How to Allocate Public Funding to Nongovernmental Development Organizations

A Critical Assessment of the Dutch Co-Financing System

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The Dutch co-financing system for nongovernmental development organizations (NGDOs) is unique in Europe. Almost a quarter of public development aid is channeled through a selective group of NGDOs that have to satisfy a broad range of institutional and operational criteria. The procedures for defining the eligibility of these co-financing organizations have recently been streamlined to enhance competition and to guarantee more objective fund allocation. This article provides a critical review of the current system for allocating public funding to private development organizations and discusses the criteria used for comparing institutional performance and assessing the quality of submitted multiyear co-funding requests. Even though important progress has been made in cross-organizational appraisal of development agencies, the operationalization of selected indicators still suffers from ambiguities and arbitrary weighing procedures. Past performance and demand-side criteria are not yet considered, thus reducing the potential relevance of the assessment system for improving the effectiveness of development projects.

Keywords: public co-financing; NGOs; agency selection; development cooperation; Netherlands

Introduction

The Dutch co-financing system for nongovernmental development organizations (NGDOs) is rather unique in its kind. Nowhere in the Western world are more public resources channeled through private organizations as part of official development aid (ODA). Dutch NGDOs gradually increased their share in the public aid budget from 14% in 2001 to almost 25% in 2004, whereas the average NGDO share devoted by major Western donors to civil agencies is only 3.3%. Dutch NGDOs’ expenditures in Southern countries are more than 80% funded through public allocations.
The Dutch tradition of large private aid organizations—originally linked to major denominations with an extensive partner network of civil society organizations (CSOs) in developing countries—made co-financing an appropriate option, both for improving locally embedded programs and for guaranteeing continuous public support for development aid as a fixed share of national income. Public financing of projects executed by private development organizations has become rather common in other countries as well, but allocations are usually made to a selective number of “established” (national) NGDOs, and funding priorities are determined in line with public priorities. In some countries (notably Norway and the Netherlands), international NGDOs with specialized expertise can also submit funding proposals.

The allocation of public funding to nongovernmental development agencies is subject to much debate. On one side, we find advocates who argue that NGDOs are a more effective channel for executing poverty-oriented development projects, given their relationships with local partners that guarantee better access to information concerning local needs (Bebbington & Mitlin, 1996). On the other hand, several critics forward arguments that NGDOs only possess limited autonomy and that their internal bureaucracies severely hinder bottom-up and grassroots development programs (Edwards & Hulme, 2002; Koch, Westeneng, & Ruben, 2007). There are also different motives for reliance on co-funding of NGDOs; it is perceived as a strategy for mobilizing local demands and targeting traditionally excluded agents (mobilization and empowerment), as an instrument toward decentralization of the delivery of public services (outsourcing and subcontracting), and, more recently, as a strategy to keep governments on the right track (advocacy and research). The aim of this article is to outline the procedures used for public NGDO co-funding arrangements and to assess the different criteria used for tailoring these programs toward changing development aid objectives.

Co-funding arrangements for NGDO activities have been rapidly changing in recent years. Traditionally, the Dutch Ministry for Development Cooperation took charge of the individual assessment of NGDO project-funding proposals, but the large number of new projects obliged to shift toward a more global appraisal of regionally oriented and multiperiod aid programs. In subsequent periods, 4-year block grants were awarded to recognized organizations that were regularly evaluated through desk and field inspections. Grant assessment was mainly based on the quality of partner networks, the efficiency of aid delivery, and the adequate administration of the funding operations.

Within the current framework of budgetary aid—where bilateral cooperation programs are derived from priorities defined through nationwide poverty reduction strategy plans (PRSPs)—NGDO development programs become subject to a new kind of dynamics. First, bilateral donors are trying to improve development coherence by involving NGDOs in the execution of their country strategy and tend to condition their co-funding to programs within the PRSP priority list. Second, local
CSOs are increasingly considered as functional agents to support national strategies toward decentralization and privatization of public service provision. This may eventually lead to direct funding of local CSOs without any engagement of their Western NGDO partners. Back donors are therefore likely to evaluate co-financing proposals against the background of their contributions to institutional strengthening and their effectiveness as a channel for sustainable development operations. Third, within the framework of the Millennium Development Goals (MDGs), impact assessment and visibility of results in terms of direct poverty alleviation become increasingly important. Other functions of NGDOs, such as mobilizing domestic public support for development cooperation, contributing to (inter)national advocacy and lobbying, and providing technical, tactical, and strategic support to local agencies, are under great stress.

