

WORKING PAPER / 2009.01



Reforming government funding of development NGOs

A comparative analysis of eight
European donors

Annex: country studies

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May 2009

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INTRODUCTION

This annex to the Working Paper “Reforming government funding of development NGOs” contains eight country studies: the Nordic+ group (Denmark, Finland, Norway, Sweden the Netherlands, the United Kingdom and Ireland) and Switzerland. These studies were undertaken within the framework of a comparative research on the evolutions of European government funding of development NGOs in the light of the new aid approach.

The country briefs are structured as follows:

- A short summary of the main findings
- General characteristics of NGO funding and the NGO sector
- The main tenets of the official NGO policy or strategy
- A more detailed overview of NGO funding modalities

This study was finalised at the end of November 2008 and goes back to reports from the end of the 1990s onward. Some recent documents were received through e-mail contact with NGO divisions in the countries studied. It is nevertheless possible that some recent changes in the funding mechanisms have escaped our attention and are not included in the review, because the consulted information sources are not always fully up to date while some documentation is not available in English.

1. DENMARK

Traditionally Danish NGOs have, in spite of their high dependency on government funding, enjoyed quite a lot of autonomy in the use of the assistance channelled through them. In the '90s their freedom grew with the decline of government contracting of NGOs to implement bilateral aid projects and the introduction of framework agreements. The last eight years have however brought a tightening of government control again, with Danida heightening the requirements on organisations' own funding, popular support and coordination and alignment. It is expected that the forthcoming Danish support strategy for civil society will introduce further reforms, in line with Danida's shift to decentralisation and results-based management.

General aspects of Danish NGO funding and the Danish NGO sector

Until the beginning of the century, Danish NGOs had been fairly privileged in terms of government support for their activities. Subcontracting of NGOs had gradually receded in the '90s and since then flexible co-funding had been the main support channel. Especially the organisations that had framework agreements with Danida enjoyed substantial autonomy in the implementation of their co-funding agreements (DAC 2003a) and until 2006, projects and programmes were fully funded. However, the last years have been characterised by a public debate on the framework system. Questions have been raised regarding the coherence with Danish official development policy (geographically and on a sector level) and the lax oversight system of NGO funding (Virtanen et al. 2008).

As a consequence, Denmark's approach to NGO-funding has undergone quite some changes. Danida has progressively been reforming its NGO policy and autonomy has

been somewhat curbed. Danida aims to increase aid channelled through Danish NGOs while at the same time heightening the effectiveness of NGO development activities (Danida 2007c). It has been trying to shape some aspects of the Danish NGO landscape, for example it decided in 2004 to cut funding to the framework organisations by 5% in order to be able to redistribute these funds to smaller organisations (Pratt et al. 2006).

This redistribution of funding from the large to smaller-scale organisations was inspired by another Danida concern: NGO dependence on government funding (Danida 2003). As projects and programmes were traditionally 100% Danida funded, doubts arose about the popular support and financial independence, especially of larger NGOs. The 26 largest NGOs worked with only 20% own funding in 1998.¹ Growing scales and professionalization of NGOs and their activities led to concerns about their legitimacy and the extent to which they still represented an alternative to official Danish aid (Randel & German 1999c).

Generally, Danida and the Danish NGOs have a collaborative relationship and share a consensual view on Danish development cooperation. Twice a year representatives from the NGOs and the Ministry meet in the NGO Contact Committee. Members of the most important NGOs have a seat on the Danida Board and NGOs appoint representatives to the Danida Council for International Development Cooperation. NGOs are consulted by Danida on sector and country strategies. However, it seems that there is not really a substantive professional dialogue between the organisations and Danida (Virtanen et al. 2008). Organisations are perceived by some as “extensions of the government” and did not take the lead in debates on development issues (DAC 2003A).²

New arrangements were implemented to counter this tendency. To be eligible for funding, organisations must now prove their embeddedness in society by giving information on a.o. their membership numbers and information campaign activities. Framework organisations are also required to present strategic, strongly results-based plans that explain how they will strengthen their roots in Danish society and increase cooperation with other actors (e.g. non development NGOs and the business sector) (Danida 2006b). Furthermore a self-financing requirement was introduced for the framework organisations (5% in 2006 and 10% in 2007) (Danida 2006). Danida’s goal is to increase organisations’ autonomy and accountability to their members and give them an incentive to look for new partners and innovative funding possibilities. NGOs were also required to concentrate their activities in a limited amount of countries and sectors.

The Danish NGO support strategy

The “Strategy for Danish support to civil society in developing countries – including cooperation with the Danish NGOs” was launched in 2000 and focuses on the outcomes expected of cooperation with NGOs. The goals of Danish bilateral aid also apply to aid supplied through NGOs. These objectives are fairly broad and include the integration of cross-cutting themes like gender, the environment and democracy (MFA & Danida, 2000c). NGOs do not need to follow the Danish bilateral geographic choices³ but are required to coordinate closely, with respect to strategy, focus area and approaches, with Danish bilateral aid when they want to

¹ Between 1995 and 1999 the three agencies that received 80 percent of the framework funding (DRC, DCA and Ibis) had a portion between 82 and 99% financed by Danida. Other large organisations, like Red Barnet, CARE Danmark and Caritas Denmark are funded for respectively over 90%, 90% and 94%.

² Although a strong consensus on development issues within Danish society and shared by the NGOs and Danida might also make strong debates less probable (Randel & German 1999c).

³ Although in 1999 half of NGO aid was concentrated in these countries (Danida 2000b). In 2007 NGO allocations were also highly similar to those of Danida, although slightly less focused on Africa and more on Latin America (Danida 2008b).

implement activities in a sector where Denmark is active in sector support. Denmark has also established a round of earmarked funding through a special HIV/AIDS funds to which NGOs can apply for funding for projects tackling this priority of Danish bilateral assistance. In countries where Denmark has official representation, the embassy organises a country forum for Danish NGOs active in the country at least twice per year. Coherence of Danish aid, coordination possibilities, sharing of experiences and mapping of civil society are the central issues of these meetings. The goal is to also include local partners in the fora and also organise thematic meetings. Danish embassies are required to report on these coordination activities in their yearly report (Danida n.d.).

Advocacy activities should connect local situations with the macro-level and take place on the basis of an explicit strategy and objectives with, to a certain degree, measurable results. Service delivery projects are only eligible for funding if they are combined with capacity building and advocacy. The extent to which this is possible depends on the case and in some cases it will be necessary to focus first on support to the enhancement of local partners' administrative capacity, internal democracy and membership base. Service delivery activities can constitute a useful starting point for increasing the local embedding and popular support for local partners. In any case, when planning projects in delivery of services, NGOs must take into account government programmes to avoid duplication or substitution; and parallel projects are only allowed if they entail the testing of an innovative approach or the inclusion of excluded groups. Denmark also strongly focuses on information and education activities in Denmark, which enhance popular anchoring of NGOs. Recognising that cumbersome and detailed administrative requirements can entail distortion of local partners' roles and organisations, Danida commits itself to make administrative procedures simpler and focus more on policy issues in its dialogue with the organisations.

Coordination with other actors is also a prerequisite for funding. Local sector or poverty reduction strategies have to be taken into account by NGOs when planning their activities. Danish NGOs are also required to coordinate with each other and other international NGOs and donors. Danish NGOs must harmonise their administrative prerequisites with their partners' other partners. NGOs also have the possibility to contribute to basket funds, when they can demonstrate to the MFA that their partner possess sufficient organisational capacity (Danida n.d.). When they intend to establish a local representation of their organisation, NGOs need to account for how they coordinate this with other Danish or international NGOs. Joint offices and administrative routines must be the rule, with NGOs providing specific reasons when this is not possible.

A currently ongoing revision of this strategy was inspired by several motifs (Danida 2007a, 2007b). Danida wants to consolidate the findings that came out of the experiences with the former civil society strategy (Danida 2000b) and several evaluations and studies. Another important objective is to incorporate the aid effectiveness principles in its support to civil society while continuing to take into account the added value of NGOs diversity (also in country and sector choices) and autonomy. An additional aim in this area is to draw on other donors' experiences in this area. Furthermore, the shift to results-based management and decentralisation within Danish aid management holds certain implications on Danish NGO-funding, which is increasingly to be incorporated into the overall results based management system of the MFA. A study of the Danish National Audit Office has called for more assessments of NGO effectiveness in relation to the general Danish development objectives. This means less "vertical" evaluations of NGO activities and more comparative efforts to assess organisations' work. There is also a need to systematise Danish direct support to Southern

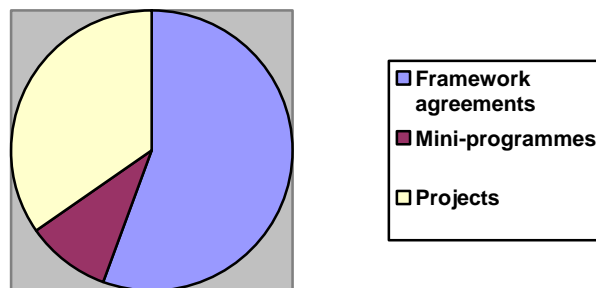
NGOs. All these developments led Danida to undertake a consultative process with stakeholders and draft a new encompassing civil society strategy, which will be available soon.

Danish NGO support modalities

In 2005, almost 80 NGOs received funding from the MFA (DAC 2007b). The modalities of Danish NGO-funding take into account the different ranges of size and capacity of the Danish development organisations. This wide scope of instruments was consciously designed to enable a focus on professional capacities of organisations but also to simultaneously ensure the participation of a wide diversity of organisations in Danish development cooperation (Danida n.d.).

1. *Framework agreements* cover a four-year term and were created in 1991 to encourage a programmatic approach, reduce the administrative burden and facilitate flexibility in implementation of NGO projects (Pratt et al. 2006). Six organisations are now supported through this scheme (Danida 2008) and receive around € 11 million each (Virtanen et al. 2008). The MFA holds yearly consultations with these organisations and some of them have representatives on the influential Danida Board (DAC 2007b).
2. *Mini programmes* exist with five organisations and are administered by umbrella organisations.
3. Danida also funds *individual projects*. For applications for less than 3 million Danish Krone (Mini-project fund, €400 000), applications are assessed by an umbrella organisation that also offers advisory services to small organisations (Pratt et al. 2006).

In 2007 the development cooperation funding for Danish NGOs was divided in the following way:



Source: Danida (2008b)

Assistance is also provided through:

1. 36% (3% of total development assistance) of Danish humanitarian assistance is channelled through NGOs.
2. Local NGOs receive direct funding from Danish embassies through the "Local Grant Authority".

2. FINLAND

Finland views NGO development cooperation as a complement to bilateral aid and has the ambition to increase development cooperation through NGOs. Recently it has been adapting its NGO funding policy. In response to the developments in the aid debate the MFA undertook a dialogue with NGOs in order to agree on an official policy on which funding could be based. It has imposed stricter capacity requirements on NGOs while guaranteeing them great freedom in the design of their activities and ensuring flexible funding for framework organisations. It has also undertaken an effort to lighten administrative requirements and to strengthen the dialogue between the MFA and the NGOs.

General aspects of Finnish NGO funding and the Finnish NGO sector

Each year, Finnish ODA sponsors around 700 development projects carried out in almost 80 countries by more or less 200 organisations (MFA 2007b).⁴ About two thirds of the NGOs work in the social, health or education sector (DAC 2007c). Between 2000 and 2008, aid to NGOs rose from 10% to 12%, while more than doubling in actual amount (from €32 million (disbursed) to €81 million (appropriated for 2008)) due to the overall growth of Finnish ODA (MFA Finland 2008a). The objective has actually been to increase this part to 14%, in line with a projected increase in NGO capacity (MFA 2004). Two thirds of the funds are allocated through the Finnish partnership organisations and the Service Centre for Development Cooperation (KEPA).⁵ Finnish umbrella NGOs are represented in the “Development Policy Committee” which is appointed by the Government and monitors and evaluates Finnish development policy (KPT 2008).

