

Evaluation of the Voluntary Agency Support Scheme and Emergency Management and Disaster Relief Fund

Turangawaewae – a constructive place to stand

Volume 1: Main Report

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Preface

We greatly appreciate the time, thoughtful contributions, critical reflection and honesty of many people without whose ready co-operation this evaluation would not have been possible. These include representatives of numerous New Zealand NGOs, several NZAID staff, the Project Selection Committee, the Council for International Development, the NGO Disaster Relief Forum, the Development Resource Centre, Claire-Louise McCurdy, Suzanne Loughlin, Don Clarke and Beverley Turnbull.

We particularly appreciate the patient, insightful critique and encouragement of members of the Evaluation Steering Group – Penny Hawkins, John la Roche, Suzanne Loughlin, Sally Russell, Beverley Turnbull, and Peter Zwart.

We believe that VASS and EMDR are important for both NZAID and New Zealand NGOs. We have shaped our recommendations with the intention in mind of protecting and ensuring turangawaewae – a place to stand, a constructive place:

- an inclusive, constructive space for NGOs – large and small, new and old, specialist and broad-based
- a high quality, constructive space for growing specialist 'best practice' in international development expertise

- an open, constructive space for encouraging diverse partnerships and wide engagement
 - a safe, constructive space in which learning and trying out new ideas take place
- a recognised, constructive space, within which both NGOs and NZAID can contribute their respective strengths and experience to contribute to effective international development.

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Executive Summary

The Evaluation

This evaluation follows on from a broad-ranging evaluation of the Voluntary Agency Support Scheme (VASS) in 1998 that focused on rationale, purpose, structure, management and ‘place’ of VASS in relation to international trends in funding non-governmental organisations (NGOs). The 1998 evaluation made several recommendations for refining the Scheme and also recommended the establishment of a facility for funding NGO Emergency and Disaster Relief (EMDR).

The focus of the 2004 evaluation has been to follow up on the implementation of the recommendations from 1998, and to look again at rationale, purpose, structure and management, especially in light of the formation of the New Zealand Agency for International Development (NZAID) and the agreement of the *Strategic Policy Framework for Relationships between NZAID and NGOs*.

Background

Voluntary Agency Support Scheme

VASS was established in 1974 as the main scheme through which New Zealand NGOs obtain government funds for community development projects they support in developing countries. Funding is provided through NZAID, which was formed as a semi-autonomous agency within the Ministry of Foreign Affairs and Trade (MFAT) in 2002.

Funding through VASS has increased from a few thousand dollars 30 years ago to over \$6 million by 1997/98, and to more than \$10 million in 2003/04. Over that period, a number of different funding windows have been introduced and consolidated, matching funding ratios have been successively improved (both for general projects and for priority funding windows), and the funding limits available for individual projects have also been increased.

The comprehensive evaluation of VASS in 1998 found that the Scheme was well designed, with many features of international best practice, and that it was well regarded by NGOs. The evaluation recommended that Block Grants become the norm for all regular users of VASS (large or small), supported by grants for new partnerships, with greater emphasis on capacity building (both in developing countries and with New Zealand NGOs). It also proposed increased emphasis on evaluation, learning and review, with aspects of VASS administration streamlined and consolidated within an overall and more consistent NGO policy framework. Significant action has been taken on most of these recommendations.

Emergency and Disaster Relief

EMDR was established in 2000 as a specific NGO funding window, following the 1998 VASS evaluation. The rationale was to provide a core level of funding for NGOs to undertake humanitarian work in a planned way, and to improve the linkages between emergency relief, rehabilitation and reconstruction on the one hand, and sustainable development on the other. The budget for 2003/04 was \$1 million per annum. However, because of one-off re-allocations from other NZAID under spending, it expanded to more than \$5 million in 2002/03 and to \$2 million in 2003/04. As a result of improved financial management arrangements in NZAID, such levels of 'windfall' funding for EMDR are not expected in the future.

Methodology

This evaluation was jointly commissioned by the VASS Project Selection Committee (PSC) and NZAID, and was undertaken by two consultants, one of whom was part of the 1998 evaluation team. The evaluation was overseen by a steering committee of NGO and NZAID representatives. It incorporated:

- a questionnaire to New Zealand NGOs
- consultation with New Zealand NGOs, NGO umbrella groups, advisory groups and consultants
 - consultation with PSC members
 - consultation with NZAID staff
- review of files, funding statistics, Block Grant and other reviews, the Participatory Impact Assessment Pilot reports
- limited reference to international literature and developments in NGO/government funding and relationships in New Zealand.

Findings

NZAID – and a changing environment

The environment within which the VASS and EMDR NGO fund operate has changed significantly since 1998. Internationally, the Millennium Development Goals and the Monterrey Consensus provide a focus on poverty alleviation and international development priorities that have not previously existed. Harmonisation among donors, the dialogue associated with this and the greater emphasis on stronger partner-donor relationships create a different dynamic. Poverty reduction strategic plans and moving beyond projects to a programme emphasis and sector-wide approaches all bring a more strategic and more cohesive focus to international development.

In New Zealand, the creation of NZAID has been a major initiative. The increased professionalisation of NZAID, greater strategic and policy focus and stronger

relationships with partner and multi-lateral agencies all strengthen considerably the New Zealand international development role and presence – and its likely future impact.

NZAID's underpinning policy, *Towards a Safe and Just World Free of Poverty*, identifies the outcomes it is looking for – those that will fulfil basic needs, sustain livelihoods and develop safe, just and inclusive societies. NZAID explicitly plans to operate in a transparent and inclusive manner and specifically recognises the major contribution made by civil society. As part of this, NZAID is committed to an enhanced relationship with NGOs; while VASS has been the cornerstone of this engagement, a number of other relationships are now also involved.

The 1998 VASS evaluation recommended the creation of a *Strategic Policy Framework for Relationships between NZAID and NGOs*. This recommendation was implemented, with a formal agreement signed in 2000 and subsequently updated in 2004. The Framework is based on shared development principles, a number of relationship principles such as mutual respect, dialogue and recognition of the independence of the NGO sector, and agreed undertakings – separately and together. It now forms the overall agreement under which all NGO/NZAID relationships and activities, including VASS and EMDR, are designed to operate. Other agreements and approaches under the umbrella of the Framework include:

- a commitment to strengthening the NGO sector through strategic funding and capacity building
 - agreed mechanisms for policy development and sharing of information and experience
- diverse funding mechanisms to support NGOs' own activity, based on shared principles with NZAID
 - support to in-country NGOs, reflecting regional and country programme priorities.

NGOs have welcomed the creation of NZAID, and believe both its creation and the *Strategic Policy Framework* have strengthened the relationships and the situation for NGOs.

1998 evaluation recommendations – actively implemented

Almost all of the 28 recommendations in the 1998 evaluation have been implemented in some form. An implementation plan was set up in 1999 and 2000 and actively pursued by both the PSC and the Development Cooperation Division (NZAID's predecessor within the Ministry of Foreign Affairs and Trade). Two key recommendations that have not been fully acted upon are: (i) the implementation of impact evaluations – although a participatory impact assessment approach was piloted in South Asia and the Pacific; and (ii) the development of greater consistency across the range of NZAID programmes in relation to NGO involvement. We address the first in this evaluation, and NZAID undertook to implement the second by the end of 2004. This has become even more vital, given the changing and more multi-dimensional set of relationships between NZAID and NGOs.

There has been a hiatus between the initial high energy concentrated on implementing the 1998 evaluation recommendations and now. This has been caused by the understandable focus required to establish NZAID, but it has had a noticeable impact on the PSC, and on the development of VASS and EMDR.

The NGO sector in New Zealand – growing and more diverse

While New Zealand NGOs involved in international aid and development still comprise a small and concentrated sector, their numbers are growing and their diversity increasing.

There is some evidence that NGOs using VASS and EMDR are increasing in professionalism and sophistication. For example, many now have a considerable depth of experience to draw upon and staffing numbers have increased. It was not until 1991 that the six largest NGOs employed between them the equivalent of two full-time programme staff. This had increased to the equivalent of five by 1995, 11 by 1998, and 21 by 2004. The growth of dedicated programme staff is one (indirect) indicator of the evolving role of New Zealand NGOs – especially when compared with approximately 45-50 New Zealand-based programme staff in NZAID. Other indirect indicators include several NGOs that access VASS and EMDR having: (i) a more strategic approach and focused set of programmes; (ii) direct relationships with their partners; and (iii) more specialist volunteer project or programme oversight groups.

There are currently just over 50 NGOs with approved Organisational Profiles, compared with 32 in 1998. At the same time, membership of the Council for International Development (CID) has increased to 64. This is about a 50 per cent increase in membership since 1998, with a more diverse range of NGOs involved. There are now a number of NGOs whose main business is not necessarily international development but

who can see the value in international linkages to build on their main organisational focus. A small but increasing number of Maori and Pacific NGOs are involved.

However, while the base has been broadened, it is important to recognise that there is not a major increase in the number of NGOs regularly making use of VASS and EMDR. Nine NGOs currently receive around 90 per cent of the VASS funding, compared to six that received 84 per cent of VASS funding in 1998. New developments are also emerging, with more recently involved New Zealand NGOs using Partnership for Development (PfD) grants and 25 per cent of these leading to VASS project funding.

Increased government funding to NGOs

Significantly increased government funding has been provided through NGOs, both in dollar terms and as a proportion of overall official development assistance (ODA). This long-run trend has accelerated over the last decade or so. NZAID's statistics in this area are unreliable (despite recommended attention from the 1998 evaluation), but it has been estimated that the total funding to New Zealand NGOs represented 3 per cent of NZODA in 1990/91, had grown to 5 per cent by 1993/94 and was approximately 7 per cent by 1997/98. The NZAID annual report estimates that it was approximately 9 per cent in 2002/03. However, it may be substantially more than this and could be as high as 12 per cent. International comparisons are fraught in this field. Nevertheless, this is still below the OECD average, which is likely to be well in excess of 15 per cent.

VASS – important and useful improvements initiated

Since the 1998 evaluation, substantial progress has been made towards making Block Grants the norm for regular users of VASS, though there are still some questions about the sustainability of small Block Grant NGOs (which may require further ongoing adaptations). Partnerships for Development (PfD) funding is now an important component for VASS; it is appreciated by NGOs and is showing signs of broadening the range of NGOs accessing VASS funds, as was hoped. The focus on learning, impact, capacity building and strengthening infrastructure has continued to grow and deepen. In the long run, this investment can be expected to improve greatly the sustainability and effectiveness of VASS in particular and international development NGOs in general.

...though not yet all taken to completion

Important clarification and streamlining of a number of VASS processes has occurred, although there is still room for ongoing simplification, development of requirements and rationalisation of transaction costs. There is still insufficient attention to promoting a programme approach, as opposed to a project-based approach.

Further advantages and efficiencies could also be obtained by greater emphasis on multi-year funding.

...with basically sound architecture

During the course of this evaluation, some in the NGO community and in NZAID have begun to ask out loud whether developments in the NGO sector, and the challenges it faces, mean that it has 'outgrown' VASS. This question deserved serious consideration. We have found that the basic architecture of VASS remains sound. Its essential elements provide a constructive base on which to build a funding system for many years to come – especially its inclusion of a wide range of NGOs that benefit from interaction with each other, the ownership of the Scheme by NGOs, the responsiveness of the Scheme, and the value of peer accountability and learning. We are also of the view that being a responsive funding scheme is an important defining feature of VASS.

...though place for some 'modernising' renovations

In order to remain relevant and provide a sound base for future growth, some renovation of the Scheme is required. VASS should be renamed to better describe its focus, and its purpose should be made explicit: funding NGOs' overseas community development to best practice standards; enabling the development of a strong and independent New Zealand NGO sector interested in international development and able to seek funding from a variety of sources; and building partnerships for international cooperation across the New Zealand community, through NGOs.

The Block Grant mechanism should be stripped down (to ensure that once project selection is delegated there should not be 'second-guessing' of the Block Grant management), and reinforced, possibly as a three-tier system recognising: individual project funding; Block Grant delegated project funding; and Block Grant delegated programme funding.

VASS has sound systems for reporting and financial accountability, well able to address the full range of potential accountability lapses. Some minor aspects of the VASS guidelines could be made more explicit, so that expectations of NGOs are clearer. Some reporting requirements that have grown up over time could be eased without any weakening of the fundamental accountability architecture.

...with greater attention to the wider NZAID environment

While retaining 'core' responsive funding through (the renamed) VASS, it might be expected that a number of NGOs would be in a position to negotiate increasing use of other funding opportunities across NZAID, where there are shared objectives. Out of this might emerge cross-NZAID 'strategic partnership agreements' with NGOs, in much the same way that integrated/ 'joined-up' funding packages are currently being piloted across government in New Zealand.

Changes will need to be made within NZAID to facilitate this, and some changes are also likely in how NGOs envisage their role and potential relationship with NZAID. It will be important to include a focus on policy, advocacy and programming, as well as on funding relationships.

The NZAID/NGO *Strategic Policy Framework* is an important starting point in this regard; however, it now needs to be applied at an operational level. In part, this is likely to require re-instituting the regular policy and programming meetings between NZAID and NGOs that have lapsed in the recent past. It will certainly require a comprehensive review of the operation of NGO funding opportunities across NZAID, as proposed in the 1998 evaluation.

...and offering potential for significant funding expansion

Overall there are very strong indications that as much as a 50-75 per cent increase in the VASS budget could be well utilised over the next three to five years, especially if implemented as a planned and staged expansion. This would require an easing of caps on project funding, and especially an easing of matching ratios. On balance, lifting the maximum general project matching ratios to 4:1 is favoured. This would eliminate any additional financial incentives for tagged Gender and Development and Capacity Building projects. Instead, it is proposed to invest in other pro-active strategies to maintain a priority on gender equity and capacity building across all projects and programmes. An *ad hoc* NGO Working Group on Disability within VASS identified the importance of specifically addressing disability issues. This is an important policy issue and should be dealt with in the normal VASS policy development process and be funded on the same overall 4:1 ratio basis.

For wider sustainability reasons, but also of particular assistance in managing any staged transition of VASS funding, some attention may also be required to workforce planning across NZAID and NGOs, and some increased flexibility is required for administrative costs (especially for small, regular users of VASS). NGO funding within NZAID should also be moved onto a multi-year appropriation, to facilitate forward planning.

...tuning up VASS management systems to meet emerging challenges

A number of aspects of the administration of VASS that may have served it well as a simpler and smaller scheme are currently groaning under the strain and threaten to limit its growth and development.

While the PSC has been strong on its stewardship role, an important weakness (primarily because of workload issues) has been the capacity of the PSC to exercise strategic leadership for VASS, and to be pro-active in stakeholder relations (beyond individual NGO liaison). It has often identified key work to be done, but not always been able to address it in a timely manner.

As the PSC has worked very hard to hold VASS together during a period of transition and great disruption, its workload has grown to unsustainable levels. Unfortunately, during this same time, the administrative support allocated to it has also dropped, putting

further strains on all systems (and relationships). It is likely that maintenance of the PSC as a body has also suffered from inadequate attention during this period.

While most value and want to retain the current NGO-‘owned’ and peer-assessed approach, some NGOs have argued for the replacement of the elected PSC with either an appointed group or NZAID staff. We do not believe this is necessary to address the concerns they raise, and could be counterproductive. Instead, we propose appointing an independent chair on a part-time basis for the next few years, particularly to drive the process of implementation of this evaluation’s recommendations, to provide an overview role for VASS and EMDR as a whole, and to support the work of the PSC members. In this we would include an orientation process for new PSC members and clearer PSC role and task descriptions.

We also propose an immediate increase in administrative and analytical support, a review of PSC remuneration levels, and a number of strategies to reduce workload levels – for example, identifying ways in which the PSC could buy in additional support and assistance, to help it manage the overall functioning of VASS and EMDR. Indeed, we suggest that it is a misnomer to think of the body as a Project Select Committee, when it should actually be the body responsible for the *management* of VASS. (Only ten per cent of funds not allocated through Block Grant NGOs involves ‘project selection’.)

We propose that this management committee should give emphasis to a simultaneous tight/loose management approach (tight on values, philosophy and principles of good development practice, but looser on means of implementation and procedures). This should be aided in part by explicit identification of the purpose/s of VASS.

Improved communication about VASS and EMDR

An increase in NGOs with approved Organisational Profiles and a broader and bigger CID membership emphasise the importance of clear, consistent and accessible communication about VASS and EMDR through a deliberate communication strategy. We believe this is urgent, and could include simple steps such as using NZAID and CID websites, and producing newsletters from the PSC.

EMDR – fledgling and ripe for development

Overall, EMDR has been welcomed as a fund for New Zealand NGOs and their partners to work in the area of emergency and post-emergency assistance, including peace, restoration and human rights. It offers a more transparent process than the previous in-house Development Cooperation Division (DEV) decision-making, and the PSC can be accountable back to the NGO community. Nevertheless, some (not all) NGOs felt the PSC membership does not have sufficient specialist expertise for EMDR. Comments reflected some of the debates in the literature, and among New Zealand NGOs, that emphasise the seamless *continuum* between emergency situations and ongoing sustainable community development, and the importance of participation and capacity building approaches even in an emergency or disaster.

When the EMDR fund was first established, the focus was on the gap between immediate emergency situations and the restoration of conditions that allow for good community development. Some confusion seems to have arisen over time and this, combined with an increase in conflict and disasters, has led almost all NGOs to suggest there needs to be a high level reassessment of the overall purpose, focus and criteria of the EMDR NGO funding. Any reconsideration also needs to be considered in the light of NZAID's wider role in emergencies and disasters. NZAID identified its overall approach in its Five Year Strategy. The Agency has indicated it intends to pursue a seamless transition from humanitarian to development phases of disaster recovery, as part of humanitarian support around peace building, conflict prevention and community safety.

Policy coherence around emergency disaster management between NZAID and NGOs, through the NGO Disaster Relief Forum (NDRF), was seen as extremely important and emerged as an issue in a number of ways. NGOs commented on the fledgling state of EMDR expertise within NGOs and NZAID, the associated lack of leadership from either, and the need for greater clarity around criteria and consistency of PSC decision-making.

NGOs are keen to see an approach to EMDR funding processes that is based on 'appropriateness for purpose', including criteria developed for the type of emergency situation, forms to reflect this and the weighting of allocations customised according to the emergency situation. During the course of this evaluation, connections between NZAID EMDR draft natural disaster guidelines for the Pacific, draft conflict management policies and guidelines, and environment and human rights policies were just beginning to be explored.

Some NGOs have questioned whether the PSC is the relevant body to manage the NGO EMDR fund. The current structure does seem to have some fragility when it comes to EMDR proposals, especially when many applicants are also represented on the PSC. But we see the PSC as the relevant structure. The appointment of an independent PSC chair and additional administration to support the Committee's work should provide much needed strategic and policy analysis assistance. This will also be aided by an increased policy emphasis by NDRF.

We see the original two-pronged approach to EMDR being revitalised and refined to deal with two key aspects of emergency response: (i) immediate reaction and responsiveness, and (ii) emphasis on rehabilitation and development following a disaster, probably through a Block Grant type of arrangement – including for protracted emergencies. As well as these two aspects, investigating approaches to, and support for, preparedness for mitigation and management is important.

The level of funding would be set as a result of any EMDR policy developed from joint discussions between NZAID and NGOs. While no NGO has suggested uncapped funding, NGOs have identified their capacity to absorb significant additional funding, with just under 70 per cent of those accessing EMDR able to use additional funding of more than 50 per cent.

Outcomes and learning – major strides, and a strong base for refinement

Significant strides have been made in introducing a learning culture into VASS (and, to a lesser extent, EMDR). The combination of training, mentoring, self- and external review is valuable. Piloting the Participatory Impact Assessment (PIA) broke new ground and was exciting – albeit exhausting and time-intensive – for the NGOs involved.

In terms of learning, we believe that the PSC liaison role should focus on information provision, with other, more specific learning and assistance provided through other channels. CID-led training has been particularly useful and of practical help for NGOs. Although the mentoring facility is only beginning to be used, it appears to have been specifically useful to NGOs in explaining, and engaging with, the philosophy and

community development principles of VASS. Clarification of the purpose of VASS and policy clarity for EMDR should make it even more useful.

Annual reporting for Block Grant NGOs should be clarified. The current annual reporting process for project-funded NGOs is seen as constructive and useful, as are the in-depth reports for Block Grant NGOs. The institutional reviews have been valuable for individual NGOs, involving self-review and external review. They are highly rated. Shared learning from reviews among NGOs is valuable and valued. Linking to the CID training issues raised in reviews is a positive and active learning link. We see considerable potential in finding ways of communicating the information more widely, and at the same time identifying policy implications for the PSC and practical implications for the wider NGO community from individual reviews.

Dialogue with NZAID over development issues and programming implications emerging from reviews could be actively pursued and would provide another opportunity for building shared understanding and operationalising the *Strategic Policy Framework*.

The PIA pilot broke new ground and opened doorways to effective participatory approaches for identifying potential impacts and assessing results of development work. While the intensive focus on results and learning is recognised as valuable, it is unlikely to be integrated effectively into the VASS approach unless more space is created for it by reducing other requirements.

Currently, a mixture of compliance and learning in the institutional reviews is essentially mixing two incompatible purposes, and the PIA pilot has remained outside the main VASS system. We believe the next phase of learning, review and impact assessment should focus on:

- a simplified institutional review system that incorporates compliance, reporting and accountability aspects
- a separate impact assessment process focused around a 'consortium of learning' integrated into VASS. This should be voluntary, impact-focused, participatory and learning-focused; should engage partners; and be peer-based.

Recommendations

As a result of our findings, we propose an eight-point plan to:

- retain and enhance VASS (Recommendations 3-6)
- enable wide NGO engagement through the Scheme (Recommendations 7-9)
- build on VASS efficiency and effectiveness and promote further streamlining (Recommendations 10-14 and 18-19)
 - significantly develop the EMDR scheme (Recommendations 26-27)
- strengthen the PSC, management and administration of the schemes (Recommendations 20-25)
- increase funding available to NGOs, especially through VASS (Recommendations 15-17)
 - further build in learning (Recommendations 28-30)
 - strengthen links with wider NZAID issues (Recommendations 1-2).

The Recommendations that follow are grouped under these eight themes, and as a result do not always appear in the same order as they occur in the main text of the report.

Retain and enhance VASS

Recommendation 3

VASS should be retained as a separate funding scheme, and its overarching purpose should be clarified and agreed by NZAID and the NGO community.

