How will the global recession affect development?1

It is inevitable that the world recession will have an impact on international development, both its financing and the context in which official agencies and NGOs work. We will see economic effects undermining attempts to reach goals such as the MDGs, at a time when aid flows will be challenged by governments, and people in donor countries are already suffering from reduced incomes, higher prices, and reduced services.

Some effects on NGOs and CSOs in different areas:

1) Preliminary research shows some decline in incomes of INGOs before the recession formally hit. There is some evidence of a decline in gift giving (including long term giving) in both smaller NGOs and some larger ones. The causes aren’t totally clear but it is possible that the crazy semi inflation of the previous couple of years (fuel and food prices up but hidden by cheap consumer goods and cheaper borrowing) affected giving. There was also probably a post-Tsunami effect, as donations for emergencies have not captured the public imagination since the Tsunami. It has also been argued that we haven’t had enough successes to highlight, leading to donor pessimism.

Several agencies we reviewed have had problems raising funds that stretch back a couple of years. We believe this has coincided with some other donor policies and market changes leading to smaller NGOs finding it harder to access certain types of official funding (UK/EU based), as these donors seek a smaller number of larger agencies with which to work so as to reduce their own transaction costs. This trend is set to continue. Committed giving is also down even in some of the high profile UK NGOs, despite considerable expenditure and efforts on fundraising.

1 Special thanks to John Hailey and Alan Fowler for contributing their ideas.
2) Certain strategic changes may have been accelerated by the recession rather than caused by it. Statements from INGOs explaining why certain country offices are being closed often ring slightly hollow and one is left feeling that these were decisions already made but now justified by the recession. How and what all of these changes add up to is a further question. What was the reason for some of the strategic changes and why did they pre-date the recession? Is it the fall in unrestricted income which means that the big agencies have to cut recurrent costs, including those staff not covered by restricted income? Or was it an overdue review of some of the INGOs’ approaches to development and how they structured themselves?

3) There is a serious international debate where certain leaders of official donors such as Britain’s Gordon Brown have argued that this is not the time to cut aid – there are too many international challenges including poverty, security and climate change which all require international assistance – and the global community has a common cause in trying to combat these challenges.

Official donors are being affected in different ways. Some are suffering exchange rate changes (e.g. the fall of the pound against the dollar cut the real value of UK aid by 20%), other countries have already made budget cuts (Ireland, Italy), others will reduce their aid budgets as GDP falls because their aid budgets are tied to a proportion of GDP (Holland and Sweden, possibly Denmark). There is also some evidence that official donors are changing their policies, including: reducing the number of priority countries; reducing the number of NGOs they fund, to reduce transaction costs; more in-country direct funding; less priority to service delivery through NGOs. The security agenda has also led to some INGOs following the new “security based humanitarian funds” provided by their governments.

4) INGOs are reacting or being forced to act in a variety of ways, in part due to greater competition for funds. Some of these trends are also due to the coincidental pressures noted above, for example it is now harder for smaller NGOs to gain funds in Europe unless they can obtain funds in developing countries through direct funding or sub-contracting mechanisms. Other reactions have included mergers, although some of these look more like takeovers – not carried out logically through bringing together several small NGOs with similar types of programme, instead some are going for a ‘department store approach’ (a health programme or pastoral programme to add to our portfolio). There is also a process of ‘de-merging’, leading to country offices being made independent, sometimes very successfully obtaining in-country funding rather than funds from a northern-based HQ. This sometimes leaves the northern parent in an ambiguous position regarding its own role and funding base. Others have re-considered rebuilding a partnership approach and reducing the emphasis on operational programmes which expose them far more to income fluctuations as they are stuck with a high recurrent infrastructure, whereas partnership funding passes on the risk to partners.

5) Many are just cutting costs where they can – trimming previous loss leaders, asking questions about sacred cows which can show little impact or progress. A specific problem for some agencies is a reduction in unrestricted or free income proportionally compared to restricted income. This makes it harder for INGOs to do what they want. This doesn’t always have to be a bad thing as it can force them to rethink how they use these precious funds when the temptation has been to use them for themselves (staff, programmes) rather than develop genuinely new relationships and partnerships.

6) Therefore we are seeing a lot of agencies reviewing strategies, reviewing performance, reviewing mandates. Some are trying to justify their work, others finally cleaning up things which should have been done long ago but were postponed because there was no financial imperative to do so. The emphasis is now on M&E, reviewing what to keep, what to expand, justifying work. This may lead to a more healthy sector and put a brake on some of the less desirable trends of recent years.

