NGOs and the Large Aid Donors:
Changing the Terms of Engagement®

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Summary.—This paper examines the emerging relationship between NGOs and the large aid donors in light of the increasing interest in and funding of NGOs by these agencies. Northern NGOs have responded by greatly expanding their operations and becoming very dependent on external financing, by avoiding the large donors altogether, or by challenging these same agencies to change or adapt their programs. The latter option is seen as the most desirable one, but one which will only take place through political transformation in the North. Ten steps are suggested for involving Southern NGOs and, through them, the participation of local populations, in mainstream donor operations in a responsible manner. These include the selective sharing of information in order to match specific donors with suitable indigenous partners in terms of goals, capabilities and risks; supporting collaboration among local NGOs to complement each others' expertise; and promoting local NGO design and implementation of projects and project components. More generally, this process is seen to open doors for NGOs to involve themselves in the broader policy debate and to insert grassroots perspectives and knowledge in those debates. Before they become another part development aid, NGOs must take advantage of the current openness of donors and make the case for this alternative approach.

1. INTRODUCTION

As the Third World plummets further into debt and its poor become increasingly marginalized within their respective economic systems, the players in the postwar process of development assistance are at a crossroads. The development paradigm designed by the major donor and lending agencies has failed badly, but with too much at stake—financially, commercially, economically, politically, and strategically—they continue to prescribe unwaveringly the same strategy of export-led modernization and open economies. The peoples of the Third World have expressed their growing anger over this northern agenda and the exploitation of their countries' economic vulnerability at a time when a search for truly local solutions is underway in various quarters.

Within the context of deteriorating economic conditions and a search of deteriorating economic conditions and a search for alternatives, the poor of these countries continue to create and operate their own mechanisms for change and, today more than ever, for survival. Over the past few decades, there have arisen across the Third World literally tens of thousands of grassroots, associative and other non-governmental organizations (NGOs) serving the interests of poor populations. Northern partner organizations have lent support to as many as 20,000 of these groups. They provide an alternative road for the bilateral donors, the World Bank and the other multilateral development banks (MDBs) and international donors to follow if they are interested in changing the direction of their programming.

2. DONORS TURN TO NGOs

Not necessarily well informed of the presence and nature of these Third World groups, some of these agencies have provided NGOs in their own countries, and in the West generally, with public funds to carry out part of the "humanitarian" components of their foreign aid programs. Governments and official multilateral sources have increased their support to the voluntary agencies tenfold since the mid-1970s. By 1984,

*This paper was drawn in part from the forthcoming report: Hellinger, Steve, Doug Hellinger and Fred O'Regan, Aid for Just Development: Proposals for a New Development Assistance Structure (Washington, DC: 1987). The study will be available from The Development GAP in Washington.
international agencies have all held discussions in the past few years with NGOs about possible cooperation. The Bank has dominated the dialogue it has held with primarily northern groups to date and has consistently set the agenda. The only concrete action taken during the six years of talks has been a unilateral initiative by the Bank to set up a funding consortium in Togo, a move that caused considerable problems among Togolese NGOs and between them and the government.

3. THE NGO RESPONSE

Northern NGOs have responded in three basic ways to the increased interest and funding on the part of the larger donor agencies. A number of them have greatly expanded their respective field operations, becoming increasingly dependent on official sources of financing in the process. In doing so, these NGOs have put at risk their ability to speak out on important issues, their freedom to identify projects based on local input, and their general independence of action. They find themselves responding increasingly to donor demands and guidelines rather than to the relationships and networks they had developed in the field.

This is less a problem in Canada and Europe than in the United States, where NGOs are more operational, receive their funds from government on a project rather than a program or block basis, have weaker ties to their home constituencies and Third World popular movements, and are less political and inept in their analysis of development problems. In return for its funding, USAID has expected US NGO support for its budget in Congress and total responsiveness when it requires a particular type of project to be carried out by NGOs in countries & designates. Many NGOs actively supported, and pursued aid money made available under the 1982 Caribbean Basin Plan, even though local populations and NGOs were not consulted in its design and despite the fact that it was intended to serve mainly US interests. Some have been equally active in projects of questionable value in Central America.

