

Enhancing the Quality of NGO Funding

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The author argues for a better quality funding to NGOs which keep in mind the growth and development needs of the NGO, and just concern itself with project implementation. He establishes why its important to support the institutional development costs, that are hidden such as building a conducive culture and climate in the organisation, funding and retaining high quality human resources and setting internal systems for governance and management.

Reaching out to the poor requires the right orientation, flexibility and considerable creativity, which the state on its own usually lacks because of its 'delivery-and-disbursement' way of working, dysfunctional procedures and low motivation of its personnel.

Partnering with 'good' NGOs is one way of improving implementation; other approaches include decentralization, enhancing transparency and raising the motivation, morale and capacity of the development staff through grass-roots governance reforms. The latter approaches are, in a sense, essential long-term projects. India is fortunate to have a number of good NGOs working at the grass-roots level. Many government programmes do indeed partner with NGOs, but tend to treat these organizations merely as low-cost channels for aid delivery. This attitude attracts a high proportion of opportunistic NGOs, which are in the field primarily for the money. The cynicism this has engendered is unfortunate because it overlooks the fact that there are many good NGOs and partnering with these could make a huge difference.

The quality of financial support that NGOs receive is important. Most donors, whether government or private, tend to subscribe to the "dangerous myth...that sustainable development is quick, cheap and easy" (Alan Fowler, 2005, 'Striking a Balance: A Guide to Enhancing the Effectiveness of Non-governmental Organizations in International Development', Earthscan, South Asian Edition, London). Funding is largely restricted to programme expenditure, ignoring the crucial role of organizational overheads and process costs. This discussion note summarizes the experience of a well-known NGO, PRADAN, which specializes in creating livelihoods. It looks at how PRADAN was able to innovate and record significant achievements across a number of sectors because two of its early donors (one of which—Inter Church Organization for Development Cooperation, ICCO—became a long-standing partner) were willing to finance the costs of overheads and institutional development.

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PRADAN is aware that its human resources are its greatest asset. Indeed, the comparative advantage of the voluntary sector lies in its people. Unless this is recognized through an appropriate pattern of funding, many NGOs will continue to be used as low-cost sub-contractors, with results not very different from those obtainable by the government on its own.

The other lesson of the PRADAN-ICCO partnership is that ICCO showed enough flexibility and patience to give PRADAN the time and operational space to produce results, as will be illustrated through one of its activities—producing tasar.

Whereas the donors in this case were private, both the lessons mentioned here are equally applicable to government funding. An additional difficulty with availing government funding for NGOs such as PRADAN, which get the bulk of their funding under anti-poverty programmes, is that the organization tends to be available in different programme, not just across different programmes, but across locations. Thus, a large NGO such as PRADAN, which operates across several states, mostly in the poorest tribal areas, has to devote considerable time and energy to accessing funds from different 'windows'. When the funds get delayed in any of them because they have to trickle down to many levels in each budgetary

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cycle or because a programme is withdrawn before a successor programme can replace it (as happened for instance when the IRDP was replaced by the SGSY, which was then replaced by the NRLM) or for any other reason, implementation suffers while costs and uncertainty increase. For large NGOs implementing a variety of programmes in different locations, there is need for a single window, which will allow them to re-allocate funds

across different programmes and locations, adapt programmes to local conditions and create new programmes while reducing the costs of running around and dealing with the uncertainty.

Such a window can be opened by an autonomous body, set up and funded jointly by the government and non-government donors, including Indian and foreign philanthropies. It will be professionally led and managed and staffed and governed, with a strong representation of civil society, unlike similar institutions in the past such as CAPART, which became rapidly bureaucratized.

PRADAN

PRADAN was incorporated as a charitable society in 1983 to draw professionals to work in grass-roots development. It was founded in the belief that capable and caring people are more crucial than material resources in rural development. It has grown and currently works with about 268,600 families through 33 field-based teams spread over 42 districts in seven states. The focus of its work is on promoting and strengthening livelihoods. The work involves organizing the people, enhancing their capabilities and linking them to banks, markets and other economic

services. PRADAN works in the spirit of enabling people to build upon their skills, resources and entitlements rather than delivering services and solutions to them. In doing so, PRADAN invests significant organizational energy in recruiting and training a steady supply of motivated, young university graduates and giving them hands-on training through a year-long apprenticeship programme.

As PRADAN sharpened its focus on micro-enterprises, both land and non-land based, it realized that enabling and empowering the poor was crucial to transferring control to the people's own institutions such as federations of SHGs, water user associations, cooperatives and producer companies as soon as they had developed the self-confidence to handle it. PRADAN also believes that solutions designed to bypass or ignore institutions such as the government and markets cannot be sustainable in the long run. It, therefore, collaborates with these institutions, working with development-minded officials at all levels while relying on the government's anti-poverty programmes and bank financing for a major part of its funding.

