Trends in Government Support for Non-Governmental Organizations

Is the “Golden Age” of the NGO Behind Us?

Catherine Agg
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Acronyms

BOND  British Overseas NGOs for Development
CSO  civil society organization
DAC  OECD Development Assistance Committee
DFID  Department for International Development (United Kingdom)
EC  European Commission
EU  European Union
FDI  foreign direct investment
Finnida  Finnish Department for International Development Cooperation
GFATM  Global Fund to Fight AIDS, Tuberculosis and Malaria
IMF  International Monetary Fund
INGO  international non-governmental organization
LNGO  local non-governmental organization
MCA  US Millennium Challenge Account
MDG  Millennium Development Goal
NGO  non-governmental organization
NNGO  national non-governmental organization
ODA  Overseas Development Assistance
OECD  Organisation for Economic Co-operation and Development
PPA  Partnership Programme Agreement
PRS  Poverty Reduction Strategies
PRSP  Poverty Reduction Strategy Paper
Sida  Swedish International Development Cooperation Agency
SWAp  sector-wide approach
UN  United Nations
UNCTAD  United Nations Conference on Trade and Development
UNHCR  United Nations Refugee Agency
UNRISD  United Nations Research Institute for Social Development
USAID  US Agency for International Development

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Summary/Résumé/Resumen

Summary
This paper looks at trends in government support for non-governmental organizations (NGOs), asking whether the “golden age” of the large international NGO (INGO) is behind us. Since the 1980s, INGOs have been seen as increasingly important actors in development policy. The first part of the paper outlines the role of INGOs in development policy from 1980 to the present, arguing that, although the sector was promoted strongly during the heyday of neoliberalism, donor governments have always used INGOs as a tool to carry out aid policies in the South. Current donor rhetoric, however, stresses the need to work with recipient governments to reduce poverty; new aid instruments including budget support and sector-wide approaches (SWAps) aim to channel aid directly to recipient governments.

Does this mean that the NGO sector is losing government support? Part 2 addresses this by studying the extent to which recent policy developments have affected the standing of large INGOs, looking at the funding trends for four organizations: Care, Oxfam, ActionAid and BRAC. It also examines the proportion of overseas development assistance (ODA) channelled to the NGO sector since 1980 by the main bilateral donors, asking whether government rhetoric on aid instruments is matched by disbursements of funds. This paper demonstrates that ODA going to NGOs rose steeply during this period.

It is important to note, however, that the vast majority of ODA is still in the form bilateral aid; the amount reported going to NGOs remains a small percentage of the total. One issue this paper discusses is the dichotomy between the perceived importance of “civil society” in aid policy and the official financial support it actually receives. Why did governments decide to support so pointedly a sector that defined itself as non-governmental? What will be the position of large INGOs, currently funded to provide basic services, in the future? The last section looks at the implications of partnerships between Northern and Southern NGOs, asking whether recent policy initiatives have benefited civil society in the South.

In conclusion, the paper finds a mixed picture in terms of funding trends, and argues that this points to a change in the role of INGOs in the current development paradigm, rather than their demise. However, donor stipulations for “partnerships” between Northern and Southern NGOs in which INGOs, due to control over funds, exercise a significant amount of power over their Southern partners, are building lasting hierarchies that seem unquestioned by both donors and INGOs. Despite often genuine aims to transfer skills to the South, resulting in endless well-meaning “capacity building” programmes, lack of transparency and trust between partners are undermining attempts to build constructive partnerships. This discrepancy between donor rhetoric and practice is causing resentment in the South, and it is something that must be addressed in order to avoid perpetuating global power structures.

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Résumé
L’auteure, qui s’intéresse ici à l’évolution du soutien des gouvernements aux organisations non gouvernementales (ONG), se demande si les grandes organisations non gouvernementales internationales (ONGI) n’ont pas déjà leur “âge d’or” derrière elles. Depuis les années 80, les ONGI ont été considérées comme des acteurs de plus en plus importants dans les politiques de développement. Dans la première partie, l’auteure retrace le rôle des ONGI dans la politique de développement de 1980 à nos jours, faisant valoir que, bien qu’elles aient connu une faveur particulière aux plus beaux jours du néolibéralisme, les gouvernements donateurs se sont toujours servis des ONGI pour mener à bien leurs politiques d’aide dans le Sud. Aujourd’hui, cependant, les donateurs tiennent un discours dans lequel ils soulignent la nécessité de travailler avec les gouvernements bénéficiaires pour faire reculer la pauvreté; de nouveaux
instruments, dont le soutien budgétaire et les approches sectorielles, visent à confier l’aide directement aux gouvernements bénéficiaires.

Faut-il en conclure que le secteur des ONG est en train de perdre l’appui des gouvernements? La deuxième partie cherche à répondre à cette question en étudiant dans quelle mesure la considération dont jouissent les grandes ONGI a souffert de l’orientation récente des politiques. L’auteure examine, pour ce faire, l’évolution du financement de quatre organisations: Care, Oxfam, ActionAid et le BRAC. Elle étudie aussi la proportion de l’aide au développement des pays d’outre-mer confiée par les principaux donateurs bilatéraux au secteur des ONG depuis 1980, pour savoir si les gouvernements mettent leur discours en pratique dans leurs versements. L’étude montre que l’aide au développement destinée aux pays d’outre-mer et confiée aux ONG a fortement augmenté pendant cette période.

Il est important de noter, cependant, que l’aide au développement des pays d’outre-mer est encore dans sa grande majorité bilatérale; le montant qui apparaît comme acheminé par les ONG reste un faible pourcentage du total. Le document traite, entre autres questions, de la dichotomie entre l’importance perçue de la “société civile” dans la politique de l’aide et le soutien financier qui lui est effectivement apporté par les gouvernements. Pourquoi ceux-ci ont-ils décidé de soutenir si ostensiblement un secteur qui se définit lui-même comme non gouvernemental? Quelle sera à l’avenir la position des grandes ONGI, qui reçoivent actuellement des fonds pour rendre des services de base? Dans la dernière section, l’auteure s’interroge sur les conséquences des partenariats entre ONG du Nord et ONG du Sud en se demandant si la société civile du Sud a bénéficié des récentes initiatives politiques.

En conclusion, elle brosse de l’évolution du financement un tableau contrasté, qui annonce, selon elle, moins la disparition des ONG qu’un changement de leur rôle dans le paradigme du développement actuel. Cependant, les dispositions prévues par les donateurs pour les “partenariats” entre ONG du Nord et du Sud, dans lesquels les ONGI, ayant la maîtrise des fonds, exercent une bonne dose de pouvoir sur leurs partenaires du Sud, mettent en place des hiérarchies durables qui semblent n’être contestées ni par les donateurs ni par les ONGI. Malgré des objectifs souvent sincères de transfert de compétences au Sud, qui se soldent par des programmes de “renforcement des capacités” pleins de bonnes intentions, le manque de transparence et de confiance entre les partenaires empêche les efforts déployés pour nouer des partenariats constructifs. Ce décalage entre le discours des donateurs et la pratique cause de l’amertume au Sud, et il faut y remédier si l’on veut éviter de perpétuer dans les structures les rapports de force existant à l’échelle mondiale.

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Resumen

En el presente documento se analizan las tendencias del apoyo de los gobiernos a las organizaciones no gubernamentales (ONG), partiendo de la pregunta de si ya ha pasado la “época dorada” de las grandes ONG internacionales (ONGI). Desde los años 80, las ONGI han venido adquiriendo una importancia cada vez mayor como actores en la política de desarrollo. En la primera parte del documento se describen las funciones de las ONGI en la política de desarrollo desde 1980 hasta el presente; el argumento es que, si bien la mayor promoción que recibió este sector tuvo lugar durante el auge del neoliberalismo, los gobiernos donantes siempre han utilizado a las ONGI como herramienta para llevar a la práctica las políticas de asistencia en el Sur. Sin embargo, la retórica actual de los donantes enfatiza la necesidad de trabajar con los gobiernos beneficiarios para combatir la pobreza; los nuevos instrumentos de ayuda, incluidos el apoyo presupuestario y los enfoques sectoriales, buscan canalizar la asistencia directamente hacia los gobiernos beneficiarios.