We recommend that VASS's interlocking purpose should be along the lines of:

- funding New Zealand NGOs' overseas community development that is addressing poverty and injustice and is based on best practice development principles
- supporting the continuation and development of a strong and effective New Zealand NGO sector involved in international development with good overseas partnerships
- building partnerships and linkages for international development cooperation with the New Zealand community, through New Zealand NGOs.

The agreed purposes should be given prominence in descriptions of the Scheme, and used as criteria for ongoing development and improvement of the Scheme and its systems. 'Community development' should be explained and defined widely to include communities of interest and administrative communities, as well as geographic communities.

Recommendation 4

The Scheme should be renamed with a more descriptive title, reflecting its agreed purposes.

Recommendation 5

In redeveloping VASS and implementing the package of recommendations arising from this evaluation, consideration could be given to incorporating three funding pathways (individual project funding; Block Grant delegated project funding; and Block Grant delegated programme funding).

Recommendation 6

As Block Grants move routinely to a multi-year and programme basis, this should open opportunities for short VASS agreements that recognise the respective objectives and

values of VASS and the NGO, the contributions that each party will make, and the commitment to ongoing monitoring, accountability, learning and lesson-sharing.

Where appropriate, over time, the feasibility should be investigated of these VASS agreements being expanded, with the agreement of both the NGO and NZAID, into a 'framework' agreement dealing with the NGO's wider relationships across NZAID, at a funding, programming and policy issues level.

Enable wide NGO engagement

Recommendation 7

The limit of two Partnership for Development grants with respect to the one relationship should be lifted, but greater scrutiny should be given to applications with respect to the rationale, feasibility and value for money of third and subsequent applications, and taking into account the number of partnerships being developed by the NGO.

Recommendation 8

NZAID should continue its efforts to increase engagement of NGOs from Maori, Pacific and other ethnic communities in international development cooperation. These efforts should be more clearly linked with a pro-active and strategic approach engaging the wider New Zealand NGO community, as well as other stakeholders.

Recommendation 9

NZAID should explore opportunities for funding volunteer-sending activities that have the capacity to meet appropriate programme priorities, standards and criteria. This could include working with existing volunteer-sending organisations, such as VSA, in exploring mentoring or advisory roles.

Build on efficiency and effectiveness

Recommendation 10

The cap on VASS contributions to Administration support should be increased to at least 8 per cent for large users of VASS, and a graduated scale should be developed with several steps so that the cap for small users is up to at least 16 per cent.

Recommendation 11

The *VASS Handbook* should be updated urgently and systems put in place to ensure that it maintains currency and accessibility at all times, such as through a planned web-based version in addition to hard copy *Handbooks* and updates.

Recommendation 12

New Zealand NGOs need to use the *Risk and Innovation Policy* more confidently, where relevant. VASS needs to assure NGOs that, where they have specifically identified a project as being of high risk, where the *Risk and Innovation Policy* is followed and reasonable steps are taken to minimise or mitigate potential risks, less than satisfactory outcomes from the project will not in themselves jeopardise the NGO's current or future Block Grant status or future project funding.

Recommendation 13

A specific review should be undertaken of the impact of VASS reporting and other requirements on overseas partner organisations, with a particular focus on those

considered to be 'non-VASSable' because of difficulties in meeting VASS reporting and other requirements for otherwise eligible projects. 18

Recommendation 14

A specific review should be undertaken of small, regular project users of VASS to determine why they have not chosen to seek Block Grant status, what would make it easier or more desirable for them to do so, and, if they remain on project funding, what could reduce compliance costs for them without undermining accountability and quality assurance for VASS.

Recommendation 18

The current VASS Guidelines on *Responsibility for Proper Use of Funding* should include an obligation on New Zealand NGOs to lay a complaint with the New Zealand Police if any VASS funds are stolen or embezzled.

Recommendation 19

Eligibility for acceptance of a VASS Profile should include an explicit requirement for an effective and independent governance structure.

Significantly develop EMDR scheme

Recommendation 26

The time is ripe for a jointly discussed NGO/NZAID approach to EMDR funding, within which:

- a more clearly and fully defined set of goals for humanitarian assistance should be developed that finds the common ground and shared principles between NGOs and NZAID, and builds on NZAID's *Conflict Prevention and Peace Building Policy* and CID's position paper on *Conflict Transformation* (2004)
- the different contexts and consequent roles of NGOs, NZAID, the military, international agencies, consultants and other players should be identified
 - the levels of funding (or means of establishing funding levels) should be determined.

Given the increasing attention that NZAID will be giving to EMDR, the emerging strength of NGOs' knowledge of emergency and natural disaster management and rehabilitation, New Zealand NGOs' connections with international NGO networks, and the likely greater emphasis on policy development by the NDRF, there should be joint discussions around the shared principles that underpin NGOs' and NZAID's policies. These can be explored and form the basis of a common understanding. This approach would be consistent with the *Strategic Policy Framework for Relations between NZAID and New Zealand NGOs*.

Recommendation 27

The time is also ripe to update the design of the funding scheme itself. NZAID, the EMDR PSC and the NGO community, through NDRF, should investigate options to re-develop EMDR around a scheme focused on (i) immediate reaction or responsiveness, (ii) preparedness for mitigation and management, and (iii) rehabilitation and development following a disaster. Specific steps include:

- identifying appropriate funding levels in line with policy directions and common understanding, including connecting NGO funding with organisational capacity and the strength of the in-county partner capacity and delivery mechanisms
- strengthening and clarifying criteria, guidelines and forms, with an emphasis on 'fitting them for purpose', on relationships with local partners, and on their capacity
 - incorporating the role of NGOs involved with partners in protracted emergencies

- fostering learning, partnership and local capacity building
- the development of tools to assist decision-making, which in turn will assist with transparency of decision-making and understanding of the decisions made by the PSC
- investigation of (i) responsive funding for immediate emergencies and (ii) some form of “block grant” arrangement, plus individual project grants, including capacity building of both NGOs and NZAID, covering assessment, quality initiatives, evaluation/learning processes
- appropriate administration and AM&E funding for New Zealand NGOs that essentially shifts the role of the New Zealand NGOs with EMDR from being post boxes to active partners. Levels could be consistent with those for VASS.
- developing a stronger EMDR role within the renamed PSC and a more explicit relationship with the NDRF.

Strengthen PSC

Recommendation 20

The liaison role of PSC members should be simplified to focus exclusively on information giving, with separate mentors engaged to work with those NGOs needing more intensive support or assistance.

Recommendation 21

Staffing and administrative support should be increased immediately to at least 1998 levels. Under current circumstances, that would require increasing the VASS administrator position to the equivalent of full-time. A formal scoping exercise should then be undertaken to assess current and medium-term support needs for the PSC realistically, based on incorporating additional analytical, external communication and administrative support.

Recommendation 22

The title of the PSC should be changed to be more descriptive of its full range of roles, as a management committee or board for the (renamed) VASS and EMDR.

Recommendation 23

An independent chair should be appointed who can play an internal PSC chairing role and a public role in fostering understanding of VASS and EMDR, within the NGO community, across NZAID, and with other stakeholders. This role should be based on agreed position qualities and attributes, and should be appointed through a process that reflects the partnership between NZAID and the NGO community.

Recommendation 24

An induction process should be designed and implemented for new PSC members, to ensure clarity of purpose, role, tasks and relationships from an agreed common base. At the same time, a process for succession planning should be established to plan for PSC membership choice and continuity – including facilitating smaller user participation.

Recommendation 25

Active steps should be taken to communicate about VASS and EMDR, particularly to ensure clear and consistent information about the purposes of VASS, and updated information on issues, trends, decisions and learning. A coherent package of simple information and communication approaches should be developed.

Increase funding available

Recommendation 15

Project and programme funding limits under VASS should be lifted to \$160,000 p.a. for project-funded NGOs; and it should be clarified that a global limit applies for multi-year projects/programmes (based on the duration of the project/programme multiplied by the annual limit).

Project and programme funding limits should be removed for Block Grant NGOs able to operate effectively within their Block Grant limit.

Recommendation 16

NZAID should actively pursue multi-year appropriations for VASS and other NGO funding schemes. In the meantime, VASS should make staggered three-yearly allocations available to all eligible Block Grant NGOs, subject to appropriations of the Parliament and continued satisfactory performance.

Recommendation 17

NZAID should plan for further substantial increases in VASS allocation, in line with NGO capacity to disburse funds effectively in accordance with VASS criteria. It is estimated that this could represent as much as a 50-75 per cent increase over the next three to five years.

In order to achieve orderly and effective absorption of increased funding:

- NZAID should urgently seek multi-year funding for VASS and other NGO programmes, as per Recommendation 16, or at least a planned forward commitment over a three- to five-year period, on a phased basis with a gradual start-up.
 - The co-financing ratios for all VASS projects should be increased to 4:1.
- Individual project and programme caps should be lifted, as per Recommendation 15.

- NZAID and the NGO community, through CID, should establish a more pro-active, collaborative approach to workforce planning, and VASS should continue to invest substantially in capacity and learning for the sector.

As any special financial incentives are removed for *Gender and Development* and *Capacity Building* projects, the PSC should invest in pro-active strategies to further promote gender equity and capacity in all projects (e.g. through training, mentoring, policies, highlighting good practice, etc.), and should monitor carefully and closely the impacts of the change in ratios.

Build in learning

Recommendation 28

Block Grant annual project reporting (using the VASS 5 form) should be simplified to report on whether or not the programme or project is 'on track' and to raise issues of concern or relevance with the PSC over fulfilling goals and objectives or meeting VASS criteria.

In-depth reports should be used if the PSC has issues of concern about adherence to project/programme goals and objectives or to VASS principles and criteria.

Recommendation 29

Simplified institutional reviews should be established that focus on assuring systems are in place to meet VASS requirements and adherence to VASS principles. These should be based solely within the New Zealand NGO, unless further investigation is requested by the PSC on the recommendation of the NGO or the review team.

Recommendation 30

On a regular and ongoing cycle, opportunities should be provided for New Zealand NGOs and their partners to engage in supported and funded learning consortia. These could use PIA or similar methodologies, but must be designed to meet the six essential features identified by this evaluation (voluntary, focus on impacts, participatory, focus on learning, engage partners, peer-based).

Strengthen wider NZAID links

Recommendation 1

NZAID, CID and the wider NGO community should examine the current arrangements for national and other joint meetings, with a view to ensuring an adequate balance of opportunities for pro-active discussion of policy, strategy and programming issues of concern to both NZAID and NGOs.

Recommendation 2

The planned development of guidelines for transparency and consistency in New Zealand NGO access to NZAID funding is a high priority and should be a comprehensive review. This review should focus on the operation of NGO funding (actual and potential) across NZAID, with the aim of improving consistency and transparency, and identifying and building a 'constructive space' for easier strategic alignment between NZAID and NGOs around areas of shared objectives.

1. Introduction

The overall purpose of this evaluation is to ensure that New Zealand non-government organisations (NGOs), working internationally, are able to access the Voluntary Agencies Support Scheme (VASS) funding in a transparent and consistent manner.

A major evaluation of VASS was undertaken in 1998. The report (Clark *et al.*, 1998) included the following findings:

- i. VASS was a sound system, with many features of international best practice.
- ii. VASS was basically well designed for its purpose, ran on very lean administrative costs and was well regarded by New Zealand NGOs and their partners in developing countries. The partnership basis of VASS was rated particularly highly, as was the servicing by the Development Cooperation Division of the Ministry of Foreign Affairs and Trade. The peer-based Project Selection Committee (PSC) was seen to work well and was recommended to be retained.
 - iii. Areas suggested for improved performance included:
 - streamlining procedures and reducing compliance costs
 - improving flexibility to respond to changes
 - facilitating multi-year and programme approaches
 - encouraging a greater focus on capacity building and institutional strengthening
 - increasing the support provided by Development Cooperation Division to enhance the capacity of New Zealand NGOs
 - replacing the Women in Development requirements with a gender-based approach.
 - iv. VASS should be retained as the core vehicle for supporting an independent international development NGO sector and its annual allocations should be substantially increased in line with demonstrated NGO capacity to utilise funds within the criteria effectively.
 - v. Block grants should become the norm for NGOs that regularly use the VASS and have a primary focus on international development, thus reducing the transaction costs for both NGOs and the Development Cooperation Division.

- vi. There should be greater consistency between the standards and treatment of NGOs across the aid programme, especially as NGOs increase their funding outside of VASS.
- vii. An overall strategic policy framework should be developed in collaboration with the NGO sector.
- viii. Pro-active steps should be taken to broaden the base of organisations accessing the VASS and therefore increasing opportunities for New Zealand community involvement in NZODA.
- ix. A specific window for disaster and emergency relief should be established and there should be an increase in, and broadening of, the current allocation to VSA [Volunteer Service Abroad] so that other volunteer-sending organisations could apply for support from NZODA.
- x. Steps should be taken to enhance learning and documentation, and dissemination of experience, without compromising accountability. This included the development of an impact assessment approach. The ties between compliance and learning were too closely connected with Block Grant status.

The recommendations from the evaluation were taken seriously by the Development Cooperation Division and the PSC, with most being implemented partially or completely.

A Strategic Policy Framework for Relations between NGOs and the Development Cooperation Division was developed in 2000. All of the suggested alterations to the VASS itself were implemented. Those not acted on as yet include NZAID's consistency of approach to NGOs, broadening of the current allocation to VSA so that other volunteer-sending agencies can apply for support from NZAID, and completely separating compliance monitoring from learning and evaluation. Progress on implementation for each of the 1998 report's recommendations is summarised in Appendix 2. Where relevant, specific recommendations and progress on their implementation are noted in sections 3-6 of this report.

Between the 1998 evaluation and the current evaluation, NZAID was formed. The formation of the Agency was a significant undertaking, and while it slowed implementation of some of the 1998 evaluation's recommendations it has also provided an environment for a deeper understanding of the role and place of NGOs.

The present evaluation has four objectives:

1. Assess the progress made in implementing, and effectiveness of, the recommendations from the 1998 VASS evaluation, with particular attention to new initiatives implemented as a result of the evaluation.
2. Review the rationale, purpose, and structure of the VASS and Emergency and Disaster Relief (EMDR) funds to ensure that they are consistent with policy of the New Zealand Agency for International Development (NZ Aid) and the *Strategic Policy Framework for Relations between NZ Aid and New Zealand NGOs*, and that they engage NGOs constructively in New Zealand's total development effort.
3. Assess all aspects of the management and administration of the VASS and various VASS funding streams and the EMDR, with a view to recommending changes that will improve the development impact, transparency, accessibility, accountability, efficiency and effectiveness of the VASS.
4. Assess the capacity and capability of the New Zealand NGO community to utilise government funds and recommend whether the current funding level and mechanisms of the VASS and EMDR funds should remain the same or be modified within the NZ Aid budget.

(VASS EMDR 2004 Evaluation Terms of Reference, see Appendix 1)

In this report, following an outline of the methodology used for the earlier evaluation, we examine:

- the development of NZ Aid and its relationship with NGOs, and with VASS and EMDR in particular (section 3)
- findings and recommendations on the operation of the VASS approach, policy and system (section 4)
- findings and recommendations on the operation of EMDR approach, policy and system (section 5)

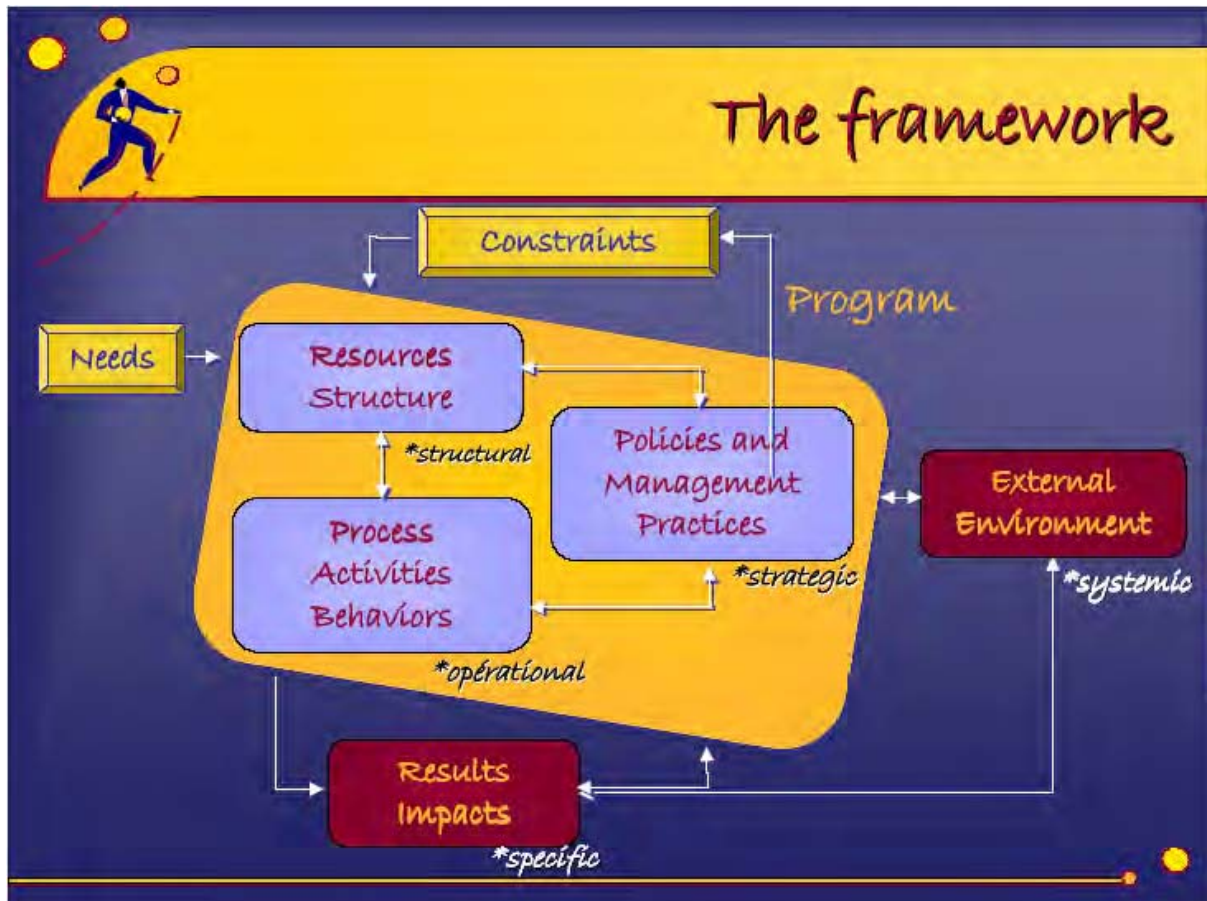
- findings and recommendations on evaluation, learning and impacts (section 6).

2. Methodology

2.1 Framework

The approach to this evaluation was informed by a framework with five main dimensions (based on Gervais, 2003):

- a *structural* dimension – for example, VASS, EMDR and PSC resources, structures, tasks, roles and relationships
- an *operational* dimension, covering activities, co-ordination, motivation and performance, fairness of methods, activities, behaviours, criteria and processes
- a *strategic* dimension, including the future focus and overview role of the PSC for VASS and EMDR, along with policies and management practices
- a *systemic* dimension, including the relationship between external environmental influences and factors (such as the creation of NZAID) and the two schemes
- a *specific* dimension around the results achieved by VASS, EMDR and the PSC and satisfaction with the services and approach of the management of VASS and EMDR.



2.2 Evaluation Management

The evaluation was jointly commissioned by the PSC and NZAID. It was undertaken by two consultants, one of whom was part of the 1998 VASS evaluation team, thus providing an opportunity for continuity and comparison. The evaluation was overseen by a steering committee of three NGO representatives (one nominated by the VASS PSC and two nominated by CID) and two (sometimes three) NZAID representatives.

2.3 Ethical Considerations

We based our approach to ethical considerations on five principles suggested by Tollich and Davidson (cited in Snook, 2003). These are:

1. First, do no harm

The issue of physical harm was not relevant to the VASS/EMDR evaluation Terms of Reference. Psychological harm, while always a possibility, was not expected to be a high risk, as the evaluation does not deal with information of a personal nature.

2. All participation needs to be voluntary

Participants were afforded multiple opportunities to contribute to the evaluation, but were not coerced to do so. Identification of individual participants (and non-participants) was not provided to parties other than the consultants.

3. Preserve the anonymity or confidentiality of participants

Individual questionnaire responses were kept strictly confidential, as were individual written submissions and individual interviews. Issues have been identified from regional consultation workshops and group interviews and comments made have been kept confidential to those in the room – although, of course, this cannot be completely guaranteed, as it is beyond the direct control of the consultants.

Given the relatively small numbers involved of both New Zealand international development NGOs and other potential stakeholders, it may be possible for some readers to identify or to believe they can identify some participants and even, in some cases, some responses or comments. Wherever possible, particular efforts have been made to 'anonymise' all comments or quotations.

It was possible for participants to make anonymous written submissions to the consultants. Complete anonymity was not promised, except in this limited situation.

4. Avoid deceit

During all data gathering processes we, as the consultants, introduced ourselves, our role and the purpose of the evaluation. The Terms of Reference of the evaluation were publicly available on web-sites and on request.

5. Analyse and report data faithfully

We were committed to reporting findings faithfully, including views or data not supporting our own conclusions. We have aimed to report accurately the full range of views and to ensure that all voices are heard.

2.4 Evaluation Steps

The evaluation involved a number of steps aimed at obtaining and using a broad range of data, experiences and perceptions in a manner that ensured cross-checking of information from a variety of sources (triangulation), and presenting and describing information and issues as they emerged in the course of the evaluation. This provided the opportunity for testing and building a shared understanding. The evaluation looked back at the past, including implementation of the 28 recommendations from the 1998 evaluation, and at potential directions for the future.

These steps were taken within the 'process' framework of:

- gathering initial information through interviews, an NGO survey and limited reference to files and the international literature
 - preliminary analysis of information, and the identification of issues emerging
 - preparation and circulation of an issues paper, for consultation with NGOs
 - further research, consultation and analysis

- the preparation of a draft working report and recommendations for discussion at an NGO/NZAID meeting
 - incorporation of feedback and finalisation of the report.

Key components of the evaluation included:

- (i) assessment of the 1998 evaluation recommendations. Of the 28 recommendations, 27 were either fully or partially implemented. A more detailed indication of action is attached as Appendix 2.

