



NGOS AND OFFICIAL DONORS

In the 1950s and 1960s, Non-Governmental Organisations (NGOs) and official donors tended to pursue different development agendas. Beyond support to emergencies, they were usually disinterested in each other's activities and occasionally suspicious of the other's motives. This began to change from the early 1970s when most donors followed the earlier example of countries such as Norway and Canada in directly supporting NGO development programmes. The shift of official funding towards NGOs accelerated in the 1980s. Part of this shift is explained by the growth in emergency assistance in the period but it also reflected a growing recognition of the role of NGO programmes in meeting official aid objectives in areas such as poverty reduction, environmental conservation, health and education.

This Briefing Paper focuses on the various, and changing, ways in which NGOs interact with official donors and discusses possible new directions in the relationship between NGOs and donors. The emphasis is upon development activities, rather than emergency assistance and relief.

The financial contribution

One of the most tangible indicators of growing interaction has been the change in the quantity of funds official aid agencies channel to and through NGOs for their development activities. Figures from the Organisation for Economic Cooperation and Development (OECD) indicate that the total amount of official aid going to NGOs for development in 1992/93 was US\$2.2bn, while data from the World Bank put the 1992 figure at \$2.5bn. Box 1 discusses why these figures seriously underestimate actual flows.

The financial contribution of donors to NGO development activities is commonly presented in terms of two ratios:

- the proportion of official aid channelled to NGOs
 - the contribution of official aid funds to total NGO income.
- Published OECD data suggest that in aggregate about 5% of all official aid is now channelled to NGOs. Not only are these figures an underestimate, but they fail to capture wide variation among different donors in the share of official aid going to and through NGOs. For individual donors, the ratio ranges from less than 1% for some donors to up to 30% (Table 1).

Published aggregate figures indicate more accurately the growing importance of donor funds to overall NGO income: the World Bank judges that whereas in the early 1970s about 1.5% of total NGO income came from donor sources, by the mid-1990s this share had risen to about 30%. Yet these figures, too, conceal wide variations across donor countries, ranging from about 10% of total NGO income to 80% or more (Table 2).

Also of importance has been the pace at which donors have increased the funds they channel to NGOs. For instance, in the ten years to 1993/94, the United Kingdom increased its official funding of NGOs by almost 400% to £68.7m, raising the share of total aid channelled to NGOs from 1.4% to 3.6%. In the same period, Australia increased

Box 1: NGO income from donor sources: doubts about the accuracy of the aggregate data

There are four major reasons why aggregate and widely quoted figures of official donor contributions to the development activities of NGOs significantly underestimate actual flows.

- Some major donors, such as the US, have not reported even crude aggregate data for a number of years, while OECD figures quoted for other major donors, such as Japan, vary widely from year to year and differ markedly from national published data.
- The aggregate data quoted by the OECD are based solely on figures provided by (some) bilateral donors. Yet a significant proportion of *multilateral* aid is channelled to NGOs. For instance, the World Bank's Social Fund has now supported some 30 initiatives valued at \$1.3bn, a share of which has gone to NGOs. In 1992 alone, the European Commission provided some \$300m directly to NGOs for non-emergency development projects and programmes. Other organisations, such as the UNDP and the Inter-American Development Bank, also have large NGO programmes.
- The published aggregate data usually record only official aid funds to NGOs used to support NGOs' initiatives. Yet a significant, and growing, portion of official aid utilises NGOs to implement official aid projects. This is classified in unpublished OECD data as income through NGOs and is not recorded in the aggregate flows of official aid received by NGOs published by the OECD even though many NGOs count this as part of their total income and include the projects as part of their own overall portfolio. OECD unpublished data estimates this figure very crudely at \$641m. In 1994, the Swedish Government alone provided over \$30m to Swedish NGOs in this manner.
- Most bilateral donor data on NGO income fail to include that portion of bilateral aid budgets which is channelled directly to local NGOs with funds from the respective bilateral aid programmes. Country case studies of Swedish official aid to NGOs in Kenya and Zimbabwe in late 1994 alone revealed a shortfall of some \$10m in official data. Additionally, the new British £2m programme to fund NGOs directly in Kenya, Uganda and Tanzania will not be recorded separately in the aggregate aid statistics as official aid to NGOs, even though this is precisely what it is.

its official funding of NGOs from A\$20m to A\$71m, raising the share of total aid going to NGOs from 1% to 6%. Similar expansion occurred in the case of Finland, Norway and Sweden from the early 1980s to the early 1990s.

