

A Test Drive of a Conceptual Framework for Understanding How Non-Governmental Organizations React To Shifts in Donors' Funding

This research paper is exploratory; it attempts to understand NGOs' responses to shifts in donor agencies' funding. It asks questions such as how do NGOs react to such a shift? Do all NGOs react in the same way? If not, Can these reactions be captured in a comprehensive/rigorous conceptual framework?

Since the early 1980s, donors have been redirecting their funding to developing countries from national governments to local NGOs. As such funding continues to expand, the aid channeled through NGOs rapidly increases; one critical result of this trend is the growing dependence of NGOs on financial resources from donor agencies. Donors develop policies and priorities and revise them at an ever-increasing pace; NGOs lag behind trying to figure out how to adapt to these developments and make sure they meet the criteria of the donors' revised objectives. It is not viable to generalize that all NGOs react in the same way.

The paper draws on a qualitative research of multiple case studies; four NGOs in Lebanon with at least 12 years history of relationships with two funders are studied. This yields to 24 embedded units of analysis (NGOs' responses) on which process tracing is conducted, knowing that the period covered witnessed several shifts of focus in donors' funding.

The analysis reveals that there is a variation in the NGOs' responses to shifts in donor funding. In one case, the NGO decides to no longer seek funding from a particular donor due to incongruence between the donor's modified objectives and the NGO's interests; the relationship between the two is suspended during that funding cycle. In a second case, an NGO can approach

the donor to discuss the possibility of continuing their relationship in light of the donor's decision to change its objectives and shift funding; such an NGO tries to relay its feedback and input to the donor with the intention to influence the donor to waive certain criteria which allow the NGO to continue do whatever it has been doing with a sustained source of funding. In a third case, an NGO might adjust its activities in an attempt to meet the changes in the nature of donor's funding; it voluntarily decides to reshuffle its priorities to account for the changes in the donor's preferences. Finally, we should also differentiate the case of the so-called the donor-organized NGOs; they lack the autonomy and ability to decide on what to do and how to react.

Based on the results, the paper proposes applying Hirschman's (1970) individual self-interest theory in an attempt to classify the variation in NGOs' reaction to shifts in donors' funding objectives into a conceptual framework. The above mentioned modes of reaction could be classified under the typology of exit, voice and loyalty (for cases one, two and four); the main contribution of this paper is the introduction of a fourth category adjustment which is applicable to the third case.

The proposed framework is case-specific in the sense that it explain the NGO's relation vis-à-vis a specific donor at a specific point in time; it does not provide an explanation of the NGO's relationships with all its donors. In addition, the paper recognizes the importance of explaining the underlying variables of each case/response which would be the focus of additional future research.

Introduction

In 2006, the Palestinian political-military group, Hamas, won a vast majority¹ in the elections for the Palestinian territories while in the previous 1996 elections it was not even represented. There are many political, ideological and religious reasons behind such a victory; nonetheless, unpublished reports indicate that the donor agencies and their local partner organizations contributed indirectly to such a victory. Donors (including USAID and EU) were funding social and welfare services delivered by local organizations to constituents. Prior to and in preparation for the elections, the donors took the decision to shift the focus of funding to democracy and participation; partner organizations had to follow, leaving a gap in the social services provision that Hamas successfully filled. Hamas was then able to satisfy needs and acquire public support.

A policy-decision to shift the focus of funding- in order to serve the strategic interests of the donors- contributed to unintended consequences². More devastating, local organizations in West Bank and Gaza, which are supposed to serve their own constituents, failed their mission and had to follow the donors as they shifted their funding. To frame this observation into a research agenda, it is intriguing to understand Non-Governmental Organizations' (NGO) responses to shifts in donor agencies' funding. While the underlying reasons are as important, this paper's research questions are:

How do NGOs in developing countries react to the shift in donor agencies' funding?

Do all NGOs' react in the same way? If not, can these reactions be classified into a conceptual framework?

¹ Hamas took 76 of the 132 seats in the Palestinian Legislative Council.

² An objective assessment of these consequences would mostly describe them as negative; political divisions among the Palestinians led to two separate authorities and a semi-civil war that was concluded with an Israeli assault on Gaza Strip.

An instantaneous answer to these questions comes in the form of a traditional African proverb that says: “if you have your hands in another man’s pocket, you must move when he moves” (Edwards and Hulme 1996: 961). This reflection on human relationships can be also applied on the relationship between donor agencies and NGOs in developing countries.

This paper proceeds to present a general definition of donor agencies and NGOs before moving to discuss the characteristics of the relationship that exists between donors and NGOs in developing countries. As an exploratory paper, the following section discusses the design and methodology of the research that focuses on four cases of Lebanese NGOs; the paper then proposes a conceptual framework for understanding how NGOs react to shifts in donors’ funding and then concludes with additional analysis and discussion of possible implications.

Definitions

Before proceeding, this paper uses the terms donors and donor agencies interchangeably. In general, there are three kinds of donors. First, there are the bilateral donors, from country to country, and usually through foreign aid agencies in the donor country but not necessarily to the government agencies of the recipient country; examples include the Canadian International Development Agency, UK’s Department for International Development, and United States Agency for International Development. Second, there are the multilateral agencies such as World Bank and United Nations agencies through which funds from various sources are channeled and then allocated. And third, transnational NGOs, international alliances and philanthropic foundations such as OXFAM, Ford Foundation, and Gates Foundation have been established to work on specific issues or in specific areas around the world with private source of funding

(Edwards and Hulme 1996; Van Rooy and Robinson 1998). This paper focuses on the first type: the bilateral donors.

