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Helpdesk Research Report

# Incentives from donor funding mechanisms for civil society organisations

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## Question

*What is the evidence on how different donor funding instruments incentivise CSOs? Focus on CSO investments in knowledge, learning, partnerships, collaboration and innovation; priorities and objectives of CSOs; and the expansion of different types of CSOs.*

## Contents



## 1. Overview

This review examines the evidence on some of the outcomes of donor funding to civil society organisations (CSOs). It focuses on identifying which specific funding instruments have influenced CSOs, individually and collectively, in: knowledge and learning; partnerships and collaboration; innovation; priorities and objectives; and stimulating a marketplace for CSO diversity.

The evidence base is mixed on these topics, with only a few clear lessons emerging. It is difficult to attribute causality to specific funding mechanisms, and few evaluations look directly at this issue. Scattered evidence in donor evaluations does reveal some **commonalities and lessons**:

- The literature presents a strong message from CSOs that they would prefer core, unrestricted funding under almost all circumstances.
- Tied funding (project funding or contracting) stifles innovation and skews agendas towards short-term, easily measureable results, which correlate with donor agendas.
- Longer-term, untied funding (core funding) encourages innovation and flexibility, and allows organisations to invest and grow long-term.
- Donor administrative requirements severely hamper CSOs' ability to operate. While they may encourage better financial management and reporting, on the whole, the increased administrative burden prevents CSO effectiveness.

The **main findings** on the specific areas of interest for this report are:

- Core funding might be the most effective funding strategy to encourage investments in organisational development, including learning and knowledge processes. The literature consistently states that core funding is preferred, for investments in internal capacity and growth.
- There is mixed evidence on how to support partnerships and collaboration between CSOs and others. There is no clear message about which funding instrument might best stimulate collaborations.
- The literature is clear that core funding and unrestricted funding are the best mechanisms to support innovation. Funding tied to results or specific projects discourages risk-taking. The aid effectiveness agenda may have inadvertently had a negative effect on experimentation.
- There is mixed evidence on whether donor funding affects CSO's objectives. Some CSOs will change their strategies to fit donor models, while others will refuse donor funding if they foresee conflicts.
- A mix of funding modalities is likely to support a strong and diverse civil society, as different kinds of organisations experience positives and negatives from different funding streams. There are no clear lessons on which funding instruments will best support a CSO marketplace more broadly.

The literature considered in this review was largely gender-blind.

## 2. State of the evidence

There is much information about how donors fund CSOs, but the **evidence base** on incentives for CSOs from donor funding is scattered. Most information is contained in short sections in programme documents and evaluations, and there is no coherent body of evidence on what has worked. Much of the evidence might be restricted to internal documents, and therefore not available for this review. A longer and more comprehensive review would be able to find more evidence from the fragmented and internal literature. Evidence is mostly available from donor-funded evaluations of programmes or funding streams. There are several rigorous external evaluations with strong methodologies.

There are some **problems with tracking** funding for CSOs through the aid system. Multilateral organisations tend to channel funding through country offices, which decentralised strategy means many may not know the exact volume of funds disbursed (Giffen & Judge, 2010). Both the World Bank and UNICEF, for example, have no overview of the work they do with civil society (Giffen & Judge, 2010). Bilaterals have a clearer overview of how much funding is going to civil society, but Giffen and Judge (2010) found no data on how the funding is spent in local contexts.

There is considerable information on types of mechanisms for providing funding for civil society, but very little on whether one is more effective than another, or what differing impacts various types of funding have. As many donors interviewed by Giffen and Judge (2010) observed, most projects and programmes are not directly comparable and it is therefore difficult to identify what might make best value for money. In 2010, DFID undertook a review of CSO funding mechanisms to identify the **comparative effectiveness** of different funding instruments (ICAI, 2013). However, it was unable to find clear evidence to draw conclusions.

There are also few evaluations on funding mechanisms themselves. Even where there are, it is hard to show a **chain of causality** between a specific mechanism and CSOs' activities, unless the activities are specifically mandated by the funders. There are plenty of descriptions of how funding is delivered and the mechanisms, but much less follow up on whether and how these mechanisms were effective.

