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GRANTMAKING AND CIVIL SOCIETY ORGANISATIONS

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A research report submitted to the Faculty of Management, University of Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Management (in the field of Public and Development Management).

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Abstract

The 1990s has seen considerable interest generated in the development of civil society in the different regions of the world. Non-governmental organisations (NGOs), community based organisations (CBOs) and other civil society associations and formations are seen as important contributors to constructive social change. It has been no different in South Africa Most South African civil society organisations (CSOs) rely entirely on funding as their means of income. This study examines the relationship between the funder and CSOs and possible means of making the relationship more constructive and responsive to the needs of CSOs. In particular the study examines the grantmaking components of the funding process and how these components can be refined to meet the needs of CSOs. The study found that there were several ways of refining the grantmaking process to be more value-adding to CSOs.

Declaration

I declare that this report is my own, unaided work. It is submitted in partial fulfillment of the requirements of the degree of Master of Management (in the field of Public and Development Management) at the University of Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other University.

Chimene Paranjothie Chetty
25 February 2000

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TABLE OF CONTENTS

	Page
Chapter One: Introduction and Background	1
Chapter Two: Literature Review	10
Chapter Three: Methodology	27
Chapter Four: Crea S.A.and USAID	33
Chapter Five: Civil Society Organisation Responses	48
Chapter Six : Conclusion	70
Bibliography	79
Appendices	

CHAPTER ONE

1.1 Introduction and Background

The 1990s has seen considerable interest generated in the development of civil society in the different regions of the world. Non-governmental organisations (NGOs), community based organisations (CBOs) and other civil society associations and formations are seen as important contributors to constructive social change (Brown and Tandon, 1994).

Examples from around the world, from developing nations, countries in transition and lessons from socialist and welfare state models provide a strong case for a strong civil society. The important reasons for the development of strong civil society institutions include:

- To ensure the accountability of democratic institutions in government and contribute to public debate;
- To create and provide space for participation in decision-making at all levels for all citizens, in all matters affecting them;
- To become a player in regulating or "socialising" the market;
- To empower organs of civil society and citizens to deal with issues and problems relating to welfare services, welfare service delivery and/or neglect;
- To provide services to marginalised areas;
- To facilitate the opportunity for a bottom-up development process based on the needs and choices of the people on the ground.

(Haysom, Cachalia & Molahleli, no date)

In South Africa, a strong and vibrant civil society emerged from a culture of resistance to the apartheid government. There appear to be no accurate figures on the dimensions of this organised sector; however it has been estimated that approximately 54 000 are involved in the sector (Dangor, 1997). The major source of income and support for CSOs is direct foreign government funders, private foreign funders, the South African

government and corporate social investment. In 1993, it was estimated that R10 billion circulated through the sector, pegging it at 4.7 % of gross national product (GNP) (Dangor, 1997).

Post-1994 has been a difficult period for most CSOs in South Africa. Note that use of the term CSOs includes all types of CSOs, i.e. NGOs, CBOs, voluntary associations, etc. The environment went through radical changes that impacted on the survival and the identity of the sector. Besides the downfall of "the enemy" (the previous apartheid government), which previously positioned most CSOs, there were other shifts that have had dire effects on the sector. Most CSOs were born out of a culture of resistance to the then apartheid government, to provide services (e.g. health, education) to the disadvantaged groups. Disadvantaged groups pre-1994 received inadequate services, or none at all, from government in certain areas. The relationship with government for most of these CSOs was confrontational and oppositional. However, with the installation of the democratic government in 1994, CSOs have experienced problems in reconceptualising their relationship with government. The move from total opposition and resistance to one of collaboration and interdependence has been difficult for many and still remains a challenge for most.

The capacity of CSOs has been threatened by the loss of key personnel and skilled staff to the public and private sectors. The CSO sector still operates in a hostile legal and tax environment. The Non-profit Organisations Act and tax reforms recently scantioned in the last two years, provide limited and indirect benefits to the CSO sector. In some sectors CSOs have been slow to rationalise, and duplication of activities continues to be a problem. The most critical, though, has been the drying up of the funding pool. While the total amount of aid to South Africa has not been substantially reduced, many donors are now funding government directly. In doing so donors have assumed that government will become the natural channel of funding to CSOs, as government departments

select and establish contracts with partners to assist in implementing programme development. However this has been fraught with bureaucratic obstacles. There is a huge amount of money sitting in government coffers bound up in red tape, preventing the much-needed flow of these funds to CSO partners who provide government with crucial capacity to deliver on basic services. The result is that both the CSO organisations and beneficiaries of these services lose out, election promises do not materialise and funds get rolled over year after year. One hopes that the new National Development Agency, a government body set up to distribute donor funds to government, will develop and establish systems that will ensure efficient and effective methods of granting aid to the CSO sector. However as this agency is still in its incubation phase, it is unclear how much value this new body will add to the process of government aid being channeled to where it is needed most.

However, in spite of these challenges, CSOs remain a strong force in the sustenance, promotion and operation of democracy, the strengthening of a human rights culture and to a large extent the efficient and effective delivery of development initiatives, particularly the eradication of poverty. CSOs have an important partnership role to play with government. The apartheid government left a legacy of enormous social, economical and developmental challenges for the democratically elected government. Among these are:

- The imperative to build a strong economy;
- The task of attracting and building investment infrastructure;
- Large-scale urbanisation;
- The ever-increasing HIV crisis;
- Increasing poverty;
- Education, housing, health, water and sanitation provision.

The demise of apartheid and the installation of the new government have meant that state authority, power and resources can now be used to tackle

these problems. This fuelled expectations of quick solutions to problems and immediate improvements to the standard of living for most South Africans. This has not materialised, however. Ironically, government has been unable to spend resources allocated for development. Despite increased allocations in housing, land reform, education and health, huge amounts of funds have to be rolled over from one year to the next. (In the 1995/96 financial year, less than 21% of the budget for housing was spent and R2 billion of RDP funds for the same year was rolled over. R8 billion was rolled over in the 1996/97 financial year (Report on structural relations between government and CSOs, prepared for the Deputy President, the Honourable Thabo Mbeki, 1997). It has been difficult for government to utilise foreign funding made available from bilateral agreements because of the shortage of personnel skilled in development planning and project management.

Government is therefore in need of partnerships and has recognised this. In a report prepared for Deputy President Mbeki in 1997, examining structural relations between government and civil society, recommendations were made for structural relations between government and CSOs recognising them as crucial players in the effective implementation of national policy and the provision of services.

The sector also provides employment for more than a million people. In a paper collecting initial information for the John Hopkins Study of the Non-Profit Sector, Cuthbert places the number of people employed by the non-profit sector at 1 260 000 (Cuthbeth, 1998). While the primary purpose of the sector is not to provide employment, it provides employment to a large number of people. The weakening and/or demise of the sector will place a substantial number of jobs at risk.

1.2 Importance of the research

As previously stated, CSOs have a crippling dependency on funders. However, the relationship between the funders and CSOs is a mutually beneficial one. CSOs solicit and secure funds from funders in pursuit of their organisational and development aims and objectives via projects and programmes. Funders secure partners who can meet their development and funding objectives and fund their projects and programmes. While most of these relationships are temporary and last only the lifespan of a grant, the benefits of the relationship if properly designed and managed could contribute to institutional strengthening and effectiveness of CSOs. This speaks to the process of sustainable development and perpetuation of a vibrant, organised civil society which is vital to the consolidation of democracy in the country, both in how civil society informs and contributes to policy debates and processes and in how citizens are educated and empowered through programmes. While the present research is not advocating a funder-driven process, the relationship between grantmaker and grantee is important to the institutional strengthening and capacity building of CSOs.

1.3 Research Problem

The research problem is situated in the interface and relationship between the grantmaker and the CSO. However, before articulation of the problem can occur, a distinction needs to be made between the parameters of the grantmaking process and that of the donor. They are not mutually exclusive and in many instances, are carried out by the same organisation. For the purposes of this study the following distinction is made between donors and the grantmaking process. The donor is the organisation/foundation/government that owns the funds and ultimately decides what they should be utilised for. They decide on the programme area that they are interested in, where they would like to locate their

programme focus and what indicators they would like reported on. Some donors may manage the grantmaking process (as defined in the next paragraph); however for the purposes of this study, a distinction is made between the donor function and the grantmaking process.

Grantmaking encompasses the management, administration, programmatic monitoring and evaluation (M & E) of the grant process. As previously noted, some of the functions of grantmaking are managed by some donors and vice versa. Programme determination, for example, may be the function of either the donor or the grantmaker or may be carried out as a joint effort between the two.

Given that in some instances the term donor/grantmaker can be utilised interchangeably, the term funder is also used to encompass both the donor and grantmaker functions. There are various opportunities within the grantmaking relationship that can either hinder or enhance civil society organisations. How this relationship is structured can have a direct impact on the CSO in terms of the accountability demands, reporting requirements, relationship dynamics and indirect influence on programmatic decisions and institutional sustainability.

Given that the CSO sector is affected by a diminution in the of the pool of donor funding and rechannelling to government, many CSOs bow to the pressure of funder demands. Decisions on programme focus, and even geographic selection, are changed to increase the possibility of acquiring funds. Thus the agendas and plans of institutions become funder driven.

Another factor that impacts on the relationship between funder and CSO is that of the contractual agreement between the donor agency and the grantmaking organisation. This agreement creates the parameters and dictates the latitude that a grantmaker has to structure the relationship and grant agreement with the grantees.

A further complex and important dynamic in the funder/CSO relationship is that of the constituents. Most CSOs have a constituency base. Some CSOs include this base in the decision-making and governance processes of their organisations. CSOs sometimes compromise the needs of and input from their constituency in order to meet funder demands. This can compromise the legitimacy and relevance of the CSO programme focus.

Government also impacts on how CSOs operate and make decisions. While CSOs are and should be independent of government, they are not necessarily outside the influence of government. Some are partners in service delivery, some assist in the policy and research process and some are involved in advocacy and lobbying. But the importance of government influence for purposes of the study is how government influences funders. Pre-1994, a larger percentage of funding went directly to CSOs as many of the funders did not have official and formal relations with the then illegitimate government. However, post-1994, many funders have rerouted their funds via government and even more funds are channeled to government via bilateral agreements with various foreign governments. The then President Mandela's 1997 Mafikeng speech sent out a stern warning to many donor agencies, which gave added impetus to how funders make decisions. Many of these funders now consult government before decisions on their funding agendas are made. By directly influencing the agendas of funders, government indirectly influences the agendas of CSOs. Government influence also impacts on certain categories of CSOs like those involved in research, policy, advocacy and lobbying. By favouring CSOs involved in service delivery and reacting negatively to reports, evaluations, etc. and material developed by the research-type CSOs, funding from government sources may compromise the survival of research-type CSOs which are vital in terms of generating new information and stimulating debate, essential for a vibrant democracy.

The research problem demonstrates how CSOs are impacted on by processes, dynamics and players in the funding environment. This research report will look at the role of the grantmaker in this process, at the needs of CSOs and how, if at all, the grantmaker can minimise the constraining effects on CSOs through the grantmaking mechanism.

1.4 Research Questions

The main research question is: Can the grantmaking process be structured to be more constructive and value-adding to CSOs?

Other questions that have to be explored in order to determine this are:

- What are the different components to grantmaking and how do these impact on the funder/CSO relations?
- What are constraints and opportunities that exist in the grantmaking environment and how does this impact on the relationship?
- What do CSOs feel can be done to improve the relationship ?
- Are these improvements possible in light of the entire grantmaking environment?

The study will examine how the grantmaking mechanism constructs the relationship between the grantmaker and CSO, taking note of the terms of reference of the relationship between donor and grantmaker. The grantmaking function, if not carried out directly by the donor is usually contracted out. This grantmaking relationship is usually governed by terms and conditions which dictate what latitude the grantmaker has in providing the grantmaking service to CSOs. The terms of the grantmaking contract will also be explored to assess the opportunities and constraints of the grantmaker in responding to the needs of CSOs. Both of these anomalies will be examined within the context of the broader grantmaking/CSO environment, taking into consideration the internal and external environmental circumstances.

The report is structured as follows:

Chapter two covers the literature reviewed. The literature focuses on two main sections: CSO strengthening and good funding practices. Chapter three covers the methodology, chapters four and five covers the findings. Chapter four looks at the contract between Crea S. A. and USAID and Chapter five covers the responses from the interviews from the CSOs. The concluding Chapter six contains the recommendations made to improve the grantmaking process.

