



Analysis

A note on capabilities that contribute to the success of non-governmental organisations

Niloy Banerjee

A case study prepared for the project 'Capacity, Change and Performance'

Discussion Paper No 57P

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Study of Capacity, Change and Performance

Notes on the methodology

The lack of capacity in low-income countries is one of the main constraints to achieving the Millennium Development Goals. Even practitioners confess to having only a limited understanding of how capacity actually develops. In 2002, the chair of Govnet, the Network on Governance and Capacity Development of the OECD, asked the European Centre for Development Policy Management (ECDPM) in Maastricht, the Netherlands to undertake a study of how organisations and systems, mainly in developing countries, have succeeded in building their capacity and improving performance. The resulting study focuses on the endogenous process of capacity development - the process of change from the perspective of those undergoing the change. The study examines the factors that encourage it, how it differs from one context to another, and why efforts to develop capacity have been more successful in some contexts than in others.

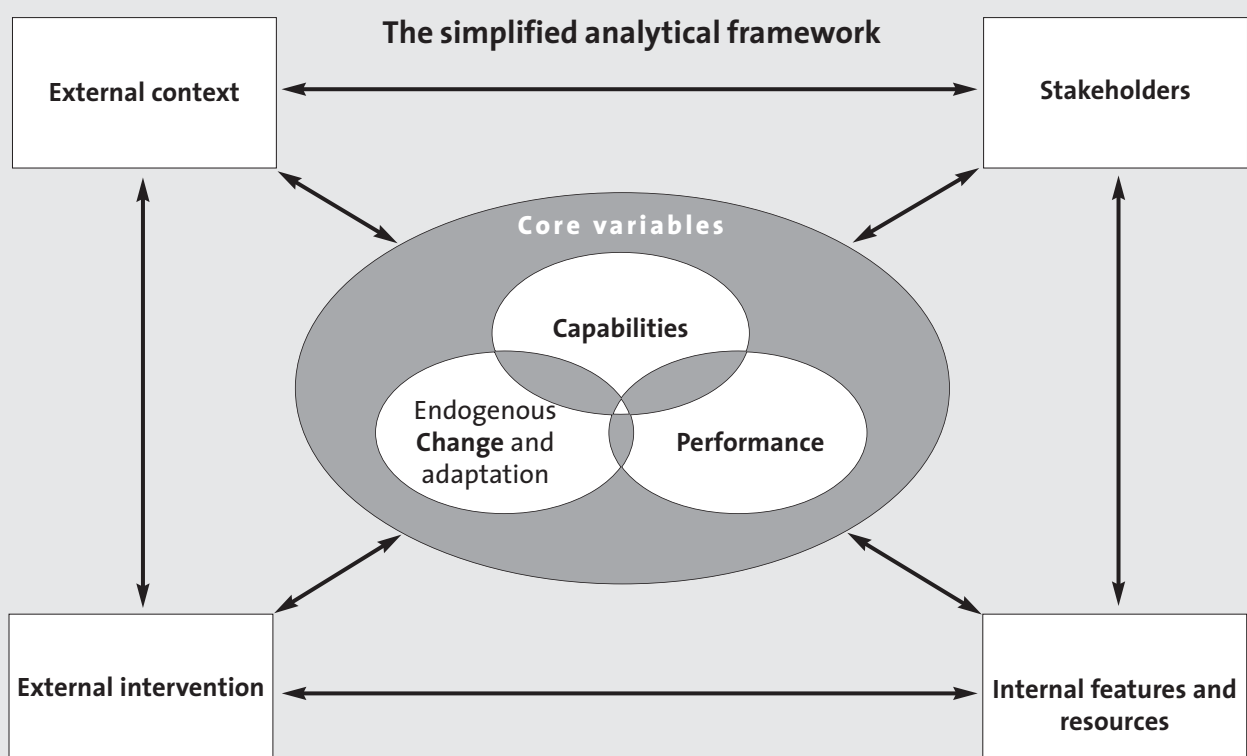
The study consists of about 20 field cases carried out according to a methodological framework with seven components, as follows:

- **Capabilities:** How do the capabilities of a group, organisation or network feed into organisational capacity?
- **Endogenous change and adaptation:** How do processes of change take place within an organisation or system?
- **Performance:** What has the organisation or system accomplished or is it now able to deliver? The focus here is on assessing the effectiveness of the process of capacity development rather than on impact, which will be apparent only in the long term.