- (ii) consultation with the VASS and EMDR Project Selection Committee members, covering specific aspects of the Terms of Reference, particularly to do with the operation of VASS and EMDR; perceptions and experiences of the PSC with VASS and EMDR; and changes in the external environment. We also met to discuss draft findings. PSC members participated in regional consultation workshops based around the issues paper, and the national NGO/NZAID workshop to discuss draft findings.
 - (iii) a questionnaire to New Zealand NGOs, designed to identify:
 - the development impact of VASS and EMDR
 - operational experience with the schemes and clarity of communication from the PSC
 - structural and systemic issues in relation to the schemes
 - funding issues and NGO capacity
 - the impact of changes since the 1998 evaluation – including the pilot impact assessment
 - developments since the creation of NZAID
 - options for future development.

One hundred and twenty two questionnaires were emailed to a list of NGOs on VASS, CID and NZAID mailing lists. There were 25 responses. While this seems at first glance to be a small response, it represents just under 50 percent (25 out of 52) of the NGOs with approved Organisational Profiles, and all but one of the eight Block Grant NGOs [1].

(iv) consultation with individual New Zealand NGOs and two consultants associated with NGOs. This was undertaken in a variety of ways:

- gathering information to help design the questionnaire. This was especially for the EMDR aspects of the questionnaire, as EMDR was a new funding scheme introduced as a result of the 1998 evaluation. Five NGOs were involved.
- providing an open door for NGOs to contact us about issues of their choice in relation to the evaluation. Eleven NGOs requested interviews. This was frequently followed up with email and phone contact by the NGOs.
 - clarifying issues and accuracy of information on a one-on-one basis.

(v) meetings with NGO groupings. This was undertaken through:

- two meetings with the NGO Disaster Relief Forum (NDRF), at the beginning of the evaluation and to discuss draft findings
- attendance at three NZAID/NGO regional meetings (in Auckland, Wellington and Christchurch) to introduce the evaluation and to hear about key issues for NGOs
- discussion of the issues paper in three regional consultations in August 2004 (in Auckland, Wellington and Christchurch) to discuss emerging findings part way through the evaluation. These workshops involved 41 participants representing 23 NGOs and two staff members of NZAID. (Several NGOs participated that had neither requested interviews nor completed questionnaires.)
- the presentation of, and consultation over, draft findings and recommendations to a national NZAID/NGO workshop in October 2004. This involved approximately 50 NGO and NZAID participants.

(vi) consultation with NZAID staff. This involved two round-table meetings of five and nine staff, five individual interviews and contact over specific issues and information, especially in relation to

NZAID's development, policies and strategies, experiences with, and perceptions of, VASS and EMDR.

- (vii) discussions with CID staff over EMDR issues, because of the administrative role for NDRF provided by CID and the VASS-related training and mentoring services provided by CID as a result of implementing 1998 evaluation recommendations.

- (viii) consultation with Marion Quinn and Kevin Clark, because of their external review role for four years after the 1998 evaluation and their leadership of the Participatory Impact Assessment pilot. This explored issues arising from the reviews and the pilot.

- (ix) consultation with the PSC administrator, Claire-Louise McCurdy, over a number of issues related to the evaluation, including her experience in the relatively recently created position, and to obtain data and information around VASS and EMDR NGO applications and approvals.

- (x) a review of selected PSC files and reviews. These were selected to ensure coverage of:
 - PSC minutes, decisions and correspondence
 - NGOs that have applied for project funding
 - Block Grant NGOs
 - a selection of the institutional reviews that have been undertaken in the past five years
 - reports on *Lessons Learned from the Institutional Reviews*
 - the range of reports prepared for, and about, the Participatory Impact Assessment pilot.

We also turned frequently to the *VASS Handbook* and the EMDR guidelines to help design the questionnaire and to check our understanding in relation to questionnaire responses and interviews. This reference to the *Handbook*, after interviews and discussions with NGOs, alerted us to the absence of a written definition of the VASS as a community development scheme for New Zealand NGOs involved in international development.

- (xi) the offering of an additional opportunity for written submissions to the evaluation. We received four.

- (xii) exploration of literature. The initial scope for the evaluation intended limited reference to international development literature regarding NGO schemes, or to New Zealand NGO/government relationship developments. The scope of the evaluation broadened as a result of questioning, from within the NGO sector and NZAID, about the fundamental basis of VASS and of the way in which it is operating. This required us to explore more fully literature around other models of international development NGO funding schemes, in order to assess more clearly the role and place of VASS; and to draw on frameworks for assessing operational and management effectiveness, and learning organisation approaches.

Levels of engagement in the evaluation process were high. Through the variety of methods used, approximately 70 per cent of those NGOs with approved profiles and all NZAID staff with a direct or indirect role relevant to VASS and EMDR were engaged in the evaluation.

3. NZAID: its Development and Role in Relation to NGOs, VASS and EMDR

3.1 Introduction

This section of the report looks at the formation of the New Zealand Agency for International Development (NZAID). It identifies policies that have been developed, and strategies and policies that are in the process of development. It also comments on the *Strategic Policy Framework for Relations between NZAID and NGOs*. In relation to this overarching Framework, the section refers to initiatives taken and arrangements made with NGOs. VASS and EMDR are two such arrangements.

The section does not set out to evaluate the relationship between NGOs and NZAID. The regular assessment of the *Strategic Policy Framework for Relations between NZAID and NGOs* is the appropriate place for such an evaluation. We are also aware that Development Assistance Committee (DAC) [2] and ministerial reviews were to be

undertaken in the latter part of 2004. These reviews will no doubt address the nature of the relationship between civil society and NZAID and its utility in addressing the Millennium Development Goals and assisting the implementation of the NZAID Policy Statement, *Towards A Safe and Just World Free of Poverty*. Rather, this section discusses NZAID developments that are relevant to NGOs, as a way of providing information on the current context in which VASS and EMDR operate and in order to identify some of the changes since the 1998 VASS evaluation.

In looking at both the *Strategic Policy Framework for Relations between NZAID and NGOs* and policy developments, this section addresses relevant aspects of Objective 1 of the evaluation – to identify the status of the 1998 evaluation recommendations – and aspects of Objective 2, namely the connections between VASS and EMDR and NZAID's policies. Objective 4 of the Terms of Reference specifically requests progress to be identified in addressing issues of transparency, consistency and accessibility in relation to non-VASS and EMDR funding windows. This aspect of Objective 4 is also addressed here.

3.2 NZAID's Development

3.2.1 NZAID's formation

The formation of NZAID in 2002 as a semi-autonomous body within the Ministry of Foreign Affairs and Trade (MFAT), following an external review, has brought significant change (NZAID, 2001). The external review identified, among other things, the lack of policy foundation for New Zealand's Official Development Assistance (ODA). It also specifically noted the positive relationship of the Development Cooperation Division within MFAT with NGOs, and the value of VASS. Since its establishment, NZAID has focused on professionalising the organisation, strengthening Wellington and offshore capability (including recruiting 70 per cent new staff [3]) and on developing clear strategic and policy directions with partners. NZAID's geographical focus is primarily on the Pacific, but it also supports work in Asia, Africa and Latin America. It has also developed a number of 'assessment frameworks' for clarifying priorities and reducing what was previously relatively widely spread funding (NZAID, 2003). Such focused attention in developing a dedicated international development government agency has not happened before in New Zealand.

3.2.2 Policies

NZAID's cornerstone policy is *Towards a Safe and Just World Free of Poverty* (NZAID, 2002). This focus on poverty elimination provides the direction for all other policies and strategies. In *Towards a Safe and Just World Free of Poverty*, NZAID identifies the outcomes it is looking for – those that will fulfil basic needs, sustain livelihoods and develop safe, just and inclusive societies. NZAID says it will look to the long term and measure results and effectiveness. It aims to be transparent and inclusive in its processes and to recognise the major contribution made by civil society. Many of the principles in this policy reflect and draw on the principles of VASS [4].

NZAID's *Human Rights Policy* defines basic human rights as including not only life, liberty, personal security and dignity, but also education, work, social security and a sufficient standard of living. NZAID is integrating human rights into all programmes and procedures, incorporating a specific focus on the human rights of women and girls.

NZAID has worked with the New Zealand Human Rights Commission to foster consistency with the human rights focus being developed domestically. The *Human Rights Policy* notes that programmes such as VASS are expected to integrate human rights principles and obligations into criteria and assessment processes.

In NZAID's recently developed policy *Harnessing International Trade for Development*, NZAID specifies priorities within a context of trade contributing to reducing poverty.

NZAID is committed to addressing the special needs of least developed countries, landlocked countries and small island developing states, and to supporting poverty elimination strategies through trade-related programming. NZAID and its predecessor have had a long-term policy dialogue and funding relationship with Trade Aid, an NGO that promotes alternative trading relationships to secure sustainable livelihoods.

Refocusing NZAID's approach in the education sector has been a major area of debate and development for NZAID. The policy *Achieving Education for All* spells out NZAID's commitment to delivering basic education to its core partner countries, maintaining support for education up to tertiary level, and supporting initiatives that improve access for women and girls. NZAID intends to ensure that education continues to make up around a third of its total overseas development budget. Within education spending it is looking to increase funding for basic education to around half of its total spending.

Because basic education is connected more strongly with the needs and resources of communities, the policy is likely to have a number of implications, including a stronger

understanding by NZAID staff of community needs and circumstances in partner countries.

From these policy directions a few key issues are emerging for New Zealand NGOs, especially around the emphasis on women and girls in education and human rights and the overall emphasis on assessing impact and achieving measurable outcomes from programme assistance. Inherent in the implementation of the policies and in the professionalisation of NZAID are: the increased 'on the ground' knowledge and awareness that NZAID has of partner country and regional circumstances and issues; stronger direct relationships with in-country NGOs; and more sector and country information to bring to the table in discussion with New Zealand-based international development NGOs.

A number of other sector policies are being either developed or reviewed, such as a *Health Policy*. In addition, regional and country strategies are in varying stages of development. The *Asia Strategy* has been approved by ministers, the draft *Latin America Strategy* is out for consultation, an interim *African Strategy* has been prepared and a draft *Pacific Strategy* was expected to be finalised by the end of 2004. The NZAID policy on *Building Peace and Conflict Prevention* has been approved by ministers following external consultation, including with New Zealand NGOs. NGOs have been consulted and have at times been on reference groups for the development of strategies, for example in the development of the *Asia Strategy* and the *Health Policy*.

Country strategies undertaken in the last few years have not only involved consultation with NGOs but have recommended significant engagement of civil society in country programme priorities. The *Environment* and *Gender Policies* will be reviewed and updated in 2005. NZAID plans that NGOs will be consulted in the formation of these policies, consistent with agreements in the *Strategic Policy Framework for Relations between NZAID and NGOs*.

NZAID's Five Year Strategy

NZAID has recently produced its *Five Year Strategy: 2004/05 to 2009/10* (NZAID website). This strategy identifies clearly its intended directions, especially in the context of changes in international development since the adoption of the Millennium Development Goals (MDGs) and the Monterrey Consensus [5] decision to increase aid

flows significantly over the next five years. The MDGs and the Consensus have consolidated an emphasis on outcomes and development impact, harmonisation and participation.

The Strategy is framed within three outcome areas of *development impact, engagement and agency capability*. The Strategy gives a clear indication of sector priorities. It also refers explicitly to:

- building government and civil society capacity to engage effectively with each other and support policy dialogue processes
- the *Strategic Policy Framework for Relations between NZAID and New Zealand NGOs* as the underpinning for engagement with civil society groups.

Both aspects are important, with greater civil society engagement with MDGs emerging internationally.

Processes for developing strategies and policies, as well as the stated intentions within the resulting documents, reflect a strong will to engage with NGOs. This commitment was evident from the beginning of NZAID's development, when NGO members were represented on an external reference group set up to advise on the establishment of the Agency. The importance of NGO experience was recognised in the recruitment approaches of the new Agency; and the recently established ministerial advisory group – the International Development Advisory Committee (IDAC) – includes a number of NGO sector leaders appointed by the Minister. Further, the orientation course for new NZAID staff includes presentation of information by New Zealand NGOs.

3.3 Relationship with NGOs

The *Strategic Policy Framework for Relations between NZAID and NGOs* (the Framework) is the overarching agreement signalling the nature and quality of relationships between NZAID and NGOs. Development and relationship principles are outlined within the Framework and include key building blocks of:

- shared commitment to strengthening of the NGO sector – strategic funding and capacity building
 - agreed mechanisms for policy development and sharing of experience and information
- diverse funding mechanisms to support NGOs' own activity, based on shared principles with NZAID
 - support to in-country NGOs reflecting regional and country programme priorities.

These are referred to throughout the remainder of this section of the report.

The 1998 evaluation of VASS recommended that a strategic partnership be developed and formalised between the NGO sector and the then Development Cooperation Division of MFAT. This was acted on quickly. It was prepared before the *Government Statement of Intentions for Improved Government and Community Sector Relationships*, which signalled the importance of developing collaborative and respectful relationships between government and NGOs (Ministry of Social Development, 2001). The essential elements of a strategic partnership were developed between MFAT and NGOs during 1999 and in 2000 the Framework was signed by the Minister of Foreign Affairs and Trade, the Development Cooperation Division and the Council for International Development (CID) on behalf of NGOs. This was updated in 2004.

In many ways the Framework grew out of relationships fostered through VASS as a funding mechanism and CID as the umbrella organisation for development NGOs. Now it acts as the strategic framework within which sit VASS and other arrangements between NZAID and NGOs. It is based on shared development principles, a number of relationship principles (such as mutual respect, dialogue and recognition of independence of the NGO sector), and agreed undertakings, separately and together. Development education is specifically identified as a common focus for NZAID and the NGO sector. This is reflected in a funding and strategic partnership arrangement with the Development Resource Centre (DRC).

The 2004 update includes the principles underpinning funding agreements between NZAID and New Zealand NGOs and processes for policy and strategy engagement between NZAID and international development NGOs.

The Framework is often seen as a model [6] for NGO-government relationships for the domestic New Zealand NGO sector and as having been at the leading edge of government and non-government relationships. It is not a legally binding contract; its authority is derived from its endorsement by NZAID and the NGO sector. This has occurred at a time when domestic developments within New Zealand are beginning to focus more on partnerships between NGOs and government, whole-of-government approaches and 'joined-up' funding. The concept of 'cross-registering' of NGOs between departments is also being explored. This is happening at the same time as international discussion is increasing about the role and added value of NGOs to the aid and development chain, and NGOs are more frequently at the policy advice tables of large inter-governmental agencies (Smillie and Helmich, 1999).

NZAID and CID will jointly review the Framework this year, as part of a regular assessment. This will be a useful opportunity to take stock of the nature and quality of the relationship. It is not the place of the VASS and EMDR evaluation to look at these issues.

Nevertheless, the evaluation was a useful time to gauge the impact, if any, of the Framework – and indeed the creation of NZAID – on New Zealand NGO and NZAID relationships. Those replying to the questionnaire overwhelmingly considered the Framework had strengthened relationships between New Zealand NGOs and NZAID.

They also considered the formation of NZAID had made a positive difference to development NGOs in New Zealand, although this response was not as powerfully strong as it was to the value of the Framework.

During discussions for this evaluation, some NZAID staff identified embedding of the Framework within NZAID's operations as a priority for the next year. This evaluation does not assess levels of awareness of the Framework, nor its implementation within NZAID. The stocktake carried out between NZAID and CID is the appropriate place for this. Nevertheless, it is interesting to note that a number of actions taken by NZAID reflect the essential nature of the Framework, even if they do not all directly and explicitly arise from it. The examples below arose from discussions with either New Zealand NGOs or NZAID staff during the course of the evaluation:

Fostering and reinforcing existing NZAID and NGO sector relationships

- Regular meetings between NZAID and CID, and engagement on issues specifically relevant to the New Zealand international NGO community, such as NZAID direct funding of development country NGOs

- Attention from senior NZAID staff to NGO issues and attendance/participation in NGO/NZAID meetings
 - An open invitation to NGOs to contribute to draft NZAID policies.

(These flow out of the agreed mechanisms for policy development and sharing experience referred to in the Framework.)

Regional and country-based civil society strategies

- Specific focus on engagement with civil society in country strategies, such as Solomon Islands, Papua New Guinea and Indonesia. Some of these are referred to later in this section.

Informing NGOs of other funding windows

- NZAID workshops with NGOs on the Latin America Development Assistance Facility (LADAF) and the Asia Development Assistance Facility (ADAF).

Working with the strengths of NGOs

- NZAID channelling advice from Christian World Service about key gaps in the Sri Lankan Poverty Reduction Strategy (PRSP) to the New Zealand director on the Board of the World Bank, who in turn could raise issues from a well informed basis as a strategic intervention at the relevant World Bank Board meeting.
- NZAID's Global Group, working with Save the Children New Zealand as a broker and monitor of programmes in West Timor because of the 'on the ground' relationships of the NGO. NZAID chose to work with this New Zealand NGO because of the 'added value' of their long-term relationship and their ability to provide support, mentoring and monitoring, a voice for the programme in New Zealand and commitment to the programme beyond the funding period.

The Framework is highly valued by the NGO sector, as are the initial steps in implementing it, including NGO/NZAID forums as part of agreed mechanisms for sharing information. These preceded the Framework, which in turn reinforced such forums. NGOs report favourably on increased recognition, engagement and consultation.

We have been interested, however, to find that opportunities for communication in ways that foster mutual exploration of international development and programme issues have been fewer in the last few years. For example, at the time of the 1998 evaluation there were twice-yearly national two-day meetings between the Development Cooperation Division and NGOs. Last year there was a single, one-day national meeting. In part this may be compensated by the half-day regional NZAID/NGO meetings; but there are different NGO representatives at different regional meetings, and while information provision might have increased, the capacity for in-depth discussion appears to have been reduced. This has also been largely because of the hectic pace involved in NZAID's development and the changed nature of NZAID's role to one of actively developing its own philosophy, principles, policies and strategies. This has always been done in consultation with New Zealand NGOs, but has meant essentially that New Zealand NGOs' engagement has often been reactive and based on contributing to NZAID-driven agendas.

This has been a necessary phase in NZAID's development and one recognised by New Zealand NGOs. For the latter it has also increasingly meant insufficient time for in-depth discussion. They are keen now to move from responding to NZAID's consulting initiatives to a 'constructive space' of debate and discussion around shared NZAID/NGO priorities or NGO sector 'development issue' and programme priorities, including those that emerge from VASS and EMDR experience. NZAID staff have indicated that they too want to reactivate such opportunities.

It is our finding that:

the *Strategic Policy Framework* is seen as valuable and appreciated by the NGO sector

NZAID's fast-paced and much welcome development has produced good opportunities for NGO consultation on NZAID directions and policy, but this has, understandably, been predominately reactive

the decision by NZAID to find ways of embedding the Framework within the operations of the Agency is important.

We believe the time is right for NZAID and the NGO sector to create a 'constructive space' in which to discuss development questions that relate to sector and programming issues for poverty elimination and are driven equally by NGOs and NZAID. This would provide an ideal opportunity for lessons learned from VASS and EMDR experience to be incorporated into a wider environment.

Recommendation 1

NZAID, CID and the wider NGO community should examine the current arrangements for national and other joint meetings, with a view to ensuring an adequate balance of opportunities for pro-active discussion of policy, strategy and programming issues of concern to both NZAID and NGOs.

3.4 NZAID's Funding Arrangements with New Zealand NGOs

The variety of funding arrangements between NZAID and New Zealand NGOs includes:

- VASS and EMDR
- strategic partnership agreements between NZAID and New Zealand NGOs
- contestable funding windows that New Zealand NGOs can access.

These opportunities for engagement with NZAID programme priorities and opportunities for access to funding are discussed in the sections below. VASS and EMDR are the focus of this overall evaluation and are therefore addressed in the following sections of the report.

New Zealand NGOs can also access funding through bilateral programmes. Increasingly, bilateral funding will be driven by country strategies jointly agreed between NZAID and the partner government (NZAID, 2003). Indigenous individual NGO and umbrella NGO

organisations also have access through the bilateral arrangements. These aspects are commented on in section 3.5.

3.4.1 VASS and EMDR

At approximately \$11 million a year out of an estimated \$22 million allocated to New Zealand NGOs, this is one of the largest areas of NGO expenditure for NZAID [7].

3.4.2 Strategic relationship agreements

NZAID has entered into a series of four-year strategic relationship arrangements with key NGOs: CID, Volunteer Service Abroad (VSA), the Development Resource Centre (DRC) and Trade Aid. These arrangements include funding support that covers core costs, policy engagement and capacity building, and are premised on common objectives and interests.

Funding levels for 2004/05 are:

- \$0.524 million to CID as the international NGO umbrella organisation (There has been increased funding to CID to enhance its operation and to provide training and mentoring, as a result of recommendations in the 1998 VASS evaluation.)
- \$1.115 million to the DRC, for raising awareness of international development issues and education on global issues
 - \$6.1 million to Volunteer Service Abroad, the major volunteer-sending NGO
 - \$0.643 million to Trade Aid, for support of alternative trading activities.

These are all non-government organisations that have a broad and overarching role in relation to development issues, and of which there are no other NGOs filling a similar niche in New Zealand. All key strategic relationships with New Zealand NGOs have had new negotiated agreements since the 1998 evaluation, based on identification of common interests and priorities (NZAID, 2003). The Red Cross is in a unique position because

there is a legally mandated relationship between governments and the International Red Cross, flowing from the Geneva Convention.

3.4.3 NZAID contestable funding windows

NZAID also offers a range of funding windows that New Zealand NGOs can access. The 1998 evaluation noted that some New Zealand NGOs were beginning to access a range of funding other than VASS, but that VASS was seen by most NGOs as the only source of funding. In 1998, about a third of New Zealand NGOs accessed other funding windows, while another third did not believe they had eligible projects.

The survey for this evaluation also asked if NGOs were accessing other windows. These were: bilateral funding, the Africa NGO facility, the Asia Development Assistance Facility (ADAF), Pacific Education, Pacific Environment and Pacific Health Programmes, the Pacific Law and Justice Programme and the Pacific Good Governance Programme [8], and the Global Good Governance Programme.

In responses to survey questions, most of the Block Grant NGOs identified that they are accessing some type of contestable funding window in addition to VASS. Global Good Governance and the Africa NGO Facility were the most frequently accessed: five of the seven Block Grant NGOs that responded to the questionnaire had applied to these. ADAF is the next most commonly accessed, with three Block Grant NGOs applying; one applied to the Pacific Good Governance Programme. The other Pacific regional programmes are barely accessed. Block Grant NGOs knew about most of the windows; the most frequent reason for not applying was not having any eligible projects.

These other funding windows are used less by the 14 non-Block Grant NGOs who responded to the questionnaire. Two of these mostly smaller users had applied to Global Good Governance; one also applied to ADAF. While four of the NGOs did not know about the programmes, most did, and the most frequent reason for not applying was that VASS met all their needs (four responses) or they did not have eligible projects (three responses).

