PART I

Chapter 9

The changing role of NGOs and civil society in financing sustainable development

by

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The role of non-governmental organisations (NGOs) and civil society in financing sustainable development is important, but it is changing. While domestic resource mobilisation and international commercial flows are growing very rapidly, they are not equally available to all. NGO finance, capacity and expertise are critical for populations at risk of being left behind. This chapter outlines the scale and trends in resources raised and mobilised by NGOs and civil society, and identifies a rise in direct giving by the public. It finds that the classifications of countries into “developed” and “developing”, and models based on raising money in the “North” and spending it in the “South” do not fit well with the distribution of poverty across and within countries. New business models are needed. To achieve the post-2015 global goals, civil society finance and expertise are needed, along with new cross-border partnerships between organisations working on similar issues, supported by increased transparency and civil society space.
Projections for poverty and financing make it clear that resources provided through official development assistance (ODA) on the one hand, and civil society or non-governmental organisations (CSOs and NGOs)\(^1\) on the other, are – and will remain – vital to the achievement of poverty eradication by 2030.\(^2\) While domestic resource mobilisation and international commercial flows are increasing very rapidly,\(^3\) not all countries have the capacity or the means to access these resources. For these populations, NGO finance and ODA remain critical.

Nonetheless, funds raised from the public by traditional NGOs may well be peaking, especially as opportunities for direct giving increase. In response to concerns about the potential for growth in existing markets, NGOs are actively seeking out new markets in middle-income countries.

Another aspect of change is the blurring of the old North-South, donor-recipient divide. This dynamic, which has governed development co-operation for the past 50 years, no longer holds true – and has not held true for some time. Many countries today are simultaneously providers and recipients of development co-operation, and developing country domestic institutions – governmental and non-governmental – are increasingly significant in terms of resources and leadership. An approach whereby NGOs raise money in the “North” and spend it in the “South” is no longer adequate for addressing the new geography of poverty.

All of this means that the role of NGOs and civil society is changing fast. While NGOs, and in particular large international ones, are important implementing partners and sources of finance for fighting extreme poverty (see Box 9.1 for examples), the part they will play in mobilising resources for the post-2015 global goals will not be met through business as usual.

In this changed environment, this chapter asks: how can NGOs and civil society best contribute to mobilising the resources needed to achieve global goals?

Estimates of how much NGOs mobilise directly from the public differ

When the journalist Zeinab Badawi was moderating the opening session of the first High-Level Meeting of the Global Partnership for Effective Development Co-operation,\(^4\) she challenged a speaker: “You just described farmers’ groups as civil society. Wouldn’t they see themselves as private sector?” Actually they are both.

In a similar fashion, the sharp distinctions between CSOs, consultancies, businesses and government are also blurred in practice. Providers of development co-operation often contract work out to large NGOs, seeing them as suppliers. Yet the same ODA providers may act as partners, each following their own agenda. Similarly, when we talk about money raised from the public, we are probably thinking about contributions to NGOs; but some governments also raise voluntary contributions from the public, particularly for humanitarian crises. Finally, individual direct giving through all sorts of private channels is significant, if largely invisible in the data. In practice, funds flow in several directions among foundations, non-governmental and civil society organisations, multilateral organisations and governments. This can result in both double counting of resources and in flows that are never captured in accounting systems.
There are, therefore, big differences in the estimates of the total volume of funding raised from private sources by NGOs and CSOs, even if this is limited to Development Assistance Committee (DAC) member countries. In 2011, the DAC estimated funds raised from the public directly by NGOs to be USD 32 billion (Figure 9.1),\(^5\) equivalent to 24% of total ODA that same year. Yet these flows are reported to the DAC by member countries based on estimates, or on calculations from NGOs’ annual statistical reports, and therefore may underestimate what in reality these organisations raise (OECD, 2011). The Center for Global Prosperity estimates the figure for 2011 to be USD 58.9 billion, while Development Initiatives (DI) puts it at USD 26 billion for the same year, which amounts to 57% of total private development assistance raised by companies, foundations and NGOs in DAC member countries (Adelman et al., 2011).
Data based on a sample of 31 large mainly international NGOs, the majority of which (29) are based in DAC member countries, show that contributions by individuals remain by far the largest source; the most significant growth in private giving to NGOs is in contributions from foundations (Figure 9.2).