Clear rules and procedures for allocating public funds to private development organizations are notably absent. Piciotto (1995) recognizes the NGDO sector as a key agent for improving the local delivery of public goods and services and for guaranteeing the accountability of (sometimes rather monopolized) private sector activities. New approaches to public finance identify specific sectors where club goods (common group interest) or merit goods (social venture with community returns) are considered particularly appropriate for collective action (Kaul, 2006). NGDOs thus perform key functions in settings where markets and/or institutions fail to deliver goods and services to poor households. In such situations, public co-funding can be provided to overcome development bottlenecks and to generate leverage toward multisectoral partnerships required for reducing entry and transaction costs or start-up costs. Within this framework, strategic choice of the areas for undertaking development activities, the innovative character of interventions, and the inherent quality of aid programs tend to become major criteria for NGDO co-funding. Peer group comparison is increasingly used as a procedure for identifying suitable agencies for public co-funding (Crackwell, 2000; Downs, Rocke, & Barsoon, 1996).

The remainder of this article is structured as follows. First, we discuss the different motives and derived criteria for involving NGDOs in public development cooperation programs. After that, we outline the historical evolution of the Dutch development co-financing system in force since 1965, explaining the rationale for recent adjustments in the fund allocation regime. This is followed by a review of the new procedures used to determine the eligibility of development agencies and the criteria for appraisal of the submitted funding proposals. We present a critical review of some major deficiencies in the current procedures, focusing on shortcomings in four areas: (a) the choice of relevant selection criteria, (b) the sensitivity of the selection results, (c) some arbitrariness in the allocation criteria, and (d) the implications of weighing of selection criteria. The article concludes with some future challenges for public co-funding regimes and alternative options for improving the developmental role of nongovernmental organizations.
Nongovernmental Organizations and Development Cooperation

Public funding for private development organizations was originally envisaged as an independent channel for reaching specific target groups in developing countries. Inspired by new approaches on public finance for organizing the aid architecture (Gibson, Andersson, Ostrom, & Shivakumar, 2005; Kaul, 2006; Wallace, 2006), attention is increasingly focused on identifying the appropriate niche for NGDO activities and the design of funding arrangements that guarantee efficiency and impact (while avoiding substitution). Therefore, traditional mechanisms of block grants and concessional aid tend to be replaced by competitive bidding and multicriteria appraisal of funding proposals based on a wide number of criteria that reflect public priorities for improving aid coherence.

The changes in the subsidy structure for NGDOs can thus be considered as the outcome of a process in which three interrelated tendencies are of central importance: (a) changes in the international policy context in which development cooperation takes place, (b) adjustments in the international aid architecture, and (c) changing views concerning the appropriate roles and functions of private agencies in development cooperation. These tendencies result in new demands and requirements for NGDO programs and give rise to new outcome-oriented assessment procedures for the Dutch co-financing program.

With regard to the international policy context, reference can be made to new agendas with growing emphasis for good governance, democratization, and the consolidation of fragile states. Fowler (2005) argues that these global demands restrict the operational freedom of NGDOs. There is also some fear that development and humanitarian agendas may be captured by security motives, leading to increasing pressure toward NGDOs to link up with geopolitical goals (Lister, 2004). Streamlining of NGDO programs with (inter)national policy priorities imposes conditionality with regard to the choice of countries and the selection of activities.

Likewise, changes in the international aid architecture have a decisive impact on NGDO operations. During the 1970s and in particular in the 1980s—marked by strong tendencies of state withdrawal—NGDOs were rapidly considered as alternative providers for collective services, making them susceptible to a more instrumental role as mere contractors for donor policies. The current reappraisal of the role of the state in development may again reduce reliance on NGDOs (Agg, 2006). The Monterrey Conference on Financing for Development further strengthened the need for aid harmonization, urging for closer partnership between public and private agencies involved in development planning. Internationally agreed goals increasingly determine the working domains and required competencies for involving NGDOs. Given the need to enhance aid performance (equally required to maintain the public support base for development cooperation in donor countries), competitive grant allocation procedures...
based on unambiguous incentives and performance criteria tend to be preferred (Gibson et al., 2005). Within this framework, direct funding of Southern CSOs bypassing their traditional Northern agencies may also become an option. Ironically, these changes have been partly induced by pressure from the Northern NGDOs: The success of their Southern partners now provides the rationale for giving them greater autonomy.

Finally, there is also an emerging debate on the appropriate role and functions of NGDOs and the operations of their CSO counterparts (Agg, 2006). Critical views refer to the limited constituency underpinning their development role. Central issues in this debate concern their legitimacy (who do they represent?), accountability (to whom do they report?), and effectiveness (what do they reach?). With regard to NGDO contributions to poverty reduction and democratization, much of the literature is anecdotal and based on scarce empirical evidence. Service quality, output delivery, and poverty reduction impact criteria are considered of key importance to select the NGDO channel (Cassen, 1994). Otherwise, it is also acknowledged that overemphasizing these functions may limit the extent to which NGDOs can contribute to civil society building.