Finally, it has evolved from a project and then thematic mode of organization to a highly decentralized and modular operating structure, comprising Development Support Teams (DSTs) of five to ten professionals that work in small geographic areas. These teams are supported by two sets of persons: Community Service Providers (CSPs), who are recruited, paid for and are accountable to community institutions and Community Resource Persons (CRPs), who are hired and paid for by PRADAN for initial community mobilization

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in new areas. The teams follow an 'area saturation approach', that is, they try to reach a substantial share of poor people within their outreach area, rather than limiting themselves to covering families that can only take up specific sectoral activities. Project activities begin with the formation of SHGs, which not only meet the basic need for credit but also offer women a unique platform for participation. A geographical approach allows maximum flexibility to grass-roots workers to develop location specific solutions while ensuring that organizational vision, policies and strategies are integrated centrally.

In the initial years, PRADAN worked through other NGOs by placing professionals to work with them. After three years, it started taking up its own pilot projects in eastern and central India. Ford Foundation was a major source of initial funding through start-up 'core support' and it made subsequent contributions to a corpus fund set up in 1988, to meet the costs of the HRD programme, new innovative projects and a small core team. The requirement of Ford Foundation was that its own contributions be matched by other donors. By 1997, the fund had grown to Rs 2.8 crores, with Ford Foundation accounting for about half of the total contributions. Valuable though this was, proceeds from the fund were limited to the three purposes mentioned above because they were nowhere near enough to meet PRADAN's rapidly burgeoning operational or institutional overhead expenditures. A corpus fund large enough to make an organization independent of further funding is, of course, every NGO's dream, but few are lucky to see it fulfilled.

ICCO

Fortunately, at about the time the corpus fund was set up, PRADAN met a very unusual Dutch donor, ICCO, which agreed to support a small pilot project in Godda, Jharkhand, to promote sericulture based on tasar silk, a variety of wild silk reared by tribal people in the forests of eastern and central India. This was the beginning of a long collaboration that still continues. The tasar-based livelihoods initiative has evolved into a large and comprehensive programme that has pioneered significant structural and technological changes in the sector. It has brought on board multiple stakeholders, including central and state governments, the Central Silk Board (CSB), financial institutions, research organizations, market players, a host of national and international designers and other NGOs. The poor people PRADAN works with in this sub-sector together command a significant share of the tasar market and PRADAN is regarded as the key resource institution in the sub-sector. The project now directly reaches out to over 15,000 poor families engaged in various stages of silk production.

Collaboration between ICCO and PRADAN soon extended to other livelihood sectors, including poultry. Meanwhile, PRADAN was invited to extend its minor irrigation activities, which had started in Purulia district in West Bengal, to other locations in the eastern India plateau. These initiatives, along with wasteland and watershed development, agro-forestry and the formation of SHGs (of which PRADAN was one of the early pioneers), were implemented by the DSTs. The salaries of the DSTs and other overhead costs were supported by the ICCO through a grant in 1993, with

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programme funds coming primarily from the government and other donors. In 1994, ICCO made a small contribution to PRADAN's corpus fund. In 1996, it obtained co-financing from the EU for a three-year, community managed irrigated agriculture project.

The collaboration eventually culminated in 2000, with the formation of an institutional partnership under which ICCO provided general support to

PRADAN as an organization, not tied to any specific programme or project. This enabled PRADAN to pay, not only for its DSTs in the field but also for central overheads that most other donors were unwilling to support. Organization-wide funding gave PRADAN a great deal of flexibility to innovate, experiment and stay focused on institutional development, especially because it coincided with PRADAN's own decentralization to geographical units or teams. It greatly reduced the uncertainty. PRADAN has since then received several institutional grants from ICCO in a continuum.

Besides financial support, ICCO provided non-financial support for PRADAN's micro-enterprises by paying for visits by designers and technicians, especially in tasar sericulture, and by sponsoring participation in trade fairs, in India and abroad. ICCO has also engaged with PRADAN in networking, in participating in exchanges with various Dutch institutions as well as in ICCO's deliberations to develop its own strategies.

In some years, ICCO grants constituted as much as half of PRADAN's budget. In the more than 20 years since the collaboration began, PRADAN has grown manifold. Grants from ICCO now constitute a small share of

PRADAN's budget. PRADAN has leveraged large-scale funds from other sources, most of them domestic, including the government, to multiply the impact of ICCO's grants. The texture and importance of the funding, however, has not diminished. The relationship has transcended the donor-grantee-project period boundaries to become an ongoing partnership, with emphasis currently on connecting people in both countries, including experts from the Dutch private sector, to share experiences and learn from each other.