Private giving from countries outside the DAC – which is on the increase – also is likely to be under-reported. Funds mobilised from the public in countries which are not DAC members have a stronger component of giving by corporations, wealthy individuals and foundations, and are currently much more focused on needs in their own countries. In seven large countries (Brazil, the People's Republic of China, India, Saudi Arabia, South Africa, Turkey and the United Arab Emirates),
funds mobilised for international development were estimated to be at least USD 1.4 billion in 2011. However, this was in the context of contributions for domestic causes at around USD 35 billion a year (Development Initiatives, 2013).

**Direct giving is growing fast**

Individuals have been providing resources, solidarity and support across borders for centuries, but the rise of the Internet, mobile phone technology and social media over the past decade has significantly increased the ways in which individuals can give. Yet precisely because these gifts are “individual”, they are often not visible. For instance, Kiva (www.kiva.org) and Zidisha (www.zidisha.org) are among the many Internet-based platforms that are now being used by individuals to give money. By leveraging the Internet and a worldwide network of microfinance institutions, Kiva lets individuals lend as little as USD 25 to micro-entrepreneurs around the world. Both the volumes and numbers of Kiva users have increased rapidly: to date 1.2 million people have used this platform to lend in over 70 countries, providing USD 552 million since October 2005, when Kiva was founded (Figure 9.3).

Launched in 2009, Zidisha took Kiva’s model further by allowing individuals to lend money directly to entrepreneurs in developing countries, without the need for a local microfinance intermediary. Since then, just under USD 2 million has been provided to entrepreneurs through Zidisha, which has 7 761 registered lenders. These are just two examples of the growing phenomenon of “crowdfunding” (Box 9.2).

![Figure 9.3. Kiva lending volume and total number of active lenders, 2011 versus 2012](data:image/png;base64,iVBORw0KGgoAAAANSUhEUgAAAAEAAAABCAQAAAC1HAwCAAAAC0lEQVR42mP8/A8wBSEgFDh/+YSGAAAC/15dBZjFCAAAAAElFTkSuQmCC)

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There is a range of other web-based platforms with slightly different approaches. GiveAid Direct (www.giveaiddirect.com), for example, allows individuals the opportunity to directly support people (e.g. by providing money for school fees) or to fund specific projects (such as procuring health equipment).

The rise of these individual giving websites has revealed substantial potential, but it is not clear yet whether this direct giving will replace contributions channelled through NGOs or add to them. Either way, greater direct public engagement will play a part in a development landscape where many more actors – more government departments, more businesses, more individuals – are getting involved.
Box 9.2. **Crowdfunding sustainable development**

The concept of “crowdfunding” – enabling large numbers of people to invest small amounts of money in a charity or business venture using online platforms – is increasingly drawing attention as an innovative way of tapping new sources of funding. Crowdfunding was initially used in philanthropy to collect donations. It then spread to consumer products in the form of pre-funding of products or projects (e.g. music, film), often providing some form of “reward” for investors, which has clear monetary value. Credit-based crowdfunding – or crowdlending – offers backers an interest rate in exchange for their loans e.g. to microbusiness. Equity crowdfunding – or crowdinvesting – is an investment in a start-up in exchange for an equity share of the company. These investments are typically made through dedicated web platforms which pool the funds; however, this form of crowdfunding is relatively new. According to industry estimates, from 2011 to 2012 the funding volume of global crowdfunding almost doubled, from USD 1.5 billion to USD 2.7 billion, before rising to an estimated USD 5.1 billion in 2013 (Massolution, 2013). The majority of crowdfunding platforms are based in the United States, followed by Europe. Although a newer phenomenon in the developing world, there are some crowdfunding platforms in developing countries.