CHAPTER TWO: LITERATURE REVIEW

Literature on the grantmaking function appears limited. Most literature covers the broader issue of aid, development and funding, with little on the grantmaking process itself. Literature found to be relevant to the issues of this study addresses two broad areas: strengthening CSOs and good funding practices. Literature that addressed the strengthening of CSOs was reviewed, based on the assumption that being responsive and value-adding to the needs of CSOs would ultimately strengthen them. This "strengthening" covers organisational strengthening and programmatic capacity-building, both essential for CSOs to meet their objectives and mandates efficiently and effectively. As this research report examines how the grantmaker can be more responsive to, and add value to CSOs, this category of literature review was deemed relevant and appropriate.

As stated above, the other broad area of literature reviewed is good funding practices. This information has been included because good funding practice covers certain areas, some of which are accountability, power dynamics, transparency, information requirements, code of conduct etc., all important variables to be considered in constructing a healthy and constructive relationship between grantmaker and CSO.

Some authors reviewed deal specifically with CSO strengthening or good funding practices; however, some deal with both, how the one affects the other and vice versa.

Brown and Tandon (1994) provide an analysis of common themes relevant for Institutional Development (ID) interventions in strengthening civil society. Themes were derived by examining the kinds of ID interventions that can strengthen civil society at the organisational level.

Identity, Values and Strategy:

CSOs are usually focused on a specific problem or service and are relatively oblivious to the larger implications of their work. ID can assist in strengthening CSOs by helping clarify values, articulate missions and visions and focus resource allocations on specific goals and objectives.

Governance and Conflict Management:

With some organisations the pressure to organise around values and ideologies can create conflict that can undermine traditional governance and decision-making systems. This can also impact on the ability of an organisation to move forward on programmes and issues. The ID interventions can add value through facilitating the creation of institutional orders and practices that emphasise joint understanding, dialogue and mutual influence.

Developing Human Resources:

The challenge is to recruit and retain people with commitment and technical skill to carry out the organisational tasks. There is a need for on-going learning in order to adapt to rapidly changing environments.

Of the three sets of ID documented above, only the development of human resources might appear to be directly related to that of successful programme development and implementation. However, identity, values and strategy, governance and conflict management are as important if one considers CSOs in the light of a systems approach. A common reason for organisational collapse of CSOs is a lack of strategic and systematic interventions. All too often CSOs focus narrowly on their progamme areas, with little regard for organisations systems, monitoring, control and management of these. However as other literature reviewed shows, often CSOs are conscious of the value of such interventions; however the unpredictable environment in which they operate often does not allow for proper planning.

Brown and Covey (1995) maintain, that generally, managers and leaders of CSOs focus on operating issues and tend to neglect strategic issues. This is unfortunate as CSOs can potentially benefit from strategic analysis and decisions, particularly in rapidly changing and unpredictable environments. Strategic planning can assist CSOs move from focusing on operational concerns to activities grounded in analysis of the larger context and the longer term. However even for those CSOs who do dabble in strategic planning, the outcome is often frustration. Adoption of the "pure" classic business model of strategic planning to CSOs is seldom successful. Resource and funding uncertainties, inconsistencies of organisational priorities and conflict among external constituencies often stand in the way of developing systematic and comprehensive strategic plans. In interviews with CSOs conducted by Brown and Covey, some managers have put forward the following:

" Yes, we know we need to redirect our programmes now that the demographics have changed, but it's impossible to forecast income if we abandon our traditional focus. We'll go out of business while trying to make the change."

" We have too many balls in the air and too many constituencies to satisfy, to come up with a plan. Besides if we make our goals too explicit, we could get into real trouble ! Everybody will be on our backs!"

" I can't justify constraining us to one gameplan when our success so far has come from keeping our options open, and seizing unexpected opportunities."

These comments are typical of CSOs' approach to planning: they either wait for "signs" from the environment, for a crisis that forces the organisation to act or they do nothing, relying on past practices to carry the organisation forward. None of these provide a prudent organisational approach for CSOs. The goals of strategic planning, i.e. "a clear strategic position and plans for achieving it", can be very value-adding to CSOs; however, many pressing operating challenges keep the intention to

develop a comprehensive strategic plan on the organisation's "to do" list Brown and Covey, 1995).

Both Brown and Tandon and Brown and Covey highlight the importance of a strategic approach to CSOs. However, Brown and Covey's findings also show that CSOs are more concerned with staying afloat rather than being strategically correct, even though they concede on the importance of a strategic approach. It is also clear that the uncertainty of the funding environment is not conducive to satisfactory planning and the wait-and-see approach is more realistic under the circumstances. However, this hand-to-mouth existence of CSOs is not prudent organisational and programmatic management and CSOs should be encouraged and incentivised to develop the capacity and practice for a more strategic approach.

Another common issue and concern of CSO strengthening is that of sustainability. Stallard and Jordan (1995) documented interesting findings after interviewing some 20 funded CSOs. All expressed a strong interest in sustainability and believed it to be a critical part of their work. However they, felt that a mutual understanding of sustainability and their needs should be developed by CSOs and funders. It was clear that funders and CSOs did not have a common understanding of sustainability and were often at odds with each other on the subject. Sustainability was important for the continuation of programmes and organisations once funders had withdrawn. Most funders did not address the sustainability issues of CSOs as these did not have any impact on what they needed to achieve in the limited relationship with CSOs. Stallard and Jordan found that CSOs identified and defined three types of sustainability:

Benefit Sustainability

This is the continuation of benefits that flow from an activity or programme. This is not the programme output but rather how the beneficiaries continue

to benefit from programmes implemented. Factors that facilitate benefit sustainability are the following

- Broad-based participation;
- Understanding local, social and cultural patterns and choosing compatible approaches;
- Partnerships with private agencies, community organisations and local government
- Careful consideration of long-term implications during project planning and design;
- Implementer's organisational capacity;
- Sensitivity to financial and economic realities;
- Attention to market forces;
- Structuring the project to ensure a sustained flow of financial support;
- Attention to physical environment constraints;
- A supportive policy environment;
- Capacity to build a base of experience and share lessons with other organisations.

Institutional Sustainability

Institutional sustainability speaks to the organisation's sustainability and refers to the following key components:

- A clear organisational mission;
- Strong leadership, including possessing the necessary technical and management resources;
- Ability to plan strategically and an aptitude for recovering costs;
- Support from local community and capacity to mobilise beneficiary participation;
- Ability to supply a continuous stream of benefits.

Stallard and Jordon (1995) also found that CSOs expressed a desire for greater attention to and support of organisational capacity-building. Many claimed that funders provide insufficient resources for capacity-building.

Many requested that funders focus on these areas by assisting CSOs to develop strategic plans, financial management capabilities and human resources. Some CSOs suggested that funding be granted for longer periods (10 to 15 years) instead of 3 to 5 years which is the current funding practice. This would allow space for strengthening institutions. Another recommendation from the CSOs was for funders to encourage greater networking and sharing of knowledge and resources among CSOs. This could facilitate and foster better collaboration and learning. Local networking was seen as critical to long-term organisational sustainability and the larger issue of CSO sustainability.

Financial Sustainability

Financial sustainability is viewed as the ability of an organisation to recover costs and can be considered as a component of institutional sustainability. Funder evaluations suggest that the ability of an organisation to develop and manage a portfolio of mixed financial support is a valid measure of financial sustainability. CSOs encouraged funders to adopt a more creative approach to funding that might include support for endowment and trust funds, income-generating activities, fundraising techniques and developing innovative cost-recovery techniques.

Repeatedly, Stallard and Jordon (1995) point to the importance of institutional strengthening to sustainability issues. However, they also caution that sustainable organisations do not guarantee effective impact. Rather, such organisations increase the probability of making that impact. The overall point made is the importance of institutional strengthening of CSOs.

Stallard and Jordan's findings echo that of Brown and Covey on the need for development of organisational capacity and resources to strengthen institutions. What is also clearly emerging is a need for balance in how one manages CSOs. There is a need to focus on both organisational and

programmematic issues. It is also clear that these ought to be addressed in a broad sense. Organisational issues should address governance, strategic plans, decision-making, systems development, policies etc. Programmematic concerns should be addressed by developing proper programmes that address implementation, monitoring and impact issues. The interdependence of these issues is clear: CSOs should clearly be encouraged to develop healthy sustainable institutions that would provide quality programmes. This would facilitate both institutional and benefit sustainability. Funders would also be more likely to fund organisations that are organisationally sound and this would address some financial sustainability concerns.

The assumption underlying these authors' concerns is that there is need for these organisations to continue to exist. While institutional development and sustainability are two different concepts, both presuppose the continued existence of organisations. The danger in this is keeping CSOs operating for the sake of receiving funding. Bonbright (1999) introduces the concept of the grantmaker's paradox. Funds are provided for services and goods to eventually end the need for these services and goods. Either programme objectives are met and/or recipients are empowered to be self-sustainable or the programmes are a failure. For example, women's rights programmes for women are funded to empower women to be aware of, understand and exercise their rights. Once these programmes are completed, there is no need to sustain the programmes or the organisations that provide this service. Another assumption is that CSOs necessarily provide the services that constituents need. If the issue of donor-driven agendas are accurate, then certain CSOs are developing programmes that donors want implemented rather than what their constituents need.

By the same token, there are certainly CSOs that should remain in existence as they still provide valuable goods and services. The challenge

for funders is being able to ascertain which kind of CSO they are dealing with and not to make the assumption that CSOs are one homogeneous group of organisations with the same needs.

Taylor (no date), comes to three conclusions about development CSOs:

1. The capacity of an organisation to deliver is more than the sum of the development of the individuals in that organisation or the development of the organisation itself. Organisations need to operate in a more systemic manner with each other, otherwise their access to the already limited resources and their capacity to deliver is further constrained.
2. "Delivery systems" which make for effective implementation of development initiatives comprise a combination of funders and CSOs. The quality of these systems is dependent on the nature of the relationship between these systemic players and this relationship itself is linked to the "health" of the individual member organisations.
3. There is growing agreement that the quality of the relationship between donor and recipient organisations is crucial to the quality of the service delivered. "Partnerships" is a term that is now often used to describe the relationship between funders and recipient organisations. However, there is little evidence of achievement of such relationships that meet the criteria of what a partnership should be.

Taylor accepts that there is need for many different types of support to CSOs to facilitate effective and efficient delivery. He insists, however that how much funding is granted and how this funding is structured can have a critical impact on an organisation. It can either lead to the demise of organisations or nurture a space for them to develop and grow. Funders should ensure that they support capacity-building and the development of organisations. In order to ensure this, funders need to incorporate two fundamentals as part of their practice:

1. The skill and knowledge to understand the phases of organisational development and the diagnostic ability to recognise which phase

organisations are at and how they evolve over time.

2. The flexibility to vary their funding patterns to meet the specific developmental needs of recipient organisations as they change.

However, this is easier said than done. To develop the requisite skills requires prolonged study and experience and the building of trusting relationships with organisations. Even if these are in place, often the policies and procedures of funders make differentiation of funding impossible. Therefore funders need to start examining their own policies and start changing these in order to add value to the development of CSOs.

Taylor's argument provides support to that of the authors reviewed before him. He introduces a new point of collaboration and partnerships, which he calls delivery systems. Funders and CSOs need to collaborate to produce more efficient and effective results. Successful collaboration and partnerships would depend on the relationship between the different players. The dynamics between these players would have to be carefully managed and facilitated for this to materialise. What is emerging is the need for funders to be more responsive to all the needs of CSOs and to provide funding for these needs. Funding programmes and projects only is limiting to the CSO and does not enhance its development in any form. However, as previously stated, the challenge is for funders to make sure that there is need for the services and goods that these organisations provide.

Fowler (1999) suggests that the quality of funds to CSOs can enhance or constrain the organisation's effectiveness. He defines quality of funds as "the product of policies, conditions and practices of development finance, when set against the requirements of best practices in development work."

He further maintains that a standard set of criteria for funding quality cannot be developed because of the different and unique needs of the various sectors within the CSO pool. However, what would be a useful measure of the quality of funding is the ability of the funder to respond to the different needs, objectives and activities of CSOs.