7) Overall we are in a sector where “managing change” has invariably meant managing growth not a shrinking budget or staff. Therefore there is a generation of INGO managers who have never had to face this challenge before. Despite many of them being recruited from the public and private sectors this is not an experience they have brought with them either. Already there are new tensions between senior managers and their governing boards.

Effects on southern NGOs
The effects on developing country NGOs vary enormously – often simply due to where they are based. In Latin America, with very few exceptions, the last remaining donors are packing up and going home. Major official agencies are also trying to persuade their home country NGOs to follow suit and adhere to shortlists of priority countries. Other middle income countries in southern Europe and South Asia are seeing the
Lord Shiva is the embodiment of ‘the destroyer’ of all evil. He is the God whose ‘third eye’ is able to see and then destroy all that is dysfunctional, outdated, irrelevant and superfluous. This is the way Shiva’s dance – Tandav – is described in Indian mythology.

In some peculiar sense, the economic crisis of the past year has resulted in highly energetic expositions of Shiva’s dance. Many sectors of economy have almost disappeared, like automobiles in America; many professions have been eliminated, like investment banking; many countries have come close to collapse, like Iceland.

Much of Asia still seems to be doing ‘well’; Chinese and Indian economies are growing at 7-8%; there is greater hope and enterprise in Asia today in comparison to other regions. Hence, economic crisis has a different meaning in Asia. In India, the IT and business process outsourcing (BPO) sectors have suffered most, mainly affecting the upper-middle urban classes. In China, the special economic zones (SEZs) of the southeastern seaboard have suffered most, implying that migrant workers are returning to villages.

Governments are busy ‘stimulating’ the economy, while the polity is stagnating – with very limited progress on deepening democracy. The private sector is ‘downsizing’ and ‘refocusing’ their businesses. Hence, the first set of cutbacks are in advertising and sundry other expenditures like corporate social responsibility (CSR). In India, several hundred such programmes have been put in the ‘cold storage’. Ironically, hundreds of civil society staff, who were employed in such CSR units, have come back to the NGO job market.

Many civil society organisations are also ‘downsizing’, though they would rather claim that it is only ‘right-sizing’.

Many donations to religious and charitable institutions in India came from the rich and famous; this was specially true for prestigious religious shrines, temples, mosques, churches, gurudwaras, and so on. Millions of pounds worth of donations used to come to these religious charities in the past; that stream has become a trickle now. Likewise, civil society organisations dependent on individual and corporate donations are facing a sudden resource crunch, as donors have to tighten their belts. This is particularly affecting schools, health clinics, programmes with the differently abled, orphans, the elderly and so on.

Predicting the future

Whilst we can’t predict the future with great accuracy, we can already see some trends, and others which are inevitable. Southern NGOs are already having to make some of the choices above, and others will soon be confronted with similar challenges. INGOs will have to revise their organisational and strategic models, and there are fundamental challenges to the political economy of NGOs as we know them. Some may choose the ‘social enterprise model’, merging into not for profit private contractors to the state. Others will have to rediscover their civil society identity or move from “doing development” to being development assistance agencies, especially where they can still transfer resources, or have genuine mutual partnerships around policy issues and advocacy. It will be necessary for some to identify the programmatic choices which provide protection from the downturn. In making these changes they will have to seek very different ways of presenting themselves to the world, including their own supporters.

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Women leaders of the Disaster Management Team (DMT) in Dharanghat, in the northeastern Indian state of Assam.
Though not much is talked about it openly, several large NGO endowment funds in India have suffered a financial decline due to meltdowns in stock markets. Over the past ten years, taxation authorities had gradually opened up the mutual funds market for investment by charities (they are now going to open up equity markets too); hundreds of large NGOs parked their corpus, endowment or reserve funds in such mutual funds; though they made gains in some years, they have now been hit very badly, and for some their capital has been substantially eroded.

Many civil society organisations (CSOs) are also ‘downsizing’, though they would rather claim that it is only ‘right-sizing’. Staff and field sites are being reduced. Analytical and learning related competencies are the first to go out of the door; field service delivery functions are retained. As independent local or international funds decline, most CSOs are being pushed into the ‘lap of the governments’. Government funds come with usual conditions – focus on service delivery, restrictions on critiquing the government, its officials and politicians, and corruption (as bribery is used to get contracts and receive funds).

