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LITERATURE REVIEW OF  
OTHER DONOR FUNDING OF NGOs

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## EXECUTIVE SUMMARY - OTHER DONORS

As the use of non-governmental organizations (NGOs) and private voluntary organizations (PVOs) continues to increase, the process by which donors utilize the services of NGOs/PVOs needs to be evaluated for program effectiveness and financial efficiency. The literature review focused on non-USAID donors' collaborative efforts with NGOs and PVOs in providing development assistance. The major findings and conclusions of the review center on specific management issues, both administrative and financial, between donors and recipient organizations.

Administrative issues focus on institutional strengthening and the phases of the project cycle. The primary problems shared by several donors include lack of adequate staff to handle the influx of NGO requests for project funding and high turnover rates of their staff.

- **Institutional Strengthening:** Many donors acknowledge the need to provide institutional strengthening to the NGOs they support, which include financial, managerial, and administrative needs. However, donors have not incorporated training to improve the institutional capacities of the NGOs they fund in their NGO programs. A priority for donors is the incorporation of a formal training program for improving the institutional capacities of the NGOs they fund.
- **Project Design:** Project design is the most critical aspect of the project cycle for NGO/PVO involvement. Inadequate project preparation is seen to be responsible for a high percentage of projects which fail to meet their objectives. The potential for sustainability increases as the level of involvement of implementing organizations and beneficiaries in the design stage is increased. Donors need to increase collaboration with NGOs during the project design phase.
- **Project Implementation:** Donors utilize the services of NGOs during implementation more than during any other stage of the project cycle. NGOs offer advantages over other types of contractors. NGOs are perceived to be more flexible and innovative in implementing development projects. They also work with counterpart NGOs in developing countries which can positively affect the implementation process.
- **Project Evaluation:** NGOs' evaluation capabilities are shown to be limited. Most evaluations of NGO activities are conducted by the donors or outside consultants. There are several reasons cited by NGOs for not conducting their own evaluations. The lack of institutional capacity to carry out an in-depth analysis of the projects as well as the cost of the evaluation are two reasons. Evaluation procedures need to be specified and incorporated in the project design.

Financial aspects of administering and operating an NGO program include the administrative costs the donors incur to run their programs, the mechanisms used to channel funds to NGOs, and the administrative costs of NGOs relative to output.

- **Administrative Costs:** Administrative costs are important criteria for donors in selecting the means for implementing development assistance and include salaries and expenses, and fees for contracted personnel and consultants. Administrative costs of NGO programs vary with donors, but are shown to range between 2 percent and 14 percent.
- **Funding Mechanisms:** Donors use several funding mechanisms to support NGOs. Donors utilize matching grants, block grants, umbrella organizations or framework agreements, and multi-year funding. Even though each type of funding mechanism offers distinct benefits as well as disadvantages, there are similarities between the mechanisms. The most important aspect of all funding mechanisms is the need for flexibility.

## Introduction

The use of non-governmental organizations (NGOs, and private voluntary organizations<sup>1</sup> (PVOs) by bilateral and multilateral donors to carry out development activities has been increasing steadily over the past several years. NGOs and PVOs are seen to have specific advantages over other means of delivering development assistance by a majority of donors. They are perceived to be more flexible and innovative in implementing development projects. NGOs know the community's needs because they are a part of the community. Their projects involve a high degree of participation. NGOs' knowledge of the local resource base and how best to capitalize on the skills of the local people and organizations provide a unique advantage for implementing local development projects. NGOs and PVOs tend to provide assistance to the poorest sections of society. The general belief held by donors is that NGOs and PVOs apply original low cost solutions so they are cost-efficient deliverers of development aid.

Donors believe NGOs have a comparative advantage in particular types of activities. A high priority is given to projects that foster self-reliance by encouraging local management, financing, and initiatives. Other program areas include those that enhance or protect the environment, contribute to social justice through assisting low-income and disadvantaged groups with limited access to funds, alleviate poverty, focus on rural and community development, provide education and skills training, and include women as participants and beneficiaries.