Fowler (1999) suggests that "bad" funding stems from "pathologies in the aid system." Some of these pathologies include:

- Pressure to disburse funds, to ensure that they are not returned unspent or unallocated to national treasuries. This has developed into a supply-driven funding environment;
- Funding is coloured by funders' own agendas, some of which are for "market share and penetration for domestic businesses: reverse flows of aid money to support the domestic economy and employment, selective social investment to reduce migration pressures and foster the local stability required for markets to work efficiently";
- Disbursing aid on a project basis, which is contrary to the complex nature of CSOs;
- Reporting and accountability boils down to meeting administrative and audit requirements and demands, keeping donors happy replaces keeping clients and constituencies happy;
- Aid dependency in some situations results in local resources and solutions being undervalued and/or overlooked. In some cases the availability of aid provides the opportunity for governments to shift their funds away from development welfare and social investments to defense and armaments

According to Fowler, facilitating local means to recognise and effectively implement their development agendas, is a principle which guides a nineties approach to funding policy and practice. This facilitation can be interpreted as capacity-building or institutional strengthening. The following five considerations might assist in curing the "bad aid" syndrome:

- "Change the metaphors and mindsets". Building capacity should move away from the notion of physical structures and the' of expansion and growth;
- Allow CSOs to make their own choice of service providers, based on their experiences with success;
- Apply a systemic approach to aid; see it within the broader environment within which aid operates;
- "Give preference to long-term processes over short-term products";
- *Include clients and constituencies in strategies for capacity growth.*

Fowler highlights the need for good aid practices to be developed to ensure that CSOs benefit more optimally from funding. Some of his recommendations to cure this bad aid are consistent with the good funding practices that are recommended later in this chapter. Something that Fowler proposes and is not picked up by other authors, is the need to provide space for CSO autonomy in the selection of their service providers and funders, that they do not in other words have this imposed on them. The inclusion of constituencies, which is also an issue in the sustainability debate, is also highlighted. Funding should be provided making full consideration of the entire development context within which it is provided.

Still examining the effect of funding strategy on CSOs, Ben Fani, co-ordinator of the National Network of Community-Based Organisations, a South Africa CSO, views funders' approach to potential projects as an obstacle to the development of CSOs. The approach of funders is usually based on what will remain after their funds have been used up. Western donors seldom ask or are interested in local CSOs' knowledge and expertise and/or needs. Their focus is usually based on what their development consultants or their research indicates is needed. Therefore proposals for funds have to be developed to fit in with funders' programme focus rather than what communities have determined as their priorities. While Fani acknowledges the "will" of the funders to provide assistance,

they protect their funding with "defensive limitations" which do not always make for enabling conditions for CSOs to operate in. He offers the following as guidelines for good funding practice:

- The funding agreement should be negotiated with all regarded as equal partners in the process
- The terms of objectives should be developed to support the development needs identified by the communities.

(Development Update 1998, p.37-41)

The South African Grantmaker's Association (SAGA) has developed guidelines for good grantmaking that might offer a good starting point for developing a standard code of conduct for funders. It promotes a "people-centred and results-oriented approach to development. Its purpose is to advance the relevance, efficiency and impact of grants, and to further ethical and professional practice in funding." The twelve broad principles that the guidelines are based on were developed in consultation with SAGA members, which comprise grantmaking organisations, foundations and trusts. What is not clear is whether grantees were involved in the development of these principles.

The twelve principles, adapted from the SAGA Guidelines for Good Grantmaking, are :

1. Build a Vision and a Programme

Grantmaking should be informed by a broad vision and a planned funding programme. The interests of the funding source, the criteria for funding and the objectives being pursued should be clearly stated. While it would be prudent practice to re-appraise the programme and vision in light of the rapidly changing grantmaking environment, frequent and ad-hoc changes should be avoided. Ideally developing the vision and the programme should incorporate input from stakeholders.

2. Champion Accountability and Openness

There should be openness and transparency among all stakeholders in the development process. Grantmakers should operate in a manner that reinforces their responsibility to their stakeholders. This should include full disclosure and the size of grants.

3. Balance Development Needs and Own Interests

Grantmaking should ensure that the interests of the grantmakers and/or funder should be balanced with the interests and aspirations of their grantees. Good grantmaking ensures that funds are utilised to meet the interests of both the grantmaker/donor and grantee.

4. Practise Fairness in Processing Grant Applications

Clear and precise information should be provided on application procedures, timelines, evaluation and selection processes, reporting requirements and availability of funds. This information should be equally available to all potential grantees, for example: rural vs. urban, non-english speaking organisations and groups unfamiliar with corporate protocol. Should organisations not be successful, quick notification to these organisations should be made.

5. Establish a Framework for Making Decisions

Budgets should be clearly decided on and shared with all stakeholders. Should applications be declined, clear and honest reasons should be disclosed to the applicant organisation. Informed decisions should be based on proper understanding of development issues and relevant development theory. If necessary, expert input should be obtained before decisions are made. Conflict of interests should be avoided and/or carefully managed.

6. Negotiate a Funding Agreement

The funding agreement should be utilised to carefully define the parameters and principles of the funding relationship between the grantmaker and grantee. This should include development results, purpose and duration of the grant, schedule and procedures for payments, monitoring and reporting requirements, and circumstances in which funding may be terminated.

7. Monitor Progress

Effective monitoring procedures should be adopted and applied to ensure that proper monitoring controls of the grants are in place. This should include efficient reporting requirements, understanding external audits, personal visits to the projects, reading and responding to reports and requests, exercising flexibility when required and understanding the sector in which the grantee operates.

8. Consider Evaluation

Evaluation of both the programme funded and the grantmaking process should be carried out. Programmes will benefit from evaluations in drawing lessons from the process and for planning purposes. Grantmakers can also learn and use the feedback to review funding policy and practices.

9. Be Accessible

Grantmakers should be accessible to grantees and timeously return calls and queries.

10. Plan for Sustainability

Grantmakers should ensure that organisations plan for beyond the life of the grant. Funding patterns should aim to support this process by recognising and supporting core costs in addition to programme costs.

11. Develop Partnerships

Grantmakers should encourage the development of partnerships at all levels i.e. with grantees, respecting the integrity and identity of grantees and encouraging grantees to develop partnership relationships with their constituencies.

12. Be Committed to Learning

Regular assessments of programmes are important to ensure constant refinement and improving effectiveness. Grantmakers should also network with other grantmakers to ensure that their practices are updated and current. Staff dealing with grantees should also be adequately trained and kept current on national and international grantmaking practices.

In a report written for the Institute for Participatory Development, Dollie (1999), proposes a code of conduct between funders and recipients after researching three organisations: The Transitional National Development Trust (TNDT), The Legal Resources Centre (LRC) and The Sached Trust. This code of conduct is consistent with the guidelines provided by SAGA for good grantmaking practices. While the SAGA literature does not indicate if CSOs were involved in the development of their twelve principles for good grantmaking, Dollie's findings provide evidence that CSOs agree with most of the principles espoused by SAGA.

Hallowes (1995) highlights "the quiet debate" being conducted by South Africa CSOs about funders. The reason for the quiet is the nervousness of CSOs to openly criticise those who fund them. While funders need CSO partners for their development agendas, there are enough CSO organisations to move on to another should they not like what they hear from their current partners. The result is that funders have "escaped the scrutiny of public debate." This according to Hallowes shows up the unequal relationship between CSOs and funders. This behaviour also contradicts the notion of partnerships as subscribed to by most funders.

He acknowledges, however, that there are both "good" and "bad" types of funders. While there is no consensus on what "bad" and "good" funding is, there is unanimity on good and bad practices of funding.

The need for good funding practices presupposes the notion that the present general funding practice is of a poor quality. While funding may have the intended impact there appears to be no evidence that funders facilitate optimal usage of funds for both their needs and for those of the CSO concerned. What also implicitly emerges is an apparent disregard for the organisations once the funding relationship ends. Even faced with the grantmaker's paradox, it seems short-sighted not to use the funding relationship to facilitate optimal benefit for the CSO funded. Another inherent issue is the apparent lack of trust between funder and CSO. This is exacerbated by the power dynamics that exist. CSOs thus feel somewhat compromised when they offer honest feedback to funders on the disregard for CSO needs. A code of conduct and/or a forum for funder-CSO relations may be a starting point for healthier and more constructive relations, however, the attitudes will take a little longer to change.

The literature reviewed reflects the problems with the funding agenda and process. Issues significant for this research as they address the grantmaker-CSO relationship are:

- The grantmaker's paradox;
- Funds to finance programmes as well as institutional needs;
- How to cultivate good funding practices;
- How to nurture the relationship between the funder and CSO;
- How to be more responsive to the needs of CSOs;
- How to mediate between the objectives of the funder and the mandates of CSOs.

This links to the crux of this research. While the research does not investigate the broader funding agenda, it does look at the grant relationship as a mechanism to deal with some of the issues yielded in this review. The final chapter again draws in these issues in considering the needs of CSOs and the responsiveness of the grantmaker.

CHAPTER THREE : METHODOLOGY

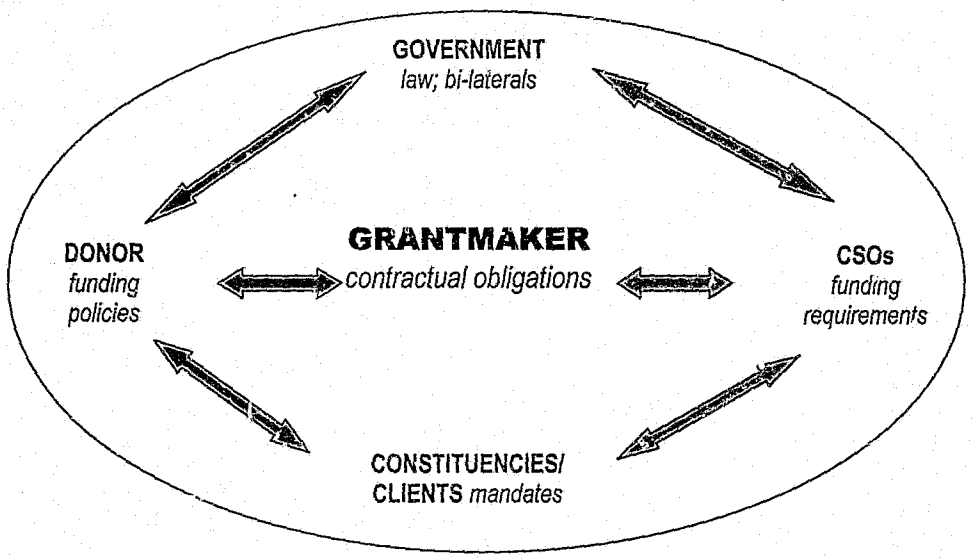
Chapter three examines the methodology applied in this research project. It defines the research environment, the areas of interest, sites of data collection, the methodology adopted for the data collection, issues relating to the methodology applied and how the data and information is presented for purposes the of this research study.

3.1 The Grantmaking Environment

The grantmaking environment presented, is one of the principle areas to be examined in purposes of this study. A contractor of the United States Agency for International Development (USAID), Crea South Africa has been selected for this study. Crea S.A. provides Grants Management and Technical Assistance to USAID South Africa's Democracy and Governance department. In simple terms, USAID is the donor and Crea S.A. the grantmaker in this relationship. Crea S.A. was selected for this study, as the author of the research is an employee who works as a grants manager in the organization. This provides an intimacy with the subject, provides access to the data that has been identified as relevant and provides easy access to the CSOs that were selected to be interviewed.

The following diagram illustrates the grantmaking/CSO environment that has been identified and selected for this research study and the different sites from which data will be gathered. Note that this grantmaking environment is of the selected grantmaker, Crea S.A., the donor, (USAID) and their grantees. Though this environment is not peculiar to this group, there are various rules and regulations of USAID that are, and this has had a specific impact on the grantmaking process.

Diagram 1 The Grantmaking Environment



The players in this environment have relationships with all other players, even though the diagrams may depict only bilateral relationships. Some of these relationships may be formally structured, like that of Crea S.A. and USAID, and some may be more informal, like that of CSOs and government.

Data is gathered at sites one and two in the grantmaking environment. Data is gathered through a review of documentation, interviews and participant observation by the author.

3.2 Data Collection at Site 1

Data is gathered at this level by reviewing both the contractual and operational aspects of the contract between Crea and USA and discussions held with the Director and Finance Director of Crea S.A. The original tender documentation used to solicit tenders for this particular function (which Crea S.A. subsequently won) is also reviewed to provide insight into reasons and rationale for USAID's use of a grantmaker. This

defines the parameters within which the Crea S.A. operates and provides a relatively accurate view of the opportunities and constraints for Crea S.A. as a grantmaker.

3.3. Data Collection at Site 2

Data at site 2 is gathered through interviews held with a sample of CSOs, all of whom were or are grantees of Crea S.A. or USAID, interviews with three programme managers from USAID and through participant observation by the author.

Interviews were carried out with 20 South African organisations from across the CSO sector. (Appendix I is a listing of CSOs interviewed.) Although the interviews were unstructured, an interview guide was used to provide consistency in terms of the themes and aspects covered (see Appendix II). Open-ended questions were utilised to provide latitude to interviewees to present their views in a manner with which they are comfortable. Contextual cues were provided to interviewees to ensure that they understood the questions fully. Responses were also tested for proper understanding and accuracy before being recorded. The assurance of the confidentiality of their responses ensured that they were relaxed and prepared to share information freely and openly.

