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Non-Governmental Organization Vulnerabilities: Donors and Resource Dependence

Carolyn A. Islam
Claremont McKenna College

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Claremont McKenna College

**Non-Governmental Organization Vulnerabilities:
Donors and Resource Dependence**

submitted to
Roderic Camp

by
Carolyn Islam

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ABSTRACT

The main objective of my thesis paper is to determine which organizations from a wide range of NGOs, including their donor relationships, are susceptible to funding manipulation and why. Through review of a focused selection of literature and case studies, I seek to identify a pattern of characteristics or variables among the weaker organizations which increases vulnerability to such practices. I will review the organizations' size, market competition, funding strategies, and supply-led contracts. I intend to conclude with the various ways in which NGO's can protect against funding manipulation.

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INTRODUCTION

In the twenty-first century, non-governmental organizations (NGOs) are a significant part of the international system as the world becomes increasingly globalized and the problems of lesser-developed nations become more apparent through the application of foreign policy. By the World Bank definition, NGOs are defined as “private organizations that pursue activities to relieve the suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development.”¹ Especially with regards to non-profits, the image that is often perceived by the majority of people is that these organizations, because of their charitable nature, are autonomous, credible, “do-good” institutions free from politics or corruption. Unfortunately, a closer inspection of the finances of these organizations reveals that these institutions are more significantly linked to government and private donor agendas than their name would inherently lead one to believe.

The majority of NGO financing can be characterized by two different relationships: one between the NGO and the private investor, and the second between the NGO and a government (which can be either a host government or a foreign one). NGO and donor relations can further be analyzed to include demand-led and supply-led contracts. In a demand-led situation, NGOs are in control of the projects and their implementation, while donors have a small voice when determining which of the presented options to fund. This scenario is ideal for NGOs, as they retain the most in control of their institution and the progress that is made. However, should the situation be supply-led, which is the case more often than not, then donors are in charge of creating and implementing the programs of the organization. This supply-led scenario is

¹ Carmen Malena, “Working with NGOs : A Practical Guide to Operational Collaboration between the World Bank and Nongovernmental Organizations,” The World Bank, March 31, 1995.

dangerous for NGOs, because it is when they are most reliant on a single donor's funds, and have little say in the activities of their own organization. By giving donors excessive power, NGOs sacrifice autonomy, credibility, and in some cases their core mission and values. The resulting situation is one in which donors can easily manipulate the organization to their own desires and agendas. These organizations have limited options when it comes to reacting to a donors change in objectives, of the three: exit, voice, and adjustment, they more often adjust to the donor demands, ultimately resulting in mission creep.

The second major relationship that increases NGOs' vulnerability to funding manipulation is with the government, either the host or a foreign state. NGOs and governments can contradict one another, and an unhealthy relationship of mistrust can result in serious obstacles in the organization's effectiveness and ability to actually assist citizens in its mission. The most efficient way for governments to control NGOs is by controlling their funding resources. Countries such as Russia and Egypt have implemented laws which restrict NGOs' ability to receive international funding for fear of outside government manipulation and infiltration into the host government. At the risk of being charged with treason, most organizations in these nations are now unable to deliver services and aid to the beneficiaries of their programs and are forced to rely on host government funds to finance operations. Over-reliance on government funding is another characteristic which causes NGOs to become more vulnerable to manipulation. Organizations which are closely involved with government projects, missions, and objectives are more likely to acquiesce to behaviors that would otherwise be intolerable. Additionally, the number of advocacy NGOs drops considerably when they are dependent on government funding, which affects the overall dynamic of the sector within a country. Overall, while government funding is more stable than private donor funds, the conflict

of interests as NGOs try to balance the accountability to their investors and their beneficiaries is a slippery slope which all too often leads to funds manipulation.

NGOs have the ability to counteract these hazards to their autonomy and credibility through adjustments in three main aspects of their organization: finance, individual, and international. Firstly, NGOs can better counteract funding manipulation by diversifying their resources. If they can avoid dependence on a single donor or government, then they are more likely to have the option to walk away rather than adjust to demands from either entity. This also lessens the financial risk and burden as donors are constantly fluctuating their core subject and diversification allows an organization to have more fluidity in their sources. NGOs can also take individual measures to avoid funding manipulation through creating relationships with donors in order to have a space to voice their opinion, being committed to their mission above finances, and investing in their own organization. These proactive measures increase the strength and commitment of the institution to their original purpose and decrease the chances of goal displacement. Finally, on the international level, donors can have more accountability for the negative consequences of their conditional lending and fund long term projects that benefit the organization and host country as a whole. Donors can increase demand-led scenarios and decrease the pressure on NGOs to prioritize them above the beneficiaries.

This thesis intends to explore which NGOs are more susceptible to funding manipulation and whether or not certain characteristics cause them to be so. I hypothesize that smaller to medium-size organizations are vulnerable because they have smaller boards and therefore have greater disadvantages when it comes to board resources and performance; these disadvantages include less access to financial resources which in turn leads to supply-led contracts. Market competition is another variable due to its influence on the degree to which an NGO has to

outperform other organizations and what funding options are therefore available to the NGO. I also hypothesize that high market competition among NGOs combined with low market competition among donors creates a toxic combination of supply-led contracts. Additionally, I hypothesize that an NGO with targeted funding is weaker because it creates donor dependence and limits the NGO's available reactions to donor demands, which again implies a supply-led contract. All three hypotheses have the same result of supply led contracts, and these supply-led contracts perpetuate funding manipulation by creating a vulnerability to intuitional isomorphism by the donor's excessive power and control over the organization.

ORGANIZATION SIZE

Larger non-governmental organizations have distinct advantages over smaller NGOs because their size allots them greater resources and positive characteristics that improve their performance and strength as a whole. Within the research, it is noticeable that larger NGOs have much greater advantages than smaller ones. This can be attributed to the fact that larger organizations tend to have larger boards. This importance of boards can be explained by two main theories: agency and resource dependency. Additionally, larger boards have frequently been shown to have greater performance. Unfortunately, the research and data on organization size of non-governmental organizations is rather inconclusive, with the main authors in the field often contradicting one another. This stems from a lack of a universal standard when it comes to defining what constitutes a “small” NGO. However, enough evidence can be derived to support the fact that larger organizations have distinct advantages over smaller ones. Ultimately, the research validates that organization size is a strong variable when determining NGO performance, as larger organization size was linked to both better performing boards and greater financial performance. In other words, larger NGOs are often more financially stable, due to high board performance and resources, and therefore are less vulnerable to resource dependence which would lead them to be trapped in a supply-led contract. When put in a converse statement, smaller NGOs are less financially stable, often due to lower board performance and resources, and therefore are more vulnerable to resource dependence which would tend to lead them to be trapped in a supply-led contract.

The first relationship that needs to be addressed when looking at organization size vulnerabilities is the one between an organization’s size and its innovation. Innovation can be categorized into two main sections: administrative and technological. “These innovations are

believed to be of primary importance for the effectiveness of nonprofit organizations because they are related to different systems of organization: the social and the technical.”²

Administrative innovation can be defined as “changes in organizational administrative processes and organizational structure,” such as “communication and exchanges among employees and was more directly related to organizational management.”³ This is important to the effectiveness and function of an NGO because their administrative innovation is an indicator of how well they are able to maintain and adapt organizational management strategies. In order to have a well-functioning business, management is a crucial aspect as it lays the foundation for the dissemination and implementation of information through good communication strategies.

Technological innovation can be defined as “introducing a change in products or services. It occurred as a result of the use of a new tool, technique, or system.”⁴ This is extremely important, especially in the 21st century, because it speaks to the adaptability of a NGO. Conditions, materials, policies, and even technology are constantly changing within different regions and areas. An innovative non-governmental organization is one that is able to keep up with the continuously shifting environment and can manage to continue to thrive. Both administrative and technological innovativeness are characteristics that define a superior NGO, therefore it is important to recognize the relationship between organization size and innovation.

The data that would define the relationship between organization size and innovation is actually inconclusive. As previously mentioned, there is not a constant variable or standard by which different authors define “size” and therefore there is a wide range of answers as to whether organization size actually definitively determines the NGO’s innovation abilities. However, what

² Kristina Jaskyte, "Does Size Really Matter? Organizational Size and Innovations in Nonprofit Organizations," *Nonprofit Management and Leadership* 24 (2013): 231.

³ Ibid.

⁴ Ibid.

is clear is that larger organizations have a greater advantage over smaller NGOs in terms of the benefits they exemplify. A research study was conducted by Jaskyte to provide greater detail on the exact variables that link nonprofit size to innovation. This was done over a three year period analyzing 79 organizations from four states in the U.S. (Georgia, South Carolina, North Carolina, and Florida).⁵ The results were then implemented into a compiled analysis combining other macro studies on innovation and size. One major finding was that “the researchers who proposed that size facilitates innovation adoption have noted that large organizations have greater control over the environment and provide wider opportunities for employee development, growth, and promotion.”⁶ This is significant because having control over the environment makes an NGO less vulnerable to outside variables, such as pressures from donors.

This is further supported by the second finding that larger organizations have more resources, and therefore are able to manage losses due to unsuccessful changes or programs.⁷ More financial stability means that large organizations have the advantage to be more creative NGOs since there is room for a trial and error process. Not only is there a financial advantage for these NGOs, but there is also a human capital one. “Large organizations have more diverse staff who offer the “know-how” and skills needed for creation and adoption of innovations.”⁸ The brain power and skills which are present in larger organizations further the ability of a larger NGOs to outperform the smaller ones, as it implies a superior “think tank” for innovative solutions and troubleshooting when things go wrong. These advantages all accumulate to a point where “size can facilitate innovation adoption, because those organizations with greater volumes

⁵ Jaskyte, “Does Size Really Matter?” 235.

⁶ Jaskyte, “Does Size Really Matter?” 232.

⁷ Ibid.

⁸ Ibid.

of activities are better able to afford innovation.”⁹ That is not to say that smaller organizations lack all innovation, however, the benefits that are listed above are less likely to be present within smaller organizations.

Actually, in the same research study, the results proposed that smaller organizations can also be innovative both administratively and technologically. First, “small organizations are believed to be more innovative because they have more flexibility and ability to change and improve and can accept and implement change more easily.”¹⁰ Rather than trying to disseminate change through a large NGO, which would take much time and effort, it is a rather straightforward statement that smaller organizations would be more administratively innovative because they have less to change due to their size. Not only are smaller nonprofits shown in the research to be successful in administrative innovation, but they are also shown to have great potential in technological innovation. “Smaller and less complex organizations have the potential to introduce more technological innovations because they are more nimble and because they have greater flexibility to respond to changed circumstances.”¹¹ Once again, having a smaller size seemingly gives a greater advantage over larger NGOs, as small NGOs are predicted to be more adaptable to changes, which is a constant part of the nongovernmental sector in the 21st century. What is important to note is that the benefits of being a larger nonprofit far outweighed the potential for innovation in small ones. Large organizations had control over their environment, room for employee growth, more resources and financial flexibility, as well as more diverse staff with greater knowledge and skill. Small organizations have the ability to “implement change more easily” and be flexible. This leads to the conclusion that what is

⁹ Jaskyte, “Does Size Really Matter?” 232.

¹⁰ Ibid.

¹¹ Ibid.

important is not whether or not organization size has a direct influence on an organization's innovation, but rather that larger organizations have been shown to have greater advantages, which lead them to be stronger organizations. Without the protection of these advantages, smaller NGOs are more vulnerable to institutional isomorphism.

One of the explanations for larger organizations having more access to the benefits listed above, lies in one of the founding systematic installations of the nongovernmental sector, the board of directors. Nongovernmental board members are crucial links to the organization's performance and innovation, as "in nonprofit organizations the board of directors and the executive director form the leadership core and are critical components of governance."¹² Interestingly, all the benefits of larger organizations and innovation directly parallel the benefits of an organization having a large board of directors. While the two cannot be exclusively linked together, it is important to note the distinct similarities in the positive effects and access to resources. Studies have shown that "the larger organizations tend to have larger boards."¹³ Larger boards can then be linked to being more efficient governing bodies which then leads back to innovative organizations. Reflecting back on the Jaskyte study, a larger board size was a "predictor of technological innovations and total number of innovations."¹⁴ One of the reasons this is true is because "organizations with larger boards tended to introduce more new services and programs, produce more new products, introduce more new activities and events for clients, employees, and volunteers, and change significantly existing services and programs."¹⁵ Secondly, a larger board means that there are more board members, which implies "richer human capital, broader networks, more diverse know-how and skill bases, and stronger community

¹² Jaskyte, "Does Size Really Matter?" 242.