Crowdfunding could become a new source of financing for development by providing platforms for people all over the world to contribute to philanthropic projects and ventures in developing countries. For example, the crowdfunding platform Indiegogo provides a channel for funding development projects such as Bamboo Lota. This project was designed to address deforestation and poverty in Malawi through the introduction of fast-growing bamboo charcoal instead of other forms of charcoal commonly used by poor families in the country. The project team raised money to conduct fieldwork and meet with government officials and NGOs in Malawi, build a kiln sourced from local resources for the community to create bamboo charcoal, and educate locals on the bamboo-to-charcoal process. Within three years, the government was actively investing in bamboo.

Such examples show the potential of lending, donation and reward-based crowdfunding models for providing innovative financing for development. Equity crowdfunding is more complex. While proponents of equity crowdfunding see great potential, envisaging that it will allow businesses to raise capital quickly and efficiently (Neiss, 2011), there are also many potential pitfalls. Equity crowdfunding essentially enables unsophisticated investors to inject money directly into young risky companies with the expectation of a financial return (NESTA, 2012b). In a number of countries this would require changes in current securities laws* (NESTA, 2012a). While a lot of attention has been given to recent legislation in the United States that will allow equity crowdfunding, this type of investment is not yet legal in many countries. There are active equity crowdfunding platforms in Belgium, France, Germany, the Netherlands and the United Kingdom, but many of these are new (a number of them only launched in 2012) so there is not yet much experience or evidence on how these are working (De Buysere, 2012) and what it might mean in terms of investor protection.

In short, crowdfunding could be used to generate new resources to finance sustainable development. While this potential should be reflected in the ongoing discussions of how to finance the post-2015 goals, there are still many challenges to be addressed, particularly for equity crowdfunding (Isenberg, 2012). The key will be to develop appropriate legal frameworks and build the necessary systems and trusted platforms to connect potential investors to appropriate ventures (World Bank, 2013).

* Those seeking equity investment must produce a prospectus approved by an authorised person and can only offer shares to sophisticated investors.

Source: This box was contributed to the chapter by Karen Wilson, Directorate for Science, Technology and Industry at the OECD.
NGOs manage and mobilise more than they raise

NGOs manage more money than they raise. They implement development programmes for governments and other providers to the order of USD 20 billion; this means that around 13% of ODA is channelled directly through NGOs. The United Nations organisations and foundations also implement programmes through NGOs. Most of this goes to large international NGOs; NGOs from developing countries receive only 9% of all ODA spent through NGOs.

The volume of the funds NGOs manage gives them a seat around the table to discuss development priorities, data and information about delivery on the ground and impacts on target populations. Yet that voice is largely dominated by governments and a few large international NGOs.

NGOs also mobilise more than they raise. Together with the OECD, their consistent, long-term monitoring of the performance of DAC development co-operation providers helps hold them to their commitments – such as the United Nations target of giving 0.7% of gross national income as ODA and the G8 Gleneagles commitments to sub-Saharan Africa (see Chapter 2). While the data show that providers vary in their success in living up to these commitments, it is hard to imagine that targets set in 1970 and 2005 would still have traction in 2014 without this assiduous monitoring of performance and the persistent advocacy by NGOs. Having said that, there are limits to the extent to which NGOs have been able to counteract strong political pressure to reduce ODA.

Public and political awareness of and perception of development needs are also driven by NGO campaigning and engagement, from television advertising to organising visits for members of parliament to poor communities. For example, decades of development education – both formal and informal – in the United Kingdom, spearheaded by NGOs, have helped to lay the foundations of public understanding and support that has made the achievement of the 0.7% target a reality in that country, even at a time of budget austerity.