There still remains a lot of flab, excesses and lethargy among many civil society actors due to historical inertia. However, this funding trend precedes the economic crisis in south Asia. Over the past six years most bilateral agencies have been shifting their focus away from Asia (Bangladesh and Cambodia are the only exceptions). The focus is shifting to a few sub-Saharan African countries or conflict zones. This has prompted several south Asian NGOs to open offices in Afghanistan. In some instances, funds and scale in Afghanistan have been so large that the domestic, local, historical programmes of such NGOs are suffering from lack of attention, resources and talents.

Finally, the spectre of terror in Asia (and south Asia in particular) has led to increasing tightening of security related legislations and surveillance – making it harder for NGOs and CSOs conduct their work. CSOs are regularly questioned about their activities by intelligence agencies; their offices are raided without notice; and they are banned or severely restricted from operating their bank accounts or accessing legitimate funds. In some ways, it is now considered more respectable to run a profit-making enterprise than a mission-serving NGO. It is also much easier to manage a for-profit company in the era of liberalisation than a non-profit NGO.

However, there still remains a lot of flab, excesses and lethargy among many civil society actors due to historical inertia. They have been finding it extremely difficult to reorient and restructure themselves for the new future. In the pressure for ensuring sustainability of their staff and operations, large numbers have been migrating towards microfinance. Lending has always been an income generating activity, and Indians (and south Asians) have been traditionally pretty good at it. Has Shiva’s dance for destruction of the old patterns, structures and aspirations yet to have its full impacts on civil society in South Asia?

What is still missing are the coalitional spaces for collective mobilisation and action; there are some tentative attempts to resist shrinking of political spaces, albeit sporadically and randomly. Unless such coalitions begin to reassert themselves, and find resources within the society, many others may face Shiva’s ‘third eye’. It is plausible that the terrain of civil society may look altogether different from today in 20 years.

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The end of an era

In the case of countries like Peru, the global recession has added justifications to what resembles more of a stampede rather than a well thought out retirement of both private and bilateral government donors from the country. The alleged reasons these donors have for leaving the country emphasise the need to concentrate resources in the world’s poorest countries – most of which are in Africa – in light of the high growth of the Peruvian economy over the last few years.

This is a puzzling conclusion, especially coming from high-level decision makers of public and private donors who are supposed to have solid knowledge of the country’s economy and society. High economic growth has happened in Peru over the last few years, but this was mainly due to the abnormally high prices of metals, of which Peru is an important exporter. While this growth has resulted in high incomes for a few – who have enthusiastically engaged in a nouveau rich lifestyle – for the vast majority of the population, who were living below the poverty line before the growth episode, things have not changed. This is shown by the currently increasing wave of social and political unrest. In fact those years of high economic growth have also been years of increasing economic inequality, in a country already known for its skewed income distribution.

Important issues at stake

Also, there are very important issues at stake at the moment, as the bloody resolution of the recent protests in the Amazon has reminded us. A weak civil society, lacking means to express itself with some public resonance, will face steep hurdles to make their voice heard. The big private corporations and the government have the means to pull together and widely disseminate their version of events in the mass media, but for minorities and civil society organisations the possibilities to express themselves and exert some influence on decisions of national importance are shrinking dramatically.

Even so, several important European NGOs, for many years key players in cooperation with civil society organisations, are leaving Peru and even South America altogether. This is the case for instance of the Dutch organisations Cordaid and Oxfam Novib, as well as Oxfam UK. Some donors take arguments from their – clearly superficial – view of Peruvian’s economy and society to conclude that development cooperation should stop and instead give way to programmes addressed to the entrepreneurial sector, in the cases in which this kind of programmes still remain.

As is to be expected, this situation affects the activities and the very survival of the large Peruvian NGO sector. How are they coping? In the case of the small NGOs, it seems plausible to assume that they will encounter more hurdles in their efforts to access funds; but on the other hand they operate with low overheads so they can manage with smaller grants. Also, many of those organisations are in practice already engaged as (cheap) ‘contractors’ for government programmes and corporate social responsibility (CSR) initiatives.