¹³ Chris Cornforth and Claire Simpson, "Change and Continuity in the Governance of Nonprofit Organizations in the United Kingdom: The Impact of Organizational Size," *Nonprofit Management & Leadership* 12 (2002): 465.

¹⁴ Jaskyte, "Does Size Really Matter?" 242.

¹⁵ Ibid.

connections.”¹⁶ Facilitating community connections is by far one of the most important roles that board members can play because it allows for greater representation within the community and can bring more financial resources and opportunities to the organization.¹⁷ Finally, these benefits which come with having a large board of directors can be accomplished with proper institutional support for the board that would allow it to perform well. Unfortunately, this critical support is seen more often in larger nonprofits, rather than smaller ones.

A study conducted by Cornforth and Simpson randomly selected 500 charities from England and Wales, ranging in annual incomes of £0-10 million in 1998.¹⁸ They were researching the relationship between organization size and different board characteristics, and found that the “area where significant differences between charities of different sizes concerned the structure of boards.” This is critical to understanding a nonprofit organization because the strength and efficiency of the organization lies with the capabilities of a board. Larger nonprofits have some advantages with their board structure because those characteristics are correlated with efficient boards. For example, “the likelihood of boards having subcommittees increased with the size of organization”¹⁹ This can be significant because it implies that their board managed to compartmentalize and assign special tasks into focused groups, which is a sign of effective management. “Also, the support available to board members in terms of written job descriptions and induction and training increases with the size of the organization...”²⁰ This is crucial to a board running effectively because the members understand their roles and expectations before walking into the job. Greater organization and easier transitions are just two of the many benefits when it comes to having the proper support for a board. If there is a clear set of standards and

¹⁶ Jaskyte, “Does Size Really Matter?” 242.

¹⁷ Ibid.

¹⁸ Cornforth and Simpson, “Change and Continuity in the Governance,” 454.

¹⁹ Cornforth and Simpson, “Change and Continuity in the Governance,” 465.

²⁰ Ibid.

expectations for board members, then they can create the baseline of performance that would encompass “innovative thinking” and “creative approaches”.²¹ In general, the efficiency of the board of directors has a fundamental role to play in non-governmental organizations which can be explored through two major theories: agency and resource dependency.

One of the most dominant theories regarding the role of the board of directors and their function within an organization is “monitoring management on behalf of shareholders and that effective monitoring can improve firm performance by reducing agency costs.”²² This theory explains how board members can protect the organization against managers who would put their self-interested goals above that of profit maximization.²³ However, in relation to nonprofit or larger scale non-governmental organizations, the agency theory could explain how boards offer protection against one of the most common consequences of vulnerabilities: mission creep. Mission creep can be defined as a nonprofit slowly shifting its original founding purpose and mission for other objectives outside of its specialty in order to accommodate external pressures. This agency theory exemplifies the importance of the board of directors to NGOs because “legally, nonprofit boards are responsible to fulfill a duty of obedience, which essentially means that the directors are responsible to ensure that the organization fulfills its public responsibility as reflected in its organizational mission.”²⁴ This includes monitoring activities to stay within the bylaws and acknowledging the “historical precedence” of an institution in its current actions, thereby making the “boards serve a monitoring and accountability function by actively linking

²¹ Jaskyte, “Does Size Really Matter?” 242.

²² Amy J. Hillman and Thomas Dalziel, “Boards of Directors and Firm Performance: Integrating Agency and Resource Dependence Perspectives,” *The Academy of Management Review* 28 (2003): 383.

²³ Hillman and Dalziel, “Boards of Directors,” 384.

²⁴ William A. Brown, “Exploring the Association between Board and Organizational Performance in Nonprofit Organizations,” *Nonprofit Management and Leadership* 15 (2005): 322.

decision making to organizational mission.”²⁵ This is a fundamentally crucial check to place on an NGO and the importance of an effective board is emphasized.

Another theory as to why boards are especially important to non-governmental organizations is the resource dependency theory. This “function refers directly to the ability of the board to bring resources to the firm, resources being “anything that could be thought of as a strength or weakness of a given firm.”²⁶ Four benefits or resources that a board can bring to an organization can be categorized as legitimacy, advice and counsel, communication networks, and privileged access to outside groups.²⁷ A board can provide legitimacy through its prestigious members, who bring more credibility to the organization. Basically, “prestigious or legitimate persons or organizations represented on the focal organization’s board provide confirmation to the rest of the world of the value and worth of the organization.”²⁸ This is significant, especially for a startup NGO, because reputation is what can drive popularity, better access to larger networks, and credibility within the public, which is where the organization is hoping to derive much of its support from. Secondly, boards can also provide advice and council through their members’ direct background experiences. This is because “boards are often composed of lawyers, financial representatives, top management of other firms, public affairs or marketing specialists, former government officials and community leaders, and other directors who bring with them important expertise, experience, and skills to facilitate advice and counsel.”²⁹ In other words, choosing the right board members can provide great human capital to the organization in regards to the members’ experiences outside that of the NGO.

²⁵ Brown, “Exploring the Association,” 322.

²⁶ Hillman and Dalziel, “Boards of Directors,” 385.

²⁷ Hillman and Dalziel, “Boards of Directors,” 386.

²⁸ Hillman and Dalziel, “Boards of Directors,” 387.

²⁹ Ibid.

The third and fourth benefits of communication networks and privileged access work strongly in the favor of NGOs. The board of directors has a “political dimension” as they represent a connection to the community, in that they are able to establish relationships with key figures and advocates for the NGO. For example, “when directors established connections to the U.S. government...such connections held the promise for information flow, more open communication, and/or potential influence with the government.”³⁰ This can even expand into the non-governmental organization’s ability to find donors, as the connections that board members have can translate into future donors as “board capital can be helpful in acquiring resources from important elements outside the firm, such as financial capital influence and influence with political bodies or other important stakeholder groups (such as customers, suppliers, and communities.)”³¹ Once again, this emphasizes the relevance and significance of an individual’s network capabilities within the realm of a larger non-governmental organization’s firm. “Empirical evidence has shown that executives’ external ties play a critical role in future strategy formulation and subsequent firm performance.”³² The better a board is able to provide the resources, the better the NGO is able to perform. This is because when the resources come from inside the organization, they are less dependent on outside sources, and this would “diminish uncertainty for the firm, [create] lower transaction costs, and ultimately aid in the survival of the firm.”³³ This also addresses the idea of having greater human capital in a board that would provide access to resources and innovation. As evidenced above, a board of directors is a critical aspect to a non-governmental organization through all the positive benefits they can bring to strengthen the institution.

³⁰ Hillman and Dalziel, “Boards of Directors,” 387.

³¹ Hillman and Dalziel, “Boards of Directors,” 388.

³² Hillman and Dalziel, “Boards of Directors,” 387.

³³ Hillman and Dalziel, “Boards of Directors,” 386.

Outstanding board performance is linked to both the agency theory and the resource dependency theory because the benefits listed would only be possible if the board was running efficiently and effectively. A research study conducted by Brown collected data from 304 nonprofit organizations in the greater Los Angeles and the Phoenix metropolitan areas.³⁴ The study utilized the research data to investigate six different aspects of board performance within the context of theories explained above. In other words, an “analysis was conducted to determine the extent to which organizational and board characteristics accounted for performance.”³⁵ There were data to support that both the agency theory and resource dependency theory were correct. Additionally, they found that the most important factor in experiencing good performance was the organization’s size. “Larger organizations tended to report better-performing boards and were more likely to exhibit better financial performance.”³⁶ While the data did not conclusively state that this was exclusively due to the board of directors, or perhaps the larger budget by virtue of a larger organization, the ultimate significant factor is that larger organizations had better-performing boards. Better performing boards would then exemplify the benefits of both the agency theory and the resource dependency theory which have already been assessed as critical characteristics to maintaining a non-governmental organization’s strength and stability.

Research does not explicitly state that smaller NGOs are worse than large NGOs, but rather statements are made, such as, “organizational size is typically associated with the level of success that organizations exhibit in responding to external challenges” and “organizations that are large have more power and leverage over their environments,” which clarify the advantages

³⁴ Brown, “Exploring the Association,” 326.

³⁵ Brown, “Exploring the Association,” 333.

³⁶ Ibid.

that larger organizations have over smaller ones.³⁷ These advantages make the smaller non-governmental organizations weaker and more vulnerable in comparison because they are benefits that protect larger organizations from the frequent external pressures that NGOs often succumb to due to external factors like resource dependence, which leads to huge donor leverage during negotiations. Larger organizations are not necessarily more innovative than smaller organizations, however, studies have shown that the characteristics of a large organization's innovation far surpasses those of smaller ones. These characteristics almost identically parallel the ones listed for organizations with a large board of directors. Large organizations have been proven to often have a large and highly effective board of directors. A high-performing board of directors brings many benefits to an organization, and this level of performance has also been linked to being typical of larger organizations. Smaller NGOs still have the capability of having an effective board, however, studies show that most of the organizational attributes which create a resilient institution are privileges enjoyed by larger organizations largely by virtue of the resources and network access granted by their size. Ultimately, smaller non-governmental organizations are put at a distinct disadvantage within the NGO sector at large because they tend to have smaller boards, which often are characterized by less resources and lower performance. This works to create a distinct vulnerability in these smaller organizations as they have fewer options with negotiations, and this lack of options often leads to entering a toxic supply-led contract.

³⁷ Rosa Sanchez Salgado, "NGO Structural Adaptation to Funding Requirements and Prospects for Democracy: The Case of the European Union," *Global Society* 24 (2010): 46.

MARKET COMPETITION

For most non-governmental organizations there is a sense that “charity” is mutually exclusive with “politics.” This false assumption is founded by “the optimism of the proponents of NGOs [which] derives from a general sense of NGOs as doing good, unencumbered and untainted by the politics of government or the greed of the market.”¹ Unfortunately, the market has a huge influence over non-governmental organizations as it presents one of their key vulnerabilities. This market competition is two-fold, both among NGOs and among donors. High market competition between NGOs implies that there are many NGOs in the same location, competing for the same resources, and often fulfilling similar social services. Low market competition between donors allows for the donors to be in greater control of the contracting situation and only increases the already high market competition between NGOs as they fight for a select group of donor funds. The high market competition among NGOs and the low market competition among donors works against most non-governmental organizations as they are often left with little choice but to enter into toxic supply-led contracts.

In the 1990s, there were multiple global emergencies, such as the Rwanda and Bosnia genocides, which really pushed NGOs to their limits in regards to their private donor capacities.² Rather than governments stepping in to assist NGOs, there was a shift in mentality in which there was a “governmental retreat from domestic social sectors” and this resulted in an increased pressure on local charities.³ It is significant to recognize that non-governmental organizations are now often expected to perform social services that would normally be within the realm of local

¹ William Fisher, “DOING GOOD? The Politics and Antipolitics of NGO Practices,” *Annual Review Anthropology*, 26 (1997): 442.

² Ian Smillie, “NGOs and development assistance: a change in mind-set?” *Third World Quarterly*, 18 (1997): 565.

³ Ibid.

governance, rather than working in tandem to fill in the cracks for which the government fails to provide. Non-governmental organizations are supposedly not to be closely linked with either international or host governments. However, data displayed later will show that the two are more closely allied through funding than a basic surface perception would lead one to believe.

Therefore, the most successful NGOs are the ones that are able to maintain their autonomy while still working with the government on projects that help their beneficiaries in a wide range of sectors. NGOs are not meant to act in lieu of the government but rather to work in concert with them, when possible, to ensure that their beneficiaries' rights, when applicable, and needs are being met. However, with the governments slowly pulling back funds under the assumption that the NGOs will fulfill those roles, the "expectations that international development NGOs can significantly enlarge current levels of financial burden-sharing are probably, therefore, unrealistic."⁴ This mentality then becomes detrimental to NGOs because it decreases the competition among donor funding options and increases the demand for finding donors, a situation that works against the NGO sector as a whole. This shift in mentality proved to be unfortunate as the combination of both factors resulted in a greater competition in fundraising for NGOs that were already maxed out on their service capabilities. When there is an increased competition for the monetary resources available to NGOs, the demand for funding becomes greater than the supply, thus the organizations themselves become vulnerable to their donors.

