

WHAT'S IN IT FOR ME?

A Qualitative Research on the (Financial) Relation between Non-Governmental Organizations and Donor Organizations.

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Nongovernmental organizations (NGOs) need to acquire donor funding to carry out projects. In the past, NGOs used to be progressive agents for social change. Nowadays, they are described as part of the development machine. The dependency of NGOs on donors and the competition between NGOs are both increasing. Donors also expect more reports from NGOs on projects. Altogether, the challenge for NGOs to get funding is increasing. At least, that is what the existing academic literature states.

This research will examine these challenges for NGOs in the relation with donors for funding. It will answer the following research question: *'What do Dutch NGOs see as the biggest challenge in the funding system with donors?'* The research will focus on the level of accountability, competition between NGOs for donor funding and dependency on donor funding. To answer the research question, a qualitative case study approach on Dutch NGOs was chosen. Semi-structured interviews with employees from Dutch NGOs were scheduled to gather data. This data explains how the three factors are perceived by the employees from Dutch NGOs and if this accords to the existing literature.

The findings showed that the respondents from the NGOs did not unanimously express one of these three factors as burdensome. However, the respondents from the NGOs did express that the bureaucratic element in accountability is considered as the most challenging. Especially smaller NGOs (NGOs with less than 100 employees) experience the demanding reports as problematic. It increases the workload, which limits implementation time of the projects.

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1. Introduction

Nongovernmental organizations (NGOs) have been highly visible in solving humanitarian crises in the developing world. During the 1970s and 1980s interests in NGOs have arisen “in response to failure of state-led development approaches” (Lewis, 2012: 502). During that time, NGOs played important roles in assisting development aid. “The most powerful engine of change is the relative decline of states and the rise of non-state actors” (Mathews, 1997: 50). Soon after, NGOs and states began to cooperate to solve large-scale humanitarian issues. Nowadays the influence of NGOs has drastically increased, because NGOs bring more expertise to development aid than governments (ibid.: 53).

The number of NGOs has also increased globally since 1950 (Turner, 2010: 81). Turner (2010) examined the rise of International NGOs (INGOs). He gives two explanations for the increase in number of INGOs. The first explanation is the increasing demand for INGOS (Turner, 2010: 81). Global issues have increased and INGOs respond to them with services. The second explanation indicates technological changes that made it easier for INGOs to operate (ibid.: 82). Turner (2010) made a table on the number INGOs since 1950. The number of INGOs has known a high growth since 1950 (see table 1).

Table 1. Number of INGOs since 1950s.*

Number at Decade End	Total INGOs
1950	832
1960	1,268
1970	3,379
1980	9,396
1990	17,419
2006	27,472

* Reprinted from “Why has the number of international non-governmental organizations exploded since 1960?.” Turner, E. 2010, *Clodynamics*, 1(1), p.82

The rise of NGOs could contribute to the problem-solving of many critical issues. Until the 1980s, many NGOs could implement their own development programmes (Lewis, 2012: 502). However, the increasing number of NGOs also resulted in growing skepticism on NGOs. Tortajada (2016) states that NGOs were criticized on “accountability, transparency and ability to address equity concerns” (ibid.: 272). The criticism on NGOs expanded to performance and credibility. “Rather than a ‘choice and voice’ for the people, NGOs are now often regarded as

primarily supportive of themselves and their agenda, along with that of their donors in many occasions” (ibid.: 272). They still remain important actors in global development, but they are receiving more critique than before when they were not criticized at all (ibid.: 272).

NGOs get funding from donors in order to execute programmes. Receiving funding from donors has changed over time. NGOs obtain donations from multiple sources. These sources can differ from institutional organizations (governmental funding), to donations from companies or individuals. To get funding and more importantly to get long-term funding from institutional and commercial donors is what Edwards and Hulme (1996) described as the ‘Achilles heel’ of NGOs. Getting competent funding is crucial for NGOs to implement programmes. However, NGOs do not just get funding, donors expect something in return. Consequently, an increase in critique on NGOs can lead to donors feeling more reluctant to supply funding.

Literature shows that three factors can be distinguished in the relationship between NGO and donors: accountability, competition and dependency (Baur & Schmitz, 2012). Several scholars state that NGOs are facing more difficulty to receive funding, because of an increase in accountability, competition and dependency on donors. According to Hólmen (2010) increasing competition overshadows smaller and new NGOs by the larger and well-known NGOs (ibid.: 211). Moreover, donors can stop to support NGOs’ missions, so NGOs cannot continue to operate their mission. This can affect the region where NGOs are working in (ibid.: 211). Dependency on financial aid by donors forces NGOs to be accountable to the donors instead to the people they help (ibid.: 214). If NGOs experience an increase in accountability, competition and dependency it can result in less effective development aid (ibid.: 211). These three factors have changed over time. Srinivas (2015) states that increasing accountability leads to better results in international development and that it leaves room for innovation and more effectiveness. Also, Parks (2008) expresses that increasing competition results in more sufficient accountability.

This research will examine the challenges that NGOs experience in the funding relation with donors. It will give answer to the research question: ‘What do Dutch NGOs see as the biggest challenge in the funding system with donors?’ To answer the question, the research will first define NGOs, donors and donor funding. Second, it will give an overview on how accountability, competition and dependency are viewed in academic literature. After the literature review, the methodology will be described. Data will be gathered by qualitative case studies on Dutch NGOs. Semi-structured interviews with employees from Dutch NGOs will give insights in how these three factors are experienced in practice, and if they match with the

portrayal in literature. The NGOs vary in size, familiarity and social thematic focus. The findings of the interviews will be discussed in chapter 4. Also, to answer the research question, three sub questions will be discussed in the form of three hypotheses. The three sub questions are:

1. How do NGOs experience accountability to their donors?
2. How do NGOs experience competition with other NGOs?
3. How do NGOs experience dependency from donors?

Chapter 5 discusses the findings and relates it to the existing literature. Also, the limitations of the research and the recommendations will be further discussed. Lastly, the answer on the research question will be given in chapter 6: 'Conclusion'.

2. Literature Review

The first part of the literature review defines the terms: NGOs, donors and donor funding. The second part discusses donor funding by focusing on accountability, competition and dependency.

2.1 NGOs, donors and donor funding

2.1.1 What are NGOs?

Nongovernmental organizations, NGOs for short, were officially acknowledged by the United Nations (UN) in 1945 as international specialized agencies (Willets, 2002: 1). Hilhorst (2003) explains that NGOs were needed, because the state could not solve foreign aid problems alone. The pursuit of NGOs was to fill the gaps created by withdrawal of governmental control under pressure of neoliberal reform policies (ibid.: 3). Many scholars state that there is no univocal definition of what the term ‘NGO’ carries (Green and Matthias, 1997; Ahmed and Potter, 2006; Willets, 2002). Ahmed and Potter (2006) define NGOs by using the UN definition: “Any international organization which is not established by inter-governmental agreement shall be considered as an NGO” (ibid.: 8). NGOs cannot make profit and cannot advocate the use of violence. It cannot be a school, university or political party (ibid.: 8). Willets (2002) agrees with this definition, but sets out the term NGO in more detail. First, an NGO must be independent from government control. Second, an NGO cannot be part of a political party. Third, an NGO is non-profitmaking, it must be non-violent and it cannot be a criminal group (ibid.:2). Willets (2002) defines an NGO as: “an independent voluntary association of people acting together on a continuous basis, for some common purpose, other than achieving government office, making money or illegal activities” (ibid.: 2).

NGOs can operate on different levels, ranging from local, provincial, national, regional to global. Willets (2002) explains that these levels are not static, but often overlap and collaborate. For instance, national NGOs can focus on international levels or contain regional groups of countries (ibid.: 6). National NGOs can also engage in transnational development and humanitarian actions, but are not active players in international diplomacy (ibid.: 6). If national NGOs want to gain political influence on a global level, they have to work together with international NGOs (ibid.: 6).

NGOs are organizations, founded by members, that are driven by a ‘mission’ or ‘issue’ (ibid.: 6). These missions and issues have a normative nature and are motivated by a present disparity that members of an NGO experience (ibid.: 6). NGOs differ in their issues-approach. They can be single-issue focused on one particular topic or they want to tackle an entire field,

such as human rights or poverty. People become members of an NGO, because they share the same values that they would like “to convey to the rest of the world” (ibid.: 6). “Finding an audience that is receptive to ‘the issue’ and willing to adapt its behavior in line with the issue’s perceived requirements is the primary concern of NGOs” (ibid.: 6).

