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# What Do Donors Want of NGOs? Some Empirical Evidences from Indian NGOs

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### ABSTRACT

This article is based on a Ph.D. research study of the voluntary sector in India, of which non-governmental organizations are a part. The perceptions, assessment and recommendations of donors and experts on various aspects of NGO functioning were examined in depth as one of the components of the research, in the backdrop of social marketing objectives. The study covered the most important aspect of the application of marketing principles to socio-economic development, besides identifying important issues governing the operating effectiveness of NGOs and the traits and qualities that make them eligible for donor support on a sustained basis. The results suggest that in the Indian context, level of funding significantly influences performance of NGOs. While the program component of social marketing effectiveness had a significant relationship with level of expenditure, there was, however, no relationship between level of expenditure and social marketing effectiveness as a whole. A significant conclusion of the paper is that NGOs should project a more positive image of their performance and credibility to donors. The paper also suggests that systematic outcome measurement is critical to assess NGO performance.

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### Introduction

NGOs make up the voluntary sector, also known as the "third sector" of the economy, which has shown tremendous growth in many countries. This has been triggered by several factors including greater availability of funds for development programs, insufficient capacity of governments to address social concerns and the voluntary sector's ability to work closely with target communities.

A recent Ph.D. study conducted across two states in southern India shows that the growth of this sector had its roots in the pre-independence period and reached a peak after Independence, with the recognition of the role of voluntary organizations by the Fifth Five Year Plan Document. During the 1990's, NGOs' role and collaboration between government and NGOs were emphasized by the Planning Commission in the Seventh Five Year Plan Document. In addition, Indian NGOs began to make their presence felt at the global level and were given a prominent role in poverty reduction and development of civil society by the World Bank's New Policy Agenda. The Seventh Plan indicated a bigger role for the voluntary sector in rural development, by supplementing the efforts of the government. The Eighth, Ninth and Tenth plans all emphasized the importance of building people's institutions through voluntary sector initiatives. The Tenth Plan also recommended a nine-point strategy for involving the voluntary sector in community and welfare programs, which included help in the development of core competencies and professionalism.

A study carried out in collaboration with the Institute for Policy Studies, Johns Hopkins University, USA (2002), estimated that there are 1.2 million non-profits in India. The study also indicated that NGOs involved in socio-economic development through the transfer of ideas and concepts for social behavioral change are only about 21% of the total number of NGOs. All India estimates of total receipts of NGOs for

1999-2000 were Rs. 17,922 crores (Rs. 179 billion, Rs. 48 to 1 US\$). The four main sources of funds for NGOs in India are: self-generation, loans, grants and donations. Grants include funds received from government and international sources; donations may be from both Indian and foreign sources, mainly individuals and corporations. Grants and donations taken together constitute two-fifth of total NGO receipts.

The rapidly increasing scope for the voluntary sector to play a vital role in socio-economic development calls for a critical examination of the sector's capabilities and shortcomings, with special reference to the tools it adopts to maximize impact at the community level. Marketing practices of the commercial sector have been successfully adapted to socio-economic development projects in other countries. Examples of these are: i) the application of social marketing to build public health by the Department of Health, UK, ref: their White Paper 2004 and ii) Drucker's (1990) mention of the successful application of market segmentation by the American Heart Association. Therefore, the functioning of this sector offers much scope for research in India. The current article is a part of the research on select NGOs in Karnataka and Tamil Nadu (the two economically progressive southern States of India) and deals with donor and expert expectations and perceptions of NGOs in terms of pre-requisites for receiving assistance.

### Why is Donor Perception Important?

Unlike the commercial sector, which has a non-returnable equity capital, the success of the voluntary sector depends on continuous flow of funds from benefactors. This is one dimension of sustainability, i.e., financial sustainability, identified by Cannon, Lisa (2007), which relates to the sustained ability of the NGO itself to continue to pursue its mission. A second aspect of sustainability according to Cannon is benefit sustainability, or "a continuation of the benefits that result from an activity, with or without the programs or organizations that

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stimulated the benefit in the first place.” Financial sustainability is the bedrock upon which rests organizational sustainability and benefit sustainability of any NGO.

Since the financial sustainability of the NGO depends largely on donors, how donors view NGOs and what they expect from this sector are of prime importance. In order to attract continued assistance, it is important for donors to have a positive perception of the NGO and of the sector as a whole. The current study reveals some interesting findings on this particular aspect.