Three Block Grant and three non-Block Grant NGOs also identified that they are operating projects or programmes through bilateral programmes. Projects or programmes are also being operated through bilateral NZAID-country programmes by NGOs who did not respond to the survey.

The questionnaire responses do not cover the potential full range of New Zealand NGOs accessing funds. Examining wider use of the opportunities is a separate exercise, worth undertaking. For example, ADAF is being reviewed separately by NZAID. Gaining a greater understanding of New Zealand NGO knowledge, access, use and experience will be valuable in the review.

It is clear that the 1998 pattern of greater use by Block Grant NGOs remains true today. But the majority of NGOs replying to the questionnaires in 2004 now know about the funding windows – more than was the case in 1998. This increased knowledge was designed, not accidental. As part of CID's additional funding from NZAID for New Zealand NGO capacity building and training, CID and NZAID organised workshops on the range of NZAID funding windows overall, and in particular ADAF and LADAF in 2003 (CID Annual Report, 2003).

3.5 NZAID Groups and Programme Funding

Within NZAID there are two main programme groups – the Global Group and the Pacific Group. There is also a Strategy, Advisory and Evaluation Group (SAEG). Each carries different responsibilities. Once again, information in this report is not intended to be comprehensive but rather to provide a context from which to view NZAID/NGO relationships and, particularly for the evaluation, the place of VASS and EMDR.

3.5.1 The Global Group

The Global Group has responsibility for New Zealand NGOs, multi-lateral agencies, international financial institutions, Asia, Africa and Latin America. The Group is the 'home' for NZAID's Programme Manager Civil Society. VASS and EMDR are part of her responsibilities, which also include: working and consulting with New Zealand NGOs and umbrella groups (CID and NDRF); managing the NZAID part of strategic

relationships with NGOs; membership of four of NZAID's policy groups, including Conflict Prevention and Peace Building, Evaluation, Human Rights implementation, and Emergency and Disasters; and managing New Zealand NGO Programmes (the Good Governance Programme, as well as VASS/EMDR). VASS and EMDR are estimated to involve around 25 per cent of her work.

The Group's priorities for working with civil society for 2004/05 include overall enhancement of strategic and programme engagement with New Zealand civil society through:

- finalising and implementing Guidelines for funding Development Education
- undertaking a joint review with CID of the implementation of the Strategic Policy Framework
- integrating the Framework within NZAID – with leadership provided by all four directors of NZAID
- developing guidelines for transparency and consistency in New Zealand NGO access to NZAID funding. This was planned to be completed by the end of December 2004 (NZAID Global Group Annual Plan, 2004/05).

The Programme Manager Civil Society is an *exofficio* member of the PSC. Within her role she ensures that staff throughout the organisation are notified about VASS-funded activities in the country or region for which they have responsibility. The Global Group multi-lateral team also provides some indirect administrative support for the PSC's operations through a Programme Administrator. She estimates 25 per cent of her time is spent on VASS/EMDR administrative issues.

In terms of other programmes within the Global Group, the draft Latin America Strategy (2004) refers to the direct role of NGOs in addressing poverty at the community level.

The draft identified that NZAID intends to support a limited number of multi-year projects or programmes that foster sustainable rural livelihoods in Central America. For New Zealand NGOs with local partners, and international NGOs with sister organisations in New Zealand, NZAID will run a criteria-based funding scheme in the first year of the programme that emerges from the Strategy.

The interim Africa Strategy talks about working at the grassroots with NGOs, local and New Zealand-based, and with community and faith-based organisations. However, it is also developing more strategic relationships with multilateral, government and provincial agencies, for increased impact.

The draft Asia Strategy refers specifically to the roles of individual New Zealand NGOs, VASS as a programme, and VSA, through the work of their volunteers as valuable contributors to development. The Strategy indicates that NZAID expects to continue to work with a range of development partners, including NGOs.

NZAID's Indonesia engagement includes a major \$1 million per annum civil society programme. This is based on long-term strategic relationships with indigenous NGOs that in turn work with scores of smaller NGOs and community groups. The programme focuses on support for micro-enterprise as a tool for empowerment of communities and of women. Core funding and support for capacity building of NGOs and civil society organisations at all levels within the programme is a central focus. The strategic relationship agreements with Indonesian partners are modelled on those developed for strategic relationships within New Zealand.

3.5.2 The Pacific Group

The Pacific Group has no direct engagement with VASS or the EMDR NGO window. While programme managers may receive information about VASS allocations, this is not the same as engagement. Some New Zealand NGOs have programme and funding arrangements through bilateral programmes. These NGOs may or may not be accessing VASS funding. The rationale for engagement is more likely to be the nature of the relationship between the NGO and partners in the Pacific or their specific suitability for programme delivery. For example, Save the Children New Zealand accesses funds through bilateral arrangements in the Pacific and is a Block Grant VASS organisation. The New Zealand National Council of Women (NCW) has undertaken some contracts in the Cook Islands supporting the local NCW and does not access VASS funding (Personal communications, Pacific Group Programme Managers, NZAID 2004).

There are multiple and increasing funding relationships between NZAID and regional and developing country NGOs. In the Pacific region, NZAID supports regional NGO umbrella organisations (e.g. Pacific Islands Association of NGOs, PIANGO); other

regional NGOs (e.g. the Foundation of the Peoples of the South Pacific International and the Regional Rights Resource Team); and country-based umbrella group NGOs in Papua New Guinea, Fiji, Samoa and Tonga. A civil society/NGO strategy is being developed in the Solomon Islands. NZAID also provides some support for individual in-country NGO capacity building through the Pasifika Indigenous Management Initiative, a collaboration between PIANGO and the Programme in Not for Profit Management run by UNITEC, a New Zealand tertiary education institution. This course is operating strongly in a number of Pacific countries.

Bilaterally, NZAID has developed a number of programmes involving and supporting local in-country NGOs (NZAID, 2003). In Fiji, the Te Kakano Fund targets women's groups, youth groups and community-based organisations that traditionally have difficulty accessing funds for the development of small rural initiatives. At almost \$350,000 in 2002/03, this was approximately 15 per cent of NZAID's bilateral funding to Fiji. Support to civil society development and NGOs made up 10 per cent of bilateral assistance to Papua New Guinea in 2002/03. In Samoa, an NGO Support Fund provides core support to six NGOs for operating costs and capacity building. A new community development fund is planned for Tonga in this current financial year (NZAID Pacific Group Annual Plan, 2004-05).

3.5.3 Strategic, Advisory and Evaluation Group (SAEG)

Within SAEG, one advisor provides advice on governance, human rights, humanitarian assistance, peace building, conflict prevention, and NGO and civil society issues. Theoretically this advisor has approximately 20 per cent of her time for NGO and civil society issues. The reality is that other priorities are currently more dominant.

3.6 VASS as Gateway to NZAID Funding

Bearing in mind this rich array of programmes, and the increasingly multi-dimensional relationships between New Zealand NGOs and NZAID, there is also a particular issue about the role of VASS, or more precisely the VASS Profile (see below), in operating as a 'gateway' to other NZAID funding for NGOs. This is not a new issue, and was raised in the 1998 evaluation.

With the number of different funding avenues for NGOs across NZAID, inconsistencies arise. This has been potentially more serious in the past because of the absence of an overall agreed framework on NZAID-NGO relations. There was also greater concern in 1998 (Clark *et al.*, 1998) that programme managers had limited or no experience of dealing with NGOs and there was little NGO orientation component. While the *Strategic Policy Framework for Relations between NZAID and NGOs* (referred to above) has now been adopted, it has yet to be fully worked through to a more operational level. Thus the implications at an individual funding window level are not yet fully apparent, especially with a changing set of NZAID policies.

For a short time from 1999-2000, all NGOs seeking NZAID funding (no matter under what funding channel) were asked to submit a Profile to the VASS Project Selection Committee for approval. Following discussions between NZAID and CID, it was agreed that the approach was not viable. It was also agreed to consider a new accreditation mechanism, separate from VASS. The focus on creating NZAID, plus prospects of a cross-government approach to NGO accreditation, led to delays in the development of this mechanism. We were advised that this is now back in NZAID management's set of priorities. While it is sensible to ensure that any NZAID developments are not inconsistent with cross-government initiatives, there will almost certainly be issues that NZAID will be interested in that will go beyond cross-government standards. So some NZAID-specific work is still likely to be required, even if a cross-government NGO accreditation mechanism is developed.

As the 1998 evaluation identified, "*a key task is to identify areas where consistency is required both for maintenance of appropriate standards and for simplification (minimisation of transaction costs)*" (Clark *et al.*, 1998).

It is our finding that:

while a full study of the operation of NGO funding outside of VASS was recommended by the 1998 evaluation, this is one of the few recommendations that has not yet been implemented, and it deserves attention.

Because of developments in both NZAID and the NGO community, it is now an even more pressing priority, for reasons of consistency, transparency and consideration of any alignment around shared objectives. There are still some areas where greater NGO engagement could be encouraged from the NZAID and/or the NGO side. Elements of such a review could include an exploration of the potential for and viability of:

- common basic entry requirements for NGOs for any NZAID funding
- common core funding guidelines, with additional requirements specific to particular programme areas or scheme purposes
 - common principles and criteria informing contracts
- clear agreements or memoranda of understanding between NZAID and NGOs for significant programmes or projects under country programmes
- a comprehensive stock-take of current funding opportunities and requirements and ways of regular updating of information to NGOs
- easier and more regular exchange of information between different NZAID programme managers involved in funding NGOs
- greater involvement of the Programme Manager Civil Society and other specialist NGO expertise in non-VASS funding for NGOs across NZAID.

We view as vital the work planned for this year by NZAID on developing guidelines for transparency and consistency in New Zealand NGO access to NZAID funding.

Recommendation 2

The planned development of guidelines for transparency and consistency in New Zealand NGO access to NZAID funding is a high priority and should be a comprehensive review. This review should focus on the operation of NGO funding (actual and potential) across NZAID, with the aim of improving consistency and transparency, and identifying and building a 'constructive space' for easier strategic alignment between NZAID and NGOs around areas of shared objectives.

3.7 Levels of Funding for New Zealand NGOs and In-country NGOs

The 1998 evaluation noted that there had been significant increases (albeit from a small base) in funding available to New Zealand NGOs under VASS. This trend has continued, with \$6 million provided in 1997/98 and more than \$10 million in 2003/04, with an

additional \$1 million specifically allocated for EMDR. As a proportion of New Zealand Official Development Assistance (NZODA), VASS and EMDR are 4.7 per cent (NZAID, 2004). VASS alone represented 3.4 per cent of NZODA in 1997/98, up from 1.4 per cent in 1993/94 and just over 1 per cent in 1988/89 (Clark *et al.*, 1998).

In 2003/04 there were three main categories of funding to NGOs, totalling \$33.3 million and representing just over 14 per cent of New Zealand's ODA. This is split approximately 2:1 between funding through New Zealand NGOs and direct funding to in-country NGOs. Of the \$22 million in 2003/04 (11 per cent of ODA) through New Zealand NGOs, VASS and EMDR represented \$11 million. New Zealand NGOs access approximately another \$11 million in funding through a variety of other arrangements. There is also direct funding to developing country NGOs (through the types of programmes outlined in section 3.5) of approximately \$11 million (3 per cent of ODA). There is some additional funding to international NGOs, such as the International Planned Parenthood Federation.

The 1998 evaluation noted that funding accessed by New Zealand NGOs outside of VASS had grown at an even faster rate than VASS funding. In 1997/98 it represented an estimated expenditure of \$8 million. This was up from \$3.8 million in 1993/94 (though it was noted that \$3.5 million of the 1997/98 funding outside VASS was allocated through one NGO, Volunteer Service Abroad) (Clark *et al.*, 1998).

At approximately \$11 million, the rate of growth of non-VASS funding for New Zealand NGOs has perhaps eased back a little. It has apparently increased at a little over a third over the past five years, while VASS funding has increased over 50 per cent in the same period. However, there has been a significant increase in direct funding of non-New Zealand NGOs, up from relatively small amounts to an estimated \$11 million currently. Although the data are somewhat unreliable and are based on different bases for estimates over time, this growth is certainly at a much faster rate than the growth in VASS.

In the early 1990s, the proportion of NZODA channelled overall through New Zealand NGOs was under 2 per cent. It had grown to over 6 per cent by 1998, and, at \$22 million, was estimated at 11 per cent of NZODA by 2004. International comparisons are fraught in this field, and comparative data are notoriously incomplete and inconsistent. However, this is still below the OECD average, which was estimated as likely to be in excess of 15 per cent a number of years ago (Randel and German, 1997). Given trends in this field, the OECD average is likely to have increased further since then.

The 1998 evaluation also noted that the trend of increasing NGO activity and funding to NGOs has occurred in most other donor countries. An increasing share of official development assistance is being provided through NGOs, and often outside of the responsive [9], co-financing schemes (like VASS) that were especially established and earmarked for NGOs.

Within this general trend, there are two distinct patterns emerging (Randel *et al.*, 2004). Australia and the USA, for example, are particularly notable for the degree to which funding other than specific NGO schemes dominates ODA financial flows to NGOs. Even in countries like Canada, where responsive NGO funding still nominally dominates, this is now the smaller part of ODA income for many of the larger NGOs; donors of responsive funding have become actively directive about where the money should be spent, and how those who spend it should organise themselves (Smillie, 1999).

The European model, however, appears to continue to provide a different pattern. Although international comparisons are difficult and data are incomplete and inconsistent, it appears that, at least until recently, European donor countries have provided around one third to two thirds of their ODA funding to NGOs through responsive grants (Randel and German 1997; Clark *et al.*, 1998). On a comparable basis, the share of ODA provided to New Zealand NGOs through responsive funding is around the bottom of this range. There is also some evidence from the United Kingdom to suggest that most NGO funding from country-based schemes and other non-responsive schemes has, in reality, frequently been for projects and programmes conceived and designed by NGOs themselves, and which also happen to fit with DfID strategies (Randel and German, 1999).

To gain a greater understanding of the pattern of NZAID's funding to New Zealand NGOs and also NZAID support to developing country NGOs and civil society development, a customised data base is vital.

The 1998 evaluation recommended that attention be given to improving MFAT's data and statistics on funding to NGOs. Current statistics in this area remain unreliable. This is largely because of poorly developed and customised IT systems. We are aware that NZAID is giving greater attention to this area. Progress is difficult and slow, but we are assured it is occurring. We understand that a relevant and accessible New Zealand-wide system should be in place by 2006. In the meantime, extensive work has been carried out to develop an upgraded VASS data base. Work was expected to be completed by December 2004.

3.8 Peace Building, Humanitarian Assistance and Disaster Mitigation

New Zealand recognises that peace and security provide an essential foundation for poverty reduction. This is reflected in NZAID's overarching policy statement, the recently completed *Building Peace and Conflict Prevention* policy, and the current work to develop a multilateral engagement strategy. NZAID works across government, with non-governmental organisations and internationally to support activities to improve security and reduce the risk of conflict, as well as to respond to natural disasters (in the Pacific and elsewhere) and to complex emergencies, for example in Afghanistan and Iraq.

NZAID is closely following the international discussions on *Good Humanitarian Donorship Principles* that aim to strengthen co-operation, coherence and efficiency in the planning and delivery of humanitarian aid. NZAID supports the United Nations Inter-Agency Standing Committee's non-binding guidelines for delivery of humanitarian assistance as a means of achieving the measures noted above.

In recent years, about one third of NZAID funds allocated to emergency management and disaster relief has gone to alleviation of natural disasters and about two thirds to relief efforts or post-conflict projects in areas affected by human conflict. Support is provided through United Nations and international agencies, New Zealand NGOs and their overseas partners, international NGOs, and partner governments.

In 2003/04, NZAID established a multi-year "complex emergencies" allocation of \$10 million per annum or \$30 million for 2004-2007. This does not include core contributions to the United Nations humanitarian agencies, the International Federation of the Red Cross and the International Committee of the Red Cross, or to Pacific regional agencies such as the South Pacific Applied Geoscience Commission (SOPAC), which are funded from other parts of the NZAID programme.

As a result of the 1998 evaluation, NZAID set up an EMDR NGO funding window in 2000 to provide a transparent and consistent means by which New Zealand NGOs can access NZAID funding for emergency management and disaster relief in developing countries. The Development Cooperation Division and the NGO Disaster Relief Forum, the umbrella group of NGOs working in emergency settings, developed the guidelines

jointly. The principles underpinning this engagement are the same as those applied to community development work: partnership, participation, capacity building, gender equity and human rights.

Examples of NZAID humanitarian support in recent years include:

- assistance in the Pacific to Niue, Tonga, Vanuatu, Fiji, Tokelau and the Solomon Islands. This support covered a range of immediate emergency assistance and reconstruction activities following cyclones, floods and conflict in these countries.
- contributions to relief projects in African countries affected by civil war or natural disasters (Angola, Congo, Eritrea, Ethiopia, Sudan and the Southern African famine crisis countries)
- contributions to the Community Recovery Programme in Indonesia and for development project activities that support Palestinian refugees
- support for preventative programmes through United Nations and international agencies, New Zealand NGOs and their overseas partners, international NGOs and partner governments
- support for the World Food Programme (WFP) and UNICEF in the Democratic People's Republic of Korea; for the WFP and International Red Cross Movement in Myanmar; and for WFP, the United Nations High Commissioner for Refugees (UNHCR), the New Zealand Red Cross and Medecins sans Frontières humanitarian activities in Darfur, Sudan.

Since 2001, NZAID has channelled \$9.1 million in humanitarian and reconstruction assistance to Afghanistan. This funding has supported: the establishment of electoral systems and voter registration; disarmament, demobilisation and reintegration of former combatants; and UNICEF's Back to School Programme. It has provided core funding for the Afghan Independent Human Rights Commission. New Zealand NGOs have supported literacy and health programmes through their partners. The New Zealand Provincial Reconstruction Team, based in Bamian in the Central Highlands of Afghanistan, has provided small-scale reconstruction assistance.

Total New Zealand development assistance to Iraq to date, via NZAID, amounts to NZ\$9.8 million. This included a first phase provision of humanitarian assistance at the commencement of the conflict in 2003, followed by substantial support towards the reconstruction efforts to rebuild Iraq upon the cessation of the conflict. A portion of this assistance was earmarked for the New Zealand Defence Force light engineering group deployed in Basra, southern Iraq, for delivery of projects including restoration of water infrastructure and repair of medical and educational facilities. NZAID support has also

been channelled through New Zealand NGOs working with their partners in Iraq and contributions to the UNHCR to support resettlement of refugees and to the United Nations to support preparations for free, fair and secure elections.

NZAID still has a substantial operational and programming change management process to complete in strengthening and better coordinating its response in these areas. Following a review of New Zealand's response to Cyclone Heta, which devastated the tiny island state of Niue, lead responsibility for responding to natural disasters in the Pacific has been transferred from the Ministry of Foreign Affairs Pacific Division to NZAID. NZAID's focus is now on building agency capability for responding to emergencies in the Pacific, as well as giving increased attention to risk reduction and capacity building at regional, national and community level in the Pacific. NZAID recognises that this will require an increased focus on mainstreaming disaster prevention/mitigation measures into many of the other activities that New Zealand supports.

4. VASS Funding, Policy and Systems

4.1 Introduction

This section first describes the background and current operation of the Voluntary Agency Support Scheme (VASS). We review the changes that are occurring within the New Zealand NGO sector engaged in international development cooperation, and the impact of these changes on VASS. Finally, we report our findings regarding the shape and purpose of VASS, the amount and balance of funding, and VASS policy, management and strategic direction.

In the process, we review the implementation of key recommendations from the 1998 VASS evaluation (especially those around Block Grants, Partnerships for Development grants, a focus on capacity building and streamlining of administration). In doing so, we have addressed a number of the Terms of Reference for the current evaluation.

4.2 The Current VASS System

4.2.1 Background

VASS was established in 1974 as the main scheme through which New Zealand international development NGOs could obtain government funds for projects undertaken by partners. Funding is provided through an annual allocation from NZAID. As the *VASS Handbook* (1999) notes,

"The scheme recognises that NGOs have expertise at working at grassroots level with the poor in developing countries and experience at fostering self-reliance by supporting communities to help themselves. It acknowledges that NGOs make a significant contribution to the government's efforts to help eradicate poverty and promote equitable development."

Funding through VASS has increased from a few thousand dollars 30 years ago to more than \$10 million in 2003/04. Over that period, a number of different funding windows within VASS have been introduced and consolidated, matching funding ratios have been successively improved (both for general projects and for priority funding windows), and the funding limits available for individual projects have been increased.

A comprehensive evaluation of VASS was undertaken in 1998 (Clark *et al.*, 1998). It found that the Scheme was well designed, with many features of international best practice, and that it was well regarded by NGOs and their partners overseas. It recommended a number of initiatives to enhance and streamline the Scheme, reduce compliance costs, strengthen the capacity of New Zealand NGOs and their partners in developing countries, and build new partnerships. Implementation of these recommendations is discussed below. An account of the status of all recommendations from the 1998 evaluation is summarised in Appendix 2.

4.2.2 Scope and focus

VASS is based on the guiding principles of NZODA, as well as on NGO experience and approaches (*VASS Handbook*, 1999). There is a strong inter-weaving between the principles of VASS and the more recently developed principles of NZAID. VASS principles are both reflected in and reflect the development principles agreed to by NZAID and NGOs in the *Strategic Policy Framework for Relations between NZAID and NGOs*, 2004 (the Framework), which itself was recommended in the 1998 VASS evaluation. While there are differences, they are not substantial and generally reflect the variation in roles between NGOs and government. Indeed, there are times when the language used in the *VASS Handbook* is repeated in the Framework.

The Framework development principles cover: a definition of development; reference to the Treaty of Waitangi; poverty reduction, partner responsibility and self-reliance; capacity building; sustainability; gender; participation and good governance; involving the New Zealand community; and development education. These cover a broader territory than the VASS programme principles. The VASS criteria focus on: poverty and injustice; human rights; gender equality; self-reliance; participation; capacity building; sustainability; planning and design; and participatory monitoring and evaluation.

While the principles and policies of NZAID are very similar to those of VASS, there are notable differences in geographic scope and focus. Essentially, NZAID expenditure remains more closely aligned with New Zealand's proximity and historic links to the Pacific. (Excluding scholarship schemes, approximately a third of NZODA is allocated to the Pacific, compared to 3 per cent going to Africa and the Americas.) In contrast, VASS expenditure more closely reflects the regional distribution of the 48 least developed countries of the world and the 24 other low-income countries, as identified by the OECD DAC List of Aid Recipients. The latter are more heavily weighted towards Africa and South Asia, where VASS has allocated approximately half its funding.