This literature review examines non-USAID donor experiences in channelling development aid through NGOs and PVOs and the lessons these donors have learned. The first part of the paper reviews the administrative relationship between donors and NGOs, specifically, who administers NGO programs in the various donor agencies, how they are administered, and the management responsibilities of the donor and the NGO in program/project management during all phases of the project cycle -- design, implementation, and evaluation. Included in this part is a discussion of donors' attempts to build the institutional capacity of NGOs and PVOs.

The second part of the review examines the financial management side of NGO programs, including the administrative costs donors encounter managing NGO programs, the different funding mechanisms donors use, and the administrative costs of NGOs relative to output. The final section, "Conclusions,"

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<sup>1</sup> The terms NGO and PVO refer to many organizations of varying size and character. For the purpose of this paper, NGO is used to refer to an organization in the donor country. When referring to developing country NGOs, the term is specifically classified as a southern or developing country NGO.

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reviews the management aspects, both administrative and financial, of donor/NGO collaboration and provides recommendations for further collaboration. In each section, donor trends on the issue are summarized and specific examples of donors' experiences are provided.

## **I. Project/Program Management Issues**

First, what types of organizational structures do donors operate to manage NGO programs? Many of the donors have similar arrangements to deal with NGOs and experience comparable problems. A primary problem shared by several of the donor agencies includes lack of adequate staff to handle the influx of NGO requests for project funding and high turnover rates of their staff.

### **A. Administration of NGO Programs**

Donors utilize NGOs in a variety of ways to provide assistance to developing countries. Several donors have special branches or divisions that deal exclusively with NGOs, while other organizations manage their NGO programs in a less formal manner. Following are examples of some of the NGO programs managed by donors.

The World Bank established a Bank-NGO Committee in 1982 to provide a formal forum for NGO cooperation in Bank-funded projects. The committee holds formal annual meetings to discuss areas of Bank-NGO cooperation. The Bank-NGO Committee held its tenth annual meeting in 1990. Discussions focused on progress made in Bank-NGO collaboration, local participation issues, and areas of agreement and disagreement between the Bank and NGOs regarding policies that promote development that impact the lives of poor people and the environment. The International Forum on World Bank and IMF lending is another venue for Bank-NGO collaboration. The Forum emerged from NGO initiatives to be more active participants in Bank policies. The Bank organizes meetings on such issues as its forest policy, environmental assessments, the World Bank Report, and the Global Environmental Facility.

At the World Bank, NGOs deal most directly with the Operations and Policy, Research and External Affairs divisions. Within this last office lies the International Economic Relations Division, which serves as the liaison with NGOs and other special units of interest to NGOs, including the women in development division and the environment division. The World Bank works with NGOs in four main areas: operational collaboration in projects and programs; development education; policy discussions to provide NGOs an opportunity to influence the Bank's structural

adjustment policies; and by giving explicit advice to government agencies in borrowing countries for NGO use.

Participation by NGOs in World Bank projects is increasing, although the level of participation is dependent on developing country governments rather than a structured policy. In 1988 the Bank issued its "Operational Manual Statement" which "lays down guidelines for handling general issues, formulates procedures for project-related activities, and delineates responsibilities for pursuing Bank objectives in fostering the collaboration with NGOs." (Cernea 1988, 42) The policy states that although the Bank's primary relationships are with governments, collaboration with NGOs can improve the effectiveness of many Bank-supported operations, particularly in increasing the long-term sustainability of development initiatives and alleviating poverty.

Finland's International Development Agency (FINNIDA) created an NGO Division in 1986 to support and improve its work with NGOs. The NGO Division manages the NGO Support Program (NGO-SP). Between 1988 and 1992 it also managed the "Small Projects Funds," which specifically funded indigenous NGOs through Finnish officials residing in the developing countries. The NGO Division groups NGOs which are "like-minded," such as mission-related NGOs, rather than dividing them by region or project type. (Riddell 1994, 50)

FINNIDA has instituted formal application procedures for NGOs to receive NGO-SP funding. Finnish NGOs are required to actively work in Finland for at least two years and to have been cooperating with a developing country NGO or a group of citizens in a developing country for at least one year. The counterpart NGO or group of citizens must have been active at least one year prior to the Finnish NGO's request for NGO-SP funds. These restrictions are aimed at preventing Finnish NGOs from "hurriedly setting up overnight" with the purpose of receiving government funding. (Riddell 1994, 47) Another unique aspect of FINNIDA's NGO program is that applications for government funds for development projects are accepted between August and mid-September only. NGOs can apply for any number of projects and any size of projects for lengths of one to three years during this month and a half timeframe.

