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Partners or Contractors?

**The Relationship Between
Official Agencies and NGOs:**

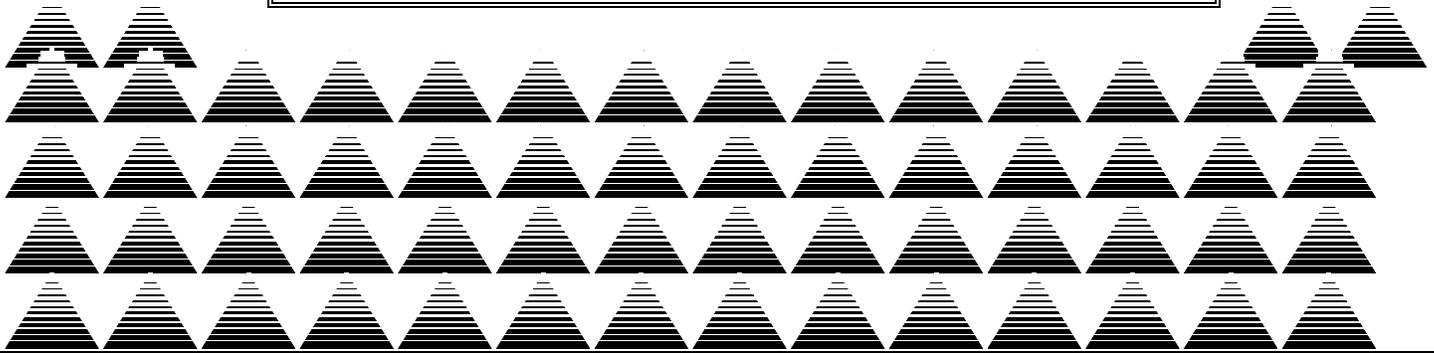
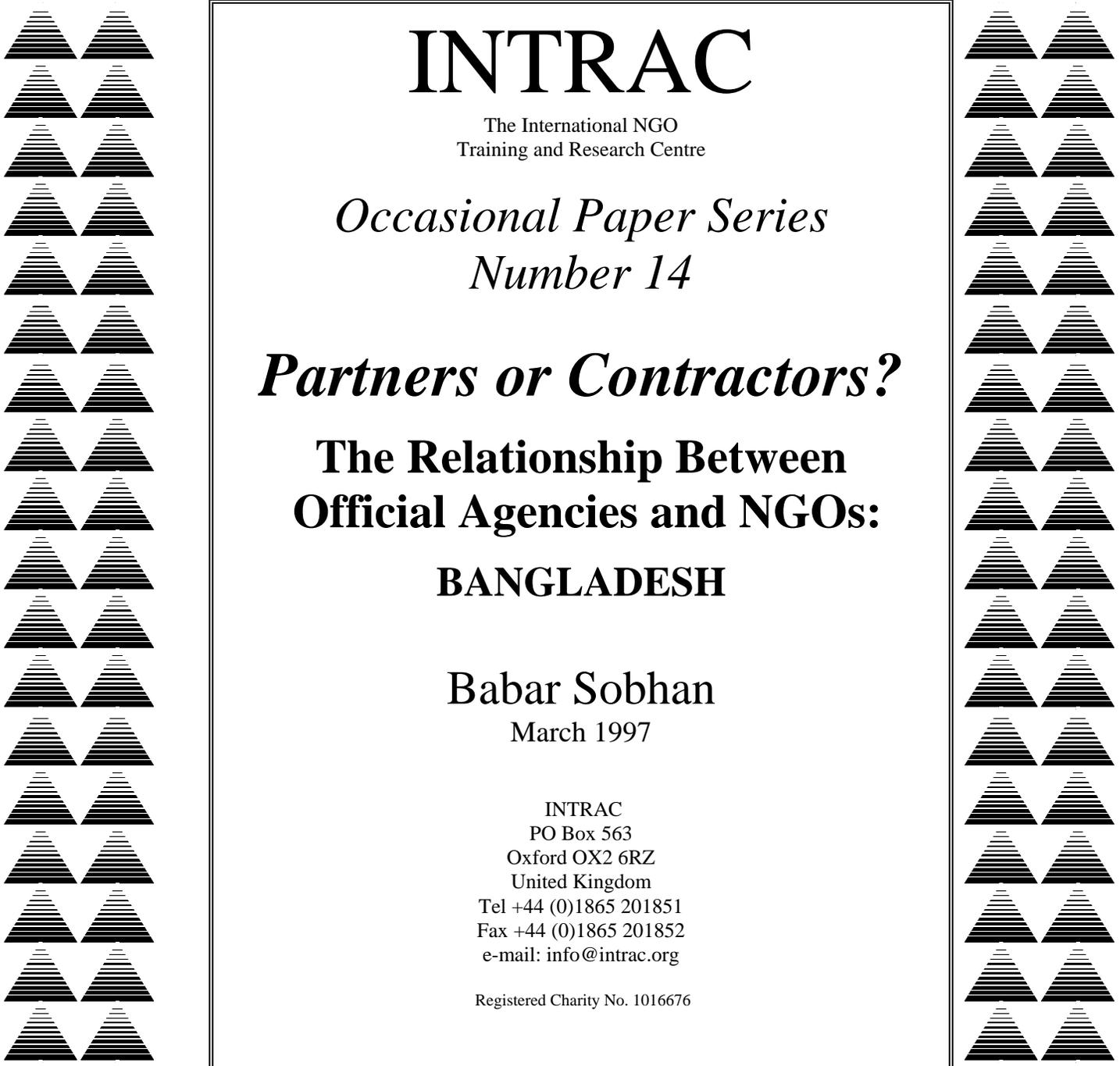
BANGLADESH

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March 1997

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The Relationship Between NGOs and Official Agencies : Partners or Contractors ?

Bangladesh Case Study

Babar Sobhan

DRAFT

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**International NGO Training and Research Centre
(INTRAC)**

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ACRONYMS

ADAB	Association of Development Agencies in Bangladesh
ADB	Asian Development Bank
ASA	Association for Social Advancement
BELA	Bangladesh Environmental Lawyers Association
BNP	Bangladesh National Party
BNPS	Bangladesh Nari Prograti Sangha
BPHC	Bangladesh Population and Health Consortium
BWHC	Bangladesh Women's Health Coalition
BRAC	Bangladesh Rural Advancement Committee
CBO	Community-Based Organisation
CGAP	Consultative Group to Assist the Poorest
CIDA	Canadian International Development Agency
CODEC	Community Development Centre
CUSO	Canadian University Services Overseas
DANIDA	Danish International Development Assistance
EU	European Union
FIVDB	Friends in Village Development Bangladesh
GK	Gonoshystha Kendra
GSS	Gono Shahajjo Sangstha
IDPAA	Institute for Development Policy, Analysis and Advocacy
IGP	Income-Generating Project
IMF	International Monetary Fund
INFEP	Integrated Non-Formal Education Programme
INTRAC	International NGO Training and Research Centre
NAB	NGO Affairs Bureau
NGO	Non-Governmental Organisation
NNGO	Northern NGO
ODA	Overseas Development Administration (UK)
PKSF	Palli Karma Shahyak Foundation
PVDO	Private Voluntary Development Organisation
RCP	Rural Credit Programme (BRAC)
RDP	Rural Development Programme (BRAC)
RDRS	Rangpur-Dinajpur Rural Development Service
SIDA	Swedish International Development Authority
SDC	Swiss Development Cooperation
SNGO	Southern NGO
UNICEF	United Nations Children's Fund
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WID	Women in Development

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Executive Summary

1. This case study examines the impact of direct funding on the development of the non-governmental (NGO) sector in Bangladesh. In particular, the study focuses on the changing relationships between large, national NGOs and small, local NGOs and community-based organisations (CBOs). The study also attempts to move the discussion on the funding beyond looking at the impact on individual NGOs to examine how it has impacted on the development of the sector as a whole. Bangladesh was chosen as the first Southern case study because of its highly developed NGO sector and because it has the longest experience with direct funding.
2. NGO involvement in Bangladesh dates back to the cyclone that devastated the coastal areas of the country in 1970 and the War of Independence in 1971. The evolution of the sector can be broadly divided into three phases : (i) an initial focus on relief and rehabilitation ; (ii) the adoption of an empowerment model of development; and (iii) the transition to a service delivery model with a focus on individual economic empowerment.
3. There have been two distinct periods during which the number of NGOs registered with the NGO Affairs Bureau increased (see Table 1). The first took place between 1981 and 1985 (the period during which donors first began to work closely with local NGOs) when there was nearly a threefold increase in the number of NGOs. The second phase began in 1991, the year following the restoration of multi-party democracy. Between 1981 and 1995 the number of NGO receiving foreign funds increased by a factor of twenty from 45 to 848. Most estimates suggest that NGO coverage has extended to around 78% of the nearly 60,000 villages in the country and reached upwards of 25 million people. Since the advent of direct funding, the resources available to the sector have increased exponentially and it is estimated that an average of \$350 million or 17 percent of all development assistance received by Bangladesh is now channelled through the NGO sector.
4. One area that continues to be of concern to both NGOs and donors is the relationship between the sector and the government. It is an area that is fraught with contradictions and touches on important questions about the accountability and legitimacy of [foreign-funded] NGOs, especially given the size of the sector and the volume of resources that are now channelled through local NGOs. More recently, however, attempts have been made to bridge the gap between the sector and the Government with a far greater degree of cooperation and learning taking place.
5. The vast majority of Southern NGOs (SNGOs) continue to receive the majority of their funds through Northern NGOs (NNGOs) despite the presence of the direct funding channel. In the case of Bangladesh, however, the second window of cooperation has surpassed the traditional indirect route in both size and importance. As a result, the traditional intermediary role played by NNGOs has come under question.

6. Disaggregated data on the direct and indirect funding of NGO was not available from either the NAB or ADAB. A very rough estimate was obtained on the basis of the responses to the questionnaire sent to 50 NGOs as part of the study, which suggested that around 60% of the budgets of NGOs comes from direct sources with the remainder being made up of a combination of grants from Northern NGOs and income generated through commercial activities and service charges. The over-all bias in favour of foreign funding can be seen by NAB figures that show that on average 95 percent of the budget of an NGO project comes from foreign sources (see Table 2).
7. It is difficult to obtain an accurate picture of the distribution of funds within the sector. Again, rough estimates suggest that around 30 NGOs receive around 80% of all funds channelled through the sector; 60% of which went to eight largest NGOs. This is confirmed by another study which suggests that the 10 largest NGOs control around 68% of all funds going to the sector. (Figure 3)
8. There are three main types of direct funding that exist in Bangladesh today. (i) The traditional ambassador's fund; (ii) project grants from a common fixed pool of resources ; and (iii) grants to NGOs as part of or in addition to the official bilateral country framework agreements. The importance of the last of these mechanisms has increased over time and it now accounts for the lion's share of funding to the sector as a whole.
9. The other major debate on funding regards the availability of core versus project funding. Core funding refers to funds that are provided to an NGO to be used at their discretion and are not ear-marked for a specific project. Project funding, which still represents the most common form of assistance to NGOs are funds ear-marked for a particular project, usually for a fixed period of time. In between these two extremes is what is known as Programme Funding where resources are provided for a specific area of work but with greater flexibility in its use when compared to project funds.
10. The debate on the type of funding underlies one of the most serious problems in the relationship between NGOs and donors, the issue of agenda setting. Critics of the sector have accused both NGOs and donors of funding projects that reflect external fashions and not the articulated needs of the poor (Hashemi, 1995). Core funding is seen as one means to overcome this by providing more control to NGOs to decide how and when funds are utilised. It has also been seen as an important means for organisations to invest in capacity-building. NGOs have argued that funds for staff development and the construction of training centres, while not directly benefiting the poor, are nonetheless essential if the successes of the last two decades are to be maintained and built upon.

11. Much of the responsibility for this ambiguity about funding lies with donors' inability to make up its mind about the reasons for and the best way of working with NGOs. There are numerous reasons for this confusion. One of the most significant of these is the lack of an institutional memory within donor offices at the country level which rarely allows staff the time to develop the local knowledge and understanding that it so crucial for enlightened funding of projects or NGOs.
12. There appears to be no set formula to explain why different donors chose to venture down the path of direct funding, and there is some debate about the direction of causality. On the one hand, local NGOs were looking to direct funding as a means of expanding the scale of their activities. Donors began to directly fund NGOs : (i) as a means of increasing the effectiveness of their development assistance and (ii) as part of a policy of strengthening civil society.
13. In certain cases, Northern NGOs also played an important role in the promotion of direct funding by : (i) enabling local NGOs to develop both their operational and managerial capacities to interact directly with the donors, and (ii) by acting as an intermediary between local NGOs and donor agencies. This provided NGOs with an higher profile within the development community which, in the case of Bangladesh at least, has been very important in determining which organisations have been able to access direct funding and those that have not.

Evaluating the efficacy of direct funding mechanisms

14. In the case of the large block grants, it is clear that donors have achieved their objective of delivering aid more efficiently and effectively to the grassroots. NGOs have shown the ability to scale-up micro-level projects without sacrificing too much in the way of quality. The effectiveness of the small NGO grants in terms of efficient aid delivery on the other hand is less obvious. Both the size and duration of the grant are major barriers to the sustainability and long-term effectiveness of a project. This is confirmed by the fact that many donors are scaling back the number of NGOs that they support because the administrative and managerial costs of doing so are not justified by the end product.
15. In contrast, when it comes to supporting NGOs as part of a policy to strengthen civil society, a different contradiction emerges. Certainly, the emergence of NGOs as major civil society actors has been facilitated by direct funding. At the same time, the small grant programmes have played an important role in supporting the work of smaller NGOs, and in that regard has helped to support a degree of plurality within the sector. However, a strong NGO sector is not necessarily synonymous with a strong civil society and some critics of the sector have argued that NGOs are crowding out other civil society organisations.

Perceptions and impact of the direct funding mechanism

16. The most obvious impact of direct funding has been the creation of a two tier NGO sector in Bangladesh. The greatest dividends have been reaped by a small handful of NGOs who between them receive three quarters of all funds channelled through the sector. At the same time, the number of smaller NGOs and CBOs has also continued to grow. However, these organisations operate under a very different set of conditions and constraints and have far less influence and security than the large NGOs.
17. The focus on service delivery and the provision of material benefits has made it difficult for NGOs to shake the perception that their role is to provide resources to the poor as opposed to creating the conditions where beneficiaries themselves are able to mobilise resources for a better future.
18. The ability of sections of the NGOs to access direct bilateral funding has been tied to the belief that they possess a significant comparative advantage in the delivery of certain basic services such as primary healthcare, education and in the provision of credit. The perception that donors are prepared to fund these specific sectors has had a profound influence on the programmes of other NGOs. As a result there has clearly been a significant degree of homogenisation in the last few years. Furthermore, it has been argued that this has absolved the State of the responsibility of providing social services and has helped to privatise social development through the back door.
19. A related area of concern has been the impact on innovation within the sector which appears to have slowed down in recent years and that NGOs have become less flexible and response to the needs of the poor. The pressure to perform and the risks associated with failed experiments has seen the locus of innovation shift from small NGOs to big NGOs.
20. There has also been a fundamental shift in the philosophy and values within the NGO sector as it has grown in size and importance. The spirit of commitment and altruism that characterised first generation NGOs and CBOs workers has been gradually replaced by a sense that employment with NGOs provides the type of job security that is hard to find elsewhere. The emphasis on changing social relationships has been gradually replaced by an external orientation where the achievement of numerical goals has begun to take precedence over the need to facilitate social change.
21. The relevance and role of Northern NGOs has also come under increasing scrutiny with advent of direct funding and the increasing sophistication of the local NGO sector. Certain NNGO in Bangladesh who have made a concerted attempt to redefine their role to reflect these changes. These NGOs are gradually moving away from operational work to concentrate more on networking, advocacy and providing support to local NGOs to carry out research work and other aspects of institutional capacity-building.