In 2006, an overview of future possibilities in the funding of Finnish NGOs was given in the “capacity report” (Aijala et al. 2006). This review found that half of Finnish NGOs can be classified as “small” (which means that their budget is maximum €50 000) which entails certain capacity limitations. Also, small as well as large organisations were found to be lacking in innovativeness. At the same time the MFA did not implement the funding arrangements consistently enough, and allocations and disbursements were perceived as too unpredictable. M&E of partnership organisations programs needed to be more systematic and their fundraising activities should be included as a criterion in evaluations, as too many NGOs do not raise sufficient funds to guarantee their own existence. Strengthening of the dialogue between the NGOs and MFA was recommended.

The last DAC Peer Review (2007) of Finland recommended the Finnish MFA to reduce the administration and transaction costs involved in NGO funding and underpin NGO support overall with a more strategic vision.

An evaluation of the implementation of the Paris Declaration (PD) in Finnish development cooperation, which was undertaken in the framework of the preparations for the High Level Forum in Accra in September 2008, revealed that knowledge among NGOs on the PD is rather limited and recommended the MFA to provide more information and organise seminars and trainings for NGOs on the implementation of the PD (MFA 2007d).

The Finnish NGO support strategy

⁴ The sponsored projects (and the amount to which they are funded) can be found by organisation and by country on the website of the MFA. This seems very useful, as it is an easy way to incite cooperation and avoid overlap between organisation’s activities, as well as increase transparency in the use of ODA.

⁵ A Finnish umbrella organisation which has a partnership-type agreement with the Finnish MFA.

The MFA has reacted to the developments in the aid architecture and the findings of these evaluations by instigating several changes in its approach to NGO funding. One important step was the elaboration of the first Finnish development cooperation policy on NGOs. This policy was elaborated on the basis of an extensive – sometimes difficult – discussion between the MFA and the organisations and had the aim of reforming and harmonising the various practices concerning funding of NGOs.

In the NGO policy, the MFA clarifies the role of NGOs in Finnish development cooperation – which is defined as “[complementing official development policy] regionally, thematically and in terms of content” (MFA 2007a). Development funding through NGOs thus has the indirect goal of ensuring coverage of certain terrains that the Finnish bilateral aid agency can or will not be active in.

Organisations can choose their own partners, beneficiaries, countries and way of working, as long as their projects are in line with Finnish development policy goals and the MDGs. However, at this general policy level, coherence is not really an issue (Virtanen et al. 2008). Poverty reduction and the attainment of the MDGs are the shared objectives of the MFA and the NGOs, but it is rather at the more disaggregated policy level that coherence is more of a challenge. For example, Finnish NGOs who work in Finland’s partner countries often do not really take the official country programs into account when planning their interventions. Finnish NGOs thus enjoy a rather large scope of freedom of initiative.

The NGO policy states that the MFA will take cooperation between organisations into account as a positive factor when deciding on subsidies and raise the funding available for communication projects and development education. Organisations are required to self-finance 15% of their projects (until 2005 this was 20%).

Dialogue between the NGOs and the MFA will be strengthened and based on the joint working groups that were established for the preparation of the NGO policy and twice a year seminars will be organised that include all NGOs. Thematic discussions that include NGOs and the relevant units of the MFA will take place. NGOs must keep Finnish delegations up to date of their projects and the progress in implementation. The NGO policy introduces some other changes to the NGO funding arrangements, which are specified in the descriptions of funding arrangements below.

In its latest development policy programme (MFA 2007c) the MFA underlines strengthening effectiveness and capacity as priorities for its development cooperation with NGOs. It also states that NGOs should strive to implement the principles of Finnish development policy and increase cooperation amongst them.

Finnish NGO support modalities

Official funding of NGO development cooperation in Finland is organised under five arrangements:

1. *Partnership agreements* with ten NGOs account for about half of all aid to NGOs (Virtanen et al. 2008).⁶ The NGO policy states that the goal of the partnership agreement system is to increase aid quality and let NGOs carry out their programs independently. This scheme allows for even more independence than the former framework agreement system (1993-2003), where NGOs were funded on the basis of project-specific frames for four years and allowed to shift funds between projects (Pratt et al. 2006). The two- to four-year partnership agreements are based on more flexible programme funding. Complementarity with Finnish

⁶ Allocations to framework/partnership organisations have actually risen 43% between 2003 and 2007.

development cooperation and capacity of self-financing are, apart from capacity, expertise, management and strong relations with partner organisations, criteria for the selection of partnership organisations. Organisations' programmes are expected to integrate activities in Finland and in developing countries. The function of the scheme was also to enable a shift in the role of the NGO division from financial monitoring to policy debate with the organisations. The organisations meet with the MFA once to twice a year in the so-called Partnership Forum.

A first evaluation of these partnership agreements took place in 2008 and came to conclusions that corroborate those of evaluations of this type of flexible framework funding schemes in other donor countries. Some positive aspects of these partnership agreements include their flexibility and low administrative burden. The downside is that they entail the same consequences as bilateral budget support: difficult financial control and high fungibility of funds.⁷

The evaluation recommended to increase the programmatic aspect of the partnership agreement, a.o. to establish performance indicators for M&E and create a clear strategy on the relationship between advocacy and capacity building and concretise it in performance indicators. Predictability and transparency of funding should be heightened, in order to make long term planning (e.g. partnership agreements of 4+4 years) possible. A stronger focus on organisational development and advocacy work are recommended. The system should be based on clear selection criteria and open to the entry of new participants, whilst making the forced exit from the scheme through transitional phases of e.g. two years a credible possibility. This entails that the organisational capacity and performance of NGOs should be periodically assessed.

It also advised to transform the nature of the dialogue between the NGOs and the MFO and focus more on substantive issues than technical and administrative matters. The NGO division's relationship with other departments should be reinforced, as well as its contact with the embassies, who are often not aware of the partnership agreements.

The evaluation also advised organisations to cooperate more at country level (with other organisations and country authorities) and further concentrate their activities, geographically and thematically, to increase cost-effectiveness and sustainability. The evaluation team did not consider it advisable that NGOs align with Finnish official development policy as the function of the partnership NGOs is exactly to complement Finland's bilateral aid. Organisations' activities were seen as sufficiently coherent with Finnish and partner country policies at a macro level and adequately integrating the development policy's cross-cutting issues. At a lower policy level coherence with local authorities has been found to be more difficult, sometimes leading to weak sustainability or service duplication, although most organisations do consult and collaborate with the local government.

2. A yearly application round enables around 230 small- and medium-sized NGOs to apply for 1-3 year *project funding* with yearly disbursements. NGOs are not subjected to any geographical or thematic restrictions for their funding proposals. One of the objectives of the policy is exactly the broadening of Finnish development cooperation to countries where no bilateral aid is given. This form of funding is very dispersed: in 2007, 55 projects were funded for less than €20 000. That year a total of 553 projects in 80 countries received subsidies.

In its NGO policy, the MFA announces that the administrative procedures for project funding will be lightened and that the administration of small projects will be outsourced. Two umbrella organisations have already handled subsidy applications in the past. The goal of

⁷ This of course might be the case for any kind of NGO-funding. The level of fungibility might be more dependent on the financial dependency of the NGO on state funding than on the funding modality.

this type of arrangement is to employ development expertise and thematic expertise in the assessment and monitoring of project financing and devolve more responsibilities to the NGOs (Pratt et al. 2006).

The new policy also introduced a stricter assessment of organisation's capacity: they now need to be registered for a minimum of two years instead of one and have at least thirty members. With the condition that there are sufficient adequate applications, 30% of support to NGOs will continue to be given through this project support.

3. *Three thematic (environment, disabled people, human rights) funds* (functioning like umbrella organisations) receive funding, with which they in turn subsidise organisations in developing countries. Yearly around €1 million is set aside for this funding.

4. *Local NGOs* in partner countries are financed through the Finnish embassies through a "Fund for Local Co-operation" This limited decentralisation is a good initiative but potentially too small and fragmented to really have an impact (DAC 2007c).

5. The MFA finances a limited number (around ten) *international NGOs*, in 2007 this funding accounted for €2.2 million.

3. NORWAY

Norway is very gradually adapting its NGO funding policy. Norwegian NGOs have traditionally been strongly funded and highly autonomous. The strong integration of NGO and official aid circles has –paradoxically- made coordination and synergy more difficult. Norway has however strengthened requirements with regard to service delivery activities, which have to be aligned to Southern governments' national development strategies and require greater harmonisation and coordination in the field. New guidelines regarding NGO support (and possible also an encompassing civil society strategy) will be launched soon and will probably integrate changes to Norway's approach to NGO funding.

General aspects of Norwegian NGO funding and the Norwegian NGO sector

Norway is known for channelling a lot of funds through NGOs. It is the OECD country that directs the largest part of its ODA to private aid agencies, with the share of NGO funding even surpassing that of direct bilateral cooperation (MFA 2004). The MFA and Norad are equally active in NGO funding,⁸ and around one fourth of all Norwegian aid is used for NGO funding, covering 37% of Norad's ODA in 2003 (MFA 2004). In 2007 a total of NOK 1 billion was distributed to around 100 NGOs, who implement activities in 76 countries (NORAD 2007). It is estimated that organisations succeed in raising about the same amount themselves, although there is concern that some organisations are dependent on official funding for up to 70-80% (MFA 2004, Randel and German 1999a). Support to NGOs has been rising concomitantly with the growing Norwegian aid budget. For 2009, a growth in funding for NGOs in the development budget of NOK 35 million⁹ is projected (MFA 2008).

Norway does not possess a clear policy on the objectives and strategy of its NGO funding. The vagueness of this approach to NGOs has given Norad and the NGOs a large freedom to act (Tvedt 1998). However, the relationship between the NGOs and the state has become increasingly close, partly because of the organisations' dependence on state funding. This dependency and their growing professionalisation (they function less as membership-based organisations) entail questions on their role and autonomy (MFA 2004). Organisations have become a part of the "mainstream" development group (Randel & German 1999a) and NGOs and official authorities' development policies have become more and more similar. NGOs cannot really be characterised as representatives of civil society anymore, they are development practitioners who have adopted common methods and rhetoric and share these with the state (Tvedt 2007). The relationship between the organisations and the government agencies is however not one of one-way dependency based on NGOs financial dependence but has a more interdependent character. NGO and official Norwegian policy and practice have become intertwined and integrated and the governments' high allocation of public funds to NGOs makes a very critical stance on their work tricky. A general lack of competition for funding and a low level of mutual criticism have led to a certain complacency in the Norwegian aid community (Randel & German 1999a) with development rhetoric being blended into a national consensus while hardly being questioned by independent actors (Tvedt 2007).

The government makes funds more easily available for priority countries and themes, while NGOs succeed in exerting influence on policy (Evaluation Committee 2006) and

⁸ The MFA handles the funding for humanitarian assistance and Norad is responsible for the subsidies to more long-term development projects (Pratt et al. 2006).