NGOs recycling themselves

It is the layer of large and well known NGOs, with their relatively large payrolls and overheads, that seems to be facing bigger problems to continue their work. At the moment their perspectives depend to a large extent on who supports them, because some Northern NGOs are still acting against the trend to leave. For the other organisations, the strategies seem to include recycling themselves, trying to develop new donor contacts and focusing on the ‘internal market’; some reduction in staff numbers also seems unavoidable.

Thus, some of the large Peruvian NGOs are hoping to recycle themselves into the current global themes, such as climate change, and are making initial moves in that direction. Others are succeeding in developing partnerships with ‘new donors’, who are mostly Spanish. Or they are applying to local sources of funds, government programmes and some of the bi-national funds (Peru-Italia, Peru-Alemania) that are still operating, while acknowledging that in this alternative the contractor role substitutes partnerships.

After several years of experience with the CSR programmes of large firms, especially mining firms, the prevailing opinion is that the NGO style does not go well with the ‘entrepreneurial’ approach found in those programmes, which emphasise ‘results’ and are process blind.

Summing up, the global recession deepens the already critical situation threatening the survival of Peruvian CSOs. Several survival strategies are being devised and implemented, but it seems clear that important changes in the NGO sector of Peru are inevitable.

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How NGOs and CSOs are affected and are able to respond to the global economic downturn is in part dependent on how their funding is structured. Below we outline six different business models and consider their advantages and disadvantages.

**Model 1 – Classic partner funding**

This is where a donor NGO works with a local developing country NGO and supports their work both financially and with some other basic support. In more recent years there may also be exchanges of information and coordinated advocacy. The advantages are that when income drops it is relatively easy to cut back expenditure, as at least the maximum liability might be covered by existing grants. But even here many smaller funders have been known to give warning that they can’t meet their obligations in difficult times. Some even write this into their funding contracts. In terms of disadvantages, it is harder to bring small grants together and sell them as a rational coherent strategy, especially when funding is regarded as "programmatic" as is the case with some of the new block funding.

The other issue with this model is that the risks get passed on to the partner. In good years the partner gets more and sometimes partners are asked to put in proposals towards the end of the financial year as there is unspent money. In bad years the grants to partners get cut. There are ways and means of mitigating this by having a varied portfolio of partners on different funding cycles – spreading the risk to all partners.

**Model 2 – Programmatic funding**

Programmatic funding tends to be where funding is brought together around a thematic or geographic priority. Some “niche agencies” have successfully developed programmatic funding within tight parameters (water provision, HIV/AIDS, women’s legal rights, etc). The advantages of this is that it is easier to sell to back donors (as they incur lower transaction costs) and explain to the general public. Some programmatic funding is though almost a fiction of the fundraiser claiming a strategic coherence which is not to be found on closer inspection.

The downside can be that local people don’t think inside such a box or aren’t prioritising the same things that the agency is. One risk is that programmatic funding morphs into sub contracting mode whereby local groups follow the guidelines, methods etc of their so-called partner – giving little leeway for their own ideas, or adaptation to local contexts.

**Model 3 – Sponsorship and its hybrids**

Most sponsorship agencies have long since moved away from classic sponsorship which entailed transferring a sponsorship contribution to a specific child (with some money set aside for administration etc). Most still use the concept of a sponsored child but funding is used for a variety of community based programmes (e.g. Plan and ActionAid). The advantage is that private donors like the idea that the money gets through to a child in need. Now it has become community based it is also easier to sell to back donors as community development. Thus the sponsorship money levers other funds, and provides a level of income independent of back donors. Successful sponsorship agencies tend not to have the same excessive swings of income levels.

The downside is that they find it hard to change the direction of the agency as too many people are nominally tied into the sponsored children – so it is difficult to close or open new programmes. What can be seen as a positive (the ability to commit to 10 year programmes) can also be a weakness (an overly intensive programme in one small area of the country).

Anecdotal evidence from one agency director was that his agency had never had a strategic plan that lasted more than 18 months, several directors in as many years, and a 50% turnover of senior staff – but this had very little impact in the field because the rationale of sponsorship meant that at the fundraising end things...
kept functioning, and at the community level programmes wrote themselves. What happened in between seemed unimportant!

**Model 4 – Emergency spin-off**
It is still staggering the number of programmes which originated from an emergency. What is also of note is how hard agencies find it to then leave the post-emergency zone. I have seen research which links the start of a large number of NGO programmes back to an earlier emergency (often very much earlier, i.e. 20 years ago). When the NGO income was increasing this seemed a manageable way of expanding – if not necessarily all that scientific as no real needs assessments are made (of longer term needs), and no assessment of what the real value-added of the incoming NGO might be aside from bringing some short term emergency money.