Funding arrangements

In terms of donor-NGO funding arrangements, there are variations across countries. In Australia, there are 32 different funding mechanisms through which NGOs can obtain funds from the Government. However, the dominant type of NGO activity funded by donors today remains projects and programmes put forward for funding by the NGOs themselves, and utilised for projects and programmes in particular developing countries. In the United Kingdom,

Table 1: The share of official aid going to NGOs: selected donors

| Country | % of Official Aid channelled to NGOs | Year |
|-------------|--------------------------------------|---------|
| Sweden* | 30 | 1993/94 |
| Switzerland | 29 | 1994 |
| Norway* | 25 | 1992 |
| Canada* | 14 | 1992 |
| Netherlands | 10 | 1993 |
| US | 9 | 1992 |
| Germany | 7 | 1992 |
| Finland | 6 | 1993 |
| Australia | 6 | 1993/94 |
| UK | 4 | 1993/94 |
| Japan | 1 | 1992 |

Note: * denotes inclusion of emergency aid.

Sources: OECD (1995) *Development Assistance Committee Report 1994*: Paris, OECD, 1995; World Bank (1995) *World Debt Tables 1994-95, Volume 1*: Washington DC, The World Bank; Australian Agency for International Development (AusAID) (1995) *NGO Programs Effectiveness Review*: Canberra, AusAID; I. Smillie and H. Helmich (1993) *Non-Governmental Organisations and Governments: stakeholders for development*: Paris, OECD; ODA (1994) *British Aid Statistics, 1989/90 - 1993/94*: London, Government Statistical Service; T. Tvedt (1995) *Non-Governmental Organizations as a Channel for Development Assistance: the Norwegian System*: Oslo, Royal Ministry of Foreign Affairs; Swiss Development Cooperation (1994) *Annual Report 1994*: Berne, SDC; and Independent Review of International Aid (1995) *The Reality of Aid*: London: Earthscan.

this is through the Overseas Development Administration's (ODA) Joint Funding Scheme; in Sweden, through the NGO Programme; in Finland, through the NGO Support Programme. Additionally, a small proportion of donor funds are channelled through a range of international NGOs, while most bilateral donors have also provided funds to NGOs specialising in sending volunteers abroad, and to NGOs working on education and information initiatives within donor countries.

All donors have introduced criteria to determine the eligibility of potential projects put up for funding: some use sectoral specialists to review project proposals, others provide funds almost on a self-monitoring basis within general guidelines. Donors vary, too, in the share of total project costs which donors are willing to fund, from 50% or less (the UK) to 75% and upwards (Finland, Sweden). Donors have also differed in the relationship between the level of funds requested by the NGOs and the official funds available: some parliaments (Sweden) have, until very recently, repeatedly voted more funds each year than there are projects available to fund. Others (such as the UK) have to reject a high proportion of projects, because of a shortage of total funds allocated.

Different donors have also applied varying degrees of conditionality on the non-project funds they provide for NGO work. In contrast to the United Kingdom, which has stringent conditions attached to official funds used for development education and information work, other donors,

such as the Scandinavians, have a more permissive approach and even provide funds for activities and campaigns critical of official aid policy.