¿Significa esto que el sector de las ONG está perdiendo el apoyo de los gobiernos? En la parte 2 del documento se aborda este aspecto analizando el grado en que los recientes avances de
política han afectado la situación de las grandes ONGI, mediante un examen de las tendencias de financiamiento en el caso de cuatro organizaciones: Care, Oxfam, ActionAid y BRAC. También se estudia la proporción de asistencia para el desarrollo de ultramar (ODA, por sus siglas en inglés) que los principales donantes bilaterales han canalizado hacia el sector de las ONG desde 1980, a fin de determinar si la retórica gubernamental sobre los instrumentos de asistencia se equipara con los desembolsos de fondos. En este documento se demuestra que la ODA que se canaliza hacia las ONG aumentó considerablemente durante el período analizado.

No obstante, es importante destacar que la mayor parte de la ODA sigue adoptando la forma de asistencia bilateral; el monto que se destina a las ONG sigue siendo un pequeño porcentaje del total. Uno de los puntos que se analizan en este documento es la dicotomía que se observa entre la supuesta importancia de la “sociedad civil” en la política de asistencia y el apoyo financiero oficial que realmente recibe. ¿Por qué los gobiernos decidieron apoyar de manera tan significativa un sector que se definió a sí mismo como no gubernamental? ¿Qué posición adoptarán en el futuro las grandes ONGI que actualmente reciben fondos para prestar servicios básicos? En la última sección del documento se exploran las implicaciones de las alianzas entre ONG del Norte y el Sur, y se examina si las recientes iniciativas de política han beneficiado a la sociedad civil del Sur.

En el documento se concluye que existe una mezcla de tendencias de financiamiento, lo cual es indicio de un cambio en la función que cumplen las ONGI en el paradigma actual de desarrollo, y no la extinción de estas organizaciones. No obstante, las estipulaciones de los donantes en relación con las “alianzas” entre ONG del Norte y el Sur, en las cuales las ONGI (en razón del control que ejercen sobre los fondos) tienen considerable poder sobre sus socios del Sur, están estableciendo jerarquías duraderas que en ningún momento cuestionan los donantes o las mismas ONGI. A pesar de los objetivos, generalmente genuinos, de transferir destrezas al Sur (que se traducen en semipermanentes programas bien intencionados de “fortalecimiento de capacidad”), la falta de transparencia y confianza entre los socios están socavando los esfuerzos por formar alianzas constructivas. Esta discrepancia entre la retórica de los donantes y la práctica está generando resentimientos en el Sur, algo que debe atenderse a fin de evitar que se perpetúen las estructuras mundiales de poder.

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Introduction

The 1980s saw the onset of what could arguably be described as the “golden age of the international NGO [non-governmental organization]”. As figure 1 shows, the number of international non-governmental organizations (INGOs) has been growing steeply from the beginning of the 1980s; there were 38,000 NGOs registered as working in more than one country in 1996, more than double the number of a decade earlier (Scholte and Schnabel 2002:250).

The growth in the size and significance of the NGO sector in the 1980s was a significant trend for international development cooperation, and one that continued throughout the 1990s. In the 1980s–1990s, the NGO sector was increasingly seen as a key actor in development policy. There was a growing perception that non-governmental was preferable to governmental development, particularly the provision of social services such as health and education in the South. Edwards and Hulme, for example, point to the end of the Cold War as the point at which donor policy across the board changed in favour of NGOs. From this point NGOs, previously acknowledged as small-scale welfare providers, became “the preferred channel for service provision, in deliberate substitution for the state” (their italics) (Edwards and Hulme 1996:2).

One explanation for the promotion of the NGO sector at this point is that they were seen in a positive light across the political spectrum. The neoliberal agenda of “rolling back the state” advocated diverting funds away from government control. For different reasons, grassroots movements of the Left also supported the growth of the NGO sector, seeing in its goals of participation and empowerment, potential for a change in social structures.

In this environment, state structures, which were facing considerable obstacles in providing basic services to their citizens, were not considered a suitable or popular conduit of development aid. Developing country governments faced a no-win situation. As funds were withdrawn from state coffers to be channelled through NGOs, public services began to suffer. The welfare provision offered by NGOs became more necessary, to fill cutbacks in public services.

More recently, however, the climate has changed, and the pendulum appears to have swung against NGOs. Recent international initiatives have stressed the need to work with recipient governments to reduce poverty. This includes emphasizing the responsibility of the
government to provide social services. In a softening of the neoliberal position advocated by the World Bank during the 1980s, the 1997 World Development Report suggests that donors should support state capability by building up public institutions (World Bank 1997). In 1999, the World Bank and the International Monetary Fund (IMF) launched Poverty Reduction Strategies (PRS), which claimed to put state ownership of policies for poverty reduction back on the agenda.

Since the 2002 United Nations Conference on Financing for Development, in Monterrey, Mexico, these developments have solidified into what’s become known as the “consensus model” of aid financing. Rogerson et al. (2004:v) in The International Aid System 2005–2010: Forces For and Against Change identify this as “the Monterrey Aid Compact, the Millennium Development Goals, the PRSP [Poverty Reduction Strategy Paper] process, ‘streamlined’ conditionality, and performance-based aid allocations”. This model applies particularly to the European and multilateral donors: the promotion of government “ownership” of its country’s development policy is central to it.

Parallel to changes going on at multilateral and state levels, there has been a growing body of criticism from researchers and, significantly, from the NGO community itself, of the policy of giving ever larger shares of public funds to INGOs in order to finance welfare provision. NGOs are concerned about the implications of losing their role as monitors of government policy and becoming merely “contractors” of donor agencies. From all sides of the debate there is concern that any comparative advantage that NGOs have over the state as a service provider on a micro level—that they are smaller, more flexible, better able to reach the poorest and most marginalized—gets lost as NGOs themselves become larger and more bureaucratic. Even the comparative advantage of NGOs remains under debate: studies done on the subject reveal that, when similar funds are available, there is no conclusive evidence that NGOs perform better than the state in service provision.

As a result of these questions, and in the light of their increased importance, NGOs are also facing questions about the legitimacy of their operations. There is a perception that, because they are given a great deal of importance, they hinder the provision of government social services in developing countries. The democratic accountability of NGOs has also come under question. But what is most relevant for a discussion about funding trends is the tension between INGOs and local NGOs (LNGOs). The challenges facing INGOs with regard to their accountability and democratic legitimacy, together with the increasing number of LNGOs, make it increasingly hard for donors to justify the lack of direct funding of civil society in the South.

Part 1 of this paper outlines the role of INGOs in development policy from 1980 to the present, arguing that, although the sector was strongly promoted during the heyday of neoliberalism, donor governments have always used INGOs as a tool to carry out aid policies in the South. Current donor rhetoric, however, stresses the need to work with recipient governments to reduce poverty; and new aid instruments including budget support and sector-wide policies (SWAs) aim to channel aid directly to recipient governments. Does this mean that the NGO sector is losing government support?

Part 2 addresses this by looking at the extent to which recent policy developments have affected the standing of large INGOs by examining the funding trends for four organizations: Care, Oxfam, ActionAid and BRAC. It also examines the proportion of official development aid (ODA) channelled to the NGO sector since 1980 by the main bilateral donors, asking whether government rhetoric on aid instruments is matched by disbursements of funds. This paper demonstrates that ODA going to NGOs rose steeply during this period.

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1 This claim is, however, controversial and many see Poverty Reduction Strategy Papers (PRSPs) as a continuation of a neoliberal agenda in a new guise. See, for example, McKinley (2004).
It is important to note, however, that the vast majority of ODA is still in the form of bilateral aid; the amount reportedly going to NGOs remains a small percentage of the total. One issue this paper will discuss is the dichotomy between the perceived importance of “civil society” in aid policy and the official financial support it actually receives. How did governments end up supporting a sector that defined itself as non-governmental? What will be the position of large INGOs, currently funded to provide basic services, in the future? The concluding section, Part 3, looks at the implications of partnerships between Northern and Southern NGOs, asking whether recent policy initiatives have benefited civil society in the South.