As the researcher is a grants manager with Crea S.A., personal participant observation would also be utilised in gathering information at this level. To ensure the objectivity of this, discussions with three programme managers from USAID were held. (USAID programme managers perform similar tasks to the grants manager at Crea S.A.) The same format for interviews with CSOs has also been utilised to interview the USAID programme managers to ensure uniformity of input.

3.4 Population of CSOs

CSOs were selected based on the basis of convenient and purposeful sampling. They all either had existing or past funding relationships with either Crea S.A. and/or USAID, and were thus familiar with the grantmaking practices of both. They varied in size from:

- small (1-20 staff),
- medium-sized (21-49), to
- large (larger than 50).

These CSOs had annual budgets ranging from R500 000 to larger than R10 million. The majority of the sample has been in existence for more than 3 years. They also varied in their organisational approach and structure. Some were loose and unstructured and some highly structured with clear line of roles, responsibilities and reporting lines. Respondents included persons in positions ranging from directors, deputy directors, programme managers, project co-coordinators, fundraisers, office managers and administrators.

3.5 Presentation of Findings

The findings are presented under two broad guidelines of grantmaking as these guidelines cover the entire spectrum of the grantmaking process. The sub-sections adequately capture the progressive steps in the grantmaking process and were therefore selected to provide for easier presentation of information. The two broad guidelines and sub-sections are:

1. Pre-Award Activity

- Programme determination
- Funding mechanism
- Pre-award requirements

- Negotiation of the grant agreement

2. Management of the Agreement

- Reporting and accountability requirements and mechanisms
- Closeout

CSO and programme managers' responses are presented in an aggregated form for two reasons. It is the most practical format to present the responses and it protects the confidentiality of individual responses. Individual respondents would thus feel free to offer their own responses rather than feel compelled to present the CSO line on any particular issue. Confidentiality was a concern of both the USAID staff and CSOs interviewed. Both groups were assured that individual responses would remain confidential. The USAID programme managers asked to remain anonymous.

Triangulation of data sources (i.e., documentation reviews, interviews and participant observation methods) was applied to improve the reliability of data and offset the limitation of the interview and participant observation methods. Generalisability was ensured by making linkages with information provided by the literature reviews. Theory based on both local and international experiences was also reviewed.

A brief description and secondary analysis of the existing documentation, including the contractual agreements between USAID and Crea S.A. and the cooperative agreement used to fund grantees, was done. Relevant information was extracted. Relevancy was based on whether the information was directly or indirectly linked to the issue of grantmaking. In addition an interpretational and reflective analysis approach was utilised to present the findings, making use of an objective writing style

The methodological approach adopted has inherent strengths and weaknesses. Strengths which enhance the depth of findings and weaknesses which might affect the breadth of the study. The weaknesses are :

- An analysis of the entire grantmaking environment has not been carried out;
- The selection for study is narrow and perculiar to one donor and grantmaker;
- Participant observation, even though listed as a strength, can also be considered a weakness.

The particular strengths are :

- There is input from a variety of players in the grantmaking environment;
- Input from CSOs which have experience of Crea S.A./USAID rules and regulations;
- Input at sites one and two, which sets the parameters for grantmaking operations and collects input in how this affects the CSOs;
- The researcher is familiar with the research area and has easy access to the data;
- Application of triangulation to improve the accuracy of findings.

CHAPTER FOUR : CREA S.A. AND USAID

Chapter four, covers the data collected at site one as shown on the grantmaking environment diagram in chapter three. It will provide a brief background to both USAID and Crea S.A. , a description of the relationship between the two, and an analytical synopsis of the contractual agreement between them. In laying this out, the different components to the grantmaking function can be clearly defined and the parameters of the authority of Crea S.A. as a grantmaker can be assessed. This becomes important when determining if Crea S.A. functions can address the concerns and needs of CSOs as documented in the next chapter, both in terms of process and/or policy changes.

4.1 The United States Agency for International Development

The United States Agency for International Development (USAID) is an independent government agency that provides economic development and humanitarian assistance to advance United States (US) economic and political interests in other countries. Established in 1961 the USAID has implemented the U.S.'s foreign assistance programmes. Spending less than 0.5 to 1 % of the U.S.'s federal budget, USAID works to promote democracy, free markets and the U.S.'s foreign policy objectives around the globe.

The agency works in five principle areas crucial to achieving the U.S.'s foreign policy objectives:

- Promoting economic growth
- Advancing democracy
- Delivering humanitarian assistance
- Assisting victims of famine and other natural disasters
- Protecting public health and supporting family planning
- Protecting the environment

Based in Washington D.C., the agency works in five major regions of the world:

- Africa,
- Asia and the Near East,
- South America and the Caribbean,
- Central and Eastern Europe,
- The New Independent States of the former Soviet Union

To promote development, USAID works in close partnership with other U.S. government agencies, U.S. business, CSOs, indigenous groups and universities. USAID contracts with more that 3 500 U.S. organisations and 300 U.S. based CSOs. Close to 80% of USAID's grants and contracts go directly to U.S. owned organisations and CSOs.
These organisations provide services to the agency in the U.S. and in the other regions that the agency operates in.

In South Africa, USAID is based in Pretoria. The South African agency also utilizes the services of various U.S. and S.A. based agencies to provide assistance in realisation of their objectives. These agencies are separate from S.A. based CSOs who receive aid from the agency for pursuit of developmental objectives. These agencies provide a range of services to the S.A. mission which include :

- technical assistance
- grants management
- research and special studies
- logistics
- procurement
- monitoring and evaluation
- impact analysis and a host of other services .

The use for contractors and agencies for these purposes provide USAID with distinct advantages. USAID is structured as most government

agencies around the world, governed by bureaucratic red tape and processes which present obstacles to efficient channeling of aid and being responsive to the needs of local CSOs.

USAID selects the contractors from U.S. and S.A. based agencies via procurement for the various services required. The procurement process usually involves a notice being published advising that USAID is seeking responses to tenders to provide a particular service. Organisations respond and are selected for the quality of their responses. Obviously, USAID looks for organisations that are familiar with their procedures and processes. U.S. based agencies have a distinct advantage over local agencies as there are more familiar with USAIDs' rules and regulations. The relationship with the selected agencies are regulated by one of USAIDs' various mechanisms such as contracts, indefinite quality contracts, sub-contracts etc.

4.2 Creative Associates International Incorporated

One such U.S. based agency is Creative Associates International Inc. (CAII) CAII is a private, for profit, professional and technical services organisation. Founded in 1977, it has its headquarters in Washington D.C. and operates globally. CAII assists governments, communities, corporations and not for profit organisations to improve their effectiveness and service delivery in view of rapidly changing environments in which they operate. CAII was founded, is owned and managed by a group of minority women in the USA.

CAII has operated in South Africa since 1991. The organisation is registered in S.A as Crea S.A. S.A. They have provided technical assistance to the USAID S.A. mission on a number of programmes with local CSO's and government. At present Crea S.A. provides the services of grants management, technical assistance, special studies, research and

logistical support to USAIDs' strategic objective one. USAID S.A.s' strategic objective one is that of Democracy and Governance.

In May 1997 the USAID mission in South Africa put out a notice to organisations to tender to provide Grants Management Technical Assistance (GMTA) to USAID/South Africa's Democracy and Governance Strategic Objective (SO) Team. Specifically USAID S.A. was seeking a contractor to provide grants management support for new and existing grants and co-operative agreements; long and short term technical assistance, logistical support assistance for workshops, conferences and consultations, feasibility studies, sectoral assessments and environmental impact studies as needed over a period of five years. USAID was looking to award a fixed fee type of contract for this activity i.e. whatever this activity would cost to execute plus a fixed cost.

CAII tendered with five other organisations on this bid and was announced the winner in September 1997. The project was established in October 1997 and is presently located in Brooklyn, Pretoria. The Chief of Party (COP) and Finance Director are expatriates of the USA, and the rest of the 12 person team are South Africans. The organisation has two main components :

i. administration and finance,
ii. grants management.

4.3 The contract between USAID and Creative Associates International

CAII has a five-year contract with USAID due to terminate in October 2002. For purposes of this study, only the grants management component of the services of Crea S.A. will be examined. As stated previously in this chapter, Crea S.A. specifically provides their services to

USAID/SA's SO#1 team i.e. Democracy and Governance. The three programme focus areas of SO#1 are:

i. Strengthened rule of law and respect for human rights.
   This targets improving access to justice and civic education.
ii. Local Governance.
   Local government is the sphere in which there is most potential to strengthen the social contract between citizens and government, which is critical to democratic consolidation.
iii. Sustaining civil society participation in the democratic process.
   The sustainability of South Africa's well developed civil society is important for democratic pluralism.

According to Crea S.A.'s contract with USAID, Crea S.A. is responsible for the administration and management of estimated new grants, co-operative agreements and contracts awarded under the GMTA contract for an approximate amount of $ 32 million. The processes of the grants management functions are:

4.3.1 Pre-award solicitation and review of proposals

This occurs in consultation with USAID/S.A. and involves:

- Working with USAID on finalisation of programme focus. This might be in the form of qualitative input or harnessing the input from the CSO community, experts, stakeholders etc.,
- Working with USAID in development of selection criteria,
- Developing and standardising a format for proposal submissions from CSOs which are consistent with USAID S.A. guidelines,
- Arranging publication of notice to solicit proposals to ensure adequate levels of participation and competition from the CSO community,

- Communicating with organisations interested in submitting proposals and/or assisting with modifications to documentation needed to comply procedurally with submission procedures;
- Establishing administrative management plans and procedures to ensure the expeditious processing, review and recommendation of proposals;
- Co-ordinating with USAID to selection reviews by a committee comprised of USAID and Crea S.A. representatives,
- Notifying applicants on selection committee decisions.

4.3.2. Approved Grants

For grants that have been approved under the process of point 1, Crea S.A. continues with the following tasks:

- Conduct necessary pre-award actions with respect to the proposed grantees. Compulsory for grants over $100 000 p.a. is a financial assessment. Financial assessments review an organisations' systems and procedures to assess if they meet USAID's accounting requirements;
- Develop grants/co-operative agreements/contracts format that is consistent with USAID's rules and regulations;
- Negotiate and execute grants with approved organisations to implement their proposals;
- Assist grantees with the development of implementation and monitoring and evaluation plans.
- Ensure that the grantee will be able to contribute the counterpart contribution of the grant. All grantees are required to contribute 25% of the total amount being granted. For example, if the proposals requested an amount of $100 000, $75 000 would be granted and the grantee would be expected to contribute $25 000. This portion is called the counterpart or cost sharing portion and is also monitored throughout the life of the grant;

- Develop and implement systems and procedures to ensure proper accounting and financial control of all funding;
- Ensure that all financial, programmematic and impact results reports (and any other required documentation) are received from grantees in accordance with the reporting schedule in the grant and that these reports are submitted timeously to the USAID/S.A.;
- Ensure that recipient audits are carried out by all grantees in accordance with USAID's rules and regulations;
- Closeout all grants in accordance with USAID regulations.

4.3.3. Technical Assistance

Another part of Crea S.A.'s contractual function is to provide Technical Assistance to grantees. This requires careful monitoring of each grantees capacity in areas of financial management, economic and institutional sustainability, systematic collection and reporting on indicators, vouchering, financial reporting and accounting, project records management and other monitoring related activities. Crea S.A. also has the discretion to provide institutional strengthening in areas grantees may need to build capacity in order to successfully implement their programmes. Funds for this function come from a special technical assistance budget allocated to Crea S.A. and not from allocated grantees funds.

In the area of financial management and vouchering, Crea S.A. ensures that grantees keep accurate records, funds are not co-mingled with other funds and accurate vouchers are submitted timeously. Crea S.A. also ensures that grantees conduct their recipient audits on time and address audit recommendations. Recipient audits are extraordinary audits that USAID require all their grantees to have. These audits ensure that grantees have been managing their grant funds and activities as per USAID rules and regulations.

USAID holds economic and institutional sustainability to be an important goal for each of their grantees. Crea S.A. also has the mandate to evaluate each grantees future viability and provide technical assistance in terms of capacity building, skills transfer etc., where deemed necessary to facilitate sustainability.

Another of Crea S.A.'s TA areas is that of development of better systematic collection of data and reporting on impact indicators. This is usually in the of assisting grantees develop a detailed implementation plan and id g baseline information. A properly developed workplan provides a good foundation for efficient and effective collection of data and information for reporting purposes. It also provides a basis on which the grantees progress can be managed and monitored. Crea S.A. also ensures that grantees maintain good and accurate records of programme activities, both financially and operationally. After the close of the grant, records should still be stored for a minimum of three years beyond the date of final completion. Crea S.A. therefore periodically reviews the grantees these systems and provides TA to improve them to meet all these requirements

4.3.4. Grants Management

Grants management is divided into two broad areas of management, that of : programmematic and financial management. Both of these components occur throughout the life of the grant. While the above provides a contractual listing of what Crea S.A. is contracted to do for USAID, the following provides a more operationalised explanation of these activities.