On the other side, there is still some confusion in the definition and classification of non-government organizations. Vakil (1997) tried to confront the issue towards a comprehensive taxonomy. In an attempted classification, there are nonprofit organizations (NPOs), non-governmental organizations (NGOs), and civil society organizations (CSOs). NGOs to be a subset of NPOs based on a structural/operational definition that accounts for the actual features of the organization (Vakil 1997: 2059). Arguably, the two terms are interchangeable; the determinant in using one of the two terms is whether the focus is on profit-generation and tax-exemption (NPOs) or the nature of relationship with the state (NGOs). However, a uniform taxonomy is yet to be universally accepted and adopted.

This paper considers NGOs as the self-governing, non-governmental, not-for-profit, and non-political organizations (Ibid: 2059). The dynamics involved in the processes of decision-making, resource-generation and relationship-building of these organizations differentiate them from other types of organizations such as political parties, universities and informal associations; the inclusion of these organization in the study could impose unresolved complications. In addition, professional associations³ are to be also excluded since they “operate as comprehensive and well-legitimated representatives of their constituencies and are routinely engaged in formulating rules and principles of their respective spheres” (Boli 2003: 341).

³ Examples of professional associations include Bar Associations, Labor Unions, Physician Associations, etc...

Introduction

Approaches to development grew more diversified evolving from economic growth into social and human development. This was reflected in the shift of foreign assistance to developing countries from meeting basic human needs in the 1970s to good governance which has been dominant since the late 1990s (Hook 1995). The new discourses of development, and consequently the flow of foreign aid to developing countries, have been associated with an institutional development reflected in the expansion of NGOs' role and status.

Calculated in monetary value, that total volume of international funding going to developing countries topped US\$100 billion in each of the last two years compared to US\$41.3 billion in 1974 (expressed in real 2005 dollars) (Kharas 2007). The US foreign non-military aid expenditures increased from around \$10 billion in 1996 to \$32 billion in 2004 (Verweij and Gyawali 2006). Aid transfers of American, Canadian and European nonprofits alone to developing countries over aid accumulated to \$2.7 billion in 1970 and increased by 166% in 1990 to reach \$7.2 billion (in constant 1986 dollars) (Edwards and Hulme 1996). When private financial flows are added, the total sum of assistance channeled from the North to the South stood at US\$200 billion in 1992 (Hook 1995).

The influx in foreign aid was the result of the changes in development discourse and, consequently, of the alterations in the focus of foreign assistance to developing countries. It was also coupled with the development in NGOs' role in the development process. The two indicators of such a development are the amount of money being channeled through NGOs and the exponential growth in the number of these organizations in developing countries. As a matter

of fact, in 1999, US\$12.4 billion out of the US\$46.6 billion of OECD aid assistance (around 21.6%) was transferred through NGOs (Kakarala 2001). In early the 1990s, 50% of the World Bank project funds and 40% of USAID's were channeled through NGOs in developing country (Kakarala 2001). As for the increase in number, over the course of three years, the number of organizations increased by 450% in Nepal (220 organization in 1990 vs. 1,210 in 1993) and by 175% in Tunisia (5,186 NGOs in 1991 as opposed to 1,886 in 1989) due to the 'donor spending spree' (Edwards and Hulme 1996: 962).

Channeling of aid assistance through NGOs is not a new practice; Germany claims to be the originator of the idea in the 1970s. But it was when the World Bank Board of Directors adopted a policy to forge partnership with NGOs in 1981 that donors started redirecting their funding from the national governments of developing countries to local NGOs. The decision came as a result of deliberate discussions that took place first at the World Bank and then spilled over within the donor community. The decision resembled a political statement of distrust in the capabilities and integrity of the official apparatus (Mitlin, Hickey and Bebbington 2007); "the government is seen by many as a source of problems rather than as a solution [...] favoring political ends rather than development concerns" (Kharas 2007: 4). NGOs had been favored as the alternative. These organizations are able to efficiently deliver results and can do the same job at a cheaper cost than the private sector and with less coordination expenses than the government. NGOs' values suggest that they are a natural vehicle towards inspired change; they are also perceived as the 'good guys' with whom donors could partner to reinstate the legitimacy of assistance in developing countries. Finally, NGOs were favored since it would be easier to discard them should a donor decide to alter their obligations versus complicated and binding

bilateral government-to-government agreements (Smith and Lipsky 1993; Edwards and Hulme 1996; Kharas 2007; Van Rooy 1998).

The Nature of NGOs-Donors' Relationship

It is hard to make any generalization on the nature of the relationship between donors and their partner local organizations. However, donors usually dominate the relationship with recipient NGOs. Bebbington (2004) refers to 'intentional' development which describes international aid channeled into programs with specific goals set by donor agencies. Some of these programs take what the local people are familiar with and actually know and formulate it into well-developed ideas that appeal to funding strategies and fit within current development paradigms. This top-down or supply-led relationship is principally one-way although NGOs are expected to exchange information with their donors in forms of reports and evaluations (Ebrahim 2005b). Hearn illustrates how western donors launched the 'NGO-isation' of Kenyan society "as part of an ambitious attempt at societal engineering to redefine the central relationships between the state, society and external actors" (Hearn 1998: 90).

Conversely, in a 'demand-led' model, NGOs assume responsibility and take the initiative in designing and presenting their agenda and preferences; donor agencies would then place "consolidated resources at the disposal of local institutions that decide on and own the uses to which they are put" (Edwards, Hulme and Wallace 1999: 123). This recipient-donor approach is a process of mutual learning, transparency and participation and equal partnership; it further ensures the voice, ownership and sustainability of NGOs and their accountability to beneficiaries (Doornbos 2003).