Part 1: NGOs as Development Actors

While a broad range of organizations are commonly referred to as NGOs, this paper uses the following definitions. NGOs are the larger and more professionalized civil society organizations that offer benefits to those outside their membership (UNRISD 2000). International NGOs operate outside their country of origin, which is usually in the developed world, and often in more than one country or region. Local NGOs are based in the region in which they work, and are staffed locally.

INGOs occupy a unique, and arguably problematic, position within civil society. Not necessarily locally based, NGOs often export elements from a different culture, including aims, staff and working practices. INGOs have multiple identities and loyalties: they represent an element of global civil society, but they are also rooted in Western culture; they do not work for the (direct) benefit of their own society, but they are answerable to both public and private donors usually based in a single northern European country; and they work hard to preserve autonomy and adhere to international human rights standards. Each of these—often conflicting—elements, separate INGOs from civil society in their own country and the countries in which they work.

INGOs are, moreover, a significant provider of social services in the developing world. One estimate is that the not-for-profit sector is currently worth over $1 trillion a year globally, ranking as the world’s eighth largest economy (Sustainability 2003). This places them in a powerful position: the United Kingdom Department for International Development (DFID) notes that the world’s largest NGOs now have incomes “several times larger than several bilateral donors, are active in more countries and are certainly as influential in their ability to command public and political attention” (DFID 2000a).

The role of INGOs in welfare provision varies greatly by region, and to some extent by country. In general, however, the dependence on NGOs can be linked to the decline of the state as a viable provider of social services. In sub-Saharan Africa, where states were severely affected by structural adjustment policies, church-based INGOs alone provided a significant proportion of health and education services. By the mid-1990s, 40–50 per cent of education services in Kenya were provided by NGOs, which also provided 35 per cent of all health services. In the same period, 40 per cent of health care provision in Ghana and 30 per cent in Malawi was from INGOs (Edwards and Hulme 1997).

During this period, NGOs also played a key role in service provision in South and Southeast Asia. BRAC in Bangladesh is an example of an NGO expanding into the entire infrastructure of a country. BRAC is a huge organization—the largest in the country—with a core staff of nearly 28,000 with an additional 200,788 people employed in projects. Its projects include a university, a bank, an Internet service provider and several financing organizations. Its 115,840 village organizations have a membership of just under four million. BRAC is a key example of how large some NGOs have grown, with the support of the international development community. In some villages in Bangladesh, “you can send your child to an NGO school, have a vasectomy

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2 All $ figures refer to US dollars.
arranged by an NGOs health worker, sell your milk to an NGO dairy and talk on an NGO phone. And there’s usually a choice of several NGO banks. There’s even NGO entertainment” (Phinney 2002).

Development discussion during the period implicitly portrayed NGOs as innovative, value-driven organizations with access to the people who needed help the most, in comparison to governments, which were seen as bureaucratic, inherently inefficient, and possibly corrupt. NGOs are also part of “civil society” and, as such, fully supported by the development community as a cushion between the state and individual.

**Challenging NGOs in development**

NGOs have been described as more flexible, more democratic, less hierarchical, closer to grassroots beneficiaries and with a greater understanding of local needs and indigenous technologies. These characteristics were often taken as self-evident and non-controversial, and therefore not analyzed too closely. But some, including members of the NGO community itself, have argued that the policy of channelling so much development aid through NGOs should be assessed more thoroughly.

By the late 1990s, leading researchers were exposing a lack of empirical study on the whole question of NGOs in welfare provision, accentuated by the fact that NGOs themselves do not have to keep accurate records of their programmes. Much of the case for NGOs as development actors had been made on ideological grounds by donors and supporters, rather than based on empirical verification (Edwards and Hulme 1998:1).

Implicit in the policy debate of the 1980s and 1990s was that NGOs are more cost-effective than the state and better at reaching the very poorest. However, the few studies that were undertaken yielded ambiguous results. Evaluations by the Finnish Department for International Development Co-operation (Finnida 1999; Gibbs et al. 1999) suggest that the number of poor being reached by NGOs in the 1990s remained at around 15-20 per cent. Fowler points to the evidence that an even smaller percentage of people have seen a sustained change for better in their lives. He concludes that the contribution by NGOs to social change has proved less durable than is popularly imagined (Fowler 2000).

Edwards and Hulme draw a similarly equivocal interpretation from the limited comparative studies available. They point out that “There is no empirical study that demonstrates a general case that NGO provision is ‘cheaper’ than public provision” (Edwards and Hulme 1998:4) and that claims that NGOs reach the poorest of the poor are often inaccurate. In addition, it could be assumed that governments would be able to provide services as cost effectively if they received subsidies equal to that of the NGO sector.

Degnbol-Martinussen and Engberg-Pedersen come to similar conclusions. They agree that the question of NGOs' comparative advantage is an important one that hasn’t been sufficiently addressed, but say that studies so far suggest that the approaches of NGOs and official bodies to poverty alleviation have been broadly similar, and have achieved very similar results (Degnbol-Martinussen and Engberg-Pedersen 2003).

The effectiveness of NGOs as service providers has also critically evaluated by the United Nations Research Institute for Social Development (UNRISD); this analysis is summed up in box 1.

After a decade of being promoted as suitable channels for international aid by both multilateral and bilateral donors, there is now growing caution about NGOs' efficiency as service providers. It is part of a more extensive questioning of the role of Northern-based NGOs in development, which, ultimately, questions the legitimacy of the NGO sector itself.
TRENDS IN GOVERNMENT SUPPORT FOR NON-GOVERNMENTAL ORGANIZATIONS:
IS THE “GOLDEN AGE” OF THE NGO BEHIND US?

CATHERINE AGG

Box 1: How good are NGOs as service providers?

The following conclusions have emerged from UNRISD and other work on the impact of NGOs.

- Reaching the poorest—Most NGO projects do reach the poor, though not necessarily the poorest. There is still little evidence, however, that NGOs are intrinsically better at reaching the poor than are state services.

- Coverage—The scale of operations is limited and the coverage patchy. Moreover, NGOs are often not very good at coordinating with each other or with the state.

- Technical capacity—NGOs perform better in sectors and subsectors where they have built up expertise, as in delivering local-level services. They have considerable capacity for innovation, experimentation and flexible adaptation of projects to suit local needs and conditions. They are less successful at more complex interventions such as integrated rural development.

- Policy direction—One of the major concerns about relying on NGOs for service provision is that they cannot provide a broader framework for action. Only a government can develop clear policy and regulation in fields like health and education.

- Poverty reduction—NGO projects in health, education and water supply alleviate poverty in the communities where they operate, but generally they do not significantly reduce it.

- Quality—There is little evidence that NGOs provide better quality services than the state. What seems to matter more is which of the two has more money.

- Cost-effectiveness—There is little evidence that NGOs are inherently more cost-effective than the state. Small projects may be more efficient than larger ones, regardless of who is running them. One comparative study in India, for example, found that the costs of NGO and state health services were broadly similar.


The question of legitimacy

Concerns have been raised that, in providing services that were previously the state’s responsibility, and in accepting large government grants to do so, NGOs have been sustaining the neoliberal agenda. In alleviating the worst aspects of structural adjustment, NGO programmes, it is argued, have contributed to the processes undermining the state, in particular, taking pressure off governments and donors to create working welfare states in developing countries (Eade 2000). The NGO community is aware that questions of legitimacy need to be addressed, especially in an increasingly competitive funding environment, one of which is accountability. NGOs are not accountable to any constituency other than their source of funding. There is concern that the responsibility for the provision of welfare services has been transferred from the state, which is ultimately accountable to its citizens, to a private organization.

It has been noted that this is a dangerous trend for the progress of democracy in developing countries. As Rehman Sobhan of Dhaka’s Centre for Policy Dialogue argues: “What has happened is a loss of ideological sustainability and a de-legitimization of governments, who have become cut off, both from a sense of self worth, but also from the notion that they have a significant contribution to make” (Phinney 2002). There is no point in citizens actively engaging in democracy and lobbying governments for improvements in services, if welfare provision has been taken out of the remit of the state.
There are concerns that a dependence on INGOs, whose constituency remains in the West, would lead to the imposition of an alien agenda. The employment of expatriate staff and the discrepancies in wages is also a source of tension. Not less problematic is the employment of locals on international salaries, which drains local capacity.