Yet while these activities clearly boost social concern and provide a vehicle for international solidarity, they can also have downsides. Emphasis on the 0.7% target has led to much attention being given to whether or not certain finance “counts” as ODA, rather than focusing on how to mobilise additional funds. Similarly, the role of NGOs in mobilising resources and public concern for some developing countries (often driven by immediate fundraising imperatives) can lead to the creation of a distorted image of these countries, creating a climate that discourages investment there and impairing the realistic assessment of associated risks and opportunities.

Transparency and accountability are crucial

Raising and mobilising resources is one thing, but allocating them effectively is equally critical. With funds raised from the public of around USD 30 billion, and responsibility for managing other resources too, getting maximum value for every dollar spent by NGOs is important – especially because those resources are focused on the most vulnerable people. Transparency can make a big contribution to effectiveness. If NGOs have access to information on what other providers are doing, they can allocate their own money more effectively. Similarly, transparency on the scale and distribution of NGO finance can drive investments that complement each other and help prevent duplication.

Governments of developing countries report that obtaining timely and forward-looking data from providers – including transparency on NGO spending – is a key priority for them because it helps ministries and others to make better decisions. Access to these data – and the capacity to use them – is critical to drive accountability. Nonetheless, the very CSOs that advocate for transparency and
accountability often have a particularly challenging relationship with government and often operate in environments where there is limited space available for civil society. NGOs are often worried that governments will use information on their spending to curtail their room for manoeuvre, especially since some governments view these organisations with suspicion – as extensions of the political opposition or as representatives of provider interests.

What do we know about how NGOs allocate their resources? Like ODA, NGO private funding comes in different forms. Around one-fifth is in the form of gifts in-kind (food, clothing, commodities, etc.) and again like ODA, not all NGO funding actually reaches developing countries. For example, data suggest that at least 15% of funds privately raised in the United States for international co-operation actually stay in that country, being spent on activities such as student support. We do not know what proportion of the funds raised from the public by NGOs actually is spent on “technical co-operation” – the provision of know-how, capacity, personnel and skills – and just as with ODA, we do not have good data on transaction costs.

However, NGO transparency is increasing. Currently, 168 NGOs publish their data to the International Aid Transparency Initiative (IATI). While these data are of variable quality, looking at one of the best, WaterAid, makes clear the value of increased transparency (Figure 9.4). Users can see which types of organisations WaterAid uses to implement its work in various countries; in Malawi for example, WaterAid allocates half its money through government, while in Madagascar, the vast majority is spent through the private sector. Drilling down further in the IATI data, the specific locations and target populations are also identified; for instance, in Madagascar WaterAid helped 218,600 people in the urban commune of Antananarivo and provided 2,416 people with water and 1,409 with sanitation in Beravina. The added value of this data includes better understanding of what works, more opportunity to make all resources more coherent and effective, and greater opportunity for local populations to demand accountability.

Figure 9.4. WaterAid’s international funded activities by country and implementing organisation

In pounds sterling (GBP)

New business models are needed for the new global goals

The big question is how can this mixed bag of public engagement and resource mobilisation make the strongest contribution to the achievement of global targets for sustainable development? Policies are required that actively promote civil society engagement, funding and advocacy for common problems – whether nutrition, disability or financial inclusion. The geography of poverty is shifting and today large numbers of extremely poor people live in countries that are experiencing rapid and consistent growth (OECD, 2013). The likelihood is that in the future, the people who are “left behind” – in terms of income and other forms of poverty – will not only be concentrated in a few countries, but spread across many. These people will share certain characteristics: they are likely to have been excluded for reasons of gender, ethnicity, disability or health, or they will be trapped in multidimensional poverty. CSOs across the world hold particular expertise in policies and programmes that benefit vulnerable groups such as these. Making progress will rely on the experience and capacity of these organisations.

The rise of domestic giving and of domestic social change organisations in many countries such as Brazil, India and Mexico also offers great scope for increasing and sustaining resources for progress against poverty. Creating an enabling environment, including through tax and other incentives for mobilising individual and corporate resources, offers the potential to generate increased finance. As domestic organisations become more visible and stronger, it is likely that they will be increasingly used as implementing agencies for international development providers, having a stronger voice in resource allocation and mobilisation. However, the political imperatives for governments in provider countries to support their own national NGOs are likely to remain strong.