In this way, VASS is able to complement the strengths and emphases of the NZAID country and regional programmes. It maintains a strong poverty focus and extends NZAID's reach into some of the least developed countries in the world, where there is sometimes not a New Zealand government presence but New Zealand NGOs have established good partner links.

However, there has been some recent convergence, as NGOs are increasingly working with Pacific partners, most notably in Melanesian countries, the poorest countries in the Pacific. For example, \$238,000 was allocated through VASS to NGO projects in Papua New Guinea in 2003/04 (up from approximately \$190,000 in 2001/02) and around

\$440,000 was allocated to NGO projects in Vanuatu in 2003/04 (more than double the 2001/02 allocation) [10]. Overall, projects funded in the Pacific by VASS have grown by more than two thirds as a share of total VASS funding since the 1998 evaluation (up from 9 per cent in 1998 to 15 per cent of VASS in 2004). They have grown substantially more in dollar terms as the overall VASS allocation has also grown (VASS data, 2004).

4.2.3 Management and administration

VASS is managed by a Project Selection Committee (PSC) [11] and administrative support is provided by NZAID (partly contracted out). The PSC comprises four representatives elected by NGOs, and the NZAID Programme Manager Civil Society. Historically, there has also been a position for an appointee of the Associate Minister of Foreign Affairs and Trade responsible for Overseas Development Assistance. Until 1999, the Ministerial appointment was frequently, but not always, filled by a Member of Parliament, but it was difficult to fill this or to ensure attendance because of workloads. In 2001, the Associate Minister decided to replace this position with a person to liaise with, rather than sit on, the PSC.

Technically, the Associate Minister approves the financial allocation to VASS and EMDR, the Block Grant status of NGOs, individual project allocations and Block Grants. In practice, this authority is largely delegated to the Executive Director of NZAID, who in turn delegates to directors or team leaders.

NGO representatives on the PSC are elected by eligible NGOs [12] at the annual NZAID/NGO meeting. They are elected for a two-year term and can serve a maximum of two consecutive terms. The NZAID/NGO meeting manages its own operations and is jointly convened by the Council for International Development (CID) and NZAID. The PSC works closely with NZAID and the NGO community and is accountable to the Associate Minister for its operation. The PSC presents its annual report to the NZAID/NGO meeting.

The PSC assesses applications, reviews reports, draws up a budget for the annual allocation of funds into various categories, liaises with NGOs on PSC decisions, contributes to the development of VASS policy, criteria and guidelines, determines the annual evaluation programme of NGOs, and identifies training needs. Reporting, evaluation and learning activities are discussed in more detail in section 6.

The PSC is required to refer significant proposed changes in policy to the annual NZAID/NGO meeting (*VASS Handbook*, 1999). This has certainly been the practice, with the NZAID/NGO meetings acting as the main channel for developing VASS policy, guidelines and criteria. Ministerial approval is required for significant changes.

4.2.4 Organisational Profile

The first step in obtaining VASS funding is to submit an Organisational Profile to the PSC on a prescribed form. NGOs can only submit funding applications for consideration after this Profile is approved. There is a two-stage process for approval. NGOs that meet the eligibility criteria will first receive preliminary approval.

They are eligible for full approval after a two-year record of successful applications and reporting is established.

To obtain approval, an NGO needs to be able to show that:

- its activities are consistent with the development principles and criteria established for VASS (shown, for example, by its constitution or mission statement)
 - it is non-governmental and non-profit
- it is clearly identified as a New Zealand organisation (this includes New Zealand branches of international organisations)
 - it can generate matching funds in New Zealand
- it has the financial and management capability to assess, manage and report accurately on projects and activities for which funding is received (*VASS Handbook*, 1999).

There is a procedure for notification of approval, reasons are required to be given for non-approval, and there is an appeal process available if an application is not approved. The appeal process was recommended in the 1998 VASS evaluation.

For a short period in 1999/2000 (as noted in section 3), an approved Organisational Profile was meant to be required in order to obtain any funding from the Development Cooperation Division (not just VASS or EMDR funding), as was recommended by the 1998 VASS evaluation. The *VASS Handbook* reflects this approach. In fact, this requirement was not fully implemented. Many New Zealand NGOs continued to receive funding outside of VASS without an approved Organisational Profile, and there was a concern that the Organisational Profile criteria (developed with VASS in mind) might not always apply to other types of funding. With the disruption involved in the formation of NZAID and because of other organisational priorities, this requirement was suspended; but the ongoing system to take its place has not yet been developed (Interviews with NZAID staff and PSC). Since then, there has also been discussion across government about the introduction of a cross-government system for 'accrediting' NGOs, as proposed by the Community-Government Relationship Steering Group (2002). This too has not yet been taken further. There is also some question about the usefulness of a cross-government accreditation system, which of necessity is likely to be fairly general.

4.2.5 Project grants

Unless approved for a Block Grant (see section 4.2.6), NGOs must submit a 30-question application form on each project or programme for which VASS funding is sought. This is considered by the PSC at its bi-monthly meetings. The PSC assesses applications against nine VASS criteria (poverty and injustice, human rights, gender equality, self reliance, participation, capacity building, sustainability, planning and design, and participatory monitoring and evaluation), and other relevant VASS policies or guidelines (e.g. on expatriate involvement, religious-based organisations, risk and innovation, etc.).

The nine criteria are spelt out in the *VASS Handbook*.

When considered by the PSC, an application may be approved, tabled (where some minor additional information or clarification is required), deferred (where substantial additional information or clarification is required) or declined. When further information or clarification is obtained, a 'tabled' or 'deferred' application will then be either approved or declined. Some applications are withdrawn before this process is completed.

In 2003/04, 75 per cent of all project applications were approved (68 per cent on first submission and 7 per cent, or three applications, after initial deferral or tabling). Eleven per cent of project applications were declined, one application was withdrawn and 13 per

cent tabled/deferred and still pending as at 30 June. In comparison, the 1998 VASS evaluation found that in 1997/98, 82 per cent of applications were approved (66 per cent on first submission and 16 per cent after initial deferral or tabling). Ten per cent of project applications were declined, 5 per cent withdrawn and 3 per cent were deferred and still pending as at 30 June. The major differences appear to be in the proportion of applications still pending at the end of the financial year, which probably relates to differences in how the data are recorded (only counting applications deferred or tabled during the current year), rather than any substantive differences.

In 2003/04, 27 non-Block Grant NGOs received VASS funding for 59 projects. These are sometimes referred to as “individual projects”, to distinguish them from projects funded under Block Grants. The VASS contribution was a little over \$920,000.

Table 4.1: Non-Block Grant NGOs – Types of projects ^(a) by number and dollar amount (1999/00–2003/04)

	1999/00		2000/01		2001/02		2002/03 ^(b)		2003/04	
	NZ\$		NZ\$		NZ\$		NZ\$		NZ\$	
AM&E	1 2	59,614.99	1 6	55,453.67	1 1	62,836.87	1 1	46,867.5 0	1 0	40,965.6 0
CAP	1	78,386.63	2	102,255.0 0	7	278,033.8 7	7	180,462. 17	6	279,953. 25
GAD	1 3	637,806.3 2	6	214,210.0 0	1 5	762,870.8 8	5	229,650. 30	5	134,766. 31
GEN	9	727,639.7 4	1 1	576,639.5 2	1 8	1,048,062. 14	1 1	391,517. 27	1 1	375,572. 10
MSF	7	59,567.26	6	30,709.75	6	38,250.85	5	17,457.7 3	7	14,512.9 3
PfD	2	7,564.75	5	26,245.00	1 4	75,337.10	7	34,689.2 5	1 2	75,182.5 0
Other			2	938.50	2	1,142.25			8	2,819.82
TOTAL	4 4	1,570,579. 69	4 8	1,006,451. 44	7 3	2,266,533. 96	4 6	900,584. 21	5 9	921,852. 51

(a) Abbreviations for types of projects are explained in the main text below.

(b) Two NGOs were approved as Block Grant NGOs in 2001/02 - Adventist Development and Relief Agency (ADRA) and Leprosy Mission. These were both large users of VASS project funding in 2000/01, thus accounting for the drop in project funding the following year. (Source: VASS database, 2004)

General Project funding (GEN) is available on a 2:1 co-financing basis for projects meeting the VASS criteria; VASS provides two dollars for each dollar raised in New Zealand by the NGO, up to a maximum VASS contribution of \$100,000 per project or programme in any one year. These matching ratios and limits were last increased in 1996/97 from 1:1 and \$50,000 respectively. Eleven General Projects were funded for non-Block Grant NGOs in 2003/04 (at a total VASS contribution of around \$376,000).

Gender and Development (GAD) funding was introduced following the 1998 VASS evaluation, to replace Women in Development (WID). In recognition of the inequalities that exist between men and women, co-financing is available on a 4:1 basis, up to a maximum VASS contribution of \$120,000 per project or programme in any one year. These matching ratios and limits were last increased in 1996/97 from 3:1, when provided as WID funding. It is important to note that all VASS projects need to meet gender equality requirements under the third VASS criterion. In order to be eligible for GAD co-funding at the higher ratio, a project must also "specifically address the gender gap and/or target women" (*VASS Handbook*). Five GAD projects were funded for non-Block Grant NGOs in 2003/04 (at a total VASS contribution of around \$135,000).

Capacity Building (CAP) funding was also introduced following the 1998 evaluation, to give greater priority to capacity building on a 4:1 co-financing basis, up to a maximum VASS contribution of \$120,000 per project or programme in any one year. It is important to note that all VASS projects need to meet capacity building requirements under the sixth VASS criterion. In order to be eligible for CAP co-financing at a higher ratio, "capacity building must be the primary purpose of a project rather than a component of it" (*VASS Handbook*). Six CAP projects were funded for non-Block Grant NGOs in 2003/04 (at a total VASS contribution of around \$280,000).

Partnerships for Development (PfD) funding was also introduced following the 1998 evaluation, to encourage links with a wide range of New Zealand NGOs and organisations in developing countries, as part of fostering greater New Zealand community involvement in international development cooperation. PfD grants, without

any specific matching requirements, are available up to a maximum of \$5,000 to establish a link, and up to \$10,000 for one follow-up grant to undertake a joint activity (with no more than three PfD grants for any one New Zealand NGO in a year). Although there are no specific matching requirements, grants do not cover existing salary or overhead costs, etc. Twelve PfD projects were funded for non-Block Grant NGOs in 2003/04 (at a total VASS contribution of around \$75,000).

4.2.6 Block Grants

NGOs with a record of selecting, supporting and reporting on projects that have consistently met VASS criteria are eligible to apply for an accountable, annual Block Grant allocation instead of applying for each project or programme. Thus the PSC effectively delegates its project selection role to NGOs with a proven project management track record, and these report back on how they have used the grant.

There are four levels of annual Block Grant funding (based on past use of VASS funds), and NGOs can move to the next level after two years' demonstrated successful operation and as funds allow:

- up to \$500,000 (no NGOs approved at this level in 2003/04)
- \$500,000 to \$1.0 million (Two NGOs in 2003/04)
- \$1.0-1.5 million (Four NGOs in 2003/04)
- \$1.5-2.0 million (Two NGOs in 2003/04).

Block Grants are applied for annually by NGOs that: already hold Block Grant status; have been removed from Block Grant status and have successfully applied to be reinstated; or have successfully applied for and reported on VASS funding through individual project applications for the previous two years and have successfully applied for Block Grant status. In their applications, NGOs also need to be able to show that they are likely to have sufficient matching funding raised in New Zealand, based on a realistic assessment of projected income (for example, based on income raised over the past three years).

These applications are assessed by the PSC, which considers them in the light of the previous year's allocation, past years' operations, and available funds (taking into account other needs, such as anticipated project funding, evaluation and review costs, etc.).

Block Grant allocations can be used for General (GEN), Gender and Development (GAD), and Capacity Building (CAP) projects, with the usual matching ratios applying. In doing so, Block Grant NGOs select the projects to be funded, determine whether they are 2:1 or 4:1 projects, and report back on them to the PSC. VASS funds may need to be refunded if they have not correctly applied VASS criteria and guidelines in this process. In 2003/04, eight NGOs received Block Grants totalling a VASS contribution of more than \$9.2 million. This included more than \$5.5 million for 99 General projects, almost \$1.9 million for 39 GAD projects, and approximately \$833,000 for 14 CAP projects. (The remaining portion of their Block Grants was spent on Administration and Appraisal, Monitoring and Evaluation (AM&E), which are discussed below in section 4.2.7.)

Table 4.2: Block Grant NGOs – Types of projects^(a) by number and dollar amount (1999/00 - 2003/04)

	1999/00		2000/01		2001/02		2002/03 ^(b)		2003/04	
	NZ\$		NZ\$		NZ\$		NZ\$		NZ\$	
Admin	8	419,464.30	7	447,993.06	7	452,147.28	9	557,939.58	8	552,044.32
AM&E	6	114,895.47	7	235,221.84	7	225,675.67	9	328,425.65	8	384,534.79
CAP	6	327,552.00	12	660,956.85	14	964,879.43	19	1,134,431.36	14	833,420.00
GAD	71	2,665,895.52	48	2,193,161.32	40	1,781,063.86	33	1,615,788.00	39	1,887,894.90
GEN	83	3,173,168.33	79	3,687,639.03	73	3,560,230.57	97	4,946,063.91	99	5,546,816.17
MSF					4	32,402.56	1	9,675.00	3	22,272.75
PfD							1	2,941.88	1	10,000.00
Other	1	281.25								
TOTAL	175	6,701,256.87	153	7,224,972.10	141	7,016,399.37	170	8,595,265.38	172	9,236,982.93

(a) Abbreviations for types of projects are explained in the main text below. (b) Two NGOs were approved as Block Grant NGOs in 2001/02 – Adventist Development and [13] Relief Agency

(ADRA) and Leprosy Mission, thus increasing the share of Block Grant funding the following year. Two other Block Grant NGOs amalgamated in 2002/03 – Oxfam NZ and Water for Survival – thus reducing the number of Block Grant NGOs funded, without reducing their share of funding. (Source: VASS Database, 2004)

Block Grant allocations cannot be used to fund Partnerships for Development (PfD) projects. However, Block Grant NGOs can apply separately to the PSC and in 2003/04 one Block Grant NGO received \$10,000 for a PfD project in addition to its Block Grant allocation. (This is only the second time a Block Grant NGO has received PfD funding.)

The following table provides a useful overview of how Block Grant and non-Block Grant NGOs have utilised the different types of specialist projects. For example, over the five-year period, ten Block Grant NGOs allocated funds for 66 CAP projects. Fourteen non-Block Grant NGOs applied for 23 CAP projects. Ten of the 14 (71 per cent) received approval for 12 CAP projects (52 per cent of the number of CAP projects applied for).

Table 4.3: Numbers of different projects (and number of NGOs using different project types) by Block Grant and non-Block Grant NGOs (1999/00–2003/04)

	CAP	GAD	AM&E	PfD	MSF
	Projects (NGOs)	Projects (NGOs)	Projects (NGOs)	Projects (NGOs)	Projects (NGOs)
Block Grant NGO allocations	66 (10)	231 (9)	39 (10)	2 (1)	8 (7)
Non-Block Grant applications	23 (14)	43 (15)	61 (18)	39 (18)	28 (14)
Non-Block Grant approvals	12 (10)	33 (11)	47 (17)	31 (16)	13 (10)
Success rate of non-Block Grant applications	52% (71%)	77% (73%)	77% (94%)	80% (89%)	46% (71%)

A total of ten Block Grant NGOs operated at some point over the five-year period. Thirty-five non-Block Grant NGOs applied for project funding over the period, 32 of which received some project funding.

While the above table indicates the aggregate usage and average 'success rates', not all usage was evenly spread. For example, just two NGOs utilised 56 per cent of the Block Grant GAD projects, and these same two NGOs utilised 41 per cent of the CAP projects. Another two NGOs utilised 43 per cent of the non-Block Grant AM&E grants, one of which went on to attain Block Grant status during the period. One non-Block Grant NGO accounted for 22 of the 58 unsuccessful applications. Overall, the success rate for applications from non-Block Grant NGOs was 70 per cent. If this one NGO was excluded, the success rate for non-Block Grant applications would have been almost 80 per cent.

4.2.7 New Zealand NGO management support

VASS is able to support New Zealand NGO management capacity through grants for administration, management support, and appraisal, monitoring and evaluation.

Support for ongoing project management and *Administration* (ADMIN) is available to a maximum of 6.7 per cent of VASS funding, as was recommended in the 1998 VASS evaluation. (Until 1998/99, a maximum of 5 per cent applied, and this was linked to taking up the maximum 5 per cent Appraisal, Monitoring and Evaluation (AM&E) allocation. As a result, the full 5 per cent administration contribution was frequently unable to be used.)

A Block Grant NGO can set aside up to 6.7 per cent within their Block Grant for administration costs. The VASS administration allocation cannot be utilised for fundraising, development education or advocacy expenses, and it is recognised as a contribution that does not cover all administrative costs. In 2003/04, the eight Block Grant NGOs set aside just over \$550,000 from within their Block Grants for administration costs.

Likewise, individual project applicants can add up to 6.7 per cent to the project budget for project administration. While what is requested for administration is known on an individual project basis, it is not routinely collated in the VASS data system. It would be no more than \$60,000 in 2003/04, and is likely to be considerably less. It is widely reported (NGO interviews, 2004; NGO regional workshops, 2004; PSC interview, 2004) that the administration component for individual projects is often not taken up, as it can involve trivial amounts and NGOs are keen to maximise the disbursement of funds overseas.

Management Support Fund (MSF) grants of up to \$10,000 were established within VASS following the 1998 VASS evaluation, to assist in one-off management capacity building of New Zealand NGOs. There are no specific matching requirements. An NGO can apply for only one MSF grant per year. The need for such assistance may be identified by the NGO itself, or may be identified in a VASS review (see section 6.6). In 2003/04, three Block Grant NGOs received MSF grants totalling around \$22,300 (in addition to the Block Grant allocations); seven other NGOs received MSF grants totalling around \$14,000. (This is less than previous years, when a similar number of non-Block Grant NGOs have received \$30-60,000).

Assistance for project *Appraisal, Monitoring and Evaluation (AM&E)* has been available under VASS for some time. It aims to build the expertise of NGOs and/or their partners in project appraisal, monitoring and evaluation, and to ensure a high quality of projects funded under VASS. Following the 1998 VASS evaluation, it was clarified that AM&E grants would focus on the costs associated with activities in developing countries (for example, appraisal or monitoring visits, evaluations by a partner, etc.), although it may be used to bring a partner to New Zealand for training or consultation. Up to 5 per cent of a Block Grant may be set aside for AM&E activities. (For Block Grants of less than \$100,000, the AM&E proportion can be accumulated over three years.) There are no specific matching requirements. In 2003/04, eight Block Grant NGOs set aside around \$385,000 from their Block Grants for AM&E. For other NGOs, up to \$5,000 may be provided to appraise a new project, or up to 5 per cent of VASS funding for a project for monitoring or evaluation (and this may be accumulated over three years). In 2003/04, non-Block Grant NGOs received ten AM&E grants, totalling around \$41,000.

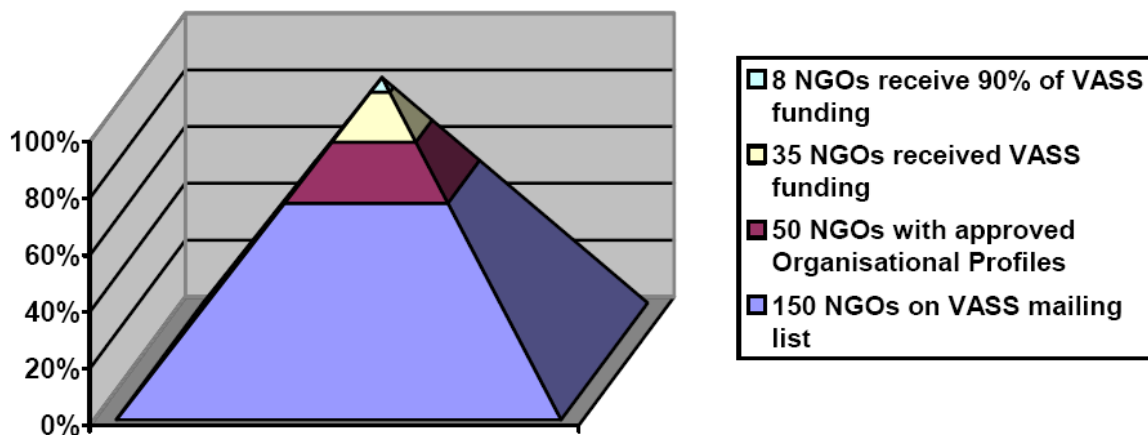
4.3 An Evolving NGO Sector

Over the last five years and more, the context within which VASS needs to operate has evolved significantly. This is seen both with changes in the NGO sector and in the

establishment of NZAID. The latter is discussed in more detail above, in section 3. Here we review the changes that are occurring within the New Zealand NGO sector engaged in international development cooperation, and the impact of these changes on VASS.

As was noted in the 1998 VASS evaluation, New Zealand NGOs involved in international development are a relatively small and concentrated sector. Overall, it has been estimated that there are at least 35,000 legally incorporated NGOs (non-profit and voluntary organisations) in New Zealand, and probably as many again that are not legally incorporated (Nowland-Foreman, 1999). In contrast, there are currently some 150 NGOs on the VASS and EMDR mailing list. These would all have some interest in international development, though for many this would only be an indirect or secondary interest. More than 50 of these organisations have their Organisational Profile approved for funding, and 35 of them received VASS funding in 2003/04. However, it should be noted that only three NGOs were unsuccessful in their applications for VASS funding over the past five years. (At the time of the 1998 evaluation, there were 130 NGOs on the mailing list, 32 with an approved Organisational Profile, and 23 that received VASS funding in 1997/98.)

Figure 4.1: NGOs involved in VASS (2003/04)



Of the 35 users of VASS in 2003/04, eight NGOs accounted for 90 per cent of VASS funding. In terms of total turnover (rather than just VASS funding), the sector is even more clearly dominated by one organisation – World Vision New Zealand. The most recently available comparative data indicated that this organisation raised five times more than the next largest NGO and almost twice as much as all other international development NGOs in New Zealand combined (Smillie, 1996a). It is not an unusual

pattern for a small number of relatively large NGOs to dominate a particular country or field. This was also the case at the time of the 1998 VASS evaluation. It is the case with international development NGOs in other OECD countries (see for example, Industry Commission, 1995; Smillie and Helmich, 1999) and for non-profit and voluntary organisations generally, across a range of OECD countries (see, for example, Office for National Statistics, 1996; Lyons, 2001; Statistics Canada, 2004) and in less developed and transitional countries as well (Salamon *et al.*, 2003).

