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**STRENGTHENING THE ROLE OF VOLUNTARY DEVELOPMENT ORGANISATIONS:
POLICY ISSUES FACING OFFICIAL AID AGENCIES**

Alan F. Fowler

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SUMMARY

The nineteen nineties have seen a marked expansion in governmental aid to voluntary development organisations (NGOs). After analysing reasons for and objectives of such growth, this paper identifies nine policy problems facing official aid agencies as they continue to increase their finance to the voluntary sector and goes on to suggest how each can be resolved. An important conclusion is that the goals which governments wish to achieve by allocating greater support to NGOs will not be realised unless official aid agencies significantly modify their existing funding perspectives and practices.

1. INTRODUCTION

One characteristic of the fourth development decade is the priority given to expanding the contribution of non-state actors in efforts to reduce poverty, promote social justice and ensure that the benefits of growth are sustainable for future generations. In particular, donors within the official aid system are expecting civil society organisations (CSOs)¹ to take on bigger and more complex roles in fostering both socio-economic advance and political change in developing and transition countries, referred to here as the South and East.²

Within CSOs, donor interest focuses predominantly on non-governmental organisations (NGOs), which are established to pursue goals akin to those of donors themselves. Usually, NGOs mobilise resources at home and abroad to work directly with and improve the lot of poor, marginalized and otherwise disadvantaged segments of the population who are the ultimate focus of the aid system. In this sense, NGOs function as intermediaries (Carroll, 1992), and rely on accessing financial surpluses which are not generated by those they are established to serve or influence. Increasing the level and ease of access to such surpluses must therefore be a primary concern for those wishing to increase the NGO contribution to development.

¹ For the purpose of this paper, civil society organisations (CSOs) will be defined (after Shearer, 1995) as formal and informal associations of citizens outside of government and business. CSOs have a virtually unlimited range of purposes. Following conventional usage developmental NGOs are one type of CSO established to change society in ways which reduce poverty and injustice by providing services to or influencing third parties. In distinction are professional bodies, trade unions and self-help groups, established to serve the interests of members. Such member-based organisations (MOs) are not the primary focus of discussion but will be alluded to where appropriate. For convenience, the terms Third and Voluntary Sector are used synonymously to denote the domain of organised non-profit action in society.

² The North refers to member countries of the Organisation for Economic Co-operation and Development (OECD) which provide international development assistance. The South refers to traditional recipients of such assistance and the East to countries formerly constituting the Soviet Union which are now in transition to market-based, plural democracies.

Incorporating NGOs into the development efforts of the official aid system has been going on since the early eighties. What is new, however, is the perspective that NGOs will change from relatively marginal or subsidiary actors to being, perhaps, on a par with recipient governments in terms of significance in donor policies. Intimations of this possibility are to be seen in statements made at recent global summits on the Environment, Population and Social Development. The perspective of CSOs acting as a crucial force in development creates an urgent need to identify and explore policy issues which are likely to confront donors intent on significantly increasing their assistance to NGOs. The following pages provide such an analysis.

The paper starts by briefly investigating reasons behind the imperative to support NGOs and other civic actors. Here, a link is made between the domestic economic and social policy choices of donor countries and the conditions and priorities being attached to their aid allocations.

Part 3 starts the analysis by introducing a framework derived from basic principles of NGO financing.³ To keep the inquiry practical and organisationally oriented, an issue is considered to have policy-level implications if it either (a) results from basic contradictions between development goals, or (b) is caused by fundamental dilemmas which need to be resolved, or (c) arises from an inability to effectively operationalize organisational objectives.

Identification of policy issues, in part 4, results from setting the principles of NGO financing against the objectives and practices of the international aid system detailed in part 2. To bring the findings closer to the real world of donors, the items identified throughout the text as policy concerns are accompanied by practical suggestions as to how they can be resolved. This discussion forms part 5, with summative conclusions presented in part 6.

One overall conclusion is that resolution of many issues facing donor agencies wishing to significantly increase their support to NGOs and other civic organisations lies within donors themselves. There is only a limited amount that NGOs can and should do to accommodate the needs of official aid system, otherwise they risk losing their potential comparative advantages in development (Fowler, 1988), the very basis for wanting to expand assistance to them in the first place.

Further, as impact evaluations are starting to show, donor practices are significantly influencing, and in some instances distorting, the evolution of NGOs as civic actors with voluntary principles, especially in the most resource poor countries. To avoid this happening, a greater quantity of official aid to NGOs must be accompanied by greater *quality* of that aid, i.e., by donor policies and practices that ensure utilisation of best development practice.⁴ In sum, to be sure that official aid effectively achieves its objectives, a pro-NGO policy must be matched by changes in donor organisation and funding methods.

Finally, the post Cold War aid agenda calls for new strategies which root NGOs of the South and East into their own economies. If this does not happen, the prospect of NGOs being locked into an international system of social service financing may become an unwanted reality.

2. CONTEXT: DONORS AND THE VOLUNTARY SECTOR IMPERATIVE

This section reviews factors which are pushing donors to expand their support to NGOs and CSOs. It is argued that this drive is a result of and mirrors shifts in domestic political choices in donor countries. Basic data on aid trends are used to illustrate the orders of magnitude involved. From this analysis it is possible to identify a changing post Cold-War justification for the aid system, together with the demands which aid

³ Northern countries have little indigenous historical experience to draw on in terms of civic organisations being established and sustained by external economies. Beginning with first principles can partially compensate for this fact.

⁴ Quality is determined by the degree to which conditions, expectations and processes attached to NGO financing correspond to the requirements of best practice.

bureaucracies will have to contend with. Official interest in NGOs is then explained in terms of their contribution to the new goals of the aid system and the expectations they will need to satisfy as recipients of governmental funding.

Domestic Politics

Domestic politics in virtually all countries of the North are dominated by an active search for a new division between personal and public responsibility in society. The associated polemics are often framed in terms of dismantling or maintaining the welfare state. A satisfactory resolution of this tension, which is inherent to modern social relations, is unlikely to be found soon.

In many OECD countries, citizens are being called upon to choose between carrying greater personal risk for themselves or paying higher taxes to share risk with others in society, many of whom they may not identify with or like -- the poor, immigrants, minorities and so on. Trends in many Northern countries suggest that those with the ability to support the less fortunate are increasingly reluctant to do so. In fact, a key factor underlying arguments about appropriate level of taxation and services to be provided by the state is a shift in Northern morality towards a more individualist and circumscribed view of mutual social obligations nationally and globally (Wolfe, 1989). This trend is leading to demands for a re-statement of why international aid for development, and even humanitarian relief, remains necessary.

There is increasing evidence, most recently from statements made at the Social Summit in Copenhagen, that the new, primary rationale for aid is to promote political stability. The world's poor and marginalized are seen to be a potentially destabilising force in the new world order. They constitute a constant source of insurrection against leaders; become economic migrants placing unwelcome pressure on the North; act as a reservoir for communicable diseases that do not respect national borders; and, are a primary cause of too rapid population growth. It is therefore in the enlightened self-interest of Northern tax-payers to alleviate the hardships facing the world's underclass (Galbraith, 1992; UNDP, 1993).

Further, economic benefits accrue to the North if the world is more stable and predictable. Increased purchasing power of poor people resulting from aid translates into demands for products that create jobs. Moreover, it is argued that economic growth benefiting and empowering disenfranchised strata in society brings with it movements which generate greater internal pressure for more inclusive politics and hence more democratic forms of governance, changes that are morally desirable and stabilising over the longer term.⁵ Overall, political stability and economic self-interest in a globalizing market place are replacing East-West rivalry as the principal justification for aid in the 1990s and beyond.