22. One of the main criticisms from within the donor community has been that (many) of the larger NGOs have become overly bureaucratic. The basis for these assertions, however, seem to be opinion rather than empirical evidence. Certainly compared to government ministries, NGOs still operate highly streamlined and efficient managerial systems despite the fact that they no longer work with one village or community, but have expanded the scale of operations to the point where few regions of the countries remain untouched by NGOs.
23. As a result, donors are increasingly exploring new relationships with small NGOs and citing many of the traits and characteristics of partnership more commonly associated with the relationship between Northern and Southern NGOs as the main justification for this change. Where it once appeared that the advent of direct funding would make Northern NGOs redundant, such gloomy prognostications now seem a little premature.

Lessons from the Bangladesh experience

24. The general consensus is that direct funding and partnerships with NGOs has had a positive impact on the nature of bilateral development assistance. However, the lack of a unified approach to working with the sector both within and between bilateral donors, the different forms of funding and differing expectations and requirements is sending out a mixed message to the local NGO community all of which serve to weaken the impact of working with NGOs.
25. The fundamental question facing NGOs and donors alike in the near future is how best to maximise the impact of their interventions. There are 3 main options : (i) *additive* strategies where impact is achieved through an increase in the size of programmes and or the organisation itself; (ii) *multiplacative* strategies where impact is achieved through a process of influence, networking, training and legal and policy reform; and (iii) through *diffusive* strategies where impact is both informal and spontaneous.
26. Direct funding enabled NGOs to follow an additive strategy of maximising impact. But the trade-offs that accompany this strategy, the impact on the quality of work and the constraints of being dependent on external funding are beginning to force NGOs to re-think their visions for the future. Certainly, at the organisational level, NGOs have had to struggle with problems such as the increased hierarchical structures, increased specialisation, and perhaps most important, the need to significantly increase the capacity to raise both material and human resources to be able to sustain the gains that have been made thus far.
27. Direct funding has been instrumental in enabling NGO to replicate successful pilot projects on a mass scale and the appeal of this type of approach for both NGOs and donors alike is enormous. In the context of Bangladesh, it has created a culture where the main measure of success continues to be the scale of the replication process.

28. The one area where small NGOs seem to have been able to maintain their advantage despite the direct funding mechanism is in the area of advocacy and networking by providing a link to communities that have not or cannot be reached by the larger NGOs.
29. The key point to emerge from this study is the need for donors and NGOs alike to better understand the gains and losses that are associated with direct funding. It is clear that the dominant motivation for providing direct funding was to increase the quantity of aid money available to the sector. However, it is the quality of aid rather than the quantity which is the key variable when it comes to determining NGO effectiveness.
30. The challenge for both donors and NGOs alike is to move away from a simple analysis of positive and negative impacts of this trend. The most important lesson that can be derived from the Bangladesh experience is the need to clearly specify the aims and objectives behind the funding of NGOs. To do so, one will need to move beyond a simple focus on the impact on individual recipient NGOs towards a better understanding of some of the broader consequences that accompany a significant transfer of resources through the sector. This has been the missing element in the case of Bangladesh. Thus, we have a situation where NGOs are caught between being partners and contractors.
31. Given the diversity of the sector (still) there is no reason to suppose that a dual policy cannot be maintained. Certain NGOs clearly see themselves and their role as being service deliverers and while others do not. An enlightened donor policy towards the NGO sector would be to allow the space for both types of NGOs and relationships to co-exist within the broader umbrella of a strong sector that is both representative and effective as a voice for NGOs.
32. While the benefits from direct funding remain high, so do the costs, and the challenge is to maintain an awareness of this and to improve one's understanding of where and how NGOs fit into the broader policy mix. In the case of Bangladesh, certain allowances can be made because of the fact that when it began, direct funding represented a new way of working with NGOs, and mistakes and unforeseen consequences have followed. The same is not true for other countries, and the lesson from Bangladesh is that direct funding can have a very profound impact on the shape and values of the sector and the need to proceed with caution is of paramount importance if the integrity of NGOs is to be preserved so that they can continue to be important and effective partners in the development game.

Partners or Contractors : Bangladesh Case Study

I. INTRODUCTION

This case study aims to look at the impact of direct funding on the development of the non-governmental (NGO) sector in Bangladesh. In particular, the study will focus on the changing relationships between large, national NGOs such as the Bangladesh Rural Advancement Committee (BRAC) and Proshika (MUK), whose growth is connected closely to the advent of direct funding, and small, local NGOs and community-based organisations (CBOs). In doing so, it will focus on the impact of direct funding on the diversity of the sector, competition between NGOs (e.g. the problems of encroachment and duplication) and on the financial sustainability of the sector. This study takes place at a very important point in the history of the NGO sector in Bangladesh. Changes in both the local and international political economy of aid and development are forcing NGOs and donors alike to re-think their ideas about the role and potential contribution of the sector to the development of Bangladesh in the years ahead. It is a process that will touch at the heart of the nature of the relationship between donors and NGOs and the fine line between partnership and contracting. In this respect, this study and its focus on the role of funding will hopefully shed new light on this issue and enable both NGOs and donors to make informed choices about how best to work together in the future. More significantly, however, this case study will for the first time move the discussion on the funding of NGOs beyond the impact it has had on individual NGOs to look at how it has impacted on the development of the sector as a whole.

1.1 Bangladesh : the country

Bangladesh (formerly East Bengal) gained its independence from Pakistan in 1971 following a nine month long civil war that left over 3 million people dead and the economy and infrastructure in tatters. Formed by the convergence of three major river systems, Bangladesh is essentially a delta covering approximately 55,000 square miles. By international standards, Bangladesh is a fairly homogenous society with 98.6 percent of the population identifying themselves as Bengali, speaking the same language and sharing the same culture. Though the majority of the population is Muslim, there are also significant Christian, Hindu and Buddhist minorities.

With a population in excess of 120 million, Bangladesh is one of the most densely populated countries in the world. Despite a strong commitment to family planning, the population growth rate is approximately 2.2 percent per annum which means that the population will double by the year 2020. Life expectancy is around 55 years for men and 45 years for women; as a result, the majority of the population (52%) is under the age of 18. The most recent UNDP Human Development Report placed Bangladesh at 146 out of 173 countries and within the region, only Nepal is ranked lower. Malnutrition and mortality rates though falling, nonetheless remain among the highest in the world. Only 33 percent of the population is considered literate and literacy rates among women is even lower.

Since its independence, Bangladesh has experienced more than her fair share of natural disasters and political instability which has contributed to a very slow rate of economic

growth and a per capita income of around \$220 per annum. Despite some degree of industrial development, most notably in the ready-made garments industry, Bangladesh is still predominantly an agrarian economy. The sector contributes 43 percent of the GDP and employs around 60 percent of the labour force. Despite a very fertile soil that can support up to three crops per year, labour productivity in the sector remains very low. Highly unequal land distribution continues to be a major problem with around 64 percent of the population owning less than one acre of land. By most estimates, around 50 percent of the population still live on or below the poverty line. Despite some reduction in the percentage of people living below the poverty line in recent years, the percentage of the population considered to be the 'hard-core' poor (defined as those with a daily caloric intake of 1,805 or less) actually increased from 22 to 28 percent during that same period.

1.2 International cooperation

Since its creation, Bangladesh has been perceived as a typical 'least developed country' suffering from over-population, vulnerability to natural disasters, political instability and a high degree of dependence on foreign aid. This image of the country is best summed by Henry Kissinger's infamous comment that Bangladesh was "...the basket case of the world..."¹ Since the middle of the 1970s, Bangladesh has received an average of US\$2 billion annually in overseas aid. This dependence has been one of the most enduring legacies of three hundred years of colonial exploitation (first under British rule and subsequently as part of Pakistan) which transformed the most economically advanced region in India into an economy with a (permanent) external resource gap.² The continuous flow of foreign aid has had a mixed impact on the development of Bangladesh. On the one hand, it has enabled the country to survive far beyond the expectations of many of those opposed to its creation. Yet at the same time, the continued flow of aid money has also engendered a culture of dependency where both the annual development budget of the government, as well as a significant proportion of current account expenditures continue to be funded from external sources.³ The failure to improve domestic resource mobilisation efforts has in turn led to the institutionalisation of patron-client relationships and the creation of a class whose existence and position remains entirely dependent on the continued flow of funds from overseas. Numerous studies of class differentiation and the situation of the rural poor has drawn attention to how these patron-client relationships have systematically excluded the poor from decision-making processes and thereby helped to further their marginalisation. It is this gap that NGOs have tried to bridge in Bangladesh with varying levels of success.

1.3 A brief history of the NGO movement in Bangladesh

¹ See J.K. Boyce and B. Hartmann, (1983) A Quiet Violence : View from a Bangladesh Village, ZED Press : London,.

² R. Sobhan (1982) The Crisis of External Dependence, ZED Press, Dhaka.

³ R. Sobhan ed. (1990) From Aid Dependence to Self Reliance : Development options for Bangladesh, Dhaka, BIDS-University Press Limited.

NGO involvement in Bangladesh dates back to the 1970 cyclone that devastated the coastal areas of the country and the War of Independence in 1971. Northern NGOs such as Oxfam and CARE undertook extensive relief work in partnership with a few, small local organisations as Bangladesh attempted to reconstruct its shattered economy following a conflict that destroyed virtually all of the country's infrastructure, as well as having caused massive social upheaval. As it became clear that Bangladesh's problems ran deeper than simple relief, organisations such as BRAC began to re-orient their work to have a stronger and more long-term development focus.⁴ In doing so, most NGOs were strongly influenced by the work of the Comilla Rural Development Project, which was a government project targeted at farmer cooperatives to spread the use of green revolution technology during the 1960s (White, 1991; Hashemi, 1992; Lewis et al, 1993).

However, NGOs quickly came to the realisation that such community development projects were helping the relatively well-off farmers in rural Bangladesh, often to the detriment of the landless poor whose labour power was being replaced by more mechanised forms of farming. This, coupled with the growing influence of Paulo Freire's Pedagogy of the Oppressed, saw a shift away from the extension model of development. NGOs began to analyse poverty not simply in terms of a lack of resources, but more crucially, in terms of a lack of access to meaningful power at the rural level.⁵ As a consequence, many NGOs adopted an empowerment model of development, with an emphasis on social mobilisation and conscientisation through education and training.

But by the 1980s, these same NGOs were finding it increasingly difficult to sustain projects because of a lack of group cohesion, caused in part by the fact that target group members continued to be economically marginalised.⁶ As a result, many of the larger Bangladeshi NGOs began to argue that the use of credit and income-generation projects, in addition to the provision of basic health and educational services, was a necessary step on the path to empowerment.⁷ This is not to suggest the wholesale rejection of the philosophy of social mobilisation - most NGOs would argue that the two approaches go hand in hand - but to indicate a shift in emphasis based in large part on pragmatism and a realistic assessment of comparative advantage.⁸ The experiment with grassroots mobilisation was by no means a total failure. NGOs learnt valuable lessons about

⁴ The movement from relief and rehabilitation to more long-term development focus closely mirrors Korten's model of generation shifts. (Korten, 1987)

⁵ The Net, published by BRAC in 1983, is probably the best known articulation by an NGO of the idea of rural poverty being linked to the distribution of power.

⁶ Howes, M. and M.G. Sattar (1992) 'Bigger and Better ? Scaling-up strategies pursued by BRAC 1972-1991' in Edwards, M. and D. Hulme (eds.) (1992) Making a Difference : NGOs and Development in a Changing World, London : Earthscan.

⁷ Despite the success of Grameen Bank, the use of credit still has many critics both within and outside of the NGO sector. BRAC's decision to resume its service delivery / credit activities led to a group of staff leaving to continue with the institution-building approach with another NGO.

⁸ In fact, the rhetoric of most senior management is still littered with the discourse of mobilisation and empowerment.

reaching and working with the very poor. Using limited resources, local NGOs demonstrated that alternatives did exist to the seemingly ineffective government bureaucracy.

The emergence of an indigenous development actor outside of the government sector took place at a time when donors were becoming increasingly frustrated with the performance of the government in the delivery of basic services to the poor. Faced with the option of ending development assistance or finding a different vehicle for it, donors began to look to the NGO sector as a possible alternative means of disbursing aid. And in the early 1980s, certain bilateral donors such as CIDA began to fund local NGOs directly, thereby beginning a practise which would totally transform the sector and by extension the way we do development today.

1.4 The growth of the NGO sector

During the course of the last ten to fifteen years, the resources available to the sector have increased exponentially, rising from approximately 6 percent of total foreign aid disbursements in 1988-89 to an average of around 17 percent over the last five years. There are now approximately 16,000 societies and organisations registered under the Societies Act (1860). As Farrington and Bebbington note, this includes a wide variety of groups ranging from the smallest civic organisations to international NGOs. (Farrington and Bebbington, 1993:3) For the purpose of this study, the focus will remain on the small sub-set of NGOs that are carrying out development work.⁹ Of these, around 848 are registered with the NGO Affairs Bureau (NAB) and are eligible to receive foreign funding mostly, but not exclusively for development purposes (see Table 1).¹⁰

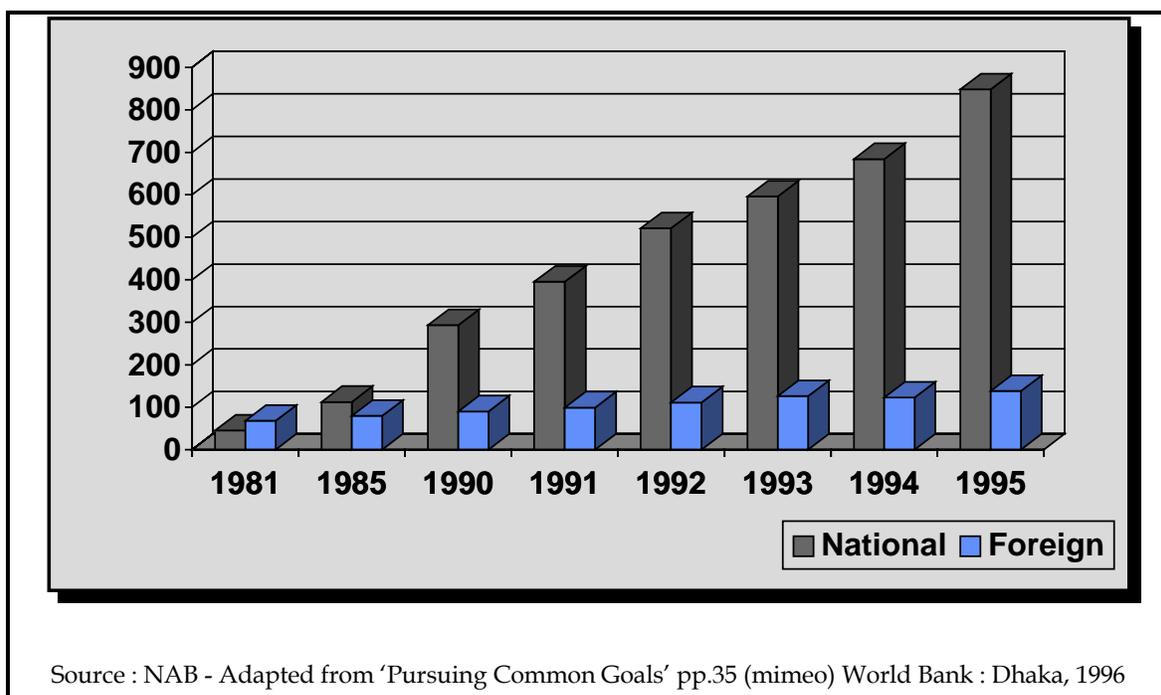
TABLE 1.
NUMBER OF NGOS REGISTERED WITH THE NGO AFFAIRS BUREAU (1981 - 1995)

	1981	1985	1990	1991	1992	1993	1994	1995
National	45	112	293	395	521	596	684	848
Foreign	68	80	90	99	111	126	122	138
Total	113	192	383	494	632	722	806	986

⁹ The main NGO umbrella group in Bangladesh, ADAB, has been trying to promote the use of Private Voluntary Development Organisations (PVDOs) to distinguish its members from other civic organisations in keeping with terminology used in the USA. However, for the purpose of this study the acronym NGO will continue to be used.

