accounting related thereto should be based on Annex V. The NGO shall unless otherwise specified in the contract submit the project implementation report not later than twelve months following payment of the final CEC instalment. Where a project is implemented for less than the original estimated cost the NGO shall automatically return to the CEC, unless otherwise convened between it and the CEC, all unused monies of the CEC's contribution inclusive of accrued interest.

- 2 The NGO shall prepare also an operational report on the functioning of the project two years following the presentation of the project implementation report. This operational report shall give an account of the effectiveness of the completed project from the technical, economic, social and humanitarian angles particularly as regards the functioning and maintenance of the project and shall thus be centered on the following two key aspects: population involvement and viability.
- 3 The NGO shall immediately inform the CEC of any difficulties or delays in the implementation which would make it impossible to respect the reporting timetable.

IX Block grants

- 1 Projects for which the amount requested from the CEC lies in the range from 2 500 ECU to 12 000 ECU may be cofinanced as part of a block grant to certain NGOs, paragraph IV 1 above notwithstanding. Multiannual projects are not eligible for block grants.
- 2 Except where otherwise specified below the General Conditions shall apply in full to block grants.

2.1 Ad Chapter I

To qualify to apply for block grants NGOs must in addition have a satisfactory experience of cofinancing with the CEC for the last three consecutive years preceding the year of application. The CEC shall draw up an annual list of NGOs meeting this requirement and shall individually inform eligible NGOs of the amount they can request.

2.2 Ad Chapter II

Preference shall be given to projects which aim at assisting counterpart organizations in developing countries and to projects for the supply of small scale equipment and human development

2.3 Ad Chapter III

Applications for block grants shall include a brief justification of the individual projects. This justification, which replaces the outline application form in Annex II, shall indicate the location of the project, the local partner and other agencies involved as well as a description of the action envisaged including the timetable, means and methods of implementation, and the financing plan. The full dossier shall be kept by the NGO in its head office.

2.4 Ad Chapter IV

NGOs advised by the CEC of their eligibility, may request one or more block grants in a year up to a maximum of their allocation. However the total CEC contribution, in the form of block grants to an individual NGO shall not exceed 150.000 ECU in a year nor 75.000 ECU per request. In determining the level of block grants the CEC will take account of the annual average level of its previous cofinancing grants to the NGO concerned.

The total amount of funds available for block grant cofinancing shall not exceed 20% of the total Community Budget for NGO cofinancing.

2.5 Ad Chapter VII

The contribution from the CEC may be paid in one instalment provided a duly documented request is made.

X Accounting control and on-site verification of projects

- 1 The financial management of a project shall be examined by the CEC for the purpose of ensuring the accuracy of the accounts. To facilitate this control the NGO shall maintain separate book-keeping for each contract. All expenditure undertaken by it related to the implementation of a project shall require a supporting document and explanatory comments, the references of which shall be supplied with project progress or implementation reports relating to the contract. When requested to do so by the CEC, it shall provide certified copies of these documents and shall indicate where the originals may be inspected.
- 2 Where the CEC considers it necessary to carry out a check or an accounting control on the implementation of a project, either in the offices of the NGO or at the project location, the NGO shall at all times assist the officials charged with this function and shall give them access to premises, books, accounts, supporting documents and all relevant information relating to the project in question. The NGO shall ensure that the CEC shall have access to all supporting documents for the period of the validity of the contract (see Paragraph XII.1 below).
- 3 The provisions of the last paragraph of Article 82 of the Financial Regulation of the European Communities which states
'The granting of aid to bodies outside the Institutions shall be subject to the agreement by the recipients to an audit being carried out by the Court of Auditors on the utilization of the amounts granted as aid.'
shall apply to cofinancing contracts between the NGOs and the CEC the contribution of the CEC being regarded as aid for this purpose.

XI Project Evaluation

The effectiveness and efficiency of cofinanced projects, the degree of popular involvement and their viability may subsequently be the subject of a joint evaluation. Such evaluation shall be undertaken following consultation between the NGO and the CEC. In principle the NGO shall send to the CEC reports of evaluation it carries out unilaterally on projects which have been cofinanced with the CEC.