A common problem is that entering in an emergency ‘hands on’ mode makes it difficult to change to a longer term partnership mode (see, for example, Ethiopia and how few INGOs have managed to make the transition – to the detriment of Ethiopian organisations).

We now see many INGOs with programmes and heavy infrastructure they can no longer support from current income, and who are trapped in a model from which it is hard to extricate themselves.

**Model 5 – Large set piece operational programmes**
The attractions of a large focussed programme in one locality building on several needs has a timeless appeal – the basic model hasn’t changed much, despite changes in title from community development through integrated rural development, to livelihoods.

This encourages local expansion in good times, more staff, another district, another programme. But, it is very hard to get out of this model, thus large recurrent costs continue unabated; it is slow and difficult to close down or reduce activity level. Often the expansion fuelled by the last boom is still happening when income has already dropped. Project level funding or funding dependent on uncertain incomes are almost guaranteed to lead to organisational instability. Plus, exit strategies are really just an urban myth. There is always a reason to continue for another few years. The larger the programme the more self interests there are in keeping it going.

The problem with this model is that the large recurrent costs and assumption of expansion in boom years means that proportionally any cut has to be even bigger. Thus the nuclear option is all that is available (close the programme) – whereas some of the other models can be reduced more gradually.

One large agency I know almost destroyed itself on the assumption that, after its existing donor money finished, funds for its large programmes would be available elsewhere. It kept hoping for a new source so kept the infrastructure going (absorbing most of the agency’s free money just maintaining the offices) assuming this would be the hook to gain new funds. In this case it failed.

The other big issue is redundancy liabilities. In many developing countries labour law is much more protective of workers than in Europe, for example, so NGOs carry huge liabilities when they close programmes. This means it can be more expensive to close a programme than to keep it going – so the temptation is to use unrestrained funds to maintain an office with the hope that further funds might be raised.

Some agencies now have a redundancy fund so that every month a certain amount is put aside to cover end of contract settlements.

Another issue is that many local staff are often taken on in emergencies by short term expats who don’t understand local labour law, and these staff gain permanent employment rights which the country office then has to cover, leaving the INGO hostage to local law and employees – whereas local agencies are far less vulnerable to such pressure.

**Model 6 – Contractor at large**
There is an increasing number of NGOs who are dependent on providing contracts for services, mainly to large official donors or increasingly to local governments. Their success is having the scale and systems to cope with large contracts. Size attracts further contracts as larger groups have the cash flow, staff, and procedures for hiring large numbers of people. Within NGOs some have tried to use grant money to lever contracts or “seed money”, others have found themselves using grant money to subsidise contracts.

The upside is that some of the most successful NGOs now work to this model so it must have attractions of scale, and guaranteed income for the job. The downside is that non-contract money can get absorbed, independence is lost, and the ability to design programmes according to your values is much weakened. Each programme is only as secure as the last contract so major changes in staff and priorities are at the mercy of others. Thus it is possible to expand rapidly and just as quickly disband.

**Thinking through the implications**
There are other business models available and emerging and this article is intended just to open debate. However, it is not clear that senior managers and NGO boards have always thought through the implications for the whole organisation of the often implicit decisions they make on their operational and funding business model. Some of these debates have not been necessary because growth has been assumed for many years. Even now there are agencies being forced to make heavy cuts in staff and programmes who have not actually suffered a major cut in their incomes, only a failure to grow as predicted!

More thought is needed within agencies on their own structures and business models as it is clear that there will be further major changes in the NGO political economy.
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Rick James has worked in NGO management for the last 15 years, primarily in Latin America, Africa and Europe, and has been with INTRAC almost since its inception. Rick has trained, consulted, researched and written extensively on NGO capacity building and organisational change issues. His publications around faith include:

‘What is Distinctive About FBOs? How European FBOs define and operationalise their faith’, Praxis Paper 22, INTRAC, 2009
‘Faith-Based Organisational Development with Churches in Malawi’, Praxis Note 47, INTRAC, 2009
‘Capacity Building and Islamic FBOs: Insights from Malawi’, Praxis Note 48, INTRAC, 2009

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