The Canadian International Development Agency (CIDA) operates its NGO Program through its NGO Division. The NGO Program is based on the concept of "partnership," which is the "key to fostering and strengthening links between Canada's people and institutions and those of the Third World." (Secoma 1992, 15) The NGO Division evaluates the management capabilities and financial capacity of NGOs registered with CIDA and determines whether they can participate in the NGO Program. Once an NGO has been approved for participation, the NGO may submit proposals to

the NGO Division for specific projects or for comprehensive program funding.

In Sweden, NGOs are represented on the Board of the Swedish International Development Agency (SIDA) and participate to some extent in the formulation and implementation of Swedish aid policy. Various other advisory or governing bodies of the official aid program include representatives of NGOs whose views are incorporated at all stages in planning, administration and policy-making.

In Australia, the Committee for Development Cooperation involves NGOs in government decisions. The Committee includes three people each from the government and the national NGO council, the Australian Council for Overseas Aid (ACFOA). The Committee advises the government on the development of policy for Australia's co-financing program, which provides partial funding to NGOs; its operations; and makes recommendations on the eligibility of organizations, the allocation of funds, and the approval of project submissions.

Other donors attempt to incorporate NGOs' views into official aid policy by including NGO representatives in policy dialogue. For example, in Germany, periodic meetings are held between the Ministry for Economic Cooperation and NGOs to discuss procedures and requirements for development cooperation. In 1983, France developed an administrative structure -- the Commission Coopération Développement -- to integrate NGOs formally within the national development cooperation policy. The Commission is composed of both government and NGO representatives and facilitates dialogue and aid coordination between French authorities and NGOs. The Netherlands' NGO program is administered within the NGO and Development Education Department of the Ministry of Development Cooperation.

## **B. Institutional Strengthening of NGOs**

Many NGOs have institutional needs -- financial, managerial, administrative -- which could be improved by specific forms of technical assistance in accounting, record keeping, monitoring and evaluation. In general, donors realize the need for strong and sound NGOs, but have no systematic approach to strengthen the internal capacity of NGOs. Instead, donors tend to rely on evaluations of projects implemented by an NGO to point out the NGO's weaknesses and make recommendations for improving its structure. A recurring criticism in the literature is that NGOs are involved in too many sectors and too many geographical regions to be effective and to use their limited resources efficiently.

One example of a donor attempting to strengthen the institutional capacity of NGOs it funds is the periodic

institutional evaluations conducted by CIDA. These evaluations have become a useful management tool in evaluating the work of NGOs funded under the NGO program. The evaluations have shown that NGOs demonstrate uneven management and organizational capabilities, including weak financial management. Furthermore, Canadian NGOs have demonstrated only a limited effort to strengthen the capacity of their local partners. (Singh 1992) NGO Division officers believe their role is to help NGOs become better managed organizations, and they support more funding for institutional upgrading. However, one-third of NGOs do not feel the NGO Division helps their organizations become better managed, nor do they expect CIDA to help them improve their management skills. This response may be due more to the autonomous nature of NGOs than to a feeling by NGOs that the evaluations are not constructive. (Secoma 1992)

### **C. Project Responsibilities of NGOs and Donors**

Whether the NGO is involved in several sectors or just one, or in one region or several, a key aspect of successful development is the involvement of the NGO in all stages of the project cycle. The NGO should have a role in design, implementation, and feedback through monitoring and evaluation.

#### **(1) Project Design**

The most crucial part of the project cycle is the design phase, and this is the point at which donors have been least successful in involving NGOs. Without adequate participation from beneficiaries and other groups involved in the project, the chances of designing a sustainable and successful project are greatly diminished. Donors are attempting to increase NGO participation in the design of projects, but many hurdles still must be overcome. For example, donors usually do not fund pre-project activities by NGOs. As a Danish NGO evaluation stated, it is often not possible for NGOs to get money for preliminary project appraisals if they cannot, with a high degree of certainty, be expected later to lead to a project." (Riddell 1994, 93) By restricting funding of pre-project activities, donors "are almost certainly contributing to poor project design and to perpetuating the gap between project objectives and project achievements." (Riddell 1994, 93)