⁹ € 4 million.

as a results NGOs and Norad's countries and sectors of activities are becoming increasingly alike (Randel & German 1999a). Norwegian official and NGO aid allocations are geographically very similar (focusing on the poorest countries), which could be a result of the fairly high financial dependency of Norwegian NGOs, but also of the intense dialogue between Norad and the NGOs (Koch et al. 2007). In any case a certain convergence of Norwegian official and NGO aid policy seems to have taken place, which could be characterised as a form of "corporatism" where distinctions between different actors fade (Tvedt 2007). This "sameness" in geographical and sector allocations does not necessarily entail synergy, as there has is no real initiative to design an encompassing Norwegian aid strategy or profile in recipient countries. NGOs have always strongly lobbied against Norad's intentions to coordinate as the structural positions they have historically built up in partner countries are not easy to adapt (Tvedt 1995).¹⁰

The lack of coordination is difficult to solve under the administrative arrangement where a separate NGO division handles NGO funding. This department has the capacity to focus on administrative control, but is not sufficiently involved in the Norwegian strategy in partner countries to conduct a dialogue with the organisations on this matter (Tvedt 1995). The focus on administrative and financial issues in the management of the funding contract however diverts attention away from the (long-term) effects of NGO activities (Tvedt 1995), their specific (not easily measurable) policy goals and increases the gap between small and large organisations (Tvedt 1998). Norway has shifted towards involving embassies more closely, however they are only referred to as "meeting places" for consultations in the funding guidelines (MFA and Norad, n.d.).

The generous funding of NGOs is combined with a traditional high degree of autonomy and right of initiative for the organisations (DAC 1999, Tvedt 1995) and this independence is explicitly recognised in the funding guidelines (MFA and Norad, not dated). While officially aiming for more coordination and complementarity, Norad at the same time commits itself to strengthening the NGO autonomy (Tvedt 1995). A "contracting culture" based on accountability and formal financial control has however become more of a characteristic of NGO funding (Randel & German 1999a).¹¹

The priority position given to NGOs by the Norwegian government is not really perceived to be based on a clear assessment of their cost effectiveness or capacity to deliver (Tvedt 1995, DAC 2005b). The 1999 DAC review suggested that NGO funding should be opened up to global competition in order to ensure maximum effectiveness.

The evolutions in Norway's thinking on NGO funding

In 1995, the Norwegian government was advised to formulate a clear policy on the role of NGOs in Norwegian development policy (Tvedt 1995). Unfortunately this does not seem to have happened yet. The guidelines on NGO funding are however at the moment being revised and the new directives will be ready in the beginning of 2009. It is possible that they will be based on some of the developments outlined in this section.

The high autonomy of Norwegian NGOs is increasingly being questioned, partly under influence of the Paris agenda, and the Norwegian government has started a process of reflection and incremental policy changes. Requirements for framework agreements have become stricter. The government intends on continuing its funding of advocacy NGOs, but higher demands will be placed on service delivery NGOs in terms of alignment with national development strategies, as well as coordination with other actors. These prerequisites are

¹⁰ This was the case thirteen years ago, so care must be taken to generalise this statement to the current situation.

¹¹ Koch et al. (2007) characterise the Norwegian cofinancing system as "medium marketised".

already included in the current funding guidelines, which specify that NGOs must report on the presence of other actors in the working field and how their projects can be situated in the targeted area of activity (MFA and Norad, n.d.). In the MFA's 2004 report to the Storting, which outlined its approach to NGO-funding, the government specifies that all NGOs that receive support are expected to strengthen local groups' rights. This task can be fulfilled by service delivery or advocacy, but a rights-based approach should be the added value that forms the basis of funding. NGOs that implement service delivery activities should align with local development strategies, cooperate with other actors working in the same sector and are subject to a larger degree of control from the Norwegian authorities. It should however be ensured that organisations who play a watchdog role vis-à-vis government policy continue to enjoy the freedom to play their role.

Furthermore, when NGOs receive funding from budget lines for specific sectors (not for civil society strengthening) closer management from the Ministry will take place and the organisations will have to accept guidelines and conditions concerning the objectives and characteristics of the sponsored activity (MFA and Norad, n.d.). Organisations that receive funding under a framework agreement must report their results in relation to the relevant national development goals. The government also considers that, given the high level of funding given to NGOs, it is imperative to assess the quality of this development assistance, its geographical and sector distribution and the effects and results it is attaining (MFA 2004).

The MFA also requested an independent report on the new roles NGOs should take on within Norwegian development aid. This document's (MFA Committee 2006) main reasoning is that the increasing focus on quality and effectiveness in Norwegian official aid should naturally also guide the support given to and through NGOs. It states that the funding of NGOs is a political decision that should be a part of the overall Norwegian aid strategy. Reforming Norwegian bilateral aid to increase its focus on good governance, country ownership and nation-building should thus be reflected in a parallel change in the NGO-funding policy.

The governance context of the partner country should function as an important factor when considering support to NGOs. Northern NGOs play a different role in diverse governance situations and their role consequently changes when the local circumstances change (which introduces the concept of phasing in and phasing out NGO support).

In states with *good governance*, NGO activities in these countries should only take place on the initiative of the government or the local organisations themselves and focus less on projects and more on inter-organisational cooperation. Norwegian NGOs should cooperate more closely with the government in these countries and focus more on advocacy than on service delivery. In general, Norwegian NGOs should be less present in these states.

In *failed states* (or countries with a poor governance record) funds should be available for organisation that work with discriminated groups, or on themes like human rights. Norwegian NGOs can also play a role in service delivery and strengthening of local civil society but they should always make sure that they do not substitute government tasks or support the creation of a (politically and economically) dependent civil society that is not locally embedded, thus undermining recipient ownership. NGOs should preferably cooperate with their "natural" partners, e.g. trade unions.

The role NGOs should play thus depends on the local contexts and therefore also the focus of Norwegian aid. If Norway decides to continue with an increasingly selective policy on the basis of recipient countries' good governance and focus on public institution-building and long-term economic growth, funding to Norwegian NGOs' projects should concomitantly

decrease, distributing more funding directly through the government.¹² One question the DAC also posed in this regard is how Norway intends to marry the intention to increase funding for SWAPs with its traditionally high level of NGO funding (DAC 1999). If Norway wishes to work also in countries where the partnership is more difficult, NGO work will be more important and funding should be given to NGOs that perform humanitarian tasks and work with marginalised groups.

Overall, the evaluation committee suggests that funding should be assigned under stricter criteria. The NGOs working in countries with sufficient ownership will have to work in closer cooperation with the local government and align themselves more closely with the national development strategy. Organisations working in middle income countries should demonstrate how they are playing a role in poverty reduction, especially for marginalised groups.

As public funding is the dominant source of income for a lot of organisations, funding policy has a strong effect on the NGOs' structure and the development market. The following modifications to the funding system were suggested by the committee:

- The objectives of Norwegian development assistance, which organisations have to comply with to receive funding, are too broad and vague. They should be narrowed down and operationalised to decrease fragmentation of funds and enhance M&E.
- Administrative arrangements for small projects should become less cumbersome and administration of funding should be concentrated within one ministry department. Funding should mainly be granted through framework agreements. Small organisations should cooperate within umbrella organisations to apply for framework agreements. Cooperation between NGOs should be strengthened in general, in order to keep the number of actors in the field at an acceptable level.
- Organisations should be evaluated periodically on their capacity and competence, allowing new organisations to enter the system and other to exit from official funding.
- When Norway wishes to enter into a specific partnership with an NGO for the implementation of a certain task, the contract should be awarded through a tendering procedure.

According to the evaluation committee, the shifting focus to the recipient country and local ownership implies a greater share of direct funding to Southern NGOs. Local NGOs only receive a small part of the generous Norwegian support for NGOs. In its review of Norwegian Development Cooperation in 1999, the DAC questioned the large amounts reserved for Norwegian NGOs. It saw it more effective to open up funding possibilities to non-Norwegian NGOs and highlighted the advantages of working with local NGOs. Not only is direct funding more cost-effective, it also has a more direct impact on the capacity of local organisations (DAC 1999). Norwegian NGOs have however not been keen on an increase in direct funding for local organisations, partly because of self-interest, partly because they claim that official aid agencies should limit themselves to intergovernmental assistance (Randel & German 1999a).

Norwegian NGO support modalities

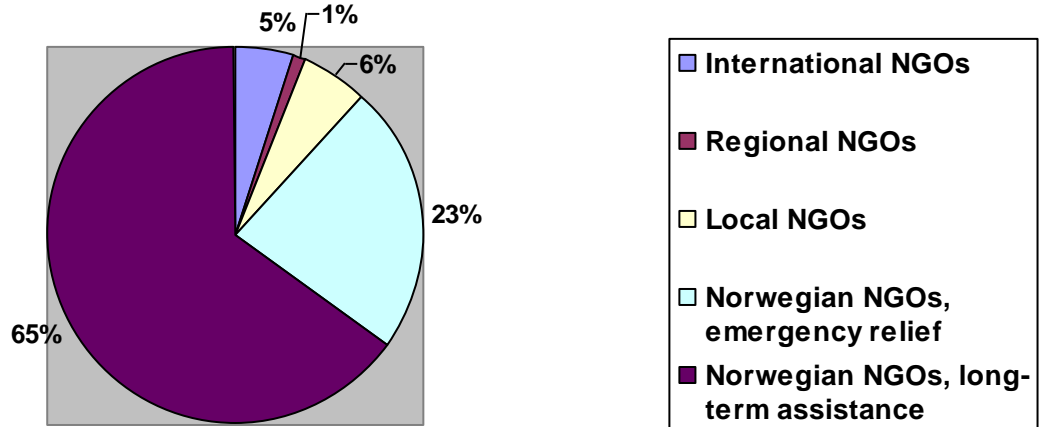
¹² This advice could also be reversed: if Norwegian bilateral aid will focus on good governance countries, an extensive complementary approach that entails funding for NGO activities in poorly governed states could be envisaged.

Currently, six different types of Norwegian NGO support can be distinguished:

1. *Framework agreements for programme funding* for up to five years. This support is limited to 90% of the costs. In practice framework agreements are concluded with around thirty NGOs, with five of them receiving over half of the support. These large organisations are involved in the policy debate on official development aid and could be considered to have evolved into “professional suppliers of aid services for the MFA and Norad” (DAC 1999). More than 90% of the total budget for NGO funding for long-term development assistance is awarded to these framework agreements (Pratt et al. 2006). The main criterion for funding of this type of organisations is their development assistance expertise (MFA 2004).
2. *Individual agreements on project level* for small NGOs can also cover up to 90% of the costs of a project, but this percentage can be higher if the NGO project concerns prioritised policy areas (MFA and Norad, not dated, Tvedt 1995). Support and involvement of the Norwegian society is the most important funding criterion for these smaller organisations (MFA 2004). Some of the funding arrangements are based on geographical or thematic guidelines (MFA and Norad, n.d.).
3. NGOs receive funding for *humanitarian and transitional assistance*, which can be funded for up to 100% (Pratt et al. 2006). Around one fourth of all funding to NGOs is used for this modality, while in 1995 this was still half (MFA 2004).
4. Norwegian embassies have strategic partnerships (somewhat similar to contracting agreements) with Norwegian NGOs who are especially well-placed to be of assistance in the implementation of country programmes (Pratt et al. 2006).
5. *Local NGOs* are also supported by Norwegian embassies, but this funding is mainly restricted to activities that Norway finds strategically significant for its foreign policy objectives (and it sometimes gives rise to political problems for this reason). However this support is not very developed as it puts a significant strain on administrative resources (MFA 2004) and general auditing requirements make it more difficult to channel aid through local NGOs (DAC 2005B). Norway also participates in multi-donor funds that facilitate harmonisation in support for local organisations but it does not foresee heightening support for local NGOs in comparison with Norwegian NGOs in the near future (MFA 2004).
6. Funds are also channelled to *international NGOs*. This core funding is mainly aimed towards organisations that are active in cooperation with the South and work towards enhancing the role of Southern organisations in international networks and organisations. Alignment with national development strategies is expected, except for those organisations working in the field of governance or human rights (MFA and Norad, n.d.).