- **External context:** How has the external context - the historical, cultural, political and institutional environment, and the constraints and opportunities they create - influenced the capacity and performance of the organisation or system?
- **Stakeholders:** What has been the influence of stakeholders such as beneficiaries, suppliers and supporters, and their different interests, expectations, modes of behaviour, resources, interrelationships and intensity of involvement?
- **External interventions:** How have outsiders influenced the process of change?
- **Internal features and key resources:** What are the patterns of internal features such as formal and informal roles, structures, resources, culture, strategies and values, and what influence have they had at both the organisational and multi-organisational levels?

The outputs of the study will include about 20 case study reports, an annotated review of the literature, a set of assessment tools, and various thematic papers to stimulate new thinking and practices about capacity development. The synthesis report summarising the results of the case studies will be published in 2005.

The results of the study, interim reports and an elaborated methodology can be consulted at www.capacity.org or www.ecdpm.org. For further information, please contact Ms Heather Baser (hb@ecdpm.org).



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Acronyms

DAC	Development Assistance Committee (of the OECD)
BRAC	Bangladesh Rehabilitation Assistance Committee
ECDPM	European Centre for Development Policy Management
GDP	gross domestic product
GOVNET	DAC Network on Governance and Capacity Development
NGO	non-governmental organisation
ODA	overseas development assistance
OECD	Organisation for Economic Co-operation and Development
PRIA	Society for Participatory Research in Asia
PREM	Poverty Reduction and Economic Management Network, India
VHAI	Voluntary Health Association of India

1. Background

Non-governmental organisations (NGOs) are increasingly important actors in the field of development. They are diverse, in terms of their organisational form, structure and culture, and the issues they address. Correspondingly, the capacities that NGOs need in order to deliver on their mandate range across a broad spectrum. When asked, NGOs themselves list an interesting set of capacities that they believe make them sustainable and effective.

This paper is a contribution to the wide-ranging study on Capacity, Change and Performance being undertaken by the European Centre for Development Policy Management (ECDPM) under the aegis of the Network on Governance and Capacity Development (GOVNET) of the OECD's Development Assistance Committee (DAC). The wider study, which is grounded in 16 case studies across the globe, aims to provide insights into how external organisations can best support endogenous capacity development processes. Through experiences drawn from the individual case studies, the study seeks a better understanding of the meaning of capacity, of the complex relationship between capacity and performance improvement, and of the processes through which capacity is developed.

The analytical framework developed to guide the conduct of the case studies (see 'Notes on methodology' on the inside front cover) adopts a systems perspective, and identifies seven interdependent dimensions: the external context, stakeholders, internal features and resources, external intervention, capacity, endogenous change and adaptation, and performance.

This paper is not based on a case study as described above, but emerged from research undertaken as part of a broader assessment of capacity development across a wide range of contexts and organisations. The paper looks at NGOs from the inside out – the capacities that NGOs themselves consider critical to their effective functioning. With NGOs delivering approximately 12% of global flows of aid and technical cooperation, it is clearly useful to understand their workings and dynamics.

This paper draws primarily from the experiences of NGOs in the South Asia region, i.e. medium-sized to large organisations with annual budgets of a quarter of a million dollars and above, and employing anywhere between 25 and several hundred people. It is meant to be a collection of a general – freewheeling – set of observations on what 'capacities'¹ distinguish successful NGOs. It deliberately does not dabble in the contested 'definitions' of success, e.g. size versus numbers, service delivery versus general empowerment, impact versus funding available, etc., but seeks to find some easily discernible features that characterise NGOs that are deemed 'good' or 'successful' in the court of public perception.

This paper also does not go into the complexity of context but makes a link between context and the evolution of capacity. In reality, context is a far more complex shaper of destiny an NGO, the exploration of which is outside the remit of this piece. For instance, it would be pertinent to ask whether the 'Grameen model' of microcredit services works in a country less densely populated than Bangladesh, and to explore the reasons why/why not.

Finally, this paper makes some broad generalisations. So, for every example cited, there is likely to be an exception in a different setting. There is no pretence of postulating the next big axiom of capacity development, but hopefully the paper may provide helpful pointers that fit into a larger effort.

Notes

- 1 This paper uses the terms capacity and capability. Capacity is used in the general sense of the overall ability of an organisation or system to perform, whereas capabilities refer to specific abilities that organisations or systems develop in order to carry out their work.