Market competition is rather controversial within the realm of NGO discussions because there is conflicting research and data as to whether or not high market competition between NGOs increases or decreases their efficiency. Some researchers will argue that increased competition would actually benefit the NGO sector's accountability and performance. The

⁴ Smillie, "NGOs and development assistance" 565.

justification is that “NGOs have often been criticized for their lack of accountability and limited impact. Competition for donor funding creates incentives for NGOs to work harder, cut unnecessary costs, and resist temptations to misappropriate funds.”⁵ In theory this would work, as “a highly competitive NGO sector would improve the overall influence and effectiveness of civil society within the domestic political environment. The high-performing NGOs will thrive, while the ineffectual organizations fade away.”⁶ However, it is important to note that this argument in favor of market competition benefiting NGOs is invalid because the benefit of greater financial efficiency resulting from increased market competition only applies to a small number of organizations. Financial efficiency for NGO’s is measured by the extent to which the daily finances are operated in such a way that the least amount of funds are spent raising more funds, administrative costs are well managed, and the majority of expenditures are made in providing the programs and services aligned with the mission of the NGO.⁷ However the reality is that “Most global NGOs today struggle to master the complexities of managing efficient, integrated operations in large part due to restrictions placed on them by funders.”⁸ Additionally, one of the greatest flaws with this argument overall is that non-governmental organization efficiency looks at the budget and numbers rather than larger consequences beyond spreadsheets. A well run organization is more than what market pressures would classify as “a highly competitive” NGO, as characteristics like reputation and strength of on the ground relationships cannot be measured by data spreadsheets. Therefore, when looking at data summaries and analysis of the benefits of market competition, the research does not successfully incorporate a

⁵ Thomas Parks, “The rise and fall of donor funding for advocacy NGOs: understanding the impact,” *Development in Practice* 18 (2008): 218.

⁶ Ibid.

⁷ “How Do We Rate Charities’ Financial Health?” accessed April 19, 2016. <http://www.charitynavigator.org/index.cfm?bay=content.view&cpid=35>.

⁸ Jeri Eckhart Queenan, “Global NGOs Spend More on Accounting Than Multinational,” *Harvard Business Review*, April 23, 2013. <https://hbr.org/2013/04/the-efficiency-trap-of-global>.

holistic view of an effective organization, invalidating their overall defense that high market competition is ultimately beneficial for non-governmental organizations.

NGO market efficiency is often measured by the overall budget amount that consists of administrative costs and fundraising expenses, which in other words is called the “efficiency price of NGO aid” measured by Ribar and Wilhelm.⁹ Research was conducted in 2007 using 559 US-based non-governmental organizations registered with USAID in the international development sector. Examining the data revealed that for organizations with already existing “particularly high administrative costs”, fierce competition tends to curb these expenses.¹⁰ It is significant that increased competition does not seem to make the entire market more efficient, but rather a small specific group of NGOs are bettered. Interestingly, the data also pointed out that “fiercer competition does not affect the expenses for fundraising across our sample of US NGOs.”¹¹ While this may be true for this specific case, by no means is it justifiable to say that this theory can apply on a large, international scale. Also, these US NGOs have the distinct advantage of being based in the United States, with the luxury of an already solid donor base and grant options that developing countries simply cannot access. In a perfect world, market competition would bring more positive change to the NGO sector by increasing their market efficiency and the Darwinism of businesses would ensure that only the best organizations remain standing. However, the cutthroat funding competition that exists in the global NGO world today has consequences for both the individual organization and the entire sector itself which would outweigh any marginal benefits that increased competition would bring.

⁹ Peter Nunnenkamp and Hannes Öhler, “Funding, Competition and Efficiency of NGOs: An Empirical Analysis of Non-charitable Expenditure of US NGOs Engaged in Foreign Aid,” *Kyklos* 65 (2012): 82.

¹⁰ Nunnenkamp and Öhler, “Funding, Competition and the Efficiency of NGOs,” 101.

¹¹ *Ibid.*

The negative effect of competition on NGOs is that the organizations withdraw time and energy from their services and programs in order to secure funding. This is brought about by two main market pressures: that of the limited supply of donor funding availabilities and that of the high number of NGOs existing within the same sector. An example of these effects is “NGOs under fierce pressure to attract donations may engage in “excessive” fundraising and shift an increasing amount of time and effort ‘from finding solutions and helping needy recipients to pleasing their donors and winning television coverage.”¹² This is a serious issue, as the beneficiaries for whom the NGO is held accountable are often at the core of their mission statements, but in order to stay in the market the NGO must spend its time and energies to secure the needed funding. The organization is put in an awkward situation of difficult decisions regarding prioritization, and more often than not, securing finances ranks higher than the needs of those who benefit from the program. This is not the worst of the consequences, as “in certain contracting situations, research has suggested that competition for scarce resources can cause NGOs to align their missions with donor preferences, emulate for-profit contractors, and ultimately abandon their missions in pursuit of financial security.”¹³ Co-optation of NGOs and mission creep are two major effects of high market competition vulnerabilities within non-governmental organizations.

NGOs which are in fierce competitive environments often find themselves working against large negative feedback loops that push them further into difficulties. For example, “external control of NGOs through the marketization of the external environment and the use of short-term contracts may cause NGOs to adopt business orientations to compete more effectively

¹² Nunnenkamp and Öhler, “Funding, Competition and the Efficiency of NGOs,” 83.

¹³ George Mitchell, “Strategic Responses to Resource Dependence Among Transnational NGOs Registered in the United States,” *International Society for Third-Sector Research* 25 (2014): 70.

against for-profit contractors, transforming NGOs into de facto businesses driven by excessive competition to neglect their missions in the pursuit of financial security.”¹⁴ In other words, non-governmental organizations are driven to use methods and mechanisms they would have otherwise deterred themselves from implementing in order to compete in the market. These “business orientations” are more closely aligned with the for-profit sector, and their usage is so often considered outside of the non-governmental organization’s charitable nature. “Cooley and Ron (2002) argue that in particular the “marketization” of official NGO funding tends to work against NGO efficiency, in contrast to the efficiency enhancing effects expected by the proponents of marketization.”¹⁵ These organizations learn to specialize in fundraising and marketing, which then leads to overall inefficiency as “the increasing use of competitive tenders and renewable contracts by official financiers discourages cost-saving cooperation among NGOs and leads to waste and duplication as NGOs ‘may seek to undermine competitors, conceal information, and act unilaterally.’”¹⁶ This trend is also paralleled on a larger international scale as “competition between international NGOs has also increased, weakening the potential for better coordination.”¹⁷ There is a duality of competition in this instance which negates any benefits resulting from more administrative effectiveness due to the loss of cooperation among NGOs. Also, the duplication of NGOs is already an existing problem within the sector as too many of them exist to provide the same services. By discouraging positive cooperative behaviors among NGOs as a consequence of the increased competition among them, there are greater market inefficiencies than that of high administrative costs. It is shown that when it comes to

¹⁴ Mitchell, “Strategic Responses to Resource Dependence,” 71.

¹⁵ Nunnenkamp and Öhler, “Funding, Competition and the Efficiency of NGOs,” 85.

¹⁶ Ibid.

¹⁷ Smillie, “NGOs and development assistance” 565.

market pressures and choosing between staying true to their mission and financial stability, financial security will be prioritized.

This negative feedback loop is continued as “external control may reduce an NGO’s ability to author innovative programming resulting in goal displacement. Compelled by the external environment, NGOs are incentivized to manipulate their programs to match donor preferences regardless of mission identity or beneficiary need.”¹⁸ This donor funding manipulation will be explained in greater detail in the following chapter regarding NGOs and targeting funding. However, the seriousness of “goal displacement” is one that should be addressed when looking at the consequences of toxic market competition. Non-governmental organizations function well as an intermediary between host governments and local citizens because they can provide platforms and solutions outside the typical ones allotted by the government, whether they be for public advocacy or for social services. Also, nonprofits working on the ground are often the closest way for international donors to be connected to the problems at hand and understand the nuances of a dilemma, as they are closely tied to the specificities and local characteristics of the region. Manipulating programs to match donor preferences no longer caters to those whom the non-governmental organization serves. This is a loss to both beneficiaries, as they are directly affected by the change in focus and services of the organization, and to international donors, as they can change the aspects of an organization that made them an ideal intermediary between themselves and the host government in the first place. This can most clearly be seen in the case of the European Union. Since their coalition formed, NGOs can now pool their funds from a larger, shared source. This is favorable because it “foster[s] the growth of NGOs,” however, it also “promote[s] the creation of new actors and

¹⁸ Mitchell, “Strategic Responses to Resource Dependence,” 71.

what is referred to as goal succession.”¹⁹ Goal succession is basically another form of goal displacement, which is acknowledged as a coping mechanism for NGOs when they shift towards alliance with their donors’ priorities in order to increase resources available to them.²⁰ While these European NGOs now had access to grant funding from the European Union, there was the larger consequence of them being compelled to adapt to what the EU wanted in return for access to these funds. The uniqueness and innovation of non-governmental organizations is sacrificed when they cater to market pressure and donor demands, furthering distancing themselves from their mission statements.

This negative feedback loop is then continued on a larger global scale of Northern versus Southern NGOs. As defined by Hudock, Southern NGOs are “passive recipients, conduits, or subcontractors that provide indigenous knowledge” and Northern NGOs which basically supply the funding.²¹ For example, in their civil society partnerships program, UNICEF funded and assisted local Pakistani NGOs to create safe spaces for women and children after severe flooding in 2010.²² In this case, UNICEF would be a “Northern NGO” and the local Pakistani organizations could be considered the “Southern NGOs.” “As the international aid architecture is generally characterized by flows of resources from the global North to the global South, resource dependence risks subjugating Southern NGOs to Northern control. In addition to potentially stifling NGO independence, authenticity, and innovation, resource dependence may reinforce global inequalities by co-opting transformative Southern NGOs into the Northern

¹⁹ Rosa Sanchez Salgado, “NGO Structural Adaptation to Funding Requirements and Prospects for Democracy: The Case of the European Union,” *Global Society* 24 (2010): 519.

²⁰ *Ibid.*

²¹ Nunnenkamp and Öhler, “Funding, Competition and the Efficiency of NGOs,” 71.

²² “Examples of UNICEF partnerships with civil society,” last modified October 28, 2011. http://www.chicagomanualofstyle.org/tools_citationguide.html

sphere of influence.”²³ This perhaps is the most important factor as it reflects how the market pressures can be viewed from beyond the micro scale within a specific NGO sector or geographic location towards a larger macro international one. This quotation addresses a larger issue of Eastern versus Western notions of power and what the “right” answers are towards developmental problems. Rather than ground-up grass roots solutions, market competition causes resource dependence which promotes top-down action. As mentioned above, this action can be “stifling” for NGOs, but more importantly, it can leave them without tailored solutions to the specific region. These nuances are what make nonprofits and NGOs grounded and allows them to serve as experts in deriving solutions to the particular problem. More importantly, Northern spheres of influence could actually trap developing countries in their positions rather than help them innovate their way up the global ladder, which is inherently contradictory to the original purpose of these non-governmental organizations in the first place.

For example, this can be seen on a smaller scale with an analysis of the effect of the European Union on NGOs. One of the more prominent points that they advocated for was the adoptions of “New Public Management Techniques” (NPM), which consisted of guidelines for better strategic and project management within an organization.²⁴ This NPM became widely adopted by large organizations such as Care UK and Amnesty International, not just because of EU encouragement but also because “they were in contact with other donors promoting the same criteria, such as USAID, DFID or the World Bank or they were influenced by the evolution of public marketing techniques.”²⁵ This example is crucial in showing how large NGOs can shift to become more homogenous because of public marketing and market trends. This can then spread

²³ Nunnenkamp and Öhler, “Funding, Competition and the Efficiency of NGOs,” 71.

²⁴ Salgado, “NGO Structural Adaptation to Funding Requirements” 521.

²⁵ Salgado, “NGO Structural Adaptation to Funding Requirements” 522.

to smaller local non-governmental organizations if the standards applied to large ones are expected of them as well. “Convergence within the humanitarian sector in Europe is, then, also guaranteed by the existing consensus among international donors about sound financial management and NPM techniques and by the strong links among humanitarian NGOs based in different countries.²⁶ In this instance, better project management and financial efficiency are not necessarily bad traits to expect in an organization. However, it is important to recognize that a less financially efficient NGO could get overlooked by donors, even if they had a better solution or were more connected to on the ground efforts because they did not fit into market standards.