2.1.2. Donors & donor funding

Even though NGOs are non-profitmaking and financial gain is not their main priority, the revenue model of NGOs is based on donations. Donors provide those donations. The Office of the United Nations High Commissioner for Human Rights (OHCHR) (2006) lists and categorizes the different types of donors and donations they can encounter. This has resulted in a variety of donors ranging from individuals, to companies and to institutional agencies.

NGOs need donor funding in order to pursue their missions or issues, according to Srinivas (2015). The issues and missions that NGOs believe in, also have to appeal to the public and donor organizations. Donor funding is usually short-term funding and it is gained externally by the NGO. Investments, on the other hand, are long-term sources of funding and are controlled internally by the NGO (Srinivas, 2015) in terms of time, money, and progress.

2.1.3. The relation between NGOs and donors

NGOs are heavily reliant on funding from donors. They have to reach their own targets from their programmes and projects, but target-reaching extends to donors as well. Srinivas (2015) explains the relation between donors and NGOs: “NGOs need to link their needs to specific donor priorities, and not send out a generic fund request that is same for every donor.” Srinivas (2015) discusses that donors are dependent on NGOs as well, since NGOs can assist donors in understanding their own missions, and to plan their specific needs to reach their goals. Overseas Development Institute (ODI) (1995) discusses the reasons why donors need NGOs. First, donors use NGOs to support their own emergencies and missions. Second, NGOs can reach the field more effectively than official donor programmes. NGOs are able to work efficiently and closely with locals and do not have to reach these groups by using local governmental help. For this reason, donors approach NGOs to help them achieve their own missions. Third, NGOs can attain certain goals without being influenced by, for example, corrupt governments or inefficient policies (ibid.: 2). Because NGOs are so closely aligned with the region they can bring a certain level of expertise to the field that donors cannot. Concluding, donors need NGOs and NGOs need donors.

The second part of the literature review focuses on three topics that NGOs encounter in the funding relation with donors: accountability, competition and dependency.

2.2 Accountability

Accountability is the “right to require an account, and the right to impose sanction if the account or the action accounted for are inadequate” (Leat 1988). The concepts differ from responsibility, because when someone is responsible they take the blame when things go wrong. Accountability is the need to explain what went wrong (Oliver and Drewry, 1996: 13). It can be internal (to the NGO itself) and external (to donor organizations and individuals). Accountability frameworks help NGOs write reports on their project, and share information to donors on exactly how their money is being used (Deloffre, 2016). Accountability also carries responsibility to the organization itself, because the NGO can learn from its mistakes.

There are two types of accountability: upward accountability and downward accountability. Upward accountability concerns on the relationships with donors. The NGO is in upward accountability accountable up the donors (Edwards & Hulme 1996; Najam 1996; Ebrahim 2005; Wenar 2006; Kilby 2006; Carman 2010). Downward accountability focuses on the relationships with groups that provide services to NGOs. NGOs are accountable to customers, beneficiaries and organizational chain (Edwards & Hulme 1996; Najam 1996; Ebrahim 2005; Wenar 2006; Kilby 2006; Carman 2010). This research will focus on upward accountability.

2.2.1. The obstacles of accountability

NGOs have been criticized for limited impact and for their lack of accountability (Parks, 2008: 218). NGOs rely on donors for financial resources, and donors need to protect their interests and intentions (Edwards & Hulme, 1998: 5). This situation compels NGOs to focus on upward accountability to donors. Traditional accountability prevented NGOs to learn from their mistakes, because donors just cared about the successes and on how their money was spent (Ebrahim 2005). Current accountability encourages openness to report failures. Both donors as well as NGOs experience an increase in accountability (Ebrahim 2005). Donors demand effective use of resources and “promote corporate practices as a means of increasing the effectiveness of NGOs” (Pallotta 2008; Edwards 2010).

The principal-agent theory criticizes the concept of accountability (Gailmard, 2012). The theory explains that accountability creates a situation where a principal delegates the activities to an agent. In this case the principal is the donor and the agent the NGO. “Agents are

expected to hide the information that principals require to monitor their performance and, thus, incentives and sanctions are needed to induce agents to effectively deliver the desired type and level of performance” (ibid.: 8). NGOs can see accountability as a form of punishment, because they do not know how the donor will react to failures in the program. The principal-agent theory also implies that accountability is an instrument of power. Power accountability, as it is called, is about the difference between those who call for an account and those who have to take account for their actions (ibid.: 4). Prevailing approaches to accountability, in which short-term demonstrations of “success” are rewarded with funds, serve to reinforce this perception. This power-struggle and increased pressure from donors can result into the misuse of accountability by NGOs as well.

“It increases the likelihood of co-optation and compromise the independence of NGOs” (Baur & Schmitz, 2011: 8). Even though accountability has increased and NGOs are more transparent in sharing information, it can lead to manipulation of information. NGOs feel pressured to write multiple and positive reports. Especially smaller NGOs that do not have the work force to write multiple reports for multiple donors, suffer from these requests (ibid.: 9). This has the consequence that NGOs try to find more efficient and less-expensive uses of reporting. NGOs can share their reports of their activities on websites or magazines; “We produce a glossy report that looks like we have achieved loads, but it is really quite thin in reality” (Cavill & Sohail, 2007: 12).

Increasing accountability can result to a decline of perceived trustworthiness from donors (Keating & Thrandardottir, 2017: 136). Trustworthiness appears when “one party has a positive expectation; the other party will fulfil agreements where there is the possibility of a loss to the first party if the second party defects” (ibid.: 136). When donors have positive expectations of trustworthiness, they expect that their resources will be used in an efficient and effective manner by the NGO.

2.2.2. The benefits of accountability

Accountability also has a positive influence. Both Kreidler (2011) and Ebrahim (2003) explain that accountability is one of biggest improvements for NGOs and donors. “Accountability for NGOs is the means through which individuals and organizations are held externally to account for their actions and (...) the means by which they take internal responsibility for continuously shaping and scrutinizing organizational mission, goals, and performance” (Ebrahim 2003: 194). “It helps NGOs to see and present their work in relation to global agendas set far away”

(Wallace 2004: 214). Accountability can create a cooperation that enables NGOs to cope with the multiple demands of their donors (Edwards and Hulme, 1994: 18-22).

Accountability is often linked with transparency, if NGOs are more financially transparent, it creates a better trust image. Theorists express that accountability adds to an increased positive public image for NGOs. It is said that accountability creates a “win-win” situation because accountability increases transparency. When both parties are more transparent they are more accountable for their actions and that creates public scrutiny, “their overall impact on society should improve over time” (Ebrahim, 2003: 193).

Donors can greatly influence NGOs, because it can sharpen NGOs on business practices. NGOs can help donors as they “partially compensate for diminished governmental capacities in advancing human rights and environmental protection” (Baur & Schmitz, 2007: 9). Moreover, increased accountability can create a better cooperation between donors and NGOs. It is assumed that accountability creates responsibility for both NGOs and donors (Ebrahim, 2003: 194). Because donors and NGOs learn from their mistakes from reporting, there is more room on how the relation can be more effective and create room for feedback and learning sessions. This can help improve the relation with NGOs. “Genuine processes of downward accountability are permanent, ongoing, and embedded in organizational culture” (Baur & Schmitz, 2007: 10). A focus on organizational learning offers an approach that is more constructive and positive than punitive approaches to accountability. It is through a scrutiny of failed projects, programs, and policies, that NGOs and donors stand to learn the most for improving development interventions. Partnerships that value an honest scrutiny of failure, built on trust rather than punishment, offer opportunities for achieving long-term effectiveness.

Christensen & Ebrahim (2004) states that NGOs recognize that they have to be accountable to the people they help, also known as downward accountability. In this case, NGOs work effectively when they work closely with beneficiaries. Upward accountability means that donors want to make sure that the money they invest is used effectively. Downward accountability can also “enhance buy-in among stakeholders, and thus long-term effectiveness” (ibid.: 6). Keystone Reporting (2006) researched the impact of downward accountability and it showed that both donors and NGOs think downward accountability is equally important (ibid.: 4). However, in practice this differs. Donors value the quality of accountability more than NGOs. Reporting formats and information systems do not actively enable learning and improvement (ibid.: 4). In Keystone Reporting’s research, it is claimed that “donors can and should do more to help organizations become more accountable to their ‘beneficiaries’, while at the same time simplifying the bureaucratic burdens that are placed on NGOs” (ibid.: 4).