The World Bank involves NGOs during project identification and design in three ways. First, they use NGOs as a source of information about intended beneficiaries and on technological and institutional innovations. Second, NGOs may serve as consultants to the Bank, government or local community in project preparation. Third, international NGOs may contribute resources for project co-financing or finance activities complementary to a Bank-financed project. NGOs' participation in design still remains low compared to implementation. Reasons for this

include: the lack of a financial mechanism for the Bank to directly fund NGOs; limited resources available for the staff-intensive work needed to use NGOs; and continued resistance by many governments and NGOs to cooperate more closely. (World Bank 1991)

The Asian Development Bank (ADB) operates similarly to the World Bank in its use of NGOs. During the project preparation and design phase, the ADB seeks information from NGOs. The ADB also contracts NGOs as consultants to provide technical assistance.

In 1981, CIDA developed its country focus approach. This approach combined all initiatives for a country into a single approach, regardless of the sector or means of delivery. The objective of the country focus approach was to develop program planning and delivery in a concerted, coordinated manner. The country focus concept became a way of involving NGOs in bilateral programming. The approach was an attempt by CIDA to reduce the administrative procedures for the implementing agencies by permitting bilateral managers to integrate planning with implementation and, therefore, to increase the speed of decision-making and delivery. (Group Secor 1991)

## **(2) Project Implementation**

NGOs are used during implementation more than during any other phase of the project cycle. More often than not, NGOs in developed countries fund counterpart, indigenous NGOs to implement projects because they are more effective in implementing projects in their own communities.

The World Bank does not implement projects directly. Rather, borrowing governments implement Bank-funded projects, based on recommendations from the Bank. The Bank has defined six key roles for NGOs in implementation to try to influence governments to work through NGOs. NGOs may serve as contractors or managers employed by the government and financed from loan proceeds or through Trust Funds. NGOs may act as financial intermediaries or as suppliers of technical knowledge to local beneficiaries. They may serve as advisors to assist local beneficiaries in applying for project resources to organize local communities to make use of project facilities. NGOs also may act as independent partners, implementing activities complementary to a Bank-financed project. They may be direct recipients of government grants or loan funds or the project may establish an NGO funding mechanism. (Cernea 1988)

In 1991, Finnish NGOs used local NGOs in developing countries to implement more than half of their projects. Only 16 percent of the projects were implemented jointly by a Finnish NGO and a local NGO, and approximately 25 percent of the projects

were run by Finnish or expatriate staff. Approximately 75 percent of the largest projects were implemented primarily by local groups. (Riddell 1994)

### (3) Project Monitoring and Evaluation

Many NGOs' capacity for self-evaluation is weak, which increases the difficulty in adjusting and improving on-going projects. The majority of evaluations of NGO activities are done by donors or outside consultants. The major reason cited by NGOs for not conducting their own evaluations is that the cost of evaluation, including field studies, is very high in proportion to their budgets. NGOs rely on monitoring reports and visits from the donor agency to assess project effectiveness. Three approaches to evaluating NGO projects include examining individual projects, comparing various projects in a similar field by different NGOs, and evaluating the work of a single NGO in a specific sector or geographical area. (Cameron and Cocking 1993)

Donor requirements for monitoring and evaluating NGO projects differ. The World Bank utilized a participatory performance monitoring and feedback model to assess ongoing projects and their impact on the target population. The Bank views NGOs as having a comparative advantage in terms of access to information and objectivity. "Where bureaucratic eyes are astigmatic, NGOs provide vivid images of what is really happening at the grassroots." (Cernea 1988, 45)

FINNIDA requires each Finnish NGO to complete an annual project report detailing which project objectives were achieved and why. The report also must explain how the lives of the target group have been improved, how project resources were utilized, whether the resources used were different from the original plan, and reasons for any changes. FINNIDA's NGO Division bases its judgment of project performance primarily on these reports submitted by Finnish NGOs.