As evidenced above, market competition can create vicious feedback loops for NGOs with more unintended consequences beyond that of a more efficient budget. Interagency cooperation is lost and the organizations become more vulnerable to donor demands with increased pressure for resources. Non-governmental organizations become more competitive amongst themselves and are less willing to collaborate with one another. Donors maintain leverage within negotiations and demands because there is low competition amongst the donors themselves. With greater donor power, NGOs increase the likelihood in which they will be subject to supply led contracts.

²⁶ Salgado, “NGO Structural Adaptation to Funding Requirements” 522.

TARGETED FINANCES

One of the largest vulnerabilities for a non-governmental organization, especially in the non-profit world, is its financial fragility. Organizations that are financially dependent on few sources are more vulnerable to manipulation by both host and international governments. By controlling the finances, these entities have greater control of the organization which often leads to political manipulation. Due to a lack of internal assessment protocols and the deliberate prioritization of financial stability within the standard non-governmental organization; these NGOs continue to maintain these weaknesses detrimental to their institutions. Funding dependency can be categorized by donor options, both governmental and international, and while their initial motivations for usurpation of organizational governance may be similar, the consequential effects on NGOs are dramatically different.

An NGO often turns to international donors because of the lack of resources available in its own region. This is especially true for developing countries, which have an abundant concentration of non-profits and international organizations working for them.¹ The scarcity of funds available in the host government leads to a redirection of fund seekers to international agencies. However this is at the expense of their autonomy and effectiveness as “this often requires clustering their activities in sectors decided by foreign donor agencies, as well as submitting to [*sic*] their philosophical and operational plans to scrutiny. In addition, most donor agencies tend to allocate resources for immediate events or tasks, thereby giving little attention to long-term activities of NGOs.”² This is significant because more often than not a foreign

¹ Thomas Parks, “The rise and fall of donor funding for advocacy NGOs: understanding the impact,” *Development in Practice* 18 (2008): 214.

² Kléber Ghimire, “Introduction: Financial Independence Among NGOs and Social Movements,” *Society for International Development* 49 (2006): 6.

donor's priorities do not fully incorporate the knowledge and cultural understanding that an on-the-ground NGO would have. Not only is there a cultural clash if there is a lack of understanding, but also long term versus short term priority is key to determining whether or not an institution is ultimately effective. The pressure placed on NGOs by donors to increase results for better looking numbers results in a serious lack of advancement towards implementation of the larger, and often the most important dream plan. One of the worst effects is mission creep, which often happens with smaller, local NGOs in a developing or crisis region. For example, Palestinian NGOs transformed from social service providers to political advocates when donors began to emphasize democracy and civil participation around the 2006 elections.³ This shift can also be reversed, such as in the case of Bangladesh, when the NGO sector reoriented itself away from political mobilization towards social service provisions when donors decided that the latter category was the latest trendy investment.⁴ The lack of availability of unrestricted resources forces NGOs to transform their mission statements in an effort to survive and to finance their organizations, even at the expense of their autonomy. Ultimately the NGO suffers the most from this practice in terms of power and credibility, as international donor agencies benefit from the successful implementation of their own agendas via funding these organizations with both "financial supremacy and an indefinite patronage."⁵

The effectiveness of an organization is also severely compromised when it is significantly dependent on an international donor. International donors dominate the events, activities, and calendars of the organization and even restrict funding to certain occasions or programs.⁶ In doing so, the NGO is limited to immediate band-aid type solutions for underlying problems

³ AbouAssi, "Hands in the Pockets of Mercurial Donors," 585.

⁴ Ibid.

⁵ Ghimire, "Introduction," 8.

⁶ AbouAssi, "Hands in the Pockets of Mercurial Donors," 8.

which would more strategically require slow and long-term responses to efficiently address the root of their problems. One of the best examples of NGO work implemented as band-aid solutions can be seen through the distribution of foreign aid. For example, organizations such as Save the Children and Oxfam have been called into question as they “are governed from a single country in Europe or North America; they talk constantly about partnership, but rarely practice it in their relationships with NGOs in other parts of the world; and their nongovernmental status sits uneasily with the large grants most of them receive from official aid agencies and their unwillingness to confront deep-rooted questions of politics and power.”⁷ These contracts with official aid agencies make the NGOs themselves agents for distributing foreign aid, mostly in lieu of creating on the ground relations to help implement permanent change.

The two most prominent scholars in this discussion are Jeffery Sachs, who advocates in favor of the foreign aid as it is, and William Easterly, who argues against the current implementation of aid. Sachs grounds his argument in the fact that developing countries are largely in their current predicaments because of multiple factors out of their control that work against them, such as climate, physical isolation, and disease, rather than from a shift in priorities from donor agencies.⁸ Therefore it is a developed country’s responsibility to help these lesser developed countries jumpstart their path to development. He then declares that by providing goods and services for free, donors would be investing in areas such as health and education, and then hypothetically the government would slowly begin to take over these roles. This aid is also in the self-interest of larger nations because it simultaneously combats global terrorism and corruption by eliminating the state of restlessness that is often the root cause of these vices.

⁷ Michael Edwards, “International Development NGOs: Agents of Foreign Aid or Vehicles for International Cooperation?” *Nonprofit and Voluntary Sector Quarterly* 28 (1999): 25.

⁸ Jeffery Sachs, *The End of Poverty : Economic Possibilities for Our Time* (New York: Penguin Books, 2006), 226.

Sachs then supports this argument with the example of the eradication of both polio and African River Blindness, courtesy of foreign aid.⁹ In both of these cases the direct investment of free goods, such as vaccinations, had a high return on the overall improvement in global health, and this can also be paralleled for most international emergency aid examples. However, when it comes to actual long term development goals, foreign aid creates more harm than it does good.

Easterly's main argument is that current foreign aid practices do not reform weak institutions or ban policy making, thus putting the developing country at a distinct disadvantage. Without this needed social progression, aid actually weakens a government by damaging its legitimacy and removing the accountability the government has to provide for its citizens. Ironically, it is also the access to the international funds that limits NGOs from being more effective and autonomous: "the fact that NGOs are able to access certain sums of money from outside sources, at times under easy terms, prevents them from taking major initiatives in order to improve their financial standing."¹⁰ These handouts are less effective as they come with already predisposed Western ideas of what is the "best" way to solve a problem which may not be applicable or tailored enough to the region itself. Simultaneously, there is no demand for innovative thinking when the conditional solutions are handed to beneficiaries. Easterly argues for an alternative approach to foreign aid that he claims will benefit the struggling nation. This methodology is otherwise known as the "searcher" approach, where the foreign investor provides alternative approaches, involves locals, and listens closely to what is actually needed rather than dictating what should be done.¹¹

⁹ Sachs, *The End of Poverty*, 262-263.

¹⁰ Ghimire, "Introduction," 8.

¹¹ William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done so Much Ill and so Little Good* (New York: Penguin Books, 2007), 5-7.

One of the biggest examples Easterly provides to justify his argument is the case of bed nets in Malawi and Zambia. Bed nets are critical when trying to combat mosquito-borne diseases such as malaria, and are an effective way a small change can positively affect the health of an entire nation. In Zambia 70% of people given bed nets for free did not use them. However with Malawi, the bed nets are sold to antenatal clinics, and an incentive program was created by nurses who get income by selling them to mothers, who then protect both themselves and the incoming generation from such diseases. The program also sells the nets to rich Malawians and the profits from these sales are then used to subsidize the nets sold in clinics.¹² This example of bed nets in Malawi demonstrates how a ground-up solution can be sustainable and have profound effects on the community through a reward system program that addressed the climate and culture of the region. Understanding that most foreign donors do not opt into this mode of thinking, and rather adopt a “white man’s burden” mentality is crucial when analyzing the dangers of foreign investors. Fix-it and band-aid solutions are only effective when the donors listen to the beneficiaries on the ground and think in longer term time frames for success. Unfortunately, this is less numerically pleasing to investors who want quick projects with high results, and so the non-governmental field is filled with Easterly’s definition of “planners” rather than “searchers”. While this seems to be a problem regarding foreign donors, it affects the NGO world dramatically when organizations are reliant on a few sources for funding, which ultimately become toxic relationships for the organizations.

Increasing dependence on foreign funds calls to question the NGO’s autonomy and credibility. This is especially true for politically oriented organizations and calling into question their prioritization of donor interests above those of the nation is an easy way to devalue their

¹² Easterly, *The White Man’s Burden*, 13-14.

efforts and potentially threaten their sustainability.¹³ The situation is rather a negative feedback loop of destruction, especially for nonprofits in developing nations. The developing country does not have the resources to fund the NGO, so the organization relies on international donors. However, if they do not diversify the types of donors, such as donations from the general public and foundation grants, then they become dependent on a few international resources, and vulnerable in their loss of autonomy. If they decide to continue with the international donor, despite their wavering priorities and control, their credibility is called to question. However rejection of the international donor is not an option because the NGOs do not have alternative resources for two reasons: their governments lack the funds, and the constant availability of international resources does not force the NGO to become financially autonomous.¹⁴

Although NGOs are often trapped in these vicious cycles, it is also true that international donors are not always completely benevolent and the public should have the ability to question their ultimate motivations. International funds can come with conditions and ulterior motives in targeted countries by which they seek to make political changes through indirect means. This can be seen in the case of Lebanon where bilateral donors “have their own interests and agenda to influence the public policy in Lebanon and encourage the government to make changes. Instead of doing it directly, by funding governmental projects or pressuring the government, donors go the indirect way and work with and through NGOs.”¹⁵ Unfortunately cases such as these are not isolated to Lebanon, which causes beneficiaries to be skeptical and for governments to take extreme action in effort to combat this international donor manipulation.

¹³ Parks, “The rise and fall of donor funding,” 214.

¹⁴ Parks, “The rise and fall of donor funding,” 218.

¹⁵ Khaldoun AbouAssi, “Get Money Get Involved? NGO’s Reactions to Donor Funding and Their Potential Involvement in the Public Policy Processes,” *International Society for Third-Sector Research* 25 (2014): 981.

The concerns over the motivations and the control over NGOs for political means through international donations is evidenced by the large number of countries, such as Mexico, Venezuela, Azerbaijan, etc., which have adopted laws that directly restrict or monitor foreign funding of NGOs.¹⁶ The fear of having outside nations interfering with national affairs creates restrictions and further obstacles for NGOs to overcome regarding international donors. One of the main forms of power that is often utilized with host governments in order to assert their control over NGOs is by forcing them to be financially reliant on their government by restricting foreign donors. This is often seen in autocratic nations such as Egypt, Russia, Sudan, Pakistan, etc., which all have law that affects international funding and some of the countries even require non-governmental organizations to obtain approval before accepting foreign funds.¹⁷ Russia recently declared that any public organization could not obtain foreign assistance, and if they did so and continued to participate in political activities, they had to be registered as “foreign agents.”¹⁸ Unfortunately, these actions are not confined to overly private nations, such as Russia, because other countries, like Nigeria, Malaysia, and Bangladesh are beginning to make plans for adopting this restrictive model as well.¹⁹ The non-profit sectors that are the most critical in these regions are also the most affected by these public policy changes as both human rights as well as democracy and advocacy focused NGOs bear the majority of the sector’s setbacks.

When an organization is dependent on a government for funding, they become vulnerable by being too closely tied to a government in fear of totally securing the financial resource. The NGO’s whole purpose is then called into question, as something classified as “non-governmental” quickly becomes defined by the governments’ actions and desires. “The

¹⁶ “Donors: keep out foreign funding of NGOs,” *The Economist*, September 13, 2014, 68.

¹⁷ “Donors: Keep out Foreign Funding of NGOS,” 68.

¹⁸ *Ibid.*

¹⁹ *Ibid.*

increasing funding of NGOs by official donor agencies thrusts the question of legitimacy into center stage, for if NGOs are becoming more responsive to external concerns, are substituting for government and are growing larger on the basis of foreign funding, what is happening to the links - to their values and mission, and to their relationships with “the poor,” supporters and others - through which they derive their right to intervene in development?”²⁰ This quote demonstrates the importance of having a sector that is not closely affiliated to the government but rather in line with its people. A non-governmental organization’s job is not to replace the government, but rather to complement the government by filling gaps in both society and development which it has failed to provide. NGOs work in the mentality that one day these problems will be eliminated by effective governance. Additionally the power of an NGO lies in the fact that it is inherently “non-governmental.” So when this foundation is lost, the consequences of such actions are significant.