¹⁰ This figure obviously excludes many CBOs and small NGOs who carry out development work but do not use foreign funds to do so.

FIGURE 1 : NGOs REGISTERED WITH THE NAB (1981 - 1995)



As illustrated by the graph, there has been a dramatic increase in the number of local NGOs who are now registered with NAB and are eligible to receive foreign funding.¹¹ There have been two distinct periods during which the number of NGOs increased. The first took place between 1981 and 1985 (the period during which donors first began to work closely with the sector) when there was nearly a threefold increase in the number of NGOs. However, perhaps more significant was the dramatic increase in the number of NGOs registered with the NAB between 1991, the year immediately following the fall of the Ershad regime and the restoration of multi-party democracy, and today. Thus, between 1981 and 1995 the number of NGO increased by a factor of twenty, and there are few areas of the country that do not have some sort of local NGO presence. Most estimates suggest that NGO coverage has extended to around 78% of the nearly 60,000 villages in the country and reached upwards of 25 million people. Significantly, however, it is also clear that the distribution of these resources is geographically skewed. NGOs are estimated to have a presence in around 365 of all Thanas (formerly Districts) in Bangladesh (ADB, 1993). However, the vast majority of these activities are still concentrated in Dhaka Division with 60% of all NGOs concentrating their operations in the area despite the fact that it accounts for only 31 percent of the population.¹²

¹¹ It should be noted that not all NGOs registered to receive foreign funds actually do so from year to year.

¹² Statistical Year Book, Bangladesh Bureau of Statistics.

1.5 Government-NGO relations

One area that continues to be of concern to both NGOs and donors is the relationship between the sector and the government. It is an area that is fraught with contradictions and touches on important questions about the accountability and legitimacy of [foreign-funded] NGOs, especially given the size of the sector and the amount of resources that are now channelled through local NGOs. Historically, NGOs in Bangladesh have seen themselves as apolitical (Hulme, 1994), and in certain cases, strictly oppositional terms, often operating in a harsh and un-supportive political economy and climate.¹³ During this time, and typically for NGOs globally, performance was almost always evaluated relative to that of the public sector.

In a study of NGO-State relations in three African countries, Bratton (1989) notes the inherent tensions between a government's need for order and control and an NGO's desire for organisational autonomy. He argues that space is defined by concerns of national sovereignty and regime stability, and less by economic and social considerations. Hence, where the regime fears for its own legitimacy, the likelihood of it being amenable to the work of NGOs is severely reduced. Ironically, in the case of Bangladesh, the fears of regime stability appear to have emerged more strongly under a democratically elected government rather than under an un-elected, military dictatorship. One explanation for this might be the fact that NGOs as whole now work with approximately two million rural households that constitute an important political constituency in an emergent democracy which could potentially pose a threat to the government's prerogative to win support through the dispensation of patronage in the form of government-controlled development resources.

The experience of working directly with grassroots communities provided ample evidence to show how cut off the poor were from government projects that were criticised as being inefficient, inappropriate and non-participatory. In contrast, NGOs were able to point to series of success stories at the micro-level where significant gains had been made using far fewer resources than were available to their government counterparts. Thus, for example, while government primary schools were struggling to overcome the problems of poor attendance, low rates of retention and poor standards of academic achievement (especially among girls), NGOs were developing highly effective and in many ways more sophisticated pedagogical methods that exposed the myth that the children of the poor were somehow 'unable to learn'. Even in instances where NGOs have co-operated with government at the project implementation level, there has been friction. In a study of GO-NGO cooperation in income-generating projects, Sanyal observed that "...not only did they differ in their assessment of whether these projects were worthwhile and replicable, they were also critical of each other's roles in design and implementation....yet these institutions continue to work together...in antagonistic cooperation" (1991:1368).¹⁴

¹³ This was particularly true during the 1980s which has come to be known as the "Decade of Stagnation".

¹⁴ Sanyal, B., (1991) 'Antagonistic cooperation : A case study of non-governmental organisations, government and donors in income-generating projects in Bangladesh' **World Development** 19, No. 10, 1367-1379

Inevitably, government officials (both political and in the civil service) have always been somewhat ambivalent about NGOs. On the one hand, there is little doubt that NGOs have greatly eased the burden of rural development. But at the same time, there has always been an inherent need to try and control and, if possible, co-opt the NGO movement lest it reflected too negatively on the performance of the State.¹⁵ However, it is also clear that there is no systematic position within the government on the role of NGOs in the development process. Relationships between NGOs and the NAB are still very heavily influenced by the personalities involved. (Lewis et al, 1994). Similarly, at the local level, the ability of NGOs to work without interference depends very much on the type of relationships maintained with elected officials (such as Union Parishad members) and appointed government officials such as District Commissioners.¹⁶

Box 1 : The regulatory environment

NGOs in Bangladesh operate in an ambiguous regulatory framework and are covered by four different Acts -- the Societies Act of 1860, the 1961 Voluntary Services Ordinance, the 1978 Foreign Donations Ordinances and the 1982 Foreign Contributions Ordinance -- which also apply to a broad range of other civic organisations, not all of whom are involved in development. However, the notion that NGOs are somehow distinct from other civil society organisations and should be regulated as such -- a claim that is rejected by NGOs -- has persisted. The creation of the NGO Affairs Bureau (NAB) in 1989 under the President's (now Prime Minister's) Secretariat by then President Ershad was widely perceived as an attempt to bring the sector firmly under the control of the government.¹⁷ All NGOs who receive foreign funding now have to register with the NAB and all projects have to be submitted to the NAB for approval. For the large part, obtaining NAB clearance has proved to be fairly routine, but all NGOs are acutely aware of the power of the NAB to arbitrarily withhold approval of projects, and one can only speculate about what impact this has had on decision-making.¹⁸

¹⁵ The best example of this took place in 1989 when then president Ershad invited the head of Bangladesh's leading health NGO, Gono Shyastha Kendra (GK), Zafarullah Chowdhury to participate in the formulation of the National Drug Policy. While the policy was a good one (not least for GK whose pharmaceutical operations stood to gain from the import ban on drugs that were produced locally), the involvement of a nationally prominent NGO was seen to provide legitimisation to an un-elected, military ruler.

¹⁶ Thus, even though NGOs at the national level reserve the right to be highly critical of government policies that they perceive as being anti-poor, in the field, a considerable amount of time and effort is devoted to building good relations with the local bureaucracy.

¹⁷ The official rationale for the NAB was to create a 'one-stop' clearance system for NGO projects to eliminate the need for NGOs to contact all the relevant ministries individually for approval. However, the NAB appears not to possess the man-power or resources to act as a regulating body.

¹⁸ There have been several cases where the NAB has threatened to or has actually cancelled the registration of NGOs usually on the grounds of political activity, which is in breach of the terms of their registration. The most prominent of these have been the case of GSS and ADAB in 1992 and Proshika (MUK) in 1996.

The most obvious attempt to curb the growth and influence of the sector took place in 1992 when new legislation specifically aimed at the NGO sector was prepared by the government. The attempt to draw a distinction between NGOs and other civil society organisations was vigorously opposed by the NGO community, alarmed by what was perceived as an attempt to create divisions between NGOs and other civil society groups and organisations.¹⁹ At the height of the dispute, the license of the Association of Development Agencies in Bangladesh (ADAB), the coordinating body for NGOs in Bangladesh was temporarily withdrawn, and was only reinstated after the intervention of several foreign embassies. The government also used the conflict to accuse NGOs of supporting extravagant lifestyles and misusing funds meant for the poor. That much of the criticism was of dubious accuracy is less important than the broader questions of legitimacy and accountability raised by these confrontations.²⁰

¹⁹ The need to breach the divide between the NGO community and other civil society actors became painfully obvious during the movement that overthrew Ershad. The NGO community's vacillation was seen as evidence of the lack of connection with the "country and people".

²⁰ An on-going study sponsored by the World Bank is examining the legislative framework governing the NGO sector. The team is made of representatives of the government, ADAB and academic institutions. The report is expected to be completed in the next couple of months and could form the basis for substantive discussions on a new partnership between NGOs and the government.

II. Literature Review

The emergence of the direct funding mechanism has been a significant feature in the rapid growth of the NGO sector in Bangladesh and elsewhere. However, as the volume of funds being directly channelled to NGOs has increased, so to have concerns about the impact this has had on the relationship(s) between Northern and Southern NGOs. During the last three years, several bilateral donors have commissioned studies examining the effectiveness of direct funding which have explicitly focused on this question.²¹

On the surface, there would appear to be no inherent contradiction between direct funding and the relationship between Northern and Southern NGOs.²² The vast majority of Southern NGOs continue to receive the bulk of their funds through Northern NGOs despite the presence of the direct funding channel. In the case of Bangladesh, however, the second window of cooperation has surpassed the traditional indirect route in both size and importance. As a result, the traditional intermediary role played by Northern NGO has come under question. The annual budgets of BRAC, Proshika and Gono Shahajjo Sangstha (GSS) for example are well beyond the capacity of all but the most well-endowed Northern NGO. Furthermore, as the NGO sector has matured, it has become far less reliant on Northern NGOs for technical or operational expertise than in the past.²³

The study with the most bearing to the current one was a comparison of direct and indirect funding by SIDA to Bangladeshi NGOs, which was carried out in 1994. The report concluded that on the whole, assistance to NGOs channelled through the local DCO tended to support more effective and relevant projects than those supported by Swedish NGOs, and identified the in-country knowledge and understanding of the local office as a major contributory factor.²⁴ However, the report went on to point out that

²¹ Lewis, D., B. Sobhan and G. Jonsson (1994) Routes of Funding, Roots of Trust ? : An Evaluation of Swedish Assistance to Non-Governmental Organisations in Bangladesh, SIDA Evaluation Report 1994/1 Stockholm ; Riddell, R., A. Bebbington and L. Peck (1995) Promoting Development by Proxy : An Evaluation of the Development Impact of Government Support to Swedish NGOs, SIDA Evaluation Report, 1995/2 ; Riddell, R. and A. Bebbington (1995) Developing Country NGOs and Donor Governments : Report to the ODA, ODI, London. Tvedt, T., (1995) Non-Governmental Organisations as Chanel for Development Assistance : The Norwegian System, Evaluation Report 3.95, Ministry of Foreign Affairs: Oslo.

²² Certainly, NGO beneficiaries make no distinction between funds channelled through Northern NGOs and funds that are channelled through local bilateral donor offices. And similarly, it is unclear what type of impact direct and indirect funding has on the working environment of field staff, and whether they make any sort of qualitative distinction between the two mechanisms.

²³ One reason for the contradiction is an anomaly that is common to most bilateral donors. Traditionally, decisions about funding to Northern NGOs and direct funding (as part of or in addition to the country assistance framework) have been handled by different departments within the relevant government ministries despite the fact that the end-user is often the same. As development budgets are cut, questions are being asked about the utility of having two independent means of channelling funds to Southern NGOs.

²⁴ A similar conclusion was reached by Riddell and Bebbington in their review of donor agencies experiences with direct funding, but they go on to warn that the costs of this type of support can be very high.

Northern NGOs continue to possess a comparative advantage in the area of international advocacy and networking which remained largely unexplored.

More recently, the British Overseas Development Administration (ODA) commissioned a broader study looking at the relationship between developing country NGOs and donor governments with a view to informing the debate about ways in which ODA supports Southern NGOs (pg. vii). The authors identified two main reasons for directly supporting Southern NGOs : (i) as a means to enhance aid delivery, and (ii) as a means to help strengthen civil society. More important for the purposes of this study, they noted that the two goals were in many respects clearly distinct and potentially contradictory. On the one hand, treating NGOs as a means of enhancing aid delivery emphasises the managerial and professional skills of the organisation; strengthening civil society through NGOs, on the other hand, requires different mechanisms. They conclude by arguing that a typology of Southern NGOs needs to be developed, one that would clearly specify the role(s) they play in strengthening civil society and delivering aid respectively, the space occupied by NGOs within civil society and lastly, a clear understanding of the goals of individual NGOs (or the sector) and what position they occupy within the broader context of national development policies. (Riddell and Bebbington, 1995:21-31).

This study is informed by this debate, but has chosen to focus more on the impact of direct funding on the relationships between Southern NGOs, civil society and the government. In doing so, the aim is to provide a Southern voice to a debate that has been largely dominated by the need to redefine the role of the Northern NGO. In addition, as mentioned in the introduction, one of the principle aims of this study is to look at the impact of direct funding on NGO sector as a whole and not just in relation to individual NGOs. The main reason for this is that the experiences in Bangladesh have illustrated that the most significant and important impact of direct funding has been the broader influence it has had on the direction and evolution of the sector. This has major implications for NGOs and donors who are in the process of exploring the use of this mechanism in other countries, especially those with less well-developed NGO sectors where a sudden infusion of funding from bilateral and multilateral donors has the potential to lead to dramatic changes in the character of the sector.

III. Methodology

This report was researched and written over a three month period between November, 1995 and February, 1996. In the first phase of the study conducted by Babar Sobhan and Raj Patel, interviews were carried out with the major bilateral donor agencies (see annex for list), the Director-General of the NGO Affairs Bureau, and a number of local and international NGOs. These interviews were designed to sketch out areas of commonalties between this study and the other country studies to be completed under the supervision of Raj Patel. The second phase of the study was conducted by Babar Sobhan during January-February, 1996 and focused on a series of field visits to local NGOs to examine their experiences with the direct funding mechanism. The last phase involved a two week writing up period and workshop session held in Dhaka.

The choice of Bangladesh as the first Southern case study is obvious, but not without its problems. The study acknowledges that the unique history of the NGO sector in Bangladesh sets it apart from most other developing countries. Only the Philippines and India have comparably large NGO sectors, and there are very few examples of NGOs with the type of influence wielded by the likes of BRAC and the Grameen Bank.²⁵ But at the same time, it is also a country which has the longest experience with direct funding. It is precisely this long experience with different funding mechanisms which makes Bangladesh such an important case study. The individual and collective experiences of the sector, the lessons on how to scale up successful programmes, the problems of dealing with the differing expectations of official donors, and the changing relationships with a range of partners and its impact on the work being carried out by NGOs has provided us with the opportunity to make certain observations which could and should inform the decision-making processes of both donors and NGOs who are exploring the direct funding route in other countries. The problems that have emerged in the context of Bangladesh, some foreseen and others not, are a reflection of the fact that when direct funding began, there were no real examples to guide either NGOs and donors. It is an example of the constantly evolving terrain of development in which NGOs will continue to play an invaluable role.