They activities have been divided into three broad areas viz.

- Pre-Award Activity
- Management Issues
- Other

3.4.1 Pre-Award Activity

a. Programme Determination

Programme determination refers to the processes that go into USAID making their decisions with regard to programme focus areas. This is usually an extensive process and takes anything from a month to a year. There are three segments to this process, namely. research, consultation and programme design.

Research usually involves an environmental study of the area that is being considered. The area to be decided is and internal decision made by USAID in conjunction with their Mission in Washington D.C. It is usually linked to broader objectives of the Washington Mission. Once the local mission accepts this, in this case USAID/SA, work begins to put a local spin and relevance to it, beginning with the research. The research is commissioned through Crea S.A. A scope/statement of work is developed for the research team comprehensively detailing the information and processes that are expected in the delivery of the final research piece. This statement of work is a joint effort between Crea S.A. and USAID. This statement of work depending on how it is structured can be very limiting to researchers or provide researchers with the latitude to present a research piece that is uniquely theirs, within the parameters of what USAID need for programme determination purposes.

Crea S.A. usually has a staff member on the team who makes both qualitative input and co-ordinates and manages the research process. Research is usually of a secondary nature, involving review of relevant literature and other documentation and interviews with key informants. After this phase is completed, a preliminary report is submitted to USAID/S.A. Once accepted by USAID/SA, consultations begin with stakeholders. This is usually in the form of a series of consultative workshops, where research is shared and further input harnessed from the

stakeholders. Once this phase is completed a second report is submitted to USAID/SA, which undergoes an internal process of decision making. The report at this stage has a number of recommendations on how the programme should be structured and what mechanisms should be utilized for implementation, for example grants to be awarded, an institution that will be able to provide the service, funds to be allocated to government departments, etc. Once USAID/SA have accepted the second report in principle, they hand it over to programme design experts to develop it to suit the bureaucratic requirements of USAID design. These design experts are also usually contracted by Crea S.A. and are usually from the U.S.

b. Evaluation and Selection

Once the programme design and determination stage is completed, it becomes ready for implementation. This is usually in the form of grants and/or co-operative agreements to be awarded. However, as stated previously it could be in other forms. Grants can be awarded by two different means : competitive or as a sole source. Sole source means that USAID recognises and selects an organisation to which the grant/cooperative agreement is awarded. Competitive is fairly self explanatory and means that grants/cooperative agreements are awarded on a competitive basis. Organisations are requested to submit their proposals on specific programme areas and funds are awarded on the basis of selected criteria. There is a fundamental difference between grants and cooperative agreements, which is later explained in Chapter five.

Crea S.A.'s role in this process of award and selection is quite involved. It begins with the development of selection criteria. This process takes into consideration USAID requirements in this regard are usually covers four areas:

- Demonstrated management capability

- Organisational profile, experience and success in the programme area
- Technical merit of the programme activity
- Monitoring and evaluation plan

Crea S.A. publishes a notice informing the NGO community of the pending Request for Applications (RFA), providing a brief description of what the programme focus area is and the date that it will be available, this is two weeks from date of notice. CSOs are invited to request an RFA from Crea S.A.. The RFA provides a detailed programme description, guidance on how the technical description of the proposal should be structured, and an explanation of the selection criteria that would be applied in the selection of the successful. It also allows for written queries to be made to Crea S.A. should that be necessary and announces the due date (usually 45 to 60 days after the notice of the RFA is published. To maintain the integrity of the competitive process, all correspondence between prospective applicants and Crea S.A. has to be in written form.

Parallel to the RFA process, Crea S.A. establishes an evaluation committee to review and evaluate the proposals once received. The usual practice has been drawing from the USAID SO#1 team and the Crea S.A. staff. Once the committee has been established and proposals received, the evaluation process begins. This usually involves an initial meeting of the committee where ground rules are set.

- No contact with applicant organisations,
- No discussion of the rating of the proposals between committee members is allowed,
- All queries should be directed to the Chair of the committee, usually Crea S.A.'s senior grants manager, who writes to the organisations to gain clarity,
- The committee is asked to rate the proposals individually.
- The rating are of a quantitative nature and require a qualitative a justification.

A second meeting is held where the evaluators put forward their ratings and justifications and discussions are held with the rest of the committee. After this the chair writes up an evaluation report tabling the rating and justification of the committee members and making a recommendation on which organisation should be selected for award . This is submitted to the Crea S.A. Chief of Party (COP). If there are no queries or pending issues, the COP accepts the recommendation. Debriefing letters are sent out to all applicant organisations, informing them whether or not they were successful or not and providing feedback on their applications. They are also all informed of which organization's application was successful.

c. Agreement Negotiation

Once the organization is selected, another process is put into place to finalize the cooperative agreement. This process has two components:

- *Programmematic*
- Financial

The programmatic process usually involves the following:

- *Finalisation of programme*, this usually involves clarification of activities and programme objectives. The programme description forms part of the final co-operative agreement and therefore has to an accurate reflection of what activities the grant will cover.
- Implementation workplan. This is usually in the form of a project plan. It is utilized for various purposes, including to monitor and evaluate the programme over its life and reconcile programme reports against what and how activities are planned.

The financial side covers the finalisation of the budget. This usually looks at reasonability of costs allocated to the projects and cost sharing or counterpart contribution. As stated earlier, all USAID funded projects are

required to provide 25% of the total funding received for a project Direct costs are examined for reasonability against the workplan and indirect costs against the percentage of funding the grant represent to the CSO. For example if the grant represents 40% of the organisation's total funding, then charging a substantially larger percentage to administration costs will be considered unreasonable. Another issue that is negotiated is financial management of the fund, how closely this will be done and what will be required. Financial reports are required on a monthly basis, however the required supporting documentation and controls could vary for different grantees. This is determined by Crea S.A.s' Director of Finance. If grantees' financial management capability is considered in need of improvement, then the management of the grant begins with maximum management i.e. requiring all supporting documentation, schedules, authorization, etc. This is usually reviewed after six months and if the financial manager is satisfied with how the grant is being managed, then these requirements are relaxed.

4.3.4.2 Management Issues

Management of the grant agreement requires ensuring that the requirements of the cooperative/grant agreement are adhered to. This involves monitoring of both the programmematic and financial components of the agreement with the general standard provisions. The standard provisions are the general rules and regulations regarding use of U.S. government funds, procurement procedure, audit requirements and exclusions.

However management can occur in a minimalist or maximum fashion. This usually depends on the organisation' capability and them meeting the requirements of the agreement. Most CSO's usually fall into one of the two management camps. There are those organisations that generally meet the requirements, both programmatic and financial. These usually

require quarterly site visits and responses to their reports and/or queries that they might have. There are those organisations, which require constant monitoring and technical assistance. They might not have the capacity to implement programmes and/or meet financial reporting requirements. For these organisations, a more comprehensive management plan is developed. Where there is more frequent contact and site visits. In some cases technical assistance is provided (either by Crea S.A. or an external source) to strengthen the institution. These organisations are usually reviewed after six months to assess if improvement is apparent.

4.4 Analysis

While the above provides a detailed descriptive account of the written contractual obligation for Crea S.A. to USAID, it does not analyse other anomalies that might affect this relationship. This has implications of the spirit in which Crea S.A. provides it services to USAID.

Crea S.A. is in a situation that can be best described as the "meat in sandwich". It has both USAID and grantees as it clients. It has a contractual obligation to perform certain services to USAID on the one hand and sets up similar agreements with grantees on the other side. Keeping both happy and being responsive to their needs are not necessarily
in conflict with each other, however has to be carried out within the contractual limits of the USAID/Crea S.A agreement. The challenge for Crea S.A. is to creatively harness latitudes that can facilitate the needs of grantees.

The other consideration that is not clear in the description of the contractual functions above is the risk to Crea S.A. Crea S.A. advances its own funds to grantees and gets reimbursed on a monthly basis by

USAID. However grantees do not manage funds as per USAID rule and regulations then USAID can disallow this from the Crea S.A.s reimbursement. For example, USAID does not cover any alcohol costs, if Crea S.A. reimburses grantees alcohol costs, it will not covered by USAID. Crea S.A. has to bear the liability of this.
A challenge for Crea S.A. then is to mediate its own liability and that of the interests of CSOs.

The above presents a clear account of the services that Crea S.A. provide as grantmaker to USAID S.A. More importantly for purposes of this research, it procedurally lays out each segment of the process for grants management and technical assistance. While it is clear that Crea S.A. is obliged to follow certain rules and regulations of USAID, like the solicitation, monitoring and evaluation of proposals, they are clearly spaces where Crea S.A. can make adjustments to be more responsive to the needs of grantees. While issues that affect policy changes do not lie within the parameters of Crea S.A. authority to change, certain "softer" options can be "adjusted to be more responsive to CSO needs.. Some of the grantmaking components that might allow for these adjustments are :

- Making stakeholders more inclusive in decision making processes,
- Proposal submission,
- Selection of proposal process,
- Pre-award process,
- Use of the grant agreement,
- Provision of TA,
- Assisting with programme planning.
- Management and reporting requirements

Chapter six provides recommendations on possible adjustments, using the CSO responses documented in Chapter five.

CHAPTER FIVE : CSO RESPONSES

Chapter five presents data collected at site two located in the grantmaking environment as per the diagram presented in chapter three. The data was derived from telephonic interviews conducted with South African CSOs, USAID staff involved with programme activity, and participant observation input from the researcher. USAID and Crea S.A. documentation was also reviewed to provide clarity on some technical terms utilised and provide explanations of some of the processes. The data highlights CSO issues, their needs and present priorities with regard to donors. An analysis of the data is presented at the end of this chapter.

Data from the interviews is presented in an aggregated form to protect the confidentiality of responses. Both CSOs and USAID programme managers were assured that individual responses would remain confidential. All responses received are documented in this chapter, though not all the respondents responded to all the questions. USAID is utilised interchangeably with Crea S.A. in this chapter as some CSOs provided input on their funding relationship with USAID, some with Crea S.A. and some with both Crea S.A. and USAID. Both USAID and Crea S.A.'s funding agreements are regulated by contracts covering similar rules and regulations. Therefore contractual obligations of CSOs with funding agreements with either Crea S.A. or USAID would be similar.

The findings are presented under the two broad sections of the interview guide, viz.:

1. Pre-award Activity
2. Management Issues

5.1 Pre-Award Activity

5. 1.1 Progr[illegible]ne Determination

All respondents share the opinion that donors should not decide on their programmes unilaterally. Donors should ensure that their programme focus is aligned to the country's development needs, the national agenda and the general focus of CSOs in the different sectors. The following were mentioned as possible means of ensuring better-informed decisions about programme determination.

- Consultation with "experts in the field" in the form of meetings, discussion forums, research, special studies, scenario papers and policy papers;
- Consultation with CSOs in the specific sector, discussions, reviewing of evaluations, sector concerns and input;
- Establishment of task teams to advise donors;
- Taking cognizance of national agendas and development priorities;
- Taking into consideration government plans and resource allocation to the different sectors;
- Input from all relevant stakeholders.

Should donors unilaterally decide on their programme focus without the benefit of the above processes, it could yield the following:

- Donor-driven agendas, where donors' programme foci dictate how CSOs make their programme decisions or modify their *programme directions responding to the agendas for which funds* are made available;
- Donors agendas being totally incongruent with national agendas and priorities;
- *Donors supporting irrelevant and unsustainable programme areas;*
- Donors not using the right values in terms of determining their programmes;
- Donors making ill-informed decisions;

- Donors focusing on non-priority areas.

Most respondents felt that some means of donor consultation with CSOs and other groups does exist however, they were not sure of how this input was used and/or how donors really made their final decisions. Some felt that donors went through the motions of "consulting" with CSOs and other relevant stakeholders and "experts", but ultimately their decisions were still based on their mandates from the funding authorities. This sometimes required trade-offs between political, economic and development agendas. Some felt that input from some CSOs were favoured and sought more than input from others. Some of the respondents did not know if donors consulted CSOs, as they had never been part of a grouping that had been consulted. There were also those respondents who felt that donors should be aware of mediating between the South African government's agenda and the needs of CSO constituents. Donors worked harder at investing in relationships with grantees in the past. However, the present focus has shifted to developing and consolidating relationships with the S.A. government. Therefore the government's development agenda took precedence over the mandates of CSOs. Some of the respondents found this problematic as they felt government priorities did not always respond to the urgent development needs of the country and trade-offs were made for political gain.