The before-mentioned policy changes pose new institutional challenges to NGDOs, and increasing societal demands imply that their position in the development process tends to be evaluated against the criteria used by public back donors. Edwards (2004) identified three different but clearly interrelated functions for private development agencies: (a) enhancing economic participation, (b) enabling social mobilization, and (c) facilitating political representation. The relative importance of these different roles is, however, subject to considerable debate.

Dutch development policy relies on three intervention strategies, which clearly reflect the different roles assigned to NGDOs. The first strategy is focused on direct poverty reduction, promoting income and employment options and service provision to poor households. These activities have been part and parcel of NGDO operations since the very start of the public co-funding. However, clear limitations are met in the sometimes large subsidy component and the restricted outreach. In recent years, new criteria related to the scale of operations, cost-effectiveness, and operational sustainability have therefore been introduced for considering NGDO involvement. In addition, subcontracts with private enterprises are increasingly used to address these needs.

The second intervention strategy of civil society building emerged from the 1980s onward. It departs from the idea that local CSOs are capable of supporting democratic citizen participation. Even though such a generalist viewpoint has been criticized (Carrothers, 2006), it is still firmly supported by many policy makers. Key activities include projects in the field of human capacity building and community development through partnerships with local CSOs. Civic organization is considered of critical importance to guarantee popular participation and to create a middle class that is capable of maintaining a political power balance.

Finally, the third intervention strategy within the Dutch development policy focuses on policy advocacy and lobby. This strategy reflects the political role of
NGDOs, providing voice to popular demands and exercising policy pressure through strategic (inter)national alliances. In the era of global aid through budgetary support, these advocacy and watchdog functions of NGDOs become increasingly important, because bilateral and multilateral donors feel constrained to assume such more political roles themselves. Otherwise, given the strong focus on impact and efficiency of development aid, the level playing field for NGDO lobby becomes more restricted.

These different development roles result in a gradually broadening set of criteria for public aid delivery through NGDOs. Originally supporting local interventions, their area of operations is gradually moving toward national and even international arenas. This process is further challenged by the emergence of so-called private initiatives that take over part of direct poverty reduction programs from traditional NGDOs. Simultaneously, Southern CSOs claim a larger role in project formulation and execution, thus replacing their Northern counterparts in the request for donor funding, making reference to their established local legitimacy.

Considering all these different roles and functions, it will be clear that the selection of NGDOs eligible for public funding involves a broad number of sometimes contradictory criteria. In essence, the choice of preferred agencies and appropriate programs reflects public choice preference for specific claims that NGDOs make as development agents. First, in line with the instrumental view of NGDOs, criteria related to the quality, efficiency, and sustainability of programs tend to prevail. Second, for civil society building, the partner network, policy relevance, and societal orientation are of key importance. Third, to maintain and strengthen their constituency underlying advocacy and lobby, NGDOs need to guarantee their relationship with the poor, developing innovative outreach procedures and show tangible and visible results of their work.

Satisfying so many different—and sometimes even contradictory—criteria sounds like a rather impossible task. And yet, this is exactly what is being asked of NGDOs when submitting funding requests to their public back donors. The multiple criteria set used for evaluating these co-financing proposals essentially reflects, therefore, a curious combination of views concerning multiple NGDO roles and their functions in the development process. In the following, we will illustrate this by discussing the evolution of the Dutch co-financing program over the past 40 years.

**Evolution of the Dutch Development Co-Financing System**

The historical evolution of the Dutch co-financing system for NGDOs provides an interesting illustration of the changing views with respect to public funding through private development agencies. We can broadly distinguish between three different stages (see Figure 1):
1. Initial stage (1965-2002) with gradual recognition of a selective number of large NGDOs as privileged co-funding agencies, alongside a large number of more specialized NGDOs that received individual project funding;

2. Expansion stage (2002-2007) with the co-existence of two large co-funding schemes: one broad framework for core funding support (MFP) and another fund for specialized thematic (inter)national agencies (TMF);

3. Consolidation stage (starting in 2007) with large program grants to Dutch-based NGDOs (Medefinancieringsstelsel [MFS] or co-financing system) and a separate program of Strategic Alliances with International NGDOs (SALIN) for a selective group of preferred non-Dutch partners.