Support to NGOs through the different mechanisms can be divided as follows (figures for 2002, MFA 2004):

Norwegian Funding of NGOs, 2002



4. SWEDEN

Sweden uses a cascaded system of accountability for NGO support, by supplying core support to umbrella organisations. Swedish NGOs enjoy a high level of autonomy and since 2005 the NGO self-financing requirement has been halved to 10%. Accountability and coherence requirements have however become stricter and organisations are now required to incorporate the Swedish development goals and to a certain extent also the cross-cutting issues in their activities.

General aspects of Swedish NGO funding and the Swedish NGO sector

In the past, Swedish NGOs were required to self-fund 20% of their activities. In 2005 this self-financing percentage was halved to 10% (Sida 2006). In 2003, organisations received €204 million in funding from Sida, while raising an estimated €168 million themselves (DAC 2005c).¹³ Although requirements for own funding have become less strict, the guidelines on accounting and results reporting have tightened (DAC 2005c). Sida currently funds fourteen framework organisations (two more will be added in 2009) who in turn finance the activities of around 750 Swedish NGOs and 1500 Southern organisations (DAC 2005c).

A distinctive feature of Swedish NGO-funding is this use of a system of decentralised accountability and the so-called “project grant”. This system was created to simplify administrative procedures, take advantage of the special expertise framework organisations possess, offer more long-term perspective in funding and strengthen the dialogue between Sida and the organisations (Sida 2005). The framework organisations can thus operate with a high degree of freedom (Sida 2007).

Framework agreements are concluded for eight to ten years. Allocations vary between €1.9 million and €19.1 million (Virtanen et al. 2008). Framework NGOs are submitted to a system audit by Sida every five to six years (Pratt et al. 2006). In the midst of reports about a lack of selectivity and insufficient accountability mechanisms, the Swedish government asked Sida in 2001 to create a clear criteria list and strengthen monitoring systems (Virtanen et al. 2008). Originally, framework organisations were selected for historical reasons and allocations were based on previous cooperation, but the system was found too conducive to stagnation and did not leave room for new organisations. Now there are official selection criteria¹⁴ (Sida 2005) although these are not of a quantitative nature. A lot of critique also emerged on the fact that framework organisations are not sufficiently monitored and did not sufficiently account to Sida for their use of funding (Virtanen et al. 2008). Framework organisations activities’ are evaluated on the basis of results assessed against predetermined goals. Over the years the criteria have become more explicit and strict, increasing the focus on accountability (Sida 2005).

Representatives of NGOs have a seat on the Sida board and many Sida officials have been active in the organisations and vice versa. Substantial dialogue takes place through informal networks and the relationship between the actors is highly consensual. One could say that the NGOs are integrated into official Swedish aid, but the dependence is of a reciprocal nature. Sida needs the NGOs for the sustainment of public support to development aid and their grassroots approach to development, while the organisations are dependent on Sida for the financing of their activities and also benefit from the opportunities to influence official aid policy.

¹³ This implies 45% own funding which seems rather optimistic. Figures for 1996 mention 38% (Randel & German 1999d). Recent annual reports from framework organisations indicate a dependency of more than 80%, with Forum Syd (the largest framework organisations) reporting only 5% own resources (Dreher et al. 2007).

¹⁴ These include the organisations’ “communication ability in Sweden” and the “ability to mobilise commitment and resources”.

Despite this interdependence, Swedish NGOs are considered to be very autonomous. Nevertheless some Swedish NGOs consciously try to keep government funding limited to a certain portion, e.g. 50 percent, although this is more of a risk-minimalising strategy (Randel & German 1999d).

An influential evaluation (Riddell et al. 1995) challenged the developmental impact and the lack of strategic thinking of officially funded Swedish NGOs. It also recommended Sida to be more pro-active when it comes to demanding accountability from organisations on evidence of impact, instead of mainly focusing on financial reporting. This would entail a stronger management of NGO programmes and an assessment of their impact with criteria relating to the objectives of Swedish development aid. These findings received the criticism that Sida's logic for working with developmental NGOs' cannot be analysed¹⁵ as "aid to NGOs" or "Swedish NGOs as instruments towards certain poverty related objectives" (Lindahl et al. 1999, p. 70). The Scandinavian system is based on cooperation, organisational partnership and the encouragement of an alternative mode of development with a focus on civil society strengthening and the fostering of North-South solidarity. This is opposed to the Anglo-Saxon system which is based more on NGOs' implementation of donor-defined activities. It is argued that assessing NGOs' activities requires taking into account their specific strength, which is the support of civil society through a decentralised process of partnership and solidarity. As such, their activities cannot be evaluated in the same way as other developmental actors' activities are assessed. The autonomy given to NGOs is argued to be a consequence of Sweden's popular movement tradition and the position of NGOs is too respected by Sida to make a strong management by Sida of NGO activities possible. In short, Sweden's context strongly influences the way NGO-funding is handled. The evolution of the NGO-policy in Sida however shows that Sweden has been increasingly shifting towards the "mainstream" by imposing stricter conditions and results-oriented planning and reporting. Sweden's comprehensive development policy (Swedish Government 2003) also calls for a strengthened collaboration and dialogue between Sida and NGOs, especially with regard to activities in poorly governed countries.¹⁶

In spite of the tradition of strong dialogue and exchange of experiences between Sida and Swedish NGOs, it seems that the organisations have not made an analysis their role in the new aid agenda, initiated many coordination activities with other Northern NGOs or defined their principles for partnership with Southern NGOs in the light of the Paris Declaration principles. Framework organisations have not changed their strategies in adaptation to the aid effectiveness agenda (Wamugo & Skadkaer 2007).

A study of Sweden's NGO funding in Bangladesh (Lewis & Sobhan 1999) found that the Swedish tradition of safeguarding NGO autonomy had led to a minimal role for the local Sida office and subsequently a not very coordinated activity field. Coordination between the Sida country office and Swedish NGOs is not sufficient, and in fact policy nor practice prescribes a formal relationship. This has for example resulted in three Swedish NGOs funding the same Bangladeshi organisation without mutually coordinating their support. Sida has been able to be more proactive in its support of local NGOs and this support has proven easier to coordinate within the general country programme. Indirect funding also creates additional

¹⁵ The general view is that it may not be interpreted as a principal-agent relationship, but as a partnership (Ostrom et al. 2002).

¹⁶ A comparison of Swedish NGOs' allocation of Sida-funded aid with Swedish ODA (Dreher et al. 2007) shows that non-governmental aid does not outperform bilateral Swedish aid in terms of effective allocation, although official aid does seem to be influenced by political and commercial interests in its recipient selection and NGOs are more poverty-focused in this aspect. NGOs are however not more inclined to work in poorly governed countries than Sida, nor does per capita income influence the allocation of aid volumes (after recipient selection).

administrative costs because it adds an extra link between the back donor and the beneficiary, i.e. the Swedish NGO. This link is however recognised to be of added value when it is the basis of increased public support for development in Sweden.

The sustainability of direct support is questioned, as it is often based on strong personal relationships between local Sida staff and the NGO, which may lead to disintegration of the cooperation when staff is reassigned. Furthermore, direct funding is really only a possibility for the larger NGOs. Smaller NGOs lack the capacity to interact with bilateral donors and the funding of local NGOs can entail administrative overburdening for local delegations. Directly funded NGO activities were however evaluated as more founded in analyses of the local situation and these organisations also seemed more active in influencing policy and lobbying with the government than those who carry out projects in partnership with Swedish organisations. Direct support is also easier to coordinate with other bilateral donors, e.g. through basket funding for large NGOs.

Indirect funding is regulated through a Sida Head Office – NGO head office relationship, while direct funding is based on Sida country office – local NGO dialogue. Mutual learning or sharing of experiences between direct and indirect support of Bangladeshi NGOs is therefore minimal.

The Swedish NGO support strategy

All Sida support to civil society is based on a comprehensive policy (Sida 2007b) which stipulates four ways Sweden can support civil society:

1. support to organisations for activities that implement Sweden's cooperation strategy
2. support to strengthen organisations' capacity as democratic actors, which entails capacity building, organisational development and promotion of internal democratic decision-making structures
3. support to organisations and networks
4. support for the enhancement of an enabling environment in partner countries for civil society participation in development processes

According to Sida, the focus on ownership and alignment and the subsequent shift of attention to recipient governments, heightens the attention that should be given to support to civil society as a watchdog (Sida 2007b). The new guidelines for NGO-funding (Sida 2007c) specify that the goals and principles of Swedish development assistance must form the basis of NGO activities and that organisations must document in their proposals and reporting how their activities contribute to the attainment of these goals. Sida sees "voice" and "service" support and "operational" and "organisational" support¹⁷, in different combinations, as a coherent whole of the tasks that each NGO must undertake. When they are planning interventions in partner countries of the Swedish bilateral cooperation, organisations are expected to address in their programme how the activities relate to the bilateral strategy. Organisations working in Sub-Saharan Africa are required to incorporate an HIV/AIDS perspective into their work. In order to increase transparency and accountability to the public a website¹⁸ that includes information on all funded projects was launched by Sida. A tenth of all NGO funding is reserved for development education in Sweden (Sida 2007c).

Swedish NGO support modalities

¹⁷ Capacity building and support in implementation.

¹⁸ www.sida.se/ngodatabase

1. Six of the *framework organisations* (including the trade union umbrella which was in fact the first framework organisation) carry out own programs and administer funding applications from their member organisations, with Sida taking the ultimate financing decision.
2. Smaller NGOs can request funding (*programme agreements*) through the framework NGOs. Each framework organisation has its own application procedures and is also responsible for the follow-up of the activities in terms of results and reporting. A summary of the results (with a financial account) is submitted to Sida on a yearly basis.¹⁹ This decentralised funding and accountability can make follow-up and M&E difficult. Projects smaller than SEK 200 000, which should be developed to introduce new actors into Swedish development cooperation or increase public support, are subject to a simplified assessment procedure.
3. Eight other framework organisations are funded for carrying out their own programs.
4. *Humanitarian assistance* through NGOs is funded for 100% (Randel & German 1999d).
5. *Direct funding to Swedish and international NGOs* also takes place in the framework of country and regional cooperation strategies. This is closer to subcontracting, as it entails 100% funding and greater control by Sida (Pratt et al. 2006).
6. Sweden also finances *Southern NGOs* through its embassies, often also through core funding. One example of such a direct funding scheme is the Ethio-Swedish Civil Society Organisation/NGOs Cooperation Program (Sida 2007d), which in a way duplicates the decentralised grant system for Swedish NGOs. Funds are distributed through a "Sub Grantee Assistance Modality", which means that Ethiopian Specialised Umbrella Organisations enter into an agreement with the Swedish embassy and manage and administer funds to local NGOs for activities in certain priority areas. The programme has several benefits: it systematises ad hoc embassy funding of local organisations, heightens local umbrella organisation's capacity and gives traditional community-based organisations the opportunity to apply for funds more easily (as it is usually more difficult from them to interact with international donors). A mid-term review assessed that ownership and monitoring capacity had increased among the umbrella organisations. Dialogue and cooperation between the local authorities and the involved organisations had been strengthened (Olsson et al. 2007).

An evaluation of direct support to civil society (Nyberg & Nilsson 2003) found that it are mostly professional, less representative and not sufficiently internally democratic NGOs that receive funding. Sida has the intention to shift funding to broad-based social movements and membership-based organisations.

