

POLICY BRIEF

ON DEVELOPMENT COOPERATION

MODALITIES USED BY TRADITIONAL EUROPEAN DONORS TO FUND DEVELOPMENT AID THROUGH SUPPORTING NON-GOVERNMENTAL ORGANIZATIONS AND PRIVATE SECTOR

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1. Introduction

In Slovakia bilateral development assistance is implemented primarily through bilateral development projects run by Slovak businesses, non-governmental organizations and state-run entities, or through micro-grants awarded to local organizations and administered by embassies and consulates of the Slovak Republic in developing countries. One of the recommendations in the 2011 OECD Special Peer Review was to apply new modalities for implementing development aid. In particular, the evaluation report deals with multiple-year framework contracts with key NGOs and other agencies, with establishing joint funds with other donors or with sector-based budget support to governments in developing countries.

In response to these recommendations, the Slovak NGDO Platform researched how development aid is funded by experienced donors such as ADA, SIDA, DANIDA, or DFID.

Of the forms of financing which are easier to apply to Slovak development aid, we select some examples of funding non-governmental organizations and businesses.

2. Support to non-governmental organizations

Austrian Development Agency (ADA) – Framework contracts with NGOs

ADA makes contracts with Austrian NGOs in the minimum amount of 300,000 euros for a period of three years. The precondition is that the Austrian NGO partners with a local partner in a developing country. The programme contract includes a coherent and interactive programme intervention with a strategic development purpose which helps reduce poverty and contributes to permanent improvement of standard of living in the developing country. The programme intervention must be conducted at programme (not project) level which means it must have synergy effect and it must include transfer of know-how or involve structural changes etc. Programme intervention must be clearly defined with measurable qualitative and quantitative indicators achievable within three years. It must be in line with local development plans and provide support and assistance to local partners as well as provide for exchange of experience and knowledge.

Eligibility for a programme contract is limited to NGOs started at least three years previously which are able to demonstrate their track record at the level of programme interventions and sufficient availability of human and financial resources. ADA must have many years of positive experience with the organization in connection to implementation of previous projects. NGOs are free to apply for a programme contract every year.

Programme contracts exclude: groups of projects within a single sector or region, with no interlinks, exchange of experience or synergy effect, projects with activities focusing on short-term improvements but failing to address long-term causes of poverty or bring changes to relevant structures; finally, also projects aimed at small groups of aid recipients are excluded.

Territorial emphasis of programme interventions must respect territorial and thematic priorities of the ADA (poverty reduction, sustainable use of resources, equal rights for women, human rights, support to disadvantaged social groups, conflict prevention, good governance and democratization).

The application for programme support is submitted in German or English language – letter of intent with supporting documentation showing eligibility of the applicant first. ADA staff then meet the applicant in person after which the full application for programme support is submitted. The applicant must secure co-financing for the contract. The contract allows for changes in programme intervention which are subject to approval if in excess of 10,000 euros. Co-financing amounts to 50% which would, however allow for participation by only a minimum number of NGOs if implemented in Slovakia – therefore it would be better to introduce this model with lower co-financing requirement.

Criteria for NGOs:

a) statutory criteria

- registration in Austria
- development cooperation is one of activities defined in the bylaws of the organization
- minimum 3 years of existence of organization

b) programme criteria

- thematic and territorial focus of the suggested programme is compatible with priorities of ADA
- programme intervention is in line with the national strategy in the developing country
- availability of sufficient human resources in Austria and in the target country
- appropriate scope of the programme: value of the programme contract may not exceed 40% of total budget that NGO spends on development cooperation (excluding budget for humanitarian aid or development education)

c) implementation capacities

- references of successful project cooperation with ADA
- demonstrated experience with projects or programmes of similar financial scope
- positive results of external evaluations and external audit

d) integration in the target country

- cooperation and dialogue with local partners
- advocacy capacity in the target country
- suitable profile and structure of the local organization

e) integration in Austria and the EU

- integration of applicant within civil society (collaboration with other organizations etc.)
- advocacy activities
- promotion of communication on development activities of the applicant and capacity in public awareness building
- networking of organizations within Austria and the EU

NGOs which do not apply for a programme contract are free to apply for a project grant in calls open every year for a given country/region, e.g. sub-Saharan Africa; they may apply for funding for a project in a different territory – e.g. respond to calls for project proposals related to Western Balkans.