Yet, many NGOs in Europe and Canada are themselves vulnerable today to a number of the same forces that have been at work in the United States for some time. According to the International Council of Voluntary Agencies (ICVA), “NGOs have recently reported a distinct trend towards a closer identification of development aid with their government’s foreign policy and economic interests.” This, ICVA concludes, “has
resulted in more stringent conditions for, and government control of, co-financing programmes.\textsuperscript{4} Financing from some European governments and the European Economic Community (EEC) could be fostering more cautious behavior on the part of some groups. Jan Pronk, Deputy Secretary-General of UNCTAD and former head of the Dutch bilateral aid program, warned that

\begin{quote}
The corruption of NGOs will be the political game in the years ahead — and it is already being played today … NGOs have created a huge bureaucracy, employment is at stake, and contacts in developing countries are at stake. It will become impossible for them to criticize governments for decreasing the quality of the overall aid programmes. NGOs will lose in the years ahead … they will be corrupted in the process, because they will receive enough money for their own projects but the rest of the aid programme will suffer.\textsuperscript{5}
\end{quote}

In order to increase the scope and impact of their operations, some NGOs have sought greater involvement in donor-supported, government-run projects in the South. Such attempts at “complementarity” are dangerous to the independence and long-term survival of NGO operations. More importantly, coordination within programs in which NGOs can make only marginal modifications in usually technical areas will usually result in the further entrenchment of the status quo.

A good example of the limitations and dangers of such coordination can be found in a case of a rural road-building scheme in Sierra Leone. A large US NGO received a grant from USAID to participate in the program along with the host government, the World Bank and two other agencies. While the NGO made a number of positive contributions to the program, the existence of the new roads was among several factors that encouraged a major shift from rice production for domestic consumption to the production of export crops, causing severe rice shortages locally.\textsuperscript{6} Responsibility for the participation of NGOs, writes Larry Minner, a prominent church agency representative in Washington, “would have called into question the AID and Bank development strategy involved.”\textsuperscript{7}

A second group of NGOs has chosen to avoid the major donors and large-scale government programs altogether. Some simply do not have the capacity to work on such a scale. Many others are quite critical of these institutions and programs, but either believe that there is not much that they can do to influence their operations or feel that the risk to themselves and their counterparts would be too great. They are satisfied to

work at the community level, helping to build the awareness, cohesiveness, organizations and dynamism for self-sustaining change and, ultimately, in the long term, the leverage for local counterparts to influence local and national government actions. In many ways, this strategy makes good sense.

In some cases, however, the development situation on the ground is exacerbated by government policies and donor-supported programs that can overwhelm and often destroy the positive effects of local initiatives. Large-scale projects often displace local populations and damage their environments. Large irrigation schemes tend to help more established farmers and, in sharply raising land values, expose the poor to the loss of their lands to powerful interests close to government. Some government projects are designed primarily to elicit short-term public support and, in offering various benefits to participants, can directly compete with and undermine carefully developed NGO endeavors. Policies that promote capital-intensive, export-oriented agriculture can help displace subsistence farmers where there is competition for scarce land.

Clearly, the current situation in which two contradictory development approaches, supported by different sets of actors in the North, are working at cross purposes is, at best, a waste of resources and, at worst, damaging to the interests of the poor. The misguided programs and policies of governments and large donor institutions can no longer be left unaddressed by NGOs. The latter should no more confine their attention to grassroots projects than they should quietly participate in projects that are designed by these outside entities without the participation of local populations. Nor can they in good conscience sit by while bilateral lenders and MDBs infuse their values, interests and perspectives — uninformed by grassroots knowledge — into program and policy planning with government.

Some activist NGOs, including OXFAM (United Kingdom), NOVIB (Holland) and environmental groups in the United States, have increasingly challenged the large donors, with some success. A coalition of US environmental organizations, for example, was responsible for recent Congressional legislation that directs the Reagan Administration to press the World Bank and the other MDBs to make internal reforms to ensure that the projects they support no longer are harmful to the natural environments and indigenous populations in the area in which they are implemented. US pressure, which had previously been applied through Congressional
correspondence and meetings with the Bank's leadership, will now be applied through greater oversight. Success in helping to reverse the disastrous Polonoroeste project in the Amazon area of Brazil — based on NGO information coming from the project area — has encouraged similar NGO action elsewhere.

4. TRAVELLING DIFFERENT ROADS

This third approach, that of challenging the major donors to change their ways, may constitute the greatest challenge for NGOs in the coming years. Most of the bilateral and multilateral lenders are significantly out of touch with local realities in the Third World. Various economic, political, and strategic interests severely impede the pursuit of developmental objectives. Relationships are formed with, and billions of dollars are poured through, third World institutions that have no links to the poor and no capacity to incorporate or respond to them. Donors work through these primarily government structures because they are easily identified and accessible and often share short-term western interests; where they do not, project and program financing are designed to leverage the required changes.