XII General Provisions

- 1 The contract shall enter into force on the day of receipt by the CEC of the contract letter countersigned for agreement by the NGO
- 2 If an NGO does not comply with its obligations under the contract, the CEC has the faculty to suspend or even to terminate the contract without previous notice. In that event, it may stop payment of its contributions wholly or in part
- 3 The CEC reserves the right to demand the partial or total repayment of payments already made in case of a breach of contract by the NGO. Such repayments inclusive of any interest accrued, must be made immediately upon the notification to the NGO of the decision taken by the CEC
- 4 In determining whether the contract has been complied with by the NGO, the CEC will duly take into account the principle of 'force majeure'
- 5 Disputes in connection with the contract which cannot be settled by mutual agreement shall be referred to the Court of Justice of the European Communities

XIII Publication of contracts

- 1 The CEC shall draw up an annual list of cofinancing contracts entered into with NGOs which shall be circulated among the NGOs and the Institutions of the European Communities and also to the Embassies of the recipient countries accredited to the European Communities.

NGO DATA SHEET

- 1 Name
- 2 Head Office Address
- 3 Telephone, telegraph and telex no
- 4 Details of sub-office
- 5 Legal Status (and registration number where available) (1)
- 6 Chief Executive Officer
- 7 Staffing

	Full time	Part time
Head Office		
Sub Offices		
Overseas		
- 8 Membership/Affiliation of other development related organizations
- 9 Main development activities (2)
- 10 Financial Data (3)

-
- (1) Copy of relevant statutes and/or articles of association to be attached
 - (2) Copies of annual reports for past 3 years to be attached and thereafter submitted annually
 - (3) Full details of the financial situation - income, expenditure etc - for the past three years to be attached and thereafter submitted annually

ANNEX II

PROJECT DATA SHEETI GENERAL INFORMATION ABOUT THE PROJECT

- 1 Title and detailed location of the project (map of region to be attached)
2. Background and history of the project.
- 3 Results of studies carried out if applicable attach relevant sections of such studies, opinions of advisors and/or public bodies
- 4 a) Person responsible for the project in the NGO
b) Organization or person on the spot responsible for the project
- 5 Project compatibility with the plans priorities and needs of the beneficiary country
- 6 Evidence of the project's acceptability to the relevant local authorities

II DESCRIPTION OF AND JUSTIFICATION FOR THE PROJECT1 Description of the project including

- short outline of the existing situation and how the project will improve this situation
- personnel resources (expatriate or local) and technique,
- plans or sketches of proposed buildings
- detailed estimate, including those parts financed by other sources than the CEC and a provisional calendar for the work

2 Justification for the project

- 2.1. The involvement of the local population and their initiatives during the conception, implementation and operation of the project
- 2 2. Viability of the project after implementation
 - technical viability
(management operation and maintenance of the project)
 - socio/economic and/or financial viability
(origin of the financial means necessary for the maintenance and operation of the project and an income plan for productive projects)

III FINANCIAL DETAILS

- 1 Has the project already been presented for cofinancing to other either public or private bodies?
If yes what was the outcome?

2 Outline

Headings	Total cost	CEC contribution	NGO contribution	
			NGO (own funds)	local and/or other (to be detailed)

- 3 Breakdown
 - NGO contribution
(local and/or other included)
 - Requested contribution of CEC
 - Total value of project

IV ADMINISTRATIVE DETAILS

- 1 Rate of exchange between the local currency and the national currency of the Member State in which the NGO has its main office (give the date and rate)
- 2 Requested calendar for payments
- 3 Name and address of the bank with the account number to which the Community contribution should be transferred
- 4 Specify under which Member State law the contract will be administered (in the absence of such information, the contract will be automatically considered to be under Belgian law)
- 5 Name(s), position(s) and signature(s) of the person(s) authorized to sign a cofinancing contract with the CEC

V OTHER OBSERVATIONS

ANNEX IIIDECLARATION CONCERNING THE GENERAL CONDITIONS
FOR COFINANCING

This Organization (name and address)
represented by (name and position)
declares that it accepts the General Conditions for cofinancing contracts
between the CEC and NGOs. If a contract is concluded, these General Conditions
shall form an integral part of the contract.

(Signature)

ANNEX IVCONTRACT

between represented by - the NGO
 and the European Communities represented by the Commission
 of the European Communities, the latter represented
 by - the EC
 200, rue de la Loi
 B - 1049 BRUSSELS

relating to the cofinancing by the EC of project ONG/

- 1 The EC herewith undertake to provide a financial contribution not exceeding towards the implementation of the said project upon condition that the project is carried out in accordance with the NGO's application of as (where necessary) amended by letters of and subject to the General Conditions of cofinancing which have been accepted by the NGO. The NGO may not derogate therefrom without the prior agreement in writing of the EC.
- 2 The EC contribution shall be paid as follows
- 3 The NGO accepts in toto and unreservedly the financial, reporting, accounting, control and evaluation requirements of the EC