DFID UK – Programme Partnership Agreements with NGOs

For DFID, programme partnership agreements are the main mechanism of supporting NGOs. Partner agreements are defined by DFID as strategic agreements extending over three years, with pre-approved outcomes and progress to be reported once a year by the supported NGO. Partnership agreement allows the NGO to plan and implement programmes better. The agreement is intended primarily for key organizations in their sectors, with global outreach and ability to bring added value to DFID portfolio, previous achievements in reducing poverty and providing good value for money. In terms of topics, the support is related to the achievement of Millennium Development Goals, improvement of living conditions, provision of services to marginalized groups, and good governance. The approval procedure includes submission of a concept note and full application. Presently DFID has programme partnership agreements with 40 NGOs.

DFID UK – “UK Aid Match”

The matching fund was established in June 2011 to multiply financial gifts from public collections for reduction of poverty in developing countries and engage the public in decision-making on how to allocate public funding earmarked for development aid. An NGO which collects a certain amount of donations from the public, may request 1:1 matching support. The support from DFID is limited to 5 million GBP and may not exceed 40% of organization’s annual budget. The public collection may last up to 3 months and its proceeds must exceed 100,000 GBP. The Fund amounts to 30 million GBP and applications for matching support may be submitted until this amount is used up.

Eligibility criteria for supported organizations:

- In addition to announcing the collection to the public, the organization must commit to and have capacity for reporting to the public how the collection proceeds have been used.

- Organization must demonstrate previous experience with implementation of development activities.
- Commitment to and capacity for transparent financial reporting on the use of collection proceeds.
- Clearly defined expected outcomes of proposed development activities.
- Compatibility of development activities with priorities and values of DFID; there is a pre-defined list of developing countries for whom the matching support is intended as well as sector priorities: MDGs, improvement of life conditions for girls and women, fighting climate change, supporting security in countries in conflict, supporting livelihood
- Proposed activities bring good value for money.

Summary:

- **Programme contracts give NGOs a chance to implement long-term systematic development interventions, making official development aid more meaningful.**
- **To the NGOs themselves, programme contracts bring predictability and stability in their activities in the developing country which gives them a chance to build capacities and increase long-term professionalism of their staff, and in doing so increase effectiveness of aid.**
- **Programme contracts are meant for those NGOs, which are able to demonstrate previous experience with implementation of development aid; however it is necessary to have funds available for supporting also less experienced or starting organizations in addition to supporting key players, so that capacity building in the development sector is not limited.**
- **Matching funds are a good way to support NGOs in raising funds from individual donors and reducing their dependence on government support; matching funds also send the message to the public that the government shows interest in supporting development cooperation.**

3. Support to private sector

Austrian development Agency (ADA) – Business Partnership Programme

“Austrian business businesses which invest in or import goods from developing countries contribute to the development of those countries. Through mobilization of capital and know-how and through creation of trade channels and jobs in developing countries, they help improve living conditions of local population.”

In the Business Partnership (BP) programme, ADA provides grants of up to 50% of project costs (maximum 200,000 euros) or up to 50% of costs of the feasibility study (maximum 20,000 euros). The programme includes support to project activities such as increasing qualification of local employees, suppliers and business partners, improvement of cooperation with local public institutions, quality assurance for locally made products, certification of products in accordance with international standards, and support to fair trade. The business idea is defined for the BP programme by entrepreneurs themselves whose local partner might be a local company or a local public institution. Territorial scope of the programme covers all developing and transforming countries.

Criteria for businesses:

- innovative and sustainable business idea,
- long-term investment in a developing country or long-term import of goods from a developing country,
- business idea that allows for profitability in the future,
- business idea includes steps which contribute to improving local social, ecological or business environment.

SIDA – Business for Development (B4D)

The goal of the Swedish development programme B4D is to work with businesses and contribute to reduction of poverty, improvement of the environment, creation of jobs and support of growth in developing countries.