During this transition from selected agencies to long-term programmatic partnerships, the core criteria for selection and co-funding were gradually adjusted. Whereas in the initial stage, institutional aspects related to the quality of the partner networks
and the effectiveness of aid delivery were considered of major importance, in subsequent periods, other criteria focusing on planning procedures and consistency (during the consolidation stage) and priorities of visibility and policy relevance (during the specialization stage) became increasingly important. The reorganization of public funding is thus accompanied by similar shifts in assessment criteria, in line with changing perceptions concerning the role of NGDOs in the development process.

Initial Stage

NGDOs became officially recognized as an important channel for development aid in 1965 when an initial amount of 5 million Dutch guilders was set aside for funding of the private development organizations. This co-financing program is the oldest ministerial funding scheme for NGDOs in the Netherlands and was originally restricted to three organizations: the Catholic Cebemo, the Protestant ICCO, and non-faith-based Novib.4 In 1978, a fourth organization was added (Hivos, with a humanistic background), followed in 2001 by Foster Parents Plan (currently known as Plan Nederland), and 2 years later, Terre des Hommes was admitted. In the meantime, their funding from the Dutch government increased from approximately €2.3 million in 1965 to nearly €1.3 billion over the period 1998-2001.

Although in financial as well as policy terms, the large co-financing agencies dominate NGDO funding, they were by no means the only private organizations supported by the Dutch government. Individual funding schemes have been created for work on domestic support for international development in the Netherlands (NCDO), personal technical assistance (PSO, SNV), and development programs through labor unions (CNV, FNV). Other more specialized NGDOs received funding directly through thematic and regional departments of the Ministry or through Dutch embassies in developing countries. Over the period 1998-2001, some 350 of these NGDOs were supported for a total amount of €256 million.

During this first period of public assistance for NGDO programs, main attention was focused on criteria related to the quality of partner networks, the efficiency of aid delivery, and the adequate administration of the funding operations. Private agencies were supposed to be particularly able to mobilize their traditional counterparts in developing countries as effective agents for channeling aid. The main thrust for public funding through NGDO networks was based on their access to local agencies with broad popular support, which provides a cost-effective entrance to grassroots organizations. Therefore, existing networks with established partnerships were considered as a semi-independent channel for civil society building.

Expansion Stage

In subsequent years, the structure of Dutch NGDO co-funding experienced major changes, in terms of both its organization and its content. From 2002 onward, the
co-funding scheme was transformed into a broad co-financing program (MFP), and the rather unstructured funding of hundreds of smaller NGDOs was streamlined into the theme-based co-financing program (TMF). These changes essentially go back to criticism by the former Minister for Development Cooperation Eveline Herfkens, who considered the large agencies as a “closed front,” because their financial dependence on the government strongly reduced their sensitivity for new strategies and risky alternatives. Backed by a new subsidy law, the Minister introduced some fundamental changes in the relationship with the NGDO community (Schulpen & Hoebink, 2001).

After a broad consultation involving large segments of the Dutch private development community, five two new subsidy schemes emerged in 2003: an enlarged co-financing facility and a more specialized TMF program. Whereas the former was meant for those organizations with broad, all-encompassing strategies and programs for poverty reduction (in effect, the established co-financing organizations), the TMF was meant for smaller, more specialized NGDOs working toward poverty reduction from a thematic approach (e.g., gender, the environment, communication, health care, human rights, etc.).

Six large organizations presented broad multiannual subsidy applications to an independent advisory committee for the period 2003-2006. Although all six requests were granted, not all plans and proposals were considered of sufficiently high quality and a ceiling of 11% of the budget for this category of co-funding was proposed (Adviescommissie MFP, 2003).

The assessment structure for theme-based proposals was essentially different. All requests were judged by staff members of the ministry itself and not by an external advisory committee. Moreover, proposals could be submitted yearly, thus leaving room for adjustments of the TMF policy (see CIDIN, 2006; De Ruijter, 2006). Over the four rounds between 2002 and 2005, the ministry received some 470 funding applications, of which half were approved. Although some organizations applied more than once, these figures indicate that TMF was able to support a large number of NGDOs, including a substantial number of non-Dutch agencies.

During this second period, criteria and priorities for public funding through NGDOs started to pay more attention to issues of scale, professionalism, and coordination of development planning. In line with general concerns about aid effectiveness (Collier & Dollar, 1999), organizations were evaluated more from the viewpoints of aid delivery and the inherent logic and coherence of their particular intervention strategies. In addition to partnerships with Southern CSOs, the support to Northern NGDOs was required to show visible results of the cooperation efforts.

Consolidation Stage

The new MFS co-financing subsidy program that started in January 2007 is specifically meant for (consortia of) Dutch NGDOs. The former separate subsidy schemes
were merged to encourage interagency networks that were favored in the policy paper *Mutual Interests, Mutual Responsibilities* (DGIS, 2003). All the participating NGDOs are assessed on quality and effectiveness of their performance in their areas of expertise. Differences between general and specialized organizations are no longer considered to be an obstacle for cooperation in a single subsidy scheme.