Currently, reporting tends to produce large amounts of data for donors that are not directly useful for learning and improving attainment of intended outcomes.

2.3 Competition

2.3.1. The obstacles of competition

Competition in the development sector has increased, because there are more NGOs. Donor funding did not grow (Cornish, 2017). Cooley and Ron (2002) state that stronger competition makes NGOs value money-making more than pursuing their missions. Moreover, they put more time in obtaining funding, than being active in the field. Also, it eliminates the NGOs that have the least effective marketing strategy. This results in smaller NGOs facing more difficulty in accessing funding. Competition can eliminate the least effective NGOs, however “more is not always better and competition does not solely reduce waste” (Cooley and Ron, 2002).

An increasing competition can result in donors having a stronger position in setting up priorities and short-term demands. According to Parks (2008), local NGOs have to compete for less funding than international focused NGOs. Consequently, many NGOs have to close, and the ones that remains are more in line with donors’ priorities and interests (ibid.: 214). The result of eliminating of NGOs can also lead to the loss of good functioning NGOs that do not have the resources or the network to survive. The remaining NGOs can adapt easier to what donors prioritize. Nunnenkamer & Öhler (2011) explain that it is crucial for NGOs to form good bonds with their donors to get long-term funding (ibid.: 2). The long-term business models of development aid will require an ability among NGOs and donors to look critically and collectively at failures, and to find ways to improve them (ibid.: 2).

The increasing competition for NGOs leads to the marketization of funding. This can have negative influence on efficiency (Cooley and Ron, 2002). Applying for official funds discourages cost-saving cooperation among NGOs (ibid.: 17). Institutional funding is often connected to higher administrative costs and considerable paperwork (ibid.: 17). Other types of funding include: international financial institution, philanthropic foundations and multinational companies (Shiffman, 2006: 413). Moreover, Aldashev and Verdier (2009) state that local NGOs, which are not strongly represented, feel reluctant to apply for institutional funding (ibid.:200). Local NGOs can prevent disappearance in the competitive market if they cooperate with larger NGOs, but this can only happen if the larger NGOs are willing to work with smaller NGOs (Aldashev & Verdier, 2009: 200). “On the other hand, if the returns to scale in fundraising technology are not sufficiently strong, there are no multinationals in equilibrium, as no national NGO has an incentive to become multinational” (ibid.: 200).

2.3.2. The benefits of competition

Parks (2008) states that competition between NGOs has a positive impact on NGO accountability and performance (ibid.: 218). Competition results in NGOs feeling the need to work harder, remove unneeded costs and it is made more difficult to misspend funds (ibid.: 218). Increasing competition can also lead to more high-performing NGOs, and makes low-performing NGOs disappear (ibid.: 218). Multiple authors state increasing competition to more efficient NGO performances (Nunnenkamp & Öhler, 2010). When NGOs have obtained an efficient relation with their donors, that is built on mutuality, because they have found common goals. This can strengthen the identity of both the donor as well as the NGO (Brinkerhoff and Brinkerhoff: 255). “The opportunity to participate and influence equally means that each actor can more easily protect its organization identity and, hence, the efficiency, effectiveness, and synergistic rewards of the partnership” (ibid.: 255). Mutuality gives partner organizations the chance to explain their goals in the missions, which are necessary for the success of the partnership (ibid.: 255). It also creates the opportunity for partners that want to achieve the same goals. It is important that there is fairness and equity in the collaboration to maximize needs (ibid.: 255). Moreover, mutuality designs opportunities for partner organizations to develop their skills. It raises new ideas and creates more effective approaches (ibid.: 255). “In a competitive environment where donors have multiple options, maintaining positive perceptions of trustworthiness can prove decisive for NGOs, not only for the existence of any individual NGO, but also for the sector as a whole” (ibid.: 255).

Another positive aspect related to competition among NGOs, results in NGOs tending to cooperate more efficiently with other NGOs. Cooperation could specifically improve when NGOs are open to complement each other’s activities (Barr & Fafchamps, 2006). It enhances innovation, new ideas and marketing opportunities.

2.4 Dependency

Dependency can be viewed from two different dimensions: vertical and horizontal dependency. Vertical dependency is based on single-issue development. Funding from donors goes to one specific goal. Vertical dependency focuses on a traditional donor-recipient relationship (van Tulder et al., 2011: 62). The dependency is described as consequential and heavily dependent on donors (ibid.: 62). Horizontal dependency tackles an entire field of development. It focuses on partnership with donors that wants “to encourage cooperation, prevent fragmentation and to create added value” (ibid.: 58).

2.4.1 Vertical Relation

Even though ‘nongovernmental’ implies autonomy from government organizations, NGOs are often closely connected with their home governments (Fisher, 1997: 451). “In the past, NGOs operated by challenging the system; present-day NGOs often operate as part of the system via mechanisms such as strategic alliances with business” (Nalinakumari & Maclean, 2005: 7). Because NGOs were undermining state hegemony, government agencies were set up to bring NGOs under control (Fisher, 1997: 451). Financially dependent NGOs are more tempted to secure their funding, through strategically targeting their programmes in less poor countries where “success is easier to achieve” (ibid.: 5).

Dependency on donors is challenging, because of the shifting priorities of donors. Parks (2008) explains that NGOs become entangled in critical situations when donors shift to new priority areas and/or countries (ibid.: 214). According to Dreher, Nunnenkamp and Schmaljohann (2013) donors almost always have a trade-related interest and/or political motivation for investing in NGOs (ibid.: 4-5). NGOs can be reluctant to accept the conditions, because they can sometimes be used as “subcontractors who can be hired at will to clean up the institutional mess, after which Big Aid donors can move in and achieve nice results under conditions of good governance” (Koch et al., 2009: 903). This can leave NGOs in a dilemma. It is either keeping their priorities in order while having the risk of losing funding or adapting the new priorities of the donor with the chance of losing their identity (ibid.: 214). Berthélemy’s research on donor-behavior shows that most donors behave in a rather, what he calls, ‘egoistic way’ (2006: 192). Egoistic donors invest in aid where they solely seek self-interest (ibid.: 179). “Altruistic donors make aid decisions independently of the specific relation that may exist between the donor and the different recipients” (ibid.: 189). In order to secure financial sources, NGOs become dependent on donors.

Parks (2008) explains that strong dependency on donor funding can affect the credibility and efficiency of NGOs (ibid.: 214). When donors set new priorities, NGOs feel forced to go along, because of the lack of alternative funding and to secure partnership (ibid.: 214). Resulting in NGOs losing autonomy from donors (ibid.: 214). Autonomy is important, according to Fowler (2017), because NGOs which benefit from autonomy are better in including a broader range of donors in their programmes (ibid.: 152). NGOs that lack autonomy are “representing donor interests above national interests, seriously damaging their credibility and effectiveness” (Parks, 2008: 214). As Viravaidya and Hayssen (2001) state: “NGO managers may be compelled to follow the money and allow donors to dictate the scope and direction of their activities, or else receive no funds at all” (ibid.:1). According to Parks (2008) the increasing

asymmetric relation makes it harder for NGOs to have autonomy (ibid.: 218). NGOs that follow the money have a higher chance of being accused of representing political and/or foreign agendas (ibid.: 218). Parks (2008) even claimed that “NGOs are the most negatively affected by asymmetric power relations and the volatility of donor funding: (ibid.: 218). If an NGO is too closely aligned with their donors it results in decline in effectiveness, because of a crumbling autonomy (ibid.: 218).

2.4.2 Horizontal Relation: Creating Shared Value and Corporate Social Responsibility

There are theories that claim that donors and especially businesses should be taken accountable for social aid. One of these theories is called ‘Corporate Social Responsibility’. It focuses on taking resources from businesses and investing them in trying to do good in the world, for example: encourage recycling and give money to social causes (Moore, 2014: 4). Corporate Social Responsibility means that both NGOs and donors “must be accountable for the social impact of their activities.” NGOs that encourage Corporate Social Responsibility help companies to implement social impact in corporate behavior (Jamali & Mirshak, 2006: 254). Moreover, Corporate Social Responsibility covers the use of programs to implement social responsibility, and policies making to handle social and stakeholder interests (ibid.: 248). Some companies used NGOs to give “expertise, outreach and capacity to implement social projects (ibid.: 248).