Donor lending programs remain highly centralized. World Bank project officers on their short mission trips have at best only marginal contact with local populations and their organizations. USAID has staff stationed overseas, but they are overburdened with paperwork. Some of the European donors are somewhat better about getting into the field. At the level of the project officer, the pressure to move money, the resulting demands of the project cycle and the lack of incentives to take risks lead most donor staff to return to the same conventional institutions that they have utilized in the past.

Meanwhile, many northern NGOs have helped to build a more relevant institutional capacity in the South based on the realities of local populations and circumstances with which they are in constant touch. These northern groups have become a potential source of invaluable knowledge about local developmental alternatives for the larger donors. Similarly, their southern NGO counterparts, particularly those which have grown and matured in response to their members' or constituencies' demands, have become a credible alternative to the conventional institutions that currently carry out projects supported by these donors. Many large popular organizations, federations of these groups, and intermediary and service institutions, particularly those in Latin America and Asia and increasingly in Africa, require and are capable of handling larger sums of harder credits to meet local demands. Not only are their programs more participatory and better tailored to specific locales, but often the scope of their operations is no less than that of public and private-sector entities that often have a difficult time delivering credits and other assistance to intended beneficiaries at all.

The support northern NGOs have contributed to date to the maturation process of these local organizations will have greater significance if the former could steer donor support away from ineffective and counterproductive agencies and toward these more participatory and relevant institutions. Most of the major aid institutions have until now neither ignored this need nor capacity or have marginalized their support for local NGOs within their overall lending programs. Rarely have the latter been given access to financing from the mainstream operations of major donors despite the fact that they are often the most effective development institutions in their countries and frequently possess a significant implementing capacity. The Inter-American Development Bank, for example, operates a Small Projects Unit for the financing of NGO projects, but has not graduated NGOs with proven capacity and effectiveness into its mainstream lending program.

What will it take for the major donors to change? Realistically speaking, a significant transformation will only take place through the political process in the West. Bilateral aid institutions require structural autonomy to protect themselves from the pressures of strong economic and foreign-policy interests in their respective countries. Further legislative cuts in the budgets of the International Development Association (IDA), the soft-loan arm of the World Bank that lends to the poorest countries but not necessarily to poor people, and the other MDBs would send a message that change is required within these institutions, as well. In the meantime, constant political pressure needs to be placed on them in order to create the space for interested project offices to take the risks associated with pluralizing lending channels. These offices also need assistance in learning the ropes, making the contacts and in other ways organizing an effective program with NGO involvement.

5. INVOLVING NGOs ON THEIR OWN TERMS

Experimentation in this area was carried out
Ultimately, all donors must account to government, whether it be to receive a government guarantee of a loan, to fulfill the terms of bilateral agreements or simply to maintain permission to operate in country. It makes no sense, therefore, to work clandestinely and run the risk of raising government suspicions and putting those local NGOs contacted in jeopardy. In most situations, an open relationship with government will be productive. Thus, the project officer should let the government know that she will be considering the inclusion of the best institutions in the project regardless of the sector in which they are found. This is not so say, however, that an officer must consult with government before she makes each NGO contact. The officer must be able to operate freely and to engender a relationship of trust with NGOs through open and frank discussions. If government constraints those discussions, any subsequent project with NGO involvement will likely be fraught with difficulties. It is incumbent upon the donor in such circumstances to lay out clearly its position of identifying and selecting the most capable institutions and to back this up with decisive action, if necessary.

3. Consult with indigenous NGOs in country to determine interest and capabilities regarding project involvement and provide frank assessment of risks and advantages of involvement. The project officer must determine the capacity of the NGO firsthand following consultations with third parties. Either prior experience in this type of work or appropriate training may be necessary for donor staff, because the structures, objectives and operating styles of Third World NGOs (most of which have never dealt with a major donor organization) are usually different from those of government agencies. If the organization can pay a constructive project role, the project officer must explain all aspects of the project cycle and the demands that will be made on the organization at each phase. The NGO must be aware of the administrative requirements, relationships with government, financial arrangements and the many other features that a project encompasses so as to make an informed decision regarding its involvement and to prepare itself to handle these matters if it decides to go forth. The presence on project preparation missions of a representative of a Third World NGO with experience in this area would likely be helpful here. Nonetheless, it is not improbable that some organizations will conclude that the demands on staff time and the consequent effect on the program make participation in a sizeable loan program inadvisable.

