

## Associations and their international public funders: reconciling accountability with efficiency in solidarity projects

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**Non-governmental organisations (NGOs) widely decry growing bureaucracy in their relations with funders. For the sake of accountability, NGOs are being burdened with reporting procedures that take up a lot of time, energy and money. Here the author calls for radical simplification that would make the demands of funders compatible with the reality of organisations working in the aid sector.**

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The work of international non-governmental organisations (INGOs), especially those that carry out projects in humanitarian aid and development, are mainly funded by major international public funders. These public funders include the European Commission (ECHO,<sup>1</sup> INTPA,<sup>2</sup> etc.) and national agencies in international development and cooperation (AFD<sup>3</sup> in France, SIDA<sup>4</sup> in Sweden, USAID<sup>5</sup> in the United States, FCDO<sup>6</sup> in the United Kingdom, SDC<sup>7</sup> in Switzerland, etc.). Public funders impose accountability procedures upon INGOs because of their own obligations to comply with their legal framework and the aims of the action funded. In short, INGOs have to answer to their funders.

Yet these accountability rules are so rigid that they can cause clashes between funders and INGOs despite the fact that both parties want the same thing: to ensure optimal use of public funds for the benefit of the populations being supported.

INGOs are crucial partners to public funders for applying policies in humanitarian aid and development. So it is vital that their financial stability and operational efficiency are protected through accountability procedures that are fair and appropriate.

### **Onerous accountability**

External controls on INGOs that receive public funding for their projects are stricter than the obligations of private-sector companies regarding social and financial accountability, which are usually confined to sharing supporting documents on spending (invoices, etc.). Indeed, major public funders ask for audits and assessments to determine whether public funds have been used in compliance with the terms of their financing agreements.

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<sup>1</sup> ECHO: European Civil Protection and Humanitarian Aid Operation.

<sup>2</sup> INTPA: International Partnerships.

<sup>3</sup> AFD: Agence française de développement (French agency for development).

<sup>4</sup> SIDA: Swedish International Development Cooperation Agency.

<sup>5</sup> USAID: United States Agency for International Development.

<sup>6</sup> FCDO: Foreign, Commonwealth & Development Office.

<sup>7</sup> SDC: Swiss Agency for Development and Cooperation.

These audits often require huge amounts of supporting documents for each stage in the spending chain, from the initial undertaking all the way through to end use of the goods and services funded for a given project. And sometimes accountability rules are unsuited to the nature and environment of the actions carried out by an INGO and to the size and maturity of their organisation. These factors can give rise to approximations, mistakes, wrong decisions and even an overzealous approach during audits, which can have consequential effects on INGOs. These effects include increasing the time and energy that staff have to devote to these audits as well as imposing fines on INGOs when their spending is refused for breaching regulations due to a lack of supporting documents or failure to comply with procedure. Furthermore, each funder can apply their own accountability rules, which complicates INGOs' work in terms of compliance and pushes up the number of audits to perform.

This also creates disparity between audits carried out by different auditing firms. For this reason, INGOs can struggle to understand accountability rules properly and be underprepared for audits.

These audits can hamper the efficiency of INGOs' actions because they are onerous and costly for them, both in terms of the human and technical resources required – not to mention the financial and reputational effects of failing to comply with accountability rules.

### **The need for suitable resources**

In line with the fundamental principles of contract law, INGOs should be provided with the human, technical and financial resources that they need to fulfil their contractual obligations with regard to accountability and limit their financial, legal and reputational risks.

Finance jobs in international aid and development require a range of specialist skills – in accounting, finance, law and internal auditing – that are tailored to the complexity of the sector's activities, financial arrangements and accountability demands in an international context. Yet we see a glaring lack of specialist training in these areas, which should be approached differently from the same lines of work in the business world and often fail to meet the particular needs of the humanitarian aid and development sector. The few specialist training courses that do exist in this sector cater to very small numbers and are relatively short. And they do not cover the full range of skills needed to master the sector's financial and legal matters. Moreover, it is rare to find qualified people in finance suited to the full scale of the sector's needs.

There is also a lack of information technology tools tailored to INGOs' specific needs in terms of financial oversight and accountability (accounting, budget tracking, stock tracking, etc.) in a complex international context (multiple countries, currencies, NGOs and funders). Only the biggest INGOs have the financial and technical resources needed to develop their own software packages to perform this tracking in a secure, dynamic way. Regular INGOs have to face these demands by adjusting standard tools which can take up a lot of their staff's time.

As INGOs are mainly funded for specific projects that have been identified, very few of them have enough of their own funds to ensure a decent level of financial security. Yet financial security is of course desirable for funding their structural costs but also to cope with any fines that may be imposed following project audits – and they are sometimes colossal, even fatal, running up to tens

of thousands, even hundreds of thousands of euros. In this regard, we are seeing a rise in partnerships between the Global North and the Global South: NGOs in the Global North receiving public grants are partnering with NGOs in the Global South, entrusting them with some of their fund management. Despite NGOs in the Global South usually having fewer human, technical and financial resources, they are subject to the same accountability requirements as NGOs in the Global North, including the matter of fines. This burden of responsibility requires financial resources, which are, once again, currently lacking or insufficient. Even as we debate the issue of aid localisation at the World Humanitarian Summit, this trend undeniably hinders the ability to give close support to partner NGOs in the Global South in order to strengthen their capacities and safeguard public funds that are allocated.

