An Alternative Funding Strategy for Development NGOs

There must be better ways of helping people in real need in low-income countries than the current system of development aid, which is wasteful of resources and distracts NGOs from what they are set up to deliver. I should like to see an alternative funding strategy investigated, one that recognises that effective development needs a longer term, more flexible approach. I have not attempted to work out all of the details in this short paper, only to outline the main ideas. I have concentrated on funding for small development NGOs which work with local in-country partners.

**NGOs’ Dilemmas:** Getting funding is a lottery: NGOs can invest enormous amounts of time and effort in developing proposals and hawking them around. And the situation appears to be getting worse because of the competition for funds. This encourages groups to send out multiple copies of proposals in the hope that one may find a sponsor, and this clogs up the system. And even when bids are approved, the problems do not stop: sometimes it’s just the beginning. It is often said that the one thing worse that applying for EU funding, is actually getting it because of the mindless bureaucracy involved. Moreover, some funders require that applicants work out virtually every detail of a 3, 4 or 5 year project in advance. This is unrealistic and puts serious strain on small NGOs — a bid to DFID’s Civil Society Challenge Fund can take four or more person-weeks to prepare, and that’s for highly experienced practitioners. This represents an enormous investment with serious risk of failure, and there are additional costs involved in consultation with partners and data collection. Moreover, the bids then take 9 months to assess.

**Donors’ Dilemmas:** For their part, donors are increasingly inundated with unsolicited applications, and frequently complain of having to turn away good proposals because they do not have the resources to support them. Of course, not all NGOs are up to the job, and not all bids are relevant or adequate, some may even be fraudulent. Funders need to be careful. But with the current system NGOs don’t learn from their mistakes — nor their misfortune in picking the wrong funder — because very few funders provide feedback on the (real) reasons for rejection. This is understandable, but in the context of system efficiency it is very regrettable.

**Big vs Small:** I would like to see more recognition given to operational flexibility and the ability to deliver customised solutions at the local level (not ‘one size fits all’); and more account taken of groups’ experience, contacts, commitment and track record in development. Large NGOs are lucky: they can leverage funds, appeal to the public (they have household names), and negotiate special deals with government agencies, like the PPAs which pay for staffing and core costs. This means that small NGOs are pitted against teams of well-paid salaried professionals. The ‘playing field’ needs to be levelled, perhaps with ring fenced budgets so that groups like ours are not pitted against the might of Oxfam and ActionAid. Small NGOs work in places that big organisations often fail to reach, and they develop very special long-term relationships with community groups and local people. I can only speak from personal experience but I don’t see this in the work of large NGOs, which can sometimes appear almost mercenary. The Department for International Development favours big projects because of the so called ‘economies of scale’, but how effective is this and where is the continuity and the human touch?

**Basic Assumptions:** Let me start with two rather obvious but nonetheless important points:

- donors depend on NGOs to provide the ideas and deliver the services which legitimate their existence — they would achieve little or nothing without them; and
- donors need to be assured that their funds are being used efficiently and effectively — projects must have clear goals and SMART objectives, and grant recipients, appropriate personnel, open and transparent procedures, proper accountability, minimum overheads, and show that they are cognisant of potential risks.
An Alternative Approach
So how might an alternative system work? Here’s one possible framework:

- the donor defines eligibility criteria for applicants and specifies the country, and the issue, focus and size of grants and reporting requirements, essentially what we have at present;
- eligible NGOs, either individually or as part of a consortium, submit a Concept Note\(^1\) with a realistic estimate of project costs, timescales and deliverables — they should be permitted to include contributions in kind made by local people in place of matched funding, which represents a real constraint for many small groups;
- funders recognise that good projects often involve higher risk, especially where they are undertaken with local partners in countries lower down the UN’s Human Development Index;
- if a proposal is accepted the NGO/consortium and their local partners would be given more freedom to conduct the project and respond to events as and when they happen — they would be judged primarily on outputs and outcomes, rather than inputs (proposals), using pre-agreed performance indicators;
- the higher the perceived risk associated with the group or consortium, the lower the grant and or the tighter the control on the release of stage payments;
- money would be released on receipt of regular reports, say every six months, including in-person briefings/presentations to the donor’s Programme Officer;
- grants should cover full project costs, including a contribution to core costs;
- funders would be able to see records of expenditure on request, but NGOs would primarily account for spending in an annex to their annual accounts (saving funder’s time checking figures);
- when groups had successfully delivered on projects, their risk rating could be reviewed, and revised accordingly, perhaps making them eligible to apply for larger grants in the next round.

I appreciate that this approach raises many questions which need to be addressed, not least, who would vet applicants to ensure they had the capacity, experience, contacts and humility to do the work; and how outputs/outcomes would be monitored and performance claims checked, but these are issues with the current system, and the alternative approach does reduce other problems. I believe much of the administrative burden could be reduced if donors took more of an interest in projects and sent their the Programme Officers or consultants to check out what was happening on the ground. I can’t believe that this approach would cost any more than is currently spent in evaluating proposals\(^2\) and assessing completed projects/reports. It is clearly not fool-proof, and involves risks, but I think it could be a significant improvement on the present system in delivering aid to poor countries and lifting people out of poverty.

Last Questions
I have included three last questions that I think also need to be addressed:

- In an ideal world, who should decide on how aid is allocated and used — a) those who provide funds (donors); b) those who deliver services and know the situation on the ground (international development NGOs and their local partners), c) those who are supposed to receive the aid (representatives of the beneficiaries); d) those who are elected by those who are supposed to receive the aid (governments in benefiting countries who, increasingly want to be involved); or e) international organisations like UNICEF, WHO or the World Food Programme which have international targets to meet, such as the Millennium Development Goals?
- Large development projects may make things easier for funders, but what evidence is there that they are more cost-effective pound-for-pound than small ones in lifting people out of poverty?
- What proportion of the resources currently allocated by donor organisations for the relief of suffering in low income countries actually provides useful services or direct help to people facing discrimination, or those that are living in poverty, and powerless, disabled or dispossessed?

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\(^1\) The Log Frame (which DFID advocates) has its place, however, it can become a straightjacket for development projects which involve real people, local politics, unplanned events, economic downturns, adverse weather, etc. etc.

\(^2\) It would be interesting to know what resources DFID spends in house on this and what it costs to subcontract work to Triple Line Consulting.