Another salient feature of the relationship is the role of intermediaries (Van Rooy and Robinson 1998; Stiles 2002). In several cases, Northern NGOs are brought into the development aid process to serve as a link between the donor and the recipient organizations while indigenous intermediary NGOs “usually act as brokers between local groups at the grassroots level” (Smith 1998: 217). On one hand, intermediary NGOs carry out activities, provide technical assistance and help build the capacity of domestic organizations, buffer the demands and render advice on implementation to the donors. On the other hand, a hierarchy is erected in the aid industry; such a hierarchy entails a certain degree of control over the flow of resources as well as the exchange of information and imposes additional overhead costs (Smith 1998; Sanyal 2006).

The supply-led approach is the most dominant in the donor-NGOs relationship. It is especially vigilant because of the inconsistency in donors’ funding and the consequent confusion and instability among partner organizations. “Donors develop their programs, preferences and priorities and revise them at an ever-increasing pace, while at best NGOs try to figure out how they might fit in or if they meet the criteria underlying the latest preoccupation of donors” (Doornbos 2003: 15). And when the NGO sector become heavily dependent on donor agencies, such as the case in Kenya where 90% of NGOs’ funds come from foreign aid (Hearn 1998), NGOs find themselves in a dependency trap; “they needed the financial resources provided by donors in order to survive” (Bieber 2002: 27).

Becoming dependent on donor funding, NGOs have to struggle between their normative development imperatives and institutional imperatives. Most theories on nonprofits highlight the former which is a bottom line approach that empowers marginalized groups, encourages voice,

focuses on stakeholders, highlights flexibility and risk taking, and invests in impact-oriented programs towards long term goals that ensure sustainability and critical mass. The institutional imperatives leads to a hierarchical relationship suffering problems of bureaucratization and duplication of initiatives, falloff in flexibility and innovation, a compromised ability to articulate ideas and values, and conflicting accountability mechanisms. The NGOs have captured the voice of the people instead of echoing that voice (Edwards and Hulme 1996; Edwards 2008). And here is the problem.

Edwards (2008) uses the ‘elephant in the room’ metaphor to describe the current situation of the NGO sector; the foreign aid channeled to and through NGOs might have become oversized as an elephant in a small room. It might be hard to get the elephant out of the room and it would be a challenge to deal with the elephant inside the room. I invite you to use some imagination here. If the elephant does not move, we should be concerned; but if the elephant does move, then we have a problem: we need to see where and how it is moving to know how we should move and where we should position ourselves.

This simple analogy is what this paper tries to unveil. If a donor agency (the elephant) decides to shift the focus of its funding (move), how do NGOs working with that donor react (how they move and where they position themselves). Two assumptions are recognized here. The ‘elephant’ metaphor does not indicate that there is one single elephant; there are multiple donor agencies operating on the same ground at the same time. Interestingly, although donor agencies claim that they coordinate their efforts at the country-level, there are many cases that undermine such a claim. Nevertheless, the coordination takes place at the policy-making level; as referred to

before, development discourses have been changing over the past 30 years and so are the funding policies of donor countries. Certain congruence is easily detected in the strategic objectives of the major donors (USAID, DFID, EU, World Bank, etc...); the shift in one donor's objective seems to be neatly orchestrated with the changes in the others' to an extent that it might be safe to assume that some donors share the same funding agenda. The second assumption is that if there are several elephants in the room the distance from the different elephants is not the same. It is very likely that an NGO takes different positions vis-à-vis different donors; after all, there is a certain degree of uniqueness in organizational relationships. Nevertheless, there might be a certain degree of correlation between these relationships.

To proceed, as indicated before, this paper explores how NGOs respond to shift in donor funding, acknowledging that there is a variation in NGOs' responses. Exploratory research "seeks to find out how people get along in the setting under question, what meanings they give to their actions, and what issues concern them. The goal is to learn what is going on and to investigate social phenomena without explicit expectations" (Schutt 2009: 14). The variation in NGOs response is not already structured but need to be captured into a proposed conceptual framework through undertaking an exploratory research approach.

Research Design and Methodology

The exploratory research for this paper was designed around multiple case studies of Lebanese NGOs. Lebanon is chosen for this research for the practical reasons of financial constraints and the researcher's familiarity with the NGO sector and the country's environment.

Lebanon is a developing country with a weak economy victimized by a long civil war and several wars and confrontations with Israel. Lebanon is also a struggling democracy but with a high degree of freedom and liberties relative to the region. NGOs have to function in such environment, which is fertile to a certain extent. Lebanon has the Middle East's largest number of NGOs relative to its population⁴; the sector is very dynamic and vibrant and covers a whole lot of issues. NGOs are easily established and they don't function under any constraints on their sources of funding. In general, NGOs manage a financial portfolio of one billion dollars a year, 22.6% of which is delivered directly from international donors⁵; for the sake of comparison, the aggregate budget of social welfare NGOs is five times that of the Ministry of Social Affairs that (Abou Assi 2006).

Keeping that in mind, the research is designed around multiple case studies of four NGOs. To control for the variables of industry, size, and location, organizations working in the environment sector and in the same region⁶ were selected. To avoid selection bias, the search engine on the Ministry of Environment's website (www.moe.gov.lb) was used to randomly select four organizations. The selection criteria included being a medium-size organization⁷ and enjoying at least 12-year history of relationship with multiple donor agencies⁸. To verify the criteria, the online database (www.lebanon-support.org) was used. If any of the selected organizations did

⁴ Unofficial data says there are 15,000 organizations while the active ones are less than 5000.