The debate surrounding NGO legitimacy and accountability often crystallizes around the tension between internationally based and locally based NGOs. Donor discourse during the late 1990s emphasized “good governance”; there was a realization that collapsed states were a danger that could extend beyond their own borders. A strong civil society was seen as necessary for implementing a good governance agenda, and local civil society capacity building a required step. Donor rhetoric began to promote LNGOs as key development actors. Part 3 discusses how far this is being implemented.

For INGOs concerns regarding efficiency, accountability and legitimacy raise crucial questions about their future role. In particular, those which expanded in terms of staff and resources may now see a situation in which they are being forced to refocus their aims and objectives as an organization. A recent survey of the sector was not optimistic about the general level of preparation: “Few of them [NGOs] have come firmly to grips with the enormous implications of these changes in terms of their future size, form and relationships” (Sustainability 2003:226).

Nor does the NGO sector necessarily welcome a change in role: while partnerships may have been generally welcomed, a UK government survey in 1995 revealed that 80 per cent of UK NGOs opposed aid being channelled directly to Southern NGOs (Degnbol-Martinussen and Engberg-Pedersen 2003).

From a Southern perspective, LNGOs have voiced concerns that INGOs are stifling the natural growth of civil society in developing countries. INGOs are seen as having a comparative advantage over their local counterparts. They are not always subject to the same stringent registration requirements as LNGOs; local governments may have little choice about allowing INGOs to operate, in the knowledge that they are supported by donors and will bring in extra resources. In the eyes of local governments, on the other hand, LNGOs may be regarded as competitors for existing resources and political space.

**Government support for the NGO sector**

The above discussion indicates the extent to which NGOs and governments are interlinked in the implementation of current development policy. That this is not a new phenomenon is something much of the reasoning and research behind the promotion of the NGO sector in development has failed to highlight. Official support for NGOs has a long history in Western democracies, as table 1 outlines.

Reimann gives a good example of this state/NGO interdependence in her paper on the emergence of Japanese INGOs during the early 1990s, which she attributes to a shift in government policy in an active attempt to build up an INGO sector in Japan. The change in policy is further attributed to international norms and pressures, in particular, the incorporation of INGOs as “partners” within multilateral institutions such as the World Bank and UN agencies (Reimann 2001).

It could be added that an increase in ODA channelled through NGOs was also one of the international normative trends supporting the sector. During the 1980s and 1990s the international aid community substantially increased funding to the sector. Donor rhetoric often belies the fact that voluntary contributions alone could not have supported the proliferation of NGOs in this period. As analysis of the figures shows later in this paper, while official funding to the sector as a whole remains a small proportion of ODA, large NGOs receive a significant proportion of their income from official sources.
Table 1: Government NGO support programmes and legal climate for NGOs in selected countries of the Organisation for Economic Co-operation and Development (OECD)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year of establishment of the first official NGO funding programme and sorts of funding</th>
<th>Legal and tax provisions for non-profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>1952</td>
<td>- variety of NGO funding programmes including project grants, framework agreement block grants, matching funds, special funds, volunteer programmes and development education</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- charitable organizations register at the Post Office</td>
</tr>
<tr>
<td>United States</td>
<td>1961</td>
<td>- a wide variety of programmes including matching grants, food aid, child survival grants, farmer-to-farmer aid, development education grants, emergency aid funds, outreach grants, transportation costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- tax exemptions available but no deductions on contributions</td>
</tr>
<tr>
<td>Germany</td>
<td>1962</td>
<td>- variety of programmes including a co-financing scheme, project funding, “package” grants to umbrella NGOs, emergency assistance and food aid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- non-profit legal status easy to obtain and common (registration system)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- with charitable status, tax exemptions and deductions are available</td>
</tr>
<tr>
<td>Canada</td>
<td>1970s</td>
<td>- a variety of programmes such as matching grants, food aid, emergency aid, bilateral program projects, and development education grants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- non-profit and voluntary legal status easy to obtain (registration system)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- tax exemptions and deductions available</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1974</td>
<td>- variety of programmes including a joint funding scheme (matching grants), volunteer funds, emergency and refugee aid and food aid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- legal status as a charity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- certain tax exemptions and deductions permitted</td>
</tr>
<tr>
<td>Japan</td>
<td>1989, 1990s</td>
<td>- three new grant and subsidy programmes administered by the Ministry of Foreign Affairs, and local government set up in 1989–1992; in the late 1990s, new contract schemes and &quot;capacity building&quot; programmes for NGOs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- since 1998, non-profit status through a registration system; before 1998, “public interest corporation” (koeki hojin); legal status through bureaucratic approval</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- from 1988 small tax breaks for public interest corporations promoting international understanding; no tax breaks for nonprofits on contributions</td>
</tr>
</tbody>
</table>


The growth of INGOs can, to a large extent, be attributed to support from Northern governments. INGOs are now facing a scenario in which they are dependent on retaining the position in the aid paradigm: one implication of this is that the sector must retain good relations with their main donors. This dependency has threatened NGO autonomy, highlighted by the recent impact of the security agenda on foreign aid. This is discussed later.

**NGOs in the current aid climate**

The current trends underlying donor policy, which are supported by European donors in particular, present some interesting challenges for the NGO community. The main change since the heyday of NGOs as state-supported development actors, is a recognition that the project-
based development associated with NGOs should be replaced by support for national
governments to implement broader, longer term programmes of poverty reduction. In terms of
policy, some governments are envisaging a more structured, “harmonized” aid environment, in
which supporting NGOs to run service-delivery projects is no longer central.

A 1999 report from the Organisation for Economic Co-operation and Development (OECD)
Development Assistant Committee (DAC) finds that a new approach to development aid,
whereby more funds are given directly to the recipient government, is developing, although no
agency is currently abandoning the project approach altogether. The report predicts, “The case
for a more balanced approach, in which much less support is channelled outside the budget, is
likely to be increasingly influential” (OECD 2000:85). The trend of channelling aid directly
through NGOs is also noted, with the United Kingdom, United States, Australia, Norway and
Sweden forging partnerships with local organizations in the South (OECD 2000). Riddell’s
synthesis study of development agencies notes that “The increasing prominence of programme-
based approaches as a preferred aid modality is widely seen as a step forward in relation to
earlier project-based approaches” (Riddell 2002:2).

Rogerson identifies the latter approach as a “consensus model” among donors, which solidified
after the 2002 Conference on Financing for Development. In particular, the “Monterrey
consensus” represents the desire on the part of northern European and multilateral agencies to
harmonize aid practices and lower transaction cost for recipient governments through budget
support. Other elements include:

- “a compact linking sovereign responsibility in developing countries for good
governance and development choices with better aid quality and sharply
increased aid volume in developing countries;
- the Millennium Development Goals (MDGs) as guidance for country development
priorities;
- partnership approaches including the Poverty Reduction Strategy process;
- streamlined conditionality, recognizing the failure of traditional conditionality;
- performance-based aid allocations” (Rogerson et al. 2004:10).

However, those outside the consensus model, most notably the United States, are coming up
with alternative aid arrangements that are progressing in a very different direction. This
includes the development of massive funds, such as the US Millennium Challenge Account
(MCA) and the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM). Rogerson notes
that these funds are corporate, foundation-like structures with little representation in
developing countries. As such, they bypass the existing ODA system and, while presented as an
addition to existing international aid structures, probably have “revolutionary, as opposed to
evolutionary, intent, fudged for the time being by letting the two systems coexist side-by-side”
(Rogerson et al. 2004:20).

Divisions in the international community, therefore, are currently evident between those who
back the MDGs’ aim to grant more generous development aid and give governments more
autonomy in deciding how to spend it, and those who support the creation of funds with a
specific focus (for example, health) with stringent conditionalities attached. The latter
developments, however, could be good news for the NGO community. In contrast to direct
budget support, which bypasses the voluntary sector, global funds could potentially channel
large amounts of aid through NGOs (Rogerson et al. 2004). Despite the rhetoric, therefore, for
many donors INGOs remain a popular channel for distributing international development aid.