A second debate, running in parallel with the first, again plays itself out in both domestic politics and the policies prevailing in the official aid system. The question being posed is how can state services be provided most cost-effectively: by governments, by the market, or by the voluntary sector? Increasingly, it is being argued that services for which the state remains responsible need not be provided by the state itself. The sell-off of state enterprises, privatisation, contracting out to the market or voluntary sector and the creation of organisational hybrids, are all examples of moves to reduce the government's direct role in the economy and in service provision. And, Northern ideas about an appropriate division of labour between government, market and voluntary sector actors are also being applied to the aid system, particularly through conditions such as those associated with structural adjustment.

Put simply, the questions Northern politicians and civil servants are being asked to answer about aid are (a) what benefits accrue to tax-payers and (b) are there more cost-effective ways of delivering the objectives of aid than used hitherto? Or, to use US Senator Jesse Helms' crude terms, will aid just "disappear down a rat hole"? The roots of many policy issues facing the official aid system's approach to NGOs and

⁵ For detailed arguments see for example, Rosenau, 1990; Ekins, 1992; Kennedy, 1993; Chomsky, 1994.

CSOs lie within Northern domestic political concerns to convince voters of the merits of international development co-operation and of ensuring that aid resources are effectively employed.

Reshaping Aid In The Post Cold-War Era

Issues of public versus private responsibility, ensuring effective delivery of tax-based services and the new rationale for international assistance described above have been feeding into the aid system for a number of years. And, the perception exists that problems arising from the necessary transformation in aid can be better addressed if NGOs are part of the solution; a point of view advanced by NGOs themselves. How these factors are informing today's practice can be seen in six trends in international aid.

First, there is an ongoing overall reduction in official aid financing provided by OECD countries, with, in real terms, a 5 percent fall in 1993 and a further 1.8 percent decline to US\$ 57.8 billion in 1995. Only 7 of 21 Northern donors increased aid in real terms and some, such as Italy, have recently cut aid budgets by as much as one third. In 1994, "as a percentage of GDP, aggregate DAC aid fell to a 21 year low of 0.29%" (Development Initiatives, 1995). Second, revisions are being made in the proportion of official aid funds being channelled bi- and multi-laterally. For example, the recent collapse of the Lomé negotiations was attributed to the refusal of the USA and the Britain to increase the amount of aid funds earmarked for the European Union, preferring instead to retain direct control. Bi-lateralism allows a stronger coupling between a country's international assistance and the promotion of its interests, which relates to a third trend of tying aid more closely to national political and commercial needs. A fourth trend is seen in the greater proportion of aid funds being allocated to emergency and humanitarian assistance, up from 2 percent in 1988 to 7 percent in 1992. The vast majority, 93 percent, was allocated to conflict situations with only 7 percent going to natural disasters (Randell, 1994). This trend corresponds to a direct investment in global stability and containment of hostility (e.g. Bosnia) as the effects of the collapse of the Soviet Union work their way through old East-West client-state relations, the external glue which held many countries together.

Reflecting domestic debates, aid conditions are increasingly designed to alter and limit the functions of Southern and Eastern governments, the fifth trend in international aid. The intention, consistent with the emerging Western model, is that states should relinquish their role as direct economic actors and become enablers and managers of the physical and policy infrastructure needed for markets to create wealth efficiently and for civil society to perform its many complex functions. Among these functions are: providing space for the articulation, mobilisation and pursuit of interests by social groups; providing the institutional means for mediation between conflicting interests; giving direction and expression to social, religious and cultural needs; circumscribing the inherent tendency of governments to expand their control; and, nurturing the citizenship required for democratic governance (Bratton, 1992).

A sixth trend, intended to assure taxpayers of effectiveness and probity, is the application of more stringent accounting and accountability requirements for aid disbursements. Putting these requirements into practice can cause problems. For example, the refusal of the public auditors to approve the accounts of the Directorate General of Development Co-operation in the Netherlands set in train a process which has re-centralised decision-making and created many additional bureaucratic loads which civil servants and Southern governments must carry; consequently, often today the administrative tail is wagging the development dog.

All these moves combine to place significant burdens on those responsible for making sure aid achieves new found goals in cost-effective ways. And this is where NGOs are coming in.

Donor Interest In NGOs And Other Civic Actors

Allocating more official aid to NGOs can be seen as a positive response to a number of the trends detailed above. First, it serves the thrust towards greater citizen responsibility and privatisation of government service functions in the name of greater effectiveness. Second, channelling official assistance through Northern NGOs advances both national profiles in the South and East and domestic support for aid policies. Third, it promotes pluralism, thickens the web of civic inter-relationships and builds the social capital needed

for democracy along Western lines (Putnam, 1993). Fourth, it makes possible more strict, tailored accounting because a uniform foreign national bureaucratic system is not involved. Fifth, by better reaching those with the least to lose and the most to gain from civic unrest, greater NGO involvement can foster international stability.

From the foregoing, it is not too difficult to see why NGOs will feature more prominently on the donor landscape as long as it is believed that they will help to satisfy the expectations of what international assistance should do and how. And this is indeed the case, with official funding to NGOs outstripping the overall growth of official aid by a factor of 5 in real terms since 1978 (Fowler, 1992). This trend appears set to continue. For example, while levels of aid are being reduced, the World Bank has recently approved a sum of US \$100 million as grants for NGOs to undertake credit-based micro-economic programmes. And, at Copenhagen, the US vice-president indicated that his country's development financing will be increasingly channelled through NGOs instead of the United States Agency for International Development (USAID). Already, tax-derived incomes to NGOs amount to some 42 percent of their net disbursements, totalling about US \$5.7 billion, up from 33 percent in 1988 (OECD, 1995).

This official vote of confidence in NGOs comes with a set of assumptions and high expectations about what NGOs will deliver for the funds they receive (NORAD, 1983; OECD, 1988; ODA, 1992; Smillie and Helmich, 1993; Pratt and Stone, 1994). The typically anticipated benefits of official aid to NGOs can be summarised as follows.

Table 1. Typical Donor Expectations of NGOs

1. NGOs will produce cost-effective tangible impacts which sustainably reduce levels of poverty among the most vulnerable of the world's population, particularly women and children.
2. NGOs will exhibit integrity and provide unambiguous, verifiable accounts of the funds they use.
3. NGOs will have a positive influence within civil society in the sense that they will contribute directly and indirectly to the pre-conditions needed for democratic governance, such as civic awareness, greater inclusiveness in political processes, stronger demands for accountability and active defence of people's rights.
4. NGOs will engender development processes and benefits which will be sustainable without external finance and will themselves reach a stage where foreign aid is no longer required for their functioning.
5. NGOs will maintain Northern voters' motivation to support tax allocations for aid.
6. Donor interaction with NGOs will have a positive influence on the quality of official aid practices employed by governments, the so called "reverse agenda" (Riddell, et al, 1995).

What needs to be stressed is that these expectations may or may not be justified.⁶ Moreover, the transformation of aid and re-direction of financial flows which they imply can give rise to a number of contradictions, dilemmas and practical problems in implementation. In other words, the changes currently being pursued inevitably disturb the status quo, creating new difficulties throughout the aid system and generating different policy concerns. Identifying what these issues are likely to be and how they can be tackled is the subject of the following parts.