Porter and Kramer (2006) developed a follow-up theory on Corporate Social Responsibility that wants to include donors in policy-making, called ‘Creating Shared Value’. They state that the dependent relation is changing to a collaborating relation that seeks to create shared values. Shared value is about “policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates” (ibid.: 6). Shared value focuses “on identifying and expanding the connections between societal and economic progress” (ibid.: 6). The difference between the two theories is that when NGOs apply Corporate Social Responsibility they focus on creating responsibility and awareness to donors and encourages them to be more involved in social issues. NGOs that apply Creating Shared Value focus on creating value for both the NGO and the donor. Donors have to create higher social value for their companies while making profit.

Porter and Kramer (2006) explain that governments and NGOs are encouraged with Creating Shared Value to be more effective because they focus more achieved results than the spending of funds (ibid.: 6). NGOs are changing their organization with a better management

style. They include the importance of creating value. They need to create demand for their services, but at the same time not lose their credibility for the public eye.

Businesses and NGOs used to be in great contrast with each other on several aspects. Firms did not take externalities in mind, such as pollution. Social organizations responded to this, resulting in regulations and penalties. According to Porter and Kramer (2006) businesses expected that social problems were not their responsibility and that “solving social problems has been ceded to governments and to NGOs” (ibid.: 5). Businesses were urged to be involved in responsibility programmes to “improve firms’ reputations and to be treated as a necessary expense” (ibid.: 5). According to the authors, NGOs can bear the responsibility to add social value to businesses.

NGOs face difficulties in creating value. Businesses contribute to innovate new management styles and operating methods for NGOs. This leads to increasing productivity and expansion of their market (ibid.: 5). Businesses add a social value to their companies and NGOs add an economic value to their organizations. “The concept of shared value resets the boundaries of capitalism. By better connecting companies’ successes with societal improvement, it opens up many ways to serve new needs, gain efficiency, create differentiation, and expand markets” (ibid.: 7).

Corporate Social Responsibility and Creating Shared Value create a new landscape. Resulting in more autonomy compared to a vertical dependent relation. Creating Shared Value in particular leaves space for NGOs and donors to work together, learn from each other and improve development aid (ibid.: 8). It can also create an increasing interdependency (Cabrera & Cabrera, 2002: 275). In this way, the relation changes from a dependent vertical relation to an interdependent horizontal collaboration (see figure 2). Creating Shared Value results to companies discovering new opportunities and innovations to apply in the traditional market (Porter & Kramer, 2006: 8). Creating Shared Value makes the traditional responsibilities between NGOs and donors disappear (ibid.: 12), because Creating Shared Value designs policies to create long-term partnerships, they expand to new markets (ibid.: 66).

In a horizontal relation, NGOs have to find a common goal with donors to strive to social results. Two problems arise. First, social value is a subjective term and can be interpreted differently. Second, donors can search for short-term outcomes, because they are easier to achieve, while NGOs prefer long-term outcomes. Long-term goals can take years to achieve (ibid.: 16).

	TRADITIONAL ROLES	NEW ROLES
NGOS	Receive funding to deliver social services	Partner in implementing new shared value business models to donors
GOVERNMENTS	Regulate companies; operate social programmes	Make platform investments and support shared value strategies; regulate to encourage shared value solutions
COMPANIES	Donate to charitable causes or ESG program	Partner with NGOs and government to initiate and scale shared value strategies Partner with other companies to leverage impact in shared value

Figure 2: Creating Shared Value. Adapted from Institute for Strategy & Competitiveness, Harvard Business School, 2018, <https://www.isc.hbs.edu/creating-shared-value/csv-explained/Pages/new-role-for-government-and-ngo.aspx>

3. Methodology

In this chapter, the selective research design and methodology will be discussed. The first paragraph explains the research type, followed by the research design. The second and third section justifies the qualitative research design and interviews. After that the variables, hypotheses and operationalization are discussed. Lastly, reliability and validity are reflected upon.

3.1 Research Design

This study is going to answer the research question: ‘What do Dutch NGOs see as the biggest challenge in the funding system with donors?’ To get to the answer, sub questions will be answered and hypotheses will be tested. The research has three conceptual variables: accountability, competition and dependency. Based on these concepts the following conceptual model is made (see figure 3). The interview questions collect data on these variables, used to answer the hypotheses and sub questions. Since they are all qualitative variables, they are only measurable by interview. To test the hypotheses still, the size of the NGOs has to be operationalized.

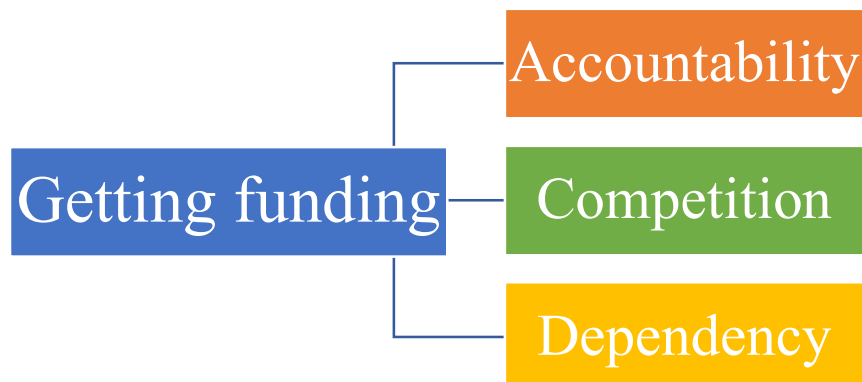


Figure 3: Conceptual Model

The hypotheses that will be answered in the findings are:

- *Hypothesis: 1.a. NGOs experience the effects of accountability more positive than negative.*
- *Hypothesis: 1.b. The smaller the NGO the larger the negative effects of accountability.*

- *Hypothesis 2: Smaller NGOs are more affected by an increasing competition than larger NGOs because larger NGOs get more funding.*
- *Hypothesis 3: NGOs prefer horizontal strategies over vertical strategies with their donors.*

The following variables used in the hypotheses are explicated:

- **Smaller NGOs:** NGOs that have less than 100 active members working for the organization.
- **Larger NGOs:** NGOs that have more than 100 active members working for the organization.
- **Challenge:** The Oxford Dictionary defines ‘challenge’ as: ‘A call to someone to participate in a competitive situation or fight to decide who is superior in terms of ability or strength.’

To answer the research question, a qualitative case study approach on Dutch NGOs was chosen. Semi-structured interviews with employees from Dutch NGOs were scheduled to gather data. Multiple cases help the research in gaining a broader sense of what NGOs experience as challenging in their (financial) cooperation with donors. The aim of the study is not to generalize, but to understand what different NGOs experience as challenging in their relation with donors.

Qualitative research focuses on interpretation from respondents’ perspective (De Vos and Vouché, 1998). A qualitative research design contributes to the data collected and the subjective experiences of the participants on the process of donor funding and their interpretation. Moreover, qualitative research suits to reveal unexpected affairs. In order to give answers to the research question and test the hypotheses, sufficient data needs to be collected from the respondents with experience in the field.

3.2 Data Collection

A total of twelve respondents were interviewed. Five of them work for larger Dutch NGOs (Oxfam Novib and Plan Nederland) and four work for smaller Dutch NGOs (JINC, Justice & Peace, Human Security Collective). Additionally, two respondents work for two large international NGOs (UN Women and Inclusivus). Lastly, one donor is interviewed from the Nederlandse Postcode Loterij. two out seven NGOs focused on Human Rights, two out of seven

NGOs' main mission is poverty reduction, one NGO focused of empowerment, the other two NGOs aspire better rights for women and girls.

The data is collected through semi-structured interviews with employees of NGOs. The standardized questions provide the opportunity to compare answers better. On the other hand, since all questions are open questions, follow-up questions are crucial for additional information. The combination of the two works best, resulting in a semi-structured interview technique. There is not a fixed order in questions. The questionnaires serve as a guideline for the interviews, leading is that the three topics are discussed. Johnson & Weller (2002) say that a non-judgmental attitude by the researcher encourages respondents to talk freely to the researchers. Bogdan & Taylor (1975) follow up and say that it is the researcher's responsibility to create an open and comfortable setting for the participants to talk freely. The researcher did this by adapting to the wishes of the respondents, either by phoning on their preferred time or meeting them in a preferred private room.

Prior to the interview, the interview questions were sent to respondents. Respondents could mention their preferred language before the interview started. Three interviews out of twelve were done in English. Nine out of twelve interviews were done in Dutch, to making it more comfortable for the Dutch-speaking respondents. The interviews were either done by interviewing in a private room or otherwise by scheduling the phone interview on their preferred time.