According to the evaluation by Secoma (Secoma 1992, 70), the evaluation process for Canadian NGOs has not been structured, and generalized lessons learned cannot be drawn from the information gathered. Evaluation procedures tend to be simplistic and to focus mainly on problems and delays in implementing projects. Canadian NGOs attribute the lack of systematic evaluation procedures to their lack of resources. During the Secoma evaluation, NGOs stated that they were attempting to change the way evaluations currently were conducted and would be implementing new evaluation procedures in the near future. (Secoma 1992, 71) NGOs need to systematically incorporate monitoring and evaluation procedures in their original project designs to fully address this aspect of the project cycle.

The ODA-UK considers monitoring and evaluation to be the responsibility of British NGOs receiving funding. NGOs are required to submit detailed project completion reports. The reports provide general information on project outcomes rather than offer detailed lessons learned or make recommendations. ODA-UK has undertaken program reviews of particular countries or sectors based on these reports.

Swedish NGOs receiving SIDA funding complete evaluations themselves. Funding sometimes is provided by SIDA for the evaluations. SIDA's NGO Division also does "capacity studies" on all organizations it funds to assess the NGO's capacity to handle the aid received and to absorb it efficiently and effectively.

## **II. Financial Management Issues of NGOs and Donors**

Three financial aspects of administering and operating an NGO program are important: the administrative costs the donors bear to run the programs; the mechanisms used to channel funds to NGOs; and the administrative costs of NGOs relative to output.

### **A. Administrative Costs of Donors**

Administrative costs are important criteria for donors in selecting the means for implementing development assistance. Administrative costs include salaries and expenses, including fees for contracted personnel and consultants. The administrative costs of NGO programs vary among donors.

The ODA-UK spends approximately 2.5 percent of the total funds disbursed by its NGO Unit to manage the NGO program. The Netherlands' administrative costs are approximately 0.2 percent of the total program. However, the majority of its administrative costs rests with the NGOs who receive funds from the NGO Program. Their administrative costs run at approximately 7.5 percent of total funds received from the NGO program. The administrative costs of CIDA's NGO program also are low due to the matching fund nature of the program. In 1990-91, the NGO program's administrative costs were 2.8 percent of the total monies distributed. Administrative costs for the Norwegian Agency for International Development are estimated to run between 4 and 5 percent. (Riddell 1994, 99)

FINNIDA's NGO Division, which administers the NGO-SP, has maintained a high ratio of disbursements to allocation of funds. The NGO Division has managed to disburse a steadily expanding quantity of FINNIDA funds with a minimal expansion of staff numbers. A relatively small staff manages over 400 different projects.

## **B. Funding Mechanisms**

Donors use several funding mechanisms to support NGOs. The majority of donors' financial support comes in the form of matching grants, block grants, umbrella organizations or framework agreements, and multi-year funding. Even though each type of funding mechanism offers distinct benefits as well as disadvantages, there are similarities among the mechanisms. For example, as its name implies, multi-year funding provides funds for several years. However, block grants and framework agreements also provide funding for more than one year. The following sections define each of these funding mechanisms, provide the rationale for the mechanism, and give examples of donors' experiences with the mechanisms.

World Bank funding of NGOs is distinct. Most Bank funds are loans to member countries, and countries select the implementing agencies. However, NGOs also can access Bank funds directly. These methods are detailed below in the section on other funding mechanisms.

### **(1) Matching Grants**

Matching grants are the main co-financing mechanism of donor funding of NGO projects. It is an overlying requirement of most types of funding. Under this arrangement, NGOs contribute from their own resources a specific amount of the needed funds. The ratios NGOs are required to supply vary among donors. According to "Voluntary Aid for Development: The Role of Non-Government Organizations," Australia, France, New Zealand, Switzerland, the United Kingdom and the United States generally provide 50 percent of project financing, while NGOs contribute the other 50 percent. Finland, Belgium, Germany and Ireland contribute 75 percent and require NGOs to contribute the other 25 percent. Norway and Sweden contribute 100 percent. (OECD 1988, 86) Canada's matching funds program is based on a 1:2.2 ratio where CIDA provides \$1 for each \$2.20 Canadian NGOs raise.

The rationale for requiring NGOs to fund part of project costs relates to their own legitimacy as membership-based organizations and to their capacity to manage and execute projects efficiently. NGOs that raise money from their members are viewed as truly voluntary, non-governmental, independent organizations. The ability to raise funds decreases an NGO's dependency on external funding. Also, the level of commitment an NGO has toward development is judged by donors by its ability and willingness to fund development projects.