⁶ It is not the purpose of this paper to review the growing number of studies and evaluations designed to assess whether or not NGOs do realise their potential comparative advantages in development. However, preliminary evidence provides no justification for equating NGOs with good development performance per se. In other words, carrying an NGO label is no guarantee of high performance. See for example: Fowler, 1988; Drabek, 1992; UNDP, op cit; Riddell and Robinson, 1992; van Dijk, 1994.

3. THE BASICS OF VOLUNTARY SECTOR FINANCING

Official donor assistance to and through NGOs can be analysed in a number of ways. As noted in the introduction, the method employed here is to look at a fundamental feature distinguishing NGOs from governments and businesses, namely the nature of their financing. The analysis focuses on intermediary NGOs and only touches on other civic actors.

NGO Financing

Governments operate on the basis of taxes exacted from citizens while, to survive, businesses must recover the full costs of their goods or services from their customers. These two possibilities are not available to development NGOs. As intermediaries in the aid system, NGOs provide services and support to those who by definition cannot afford the full cost of what they receive. If beneficiaries could meet the real cost, the market could be expected to serve them. So, while cost sharing and voluntary contributions can significantly reduce the proportion of funds which have to be raised, development NGOs inevitably must tap into an economic surplus generated by sources other than the people they serve. Figure 1, shows the potential sources available (numbers in square brackets refer to those in the diagram).⁷

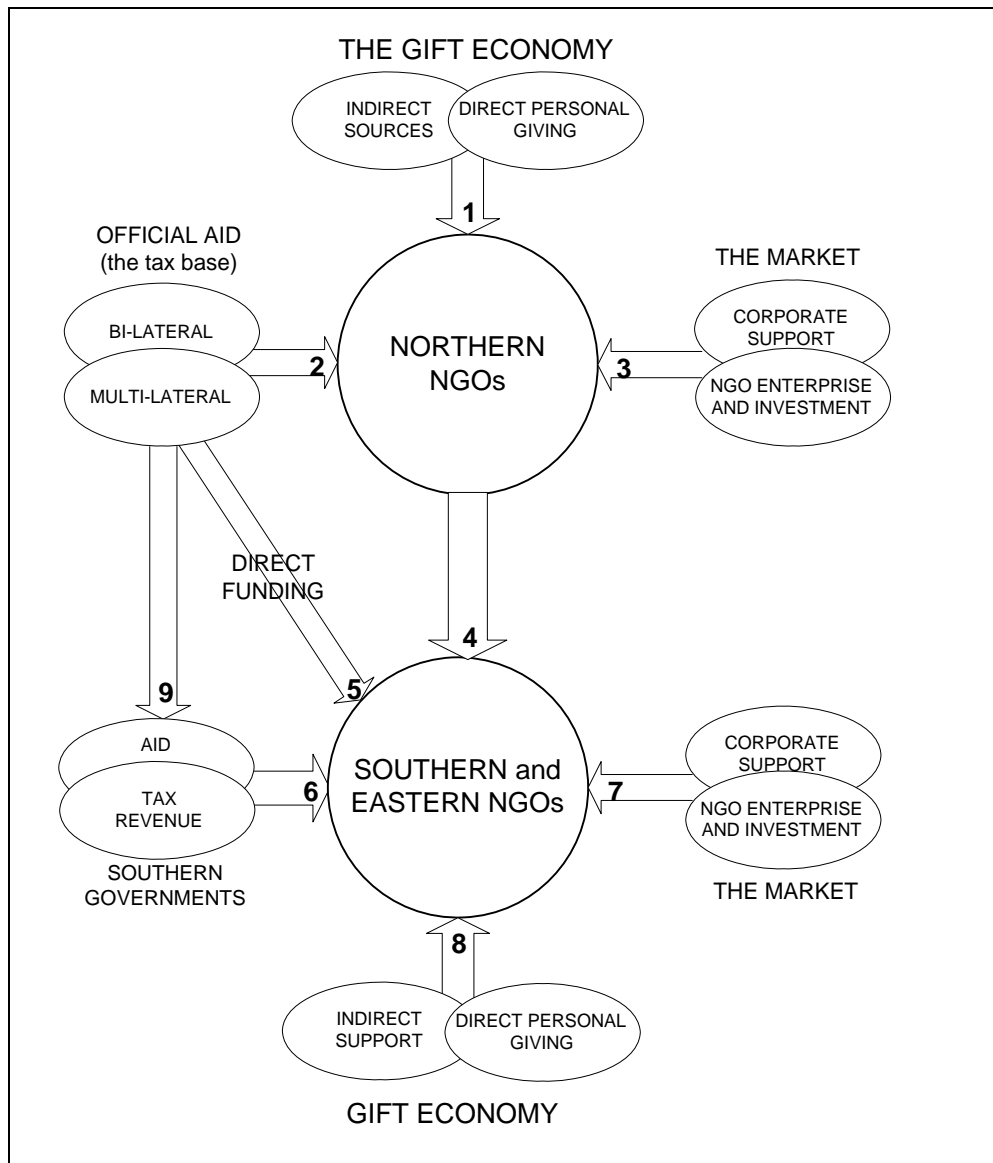
Northern NGOs can raise funds from three principal sources: gifts from the general public [1], allocations from the tax base[2], or through direct interaction with the market [3]. Each source has distinct dynamics and a different quality. Direct gift funds are raised predominantly by public advertising, direct requests, mailings and events. Indirect funds can be derived from activities such as national lotteries, where the motives for giving are more complex.

Tax-based funds are gained in ways which vary from country to country (Smillie and Helmich, 1993). Typically, governments may allocate a fixed yearly proportion of the aid budget to the NGO sector and/or to specific NGOs within it, as is the case in the Netherlands and Germany. Instead, or in addition, governments may create dedicated “windows” through which they fund proposals submitted by NGOs, usually according to a detailed, logically framed, format. Further, NGOs can apply for funds in priority areas identified for bi-lateral programmes, such as environment, gender, credit, AIDS and so on. More recently, NGOs are being invited to “bid” for collaboration on programmes initiated by official agencies, which corresponds to contracting.

Finance from market interactions is of two major types. Either the NGO undertakes commercial activity itself, examples are shops, market investments and enterprises, or negotiates support from business corporations wishing to demonstrate their social responsibility.

⁷ For a more detailed review of NGO financing see Fowler 1992.

Figure 1. Sources for NGO finance



Current estimates suggest that some fifty-five percent of Northern NGO funding comes from the gift economy, forty-two percent from the tax base and about three percent from market interaction. Given these trends, unless Northern NGOs do something differently, official aid will become the major component in their financial resource mix. In other words, NGOs will increasingly be judged against the six expectations listed in the previous section and, as we will show later, the resources backing up such expectations will influence NGO behaviour.

Turning to NGOs in the South and East, at first sight they appear to have a larger number of sources of finance because in addition to gifts [8], market [7] and governments [6], they have access to funds from

Northern NGOs [4] and increasingly from official aid in a direct channel [5].⁸ While the situation varies from country to country, reality suggests that the choices are in fact not as diverse as they look. This is because:

- (a) countries of the South and East tend to lack a sufficiently large middle class with enough disposable surplus who also possess a social morality which motivates them to fund intermediary organisations for development work;⁹
- (b) southern governments are by and large poor, especially in sub-Saharan Africa, and look to NGOs to supplement, not absorb, revenues; and,
- (c) the poorer countries, the market is still emerging as a significant actor.

In consequence, NGOs of the South and East are also coming to depend primarily on official aid and are subject either directly or indirectly to its controlling expectations.