1 **4.3.1 Increasing sophistication and expertise**

2

The 1998 VASS evaluation identified New Zealand international development NGOs as a sector in transition:

"They are moving from primarily comprising auxiliaries and fund-raising organisations (at times for 'head offices' in London or elsewhere) to organisations networking with others internationally, but increasingly with their own programming expertise and experience to add to the relationship. Smillie (1996a) observed of New Zealand [NGOs] just a few years ago, 'Although, the staff and trustees of the internationally-based organisations play an active role in the development of broad policies within the parent organisation, they are essentially fund-raising bodies, channelling their income to programming organisations elsewhere. Many do not have significant programmes of their own overseas, either of a direct operational nature or in partnership with local NGOs.' This is now changing." (Clark *et al.*, 1998)

Since then, there is evidence that this trend has certainly continued and perhaps accelerated. This has been the observation of the independent consultants used to undertake reviews of 17 VASS-funded NGOs (seven Block Grant and seven other NGOs) over the past four years. Quinn and Clark (2003) note that:

"The history of many New Zealand NGOs has been to fund projects through their international affiliates. Until recently, many New Zealand NGOs had limited contact with local partners, their projects and beneficiaries. All funding was via the international partner which in turn provided information on the project funded. In some cases the information provided was insufficient or inaccurate. More recently, New Zealand NGOs have built closer links with local NGOs and visited projects in the field utilising AM&E funds available under the VASS. The

nature of relationships between New Zealand NGOs, international organisations and in-country partners is evolving and a number of new models of cooperation are emerging.” [14]

There has been a continued and accelerating rate of growth in paid NGO programme staff. While NGOs in New Zealand have been involved in international development since before the end of the Second World War, it was not until 1991 that the six largest NGOs employed the equivalent of two full-time programme staff between them. This had increased to five by 1995, 11 by 1998 (Clark *et al.*, 1998), and to 21 full-time equivalent programme staff (excluding development education, fund-raising, and management/administrative staff) by 2004 (NGO survey, 2004). A further 13 full-time equivalent programme staff are employed by other NGOs that answered the 2004 NGO survey [15]. Looking at paid staff is not to under-estimate the value of volunteers to the sector, but the growth of dedicated programme staffing is one indirect indicator of the evolving role of New Zealand NGOs.

All Block Grant NGOs reviewed in the past four years had some level of formalised procedure for the assessment and selection of projects to be supported, though the level of detail involved in these procedures varied and most of the smaller (non-Block Grant) NGOs did not have clear assessment procedures in place. In addition, all of the NGOs reviewed in the past four years made use of VASS AM&E funds to visit and develop closer relationships with their partners:

"While New Zealand NGOs rely significantly on other national or international organisations to assist in project identification, appraisal, monitoring and evaluation, the use of AM&E funds has enabled New Zealand NGOs to be much more closely involved, to gain a greater understanding of development issues and extend their skills in undertaking field visits." (Quinn and Clark, 2003)

In particular, the VASS review consultants noted value in the growth of programme/projects committees within New Zealand NGOs, often involving expert and experienced volunteers.

Furthermore, we ourselves have observed that the level of commentary and the analysis of issues evident in the returned NGO questionnaires, interviews and regional workshops

appears to be more sophisticated and developed across a wider range of NGOs than during the 1998 evaluation.

The 2004 NGO survey found that significant numbers of staff and volunteers of all Block Grant NGOs and many smaller (non-Block Grant) NGOs have participated in a number of training programmes offered by the Council for International Development (including some specifically commissioned by VASS). This is discussed in more detail below in section 6.4, but is mentioned here as another indicator of the evolving sector.

The recent Participatory Impact Assessment (PIA) pilot is another development opportunity that has helped to accelerate this trend of increasing engagement of New Zealand NGOs in programming issues and in more meaningful partnerships that are able to add knowledge, learning, networks and other value to the transfer of funds.

However, it is also clear that the PIA pilot itself would not have been possible to implement in the way it was without the level of development that has already occurred in New Zealand NGOs.

This process of more direct engagement and increased 'value adding' by New Zealand NGOs has also been significantly aided by AM&E funding and more recently by Partnerships for Development funding (Quinn and Clark, 2003).

3 ***4.3.2 A broader base of community involvement*** 4

The numbers of NGOs seeing themselves as involved in international development cooperation has also continued to grow, and the base has broadened. Membership of the Council for International Development (CID) has grown more than 50 per cent in the past three years; it now includes a more diverse range of NGOs, including Pacific and Maori organisations and many organisations where international development cooperation is not their primary purpose (Interview CID Executive Director, 2004).

There are now more than 50 NGOs with an approved Organisational Profile – up more than 50 per cent on the 32 Profiles approved at the time of the 1998 VASS evaluation.

In addition, more diverse NGOs have demonstrated an interest in becoming engaged in international development through VASS. See, for example Figure 4.2, which lists the 18 NGOs to have their Organisational Profile approved in the last five years. Fewer than half a dozen of these have a predominant international development focus. All but one or two are 'home grown' New Zealand organisations, that is, they are not branches of international organisations. They include Maori organisations, albeit still very few. All these factors add to the diversity of the NGO community and offer the potential for a broader base of community involvement.

Figure 4.2: NGOs with Organisational Profile approved in the past five years

ActionLove	Richmond Fellowship
Alay Buhay	Soroptomists International
ARENA (Action Research and Education Network in Aotearoa)	SurfAid
Development Resource Centre	Te Korowai Aroha
CPAT (End Child Prostitution, Child Pornography and Trafficking of Children for Sexual Purposes)	Te Ora Hou
Fred Hollows Foundation	Te Whare Akonga
IHC/Inclusion International	Trade Aid
NZ Council of Trade Unions	Transparency International
Partners in Development	UMMA Trust
Peace Foundation	UNICEF
Quaker Peace and Service Aotearoa	Vision Pacific
edR (Register for Engineers for Disaster Relief NZ)	World Wide Fund for Nature (NZ)

Those organisations new to VASS have made good use of the Partnerships for Development (Pfd) grants to establish and build linkages. Fifteen of the 16 NGOs receiving Pfd grants over the past five years have not been established Block Grant NGOs; they accounted for 40 of the 42 approved Pfd grants. The encouragement of a wider range of NGOs in international development cooperation was a goal identified by the 1998 VASS Evaluation and the Pfd grants were proposed as one way of helping to achieve that.

While this diversity adds to the richness as well as the breadth of the New Zealand NGO community involved in international development, it is also probably one of the sources of tension within the community and of different views on VASS. As we have identified above, there has long been a small group of generally larger and well established NGOs that have been the major users of VASS. This was identified in the 1998 evaluation and remains so today: eight organisations received almost 90 per cent of VASS funding in 2003/04. These also tend to be bigger NGOs, whose main focus is on international development, who employ professional staff, and who are developing an increasingly sophisticated understanding and contribution to international partnerships and development cooperation. The way the wide range of other NGOs is able to use VASS is likely to be quite different. There is a risk that this 'dual-track' development of the sector (increasing sophistication and specialist expertise at the sharp end, along with a broadening of the base and growth of new entrants) could split the sector if not acknowledged and attended to, because of differing needs, perspectives and contributions.

It is our finding that:

there is an increasing professionalism and sophistication among experienced development NGOs in New Zealand

there is also a broadening base of new and diverse New Zealand NGOs becoming engaged with international development cooperation

while both developments are important in helping VASS (and NZAID more broadly) to achieve its objectives, this is also a potential source of tension, which NZAID and the NGO community need to be aware of and to manage in a constructive way.

4.4 The Role of VASS

As part of this evaluation, we asked NGOs: what they most appreciated about VASS and how it helped good development practice; what was most frustrating and how it hindered good development practice; and how they would like to see the Scheme develop in the future (NGO survey, 2004). Some of these questions were also discussed in the 2004 regional NGO workshops.

New Zealand NGOs appreciate the sound development criteria and principles of VASS; responsiveness to NGO priorities; its peer decision-making; peer involvement in reviews; strong partnership approach (at least for Block Grant NGOs); and NGO ownership of VASS. The *Lessons Learned* reports, the PIA pilot, mentoring, support and training opportunities are also widely appreciated. In both questionnaire responses and interviews some NGOs said they feel the higher funding ratios have increased NGOs' focus on capacity building and gender issues, while others are concerned with uncertainty around the different ratios. (The usage data itself on Capacity Building and Gender and Development grants is not conclusive and appears to be affected by a number of extraneous factors.) Many report that VASS requirements and reviews have lifted their standards or led to improvements in internal standards, and encouraged reflection, accountability and feedback. A few see the requirements as time-consuming and bureaucratic. The focus on capacity building, AM&E and relationships with partners is also appreciated by many NGOs, as are the Administrative subsidies, and Management Support – as well as the stability of the overall financial support.

Some are concerned that a gulf has opened up between Block Grant and small NGOs, and that there is perceived competition or even dominance by larger NGOs. There is concern about how the VASS requirements impinge on smaller NGOs, especially those reliant on volunteers, and the inadequacy of Administration and AM&E ratios for small project grants. Some are also concerned about the PSC workload, and about a perceived conflict of interest involved with peer assessment. Others mentioned a 'fault-finding' or 'nit-picking' approach by the PSC, while others again referred to sometimes narrow or rigid PSC interpretation of guidelines or criteria.

New Zealand NGOs want to see an increase in the funding ratios and ceilings (especially for programmes) and more support for multi-year and programme funding (as opposed to an annual project focus). They are concerned about the loss of momentum of the PIA pilot. Some NGOs would like to see more flexibility, and openness to innovation and risk. Some areas identified as currently missing out include research, policy engagement

and advocacy – although NZAID notes that it supports some of these activities through its funding of CID. Others want more meaningful reporting, while still maintaining robust accountability.

4.4.1 Do we still need VASS as we know it?

During the course of this evaluation, some in both the NGO community and in NZAID began to ask out loud whether developments in the NGO sector, and the challenges it faces, mean that the sector has 'outgrown' VASS. This question deserves to be given serious consideration. It goes beyond mere renovation of how VASS is managed. It suggests 'trading up' for a new funding system.

One option raised in discussions would involve the replacement of VASS with NGOs individually and directly negotiating with NZAID on an overall package of funding based on shared objectives. (Or VASS could be retained for smaller NGOs, with larger and more sophisticated NGOs split off from VASS in order to enter into this directly negotiated funding package.)

To a greater or lesser degree, this funding package could include integration with other NZAID funding going to the NGO, so that effectively a quasi-'bilateral' strategic funding agreement is established with New Zealand NGOs on a one-by-one basis. This is sometimes proposed as part of introducing 'contestable' funding, and removing a sense of 'entitlement' to a reserved pool of funds especially set aside for eligible NGOs.

There are some advantages to this approach. There is less risk of perceptions of conflict of interest, as there can be when NGOs are involved in assessing the applications and reporting of peers. NGOs' priorities and activities would be more closely aligned to NZAID priorities. This could be useful in its own right. It would certainly carry with it a challenge to continuing co-financing arrangements. If NZAID priorities are being carried out, there is much less rationale for requiring NGOs' matching contributions. [16] Finally, there is the possibility that this approach could more easily support a 'joined up' programmatic response, take account of overarching issues and broader issues in the NZAID/NGO relationship (for example policy consultation, joint programming, recognition of advocacy, campaigning and development education), and more closely match reporting requirements to this overall negotiated agreement (rather than on a project-by-project basis).

Regarding the risk of perceptions of *conflict of interest* involved in the current system of peer assessment, we found no evidence in this evaluation of any such conflict interfering in sound decision-making. Any decision-making requires some discretion and judgement. However, for most key decision points in VASS there are explicit criteria against which to make decisions. In the case of acceptance of an Organisational Profile there is also a formal appeal mechanism, and in all other cases the PSC provides reasons for its decisions (which is not always the case with other funders). This should ensure reasonable transparency. This is not to argue that there may not be different interpretations. However, it is much more likely that such differences could be resolved by a group decision-making body than by an individual departmental officer. Greater consistency could be provided by investigation of the viability of formal decision aids, as suggested in the 1998 evaluation (see Recommendation 27). However, if this avenue were explored, it would be important not to lapse into too formulaic an approach to decision-making, where the intent, relationships, principles and approach may be the critical determinants.

Closer *alignment of NGO priorities* and activities with those of NZAID could have disadvantages as well. It could reduce flexibility and responsiveness for NGOs. It could reduce autonomy of NGOs, given the imbalance of the power relationship between NZAID and most individual NGOs. It could lose the advantages of the current complementary relationship between NZAID's scope and focus and that of NGOs, as demonstrated, for example, in the complementary geographic coverage of projects funded through VASS.

These concerns could be even sharper if such an alignment was accompanied by a shift to 100 per cent grant funding. Nowland-Foreman (1995), Smillie (1995) and Edwards and Hulme (1996) warn of the risks of NGOs becoming 'too close for comfort' in their dealings with government funders, and ultimately losing many of the very features that make NGOs attractive as an alternative to direct government engagement in the first place.

Some NZAID staff have also expressed concerns about the workload it could create for NZAID if individual strategic relationships were to be negotiated with a significant number of NGOs.

The possibility of a more *programmatic and 'joined up' funding* approach is attractive – at least as an option. This is perhaps the biggest gap in the current funding arrangements. However, as we outline below (see section 4.5) we believe there are ways in which NZAID and NGOs could move towards such an approach without abandoning the strengths of the current funding system, as identified by NGOs in this evaluation.

In particular, we are concerned that replacement of VASS (in whole or in part) with such an approach risks:

- losing the rationale for matching funds, and hence a crucial foundation of the independence of NGOs
- losing the rationale for the particular value and contribution of NGOs
- shifting to NZAID the power balance and initiative in determining priorities
- exacerbating differences in the NGO community and potentially breaking it up, when there is a need to look at better ways of holding it together
- increasing competition among NGOs and reducing opportunities for collaboration and peer learning
- potentially shutting out some NGOs (and the wider New Zealand community) from participation, thus reducing diversity and engagement
- increased instability and loss of expertise if all funding becomes contestable, and reduced overall investment in an ongoing international development NGO sector in New Zealand.

In addition, NZAID would be forced to choose between managing a handful of strategic relationships with a few handpicked NGOs (and leaving most out of this arrangement) or trying to juggle an unmanageable number of strategic relationships but unable to give sufficient attention to any. For example, just covering the existing Block Grant NGOs would double the current strategic NGO funding relationships. Furthermore, there are 40 plus other NGOs with approved Profiles, which would also need to be considered.

Instead of stripping some of the larger and more experienced NGOs out of VASS (and reducing the diversity and depth of the VASS NGO 'gene pool'), there could be an argument for looking at ways of building even stronger engagement between the VASS-funded NGOs and the five (non-VASS) NGOs currently directly funded through strategic relationships agreements.

Some other suggestions for major changes in the structure of VASS have included various means of replacing, in whole or in part, the current peer assessment and decision-making structure of the PSC with appointed decision-makers or NZAID staff, and/or shifting the balance of responsibilities among an elected or appointed PSC and staff. These issues are dealt with in more detail below, but here it is important to note that on balance we are persuaded of the value of a funding scheme owned by NGOs, that includes a wide range of NGOs with an interest in international development, and is based on peer accountability and learning.

There are, nevertheless, some ways in which decision-making could be improved, and a more strategic approach adopted. There are also some important areas for improvement in communication around VASS (and EMDR) which are dealt with further below.

4.4.2 The ideal funding relationship

Participants at the three NGO regional consultation workshops were asked to identify key features of their ideal NGO funding scheme/s and their ideal NZAID/NGO relationships in ten years' time. Some important and recurring elements emerged, including:

- a vibrant, well-informed and inclusive NGO community (involving a wide diversity of NGOs) working well together and supporting each other
- the value and contribution of NGOs being recognised and given a high profile
- a cooperative and mutually respectful relationship between NGOs and NZAID
- transparent, consistent and strategic relations across all of NZAID, at policy, programming and funding levels
- a growing share of resources utilised through NGOs.

A number of very specific examples were also identified as to how this could be achieved and what it would look like in structures and processes. There was a strong emphasis on quality, partnership, development outcomes, innovation and flexibility.

There was broad consensus on an improved and more strategic relationship between NGOs and NZAID *across the agency* and at *policy and programming levels*, as well as around funding. However, participants were also concerned to ensure that there is not only a good relationship between NZAID and individual NGOs but also with the NGO *sector*. They were keen to ensure a strengthened and independent NGO sector. Many put considerable value on the role that relationships *among* NGOs would play on achieving this. The particular place of one funding scheme that remains controlled by NGOs and that promotes peer responsibility and learning is also widely valued. In a number of cases the risks of a fractured or competitive NGO sector were explicitly mentioned.

Although the formation of NZAID is strongly appreciated by NGOs (NGO survey, 2004), the disruption involved in its formation has set back some of the emerging linkages. Ironically, this has occurred when developments within both NZAID and the NGO community mean that they have more to talk about and to offer each other (beyond funding).

It is our finding that:

the basic architecture of VASS remains sound and provides a solid basis on which to build the future. This includes the involvement of a wide range of NGOs that benefit from their interaction with each other, the ownership of the scheme by NGOs, and the value of peer accountability and learning.

this funding structure provides a sustainable base for New Zealand NGOs on which a wide range of different approaches should be able to be built that acknowledge the diversity of the sector

some of the most important gaps are VASS's relationship with the rest of the NZAID and opportunities for NGOs to develop more strategic relationships across NZAID.

6 **4.4.3 Purpose of VASS**

7

It is of note that a funding scheme that places considerable store on SMART objectives [17] does not itself have a clear statement of objectives or purpose in its *VASS Handbook* (1999). Indeed, some of the general purpose statements could possibly lead to confusion if not carefully read in conjunction with the guidelines and criteria and the fuller details of the document. The *Handbook's* introduction, for example, states that "Basically the VASS is a fund which NGOs can apply to for money to support their overseas

development work". When some applicants are unsuccessful, it is no wonder they are concerned that VASS is 'biased' or pushing a particular approach! In fact VASS is not designed to fund all types of overseas development work, as is made clear by a close reading of the subsequent criteria and guidelines.

The lack of clear and agreed overall purpose and objectives is also likely to make amending policies and guidelines difficult, as each issue needs to be considered on a case-by-case basis and there are no accepted overarching criteria against which proposals for change can be evaluated. This may be part of the reason for delays in some new or revised policies being finalised and adopted, and the case-by-case or precedent approach to decision-making.

We believe from an analysis of the *VASS Handbook*, and from discussions with NGO leaders and NZAID staff who have been involved with VASS over a number of years, that it is possible to infer three broad and interlinked purposes for the current scheme, along the lines of:

- **funding** New Zealand NGO overseas *community development* with a focus on poverty alleviation and social justice, based on best practice principles for effective development of human rights, participation, partnership, gender equity and capacity building (as spelt out in the nine VASS criteria)

Evidence for this as a purpose is expressed, for example, in the detailed policies and guidelines, in the selective approach, and in the rigorous assessment and audit requirements, emphasis on evaluation, 'lessons learned' and other efforts to maintain high standards and promote best practice.

- **supporting** the continuation and development of a *strong and effective New Zealand NGO sector* involved in international development, with good overseas partnerships [18], and available to seek other funding, where relevant.

Evidence for this as a purpose is expressed, for example, in the ongoing co-funding available (and its emphasis on stability and adding value to private fund-raising), in the contribution to Administration costs, in Management Support funding, in the availability of training and mentoring, and in the strong emphasis on learning and review.

- **building partnerships and linkages with the New Zealand community** on international development cooperation through New Zealand NGOs.

Evidence for this as a purpose is expressed, for example, in the matching (co-financing) requirements, in Partnerships for Development funding, and in efforts to make VASS accessible and to broaden the base of New Zealand NGO involvement.

Each of these possible purposes involves some tensions (for example, do we want to fund all quality NGO projects or just those focused on a community development approach?). There are also tensions between some of these possible purposes (for example, investment in a small number of high quality specialist NGOs, as might be implied by the first purpose, versus having a wide and diverse base of NGO involvement, as might be implied by the third purpose). It is also recognised that the first purpose is core to VASS, while the other two may be considered supporting purposes and are also certainly achieved through other vehicles outside of VASS (e.g. development education, support for CID, etc.). However, we believe all three are fundamental to determining the overall shape of VASS, and that these three purposes are complementary and interlocking and together provide a balanced focus for the scheme.

We believe there is value in VASS focusing on a community development approach. There are many other opportunities for NGO funding through NZAID and these opportunities appear to be growing (see section 3). There are a number of well argued reasons supporting the contribution of a community development approach (e.g. Byrne 1999), as there are arguments that a community development approach is unlikely to fit well with a 'contracting' approach to funding and is better supported by responsive funding along the lines of the VASS approach (e.g. Nowland-Foreman, 1998; France, 1999). Furthermore, community development is an area where NGOs are especially well designed to be able to add value (e.g. France, 1999).

We would caution, however, on too narrow a definition of community development. 'Community' should not be interpreted as exclusively applying to village level or geographic communities. A community identifies itself as part of the process of developing a shared understanding of common interests. Thus the OECD defines community from three often overlapping angles: a community of place; a community of interest or identity; and an administrative/political community.

This has important implications for not drawing the boundaries of community development too narrowly. For example, communities of interest and political communities may be engaged in research, public policy engagement and advocacy. The important boundary issue is that these activities are undertaken in ways that engage the community, are participatory and empowering, work to develop leadership, mobilise resources, build trust and provide opportunities for people to contribute (Department of Internal Affairs, 1997).

Recognising the multiple (and perhaps increasing) opportunities for NGO funding across NZAID, it is also important to appreciate that all these other opportunities depend on a strong and independent NGO sector with an interest and expertise in international development being there in the first place. Some NGOs may access only these other funding opportunities; most will use VASS as the base funding and utilise other opportunities as useful 'add-ons' – which may come and go, increase or decrease, and shift with changing priorities.

The experience in the (much larger) domestic non-profit and voluntary sector is that 'the market' of contestable project or even programme funding cannot be relied upon to ensure the continued availability of a strong and independent sector (see e.g. Ernst and Young, 1997; Smith, 1998; Community and Voluntary Sector Working Party, 2001). Indeed, within VASS, we have seen what has been able to be achieved and the extent to which the sector can grow and develop (in expertise and maturity as well as in size) when there is a solid focus on building capacity and sustainability. It is our view that VASS has an important role to play in contributing to such a constructive space for NGOs (both individually and as a sector) to continue to grow and develop, regardless of other funding opportunities across NZAID.