2 Observations

2.1 The overall capacity for survival and sustainability

The capacity for survival is one of the fundamental capacities that distinguish successful NGOs. An organisation that has to worry about paying next month's rent is unlikely to be able to fulfil its mission effectively, but is more likely to suffer from significant distractions. In a recent paper, a group of NGO leaders from around the world put 'sustainability' at the top of a list of eight challenges faced by civil society organisations.²

The implications for capacity are straightforward. The leadership must ensure not only that the organisation survives in the short run, but also that it is sustainable in the longer term. So there is a need for capacities to execute programmes and to keep building the institution by hiring quality staff, deploying systems and hardware and, therefore, finding predictable and sustained sources of funding. In NGOs, as in other organisations, staff members have legitimate concerns about their jobs and security of pay. Organisations that cannot demonstrate positive growth are likely to lose their staff, with the best ones usually departing first. Conversely, if the leadership is able to deliver on the above, the organisation is usually well placed to perform effectively in accomplishing its core mission.

The Dutch international development organisation Cordaid, for example, instituted a system of block grants for its long-term partner organisations in South Asia for up to ten years. Under this arrangement, Cordaid and its partners agreed on broad categories of activities for which the funds would be used. The actual breakdown and sequencing of the use of such funds was left to the implementing NGO on the ground. This arrangement provided welcome predictability for the NGOs and allowed their leadership to focus on being effective. The positive correlation between the predictability of resources and sustainable capacity development is now clearly coming through in official development assistance (ODA) relationships as well. The Paris Declaration on Aid Effectiveness³ listed the predictability of ODA flows as a key challenge.

The capacity for survival and sustainability is a complex capacity, but it is possible to identify some of the constituent capabilities that underpin this larger complex. An indicative listing is provided in the following.

2.2 Capability for being 'donor savvy'

The above example is predicated on an existing relationship between the resource provider and the NGO(s) in question. The leadership of successful NGOs often tend to have a reasonable level of contact with their donors and a relationship of equals with key staff at donor agencies. This ensures a level of comfort on both sides; it is not uncommon to find donors lining up behind a leader because of this 'comfort', irrespective of the leader's management style. Senior leaders of many South Asian NGOs – Sarvodaya in Sri Lanka, BRAC in Bangladesh, MYRADA in India, for example – have long-established relationships of trust and cooperation with their counterparts in donor agencies. Such relationships work to the benefit of both parties. This issue is explored further later in the paper.

2.3 Capability for mapping a growth path

Successful NGOs are distinguished by the fact that their leaders have a very clear mental model of the organisation and its mission throughout its life cycle. This mental model allows them to retain a degree of flexibility to add modules as opportunities arise, i.e. to reap the benefits of windfalls. In India, for example, where the rapidly globalising economy led to the advent of large numbers of private corporations in the 1990s, many NGOs have become increasingly open to partnerships with the private sector despite many having had long-standing ideological opposition to using private capital. In another genre, NGOs like SEARCH in Bangalore, India, recognised the early signs that there was an emerging hunger for understanding management and capacity issues within NGOs. In response, SEARCH – already an established NGO – positioned itself as a thought leader on issues of management effectiveness. Many NGOs are now willing to draw on the expertise of SEARCH to make their own management and operations more effective.

Notes

- 2 Paper of the Civil Society Group, First meeting of the Resource Network on HIV/AIDS, Johannesburg, UNDP, 2003.
- 3 Paris Declaration on Aid Effectiveness, OECD, 2005.

2.4 Capability for approaching the funding issue tactically

Most donors' internal policies allow for very little support to grantees for institution building. Some donors do not provide funding beyond two years. Some do not fund infrastructure. Others do not believe in funding a general support endowment. Yet an NGO leader has little choice but to think in terms of buildings (to avoid recurring rents), vehicles, salaries with steady increments (to retain competent staff), a provident fund (a common staff demand in countries with no state social safety net), accident insurance, and so on. Then there is the need to demonstrate a possible career growth path to employees – again, with the aim of retaining the best.

Such demands require the leadership of NGOs to be tactical in seeking donors, hedging risks and spreading costs among donors in a manner that takes care of the 'unfundables'. Besides these capabilities, the leadership needs to have a good 'antenna' for assessing the general funding environment and finding niches that will enable the NGO to seize to seize potential funding opportunities. So, for example, many Indian NGOs will consider developing or expanding their urban-focused programmes, as rapid urbanisation with its attendant problems is likely to attract more funding towards that sector.