Even where these limitations do not apply, as in India, external NGO funding still has a place. The government of India has approved some 15,000 CSOs to receive foreign funds, amounting to about US \$600 million per year. Of these, only about 15 percent are thought to be NGOs engaged in development work; the rest are schools, colleges, temples and religious institutions.¹⁰ In terms of national GDP vis à vis foreign assistance, the size of the middle class, and the presence of a social morality underpinning private giving, India could be expected to be easily able and willing to finance its own NGOs. However, serious attempts to do so by NGOs such as Child Relief and You (CRY), one of the most experienced in the field, have shown how difficult and costly this can be if the purpose is not to simply provide welfare. In its best year CRY has managed to raise some US \$450,000, but spent some 40 percent of this income to do so. The organisation is already seeing its fund-raising under threat as other NGOs begin exploring the gift economy.

When accessing the significant amounts of government finance earmarked for NGOs in India's National Plan and Budgets, NGOs find that, often after paying inducements to the officials concerned, with a few noted exceptions they are inexorably forced into operational compromises which make them take on the behaviour of government itself; essentially a process of co-optation. In sum, despite being a meagre volume in terms of national accounts, the **quality** of external funds is seen to be a significant factor enabling some NGOs to undertake tasks such as participatory development, public education, advocacy and human rights action, which would otherwise not exist; work of which the government may be suspicious (Tandon, 1989).

The situation in countries of the East appears to differ in that the process of NGO formation has been both abrupt and frequently utilised by old Communist regimes to perpetuate themselves in another form. In addition, unlike in the South, development needs focus less on technical assistance, skill transfer and provision of services, which already were universal, and concentrate more on the restructuring of non-state institutions together with nurturing of market and democratic norms and practices (Seigal and Yancey, 1992). In consequence, it is vitally important to understand who is behind the initiation of an NGO. Further because state funding of this type of organisations did not exist and governments are severely financially constrained, there is little prospect of significant internal resources being made available to them. For donors this means that supporting the evolution and embedding of NGOs as stable, valued institutions in society will require different types of assistance than in the South, as well as longer term commitments and greater consistency than they have exhibited heretofore, despite many calls to do so.

The Shortcomings of Projects as an Instrument of Aid Allocation to NGOs

⁸ Access to this channel is not exclusively for Southern or Eastern NGOs. To satisfy home constituencies, some donors actually prefer funding international NGOs from their own countries in this way. The resulting competition between local and foreign NGOs for this expanding source of in-country finance is causing friction within the NGO community.

⁹ This does not imply that non-Western societies do not possess a social morality of assisting others, but only signifies that this imperative may not necessarily be expressed by financing through an intermediary organisation.

¹⁰ Estimates of the General Secretary of Voluntary Agencies Network India (VANI). Personal communication.

Given their intermediary position in the aid chain, NGOs will be affected by the shifts in the pattern of resources available to them. For the same total amount, in terms of internal functioning NGOs will be influenced by the relative changes in the quality of their resource mix. If official aid is of lower quality in relation to best micro-development practice it is likely to induce organisational and operational changes in NGO recipients which reduce their effectiveness. *Aid quality rather than quantity, therefore, becomes a key variable in determining the degree to which NGOs lose or increase their effectiveness.* A very significant factor affecting the quality of aid is the instrument used for its allocation namely, development projects.

It is beyond the scope of this paper to detail the evidence showing that the project approach is inappropriate because, amongst others, it works against authentic people's participation, one of the proven prerequisites for self-sustained community-based development (Hirschman, 1967; Morss and Gow, 1985; Lecomte, 1986; Nagel and Ghose, 1989; Narkwiboonwong and Tips, 1989; Oakley, 1991, Rondinelli, 1994).¹¹ Suffice it to say, that project-based funding in and of itself constitutes a quality constraint.

4. POLICY ANALYSIS FROM THE PERSPECTIVE OF OFFICIAL AID

Policy analysis can be undertaken in a number of ways. Two approaches are used. This part will systematically review the dynamics and issues arising from the framework set out in figure 1, some of which have already been identified in previous discussions. An alternative method will be applied in part 5 by grouping and re-framing issues to make them more practically relevant for donors faced with difficult policy trade-offs and choices. Together, these approaches should provide a useful and comprehensive perspective. Implications of the analysis for other significant actors, NGOs and Southern governments will be discussed only to the extent that they might affect donor policy decisions.

North-South NGO Dynamics: Tensions And Distortions

Taking up the analysis started in part 3 what is happening between Northern and Southern NGOs in relation to aid trends? Two items stand out. First, the proportion of funds going from Northern NGOs to their Southern counterparts [4] is coming under pressure to be increased.¹² For a start, Southern NGOs are demanding that Northern NGOs stop doing development work themselves, i.e., that they transfer more of the resources that they raise to enable Southern NGOs to work better in their own countries. This pressure is compounded by the growth in direct funding [5] and in aid reaching Southern NGOs through their governments [6]. The net effects are : (a) tensions arising between Northern and Southern NGOs over mutual roles and divisions of labour; (b) an accelerated increase of in-country funding giving rise to a supply-led opportunistic growth of NGOs devoid of voluntary principles; and (c) an inability of Southern NGOs to satisfy the expectations shown in table 1; i.e., they often lack professionalism, development capacity and quality leading to a growing mismatch between expectations and performance.

By way of illustration, data from Tanzania suggest that civil servants forced out of government by World Bank sponsored retrenchment, who have little experience of the NGO way of promoting development, are capitalising on their knowledge of donors and contacts within ministries to register and fund-raise for new

¹¹ There are many ongoing donor initiatives intended to minimise the limitations of the project approach to aid definition and financing. These are, however, not yet part of the mainstream and it is not apparent that they will become so because, as the amount of official aid available to NGOs increases, new approaches call for higher inputs of donor staff time per grant.

¹² There are no public estimates of the proportion of funds which Northern NGOs transfer to Southern or Eastern NGOs as opposed to the proportion they retain for their own costs and operations in the South and East. Evidence from Kenya suggests that in 1990 about one-third was transferred (Fowler, 1993). This proportion is likely to be on the increase as Southern and Eastern NGOs gain strength.

NGOs. Similarly, multi-partyism is giving rise to new NGOs inspired by politicians wishing to guard against competition in their backyard (Semboja and Therkildsen, 1995).

A critical observation is, then, that *the pace at which donors can decide to increase support to NGOs bears little or no relationship to the growth in NGO capacity to turn aid into sustainable development*. Pressure to disburse exacerbates this problem, particularly by inducing the emergence of all sorts of organisations bearing the NGO label and little more. That this distorts the (probably over-idealised) nature of voluntary action is becoming increasingly apparent with abuse of funds becoming more widespread.

On the positive side, donor actions, particularly direct financing, are forcing a necessary debate between Northern and Southern NGOs about power relations and the future division of roles.

Altering the Proportion of Official Aid NGOs Employ: Impacts on Identity, Effectiveness and Dependency

There is evidence which suggests that *as the proportion of official aid within NGO disbursements increases, the desired characteristics of NGOs can come under threat* (Quarles van Ufford, *et al*, 1988). First, as the requirements for public (i.e., parliamentary) accountability begin to dominate, the link between the values and oversight functions of the founding constituency may be weakened. Consequently, NGOs become confused, hybrid organisations, on the one hand motivated by the specific social vision and beliefs of their founders and constituency, while on the other hand being expected to function in conformity with generalised public norms and prevailing political ideology as interpreted by a “neutral” bureaucracy.