From a practical perspective, INTRAC hopes the study will provide materials which can be incorporated into a training package or workshop. That requires us to focus on lessons that have been learnt in the Bangladesh experience which could be used elsewhere. This study is also informed by discussions on accountability and governance - the INTRAC workshop held in December, and the proceedings of the Manchester workshop of 1994 - while attempting to shed some light on the changing relationships and forms of partnership from a Southern perspective. The methodology of the study has been devised to allow for comparison between countries. Certain core questions have been developed and used in all interviews. However, the study has been structured so that each of the case studies can stand alone in terms of both content and usage.

²⁵ Interestingly, the only other examples that spring to mind - i.e. the Sarvodaya Movement in Sri Lanka and the Agra Khan Rural Support Project (AKRSP) - are also from South Asia.

Within the context of the study, it was decided to obtain as wide a picture as possible of the impact of direct funding on big, medium and small NGOs in terms of their organisational development. Quantitative data on funding mechanisms was not readily available from either the NAB or ADAB. Most NGOs and donors were very forthcoming about sources of funding, but pooling that information in order to obtain an over-view has proven to be somewhat difficult. A brief questionnaire was sent to around 50 NGOs asking for information about the nature of their programmes, their total annual budget with a list of donors and a breakdown (in percentage terms) of the proportion of the budget made up of direct, indirect and other sources of funding. The NGOs were selected at random and represent a cross-section of NGOs working in Bangladesh. Because of the nature of the sample, however, the findings which are presented in the paper should not be taken to be statistically robust. The data obtained does however, provide an indication of some of the trends that have emerged in the wake of direct funding and provides some basis for comparison with similar information collected from the other case studies.

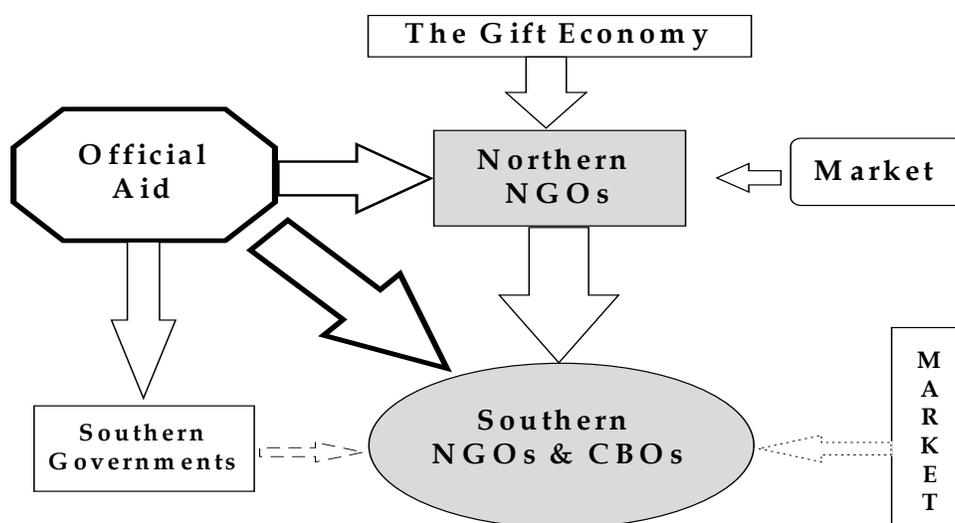
The main focus of the study, however, was on more qualitative issues. A series of semi-structured interviews were conducted looking at the experiences of NGOs with direct funding as well as looking briefly at the experiences of NGOs that: (i) used to but no longer receives direct funding, (ii) never wanted it, and (iii) tried but failed to receive direct funding. NGOs were asked about their own experiences with direct funding and how it has shaped the development of the organisation, as well as the impact it has had on their relationships with other partners and civil society actors. Similarly, donors were asked to elaborate on the reasons for using the direct funding mechanism (or not) and the trends they foresee in the future. Donors were also asked about their thoughts on the impact that direct funding has had on the development of the sector as a whole. A small number of Northern NGOs were also interviewed about their perceptions of the changes within the sector since the advent of direct funding and how it has impacted on their own work in Bangladesh. The study concluded with a series of field visits to small NGOs and CBOs in order to try and obtain an idea of how different funding mechanisms and relationships are viewed by the staff who actually implement the projects.²⁶

²⁶ Originally, the expectation was that more time would be spent out of Dhaka interviewing field staff directly responsible for the implementation of projects. However, the political instability during the study period made this difficult and this aspect of the study had to be scaled back considerably.

IV. Funding Mechanisms

The debate on funding has been complicated by the fact that there continues to be a certain amount of confusion with regard to the different mechanisms that are used. For the purposes of this study, direct funding is defined as funds that are channelled to an NGO by a bilateral or multilateral donor without going through an intermediary such as a Northern NGO. In contrast, funds (regardless of the source) that are channelled to Southern NGOs through Northern NGO partners constitutes indirect funding. In the diagram below, direct funding refers to funds going directly from Official Agencies to SNGOs. Even though a large proportion of Northern NGO income come from official agencies which they then use to support SNGOs, because the funds come via an intermediary, it is considered indirect funding.

FIGURE 2 : DIFFERENT FORMS OF FUNDING



Source : Fowler 1995

4.1 Volume of Funding to NGOs

As mentioned in section 3, accurate information on NGO funding is not readily available from either the NAB or ADAB. According to NAB figures reproduced in Table 2 there has been a steady increase in the volume of funds being channelled through NGOs. However, this provides a partial picture of the flow of funds to NGOs because it does not include funds generated from group savings, interest payments and other commercial activities in its calculations. The other interesting point to note is the overwhelming bias in favour of foreign funding which makes up around 95% of the total budget of the typical NGO project.²⁷

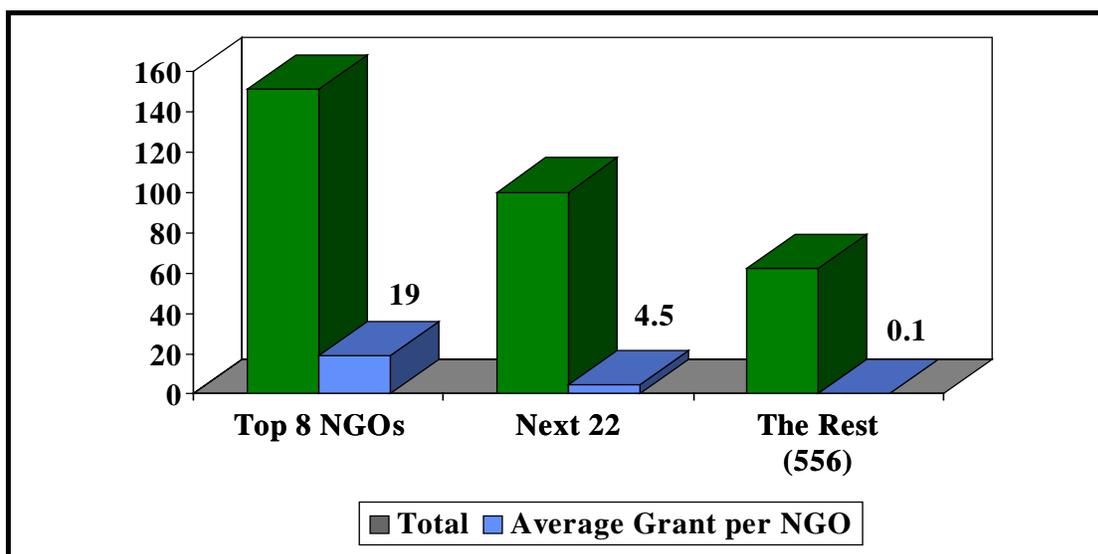
²⁷ The bias towards foreign funding is one of the major differences between the NGO sector in Bangladesh compared to India where NGOs have been far more successful in raising funds locally. One criticism of the direct funding mechanism has been the fact that the ready availability of foreign funds has acted as a disincentive for local NGOs to try to tap identify local sources of funding by making linkages with the private sector for example; this has been exacerbated by the fact that donations to NGOs are not tax deductible as in other countries.

TABLE 2.
NAB APPROVED FOREIGN FUNDED PROJECTS (1990 - 1994)²⁸

Year	No. of Projects	Foreign Funds (US\$)	Local Funds (US\$)	Total (US\$)	Average Project (US\$)
1990-91	464	152,825,000	5,725,000	158,550,000	341,702
1991-92	549	276,275,000	10,825,000	287,100,000	522,950
1992-93	626	394,000,000	2,650,000	396,650,000	633,626
1993-94	581	308,175,000	5,825,000	314,000,000	540,447

However, it is much harder to try to disaggregate these numbers in terms of direct and indirect sources. A very rough approximation can be obtained by using the responses to the questionnaire, which suggest that around 60% of the budgets of NGOs comes from direct sources with the remainder being made up of a combination of grants from Northern NGOs and income generated through commercial activities and service charges. Similarly, it is difficult to obtain an accurate picture of the distribution of funds within the sector. Again, rough estimates suggest that around 30 NGOs receive around 80% of all funds channelled through the sector, 60% of which went to the eight largest NGOs. This is confirmed by another study which suggests that the 10 largest NGOs control around 68% of all funds going to the sector.

FIGURE 3 : DISTRIBUTION OF RESOURCES CHANNELLED THROUGH THE NGO SECTOR



4.2 Types of Funding

²⁸ Source : NAB data base. Taken from 'Pursuing Common Goals: Strengthening Relationships between Government and Development NGOs' pp. 35 (mimeo) World Bank, Dhaka 1996.

Within the direct funding route, there are at least three different types of funding that are available to local NGOs in Bangladesh. The oldest form of direct funding is the traditional “Ambassador’s Fund” which provides funds, usually in the order of a few thousand dollars, to small civic organisations or NGOs for the purchase of small equipment and so on. While meeting the formal definition of direct funding, its aim has usually been to build good relationships with local communities and is not considered to be of immediate relevance to this study.

The second type of direct funding is in the form of a pool of resources (usually amounting to between one and two million dollars) where a large number of small grants are made to a broad range of NGOs. Decisions tend to be made on a project by project basis, and at the discretion of the local donor office. The length of these grants tend to be fixed, usually for one to three years maximum, with little or no scope for renewal. In certain cases, allocations have been made for NGOs working in specific sectors e.g. WID, human rights and democracy. This second type of funding has been important because it has allowed donors to develop contacts with a much larger number of NGOs than would be possible within the context of official bilateral cooperation. A directory of donors to small NGOs in Bangladesh lists 32 grant making bodies. An examination of the type of activities to be funded confirmed that most of these grants are made available for the implementation of projects in a limited number of sectors including health, education, human rights and democracy, disaster relief and environment protection. Of the 32 bodies mentioned, only two contained any mention a desire to fund innovative projects. (ADAB/PACT)

The last and most significant form of direct funding began at the start of the 1980s, when donors began to channel resources to local NGOs within the context of bilateral development cooperation.²⁹ Substantial grants (i.e. in excess of one million dollars) were made to few, well-established NGOs to enable them to scale-up projects in health, education and micro-finance. These grants have increased over time and now consume the lion’s share of funding to the sector as a whole.³⁰ One significant difference between this and the other two forms of direct funding is the fact that decisions about funding are not left to the discretion of the local offices, but are made in consultation with the relevant ministries at home.

More recently, NGOs have also begun to work more closely with government ministries in official aid projects. The creation of the Integrated Non-Formal Education Programme (INFEP) under the Ministry of Primary Education is an excellent example of a

²⁹ The GOB has always been very ambivalent about NGOs being able to tap official development assistance in the belief that would reduce the amount of funding available for government projects. Most donors have tried to ensure that there is no zero-sum game involved when it came to making decisions about funding. However, the perception remains nonetheless.

³⁰ A similar sort of crowding out is emerging in several European countries where local NGOs are finding themselves in competition with their erstwhile Southern partners for funds. The fact that NGOs from the EU can now apply for ODA funds from other member countries has also complicated matters. Sweden for example, is cutting back on its funding of Swedish NGOs in the expectation that they will be able to replace it with funds allocated from Brussels.

willingness on the part of certain ministries to work through NGOs in areas where there is insufficient capacity within the government sector. BRAC has recently become involved in a World Bank supported project on Community Based Nutrition where they will assume full responsibility for the implementation of the project in half of the selected thanas and will provide technical assistance to their government in the remainder. Lastly, NGOs wishing to access funds through for micro-credit from the \$100 million World Bank funded CGAP project will have to work in partnership with the Palli Karma Shahayak Foundation (PKSF).³¹ However, it is worth bearing in mind that this form of collaboration is still in its early stages with the government still tending to perceive NGOs as implementing agencies and remaining reluctant to allow them to participate in the design stages of projects, resulting in the type of antagonistic cooperation alluded to by Sanyal.

4.3 Core versus Project Funding

The other major debate on funding regards the availability of core versus project funding. Core funding refers to funds that are provided to an NGO to be used at their discretion and are not ear-marked for a specific project. Project funding, which still represents the most common form of assistance to NGOs are funds ear-marked for a particular project, usually for a fixed period of time. There has been a lot of tension between donors and NGOs on this point. NGOs, on the one hand, have argued core funding is crucial to enable them: (i) to continue to respond flexibly to the needs of the poor, and (ii) to become strong and sustainable institutions. In contrast, bilateral donors have argued that the need to remain accountable to domestic tax-payers favours a project approach where tangible outputs can be identified and measured. Even Northern NGOs who are perceived as being less demanding as donors have found it easier to raise funds from their membership or the general public through campaigns that are targeted for specific projects that “put a child in school” than for abstract concepts like capacity-building.

The debate on core funding underlies one of the most serious problems in the relationship between NGOs and donors, the issue of agenda setting. Critics of the sector have accused both NGOs and donors of being too beholden to the current fads in the North and funding projects that reflect external trends and not the articulated needs of the poor (Hashemi, 1995). Core funding is seen as one means to overcome this by providing more control to the NGO to decide how and when funds are utilised. Core funding has also been seen as an important means of obtaining resources for institutional capacity-building. Again, NGOs have argued that funds for staff development and the construction of training centres, while not directly benefiting the poor, nonetheless are essential if they are to meet the challenges of working effectively in the future.

Much of the responsibility for this lies with a donor community that seems to be unable to make up its mind about the best way of working with NGOs. There are numerous reasons for this confusion. One of the major factors appears to be problem reconciling

³¹ The PKSF remains a source of some controversy. Claims have been made that the PKSF has spawned the creation of pseudo-NGOs who use the funds for political patronage purposes.

the demand for greater accountability, monitoring and reporting standards, which require an investment in institutional capacity, and a desire to see funding used solely for the implementation of projects with visible outputs in the field. To fulfil these two requirements requires staff with two very different sets of skills. The strength of the NGO sector lies in the dedication and expertise of its field staff who over the course of the last twenty five years have developed highly innovative means of working with the rural poor. More recently, however, as NGOs have become more professional in their outlook, staff have been recruited from the private and public sector with the skills needed to respond to the reporting demands of donors.

Another significant factor is the lack of an institutional memory both at the country level, as well as within the relevant development ministries at home. The fact that most bilateral staff are posted in a given country for three year rotations rarely allows them the time to develop the local knowledge and understanding that is so crucial for enlightened funding of projects or NGOs.³² Changing conditions at home also tend to heavily influence the funding decisions of donors which in turn has led to changes in strategies and a lack of continuity in programming decisions.