Most donors initially allocated matching grants on a project-by-project basis for a one-year period, but most matching grant programs now are moving toward multi-year funding to reduce the donor's administrative burden. NGOs also prefer receiving

multi-year funding because it ensures the availability of program funds over several years and allows them greater flexibility in long-term planning.

## **(2) Block Grants**

The defining feature of block grants is that funds are provided over a longer period to simultaneously cover a donor's portion of co-financing for several projects of an NGO. Donors that use block grants tend to focus on a small number of well-known, larger NGOs or on umbrella organizations. To receive block grants, most donors require NGOs to have a proven track record in terms of both project performance and ability to satisfy basic accounting practices. NGOs are evaluated for their entire programs rather than individual activities.

The rationale behind block grant funding focuses on administrative considerations and project impact. First, block grants have evolved in part as a response to increases in the number of NGOs and the number of projects, and to ease the burden of processing applications and keeping abreast of ongoing activities. Second, donors are beginning to realize that NGO-implemented programs are more complex than originally thought and that they need more time to reach their objectives. Block grants allow flexibility and long-term funding.

The ODA-UK has a Joint Funding Scheme (JFS), which consists of separate block grant agreements with the five largest British NGOs as well as open competition for individually-appraised projects. JFS funds are divided evenly between block and non-block grants. NGOs receiving the block grants do not need prior approval for each of their projects. For example, OXFAM received a \$6 million block grant covering 700 different projects.

The Norwegian government provides 30 different mechanisms for funding NGOs, each with varying degrees of restrictions, including block grants, which are the least restrictive. NGOs begin by receiving the most restrictive type of funding, then graduate to the least restrictive as they develop a track record and meet specific criteria.

## **(3) Umbrella Organizations/Framework Agreements**

Umbrella organizations are created primarily to channel funds through large, northern NGOs to southern NGOs. The term "umbrella organization" refers to the NGO which receives the donor funds. "Framework agreement" is the name of the mechanism for receiving these funds. Umbrella organizations act as financial intermediaries for their member organizations. The advantage to this funding mechanism is flexibility in deciding project activities.

SIDA has created a special umbrella organization -- the Foundation for Development Assistance (BIFO) -- to serve smaller NGOs. BIFO has three functions. First, it acts as a center for information, lobbying, experience exchange, and general education for NGOs. Second, BIFO is involved with support for Swedish volunteers. Third, BIFO serves small NGOs outside framework agreement arrangements by helping them apply to SIDA for funds, by screening applications, and administering the distribution of funds. BIFO sends applications, with recommendations, to SIDA for final funding decisions. Each year BIFO submits to SIDA a report on the year's activities and an assessment of project experiences.

SIDA also has long-term framework agreements with 12 NGOs, which are granted a high degree of autonomy in regard to projects financed under these agreements. The agreements provide more flexible funding than the more widespread project-by-project funding arrangements, although the agreements are still project-based. SIDA has changed its emphasis from examination of each application to evaluation of implemented projects. In 1985, umbrella organizations received 85 percent of SIDA's co-financing funds. (OECD 1988)

FINNIDA's framework agreements are granted for three years to five of Finland's largest NGOs for their NGO-SP-funded projects. The framework agreements are different from block grants in that they cover specific approved projects, while block grants cover the NGO program as a whole. The NGOs are not free to use the funds from the framework agreement at their own discretion. The rationale for creating framework agreements rather than using project-by-project funding is that framework agreements are slightly more flexible and reduce the NGO Division staff's administrative workload. However, staff members agree that it is too early to tell whether the framework agreements actually reduce their workload and also enhance goal-directedness and long-term planning. (Riddell 1994)

The Netherlands funds four major umbrella organizations, which group Dutch NGOs according to their religious or ethnic affiliation. Projects funded by the umbrella groups do not have to be approved by aid authorities nor is there a minimum cost-sharing requirement. Accountability comes in the form of an annual report submitted to the Minister for Development Cooperation.

#### **(4) Multi-year Funding**

Several donors incorporate multi-year funding aspects into the various funding mechanisms they employ. Multi-year funding appears under many titles: "renewable programs" co-financing; "flexible funding," and "programmatic approach." (OECD 1988, 88) The primary benefit of multi-year funding is the ability of NGOs

to carry out long-term planning and provide continuity to project financing.

