

## TECHNICAL SHEET – AID MODALITIES

### 2 - REGRANTING

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#### I. Description

Regranting (formally known as *block grants* or also *sub-granting*) is a financing mechanism that can support CSOs, whereby the donor provides funding to a generally well established or umbrella organisation, which in turn facilitates funding (in the form of sub-grants) for a number of smaller or grass-roots organisations. This mechanism is not fully used in the framework of EU development cooperation since strict limits currently exist concerning the sums allowed.

#### II. Legal framework

The current financial regulation (Art. 120(2)) and its implementing rules (Art. 184a) limit regranting to a maximum amount of €100,000, with a maximum of €10,000 per recipient. Regranting cannot be the primary objective of the action and the conditions for giving such support need to be strictly defined in the grant agreement between the beneficiary and the Commission, with no margin for discretion.

The Commission-proposed revised financial regulation foresees an increase in the maximum allowable amount per recipient to €50,000 and the elimination of the overall ceiling. If adopted by the Council and the European Parliament in its current form, the new financial regulation would also allow for regranting to be the main aim of the action. This proposal is however expected to generate debate in the other institutions and the final provisions in the next financial regulation may well be different from the Commission version.

In order to make use of regranting, the beneficiary would have to offer adequate guarantees as regards the potential recovery of amounts. Conditions to give such support would also have to be strictly defined in the grant agreement between the beneficiary and the Commission, specifying inter alia the types of activity and categories of persons which may receive such regrants, as well as the criteria for awarding such financial support (Art. 120(2) FR, Art. 184 IR).

#### III. Needs covered and target groups

##### Needs

- § Support interventions of developing countries' grassroots & community-based organisations (need 2).
- § Support networking & coalition building among CSOs - including global campaigns South-South and North-South partnerships (need 4a).
- § Support role of CSOs in political dialogue & monitoring of government and donor policies and practices (need 6).

##### Target groups

Particularly relevant to: small local and grass-roots organisations, through the intermediary of the primary beneficiary (i.e. well established CSOs that channels the funds).

#### IV. Key issues to be considered when using this modality

- § **Eligibility** for final beneficiaries should remain flexible in order to reach grass-roots organisations, which may belong to the informal sector. Since the main objective of regranting is to strengthen civil society communities, the final beneficiaries should **only in exceptional circumstances** (e.g. human rights defenders) be **individuals**. Large organisations with many partners, global networks, and CSOs with sufficient management capacities could be relevant organisations to manage regranting schemes, but regranting should be integrated to an action and should not be an aim in itself.
- § Concerning **accountability and management**, regranting should not result in increased transaction costs, with high overheads for the primary beneficiary. The responsibility of the network or organisation which administers regrants needs to be established, without losing the quality and standards which are requested by the EC, and without running the risk of diverting the primary beneficiary from its core work. The **liability and responsibility of the primary beneficiary** should be ensured possibly through an ex ante **auditing** of their internal governance and management capacity. In addition, **monitoring** procedures should be defined and applied. A number of possibilities could be explored: operating with ex ante audit certificates from the grantees, centralising accounting documents of the organisations benefiting from regrants, etc.

- § It is necessary to find an **appropriate balance in the reporting obligation**, depending on the amounts regranted, in view of the potential large number of regrantees and EU requirements. However, given the fact that the level of risk is higher with the new expected threshold of €50,000/organisation, reporting obligations would have to be more detailed than the current requirements.

## V. Strengths and weaknesses

### Strengths

- § Offers an alternative to reach local, small, less developed, grass-roots organisations, often neglected due to: isolation and lack of information; or lack of skills for the preparation of solid proposals in line with donor procedures;
- § Offers a solution to support grassroots projects (often below the financial thresholds fixed by donors);
- § Can be useful in a context where fast reaction is needed without major administrative burdens;
- § Allows ownership at local level, while risks are minimised due to the oversight of the grant organizations;
- § Facilitates greater understanding of conditions under which local communities can participate in development actions and adapts the funding mechanisms to their level of ability to engage with public requirements;
- § Increases cooperation between organizations operating at different levels and in different spheres of society.

### Weaknesses

- § Risks to transform some local umbrella organisations into donors, thus distancing them from their vocations and primary mandates;
- § May contribute to increased competition between CSOs, to the detriment of their cooperation and coordination;
- § Risks creating a clientele logic, potentially distorting bases for legitimacy, if efficient accountability mechanisms are not in place.
- § May lessen the EC control over disbursed funds so primary beneficiary would need to ensure that monitoring and evaluation is reasonably prudent and payments or disbursements are contingent upon verifiable deliverables.

## VI. Feasibility

Given the possibility offered by the new financial regulation, regranteeing could become quite **interesting to support local grass-roots organisations, which do not have the capacity to participate in call for proposals**. It is already de facto a standard practice for networks. Not only it offers an opportunity to fund smaller scale projects without going through calls for proposals, but also it centralises the administrative burden with the primary beneficiary, liberating energy at local level to focus on core work. This modality is by definition very supportive of the right of initiative.

An effort is needed to identify the requirements expected from the primary beneficiary, to define procedures that ensure liability on the funds used, to agree on simplified management and reporting features, and clarify responsibilities in choosing whom to attribute regrantees. However, regranteeing should not be an aim in itself but should remain an integrated part of an action. Even though monitoring of the regranted funds needs to be strengthened, as a key to avoid misuse, it should not be seen as a way to externalise the administrative burden of project management from the EU to a third-party.

This modality would seem most appropriate to improve the ability of the EC to reach grass-roots in-country organisations in order to achieve capacity building and decentralization and would, provided the Commissions proposal for the 2012 Financial Regulation is accepted, offer an interesting new dimension to the tool-box. In this scenario, regranteeing would offer an alternative to make local actors more effective to foster changes and reduce poverty.