⁵ The figures and percentages fluctuate during periods of emergencies such as the War in 2006.

⁶ The region is Mount Lebanon which is the largest region in the country and hosts the largest number of NGOs

⁷ Medium-size is defined in terms of the annual budget of the organizations. The ceiling of the annual budget of small-size organizations is \$50,000 while the annual budget of the medium-size organizations ranges between \$50,001 and \$100,000.

⁸ Any variation in the number of donors for each organization is rewarding for the purpose of this research since it increases the number of incidents/decisions to be studied. For an explanatory research, the diversity of funding sources has implications on an organization's overall behavior.

not meet the criteria or decline to participate in the research when approached, the same process was repeated.

The appropriate level/unit of analysis for my research question is NGOs' decisions on how to respond to shifts in donor's funding. There are four cases of NGOs interacting with multiple donors; each case provides an opportunity to record multiple observations over the covered period which witnessed several shifts in the focus of donors' funding⁹. The results discussed below will focus on two donors; this yields to 24 multiple embedded units of analysis (Fenno 1986; Blee and Traylor 2002; Yin 2003).

Process tracing and discourse analysis which are commonly used in qualitative social sciences to analyze processes, understand variations in interpretations and assess causality were used as analytical tools. Data collection consisted of semi-structured interviews with representatives of NGOs and donors and experts, document analysis, and a focus group. Results from different sources were compared to ensure consistency, reliability and validity (Pierson 2000; Johnston 2002; Hermann 2007; Capoccia and Kelemen 2007; Checkel 2008; Neumann 2008).

Research Findings and Results

The field research reveals that two of the four organizations have more diversified sources of funding than the other two; however, there are fewer donor agencies that provide funding to most or all of the four selected NGOs. Therefore, for the purpose of comparability, this paper focuses

⁹ Usually the funding cycle is over three years; this means the period of research has witnessed at least four to five shifts in funding focus/objectives.

on two donor agencies and presents the changes in their funding objectives before proceeding to report on the reaction of each of the four NGOs to these changes.

Two caveats are introduced here. First, as stated before, donors seem to coordinate their country-strategies. Donors' objectives have become very similar to one another; although labeling might differ or there might be a short time gap, common themes dominate different donors' agendas in Lebanon. Second, donors revise their in-country strategic objectives periodically; in principle, the revision process involves consultations with local partners and government agencies.

However, NGOs' representatives consider these consultations as a fulfillment of a requirement more than a conviction of the importance and benefits of NGO's participation and involvement; "sometimes we spend more time meeting with delegations sent by different donors to assess needs and discuss future priorities than doing our work; and at the end, we find out that what we ask for is less important than what they ask us about."

Donors' Objectives

The two donors included in this research were focusing their efforts on supporting livelihoods in Lebanon in the early 1990s before peace was fully reinstated and reconstruction was launched; one donor was working on *rural development* and the other on *development* in general. As the government started regaining power and providing services to the people, the focus of most of the donors' funding shifted in the mid 1990s in support of government's efforts, to *welfare services* in the case of the first donor and to *social services* in the case of the second donor. By the late 1990s, Lebanon witnessed presidential and municipal elections¹⁰. Governance became the prevailing theme during that era, hoisted by donor agencies and appealed to the interests of

¹⁰ The first municipal elections after 35 years took place in 1998.

local politicians and organizations; the first donor agency focused on *good governance* and the second on *institutional development*.

Since 2000, Lebanon has been captured in security instability and political turmoil. The Israeli army pullout from Southern Lebanon after 22 years of occupation was followed by political divisions over the extension of the term of the president and then with the assassination of a national leader; in 2005, the raise of the ‘cedar revolution’ brought civic participation and engagement to the highest levels until a war between Israel and Hizbullah broke out in 2006 and political upheavals occurred in 2007 and 2008. All donor agencies were compelled to respond to the Lebanese government’s call for emergency and relief assistance after the 2006 war; nevertheless, the donor agency included in this research considered that it is as important to prepare the country for the future; as soon as the war settled down; *democracy* became the focus of the first donor and *human rights* found its way to the top of the second donor agency’s agenda.

NGOs’ Activities

Before proceeding to discuss NGOs’ activities and whether they are implicated with changes in donors’ funding objectives, it is important to stress that the four organizations included in this research are environmental NGOs. This means that their mission statements are primarily focused on environment.

To preserve the promised confidentiality, this paper cannot explicitly quote these statements; nevertheless, the overarching themes are protection of the environment and conservation of

natural resources, combating environmental threats and abuses, promotion of environmental well-being, and raising environmental awareness and building capacities for better environmental management and engagement. A second objective mentioned in these mission statements is development. Even when introduced, development is directly associated with and linked to environment; environmental protection and promotion provide better living standards for the individual and ensure sustainable development in the society. Therefore, it is very decisive to refer back to this fact in the coming sections of this paper.

For the purpose of confidentiality, this paper describes only the general purpose of the activities carried out by the four NGOs; it still recognizes that the specific details of these activities and on-ground implementation are also important and might constitute an interesting subject for research. All of these activities are funded by the two donor agencies mentioned before; however, none of them is co-funded by the two. The general purposes of these activities are stated in grant applications, or project documents, or NGOs' annual reports and websites. For convenience, the four NGOs are labeled as NGO1, NGO2, NGO3, and NGO4.

