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Northern Donors for Southern NGOs : Consequences in Local Participation and Production *

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Despite North-South ideological differences, Northen donors are funding an explosion of Southern NGOs and unleashing forces of participatory democracy. Most of funds, however, are destined to NGOs that some call "illegitimate." This paper analyzes the decision process of a NGO manager faced with an ideologically compromising foreign grant. A model is constructed to show that at low levels of output, a foreign grant may increase the visibility of a nonprofit firm and in so doing increase domestic support despite the negative effects of conflicting ideology. Case evidence from Fundación Natura, and NGO in Ecuador, supports the model.

Ⅰ. Introduction

The nongovernmental movement in the developing world burst into the limelight with the June 1992 Earth Summit in Rio de Janeiro--over 20,000 participants of 9000 organizations in 171 countries were present (Fisher 1993, 3). The conference also highlighted often sharp ideological divisions between the North and the South in regard to how environmental problems should be handled and financed (New World Dialogue 1991).

Despite ideological North-South differences, the growth of nongovernmental organizations (NGOs) in the developing world--while

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drawing heavily on local energy, idealism, and talent--has been financed largely by external donors. Over a hundred thousand NGOs have been founded in Latin America, Asia, and Africa since the early 1970s (Fisher 1993). Particularly during the 1980s, major donors such as the U.S. Agency for International Development (USAID) became disenchanted with public sectors and shifted funding to nonprofit NGOs (Meyer 1993). Between 1985 and 1994, USAID increased the percentage of assistance channeled through NGOs from 19 to 33 percent and further percentage increases are anticipated, despite a falling level of foreign assistance (*Connections* 1995). Likewise, the World Bank reports an involvement of NGOs in nearly one-third of 1993 projects, up from only six percent between 1973 and 1988 (World Bank 1994).

But Southern NGOs that are too successful in attracting donor funds are subject to criticism. They may be labeled disparagingly as BINGOS (big NGOs) and DONGOs (donor organized NGOs) (Mayer 1995). Some researchers separate NGOs according to whether their motivation is commercial or value-driven (Brown and Korten 1991). This paper argues that the reality is much more complex and that foreign grants can further local participation and commitment as well as discourage it. Moreover, the employment and training opportunities associated with the acceptance of such a grant are not trivial considerations (Meyer 1995).

Research analyzing the economic role and behavior of nonprofit nongovernmental organizations[1] has expanded since the mid-70s, but has been primarily focused on Northern closed economies.[2] Many issues relevant to the externally funded nonprofit sectors of developing countries have yet to be addressed (Meyer 1992, Díaz-Albertini 1993). Of particular importance is the question of the international transfer of fund between parties of partially conflicting interests and how this affects local political-economic relationships.

This paper focuses on the behavior of the nonprofit manager when faced with a large foreign donor whose ideological program varies with that of the local membership. In so doing it expands the economic

[1] Although literally the term nongovernmental organization (NGO) is a broad classification that might include profit making organizations (e.g. Fisher 1993 includes profit making organizations in her study of grassroots NGOs), typically NGOs are characterized as a third sector -- neither commercial nor gevernmental (Brown and Korten 1991).

[2] See Hammack and Young (1993), Rose-Ackerman (1986), and Powell (1987) for edited collections of this research and Weisbrod (1977) and Hansmann (1980) for seminal pieces. McCarthy et al. (1992) collects research (economic and otherwise) on nonprofits around the globe.

analysis of nonprofit behavior to an international context and provides precise analytical insights to a burgeoning literature on Southern NGOs that may favor zeal over rigor and politics over economics (Meyer 1995). The complexity of the decision process of a manager faced with a large foreign grant is laid out with the help of a formal model. Despite the negative effects on local membership of the ideological program of the foreign donor, the larger budget which results may increase output, visibility, and local participation. Sometimes such a grant can result in a decrease in membership revenue but still allow for a higher level of output and employment. Committed managers might certainly accept the grant in both of these cases. The experience of Fundación Natura (an environmental NGO in Ecuador), and its early relationship to USAID (a major donor for many years), substantiates the results of the model.