For the NGO

For the EC

Name
 Position
 Date

ANNEX VHOW TO PRESENT THE FINANCIAL DETAILS IN PROGRESS AND IMPLEMENTATION REPORTSI Breakdown

Total cost of project CEC contribution NGO contribution (showing the
different sources)

II Payment of the CEC contribution

date received amount in national currency

III Expenditure in Europe (CEC and NGO)²

date amount
(for progress reports balance)

IV Transfer to the project (CEC and NGO)

date amount in national currency amount in local currency
(for progress reports balance)

V Expenditure in the beneficiary country (CEC and NGO)²

date amount in local currency (totals and subtotals also in national
currency)
(for progress reports balance)

² to be completed in the attached table

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REPLIES OF THE COMMISSION

The Commission would first like to make several general comments on the report as a whole, after which it proposes to comment on some of the Court of Auditors' specific observations.

I. THE REPORT IN GENERAL

- a) Although the Court of Auditors' audit covered a significant number of projects (some 270), the individual critical observations cannot be applied to the whole of the sample examined, let alone to all the jointly financed projects since 1976 (roughly 2 000).
- b) In some cases the Court of Auditors implicitly applies the revised conditions which came into force on 1 January 1982 to projects financed between 1976 and 1981. The revised conditions demand a more detailed and thorough presentation of projects and the various reports. But of the 270 or so projects included in the sample only 37 were jointly financed after 1 January 1982.
- c) The Commission acknowledges the pertinence of some of the Court of Auditors' observations and considers that these constructive criticisms will help it in its work.

However, it still has the impression that the report systematically omits any positive reference to the operation of the system as a whole. The Court of Auditors nowhere mentions the strong points of NGO projects, which are universally recognised (including by the Court of Auditors itself in its on-the-spot mission reports). For example

- the great majority of NGO projects are successful, which is not always so in a field as difficult as development,
- in most cases the procedures for selection by the Commission and implementation by NGOs are flexible and swift,
- many NGO projects are carried out at modest cost, often well below that of "conventional" projects,
- NGO projects are designed to aid the least-favoured population groups and are implemented by non-profit organizations, it is therefore quite understandable that the degree of refinement of the accounts contained in their reports will be lower than that of commercial undertakings with their different structures.

To sum up, the absence of any mention of the specific strengths of NGO projects in general tends to make some isolated weaknesses conspicuous. Such a presentation is once again open to the danger of generalization (see, in particular, paragraph 67 "Conclusions and recommendations" of the report)

d) The description in the report of the selection and appraisal of projects by the competent department (paragraph 32 and 53) is superficial. The Commission would point out the following

- The selection criteria, as objective as they can be, do exist and can be found in the text of the General Conditions. They were finalized after wide-ranging consultations, both within the Commission and with the NGOs

- The purpose of the "selection meetings" is indeed to discuss, within the team, the opinion of each administrator, in order to secure as objective a consensus as possible, under the direction of the senior officials in charge to ensure that uniform methods of selection are always applied.

- Geographical balance is not one of the selection criteria, at most it might reflect some concern for equity. It counts for very little in the choice of projects.

II SPECIFICS

Paragraphs 7 and 8

Geographical balance has nothing to do with the fact that the ten biggest NGOs received 38 % of the total funds allocated. The Commission is, however, aware of the imbalance and is trying to correct it by diversifying the NGOs. But the fact remains that the big NGOs have the edge on the small ones, mainly because of the larger number of projects they can put up for joint financing and also because of their better management organization.

Paragraph 24

It is true that there has been some retrospective financing with OXFAM. But many of the decisions were taken in the days of the old General Conditions, which did not rule out the financing of projects already well advanced.

Paragraph 27

The changes made from 1 January 1982 in the General Conditions have produced improvements not only in theory but also in practice. But in view of the many different NGOs involved the effects of these improvements will work through only gradually.

Paragraph 29

The Commission realizes that the risk mentioned by the Court of Auditors does sometimes arise, that is why it is endeavouring to apply Article 3 of Chapter I of the revised General Conditions with utmost vigilance.

Paragraph 32

The Commission would refer the Court of Auditors to section (d) of its general comments.

Paragraph 34

34a) It is clear from the project file (NGO/28/79/B), and especially from a more recent Delegation report, that the Malawi printing works referred to by the Court is indeed a non-profit-making organization. This status does not prevent the firm from marketing its production to meet as large a proportion as possible of its operating costs. Under the General Conditions NGO projects must be economically, financially, technically, sociologically and culturally viable and there should accordingly be a guarantee that projects will continue at all levels after external financial or other aid has been withdrawn.