In such situations, specifically, organizations begin to transition from advocacy towards a more politically-friendly provision of social services, in other words “the degree of cooptation of NGOs by development agencies through funding and joint initiatives is so advanced that NGOs are destined to become the organizational mechanism for an international welfare system, doomed to be little more than the front men for the lords of poverty.”²¹ These organizations are already struggling to finance their operations, therefore, limitations such as a simple removal of international donors can be detrimental to whole sectors of non-governmental organizations. By relying on government funding, these organizations become inherently vulnerable and weaker, because of their lack of power in confronting officials. The conflict of interest, especially if the

²⁰ Michael Edwards and David Hulme, “Too Close for Comfort? The Impact of Official Aid on Nongovernmental Organizations,” *World Development* 24 (1996): 967.

²¹ William Fisher, “DOING GOOD? The Politics and Antipolitics of NGO Practices,” *Annual Review Anthropology* 26 (1997): 454.

government is one of the few funding providers, is overwhelming to the institution's internal system of governance. Ironically, when working on the board of an NGO, one must list any and all conflicts of interests. On a standard level, cautious procedures are taken to ensure that any member does not have significant power over situations should they have self-interest in the matter. Yet, this precaution is not as obviously visible when examining international organizations which foster global social change and donate to NGOs.

More importantly, the NGO sector, whether in the United States or in the larger international community, is much more closely associated with national governments than the general population is led to believe. One of the largest contributors to IOs or nonprofits will often be a national government, for example, "In 2004, official aid from governments totaled \$87.7 billion worldwide (World Bank, 2006), with \$19.7 billion from the United States (OECD, 2006). A substantial portion of the US government foreign aid was provided by means of NGOs in the United States, for example, nearly 15 percent of official economic aid was channeled through NGOs (USAID, 2006). Another 18 percent of U.S. official aid flowed through intergovernmental organizations such as the World Bank and the United Nations (OECD, 2006); these, in turn, routed yet more through NGOs. This governmental funding amounted to 25 percent of the total budget of NGOs that registered with USAID (2006)."²² Therefore with a quarter of the budget dependent on the US government, it is hard to separate these organizations from government affairs. Whether it is an international or government donor, both have serious negative effects on the organization itself because the donor is given too much power.

Donor shifts in funding often leave NGOs with few choices in their following reactions. One of the main rationalities for their response is their dependency on a single donor for funding.

²² Eric Werker and Faisal Ahmed, "What Do Nongovernmental Organizations Do?" *Journal of Economic Perspectives* 22 (2008): 13.

In the case study of four controlled environmental NGOs working in the same region of Lebanon (medium size organization, average \$100,000 annual budget, and minimum of 12 year relationship with donors)²³, the NGO with a more diverse financial portfolio was able to exit their contract and stay true to the origins of their missions, whereas the opposing NGOs adjusted to their donor's demands in order to maintain steady funding flow.²⁴ While dependency is not the only factor that is considered when an organization faces mission creep, as other indicators such as their brand strength, networking capabilities, and interdependent relationship with other organizations are also considered, it is still one of the more significant options weighed.²⁵ In order to make successful adjustments, the NGO must balance donor and organization demands.

Finally, resource dependence can be exacerbated by “the manner in which resources are provided.”²⁶ Restrictions placed on funding by the donor actually influence the nature of the NGO and the activities it engages in. Rather than lose the money, an adjustment is often made to acquiesce to the donor's demands in favor of receiving the funds. Additionally, “transnational NGOs adapt to their domestic environment by borrowing and drawing down endowments and operating cash to buffer volatile fundraising conditions, providing periods of at least temporary reprieve.”²⁷ This creates the problem of accountability. On one hand a non-governmental organization is responsible to their beneficiaries, staff, and partners – this is considered a “downward” accountability.²⁸ On the other hand, a non-governmental organization is responsible to their trustees, donors, and host governments, in what is called an “upward”²⁹ accountability.

²³ Khaldoun AbouAssi, “Hands in the Pockets of Mercurial Donors: NGO Response to Shifting Funding Priorities,” *Nonprofit and Voluntary Sector Quarterly* 42 (2012): 587.

²⁴ *Ibid.*, 598.

²⁵ *Ibid.*, 599.

²⁶ George Mitchell, “Strategic Responses to Resource Dependence Among Transnational NGOs Registered in the United States,” *International Society for Third-Sector Research* 25 (2014): 71.

²⁷ *Ibid.*

²⁸ Edwards and Hulme, “Too Close for Comfort?” 967.

²⁹ *Ibid.*

Overall, their ability to balance both downward and upward accountabilities determines how far they prioritize one over the other, and their ability to succeed in meeting their demands, rather than over accounting or under accounting to either pressure.

Fortunately there are proactive measures that organizations can take to ensure fewer vulnerabilities in their financial relationships with donors. This comes in the obvious form of having a “diverse funding base”³⁰ so that the organization is not completely reliant on a single international or a government donor for the majority of their funds. Ideally, in terms of financial portfolios, a strong non-governmental organization will have the following characteristics: a wide variety of donors (both small and large), mostly unrestricted funds, an endowment for self-sustainability, and finally a mixture of both national and international donors.³¹ Neither international nor government donors automatically cause a NGO to be vulnerable; however an over-reliance on either source for funds does create weaker organizations.

Much of the research recommends revenue diversification to avoid the issues that arise with donors who have too much power. However, the caveat to diverse revenue sourcing is focusing on the type of funds that these organizations receive, as “An organization with unrestricted income from private individuals and restricted funding from a foundation could actually become more autonomous by reducing foundation support even though doing so would reduce diversification.”³² With unrestricted funding, a NGO has the opportunity to focus on what they feel would be the best programs and events that would have the most positive impact on a community. Without conditions, these organizations are free from the possibility of being controlled by their large donor. Obviously they are still held accountable, especially with large unrestricted donations, and need to ensure that the money is being utilized efficiently, but

³⁰ Mitchell, “Strategic Responses to Resource Dependence,” 88-89.

³¹ Ibid.

³² Ibid, 87-88

unrestricted funding removes the pressure and power that most donors have over the organization itself. NGOs are better able to balance both upward and downward accountabilities, and working under the assumption that the organization itself does not squander the funds and finds the most marginal utility in each dollar (since unrestricted funding is rather uncommon in the NGO sector), the organization as a whole becomes stronger. Therefore, revenue diversification is about both finding difference sources for donations and finding the right type of funds with minimal or no restrictions.

It is important for non-governmental organizations to maintain their legitimacy and autonomy when it comes to their finances because they act as integral parts of developing communities. They are able to act as both an effective check on the government with human rights or advocacy problems and provide services to the community that the current government is failing to fulfill, almost as an “alternative to the state.”³³ “NGOs’ values make them suitable agents of inspired change. These organizations are perceived to be the “good guys,” with whom donors can partner to reinstate the legitimacy of assistance in developing countries.”³⁴ However, in order to “reinstate the legitimacy” of developing countries, one must first ensure that these organizations are autonomous and legitimate themselves, which is where their financial portfolio plays a strong role in characterizing the organization, along with other measures such as the type of contracts initiated between NGOs and other parties.

³³ Fisher, “DOING GOOD?” 444.

³⁴ AbouAssi, “Hands in the Pockets of Mercurial Donors,” 585.

SUPPLY-LED CONTRACTS

The contracts that a non-governmental organization participates in can be correlated to creating a weaker institution because these play such a large part in influencing its reactions to shifts in both donor power and desire. As evidenced by the previous chapter, an organization's autonomy is critical to its success, as a lack of independence is associated with hesitation regarding its ability to resist foreign influence in a host government's affairs. This often causes state regulations to be detrimental to the non-governmental organization's effectiveness in providing the goods and services that the citizens need. Conversely, "This is not to say that self-regulations is always a good thing, nor that it is sufficient to ensure accountability, but the informal consultative processes and codes of ethics that characterize the voluntary sector in many countries...have preserved a balance between flexibility, innovation, and regulation."¹ To be a strong institution, the NGO needs to have the ability to self-regulate effectively. This balance is not easy to maintain, as evidenced by the three main variables of organization size, market competition, and targeted finances that can all work against the organization itself by making it more vulnerable to donor manipulation. What is important to note is that the overall vulnerability of an organization can be enhanced or negated by the type of contracts that the NGO organization binds itself to: demand-led or supply-led.

Demand-led contracts are the ideal situation for non-governmental organizations, as they maintain the most control and power over the situation. Much like an equal negotiation process between corporations, "NGOs would assume responsibility and take the initiative in designing

¹ Michael Edwards and David Hulme, "Too Close for Comfort? The Impact of Official Aid on Nongovernmental Organizations," *World Development* 24 (1996): 969.

and presenting priorities and preferences.”² Since there is a surplus of funding for the sector, the NGO has the power to wait for the right donor and make fewer concessions in negotiations because of the availability of alternative funding sources. This is not too far from Easterly’s model of good financing of nonprofit organizations as he often refers to the system’s effectiveness and success to asking “The Backward Question”: what can foreign aid do for poor people?³ While the NGO system differs slightly from that of direct foreign aid, the same methodology can be applied in demand-led contracts. In this situation, the “donors would then place ‘consolidated resources at the disposal of local institutions who decide on and own the uses to which they are put’.”⁴ This is significant because it encourages communication between the donor and the NGO, as the donor is not going to allow the NGO to be wasteful with their resources, even if they are not designated towards a specific program. Therefore, the NGO is able to fulfill its upward accountability while still balancing its social mission and desire to enable or enhance the lives of its beneficiaries. This responsibility to beneficiaries or towards the internal organizational mission and values can also be referred to a NGO fulfilling its downward accountabilities.⁵ In a demand-led contract agreement, the non-government organization has the flexibility and power to be an equal with the donor in their negotiations, making it the desired contractual model.

The ability to balance both responsibilities is made possible with demand-led contracts because “these imperatives [of development] align with the demand-led approach to empower marginalized groups, encourage voice, focus on stakeholders, highlight flexibility and risk

² Khaldoun AbouAssi, “Hands in the Pockets of Mercurial Donors: NGO Response to Shifting Funding Priorities,” *Nonprofit and Voluntary Sector Quarterly* 42 (2012): 586.

³ William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done so Much Ill and so Little Good* (New York: Penguin Books, 2007), 11.

⁴ Thomas Parks, “The rise and fall of donor funding for advocacy NGOs: understanding the impact,” *Development in Practice* 18 (2008): 217.

⁵ AbouAssi, “Hands in the Pockets of Mercurial Donors,” 586.

taking, and invest in impact-oriented programs toward long-term goals and sustainable results.”⁶ In an ideal world, perfect execution of this contract would lead to a more efficient and impactful non-governmental organization sector on a global scale. The organization has more lasting impact as it tends to influence organizations to focus on long-term, sustainable goals, in addition to empowering the local people. It is significant to recognize that the demand-led approach has positive lasting consequences beyond the donor-NGO partnership. Unfortunately, this type of contractual agreement does not happen as often as the “negotiation is heavily influenced by the relative power of the two actors.”⁷ Unless the NGO has a bigger reputation and minimal organization market competition in the country or sector, donors often have the greater leverage at the negotiations table.⁸ When donors have greater power than the NGOs, which can be caused by vulnerabilities distinctly dependent on the organization size, market competition, and targeted financial portfolio, NGOs often end up in toxic contracts otherwise known as supply-led contracts.

The most dominant donor-NGO relationship is the supply-led contract, which is defined by funding that is directed at a specific goal or program by the donor.⁹ “The relationship here is principally one-way, where donors set program objectives and NGOs implement programs and are expected to send back information in the form of reports and evaluations.”¹⁰ Since there are enough alternative non-governmental organization options, the NGO has no leverage to prevent the donor from walking away, hence the supply-led nature of the contract. In the basic overview of a supply-led contract, it is clear that the donor is running the entire program and has the most power within the relationship. The vulnerabilities of an NGO allow it to be at the mercy and will

⁶ AbouAssi, “Hands in the Pockets of Mercurial Donors,” 86.

⁷ Parks, “The rise and fall of donor funding,” 217.

⁸ Ibid.

⁹ AbouAssi, “Hands in the Pockets of Mercurial Donors,” 586.