PATIENT FUNDING AND THE PROCESS APPROACH: THE CASE OF TASAR

Two features of ICCO's support to PRADAN are particularly noteworthy. The first is the flexibility and patience it showed throughout—characteristics that stemmed directly from its values and humility as a donor organization. As the ICCO document 'Code of Conduct and Principles of Good Governance, 2004' says, "We (ICCO and its partners) will probably never be able to fully understand and analyse the complex problems we are dealing with. There are no blueprints for such situations... This means that risk-taking and the ability to admit defeat are going to be essential if ICCO and its partners are going to be able to use these experiences in a broader context, that is, as a learning process. It implies that ICCO will need to be flexible, in terms of the operational space it gives to its partners whilst the partners will need to be transparent in relation to ICCO when it comes to their successes and failures."

The document helps explain many of the features of the relationship with PRADAN, as it developed. Thus, "ICCO does not, as a rule, look for short-term, project-oriented partnerships, but rather long-term co-operation in which an agreed strategy underpins the common goal..." Further, ICCO "understands that Southern partners are

autonomous organizations within their own societies and does not see them as channels for aid-delivery or project sub-contractors." Adopting a 'partner-friendly approach' entails ICCO "being open about its intentions; open about its motives to support or not to support; open about when donor support from ICCO is going to come to an end; being attentive and taking the concerns of partners into account; living up to its promises; keeping administrative and financial procedures within reasonable time constraints; developing flexible funding modalities that are appropriate for the partner and the context rather than vice-versa."

The evolution of the tasar project provides a classic example of the process approach, or, in other words, trial and error—learning as much from what does not work as what does—a process which ICCO supported patiently for 12 years although neither side had anticipated the need for a series of three-year grants after the initial pilot project. By the end of the decade of the 1990s, PRADAN succeeded in reviving a traditional activity that would probably have disappeared but for PRADAN's decentralization, adaptation and downsizing (or what it likes to call 'demystification') of sericulture technology that had been developed over the years by the CSB and others, to cater to the more 'domesticated' mulberry silk worm (which, unlike the wild silk worm, can feed indoors, where conditions can more easily be controlled), and the much better-organized and much larger mulberry silk sector.

The process essentially involved demolishing, at each stage, the currently binding constraints on further growth and progress, only to be confronted with another constraint, which had meanwhile become binding. Broadly speaking, from 1988 to about 1995, the focus was on developing Arjuna plantations on wastelands, privately owned by Santhal tribals, making a

beginning in producing high-quality, disease-free, silkworm eggs locally and demonstrating good rearing practices.

The plantations were made more attractive to rearers by introducing inter-cropping of leguminous crops for the first few years and trying out different arrangements for dealing with the problem of grazing cattle. The optimal spacing of plants remained a constant subject of experimentation. On the rearing side, by far the most important innovation was the introduction of small, local 'grainages' to multiply silkworm eggs, instead of relying wholly each year on the CSB to supply improved, disease-free eggs from its centralized grainages. Local rearers were trained sufficiently to become specialized grainage entrepreneurs. They were assisted (for a fee) by village youth, who were trained to become 'barefoot microscopists', that is, to use microscopes to detect diseased eggs.

There were dozens of innovations made as the project progressed, many of which became outdated and were in turn superseded by others (and no doubt, the process will continue). The trivoltine variety (or 'race') of the tasar silkworm was found to be too risky because the third and the main, commercial crop was, during some years, affected by an unusually cold winter. Thus, a bivoltine race is now being used. SHGs were set up in the rearing villages, as in all other PRADAN project areas, to cater to at least a part of the credit needs of the rearers, who at the time were heavily dependent on moneylenders. Moneylenders, who doubled as cocoon traders, would lend against advance purchases of the cocoon crop for a discount, well below the market price, appropriating a disproportionate share of the value added. *Haats*, or village markets, were also organized, to bring cocoon sellers directly in touch with the processors, in an attempt to eliminate middlemen. Other experiments