Swedish NGOs have shown some reservations to direct funding, highlighting their role in forging relationships with Southern NGOs but also referring to fear of a loss of political influence and resources. Sida however insists on using the double approach, underlining that working through Swedish NGOs generates indispensable effects on domestic public opinion (Randel & German 1999d).

¹⁹ It is found that this system makes M&E quite difficult because it contains too many accountability links.

5. NETHERLANDS

Over the last couple of years, the Dutch NGO funding system has undergone some quite profound changes. Before 2001, five NGOs were legally entitled to receive 10% of total Dutch ODA through core funding. Since then, the system has become more open and competitive. Control over organisations' activities has become stronger, with programme funding replacing core funding. The focus on results has come strongly to the foreground and the entitlement of NGOs to a certain portion of ODA has been dropped. The traditional co-funding agencies have seen their role increasingly questioned and now also have to prove their effectiveness and vie for funds. Although there are no reliable figures available, direct funding of Southern NGOs is perceived to be increasing. This evolution will most probably increase in the future, and the Dutch co-financing system will also be opened up to non-Dutch organisations.

General aspects of Dutch NGO funding and the Dutch NGO sector

The proportion of ODA channelled through NGOs has risen from 14% (2001) to 25% (2004), an exceptionally high percentage. Dutch NGO activities in the South are estimated to be financed for more than 80% by official funding (Ruben & Schulpen 2008). Dependence on government funding of the former co-funding agencies ranges from 30 to 90% (Guijt 2008). Koch (2008a) estimates a 80% dependency.

The last years have seen a "gradual shift from [...] outsourcing through semi-autonomous agencies toward a more functional approach of subcontracting of NGOs that perform complementary tasks to ongoing bilateral and multilateral programs" (Ruben & Schulpen 2008, 17). Or, as formulated by NGO directors, an evolution from a "partnership [...] [to] a system of governmental subcontracting of extraordinary bureaucratic complexity and high transaction costs, with accountability rules stipulating outcomes that are only acceptable if quantifiable" (Derksen & Verhallen 2008, 228). This evolution is explained in more detail below.

The evolution of the Dutch NGO funding modalities over the last 10 years

Ruben and Schulpen (2008) identify three periods of change in the Dutch co-financing system (a fourth one is underway, see *infra*), which express an evolving view on the role of Northern NGOs.

1. Initial stage (prior to 2002): A small number of large NGOs (the so-called co-funding agencies, who represented the main pillars of Dutch society) formed a small and heavily funded priority group. They were legally entitled to a certain portion of Dutch ODA and their funding increased from €2.3 million in 1965 to €1.3 billion in the period 1998-2001. The four co-funding agencies enjoyed a very high degree of autonomy in the use of these funds which could be said to amount to core funding. Yearly financial reports were required and four-yearly ex-post evaluations undertaken, which were invariably positive, and often quite vague. The funding of these organisations gradually became an essential part, even a "dogma" (de Baaij & Boekestein 2006) of Dutch development cooperation and was not questioned.

Other organisations received funding through different small, personalised and rather unstructured schemes, based on project funding (e.g. trade unions,

development education organisations).²⁰ Some other organisations were also financed through thematic departments of the MFA or Dutch embassies.

2. Expansion stage (2002-2007): two new subsidy schemes were launched in 2003. The heavy concentration on the four co-funding agencies had come under increasing criticism. Strongly dependent on government funding and not subject to any competition, they were perceived as too uncritical of Dutch official development policy and not bent enough on quality improvement or innovation. Furthermore, the system was perceived as lacking in transparency and proof of tangible results (Virtanen et al. 2008). In reaction, the core funding programme (MFP) was enlarged and opened up. It now funded four-year programmes, which organisations needed to submit in a fairly detailed format. Six organisations applied for funding to an external committee and accessed subsidies. Recently, one of the old co-funding agencies lost its funding, while another underwent a serious budget cut.

A parallel thematic co-financing programme (TMF) was conceived and opened up to all (Dutch) organisations, in order to structure the former ad hoc project funding. Specialised NGOs could apply for core, programme or project funding on the basis of specific (broadly formulated) themes. This selection on the basis of themes holds the distinct advantage for the MFA that it can work towards a coverage of all priority themes (in the spirit of complementarity) in line with the official development policy and enhance a sector approach of government-funded NGO activities. However, the theme-specific appraisal was not applied very strictly (de Ruijter et al. 2006) Funding was available for up to 65% of proposed programmes and for four years and allocations were based on a transparent, uniform “business-like” appraisal procedure.²¹ Initially, non-Dutch organisations could also apply for this funding, but under pressure from the Dutch parliament the system was closed to non-Dutch NGOs in 2006 (de Ruijter 2006), which actually amounted to a return to aid tying (Koch 2008a).

During this stage, the focus on the effectiveness and results of organisations’ work grows and scale, professionalism and coordination became core criteria.

3. Consolidation stage (2007-2009): the MFP and TMF were merged and the co-financing system (MFS, MFA 2005a) was set up to fund Dutch NGOs for a four-year period, with a minimum grant of €100 000. NGOs can now be funded for three intervention strategies: direct poverty reduction, society building and policy influence. Interventions that, according to the MFA, are excessively focused on service delivery cannot be funded and activities must have national development strategies as a reference point. In the MFS policy document, the MFA lists up the results it wants to attain within the three years of the scheme, which focus i.a. on the improvement of the organisational capacity, the results-orientedness of the work of the Dutch

²⁰ In 2001, 170 organisations received funding (de Ruijter et al. 2006).

²¹ However, this possibly limits the coordination between the MFA and the NGO, as discussion on project or programme content does not occur before the funding and is not really conducive to a partnership relationship (de Ruijter 2006).

organisations and an increase of synergy between the various Dutch development actors. Some substantial changes are carried through in this scheme:

1. all proposal appraisals are made by an external commission instead of by the MFA. This makes it possible to separate the role of funder from the role of policy dialogue partner. The assessment is designed to be more transparent and objective and is based on a set of criteria, with indicators relating to organisational capacity (including track record) and programme design. Furthermore, organisations must be able to independently fund 25% of their activities and demonstrate popular support in Dutch society. Application scores are compared and funding amounts based on the ranking of NGOs within the peer group (differentiated between small and large organisations).
2. the focus is on quantification of the proposals and of the outcomes (Derksen & Verhallen 2008). NGOs no longer submit reports on activities but propose and report on indicators and targets on in- and output, outcomes and sustainability. The point of this exercise is actually to reduce administrative work in the long term and ensure that NGO reports use universal language and can thus be used for other donors too (MFA 2007).
3. through the high requirements and the minimum grant setting organisations are encouraged to work together
4. core funding is replaced by programme funding for all NGOs.
5. An ex ante budget ceiling of €2,110 billion was set, but this budget was only exhausted if sufficient applications of high quality were received (MFA 2005a)²²
6. The focus on synergy with official Dutch aid is significantly strengthened.
 - i. Dialogue between the organisations and the MFA will be strengthened, i.a. with thematic dialogues.
 - ii. The MFA also promises NGOs to guarantee continuity in their government account manager for at least two years. The lack of continuity in contact persons in the MFA has been a complaint of NGOs and a barrier to meaningful NGO-MFA dialogue (de Ruijter 2006).
 - iii. In the bilateral partner countries, embassies, Dutch NGOs and their local partners will meet yearly to enhance synergy. Embassies are often not really informed about government funded activities of Dutch NGOs in their countries and do not feel that it is integrated into the bilateral or multilateral aid program, which means that it is not included in the budget or national planning (de Ruijter et al. 2006). The last DAC peer review recommended that Dutch embassies should be more closely engaged in the

²² Maintaining a fixed percentage of ODA for NGO-funding was not perceived to be conducive to effectiveness and it was advised that this threshold be dropped (IOB 2003).

- co-funding scheme, e.g. by being involved in the selection process (DAC 2006a).
- iv. The synergy with Dutch bilateral aid can take different forms, depending on the context of the intervention. Synergy can range from full alignment (e.g. in certain sectors in Dutch bilateral partner countries), to partnership, coordination or mere exchange of information. Situations where cooperation is not advisable are also possible. Optimal synergy is thus highly dependent on the circumstances, but it is in any case the duty of both the Dutch MFA and the financed organisations to search for and institutionalise the adequate form of cooperation. These cooperation arrangements must be included in the strategic plans of the NGOs, the Dutch embassies and the relevant Ministry departments.
 - v. Furthermore, the assessment of the proposals will take into account the MFA's input-objectives with regard to specific aspects of certain policy themes. The organisation's relationships with other development actors are also an assessment criterion of funding proposals.
 - vi. The MFA has emitted a document that specifies which themes it wishes to support. These priority themes are based on the official Dutch development policy and specify NGOs' special added value in these sectors. Small organisations must submit a "thematic proposal" that fits into these themes, large organisations' proposal must include at least one of the priority themes. Although these themes are formulated quite broadly (MFA 2005b), they are based on Dutch bilateral aid priorities and approaches.

SALIN (Strategic Alliances with International NGOs) is conceived to fund a small number of non-Dutch organisations through invitations from the MFA.

Focus on effectiveness, impact, results and aid chain management became stronger during this stage, and the implementation of this approach elicited quite some criticism from Dutch NGOs. Here are some of the complaints.

- Proposals are seen as generating a huge administrative load for the organisations. This makes it very difficult for small NGOs to compete in this system.²³ The Dutch MFA reacted to this by launching the "Young and Innovative" funding round, a one-off initiative with lower application barriers (MFA 2008). Furthermore, organisations submitting an application for €2.5 million or more per year are subject to stricter criteria than smaller NGOs (MFA 2005).
- Furthermore, NGOs claim that MFA overlooks that a lot of NGO work, especially the more political activities, cannot be captured in quantitative

²³ It could however be argued that this was the point of the new system: to decrease fragmentation and incentivise smaller NGOs to form partnerships.

measurements. The focus on quantified results and outcomes is also not conducive to risk-taking and innovation (Derksen & Verhallen 2008).

- The long-term planning imposed by the MFA is contradictory to the requirement that organisations should align to their Southern partners. This requires some flexibility. Unfortunately, the demise of core funding has made alignment to Southern partners' priorities difficult,²⁴ as activities have to be justified in terms of the approved programme. Increasing demands from the Dutch MFA are transmitted to NGOs' Southern partners, which has a negative effect on this partnership, which eventually takes on more of a subcontracting form (Derksen & Verhallen 2008). Core funding to Northern NGOs is also necessary for their further professionalization (de Ruijter et al. 2006).

The programme funding to NGOs is complemented by smaller scale initiatives that aim to support individuals or private companies that wish to participate in development cooperation. For example, the "Schoklandfonds" (MFA 2008d) subsidises (for up to 40%) cooperation agreements between companies, organisations or scientific institutions that propose innovative ways to reach the MDGs. Trade unions can also receive funding in a scheme similar to the MFS (MFA 2004). The MFA grants programme funding (four years) for support to Southern trade unions and advocacy work on labour rights.

The forthcoming Dutch NGO support strategy

At the time this report was written, the government was preparing a new policy document on the role of civil society in development policy. This policy document is based on a dialogue conducted this year between the government and representatives of civil society (mostly NGOs). In a speech in November 2008 (MFA 2008a), Minister of Development Koenders already set out the main principles of the new approach, which continue on the same path as the foregoing reforms of the co-financing system. The Dutch policy on NGO-funding will be based on three tenets:

1. *Added value*: NGOs will be expected to increasingly specialise in playing their role as watchdogs (of the government and the private sector) and as actors with a special ability to reach marginalised groups. Political work is encouraged. Organisations will be encouraged to focus on synergy and complementarity between NGO- and bilateral aid efforts (and other aid channels, like the private sector). By working together actors can complement each other's added value.
2. *Tailor-made work*: NGOs' interventions should be more context-specific. In Dutch bilateral aid, policy is informed by three country profiles: transition countries (where aid is part of an exit-strategy), the good governance states and the fragile states. For the co-financing system one extra category will be added and NGOs will be required to situate their funding within these profiles and argue how their geographic, thematic and methodical choices are informed by the context in which they intervene. NGOs will be expected to focus more on the failed states.²⁵ In fact, this has

²⁴ Although generally, Dutch NGOs that received core funding do not seem to support their partners by the same flexible funding (de Ruijter et al. 2006).