¹⁰ Ibid.

of a donor, especially in regards to objectives and core mission statements. Unfortunately, the most vulnerable characteristics of NGOs are three-fold (organization size, market competition, and targeted finances), which only reinforce the power that donors have in a supply-led contract. Donor programs and priorities are unstable and often are influenced by the latest trends in NGO sectors, which means that funding for advocacy NGOs and other “unpopular” services will be cut or severely lessened, which increases the competition for a smaller funding pool, and the smaller organizations often struggle to survive. Donors then take advantages of the increased competition for their money and the decreased amount of organizations available to receive their funds by increasing their demands and specifications for programs (supply-led contracts).¹¹ This negative feedback loop is toxic and often escalates to such a degree that it affects the entire regional NGO sector from a few donor actions, regardless if the donor is governmental or international. In the end, “the usual result is that many NGOs will lose, and those that remain will be much more closely aligned with donor priorities and interests.”¹² NGO autonomy is lost, and through this unnatural market selection of surviving organizations, the remaining NGOs that are closely aligned with donor priorities and interests often lose their effectiveness and fall into co-optation by donor-prioritizing of financial needs. Much like other negative feedback loops seen in the NGO sector, this supply-led approach starts with donors in power and only enhances their leverage in the situation as funds become more exclusive and NGO competition increases dramatically.

There are serious negative consequences for non-governmental organizations which allow themselves to be a part of supply-led contracts. Most importantly, these consequential changes “lead to bureaucratization, lack of cooperation, duplication of initiatives, falloff in

¹¹ Parks, “The rise and fall of donor funding,” 217.

¹² Ibid.

flexibility and innovation, and conflicting accountability mechanisms.”¹³ One of the most frequent complaints regarding non-governmental organizations is that there are too many trying to do the same thing, in other words, “duplication of initiatives.” Supply-led contracts only add to this existing problem by forcing NGOs to cater to their donors, rather than follow a natural supply and demand market system for their beneficiaries. Donors tell the citizens what they need rather than letting the citizens tell them what they actually need, much like Sachs rather than Easterly and his “Backwards Question.” This is reflected in NGO research analysis of the supply-led approach, which claims that “the resulting problem is that NGOs capture the voice of the people and decide on their behalf instead of channeling their voice into decisions.”¹⁴ Suddenly the organizations which should be fighting on the people’s behalf, whether it be a human rights, public advocacy, or environmental mission, are no longer a viable outlet for their complaints to be heard because of the NGO’s vulnerability and dependency on the donor. Organizations lose their downward accountability to their beneficiaries, mission statements, and business values, in favor of the upward accountability to donors who have power over their finances and priorities.¹⁵ More often than not, “NGOs have to dramatically transform their organizational interests and cultures to align with those of other members in the circle. In doing so, they lose much of their identity and interaction with constituents.”¹⁶ The blame for NGO co-optation and mission creep cannot be solely held by the donor’s manipulation, as external factors regarding the nature of NGO-donor contracts in general do change the overall scenario in which both parties must navigate and negotiate the various terms.

¹³ AbouAssi, “Hands in the Pockets of Mercurial Donors,” 586.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

NGO-donor contracts are often shaky contracts to begin with because they are a donor alternative to direct agreements with host governments themselves. Rather than deal with the host government and try and negotiate with them, international donors, and even national ones, will use NGOs as a middle-man to influence local governments in their favor. For example, foreign donors can easily push agendas that would be contradictory to an authoritarian government and since the NGOs are heavily reliant on their funds, they would implement programs that included activities such as “‘the advancement of human and democratic rights,’ ‘the promotion of equality of nations, nationalities and peoples and that of gender and religion,’ [and] ‘the promotion of conflict resolution or reconciliation.’”¹⁷ Non-governmental organizations that might have originally been reluctant to engage in such controversial issues would now have strong incentives to do so, per donor requests, which would inevitably effect the host government. This explains why countries such as Russia and Egypt would prohibit foreign donors. This is significant especially when it comes to how binding a contract is because “‘should a donor decide to alter its obligations, it is easier to dissolve funding agreements with NGOs than with the governments where donors have complicated and binding bilateral agreements.’”¹⁸ The foundation for this relationship is already fragile as the contracts themselves are easier to dissolve, and therefore this affects the competition and the reactions of the non-governmental organizations, as they know that their program and organization financing is vulnerable to donor satisfaction and desires. Therefore it comes to no surprise that in these contracting situations NGOs “‘align their missions with donor preferences, emulate for-profit contractors, and ultimately abandon their missions in pursuit of financial security.’”¹⁹

¹⁷ Rebecca Vernon, “Closing the Door on Aid,” *The International Journal of Not-for-Profit Law* 11 (2009): 5.

¹⁸ AbouAssi, “Hands in the Pockets of Mercurial Donors,” 585.

¹⁹ George Mitchell, “Strategic Responses to Resource Dependence Among Transnational NGOs Registered in the United States,” *International Society for Third-Sector Research* 25 (2014): 70.

Organizations like nonprofits were not created to emulate the for-profit sector and therefore automatically have a disadvantage when they come to the negotiating table. Additionally, the donors themselves are often vulnerable to other external influences, which passes on the second-hand pressure to the non-governmental organizations they are financing.

It is important to recognize that donors also have other accountabilities and responsibilities, and do not intentionally mean to create the serious negative consequences for NGOs in supply-led contracts. “For bilateral donors, the political, strategic, personnel, and economic factors that influence funding decisions are always changing, bringing inevitable shifts in funding levels among countries, program areas, and recipient organizations.”²⁰ It is important to recognize that both donors and NGOs themselves face similar pressures, especially with regards to money, and can succumb to the same coping mechanisms of co-optation in response. The donors have upward accountabilities that they have to take into consideration and balance. It is also significant to recognize that not all NGOs are equally susceptible to conforming to the donor’s will, but it does not imply that they will be completely immune either. “While private foundations are more insulated from these external factors, their funding also fluctuates in response to changing approaches, personnel, and financial realities.”²¹ These larger trends of “in” social projects and missions have a greater influence on the NGO sector as a whole than what would be initially perceived from the name “non-governmental” organizations. These external pressures also do not remove the accountability of both donors and NGOs for their reactions to the fluctuations in personal, financial, and political pressures. However, with non-governmental organizations, the three main factors of organization size, market competition, and targeted finances, all lead them to be more vulnerable to accepting supply-led contracts. These three

²⁰ Parks, “The rise and fall of donor funding,” 214.

²¹ Ibid.

characteristics only enhance their weakness once in the supply-led contract, as it influences what the organization itself is capable of doing when donor pressures begin to change its mission in three of the four main categories of EVLA: exiting the relationship, voicing concerns, loyalty to the donor, or adjustment to the donor's interests.

When an NGO faces donors with the greater leverage and power to manipulate the organization's programs and missions to their own personal desires, the NGO is often left with few options with regards to its reactions. This categorization of reactions is an adjusted typology from the original Hirschman's (1970) model of EVLA. The first is to exit the relationship, in which situation they would lose contact with the donor, and also terminate all funds or funding requests.²² The second option is to voice their concerns with the donor in hopes of reaching a middle ground between the two parties.²³ The third is loyalty, which suggests that the NGO will automatically comply with the donor's demands unconsciously.²⁴ The final option which was later added to Hirschman's model, is adjustment, which implies that they will accommodate the donor's interests and make the necessary changes to maintain the relationship but only after a conscious deliberation regarding their actions.²⁵ The reaction they choose is dependent on their accountability dynamic. "In brief, the stronger the downward or internal accountability, the more likely an NGO is to exit or exercise voice. Conversely, upward accountability is associated more with reactions of adjustment."²⁶ This is when the other three main vulnerabilities of the NGO matters because it determines how much leverages the organization has to respond with. This quote also emphasizes the importance of the donors in both the policy process and government

²² AbouAssi, "Hands in the Pockets of Mercurial Donors," 597.

²³ Ibid

²⁴ Khaldoun AbouAssi, "Get Money Get Involved? NGO's Reactions to Donor Funding and Their Potential Involvement in the Public Policy Processes," *International Society for Third-Sector Research* 25 (2014): 972.

²⁵ Ibid

²⁶ AbouAssi, "Hands in the Pockets of Mercurial Donors," 596.

interactions. “Donors are key players in aid recipient countries. Donors shape national policies by negotiation priorities with governments and channeling, conditioning, and controlling aid.”²⁷ Therefore it is important to recognize how this would affect non-governmental organizations in the EVLA process. In order to gain a better understanding, a micro-study of this process was done by AbouAssi in the Middle East.

In this study, three NGOs with the same donor were analyzed in their reactions to the shifts in donor funding due to shifting priorities. The case focused on Lebanon NGOs because the “country’s struggling economy increases reliance on external sources of revenues (including foreign assistance, loans, and treasury bonds).”²⁸ Additionally, Lebanon was chosen because it is a Middle Eastern country in which international donors face no interference from the government with regards to their funding NGO organizations, which implies a high degree of donor dependence.²⁹ After careful analysis, interview, and selection process three similar NGOs with environmental missions were selected, all medium sized organizations, in the same geographic area. The homogeneity between the organizations was an attempt to minimize the effect of external conditions beyond donor pressure.³⁰ The three NGOs will be referred to as NGO1, NGO2, and NGO3, because the researcher chose to preserve their anonymity in the study.

The first NGO practiced their right to exit their donor relationship as a response to their dissatisfaction with the changes in donor funding. In order to compensate for the loss of funds, NGO1 relied more heavily on volunteers and limited their operations to one to two projects. Since there was an increase in volunteer time expended on the NGO, “the reliance on volunteers

²⁷ AbouAssi, “Get Money Get Involved?” 970.

²⁸ AbouAssi, “Get Money Get Involved?” 976.

²⁹ Ibid.

³⁰ AbouAssi, “Get Money Get Involved?” 977.

requires the organization to design project activities to keep these volunteers mobilized.”³¹

Therefore, while the non-governmental organization whose mission was focused on the environment managed to avoid mission creep by leaving their donor, they were not unsusceptible to change, as they became more activist-oriented as a coping mechanism with fewer funds. The result was that “the preference to focus less on low-key operational-level activities drives NGO1 to work more on mobilizing the public to exert pressure towards broader non-specific change.”³² Releasing their donor also resulted in further government confrontation and tension as their activism increased. While it is important to note that NGO1’s choice to exit was an exhibition of power over donor demands, they were less likely to work with the government (or in lieu of government failures). Their adjustment to less funding was to increase the amount of people from the area for their mission and exercise their power of voice.

NGO2 uses its legitimacy in name and leverages its local networks to maintain an equal partnership between both the donor and the government. Therefore, when the donor shifted its funding priorities, NGO2 exercised its voice. This was possible because “there is a degree of mutual interdependence in an arrangement that respects and maximizes organizational identity. The organization has developed strong relationship with the donor and floats inside the donor network of local partners”³³ This is significant in recognizing the degree of autonomy NGO2 has within the relationship that mirrors a demand-led contract, more than a supply-led one. By expressing its opinion and concerns with the new donor funding agenda, NGO2 uses its credibility and local network adjust the new funding criteria, while still maintaining a positive

³¹ AbouAssi, “Get Money Get Involved?” 983.

³² Ibid.

³³ AbouAssi, “Get Money Get Involved?” 983.

donor relationship.³⁴ The benefits of this demand-led approach also extend to NGO2's relationship with the government. It engages with the government in formulating public policies and engaging public agencies, which lessens its reliance on pure donor funds and allows for more leeway to exercise its voice without fear of losing critical donor funds. NGO2 is not vulnerable to the government, nor is it manipulated by it, but rather "NGO2 is a supplementary actor, providing technical and financial resources when the government fails to do the job or lacks resources or flexibility to act."³⁵ This is a model of a mutually beneficial relationship between donor-NGO-government, in which there is an open dialogue free to express dissent, and the actors work to support one another. Unfortunately NGO2 is considered a "pioneer" for their cooperation and collaboration, rather the norm of the environment NGO sector in Lebanon. However, it is a good example for the future of NGO-donor relationships and the effectiveness of good contractual agreements along with diverse financial portfolios.