Also in other aspects, the MFS scheme differs from its predecessors. Most important, only program funding is possible and core funding is abandoned. Moreover, the program is strongly focused on the mobilization of public support and encourages complementarities between private and bilateral aid channels. Finally, civil servants of the Ministry for Development Cooperation that were in earlier stages still responsible for assessing the subsidy applications are sidetracked: All MFS applications have been assessed by an external commission (known as the Commission-Bikker).

An alternative channel for international NGDOs is provided by the new SALIN program, which will start functioning in 2007. SALIN follows an entirely different structure and subsidy modality. It departs from a preselected group of 20 short-listed organizations that are eligible for funding once their applications are positively assessed. This provides the ministry a strong say in the final selection and abandons the principle of fully open competitive bids.

The main elements characterizing the current stage of Dutch NGDO co-funding refer to the increased attention for effectiveness of interventions and aid chain management. In addition, visible results and demonstrated impact will be required to deliver during the next 5 years. These results are also considered to be important for sustaining the popular support for Dutch budgetary funding of development aid. Other goals such as enhancing innovation were also included but proved to be difficult to reach within the new institutional setting. Some agencies fully transformed their internal organizational structure to be able to respond to these new demands. Traditional sections based on maintaining partnership contacts are now oriented toward functional intervention areas. Other NGDOs enlarged their networks with specialized organizations or are considering decentralization to Southern co-management structures.

**Assessment Procedure for NGDO Funding**

The assessment system used for selection of agencies and programs under the new co-financing scheme includes a number of successive steps to determine whether or not an organization is eligible for co-funding and which total budget is granted. We outline the basic features of this appraisal procedure, focusing attention of the relevance and weight of different sets of assessment criteria. The new system can be considered as a mixture of criteria used in earlier stages, relying on expert-based judgments for institutional and project design indicators as a key selection criterion.

Figure 2 provides an overview of the current procedure. In the first stage, every proposal has to pass some threshold criteria. In case a proposal does not sufficiently
comply with these threshold criteria, it is fully rejected. The main threshold criteria refer to the ability to mobilize 25% of own (internal) funding and the demonstrated capacity to rely on a popular base in the Dutch civil society. In the current assessment, 20 out of the 114 proposals failed to pass this criterion.

The second step for the remaining proposals concerns the so-called growth limit. This step does not lead to rejection but is only meant to limit the growth of the

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**Figure 2**

Nongovernmental Development Organization (NGDO) Program Assessment Procedures

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Note: O-test = organization test; V-test = program test.
subsidy. It was agreed that organizations that received earlier funding would be limited in the funds requests under the new co-financing scheme. Depending on the earlier funding, organizations were allowed to grow by 25% (for former MFP organizations) up to 200% (for former TMF organizations). In the current procedure, the proposals of 15 organizations were beyond the maximum allowed amount and the requested budget was adjusted to the permitted maximum. Strange enough, no attention was paid to the fact that project design and budget demands are intrinsically linked.

The third step for the remaining organizations was the so-called organization test (O-test), focused on an assessment of the NGDO inherent institutional strength. This test includes 10 indicators, ranging from the quality of the partner policy, to the quality of the track record, to the internal efficiency of the organization. All criteria received an initial weight, with a total maximum score of 100 points. The minimum acceptable score was set at 65 points. In the current procedure, 38 NGDOs did not reach the minimum level, including one large co-financing agency (Plan Nederland).

The fourth step in the assessment procedure served to determine the subsidy amount. Each proposal is now assessed on the basis of the 10 criteria of the program test (V-test). The program proposals received scores on criteria related to policy relevance, the consistency in strategic choices, and (again) the quality of the partner policy. Proposals could receive a maximum of 100 points. In the current procedure, 58 organizations were evaluated and received an average score of 69.7 (ranging from 52 to 91).

Hereafter, during the fifth step, the outcomes of the V-test and the O-test are combined to reach the average score for each of the organizations. This average score is used to calculate a possible deduction (called malus percentage). At this stage, the score of each organization is compared with the average score for the group of organizations (i.e., large or small NGDOs). In case the outcome of the individual organization is below the group average, the requested amount is reduced with that same percentage. Finally, only for large NGDOs, an additional deduction could be applied in case the organization fails to reach a so-called minimum reference score (fixed at 7.7).