³² One of the key factors behind the success of SIDA's direct funding in Bangladesh was the fact that the staff had all previously worked in the country and were well acquainted with the local NGO scene in contrast to many of the Swedish NGOs who did not possess field offices. However, as the authors point out, this is a pre-condition that would be difficult to institutionalise. Lewis et. al. op. cit

V. The donor community

Even though the aim of this study is to provide a Southern voice to the debate on direct funding, one of the key actors in the debate continues to be local bilateral donors. Efforts were made to interview all bilateral and multilateral donors, including those who do not use the direct funding mechanism. In addition, a number of Northern NGOs were also interviewed in their capacity as donors. As is the case with the NGO sector, the donor community is far from homogenous; each bilateral donor operates within the context of their own national development policies, and as a result there is considerable diversity among donors in their choice of partners, opinions on the direct funding mechanism, and future trends. Furthermore, despite the advent of the donor consortium model of funding (see box), dialogue and communication between donors remains poor.

5.1 Different donors with different aims ?

Broadly speaking, the donor community can be divided into three main groups. The donors with the longest experience of direct funding are CIDA, SIDA, NORAD, and DANIDA who along with the Dutch government, often collaborate informally as part of the **Like-Minded Group**. The group has traditionally been viewed as the most progressive members of the donor community, evidenced in part by their willingness to enter into direct funding arrangement with local NGOs at a time when most bilateral donors were still supporting government projects. More recently, the British ODA and the European Union (EU) have begun to channel a larger proportion of their assistance through the NGO sector. Among the multi-lateral donors both UNDP and UNICEF have provisions for channelling funds to the NGO sector. Though the World Bank has no specific provision for funding for NGOs, the involvement of NGOs in Bank projects has grown significantly during the last five years, and the newly created fund for micro-credit, CGAP, will be channelled mostly through NGOs.³³

5.2 The advent of direct funding

There appears to be no set formula to explain why different donors chose to venture down the path of direct funding, and there is some debate about the direction of causality. On the one hand, local NGOs were looking to direct funding as a means of expanding the scale of their activities. At the same time, donors were looking for a means of increasing the effectiveness of their development assistance. In the case of Sweden, Denmark and Norway, the move towards direct funding took place against a background of increasing dissatisfaction with the GOB's ability and willingness to utilise development funding effectively. Faced with the choice of withdrawing development assistance to Bangladesh or increasingly focusing on channelling it through the NGO community -- which by this time had demonstrated that it was far more effective in reaching the rural poor -- donors substantially increased the resources available to the sector.

³³ Cooperation between the World Bank and NGOs : FY95 Progress Report, The World Bank, Washington D.C. 1996

However, in certain cases, Northern NGOs also played an important role in the promotion of direct funding. CIDA, for example, began to directly fund BRAC and Proshika at the start of the 1980s as a result of their prior relationship with two Canadian NGOs, Inter Pares and CUSO (Canadian University Services Overseas) respectively. Similarly, GSS's partnership with a Swedish NGO, Diakonia was instrumental in enabling it to subsequently access direct funding from SIDA. These partnerships with CUSO and Diakonia were highly important because it enabled local NGOs to develop both their operational and managerial capacities to interact directly with the donors. The partnerships also provided the NGOs with an higher profile within the development community which, in the case of Bangladesh at least, has been very important in determining which organisations have been more easily able to access direct funding.

In the case of the ODA and EU, the decision to work more closely with local NGOs is associated with a general policy shift towards channelling funds through NGOs that is not specifically tied to Bangladesh. Undoubtedly, the experiences of other official agencies has had an impact on the thinking of these agencies. But perhaps more important, is a perception among development experts that the shift in favour of NGOs is part of a broader agenda that is seeking to strictly limit the role of the State in development activities. In much the same way that the World Bank and IMF have urged third world governments to "get the prices right", so increasingly, social development agencies have been turning to NGOs as their primary partners in the South.

There is no denying that there continues to be a significant reasons for not wanting to work through the government. The history of ineffective projects and the problems of corruption and a lack of accountability continue to be of major concern. However, the desire to work through the NGO sector does not really address these problems, but instead tries to finesse the issue. But as NGOs are discovering for themselves, the type of micro-projects that they run are constrained by the institutional environment in which they work, one that is influenced by the decisions taken by the government. The lack of attempts to systematically bridge the gap between the NGO and public sector so as to facilitate cross-fertilisation and learning has been one of the main failings of the donor community.

5.3 The efficacy of direct funding

When it comes to evaluating the efficacy of the direct funding mechanism, it is useful to focus on the two reasons for working with the sector identified in the ODA study because it provides a useful lens through which to evaluate the nature of the relationship between NGO and donors.³⁴ For the most part, donors would argue that strengthening civil society continues to be the primary reason for channelling funds to NGOs. Within that broad policy goal, the efficiency gains achieved by working with NGOs are also seen as important especially in terms of the accountability standards required from domestic tax-payers.

³⁴ Riddell and Bebbington, op. cit.,

Among the smaller donors, the desire to maximise the impact of its development assistance has been central to the decision to work more closely with the NGO sector.³⁵ NGOs with their focus on people rather than on projects were seen to embody the people-first developmental philosophy that was gaining popularity at home.³⁶ However, when one examines how the direct funding mechanism has been utilised and its impact on the development of the sector as a whole, the dichotomy between the goals of efficient aid delivery and the strengthening of civil society takes on a new importance.

5.4 Efficient aid delivery

In the case of the large block grants, it is clear that the donors have achieved the objective of delivering aid more efficiently and effectively to the grassroots. NGOs have demonstrated the ability to scale-up micro-level projects without sacrificing too much in the way of quality. Though as Howes and Sattar (1992) acknowledge, the process did involve a trade-off between effectiveness and efficiency and required NGOs (in this case BRAC) to develop and change as an organisation. (pgs. 99-110). However, though general impression has been that this has been a change for the better, for many NGOs, it has not been a smooth, trouble-free transition either (the process of change and growth will be dealt with in more detail in the next section). Perhaps more significantly, the experiences gained have not been limited to the NGO sector either. Increasingly, projects with the government have moved away from the elaborate public works projects of the past to focus on more small-scale interventions that draw on the lessons learnt from working with NGOs.³⁷

The effectiveness of the small NGO grants in terms of efficient aid delivery on the other hand is less obvious. Both the size and duration of the grant - small and for a fixed period of time - are major constraints to project effectiveness. The size of the grant is a clear barrier to the type of economies of scale enjoyed by the larger NGOs. Thus, while smaller NGOs may have fewer over-head expenditures, the unit cost of delivering aid per beneficiary is often much higher. This is exacerbated by the use of fixed term grants which can result in a lack of continuity in the project. It is not uncommon for NGOs to have to suspend work or alter the objectives of a project because of an inability to maintain a steady flow of funding from one donor. Furthermore, the fact that small NGO grants rarely contain provisions for staff development and other capacity building exercises has meant restricted opportunities for the NGO to develop as institutions. In short, with few exceptions, the lack of continuity at both the project and institution level calls into question efficient this type of funding is in the long run.

The limitations faced by donors are also important. Both NORAD and DANIDA (and to a lesser extent, USAID) have acknowledged that the administrative and managerial costs

³⁵ see Wood, G.D. (1992) Making a little go a long way, SIDA, Dhaka/Stockholm

³⁶ Lewis et al., (1994) op. cit., pg. 21.

³⁷ One example of this synergy is the World Bank-funded a community-based nutrition project in which the GOB and BRAC will actively collaborate in the planning and implementation process.

associated with maintaining relationships with a large number of NGOs are not justified by the end product, and have begun to scale back the number of NGOs with which they work. While there is visible [short-term] impact at the grassroots level, the feeling is that these micro-level projects are not changing the structures and systems that keep people poor, which was one of the original justifications for the direct funding mechanism. Indeed, the fact that most donors are willing to concede that they have a different set of expectations and exercise a more relaxed criteria of accountability with the smaller NGOs would seem to suggest that they view these arrangements as qualitatively different and with different aims from the work being carried out by the larger NGOs.

5.5 Strengthening civil society

In contrast, when it comes to strengthening NGOs as civil society organisations, a different sort of contradiction emerges. Certainly, the emergence of NGOs as major civil society actors has been strengthened by direct funding. At the same time, the small grant programmes have played an important role in supporting the work of smaller NGOs and in that regard, has helped to support a degree of plurality within the sector. But what is inescapable is the uneven development of the sector where a handful of very large and influential NGOs coexist alongside a plethora of smaller relations of all sizes and shapes.

Two points are worth noting. One, by selectively core funding certain NGOs while providing project funding to others, it would appear that donors have clear preferences about the types of NGOs they are willing to support in pursuance of their goal of strengthening civil society.³⁸ Two, a strong NGO sector is not necessarily synonymous with a strong civil society. Critics of the sector have argued that NGOs have grown at the expense of other civil society organisations. Political parties on the left have accused NGOs of luring away their workers with the promise of better salaries and more stable employment. More recently, other civil society actors have begun to register themselves as NGOs in order to be able to access foreign funds. Given the somewhat uncomfortable relationship between NGOs and other civil society actors, the question must be raised about whether the strengthening of NGOs is taking place at the expense of other civil society actors as part of an implicit or explicit aim of recreating a civil society in the South that resembles that in the North, regardless of whether the socio-economic cultural conditions would lend themselves to that configuration or not (Fowler, 1995).³⁹

³⁸ This point is made by Fowler (1995b) when he points out that the goal of strengthening civil society would mean providing support to organisations such as the KKK in the USA and the RSS in India, both of whom are unquestionably civil society organisations but whose philosophies just happen to be based on the exclusion of other groups. NGOs have also begun to argue that funds channelled through the sector should be seen as a means of countering the threat of Islamic fundamentalism in villages. This view has been strengthened by several high profile cases of human rights abuses against women in various parts of the country and a series of attacks launched against NGO projects (especially BRAC schools) and staff in the last two years. While questions remain about the accuracy of such a characterisation, it has provided another rationale for funding NGOs as means of countering fundamentalism. However, while being sympathetic to this analysis, few donors were willing to confirm that this was a specific item on their agenda.

³⁹ A similar charge has been made with regard to declining role of the State (e.g. Wood, 1995 ; Hashemi, 1994)

Box 2 : Partners or contractors ?

Whereas the large NGOs may be able to work together with donors as partners, and in certain cases dictate the nature of the relationship, the same is not true for the small NGO.⁴⁰ In the absence of a charismatic leader such as an F.H. Abed or a Mohammed Yunus, the donor is almost always in a dominant position in its dealings with smaller NGOs. Because the funds they control frequently represent the major part of the budget, bilateral donors end up wielding a disproportionate amount of influence within the organisation. One manifestation of this is the emphasis on financial accountability and clearly specified reporting procedures that tends to accompany most bilateral aid grants. This would appear to suggest that development is seen as the efficient implementation of projects rather than as a process and NGOs as implementing agents rather than genuine partners. Another way of looking at this is to notice those NGOs who always go to donor offices versus those donors who call on NGOs

5.6 Opinions and Trends

The over-all experiences with direct funding appear to be mixed. Once greeted as an important innovation in working with NGOs, its long-term future seems more in doubt. Equally important has been a clear shift in the balance of power within the donor community, which is tied to direct funding. The emergence of the ODA and EU as significant players in the donor consortiums of a range of NGOs has taken place at a time when several smaller donors such as CIDA and NORAD have begun to re-examine their own policies on direct funding. This section will focus on some of the main criticisms that have emerged in the last two years with regard to the direct funding mechanism and will go on to look at how different donors have responded.

5.7 Expansion at the expense of consolidation?

Ironically, one of the main criticisms from within (sections of) the donor community centres on the sheer size of some of the large NGOs. Two factors seem to be in play. First is a (legitimate) concern about the feasibility of continuing to fund massive programmes run by the larger NGOs. As donors have pointed out, domestic budget constraints has called into question the continued flow of funds for development assistance. Given this changing political economy of aid, concern has been expressed at the trend within the NGO sector which continues to favour the expansion in the scale of operations at the expense of consolidation. In particular, the perception seems to be that [some] NGOs are taking the continued flow of donor funds for granted. The seeming inability or unwillingness of NGOs to look for alternative source of funding and the increasing bureaucratisation of central office operations has led several of the smaller donors to question whether the reasons for originally funding NGOs (i.e. greater flexibility, responsiveness and capacity to innovate) continue to be valid. As a result,

⁴⁰ A good example of this was the unilateral decision by Prof. Yunus to disband the Grameen Bank Donor Consortium because it no longer served the purposes of the organisation.

several donors have indicated that they will be phasing out of the funding relationships with the larger NGOs.⁴¹

The basis for these assertions, however, seem to be opinion rather than empirical evidence. To say that NGOs are becoming overly bureaucratized begs the question - relative to what? Certainly compared to government ministries, BRAC and others still operate highly streamlined and efficient managerial systems. While it is true that the large NGOs with their large office complexes and fleets of four-wheel drive cars are no longer the small scale organisations that characterise most people's notions of grassroots development, that does not mean that they are 'overly' bureaucratized. One must not forget that NGOs are no longer working with one village or community, but have expanded the scale of their operations to the point where few regions of the countries remain free of some sort of NGO presence.⁴²

More important, these changes have not taken place because of some sort of chicanery, but reflect a process of change in which donors have played an important role. For donors to be critical of the size of some NGOs is at best curious if not downright hypocritical. Having made the decision to start funding NGOs, donors have been under no obligation to fund anything and everything that is contained in the project proposals that cross their desks. When one considers that most NGOs draw up detailed five year plans outlining their vision and goals [usually in consultation with their donor consortium], it is hard to accept that donors were somehow unaware of the intention to expand and the changes that would accompany that expansion. The fact is that donors were all too happy to support a programme to scale-up proven interventions, not least because it provided them with a means to achieve their disbursement rates. What is even more significant is the fact that the same donors who now complain about the size of the BRACs and Proshikas of this world are at the same time continuing to try to identify a second tier of NGOs -- such as the Association for Social Advancement (ASA), BURO Tangail and the Rangpur-Dinajpur Rural Development Service (RDRS) -- as potential recipients of funds to *expand the scale of their operations* as an alternative to the established group of large NGOs. Yet once again (and despite the benefit of hindsight), it appears that these decisions are being based on the capacity of individual NGOs to efficiently absorb a large influx of funds with very little consideration being given to the impact this might have on the sector as a whole.

BOX 3 : THE DONOR CONSORTIUM MODEL

The consortium model of funding has been adopted by a large number of NGOs. This came at the request of the NGOs themselves in order to simplify the reporting systems.

⁴¹ Again, while it is true to say that NGOs have not made much effort to identify domestic sources of funding, at least part of the responsibility must lie with donors. The World Bank sponsored GO-NGO study outlined certain legal and fiscal constraints that have acted as a disincentive for NGOs to try to access funds locally. But at the same time, when faced with a donor community that appeared to be ready and willing to fund projects in their entirety, it is little wonder that NGOs have devoted very little time to domestic resource mobilisation strategies.

⁴² While NGOs have demonstrated an ability to work with the poor, it is now accepted that by and large, NGOs have not been as successful when it comes to working with the hard-core poor.

On the whole, the consortium model of funding has been highly successful, enabling NGOs to greatly reduce the paperwork, while at the same time, enabling donors to obtain a complete picture of an NGO's activities. It has also provided a context for discussions on core versus project funding. However, tensions are beginning to emerge between different members of various consortiums on fundamental policy issues that reflect the gradual shift in the balance of power within the donor community with regard to the funding of NGOs. Where the consortium was once seen as a vehicle for closer cooperation and the development of a genuine partnership between an NGO and their donors, the feeling among many of the smaller donors and Northern NGOs is that this facet of the consortium model is being eroded in favour of meetings that are being dominated by discussions on financial accountability and reporting procedures. The fact that the donor consortium has also become the area where major decisions on the direction and nature of interventions are debated and resolved has also had the unintended result of shifting the focus of decision-making even further away from the field.