Monitoring impact is particularly difficult (Giffen & Judge, 2010). Some of the challenges are:

- Tracking the impact of unrestricted funding (IELG, 2012).
- Establishing the contribution of one factor over any other (Pettit et al., 2015).
- Linking funding from specific donors to beneficiary outcomes (IELG, 2012). Other actors are also pursuing change in the same populations, and results may not be attributable to one donor strategy (Pettit et al., 2015).
- There is a long delivery chain, which makes it harder to deliver impact (Pettit et al., 2015).
- The Paris Declaration focuses on results at country level, rather than by sector, donor, or funding mechanism (Giffen & Judge, 2010).

# 3. Investments in knowledge and learning

The literature suggests that core funding might be the most effective funding strategy to encourage investments in organisational development, including learning and knowledge. Targeted funding has also helped CSOs improve their reporting and administrative systems as a result of increased donor requirements in this area, which increases efficiency and effectiveness. However, the literature is fairly consistent in stating that core funding is preferred by CSOs, for investments in internal capacity and growth.

**Core funding appears to be effective** in encouraging organisational learning, as it gives space to CSOs to strategise, review and improve their processes. DFID's 41 Programme Partnership Arrangements (PPAs) 2011-2014 are evaluated by ICAI (2013) and IELG (2012). These are unrestricted / core funds granted to CSOs. ICAI's (2013) review shows that several CSOs have used the funds to invest in organisational learning processes and efficiency improvements. DFID established a Learning Partnership group for PPA holders to share thematic learning; this has been successful and has helped several CSOs to improve their operational practices.

The Institutional Effectiveness Learning Group's (IELG) 2012 evaluation of PPAs is based on a meta-evaluation of mid-term independent progress reports on the PPAs, and constitutes strong evidence. The evaluation found that PPAs supported investments in strategic development, organisational systems and processes. Mostly, this was in the areas of monitoring and evaluation. Other areas of investment included internal organisational learning events and resources, quality of resources, and tracking outcomes from learning processes. Organisational improvement enabled CSOs to better understand what works and to make more informed decisions. NGOs also used the funds to participate in sector-wide learning and partnerships.

Other forms of funding have encouraged investments in administrative systems, which has improved efficiency and partly improved internal effectiveness. INTRAC (2013) report that funding channelled through Northern CSOs tends to emphasise improvements in complying with donor reporting requirements, rather than organisational capacities. In Bangladesh and Ghana, donor emphasis on **reporting and management systems** has encouraged organisational strengthening and effectiveness (Mukhopadhyay et al., 2011). In order to meet donor requirements for funding proposals, CSOs had to acquire or invest in the skills required (Mukhopadhyay et al., 2011). In Ghana, CSOs improved their financial management and administrative systems to meet donor requirements for legitimacy and sustainability (Mukhopadhyay et al., 2011). In both countries, organisations reported that this improved efficiency, but increased the amount of time spent on writing reports.

Some forms of funding actively dis-incentivise learning. The increase in **project-type funding** and away from long-term institutional support means that CSOs are less able to invest in broad organisational development and learning (Mukhopadhyay et al., 2011). INTRAC (2013) report that CSOs highlight a concern that a competitive tendering process and focus on results can incentivise distorted reporting, over-emphasising achievements and successes, rather than encouraging real learning, which might include learning from failures. INTRAC report that the OECD-DAC supports an increase in core funding and/or strategic partnerships to counteract this effect.

## 4. Investments in partnerships and collaboration

There is mixed evidence on how to support partnerships and collaboration between CSOs and others. There is no clear message about which funding instrument might best stimulate collaborations. The literature offers findings on the following case studies.