Finally, the most recent development to affect the NGO sector is the shift toward foreign direct
investment (FDI) in services, highlighted in the World Investment Report 2004, published by the
United Nations Conference on Trade and Development (UNCTAD 2004). If this does become
mainstreamed, it will require NGOs to seek funding from market-based sources rather than governments. Sustainability is confident that this is a profitable route for the sector, provided it can adjust to the new dynamics: “We are seeing a fundamental shift in the landscape over which NGOs operate, with market influence emerging as a key feature” (Sustainability 2003:49). They predict that NGOs investing in market-based change could also find alternative sources of funding emerging, including service relationships with governments. The concept that the NGO sector might align itself with the private sector and compete for projects is a new one and little attention has been given to it so far. The fact that some connected to the “voluntary” sector are considering it reveals the level of uncertainty about the current funding environment.

From the perspective of civil society in the South, recent developments have not necessarily brought great benefits to local civil society. Other donor policies, such as government-to-government support and more bureaucratic application and reporting procedures for grants, might counteract any “goodwill” on the donor’s part toward LNOGs.

**New humanitarianism**

A less positive aspect of the current international climate for the INGO sector is the impact of the security agenda on foreign aid. In several countries, including the United States and Japan (the world’s biggest donors in real terms), overseas aid is increasingly directed toward security rather than poverty reduction. Traditionally, US aid policy has been focused on issues of national security and, although at the beginning of the 1990s development goals were placed higher on the agenda, the attacks on the United States on 11 September 2001 led to a re-emphasis on the traditional approach. A 2002 report from the United States Agency for International Aid (USAID) claims that the 9/11 attacks changed the landscape for global development and signalled a new direction for the agency (USAID 2002). The report points out that the United States’ best interests are served by concentrating funds on democracy building and good governance, rather than poverty, and retains confidence in NGOs and other civil society groups being in the best position to achieve these aims: “The most important thing the United States can do to advance development is help generate the demand for democracy and better governance—by strengthening the capacity of NGOs, interest groups, religious institutions, social movements, the media, universities and think tanks” (USAID 2002:11).

By 2004, USAID was talking about “strategically reforming US bilateral foreign aid, particularly the substantial portion administered by USAID”. The main reason given for this reform was issues of “national security”: “USAID and the State Department have recently created a Joint Strategic Plan to harmonize foreign policy and development goals” (USAID 2004:8, 6).

The UK NGO network British Overseas NGOs for Development (BOND) notes that a number of states, in particular Australia and Denmark, are in the process of making counter-terrorism initiatives a key aspect of their development aid. Security is also on the agenda of the multilateral agencies: OECD has recently endorsed a policy paper on *A Development Co-operation Lens on Terrorism Prevention: Key Entry Points for Action*, which makes the case for expanding ODA eligibility criteria in order to take account of counter-terrorism initiatives (BOND 2004).

The security agenda is not generally welcomed by the NGO sector. A recent policy paper by InterAction, which included most US-based development NGOs, criticizes US foreign aid policy as increasingly incoherent. They claim aid distribution has been distorted by the expanding “war on terrorism”, with longer-term projects abandoned and attention diverted away from the neediest areas in order to focus on the latest “hotspot”, such as Afghanistan or Iraq. In some cases, the NGO community has come under pressure to align itself with US foreign policy and has expressed concern that NGOs have permanently compromised their neutrality as humanitarian organizations as a result (InterAction 2003).

This section has outlined what might be interpreted as the “rise and fall” of the NGO sector since 1980. This scenario highlights the promotion of NGOs as key development actors by those
across the political spectrum, which is halted by the subsequent criticism of the efficiency, accountability and legitimacy of the project approach of the sector. That NGOs have now fallen from favour would seem to be backed up by current donor policy, including the consensus model advocating a more coherent approach to development aid, and policies to channel funds directly to governments in the South. NGOs have also had to address the challenge of the new security agenda on foreign aid, which has illustrated the extent to which the autonomy of the sector may be compromised by the reliance on government funds.

On the other hand, it is possible to find elements of the current aid climate that indicate that predictions of the demise of the NGO sector are premature. These include the role of INGOs in implementing the good governance compact, in particular capacity-building programmes with civil society organizations in the South (this is discussed in part 3); the large global funds which largely bypass Southern governments; and the possibilities offered by private sector involvement in service provision. As the discussion has outlined, Northern governments have used INGOs as a tool in their development policy for decades. The next section looks at whether there is any evidence that governments are now withdrawing funds or political support from the NGO sector.

Part 2: Trends and Patterns in NGO Funding

Four sample NGOs: Care, Oxfam, ActionAid and BRAC

The consensus model in particular would appear to have potentially serious consequences for development NGOs. It might be assumed that funding for service provision, formerly channelled through INGOs, would now go directly to governments via budget support. However, available data from the four selected NGOs shows funding from official sources has not shown any steep decline in recent years. The section below looks at the income and expenditure of four large NGOs over the last five years.

While data on official aid, at least from OECD countries, is systematically collected through the DAC, there is no comparable body collecting data on NGO activity. This makes generalizations about the sector difficult, especially in light of the number and diversity of organizations. The *Global Humanitarian Assistance Report 2003* estimates that around half of the income from its sample of NGOs came from official sources, but this varied considerably. The report gives the examples of, at one end of the spectrum, Action Contre la Faim France, which received 70 per cent of its income from official sources, in contrast with World Vision USA, which received only 23 per cent (Global Humanitarian Assistance 2003).

The NGOs in this sample (Care USA, Oxfam, ActionAid and BRAC) were selected because they represented a selection of large well-established development NGOs. In addition, their financial reports for the last five years are published and easily accessible to the public. Although the situation is improving, many NGOs in the past have not made this information available. The quality of financial data produced by the NGO sector has been a common source of criticism, and uneven data greatly hampers efforts to research the sector. According to BOND,

In terms of the publication of annual reports, the INGO group stands out for its lack of consistency in producing this document. Moreover, the quality of financial information provided by those that do produce an annual report varies substantially. Some INGOs fail to provide any financial information at all, a serious failing given the criticism leveled at this sector for some years now regarding how they spend supporters’ and government money (BOND 2004).

Care USA is an example of a large INGO that receives the vast majority of its funding from the US government. The proportion of official to public support has dropped significantly during the last five years: figure 2 shows that in 1997, Care’s income from public donations was 25 per cent of the amount it received from the US government; by 2002, it was over 50 per cent.
However, in monetary terms, government support for Care USA rose steadily from 1997–2000 and has maintained that level since.

**Figure 2: Funding for Care USA (in million dollars)**

The UK INGOs, Oxfam and ActionAid, although larger, depend to a much greater extent on public donations than on government support (see figures 3 and 4). ActionAid’s contributions from official bodies declined in the late 1990s, but by 2001 had crept above 1995 levels. Oxfam saw a very sharp rise in funding from official sources between 2000 and 2001, with amounts rising from £28,361,000 to £54,499,000. Although funding levels dropped again in 2002, they remain significantly higher than in 1996.

However, these figures hide some of the complexities of current NGO funding. Oxfam receives large amount from the public but it is also traditionally supported by the UK government. For example, it now funds approximately 50 per cent of its overseas work from official sources, and is one of only five UK NGOs to be long-term recipients of a block grant from DFID (Wallace and Chapman 2004). ActionAid on the other hand, only recently received this type of core funding from the UK government when it became part of the extended Partnership Programme Agreement (PPA). But ActionAid is building up its official funding base, and now also receives money from the vacuously named Civil Society Challenge Fund, which supports “CSOs [civil society organizations] to undertake development activities on behalf of DFID channelled through individual bilateral and multilateral organisations” (DFID 2004b).

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3 All £ figures refer to UK pounds.
BRAC was established as a relief and rehabilitation organization in Bangladesh in 1972, and is now an extensive development organization. However, its accounts indicate that the climate is actually worse for this NGO based in the South: donor contributions have fallen in proportion to annual expenditure, from 32 per cent in 1998 to 20 per cent in 2003 (figure 5).