NGO2's relationship with the government is unique in that it avoided co-optation, which often occurs when the "boundaries between the two are not clear since each side tries to manipulate or convince the other its own goals are better in order to fully benefit from available means they agree on."³⁶ The more dominant organization in this relationship tends to lead the direction of the following programs and policies. Since NGO2 is seen as an equal entity, it is better able to collaborate and participate with the government, rather than succumb to its demands or convictions that its methods are more correct. Maintaining this critical boundary between working together and supplementing one another is crucial to the strength and independence of an NGO organization. As evidenced by NGO research in Lebanon, Egypt, and

³⁴ AbouAssi, "Get Money Get Involved?" 984.

³⁵ Ibid.

³⁶ AbouAssi, "Get Money Get Involved?" 974

Turkey, “indeterminate boundaries between states and civil society organizations in these countries are problematic since these organizations are interested in social transformation but they use the same methods and cannot function away from the state.”³⁷ This problem of co-optation is also not limited to NGO-government relationships, but can also be seen in NGO-donor relationships as well.

Finally, NGO3 reacts differently by adjusting to donor demands. The donor “manipulates the NGO3 through funding and benefits from NGO3’s local infrastructure to implement its policies.”³⁸ Funding was prioritized above the organization’s core environmental mission and therefore there were a few negative effects as a consequence. The organization underwent co-optation which was then justified by its argument that the donor’s changes were actually aligned with its core missions, when they clearly did not. The activities the NGO participated in became more “scattered” as they were unlinked to the core values of the organization and with that came the loss of organization identity. This then affected the public credibility of NGO3 as a trustworthy environmental organization, an effect that NGO3 struggled to recover from as the locals perceived the organization to no longer be representative of their demands and desires.³⁹ Finally, NGO3 had a changed relationship with the government as it no longer cooperated with them, but still appeared to have a similar mission. Rather than being actively involved with public policy formation, they are complementary to the government without an active “cooperative relationship.”⁴⁰ By adjusting to donor demands in a supply-led approach, NGO3 lost its relationship with both its beneficiaries and its government, in favor of secure finances. Its effectiveness was decreased to the dissemination of environmental information, as its

³⁷ AbouAssi, “Get Money Get Involved?” 974

³⁸ AbouAssi, “Get Money Get Involved?” 984.

³⁹ AbouAssi, “Get Money Get Involved?” 985.

⁴⁰ Ibid.

organizational identity was redirected towards the donor's priorities. Adjustment meant that NGO3 made a conscious decision to accept donor demands rather than attempt to adjust to less funding as NGO1 did, and therefore took a calculated gamble that negatively affected their organization.

These three non-governmental organizations are examples of the reactions that NGOs can utilize in response to shifts in donor funding. As evidenced by the micro-experimentation and analysis above, the contractual relationship that the donor has with the NGO makes a difference in its responses. The supply-led approach tends to have greater consequences for the NGO, regardless of their continuation of the relationship, as it is either a victim of co-optation or struggles to compensate for the lack of previously donated funds. The demand-led approach is ideal in that the NGO has the most power to leverage its resources, remain effective, and use its voice in the partnership, rather than being the subject of ownership by donor parties. The ability for the NGO to engage in different contracts depends on the strength it has before working with other organizations, which is dependent on its organization size, the market competition, and its financial portfolio. If it does not maintain a healthy balance of these three characteristics, such that they work in the organization's favor, rather than functioning as vulnerabilities, then the NGO has more power when entering donor and government relationships. However, should they maintain vulnerabilities in any of the three areas mentioned above, they increase the likelihood that they will enter a supply-led contract, which would only increase the chances of co-optation and mission creep as they struggle to maintain autonomy and fulfill shifting donor demands.

SOLUTIONS AND PREVENTATIVE MEASURES

Non-governmental organizations have three main vulnerabilities: organization size, market competition (both within the NGO and donor pool), and targeted finances. These characteristics weaken the power of an NGO and often force them to enter into less than ideal supply-led contract situations. In these situations, donors have greater power and leverage when negotiating, which further weakens the autonomy of the NGO and makes them susceptible to co-optation. Thankfully, these problems, while seemingly inherent to the business on a global scale, are avoidable with the right preventative measures that look into donor relationships, finance revisions, internal NGO affairs, donor expectation and demand adjustments, citizen input, and global strategy for transnational organizations.

One way to increase nonprofit effectiveness is by changing their relationship with both the government and donors through their reputation. By working towards the ideal of a high performing, goal-oriented non-governmental organization, they can strengthen their reputation as a reliable entity and make themselves more desirable in the eyes of public agencies. “NGOs favored by public agencies they are working with secure additional access to funding opportunities and, more important, become visible; they are invited to attend public events, participate in policy forums, or provide feedback.”¹ Being a favored NGO is one of the best case scenarios for an organization, because it allows them to be more successful. Organizations that have access to politics and policy makers have greater ability to effect more change in their favor. This can be seen by the fact that a strong reputation grants access to political and public participation, resulting in essentially a free marketing platform for the cause. These benefits then

¹ Khaldoun AbouAssi, “Get Money Get Involved? NGO’s Reactions to Donor Funding and Their Potential Involvement in the Public Policy Processes,” *International Society for Third-Sector Research* 25 (2014): 986.

lead to more positive feedback as “other public agencies start to notice these organizations and become interested to work with them...therefore, it is possible for the same type of relationship to be replicated or shared across agencies.”² Maintaining good relations with other agencies reinforces and enhances the reputation of an organization.

However, there should be caution when looking at non-governmental organizations which are heavily into politics and lobbying as they are more susceptible to having a conflict of interest between donors and their missions. Yet it would be difficult to find an NGO that does not engage in some form of political activity, whether it is on the local or national level. Politics is increasingly becoming a larger part of the NGO sector because organizations which remain true to their cause can effect serious change. “NGOs should be strategic in navigating their reactions to shifting donor tides while they steer their relations with government to induce change and make a difference.”³ It should also be noted that those organizations most in the public eye are correspondingly under the scrutiny of the public and the agencies that they work for, so there could potentially be a greater accountability mechanism for them. For example, the Tobacco Free Kids campaign is a grassroots effort to promote regulation of tobacco. Their mobilization efforts to raise awareness and successful lobbying efforts actually resulted in “37 percent drop in youth smoking and a nearly 16 percent decline in adults.”⁴ As evidenced by the tobacco case, “constructing strong ties with the donor might generate positive effects at the policy level and on the relationship with government, as long as the NGO does not chase the funding and become concerned with operational success.”⁵ This can also be seen in the case of Bangladeshi NGOs working in education, as “strategic alliance and strategic funding” increased

² AbouAssi, “Get Money Get Involved?” 986.

³ AbouAssi, “Get Money Get Involved?” 987.

⁴ “Why Supporting Advocacy Makes Sense for Foundations,” *The Atlantic Philanthropies*, May 2008, 2.

⁵ AbouAssi, “Get Money Get Involved?” 987.

their impact by “a process of influence, networking, training and legal or policy reform” which ultimately changed the government education policies to mimic the support of local NGOs.⁶ This example contradicts the trend where it was shown that governments were expecting non-governmental organizations to function in lieu of their efforts. Interestingly, Bangladesh has made some motion towards the two sectors working in tandem with one another as the government improved their social provisions for education to better match the NGOs. The main hurdle for non-governmental organizations is the initial construction of this reputation and good-standing relationship with governments.

One of the biggest ways NGOs can make themselves less vulnerable to donors is by working on their financial portfolio and strategies. Having targeted finances is one of the easiest ways for donors to manipulate organizations because they maintain greater leverage when the organization does not have a diversified funds and it makes resource dependence common. “Organizations are vulnerable to mission creep when resources are especially scarce, as experienced by many human rights and conflict resolution organization.”⁷ Some dramatic efforts which are proposed solutions to reverse the tendency of mission creep is “specialization” and “commercialization.” Specialized NGOs are very uncommon because of the tendency for donors to shift and broaden an organization’s mission over time through the market pressures of low competition among funds and high competition among NGOs.⁸ Specialization in an NGO can not only help the organization stay true to its mission, but it can also help attract the right kinds of donors which are less likely to shift to current funding trends over time. However, this option is rather difficult for an organization to implement, as it would be risky financially as a solution.

⁶ Ian Smillie, “NGOs and development assistance: a change in mind-set?” *Third World Quarterly*, 18 (1997): 576.

⁷ George Mitchell, “Strategic Responses to Resource Dependence Among Transnational NGOs Registered in the United States,” *International Society for Third-Sector Research* 25 (2014): 88.

⁸ Ibid.

The opposite solution of commercialization has been proposed before, as it would improve “organizational self-sufficiency” which would allow for less resource dependence.⁹ For example, a commercialized NGO would be Grameen Bank which is a micro-finance institution that gives loans to the poor (its beneficiaries) which then generates income for their programs and operations.¹⁰ However, adopting such for-profit strategies through the process of commercialization is an equally risky solution proposal because it could prioritize financial security over programs and services provided. This is already an issue within the nonprofit sector, and therefore a solution which has a significant chance of inducing this same problem is counter-productive. While the ideas of “commercialization” and “specialization” are two of the less popular theories for dealing with resource dependence, there are more tangible solutions to mitigate negative effects.

The first and most obvious change for NGOs to make to strengthen their organization is to diversify the funding base. If resource dependence is caused by over-reliance on a few donors, then ensuring that there is a wide number of donors, or more specifically, unrestricted funds, and a wide range of public and private sources would encourage less dependence on a single donor and therefore disperse donor power among many agencies rather than a few. There is also less of a chance that non-governmental organizations would be too close to foreign or host government motives if they are not fully dependent on them for their resources, increasing their autonomy and room for advocacy. Another preventative measure is creating “mission-core programs that are revenue financed.”¹¹ This would also help mitigate the negative effects of resource dependence, because organizations would be generating their own revenue to fund their

⁹ Mitchell, “Strategic Responses to Resource Dependence,” 88.

¹⁰ “Bank for the Poor – Review,” accessed April 19, 2016.

http://www.grameen.com/index.php?option=com_content&task=view&id=215&Itemid=541&limit=1&limitstart=1

¹¹ Ibid.

programs and operations, making them less reliant on only outside funds. Some of these methods would include “ethical investments, cooperative enterprises, memberships, etc.”¹² For example, Bangladesh Rural Advancement Committee (BRAC) is a large NGO that created a market called Aarong. Aarong employs villagers, mostly women, to create different crafts and products which they sell at fair trade prices. The profit from these goods then goes directly to funding different programs within BRAC. Under this model with multiple social enterprises and microfinance, BRAC is able to finance 73% of their own development programs.¹³ An ideal ratio has been calculated out as the total amount of external assistance should be no more than 30% of total funding and the remainder should be internal financing.¹⁴ However, having a diverse financial portfolio and a good ratio of internal to external finances can only take an organization so far in regards to reducing resource dependence. The other major avenue for reducing the vulnerability of target finances is to look at the organizational development.

An organization should have a strong reflective development structure in order to maintain the current situation and troubleshoot problems. NGOs “need to invest more in their own organizational development so that they are better able to identify the negative impact of changes in their funding sources or role, and act accordingly.”¹⁵ If an organization has greater awareness of how their funding sources are changing and impacting them, then they can make an informed decision on whether or not they should adjust their mission statements or programs to accommodate new donor demands and if these demands are still in alignment with their ultimate goals. Methods for achieving this would include “more attention to research, learning,

¹² Kléber Ghimire, “Introduction: Financial Independence Among NGOs and Social Movements,” *Society for International Development* 49 (2006): 9-10.

¹³ “BRACusa.org | Social Enterprise,” accessed April 19, 2016 <https://www.bracusa.org/what-we-do/small-enterprise-development/>.

¹⁴ Ghimire, “Introduction,” 9.

¹⁵ Michael Edwards and David Hulme, “Too Close for Comfort? The Impact of Official Aid on Nongovernmental Organizations,” *World Development* 24 (1996): 969-970.

monitoring and evaluation, so that the all-important link between measurement and accountability can be strengthened. Above all, it means being clear about the overall direction of the organization and its function in society.”¹⁶ This is significant because greater organizational consciousness can prevent drastic consequences to organizations such as mission creep. If organizations maintain a certain “economy of self-sufficiency”¹⁷ then they function more autonomously from their funding sources. This again goes back to the reflective and conscious nature of successful organizations as they search for “ethical investments, cooperative enterprises, memberships, etc.”¹⁸ Resource dependence is avoided if non-governmental organizations are more aware of how their financial portfolio is looking and from whom they are getting their donations. In addition to this, ultimately the strength of an NGO is “the deep philosophical commitment of many NGO leaders to remain genuinely need-driven,” in other words “turning down money as a matter of principle.”¹⁹ Non-governmental organizations have a choice when it comes to their donors, and while market pressures and their organization size may work against them and put them in a weaker position, there is always the option of losing the funds or negotiating in order to stay true to the cause. This is not a novel idea, as some large transnational NGOs do engage in this practice and more organizations within the sector really should adopt this trait as well. By staying committed to their cause, these NGOs are strategically reinforcing their purpose and the power that they have, despite the greater leverage that donors hold, as the ultimate decision of whether or not they submit to co-optation or mission creep lies in their hands. While NGOs need to take responsibility for their actions, it is also fair to say that

¹⁶ Edwards and Hulme, “Too Close for Comfort?” 969-970.