Finally, the proposed purposes recognise the important role of New Zealand NGOs in helping to engage New Zealand society in international development cooperation – another particular role in which NGOs can add value.

It is important that VASS has a clear and driving purpose. This will provide high-level criteria against which future development of the scheme can be judged and priorities for future development determined.

Recommendation 3

VASS should be retained as a separate funding scheme, and its overarching purpose should be clarified and agreed by NZAID and the NGO community.

We recommend that VASS's interlocking purpose should be along the lines of:

- **funding New Zealand NGOs' overseas community development that is addressing poverty and injustice and is based on best practice development principles**
- **supporting the continuation and development of a strong and effective New Zealand NGO sector involved in international development with good overseas partnerships**
- **building partnerships and linkages for international development cooperation with the New Zealand community, through New Zealand NGOs.**

The agreed purposes should be given prominence in descriptions of the Scheme, and used as criteria for ongoing development and improvement of the Scheme and its systems. 'Community development' should be explained and defined widely to include communities of interest and administrative communities, as well as geographic communities.

Whatever else may have not outgrown VASS, it appears that these purposes have certainly outgrown the name of the Scheme. Voluntary Agency Support Scheme is now a confusing title. It does not make any reference to 'overseas', 'development' or 'community' - three fundamental features. 'Voluntary' can easily be confused with volunteer. 'Agency' can be misinterpreted as applying to the government agency and is not a good description of independent NGOs in any case. 'Support' may indirectly refer to the second proposed purpose for VASS, but the rest of the current name conveys little if anything of the other purposes, and may well have contributed to some of the confusion. There is also another New Zealand funding scheme with the same initials, under the Ministry for Social Development.

Once the purposes of the funding scheme are agreed, we believe that VASS should be renamed with a more descriptive title, perhaps along the lines of "NGO International Community Development Scheme".

Recommendation 4

The Scheme should be renamed with a more descriptive title, reflecting its agreed purposes.

8 4.5 The Shape of VASS
9

The 1998 evaluation of the Scheme found VASS was basically well designed, with many features of international best practice. It identified Block Grants as an important feature of the basic architecture of VASS and one that should become the predominant form of VASS funding. It recommended opening up the Block Grant system more for small NGOs and retaining project funding particularly for new and irregular users, and especially where international development is not the primary focus of the NGO. It also proposed promoting the wider involvement of the New Zealand community through engagement with a wider range of New Zealand NGOs, supported by new Partnerships for Development funding.

It was recognised that to support this approach there would need to be a greater emphasis on capacity building and a supportive approach (both for developing country and New Zealand NGOs), an increased focus on evaluation and learning (considered further in section 6) and some streamlining of VASS administration. It also proposed locating VASS within an overall, more consistent NGO policy framework, with stronger linkages to other funding and policy areas across the Development Cooperation Division. (This last issue is dealt with in more detail above, in section 3.)

How successfully has VASS implemented this basic structure, and is it still relevant today?

10 4.5.1 *Emphasis on Block Grant funding*
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Although we recommend retaining VASS as a separate scheme, with its current essential features, it is important not to ignore the reasons behind the concerns about the adequacy of VASS to meet the challenges of the future.

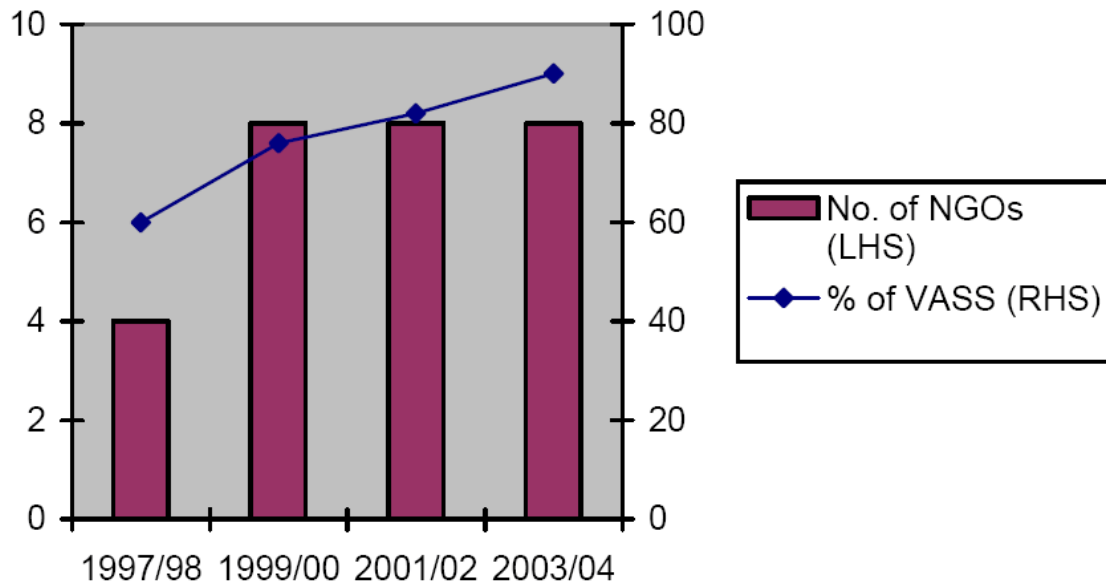
In particular, a more strategic approach is required to NZAID's relationships with both the NGO sector and individual NGOs. This is a responsibility of both NZAID and the NGOs. The sector-wide issues are dealt with in more detail in section 3 above. Here we are particularly concerned with the individual NGO funding relationships, and especially with whether a more strategic approach is possible.

The 1998 VASS evaluation recommended that Block Grants should become the norm for all NGOs (whether large or small) that regularly use VASS and that have a primary focus on international development. This was proposed because of the advantages that a Block Grant approach has for both VASS and NGOs. In particular, it reduces transaction costs for both parties and is better suited to achieving developmental objectives than a project-by-project approach, especially with its greater flexibility, and better fit with a partnership approach. It is more consistent with a programming and an institutional (organisational) building approach, and reflects the current international literature on best development practice (Clark *et al.*, 1998).

However, in the four years prior to the 1998 evaluation, three New Zealand NGOs had stopped receiving Block Grants under VASS because they were seen as not meeting all VASS criteria when they were reviewed. This brought the number of Block Grant NGOs down to four, and the proportion of VASS funds going to Block Grant NGOs had dropped from almost 90 per cent at its peak to just under 60 per cent by 1996/97.

This trend has since clearly been reversed. A punitive, 'sudden-death' approach to accountability was replaced by a supportive and developmental approach. Even before the last evaluation was completed, the number of approved Block Grant NGOs had increased to six. Since then, four further NGOs have achieved Block Grant status. In 2003, two Block Grant NGOs amalgamated, bringing the current number of Block Grant NGOs to eight. Perhaps even more significantly, the proportion of VASS funds currently disbursed through Block Grant NGOs has risen again to almost 90 per cent, up from 75 per cent in 2001/02.

Figure 4.3: Block Grant NGOs: number and percentage of VASS funding (1997/98-2003/04)



(Source: VASS files and data, 2004)

While there are more than 50 NGOs with approved Profiles, but only eight Block Grant NGOs, NGOs report that virtually all of those organizations that aspired to Block Grant status at the time of the last VASS evaluation now have it. Appropriate support and assistance has been provided to those regular VASS users with a predominant international development focus to make the transition to Block Grant status in almost all cases. Of the 50 NGOs with an approved Profile, 27 organisations applied for individual project funding from VASS in 2003/04. Of those, only four NGOs had applications declined (VASS data, 2004).

As is demonstrated by the pattern of VASS usage by the project-funded organisations, these are mainly NGOs that are new to international development, do not have international development as their main focus or for some other reason are not regular users of VASS. For example, little more than a third (22 out of 59) of the projects funded for non-Block Grant NGOs in 2003/04 were for community development activities in developing countries; almost two thirds were for development of the New Zealand organisation or its partnerships (e.g. AM&E, Management Support, Partnerships for Development, and other). This is logical in terms of stages of organisational development and contrasts with the pattern of funding utilised by Block Grant NGOs, where such activities represented less than ten per cent of their projects in 2003/04.

However, there are a few small regular users that have not sought Block Grant status, and this merits further inquiry. Informal discussion with some of these NGOs suggests they remain project-funded because their cash flow is not predictable or regular enough to make Block Grant planning feasible. In some cases they appreciate the 'oversight' and guidance provided by the VASS Project Selection Committee (PSC); in effect, they are almost using the PSC as their own Projects Committee.

It is also of note that the amalgamation of two Block Grant NGOs in 2003 was related to administrative pressures experienced by one small Block Grant NGO, Water for Survival [19]. Amalgamations and 'umbrella-ing' of smaller NGOs by larger NGOs is a perfectly legitimate option, and may result in some efficiencies of scale, especially if there is adequate protection of the culture, values, special networks and unique identity of the smaller NGO interests. Indeed, such 'umbrella-ing' was suggested in the 1998 evaluation as one possible strategy to reduce administrative burdens for small NGOs.

However, we also believe there is a need for small NGOs to be able to receive sufficient financial support to make a reasonable contribution towards their administrative costs in managing VASS projects or programmes. This would enable them to remain small and independent and still to make regular use of VASS. This issue is taken up further below in the discussion of NGO administration and compliance costs.

We believe that the advantages of Block Grants identified by the 1998 VASS evaluation still apply. Nothing that has arisen in this evaluation would dissuade us from continuing to aim for most of the regular users of VASS whose predominant focus is international development to be funded under Block Grants. In fact, it has become even clearer that the current PSC system of peer review would not be sustainable without the delegation of project and programme selection to Block Grant NGOs. Furthermore, although there are some areas for improvement, Block Grant NGOs generally report very high levels of satisfaction with VASS on almost all indicators – somewhat higher levels of satisfaction than reported by individual project NGOs in almost all respects (NGO survey, 2004).

It is our finding that:

substantial progress has been made towards making Block Grants the norm for regular users of VASS with a predominant international development focus (including both large and small users)

this should continue to be an objective for the management of the Scheme, with special focus on any adaptations required to facilitate inclusion of small but regular VASS users.

In addition, we believe that the Block Grant concept offers even more potential to meet the needs identified by the critics of the current VASS system for a more strategic and programmatic approach. The major limitations and frustrations in the current VASS funding system are excessive reporting, inadequate attention to programme as opposed to project funding, and inadequate support for multi-year funding. These three matters are dealt with below; they are noted here because addressing these practical constraints within VASS could go a long way to facilitating a more strategic approach by those NGOs interested in pursuing this further.

With individual project and programme funding limits lifted (as proposed further below), a clearer capacity to plan, fund and report on a three-year programme of activity (against New Zealand NGO strategic objectives), and simpler and consistently applied reporting requirements (especially for multi-year projects and programmes), a renovated VASS Block Grant scheme should offer considerable room for a strategic approach by experienced and capable NGOs.

Indeed, it may then be possible to conceptualise VASS as having three main pathways for funding:

- *Individual Project funding* - where the PSC approves and receives reports on individual projects (may be single or multi-year) and the NGO is responsible for managing the project partnership across the project cycle
- *Block Grant delegated project funding* – where the NGO selects individual projects for funding under VASS criteria (may be single year, but frequently multi-year projects), manages the project partnership across the project cycle, and reports back to the PSC on individual projects
- *Block Grant delegated programme funding* – where the NGO (generally after some experience in successfully selecting VASS projects) designs coherent programme(s) of activities in consultation with its partners and consistent with VASS criteria (usually a multi-year strategic programme), manages the programme partnerships and reports back to the PSC on the strategic programme objectives.

In distinguishing a third funding pathway, it would not be desirable to introduce additional rigidities or complexities into VASS administration. The difference between a programme and a project approach is more a continuum than two mutually exclusive

boxes. And, as we discuss further below, there is no advantage in institutionalising financial incentives to define an activity as a programme rather than a project – this is likely to waste more effort in demarcation disputes than anything else.

This third (programme Block Grant) approach is already possible under current VASS guidelines. We would not envisage additional hurdles to be met, but would rather imagine opening additional doors for NGOs by giving increased emphasis to this option. Indeed, it is probably more a mind-set and an approach than a different set of funding or reporting processes [20]. It is about increasing choice and flexibility, not additional complexity or checkboxes, although reporting forms may need to look slightly different (this still needs to be tested). Block Grant NGOs could probably self-define and self-select their approach.

Recommendation 5

In redeveloping VASS and implementing the package of recommendations arising from this evaluation, consideration could be given to incorporating three funding pathways (individual project funding; Block Grant delegated project funding; and Block Grant delegated programme funding).

In approving Block Grant funding for NGOs (on either a project or programme basis), and especially if Block Grants are moved to a multi-year basis, it would also be worth considering the development of short VASS funding agreements between the PSC and the Block Grant NGO. Pro forma agreements could be modelled on NZAID's current strategic relationship agreements or the DfID [21] Partnership Programme Agreements, but in a much simpler form. In particular, it could cover the respective objectives and values of VASS and the NGO, the contributions that each party will make, and the commitment to ongoing monitoring, accountability, learning and lesson-sharing. This will almost certainly not be feasible, from both a PSC and an NGO perspective, until most Block Grants are on a multi-year basis.

Initially, these short VASS funding agreements would deal only with the VASS Block Grant funding and associated relationships. However, it is possible to envisage them evolving over time into broader NZAID 'framework' agreements that recognise other points of NGO access to and relationship with NZAID and that outline these wider relationships, at a funding, programming and policy issues level. The practicalities of

such an approach would need to be carefully tested, and allowed to evolve at a pace comfortable for the individual NGO, the NGO community, the PSC and NZAID. Otherwise it could risk losing important features of the current arrangements. Such an approach should be able to build on the advantages and opportunities of a strategic relationship without the disadvantages of breaking away from a cohesive VASS funding system. It could: aid in promoting more transparent and consistent access to wider NZAID funding; register mutual interests and shared objectives; and reinforce processes for policy and programme consultation.

Such developments could usefully draw on the experience of the *Funding for Outcomes - Integrated Contracts* project currently being managed by the Ministry of Social Development (MSD). This initiative is being formally monitored and evaluated, and warrants particular attention from the PSC, NZAID and the NGO community.

Recommendation 6

As Block Grant NGOs move routinely to a multi-year and programme basis, this should open opportunities for short VASS agreements that recognise the respective objectives and values of VASS and the NGO, the contributions that each party will make, and the commitment to ongoing monitoring, accountability, learning and lesson-sharing.

Where appropriate, over time, the feasibility should be investigated of these VASS agreements being expanded, with the agreement of both the NGO and NZAID, into a 'framework' agreement dealing with the NGO's wider relationships across NZAID, at a funding, programming and policy issues level.

4.5.2 Expanding the base and building new partnerships

The need to promote greater community linkages as part of international development cooperation has been identified for some time (see e.g. ACEAD, 1997 and 2003). The 1998 VASS evaluation explicitly recognised this as an aim within VASS, and proposed the establishment of new Partnerships for Development (PFD) funding specifically to encourage the establishment and building of links between a wider range of New Zealand

NGOs and organisations in developing countries, *"giving particular priority to links between women's organisations, environment organisations, indigenous organisations and ethnic community organisations"* (Clark, 2004).

As we have noted above, a wider and more diverse range of NGOs has indeed become involved or more deeply engaged in international development cooperation through VASS over the past five years. This is reflected in both the new organisations seeking approved Organisational Profiles, and the use of the new PfD funding.

To ensure a balance between funding for new and non-Block Grant NGOs on the one hand and Block Grant NGOs on the other, the PSC has developed a practice in recent years of 'over budgeting' allocations for project funding in the initial round. That is, the PSC initially sets aside more for project applications than is expected to be spent. Towards the end of the year, any unspent funds are used to 'top up' Block Grants, which are generally capped at a level below the organisation's capacity to spend effectively. Overall, it has been the pattern that there have been insufficient eligible project applications. However, PfD grants are in high demand. For example, in 2003/04, \$50,000 was originally set aside for PfD grants (up from \$43,000 the previous year), but in fact almost \$60,000 was finally distributed, because of the level of demand (data supplied by Programme Manager Civil Society).

The PfD criteria are considered 'clear' or 'very clear' by NGOs surveyed for this evaluation (averaging 4.2 on a five-point scale). The funding is also considered to be very useful (all respondents rated PfD 4 or 5 on a five-point scale), and in most cases the only reason it was not applied for was because other funding already met the NGO's needs (NGO survey, 2004). In total, 16 different New Zealand NGOs have utilised funding for 35 PfD projects over the past five years.

We have already noted the wide variety of partnerships in which New Zealand NGOs are engaged. Partnership refers to relationships where *"there is a balance which empowers the groups concerned; and relationships where the partners gain credibility, legitimacy, autonomy, economic viability, effectiveness, influence and leverage within their respective societies"* (Fowler, 1998).

It is apparent that PfD is being utilised for two important purposes. Firstly, the fund has been used by New Zealand NGOs new to VASS funding (and indeed often new to the

field of international development) to establish or strengthen relationships with international partners or counterpart organisations. This is particularly helpful in achieving the objective of 'broadening the base' of New Zealand community involvement in international development cooperation (NGO consultation workshops, 2004).

Only some of these New Zealand NGOs go on to apply for other specific VASS funding. For those that do, this is a valuable introduction to international development funding and can embed a strong emphasis on the centrality of partnership in good international development practice. It also serves to demonstrate the patience needed to invest in good international relationships. However, when PfD funding was first proposed (Clark *et al.*, 1998), it was envisaged that not all such partnerships would necessarily lead to future VASS funding, but could be expressed in a variety of other ways.

Of the 35 PfD projects funded in the past five years, nine have proceeded to VASS project funding. Excluding those funded only in 2004 or 2003, and those run by an organisation that went on to obtain Block Grant funding during the period, seven out of 15 PfD projects have led to VASS project funding. In only one case has an application for VASS project funding been declined after the NGO had received PfD funding (VASS data, 2004).

Secondly, PfD can also be utilised by established New Zealand NGOs (including those with Block Grant status) to establish and strengthen new or emerging relationships. There is potential to encourage inadvertently a dissipation of partnerships when recent VASS NGO reviews have suggested a need for New Zealand NGOs *"to consider how many effective partnerships their organisation can sustain and at what level"* and perhaps to consolidate fewer, deeper relationships (Quinn and Clark, 2003). The Quinn and Clark report makes clear how complex and multi-layered [22] effective international development partnerships are, and the considerable amount of time and effort required both to establish and to maintain them. However, this does not mean that there is not a case for established NGOs to utilise PfD. Quinn and Clark also note that in the past even established New Zealand NGOs may have had only indirect relationships with NGOs in developing countries, because funding was provided through their international bodies. As more direct relationships grow, it may be useful even for established New Zealand NGOs to invest in building these partnerships. In addition, for a number of strategic and other reasons, it may also be important for NGOs, in a planned and phased way, to move into new (geographic or programme) areas and establish new partnerships.

Nevertheless, it would be a concern if PfD funding was being taken up predominantly by well-established international development NGOs, and especially by those with Block Grant status. The usage of PfD funding indicates that this has not been the case. Overwhelmingly, the users of PfD funding have been organisations new to VASS. Fewer than a third have been NGOs that had been receiving VASS funds at the time of the 1998 VASS evaluation, and only one was a Block Grant NGO. A little over a third of the projects have involved partnerships with organisations in the Pacific (a new and growing area for many New Zealand NGOs), and almost all the rest have been for Southern and South-East Asia (VASS data, 2004).

A concern was raised during this evaluation about the limit of only two applications of PfD funding for a particular relationship. The Women in Development (WID) linkages grants, which PfD in part replaced, allowed for a maximum of four in respect to an individual women's organisation [23]. The level of detail and prescription from the old WID linkages window would not necessarily be helpful for PfD, and it is understood that all four grants were rarely used before WID was abolished. Nevertheless, it does demonstrate that allowing only two applications for the one relationship is artificially limiting. Rather than impose any particular limit, we suggest that increased justification be required for more than two successful applications with respect to developing a relationship. It could be expected that any subsequent applications should require fairly detailed and well justified plans for the ongoing relationship and how this particular application would contribute to them. Particular account could also be taken of the number of different PfD relationships being explored by the New Zealand NGO, to ensure each received adequate attention.

When PfD funding was proposed, it was envisaged (Clark *et al.*, 1998) that the linkages it would promote could develop into one or a combination of any of the following:

- a funding relationship, for which a VASS project grant could be sought for eligible proposals
- skills transfer, technical cooperation or exchange, in which the transfer of skills to the developing country partner could be supported under an expanded volunteer sending programme or through bilateral funding where relevant [24]
- ongoing information exchange and support that might be expected to be self-supporting.

A range of such outcomes appears to have been achieved. However, when the PfD fund was established, it was planned that it would be reviewed by 2002, to assess its effectiveness and impact. This review did not happen, probably as a result of the

disruption that was occurring at the time with the transition to the new NZAID. Although no serious concerns or shortcomings have been identified in this evaluation, it would be prudent not to wait until a five-year evaluation before new developments are reviewed. Such oversights are one of the reasons it is proposed to increase management and analytical capacity for VASS (and EMDR) through the PSC.

The 1998 VASS evaluation proposed that consideration be given to an expanded volunteer-sending programme, so that support might be available to a range of organisations without undermining NZAID support for Volunteer Service Abroad (VSA), with its wealth of experience and specialist skills in this area. This was considered but not pursued, largely because of other priorities and a lack of resources. It is possible that PfD may lead to greater demand for such funding. Because this has not been examined, there is one fewer avenue to build on the good foundations being established by PfD. It is also probably the source of some discontent with VASS from organisations that would be better suited to a programme specifically designed for volunteer-sending [25]. We believe this is an issue that still deserves serious examination.

NZAID also sees volunteering and technical assistance as able to be supported through bilateral programmes, with a focus on the outcomes of volunteering assignments, rather than through core funding. Examples include Volunteer Ophthalmic Services Overseas (VOSO) and the New Zealand/Vietnam Health Trust being funded to send volunteers to Tonga and Vietnam respectively. VSA has indicated that it is interested in exploring the concept of providing advice and mentoring support regarding volunteer sending and support for other NGOs for whom this is not core business. These opportunities provide several leads for further exploration around the issue of volunteers in international development.