NGO1 worked on reforestation with funding from the first donor agency under its rural development objective; when the donor agency shifted to welfare services, NGO1 devised an income-generating program under which all projects were both environmentally friendly and oriented such as production of goods from recycled materials. With the introduction of good governance as the donor agency's main focus, NGO1 launched an environment advocacy campaign to raise awareness and motivate the public to lobby their representatives to take necessary actions to protect the environment. Finally, an activity focusing on public participation

in public affairs related to environment received funding from the donor agency as part of its democracy program for the country.

NGO1's relationship with the second donor agency started when the latter introduced social services as its main in-country objective. In parallel with its income-generating program funded by the first donor agency, NGO1 also launched projects in cooperation with the local communities in certain areas of the country to promote eco-tourism; these projects were funded by the second donor agency. The relationship continued as the donor agency shifted its funding into institutional development; NGO1 crafted an activity that aims to build the capacity of small environmental clubs and groups in order to ensure better environmental monitoring and management. With the shift of the donor's funding into human rights, NGO1 decided not to apply for any funding; "we found it impossible to convince ourselves to do a project on human rights that does not transform our whole identity; there are many organizations working on the human rights and can do a better job."

NGO2 was conducting research on the agriculture sector in Lebanon and the environmental impact of introducing certain mode of production into the sector, funded by the first donor agency as part of its rural development program in the early 1990s. The changes witnessed in the funding objectives of this particular donor compelled NGO2 to make the decision of suspend its relationship with this donor; "we are an environmental group and cannot just hop around from one place to another according to the wish of the donor. Every time they want to revise their funding objectives they want to meet with us and every time they put a call for proposal they contact and encourage us to apply; we study their criteria and we say no thank you."

The relationship with the second donor agency is somehow similar. As part of its development program, the donor was funding NGO2's activities to promote and raise environmental awareness in schools. The shift of funding into social services did not appeal to NGO2. Funding from this donor was resumed when NGO2 started working with policy makers (member of parliaments and government officials) to draft environmental standards, policies, and laws. "Both of our interests [NGO2's and donor's] were aligned under environmental institutional development; that was not the case before or after as you can see with the donor's interest in human rights which is not something we want to get involved in", as indicated by a NGO2 representative.

NGO3 and 4 took a completely different route. With funding from the first donor as part of its rural development program, NGO3 conducted environmental activities such as planting trees and cleaning public areas and NGO4 was executing a small irrigation project. The donor's decision to shift its funding into welfare services was met with NGO3's decision to launch a program that provide services for the elderly; "we thought that the people we have been serving are in need of such services and there was the money; after all, development takes different forms and they complement one another" as explained by NGO3's representative. NGO4 did not seek any funding at that stage from the donor. However, both organizations approached the donors on two separate projects on citizenship when the funding objective changed into good governance. Another shift in the types of activities took place when the donor funding moved to democracy; NGO 3 secured a grant for a project on voting choices during elections and NGO4 secured another grant to promote youth participation in elections. The representative of NGO4 justified

these shifts by the fact that “we saw other organizations taking money from the donor so we decided to do the same in order to sustain our programs; however, we are committed to perform an excellent job in any kind of project we are working on.”

The reactions towards changes in the funding of the second donor are not very different. The second donor funded NGO3's solid waste management project and NGO4's environmental awareness campaigns at the community level. Both organizations elected not to apply for any funding from this donor with the shift of focus into social services. Interestingly, NGO3 was conducting a similar project with funding from the first donor; nevertheless, it “didn't have the capacity to simultaneously carry out two projects that are new to us; we decided to do one project only and try it out.” When the focus of funding shifted to institutional development, NGO3 secured funding for access to information project which disseminated information on government transactions to the public via printed materials. NGO4 argued that it was able to meet the new requirements of the donor but yet conducted an environmental lobbying project which is of an interest to the organization and fits its mission. The next funding cycle with the human rights focus was not to witness any attempt from NGO4 to secure funding from the second donor; on the contrary, NGO3, developed a proposal and secured funding for a project that aims to empower youth towards ensuring and protecting their rights.

Application: A Conceptual Framework

The results indicate that the NGOs- at least some- have agency in their behaviors and thus can determine how to respond to shifts in donor funding. This situates NGOs as consumers seeking a certain good from a service provider; in this case, the good is a financial resource and the service

provider is a donor agency. This brings Hirschman's (1970) individual self-interest theory into discussion.

The individual self-interest theory entails the typology of exit, voice and loyalty and introduces the individual as a consumer shopping for the product or service that is in his/her best interest. If the organization is demonstrating a decrease in quality or benefit, then the consumer might consider declining the service and shopping elsewhere (exit). The consumer can voice and attempt to repair or improve the relationship through communication of complaint or proposal for change. Nevertheless, there are consumers who are attached to a product or its provider and decide to continue purchasing the service despite any dissatisfaction; this is loyalty (Hirschman 1970).

Hirschman's (1970) typology has been broadly adopted by scholars to operate not only in terms of the economic market but with respect to sociopolitical values. It is frequently used in political science in studying democracy and participation; in the public sector it was applied to the accountability in public service delivery (Paul 1992); to participation of social actors in core activities of state (towards what is called co-governance) (Ackerman 2004); and to employee dissatisfaction (Farrell and Rusbult 1981; Farrell 1983).

In the NGO sector, Ebrahim (2003b) partially uses the typology in a principal-agent framework on NGOs accountability. In each relationship with external actors- donors, beneficiaries or communities and regulators, "an NGO can serve as both a principal and an agent. The dominant direction of that relationship is determined by the presence and use of accountability mechanisms

to enforce it” (Ebrahim 2003b: 201). In an NGO-donor relationship, the donor provides the funding; in return, the NGO submits reports and evaluations. If dissatisfied with relationship, the NGO can exit by refusing funds or voice its complaints in an attempt to make things better.