The above arguments are finding vindication elsewhere. The emerging literature on the private sector confirms such a strategic approach to creating roadmaps for building successful companies. In an ongoing research project to determine how 'great companies consistently outperform their rivals', Accenture reports that, inter alia, 'High performance businesses exhibit remarkable clarity in strategic direction. They always seem to be in the right place at the right time. As markets mature, they're ready with the next big thing ... high performers use their insights not just to serve markets but also to create them'.⁴

2.5 Capability for acquiring the trust of donors

Successful NGO leaders often demonstrate the capability to convince donors to allow them a certain degree of flexibility concerning how their funding is used. This could entail, say, the discretion to divert funds from an established programme in order to deal with an emergency (e.g. floods), or to commit resources to an activity that seems justifiably important although not part of the agreed plan between the NGO and the donor.

A staff member fell ill with fever that was diagnosed as influenza by the local doctor in the small town where the NGO is located. After two weeks of medication, the man's condition deteriorated to the point that he could no longer walk. Sensing something more complicated, the leader used project funds to transport the staffer to a specialist hospital in a nearby city, where he was diagnosed and treated for meningitis. This had a powerful impact on the morale of the organisation and on its programmes, thus balancing out the cost to the project.

2.6 Capability for fostering legitimacy

Successful NGOs have an informal sphere of credibility among the constituencies they serve. For their constituents, NGOs embody the optimism that the prevailing – often gloomy – status quo will change. This legitimacy⁵ comes from demonstrated capabilities in a number of areas, including intellectual capability (e.g. PRIA), the capability for mass mobilisation and empowerment (e.g. Ekta Parishad), for challenging the status quo (e.g. Ekta Parishad, Rachna), for ensuring a stable organisation (PRIA, PREM, VHA), and so on. Internally, the legitimacy derived from imagery (e.g. the leader travels overseas, meets many important people, knows many donors on first name terms, etc.) also plays an important part.

2.7 Capability for political neutrality

In India, part of the legitimacy of an NGO as described above derives from the capability for maintaining balance while keeping an equal distance from political parties of every hue, while engaging in work that is essentially political in nature. There is a caveat, however, in that the need to be neutral is highly context-specific. Development-oriented NGOs in India, where public scrutiny of neutrality is arguably greater, need to demonstrate political neutrality.

Notes

⁴ www.accenture.com/findings

⁵ Among the findings of the ECDPM study is the role of organisational legitimacy as a factor in successful capacity development and performance. See the reflection paper by D. Brinkerhoff, 2005. Organisational legitimacy, capacity and capacity development. ECDPM Discussion Paper 58A.

Elsewhere in South Asia, as in Pakistan and Bangladesh, an element of political dexterity is more important than strict neutrality.

In India, the Ford Foundation went through a long and detailed process to find a host institution for a centre for budget analysis that it wanted to initiate. It finally settled on a well known NGO in Gujarat. Subsequently, the leader of the NGO contested, and won, an election on a Congress Party ticket that made him a member of the Indian Parliament. The Ford Foundation – broadly reflecting the concern for neutrality – immediately moved the centre for budget analysis to another NGO. Contrast this with the fact that NGOs in Bangladesh routinely have political sympathies and these are well known to their constituencies and peers.

This diversity goes to show how the emergence of capacity is context-specific. NGOs in Bangladesh, at least the large ones, are significant players in the overall social fabric. They are among the largest non-farm employers, and they command significant resources. Leaders of the larger NGOs are among the crème de la crème of Bangladeshi society, and their outreach to millions of people means that they have their own mini-constituencies. Admittedly, these are not politically aligned constituencies, but they can and do absorb messages that lie at the intersection of politics and development. It is therefore not uncommon for these NGOs to be pushed in a direction where they develop relationships of mutual influence with political bodies. In India, where NGOs command far fewer resources and smaller constituencies relative to the GDP and the population, respectively, relationships of a political nature are less evident.

2.8 Capability for ‘thinking outside the box’: key innovations

Over the decades, for many NGOs, successful organisational performance has hinged on a key breakthrough in either a concept or process. Sometimes it has concerned a novelty in the extent to which the NGO ‘tweaks’ an existing, and accepted paradigm, or in some cases turning it on its head. These innovations have then been taken to scale by others who have adopted the breakthroughs and mainstreamed them.