The recordings of the Dutch interviews were transcribed in Dutch, the English interviews were transcribed in English. The researcher bears the privacy of the respondents in mind. Therefore, the respondents anonymously in the transcription and findings. The quotations of the Dutch interviews were translated to English. The interview from the respondent of Inclusivus was the only interview that is based on notes made during the interview due to technical eruptions.

The interviews were structured according to the sub questions resulting from the literature review. The questions were based on the topics; accountability, competition and dependency. Keeping these topics in mind, the following interview questions were made:

1. What is for your organization the biggest obstacle in the financial cooperation with your donors?
2. What are the main benefits in the financial cooperation with your donors?
3. How much does your NGO have to adapt to the donor's values?
4. How much do these conditions have an influence on your organization's projects?

5. Is there something you would want to change in this relation? / What is your ideal relation between your NGO and the donor?
6. Do you feel that working together with donors strengthen or weaken your organization?
7. How can your NGO make sure that the predetermined goals are reached?
8. Does the received funding always go to the predetermined goals?
9. Do you experience that you have to account to your donors where their donated money goes to? What do you think about this?
10. Does your organization refuse donors? If yes, when did this happen? If not, does your organization always agrees with the said conditions of the donors?
11. Do you have to compete with other NGOs to get funding from the same donor? How can you make sure that your organization gets funding?

3.3 Reliability

To ensure the reliability of the research, a standardized questionnaire was used during the interviews. The interview questions were kept in a logical and chronological order. This ensured structure during the interviews. By using a standardized questionnaire, the same questions were asked during each interview, resulting in answers to be able to be compared. In addition, the same method was used for each interview. It started with an introduction, followed by an easy warming-up question and to end the interview with a summary where supplements could be given. Another measure to ensure reliability is to record all interviews after approval by the respondents. This reduces the chance of important data being lost.

3.4 Validity and Generalizability

To improve internal validity, the researcher took several actions. First of all, the interview questions were send prior to the respondent. Respondents had enough time to understand the questions and prepare their answers. Second, the researcher tried to create an environment where the respondents would feel comfortable. This was either done by interviewing in a private room or otherwise by scheduling the phone interview on their preferred time. On the other hand, the results are less valid, because NGOs have a dependent business relation with their donors, what might have the consequence that the respondents will not feel comfortable in expressing what the challenges in this relation are. This may have an impact on the credibility of the results.

This research also has problems with external validity. Since the results are not generalizable to other organizations or situations. This is due to a relatively small number of NGOs. The organizations differ too much in scale, missions and/or programmes. Also,

qualitative data interpretation may be influenced by the researchers' subjectivity. This makes the research less transferable.

These shortcomings have been taken into account during the interpretation of the data and in the processing of results.

4. Findings

This chapter discusses the findings of the research. The topics accountability, competition and dependency for NGOs in the relation with donors are discussed per subject. The related input from the interviews is first discussed, to conclude with analysis of the hypotheses. All the transcribed interviews can be found in the appendices.

4.1. Accountability

Accountability is considered as a key factor in the funding relation with donors according to all respondents. All respondents answered to the question ‘how do you experience accountability to donors?’ that accountability is a positive and self-evident process for NGOs. Eight out of eleven NGO respondents also expressed that transparency is key in the development sector for both donors as for the people in the field. Five out of these eight NGO respondents were working for larger NGOs. One respondent said about transparency: “In general it is a beneficial process. It is very important that we can justify our expenses. If we did not have these checks, it will damage the reputation of the NGO-industry.” Another respondent said: “transparency is very important and certainly in our sector, even if things go bad. If your relationship with your partner is good then you can justify the bad things as well.” Eight out of the eleven NGO respondents explained that it is key for the development-sector to justify why certain plans or programmes went wrong. Accountability processes are informative for NGOs as well. One respondent said: “That's how we learn. If things do not go as planned, we warn them what we did do wrong. How can we avoid doing it in the future? It's actually a very important part of the whole project.”

Five out of eleven NGO respondents expressed the difficulties that they face towards donors at the moment that they have to justify that part of funding also pays the management and other related parts of the NGO. “You have to justify to your donors that 5 to 10 percent goes to management. We have to do that, otherwise we cannot fulfill the wishes of donors.” Another respondent expressed that “the donor has to be realistic. The funding has to go to employees and suppliers. [...] If they do not agree on this, I will try my best to explain to the donor why it is important for the organization. If they don't want that to happen, the funding stops. [...] We usually do not have this problem because big donors know that this is part of the relation.”

One respondent said that: “If you give something, you can expect something in return. The extent to how much we adapt to the donor and that it is still reasonable, is something that we discuss. In all markets, there is a shift to increasing accountability.” One international

respondent said that the financial process between donors and NGOs is becoming more bureaucratic than it used to be. “It has become more bureaucratic than when I started at UN Women around 1980. Of course, you had to write financial reports but nowadays every step matters in your report.” According to the same respondent from a larger NGO, the accountability process is harder for smaller NGOs than for larger NGOs. Three out of four respondents from smaller NGOs assents to this. Reporting and monitoring projects add big pressure on the organization. “As a small organization, it takes us days to write financial reports, the more donors we get, to more we have to monitor. Bigger organizations have departments that write these reports. We have to include this work in our programmes as well.” Six out of eleven NGO respondents said that reporting in the sake of accountability can be very time-consuming. From these six respondents, two respondents were from larger NGOs and four from smaller NGOs.

Notable is that four respondents expressed that the relation they have with the Nationale Postcode Loterij is an ideal relation. One respondent said that the Nationale Postcode Loterij has “relatively manageable conditions, and the financial reporting is relatively low.” “Accountability is increasing, but the Nationale Postcode Loterij and Ford Foundation do not want too many reports. This shows that they trust the organization.” Another respondent said that the Nationale Postcode Loterij “gives the organization annual funding. As an organization, we can decide for ourselves what we do with it. Most donors say what we have to do with specific funding.”

The Postcode Loterij explained that they do not give restricted funding to NGOs. “In our agreements, we do not have any obligations to give funding. NGOs can mention us in their annual report and they have to account for it financially. NGOs have to write a report of the projects once a year. Besides that, we also think about how we can visualize the cooperation.”

Institutional donors ask for more accountability from NGOs compared to other donors according to most of the respondents. Three out of five respondents from larger NGOs expressed that “institutional donors have a high accountability-expectation. They expect regular reports; your entire project management has to connect to their accountability wishes.” Three out of four respondents from smaller NGOs expressed that institutional donors are very time consuming, but said that “EU-subsidies can be hard, it is a lot of money and the application procedure is complex. However, the EU has high amount of funding, so it is very understandable. “Institutional funding is highly specific according to one respondent: “When we work together with an institutional donor accountability is a very precise process. It is tested, weight and we are allowed to charge an X-percentage to management.”

4.2. Competition

Respondents all claim that NGO competition has increased over the last years. All respondents said that competition is something that has always been there and is a natural phenomenon when asking for funding. Another respondent expressed that the competition between NGOs is only growing stronger “the field has become more competitive, because there is more competition for donor funding.”

Nine out of eleven NGO respondents said that reputation and networking is key to not be affected by increasing competition. One respondent is that “reputation is key. If you deliver a good product, have a reputation that is known as high-quality and have a good network it will make your organization grow stronger.” Having a good reputation can bring benefits, one respondent explained that: “Having a good reputation can be a big advantage, also if the organization has known scandals. It easier for big NGOs to have a big network, that is different for new and smaller NGOs.” Another respondent said that: “Terribly important is your reputation. You have to build that up, go for quality, make good contacts.” Three out four respondents from smaller NGOs said that larger NGOs do have the advantage of a bigger network. “Networking is key because some donors and support organizations that are well known are easier to trust just because they have the name. So many donors have donated for example to NGO X. That makes it easier for them to trust them. We have a smaller NGO and you know that trust needs to be built. And that requires a lot of networking and also getting to know each other. Because in the end it's an investment.”

Nine out of eleven NGO respondents said that networking is very important in reaching donors. A respondent from a larger NGO explained the importance of networking: “The funding that your organizations gets, is based on your own network. Our goal is to remain funding from our network. I do not feel that competition with other NGOs is affecting our organization. Most donors work together with your NGO for several years. If this is a solid partnership, it is difficult to change that. Also, big donors fund multiple NGOs at the same time. All in all, I do not feel that our organization is affected by competition.” Another respondent from the same large NGO said that “networking with major donors is the biggest benefit in our relationship with donors. If we deliver good results to a big network, then their network will hear about our good work.”