However, not only does this framework drops loyalty, it also does not fully recognize what Chambers (1996) calls self-deceiving NGOs who reinvent old wheels by repeating the same projects or doing pilot projects as Smillie (1996) puts it and who are ready to abandon of a mission of social transformation to become the implementer of donor agenda according to Edwards and Hulme (1996).

Based on the results of the field research, the paper proposes applying Hirschman’s (1970) typology of exit, voice and loyalty in an attempt to classify the variation in NGOs’ reaction to shifts in donors’ funding objectives into a conceptual framework. The main contribution of this paper is the introduction of a fourth category: adjustment.

First, there is a need to distinguish the so-called the donor-organized NGOs. Although limited in number, Vakil (1997) and Loung and Weinthal (1999) reports on DONGOs that have been directly set up by donors to carry out their agendas in developing countries. These organizations are registered locally like any other NGO and are considered part of the NGO sector; sometimes the funds channeled to them represent the bulk of aid to a certain country. As such, loyalty to their creator- the donor- is the salient characteristic of these NGOs. The *loyalty* category of the conceptual framework being discussed is exclusively limited to these organizations. These NGOs lack the autonomy and ability to decide on what to do and how to react, that they automatically

and positively react to the will of the donor and swing along with the shift in donor funding regardless whether the new funding is channeled to areas that are close or alien to their original field of work. The paper recognizes the limitations of indentifying and researching these types of organizations and the consequent implications on providing further clarification and support for the 'loyalty' category of the conceptual framework.

Second, when an NGO decides to no longer seek the funding from a particular donor, the relationship between the two is suspended during that funding cycle. As indicated before, donors tend to revise their funding objectives without necessarily consulting with their local partners; some NGOs become dissatisfied with these new objectives and lose the interest in complying with the modified criteria that are usually introduced with new objectives. A NGO representative mentions that "as soon as our project funded by that particular the donor come to an end, we submitted the final reports and did not respond to the donor's call for grant proposals; we did not see ourselves anywhere in the new scheme of funding". Such an NGO *exits* this particular funding relationship and starts pursue other sources to sustain its programs.

Third, Hirschman's (1970) talks about consumers who when get dissatisfied with a certain product they complain to the producer anticipating certain remedial measures. To a great extent, the same applies to NGOs vis-à-vis their donors. "We have been working with this particular donor for more than 10 years now; we have established trust along with systems of accounting and reporting. We want to think we are of the same wave length and understand each other. However, we cannot do whatever the headquarters decides on; we have our own credibility at stake. In several cases, we try to work with the country offices to find ways to continue our

relationship. In some cases, we were able to agree on project ideas that do not diverting far from our objectives stated in the mission statement; we applied and got the money. In other cases, we tried and it didn't work, so we waited." *Voice* is a mechanism used by an NGO interested in continuing to pursue its relationship with an existing donor despite changes in funding objectives under the condition that it does not sacrifice its own goals and objectives. Such an NGO can approach the donor to relay its concerns and feedback with the intention to influence the donor's agenda and align donor's priorities as closely as possible with its own interest. An expert in the field commented "some NGOs are favored by certain donors that you can notice they waive certain criteria which allow these organizations to continue doing whatever they have been doing with a sustained source of funding; others have to design completely new project ideas that suit strategic objectives."

Finally, some NGOs reshuffle their priorities to account for changes in the donor's preferences. Such decisions should be clearly distinguished from those categorized under loyalty through verifying the nuance of choice in electing a certain response. Loyalty classifies involuntary decisions while the proposed category of adjustment classifies voluntary decisions. An NGO goes through an internal deliberative process to decide how to react to an existing donor's intention to change the focus of its funding; the decision is neither imposed nor obliged but made as per the full discretion of the organization. As explained by a representative of one NGO that has been undergoing such adjustment, "the donor invited all NGOs to submit grant proposals and we thought it is better for our organization and the people we are serving to have our feet in different playgrounds; we deliberately decided to broaden the scope of our work and we know we will meet the expectations. Now we need to broaden the focus of our mission statement."

There are many similar NGOs that ‘ride the fashion waves’ set into motion by donor agencies (Challand 2005); they change hats according to the shift in the ‘fashion’. *Adjustment*, then, is the category of NGO’s decisions to willingly and voluntarily adjust its activities in an attempt to meet the changes in the nature of donor’s funding. Adjustments could be minor and accommodating; it is sometimes labeled as transparent compromise. It could also be substantial risking a blind co-optation of the organization (Eade 1993); in such situations, these NGOs lose touch with their own missions as their “roles are determined as much by donor fashion” (Edwards, Hulmes and Wallace 1999: 130).

Interpretative Analysis and Implications

The proposed conceptual framework is case-specific. It does not claim to be comprehensive in the sense that it does not address the various aspects in the donor-NGO relationship; nor it does provide an explanation of the general behavior of a particular organization towards all of its donors. By and large, this framework seeks to explain an NGO’s relation vis-à-vis a specific donor at a specific point in time, i.e. when the donor decides to change the nature of its funding. This means that this reaction is temporal and subject to change in light of new developments¹¹. It also means that as there is variation in the way NGOs react to a specific donor, there is a variation in the way an NGO reacts to multiple donors; while an organization might select *exit* in its relationship with one donor, it practices *voice* or *adjustment* with another. Finally, another disclaimer should be introduced here. This framework might be more applicable to voluntary reactions initiated by the NGOs as a result of the shift in donor funding; NGOs’ decisions

¹¹ The next cycle of funding might witness modifications in the strategic objectives of the donor for example.

induced by other actions and reactions by the donor¹² should be cautiously verified before being classified under this framework.