The **PRSP Fund in Honduras** was successful in stimulating alliances and partnerships among the poorest and most marginalised (OECD, 2009). The Fund is a 13 donor initiative specifically aimed at strengthening the participation of civil society in the PRSP policy dialogue. There is a power-sharing arrangement for Fund management, between INGOs and Honduran CSOs. The funding has helped Honduran CSOs build alliances and has promoted solidarity, which in turn has increased their capacity to engage in political processes.

The Institutional Effectiveness Learning Group's 2012 evaluation of DFID's PPAs (**unrestricted core funding**) found that they support investments in sectoral networking. 81 per cent of agencies reviewed used some funding to improve relationships with southern partners. Strategic funding also allowed NGOs to then access additional funds from other partners, sometimes through investing in staff fundraising skills, and sometimes to prepare materials or documentation for other partnership requirements.

In Ghana, **collective basket funding** enabled larger women's rights organisations to partner with smaller organisations as part of outreach development (Mukhopadhyay et al., 2011). Larger CSOs with more access to funders were able to share this funding with smaller CSOs which had greater access to communities (Mukhopadhyay et al., 2011). Greater outreach seems to be a key outcome directly associated with injection of pooled donor funds.

Also in Ghana, mediated management systems have had mixed results. Grant recipient organisations have been encouraged to act as **umbrella organisations**, networking with smaller partners to increase visibility and effectiveness. Respondents had mixed opinions on the cost saving, capacity enhancement, mobilisation and learning resulting from these partnerships, with no clear lesson emerging (Mukhopadhyay et al., 2011).

The evaluation of Sida's CSO strategy suggests that its current **direct funding** of Ugandan CSOs is important, but not enough to stimulate broad alliances (Pettit et al., 2015). The authors suggest that funding aimed specifically at alliances and collaborations is necessary. In Pakistan, Sida funding has stimulated a few small partnerships across organisations. The main difficulty identified by the authors is sustainability, as the funding is tied to short-term specific projects, which discourages collaborations.

Core funding is usually given to NGOs which donors trust, often meaning larger, professionalised NGOs, based in capital cities (Giffen & Judge, 2010). This kind of funding does not explicitly support partnerships, so may not be the best funding strategy to reach diverse Southern organisations (Giffen & Judge, 2010).

# 5. Investments in innovation

The literature is clear that core funding and unrestricted funding are the best mechanisms to support innovation. Funding tied to results or specific projects discourages risk-taking. The aid effectiveness agenda may have inadvertently had a negative effect on experimentation.

DFID's 41 Programme Partnership Arrangements (PPAs) are unrestricted / **core funds** granted to CSOs which typically last three or four years. In the 2011-2014 round of PPAs, CSOs applied for funding through open competition. It is assumed that core funding will support innovation within CSOs, allowing investments in strategic and substantive issues. ICAI's (2013) review finds no clear evidence to support or reject this assumption, but the Institutional Effectiveness Learning Group's 2012 evaluation finds that PPAs do support innovation, with 97 per cent of NGOs demonstrating this. PPAs have been used to support activities in fragile states, and issues which are traditionally difficult to fundraise for, such as International Planning Parenthood Federation's abortion services (IELG, 2012). 66 per cent of NGOs stated that strategic funding was used to test the effectiveness of new initiatives. Some examples of innovation include peer-led Games Libraries to teach gender and sexual and reproductive health and rights in El Salvador, and re-usable sanitary towels developed in Zambia. Strategic funding has also enabled NGOs to scale up successful innovations.

The **Aid Effectiveness harmonisation agenda** may have discouraged innovation and experimentation due to its focus on effectiveness (Mukhopadhyay et al., 2011). The Paris and Accra processes push CSOs towards policy research and advocacy activities, and potentially stifle innovation (Mukhopadhyay et al., 2011). In the OECD report from their Advisory Group on Civil Society and Aid Effectiveness (2009), CSOs expressed anxieties that the principles of co-ordination and harmonisation could stifle initiative. Donor funding, which requires CSOs to use donor formats, guidelines and tools, will necessarily shape methods of working in favour of donor agendas, and inhibit creativity (Mukhopadhyay et al., 2011). An evaluation of Sida's funding to CSOs in Uganda, Pakistan and Nicaragua identified that CSOs felt their scope for diversifying and strategy were limited by donors' results-based management systems (Pettit et al., 2015). Harmonisation also creates distance between donors and CSOs, as they have less direct contact with each other, which means donors might be less aware of innovations and new ideas coming from the CSOs (Howell & Hall, 2012).