The following section introduces political-economic issues of Northern-financed Southern NGOs and elements of the literature on Northern nonprofit organizations that can be adapted to address these issues. Section Ⅲ builds a formal model of Southern NGO management behavior. Section Ⅳ substantiates the model with a case ananlysis of material of Fundación Natura, an environmental NGO in Ecuador, and their major donor for many years, USAID. Conclusions are summarized in section Ⅴ.

Ⅱ. Keys to the NGO Phenomena

Participation, "Yuppie NGOs," and Production. With the passage of each United Nations conference--on environment, population, or women--the "global associational revolution" becomes more apparent (Salamon 1995). The number and visibility of developing country NGOs has virtually exploded. Researchers are crediting NGOs in the developing world--and Latin America in particular--as a pillars of civil society and as forces of democratization (Clark 1995, de Janvry and Sadoulet 1993, Reilly 1995). Not only is there evidence of greater involvement in voluntary associations, grassroots organizations, and the nonprofit organizations that support them, but some believe that the networks and linkages between such organizations provide the vibrant democratic forces to corrode the "Iron Law of Oligarchy"(Fox 1992, Fisher 1994).

Oddly, the flames of these raging fires of grassroots democracy are fanned with external funds directed largely at Southern NGOs sometimes locally scorned for their close connections with foreign donors. The Inter-American Foundation (IAF) is billed as working with grassroots organizations, but 75 percent of grants during 1972-86 went to larger intermediary NGOs (Carroll 1992). Carroll coments that these professeional intermediaries are essential to IAF operations but "they are viewed with skepticism and have been generally downplayed in IAF rhetoric"(Carroll 1992, 17). Such professional intermediaries may fall under the label of "Yuppie NGOs" along with BINGOs, DONGOs, and GONGOs (government organized NGOs)(Meyer 1995). Their legitimacy is frequently questioned on grounds of opportunistic or commercial motives (Brown and Korten 1991, Farrington and Bebbington 1993). Brown and Korten (1991, 62), make a clear conceptual distinction between commercially oriented "public service contractors" and value-driven NGOs; but admit that in reality they may sometimes be difficult to distinguish.

Both public service contractors and value-driven NGOs, however, have provided employment opportunities to many intellectuals, activists, and socially concerned business leaders (Smith 1990), to some charlatans only after the money (Fisher 1994), and to former state employees looking for work due to structural adjustment reforms and layoffs (Clark 1991). The growth of employment opportunities in developing countries is not a trivial matter. Elsewhere I emphasize the important economic role of NGOs as exporters of public services to an international community--particularly in the case of environmental NGOs. More than a political element alone, NGOs contribute to production, employment, technology transfer and human capital development. Opportunism and entrepreneurship should not be confused (Meyer 1995).

Nevertheless, it is generally recognized that scaling up to receive larger grants involves challenges and compromises (Edwards and Hulme, 1992, Gordon Drabek, 1987). Clark (1990, 78) notes that, " There is a danger··· that the NGOs' own, legitimate agendas become swept away." The World Resources Institute, in an evaluation of the growth of environmental NGOs concludes that Southern NGOs are actively trying to achieve greater autonomy from their Nothern partners (WRI 1992, 228).

An economic model of the NGO manager faced with a potentially compromising foreign grant can help to sort out some of these seemingly conflicting ideas. Primarily, how are employment and ideological motives juggled? Is membership participation encouraged or discouraged by idelogically compromising foreign grants? The contributions of researchers analyzing northern nonprofit organizations offer some directions.

Balancing Grants, Ideology, Output and Membership.

Economists analyzing the nonprofit firm in a closed economy have characterized the nonprofit manager in various ways. Some ignore an independent role of the manager and model nonprofit firms as conduits of donor will (Bergstrom, Blum, and Varian 1986), while others may assume a budget-maximizing manager (Tullock 1966). The empirical research of Young (1983), however, provided the basis for including the notion of quality of output or ideology in the objective function of the manager. Young advanced a set of manager stereotypes: the professional, the believer, the independent, the income seeker, etc. From the perspective that screening can occur across occupations, he concluded that "Artists, professionals, believers, searchers, and conservers, for example, seem likely to be fairly concentrated in the nonprofit arena" (Young 1986, 181). Thus, Hansmann (1987, 37) reports that usually nonprofit firms are assumed to maximize quality and/or quantity of service.