#### **Research Methodology**

Both secondary and primary research was done to assess donor perceptions and expectations. The secondary sources included scholarly and research articles, websites and reports of international institutions such as the World Bank. The primary research included both quantitative research in the form of a survey using structured questionnaires, as well as qualitative research through depth interviews. The study covered twelve donors (both Indian and international) and experts. The respondents were given the option of completing the questionnaire online, or through a face-to-face interview.

In addition to the questionnaire developed for the experts and donors, a guideline was designed for conducting one-to-one depth interviews with the experts/donors. The purpose of these interviews was to incorporate “phenomenological” research into the qualitative research design, whereby the experts were asked to describe their personal experiences of phenomena related to the NGO sector. These interviews included probing questions to gain additional insights into the sector from the experts. The responses to these questions were analyzed separately and integrated with the quantitative data.

The integration of quantitative and qualitative research techniques has been advocated, especially for socio-economic situations, by Weinrich, Nedra Klein, (1996) in a scholarly article. According to the author, research on social marketing would not be complete with gathering data of a quantitative nature alone, since it is concerned with behavioral change. Qualitative methods such as depth interviews provide deeper insights into complex behaviors and motives.

Secondary Research Throwing Light on Donor Perspectives  
A number of scholarly and research articles have dealt with funding and donor perspectives. NGOs in developed countries are the biggest source of funds to Indian NGOs. They tend to fund projects that focus on community development and on specific sectors such as agriculture, health and education.

Donors also have different preferences regarding the mechanism through which funds are distributed to Indian NGOs. Some donors prefer to go through an intermediary agency that identifies and evaluates projects. Others pool their funds and distribute them through an intermediary agency. Some international NGOs set up in-country offices, staffed with local experts, which play the role of an intermediary agency. Many donors have also tried to fund NGOs directly, without the intervention of an intermediary.

The question of whether non-profits that show greater operational efficiency attract more assistance from funding agencies has been examined by Frumkin and Kim (2000). Operational efficiency implies that the organization is cost effective and has low administrative expenses and fixed costs. Based on a study of a large sample of non-profit organizations over an eleven-year period, the authors concluded that efficiency is not a major factor in attracting funds. There was no significant difference between non-profits that projected themselves as cost

efficient and those that did not, in terms of the amount of contributions received from individuals, foundations and corporates. While this may appear illogical, it is possible that even at a higher cost, if good coverage, widespread ripple effect and sustainability in terms of impact are achieved, these could influence favorable funding decisions.

According to Holcombe, Susan et al (2004), the tendency among donors, especially internal funding agencies, is to provide assistance for projects whose impact can be measured. Measurable results indicating achievement of goals would undoubtedly induce greater confidence among donors that their money is being effectively used.

The World Bank’s Practical Guide to Operational Collaboration with NGOs (1995) spelling out its policy on NGOs regarding funding issues, is indicative of their expectations from this sector, which are as follows:

- NGOs are generally cost-effective. They should not, however, be viewed as a "low-cost alternative" to other types of implementing agencies.
- NGOs should not be expected to provide services free of charge, or at lower than market rates (unless according to a co-financing agreement).
- NGO involvement could be in various forms - e.g.: informal unpaid advisor, paid consultant, or contractor.
- Mutually acceptable fees and overhead costs should be established.

The World Bank estimates that NGOs have huge potential to contribute to the success of its projects due to their participatory approach. The World Bank’s “Practical Guide to Operational Collaboration between the World Bank & NGOs” (1995) cites the areas in which they could be effective. NGO involvement can contribute to the sustainability and effectiveness of Bank-financed projects by introducing innovative approaches and promoting community participation. NGOs can help expand project uptake and reach and facilitate greater awareness of diverse stakeholder views. NGOs can provide particularly valuable input during project identification and design.

The World Bank’s Operational Directive (1989) expects local NGOs to work within the framework of the policies of the relevant government. They should also try to create a harmonious working relationship between governments and donors. Corruption and inefficiency in use of funds have been one of the main obstacles to receiving funds from international donors. A World Bank report (1995) on the status of health projects being implemented in India cites corruption and fake NGOs as the main reasons for delay in execution of projects. The Bank has been known to withhold funds for the health sector, after detecting misuse of funds previously granted. According to Collings, Simon (2008), one of the biggest impediments to fundraising efforts by NGOs in emerging countries in general is their poor image and lack of credibility. There are several instances of retired government officials setting up NGOs to attract State funds, which are at times diverted for purposes outside the objective.

Secondary research shows that in India for example, there is much scope for the voluntary sector to avail of a substantially higher share of resource availability from the World Bank and other international sources with proper project identification, convincing presentation of proposals, track record of efficiency and an image of greater reliability and accountability.