What has also emerged is a clear difference of opinion between donors. Thus, while being critical of the large NGOs for focusing on expansion at the expense of consolidation, several of the smaller donors have been equally critical of some of the better resourced donors who are seen to be keen to jump onto the NGO band wagon because it is seen as the most effective means of meeting disbursement targets without adequate concern being paid to the broader consequences. The fact that these donors (especially the EU) possess a much larger volume of funds has also meant that they have been able to wield a disproportionate amount of influence within donor consortiums. Following the adage that "he who has the gold sets the rules" the perception among sections of the donor community has been that the character of their relationship with partner NGOs has changed and that this has had a negative impact on the quality of work.

The second important factor now being cited is the change in the political situation in Bangladesh. The 1991 elections which brought the Bangladesh National Party (BNP) to power in the first free and fair election in over two decades has had an impact on donor policies. While questions may be asked about the commitment and ability of the government to addressing poverty issues, a clear distinction is being made between the Ershad era and the current situation. Specifically, several donors with a strong history of State supported welfare and social service systems (e.g. Canada, Norway and Sweden) are now beginning to argue that it is inappropriate to continue to support the creation of a parallel structure to that of the government. While not wanting to deny the effectiveness of the programmes run by NGOs, a growing section of the donor community are calling for NGOs to explore greater collaboration with government ministries. One donor went as far as to argue that a more accurate measure of the sustainability of [social service programmes] would be when they were funded through the domestic development budget.⁴³ This is potentially a powerful weapon for government(s) that would like nothing better than to exert closer control of local NGOs. Furthermore, not all NGO

⁴³ Interview with the Development Counsellor for NORAD.

activities are likely to be supported through government financing. Non-service and non-traditional activities such as popular theatre and even some environmental projects run the very serious risk of being deemed in-essential. While there are several examples of GO-NGO co-operation, relations are still fraught with the tensions and mistrust mentioned earlier .

5.8 The rediscovery of the small NGO

One major impact of these dual changes has been the apparent rediscovery of the small NGO. Donors are increasingly citing many of the traits and characteristics of partnership more commonly associated with the relationship between Northern and Southern NGOs as the motivation for exploring new relationships with small NGOs. As mentioned before, most donors have maintained a two track policy towards funding to NGOs. What appears to be changing is the thrust of these relationships. This is most evident within CIDA where the preference has been to scale back the amount of funding to large NGOs and to increasingly focus on small grants administered through the local Project Support Unit. It is clear that the drastic cut in the Canadian aid budget and its impact on Canadian NGOs, has meant that this downsizing of assistance to local NGOs cannot be channelled through Canadian NGOs.

A similar story emerges with respect to other small donors. In the case of DANIDA and SIDA, the question is not a question of whether to continue to directly fund NGOs or not, but more over the form of that funding. SIDA, which utilises this funding mechanism in three countries only, India, Sri Lanka and Bangladesh (with the lion's share going to Bangladesh) has examined this question quite extensively in the last three years. While this is not likely to change, SIDA is re-evaluating its stance with regard to the large NGOs. With the emergence of the EU and ODA in the last two years as significant partners in the donor consortium of the major NGOs, the feeling has been that the impact of SIDA's funding has been marginalized. In addition, SIDA has also recently re-examined the sectors it wishes to fund and as a result, feels that it will gradually phase out of the consortiums of the larger NGOs, but do remain open to the idea of funding new and innovative programmes (such as follow up activities to the UN conferences). In essence, the character of SIDA's direct funding relationships with NGOs has changed from supporting the scaling up of interventions towards supporting projects with greater multiplier effects which would further strengthen the linkages between the sector, the government and other civil society organisations.

DANIDA has also recently adopted a sectoral and geographical approach to their development funding. While partnerships with the large NGOs remains an important aspect of Danish development assistance, a certain amount of tension among partner NGOs are also emerging. For example, DANIDA's on-going discussions with RDRS and ASA about the possibility of expanding their operations to the coastal areas of Noakhali and Patuakhali despite the fact that DANIDA have been funding a local NGO, the Community Development Centre (CODEC) for the past several years does raise the question about the lack of effective coordination on NGO policies within many bilateral donor offices. Thus it is possible (and quite common) for a donor to maintain

relationships with a range of NGOs operating within a given area without really feeling the need to facilitate coordination among these partners. The lack of any institutionalised or even informal coordination between DANIDA and her partners sacrifices the opportunity to enjoy the external economies of scale of working with a broad range of NGOs. In the example cited, while both RDRS and ASA have developed innovative programmes, they do not possess the intimate local knowledge and connections enjoyed by CODEC. The logical tact would be to facilitate a series of meetings would bring together the different skills of the partners to maximise the impact of the intervention. The lack of synergy between these two sets of partners is an example of the wastage and duplication that typifies the type of competition between local NGOs that has accompanied direct funding and the emphasis on scaling up.

5.9 Do Northern NGO make better partners?

As mentioned in the introduction, one commonly accepted impact of direct funding has been a weakening of the relationships between Northern and Southern NGOs. In the context of Bangladesh, this problem seems to have been particularly acute. In some respects, there are important lessons that can be learnt from the Bangladesh experience. Where it once appeared that direct funding would make Northern NGOs redundant, such gloomy prognostications now seem a little premature. There is no doubt that certain Northern NGOs have not responded creatively to the challenge of direct funding and continue to fund the replication of projects developed by other NGOs. So whereas a Northern NGO partner can provide continuity, the quality of the relationship and its impact on poverty alleviation remains questionable. This is particularly true of Northern NGOs who do not maintain a local presence in Bangladesh and therefore, have not learnt from working in a country with a highly sophisticated NGO sector.

On the other hand, there is a section of the Northern NGO community in Bangladesh who have made a concerted attempt to redefine their role within the sector. These NGOs have demonstrated a willingness to evolve in a way that reflects the prevailing trends and needs of the sector. Thus, while many bilateral donors are still guilty of working in a societal vacuum driven by their own agendas and needs, the progressive NNGOs that have chosen to adapt have found that there is niche for themselves within the changing development scene in Bangladesh. Again, there is considerable variation in approach depending on the institution. Thus, the Asia Foundation for example as one of the authorised funding bodies of USAID, operates in much the same way as a bilateral donor. Others such as Oxfam UK and R dda Barnen are gradually moving away from operational work to concentrate more on networking, advocacy and providing support to NGOs to carry out research work and other aspects of institutional capacity-building.⁴⁴

⁴⁴ One area where Northern NGOs still possess a comparative advantage with respect to official agencies is in the ability to work with small NGOs that often do not have the capacity to interact directly with bilateral donors. However, unlike in the past where the inclination was to support small NGOs or CBOs that were essentially replicating the programmes developed by other better established NGOs, NNGOs might consider focusing on trying to identify and support small NGOs who have developed genuine new and innovative programmes. There is no way of telling how many worthwhile projects have floundered because of an inability to access adequate funding. This is a gap that Northern NGOs could fill and is an area in which they still possess a significant comparative advantage.

Box 4 : USAID

USAID alone among the donor community has no real experience with direct funding in Bangladesh. While a total of 57 local NGOs receive USAID funding, this take place through two partner organisations, Pathfinder International and the Asia Foundation. Both these organisations have undergone an extensive vetting process with the US government and meet the very rigid eligibility and reporting and monitoring criteria necessary to receive USAID funds. These organisations are responsible for the identification of suitable projects and NGOs to be supported and handle the question of reporting and monitoring. The feeling remains that there are very few local NGOs who possess the managerial skills necessary to work directly with USAID, though discussions are now underway with some larger NGOs about the possibility of initiating a direct funding relationship which might develop into a similar arrangement where the NGO will act as an intermediary partner for smaller NGOs.

Box 5 : MULTILATERAL AGENCIES AND “SUBVENTION”

The other major source of development funding comes from multi-lateral agencies such as the World Bank and the members of the UN family. What differentiates this group of donors from bilateral donors is the fact that they are required by law to work through and with the government. This in turn means that there is no formal scope for partnership with NGOs unless it is clearly specified in the Master Plan of Operations which is formulated in negotiation with the relevant government ministries. In reality, however, there is scope for funding of NGOs through a mechanism known as subvention where by a certain proportion of funds can be channelled through NGOs. Thus, the UNDP small grants programme or UNICEF funding of NGOs who belong to the Shishu Adhikar Forum (a network of NGOs working with children) effectively takes place at the behest of the government in areas where they feel that they do not possess the capacity to absorb the funds and/or implement projects. In the case of the World Bank, there has been, to date, no direct funding of NGOs though they have been directly involved in the implementation of projects in collaboration with relevant government ministries.

5.10 Discussion

This review of the experiences of donors with the direct funding mechanism does raise several interesting points. The most important of these is the somewhat confused thinking that permeates much of the work carried out through NGOs. The general consensus is that direct funding and partnerships with NGOs are a positive step and one that could and has had a positive impact on the nature of bilateral development assistance. However, having said that, the lack of a unified approach to working with the sector both within and between bilateral donors is sending out a mixed message to the local NGO community. The lack of a coordinated NGO policy, the different forms of funding available to NGOs and differing expectations and requirements all serve to weaken the impact of working with NGOs.

At the same time, at the policy level, there is also the very serious question about whether direct funding of this magnitude and the trend towards removing primary responsibility for provision of basic social services from the hands of the State is desirable or whether it has supported a form of privatisation through the back door. The trend towards the 'franchising out of the State' (Wood, 1994) raises serious questions about representation and the participation of the poor in decision-making process. As Wood points out, at a time when increased emphasis is being placed on the need for accountability and good governance, it is somewhat ironic that donors are tacitly supporting the creation of a system where relationships between the poor and society are now increasingly being mediated through NGOs. Given the limited input of beneficiaries to the internal policy-making processes of NGOs themselves, treating NGOs as the de facto representatives of the poor makes it more difficult for the poor to hold the State responsible or accountable for the provision of basic services.

VI. Findings from interviews with Bangladeshi NGOs

A review of the development and expansion of the NGO sector in Bangladesh during the last fifteen years is a clear indication of the profound impact of direct funding. While the most significant impact of direct funding has been felt by those NGOs that have been able to negotiate agreements with bilateral donors, the spill-over effects of the decision by donors to work more closely with NGOs has also had a profound impact on the character of the sector. As mentioned in the introduction, one of the most important aims of the study has been to look at how direct funding has shaped and changed the development of the sector *as a whole*. This focus on the sector as opposed to individual NGOs raises a series of important questions about the direction of development in Bangladesh which is at the crux of the relationship between NGOs and donors.

The most obvious change has been the way in which direct funding has led to the creation of a two tier NGO sector in Bangladesh. On the one hand, the greatest dividends have been reaped by a small handful of NGOs including BRAC, Proshika (MUK), GSS, CARITAS and Gonoshystha Kendra (GK) who between them receive three quarters of all funds channelled through the sector. These are the organisations that spring to mind when discussing the sector as a whole and are the main reason Bangladesh is often held up as an example of a country with a strong and influential NGO sector.

At the same time, the number of smaller NGOs and CBOs working in different parts of the country have also continued to grow. However, these organisations operate under a very different set of conditions and constraints. This section will examine the experiences of these two groups of NGOs and will discuss the positive and negative consequences of the advent of direct funding and the lessons that can be derived for donors and NGOs who may be contemplating such a relationship in other countries. This section will also focus on the impact of direct funding on the sector as whole and will come back to some of the questions that are raised by Fowler (1995) in his discussion on the policy agenda facing official aid agencies.

6.1 Opinions and Trends

Before going on to explore some of the broader issues surrounding the impact of direct funding on the sector as a whole, the efficacy of the different funding mechanisms was discussed with a broad range of NGO leaders. Under-lying these discussions is the fundamental question about how best to maximise the impact of NGO interventions which has been the basis of considerable debate in NGO and academic circles. In their introduction to Making a difference : NGOs and development in a changing world, Edwards and Hulme note that "... many small-scale success have been secured, but the systems and structures that determine the distribution of power and resources remains within and between societies remains largely unchanged...". NGOs themselves acknowledge that one of the biggest challenges for the future is to successfully forge the links between the micro-level successes and the wider macro environment within which they operate.

Numerous attempts have been to provide a conceptual framework to this debate (for example see Clark, 1991; Howes and Sattar, 1992; Wood, 1993 among others). The set of distinctions that have most bearing on this study are best summarised by Howes and Sattar who, writing in relation to the policies followed by BRAC, identified three main means by which to maximise the impact of NGO interventions : (i) *additive* strategies where impact is achieved through an increase in the size of programmes and/or the organisation itself; (ii) *multiplacative* strategies where impact is achieved through a process of influence, networking, training and legal and policy reform; and (iii) through *diffusive* strategies where impact is both informal and spontaneous (op. cit.).

NGOs and donors have and will continue to struggle with the set of choices that they will have to make in relation to these alternative approaches, especially within the current climate of declining aid budgets. Within the context of this debate, the role of direct funding in enabling the more well-established NGOs to follow an additive strategy of maximising impact has been of primary importance. But the trade-offs and compromises that accompany this strategy and the impact on the quality of work (Fowler, 1991) remain largely un-discussed. Certainly, at the organisational level, NGOs have had to struggle with problems such as the increased hierarchical structures that delineate between the management of field operations and the management of the organisation, increased specialisation and compartmentalisation, and perhaps most important, the need to continually increase the capacity to raise both material and human resources.

Yet in discussions with senior management of the large NGOs, their managerial, accountability and operational capacity was cited as a prime justification for the current distribution of resources. One interpretation would be to say that one (unintended) impact of direct funding has been to initiate a fundamental shift in the philosophy and values within the NGO sector. Thus, where NGOs used to cite their low overhead costs, flexibility and responsiveness as giving them a comparative advantage over the top-heavy bureaucracies of the government, these same traits and the lack of organisational and managerial capacity within the small NGO are now offered as explanations for why donors have opted to channel the majority of funds to a privileged minority of NGOs.