Most CSOs were unsure of whether consultations with CSOs were working or not. Some noted that there was a difference in how donors made their decisions. However, they could not say whether this was due to consultations with CSOs and others or other developments that might have impacted on the donor's decision-making processes. Some felt that donors were not transparent enough and did not provide the necessary feedback to CSOs about their decision-making processes. Some felt that donors should be held accountable for these processes especially if they begin consultations with CSOs. There should be a proper documentation

of the different processes, dynamics etc. that contribute to donor decision-making and this should be fed back to CSOs.

5.1.2 Proposal Requirements

Most respondents felt the proposal format was complicated and the information required was too much. As the proposal format was specific to the needs of USAID and or their grantmakers, a general proposal could not be submitted. New proposals had to be developed to meet the criteria. This required staff dedicated to the development of the proposal who are paid for by other funds received. This was not an issue unique to USAID; all funders had different requirements that required reworking of proposals. Many of the respondents felt that donors should standardise proposal requirements. One format should be applicable to all donors. Some respondents felt that the language utilised to explain the proposal requirements is too technical and complicated. This marginalises certain organisations as not all organisations have English first-language speakers and/or staff who are familiar with USAID's technical terms and jargon. Some felt that one needs to be able to write well in order to have a chance for selection. However, this did not guarantee that the programme would be technically sound or guarantee impact. Almost all of the interviewees felt that general proposals should be accepted. Most felt that unsuccessful applicants should be provided with clear and understandable reasons why. They should also be informed of who the successful candidate was and be provided with reasons as to why that proposal was successful.

5.1.3 Pre-award Negotiations

Before the finalisation of the funding agreement, a series of meetings known as the pre-award negotiations take place. These are utilised to deal with queries and concerns that Crea S.A./USAID have about the

proposal submitted. This is also the time that budgets are approved. The pre-award negotiations period is also utilised to begin relationship-building with the grantees and to set the foundation for how this relationship unfolds.

Most of the respondents did not find the pre-award negotiation process problematic or difficult. In fact, many respondents felt that if the negotiation is handled well, it can positively affect project success. Many CSOs noted there is no consistent structure for the negotiation process, however in some cases, only programme managers are involved in negotiations. In others, both a programme manager and a finance manager negotiate with the CSO, often meeting with them separately (the so-called serial approach to negotiation). At other times, several staff members (programme manager, contracts and finance people) are involved in negotiations. CSOs found it easier to have one coordinating and contact person. When there is no single contact person, CSOs appear to have more complaints about the negotiation process. For example, one CSO reported that it underwent serial negotiations with USAID and a USAID grantmaker. By the time the process was completed, the scope of the proposed activity had changed so dramatically that the CSO felt compromised. Some CSOs commented on the importance of the personality and knowledge of the negotiating staff for successful negotiations. They noted that when programme persons play a strong role, negotiations go more smoothly. This ensures that the programme issues are kept to the fore around the negotiation process and precedence is not given to administrative and financial contractual obligations only. While some understood the need for pre-award negotiations, they felt that USAID uses this time to manipulate its programme focus.

Some respondents felt that to call this process "negotiations" is misleading. There is not much room to negotiate for CSOs. USAID/Crea S.A. requirements are fairly standard and inflexible and do not allow CSOs

to negotiate on issues with which they are dissatisfied. They see these negotiations as space for USAID and Crea S.A. to ensure that all their funding requirements will be met prior to the signing of the grant.

Many had particular concerns about the reporting on USAID impact indicators. They felt that these indicators were sometimes inappropriate to what their programmes were developed to accomplish. However, to accept the funds meant to report on these indicators. Some felt that USAID should develop these indicators in consultation with CSOs in order to understand what their programme objectives are to facilitate the development of realistic, relevant impact indicators.

5.1.4 Use of Cooperative Agreements

The three funding mechanisms commonly used by USAID are:

Contracts:

Contracts are not often used with CSOs. When they are used, they are often small purchase orders for specific products. CSOs who were familiar with the nature of contracts say that they are the hardest funding mechanism to work with, because of the technical nature of the agreement and the relative inflexibility of a contract to meet changes in the scope or implementation of an activity. But most USAID programme managers say they prefer contracts, because they provide the highest level of control over deliverables, reporting, and accounting.

Grants

Appropriately, all respondents see grants as the most flexible funding instrument. They observe that USAID has minimal management and oversight requirements under grants, compared with the other funding instruments. However, CSOs note that there is still a high degree of involvement in the implementation of grant activities and in budget

management after a grant is awarded. Most USAID staff interviewed note that grants offer less control than cooperative agreements and contracts regarding programme issues, management, and finances. As a result, they say, grants are more difficult to monitor. They see a contradiction between the hands-off management of grants and the programme and financial accountability and reporting requirements.

Cooperative Agreements

The major differences between these three funding instruments and their uses can be characterized as follows.

Contracts represent the normal legal relationship for USAID's acquisition of goods or services. A contract is a legally binding agreement under which an organization agrees to provide USAID with specified goods or services required for USAID programmes in return for payment. With a contract, USAID has greater rights to remedies for breach of contract than are appropriate under a grant or cooperative agreement.

Grants and cooperative agreements, by contrast, are assistance instruments, the principle purpose of which is to support or stimulate the recipient's own programme or project. Both grants and cooperative agreements are considered conditional gifts to an organisation like a CSO.

Under a grant, the grantee has considerable freedom to pursue its own stated programme, without substantial involvement by USAID during the performance of the activity. It is expected that the grantee will make its best efforts in achieving the purpose of the grant. Unlike a grant, a cooperative agreement entails a significant degree of direct participation by USAID in the performance of the recipient's programme.

USAID staff believe that cooperative agreements are useful for building partnerships between the USAID and CSOs, and for longer-term

development activities. Some CSOs, however, question this view. They claim that with cooperative agreements USAID attempts to control and intrude on organizations and activities, indicating a lack of trust in them. CSOs also note that the negotiation of cooperative agreements is time-consuming. USAID tries to insert micromanagement aspects into the agreement, while CSOs try to negotiate out these same elements. One CSO respondent provided an example of USAID's inconsistency in managing its funding agreements. This CSO had two concurrent USAID-funded cooperative agreements, both in the same programme area. The major difference in the agreements was the difference in personality of the two USAID programme managers. With one agreement, the programme manager was cooperative and supportive, and the NGO felt as if it were carrying out its own programme with USAID's help. With the other agreement, because of micromanagement by the project manager, the NGO felt distrusted, as if it were not implementing its own programme. Some USAID staff believe cooperative agreements should be used with more experienced organizations. Others contradict this, saying the agreements' primary use is to allow USAID to recognize and correct implementer weaknesses. These views skirt the central issue, though: the use of cooperative agreements should depend on USAID's desired level of programmatic, not administrative involvement.

USAID programme staff gave a variety of reasons for choosing one instrument over another:

- Level of trust and respect for the recipient CSO;
- Capabilities of the recipient;
- Nature of the activity;
- Convenience (for example, to avoid the procurement requirements of contracts);
- Preferences of the recipient (for example, some will accept only grants), and
- Habitual use of one instrument over another.

Overall, most respondents believe that implementation success, regardless of the funding instrument, depends primarily on the capabilities of the CSO. Some USAID staff add other factors related to effectiveness: the level of trust between the USAID and the CSO, the management style of the programme manager; and USAID's level of involvement in the activity. In fact, many USAID staff argue that the more control they have over a project, the greater the likelihood of success. Some project managers also claim that regardless of the type of funding agreement, they manage all their activities the same way. For practical purposes, they see no difference between the instruments.

5.1.5 Pre-award Assessment

All prospective grantees must have pre-award assessments conducted to ensure that recipients have technical and financial management capabilities to prudently manage USAID-funded activities. The basic requirements are outlined here to present a broad and clear picture of pre-award activities. Before receiving a grant or cooperative agreement, a potential recipient must convince the contractor that it has, or has the ability to obtain, the overall management competence to plan and carry out the proposed programme and to meet the programmatic and financial reporting requirements of the grant and/or cooperative agreement. This determination can be made through a formal or informal survey, depending on the circumstances. Organisations that have not received USAID funding in the past five years are usually required to have a formal pre-award review. This involves an assessment of the organisations financial and administrative controls, policy and procedures. If the organisation has audit recommendations (USAID recipients have a special annual audit in addition to standard financial audits), these have to be implemented prior to the awarding of the new grant Some CSOs felt that these reviews were useful as they usually highlighted areas of improvement of their administrative and financial management. Others felt that they could be made more helpful if funds were made available to

improve in those areas that the reviews found wanting. Most funds received only covered programmatic (both direct and indirect) costs, and funds were not available for institutional strengthening. One organisation suggested that reviews would be useful if they entailed a more comprehensive assessment of the organisation, not only of the administrative and financial areas but of the entire organisation. This would be useful for organisational review and planning and would highlight problem areas. Some respondents felt that funds should be made available to deal with organisational building.

5.2 Management Issues

General management concerns factor in programme managers, management principles, time management, reporting requirements, project evaluations, implementation success and financial requirements.

5.2.1 The Progamme Manager

Overall, respondents agree that the personalities and management style of the programme managers play an important role in the grants management process. The relationship that develops between the programme manager and the organisation's staff member in charge of the implementation of the programme does have an impact on smooth programme management. Attitudes to the level of programme manager involvement fell into two camps. The one camp favoured a high level of involvement in its projects (a hands-on approach), whereas another group wanted more autonomy and minimal involvement (hands off). Some CSOs pointed to confusion regarding the respective roles of USAID and grantmakers (like Crea) that are brought into the process. Many CSOs are not clear about the division of responsibility between the two. Some respondents argue that the involvement of both a grantmaker and USAID in programme management is inefficient and creates unnecessary

difficulties and duplication during grant negotiations, reporting and programme monitoring. Some CSOs agree that there is a time-consuming duplication in communications, processes, clearances of requests and approvals when both USAID and grantmakers have undefined roles in programme management. Others feel that the introduction of a grantmaker has introduced better responsiveness to their needs and quicker turnaround time in terms of processing of administrative and financial matters.

5.2.2 Management Principles

According to USAID guidance for grants and cooperative agreements, there are three aspects of prudent management of grants and cooperative agreements:

- Self-restraint in imposition of programme controls;
- Prudent financial management of public funds;
- Minimal requirements for approvals, reports, and restrictions.

Self-restraint in imposition of programme controls means that if a great deal of operational control is required, a contract instead of a grant or cooperative agreement should be utilised. Limiting requirements means that USAID managers should avoid imposing requirements for programme approvals, reports, or restrictions that go beyond what is applicable according to the rules and regulations of USAID. Prudent financial management involves a number of principles related to stewardship of public funds. To exercise prudent management, programme managers should provide adequate information on assistance procedures to prospective recipients and ensure that prospective recipients have technical, managerial, and fiscal competence. There should also be:

- A review at least of an annual substantive report on the recipient's operations and management;

- Ensuring adequate financial controls, such as record-keeping, financial reporting, audits, limitations on expenditures, and provisions for return of funds;
- Ensure evaluation of programme effectiveness;
- Have provisions for termination of the award.

These principles are consistent with USAID's requirements for the management of grants and cooperative agreements. The same provisions are also incorporated into USAID's and/or USAID grantmaker's mandatory and optional standard provisions, which form part of each grant or cooperative agreement.

5.2.3 Time Management

Almost every respondent reports some time-management problems. CSOs feel that too much time is spent on financial management, reports, procurement, project design/proposal preparation, workplans and monitoring plans. CSOs report that they spend insufficient time monitoring outputs and assessing impact. As the financial, administrative and reporting requirements are so demanding, valuable programme implementation time is eaten into. Respondents generally agree that donor/grantmaker programme managers should be more involved in the programmematic substance of activities, rather than in administrative micromanagement. In general CSOs feel that some of the cooperative agreement rules, regulations and requirements are too complex for most small organizations to understand and follow. However, in general, CSOs believe that meeting USAID's administrative and accountability requirements lead to institutional strengthening. Many CSOs say they are given little or no orientation to the rules and regulations before the start of the activity and that they are unprepared for the challenge of meeting the requirements. Even well-established and capable organisations lack experience in dealing with cooperative requirements. Many found the

language too formal and reading, interpreting, understanding and implementing the requirements difficult.

5.2.4 Reporting Requirements

Crea S.A./USAID agreements demand two types of reporting requirements: programmatic and financial.