It is not clear whether the aggregate amounts of money available for meeting the global goals, or the extent of public engagement with them, will be stronger if NGOs are working in a framework that is based on shared problems across 200 countries, versus raising funds in one place to be spent in another. But achieving universal goals should be accelerated by policies that actively promote civil society engagement, funding and advocacy on common problems across boundaries.

It is also unclear whether the rise of direct giving will replace contributions channelled through NGOs or add to them. Individual giving websites have revealed their potential, but precisely because they are individual and private, the scale of giving is often invisible. Yet we know that in many societies there is widespread public involvement in international co-operation – be it through church groups, community and business links, individual support for students, volunteers or educational exchanges. Whatever form it takes, greater direct public engagement will continue to be part of an environment in which more actors – more government departments, more businesses, more individuals, more CSOs – are playing a part.

At the same time, there is huge potential for CSOs to mobilise more than they raise, but in a different framework. The increased opportunities for private giving and micro-investment, as well as the growth of remittances (Chapter 10), all offer potential for greater resource mobilisation and public engagement. Until now, CSOs have focused energy and attention on holding governments to their commitments. In the future, they may devote more energy to shaping the way in which the private sector contributes to the achievement of global goals. These efforts need to have a much stronger focus on “inclusive partnerships” that facilitate real collaboration in the fight to overcome poverty and inequality.

Over time, the boundaries separating civil society and NGOs from other development co-operation providers are likely to become more – not less – blurred. This will make joined-up working critical for releasing more value from available resources. For that, transparency and access to information are key.
Key recommendations

- Promote and support civil society engagement, funding and advocacy for addressing common factors linked to extreme poverty in all countries – whether nutrition, disability or financial inclusion.
- Ensure NGOs and civil society have political space and a key voice in discussing development priorities as well as data and information about delivery on the ground and impacts on target populations.
- Support joined-up working between NGOs, governments, the private sector and others through greater transparency and accountability, specifically through publishing data to the International Aid Transparency Initiative so that they can be used alongside data from all other providers.

Notes

1. While the terms non-governmental organisation (NGO) and civil society organisation (CSO) are often used interchangeably, CSOs generally encompass a larger cross-section of civil society groups which contribute to development. These range from global networks such as the Open Forum for CSO Development Effectiveness, to international organisations such as Action Aid International, to development NGOs with headquarters in development co-operation provider countries, trade unions, community-based and faith-based organisations around the world. The DAC statistical reporting directive defines the term NGO broadly as any non-profit entity without significant government-controlled participation or representation. See also OECD (2011).

2. See Chapters 1, 2 and 8 in this volume.

3. For example, see Chapters 5 and 7 in this volume.


5. The calculations for this figure include aid to CSOs in developing countries.


7. In his April 2013 report to the UN Human Rights Council, Maina Kiai, Special Reporter on the rights to freedom of peaceful assembly and of association, draws the attention of the UN system to “increased control and undue restrictions in relation to funding received [by NGOs]” (Kiai, 2013). CIVICUS has noted threats to civil society in 87 countries ranging from registration restrictions to serious limits on freedom of association, and a particular focus on restrictions of civil society access to foreign funding (cited in CSO Partnership for Development Effectiveness, n.d.).

8. The IATI is a voluntary, multi-stakeholder initiative that seeks to improve the transparency of aid, development and humanitarian resources in order to increase their effectiveness in tackling poverty. The IATI brings together provider and host countries, civil society organisations and other experts in aid information. See more at: [www.aidtransparency.net](http://www.aidtransparency.net).


References


I.9. THE CHANGING ROLE OF NGOS AND CIVIL SOCIETY IN FINANCING SUSTAINABLE DEVELOPMENT