It also should be noted that some organizations might use *exit* as a strategy towards *adjustment*. While none of the cases studied exhibits this, the experts in the field drew few examples to such; as an expert in the field indicates, “there are organizations that claim that they are no longer receiving funds from a donor agency but surprisingly you see many of their members in another newly registered NGO applying for a grant from the same donor”. Such organizations might be interested in keeping a good public image or buffering demands and pressure on their legitimacy that it is better for them to end an existing relationship with a donor and form a new entity- whether a sister or a branch organization- that can appeal to the donor’s interests without being as much concerned with the public perception. The expert continues to say “the law allows the formation of NGOs without much restriction; NGOs exit from one door and use the law to access the same donor from another door and in no time”.

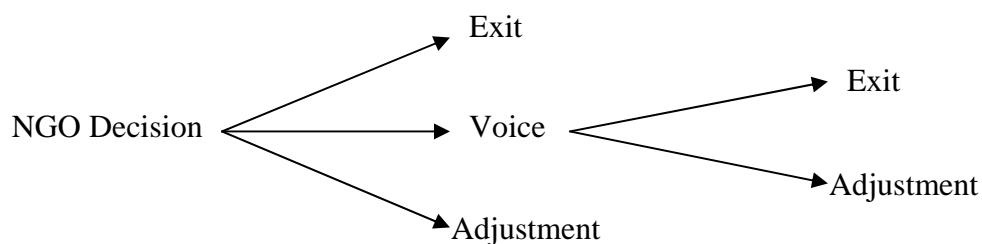
Looking closely into NGOs’ partnerships and consortiums, one can assume that depending on the role assumed in these inter-organizational arrangements, an NGO might actually be exercising exit, voice and adjustment at the same time. Another interviewed NGO expert refers to situations when NGOs forge partnerships as an indirect way to get donor funding in the name of the consortium and not individual NGOs; such an arrangement would buffer the pressure on the NGO. “There are several cases of NGOs that claim they are no longer getting the donor funding because they do not want to serve the donor’s new objectives; but you find them

¹² Such actions include the donor’s decision to stop its aid to the recipient country; donor’s reaction include approval or rejection of grant applications submitted by NGOs.

cooperating with other organizations on projects that actually serves these same objectives; they do the job they are good at; but we cannot deny the fact that this whole arrangement is a ‘concealer’ for a bitter reality which defies all the positive arguments for collaboration and partnerships.” In other words, an NGO here exits the relationship with the donor but chooses to join a consortium of NGOs on a project funded by the same donor which reflects to a certain degree the willingness to adjust to meet the donor’s objective; nevertheless, the ability of the NGO to negotiate the terms of its involvement in the partnership towards conducting activities that fall under its mission resembles a voice mechanism.

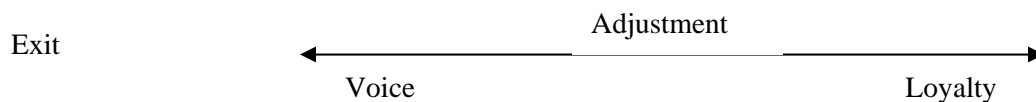
A reasonable approach to the subject matter is to map NGOs reactions into a decision analysis tree sketched in the below graph. Faced with a situation where the funding from a specific donor is being rechanneled to a different focus, an NGO (not a DONGO) has to make one of three decisions: either to reconsider its existing relationship with the donor and stop requesting and receiving funds, or adjusting its activities to accommodate the donor’s emerging interests, or addressing the donor with their concerns about the future of the relationship. In the latter case, the NGO might be successful in convincing the donor to take into account the NGO’s interests and work out a more balanced arrangement. However, the NGO might also fail to convey its voice; here, it is the NGO’s to either exit the relationship or, alternatively, to adapt to the new situation and go for the donor’s funding.

Figure 1: NGO’s Decision Analysis Tree



Yet, an NGO expert observes all NGOs to be adjusting according to donors' wishes and direction of funding. "What we are talking about here is not whether NGOs adjust or not but rather the degree of adjustment; some NGOs modify 10% of their activities to get the new funding and preserve their core functions; others make a 50% change while you can find NGOs that completely transform themselves and start working in new areas that have nothing to do with their mission." Consequently, the argument here would be that except in cases of complete abandonment of donor's funding (exit), NGOs' responses to shifts in donor funding fall on an adjustment spectrum (the figure below). At one end is voice reflecting mild adjustment; at the other end is loyalty indicating a situation of robust changes in the mission and activities of an organization according to emerging preferences of the donors and not pressing needs of consistencies or strategic organizational objectives.

Figure 2: NGOs' Spectrum of Responses



Interestingly, in a similar approach, Brinkerhoff (2002) defines a framework for government-NGO relationships. The proposed framework distinguishes four types of this relationship on a relative scale. First there is contracting where ends and means are predetermined by one side and the other side is brought in based on specific organizational characteristics and contributions to fulfill the needs and accomplish the job. Second, there is extension "when one organization calls all the shots and the other organizations have very little independent identity" (Brinkerhoff 2002: 25). Third, co-optation is gradual absorption where the two sides "appear to mutually agree on

ends and means, and/or an organization is convinced that it is in its interest to follow the more dominant organization's lead" (Ibid: 26). Finally, partnerships take place with mutual dependence or rather interdependence and shared responsibilities and rights in an arrangement which respects and maximizes organizational identity.