### Size of Funds Significantly Influences NGO Performance

The above mentioned hypothesis of the study in India under reference implies that the amount of resources in terms of funds or expenditure determines both the quality and quantity of output, as measured by the quality and number of training sessions, for example. Based on an extensive survey of available literature and research studies, specific hypotheses related to factors affecting performance effectiveness of socio-economic projects were developed as part of the larger study, using the Log Frame (Logical Framework) Model. This Model is used by international financing institutions for assessing performance of socio-economic projects and has three components – a) Input, or what is put into the organization (for example, resources), b) Output, or what the organization puts out (for example, number of brochures or training programs) and c) Outcome, or impact created by the Output (for example, number of loans received, or women starting businesses).

#### Statistical Test of Hypothesis

Statistical tests including regression, correlation, t test, F test and co-linearity were carried out to test the hypothesis stated earlier, as well as the other hypotheses that were relevant to the larger study, using the SPSS 17.0 statistical software package.

Since information on the amount of funds was unavailable in precise and reliable terms, the expenditure by each of the NGOs was taken as being indicative of funds made available. This is a reasonable and safe assumption, since NGOs spend most of what they receive and, in any case, do not have the means to access borrowed funds from lending institutions. Data was also unavailable on both output and outcome (impact). Therefore, social marketing effectiveness, in terms of seven components (Program, Promotion, Delivery of Services, Policy, Purse, Publics and Partnership), on which information was available, was adopted as indicator of output and determinant of outcome. Thus the hypothesis was interpreted with reference to the *components of Outcome* and *not to Outcome as a whole*.

The Significance value in the Coefficient analysis being  $<0.2$  for Funds (0.087) indicated that Funds as an independent variable, has a non-spurious correlation with Program. F Value (4.563) being  $>1$ , the null hypothesis that there is no relationship between the independent variable and Program (dependent variable) was rejected at the 0.12 level of significance.

Therefore, the above hypothesis was restated as follows –

Input significantly influences Outcome (where Input is expenditure and Outcome is social marketing effectiveness).

**Null hypothesis:** There is no relationship between expenditure and social marketing effectiveness.

**Alternate hypothesis:** Level of expenditure significantly influences social marketing effectiveness.

The other relevant statistical indicators that were taken into account to arrive at a conclusion regarding this hypothesis were as follows – (a) coefficient of multiple determination, denoted as  $R^2$ , which measures the multiple correlation or linear relationship among more than two variables, the value of “R” indicating the multiple correlation / causation between the set of independent variables and the dependent variable (b) adjusted  $R^2$ , calculated to remove the “spurious” effects of independent variables on the dependent variable, with large differences between  $R^2$  and adjusted  $R^2$  indicating that some independent variables have a spurious effect on the dependent variable. (c) standard error of estimate, which shows the degree of variability of effect for sample data (NGOs in this case), of the many independent variables.

Based on the statistical indicators described, the alternate hypothesis was accepted and may be restated as: Level of expenditure significantly influences *program aspects* of social marketing effectiveness. The program aspects of social marketing effectiveness include adaptation of program design to cultural needs, introduction of innovative features in program design, involvement of stakeholders in theme selection, program design and implementation. However, there was found to be no relationship between the level of expenditure and components of social marketing effectiveness *other than program aspects*.

The result of the test of this hypothesis would be of significance to funding agencies and NGOs, as it indicates that the size of expenditure by an NGO, consequently funding, is critical for the effectiveness of the *program aspects* of social marketing. Although this result is specific to India, it may also be of relevance to developing countries.

#### Findings from Questionnaire

Regarding the applicability of marketing methods, all the 12 respondents unanimously agreed that all marketing practices are relevant to socio-economic development activities.

The respondents also emphasized the importance of building stakeholder relationships, particularly with the target group and government at different levels, which were ranked as the most important stakeholders of an NGO.

As for the current legislative framework, 10 out of 12 respondents were of the opinion that there is no distinguishing legal identity for Indian NGOs. There is no national parent body or licensing authority, nor is there a legal framework that binds NGOs and makes them accountable to a central authority. Only in special cases like watershed development, there are MOUs between individual departments of government and NGOs, which confers some identity on the participating NGOs.

Experience in the given area of activity was named by 7 out of the 12 respondents interviewed as the most important trait of an NGO, followed by financial capabilities, which was named by 6 respondents.

The importance of assessing performance effectiveness in terms of a specific formula was recognized by a majority of the respondents. Periodic measurement of impact (outcome) as well as output was suggested by 6 out of 12 respondents for assessment of performance effectiveness.