4. Select institutions on the basis of their...
involvement with, and credibility to, poor communities, as well as their capacity for executing all or part of the project or project component. NGOs are important forces in development only to the extent that they represent the poor and their interests and appropriately identify and address their needs. Some Third World organizations lack this involvement and it is critical that donor representatives recognize which ones they are. Such organizations, like many public agencies, lack the community-level credibility that is an indispensable element in project success.

The size of an NGO need not necessarily be a factor in institutional selection. As donor-supported projects are often composed of a number of components, an NGO’s role can be limited to one of them. Furthermore, within that project component, a local NGO can join forces with other organizations and confine its activities to specific neighborhoods or specific functions. The choice of the appropriate institution(s) for the design and implementation of a project is clearly the most important decision that a project officer will make. It is therefore well worth the extra time and effort that it may take at the identification stage in order to ensure that serious, time-consuming problems can be avoided later in the project cycle.

5. Support collaboration among local NGOs for the purpose of complementing each other’s areas of expertise, skills and geographical focus. As local NGOs are consulted regarding the development and execution of a project, the bases for collaboration among them will likely become apparent. In some cases, an NGO will possess the capacity to handle an entire project component on its own. Frequently, however, no one NGO will have the breadth of community involvement, the multisectoral experience or all the project skills required to achieve project objectives. (Of course, this is also true of many public agencies.) In this event, an NGO will probably either suggest the involvement of other organizations, including national, regional or local government agencies, whose capabilities complement its own; accept a donor suggestion that it and other NGOs collate in order to merge their various capabilities; or agree to project involvement with sole responsibility for design and implementation in particular communities.

Whatever configuration such collaboration takes, it is of utmost importance that whenever a consortium of organizations is required it should be formed by the NGOs themselves. The donor can serve successfully as a catalyst, but a donor attempt to impose an arrangement among NGOs will create divisiveness among those organizations and resentment toward the donor.

6. Provide guidance and support to NGOs in project proposal preparation and ensure priority consideration. Most Third World NGOs have staffs that have some experience in project planning and in the preparation of proposals to donors for funding. Few, however, have ever written proposals for major aid institutions, and they thus often need guidance. This can and should be provided by the donor’s project officer, who generally has taken an active hand in the drafting of many proposals from government agencies.

The provision of such assistance to NGOs is also important because of the relative scarcity of their resources and the time-consuming nature of major proposal preparation. A project officer can make an additional contribution by helping the NGOs to identify a source of funding for its project preparation work. Of greatest importance, however, is that the donor simply not mislead the NGO, causing it to expend precious resources on project and proposal development when the chances of donor support are not, in fact, high.

7. Place project design and project policy determination in the hands of the implementing NGOs, rather than leave them as implementors of a government-designed and -controlled project. This is a major consideration and challenge for the donor. NGO interest is to obtain resources from the major aid institutions to help expand programs that they have designed in conjunction with local populations or to enable them to design and initiate projects based on previous experience. The donors have their own needs and institutional imperatives, as well as their relationships with government, and relinquishing control of the design of a project is difficult. It is essential that it be done, however, as project success depends on it.

In the first place, chances are that the better NGOs in any country would not agree to an arrangement that has them implementing donor and government policy. They pride themselves on their independence and are not prone to give it up. Second, if government maintains control of a project, it is likely to come into conflict at some point with the implementing NGO and the interests of the constituency which it represents. Finally, and most importantly, the top-down approach implicit in a government-controlled, NGO-implemented project will probably result, at best, in the satisfactory execution of a project that is of questionable relevance to the needs of the poor.

8. Inform government of the selection of, and support for, NGOs as project designers and
NGOs AND THE LARGE AID DONORS

...and exercise this support throughout the life of the project. Major aid institutions have considerable leverage with most governments which they utilize in various ways. One constructive use of this leverage is in the selection of appropriate implementing organizations. Most governments, even those hostile to independent organizations, will accept donor determinations in this area, particularly if public agencies are not excluded from all the project's components and if considerable amounts of foreign exchange are involved. If, however, government refuses to permit NGO participation and is unable to recommend an equally capable public institution to take its place, the donor should be prepared to withhold project funding until a clear policy change occurs.