For three out of four of the NGOs looked at here, therefore, donor contributions have fallen or levelled off since the mid-1990s. The figures, however, do not indicate a severe decline in government funding, particularly for Northern-based INGOs. However, there is evidence that the funding climate for NGOs is currently in flux, and there are several additional factors influencing the amount of money going to individual organizations.
In the United Kingdom, for example, DFID has drastically cut the number of NGOs it supports—from 229 in 1999-2000, down to 150 in 2000-2001. It is keen to develop more “partnership agreements” with selected, trusted NGOs. This may mean that the more established NGOs (such as the ones in this sample) see their funding maintained, or even rising, while others see their funding disappear altogether. One study found that NGOs across the sector are “putting considerable effort in to raising more funding from these sources, and want to increase their share of this income by winning large contracts as well as accessing earmarked NGO funding lines” (Wallace and Chapman 2004:5). The study also notes the decline in money available to NGOs, especially unrestricted funds for their own projects, although this is not backed up by figures (Wallace and Chapman 2004).

**Figure 5: BRAC funding (in million dollars)**

![Figure 5: BRAC funding](image)

**Figure 6: Emergency and rehabilitation aid as proportion of ODA (per cent)**

![Figure 6: Emergency and rehabilitation aid as proportion of ODA](image)
In reflection of their growing support of the sector, donors are gaining power in other ways. For example, to receive a partnership agreement with DFID, NGOs have to prove that they contribute to the UK government’s own targets and priorities. More generally, NGOs have long been working within donor restrictions on how they can spend the funds they receive. Figure 7 shows that most of the funds ActionAid receives from official sources is “restricted”, that is, it must be spent on an activity specified by the donor. Oxfam categorizes all government funding as restricted, while Care indicates that it is free to spend the funding it receives from official sources as it chooses.

Figure 7: ActionAid income from official bodies (in thousand pounds)

Figure 8: ActionAid expenditure by activity (in thousand pounds)
INGOs are also moving away from project-based development work to their current focus on civil society capacity building and a greater advocacy role. This has brought about fundamental changes in the way INGOs work, including importantly their work with Southern partners.

It is also fast becoming the raison d’être for INGOs. As ActionAid’s Web site advertises:

> A significant proportion of our advocacy work is now being undertaken through partnerships with community groups and other local organizations at national level and through coalitions and alliances at international level. We will continue to use our resources and influence as an international organization to contribute towards creating and expanding, not occupying, the space available to local people and institutions for influencing and action (www.actionaid.org).

ActionAid’s accounts (figure 8) indicate that, despite this, their own programme costs exceed the amounts they give out in grants, although the gap has narrowed slightly in the last two years.

Out of this sample of INGOs, ActionAid’s Web site is the one that acknowledges most openly the finite temporal space left to INGOs. It states, for example, “Where possible, ActionAid works with local partners to ensure that the work will continue when we have left an area” (www.action.org). However, partnerships between civil society in the North and the South are, to varying extents, driven by donor prerogative; as such, they are problematic for all parties. Discussions with various NGOs, outlined in part 3, indicate that funding, in particular from official sources, is often a fundamental source of tension.

There are several additional factors impacting on the current role of NGOs, which could influence funding trends in the future. One of these is the balance between humanitarian and development work. Humanitarian work accounts for a large part of traditional INGO expenditure: Oxfam spent 45 per cent of its budget on this in 2003 and Care 40 per cent. This means that, in a discussion about trends in development aid policy, it is important to remember that almost half of a particular NGO’s income may be devoted to shorter term relief work.

Donors have been giving more priority to humanitarian relief work (described by DAC as emergency/disaster relief) in recent years. As figure 6 shows, in 1980 1.35 per cent of total ODA went to humanitarian relief work; in 2003, 8.5 per cent. The United Nations Refugee Agency (UNHCR) estimates that by the late 1990s, its partners received 40 per cent of their income from governments—in 1970 it had been around 1.5 per cent (Global Humanitarian Assistance 2003). Commentators have attributed this change to a more overt attempt to integrate humanitarian relief into foreign policy. Although this development might have directed more funds toward NGOs experienced in emergency relief, it has also concerned those who are worried about the implications of implementing a government agenda.

This was brought to a head in the post-9/11 environment, which cemented links between humanitarian relief and security issues. One study found that many NGOs, especially in the United States and United Kingdom, were unprepared when it came to positioning themselves in response to their governments’ belligerent policies in Afghanistan and Iraq (Global Humanitarian Assistance 2003). There was by no means a coherent response across the sector as to the extent to which NGOs should get involved in programmes that may be interpreted as support for their government’s military action: those who did came in for criticism.

The discussion above indicates that the key issues surrounding funding for these NGOs are concern over increasing donor power as a result of new partnership agreements, and the resulting stipulations and restrictions that come with donor money. There is less evidence of a severe decline in donor funds. However, given the complexities of funding across the sector, this sample of large development NGOs needs to be compared with trends across the sector.
The next section, therefore, looks at trends in the amount of ODA going to NGOs, both worldwide and by country.

**Analysis of ODA disbursements to NGOs**

While debates surrounding the position of NGOs in the recent and current development environment are producing a growing body of literature, little concrete research has been done on how this is affecting the funding of the sector as a whole. This section looks at recent trends in ODA going to NGOs from DAC member countries\(^4\) using OECD data. OECD development co-operation reports began publishing the amount of official aid channelled through NGOs in the 1980s; their data allows comparison of trends by country as well as worldwide. Set against OECD figures for total ODA, it is possible to calculate the proportion of aid going to the NGO sector.\(^5\)

Before attempting any analysis of funding trends, it is important to note that the data illustrating NGO activity is notoriously unreliable. OECD data has many limitations, with complex reporting requirements differently interpreted by individual governments. For example, donors must choose between declaring a disbursement as “emergency and distress relief” (humanitarian relief) or a grant to an NGO; it cannot be both under DAC directives (Global Humanitarian Assistance 2003). Therefore, some countries may not declare any of the emergency relief they channel through the sector as grants to NGOs. This is one reason why the proportion of aid reported as channelled through NGOs is smaller than in reality. OECD data also does not include any data on US funding via the NGO channel. However, it remains the only existing set of consistently collected data on the issue, covering all the donor countries over a large time scale.

![Figure 9: ODA to NGOs (in million dollars)](image)

The net amount of total ODA reaching the NGO sector has grown overall since 1980 (figure 9). Figure 10 shows the percentage of ODA going to NGOs also increased during this period from

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\(^4\) DAC’s member countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and the United States, as well as the Commission of the European Communities.

\(^5\) Aid going to NGOs has been calculated from a sum of the following DAC aid flows: General (core) support to national NGOs (code 077); General (core) support to international non-governmental organisations (code 076); and ODA channelled through NGOs (code 421). A detailed explanation of DAC reporting directives is available online at [www.oecd.org/dac/stats](http://www.oecd.org/dac/stats).

\(^6\) The figures in this section are all based on DAC statistics available online at [www.oecd.org/dataoecd/50/17/5037721.htm](http://www.oecd.org/dataoecd/50/17/5037721.htm), accessed in June 2005.
0.18 per cent of total ODA in 1980 to 6 per cent in 2002. Although the proportion fell back slightly in 2003, these figures do not support fears of a real decline in official funds going to the NGO sector. On the other hand, the data does represent a steep rise in funds going to the sector in the mid-1980s, with the amount rising more than fourfold in a single year between 1984 and 1985.

In 1987, DAC began collecting statistics on a new type of flow: “ODA channelled through NGOs”. This is defined as “Bilateral aid administered by NGOs on behalf of the official sector. In other words, ODA channelled through NGOs, as distinct from official support for NGOs’ own programmes which is reported separately”.7 This indicates that the new aid mechanisms of the bilateral donors had become formalized by the late 1980s.

![Figure 10: Proportion of ODA channelled through NGOs (per cent)](image)

In monetary terms, NGOs worldwide received $4,054.83 million in official aid from DAC member countries in 2003, in comparison with $47.64 million in 1980. In light of this dramatic rise, and in the absence of any steep decline subsequently, the concerns of the NGO sector about their funding base might seem unfounded. However, the overall trend masks variations between DAC member states—funding trends are not quite so comfortable for NGOs in all countries.

Figure 11 shows the situation for NGOs in three countries: Canada, Sweden and Switzerland. While some part of the sharp variations in funding flows can be attributed to technicalities in reporting allocation, NGOs in these countries saw a steep rise in funding, which is now declining. Canadian NGOs have seen the most dramatic losses from a share of $281.78 million in 1991 to just $13.5 million in 2003. Swedish NGOs also had to deal with severe cutbacks during this period: in 1998 the sector received $365.46 million, which was halved to just $137.1 million in 2003.