The respondents were almost unanimous in their opinion (11 out of 12) that for administrative expenses, a range of 8-20% was a reasonable limit.

Leadership and management and clarity of objectives were ranked first and second respectively as the most crucial factors for organizational sustainability, that is, the organization's continued and successful operation.

The consensus among all 12 respondents was that management aspects have not reached a satisfactory level, since NGOs have systems in position, but do not pursue them as an important component of the management process. This is evident from the average rating of various management aspects – approximately 3 on a 5 point scale. However, this was an observation on NGOs in general and not specific to any of the NGOs that formed part of the sample for this study.

#### Findings from Depth Interviews

The first question asked of respondents was whether NGOs applying marketing practices with suitable adjustments to the development sector are able to attract more committed assistance from funders than those that lag behind in this aspect.

The majority - 5 out of 6 respondents - was of the view that funding, especially foreign funding, is influenced by many different factors and that the application of marketing principles to NGO activities is not of prime importance.

According to one of the experts, the Regional Director of an international NGO, donors give more consideration to factors such as the goal of the project and the selection of the appropriate target audience, rather than to the method or approach used to achieve that goal. Partnership with the private sector is another factor considered by overseas donors.

Another expert, the Program Director of a mother NGO involved in AIDS prevention and cure had a similar opinion and felt that there was no experience of either domestic or foreign funders favoring NGOs that apply marketing principles.

A third expert, a medical doctor with an NGO working in the area of HIV pointed out that NGOs working in the area of public health have managed to attract funds due to their success in building relationships, rather than to the application of marketing principles. His opinion was based on his experience in the area of health care.

A senior manager with a bank that provides funds to NGOs engaged in rural development was of the view that factors such as the credibility of the NGO play a more important role in the decision to grant funds, rather than the application of marketing methods.

An expert with an NGO involved in the area of counseling believed that all NGOs unconsciously applied marketing practices and that those applying them in a systematic manner tended to attract more funds than those who did not. High recall and visibility of the NGO, according to her, were factors that were given greater importance by funding agencies.

In the course of the depth interview, the respondents were also asked to recall and describe actual incidents of success and failure among NGOs, in which they were involved in one way or another. Based on these incidents, some of the factors which could lead to success, according to the respondents, were generation of own funds without dependence on outside sources, effective marketing techniques and innovative media such as counseling centers for promoting awareness of HIV. For projects to be successful, it was essential to have appropriate institutional partnerships or linkages (e.g. Self Help Group-bank linkage) and to develop models that have high replicability in other areas.

The most common failure factors that were cited were as follows – mismanagement of funds, an able leader disassociating himself from the project and less emphasis on commitment and more on formal education in staff selection.

### Conclusions

Availability of funds in adequate measure and timeliness impacts program efficacy. Therefore, NGOs should conduct affairs in a manner that induces confidence in prospective and existing donors to release funds without interruption.

The findings indicate that from a donor viewpoint, the application of marketing principles is not of prime concern. This need not be interpreted as marketing practices being irrelevant or unimportant. Other over-riding factors related to the functioning of NGOs are more of a source of concern to donors. These include caliber of leadership, quality of management, clarity of objectives, experience in the related field and financial integrity.

Considering that poor image is a major stumbling factor for donors to participate in NGO projects in a much larger measure, it seems necessary for the voluntary sector to enhance project performance through imaginative adaptation of marketing

practices, establish a systematic link of accountability to donors and project themselves as reliable, efficient organizations committed to community development. There is much scope for brand building by Indian NGOs. NGOs need to make vigorous efforts to project a more positive image of the organization to potential donors. Image building should be based on performance, credibility, experience, financial capabilities and good achievements.

There seems to be need for a distinguishing legal identity for NGOs engaged in socio economic development. One of the suggestions that emerged from donors/experts was that there should be some unique ID number / registration for NGOs across the States and that their track records should be available for review and reference.

Although many NGOs have systems in position, the impression among donors/experts was that they do not pursue them as an important component of the management process. Demonstrating capability through quantified performance indicators would go a long way in convincing donors that the NGO is result oriented and in attracting assistance. Evaluating output performance (in terms of efforts in the form of training, brochures, leaflets, meetings, etc.) and performance in terms of outcome or impact are both equally important. The first is for short-term measurement of efforts made to create impact. The second is meant to measure the long-term outcome of the effort. Training in outcome measurement methods may be needed.

The results of the hypothesis test, the questionnaire and the depth interviews are specifically related to the two states of southern India covered by the study. It is possible that these may have some relevance to developing countries, offering scope for further research in this area.

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