9. Allow local NGOs to work out their relationships with government regarding program management, cooperation with public agencies, financial arrangements and the terms of programmatic and financial oversight. Virtually all of the Third World NGOs with which a major donor will come into contact have dealt with government in some manner and have formed informal relationships with public officials at various bureaucratic levels. Constructive arrangements that will facilitate project implementation can be made more easily in this manner than through formal negotiations at the highest ministerial levels. It is incumbent upon the donor, however, to ultimately translate these arrangements into formal agreements and to send support to NGOs whenever intractable difficulties arise in their mid-level discussions.

10. Maintain project flexibility so as to enable implementing NGOs to determine appropriate project scale and sectoral and geographical parameters in response to changing local needs. During the life of a project, local conditions change, the potential and need in replication in other communities often develop, and the capacity of the implementing institution evolves. Third World NGOs are particularly accustomed to making project adaptations in midstream in response to community needs. If the donor can maintain a degree of flexibility in its sectoral and geographical delineations and allow for the expansion of project size if and when appropriate, it will have helped to foster constructive changes, in terms of institutional development, community initiative and project replication, beyond the original, limited objectives of the project.

6. ENTERING THE POLICY DEBATE

The process of NGO programmatic involvement with the major aid institutions, described above, constitutes, in essence, the turning of the current aid paradigm on its head, as project development would be founded on local needs, views and knowledge. Local NGOs, as conduits to their countries' poor populations, must be consulted and involved throughout the project cycle, from program and project planning to project monitoring and evaluation. This holds for all donor projects, not just those with a specific poverty focus.

As the major aid institutions move increasingly toward structural adjustment, or policy-based lending, it becomes imperative that local populations inject their voice into the process of national policy formulation, as well. A new federation of peasant organizations, for example, has recently been attempting to do just that in Mexico. NGOs of the North and South should advocate the inclusion of southern groups in donor policy and program planning so that the large aid institutions will more likely take positions reflective of local realities into their “dialogues” with governments. Involvement of NGOs in these processes would be a manifestation, at long last, of the rhetoric of the donors about participation. It would also constitute a more constructive role for these groups in the structural adjustment arena than that of merely “cleaning up” after the adjustments have been made, as the World Bank is presently advocating, in order to assist adversely affected populations.

Mechanisms for the involvement of indigenous NGOs in a policy dialogue of their own with the major donors could be established in each country with the help of northern counterparts. The larger aid institutions should make an effort in this regard, a number of US NGOs have been successful in introducing into proposed Congressional legislation related to US assistance to Africa, a requirement that USAID consult regularly with NGOs in each country with these groups to better inform its own program and policy planning.

7. CONCLUSION

While NGOs are still in fashion within the aid establishment, they need to move emphatically into those arenas in which the principal programs and policies that determine the direction of Third World development are being shaped. The work of NGOs in building a democratic basis for change in these countries is critical, but more powerful forces are at work that are destroying even the modest pockets of progress that have
emerged over the past generation. It is possible
that out of the ashes of a failed system will arise
the creative alternatives of NGOs and the poor,
but, in the meantime, this alternative approach
can no longer remain marginal to the develop-
ment and aid processes.
Within a few years it is probable that the
decade of NGOs will be declared over, and
perhaps a failure, and a new development fad
will take its place. The responsibility lies with
the NGO community itself to take advantage of the
present opportunity by engaging the major
donors constructively and, if necessary, in battle
to help create the necessary space for poor
populations and their organizations to effect
meaningful change within their own societies.

NOTES
2. Ibid., p. 2.
3. See The Development GAP report on the CBI;
Hellinger (1983; 1984); Martin (1985).
4. The Resource Center in Albuquerque, New
Mexico, is currently investigating the role of US
non-governamental organizations in Central America.
6. Excerpt from a speech delivered at the UN
NGO Workshop on Official Development Assistance in
8. Ibid., p. 31.
9. The Bank provided two loans in El Salvador in
the mid-1970s to a non-governmental housing founda-
tion, which successfully expanded its effective mutual
help, sites-and-service program. Subsequently, The
Development GAP worked in a half-dozen countries
with the Bank, demonstrating, through similar project
development, how to involve alternative, participatory
institutions as independent implementing agencies in
the programs that the latter supports. Bank involve-
ment in such activities effectively ceased in 1980.
10. Particularly church agencies that constitute
are affiliated with the Ecumenical Working Group on
Africa.

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