The role of NGOs in donor programmes

What all these particular funding schemes have in common is that they are official contributions to the NGOs' own development projects and programmes. Increasingly in recent years, however, NGOs have been co-opted to assist official aid agencies execute donors' own projects and programmes. For these types of initiative it is usual for donors to contribute all the funds required to execute these particular projects effectively on a 'sub-contract' basis. Although aggregate data on the amount of official funds channelled to these types of initiative have not been gathered, country studies conducted by the ODI indicate that, in recipient countries with a large and growing NGO presence, 5% and more of total bilateral aid funds are commonly used for these NGO sub-contracted initiatives.

There are three factors which have influenced donors to utilise the skills and services of NGOs to help further their own agenda.

- First, donors have been using NGOs to support their emergency and relief activities for some time, so providing funds for NGO development projects has often been viewed as a natural progression.
- Second, poor performance of official donor programmes in reaching the poor and carrying out successful rural development projects in the late 1960s and 1970s, married with the clear popularity of NGOs for their work in the fields of education and health, and claims by NGOs that they were able to reach the poor and improve their lives, has led donors to turn to NGOs to help them achieve a greater poverty focus in their own aid programmes.
- Third, and relatedly, donors have seen NGOs as a means of getting around obstacles to aid impact caused by inefficient and corrupt governments, as well as a way of reaching people in those countries where they had suspended official aid programmes.

Official donors and southern NGOs

Historically, most official funds have gone to support the work of NGOs based in donor countries, even though the bulk of the funds have been spent in developing countries.

Table 2: The share of total NGO income derived from official funds: selected donors

| Country | % of total NGO funds obtained from official aid sources | Year |
|-----------|---|---------|
| Sweden | 85 | 1994 |
| Belgium | 80 | 1993 |
| Italy | 77 | 1991 |
| Canada | 70 | 1993 |
| US | 66 | 1993 |
| Australia | 34 | 1993/94 |
| Austria | 10 | 1993 |
| UK | 10 | 1993 |

Source: as Table 1

An early reason for this was that there were few viable, and effective, indigenous NGOs. Yet over the past 15 years there has been rapid growth in the number, as well as the capabilities of NGOs based in developing countries – southern NGOs.

The growth of southern NGOs has varied from country to country but, in general, effective southern NGOs emerged earliest in south and east Asia (such as Bangladesh and the Philippines) and in a number of countries in Latin America such as Chile, Brazil and Nicaragua. Only in the last ten years has there been a rapid growth in the number and importance of indigenous NGOs in Africa and their influence varies markedly across countries.

The donor view which saw increasing merit in working through NGOs, together with the growing strength of southern NGOs, has led more and more donors to supplement their support of northern NGOs with direct funding of southern NGOs. Such donor-NGO initiatives became prominent in the early 1980s and have continued to expand thereafter.

In 1988, the ODA channelled £3.4m to 40 Bangladesh health-related NGOs under the Bangladesh Population and Health Consortium, and over a five year period to 1993 has provided over £5m to a large NGO in Bangladesh, the Bangladesh Rural Advancement Committee. The United States, Canada, Norway and Sweden are amongst the leading bilateral donors who have all channelled substantial funds to local NGOs, with a heavy concentration in south Asia. The EC and the UNDP have been among the leading multilateral agencies to fund southern NGO activities.

Mirroring the support given to northern NGOs, official funding of southern NGOs has taken two forms: the funding of initiatives put forward by southern NGOs, and the utilisation of the services of southern NGOs to help donors achieve their own aid objectives.

Early moves by donors to fund southern NGOs directly have often been viewed with misgivings by northern NGOs. Yet when donors have embarked on this type of initiative in consultation with their home-based NGOs, and especially when they have used the experience of northern NGO personnel on the ground to assist these direct funding initiatives, the process has often stimulated northern NGOs to assess their own comparative advantage and has been welcomed.

Donor funding of southern NGOs has received a mixed reception from recipient governments. Clear hostility from many non-democratic regimes has been part of more general opposition to any initiatives to support organisations beyond the control of the state. But even in democratic countries, governments have often resisted moves seen as diverting significant amounts of official aid to non-state controlled initiatives, especially where NGO projects have not been integrated with particular line ministry programmes.