to handle marketing were the introduction of village-level Tasar Vikas Samities (TVSs) and the setting up of a cocoon bank in Bhagalpur. Later, a collective procurement and marketing organization, owned by the producers themselves, called MASUTA, was set up, which now buys 40 per cent of the crop, greatly improving the terms that informal lenders and traders offer to buy the remainder. MASUTA, registered as a producer company, gradually built up a structure and systems to procure cocoons at harvest time, desiccate or 'stifle', them in special dryers, store them in its godowns, sell them over the year to spinners and reelers, buy back the resultant yarn, and sell the yarn to the weavers. It introduced quality based pricing and grading for cocoons and yarn, making possible higher quality; by aggregating the yarn, timely supply in adequate quantity was assured to weaving centres. As a result, yarn became a 'commodity' with its own market and now more than 85 per cent of the yarn MASUTA purchases from the producers is sold directly as yarn. The prices at which cocoons and yarn are bought and sold are naturally of vital interest and, like in the poultry sector, a great deal of effort is going into training members in representative governance and changing their outlook from that of erstwhile 'beneficiaries' to that of owner-producers. MASUTA has to procure, store and then release to its members, generally one month's supplies at a time, or about 75 million cocoons a year. It obtains financing from the banks.

By the mid-90s, when sufficient cocoons began to be produced to support a much larger processing sector, new plantations were suspended for a few years and the effort shifted to the post-cocoon stage, which led to pre-occupations with the technology and the production arrangements for spinning and reeling. Reeling began to emerge as a particular bottleneck, especially because

reeled yarn is in greater demand and has more value than spun yarn. This constraint led to a sustained effort, supported by ICCO, to develop a reeling machine. It located a graduate student, Annemarie Mink, through the Technical University in Delft, who over several visits developed a commercial prototype. PRADAN continued to customize and improve on it and fit it with solar power and patent is as the Anna Reeling Machine. There are now 200 machines in operation, the productivity of which it at least twice as much as that of the old machine.

As yarn production began to grow, it became imperative to find a more remunerative market for the yarn. Tasar yarn, at the time, had no market of its own but was an adjunct activity of weaving. It was produced according to requirement, in their free time, by the wives of the weavers, who produced fabric for the traditional market. This product was not able to bear the cost of the yarn produced by PRADAN's spinners and reelers, who were earning useful cash income instead of producing it free for weaver husbands. The next challenge, therefore, was to add value to the fabric by the introduction of design and colour elements and mixing tasar yarn with other silk fibres, both to make it more 'weavable' and more suited to new products for both domestic and foreign markets. These efforts are the subject of a long story of how a lot of experimentation was made possible by ICCO funding and how product development in the material resulted in successful marketing. ICCO also played an important non-financial role in marketing, for both exports and the domestic fashion and ethnic crafts market, which was always going to be more important in the long run than exports. Demand is not likely to emerge as a constraint

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any time soon because India still imports the bulk of the tasar yarn it consumes, mostly from China and Korea, which produce temperate as opposed to tropical tasar. (This is used mostly for the warp whereas Indian tropical tasar is used for the weft. India is estimated to consume about 1,200–1,500 tonnes of tasar yarn a year, of which only 150–300 tonnes is produced in India. MASUTA is by far the largest single producer, with a turnover of about Rs 10 crores.)

Meanwhile, government recognition and funding (something PRADAN has been keen on in all their projects) finally came in 1999 through a special scheme supported by UNDP in seven states, with CSB as the executing agency and PRADAN as the implementing agency in Bihar and Jharkhand. In 2000, with government financial support beginning to flow, ICCO stopped direct financial support to the tasar sector (providing, instead, institutional financial support to PRADAN as a whole, as discussed here). Thus for over 12 years, ICCO supported the entire tasar value chain from plantation, rearing, spinning and reeling to design and marketing and from the small tribal farmers' fields in Jharkhand and other parts of eastern and central India to high-end shops in India's metros and the capitals of Europe.

The case of tasar illustrates the importance of patience and flexibility in a donor and that of perseverance and commitment on the part of the partner. This is similar to PRADAN's experiences in other activities such as land and water resource management, which evolved over years of field trials, or poultry. Like tasar, the poultry activity experienced many false starts and considerable experimentation before it was in a position to scale up and replicate itself in other locations. Today, PRADAN

sponsored co-operative poultry federations, based entirely on small household units, are the single largest producers in MP and Jharkhand. PRADAN's poultry activity also follows the 'sub-sector' approach, in which the project initiator has to address the whole set of missing services and inputs crucial to the success of an activity because neither the market nor the government provides them. Further, like in tasar, it does so by following the well-known model of basing actual production on the individual producer while centralizing all the technology-, capital- and management-intensive parts of the value chain in a collective enterprise owned jointly by the producers themselves, such as a cooperative or producer company.