7 www.oecd.org/glossary/0,2586,en_2649_34447_1965693_1_1_1_1,00.html, accessed in June 2005.
Figure 12 shows that the proportion of ODA going to NGOs in these countries broadly reflects these patterns. The proportion allocated by the Swiss government to the sector has been falling from a high of 30.1 per cent in 1988 to less than half at 13.6 per cent at the time of writing. In 1998, Swedish NGOs were getting 23.2 per cent of the ODA budget; this fell to 5.7 per cent in 2003. These are serious reductions, which must have affected some large NGOs.

These figures to some extent back up recent policy statements from individual governments. The Nordic countries such as Sweden and Norway have always channelled a high percentage of the ODA through NGOs. However, their policy documents also reflect the new emphasis on partnerships with governments. The Swedish International Development Cooperation Agency’s (Sida) 2002 publication, *Sida Looks Forward: Sida’s Programme for Global Development*, backs up the government-government approach:
The role of development cooperation is to create conditions and to support processes that lead to poverty reduction in partner countries. The partners must own the efforts and have the resources, capacity and opportunity to pursue the objectives. One of Sida’s main tasks is to strengthen the capacities for partner countries to exercise ownership (Sida 2002:7).

Tvedt’s analysis of Norwegian policy finds a change from the 1985–1986 government report—which portrayed the NGO sector as the best representatives of the people—with a later report in 1991–1992—which distanced itself from the earlier rhetoric, placing civil society actors within a national strategy for development that should be formulated by the recipient government (Tvedt 1995). In 1995, Norway commissioned a large study on NGOs as a channel in development aid. The study criticized Norway and other donor governments for their lack of thorough analysis of the role and potential of NGOs in development, in particular their “unclear” policy framework (Tvedt 1995:x, 65, iv).

This lack of clarity is well represented by Norway’s pattern of allocating aid that, while probably partly explainable by reporting technicalities, appears haphazard in these DAC figures. The wild variations in amounts reported as going to the NGO sector are displayed in figure 13.

Figure 13: Net disbursement to NGOs in Norway (in million dollars)

In contrast, other countries are substantially increasing funds channelled through NGOs, often in contrast with stated policy (figures 14 and 15).

In the Netherlands, this increase was from 16 million US dollars in 1989 to 696.7 million in 2000. Proportionally, this is a rise from 0.06 per cent to 22.2 per cent of ODA. The United Kingdom has also increased the proportion of its ODA going to NGOs: in 1980 it was 0.69 per cent, in 2002 it was 10.8 per cent, or $532.6 million.

In Italy and Japan, the amount going to NGOs have also risen substantially. In Italy it rose from $0.9 million in 1980 to $156.8 millions in 2000; in Japan, from $0.18 million to $318.5 million in the same period. However, the proportion of ODA going to NGOs in these two countries shows a less marked growth, especially in Japan, which seems to be pursuing a fairly steady course
(figure 15), despite shifts in government policy in the mid-1990s in favour of supporting the Japanese NGO sector (Reimann 2001).

The rising proportion of funds going to UK NGOs is perhaps the most surprising development. The UK government has recently made some strong statements in favour of direct budget support and the need for official donors to “rethink” the way they work with and support NGOs in reflection of the changing roles of NGOs and civil society. It even warns against over-hyping expectations of NGO capabilities. “Even the best NGO projects are rarely sufficient to enable beneficiaries to escape from poverty, and most NGO projects are not financially sustainable” (DFID 2000a:6).

**Figure 14: Net disbursements to NGOs by country (in million dollars)**

**Figure 15: Proportion of ODA channelled through NGOs (per cent)**
Current UK policy has moved away from support for the project-based development of the 1980s, toward emphasis on partnership with recipient governments, and a broader use of SWApS and country strategies. As DFID’s policy paper states on the first page “DFID believes that, when circumstances are appropriate, Poverty Reduction Budget Support (PRBS) (also known as Direct Budget Support) is the aid instrument most likely to support a relationship between donor and developing country partners which will help to build the accountability and capability of the state” (DFID 2004a:7).

The Netherlands government agrees: “[F]unding should be provided at the macro level whenever possible and feasible and to fund only at the meso or micro level whenever necessary” (Riddell 2002:6). But both these governments are increasing the proportion of ODA they allocate to NGO project-based development. This discrepancy between donor rhetoric and practice is a mirror image of the more general dichotomy between the prominence of civil society in development discourse and the very small percentage of official aid actually going to the sector.

This section has shown that, since 1984, there has been a steady increase in the proportion of ODA going to the NGO sector from all DAC member countries. Rather than the sector suffering funding cuts in response to the adoption of recent aid instruments by several governments, the percentage NGOs received increased from 5 per cent to 6 per cent between 2001 and 2002. However, when individual countries are taken into account, a more mixed picture emerges in terms of funding trends, with some countries cutting their allocations to the NGO sector fairly drastically and others substantially increasing their support to the sector.

One anomaly highlighted by this paper is that governments, such as the United Kingdom and the Netherlands, which have made strong policy statements in support of government-to-government support and have expressed criticism of NGO project-based development, are among those that are increasing their ODA allocations to NGOs. The figures also highlight the lack of coherence in government funding trends, with some countries such as Norway reporting drastic differences in the amount going to the sector from year to year. There are signs that some governments are working to address the haphazard nature of donations from official sources, something which must affect the sustainability of the programmes NGOs run. These initiatives include formalized partnership agreements with selected NGOs. However, it is also clear that the benefits to NGOs of a guaranteed income from governments are offset by increasing donor power, which threatens the autonomy of the NGO sector in the North.

**Part 3: Are Local NGOs Benefitting?**

There is some evidence that both bilateral and multilateral aid is now increasingly distributed through country offices. The European Commission (EC) in particular has devolved authority to its delegations in developing countries (which it terms “deconcentration”). This is explicitly with the aim of building up the capacity of local NGOs to apply for EC grants. Dedicated staff—“civil society focal points”—have been appointed to provide liaison and support for LNGOs in this process.

However, this does not mean that local organizations are seeing large increases in donor funds: “direct funding” of LNGOs, which has been causing nervousness among INGs, does not appear very widespread as yet. Such developments might have been outweighed by the trend among donors toward awarding a smaller number of big grants through a competitive application process. Although LNGOs can apply in theory, in practice they often do not have the staff or resources to devote to the lengthy application processes. They also have to compete with INGs that have recently set up regional offices as a response to deconcentration.

Partnerships between INGs and local counterparts remain much more common than direct funding of LNGOs, with INGs controlling the purse strings and LNGOs carrying out
activities. The resulting power imbalance has become entrenched in many INGO/LNGO relationships and has the danger of creating a dependency culture among local civil society players. A 1998 study found that Southern NGOs are increasingly acting as subcontractors for donor-defined services, with Northern NGOs becoming direct competitors or intermediaries rather than true “partners” (INTRAC 1988).

A major study of aid disbursement from the UK to two countries in sub-Saharan Africa, Uganda and South Africa, found that very few organizations or individuals in the NGO sector, North and South, were willing to talk “on record” about issues of accountability, transparency and competition in donor relations. They found that there is a developing culture of “defensive and secretive” practice among NGOs, which have become “uncritical of their own and donor practices” (Wallace and Chapman 2004:10). In interviews held for this paper, individuals were much happier speaking anonymously.8

Looked at baldly, this is an unhealthy scenario in which a hierarchy of power is brought about by control of funds, creating a culture of resentment and secrecy. And it is one that, to a large extent, goes untackled, if not unquestioned, in the NGO sector. An example of this was reported by an employee in a smaller Northern NGO, which was taken aback by a request from their Southern partner to see the budget of the programme they were implementing. This forced them to question their unspoken policy of withholding budget details from LNGOs. Examples of the same lack of transparency and haphazard approach to developing partnerships can be found across the sector.

A source from an LNGO in Kenya, when not speaking on record, had no hesitation in criticizing the hierarchy/dependency relationship that pollutes partnerships between NGOs in the North and South. He indicated widespread dissatisfaction among Kenyan NGOs about a perceived lack of confidence in LNGOs to work independently, as well as a perception that donors are not willing to fund LNGOs directly due to a lack of trust, preferring to work with NGOs in their own countries. There was also resentment on the part of LNGOs that INGOs are not sufficiently transparent and often do not share the full budget of a project with their partners.