While Sounthern NGOs are funded by large foreign-donor grants, northern NGOs often receive large government grants. In both cases there is concern that priorities may be compromised and institutional autonomy and identity lost in exchange for such assistance (Gordon Drabek 1987).

A related contentious issue in the literature of Northern nonprofit organizations, is the extent to which large government grants crowed out private donations.[3] Theoretical arguments have been made and supported empirically with aggregate data, that when consumers exhibit diminishing marginal utility over the public services and when government grants to such services are financed by tax revenue, both income and substitution effects work to reduce private spending on these services (Abrams and Schmitz 1978, Roberts 1984).[4] Rose-Ackerman (1981, 1987) on the other hand, deals explicitly with the effect of government grants on a particular nonprofit organization. She finds that the effects of governments grants on private giving to the nonprofit organization are more complex than private giving to charity in the aggregate. According to her analysis, government grants may increase private donations to the nonprofit firm. This is so because "buying-in" effects -- the increased satisfaction a donor receives from donating to a nonprofit that offers a wide range of services -- may dominate crowding-out effects at low levels of output.[5] Her model includes an independent role for the manager and emphasizes the

[3] Weisbrod (1988, 103-106) reviews literature on crowding out.

[4] This is true as long as consumers benefit from the overall level of the public service, not from the act of giving.

[5] See Rose-Ackerman (1982) for more on the "buying-in" effect.

ideological positions of government, private membership donations, and the manager. Rose-Ackerman (1987) demonstrates that untied lump-sum government grants[6] can free a manager from soliciting private donations to pursue his or her own ideological preferences.

Foreign grants to nonprofits in developing countries are not untied in general; moreover such grants can carry an ideological position that may often alienate local membership. In the next section, however, the Rose-Ackerman model is adapted to characterize the decision process that a Southern NGO manager faces. In so doing it unravels the puzzle of how foreign grants that have ruffled local political sensibilities have at the same time contributed to participatory democracy in developing countries.

Ⅲ. Modeling Southern Yuppie NGOs

To characterize the decision process of a Southern NGO with the opportunity to scale up by accepting an ideologically compromising international grant, I assume that the manager's ideolgical preferences coincide with those of domestic membership but differ from those of the international donor. The model considers a single dominant foreign donor and domestic membership revenue--which can include labor contributions and other forms of participation; it abstracts from other foreign and domestic donors. The analysis reveals that despite the negative effect on domestic membership revenue that a foreign grant may have due to ideological conflicts, such a grant can increase net domestic membership revenue (and participation) at low levels of output. At higher levels of output, crowding-out effects and a less preferred ideological position work together to reduce domestic support--yet the grant may still be accepted because of the positive effect on output, even by a committed manager.

The manager is assumed to have preferences defined by $U(i, q)$ where i is an ideological index, q is the quantity of output of the public service, and U is the associated level of utility. Note that commitment is not exclusively embodied in i; a large output may allow the manager to fulfill those goals to which he or she may be committed and will provide greater employment. But more output also means a larger budget, more prestige, and greater power, higher salaries and more comfortable working conditions for management may be appropriate at higher levels of output. Thus, the variable q embodies a number of potential arguments in the utility function of the typical nonprofit

[6] Kramer (1985) and Salamon (1995) empirically support the contention that government grants do not reduce the autonomy of nonprofit firms.

manager, as does the size of the budget for the Niskanen (1971) budget maximizing bureaucrat.

Manager utility increases with output, but at a decreasing rate, $U_q > 0$, $U_{qq} < 0$. I assume that the manager has a most preferred ideological position, $\hat{\imath}$, consistent with domestic membership. For any $i \neq \hat{\imath}$ and any particular q, $U(i, q) < U(\hat{\imath}, q)$.

The manager is free to maximize utility as long as net revenues cover costs. Revenues are assumed to come from two sources: domestic membership income (including voluntary service contributions) and foreign grants. Costs depend on output in a linear relationship but the ideological position taken is assumed to affect only fixed cost. Since fixed costs will not affect this analysis, we can express total cost, $C(i, q)$ as simply cq where c is marginal cost. Domestic membership revenue may be costly to solicit, but this is implicit in my analysis.