### **Towards a constructive method**

Beyond the need to give INGOs adequate resources to fulfil their contractual obligations, current practices in international solidarity need to be revised to reconcile accountability aims with operational efficiency. This needs to be done in a secure, constructive way for all the parties concerned.

Accountability rules need to be relevant. In other words, they need to be justified and appropriate: justified by relating to an applicable reference audit or legal framework; appropriate by fulfilling an identified aim that realistically takes into consideration the feasibility of the accountability required. Each accountability rule should be necessary and not duplicate another one. It should also create a better correlation between the time it requires (both for the auditor and the organisation audited) and the benefit of the audit results so that the regularity, necessity and reality of the project spending can be properly assessed. In this respect, it is important for a project's budget to be reliable in relation to the project's operational aims. Budget spending does not just secure funding for INGOs' project activities and ensure proper use of public funds: it is confirmed by how closely a project's aims are fulfilled. For example, a project's aims being met or surpassed is a good indicator of the reality of budget spending and therefore of the real needs of that INGO's spending during its project. Yet INGOs are frequently fined for having spent funds without showing the supporting documents required, often due to archiving problems, even if the project's aims have been met or surpassed according to the project assessment report. In such cases, the funder could soften the blow of the fine.

The aims of accountability rules and the resources used to follow them should be clearly defined and explained so that NGOs can easily comply with the rules without missing the mark or interpreting them incorrectly.

Accountability rules are very diverse. So funders should harmonise them to make it easier for NGOs to follow them properly, notwithstanding certain adaptations that are justified by the legal framework concerned or by a project's nature and context. This harmonisation could begin in France, then be extended to funders at the level of the European Union. Harmonising accountability rules would also avoid an INGO being audited several times for the same project by different backers keen to ensure that their own rules are applied.

Like in the banking sector, project funding from a backer should be determined by a prior assessment of the INGO concerned and any partners that they might have. The aim of this assessment would be to ascertain the human, technical and financial resources that the INGO has to fulfil their contractual obligations, especially in terms of accountability. In particular, this assessment should ascertain the extent

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to which the INGO seeking funding has its own internal tools and procedures suited to the funder's demands so that a funding decision can be made firmly and the contractual terms can be tailored accordingly. A good practice in this regard would be risk mapping, as carried out by the Crisis and Support Centre at France's Ministry for Europe and Foreign Affairs, which makes funding contingent upon the results of this prior assessment. This procedure is quick and free of charge for INGOs. It offers a preliminary analysis of an INGO's internal tools and procedures based on 23 different areas. The procedure also helps an INGO identify its own strengths and weaknesses so that it can adopt recommended measures to improve.

Depending on the conclusions of the prior assessment of the INGO seeking funding, the INGO could be supported – through training courses especially – in aspects requiring improvement, which would help ensure that the INGO's project is well implemented and that its capacities are strengthened with a view to securing future funding as part of a partnership. In this respect, we commend the internal procedures model of France's Crisis and Support Centre. Similarly, we can praise AFD's training courses in tackling money laundering and terrorism financing. These initiatives benefit their partner NGOs. Beyond this type of support from funders, it would be beneficial for an auditor and an assessor to constantly keep in touch with an INGO so that they can support it by answering its questions throughout a project.

It would also be useful for audits and assessments to be performed together and for their conclusions to refer to each other in order to best appraise a project's efficiency and ensure that a project is carried out in ways that meet the relevant financial and operational demands. This is the case with the project audits and assessments carried out by France's Crisis and Support Centre. An efficiency audit is more relevant and constructive than a strictly financial audit as it is not limited to supporting documents in regard to spending but assesses the correlation between budget spending and a project's operational effects.

In conclusion, reconciling accountability aims with efficiency aims in international aid and development projects is a complex challenge. Yet it is vital this challenge is overcome to ensure that international public funds fully serve vulnerable populations. This requires adjustments to accountability practices by setting relevant, harmonised rules centred on project efficiency. It also requires prior assessment of INGOs and support given to them. By applying these measures, the transparency and efficiency of international aid projects can be improved in a way that maintains INGOs' financial and operational stability.

*Translated from the French by Thomas Young*

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### Biography

Ludovic Donnadiou • Ludovic Donnadiou is a chartered accountant and statutory auditor. He is a founding partner of the auditing and consultancy firm Donnadiou & Associés, a firm with a social and/or environmental purpose. The firm specialises in financially securing funds granted to organisations working in international aid so that they can serve beneficiary populations as well as possible while respecting the terms of their financial agreements.

As part of its supportive role for the solidarity sector, Donnadiou & Associés regularly provides NGOs with technical tools and studies and is earnestly calling for accountability rules to be tailored to the reality of the sector and to the aims of operational project efficiency.

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