Programmatic

Grantees are required to submit progress reports on programme progress or lack of progress for each grant or cooperative agreement. The report presents a brief comparison of programme accomplishments with the goals for the period, reasons why goals were not met, and other pertinent information. According to the reporting requirements of the cooperative agreements, progress reports are to be submitted every three months from the signing of the grant. Several CSOs say they would like less confusing, more consistent reporting formats. USAID staff, on the other hand, say they find the required progress reports useful. Among other things, they help staff monitor progress more easily and economically than through site visits. Many CSO respondents found the reports useful for internal project management. Although programme managers dispute this, a large majority of CSOs report that they receive little or no feedback from programme managers on their reports, especially with regard to implementation concerns. One programme manager noted that no feedback was provided on good reports. CSOs would like clear and consistent application of reporting requirements. Some CSOs would prefer less frequent reporting than quarterly.

Financial

Financial reporting is required on a monthly basis. It is USAID regulation that funds be dispensed on a monthly basis. This requires submission of a request for and advance or reimbursement and liquidation of the previous

month's disbursement. Most CSOs find this practice inefficient and ineffective for two reasons: it requires much more management input, and there are sometimes unanticipated programme costs that might not have been included in that month's request for an advance. Some CSOs then use up funds from other funders to cover these costs. USAID funds are not the only donor funds that they have to manage, however these funds require the most input. USAID, Crea finance and Crea programme persons, on the other hand, argue that monthly financial reports are useful for keeping track of project activities. They say monthly reports are usually required when the organisation lacks strong financial management skills. Not surprisingly, most CSOs feel that financial reporting requirements are excessive. In addition, many CSOs argue that reporting requirements are disproportionate to the level of funding and the nature of project tasks, since small grants have the same financial reporting requirements as large ones. Numerous respondents suggest streamlining financial reporting requirements or developing different financial accountability requirements for small grants.

5.2.5 Project Evaluations

Although this was not an interview topic, many interviewees volunteered opinions about project evaluations. CSOs generally seem to like having an evaluation requirement as part of their grant or cooperative agreement. CSOs, in particular, say that they do not always have the resources to conduct evaluations, but that evaluation findings help them document project achievements and can assist with future fund-raising. Therefore having funds made available for evaluations is very useful. CSOs agree that they learn a great deal from evaluations, and they apply this learning to their organizations and to subsequent projects. Some CSOs suggest that mid-term evaluations be undertaken for more activities. They see this as useful for modifying or correcting the course of the activity. In addition, some CSOs suggest conducting more end-of-project impact evaluations to

establish a track record of CSO accomplishments and improve the design of future activities.

5.2.6 Implementation Success

CSOs, and USAID and Crea staff consistently maintain that implementation success requires careful development of activity design, work plan, and budget before the award of project funding. Many CSOs also believe that monitoring inputs and outputs and assessing project results can positively affect implementation. Many respondents suggest paying more attention to project development, to avoid implementation problems. In that way, benchmarks and reporting requirements (for example) are clearly laid out before the funding agreement is signed. Some CSOs indicated that they would like USAID to help them develop and monitor project benchmarks. Almost all respondents feel strongly that project success is due in large part to collaborative and competent project staff, on the part of both the implementer and funder, rather than the use of any particular implementation system or mechanism. Some CSOs cite the positive effect of regular project implementation meetings. CSOs advocate coordinating or networking meetings for donors and implementers working in the same sector. Many CSOs contend the overall quality of implementation would improve if USAID would allow them to more freely direct and manage their own activities. Respondents frequently used words like "respect," "autonomy," and "trust" to reflect this view.

CSOs felt that "sustainability" is best defined in the broadest possible way. Definitions limited to financial, social, or institutional sustainability are insufficient. Issues concerning impact and potential trade-offs need to be addressed and incorporated into a workable, flexible definition. Addressing local conditions is important to defining sustainability. Not all project components may be sustainable; they may change according to

circumstances. Sustainability of one project component may have unintended repercussions or hinder other ongoing community initiatives. A useful definition of "sustainability" will be broad and well suited to individual environments. Interviewees generally expressed a strong interest in sustainability. Most CSOs believe sustainability to be a critical part of their work. Beyond this enthusiasm for the concept, respondents noted that sustainability needs to be better and mutually defined by both CSOs and funders.

Funding cycles should be for longer periods than the present approximate one-to five-year period. This would allow time and resources to strengthen organizations while devoting appropriate attention to project implementation. CSOs also recommended that USAID encourage greater networking and sharing of knowledge and resources among the CSO community. Some CSOs suggest that USAID foster better collaboration and learning from both sides. Local networking is seen as critical to long-term organizational sustainability as well as the sustainability of the entire CSO community.

Asked if they believe whether sustainability is an appropriate goal for CSO activities, interviewees overwhelmingly said "yes." CSOs feel strongly about achieving greater sustainability, and made a variety of suggestions for improvements, among them:

- Involving the target community;
- Ensuring that beneficiaries are decision-makers;
- Emphasizing empowerment of women;
- Using community volunteers for project implementation;
- Coordinating with appropriate government programmes;
- Developing management information systems; and
- Ensuring adequate training.

Project planners need to address sustainability early in the design of new activities. They should include such issues as:

- Level of community demand for the project's benefits;
- The project's probable contributions to sustainable development of the local area;
- Government attitudes toward CSO activities;
- Project benefits that must be sustained by the local community.

Respondents stressed that the implementation effectiveness of a CSO is critical to sustainability. USAID programme personnel must consider a number of factors when selecting a potential CSO for funding. Some topics suggested for the screening process are the organization's leadership, experience in the sector, current funding sources, ability to recover its programme-costs, number of years in the community, and whether the organization has a strong local constituency. In essence, programme personnel need to look for organizations (and leaders) with the following qualities:

- They have an entrepreneurial spirit;
- They are motivated by the desire to create significant grass-roots change;
- They are pragmatic and have problem-solving skills;
- They are strategic planners and able to develop management structures appropriate to carrying out their ideas.

Project designers need to maintain realistic expectations of the time necessary to achieve results. Since sustainability is a long-term process, activities often need to continue beyond the funding span normal for USAID awards. Also, prospects for self-funded project activities and the phasing out of donor funding should be considered during project design. Possible alternate funding sources are income-generating schemes, cost-recovery approaches (such as fees for service), use of endowments, and local fund-raising.

5.2.7 Financial Requirements

Respondents generally agree that too much time is spent on financial management concerns. Some CSOs say they are not particularly impressed with the benefits of the required financial management, primarily because they already have well-established financial systems. However, programme and financial managers feel that strong financial management is needed for most CSOs, particularly smaller, less experienced organizations. They feel that stringent and rigorous attention to financial management has led to increased CSO accountability and to the overall institutional development of CSOs. Other CSOs say they have put together solid, effective financial systems to meet funder requirements. These systems, they believe, are sustainable, add to institutional strengthening and will serve them well in the future.

Cost sharing is a mechanism that requires CSOs to contribute financial or in-kind contributions to the overall costs of a project. All CSOs who receive funds via a grant or cooperative agreement have to meet a 25 percent cost-sharing requirement. USAID views cost sharing as:

- A means of leveraging USAID development assistance with other sources of money;
- A mechanism to prevent CSO dependence, both financially and programmatically;
- A way of encouraging CSOs to gain a sense of ownership of programmes,
- A means of ensuring that it is less likely that USAID will be able to force its own agenda on organizations that are accountable to other sources or constituencies

CSO interviewees provided a number of reasons why cost sharing is useful.

- Fosters ownership and commitment;

- Promotes greater financial involvement of beneficiaries;
- Encourages NGO financial independence;
- Allows CSOs and CSOs to simplify procurement by using their own funds for certain purchases;
- Prevents reliance on one donor for funding;
- Requires strategic planning for cost recovery once project funding ends.

Asked if USAID should require cost sharing for CSO activities, USAID interviewees overwhelmingly said "yes." Nearly all USAID staff support cost-sharing requirements, closely followed by the staff of CSOs. About 75% of the CSOs interviewed support USAID cost-sharing requirements though not necessarily in the form implemented by USAID. Most CSO respondents indicate that USAID's cost-sharing requirements are understandable and are a way for them to show their commitment to a given activity. But many expressed th · concern about the inflexibility of cost-sharing rules. They felt cost sharing should be approached with greater flexibility, depending on circumstances, and should take into account an organization's financial limitations.

On the negative side, some USAID and CSO respondents say monitoring cost sharing is time-consuming. There appear to be no set guidelines on establishing values for in-kind contributions, making them difficult to calculate. Some USAID staff says cost-sharing arrangements have entailed additional monitoring, management, and paperwork requirements. Several CSO staff feel that the standard 25 percent contribution is inappropriate for many organizations. They consider this percentage onerous, especially for young or smaller organizations. CSOs feel this financial burden could prevent them from seeking further funding from USAID and could limit the types of organizations that work with the USAID. USAID staff also expressed the belief that CSOs should not be required to

cost-share until they have established a certain level of institutional viability.

In general, respondents believe the USAID should have flexible cost-sharing guidelines. Some CSOs suggest that USAID review its cost-sharing requirements on a case-by-case basis. Interviewees recommend that cost-sharing requirements be established to demonstrate flexibility in relation to a CSO's capacity and the activity's goals and objectives. In some cases USAID may want to provide funding (without cost sharing) to an organization that is implementing a USAID initiative, or if it cannot contribute to costs. There were also suggestions that USAID require limited cost sharing for smaller organizations. These cost-sharing arrangements could range from 5 to 10 percent and increase each year. Resources also could be devoted to training organization staff in fund-raising and providing information and training on other income-generating activities.

USAID requires organizational audits for all recipients of grants or cooperative agreements who receive $300,000 or more annually in funds. The same requirement applies to sub-recipients Sub-recipients receive their funds from a recipient of USAID funds. There is no direct relationship between USAID and sub-recipients. Their relationship with the recipient is usually regulated with a sub-recipient agreement between the recipient and the sub-recipient. Respondents generally find the quality of audits satisfactory. Many CSOs implementers say that audits help improve their financial management and strengthen their organization's internal controls. Programme/finance managers who read audit reports claim that audits help their management of CSO activities. They note that audits provide legitimacy, help the organization develop its institutional capabilities, and help the programme manager determine what needs to be done, as problems are identified and recommendations can be made and implemented immediately. The major complaint of CSOs is the expense

of conducting audits for organizations that receive small amounts of funding. Several respondents provided examples of audits costing as much as or more than the grant itself. These suggested that having the special needs of USAID tagged on to the normal annual audit would reduce costs and can be covered by a portion of funds from all funders.

5.5 Conclusion

Many of the issues found in the above CSO responses are consistent with those that highlighted in the literature review. The literature review highlighted issues that can be broadly divided into two sections:

Organisational Issues	Good Funding Practice
Strategic interventions	Relevant agendas
Operational issues	Delivery systems
Sustainability	Responsiveness
Capacity building	Programme vs. operational funds
Institutional strengthening	Communication
	Consistency
	Transparency
	Fairness
	Inclusive decision making

In addition to the above, the CSO responses documented can be grouped along the following lines. Note that some CSO responses also belonged with the sections above.

Programmatic	Management	Organisational
Development of Indicators	Micromanagement	Assessments
Sustainability	Donor vs. grantmaker	Autonomy
Project design	Consistency	Fundraising
Implementation effectiveness	Reporting requirements	Training

Project evaluations

Funding Practice

Mediation of development agendas

Development of user friendly grant agreements

Flexible cost sharing

The above draws together the main themes that grantmakers should explore in order to cultivate good funding practice and be more responsive to CSOs.

CHAPTER SIX : CONCLUSION

This final chapter makes recommendations for improvements to the process of grantmaking by: examining the cross-cutting themes of the literature review and CSO responses; looking at the identified spaces in the grantmaking process that will allow for "adjustments" to the process; and proposing strategies to achieve a closer fit between the two. In addition, it will list some of the challenges, opportunities and constraints that exist in the grantmaking environment that may aid or hinder the operationalisation of such recommendations. The recommendations are presented under four sections.

6.1 Organisational Issues

The literature review puts forward a case for institutional development (ID) of CSOs, showing how it can add value to the organisation and add value to programme implementation. The literature reviewed also shows that CSOs find it difficult to operationalise ID, mostly because of the lack of funds to address these needs. The present funding trend is to cover direct programme costs with a small percentage allocated to cover indirect costs. The result is that while most CSOs realise the importance and benefit of ID, few are able to fund these initiatives and they get relegated to the "to do" list, which almost never gets done.

The following are recommendations for the grantmaking process that provide possible support to CSOs to address some of these organisational concerns. The recommendations are made under the themes that emerged from the literature review and the CSO responses.