**Large donor joint pooled funds** may support larger service delivery NGOs which are focused on development outcomes in line with national strategies (Giffen & Judge, 2010). There is a perception that this kind of funding does not support innovation (Giffen & Judge, 2010).

## 6. Priorities and objectives

There is mixed evidence on whether donor funding affects CSO's objectives. There are some clear examples of where NGOs have been formed entirely to access project-based funding, and some where CSOs have changed their strategy or goals to fit in with donor agendas. However, there are also examples where CSOs will refuse funding if it does not fit with their mandate – especially visible in faith-based organisations – and there is an implicit understanding that donors and CSOs match up with partners which share the same vision and values.

Elbers and Arts (2011), in their interviews with NGOs in **Ghana and India**, strongly suggest that donor conditions have a strong and often negative impact on Southern CSOs. External conditional funding has resulted in organisations changing their central mission to fit with donor priorities, and implementing donor projects rather than responding to local needs.

The experience of women's rights organisations in **Bangladesh and Ghana** suggest that increased donor funding has had an impact on CSO agendas (Mukhopadhyay et al., 2011). Different stakeholders have different opinions on whether this is helpful or unhelpful. Donors do not tend to give funding for organisational development, which leads CSOs to take short-term projects instead of longer-term, strategic ones. The respondent women's rights organisations in Bangladesh stated that they continued to work on their strategic priorities, and did not change their objectives to access donor funding. However, Mukhopadhyay et al. (2011) note that there is growing homogeneity in Bangladesh, where women's rights CSOs have started to use donor-set strategies and roles, such as policy advocacy, instead of building grassroots constituencies for social change. In this way, donors may have had an effect on the normative roles of CSOs.

A rigorous study on **faith-based NGOs** in Canada (Vander Zaag, 2013) shows that these organisations received the largest proportion of their CIDA funding (37 per cent) from the Multilateral and Global Programs Branch (as opposed to the Partnership or Geographic branches, the other main sources of CIDA funding). The data suggests that faith-based NGOs tend not to bid competitively for CIDA-funded programmes, but prefer to submit proposals for programming that they or their partners initiated (Vander Zaag, 2013). This suggests that priorities are set internally, or there is less need for external funding, or less capability for competing for tenders (Vander Zaag, 2013). Faith-based NGOs have not developed programming strategies in line with CIDA's country strategies, suggesting that faith-based NGOs prefer to carve their own path. The authors also suggest that CIDA has not been willing to engage faith-based NGOs in ways that engage their faith-based identity.

DFID's **PPAs** (unrestricted core funding) have helped support CSOs' long-term organisational strategic thinking and relationships (IELG, 2012). For example, Transparency International used PPA funding to support redeveloping its corporate strategy, including in-depth consultation with stakeholders (IELG, 2012).

# 7. Expansion of different types of CSOs

The strongest lesson emerging from the literature is that diversity of funding will encourage diversity in civil society. There are no clear lessons on which funding instruments will best support a CSO marketplace more broadly, only that pooled funding and core funding tend not to support this.

Giffen & Judge (2010) suggest that, in order to increase the strength and diversity of civil society, it is important to maintain a variety of funding mechanisms at different levels. The OECD also supports this conclusion, based on their global review on civil society and aid effectiveness (OECD, 2009).

Mukhopadhyay et al. (2011) express caution that the harmonisation agenda is harmful to smaller and weaker CSOs, and those whose remit does not match with donors' interests. **Multi-donor funds** improve harmonisation and reduce transaction costs for donors, but CSOs express concerns that this creates monopolies on the types of activities funded and the recipient organisations (INTRAC, 2013). Larger and well-established CSOs tend to benefit the most from multi-donor funds (INTRAC, 2013).