The Dutch NGDO appraisal procedure finally resulted in the approval of the programs for 58 organizations with a total amount of €2.110 million. The 14 large NGDOs received 89.2% of the funding for a total amount of €1.883 million, with an average of €134 million per organization (ranging between €1.7 million and €525 million). The remaining 44 smaller organizations received €227 million (10.8% of total funding) with an average of nearly €5.2 million per organization (ranging between €1 million and nearly €10 million).

Some major characteristics of this innovative procedure for public fund allocation to NGDOs can be summarized as follows:

- open submission of funding proposals, with an implicit incentive for projects integrated by a consortium of likewise NGDOs;
- expert-based judgments based on two sets of (semi-)independent indicators for institutional strength and program design;
• constrained additional funding due to the application of a maximum permitted growth rate;
• peer-group comparison based on average scores within the NGDO compartment and application of (arbitrary) reference score;
• guarantees for sufficient diversity in funding arrangements for small and large organizations;
• control of total funding in line with the budget ceiling for the program.

In the following, we provide a further discussion of the assessment procedure based on an ex-post appraisal of the relevance of the specific indicators.

Critical Appraisal

Whereas the new Dutch NGDO co-funding framework is certainly innovative for providing a more objective procedure for public fund allocation to NGDOs, we can assess the ex-post validity of the procedure against the background of shifting views concerning the role of NGDOs in development cooperation. Therefore, we consider the outcomes of the project appraisal procedure as a quasi experiment (Meyer, 1995) and apply common statistical tools to determine the significance and weight of each of the indicators applied during the assessment.

Notwithstanding the detailed assessment of each of the proposals, we present a critical appraisal of some major deficiencies in the current procedures, focusing on shortcomings in four areas: (a) the choice of indicators, (b) the implications of ex-ante weighing of selection criteria, (c) the sensitivity of the selection results, and (d) some arbitrariness in the allocation criteria.

Indicator Choice

The indicators used for the O-test and the V-test have been selected after a broad consultation with the work field. The indicator framework clearly reflects a mixture of criteria that are based on different views concerning the role of NGDOs in public development cooperation. Broadly speaking, three different traditions can be identified:

1. criteria related to local networks and partnerships, mainly based on experiences during the initial stage of co-funding operations;
2. criteria related to programmatic consistency and visibility of the results, as derived from the expansion stage of core funding operations;
3. criteria related to efficient aid chain management and field-level impact, that are characteristic for the current consolidation era of NGDO cooperation.

The final criteria list contains a rather unbalanced combination of these indicator sets. In the O-test, criteria from the first category clearly prevail (e.g., partnership
policy, effectiveness, quality partner relations), whereas in the V-test, far more attention is given to policy relevance and impact (e.g., consistent strategy, program logic, sustainability, etc.).

There are, however, some critical problems with the current indicator framework. First, some indicators (i.e., effectiveness, partner policy) are used twice in both the O-test and the V-test. Second, many indicators are closely related to each other and thus cannot be assessed independently. Third, for most indicators, it proved to be rather difficult to define an appropriate scaling range. It shows that much caution is required to evaluate organizations pursuing multiple aims and objectives.

### Weighing Procedures

Within the indicator framework, all indicators received an arbitrary ex-ante weight for the assessment procedure. These initial weights ranged from 9 to 19 points (over a total of 100), thus indicating the relative importance of several appraisal criteria. In practice, this procedure turned out to be rather different.

Based on the final organization assessment results, we conducted a probit analysis to identify the factors influencing final acceptance (see Table 1). Only three criteria appear to be statistically significant, indicating that for most other indicators, the panel scores for the proposals were fairly close to each other. Moreover, some indicators have a substantially larger ex-post weight compared with their initial weight. This is the case, in particular, for indicators that refer to the quality of the partnerships and, to a minor extent, for the criteria concerning effectiveness and innovativeness. The likely implications are that larger organizations with more established partnerships and a stronger Southern-based infrastructure have a higher chance of being selected.

It is interesting enough that some criteria that are considered highly relevant for selecting appropriate NGDO partners (such as societal orientation, visibility, or planning capacities) appear with a substantially lower final weight and are sometimes not even significant in the selection process. This points to requirements for considering more independent dimensions of organizational performance, based on objective NGDO track records and making use of local (Southern) expertise for their assessment.

### Sensitivity

The application of the Dutch NGDO assessment has been assigned to an independent committee, whereas the appraisal of proposals is conducted by external consultants. In practice, most proposals were only judged by a limited number of 2 to 3 experts, and not all proposals have been assessed by the same staff. Expert judgments are frequently used to assess alternative technical options in areas where scarce scientific expertise is available (Adler & Ziglio, 1996). It proved to be, however, far less reliable in a setting where institutional strategies are a matter of concern.
The final selection of NGDO proposals appeared to be rather sensitive to upward or downward adjustments of threshold criteria. Lowering the acceptance thresholds by 5% or 10% resulted in 12 to 28 more approvals, respectively. Such error margins are likely to exist when proposals are only assessed by a limited number of experts and certain ambiguity prevails in the assessment criteria. The low standard deviations in the scores for many indicators also point toward the likelihood of many scores around the average. It would thus be preferable to rely on a larger group of at least trained experts who are in charge of full assessment of all proposals.