¹⁷ Ghimire, “Introduction,” 10.

¹⁸ Ibid.

¹⁹ Mitchell, “Strategic Responses to Resource Dependence,” 88.

donors can take proactive measures to ensure that NGOs are also staying true to their core missions.

Donors do not hold sole responsibility for the vulnerabilities of NGOs and institutional isomorphism because “while NGOs rely on donors for financial support, so do donors rely on NGOs for other forms of resources.”²⁰ Donors are funding these non-governmental organizations to support a cause and help create positive changes for sectors that they want to help improve. Even if donors most often have the leverage and the “reciprocity is not necessarily symmetrical”²¹ there is some form of mutual dependence between NGOs and their donors. Therefore donors can take proactive measures to help ensure the longevity and strength of the organizations they support. One of the simplest ways a donor can contribute to less financial vulnerabilities that lead to mission creep is by funding “longer term grants or managed capital endowments.”²² In doing so, these organizations can feel more secure in the sustainability of their funds and there would be less chance of the NGO becoming trapped in over-fundraising. Additionally, by reducing short-term threats of falling funds, NGOs can maintain their autonomy from donors and have enough time to find alternatives in the event of donor changes in prioritization of funds.²³ The Ford Foundation is a good example of this positive behavior as they created small capital endowments for the NGOs who were awarded their grants in the Philippines.²⁴ Small capital endowments were beneficial to the grantees because it created an “ongoing source of income,” gave greater stability and reputation as a long-term responsible

²⁰ Mitchell, “Strategic Responses to Resource Dependence,” 88.

²¹ Ibid.

²² Thomas Parks, “The rise and fall of donor funding for advocacy NGOs: understanding the impact,” *Development in Practice* 18 (2008): 221.

²³ Ibid.

²⁴ Ibid.

organization, and most importantly removed some pressure to meet annual funding goals.²⁵

More donors and large foundations should emulate this practice to create more stability for NGO finances and relieve market pressures with high demands for funds.

Another tactic that donors can employ is working with and supporting local donors. In doing so they can accelerate the development of domestic funding by preventing problems with credibility and allegations of foreign manipulation that severely affect a NGO's reputation, especially those in the advocacy sector.²⁶ A good reputation, as asserted above, can lead the way towards the organization working effectively with the host government and collaborating more, as they are given larger platforms to the public and a spot at relevant policy negotiations tables. Having a strong foreign donor who collaborates with the NGO rather than dictating what it would like to be done can seriously boost its performance and outreach capabilities. "As donor priorities expand into new program areas, NGOs may feel compelled to pursue funding even in areas where they have no experience... As the scope of NGO activities broadens in response to shifting donor priorities, the autonomy and independence of the NGO will suffer."²⁷ By removing that pressure or incentive to broaden a mission and by encouraging loyalty to their founding purposes, NGOs can continue to become experts in their field and really understand the root cause of the problem when creating solutions. It is in the donor, host government, beneficiary, and NGO's interest if the donors allow for greater autonomy through collaboration, as this allows the non-governmental organizations to become more innovative, less vulnerable, and effective in their mission.

²⁵ "The Benefits of Endowment," accessed April 16, 2016 <http://benefactorgroup.com/the-benefits-of-an-endowment/>.

²⁶ Parks, "The rise and fall of donor funding," 221.

²⁷ Parks, "The rise and fall of donor funding," 220.

Additionally, the benefits of an autonomous NGO-donor relationship can actually change the nature of the host government beyond assisting their government-NGO relationship. “When donors allow the NGO to maintain its autonomy the grantee is likely to improve its influence in the domestic political environment, and eventually be more effective at fostering reforms and improving government accountability.”²⁸ This cooperative relationship between a donor and NGO can have major benefits that go beyond improving the organization to improving the region itself. Encouraging better “domestic political environments” allows for lasting positive changes to a nation, where the donors have to put in very little input to possibly initiate such a grand outcome. With government reforms and accountability, donors have the ability to actually change the environment within the NGO sector of a region through their collaborative support. This is why it is so important to allow NGOs to remain autonomous and keep their unique characteristics rather than encouraging practices or changes that would drive the organization further away, because an organization that is supported has more ability to create greater and even more effective change within a region.

Should the donor be working with an advocacy NGO, there are certain actions that can be taken to enhance their organization’s strength and prevent common vulnerabilities. The first of these is an increased caution and awareness that credit is not taken from the organizations themselves when they successfully fund institutions that create positive reform or political alterations. Most donors initially revert to taking the credit because there is an increasing pressure for them to justify their funding and show tangible evidence of its success.²⁹ However, the negative consequences of doing so can reverse any positive changes that were initially present. When donors “claim publically that their interventions were instrumental in the adoption

²⁸ Parks, “The rise and fall of donor funding,” 221.

²⁹ Parks, “The rise and fall of donor funding,” 220.

of a new law, or a successful reform movement” it “can lead to a political backlash against advocacy-NGO grantees.”³⁰ This is evidenced by countries such as Egypt and Russia which steadfastly refuse to let in foreign funds for fear that it would allow foreign influence into domestic affairs. This fear causes a great loss in available funds to existing NGOs and then a greater reliance on the host government for resources. Host governments then have greater access and input in the affairs of an organization that supposedly is “non-governmental,” and so the negative cycle of lost autonomy and effectiveness continues. However, if donors were more cautious in justifying their funding decisions without taking credit for the local organization’s successes, they could decrease the chance of such a “political backlash” and allow the advocacy NGOs to continue successfully working for their beneficiaries and slowly reforming the government.

Finally, donors can promote stronger NGOs by “de-emphasiz[ing] the control and verification function of evaluation” and “put[ting] learning back on the agenda.”³¹ In other words, NGOs need to have room to experiment and try radical solutions rather than being punished for failed programs. If the NGO is encouraged to learn from its mistakes and from other organizations, then there is more incentive to be innovative with solutions. In order for this to happen, “funding decisions must be distanced from evaluation.”³²

Donors are not the only actors who can make changes to ensure that there is greater strength and stability among NGOs, as there is a proposed solution for citizens to help as well. This is proposed through the idea of a “citizen’s fund” which is “a public financial contribution

³⁰ Parks, “The rise and fall of donor funding,” 220.

³¹ Smillie, “NGOs and development assistance” 573.

³² Ibid.

based on the allocation of one's day's wage.³³ While this theory has yet to be actualized, and still has many flaws with regards to the "redistribution of existing resources between individuals and social groups,"³⁴ there is something to be said for the idea of the local community financially supporting an organization that directly supports it. For example, in some South-East Asian countries, domestic companies and institutions were their main alternative for resources after there was a large drop in external support.³⁵ For example, BRAC is a large NGO in Bangladesh that works across many different development divisions, such as health, education, and agriculture. One of its key principles is the idea that it is an organization founded in Bangladesh, by Bangladeshis, and continues to have the majority of its workforce be Bangladeshi as well. As a result, the NGO is filled with workers who understand the local problems and want to further develop their own home country. This sense of national pride allows the organization to have an internal accountability to not only their donors and beneficiaries, but also to those who run their programs, which creates a large incentive for the NGO to stay true to its mission and have greater support and incentives against co-optation.

There are a wide range of preventative measures and solutions that a non-governmental organization can employ in order to be less vulnerable to mission creep and institutional isomorphism. Some of these mechanisms include working on the organization's reputation in order to positively affect their relationships with donors and government officials. Other strategies are focused more specifically on the NGO's finances such as diversifying funding bases and generating more internal revenue. Donors are also included as solutions to a NGO's vulnerabilities, as they can relieve pressures and support the founding principles of an institution

³³ Ghimire, "Introduction," 9.

³⁴ Ghimire, "Introduction," 9.

³⁵ Parks, "The rise and fall of donor funding," 214.

by investing in long term grants and working collaboratively with locals. Through these solutions and preventative measures, non-governmental organizations can generate positive relationships in their local governments and improve the political environments to create lasting change in their region.

CONCLUSION

This thesis explored the characteristics which make non-governmental organizations susceptible to funding manipulation. These three main vulnerabilities are organization size, market competition, and targeted finances which all lead to increasing the chances that the NGO would enter a supply-led contract. These supply-led contracts then further weaken the organization to funding manipulation by enhancing the already existing vulnerabilities which increase donor power and control to ultimately result in institutional isomorphism.

Smaller organizations are not explicitly more vulnerable than larger ones, however larger NGOs have much greater advantages which allow them to be stronger institutions in the face of external factors, such as donor shifts in funds. The number of positive characteristics of large organizations with regards to their innovation is significantly more than that of smaller NGOs. Interestingly, these characteristics mirror those associated with a large and highly effective board of directors, both attributes which are often linked to large organizations. Smaller NGOs are not inherently vulnerable because of their size, but rather they are vulnerable because they are disadvantaged by not having the access to resources and key networks that has been paired with large organizations. Therefore, smaller non-governmental organizations often have fewer resources and are more dependent on fewer donors, leading to supply-led contracts.

Market competition is another vulnerability for NGOs because there is high market competition within the NGO sector and low market competition between donors. This means there is high demand for a limited supply of funds. Market competition and its resulting behavior creates negative feedback loops that have grave, albeit unintended consequences for NGOs beyond the basic finance issues. Cooperation between organizations and individual innovation is

lost as organizations become more at risk to meeting donor demands in return for funds. Donors themselves maintain their powerful position with few competitors, and since NGOs become more competitive and less collaborative amongst themselves, donors have many alternative organizations in which to invest their funds should they become dissatisfied with their current organization. Greater donor power often implies that NGOs will be subjected to toxic supply led contracts in return for funding.

The third major vulnerability in non-governmental organizations is targeted finances. This reveals the organization's overall financial fragility as it is dependent on a few sources, which makes it more susceptible to funding manipulation by governments. Funding dependency is categorized by both governmental and international donors who often look to control finances as a means of gaining greater control over the NGO, which often results in dramatic consequences such as changed mission statements or political manipulation. Without internal assessment protocols and the prioritization of financial stability and diversity, non-governmental organizations maintain this weakness and allow themselves to be vulnerable to the various consequential effects of donor power, including entering into a supply-led contract.

Supply-led contracts are extremely detrimental to a non-governmental organization because the organization's contractual relationship creates a great effect on the response of a NGO when a donor shifts its priorities or demands. The supply-led contract places an NGO at a disadvantage with negative effects because they either fall into co-optation or struggle with the loss of donor funds. This type of contract does not allow the NGO to act as a partner in the relationship and leave room for dissent, as donors maintain strong financial leverage over the organization. A non-governmental organization's initial strength before entering into a contract is critical in determining which type of contract they enter. In order to achieve an ideal demand-

led contract where the NGO-donor relationship is more of a partnership, the NGO must mitigate their three main vulnerabilities, organization size, market competition, and targeted finances, in order to decrease the likelihood of being forced into a supply-led contract and ultimately succumbing to mission creep, co-optation, and loss of autonomy.

Non-governmental organizations can engage in a wide range of preventative measures and solutions which would help strengthen their institutions and decrease the likelihood of institutional isomorphism. These methods include enhancing an NGO's reputation in order to foster greater positive relationships with both donors and governments. Other strategies suggest ways for a non-governmental organization to improve their financial portfolios through methods, such as funding diversification, that make them less resource dependent. Another type of solution addresses donors and how they can remove pressures on NGOs through simple tactics like increasing the timeframe of their grants or demanding less program change conditions with their funds. Ultimately these preventative measures and solutions work to strengthen a non-governmental organization. This way, the vulnerabilities that lead them to resource dependence and supply-led contracts are less likely to be present. If these NGOs can stay true to their founding purpose and continue on as effective autonomous institutions, they can create positive relationships with both donors and governments which would result in lasting change for the beneficiaries they serve.

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