²⁵ Empirical research has uncovered a certain path dependency in Dutch NGOs' geographical choices and a tendency to be active in the same countries as Dutch governmental aid, despite the large independence

been the Dutch policy for quite some time: NGOs are expected to work in the countries where bilateral agencies have difficulty intervening (de Ruijter 2006), as this is where bilateral aid cannot be effective and NGOs thus have a comparative advantage (IBO 2003). For work in other countries, they need to work more on equality, mobilisation, decentralisation and human rights and cooperate closely with Dutch bilateral aid. Furthermore organisations will be assessed on the extent to which their partnership policy is based on Southern input and ownership. In order to encourage a core funding relationship in North-South partnerships, it could be useful to consider longer-term funding for certain NGOs (e.g. ten years) and an ex-post justification system for a certain percentage of the funding for Southern partners (de Ruijter et al. 2006).

3. *Cooperation*: the curbing of fragmentation is high on the MFA's agenda. Cooperation agreements with other actors (private sector, professional organisations, fourth pillar, communes etc...) are therefore taken into account as a positive asset during the assessment process. Incentives for cooperation include a reduction in the number of organisations that can receive funding in the next financing round. The application process will take place in two phases: a first phase contains an assessment of organisational capacity and a preliminary funding proposal. In the second round only the top ranked (e.g. the thirty best) proposals will be invited to submit a full application. This system also reduces administrative work for both the organisations and the MFA. An innovation is also that the system will integrate the support to non-Dutch organisations, which means that there will be an open competition for funding. Organisations from the South can thus also apply for funding, possibly in cooperation with Dutch organisations (MFA 2008b).

In the new system, there will be no specific amount of funding available for NGOs. The minister of development cooperation strongly objects to the "matter-of-factness" of subsidising NGOs. The portion of ODA that will go to the organisations will be dependent on the quality of the proposals. For the follow-up, the focus will be less on monitoring and increasingly on evaluations. Direct funding by Dutch embassies will probably be augmented, but only in joint donor agreements. The cooperation between local civil society organisations and Dutch embassies is of a high added value because the organisations can play a role in the formulation of the Dutch human rights and sector policies, while they can benefit from implication in the political dialogue between the Dutch government and the Southern government.

organisations enjoy in choosing their field of action. They did not seem especially active in the poorest or worst governed countries (Koch 2008). It seems to be the resolve of the Dutch government to direct their focus more towards these failed states where the MFA does not intend to intervene.

6. UNITED KINGDOM

The UK envisions a growing role for NGOs in British development aid due to the shift to the new aid approach. It has heightened support to NGOs, but this funding is subject to fairly strict requirements relating to coherence with DFID objectives and management and accountability. The focus is strongly on results and impact, and the largest organisations can apply for long-term flexible funding based on performance instead of programmes (similar to budget support). The UK NGO support is highly marketised and it could be said the UK mainly sees NGO support as a vehicle to the attainment of the British development goals and much less as an objective in itself.

General aspects of British NGO funding and the British NGO sector

Increasing funding through government budgets warrants a strong watchdog role from civil society (NAO 2006), and DFID has therefore given support to civil society a growing role in its development assistance and has increased the part of its ODA channelled through NGOs (DAC 2006b). The shift to new aid modalities and budget support has inspired DFID to double its support for NGOs²⁶ since 1997.²⁷

In its support to NGOs, DFID is increasingly turning away from service delivery²⁸ and integrating civil society support as a part of its governance agenda (Udsholt 2008). Creating an enabling environment for civil society action and supporting civil society engagement with government is a necessary part of donor's support to good governance (DFID 2007b). Although DFID strongly highlights the role civil society should play in poverty reduction and the attainment of the MDGs, it is thus increasingly shifting towards a view of NGO support as being more firmly embedded in its governance agenda in partner countries.

Of the donors discussed in this document, the UK has the most "marketised" NGO funding system. Although funding is mostly "supply-driven",²⁹ the requirements for acquiring funding are tough and increasingly related to DFID's development policy and priorities. This has led to more funding for larger NGOs (five agencies receive 45% of the available funds), increasing competition for funding (which could inhibit cooperation between organisations), tighter conditionalities on management of funds and approaches and a strong focus on results and impact. One negative consequence of this approach is that partnerships between British and Southern NGOs become increasingly imbalanced, as DFID requirements are passed on by British NGOs to their local partners. Proposals from local NGOs have to be adapted in their way up through the aid chain to fit DFID priorities and prerequisites. In other words, it is difficult for organisations to get support for their own agendas, and rising claims and fear for loss of funding has made organisations less eager to share learning opportunities. All in all, the "marketised" funding system has the potential to erode NGO roles in small-scale innovative projects and North-South partnerships (Wallace 2002).

However, British NGOs highly value their independence and are known for having wide access to private financial resources. A lot of them do not wish to increase official funding

²⁶ DFID refers to civil society organisations, although this seems to point mainly to non-governmental development organisations, as funding to other actors (e.g. trade unions) is usually specifically mentioned.

²⁷ In 2005/2006 support to the PPAs was increased from £62 million to £79 million, while the CSCF financing went up by 40%.

²⁸ Although the CSCF has included service delivery as a possible project activity because NGOs felt the fund was too restrictive in its criteria (NAO 2006).

²⁹ Meaning based on NGO proposals projects and programmes, not on subcontracting.

of their activities if this would compromise their autonomy (DAC 2006B). Agencies are only officially funded for 3-8%.

In spite of the official DFID policy to engage country and thematic desks and local delegations in funding of British NGOs, this has not been really successful and coordination, especially with local DFID offices, does not seem optimal. An evaluation (NAO 2006) for example found in its examination of twenty CSCF projects (see infra), that only nine of them had received country office comments when being assessed, with only four of these being found in line with DFID's country strategy by these delegations.

The British NGO support strategy

DFID sets out three aims in its civil society policy: building voice and accountability, providing services (particularly in fragile states) and humanitarian assistance, and promoting awareness and understanding of development (DFID 2006).

British NGO support modalities

The following funding modalities are available:

Partnership Programme Agreements (PPAs) are strategic level cooperation agreements between DFID and large NGOs that specify jointly agreed outcomes and provide strategic funding over 3-6 year time frames. Funding is thus based on objectives, not on projects or programmes. This is actually quite innovative and there is currently no other European donor who uses this approach, which is very similar to bilateral budget support.

Currently 27 UK and non-UK NGOs have a PPA with DFID (DFID 2008c). The scheme is based on flexibility, long-term funding and lower detail monitoring (DFID 2006). Initially PPAs were granted to those organisations that had a long working relationship with DFID; the competition process was not open and agencies' allocations were based on previous funding, but since 2002 a process of open competition has been installed (NAO 2006). Entry criteria include satisfactory coherence between the organisation's and DFID's priorities, high organisational capacity and sufficient participation in DFID policy formulation. PPA organisations are allowed to apply for direct funding from DFID country offices but cannot submit proposals for financing from other civil society funds (DFID 2008c).

PPAs are generally regarded as results-oriented and cost-effective. They generate less administrative costs than project funding³⁰ and the flexible approach encourages NGOs to improve the quality of their activities (NAO 2006) and adopt a more strategic, long-term approach (IDS 2004).

Organisations submit yearly progress reports and review these together with DFID. At the end of the PPA a final performance review is undertaken which focuses more generally on the impact of the whole PPA (IDS 2005). The indicators used to measure progress in these PPAs are however often not sufficiently specific or measurable, especially for activities in the realm of capacity-building or advocacy (NAO 2006). Furthermore agreements often lack baseline information to measure progress against. The challenge for DFID is therefore to identify, in collaboration with the PPA organisations, indicators that are measurable but not overly detailed so as to facilitate working towards strategic outcomes. Similarly, a balance has to be found between providing sufficient accountability (performance data) and keeping the reporting conditions to a minimum (NAO 2006). To summarise: results-oriented strategic

³⁰ Administrative costs for PPA amount to 0.15% of their total budget, while for the CSCF and the DAF these figures run up to respectively 3.30% and 4.01% (NAO 2006).

funding has to be reconciled with lightening administrative procedures, sufficient organisational freedom and a focus on advocacy and capacity building activities.

An independent review (IDS 2005) proposed to evaluate performance on the basis of clearly established criteria; referring to organisations effectiveness, coherence with DFID policy goals (extent to which this would be expected would be dependent on the type of CSO) and the MDGs, capacity, knowledge, influence and innovation. It also advised to limit PPAs to those areas of organisations' activities where coherence with DFID strategic objectives is present. This approach would ensure organisations' autonomy in areas where they differ with DFID in policy objectives, while activities funded by British ODA retain a coherence in strategic goals. DFID however did not incorporate these reflections on its dealings with PPAs.

The *Civil Society challenge fund (CSCF)* is a funding modality that was originally launched in 2002 to finance small and medium-sized, UK-based NGO (not necessarily organisations whose main focus is international development) projects in the realm of capacity-building, participation and advocacy (locally, nationally and internationally). Since 2004 it also funds interventions that encompass service delivery in difficult environments and projects that develop innovative methods to service delivery. DFID recognises that the scale of these projects does not warrant a huge development impact, but specifies that this fund is meant to be of support to smaller organisations, increase development support in the UK and foster innovative approaches (DFID 2006).

All proposals must include an aspect of awareness raising in the field of entitlements and rights. The UK NGO and its local partner(s) must be able to prove a certain degree of financial autonomy and the project has to be coherent with local DFID country or regional assistance strategies. Furthermore, they must address cross-cutting issues such as gender and HIV/AIDS while also including an element of awareness raising within the UK. A strong focus also lies on M&E, the use of a logframe, SMART³¹ progress indicators and a baseline assessment. Projects can be funded for a maximum of five years and for up to a 100%, although a component of funding from other sources is preferred, and capacity and financial independency of the UK and Southern NGO are criteria for funding. All project proposals are sent to local DFID delegations and country and policy teams in HQ for commentary. British embassies also get the chance to comment regarding the country context or the relationship to local British bilateral strategies. Any of these stakeholders can veto a project proposal (DFID 2008d). However, in practice response from DFID country offices has been limited and local delegations are often not aware of the CSCF projects being implemented.

The performance assessment system of the CSCF is based on a portfolio approach (Battcock 2002), which means that instead of focusing on the managing separate projects, DFID evaluates the CSCF as a whole. For each funding round DFID establishes its preferred portfolio, dividing projects into several categories among different axes: outcome areas,³² engagement with civil society (type of organisation: traditional NGO, trade union, membership organisation, etc) and level of risk. Too many funded projects were for example focused on engagement in local decision making with Southern traditional NGOs as partners. By assessing the distribution of funds according to the portfolio DFID can shift its priorities in the assessment of the projects in the next funding round.

³¹ Specific, measurable, attainable, realistic and time-bound.

³² Engagement in local decision making, engagement in national decision making, engagement in global decision making and raising awareness of rights and entitlement.

Project proposals must include a provision for future evaluations. DFID can participate in some of these evaluations and encourages peer involvement in evaluations to enhance cross-learning among organisations. Supplementary financial support can be granted for this joint work (5% from each grant is already reserved for evaluation). These end-of-project evaluations weigh a lot more for the DFID assessment than the annual report. DFID synthesises these evaluations to identify learning opportunities and innovative approaches across the entire CSCF portfolio.