Depending on the nature of the political-economy, *the “civicness” of the NGO, that is its embedding in a particular segment of society, could also be negatively affected by official aid* which inevitably and rightly reflects the politics of the Northern regime in power. To guard against this, NGOs may set limits to the proportion of official aid they mobilise. NGOs, and especially MOs, with a clear “owning” constituency and participatory mode of governance are more likely to retain their identity and roots within society despite large proportions of official aid.

Official aid brings with it demands for accounting and accountability that require internal practices which can also work against NGOs realising their potential comparative advantages. For example, a concern with continuity of funds directs NGO attention to satisfying donor reporting requirements at the cost of those it should be serving. Similarly fulfilling auditing needs can lead to procedures which reduce flexibility and shift decision-making responsibility away from where it belongs at the NGO interface with communities.

The problem of financial dependency has been around for a long time, particularly among Southern NGOs, but it is set to become more acute. The basic problem is that *rapid growth in aid to NGOs is completely out of step with the growth in the local economy of many countries*. The situation is worse where the proportion of aid in national budgets is high, as in most of sub-Saharan countries and some countries in south and south-east Asia. Here, a whole layer of civic organisations is being created by and remains suspended on the umbilical cord of the aid system, unconnected with or rooted in the local economy. This situation is only sustainable in the context of aid as a permanent system of global social service provision (Fowler, 1994), akin to what has arisen historically as public welfare in Northern countries. An additional concern for NGOs providing social services -- such as health care, education and family planning -- to the poor is that these types of development intervention will seldom be self-sustaining, they call for continuous external financing.

A meaningful response to the problems detailed above will require significant modifications of present donor practices, such as financing investments and trust funds, which are discussed below.

Southern Governments: Relations and Responses

An additional source of policy concern arises from the fact that the growth of official funding to NGOs is occurring while aid resources are shrinking. In other words, referring to table 1., the volume of channel [9] is being reduced as channels [2] and [5] are increased. This can only mean that money is being diverted from traditional recipients, Southern governments. This shift is obviously likely to cause tensions requiring policy responses.

The first discomfort for Southern regimes is that a growth in NGOs may be undermining them politically. The tension in NGO-government relations which this induces is likely to correlate directly with the degree of illegitimacy and insecurity felt by the regime in the first place. *Donors may be seen to be aiding and abetting subversive forces with negative impacts on bi-lateral relations.* Here, active support to NGOs may produce counter-productive state responses, examples of which already exist.

Where governments respond by introducing new regulations to control NGOs, as for example in Uganda and Kenya, it is often with the argument for co-ordination which will better incorporate them into national development efforts. In many instances, because NGO self-regulation is so poor, there is a legitimate need to rationalise their contribution to national development. However, the common down-side of such moves is to reduce diversity in development approaches and weaken the civic dimensions of NGOs. The consequence is that the NGO community's ability to foster pluralism and more democratic governance becomes compromised.

A similar effect may occur if donors tie NGO funding more closely to their own development priorities in a country. While a logical thing to do, it also binds NGOs more tightly to governmental stances and procedures which may, again, work against them realising their potential comparative advantages in development or retaining civic roots (Farrington and Bebbington, 1993). In effect, *higher levels of official donor support can turn NGOs into unofficial parastatal bodies*, located conveniently outside of World Bank and IMF agreed ceilings (Fowler, 1991).

At the extreme, *reducing bi and multi-lateral aid to Southern governments may further undermine their ability to do well the few things that they should do.* This could lead to a vicious spiral where NGOs and markets are called upon to compensate for a perceived increase in government shortcomings, further weakening government, for example by luring away highly skilled staff. This could be a real threat to government effectiveness as well as to sovereignty and democracy, where every country has the right to decide on the institutional division of tasks and responsibilities it desires (if it can afford them).¹³

Donor Relationships with Southern and Eastern NGOs: Legitimacy, Expertise and Governance

Whatever their developmental shortcomings, the relationship between official aid agencies and Southern governments is a natural one in terms of an acknowledged place in society. Aside from concerns about corruption, by and large donors do not have to question the basic existence of the bureaucracy they relate to, all nation-states have governments. However, in opting for greater direct involvement with NGOs, donors cannot rely, *a priori*, on the necessary existence or legitimacy of those they interact with. And, for reasons detailed above there is every reason to question the character of NGOs requesting support.

Donor ability to vet the legitimacy of applicants for aid is relatively easy in the home country. It is much less easy in the South and East. Unfortunately, international comparative study indicates that legal standing is not a sure guide as to whether an organisation which purports to be an NGO is one or not (Salamon and Anheier, 1992; Herman and Associates, 1994). Answering the question of what constitutes an NGOs is proving to be particularly difficult in transition economies (Les, 1994). Yet, for reasons of contractual accountability donors must essentially rely on the legal dimension, but this criteria must be complemented by other situation specific understandings. *Effectiveness in dealing with the issue of NGO*

¹³ A further consequence of prioritising NGOs is that donors effectively weaken their policy leverage and national impact.

authenticity and legitimacy therefore becomes directly related to a donor's access to local knowledge and to the nature of its decision-making processes.

The capacity to separate the NGO wheat from the chaff requires both expertise and active linkages within the NGO community where peer review can be made use of. However, in addition to expertise, donor staff need **time**. The availability of this resource is often overlooked and is a function of both administrative procedures and the number, rather than level, of grants to be made. Getting the *staff-grant ratio right is critical for effective funding of NGOs*, but is usually constrained by the percentage of administrative costs involved.

A common solution to donor staff-time limitations is to contract out disbursement to existing or specially created intermediary NGOs or utilise national consortia or sector-specific umbrella NGO bodies. This move can fundamentally alter the nature of the dynamics within the NGO community, sometimes creating major setbacks. A common effect of official aid to NGO umbrella bodies is to detach them from their membership; this occurred with the Ghana Association of Private Voluntary Organisations for Development (GAPVOD) because of UNDP financing. Further, official aid can lead NGO collaborating bodies to promote governmental rather than civic agendas and even to splits within the NGO community between those that do and those that do not wish to work closely with the government. Basically, turning an NGO representative body into a funder of its membership introduces a contradiction in functions which leads to neither being done well.

Aid governance, that is the control over decision-making for official aid allocations to NGOs, can also create or solve policy issues. The inclusion or exclusion of Southern or Eastern governments and NGOs in the decision-making process can induce a variety of effects. It could cause conflict, sow divisions, undermine representation or lead to greater transparency and collaboration. Establishing appropriate governance structures, especially for multi-lateral funds, can determine the creation or otherwise of an enabling environment and interactions based on mutual respect. *How donors go about setting up decision-making structures for allocating their NGO assistance, or the conditions they negotiate bi-laterally with governments to allocate their aid, can have a crucial impact on NGO-state relations.*

5. POLICY ISSUES AND THEIR POTENTIAL RESOLUTION

The point of departure for the second approach to identifying issues is the assumption that the imperatives for increasing aid to NGOs and the expectations associated with them are going to continue. In other words, those responsible for the aid system must find solutions to policy issues because the forces giving rise to them cannot be substantially modified. From this position, it seems most useful to group and re-frame the issues identified so far in terms of cause and effect.

Policy Issues for Donors Funding NGOs

Reviewing the preceding discussion the following key policy issues in donor funding to NGOs can be listed. Obviously, the applicability of any one issue will vary by donor agency and Southern or Eastern country.