6.1.1 Operational Issues

The pre-award assessment can be utilised to be more value-adding for CSOs. At present the requirement is for an assessment of administrative and financial aspects. A more comprehensive assessment of the organisation would be more useful to CSOs. It would provide them with an idea of where interventions need to be made. If they have a comprehensive assessment they could better plan how to address issues and concerns. Interventions needed to build capacity to strengthen administration and financial systems would be covered by Crea S.A. financial staff, or if they are not available, a consultant would be contracted to provide this support.

For other issues and concerns that arise, other avenues of addressing the issues can be developed. Should the areas have an impact on programme implementation, then Crea S.A. can be approached to provide TA. One of Crea S.A.'s functions as contractor of USAID is to provide Technical Assistance (TA) to grantees. TA is deemed necessary when the area in need of the TA is seen to have an impact on programme implementation. For areas that may not be seen to impact on implementation, other funders may be approached.

6.1.2 Capacity Building and Networking

CSOs are generally experiencing empowerment and capacity problems in implementing development activities and in managing USAID funds. Definite steps can be taken to overcome these problems. In addition, many CSOs have asked for USAID's help in sponsoring or encouraging CSO networks that increase opportunities for collaboration, information exchange, and professional development. Support for capacity development and networking can be done in the following ways:

- Promote mentoring, networking. CSO development can be supported by encouraging seasoned CSOs to serve as informal mentors for newer,

smaller organisations. They can also encourage the development of networks of CSOs working in the same sector.

- Seek new funding approaches. The USAID's traditional approach to CSO activities has been to fund discrete, short-term project activities. Although this approach provides flexibility in budget management, it doesn't encourage sustainable activities or sustainable implementer organisations. In addition to making small initial awards to new or inexperienced organisations, consideration should be given to support grants – that is, providing funding to an organisation's broad portfolio of activities instead of funding individual activities.

Other ways to assist building capacity:

- Using pre-award reviews to assess existing management capacity;
- Starting with small initial awards, and arranging for experienced organisations to provide financial management services to smaller organisations;
- Provide better education. By providing regular orientation sessions, programme managers can more effectively educate CSO implementers about USAID's minimum accountability requirements and differences in funding instruments. These sessions should be held with CSO funding recipients both before signing funding agreements and during project implementation.
- Encourage networking through the use of umbrella/consortium arrangements. Frequent strategic use of umbrella/consortium mechanisms should be made, especially when the institutional strengthening of CSOs is required. This should begin at the proposal solicitation stage. Consortia and umbrella organisations should be encouraged to apply. Lead organizations should have demonstrated ability to administer and monitor sub-grants and provide technical management assistance to sub grantees.
- Capacity building should be included as an explicit project objective, and should be included in budgets.

- Formalise regular consultations. CSOs are well known for their development expertise. Programme managers should systematically tap the expertise of CSOs by including their managers in discussions on the country development strategies.

6.2 Good funding practice

The literature reviewed found many recommendations for good funding practice to optimise the benefit to the grantee. The assumption behind these recommendations is that funders do not optimally utilise the funder-CSO relationship to the benefit of the CSO. The funding is narrowly provided and only the interests of the funder are regulated and ensured. There are lost opportunities for the CSO to benefit and get value from this funding encounter. However, it is accepted that this is the perception of the CSOs. Some of these practices may already be in place – for example, consultation with CSOs and experts about programme decisions. However, because of lack of transparency and irregular and informal communication patterns, CSOs do not feel included. The following recommendations for good funding practices may also address other problems of the CSOs documented in chapter four.

- CSO participation in programme funder programme decisions can be encouraged and managed by developing a formal process of local consultation. This should include regular, open and transparent communication and updates on the decision-making processes. There should also be at least a bi-annual or annual meeting with grantees to get feedback on funding and grantmaking. This should be utilised to refine the processes and procedures already in place.
- New funding approaches should be developed. Three steps can be taken to develop new approaches to funding CSOs' activities:

(i) To provide more stable, sustainable options to CSOs and streamline their reporting requirements, investigations into the possibility of joining or establishing donor consortia should be made.
(ii). Provide longer-term funding. Where capacity building is identified as an activity objective, programme managers should consider allowing longer-term funding (5 years or more) to the funding recipient. At the same time they should ensure that appropriate, measurable institution-strengthening goals are included in the activity design.
(iii) Encourage prompt incremental funding. Link funding to benchmarks established in programme design. This incentivises implementation success and encourages longer-term planning

- Use of standardised formats. Standardising reporting formats for progress and financial reports for grants and co-operative agreements would also reduce the administration involved in turning these reports around.

- The language of RFAs and agreements should be refined to be made less technical and more user-friendly. Already recommended is an orientation for CSOs both at the RFA stage, where the solicitation process should be properly explained and altered at the pre-signing process, where the requirements and provisions in the grant should be explained. During the life of the grant regular follow-ups should also be held with the organisation.

- At present USAID/Crea S.A. makes provision for human resource development in budgets. Other development needs can be addressed via the TA component of Crea S.A. To ensure optimal use of the TA funds over the life of Crea S.A.s contractual life, a percentage of funds should be allocated per grantee. TA should focus on skills transfer to ensure development.

- Support should be provided to CSOs in managing their cost-sharing component. They should be made to understand that this portion does not have to be in a cash form but could take the form of in-kind contribution. CSOs should be supported to formulate these in-kind contributions up front and assistance should be provided to manage this.

6.3. Programmatic Strengthening

A clear message from CSOs was for more programmatic support and less concern with administrative issues. Stronger activity designs and smoother implementation can be encouraged in three ways:

- CSOs should be encouraged to design benchmarks. Clear development-oriented project benchmarks should be developed so that the activity is geared toward measuring results.
- Using a team approach. Progamme managers can encourage a team approach to project design and negotiation. This enhances the sustainability of the programme.
- Designate a contact person. For the implementation of each activity, managers can ensure that one USAID/Crea S.A. point of contact is established for the CSO. That contact person is preferably the project manager

CSO's preferred programme assistance to that administrative support. Careful attention to reviewing and critiquing activity designs appears to increase the likelihood of successful activities. Ways to strengthen the design of CSOs' activities are:

- Think benefit sustainability. Attending to sustainability concerns during project design and eliciting participation of the beneficiaries increase the likelihood of success.

- Develop ways to measure results. During activity design, development-oriented project benchmarks should be developed that encourage implementers to concentrate on activity results rather than on process. Crea S.A./USAID managers should also stay focused on this for reporting and management purposes.
- Provide for evaluation. Project managers should regularly include funds for evaluation in activity budgets. Many CSOs commented on the importance of regular evaluation as a management tool. Midterm evaluations allow for needed project modifications. Final evaluations, by contrast,

a) measure project impact,

b) enhance institutional wisdom, and

c) help implementers build a track record of accomplishments.

Having a wide range of CSOs' evaluations also broadens the knowledge base for CSO's and programme planners. In this way, lessons learned from earlier projects can be incorporated into new activities.

- Clarify respective roles. To encourage smooth project implementation, programme managers should ensure that the roles of all parties are well defined before the funding agreement is signed.
- Implementation. Programme managers can work to improve project implementation (thus increasing the likelihood of successful activities) by:
- Following "prudent management." Programme managers should follow the principles of prudent management, which emphasise placing the fewest necessary controls on implementers. Also, when project requirements are clearly defined and agreed to before the start of an activity, there is less need for micro-management. The recipient can concentrate on carrying out the project.
- Calling regular meetings. Regular meetings between the project manager and implementers can improve communications and quickly resolve implementation problems.

- Clarify funding agreements. Before signing a funding agreement, CSOs should be made to understand all programme provisions and requirements. They should examine the procurement procedures, required approvals, financial management requirements, progress and financial reporting requirements for programmes. This is particularly important for organizations that have never before received USAID funding, so that these requirements can be built into programme design.

6.3 Management

CSOs felt that rules and regulations were inconsistently applied depending on the personality of the manager involved. Consistency in grants management can be ensured by training USAID and Crea S.A. managers. This would at least facilitate that there is reasonable consistency in applying USAID regulations and procedures. Training efforts could include collaborative, results-oriented project management and could aim at improving staff's "people" skills.

- The autonomy of CSOs should be respected. Micro-management should be the last resort in getting CSOs to adhere to rules and regulations. CSOs' agendas should be supported and collaborative and co-operative management should be practised. This would also nurture trust and make the funder more approachable in times of difficulty.

- The donor -grantmaker roles should be properly explained to CSOs. Orientation should include this.

- Reporting formats should be kept consistent. In addition there should be a formal and informal communication procedure established. This would encourage CSOs to communicate in a manner with which they are comfortable.

- Reporting requirements should be standardised. This would reduce the time needed to provide quarterly reports.

6.4 Conclusion

The above recommendations are feasible. They do not necessarily depend on policy changes and are mostly procedural. In some cases they would require a re-interpretation of certain rules and regulations and in others merely require a difference in approach. Some would require more input from Crea S.A. as a grantmaker. This does not increase their contractual obligation, however: merely their commitment to the grantmaking process. It's a case of a minimalistic or maximalistic approach to their functions. A challenge for Crea S.A. is the mediation of client interests, that of USAID and grantees; of ensuring that their contractual obligations to USAID are met, while remaining optimally responsive to CSO needs.

The grantmaking environment does not really exert any overt constraints on the above recommendations. Neither USAID policy nor legal requirements, nor indeed the mandates of CSOs are in conflict with any of the proposed changes. The success of change will instead depend on the funders' commitment to sustainable and relevant development in the country.

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APPENDIX I

List of CSOs Interviewed

1. IDASA
2. Lawyers for Human Rights
3. Black Lawyers Association
4. NIPILAR
5. Centre for Socio-Legal Studies
6. Centre for Human Rights
7. Human Rights Trust
8. Community Law, Resource and Development Centre
9. Institute for Multi Party Democracy
10. Institute for Particpatory Development
11. South African Catholic Bishops Conference
12. SANGOCO
13. EWET
14. SCAT
15. National Land Committee
16. Planact
17. Project Literacy
18. Urban Sector Network
19. Centre for Education Policy Development
20. Mvula Trust

APPENDIX II

INTERVIEW GUIDE

Dear Colleague

I am currently busy with a Master thesis titled: Grantmaking and Civil Society Organisations (CSO) at the University of Witwatersrand. The research is evaluating the grantmaking practices utilised by a contractor of USAID, Crea S.A., to assess if the grantmaking process can be improved to be more beneficial and responsive to CSO needs. I would greatly appreciate your assistance in answering the some questions. It should take about forty five minutes of your time.

You are assured of confidentiality of your responses. The findings will be presented in an aggregated form and would therefore ensure confidentiality of your individual responses.

I thank you for your co-operation and input in advance.

Yours in development

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Questions

1. Organistional details

Name of Respondent:

Position of respondent:

How long has your organisation been in existence?

What is your staff compliment?

What is your annual budget?

How would your define your organisational approach?

2. Pre Award Issues

Programme Determination

How do you think donors should decide on their programme focus ?

Why do you think that this should be so?

How and why should CSOs, other stakeholders and experts be included in the process?

Is this currently happening?

If not why?

How can this be improved?

Proposal Requirements

How do you find proposal requirements for proposals?

How this affect your organisation ?

How do you think this can be improved?

Pre-Award Negotiations

Do you find the pre –award negotiations useful for your organisation?

Do you think that this is a necessary intervention?

How is it currently occurring and how does it impact on your organisation?

How can these be improved?

What are the kinds of issues/constructs do you think should be negotiable and why?

What do you think is key to successful negotiations?

What has been the grantmaking mechanisms that have been applied to your organisation ? (cooperative agreement, contract or grant)

What was your experience of these mechanisms?

How do you think that grant agreements should be structured and why?

Pre-award Assessments

Do you find these useful? Why?

How can this process be improved?

3. Management Issues

Programme Manager

What do you think the role of the programme manager should be?

What has been your experience?

Time Management

How does the funding requirements impact on your time?

Would you like some assistance in this regard and in what form?

Reporting Requirements

How do you find the present programmatic and financial requirements?

How can they be improved/changed?

How do you find the practice of monthly disbursements?

What would you prefer ?

Why?

How often do you think reporting should occur?

Programme Implementation

What is required for successful implementation of programmes?

How can one ensure successful programme implementation?

What kind of assistance would you like from the funder?

Do you think that sustainability is an important issue in programme development and why? How should this be incorporated?

What can funders do to facilitate sustainability?

Financial and Administrative Requirements

How do you the financial and administrative requirements?

How has this affected you?

How can it be improved or refined?

Comment on the cost-sharing requirement. Should this be a USAID requirement and should it be mandatory?

General

Please add anything that might not have been covered by the above questions that you like t share?

Author Chetty C P
Name of thesis Grantmaking and Civil Society organisations 2000

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