Net membership revenue is defined as $M(i, q)$. For any $i \neq \hat{\imath}$ and any given q, $M(i, g) < M(\hat{\imath}, g)$, that is, net membership revenue is reduced for all ideological positions different from the most preferred position.

The relationship of net membership revenue to q is more complex. I assume that members value the level of output rather than simply the act of giving, and thus increasingly higher levels of output crowd out additional membership revenue. If this were the only effect of higher output on net domestic revenue, membership revenue would fall as output increases, ($M_q < 0$). However, particularly at low levels of output, a higher level of service provision gives the NGO higher visibility, through increased press coverage and more opportunities for the public to observe NGO output. The increased visibility lowers the costs (here implicit) of membership solicitation. Furthermore, members might be more interested in "buying-in" with an organization that offers a larger range of services.

Thus, I assume that for any fixed i, net membership revenue is increasing in q up to some q* after which it declines with increasing q. For a unique utility maximum, a concave net revenue function is also assumed.

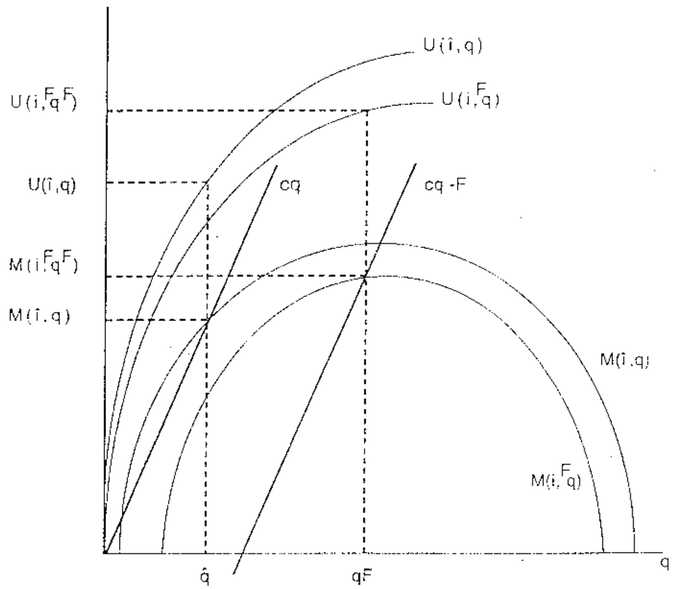
Foreign grants are lump-sum grants that do not depend on q.[7] The foreign grant is, however, related to ideology in an all-or-nothing fashion. That is, the manager of the nonprofit organization must accept some alternative ideological position inconsistent with his own and that of domestic membership, if the organization is to receive the grant. Obviously this could be an ideological position that is agreed on by

[7] I do not consider matching grants in this analysis, although donors like USAID often use matching grants to increase domestic participation-either by the local government or by individuals.

compromise. Thus, if the firm receives the grant, $i = i^F \neq \hat{\imath}$.

In the absence of the foreign grant, the only real choice for the manager is the level of output, because any ideological position other than $\hat{\imath}$, would affect the manager negatively - directly through his own utility function and indirectly through diminished domestic membership revenue. Thus, the manager would choose q to maximize $U(\hat{\imath}, q)$ subject to net domestic revenue equalling total costs:

Figure 1



$$\max_{q} U(\hat{\imath}, q) \text{ s.t. } M(\hat{\imath}, q) = cq.$$

Note that since net membership revenue is a concave function it will equal costs at most twice; the manager would choose the highest level of q where this constraint holds. Figure I illustrates the potential equilibrium. The constraint holds at intersections of cq and $M(\hat{\imath}, q)$ and at $\hat{q}$ the manager maximizes utility.

If the manager accepts an ideologically compromising foreign grant, i must equal i^F. His choice of q would then be determined by the problem:

$$\max_{q} U(i^F, q) \text{ s. t. } M(i^F, q) = cq - F;$$

where F is the lump-sum foreign grant. The optimal q associated with the foreign grant is defined as q^F, and is illustrated in Figure 1.[8] The manager will only accept the grant if $U(i^F, q^F)$ exceeds $U(\hat{\imath}, \hat{q})$.