The analysis also moderately recognizes the path dependence theory. The theory talks about a temporal sequence: a critical juncture, a reaction followed by a period of positive feedback, and then self-reinforcement until it is disrupted with another critical event (Pierson 2000). In application, the shift in the focus of donor funding is considered a juncture. A partner NGO reacts to that shift in a certain way; if the decision generates a favorable and rewarding loop, it becomes self-reinforced that whenever another shift in funding occurs, the NGO will react in the same way. In light of certain characteristics Pierson (2000) refers to, path dependence sequencing in NGOs' reactions to shifts in donor funding becomes convincing to a great extent. The first characteristic of such sequencing is the large set-up or fixed costs; in this regard, an NGO considers a certain decision now in order to distribute the relevant cost over future activities and results. Second, there are learning effects since an NGO possesses the required knowledge about existing and expected needs and funding; third, there are the coordination effects in terms of the positive or negative implications of an NGO's decision on other local organizations. And finally, there is the characteristic of adaptive expectations where an NGO adapts its actions based on future projections (Pierson 2000: 76-7).

Finally, NGOs' accountability is quite relevant here. NGOs' accountability is usually analyzed based on its relational nature; there is the upward accountability describing the relationship of

NGOs with donors or government, a relationship which is characterized by control over financial, legal or regulatory resources; downward accountability denotes an NGO's relationship with beneficiaries of its services, recipients of its products, or those "who are indirectly impacted by [its] programs"; and horizontal accountability to peer organizations which is usually demonstrated in self-regulation mechanisms (Fowler 1996; Edwards and Hulme 1996; Ebrahim 2003a). On the other hand stands internal accountability which refers to the "NGO's responsibility to its mission and staff, which includes decision-makers as well as field-level implementers" (Ebrahim 2005a: 60). At this stage, this paper cannot substantiate but can only argue that the variation in NGOs' reaction to the shift in donor funding is associated with a variation in the accountability mechanisms, especially upward accountability which then reflects on the other forms or classifications of accountability. Arguably, it is the interplay of these various forms of accountability that leads to one decision or another. The stronger the upward accountability the more likely is an NGO to adjust; conversely, the stronger the downward or internal accountability the more likely is an NGO to exit or voice.

Nevertheless, Brown and Moore (2001) and Ebrahim (2003a) agree that not only does the initial structure of accountability applied by an organization varies over time, but also the characteristics and mechanisms of accountability differ according to the type of the organization (Brown and Moore 2001; Ebrahim 2003a). We ought to recognize that organizational mission influence the accountability structures and the way to understand and assess upward accountability should be different. Therefore, it is possible to accept the dominance upward accountability for service-delivery NGOs whose primary focus is to secure their operational capacity to sustain services-provision. On the other hand, advocacy and policy-making NGOs

would defy the purpose if they were not internally accountable to their values and missions; these NGOs need to advocate and contest policy issues from an independent position that they should not fit themselves into any prescribed models of relationships (Thomas 2008).

Conclusion

Scholars (Bebbington 2004; Stiles 2002) consider that NGOs have become part of ‘transnational networks’ that traverse national and geographical boundaries. Institutional histories (including religious missionaries), political tendencies and ideologies, personal relations and social networks are behind the inclusion of these local organizations in what Stiles (2002) identifies as the ‘intermestic development circles’ along with international donor agencies and various domestic private organizations. These social structures gradually emerges from an initiation stage to institutionalization and finally to maturation, where the former is characterized by a basic contract arrangements while the latter is distinguished by a coherent social structure that separates itself from the rest of society. It is recognized that all members of this circle undergo certain changes to fit within the emerging structure; however, the degree of change is relative. Donors must reposition themselves in order to accommodate the demands of others members; however the change they undergo is subtle compared to that initiated by domestic organizations. These organizations which stand at the receiver end are compelled to dramatically transform their operation and organizational cultures to an extent that they lose much of their local identity as well as touch with their constituents.

This paper aims at providing a modest contribution to the field of knowledge of NGO-donor relationship. Extensive literature has been produced to study this relationship. The impact of donors on NGOs, NGOs’ multiple- and sometimes conflicting- accountabilities, the tripartite

relationship between donors, government and NGOs (and sometimes quadripartite including private sector) are among the themes covered. Even forging or declining a relationship- whether a partnership or an unequal interaction- between the two parties have attracted enough attention; however, donors should be interested to understand why this relationship undergoes certain transformations as they decide to modify their strategic funding objectives.

Nonetheless, the relationship is much more complicated and the picture is much broader; it is useful to approach the subject from different perspectives in order to construct a comprehensive conception. Even with its attempt to do so, this paper had to narrow down its focus and angle of analysis. Accordingly, this paper has argued that the variation in NGOs' reactions to shifts in donors' funding objectives could fit into a conceptual framework that adopts Hirschman's (1970) typology of exit, voice and loyalty, but further expanding it to introduce a fourth category, adjustment. The proposed framework is case-specific and time-bounded; it does not provide a comprehensive overview of the NGO-donor relationship or capture the specifics of NGOs' behaviors when they encounter external changes in their resource environment.

This research should be taken as an initial exploration of complex questions. More research, ideally comparing across sectors and countries, will be necessary. One pressing question is the 'why' question; that is the underlying reasons that force an organization to act in one way or another. There are ample opportunities to introduce various theories including resource dependence, institutional and principal-agent theories to address the subject from different perspectives and provide better interpretations of the variations in NGOs' behaviors and decisions.

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