One respondent from a smaller NGO said that larger NGOs have a bigger network: “There's always competition. Your vision is not a new thing. It has always been there. There have always been organizations that are bigger and have bigger networks compared to us. We always have to try to innovate. Once you innovate it doesn't matter how small or big you are.”

The donor respondent states “The criteria we set up are clear, you have to comply with that. There is obviously a limit to how much money we can distribute that determines the number of organizations that we can support. Network is important. we chose carefully with whom we want to work together.” The respondent from an NGO said that “a good donor thinks along with you, you look at the same horizon. They invest time in you and that gives confidence. Also, good donors have experts that can contribute to the projects.”

One respondent expressed that NGOs always feel competition because other NGOs are your con-colleagues. “Sometimes you work together and sometimes they work against your plans, that’s okay.” The same respondent explains that NGOs can feel competition in other fields as well “The thing is, when you work together with institutions and the public market, commercial parties becomes a competitor for your donor as well. In a lot of different areas, you encounter the commercial world, that is not bad, but it did change the landscape. There are still many NGOs and other companies asking for funding.” Moreover, three respondents from larger NGOs expressed that if they lose funding to another NGO, they accept this, because funding still goes to a good cause: “Of course you want donors to choose your organization, but if people chose an organization that focuses on health improvements or environmental issues, who are we to say that these organizations do not deserve the money? It still goes to a good cause.”

4.3. Dependency

Different questions were asked during the interviews to test whether NGOs feel dependent on donors. All the NGO-respondents said that there is an apparent logical dependency on donors. NGOs ask for funding from donors, which creates a form of one-sided reciprocity. NGOs need to deliver good results to the donor to give something in return. It is a donors’ choice whether they want to give to an organization or not.

All respondents said that they do not change their main mission because of a donor’s demand. “We believe in our projects. We will not completely change that because a donor has certain prerequisites. But we are willing to adapt to small changes that add value to our projects.” One respondent explained that they sometimes adapt to donor’s values, only if it is in line with their main mission. “There are a lot of donors, and of course everyone has their own approach, their own thinking. We don’t change our vision or mission to adapt to donors’. Plus, donors can change their view for many reasons.” Another respondent expressed: “Usually we do not change our projects for a donor. We are not a service deliverer, we want to be autonomous and determine our own projects.”

According to one respondent from a larger NGO, they were not independent at first. “At the beginning, we were willing to change our conditions to the donor, especially institutional donors. [...] Now we are willing to discuss what conditions we accept. This creates room for negotiations. [...] When a donor offers large amount of funding, we are willing to see if their conditions fit the program. This does not necessarily mean that large amount of funding is equal to more involvement.”

Another strategy that NGOs use to not be too dependent on one donor, is to include multiple donors in the process of funding. “It makes the organization more defensible because we are not dependent on one channel. We have a diverse fruit basket. But it also creates pressure on the organization. We have to approach every fruit in the basket differently. [...] Diversity in different donor channels is a challenge for the organizations.”

All respondents said that they hardly check individual donations, but when it comes down to business investments that an ethical inspection is required. On the question whether NGOs refuse funding the respondents were less in unison. Two respondents from a larger NGO said that they will not collaborate with parties that have a high chance of reputation damage for the organization. “We can always deny funding. [...] You don’t want to collaborate with a donor that sustains war when our mission is to stop war.” One respondent said “if it we classify donor as risky it doesn’t mean that we might not go for it, but indeed we might also put extra measures in place. [...] We would deny any if it is a bad deal for us because it is something that goes beyond something that we can deliver.” A respondent from a smaller NGO said that they do not refuse donors because “they don’t come knock on our door and be like, hey we want to work with you. [...] We reach the donors that we want to work with. And there you can see if it is a good match.” Another respondent from a smaller NGO expressed that they only want to get involved with donors if it is a match for the organization. “We don’t have to deny funding, because we do not let it get that far.”

Furthermore, NGOs said that the relation is evolving and that NGOs are looking for creative solutions to be less dependent on donors. Five out of eleven NGO respondents say that they are willing to innovate their funding strategy, to get long-term funding from donors. Three out of these five said that they try to create shared value. Many NGOs see that donors want to learn from NGOs as well. The relation is changing more to an “equal” partnership relation than to a “dependent” donor relation. As one respondent from a larger NGO said: “In a donor relation you sit across each other, in a partnership you sit next to each other and look at the same horizon.” [...] “We learn from them and they learn from us. But you have to really earn this. We are still in a dependent role and you want to get rid of that dependent role. You really want

to add value to those companies and that is something that we have to work on. We have to change the relation to a real collaboration, that is not only based on financial dependency.” The donor respondent expressed that: “The collaboration with NGOs is a win-win situation. It is pleasant when they think that too. We need good projects to show the world that we are a charity lottery. You can make each other better when you negotiate as equals.”

A respondent from an NGO said that NGOs are adding more corporate value. “For instance, if a company makes a product it nowadays needs to be environmental friendly and free from child labor etcetera, NGOs can play a role in this to add societal value to the donor in form of partnerships.” According to two respondent the relation with donors nowadays is about creating shared values. “We look for companies in the field that we are interested in, and we will see who is active in that field, then we can create shared value. That is what you want to achieve, that you can complement each other.”

4.4 Conclusion

Based on the data of the interviews, the following conclusions can be made:

It can be concluded that NGOs see an apparent benefit in accountability. Most respondents said that accountability creates transparency, openness in the cooperation with their donors and that NGOs and donors have the opportunity to learn from each other. On the other hand, more than half of the respondents said that the process of accountability is very time-consuming. Especially when NGOs want to apply for funding from big institutional donors. Accountability also results in NGOs spending much time on jobs such as writing reports and monitoring the projects.

These critical views on accountability are more expressed by smaller NGOs than larger NGOs. This can be explained because it can take multiple days to finish reports, because a smaller NGO has less employees to work on these jobs than larger NGOs. Moreover, the data from the interviews showed that larger NGOs are more positive on accountability than smaller NGOs. More respondents from larger NGOs said that accountability brings transparency and therefore good cooperation with the donors. They all agreed that accountability is necessary for the cooperation with donors.

Based on the data of the interviews, hypothesis 1.a. “NGOs experience the effects of accountability more positive than negative” can be confirmed. Even though NGOs are critical on the time-consuming, they all proclaim the importance of accountability and that it creates a better relation and more openness with donors. Hypothesis 1.b. “The smaller the NGO the larger the negative effects of accountability”, can also be confirmed. Based on the data of the

interviews, respondents from smaller NGOs were more critical on accountability, because of its bureaucratic nature and smaller amounts of resources. Also, larger NGOs were more positive on the benefits of accountability. This can be interpreted that accountability may be more beneficial towards larger NGOs than smaller NGOs.

All respondents explained that competition is not a new phenomenon. Respondents all do express that competition between NGOs has increased. However, NGOs from both smaller and larger NGOs say that do not feel strongly affected by increasing competition. Not any respondent said that increasing competition results in eliminating their NGO or projects of the NGO. If they have a good reputation and network and have delivered good work, donors will continue to work together with that NGO. Also, if they lose funding to another NGO, they are not resentful about it, because it still goes to a good cause.

On the other hand, respondents from smaller NGOs expressed that larger NGOs do have a bigger network and a better reputation. Networking is key in getting funding from donors. A good and well-known reputation creates that the NGO can permit more mistakes. If an NGO delivers good work and keeps the donor satisfied, the donor will remain to cooperate with the NGO. When larger NGOs can achieve this with their large network, it can make it difficult for smaller NGOs, that have a smaller network, to intervene.

Therefore, the hypothesis 2 ‘Smaller NGOs are more affected by an increasing competition than larger NGOs’ can be rejected. First of all, based on the data of these findings, it does not seem that the NGOs feel affected by increasing competition. They can still perform their programmes and they still get funding from donors. Second, the data of the interviews shows that smaller NGOs do not feel affected by increasing competition, but more by larger networks of larger NGOs.

Based on the findings in the interviews, NGOs do not experience dependency as a negative effect of donor funding. They do feel a certain amount of dependency on the donor. However, all respondents said that they have agency on what extent they adapt to donors. They are open to adapt small changes but not change an entire program for one donor. Moreover, NGOs say that they can deny funding if it is conflicting with their mission. Based on the data, it seems that NGOs do not experience a strong vertical relation with their donors. All respondents do express that they are dependent on their donors but not in a way that they cannot negotiate on the conditions.