34b) It is true that in 1979 the Commission, by way of exception, jointly financed a project in the United Kingdom (NGO/98/79/UK-OXFAM). But it is clear from the file that the final beneficiaries of the results of the project (vegetable research and a bank of vegetable root stocks suitable for cultivation in tropical countries) are the developing countries in general.

Paragraph 35

The first sentence ("The Commission is not following the principles of sound financial management in paying its subsidies to the NGOs") seems to be a rather sweeping statement. The Court's comments are relevant only to payment of the first instalment of Community assistance where the project is just getting under way. This actually constitutes only a part of financial management of jointly financed projects.

The Commission has nevertheless been trying and will keep on trying to apply this clause of the General Conditions more stringently, in order to acquire the flexibility and speed needed for realistic and effective cooperation with the NGOs.

Paragraph 36

The Commission shares the Court of Auditors' opinion that a proportion of the funds paid to the NGO for this project (NGO/48/78/B) ought to be paid back. The department concerned has in fact demanded repayment from this NGO, with which the Commission no longer work.

Paragraph 38

The clauses of the General Conditions concerning bank interest came into force only on 1st January 1982. Since then, payment of Community assistance has been subject to submission of a duly substantiated application.

Paragraph 39

The Commission will continue to ensure compliance with the rules governing interest, but will also continue to apply them flexibly, with due consideration for the specificity and diversity of the NGOs. Prefinancing by an NGO is not in itself objectionable, it may on the contrary be a sign that the NGO is keen and in good health.

Paragraph 40

Subject to compliance with the rule laid down in Article 1 of Chapter IV of the revised General Conditions, a special decision to meet over 50 % of the total cost of a project depends on the authorizing officer's power of assessment, which he exercises by checking in each case that the criteria established by the General Conditions have been met.

Paragraph 41

The Commission has plans to install a computerized revenue accounting system (CORE), which will enable it to draw up regular statements of the claims position and send the necessary reminders to NGOs

Paragraph 42

Under the revised conditions the Commission may, at the request of an NGO, assign up to 6 % of its assistance to financing the NGO's administrative costs. This 6 % constitutes a ceiling for 1982-83 and granted under this head represented on average barely 3 % of funds allocated.

Paragraph 45

The Commission is not aware that NGOs experience difficulty in conforming to the standard data-sheet. In any case, NGOs in Europe were consulted before the General Conditions (including the project presentation outline) were revised.

Paragraph 48

The auditing of local contributions must clearly be governed by more flexible rules than can be applied to commercial undertakings, the conditions under which NGOs have to work are sometimes very difficult (see c. above)

Paragraphs 49-50

The case mentioned occurred before the revised General Conditions came into force, they make the contribution of non-public own funds (at least 15 %) one of the criteria for joint financing.

Paragraphs 52-53

As the Court has noted (paragraph 45) application of the revised General Conditions (1 January 1982) has facilitated the task of administrators and senior officials as they strive to ensure homogeneous and objective selection and management. For those reasons the Commission considers that the Court of Auditors' allegation of non systematic supervision needs qualification.

Paragraph 54

The assessment of an NGO's financial resources is a decisive factor in the competent department's decision to accept or reject a co-financing project.

Paragraph 55

If a progress report is late or considered inadequate, payment of the next instalment is held back.

Paragraph 56

As stated above (I c) and as all persons providing public capital know, the administrative structures of NGOs have their deficiencies and this often affects the project implementation reports.

The Commission continues to press the NGOs for better reports and has noted some improvement since the revised General Conditions came into force.

Paragraph 58

The Commission is aware of the fact that there are still some shortcomings in the arrangements for sending reminders for missing reports. It believes that computerization of data would help to solve the problem (some 2 000 approved projects). A study of a computerized system for this department is now being made.

Paragraphs 59-60 and 64-65

The Commission would point out that delegations collaborate in the appraisal and implementation of projects as far as their resources allow

However, responsibility for NGO co-financed projects clearly lies entirely with the NGOs and their local partners.

The competent department send the delegations the documents concerning co-financed projects. It always urges NGOs to get in touch and keep in touch with the delegations

Paragraphs 61-62

The Commission agrees with the Court of Auditors' observations. It has more than once drawn the attention of NGOs to the flaws in their accounting and has been able to note some progress on this score

Paragraph 63

The competent department always take account of Financial Control's comments, which it addresses to the NGOs with a request to act on them.

Moreover, the requirements of Financial Control were duly considered when the General Conditions were revised, a number of points have thus been clarified, particularly with regard to bank interest, recovery of debts, supporting documents, etc. Nevertheless, further efforts must be made to ensure that NGOs scrupulously adhere to the financial regulations

Paragraph 66

See the general comments at I