Some examples that fall in this category include the Grameen Bank’s innovation of lending based on the guarantee of peer pressure rather than on material collateral. NGOs in Bangladesh, Thailand and India have used religious leaders to spread successful contraception messages. In Brazil, Bolsa Escola introduced the innovation of paying mothers the subsidy for education rather than the school system.

Such innovations also have implications for the legitimacy of the leader. Often, the leader is the one to whom the staff turn to when faced with an intractable problem. This pressure has often led to path-breaking, locally appropriate innovations – sometimes with globally acclaimed results.

2.9 Capability for harmonising diverse group identities and ambitions

In a number of countries in Asia and Africa, the highly stratified nature of society is reflected among the poor. The poor continue to have factional, i.e. caste-based, tribal or ethnic identities that detract from their primary aspiration of moving out of poverty. These also create competing interest groups among the poor that dilutes their advocacy capacity or capacity to demand their rights.

The capability to manage disparate group ambitions and to harmonise them under a general plan for moving out of poverty is a key requirement for a successful NGO.

2.10 Capability for delivering on diverse donor and (national) statutory requirements

Successful NGOs are characterised by an amazing depth of capabilities within their administrative structures to enable them to deliver on diverse donor and national government requirements.

As in the world of bilateral and multilateral aid, donors who support NGOs impose multiple budgeting, reporting and auditing requirements on grant recipients. Within donor agencies, different departments may have different reporting requirements. For example, a programme officer may demand that an NGO submits a narrative report stressing programme impact, the grants administrator may require a completed grant utilisation form (usually complex), while the accounts department may require its own financial report.

Further, different donors have different reporting formats, different monitoring methodologies, and different formats for written reports. What is more, the NGO may not be allowed to use more than, say, 10% for administration and overheads. This will include the salaries of the accountant, the administrator, the executive director and programme officers. All this is further complicated by 'evaluation' visits when donor staff and consultants descend on the organisation to evaluate a particular programme.

National governments also demand that NGOs comply with domestic statutory regulations. In India, for example, this includes preparing and filing an audited balance sheet, a form for the Ministry of Finance on grant utilisation (including grants from all sources) to prevent grants being treated as 'income' and hence attracting income tax, and a disclosure to the Ministry of Home Affairs specifying the amounts, sources and end uses of all funds of foreign origin. Each of these is a complex exercise. In addition, NGO staff need to make frequent visits to government offices in order to secure the release of tranches of agreed grants.

3 Conclusions

So, what conclusions can be drawn from this indicative list of capabilities? The desires to survive and to be effective are presumably the high-end goals of any NGO. There are capacities that an NGO needs to achieve these goals. It is possible to unravel, albeit partially, some of the smaller capabilities that add up to that complex of capacities. But tracing correlations and causal relationships remain outstanding challenges, for a number of reasons, including factors related to the context, to complex cycles, to externalities or unintended benefits, etc.

It is possible to flag certain points for discussion, although these need further confirmation from statistical and other evidence:

Context plays a significant role in shaping capacities. Successful organisations have an almost Darwinian ability to evolve capacities that will best ensure their probability of achieving their high-end goals. The differences in the evolved capabilities of Bangladeshi and Indian NGOs provide a very good illustration. While in the Indian context NGOs have to be capable to operate as politically neutral organisations, Bangladeshi NGOs need to be able actors in the political arena.

To support the idea that the capabilities demonstrated by the **leadership** of an NGO are strong factors in determining how successful it is, this paper has highlighted the range of capabilities demonstrated by the leadership of successful NGOs. Successful NGOs and their leaders often mirror each others' personalities – a large number of instances in South Asia demonstrate a correlation between a strong visionary leader or group of leaders and successful organisation building.

The capacity issue must be conceived of and addressed as a **cyclical process** rather than linear cause and effect constructs. Clearly, as an NGO 'delivers', it earns trust, and as it does so, that opens it up for more predictable funding, and discretion in the use of those funds that accords it the space to explore new ideas. As it tries out new ideas, it may chance upon breakthrough innovations. As these innovations take hold, the NGO attracts more interest both from donors and clients, which in turn sets it up for

operations of a larger scale with potentially greater impact. So it is not one cyclical strand that makes for a successful capacity outcome. Multiple strands generate themselves and come together in virtuous cycles of capacity development that gather speed as they go along. Although this study has not analysed financial data to such end, this gathering of speed may explain why successful NGOs often go through a phase of explosive growth – a relatively short period of 5–7 years when they attract considerable resources and staff – before they enter a period of consolidation.