Table 2. Key Policy Issues for Official Aid Agencies

1. NGOs become bureaucratised and cannot realise their comparative advantages in development because:
 - of development conditions, practices and procedures associated with official aid;
 - of the procedures and legal requirements for accounting/accountability;
 - their capacity is stretched too far by responding to greater funding opportunities associated with donors' pressures to disburse;
 - donors cannot adapt their internal systems, such as staffing and decision-making, to cost-effectively interface with large numbers of NGO grantees;
 - of co-optation into the state development system and practices.
2. NGOs lose their civicness and democratising potential because:
 - official aid introduces multiple accountabilities, weakening links to constituencies;
 - ambiguous or contending sets of norms and values confuse social role and/or organisational identity;
 - of co-optation into the state development system.
3. Official aid heightens tensions between Northern and Southern NGOs which:
 - negatively impact on Northern NGOs' ability to mobilise public support for aid;
 - lead to divisions and rivalry within the NGO community in the South and East.
4. The NGO sector becomes even more unsustainable because:
 - the rate of increase of aid to NGOs outpaces growth in local economies;
 - new strategies required for NGO self-reliance are not supportable by donors.
5. The supply-led growth of NGOs gives rise to illegitimate organisations which leads to divisive positive vetting in order to protect the integrity of disbursements.
6. The relations between NGOs and Southern or Eastern governments deteriorate because of:
 - regime insecurity leading to suspicion about increasing levels of NGO work;
 - jealousy due to diversion of funds.
7. Government to government bi-lateral relations suffer because:
 - donors associate with NGOs which are critical of public policies;
 - of a perceived interference with sovereignty in development decision-making as institutional divisions of labour are *de facto* imposed from outside.
8. The capacity of Southern governments is undermined because:
 - assistance is reduced and that which remains is diverted to NGOs;
 - highly skilled officers leave, attracted to the better conditions NGOs can now offer.
9. Donors establish NGO funding intermediaries or mechanisms with systems of governance which create divisions, reduce NGO autonomy and compromise sector representation.

Resolving each of these policy issues entails trade-offs and choices to be made. Although specific solutions depend on the particular context, it is possible to indicate what would be involved. This is the subject of the following sections.

Strategic choices

Before detailing what responses may be appropriate for each of the policy issues listed above, there are primary strategic choices which need to be made.

Sector and/or project support

In the first instance donors need to decide if they are interested in supporting the NGO sector in a country or region, or restricting assistance to NGO projects or programmes or doing both. Choosing to assist the evolution of the sector means adopting an essentially political view which involves mapping a country's institutional landscape. *This type of assistance calls for a set of instruments, measures of achievement, and time scales that differ from those which have evolved for development projects.* Focusing on the institutional expression of society, rather than a technical sector, such as water supply, infrastructure, agriculture and so on, will require expertise that is not that of public administration, the discipline commonly associated with institutional development and reforms for good governance (World Bank, 1992).

For donors seriously concerned about increasing the involvement of non-state actors in development, institutional mapping will pay particular attention to civil society as a whole, beyond NGOs. Here, a critical step is to identify members-based organisations representing sub-national interests. Obvious examples are religious organisations, informal sector associations, professional associations, trade unions, women's movements and the like. This assessment is obviously more overtly political, risking charges of interference in internal affairs of the country and so forth. It is difficult to see what comparative advantages donor agencies possess to embark on such support and a case can be made for Northern NGOs as more appropriate actors for this activity.

Deciding to concentrate only on project and programme level support will mean altering a number of components which constitute the donor interface with NGOs. What these elements might be is considered in more detail below.

Working in consort or individually

A further strategic choice to be made is between collaborating with other donors or maintaining individual policy positions. The trade-offs are between retaining a national profile or capitalising on what are inevitably common concerns, such as vetting NGOs. From the perspective of efficiency, donor country-specific reference groups for information exchange is a minimum which could be aimed at. A further step, already adopted by some consortia of Northern NGOs, is to recognise a lead agency for each country whose task is to ensure the collection of up to date information which is agreed to be relevant to everyone's needs. This agency could form an interface with NGO representative bodies where they exist. Such an agreement would reduce overload and duplication of requests for information and so on.

Donor co-ordination is a notoriously difficult affair in bi-lateral aid. It would be counter-productive to load the stresses caused by lack of co-ordination on NGOs which are usually far less able than governments to cope with contending and contradictory demands, such as diverse reporting formats. *In other words, the inability of donors to collaborate will have greater detrimental effects on NGOs than on Southern and Eastern governments.* The issue is one of selecting a stance towards other donors dealing with NGOs, which is a political choice that has to be signalled from the top allowing professionals to work out the details.

Resolving policy challenges

Already, there are preliminary indications of how some of the nine policy issues itemised above can be tackled; much of this information comes from the growing number of studies and reviews of donor-NGO interactions. This concluding section offers some pointers as to what these solutions might be.

1. Protecting the Quality of NGO Work: Avoiding bureaucratisation

Reconciling the financial accounting needs of parliaments with the functional needs of authentic NGO participatory development work is one of the toughest problems to deal with. A key to the problem lies in the difficulty of assessing NGO performance. If this could be done, a greater level of trust and flexibility could be achieved. Without some mutually negotiated measure of results, beyond outputs, the only reasonable alternative is to equate accountability with accounting. Logically framing projects is a step in the direction of

defining performance, but presupposes a controllable linearity to development work which does not exist in practice; sustainable social change is an essentially complex contingent process.

A promising way ahead is to combine logical frameworks with multi-stakeholder participatory processes (INTRAC/South Research, 1994). Here, a logical framework serves as a point of entry for negotiation and agreement by all parties, including donor representatives, on what is to be achieved and how both products and processes will be monitored and evaluated. The demand on donors is for their staff to be able to enter commitments, in other words to have delegated authority along the lines being employed by DANIDA (1994) and SIDA in Bangladesh (Lewis, et al, 1994). This negotiated agreement is funded according to situation specific criteria that are partly informed by world-wide donor priorities and government agents which are part of the negotiation process rather than simply authorisers.

There should be no illusion that this is a conflict-free process because contending perspectives and interests have to be put on the table. However, if not expressed and worked through in advance, different points of view eventually come to light in ways which often undermine and negate what was intended.

Three effects commonly arise from increased official financing which can undermine the quality of what NGOs do. First, is over-funding. The volume of finance made available to NGOs is increased too quickly, overloading management and organisational systems. Second is premature diversification, where in the name of integration, NGOs are (willingly) induced to take on additional types of task, often corresponding to donor thematic priorities or country strategies. The process of altering the internal workings of an organisation to do something different is too accelerated, under-financed and seldom fully thought through or guided. Third, is the pulling apart of an NGO by contradictory conditions coming from different funding sources, particularly in accounting demands. NGO managers end up spending too much of their time managing internal tensions and donors instead of development processes.

Counteracting these and other typical problems of official aid to NGOs requires: (a) incremental support over longer time frames, five to seven years is a minimum perspective for the organisational change and consolidation needed for greater effectiveness; (b) core funding to ensure stability and continuity while local resources are mobilised and become a replacement; (c) acceptance of greater co-ordination between funders managed by the NGO; (d) attention for and strategies towards what is happening in the voluntary sector as a whole; and (e) moving from a project to an intervention approach to development work and its financing (Fowler, 1996).

The value attached to meeting annual disbursement targets, the pressure to reduce administrative transactions by giving larger amounts of money and the expectation that results can be obtained quickly (in 2 to 3 years) characterise much of the official aid system. Retaining these features works against the ability of NGOs to realise quality in their work which is critically dependent on listening to and moving at the pace of participating populations.