The model helps to break down the complexity of the manager's decision. Obviously, given the less-preferred ideological position, for the manager to accept the grant, q^F must exceed $\hat{q}$.

At low levels of output, the positive budget impact of the grant can make possible greater output, increased visibility, and additional domestic membership revenue and participation, without significant crowding-out effects on domestic membership. This positive impact on domestic support may be substantial enough to overwhelm the negative impact on domestic support associated with the ideological position enforced by the foreign donor. Thus the effect of the grant on net membership revenue and local participation may be positive; if so, then $q^F > \hat{q}$, necessarily. But even if the foreign grant results in a lower net membership revenue, the larger budget could still allow for increased output to leave $q^F > \hat{q}$. Certainly a manager relatively indifferent to ideology would accept the grant whenever $q^F > \hat{q}$. But, if the increase in output is large relative to the ideological compromise necessary, the committed manager would still accept the grant.

It is also possible that the foreign grant could result in reduced output, $q^F < \hat{q}$, if negative ideological effects on net membership revenue are large and perhaps compounded by crowding-out effects. Under such circumstances, even a manager indifferent to ideology would reject the foreign grant.

Thus committed managers can rationally accept ideologically compromising foreign grants, and such grants may not any enhance domestic membership revenue and local participation. On the other hand, foreign grants will be rejected by managers indifferent to idelogy if the impact of the grant on domestic support is sufficiently negative. Foreign grants which diminish membership support can also be accepted by committed managers if the impact on output is sufficiently positive.

Ⅳ. The Case of Fundación Natura

Fundación Natura, or Natura, from Ecuador, is a “yuppie” environmental NGO which closely fits the model developed above. Now well-known domestically as well as internationally among enviromental organizations, Natura was established as a nonprofit membership

[8] A number of helpful modifications to this figure were added at the suggestion of an anonymous referee at the *Journal of Economic Development*.

organization in 1978 by a small group of Ecuadorian businessmen and public sector officials.[9]

Natura received their first grant from USAID in 1980 for a program in environmental education. USAID quickly became the major support of Natura: 85 percent of international grants in their first four years of operation were from USAID, and from 1978 to 1988 this figure remained over 60 percent (Fundación Natura 1989). However, during this same period, membership increased markedly and steadily -- to approximately 1200 by 1983 and 6000 by 1989 (Fundación Natura 1983, Fundación Natura 1989). Domestic support, from both membership fees (approximately US $5 per adult or $6.50 per family) and from local private sector was significant enough to cover all administrative expenses (in early years) without charging overhead -- a policy intended to avoid dependence on foreign donors.[10]

Despite a long-term working relationship, considerable tension has existed in the relationship between Natura and USAID. Meyer (1993) reports the contrast between the view of personnel from USAID and Natura documents. For example, officials from USAID and project evaluations credit the early strong support from USAID as a key factor in the success of Fundación Natura as an organization. Lieberman and Wood (1982, 54) state that the USAID financed Country Environmental Profile "significantly increased Natura's stature in the eyes of both the public and professional communities of Ecuador." Their evaluation of the first USAID-Natura environmental education project (EDUNAT I) states, "EDUNAT I involves the majority of Natura's time, finances and personnel. It is the dominant project and Natura's prime institutional motivation EDUNAT I gives Natura a high profile both nationally and internationally" (Lieberman and Wood 1982, 97).

Oddly, however, in Natura's first four-year-anniversary presentation describing the education project, they neglect to mention USAID's donor role. Likewise the role of USAID relative to other donors is minimized in several of Natura's other reports to its membership (Meyer 1993). Natura management stated that despite the professional and cordial relationship between USAID and Natura, there was contention over ideological issues and that difficult compromises were often necessary. The executive director saw compromise as inevitable in the determination of their program but also confirmed that Natura had refused grants that diverged too much from their agenda.[11]

[9] Meyer (1993) presents a detailed case study of Fundación Natura, and unless otherwise documented, this section draws on that case presentation.

[10] By 1991, with a more diversified portfolio of donors, Natura was charging overhead to help cover administrative expenses.