### Allocation Criteria

The thresholds for organization performance and maximum program growth rate used in the MFS assessment are mainly applied to balance the demand and supply for funds and still lack analytical foundation. In addition, the scaling of all indicators on a 10-point Likert-type scale suggests a high degree of accuracy, whereas in practice, a more restricted 5-point scaling might be preferred to account for existing uncertainties. This is illustrated by a full appraisal of the factors that effectively influenced MFS fund allocation (see Table 2). Only 7 out of the 20 indicators proved to be significant, whereas some key indicators (i.e., effectiveness, program logic) played no significant role in the final allocation. The indicators for societal leverage (1 extra point results in €9.1 million additional allocation), quality of partnerships (€8.9 million for each extra point), and visibility in the aid chain (€6.8 million for
each extra point) are of particular importance. It is surprising that the indicator for innovativeness has a significant negative weight, because only few organizations with minor budget allocations received a high score for this aspect.

In conclusion, the newly designed procedure for assessing public funding for NGDOs proved to be a relevant tool for enabling a more objective cross-organizational analysis, even though its practical application meets a number of constraints due to numerous thresholds and benchmarks, arbitrary application of some criteria, and the introduction of ex-ante weighing of indicators. Nevertheless, the Dutch experience provides important lessons for other agencies on peer-group comparison of development aid agencies, in particular in the fields of (a) improving transparency in aid allocation procedures, (b) enhancing quality-based competition between NGDOs, and (c) strengthening complementarities between public and private aid programs.

With regard to the latter, the whole procedure still reflects an implicit dilemma

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<td>2.445989</td>
<td>.167</td>
</tr>
<tr>
<td>Program test (2/3 weight)</td>
<td></td>
<td></td>
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</tr>
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<td>Consistency strategic choices</td>
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<td>5.019928</td>
<td>.443</td>
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<td>Partnership policy</td>
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<td>3.721959</td>
<td>.018**</td>
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<tr>
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<td>5.204648</td>
<td>.084*</td>
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<td>4.986752</td>
<td>.712</td>
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<td>Value added innovative elements</td>
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<td>3.565706</td>
<td>.072*</td>
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<tr>
<td>Effectiveness</td>
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<td>4.034278</td>
<td>.263</td>
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<tr>
<td>Sustainability</td>
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<td>7.883916</td>
<td>.213</td>
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<td>Visibility of results</td>
<td>–5.117</td>
<td>4.987926</td>
<td>.308</td>
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Note: Significant variables are in bold.
*p < .10. **p < .05. ***p < .01.
between different viewpoints concerning the desired role of NGDOs for development cooperation. We noted a gradual shift from NGDO support considered as outsourcing through semiautonomous agencies toward a more functional approach of subcontracting of NGDOs that perform complementary tasks to ongoing bilateral and multilateral programs. The latter tendency implies that NGDO operations are increasingly evaluated within the framework of public development priorities and that NGDO programs are mainly considered as effective channels to reduce entry and access costs for subsequent interventions by major bilateral donors.

Challenges Ahead

The pilot experience of the Netherlands Ministry of Foreign Affairs for initiating a new appraisal system for public support to NGDOs provides an interesting example of shifting relationships between public and civil society agencies. A complex system for assessing institutional capacities and programmatic strengths has been launched to encourage a more transparent level playing field and to safeguard “objective” evaluation procedures across multiple agencies.

The current stage of more consolidated program support marks the beginning of a new era in public co-financing arrangements for development cooperation. The multiple criteria system used for their assessment still reflects, however, different viewpoints with respect to the role and functions of CSOs. We can summarize these different lines of thought as follows.

NGDO Autonomy

Original reasons for NGDO support are strongly based on the requirements for local capacity building and the mobilization of societal “voice” for poor and neglected sectors within developing countries. At that time, NGDOs could hardly do anything wrong and were positioned as the champions of collective action for direct poverty reduction. The main argument for public support to these organizations was based on their effectiveness as a channel to local groups that cannot be adequately reached by bilateral or multilateral donors (Bebbington & Mitlin, 1996).