The stiff requirements of this fund have elicited some comments from British NGOs. The capacity requirements seem too high for small, grassroots organisations to apply for funding and can only be fulfilled by the larger, professional NGOs. A lot of organisations also see the conditions as too restricted and too focused on DFID priority areas, making it difficult for organisations to propose a project that matches their own activity area. It is argued that advocacy is often inextricably linked with service delivery: demonstrating good practice is a useful way to exercise more pressure on governments while at the same time making acceptance of the organisation by the government more likely. Moreover, a service delivery angle in projects can be the start for sustainable local engagement (NAO 2006).

The *Development Awareness fund (DAF)* and the *Mini Grants Scheme* fund activities that aim to enhance public knowledge and understanding of development issues. Applications have to focus on one of four issues of relevance to DFID: challenges and prospects for development, interdependence and the global consequences of poverty, international efforts to reduce poverty and promote development, and the role of individuals in working towards poverty reduction (DFID 2008a). Project proposals must be linked to the global and international context and poverty reduction and can be funded for up to 100% over three years. Those planning activities in the education sector must demonstrate how they relate to DFID's own development education initiative. For small scale projects from locally based NGOs, mini grants (under £10 000 per year) are awarded through intermediary organisations (DFID 2008b).

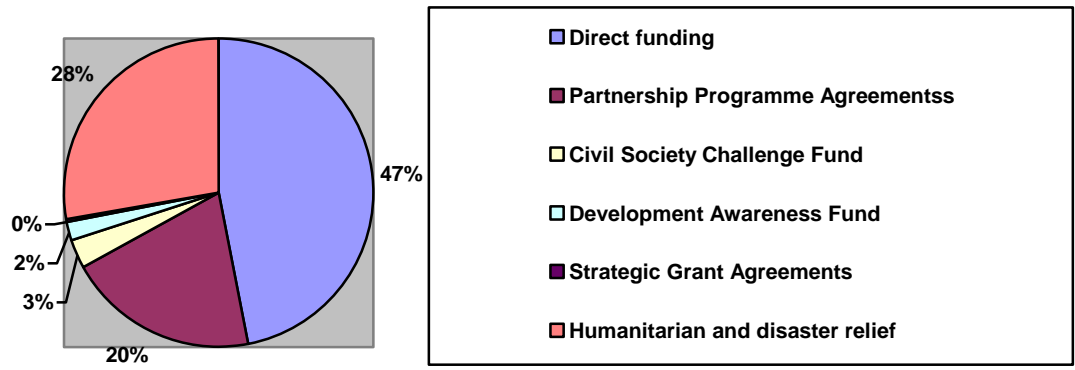
£130 million over five years was awarded to the *Governance and Transparency fund (GTF)* (DFID 2007) which funds large-scale programmes working on governance and transparency issues through local partnerships. Grants were allocated on the basis of competitive proposals from NGOs that could be funded for up to a 100% of the costs. Submitting organisations, which could be UK-based or foreign, had to prove that 85% of the received funding would go to Southern partners and that cross-cutting issues (gender, environment, HIV/AIDS and disability) had been incorporated in the drawing up of the proposal. The programmes did however not have to be linked to DFID country strategies as the funding is aimed to assist in complementary activities. An external manager handles all issues related to the assessment and follow-up process of proposed programmes, and for example seeks advice from DFID country offices and posts on relevant grant proposals. Each year organisations are expected to put forward a progress report which assesses their advancement against the agreed output indicators. At the end of each programme, an independent external evaluation is mandatory. 38 programmes were approved in 2007. There was only one proposal round for this fund. While this modality granted substantial freedom to organisations in the content of their proposals, it also constituted a channel for DFID to set aside a fairly large funding amount for one of its priority sectors. This is one way of marrying coordination and NGO autonomy.

The *conflict and humanitarian fund* provides project funding.

Direct funding through local DFID representation is increasingly taking on the shape of core support, with less specific projects being funded. A lot of NGOs are funded through intermediary mechanisms: through the government, through umbrella organisations or through basket funds (NAO 2006). One of the advantages of basket funding is that it makes the relationship between DFID and the local organisations more distant, which safeguards local NGOs' domestic accountability relationships. UK NGOs are reported to have try to access this funding through the establishment of local offices (Wallace 2002).

DFID is increasingly working through *subcontracting*, and NGOs bid with governments and private companies for these contracts. Of course only the largest NGOs can access this kind of funding (Wallace 2002).

In 2005, funding through PPAs increased with 28%, while funding through CSCF went up by 40% (DFID 2005). Direct funding has also been growing (DAC 2006b). Funding for civil society in 2004-2005 amounted to £328 million (€487 million, 8.5% of total DFID expenditure) and was divided as follows³³:



Source: NAO (2006)

³³ These figures do not exactly match the funding modalities as specified above because they are based on the existing modalities of 2004-2005, which still included the Strategic Grant Agreements abut not the Governance and Transparency Fund yet.

7. IRELAND

Ireland is in the process of implementing a long-term, programmatic approach in its NGO support. It is increasingly focusing on strategic, results-based funding and has imposed restrictions on NGO dependence on Irish Aid funding. Large organisations can apply for strategic programme funding, while small organisations may receive project funding, which is more narrowly tied to Irish development policy priorities.

General aspects of Irish NGO funding and the Irish NGO sector

Irish NGOs are fairly dependent on government funding – the DAC estimates that this dependency reaches 35%. Many NGOs are reported to have opted to safeguard their autonomy by limiting the portion of funding they want to receive from the government (DAC 2003b). Irish Aid prioritises NGO autonomy and independence. Its funding modalities focus on developing organisational capacity to implement a programme approach. Funding is increasingly shifting towards a long-term, large scale approach.

The Irish NGO support strategy

Irish Aid has developed an encompassing civil society policy (Irish Aid 2008b) which sets out the principles and objectives for its cooperation with Irish and Southern civil society. This policy was conceived as a necessary guideline that defines civil society roles under the new aid paradigm. As the guiding principles underpinning its cooperation with civil society, Irish Aid refers to partnership and local ownership, effectiveness and quality assurance, coherence (particularly with Irish Aid in programme countries) and long-term sustainability. The objectives it wishes to attain with its support to civil society are:

- “support an enabling environment for civil society” through Irish Aid’s dialogue with partner governments, support for the strengthening of organisation’s internal governance structures and for the collaboration between NGOs
- “support the role of civil society in promoting participation and good governance”
- “support the role of civil society in pro-poor service delivery and growth” while taking care not to create parallel structures: organisations should work with the State and align to national policy and implement activities that entail pressure on the State to perform better in its own service delivery
- “support the role of civil society [...] to build a constituency for development, human rights and social justice” which also entails support for development education and advocacy work in Ireland (Irish Aid 2008b, 13)

The general principles for support to Irish and international civil society organisations include multi-annual timeframes, a programmatic approach, strategic engagement with the poverty reduction agenda and a focus on results. It is recognised that a more programmatic approach is only suitable for organisations that have developed sufficient capacity. Project funding is still possible for specific types of activities: e.g. the implementation of innovative approaches, reaching marginalised groups and for flexible funding in unstable

situations. To avoid NGO dependence on Irish Aid funding, the policy resolves to closely monitor to which extent organisations are being subsidised and install limits on public funding.

Cooperation between Irish Aid and the NGOs is also a focus of the Civil Society Policy and it i.a. mentions the “Development Forum” which brings together the Minister, Irish Aid officials and representatives from the organisations twice a year for debates on development policy and strategic matters. In Irish Aid programme countries, delegations are responsible for undertaking a dialogue with local and Irish NGOs on their strategies and development policy issues related to the local situation and the national developmental strategy. This is expected to heighten coherence between bilateral Irish Aid efforts and those of NGOs.

Irish NGO support modalities

NGOs used to be financed by different mechanisms, which often amounted to short-term, yearly, project-funding. These were administratively too heavy and tended to encourage a focus on activities instead of outcomes and impact (DCI 2005). Irish Aid decided to engage in multi-annual strategic partnership with the main Irish NGOs (MAPS) and rationalise other funding in the Civil Society Fund.

1. In 2003 Irish Aid launched the *Multi-Annual Programme Schemes (MAPS)* as a modality that attempts to integrate the strategic programmatic approach Ireland follows in its bilateral aid in its cooperation with civil society. In 2008, five large organisations will receive €71 million from MAPS, as part of the second MAPS round that covers five years and is funded for €400 million (2007-2011) (Irish Aid 2008c). This second MAPS was launched after a review that recommended a stronger focus on indicators and benchmarks.
2. MAPS entail long-term predictable funding on the basis of programme proposals from organisations that have demonstrated sufficient programmatic capacity and a strong relationship with Irish Aid and are not dependent on official funding for more than 70% (Irish Aid 2006a). NGOs must submit a programme (defined as a whole of long-term strategies that works on different levels to achieve high-level objectives³⁴) that specifies their objectives, outputs and strategies. These should be results-based and linked to policy in the view of advocacy potential. Organisations are allowed to shift funding between different programme countries or focuses for amounts smaller than 15% of the total grant, and when shifts occur within the same country or programme focus. Irish Aid has defined policy level objectives, which cohere with official Irish development policy objectives (very broadly defined) and process level objectives for MAPS funding. With this type of funding, Irish Aid thus hopes to gain a.o. progress in poverty reduction, the strengthening of civil society and improved governance, but also to induce a more programmatic, results-oriented approach co-funded NGO activities. Irish Aid sees a dialogue on coherence between Irish official aid and NGOs as an important part of MAPS. An evaluation (DCI 2005) of the MAPS I scheme concluded that mutual learning between MAPS NGOs and Irish Aid had however not been satisfactory. It also recommended Irish Aid to clearly define which

³⁴ Although practice showed that in the previous MAPS round (2003-2005) organisations often implemented programmes as a collection of projects (DCI 2005).

coherence is expected between official Irish development assistance and MAPS activities (especially in Irish programme countries), while ensuring organisations' autonomy. The MAPS II scheme states that organisations are not required to mainstream Irish aid cross-cutting issues or work in specified countries or sectors but are expected to mainstream their own priority issues throughout their programme. In Irish Aid programme countries, close cooperation between delegations and MAPS NGOs is expected. This includes consultations on bilateral and MAPS aid programmes, identification of possibilities for institutional cooperation and at least consultations on a biannual basis.

Cooperation between MAPS organisations is also seen as a priority and several mechanisms for mutual learning exist: partner fora (biannual meetings on thematic issues), joint research (each organisation will undertake a thematic study on best practice in a programme country and include the efforts of other MAPS partners and Irish Aid in this study) and joint initiatives (thematic cooperation at country level between MAPS NGOs and/or Irish Aid). Irish Aid-MAPS organisations joint field monitoring visits will be undertaken at least twice for each NGO. It is foreseen that MAPS will constitute an increasing share of Irish Aid NGO funding (Pratt et al. 2006).