The rise of the 'reverse agenda'

The growth in official donor support to NGOs has not always been welcome to NGOs. Reluctance by many northern NGOs to accept large amounts of official aid funds has been based on two mutually-reinforcing ideas: that their development approach was qualitatively different from that of the official aid agencies, and that, as donors continued to apply conditions to funds channelled to NGOs, a rise in donor funding would increasingly be likely to compromise the integrity of NGO approaches to development.

Using NGOs to help achieve donors' own aid objectives only heightened these concerns, though the degree of concern has always varied across different donor countries.

Box 2: NGOs and the World Bank

The World Bank has been subject to sustained criticism by some major NGOs in recent years over its handling of economic policy conditions attached to its structural adjustment loans, especially in Africa, and of its involvement in large projects, such as the Arun Dam in Nepal, which antagonise environmental groups. These twin pressures culminated in a 'Fifty Years is Enough' campaign by some environmental and developmental NGOs to coincide with the Fiftieth anniversary of the World Bank. Yet this public criticism serves to disguise a growing interaction between the World Bank and NGOs.

Until the late 1980s, NGOs played a relatively minor, and indirect, role in the work and activities of the World Bank. In the period 1973–88, NGOs were involved in only 6% of total World Bank-financed projects. Yet by 1990, NGOs were making a direct contribution to 22% of all World Bank-financed projects, and by 1994 to over 50%. Interaction with NGOs is actively encouraged not only in implementation but in the design and planning of projects.

Another change has been the World Bank's growing involvement with southern NGOs in its projects. Thus whereas in the period 1973–91, 40% of NGOs involved with the World Bank were international NGOs, by 1994, indigenous NGOs represented 70% of NGOs involved in World Bank-financed projects.

At present, however, and in contrast to most bilateral donors, there are few mechanisms through which NGOs receive funds from the World Bank. Of greatest importance to NGOs are the World Bank's Social Funds which channel resources to demand-driven sub-projects proposed by public, private or voluntary organisations (see Box 1).

However, in July 1995 an initiative was announced which could further enhance the role of NGOs in relation to World Bank funding. The Consultative Group to Assist the Poorest of the Poor (CGAPP) is, according to the World Bank, designed to 'promote the replication and growth of NGO-managed programmes that provide financial services to the poor'. The World Bank has provided an initial capital of US\$100m and other donors together are expected to contribute at least as much. The CGAPP will focus on so-called 'micro-loans' to the informal sector which were pioneered by NGOs and remain a major part of their activities.

Of particular importance is World Bank-NGO interaction in the area of policy discussion and debate. Although an NGO-World Bank Committee was formed in the early 1980s to provide a forum for policy discussion between World Bank and NGO staff, until recently there was little sign that mainstream World Bank policies were influenced by these exchanges.

In recent years, however, the World Bank has joined other donors in exposing itself to both NGO gender and participatory rural appraisal approaches; NGOs have been included in consultations on early drafts of World Bank reports and, although in a more limited way, NGO personnel have been invited to join World Bank economic mission teams.

While both sides would acknowledge that there remain areas of disagreement, both would probably also acknowledge that the degree of interaction and the potential for policy change resulting from World Bank-NGO interaction is much greater today than hitherto.

For example, in most Scandinavian countries, NGOs have received from the state upwards of 80% of income for their projects and most have not felt their integrity threatened as a result. Some major US NGOs, on the other hand, have refused to consider official funding.

Though NGO anxiety about being over-run by the official donor agenda has persisted, the growing role and status of

NGOs has fuelled a different phenomenon, increasingly referred to as the *reverse agenda*. This is the process whereby the approach and methods of the NGOs are now influencing the activities and perceptions of donors and official aid programmes, in some cases as a direct result of donors seeking out NGO ideas.