On the other hand, only three out of eleven respondents said that they do this by creating shared value. Most NGOs express that they are exploring new strategies to be less dependent on donors. They try to decrease dependency by innovating their programmes, applying for

funding from multiple donors. Therefore, hypothesis 3 ‘NGOs prefer creating shared value more than being dependent on donors’ is rejected. The data is not evident to conclude that NGOs do prefer creating shared value over a dependent relation with the donors. Moreover, it seems that NGOs acknowledge dependency on donors, but the amount of dependency does not seem as vertical as described in the literature review.

5. Discussion

This paper attempted to examine the challenges that NGOs experience in the funding relation with donors. The research focused on accountability, competition and dependency to answer the research question. Three hypotheses were formulated in the literature review, based on these three topics. To answer the research question, qualitative interviews were held with eleven respondents from different NGOs and one respondent from a donor organization. This chapter discusses the findings by comparing them to the existing literature and answers the hypotheses in more detail. It gives insight in the theoretical implications and practical implications. The last part discusses the limitations and gives recommendations for further research.

5.1. Hypotheses:

5.1.1. Hypothesis 1: Accountability

1.a. NGOs experience the effects of accountability more positive than negative.

1.b. The smaller the NGO, the larger the negative effects of accountability are.

Accountability can take two different forms. The first form of accountability is about pressuring demands from donors to NGOs in reporting and monitoring the projects. The purpose of those reports is to make sure that NGOs act cost-efficient. The second form focuses on whether NGOs honor the commitments that the donors set. Accountability therefore can be experienced in two different levels. Different authors described accountability repeatedly as a positive development in the relation between donors and NGOs. The researcher expected that the benefits would outweigh the challenges in accountability. Based on the findings in this research both hypotheses 1.a. and 1.b. were confirmed.

Several authors state that accountability has a positive effect on NGOs' performances (Edwards & Hulme 1996; Fowler, 1996; Najam, 1996). Respondents from different NGOs explained the positive effects of accountability. The results from this research confirm hypothesis 1.a and are also in line with the results from the literature. Accountability brings openness, it gives the ability to NGOs and donors to learn from mistakes and it contributes to a better relation (Edwards & Hulme 1996; Fowler, 1996). On the other hand, respondents expressed the negative sides of accountability. They stated that accountability also brings high workload, because of high demands in reporting.

This research showed that smaller NGOs could be negatively affected by increasing accountability. In general, smaller NGOs do not experience the notion of accountability as negative. Moreover, the respondents from smaller NGOs stated that accountability contributes

to positive developments in the cooperation with donors. However, writing reports and monitoring, create a high workload for NGOs. Compared to larger NGOs, smaller NGOs have more difficulty to finish the increasing demand for reports and monitoring of project for donors. Larger NGOs have more resources and employees to finish reporting and monitoring in time. Mawdsley, Townsend and Porter (2005) explain that smaller NGOs face more difficulties in applying new technical requirements. Overall, most respondents preferred a relation with donors who do not ask for much reporting and monitoring. Different authors explained that monitoring and reporting are too important to reduce, but as Covey (1996) states: NGOs want to work effectively. According to Lloyd (2005) increasing demand of reporting does not contribute to effectiveness. Thus, accountability has both negative and positive effects on NGOs. Based on the interviews; NGOs experience the effects of accountability more positive than negative. Although, the smaller the NGO, the greater the negative effects in comparison. The positive effects are similar for both types of NGOs.

One other aspect was not included in the research: trust. One respondent noted that trust is important in accountability. Authors Mawdsley, Townsend and Porter (2005) stated that the less trust there is from donors to NGOs, the more reports the donor demands from NGOs. Follow-up research could study if there is a relation between accountability and trust.

This research offers several theoretical implications based on the findings related to hypotheses 1.a. and 1.b. Accountability is overall a positive trend in the relation between donors and NGOs. On the other hand, accountability demands for a higher workload, which is especially negatively experienced by smaller NGOs. The challenge in practice for NGOs and donors lies in combining the benefits of accountability, while not losing effectiveness on projects.

5.1.2. Hypothesis 2: Competition

Smaller NGOs are affected more negative by an increase in competition than larger NGOs.

The effects of increasing competition are mostly described in literature as negative for NGOs (Aldashev & Verdier, 2007). Therefore, it was expected by the researcher that the respondents of NGOs would be affected even more than larger NGOs. However, based on the findings, competition was seen as a natural phenomenon in the funding relation. The respondents stated that they did not experience competition as negative. Moreover, they explained that they could live with funding going to other NGOs with similar missions: as long as the funding goes somewhere. The hypothesis was therefore rejected.

Relating this finding to the theory, it explains the difference in opinion of authors on this topic. On the one hand, there are several arguments that express the negative effects on increasing competition: it eliminates 'weaker' NGOs and it pressures NGOs in achieving short-term goals instead of long-term projects. On the other hand, there are several arguments for positive effects of increasing competition: it can force NGOs to work more effectively and lead to cost-savings. This research did not find these arguments. This could be due to the fact that no respondents from 'weak' NGOs were interviewed who already work effectively.

Additionally, the findings showed that larger NGOs benefit from having a better reputation and bigger network than smaller NGOs. This creates an advantage in competition for larger NGOs. They can acquire more donor funding at multiple levels. Wallace (2004) states that larger NGOs have the resources to sustain a larger network by attending network meetings. The reputation of the NGO plays a major role in getting funding as well. NGOs that are well known have higher chances to be first approached by donors. Aldashev and Verdier (2009) state that reputation is key for NGOs in receiving funding. Moreover, Olegario (2017) expresses that having a good reputation is "more important for NGOs than for firms." He describes that well-known NGOs are more able to cope with challenges and scandals. "Reputations are formed, sustained and rebuilt within networks of stakeholders. The reputation of an entity depends on its position within these networks, which can be open or closed. Reputation intermediaries can also affect the kind of information that travels through networks (ibid: 6)."

This research could not implicate a bigger negative effect of an increasing competition on smaller NGOs, compared to larger NGOs. It did give some insights in the importance of reputation and networking. Further research on competition for donor funding should include the effects of reputation and networking and compare possible differences between smaller and larger NGOs.

5.1.3. Hypothesis 3: Dependency

NGOs prefer a horizontal relation to a vertical relation with their donors.

Dependency is divided in vertical and horizontal dependency. Vertical dependency is a form of funding where the donor funds one specific goal of a NGO. It maintains a traditional donor-NGO relation, where the donor gives funding to one goal, and the NGO has to deliver service. Horizontal dependency tackles an entire field and is based on a broad. Horizontal dependency can take different forms. The two described in the literature are: Social Corporate Responsibility and Created Shared Value. Created Shared Value strives to a relationship

between donors and NGOs where they both can contribute equally. Donors receive social value and NGOs financial value. Several questions in the interviews tested how respondents feel about donor-dependency. The researcher expected that NGOs would experience vertical dependency as negative and would strive towards a horizontal relation with donors. However, the data did not support these assumptions. The respondents from the NGOs expressed that they only adapt to donors on small issues. They also expressed that they stay true to their main mission when negotiating with donors. They do not set up an entire programme, just because a donor demands it. This contradicts to the existing literature on vertical dependency. Literature described a relation that is based more on a one-sided power relation coming from the donor. The findings in this research imply that NGOs have a stronger voice in the negotiation than the researcher expected. The results could be explained by the following reasons:

First, there is a chance that NGOs do not feel comfortable to admit that they adapt to the conditions of donors and thereby denying a vertical relation. Admitting could damage the relation with (future) donors as it could damage the credibility of NGOs.

Second, NGOs have more negotiation power than have been written about in the literature. As Bolton and Nash (2010) state, NGOs can reduce dependency by having a strong voice during the negotiations. “NGOs contribute most to such coalitions when they are able to present a unified front across a diverse range of civil society actors, when they are inclusive of and driven by those directly affected by the problem they are seeking to address and when they maintain some independence from their government and other donors (Bolton and Nash, 2010: 172).” All respondents stated that they do not change their main mission when negotiating with donors on policy conditions. This could imply that NGOs are not as dependent on donors as the researcher expected.

Third, donors prefer vertical dependency over horizontal dependency. Creating Shared Value emphasizes long-term cooperation with NGOs (Porter & Kramer, 2011). It could be argued that donors have a stronger interest in funding short-term goals. Social value is an objective that is difficult to achieve, define and measure (Mulgan 2010a). Especially for smaller and mid-large businesses, applying Creating Shared Value is an ambitious goal to achieve (Martin, 2011): “Small companies are planning ahead for that great day when you have millions, rather than hundreds of data points that can set you up for better shared value opportunities.”