A serious impediment to NGOs' fulfilling legitimate donor requirements for good participatory practice is the lack of initial finance to do so. A form of flexible pre-financing to enable the basic groundwork to be done, such as stakeholder negotiation, is too seldom available. Relatively small amounts of this type of high quality money can make a substantial difference to later effectiveness.

As a rule of thumb, any donor requirement which negatively influences NGO transactions with communities or directs NGO accountability away from them is counter-productive to the donor's own goals. And, it is wrong to suppose that a decision to bring NGO funding on a par with that of governments in terms of significance will not have repercussions for the donors' own ways of working. It simply cannot be business as usual as the World Bank found out when actively engaging with NGOs in creating special funds to alleviate the negative impact of structural adjustment policies in Uganda. By applying its normal tendering procedures the Bank undermined participatory interactions and commitments made between NGO and groups (Voorhies, 1993). The Bank's recent guide to collaboration with NGOs indicates that it is pulling together its learning about these and other counter-productive and more positive experiences (Malena, 1995). To better

understand how their systems may need to be adapted, it would also be worthwhile for donors to acquaint themselves with the policy guidelines for receipt of official aid drafted by the International Council for Voluntary Agencies (ICVA, 1985).

In sum, what is needed to ensure that NGOs apply official aid effectively is a radical shift from a project by project contracting type of support to a systemic collaborative mode of working based on a long term memorandum of understanding that embrace development action, organisational development and the economic embedding of Southern and Eastern NGOs.

2. Civicness and democratising potential

A major reason why NGOs become deflected from their purpose and stand to lose their identity is because of a structural mismatch between policy and operational decision-making at each step of the aid chain. For example, middle-ranking desk officers from Northern agencies usually deal with chief executives of NGOs in the South and East. What appears to be an operational choice for the desk officer, for example to emphasise women or credit or environmental protection or submitting an application to the government for funding can actually be a policy choice for the next agency in the chain, but this difference is seldom appreciated by both parties. As a consequence, those governing rather than running the NGO are not sufficiently included in negotiations and slowly lose their grip. The NGO moves away from its roots and becomes essentially unaccountable, suspended above society (Kajese, 1990).

A simple step to minimise this effect would be to require a board resolution showing their approval of a funding agreement. While certainly no panacea, this move will at least signal some form of governors' engagement with the choices made. This is particularly important for membership organisations to ensure that they are not being left behind by their leaders.

Providing space for NGO values, beliefs and approaches has always been one argument for creating distinctive funding "windows". A pro-NGO policy needs to sustain this space even where the sums involved become more significant. A donor's ability to do so is partly conditioned on the factor noted above, trust. And the same argument for agreed performance assessment criteria applies.

Many donors require NGOs to show that the government has formally approved the projects they are funding. This requirement cuts two ways. On the one hand it ensures that the NGO initiatives conform to national requirements and priorities. On the other it can subject the NGO to all sorts of compromises and controls by local elites. The degree to which this reduces autonomy and civicness will depend on the nature of the political economy. Seriousness about advancing democracy would suggest that, in principal, formal approval should not required by the donor, even though it may be a condition set by the government.

3. NGO-government relations

There is little doubt that shifts which reduce government control over development and associated resources will usually be resisted. The level and form of resistance will depend on the proportion of aid in relation to other revenues and the nature of the regime in power (Tandon, op cit). In this transition it is vital that NGOs are not the victims of Southern or Eastern governments' frustrations with new donor priorities.

While it is doubtful if stress can be avoided all together, a couple of strategies may reduce the tensions. First, is for donors not to opt for quiet behind the scenes moves and presentations of faits accomplis to governments but instead to promote fora between NGOs and ministries where dialogue and disagreement can take place. These recognised places and moments for meeting are very often lacking in the South and East, allowing rumour to be treated as fact and NGO operations to be hampered by non-co-operation of government bodies later in the process. Second, enabling NGOs to systematically consult between themselves as a component in capacity building of the voluntary sector is seldom funded. Mostly NGOs get together when called to do so in relation to an international gathering. But, in order to equalise the imbalance between

governments and NGOs when they do sit at a table together it is vital that investment is made in inter-NGO relationships. This takes a long time.

More important, however, than periodic high level interactions between NGOs and governments are those happening at local levels on an ongoing basis. This is the cutting edge of NGO development work where poor relations with government have less visible but still very significant effects. Aside from local political interests, the NGO-government interface at community level is usually defined by a system and hierarchy of development committees. Their functioning is normally regulated by administrative rather than statutory instruments which allows no formal means for complaint or redress against decisions public administrators make. Therefore, as part of a strategy for build up the role of the voluntary sector, the recognition and inclusion of local representatives and civic organisations, including NGOs, should be put on a legal footing. Such a step has been taken in India with the Act introducing the Panchayati Raj at village level. This action extends people's legal rights where it matters most, in their daily interaction with the state on a thousand and one issues which determine the real as opposed to written nature of governance and the effectiveness of development agencies.

4. Government to government relations

This area is so complex that little in the way of general statements can be made about how donors can maintain positive relationships with Southern and Eastern governments while supporting NGOs which may not only deliver services but also adopt a critical stance towards public policies. The only possible consistent line to be drawn its to repeat the mantra that additional information, including from critics, must lead to better quality decisions. This is the position adopted by (parts of) the World Bank in dealing with the criticism it receives from NGOs, leading to its public disclosure policy and introduction of an Ombudsmen.

Naturally, this argument is more credible if donors can demonstrate that they themselves have ways of listening and incorporating external commentary on their work. This is not readily seen.

5. NGOs: separating the wheat from the chaff

The ability of donors to sort out legitimate and illegitimate NGOs will depend critically on the questions they ask and the sources of information they tap. The quality of both is directly dependent on whether or not they employ knowledgeable people and allocate them with meaningful decision-making authority. Finding expertise often means robbing the NGO community of its best members, because competent insiders will usually have greater access to information and capacity for appropriate interpretation than outsiders.

In the end it boils down to: (a) donors setting-up communication paths to NGOs in the North and South in order to obtain an element of peer review; (b) delegation of authority as close to the ground as can be justified by cost; (c) employing specialists with a background in the field; (d) having three or four basic reference points, such as asking NGO applicants for copies of three years of annual reports and audited accounts, a copy of the constitution, and a list of other donors.

Some donors are being approached to finance new NGOs with useful innovative ideas. This work is probably best left to those with a proven track record in this area, such as the various US and European foundations and other non-operational Northern NGOs which can take higher risk. This being said, a comparative study in Bangladesh of SIDA direct funding with that of Swedish NGOs not present in the country suggests that, if donors are prepared to invest in the direct channel, they may be more effective than Northern NGOs (Lewis, *et al.*, 1994).¹⁴

¹⁴ Given the very high level of official aid to NGOs in Bangladesh, the sums involve probably mean that SIDA staffing of the direct funding function is a small percentage of the total. This condition may not apply in many countries and SIDA's overheads may be spread or hidden in ways not available to NGOs with dedicated field offices.

6. North-South NGO Relations

Within the NGO community, the issue of appropriate North-South relations remains unresolved. Direct funding is stirring this particular pot in some helpful ways by forcing a dialogue about power, dependency and the true nature of partnership (Malena, 1992). From a donor perspective the items listed below are potential reasons for continuing to channel funds through Northern agencies. In principle, support to and through Northern NGOs can:

- i. help Southern NGOs retain their autonomy as civic institutions;
- ii. reduce the perception that Southern NGOs are competing with their governments for aid;
- iii. incorporate appropriate technical assistance that is based on mutual values;
- iv. be more flexibly applied;
- v. work against simple substitution of Southern NGOs for the state in service provision;
- vi. broaden support of Northern constituencies;
- vii. maintain plurality in the aid system;
- viii. strengthen South-North collaboration in policy influence at the international level by bringing “testimony” from the lives of poor people and their struggles.