One INGO funding officer gave some reasons for the lack of transparency between Northern NGOs and their Southern “partners”. Funding applications for the big donors are large undertakings that require several weeks’ work from several members of staff (the European Union/EU is reputed to be the most demanding in this regard). The challenge for Northern NGOs is to produce a budget in line with the requirements of the donor. The funding officer I spoke to does not regard it as helpful or appropriate to circulate the budget to their Southern partners. One main concern is that the budget reveals how much money the Northern NGO is given to coordinate the programme, and the (often large) discrepancy between Northern and Southern NGO salaries. INGOs, on the other hand, feel resentment at having to justify their own salaries, which are almost always unspectacular and especially low in comparison with the generous packages donor agencies offer their own staff.

What is clear, however, is that the competitive climate is prompting an increasing number of INGOs to establish offices in the South. CARE-US now raises 60 per cent of development finance in country offices (Fowler 1999). In Dhaka there are a growing number of complaints from local NGOs that their international counterparts are competing for local project funding (Phinney 2002). These trends mean that international NGOs could potentially consume local resources rather than bring in new money.

One UK-based NGO that has recently set up an office in Nairobi was keen to highlight the positive aspects of being based “on the ground”, such as having direct access to information and a sounder understanding of local developments. However, it was evident that more practical reasons had played a part in the decision. Funding was one of them. For example, the

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8 This section summarizes information from interviews with NGO employees held in London and Nairobi, June 2005.
EC had just awarded the INGO funding for a large programme, with the requirement that they had representation in the region. The INGO found that all donors welcomed the move to set up an office locally. Ironically, the move by donors to delegate responsibility to regional offices, or deconcentration, has had the effect of bringing INGOs to the region, as decisions regarding funding are now made locally. Being personally known to funding officers and having a presence in the region is now a distinct advantage.

However, speaking to an employee at a Kenyan partner of this INGO revealed just how unwelcome the presence of such organizations in the country is, emphasizing that the move to open an office in the country is almost always seen as a threat by established local organizations. They see it as competition for scarce resources, and there have been cases when a local “partner” has lobbied the government to refuse the INGO registration in the country. The government has responded by making statements to reassure people that they will not issue work permits unless the INGOs can prove that their position cannot be filled by a Kenyan citizen. In reality, the government cannot refuse to register an INGO without causing disquiet among the donor community.

DAC figures to some extent back up findings that LNGOs are not benefiting from the current aid paradigm. They show that funding for NGOs based in the donor’s own country has risen sharply in comparison to funding for NGO registered elsewhere. Figure 16 illustrates this: in 1980, the amount going to external NGOs was $46.83 million, of which national NGOs (NNGOs) got a tiny percentage: 0.81 million. This continued to be much the case until 1984, when the position reversed. By 2003, national NGOs were receiving almost four times as much official aid as external NGOs.

This represents a significant change in the sector, implying that, from the mid-1980s, governments preferred to support NGOs in their own country, with national NGO capacity growing rapidly to absorb the growth in official funding. This was in line with growing government control over NGO use of funds, and the pressure for NGOs to play a supporting role in foreign policy agendas.
Conclusion

The discussion above has indicated that, although development NGOs expanded dramatically both in numbers and in importance, in the 1980s the justification for donor agencies championing the sector were questioned almost immediately. First, the practical qualities that made NGOs a preferred channel for development aid—that they were small-scale, non-bureaucratic and flexible—became less distinct as the bigger INGOs became responsible for large, donor-sponsored projects. Government funding dramatically increased the size of chosen NGOs, but donors requested a degree of accountability for the use of their funds, making previously independent organizations answerable to official bodies. This resulted in increased bureaucratic demands on NGOs.

Second, the financial advantage attributed to the NGO channel—that NGOs are more cost effective than state service providers and better at reaching marginalized groups in society—has not been supported by any major study. With the empirical evidence remaining ambiguous, it has been argued that there is no reason why states should not be equally competent service providers if they have the same level of subsidies from donors.

Third, the ideological reasons that prompted the international community to embrace the use of NGOs as a channel for development aid—that they represented the opportunity to bypass corrupt or inefficient states as well as support local civil society—have raised key questions of exactly how democratic the policy of using external private organizations to provide services in developing countries is, and revealed tensions between local civil society in the South and the international NGO community.

Some donors, in particular northern European governments, have openly disputed the efficiency of the NGO channel. More generally, the comprehensive nature of the new aid paradigm implies a move away from the fragmentary project-based approach to development aid that was prominent in the 1980s and 1990s. The shifting orientation of donor policy now encompasses a comprehensive framework for policy reduction, which puts local government control back on the agenda. In addition, the rhetoric of good governance and democracy has highlighted the need for supporting state structures.

This paper has confirmed that, although there is acknowledgement of the need to harmonize aid policy, a “consensus” model remains far from reality. Analysis of the ODA trends here has shown a very mixed picture, with haphazard reporting revealing widely varying amounts of official aid going to the NGO sector. There is also great discrepancy between countries in NGO funding trends. Canada, Sweden and Switzerland, for example, show a general pattern of a steep rise in funding in the mid-1980s, which was falling steeply post-2000. This fits in roughly with “rise and fall” of the NGO scenario. On the other hand, other countries, notably Norway, Japan, the Netherlands and the United Kingdom have, to a greater or lesser extent, increased the proportion of ODA they allocate to NGOs. Ironically, these countries are among those which most strongly advocated a move away from NGO project-based development to a more coherent system based on longer-term budget support strategies.

This discrepancy, it could be argued, is connected to the more general dichotomy between the prominence of civil society in development discourse and the very small percentage of official aid received by the sector. This analysis of trends in governmental support for non-governmental organizations reveals that INGOs have always been used as a tool in donor aid policy, and their position has been given greater significance than their practical role ever really warranted. This has been largely for political reasons and is connected to a widespread distrust among the public of large, bureaucratic structures represented by the state. When the disadvantages of INGOs and project-based development became more obvious, INGOs were implicitly encouraged by donors to change their focus to one that promoted a transfer of civic knowledge from North to South: a continuation of governmental support for the non-governmental.
A mixed picture in terms of funding trends points to a change in the role of INGOs in the current development paradigm, therefore, rather than their demise. In terms of donor rhetoric, INGOs no longer hold the privileged position they once had; instead donors are looking toward local governments and LNGOs as key development actors. This scenario allows that INGOs still have a role to play, but predominantly in the handover of expertise, capacity and eventually funding to civil society organizations in the South. However, in reality it seems that that large Northern-based INGOs are still receiving a large amount of official aid, a proportion of which then goes to civil society in the South.

Furthermore, although the trends of direct budget support for recipient governments and direct funding of Southern NGOs by donor agencies, while not yet fully realized, are enough to concern the large INGO establishment in the North, there are several other potential new funding opportunities for the sector. Private sources of income, in particular as contracted service providers for governments in developing countries, is one. New aid instruments, notably the large global funds championed by the United States, is another development that could prove very profitable for INGOs. These new roles illustrate how far the NGOs have moved away from their original place in civil society as they have grown larger and more professional. The “golden age” may have passed but for the present, INGOs are (uneasily) surviving.

However, the discrepancy between donor rhetoric and practice is creating resentment among civil society in the South. Since the mid-1980s, ODA going to NGOs based in the donor’s own country has greatly outstripped the funds going to NGOs based overseas. In addition, donor stipulations for “partnerships” between Northern and Southern NGOs, in which INGOs, because they control the funds, exercise a significant amount of power over their Southern partners, are building lasting hierarchies that seem to be unquestioned by both donors and INGOs. Despite often genuine aims to transfer skills to the South, resulting in endless well-meaning “capacity building” programmes, the lack of transparency and trust between partners are undermining attempts to build constructive partnerships. Unless this is addressed, it is something that risks current development paradigms promoting civil society in the South—which could be notionally positive—being suspected of implementing a Northern agenda by stealth. Whatever the specific role of the INGO in the future, their current reliance on government support should not be allowed to compromise their autonomy; the handover of power, and responsibility, to civil society in the South is overdue.
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