Even while their total membership has grown, Natura has lost some members for ideological reasons to other environmental NGOs.[12] In 1984, a chapter of Fundación Natura in Cuenca, separated to become Tierra Viva. By mid-1990, at least 24 domestic environmental NGOs had been founded in Ecuador. Many of these NGOs are splinter groups of Fundación Natura and most of them have a more radical orientation than does Natura. Some of these groups, such as Acción Ecológica, refuse to work with U.S. organizations. Much of their support has come from European NGOs or radical international environmental nonprofits. Natura's executive director noted that their own mainstream position was appropriate to their national stature and funding sources, including USAID.

Certainly the Ecuador experience confirms that NGO management has an ideological position independent of their donors. Leaders of Fundación Natura attribute the success of Natura to their committed personnel. The newer NGOs are filled with the radicalism and idealism of youth -- the "artists" and "believers" identified by Young (1986). Within the country there is a wide range of ideological opinion -- and also a wide range of environmental NGOs. Casual evidence suggests a fairly close matching in ideological positions between domestic membership and management. The friction between international donors and management, particularly in the case of Fundación Natura and USAID, is, however, quite apparent.

Consistent with the model above, Natura in its first four years of operation[13] was an NGO firm faced essentially with a single major foreign donor whose ideological program created friction with local membership and management. They accepted the grant and membership increased; yet local membership has been lost for ideological reasons connected to their major foreign donor as evidenced by the splinter groups. The increased stature and visibility, however -- the buying in effect -- overpowered the negative effect from ideology. Certainly Natura continually moved toward increasing output and generated increasing employment for both fulltime staff and part-time consultants and employees. The case, like the model, reveals that committed

[11] Meyer (1993) documents the results of interviews in May and June of 1990 between the author and nonprofit management, public sector administrators, and USAID personnel.

[12] This confirms the model's assumption of lowered net membership functions for less preferred ideological positions.

[13] Natura was the recipient manager of an endowment from the proceeds of $U.S. 10 million debt swap agreements negotiated in 1987 and 1989. Since that time their financial independence has increased substantially as has they portfolio of international donors (Meyer 1993).

managers can increase local membership revenue and participation despite heavy reliance on ideologically compromising foreign grants.

Ⅴ. Conclusion

By incorporating the important role of North-South transfers and ideological conflicts into a model of nonprofit behavior, this paper sheds light on the role of NGOs in developing countries. The growing economic literature on nonprofit organizations in Northern lends insight, but the international context is absent. Nonprofits in developing countries are peculiar in their reliance on foreign donors, sometimes a single dominant donor. Supporting case evidence from Fundación Natura in Ecuador, further clarifies the process of compromise that "yuppie NGOs" may go through when accepting an international grant.

Several important conclusions result. In the first place, accepting foreign grants may involve substantial compromise. Domestic membership may be traded off against the opportunity to increase output. Political goals may be sacrificed for economic goals -- or perhaps personal economic gain. But accepting such a tradeoff need not necessarily imply any lack of commitment on the part of the manager. Increasing output can further the goals of the membership and in developing countries the opportunity to increase output means much needed employment, foreign exchange, international contacts, and new technology.

Second, the acceptance of a large foreign grant may increase output and visibility so much that local membership participation increases -- perhaps dramatically as in Natura's case -- despite some negative ideological impacts on membership participation. In this case a small ideological compromise can further both political and economic goals. This important result helps explain the explosive growth of NGOs in developing countries and the contribution they have made toward participatory democracy. In many developing countries this buying-in effect may well dominate crowding-out effects at the aggregate level as well, since local private contributions to charity in developing countries are still small.

Third, the paper reveals the folly of separating NGOs into the commercial and the committed -- the legitimate grassroots NGOs and the illegitimate "yuppie NGOs." It is reasonable to assume that all nonprofit managers value both ideology and the level of output. Those described as "legitimate" have, perhaps, not had the opportunity to turn clown a grant that involves some small ideological compromise for the opportunty to produce a much larger output.

Finally, the North-South differences and ideological compromises need not be exaggerated. Empirical evidence shows that many foreign grants are rejected or simply not pursued. But on many issues compromise is possible; and on these issues, Northern funds can thus encourage substantial Southern cooperation.

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