Another related aspect of the increased professionalism and goal driven practices associated with NGOs today is a departure from the spirit of volunteerism that characterised first generation of NGO workers. Increasingly, employment with an NGO is seen as providing the type of security and prestige that once used to be associated with government service.⁴⁵ Not surprisingly, this has had a profound effect on the values that drive the sector. The type of people to people relationships that were an important aspect of working with an NGO have been gradually replaced by an external orientation which emphasises procedures, the meeting of specific goals and advancement within the

⁴⁵ One consequence of this trend has been a decline in the calibre of candidates applying to join the civil service. Where once the best and the brightest would compete to enter the civil service, government employment is increasingly seen to be a dead-end option where advancement is determined not by merit but by a system of patronage. While not all of this can be attributed to the rise of NGOs, it has nonetheless served to further erode the capacity of the government to work effectively.

organisation. In particular, the achievement of numerical goals has increasingly begun to take precedence over the much more important issues of facilitating social change. In the area of credit for example, field staff are frequently given specific targets for the number of loans to be made each month which in turn leads to loans being forced on target group members even when they are not needed or wanted.⁴⁶

The emphasis on additive strategies, once seen as the logical means of increasing the impact of NGO interventions, is now emerging as the Achilles heel of the sector. There is no denying the fact that direct funding was instrumental in enabling NGO to replicate successful pilot projects on a mass scale and the appeal of this type of approach for both NGOs and donors alike is enormous. As Edwards and Hulme point out, a commitment to poverty alleviation naturally leads to a desire to reach as many of the poor as possible with a 'successful' project. From another perspective, it is argued that pluralism in service delivery creates choices and efficiency gains that greatly facilitate the process of poverty alleviation. (op. cit., pg. 19) But in the context of Bangladesh, it seems to have created a culture where the sole measure of success is the scale and extent of the replication process. Thus, in the area of education for example, BRAC and GSS are locked in a fierce competition to see who can open the most schools over the next five years as if that alone would provide validation to what are commonly acknowledged to be highly innovative and effective approaches to non-formal education. This is a competition that seems to be driven more by a desire to demonstrate a capacity to scale up for the sake of scaling up rather than as part of a broader goal of poverty alleviation or for that matter as means of expanding the range of choices open to the poor.⁴⁷

Furthermore, the threat of declining aid transfers to Bangladesh and elsewhere has sparked a scramble within the sector over the shrinking pool of resources. A series of field trips to different parts of the country and interviews with field staff illustrated how this process of forced rationalisation is clearly working in favour of the larger well-established NGOs. With the growing emphasis on consolidation, many of the smaller NGOs are finding it difficult to maintain their individual identities and autonomy in the face of competition from better resourced NGOs. Even relatively well-known NGOs such as RDRS and Saptagram which have had difficulty accessing direct funding have found it difficult to compete with the larger NGOs on an equal footing. Saptagram for example, was able to access direct bilateral funding (from SIDA) only after the adoption of focus on Women in Development (WID) and the creation of special pools of resources to support the work of womens' organisations. Similarly, RDRS is also struggling to re-cast

⁴⁶ Furthermore, the practice of certain NGOs to penalise field staff if repayment rates are not maintained has led to situations where families are forced to sell assets in order to repay a loan.

⁴⁷ One of the major criticisms of the sector is the lack of choice available to beneficiaries. Almost without exception, NGOs do not permit their group members from accessing programmes and services provided by other NGOs. This closed shop mentality has meant that NGOs do not feel any competitive pressures from the consumers of their product, namely the beneficiaries. As long as donors remain satisfied with the performance of the NGO -- usually measured by achievement of physical targets and rates of disbursement -- the funds to carry on with the project tend to be available. This is somewhat ironic given the increased emphasis on the need to let market forces dictate choices that permeates much of the current literature on economic development. This lack of competitive pressure has been at least partially responsible for the focus on expansion over questions of quality.

itself as a national organisation and to raise funds to continue their work despite a long and impressive track record of development work in Northern Bangladesh. In both cases, attempts to address sustainability issues by gradually phasing out of direct involvement with target groups and cohesion within existing groups has been threatened by the expansion of better resourced NGO into their working areas.

While this might be seen as an example of healthy competition within the sector, it also evidence of the culture of dependence and patron-client relationships that has largely been un-changed by the expansion of the NGO sector. The focus on service delivery and the provision of material benefits has made it difficult for NGOs to move beyond the common perception (on the part of beneficiaries) that they are there to provide resources as opposed to creating the conditions where beneficiaries themselves are able to mobilise resources for a better future. Thus, RDRS's attempts to phase out of direct involvement with about 5000 groups and to concentrate on strengthening the peoples' organisation capacity to meet the needs of their members by providing training and other inputs have been impaired by the fact that BRAC and ASA have recently begun work in the Rangpur-Dinajpur area. Both these organisations have begun to attract former members of RDRS's target group by providing (and replacing) the material benefits that RDRS used to provide thereby under-mining efforts to gradually make the peoples' organisation self-reliant and less dependent.

However, that said, there is also the clear realisation that donor fatigue is a growing problem and that it is unlikely that the current levels of funding for NGOs will be maintained in the foreseeable future. This has brought some of the major contradictions running through the sector into much sharper relief. Different NGOs have responded to the need for greater consolidation in different ways. BRAC for example has become increasingly mindful of the impact that they have on the work of other (especially smaller) NGOs and is exploring several different options. The first of these relates to internal choices about the future direction of both the Rural Development Programme (RDP) and the Rural Credit Programme (RCP) where the limitations of the additive strategy of growth are now beginning to make themselves evident. While BRAC is making attempts to diversify its sources of funding and claims to generate up to 40% of its own budget, it is unlikely that they will be able to maintain the same rate of expansion without compromising the integrity of their programmes. Thus, we have seen a re-emergence of concerns about the need to focus on quality rather than low unit cost as an area where BRAC will continue to maintain a comparative advantage relative to other NGOs. This focus on the quality of interventions has lead in turn to BRAC working more closely with smaller NGOs and CBOs who wish to replicate BRAC programmes, especially in health and education. BRAC now works with around 137 partner NGOs in the area of non-formal education and have assumed responsibility for material development, training and monitoring, while leaving actual implementation to the partner NGOs. Similarly, BRAC has also been working more closely with government counterparts to help to strengthen the capacity of local officials and to facilitate a qualitative change in the formal government sector.

Elsewhere, NGOs such as Proshika and GSS have opted for a more active role in national level advocacy. Proshika has recently established an Institute for Development Policy, Analysis and Advocacy (IDPAA) which hopes to initiate a series of important partnerships with international and national bodies to promote policies that reflect the needs of the poor. Increasingly, the realisation seems to be spreading throughout the sector that the impact of micro-level successes will continue to be limited unless a way is found of initiating changes at the meso and macro levels of society as well. Similarly, GSS has also begun to work more closely with other NGOs in the area of non-formal education and legal rights and have provided important logistical and technical support to other NGOs in the field. Though it is too early to predict what impact IDPAA and other attempts for increased NGO involvement in advocacy issues will have on the broader policy environment, the movement towards multiplacative and diffusive strategies of increasing impact is an indication that some of the problematic issues surrounding the use of direct funding and its impact on the sector as a whole can still be overcome.

6.2 Impact on diversity

One of the most often cited reasons for working with NGOs is that they represent the diversity and pluralism that are seen as one of the keys to sustainable and democratic growth. Support to the NGO sector is seen as a complement to the emphasis being placed on the importance of governance. Fowler argues that the emergence of NGOs can be seen as part of a broader attempt to impart western values relating to civic values to developing societies. He goes on to warn, however, against what he refers to as the potential homogenisation of civil society and raises the question for NGOs (and donors alike) about whether this is a path down which they are ready to venture (1996:6).

The ability of sections of the NGO community to access direct bilateral funding has been tied to the belief that NGOs possess a significant comparative advantage in the delivery of certain basic services such as primary health and education and in the provision of credit and other income-generating projects (IGPs). As a result, those NGOs with well-established programmes in these areas have been able to obtain funding to expand the scale of their operations. In the field of education, BRAC and GSS have recently entered into agreements with the ODA and EU to significantly increase the number of schools being run throughout the country. At the same time, the provision of credit and IGP facilities have also received a considerable amount of financial support from the donor community in the last five years.

One inference is that certain activities have been deemed more developmentally relevant than others. Two main points need to be considered. First, as mentioned in the previous section, there are fundamental questions being asked about causality. One line of argument would suggest that donors are willing to fund those activities which yield tangible and observable results in the field. The success of the Grameen Bank model for example, has seen a rush of donor funding for credit activities. Similarly, the increasing emphasis on investment in human capital and evidence from the World Bank with regard to the returns to primary education, has also seen an increase in the funds available for these type of projects. The importance of these type of activities for the future

development prospects of Bangladesh is not disputed, but concerns do exist about the narrowness of focus. While the provision of alternative sources of credit for the poor has been important in terms of helping to break down dependency on local money-lenders and mahajans, major long run constraints continue to exist. These include problems in linking these type of interventions with the formal economy, imperfect markets and the lack of access and adequate information, all of which continue to hamper efforts to initiate and sustain any form of long-term economic growth. Where NGOs have been able to integrate micro-level activities with the markets, it has been through a process of by-passing rather than reforming the system, as in the case of the marketing of Grameen Check and silk and handicraft products.

The second related point has to do with the influence this has had on the programmes of other NGOs. Where there once used to be a broad range of interventions being carried out within the sector (some more successful than others) there has clearly been a significant degree of homogenisation in the last few years. Thus, most NGOs now run a combination of programmes as part of an integrated development package consisting of a mixture of health and education projects and credit and IGPs. Even NGOs which in the past have explicitly rejected the notion of credit and material-based interventions have found themselves having to respond to demands from their target groups for increased material benefits in part because NGOs have come to be inextricably associated with service delivery.

BOX 6 : ASA : FROM SOCIAL MOBILISATION TO CREDIT SPECIALISTS

One of the most prominent example of the influence of certain models of development has been the case of ASA. Registered as an NGO in 1979, ASA pursued a philosophy to promote village-level groups to struggle for collective social action where “...*the focal point of ASA efforts in development is the emergence of a peoples’ movement based on awareness and solidarity among the rural landless peasantry...*”. Funded by a series of Northern church-based organisations, ASA continued to work for social justice through collective action through most of the 1980s. But by the mid-1980s, ASA was already facing some of the tensions between being a membership organisation for the rural poor and a more formal (intermediary) NGO. However, it was only in the aftermath of the 1987 and 1988 floods where ASA became involved in the provision of the type of relief that they had shunned previously that the organisation came to the realisation that ‘*there is no alternative to credit*’. At the same time, ASA was also trying to redefine its mission statement and the type of programmes it would run and went through a phase of trying to adapt the programmes of other NGOs. By 1991, ASA was in the midst of a process or dramatic transformation from being essentially a peoples’ organisation to a fully-fledged NGO specialising in the delivery of credit. Since then, ASA has emerged as one of the new generation of NGOs which are challenging the established thinking on the provision of credit to the poor. With support from, among others DANIDA, ASA has been able to substantially increase the scale of their operations and the partnership with the PKSF will provide access to funds made available through CGAP.

6.3 Impact on innovation

A related area of concern that follows on from this process of homogenisation has been the impact on innovation within the sector. The ability to respond flexibly to the needs of the poor has been one of the main strengths of the NGO sector (Clark, 1991). Over time, this has translated into the development and refinement of programmes, delivery-mechanisms and training and monitoring methods that have been successfully replicated in other countries. Though the degree of innovation appears to have slowed down in recent years as the sector has matured, one noticeable impact of direct funding has been the fact that the locus of innovation has shifted away from small NGOs to big NGOs. On the one hand, because of access to core funding, the larger NGOs are able to assume the risk of experimentation and possible failure which is not possible for a small NGO operating on a limited budget. Thus for example, BRAC has been able to invest a considerable amount of financial and human resources into investigating the feasibility of opening a private university despite the fact that the popular consensus is that such a plan is not financially viable. In the case of the smaller NGOs, funds are available for R&D, but the penalty of failure can be much higher, and there are very few contemporary examples of small NGOs which have developed an innovative and new approach to rural development in the way that the Grameen Bank started as a small Ford Foundation supported project.

The one area where small NGOs seem to have been able to maintain their advantage despite the direct funding mechanism is in the area of advocacy and networking. The people to people contacts that are a characteristic of partnerships between NGOs is an area where Northern NGOs continue to be able to play an important role such as in promoting South-South linkages between their partners in different countries (Lewis et al, 1994). At the level of programming, interventions that have been developed and field tested in one country are being replicated elsewhere in the region and exchange programmes are being facilitated. Certain Northern NGOs have also provided their Southern partners with a means of developing partnerships and relationships between communities that allow for the formation of solidarity groups on issues such as human rights or to resist the rise in fundamentalist practices that discriminates against women.

BOX 7 : BURO TANGAIL : AN ALTERNATIVE CREDIT MODEL

One exception to this appears to be the case of BURO Tangail which is a small NGO working in the field of credit in Tangail District. BURO has received direct support for its credit and savings programme from both SIDA and the ODA because it represents a break from the more established Grameen Bank model. The basic aim of the BURO Tangail approach is to provide the poor with a range of financial services that are not available through either the formal or the NGO sector. The aim of the project has been to develop a methodology that provides the poor with access to banking services throughout the District. Unlike many other similar programmes, BURO Tangail sees no need to expand their operations beyond the District and are working on a strict timetable for financial independence and sustainability. However, one major concern facing BURO is the fact that competition among NGOs offering some form of financial services in Tangail is steadily growing. The fact that group cohesion has been maintained is to the credit of the programme and the value attributed to it by beneficiaries. However, some members have been attracted by the lower interest rates charged by competitors (BURO's

rates are currently 25%) and have left the group. Others have embarked on a process of risk diversification by opting to continue to save with BURO while taking out loans from other NGO programmes. On the one hand, senior staff at BURO have welcomed the competition and remain confident that they will be able to achieve their goal of working with 100,000 families through 50 branches by the Year 2001. However, what is of some concern is the fact that donors are continuing to provide funding for the expansion of credit programmes into an area where the demand is already being met by another NGO, while the poor in other more remote parts of the country continue to remain dependent on local money-lenders and have not enjoyed any of the benefits of the considerable local expertise in the provision of credit.

6.4 Impact on policy-making

The size and the relative importance of the NGO sector has had a major influence on many aspects of life in Bangladesh. From the point of view of direct funding, the most obvious example of this is in the area of policy-making especially at the national level. Again, however, there are clear differences between the access and influence of the large and small NGOs. The achievements in the areas of health, education and micro-credit have had a considerable influence on the work of the government. The establishment of the INFEP within the Ministry of Education, the resources for rural credit being channelled through the PKSf and to a lesser extent, the National Drug Policy are all examples of this influence. Elsewhere, donors have also taken the lead in promoting closer cooperation between the government and NGO sector in agriculture and fisheries. However, when one looks more closely at the NGOs that do have access, one tends to see the same few large NGOs who have been the primary beneficiaries of direct funding. In contrast, the rank and file NGO continues to face the constraints mentioned in the introduction.

Nowhere is this more evident than in the dealings between the government and ADAB, which has in the last few years attempted to provide a forum for smaller NGOs to be heard and to also mediate and coordinate activities within the sector. Despite attempts to raise the profile of ADAB, it is still struggling to gain acceptance as the representative of the NGO community and is certainly not perceived as being representative of a sector of civil society in the same way that for example the Chamber of Commerce is seen to represent the business community. The reasons for this are many and beyond the immediate scope of this study but a few points are worth noting.

In terms of dealings with the government and elsewhere, it is perhaps not surprising that the larger NGOs feel that they do not need the protection of an umbrella organisation. In a country where so much depends on who you know, the international profiles of BRAC and Grameen Bank, the access and support these NGOs are able to count on from the donor community and the personal friendships between many NGO leaders and members of the civil service has meant that the large NGOs are able to deal with their government counterparts from a position of relative strength and security. In contrast, the smaller NGOs and especially those that work in other parts of Bangladesh and who may not even have an office in Dhaka, continue to remain vulnerable to the vagaries of local officials.

The failure of the donor community to provide greater support to ADAB especially in the provision of direct funding for institutional capacity building which would enable ADAB to assume a much more active role in representing the NGO community remains an area of deep concern. This is especially puzzling when one considers the emphasis on strengthening civil society that is running through so much of the development literature of today. Certainly, no matter how large it grows, BRAC can never (and does not want to) claim to be a representative of civil society in the way in which a truly representative umbrella organisation might. Again, one sees the emergence of a contradiction within the thinking of donors which is tied (at least partially) to the use of direct funding.

BOX 8 : WHAT ROLE FOR NGOS IN CIVIL SOCIETY?