THE IMPORTANCE OF FUNDING OVERHEADS

The other feature of ICCO funding was that it was quick to recognize that overheads consist not just of organizational overheads (head office expenses, audit, organization wide communications, monitoring and evaluation, training etc.) associated with supervisory and higher levels of management engaged in overall direction and administration but, as importantly, of direct, programme-related, or 'process' costs incurred in the field. These include participatory systems and processes in the organization, recruiting, training and retraining high quality human resources, setting up and strengthening of people's institutions, information collection and reporting, interceding with local officials and banks, and so on. Indeed ICCO's grant for DSTs in 1993 comprised entirely of expenditure on salaries, transportation, stipends and communications. In contrast, only a small part of the programme-

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related, operational costs are covered by many other donors and in government-funded programmes, and organizational overheads usually not at all. To take a recent example, MGNREGA allowed only 4 per cent of the total costs on administration, a share increased after three years to only 6 per cent. This is insufficient to pay an adequate number of technical design and supervisory staff required to ensure that works are properly designed

and constructed, and remain productive. The programme sponsored by NABARD to finance SHGs through the banks provides for inadequate funding of NGOs for the tasks of training and handholding till the SHGs are cohesive enough to function on their own.

Overhead cost financing enables partners to leverage programme funds in a multiple of the contributions they receive. For partners like PRADAN, which attract a large amount of government funds, the multiple tends to be particularly high because government funds under programmes such as MGNREGA and NRCM are available in large amounts. Funds mobilized under this and many other programmes do not pass through PRADAN's budget but go directly to the community. PRADAN's CSPs (community service providers) fill a vital gap in MGNREGA by providing technical inputs such as designing works. An early example of such an intervention is how PRADAN persuaded the Elora village *panchayat* in Bankura district to adopt a plan to dig 100 small ponds for Rs 10,000 each, which would benefit 100 farmers, instead of large ponds costing Rs 10 lakhs each that would benefit only a few farmers. Also, by digging ponds in a contiguous area, the water table rose, enabling a second crop. PRADAN recently

received the Prime Minister's National Excellence Award for its support to MGNREGA in Kandhamal district, Orissa. The multiple is high despite the fact that PRADAN's overheads are high in absolute terms because of the much higher proportion of professionals on its staff, to whom, as we have seen, the payment of a competitive salary is seen not as a necessity but as desirable and essential.

INSTITUTIONAL FUNDING AS A SOLUTION

Partly to address the need for overhead financing as well as for flexibility in being able to shift funds between activities, the bulk of ICCO funding for selected partners, including PRADAN, which it thought were mature and competent enough, and with which it shared enough trust and understanding, took the form of institutional support, or 'organization funding' after 2000. In that year, it informed some of its partners that instead of funding individual projects or sector-wide programmes based on detailed proposals, ICCO would, thenceforth, look at the impact and utility of its assistance to the partner as a whole, and fund a certain share of the partner's total expenditure, including overheads. Although this share would vary depending on the exigencies of the funds available to ICCO, there would be the assurance of a considerable degree of continuity, enabling the partner to plan ahead. Progress reports were to be submitted annually, and at the end of the three- or four-year funding period, the partner would prepare an assessment report, which would report on the attainment of the envisaged objectives of the organization as a whole, rather than comprise an aggregation of reports of its individual

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A corpus fund, large enough to finance an NGO by itself, solely through its investment proceeds, is of course the ultimate in flexible funding, fulfilling or making redundant most aspects of aid quality such as flexibility, continuity, necessary duration, minimal administrative burden, respect for the autonomy of the recipient and timeliness. Such a fund would necessarily finance overheads too. ICCO's policies did not allow it to contribute to corpus funds, although as an exception, it did make one

small contribution to PRADAN's corpus, as mentioned earlier. However, institutional support can be seen as second-best or half-way house between financing an NGO entirely through the proceeds of a corpus fund, and project or sector-wide 'programme' grants. It is relatively difficult for one or more donors to take a leap of faith and make a once-and-for-all contribution to a corpus fund that would be large enough to fund the setting up a corpus large enough to finance the entire annual expenditure of the donee on its own, through the fund's investment earnings. Thus the size of PRADAN's corpus fund is currently about Rs 9 crores, with the largest donor being the Sir Dorabji Tata Trust. This is less than a third of PRADAN's annual expenditure.) It would be much easier, however, for the same donors to make much smaller institutional grants for limited periods of, 4 to 5 years, after which they could take a view on the next grant, depending on progress.

Indeed, the modality of institutional support could be used by an autonomous agency using public funds, such as that proposed above. An institutional grant of sufficient size and tenure

would take care of most of the requirements of quality funding for NGOs of quality.

This article is an abridged version of a study 'ICCO–Pradan Collaboration: Evolution & Impact' in 2012.