Such an explanation of capacity would be consistent with the notion of a positive feedback loop in systems theory. For the successful NGOs described above a feedback loop would look somewhat like that shown in figure 1. Each of the loops (R) – money, staff (people) and experience (learning by doing) – have generated themselves and continue to be fed by reinforcing actions (+). The key capacity question here is whether such loops can be anticipated, at least in part. If the answer is yes (and systems thinking is about anticipating such loops), then it would seem that a key element of capacity would be the ability to conceive of this complex construct of cause and effect

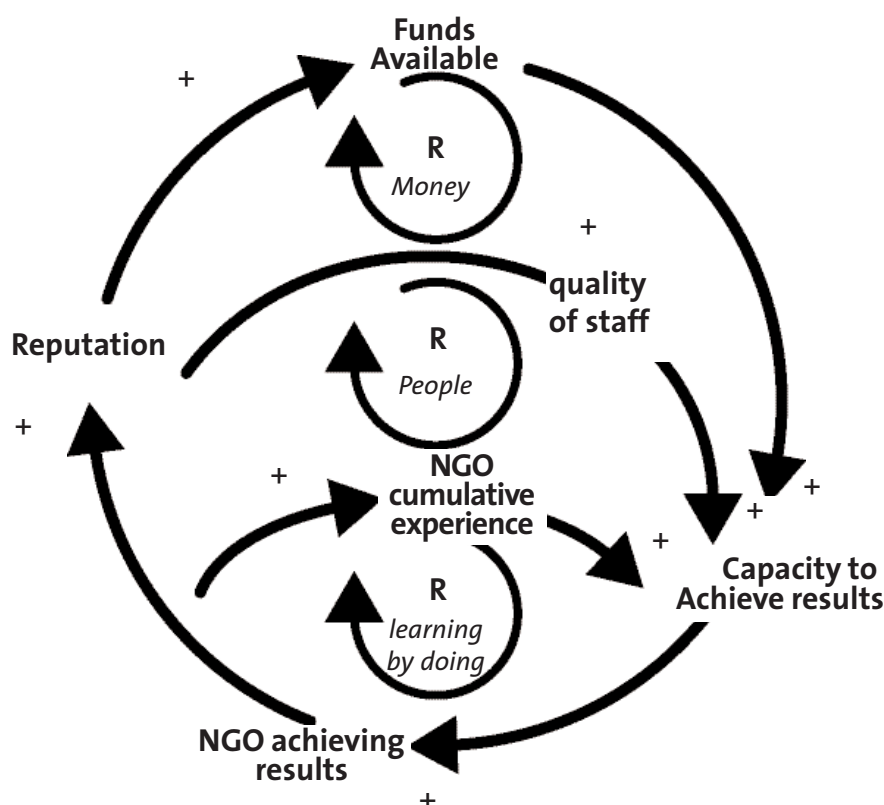
loops. The more comprehensive the better. The task of senior management would then be to steer the organisation in the direction of virtuous reinforcing loops and avoiding getting trapped in vicious reinforcing loops.

As in many other disciplines, capacity development is often an outcome in the nature of what economists call **unintended benefits**. It is possible to cite many instances where capacity development occurs as an unintended benefit of planned organisational programming. Equally, there are many instances of capacity development that are intended as a bona fide corollary of an organisation's plans to move into new areas of programming. It is fair to say that capacity development occurs as a result of both planned and unplanned outcomes.

It is often a combination of all of the above factors that come together to create a successful NGO.

Figure 1. A positive feedback loop.

Source: Courtesy UNDP-Lead International Young Leaders in Governance Initiative



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The European Centre for Development Policy Management (ECDPM) aims to improve international cooperation between Europe and countries in Africa, the Caribbean, and the Pacific.

Created in 1986 as an independent foundation, the **Centre's objectives** are:

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The results of the study, interim reports and an elaborated methodology can be consulted at www.ecdpm.org/dcc/capacitystudy. For further information, please contact Ms Heather Baser (hb@ecdpm.org).

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