Guidelines on partnership formulated by the ICVA (1988), argue that Southern NGOs should steadily take on more responsibility for development in their own countries with Northern NGOs moving away from operational functions to supportive and advocacy roles. Although the situation differs between Asia, Africa and Latin America, indigenous NGO capability is growing, leaving less and less justification for Northern NGOs to undertake development for local NGOs, rather than with them. If Northern NGOs fail to change they will leave themselves open to charges of neo-colonialism. However, if properly realized, North-South NGO funding using official aid can continue to provide a value added.

The dimensions listed above offer donors a basis on which to start assessing the value of Northern NGOs as channels for their aid, the onus being on NGOs themselves to demonstrate that their partnerships are providing some if not all of these benefits. Again, the situation of Southern NGOs varies country by country. It is unlikely that a blanket statement can be made about funding through Northern NGOs as such. Indeed, the differences which already exist within the donor community about direct versus indirect funding and North-South NGO division of labour reflect the differing emphases donors place on the factors noted above (for comparison see Tvedt, 1995; and Riddell and Bebbington, 1995).

In Southern and Eastern countries, the best way for donors to deal with problems within the NGO community is probably to stay well informed, do not get directly involved and not contribute to disputes by decisions which will tilt the balance for or against Northern or Southern or Eastern NGOs. Instead, NGOs must be confronted with the fact that they are responsible for getting their own house in order.

7. Reducing the unsustainability of the NGO community

The unsustainability of NGOs outside of international aid is probably one of the most pressing problems facing donors and NGOs themselves. The issue is not new but has yet to be addressed in an effective way. Returning to figure 1., the critical points of entry for donors wishing to strengthen voluntary sector resources are a combination of any of the following.

- 1 In terms of the gift economy:
 - 1.1 Encourage governments to increase incentives for public and corporate giving through tax relief and other means;
 - 1.2 Support NGO strategies to mobilise local resources, cost sharing and voluntarism;
 - 1.3 Finance local charitable, philanthropic and development trusts;
 - 1.4 Encourage governments to provide tax breaks to NGOs to reduce their costs, e.g., exemption from sales and property taxes.
- 2 In terms of the market:

- 2.1 Provide investment capital to NGOs so that they can take on commercial activities;
 - 2.2 Provide endowment or capital funds for the sector or specific NGOs;
 - 2.3 Finance debt swaps and counterpart fund utilisation;
 - 2.4 Provide guarantees for risk capital.
- 3 In terms of government:
- 3.1 Support NGO financing in annual budget allocations if conditions can be made appropriate.

A great deal of thinking and experimentation is presently underway directed at assisting NGOs to develop alternative sources of funding (PACT 1993; Holloway, 1993; Vincent, 1994; Synergos, 1994). Most initiatives require a degree of innovation and change in existing donor practices that may be difficult to get auditors to accept. A key issue is the governance of funds, i.e., who will have final say on their investment and allocation? Difficult as it may be, unless some creative and initially risky steps are taken the prospect is that many, if not most, of the NGOs active today will cease to operate if external funds are withdrawn. The picture is less severe for NGOs involved in credit and other economic programmes which generate a financial return. It is most dire for NGOs providing social services to the poor.

The situation is less catastrophic for CSOs based on membership as they, in principle, have constituents with an interest in sustaining their own organisation. In the longer term, these organisations probably offer the best prospect of economic self-sufficiency. The Self-Employed Women's Association (SEWA) in India is commonly cited as one example of the self-sustaining potential of this type of organisation.

8. *Undermining the capacity of Southern governments*

Certain critical functions in society can only be performed by governments. And, in the longer term, government is the only organisation that can guarantee to permanently raise revenues, other organisations may come and go. It would be most unfortunate if donors took an unbalanced view of the funding needs of a developing society, tilting towards non-state actors as the solution to poverty and injustice. In the emerging aid order, *donors will need new-style country strategies which seek to optimise the mix of support to be provided across the three sectors of government, market and CSOs*. Their assistance must be tailored to the specific situation of each country, taking account of what other forces are in play, for the role of international aid should not be over-estimated. Such strategies should obviously respect the choices of the population, otherwise the stated purpose of promoting democracy will itself be hypocritical.

Confirming to governments of the South and East that their functions are recognised, valued and will continue to be strengthened may help reduce a perception that they are only part of the problem of poverty and growth, not part of the solution.

9. *Governance of NGO Funding*

One of the ways donors try and deal with administrative limitations in working with NGOs is to establish separate funds or organisations to do so. Environmental funds and funds for AIDS prevention and education are current examples. In addition, NGO representative bodies are sometimes approached to function as vehicles for disbursing donor funds to their members. Examples where NGO umbrellas have successfully played the dual role of funding and being owned by members are difficult to find. In fact, inappropriate funding, where donor agendas subtly or openly undermine the often hard won collaboration of NGOs within sectors or across countries, has been identified as one of the greatest threats to the viability of consortia (O'Brien, 1991).

Where special (multi-lateral) NGO funds are established, the participation of NGOs and other civic actors can be problematic, firstly because of the issues of representation and mandate. In addition, the degree to which the fund is made autonomous from those who finance it can affect the sort of activities and organisations it can support. If the purpose of funds is to strengthen civil society as well as deliver development, they are best constructed at arms length from donor interests so that decisions predominantly

reflect civic rather than governmental perspectives and concerns. Again, foregoing direct control is difficult to do with public funds but, if this cannot be realised, donors may have to question if their objective of building civil society is realistic. Simply put, it is pointless and wasteful for donors to define new aid objectives or priorities if the organisational adaptations and new instruments required cannot be put in place.

6. SUMMARY CONCLUSIONS

When reviewing the issues listed above it becomes clear that, on balance, resolution of most lie within donors individually and communally. While some mutual adjustment can be achieved in dialogue between donors and governments and donors and NGOs, in the last analysis, effective realisation of new priorities of the official aid system call primarily for changes from within. And, while improvements in their practice are necessary and must be continuously sought, too much adaptation by NGOs to unmodified donor requirements has the real potential of throwing the child away with the bath water, i.e., the very comparative advantages which merit greater aid to NGOs will be negated by the funding process and by the consequences of more dependent relationships.

What also has to be appreciated is that failure to alter the interface between donors and NGOs does not mean that the status quo will simply be maintained. This is because the growing proportion of tax-based funds in NGO disbursements will itself influence their behaviour. Specifically, unless care is taken, greater official aid is likely to make them less developmentally effective (because of bureaucratisation) and less civic. In other words, doing nothing will still do something undesirable in terms of NGO performance limiting, in its turn, donors' ability to achieve their more complex development goals.

In the long run, however, necessary adaptations which only modify existing modes of project-based development assistance will not structurally strengthen the NGO resource base. Achieving this more fundamental objective calls for substantial changes which fully reflect the new world order and justification for international aid. The most important modification will be to adopt, emphasise and allocate sufficient funds to strategies which eventually root Southern and Eastern NGOs within their own economies. In many countries, this will require longer term perspectives than most agencies are prone to adopt, a mix of staff skills and insights which donors have not had to possess, different funding approaches and a new set of measures to judge achievement.

Without substantial changes within donors, the likely scenario is one of NGOs as actors permanently locked-in to a global system of social service financing.