In Ghana, smaller and community oriented CSOs have lost out in pool funding arrangements (Mukhopadhyay et al., 2011). After the Paris Declaration, pool funding mechanisms were set up which channel funds from bilaterals into an organisation set up to distribute the funds. Smaller CSOs do not have the absorption capacity or the policy analysis and advocacy orientation that some arrangements require. Some CSOs have therefore had to become the implementing partners of more successful organisations, which can compromise these smaller CSOs' autonomy.

Channelling funding through **CSO partnerships or umbrella organisations** also biases against smaller and alternative organisations. Northern CSOs tend to partner with Southern CSOs which share similar remits, frameworks or themes, which can exclude traditional or informal organisations (INTRAC, 2013).

CIDA's funding for CSOs mostly went to the largest and most-established organisations, the Canadian Foodgrains Bank (CFGB) and World Vision Canada. The authors conclude that only a small number of specialised organisations with relationships with CIDA actually receive funding (Vander Zaag, 2013). The data from CIDA suggests that faith-based NGOs are less dependent on CIDA funding than secular NGOs are (Vander Zaag, 2013).

Similarly, **core funding** tends to favour fewer, more capable organisations (INTRAC, 2013). These are often larger, urban-based NGOs, which may create divisions in civil society or perceptions of donor favouritism (Howell & Hall, 2012).

It is quite common for the literature to suggest that NGOs are formed only to access donor funds, and have no real interest in addressing development problems. NGOs may raise questions to policymakers but not attempt to provide solutions (Mukhopadhyay et al., 2011). This is cast as a result of easily accessible donor funding for specific purposes, which incentivises people to form organisations to superficially respond to this market (Mukhopadhyay et al., 2011; Howell & Hall, 2012). Competitive bidding for funding encourages this kind of organisation to develop (Howell & Hall, 2012).

# 8. General observations

The literature reviewed for this report also presented several general lessons not directly related to the areas of interest discussed above.

Much of the literature strongly emphasises that donor funding fragments civil society, increases competition for scarce funding, and has short-term, project-based agendas which do not support broader social development outcomes (Mukhopadhyay et al., 2011). These constraints discourage addressing deeper and systemic causes of poverty, inequality and marginalisation (Pettit et al., 2015). Donor funding, particularly the Paris Declaration and the results-based agenda, can result in narrowing CSOs' focus and limiting their scope of action.

The key shortcomings of donor funding can be summarised as (INTRAC, 2013):

- Pressure to choose measurable, short-term projects (at the expense of longer-term strategic investments). These limit the investment in organisational development and create a climate of uncertainty.
- CSO focus on reporting back to donors rather than organisational learning.
- Greater investment in upward accountability to donors rather than downwards to beneficiaries.
- Focus on results discourages investment in diversity, risk-taking and alternative CSOs.

The point about reporting to donors is repeated often in the literature. CSOs which receive donor funding often state this results in a large administrative burden, focusing on outputs rather than outcomes (Howell & Hall, 2012). Much of the literature suggests that donor reporting and accountability requirements take up a lot of CSO time and divert attention away from core activities (OECD, 2009).

The solution offered in the literature is to provide more unrestricted, core funding. There is strong evidence that unrestricted core funding from DFID's PPAs enables NGOs to (IELG, 2012):

- Strengthen organisational systems and processes
- Invest in strategic organisational development
- Invest in and maintain longer-term programmes and/or strategies
- Have the flexibility to respond to unforeseen events
- Fund "hard-to-fund" areas of work or geographic regions
- Invest in innovative programmes and approaches
- Leverage other (restricted or unrestricted) funding
- Scale up successful pilots Increase internal organisational learning Increase sector networking and sector-wide learning

Core funding may be the most appropriate mechanism for advocacy CSOs, which need to maintain independence and legitimacy (Giffen & Judge, 2010). Direct project funding may be more appropriate for smaller, more marginal groups, which are less able to tap into other funding mechanisms (Giffen & Judge, 2010).

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