The B4D model may be applied to various sectors – education, health care, agriculture and forestry, energy industry, infrastructure, ecology, and employment. Partner projects should be in line with priorities of the developing country (except for pilot projects focusing on innovation). B4D programme is intended for businesses which are aware that sustainable development – whether economic, social or environmental – is a prerequisite for creating a sustainable market. B4D programme prefers business ideas which are strongly related to Corporate Responsibility. For example, SIDA has supported a project run by the International Council of Swedish Industry to fight HIV/AIDS in South Africa. Another example is cooperation with Swedish importers who demand from their suppliers in poor regions of China that they respect principles of corporate responsibility. Territorially, the programme focuses on China, India, Indonesia, Vietnam, South Africa, Namibia, Botswana, and Serbia.

A challenge fund is also available to businesses which are free to apply for funding for their small projects or for developing feasibility studies. Besides grants, other financial tools are being used such as combination of a grant and a loan.

DFID UK – Africa Enterprise Challenge Fund (AECF)

In working with private sector, DFID aims to achieve the following goals:

- to increase private investment in the poorest countries (e.g. for infrastructure, agriculture, financial services)
- to improve access to and quality of services available to the poor (access to drinking water and electricity)
- to increase financial effectiveness of interventions aimed at reducing poverty in developing countries.

AECF provides grants and non-repayable loans to the private sector to support new and innovative business models in Africa. The aim is to support greater participation of the poor in the market – as consumers but also as workers and producers. The term inclusive entrepreneurship covers creation of jobs in a developing country, integration of local farmers and entrepreneurs into international supply chains and provision of high-quality accessible services to low-income groups of population.

The applicant must present results of financial audit for a period of at least two years. Support ranges from USD 250,000 to USD 1,500,000, with the condition that company provides co-financing of at least 50%.

Applicants first submit a preliminary project proposal for evaluation by a group of experts in DFID. The best applications are then recommended for approval to the AECF Independent Investment Committee. In the second phase the applicant submits a detailed business plan and AECF staff visit all companies involved in developing the business plan. The final decision is made by the Independent Investment Committee.

DANIDA – Business Partnership

In the Business Partnership Programme DANIDA supports partnerships which bring value to the company and represent an added value for society in the developing country. Specifically, such partnerships bring:

- greater employment – creation of new and adequate jobs with special emphasis on the poorest segments of population: the youth, women and minorities
- positive impact on local communities – integration of sustainable business practices focusing on ecology, enforcement of labour law and suitable working conditions, protection of health and anti-corruption measures.

The proposed business model should meet at least 1 to 3 of the following additional criteria:

- promotion of competitiveness of local partner – support to his access to funding by removing physical and technical business barriers at the national or international levels, increasing capacities and qualification of local employees,
- increasing the use of green technologies and protection of the environment
- value added within the supply chain– improving ties among production and processing of goods and services,
- increasing food security – availability and access to foods in the market through improvement of supplier-customer channels and pricing,
- emphasis on improving the position of women, and
- promotion of regional and economic integration (cross-border business, ...)

Through Danish embassies and consulates, DANIDA formulates a business development profile for each developing country where it is present. Such profile must be in line with national development strategies and business development strategies in the given developing country. The profile lists sector priorities and business opportunities which have impact on development and aim for synergy with other DANIDA programmes.

In business projects, participation is required of at least one Danish company and one local partner – a company, an NGO or other legal entity suitable for partnership in the given business model. The share of Danish investment in the partnership may not exceed 75%. DANIDA requires businesses to provide co-financing of at least 50% of the project amounting to a maximum of DKK 5,000,000. In the preparatory phase it will support maximum 75% of the costs, up to DKK 750,000.

Conclusions:

- **Traditional donors define the primary goals of cooperation with private sector to be the increase of inflow of investment, creation of jobs and improvement of living conditions, and access to essential services for citizens in developing countries. Creation of opportunities and jobs in Europe is an added value to a business project but not its primary goal.**
- **Business projects are supported particularly in the poorest countries of the world.**
- **All donor agencies described above limit their contribution to the project by 50% of overall project costs with the rest being mandatory co-financing by the applicant.**
- **Relevance of business ideas is verified by donor agency staff directly in the field in the developing country and investment experts are involved in the approval process.**