Renewable funding programs usually are planned for a three-year period, and provide for automatic and timely renewal if evaluation results are satisfactory. Both Canada and Italy use renewable funding programs. For example, CIDA provides "moral" support for local NGOs for 20 years and financial support in blocks of five years. (OECD 1988, 88)

Switzerland uses flexible funding programs that make funds available to NGOs in advance; the funds are not earmarked for specific activities. External audits of the NGO's entire income and expenditures replace the traditional financial reports submitted to donors. The purpose is to provide timely financial assistance for self-help activities that have their own time requirements

The programmatic approach to multi-year funding allows donors to make a long-term commitment (at least ten years) to work toward the institutional strengthening of local NGOs. The system is flexible in the sense that financial commitments are made on the basis of general outlines of programs, not by well-defined and preset activities. The Netherlands has used this approach since 1980. CIDA's program funding of NGOs improves the efficiency and effectiveness of NGOs by allowing them to use long-range planning tools, which translate into better projects. Program funding also reduces the managerial responsibilities of CIDA and allows CIDA to adopt a strategic approach to NGOs. The criticism from NGOs centers on the lack of support from the NGO Division in developing skills necessary for effective long-term planning. (Secoma 1992)

#### **(5) Other Funding Mechanisms**

NGOs can access World Bank funds either by receiving financing for an activity which it has developed and proposed to a government for funding, or by being engaged by a government as a contractor or executing agency of a project designed mainly by that government. Bank-financed Project Preparation Facility (PPF) and Socio-Economic Development Funds (SEDFs) are additional means for government funding of projects developed and proposed by NGOs. PPF provides advance loan funding to help governments cover the costs of project preparation before a project is appraised. SEDFs are demand-driven, multisectoral funds that finance small grassroots development activities aimed at improving poor people's access to social services, employment opportunities, and income-generating assets. Governments establish SEDFs in conjunction with economic recovery programs to help mitigate the effects of structural adjustment on the poor. In almost all SEDFs, NGO-designed and implemented subprojects are among those eligible to receive financing, along with government

subprojects. (World Bank 1991) The Bank also maintains a Special Project Preparation Facility (SPPF) to fund the preparation of innovative projects in sub-Saharan Africa.

A major impact of CIDA's NGO program has been the enabling of new, smaller Canadian NGOs to become involved in international development. These smaller NGOs receive funding through three decentralized funds: country focus, consortia, and multilateral branch funding mechanisms. CIDA's country focus funds are perceived to be the riskiest type of funding by NGO Division officers due to the opportunities for NGOs to become overextended. Consortium funding is perceived to be less risky since it spreads the risk among many NGOs. Consortia funds offer NGOs access to larger pools of funds and expertise, systematic exchanges of information on trends and projects, and development of networks among both northern and southern NGOs. Consortia funds also have proven useful in addressing large regional or cross-sectoral problems where bilateral aid may be difficult. Multilateral branch funding primarily supports NGO initiatives through the Food Aid Center and the International Humanitarian Assistance Program. (Secoma 1992)

Prior to the creation of the funds, the NGO Division administered and directly funded small NGOs. The funds have reduced administrative workload in the NGO Division, but also may have contributed to the creation of many new, small fragile NGOs which are dependent on CIDA funding. On the other hand, these new NGOs absorb only 5 percent of the Division's budget and encourage participation, entrepreneurship, and creativity. (Secoma 1992) In addition, Canadian NGOs are finding these arrangements increasingly time-consuming and demanding in terms of administration, use of staff and absorption of money. CIDA may be losing control over NGO programs and projects funded through consortia and, due to the multi-layering of administrative costs, the costs of program delivery through consortia may be rising.

The funding mechanisms detailed above relate mostly to funding of donor country NGOs or international NGOs. Donors do provide funding to southern or indigenous NGOs, although usually not directly. SIDA's NGO Division is an exception; it provides funds directly to NGOs in Sri Lanka, India and Bangladesh without a Swedish NGO acting as intermediary. The most common forms of funding to southern NGOs include funds provided by aid officials resident in the developing country, establishment of separate organizations whose responsibilities are to channel aid directly to southern NGOs (such as the Inter-American Foundation), and funds to support southern umbrella organizations in-country who distribute monies to member NGOs.