There are a number of ways in which this has manifested itself. For instance, some of the characteristics of the 'NGO approach' to development – participatory planning, assessing a gender dimension, and concern with the environment – have gradually been incorporated into mainstream donor thinking. Additionally, some donors (such as Australia, Germany, the Netherlands and Norway) regularly seek out the views of NGOs in drawing up particular official bilateral aid programmes: Norway did this in 1993 for their programmes in Ethiopia and Nicaragua. Of particular interest has been the willingness of the World Bank (which has often attracted the hostility of NGOs) to engage in discussions with NGOs and to include some NGOs in the implementation of World Bank projects (see Box 2)

The further expansion of a common agenda?

A direct effect of the growing influence of the reverse agenda has been to increase the common ground between donors and NGOs. No longer is it easy to talk of distinct differences between NGO and donor approaches to development.

One manifestation of a growing common ground has been the way that most donors have broadened their aid objectives. Thus, most donors now include poverty alleviation, concern with the environment and enhancing the status of women as major aid objectives. Perhaps of even greater importance is that most donors now view action to enhance human rights and democratic processes as a constituent part of their development agenda. Additionally, many donors have taken up 'strengthening civil society' as a specific aid objective. This is doubly beneficial to NGOs both because NGOs are seen to constitute an important part of civil society, and because one of the core objectives of NGOs has been to work to 'empower' poor people, especially by strengthening the organisations to which poor people belong.

One concrete result of a growing overlap of objectives is that donors themselves are now increasingly willing to bring those projects and programmes, which for a long time were typically initiated by NGOs, within the umbrella of official aid. It is now not uncommon for donors to take over (and often expand) the funding of projects in the developing countries which were started and have been funded by (usually northern) NGOs.

Though these examples provide evidence of a widening cluster of initiatives where it is no longer possible to make a strong and clear distinction between donors and NGOs in terms of project approach and execution, it is important not to press the common agenda argument too far. Thus a number of NGOs, including a high proportion of the long established and larger northern NGOs and a growing number of southern NGOs, remain wary of these recent developments and are still concerned to maintain their distance from donors. Some argue that the growing convergence of the NGO and official aid agenda could well turn out to be more a convergence of *language* about development than convergence in the overall approach to development. In particular many large international NGOs remain extremely critical of donors' support for economic policy reform (or structural adjustment) programmes.

The future

The common ground between donors and NGOs can be expected to grow, especially as donors seek to make more explicit their stated objectives of enhancing democratic processes and strengthening marginal groups in civil society. However, and in spite of a likely expansion and deepening of the reverse agenda, NGOs are likely to maintain their wariness of too close and extensive an alignment with donors.

In aggregate, the direct funding of southern NGOs by donors, now emerging as a significant form of interaction, is likely to expand in the next few years, even though some donors (such as Norway) may not follow this trend.

Ironically, this expansion could well be accompanied by greater involvement of northern NGOs and northern NGO personnel, by contracting them to help administer and monitor the impact of such funds. This is in part because many officials of donor agencies often do not have the skills and expertise necessary to liaise effectively with the often small and dispersed organisations which make up the southern NGO 'community'. It might be assumed that these trends will result in increased funding of NGOs by donors in the years ahead.

For growing numbers of northern NGOs, such an expansion would help to compensate for what appears to be falling aggregate income from private (non-official) sources (down to \$5.4bn in 1994, compared with \$6bn in 1992). However a new, if very recent, phenomenon is that some donors who have provided large amounts of money to NGOs (Canada, Sweden and Finland) have announced cuts of 10% or more. In contrast, USAID intends to channel 40% of its bilateral resources through NGOs by the end of the century, up from 34% in 1994. In general, however, where donors have started to cut aid to NGOs, this has mainly been due to overall pressure on, and often absolute cuts in, the aggregate aid budget, in some cases reflecting doubts about the entire aid enterprise in the post-Cold War era.

Together these differing trends may enable donors and NGOs to cooperate even more closely than in the past. If a deeper sense of mutual interests and mutual purpose between donor agencies and NGOs does emerge, this might lead NGOs to devote less energy and fewer resources to criticising those aspects of the donor agenda they dislike, and more to building and widening the common ground they increasingly share.

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