3. The *Civil Society Fund (CSF)* is a tiered fund that aims to finance activities of organisations of different size and capacity. In 2007 139 civil society organisations received project funding (Irish Aid 2008). NGOs that apply for funding must specify how and to which objective of the fund they will contribute. Policy objectives include strengthening voice and participation of civil society; improving services, support to human rights and responses to HIV/AIDS. In their proposals NGOs must explain how they plan to strengthen the voice of Southern civil society and link up to their Northern constituencies. Interventions focusing solely on service delivery are not eligible for funding. Irish aid crosscutting issues (gender, environment, HIV/AIDS, governance) should be mainstreamed in proposals. Organisations must be able to prove that 10% comes from voluntary private contributions, while they can only be dependent on Irish Aid funding for 75%. Organisations can receive project or multi-annual block grants. Project applications can be granted 75% financing for up to three years. Five projects can be funded per organisation, for maximum €200 000 each. NGOs that have undergone an organisational assessment and have the capacity to work with a programmatic approach, are invited by Irish aid apply for multi-annual block grants. They must be able to prove that they cooperate and coordinate with local and national governments, as well as with other NGOs. Coherence with government policy is desirable. All organisations can include a request of maximum €30 000 for organisational development in their proposal.
4. Since 2006, the *Micro-Projects Scheme (MPS)* is in place. It funds projects from small NGOs for 75% and for up to €20 000. Irish Aid prioritises projects that propose interventions in certain predefined sectors, but this are fairly widely defined and include themes like democratic governance and training. Projects should be coherent with government policy and Irish

aid policy and should not be primarily focused on direct service delivery (Irish Aid 2006b).

5. Irish Aid also has a separate funding facility for *Development Education*. Organisations can apply for multi-annual (two to three years) or one-year grants.
6. Irish aid also undertakes “*strategic funding arrangements*” through tenders.
7. In 2007 46% of Irish *emergency and recovery aid* was provided through NGOs (Irish Aid 2008d).
8. Southern NGOs are supported through different schemes. The *In-country Micro Project Scheme* funds organisations in countries that are not Irish programme countries, but where there is an Irish diplomatic representation present. The Irish embassies manage the fund. In 2007 this funding scheme amounted to €2.5 million. (Irish Aid 2008a). Because of their precise targeting, these projects often reach the poorest (Irish Aid 2008a). In programme countries, NGOs are supported through the *bilateral country programmes*. Presently Irish Aid is composing new strategies for support to civil society in its programme countries (Irish Aid 2008e). To keep administrative work as low as possible, funding through intermediaries or basket funding should be preferred (Irish Aid 2008a).

8. SWITZERLAND

Swiss NGO policy has evolved over the last years: an NGO collaboration strategy was formulated and specific measures were taken to ensure more synergy (thematic focal points) and NGO financial independence (no combination of project- and programme-funding). Swiss NGOs however still enjoy a significant amount of freedom, as many recommendations from an evaluation of the relationship between SDC and the Swiss NGOs were not implemented.

General aspects of Swiss NGO funding and the Swiss NGO sector

Switzerland has been going through a process of reflection regarding its funding of development NGOs. An evaluation of the relationship between the Swiss Agency for Development and Cooperation (SDC) and the Swiss NGOs was requested in 2004, as SDC felt the need to clarify the roles of the Swiss state and the NGOs in development and the objectives of the NGO-funding as well as reflect on the coherency of its policy towards NGOs. Developments in the international aid architecture and the view on the roles of Northern NGOs had brought on a sense of urgency in SDC for the need for a coherent NGO policy. The resulting evaluation report (Bähr & Nell 2004) proposed some radical changes to Swiss NGO funding and seems to have engendered quite some discussion, in NGO and administration circles alike, the main point of the evaluation being that Switzerland cannot move towards the new aid approach and keep its credibility in the international aid community without involving and redefining the role of its cooperation with Swiss NGOs. Although far from all the recommendations from the evaluation were translated into policy changes, it is interesting to list some of the main conclusions here.

The evaluation found that the increasing acceptance by official Swiss development cooperation of the new global consensus on development aid had eroded the implicit consensus that used to be the basis of Swiss governmental and non-governmental development aid. This consensus was partially a consequence of the closeness between NGO and SDC work which implied a shared SDC-NGO agenda (Randel & German 1999b). However a gap has been growing between SDC and Swiss NGOs regarding their roles in development. SDC is shifting towards multilateralism, concentration and harmonisation and has to change its policy towards NGOs to fulfil its role in this new aid architecture. Increasing decentralisation and focus on the South has led the Swiss cooperation to rely more and more on local delegations and the funding of Southern NGOs. Swiss NGOs are expected to concentrate increasingly on lobbying and advocacy. NGOs basically agree with this but consider project implementation an essential complement to advocacy activities. Also, although they fully support the view that the Southern organisations should become the focal point of local development processes, they do not believe that this should happen through direct funding. According to the NGOs, SDC should focus on strengthening partner governments, while NGOs are the most suitable partners for local organisations, who are still in need of capacity-building and should not overwhelmed with direct support yet (Randel & German 1999b).

NGOs and SDC do agree on the fact that it has become more difficult for organisations to fully take on their advocacy and lobbying roles because of their dependency on government funding. They have become too “mainstream”,³⁵ and have thus eroded their capacity to add value. They do not have the same constituency as they used to, which compromises their mobilisation capacity. However, organisations also claim that real lobbying

³⁵ Described as “small SDCs” (Bähr & Nell 2004).

on Swiss development issues is difficult because the government is not really open to criticism and takes on a punitive approach that has entailed consequences for certain organisations' funding. The evaluation also found that the self-evident nature of funding had provoked in NGOs a certain feeling of complacency: as funding is nearly guaranteed, they do not have the incentives to keep up with the developments in the international aid debate and adapt to them. Over the years a sentiment has emerged that they are entitled to funding without SDC raising any questions on their work.

There are however ways to, at least partially, circumvent these effects of financial dependency. For example, the Swiss Coalition (an umbrella organisation that unites six of the larger NGOs) plays a watchdog role vis-à-vis Swiss official development policy. While the organisations that form part of the Coalition receive government funding for their activities, the Coalition as such does not request government funding for its advocacy tasks.

The evaluation regarded coherence as one of the aspects that was lacking in Swiss NGO policy and advised SDC to integrate NGO funding in the geographic departments and the local Swiss delegations. Confining it to a specific NGO-division encourages a focus on the strategies of the organisations themselves, not on Swiss country- or sectorstrategies. Furthermore it found it advisable that SDC only fund projects and programmes that are congruent with Swiss development policy priorities.³⁶ Room should however be left for some flexibility for NGO interventions in the areas SDC does not think bilateral aid would be the most effective channel of aid. Financing should not exceed 50% of the project/programme costs or 30% of the organisation's own funds. It should not consist of core funding but should be based on more focused and strategic funding of projects and programmes. Programme funding is conducive to a more programmatic approach and reduces the administrative work. However, in the past, programme funding seems to have had some negative effects on organisations' advocacy capacity because of the long-term financial dependency it engendered. Because the funding is almost guaranteed for a fairly long period, NGOs are not pushed to look for other funding options. Reforming funding arrangements does however not imply that less funding should go to Swiss NGOs.

An analysis of current Swiss funding modalities will make it clear that the evaluations' conclusions and recommendations were only to a limited extent reflected in policy changes. SDC did however commit itself to the establishment of a clear NGO policy.

The Swiss NGO support strategy

The gap between SDC and NGO visions on the future of their roles in development cooperation was able to grow because an explicit policy had not been discussed, let alone agreed upon (Bähr & Nell 2004). There was no overall strategic orientation for Swiss development policy, and this strategic vagueness replicated itself in a Swiss policy lacking vision on NGO funding. There only existed very vague and general policy guidelines on the one hand, and detailed administrative regulations for NGO-funding on the other hand. For example, the NGO division within SDC had elaborated detailed quality criteria and indicators to enhance the results-orientation of the funding, but without an explicit policy on the expected objectives and results to be attained, this exercise was without strategic focus. It is however essential that mandates and roles are clearly defined. The need for a coherent policy was therefore urgent, and its scope and application had to be sufficiently flexible and context-specific.

This issue has been remedied with SDC's "Politique de Collaboration" (DDC 2007) that clearly defines the roles of the various players. The policy states i.a. that when NGOs are

³⁶ While of course explicitly recognising that NGOs are free to undertake independently funded activities in the countries and sectors they prefer.

funded in a partnership agreement (project- or programme funding) their work is perceived as complementary (geographically and thematically) to bilateral aid. NGOs can also be subcontracted, through what are called “mandates”, for the implementation of bilateral aid in the Swiss partner countries. Mandates are of course wholly focused on Swiss bilateral priorities.

Switzerland commits itself to hold a continuous political dialogue with the NGOs on three issues: globalisation, the international aid system and Swiss policy coherence. The Swiss coalition and three large NGOs are represented in the Consultative Committee on international development cooperation which meets five times a year and advises the Swiss Federal Council on development policy. The Minister of Foreign Affairs and SDC higher management have periodic meetings with the directors of large NGOs, while the NGO division also organises meetings on specialised thematic subjects (Bähr & Nell 2004).

The Swiss NGO policy is carried out by the NGO division, with the assistance of focal points in the different domains of the SDC to ensure coherence. While the NGO division takes care of the overall organisation and coherence, the focal points take care of the more policy-related aspects of the NGO-funding which relate to their thematic expertise. This includes the policy dialogue with the organisations and negotiating the terms of the partnerships and mandates.

Swiss NGO funding modalities

Self-financed NGO aid accounted for 28% of all Swiss aid in 2001-2005 (Nunnenkamp et al. 2008). Swiss NGOs can thus be considered able to raise significant amounts of aid money independently. NGOs receive funding from different levels of government: the confederation, cantons and communes. The confederation’s grant scheme can be summarised as follows (DDC 2007):

1. Support in the form of *partnerships*: NGOs can have their projects or programmes financed for up to 50%. To avoid NGO dependence on state funding, the cumulation of project- and programme financing is not allowed. Programmes must be results-oriented and relevant to the Southern country’s national development strategy but do not have to be aligned to Swiss bilateral geographic or thematic priorities (DDC 2007). The partnerships with NGOs are strongly based on the principle of extensive complementarity (geographically and thematically) and the recognition of the divergent roles of the Swiss development actors. Furthermore, although the projects and programmes must fit into the priorities³⁷ as defined by SDC, organisations still have a wide freedom of initiative as these priorities are defined very broadly.³⁸

³⁷ Poverty reduction, strengthening of civil society, humanitarian aid, global governance and development education.

³⁸ However, an empirical analysis of the allocation of Swiss NGOs’ aid actually found that their aid is allocated largely similar to Swiss bilateral aid. This study differentiated between NGO activities funded by own means and interventions funded by SDC. Interestingly, the correlation between official aid allocations and NGO’s self-funded allocations is higher (both poverty-focused and directed towards less well-governed countries and commercial interests, with public aid more motivated by political interest) than that of official bilateral aid and official funding through NGOs. The allocations of NGO means received through public funding are not as poverty oriented and directed towards countries with good governance and politically “unfriendly” states. Switzerland officially aims to further governance with its development aid, so public funding and NGO’s own funding allocations could be considered to be consistent with Swiss official policy. Because they allocate “official” aid to countries that do not fit into the Swiss development policy mission statement, it seems that NGOs constitute an alternative channel for Swiss aid. Three main conclusions arise: Swiss NGOs do not necessarily use their funding to work in poorer areas or with worse governance than SDC, and SDC uses NGO-funding to work in countries where bilateral funding would be

2. Tenders are launched for the carrying out of specific *mandates*. These function like subcontracts and are open to Swiss and international actors who possess certain thematic or technical expertise. These mandates are of course strongly oriented towards the Swiss bilateral priorities and imply full funding. However, this kind of funding sometimes used to actually emerge from NGO suggestions (Randel & German 1999b), it is however not clear if this is still the case today. The previous monopoly position of NGOs in competing for these contracts has in any case eroded, as private firms and consultants have entered the market.
3. Local delegations also give *direct support to Southern NGOs*.

more sensitive to the public eye (Nunnenkamp et al. 2008). Extensive complementarity is thus not only the principle, it also seems to be the practice.

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