In recent years, this viewpoint has been increasingly challenged (Lister, 2004). NGDOs are sometimes even accused of displacing local movements and bypassing democratic processes. It is argued that many NGDOs only possess limited autonomy and that their internal bureaucracies severely hinder bottom-up and grassroots development programs (Hulme & Edwards, 1997). The “close to the poor” position is considered now as a caricature of their role and their stated political contributions to bottom-up democracy building and advocacy were questioned (Lister, 2004). This paves the way for a more complementary approach to NGDO funding, looking for further synchronization of development programs in line with donor priorities.
NGDO Effectiveness

The increasing NGDO role in development cooperation is justified by referring to their comparative advantage for involving key beneficiaries in the delivery of development goods and services. In line with the changing political constituency (i.e., tendencies of liberalization and globalization), the contribution of NGDO activities for enhancing demand-oriented development programs is seen as their major advantage.

This shift in focus is clearly related to changes in the international development policy and aid architecture with its emphasis on ownership, democratization, specialization, partnerships, and coherence. It makes NGDO development interventions subject to a new kind of dynamics. Trying to improve coordination, bilateral donors involve local and international NGDOs in the execution of their country strategy and increasingly consider them as functional agents to support national strategies toward decentralization and privatization of public services. At the same time, because public donor funding to local governments is increasingly based on budget support, demands for outsourcing of local service provision will probably continue, thereby diminishing the needs for NGDO funding parallel to government systems (Fowler, 2005). As a consequence, there is increasing competition for funds, not only between Northern NGDOs but also between Northern and Southern agencies.

NGDO Impact

The current stage of NGDO partnerships within global public co-financing schemes marks a clear shift to a more managerial approach, where sectorwide effects and the demonstration of impact are the main criteria. Based on a somewhat more critical—or perhaps more realistic—view of NGDOs and their potential added value, demands are placed by back donors to show results and thus demonstrate the real impact of their interventions. NGDOs are therefore required to monitor and evaluate their work more systematically, to deliver downward as well as upward accountability, and to “meet the high standards of transparency and openness that they demand from others” (Lister, 2004, p. 4). Departing from the conventional wisdom that Northern NGDOs should “strengthen the capabilities of Southern CSOs instead of undertaking direct service delivery themselves” (Fowler, 2005, p. 7), it is also demanded that they re-examine the relationship with their Southern partners. It is expected that—driven by ideas of ownership and maturity of Southern civil society—direct funding to the Southern CSOs will increase at the expense of their Northern counterparts (DGIS, 2006). Most likely, a direct Southern-oriented funding scheme will be in place by 2010 and the Netherlands will join other European donors (e.g., DFID in Great Britain, NORAD from Norway) that already have experience with such direct funding schemes.

Finally, there are few signs that this subsidy structure can remain in force for a very long time. For 2008, a new round of consultations between the ministry and Dutch NGDOs has already been announced to discuss further adjustment in the
system. Evidence on impact is likely to be introduced for new NGDO grant requests. Demands for open competition may challenge the current division between Dutch and non-Dutch NGDOs, and Southern CSOs might become eligible for direct funding. These new challenges undoubtedly play a role in the future shaping of the Dutch co-financing system.

Notes

1. Only Ireland (23%) and, to a minor extent, Luxembourg (16%) provide comparable support to the NGDO sector.
2. Co-financing is a rather common phenomenon for fostering public–private cooperation in the Netherlands, also widely applied in education and social service provision. Organizations can receive up to 99% of co-funding for their operations if they comply with certain requisites.
3. Private initiatives (PIs) are defined here as the support to development projects and programs by (groups of) civilians. Essentially, they are not part of the regular aid architecture, although they may (as is increasingly the case in the Netherlands) receive co-funding from governments and/or NGDOs. In many cases, people in contact with poverty settings (e.g., during their holidays) are triggered by registered direct needs of local civilians and decide to become active themselves. Their often critical view of the traditional aid agencies (NGDOs and governments) incites them to direct action. Most PIs are active in the fields of direct support in areas such as health care, education, micro-credit, and orphanages. They thus belong most to the direct poverty reduction strategy.
4. Cebemo was later renamed Bilance and is currently known as Cordaid. Since 2006, Novib is known as Oxfam-Novib.
5. This consultation resulted in the policy paper entitled Civil Society and Poverty Reduction (DGIS, 2001), which was "widely acclaimed for its vision and quality" (De Ruijter, 2006, p. 17).
6. Maintaining an office in the Netherlands is the (somewhat arbitrary) criterion used to determine whether an organization is to be considered Dutch or not.

References


DGIS. (2006). *Kamerbrief inzake uitwerking van maatschappijopbouw in het MFS en beleidskader lokaal actieve NGO’s* [Letter to Parliament regarding the effects of civil society building in the co-financing program and policy framework for locally active NGOs]. The Hague: DGIS.


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