Moreover, the interviews implied that Creating Shared Value is not as popular as the researcher assumed. Creating Shared Value could be a theory that is still in the initial phase. As been said, Creating Shared Value is for smaller donors not easy to apply. This research showed

that the only two respondents from NGOs that were striving to Creating Shared Value, were respondents working for larger NGOs. Larger NGOs might have more resources to implement Creating Shared Value, compared to smaller NGOs. Larger NGOs have a larger network, so they can approach bigger companies easier to create shared value.

Another explanation can be that NGOs who do not strive for Creating Shared Value do not want to be as strongly involved with different companies and lose autonomy. NGOs that implement Creating Shared Value have to work closely with the partnering donor. Still, NGOs do not want to be closely associated with certain companies that could damage their own reputation. Moreover, donors still have the upper hand in the funding-relation between donors and NGOs. There is no guarantee that when Creating Shared Value is implemented, that this power relation disappears, since donors are the ones that are still contributing NGOs financially.

Another possibility could be that donors do not want to create shared value with NGOs. Baur and Schmitz (2011) imply that business donors are too powerful in the relation with NGOs. They state that it is difficult for NGOs to suggest Creating Shared Value, because of the power relation between the actors. Social value is hard to measure and is a subjective term. This makes it more difficult for NGOs to give the donor something with the same value as the received financial support.

This research shows that NGOs do not implement form of horizontal dependency to prevent vertical dependency as was expected by the researcher. Moreover, it shows that NGOs do not experience vertical dependency as negatively as expected. Future research could focus on why NGOs should apply Creating Shared Value and how they view this theory. The theoretical implications of this hypothesis show that dependency is a broad concept in the donor-NGO funding relation. Also, the notion of vertical dependency is fluid and can mean what the NGO wants it to mean. Future research could study the notion of both vertical and horizontal dependency broader.

5.2. Theoretical Implications

The main theoretical implications were discussed per hypotheses in section 5.1. The research provides new insights on challenges for NGOs. Within the topics of accountability, competition and dependency, new perspectives were discovered, such as the importance of networking, the strive towards Creating Shared Value and the impact of demanding accountability. Articles on donor funding and NGOs are still evolving. The notion on donors and NGOs are sensible for social and global change. The research can add to a present overview on how NGOs experience the funding relation with donors. The research is in line with existing literature, that also could

not give an unambiguously result on the biggest challenge for NGOs in the funding relation with donors.

Many authors wrote about the donor-NGO relation from the NGO perspective. However, it lacks articles about this relation from a qualitative perspective. Also, not many articles have focused on how NGOs 'experience' accountability, competition and dependency in the relation with donors. Therefore, this research chose for a personal qualitative approach instead of a quantitative survey. This research provides a small overview of what Dutch NGOs experience as challenging in the NGO-donor relation. The research can be used as a starting basis for future researches.

5.3. Practical Implications

Based on the findings of the hypotheses, there are no unambiguously practical implication that could directly benefit the funding relation between donors and NGOs. However, when focusing on the details, the research could contribute to a better understanding of the challenges between NGOs and donors in the funding relation. Also, the research provides findings that agree and disagree with existing literature.

The research could add purpose to NGOs. First, the research shows that NGOs can experience the same challenges with donors. If NGOs would follow-up on the findings of the research, NGOs could benefit in creating a better work environment for themselves and work together better with other donors. Moreover, the research could bring new insights to NGOs to understand how to improve cooperation with donors, such as to implement Creating Shared Value, improve networking and build a reputation.

The research could contribute to donor organizations, to understand the challenges that NGOs experience in the funding relation. The research indicates how the NGOs experience the cooperation, the possibilities and the problems. These findings can give donors an idea of the cooperation from the NGO perspective. It could open new chances for donors to work together with NGOs to understand what the possibilities are and what the challenges in the relation are.

5.4. Limitations & Recommendation Follow-up Research

The research has several limitations that have to be taken in mind. The first limitation of this research was the scale. Eleven respondents were interviewed from different NGOs and one donor organization. This made it difficult to make conclusions on the data without generalizing. Future research could expand with more respondents from different NGOs ranging from small to large to make more valid conclusions. The study is intended as an explorative research on

the funding relation between NGOs and donors. The research chooses a qualitative research to study the experiences of NGOs on the donor funding. Future research could use this study as a starting point for follow-up research on the topic. Another option could be to include a quantitative method to have a broader range of results.

The second limitation was that NGOs might not feel comfortable to speak freely about the funding relation with donors. NGOs are dependent on donors to get funding. The researcher asked questions on sensitive data of the organizations. Even though the researcher kept the interview anonymously, this could result that respondents from NGOs would not want to make statements that could harm future cooperation with donors.

The third limitation of the research was that only one donor was interviewed for the data. The initial research question focused on the perspective of donors as well. The researcher had access to several NGOs to do the interviews. They expected a snowball effect on getting more respondents from both NGOs and donors. NGOs were more willing to do interviews on this subject. Donors were harder to approach. Therefore, the researcher decided to focus fully on NGOs, with an exception of one respondent from a donor organization. Future research could apply the same research, but with a focus on donors.

Another limitation in the research was that the majority of the interviews were held in Dutch. The transcriptions from the Dutch interviews were written in Dutch. The quotations used in the findings, were translated to English. The translated version of the quotations of the interviews could be lost in translation and be based on interpretation.

Future research could focus on possible causal relations between networking, reputation, workload on accountability and the ‘difficulties’ of Creating Shared Value.

Moreover, future research could apply this form of research in a non-Western perspective to show if the findings from this research differ from non-Western NGOs. Also, future research could study if NGOs, that have a certain thematic or mission, view the donor relation differently to other NGOs.

6. Conclusion

This research gives answer to the question: ‘What do Dutch NGOs experience as the biggest challenge in the funding system with donors?’ Qualitative research was used with a case study approach to explore what NGOs experience as challenges in the relation with donors. Interviews with employees of different NGOs provided the data for this research. The research focused on accountability, competition and dependency as challenging factors in the relationship between NGOs and donors.

NGOs consider accountability as a crucial element for a good relationship with donors. Accountability creates more transparency between the donors and NGOs and requires responsibility from both NGOs and donors. Accountability has increased on NGO activities. Donors demand more reporting and monitoring in NGO projects. Especially institutional donors expect more reporting on the spending of the funds and the achievement of predetermined goals. Smaller NGOs have less resources and employees to finish reporting and monitoring in time than larger NGOs. NGOs prefer a relation with donors that do not constantly demand reporting. That would give them more freedom to perform their programmes.

Before NGOs reach the process of accountability they have to compete with other NGOs to get funding from a donor. Competition is not a new phenomenon in the field. Remarkably, losing funding to other NGOs is not seen as a negative result. However, NGOs do experience a certain amount of competition in networking and reputation. NGOs need a strong and big network to be able to apply for donor funding. A positive reputation contributes in donors wanting to work again with the NGO in the future. Small NGOs realize that in many cases they do not have a large network and are therefore experiencing more difficulties in claiming available funding.

Similar to competition, NGOs experience dependency on donors as a natural phenomenon in the funding relation. Dependency can be horizontal and vertical. NGOs do not experience vertical dependency, or at least they do not consider this a negative outcome. NGOs claim that they approach the donors in whom they are interested in themselves to cooperate with. The donors, who are approached, generally fit these objectives. On the other hand, donors can change their policies and set different priorities, which results in that NGOs may have to adapt to (mostly small) changes. NGOs do experience that the funding relation with donors is a negotiating where they have a voice too. Some NGOs strive to implement Creative Shared Values in the relation, so the collaboration is not only about finances, but also about the donor contributing to the implementation of projects. Even though the theory suggests benefits for both donors and NGOs, this approach has not been aimed for in practice.

In conclusion, what do Dutch NGOs experience as the biggest challenge in the funding system with donors? The research did not find one clear evident answer on what is considered as the biggest challenge for NGOs in the funding relation with donors. However, based on the data in the findings, most respondents from different NGOs expressed that they experience accountability as the most challenging out of the three topics. The notion of accountability is not considered as a negative result, but the time-consuming element and demanding requirements of reporting are challenging parts of accountability. In particular, smaller NGOs do not benefit from this development. NGOs would experience the relation with donors as less challenging if they did not have to put so much time in writing reports. Both parties will keep asking the question: what is in it for us? Whether is social value or financial value.

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