### **C. Administrative Costs of NGOs Relative to Output**

The financial efficiency of using NGOs can be shown in terms of program costs versus program outputs. Four areas of concern are: administrative costs in the NGO's home office; management costs in the field; effects of "multi-layering of administrative costs;" and fund-raising costs.

The most recent data available for Canadian NGOs is an evaluation of the income statements of 43 NGOs for the 1988-89 fiscal year. These statements showed that NGOs' administrative costs averaged 8.7 percent of their total spending, and fundraising costs averaged 4.8 percent of total spending, amounting to 13.5 percent of total spending on non-program activities. Management costs in the field were not included in these numbers, although they were not perceived to be large.

The "multi-layering of administrative costs" refers to incurring costs at each level for administrative costs of the recipient NGO, which results in considerably less funding reaching the field and the ultimate beneficiaries.

### **III. Conclusions**

Management issues for donors revolve around the need to tap the flexibility and grassroots accountability of NGOs while maintaining adequate quality and financial controls. Staff time and administrative costs can be a major constraint to expansion of NGO activities, and creative structures and mechanisms are required.

NGO involvement in all aspects of the project cycle is critical for success. The strengths of NGO projects focus on the NGO structure itself and its ability to contribute to each phase of the project cycle. NGOs have the ability to adopt a clear and specific focal point for their activities. However, this ability is diminished when the NGO attempts to work in too many sectors and geographic regions. NGOs are able to maintain good communications between donor agencies and their southern counterparts. NGOs are effective in projects targeted at improving the basic standard of living of the poor.

In terms of the project cycle, evidence suggests that inadequate project preparation is responsible for a high percentage of projects that fail to meet their objectives. Donors should consider funding pre-project expenses to ensure projects are designed to be sustainable. NGOs need to be included in every stage of the project cycle, especially during design and planning. Institutional assistance in the form of training in finance, administration and management should be

provided by donors to improve NGO performance and delivery of development assistance.

Within the NGO community, there are needs for improved project appraisal and design capacity and for further definition of the methodology and systems used for this process. "Lessons learned" should play a more important role and greater thought should be given to the day-to-day administration of projects. More attention needs to be placed on gathering baseline information at the beginning of the project appraisal process so that the impact of projects may be "highlighted against the original situation in which they were conceived." (Cameron and Cocking 1993, 19)

Donors should continue to conduct evaluations of NGO projects in close collaboration with the NGO implementer because it is "unreasonable to expect small NGOs to develop a specialist evaluation capacity themselves." Also, it may be a good idea to create "evaluation units" co-financed by donors and NGOs to provide a common capacity for carrying out necessary evaluations without burdening small NGOs to fund permanent staff. These units also could assist in the flow of information between NGOs and donors. (Cameron and Cocking 1993, 20)

Funding is a critical issue for NGOs. Balancing financial accountability and autonomy requires carefully negotiated but flexible agreements between donors and NGOs. Creative financing mechanisms should be developed and maintained by donors. Many donors have moved in the right direction by financing NGOs' entire programs, rather than single projects, and by financing NGO programs for several years rather than on a year-by-year basis (since longer-term funding provides NGO flexibility in program design and implementation). Another aspect of NGO funding is their need to conduct fund-raising campaigns. Many NGOs receive funding from the public, which can be sporadic and unpredictable. With secure multi-year program funding from donors, NGOs can reduce their risks from fluctuations of public donations and can concentrate on program and project development and implementation.

Continued collaboration with southern NGOs is encouraged for several reasons. Southern NGOs know their own communities' needs and objectives. They are a part of the community and will remain to carry on newly implemented programs. Southern NGOs are in a better position to mobilize local resources, and they understand how to operate within the limits of the local environment.

A final note on the literature review is that not all donors were included. Although conversations were held with officials in the UN NGO office in New York and the German foreign aid office in Washington, D.C., documents detailing those agencies' experiences with NGOs were not received. There is still an

abundance of documentation that could be reviewed and the depth of this paper would significantly increase. It does appear that only a few donors have had an independent external evaluation of their NGO programs. All donors who channel funds through NGOs should conduct an external evaluation. Since the nature of NGOs and development assistance is dynamic, there is always room for improvement.

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