The recent non-cooperation movement that resulted in the resignation of the government provides an interesting example of the mixed messages coming from the donor community. Perhaps mindful of the criticism of the NGO community's vacillation during the movement that overthrew the Ershad government in 1991, the NGO community ended up playing a much more prominent role in the current crisis. ADAB joined the movement for the establishment of a caretaker government along with representatives of the business community. This partnership brought together sections of civil society to force a resolution of the impasse between the political parties that had effectively paralysed normal life in Bangladesh for over two years. Needless to say, the government, prior to its resignation, launched a series of attacks on ADAB, its chairperson and questioned the legitimacy of 'foreign-funded organisations' indulging in party politics. It went on to ridicule ADAB as representing only a handful of marginal NGOs and claimed that the position taken by ADAB had not been endorsed by *proper* NGOs such as BRAC (*Daily Star* March 1996). Though the repercussions from this remain to be seen, one point is worth noting. Almost without exception the feeling of most of the donor community, including certain Northern NGOs was that ADAB had somehow over-stepped its brief and that NGOs should not have assumed a position on the on-going political crisis. However, given the claims about the need for closer involvement with civil society and the emphasis being placed on issues of governance emanating from the donor community, this would appear to be contradictory. This brings us back to the issues raised about the type of activities for which funding are available. In a country where NGOs work with a constituency running into the millions, it is perhaps inevitable that situations are going to arise where NGOs will be forced to take sides and will be asked to articulate those opinions. However, if the message from the donor community is that advocacy puts NGOs into an awkward position with the government and should be avoided, one can foresee a future where NGOs are paid to deliver services to the poor only and that policy issues arising from that work should be left to the political parties. It effectively disenfranchises those who work with and for NGOs and will only further weaken the position of NGOs with regard to the rest of civil society.

VII. CONCLUSION

This case study has attempted to examine some of the major issues surrounding the impact of direct funding mechanism on the development of the NGO sector in Bangladesh. Given the relatively long experience with the mechanism, several important issues have emerged that could be of relevance to donors and NGOs contemplating the use of this mechanism in other countries. What follows is a summary of the main points of the study and the lessons that can be derived in relation to key policy issues for official aid agencies identified by Fowler (1995).

The central point to emerge from this study is the need for donors and NGOs alike to better understand the gains and losses that are associated with direct funding. If one looks at the history of the mechanism, it is fairly apparent that the dominant motivation for providing direct funding was to increase the quantity of aid money available to the sector. However, as Fowler points out, it is the quality of aid rather than the quantity which is the key variable in determining whether NGOs lose or increase their effectiveness as a result of a direct funding relationship with bilateral donors (1995:9).

In the context of Bangladesh, one can see that the importance of the distinction between quantity and quality has not been fully appreciated either by donors or by NGOs. Part of this has to do with the nature of the sector and its relationships with other civil society actors at the time direct funding emerged as a key policy tool (which may or may not be the case in other countries). What concerns did exist with regard to direct funding had to do with the impact it would have on individual NGOs. The issue of the broader impact on the development of the sector as a whole did not feature very prominently in the discussions on the relative merits and demerits of the system.

Again, one has to remember that when direct funding was first proposed, it was greeted as an important innovation in the use of development assistance. In that respect, it was a reflection of the prevailing wisdom which held that scaling micro level projects would lead to progress in the struggle for poverty alleviation. The fact that the major NGOs have been able to successfully scale up interventions in health, education and micro-finance to reach a significant percentage of the population would appear to justify that belief. However, what is less clear is the impact that this has had on poverty alleviation efforts. Fifteen years after it was introduced, the realisation is spreading that poverty alleviation requires more than ensuring that the poor have access to basic services, sources of credit and so on. The structural dimensions of poverty in Bangladesh remain largely unchanged and it is not clear whether direct funding of NGOs is the most appropriate means of achieving this goal.

During the study, the issue of NGOs becoming bureaucratised and losing their comparative advantage has been raised in several contexts. One of the keys to the success of many NGO programmes has been the emphasis on monitoring and supervision. What NGOs have been able to demonstrate is that it is possible to develop high quality interventions and to sustain that quality if the time and resources exist to maintain the

system. The flip side of this is the fact that as programmes are taken to scale, improved and adapted, there will inevitably be an increased degree of bureaucratisation. It is not possible or realistic to expect that an NGO such as BRAC with an annual budget in excess of US \$23 million to function while operating the same decentralised and flexible procedures that it developed when the scale of operations was restricted to a few villages. In fact, it could be argued that not enough credit has been given to NGOs for having successful developed models that can be taken to scale without compromising the integrity of the programme.

From the point of view of NGOs, the need to greatly devolve decision-making down to the field level cannot be over-stated. One of the major problems facing the larger NGOs is the degree to which this is possible given the way in which programmes have developed. But as Rutherford points out in relation to ASA, decentralisation is possible without necessarily sacrificing the need to maintain transparency and accountability and NGOs in other countries could do a lot worse than to study how this balance has been maintained before embarking on a similar process of expansion.⁴⁸

At the same time, it is true that few NGOs have been able to develop any sort of formalised procedure for beneficiaries to input into the decision-making processes within the context of scaling up. One consequence of this has been that beneficiaries no longer have the same sense of ownership of projects that existed when NGOs were smaller and more rooted in the communities in which they work. This has been one reason why certain NGOs such as Nijera Kori for example have chosen not to accept direct funding, preferring to protect this sense of ownership and the relationships with their target group members. Again, what emerges from the Bangladesh experience is that direct funding is accompanied by a series of choices about working practices.

From the point of view of donors, the need to clearly specify the thinking behind the need to directly fund NGOs, the expectations that accompany these decisions and a willingness to move beyond an emphasis on formal reporting mechanisms and the achievement of numerical goals are essential if they hope to make a genuine and sustained impact on poverty alleviation efforts in Bangladesh and elsewhere. It is important for donors to realise that direct funding that is designed to increase the efficient use and delivery of aid will lead to the establishment of procedures and mechanisms that will inevitably make NGOs more top-heavy and centrally guided. If on the other hand, the aim is to support NGOs as part of a genuine desire to strengthen civil society, allowances will have to be made to enable NGOs to maintain their comparative advantage in terms of flexibility and responsiveness.

At the start of the 1990s, it was expected that the NGO sector in Bangladesh would continue to expand for the foreseeable future. The only question was how quickly that expansion would take place and which NGOs would grow the fastest. However, it is now becoming very clear that this will not be the case. This has caught the sector somewhat

⁴⁸ Rutherford, S., (1995) ASA : The Biography of an NGO, Dhaka : ASA pp.

flat-footed and as a result, one can no longer make any hard and fast observations about the future form of the sector. However, some trends are beginning to emerge which relate (in part) to direct funding.

One of the most interesting features of this change has been the response of the larger NGOs. Once the prime beneficiaries of direct funding, the larger NGOs now face an uncertain future. Increasingly, these NGOs are beginning to realise that it is unlikely that they will be able to expand at the same rate as before. Some NGOs such as BRAC have already begun a process of transformation from a pure implementing agency (i.e. pursuing an additive strategy) towards assuming the type of role that was once filled by Northern NGOs, namely that of an intermediary organisation and focusing on multiplicative and diffusive strategies. That is to say, these NGOs are now once again beginning to appreciate that their strength lies not in the scale of their operations, but in the quality of the programmes and the monitoring and training mechanism that they have developed as part of the scaling-up process. Thus, there has been a clear attempt to reach out to and work with and through smaller NGOs and CBOs. This coincides with one of the major consequences of direct funding namely increased sectoral specialisation.

The rationalisation in the type of programmes are now being funded has both positive and negative consequences for the sector. On the one hand, it is likely that this specialisation will yield significant efficiency gains and to the promotion of greater choice among NGO beneficiaries. Perhaps the best example of the former is the case of the Grameen Bank which, by resisting the urge to try to solve all the problems facing the rural poor, has been able to maintain a clear sense of purpose and mission. While 'product diversification' is accepted as a means for private sector companies to ensure that they can survive sudden changes in consumer demand, the same does not hold true for development work.

At least for the foreseeable future, the poor in Bangladesh will continue to need the range of services provided by NGOs. There is nothing which makes it incumbent on NGOs to provide a complete range of services, especially if it occurs at the expense of quality. If one product of this rationalisation process is a move away from the current practice whereby beneficiaries are no longer tied to one particular NGO and can make choices between competing NGOs based on the quality of the service provided, in the long run, the impact of the sector may be much greater than it is today. However, if that is the case, it could be argued that NGOs are nothing more than professional contractors for the provision of development services and not the agents for social change that they and their advocates would like us to believe.

This could lead to a significant change in the character of the sector with NGOs taking on more of the traits of non-profit business organisations and moving away from the values of volunteerism and altruism that have been at the heart of the NGO movement. One can already see a movement in this direction on two fronts. NGOs now increasingly present a very corporate attitude and philosophy with emphasis being placed on professionalism and procedures. At the same time, NGO workers increasingly tend to view employment

with an NGO as no different from any other type of occupation, a trend that could have very profound consequences for the sector as a whole.

In that regard, Fowler's contention that the introduction of multiple accountabilities and changing sets of norms and values may well lead to NGOs losing their civicness and democratising potential as a result of closer involvement with official agencies takes on a new importance. But at the same time, it could also help to dispel some of the myths about NGOs. One could argue that one by-product of the increase in resources available to NGOs has been the creation of unreasonable expectations. NGOs are no different from any other type of organisation that works in the field of development and cannot be expected to shoulder the burden of rural development any more than government agencies or parastatals have been in the past.

NGOs are very clearly an important part of the solution, but as Fowler points out, resources to promote closer inter-NGO cooperation as well as closer cooperation with other civil society actors and the government are essential if the quality of NGO interventions are not going to end up being compromised by institutional constraints. This is particularly true at the grassroots level where relationships with local officials and groups tends to be over shadowed by a general external orientation towards the centre. NGOs have not been afraid to use their influence with donors and senior government officials to resolve problems at the local level, which only serves to emphasise divisions and animosities. But if the civic and democratic character of the NGO sector is to be preserved and strengthened donor agencies are going to have to maintain a much lower profile and will have to allow NGOs to forge independent links with local groups and organisations. Some of these may lead to partnerships which donors find problematic, but this is the price they must pay.

At the end of the day, there is no getting round the fact that direct funding has fundamentally altered the nature of the NGO sector in Bangladesh and the nature of its relationships with other civil society actors - in some cases for the better and in other cases not. The challenge for both donors and NGOs alike is to move away from a simple analysis of positive and negative impacts of this trend. The most important lesson to be learned is the need to clearly specify the aims and objectives for funding NGOs. To do so, one will need to move beyond a simple focus on the individual recipient NGO to try to understand the broader consequences that accompany a significant transfer of resources through the sector.

This has been the missing element in the case of Bangladesh. Thus, we have a situation where NGOs are caught between being partners and contractors. On the one hand, donors clearly would like to see their relationships with NGOs as a partnership of equals. But too often the practical expectations and mechanisms used have been those of contracting. Given the diversity of the sector (still) there is no reason to suppose that a dual policy cannot be maintained. Certain NGOs clearly see themselves and their role as being service deliverers and others that do not. An enlightened donor policy would be to allow the space for both types of NGOs and relationships to co-exist within the broader umbrella of a strong sector that is both representative and effective as a voice for NGOs.

To conclude, while the benefits from direct funding remain high, so do the costs, and the challenge is to maintain an awareness of this and to improve ones understanding of where and how NGOs fit into the broader policy mix. In the case of Bangladesh, certain allowances can be made because of the fact that when it began, direct funding represented a new way of working with NGOs, and mistakes and unforeseen consequences have followed. The same is not true for other countries, and the lesson from Bangladesh is that direct funding can have a very profound impact on the shape and values of the sector and the need to proceed with caution is of paramount importance if the integrity of NGOs is to be preserved so that they can continue to be important and effective partners in the development game.

Appendices

1. List of Organisation and Individuals Interviewed

Donors

1. Peter Arnold	Swiss Development Cooperation (phone interview)
2. Myra Brevenick	NORAD
3. Sara Camblin Breault	CIDA
4. Rob Cunnane	USAID
5. Daoud Farhan	Australian Aid
6. Egbert Gundermann	UNDP
7. Britt F. Hagström	Swedish International Development Agency (SIDA)
8. Waheeda Haq	World Bank (phone interview)
9. Phil Harding	British Overseas Development Administration (ODA)
10. Zakia Hasan	NORAD
11. Jörn Petersen	DANIDA
12. Christian Röemer	European Union
13. Tahera Yasmin	Coordinor, Project Support Unit (PSU), CIDA

Bangladeshi NGOs

1. Dr. Salehuddin Ahmed	Director (Programmes) BRAC
2. Kursheed Alam	Executive Director, CODEC (phone)
3. Rafiqul Alam	Dip Unnayan Sangstha (DUS)
4. Dr. Allen Armstrong	Executive Director, RDRS
5. Rashida Chowdhury	Director, ADAB
6. Dr. A.M.R. Chowdhury	Director (Research and Evaluation Division), BRAC
7. Dr. Mohiuddin Faruque	Bangladesh Environmental Lawyers Association (BELA)
8. Aroma Goon	Executive Director, The PRIP Trust
9. Dr. F.R.M. Hasan	Executive Director, Gono Shahajjo Sangstha
10. Kamrul Hasan Manju	Director (Programmes), ASA
11. Zakir Hossain	Executive Director, Buro Tangail
12. Rokeya Kabeer	Executive Director, Saptagram
13. Kushi Kabir	Coordinator, Nijera Kori
14. Rokeya Kabir	Executive Director, BNPS
15. Mahbulul Karim	Director, IDPAA, Proshika (MUK)
16. Jeffery Pereria	Executive Director, CARITAS
17. Ehsanur Rahman	Director (Programmes) Dhaka Ahsania Mission (DAM)

Northern NGOs / Private Funding Organisations

1. Belinda Coote	Oxfam UK	4. Farhan Hossain	Action Aid
2. Yasmeen Ahmed	NOVIB	5. Lena Hultstrum	Radda Bärnen
3. Kim McQuay	Asia Foundation	6. David Chiel	Ford Foundation

Individuals

Dr. Salehuddin Ahmed
Dr. Stuart Rutherford

Director General, NGO Affairs Bureau, GoB
Credit Specialist

2. NGOs who responded to questionnaire on funding

1. Ain O Shallish Kendra (ASK)
2. Akota Bohumukhy Shanghay Sangshad
3. Association for Community Dev.
4. Association for Social Advancement
5. B'desh Development Partnership Centre
6. Bangladesh Nari Progati Sangha (BNPS)
7. Bangladesh Women's Health Coalition
8. Barisal Development Society
9. BRAC
10. Buro-Tangail
11. Campaign for Popular Education
12. CARITAS
13. Centre for Rural Child Development
14. Community Development Association
15. Credit and Development Forum
16. Darial Union Janakallyan Songstha
17. Dhaka Ahsania Mission (DAM)
18. FIVDB
19. Gono Unnayan Prochesta (GUP)
20. Gram Unnayan Kendra (GUK)
21. Grameen Samaj Kendra
22. Gramin Unnayan Sangstha
23. Jamalpur Gana Kallayan Sangstha
24. Mauchak
25. Nijera Kori
26. Palli Kallyan Sangstha (PKS)
27. Polli Mohila Unnayan Sangstha
28. Prodiapon
29. Proshika (MUK)
30. Rangpur Dinajpur Rural Service (RDRS)
31. Rural Economic Development Association (REDA)
32. Sacrio Shangha
33. Socio-Economic Development Association (SEDAB)
34. Technical Assistance for Rural Development
35. Thengamara Mohila Sabuj Sangha
36. UPAMA (Mohila Unnayan Pratisthan)
37. Uttaran
38. Village Development Centre

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