It is clear that overall VASS is well designed to promote the partnership principle, through its guidelines and policies and through elements such as AM&E grants, PfD grants, the 4:1 capacity building co-funding, and the potential for programme and multi-year funding. However, as discussed further below, it is also important that transaction costs do not become a major burden on partners (especially where there are multiple donors). Although programme and multi-year funding are permissible, they appear to be still under-utilised, with some barriers remaining to their easy or effective implementation.

The overall broadening of New Zealand NGO engagement has been very positive in a relatively short time. It is also clear from an examination of Figure 4.2, for example that

this is a much more diverse engagement than there has been in the past. However, with only a few notable exceptions, there has been relatively little growth in involvement of NGOs based in Maori, Pacific and other ethnic communities in New Zealand. These communities and their civil society organisations offer potentially very useful sets of both relationships and capacities for greater engagement in international development cooperation. This is increasingly recognised in other donor countries. For example, the Canadian International Development Agency (CIDA) has a specific Indigenous Peoples Partnership Programme [26]. The Department for International Development (DfID) has a Strategic Grant Agreement to increase the engagement of United Kingdom black and ethnic minority groups in international development [27].

The 1998 VASS evaluation suggested that engagement with such groups was likely to require pro-active steps, and that this should be undertaken by NZAID or be contracted out to the NGO community, or involve some combination of the two. The latter option was preferred, making strong use of existing networks and relationships.

NZAID has begun exploring growing its own relationships with New Zealand-based Maori and Pasifika NGOs, with a view to identifying opportunities for collaboration, resourcing mutually beneficial links with Pacific counterparts and improving opportunities for Maori consultants. These steps should be encouraged, but also be more clearly linked with a pro-active and strategic approach engaging the wider New Zealand NGO community through CID and those NGOs funded through VASS. We suggest that the process in which DfID engaged with black and ethnic minority communities in the United Kingdom could provide some useful guidance.

It is our finding that:

Partnerships for Development (PfD) funding is useful for the Scheme and appreciated by NGOs; is well targeted; and has assisted in broadening effectively NGOs' engagement in international development cooperation

without the support of the other pro-active strategies, PfD funding has been less effective in significantly increasing engagement by Maori, Pacific and other ethnic community organisations.

Recommendation 7

The limit of two Partnership for Development grants with respect to the one relationship should be lifted, but greater scrutiny should be given to applications with respect to the rationale, feasibility and value for money of third and subsequent applications and taking into account the number of partnerships being developed by an NGO.

Recommendation 8

NZAID should continue its efforts to increase engagement of NGOs from Maori, Pacific and other ethnic communities in international development cooperation. These efforts should be more clearly linked with a pro-active and strategic approach engaging the wider New Zealand NGO community, as well as other stakeholders.

Recommendation 9

NZAID should explore opportunities for funding volunteer-sending activities that have the capacity to meet appropriate programme priorities, standards and criteria. This could include working with existing volunteer-sending organisations, such as VSA, in exploring mentoring or advisory roles.

12 4.5.3 A focus on capacity building

13

The emphasis on capacity building is an important and highly valued part of the scheme (NGO survey, interviews and regional workshops, 2004). It has a number of components and applies to New Zealand NGOs and their overseas partners. It also has important implications beyond VASS itself. As New Zealand NGOs develop and are supported in their capacity to operate at a more sophisticated and sustainable level, there are significant 'spin off' advantages for all the work they are engaged in, whether VASS-funded or not. This is an important part of fulfilling the second proposed purpose for VASS (enabling the maintenance and development of a strong and independent NGO sector able to be engaged in international development cooperation).

Capacity building has been supported through Capacity Building projects for developing country NGOs, and Management Support Grants, Administration support and Appraisal, Monitoring and Evaluation support for New Zealand NGOs.

Capacity Building projects

In 1999, co-funding for *Capacity Building* (CAP) projects for NGOs in developing countries was introduced within VASS, with a higher matching ratio of 4:1 to encourage the expansion of this approach. This recognises the importance of effective community-based organisations being more self-reliant, having greater organisational certainty and being stronger contributors to sustainable development and civil society development.

Over the last five years, 88 CAP projects have been funded, representing a total of \$4.8 million in VASS contribution. The number and value of these projects has steadily increased over most of the five-year period. Around a quarter of the CAP projects and almost 20 per cent of the CAP funds are distributed through non-Block Grant NGOs. Given that non-Block Grant NGOs account for only 10 per cent of overall VASS funds, they are making good use of CAP funding (VASS data base, 2004).

The NGO survey (2004) reveals that a number of NGOs are confused by the distinction between a General Project on a 2:1 funding ratio (which needs to incorporate good practice principles, such as a capacity building approach) and a special Capacity Building project, which is eligible for 4:1 funding. This is also reflected in the higher rate of CAP applications declined (48 per cent for CAP compared to 28 per cent of all individual project applications).

14 *New Zealand NGO Management Support Fund*
15

New Zealand NGO Management Support grants were also established in 1999. Management Support funding has been well utilised, especially by project-funded NGOs. Often the funding has been particularly useful in following up on identified areas for development, arising out of the cycle of institutional reviews. In the past five years, 38 Management Support grants have been made, worth a total of around \$225,000. (More than \$160,000 for 31 projects was allocated to non-Block Grant NGOs.) Management Support grants are for one-off expenses to improve management capacity and are additional to ongoing support for administrative costs.

Administration costs and AM&E

The administration support component of VASS permits a contribution of up to 6.7 per cent of the Block Grant or project cost for approved administrative costs. Appraisal, Monitoring and Evaluation (AM&E) funding is also available – up to 5 per cent of the Block Grant or project subsidy. Half of those in the NGO survey (2004) believe 6.7 per cent was not adequate to cover their VASS administrative expenses. Almost as many (44 per cent) believe the 5 per cent limit for AM&E funding is inadequate, although the increased AM&E limits sought by NGOs were relatively

modest. In the past few years, total spending on AM&E has been under the allowable limit, though some NGOs have fully utilised their available allowance.

The contribution towards administration funding (at 6.7 per cent for VASS) is still very modest, including by international standards [28]. Half of the NGOs surveyed believed the administration contribution from VASS was not adequate – with most of these wanting it increased to 10-15 per cent.

For small and infrequent users, the current administration contribution can involve almost trivial amounts. For small regular users there is a question as to whether it is sustainable without high levels of cross-subsidisation (either from other parts of their organisation, if it is a large organisation involved in other activities, or from volunteers in their time and energy). A number of people raised the issue of the need for the amalgamation of Water for Survival (a small Block Grant NGO) with Oxfam New Zealand, in this regard. It is not necessarily bad for smaller NGOs to operate under the umbrella of a larger NGO, with the administrative efficiencies of scale; nor are amalgamations in themselves necessarily undesirable. As discussed above, however, it is in everyone's interests to make it possible for a range of different organisations to be involved in VASS.

The (then) Industry Commission (1995) conducted a survey of the 15 *largest* development NGOs in Australia and found that the actual administrative expenditures incurred ranged from 0.9 to 23.2 per cent. The un-weighted average was 9.6 per cent (this excluded project expenditure, public education, advocacy and fund-raising). When all non-project costs are counted the figures ranged from 3.1 to 43.2 per cent (with an un-weighted average of 21.4 per cent). The wide range of figures probably indicates as much about different accounting methods as differences in practice. However, given the pressures on NGOs to minimise what is seen as 'administrative' overheads, the averages are likely to be under-estimates rather than over-estimates.

In 2005 CID conducted a small informal survey of New Zealand development NGOs. The ten organisations that responded were again mostly the larger NGOs, and they reported total non-project costs ranging from 6.0 to 25.0 per cent (the five which also reported on administration costs excluding public education, advocacy and fund-raising ranged from 5.0 to 13.5 per cent) (personal communication R Julian, Executive Director, CID, March 2005).

Almost all OECD countries make a contribution towards these administrative costs. By the 1990s, most allowed up to ten per cent of project or programme costs "...to be used in covering domestic (usually administrative) costs of the donor country NGO and a higher proportion, usually the same proportion as the matching grant, towards costs directly related to administration of the project" (Industry Commission, 1995)

We believe there is a rationale for maintaining the co-funding principle for administrative costs. However, it needs to be a share of a reasonable estimate of administrative costs. Although not strictly matched, the current contribution of up to 6.7 per cent was proposed (Clark et al 1998) on the basis that it was equivalent to a 2:1 contribution to a *nominal* 10 per cent administrative component (on the basis that 2:1 was the then standard cost-sharing ratio for VASS 'general' projects). It is important to highlight that the 10 per cent figure was considered a nominal proxy for actual administrative costs, which it was recognised would vary from organisation to organisation and from project to project. It was assumed that actual administrative costs would be likely to be *at least* ten per cent, i.e. this considered a modest estimate.

The evidence available to the current evaluation suggests that this is still likely to be a very modest (under) estimate of *actual* administrative costs. We also support the conclusions of the 1998 evaluation that it is reasonable for official donors to contribute a share of reasonable administrative costs of NGOs, all the more so with increasing expectations of NGO professional practice and management. The risks for NZAID and the VASS programme of not providing a fair contribution for administrative costs is either NGOs cutting corners, or expecting public donors to make a greater contribution to administration [29]. Neither course of action is sustainable.

For this reason, it is sensible to again take into account the general VASS project cost-sharing ratio when calculating what would be a fair contribution from VASS funds towards administrative costs. Again, it is important to emphasise that *actual* administrative costs are likely to be in excess of 10 per cent, and it is also *not* proposed that administrative funds be actually provided on a matching basis. However, on this basis the VASS contribution to administrative costs would be at least 8 per cent. Finally, it is important to emphasise that this would *not* provide a contribution of 8 per cent of an NGOs total programmes or expenditures, but only of the VASS-funded component. The NGOs would still be responsible for totally financing administrative costs associated with all non-VASS funded activities. Such a contribution would still be modest by international standards (Smillie, 1996b) but would ease some of the most urgent pressures on NGOs' effective management of funds and programmes.

Such a contribution is still clearly inadequate, however, for small and irregular users of VASS. If we value the inclusion of a range of NGOs in VASS, with a range of New Zealand community networks and support, it is unreasonable to expect small NGOs and small users of VASS to cross-subsidise a higher proportion of their VASS administrative costs from contributions from other donors and volunteers. Smillie (1995) outlines the pernicious effect this can have on other donors, forcing them to contribute an excessive share towards reasonable administrative costs. One option would be to allow each application for administrative support to be considered on its merits, rather than applying a standard formula. Although highly flexible, such an approach would also involve very high compliance costs in justifying and accounting for relatively small amounts of funding. On balance, we favour development of a sliding scale for the maximum administrative component. The graduated scale could range from 16 per cent for, say, the first \$100,000 of VASS funding received by an NGO to 8 per cent of all VASS funding received over, say, \$1 million in a year, with several levels in between. The final formula could be established after a closer examination of actual administrative costs borne by smaller NGOs and irregular users of VASS funding.

Other support is also available for New Zealand NGOs in the form of subsidised training programmes (often developed in response to gaps identified in VASS reviews), peer mentoring and advice. The training is highly regarded by NGOs, and although the numbers involved are small, the mentoring also appears to be highly regarded (NGO survey, 2004). This can be especially valuable for small NGOs, for whom the marginal costs of such training could be a significant proportion of all indirect costs, if not provided on a subsidised basis.

Capacity Building, Management Support and AM&E funding are all viewed by New Zealand NGOs, NZAID staff and other stakeholders as particular strengths of the programme (NGO survey, regional NGO consultation workshops, and interviews, 2004). The emphasis within VASS on capacity building, learning and organisational development (both in terms of policy approaches and financing) is probably still a model for many other countries (Smillie, 1996a) and would lead many other New Zealand funders, in our view. Globally the norm has been to under-invest in infrastructure and capacity of NGOs, yet the available evidence suggests such investment is crucial for creating sustained, effective impact and high-performance organisations (Letts, Ryan and Grossman, 1999).

It is our finding that:

- VASS has a leading role in investing in NGO infrastructure and capacity (for both New Zealand and developing country NGOs)
- VASS's role is highly appreciated by NGOs and represents an important and effective strategy for long-run, sustainable impact
- the distinction between the general Capacity Building requirement for all VASS projects and the particular requirements for 4:1 Capacity Building funding is not always clear to NGOs, requires the PSC to police boundaries and may not be helpful in the long run
- the contribution towards administrative costs, management support and AM&E funding and provision of training are all highly appreciated by NGOs. However, a substantial number are constrained by the limits on the contribution for administration costs and (to a lesser extent) the limits on AM&E. This especially impacts on small NGOs and small users of VASS.

Recommendation 10

The cap on VASS contributions to administration support should be increased to at least 8 per cent for large users of VASS, and a graduated scale should be developed with several steps so that the cap for small users is up to at least 16 per cent.

4.5.4 Streamlined administration

The 1998 evaluation argued for a number of changes to streamline the administration of VASS and reduce its transaction costs for both NZAID and NGOs. This included removing unnecessary detail from applications, greater flexibility in dealing with changes through the life of a project, easier and greater use of multi-year funding, increased emphasis on programme (as opposed to project) funding, updating, clarification and better documentation through the *VASS Handbook*.

The procedures are now generally very well documented in the *Handbook*. It is generally regarded as clear and well organised. However, the process of updating it has not been maintained. This means that the current status of some policies and procedures is not always clear or readily accessible. This is an obvious and important omission which NZAID and the PSC are well aware of. They decided to defer a major updating of the *Handbook* until after this evaluation. It is important that this is attended to as soon as possible. We understand that it will include establishing an electronic 'reference' version of the *Handbook*, against which anyone could check that their copy is accurate, complete and up to date. NGOs report that they want a hard copy as well as access to an electronic version (NGO survey, 2004).

Reporting and changes

Mostly, NGOs report high levels of clarity and appropriateness with regard to the process of registering an Organisational Profile, the process for applying for Block Grant status, applying to move from one Block Grant level to another, and applying for individual project funding. However, a number of specific recommendations are suggested by NGOs for improving the forms, and generally Block Grant NGOs find the systems clearer and easier to use than do other NGOs (NGO survey, 2004).

Overall, NGOs find the amount of information requested reasonable, although again Block Grant NGOs are more positive about the requirements than other NGOs are about the project application process. Reporting-back requirements are considered clear and useful (although some problems are reported for Block Grant NGOs reporting on projects). The time and resources spent applying for funding is thought to be just about right or a little more than appropriate by Block Grant NGOs and just right or more than appropriate by project-funded NGOs (NGO survey, 2004).

Generally, the revised system for dealing with changes during the life of a project (a significant area of concern during the 1998 evaluation) is now thought to be clear, and just about right or only a little too rigid.

The new policy on managing risk and innovation also has potential to deal with these issues in a productive way. The evaluation received feedback from individual interviews and consultation workshops with NGOs that a small number had made good use of this policy, but it was still largely to impact on the approach of most NGOs. Similarly, the VASS reviews consultants (Quinn and Clark, 2003) report:

"All development projects carry with them some risks. However, in some situations (e.g. working with an extremely poor or disadvantaged community, geographical isolation, or difficult political situation) the risk involved may be higher than usual. In addition, a variety of constraints in working with such groups (e.g. language, lack of familiarity with donor requirements, access) may make it difficult for the New Zealand organisation to report fully. The review team found some reluctance by NGOs to fund such projects using VASS funds. The issue is particularly important for Block Grant organisations... their reputations are at stake and there is a fear that failed projects could jeopardise VASS Block Grant funding."

It is a concern that the full potential of the *Risk and Innovation Policy* has not yet been realised. During the course of this evaluation, we heard several times that a particular project was "not VASSable", and thus an NGO could not support it through VASS. This was generally not referring to projects that were of little merit, nor to projects which were incompatible with the basic philosophy of VASS. Rather, it often seemed to refer to organisations carrying out good community development work, in line with VASS principles, often in very difficult circumstances, but unable to provide adequate reporting or documentation in the format or to the standard required by VASS.

Quinn and Clark (2003) also make the strong point that VASS reporting should be the responsibility of the *New Zealand* NGO:

"It is not appropriate for either field or international partners to be asked to complete VASS application or report forms. Not only does this place an unreasonable demand on partners but it also removes the need for active analysis of information received from partners, which is a critical component of New Zealand NGO management of VASS funds."

New Zealand NGOs need the skills and confidence to collect key information from their partners in an easy way. If there are some unnecessary rigidities in the VASS reporting requirements or their interpretation, these should be identified and removed; however, there were no particular inappropriate requirements readily identified by NGOs during the conduct of this evaluation. Organisations also need the confidence to make greater use of the *Risk and Innovation Policy*. VASS needs to assure NGOs that where they have specifically identified a project as being of high risk, where the *Risk and Innovation Policy* was followed and reasonable steps were taken to minimise or mitigate potential risks [30], less than satisfactory outcomes from the project will not jeopardise the NGO's current or future Block Grant status, or future project funding.

PSC members and NZAID staff reported to us that a project report would still be considered 'satisfactory' where the New Zealand NGO had clearly reported what did and did not happen, what information was and was not available from the partner, and where important gaps were clearly identified. It was said that a 'good report' depends more on good analysis than on being able to easily fill in 'all the boxes'. We agree that such an approach makes learning and development more possible; however, we also found this was not an approach that many had the confidence to take, not even experienced and sophisticated NGOs. At the very least this indicates a communication problem.

However, there could also be value in reviewing the detail of VASS reporting requirements, in conjunction with experienced VASS NGOs who have had experience with 'non-VASSable' projects, to identify whether there are any particular or recurring problem areas, or any redundant requirements.

Although not strictly comparable, and involving only very small samples sizes, the responses to the question in the 2004 NGO survey regarding the impact of the VASS requirements from their overseas partners' perspective appears to be more negative than the responses to a similar question in the 1998 evaluation. Overall, the balance of feedback reported from partners in 2004 is mainly negative or mixed, while the balance of feedback reported in 1998 was mainly positive or mixed. In addition, in the 1998 evaluation, New Zealand NGO perceptions of their partners' generally constructive experience of VASS requirements were backed up with telephone interviews with selected partner NGOs in developing countries. It is not clear whether this difference is material, or if it yet represents a trend. In any case, there are a number of specific issues identified from the NGO survey 2004 (Appendix 6) as causing problems for partners. These issues could provide the starting point for a detailed review of the impact of VASS reporting and other requirements on partner organisations. Where forms or processes can be simplified and barriers removed without undermining reasonable accountability and quality assurance, this should be done.

Issues for smaller users

As we have already noticed, smaller users and non-Block Grant NGOs tend to report less favourable experiences of VASS across almost all areas (NGO survey 2004). This is partly because the Block Grant system is *designed* to make it easier and reduce compliance costs for all parties. Another reason is that, on average, non-Block Grant NGOs have less experience in using VASS, and could be expected to be less familiar with requirements [31]. At times it also seems that some smaller NGOs are trying to 'shoe horn' inappropriate projects into VASS criteria where they do not fit or where the VASS criteria are not fully understood. Clarification of the purpose of VASS, as well as opening up other NGO funding opportunities (for example in expanded volunteer-sending assistance) could reduce these difficulties.

Notwithstanding these factors, it would be useful to ask small, regular project users of VASS why they have chosen not to seek Block Grant status. They could also be asked what would make it easier or more desirable for them to do so, and if they remain on project funding, what could reduce compliance costs for them without undermining accountability and quality assurance for VASS. This would continue the discussion that started in the evaluation workshops, concerning issues for small users.

As part of such a review, the administrative support requirements of small VASS users could be specifically considered. This includes the particular requirements of all-

volunteer NGOs (see, for example, issues raised by Water for Survival, section 4.5.3), and assessing the need and capacity for additional support for New Zealand NGOs making the transition from all-volunteer to partly staffed organisations.

Programme and multi-year funding

Since the 1998 evaluation, considerable progress has been made in streamlining VASS administration in a number of different areas. However, it appears that least attention has been given to two key areas: promoting programme (alongside project) funding; and maximising the advantages of multi-year funding. Although the *VASS Handbook* recognises (in an early overview section) that both programme funding and multi-year funding are possible, the language of the rest of the document and the design of the process still appears to be based around a 12-month project model. As a result of this, and because of some possible disincentives in the system, it appears that generally New Zealand NGOs have found it difficult to move outside the '12-month project' mindset.

This has considerable potential to undermine the positive development impact of VASS funding, and to impose additional costs on VASS, New Zealand NGOs and their partners in developing countries. It has long been accepted that good development practice does not occur within neat 12-month project packages (e.g. Smillie,1998). In addition, a greater emphasis on effective programme approaches and multi-year funding offers opportunities for reduced transaction costs for both VASS and the NGOs. However, the VASS systems in practice at best ignore these wider approaches, and in some cases actively discourage them – for example, the same dollar maximum for co-funding applies to a 'project' as to a 'programme', thus providing financial incentives for breaking up the work into multiple smaller projects for potentially greater funding.

The current limit on the VASS contribution to a project or programme is \$100-120,000 (depending on the matching ratio). These limits were last increased in 1999. To provide some increased latitude, we believe VASS funding limits should be increased to around \$160,000 for 4:1 projects. In addition, it should be made clear that these are annual limits and that multi-year projects have a global limit for the period of the project, based on the length of the project multiplied by the annual limit. (Thus a three-year project would have an overall cap of \$480,000 to be spread across the three years as required, and not necessarily limited to three equal parts each financial year.) Of course the amount of funding that an individual project is allocated will still be limited primarily by the funds available, from both VASS and matching sources.

Although it does not make sense to have the same cap applying to programmes as to projects, difficulties would arise with the impact of financial incentives in defining an activity as a 'programme' if it were allowed a more generous cap. We propose an alternative solution for Block Grant NGOs, where there is perhaps greatest reason to provide space for more programmatic approaches.

All Block Grant NGOs are allocated a total sum each year, within which they must ration and allocate priorities. There is no particular reason why they should be constrained as to how much within that overall allocation should be allocated to one project or programme or another. The Block Grant NGO (if it is to be truly delegated programme design and project selection responsibility) will be best placed to decide whether it wants to fund a larger number of small projects or a smaller number of large programmes within the funds available. What is important is that they meet VASS criteria and are effective at achieving their development outcomes. For this reason we propose removing any project or programme cap on Block Grant NGOs, which have already demonstrated a capacity to select, manage and report on projects and programmes according to the VASS requirements.

This will provide a slight but added incentive to seeking Block Grant status. However, as we wish to encourage regular users of VASS to seek Block Grant status, we do not anticipate this would be a problem. It may also provide a slight incentive towards configuring Block Grant allocations as a smaller number of larger programmes (as this should reduce reporting requirements). Again, we do not anticipate this would be a problem, as we have identified to date an overwhelming bias towards a project approach.

We also believe that these efficiencies would be further cemented in if strenuous efforts were made to seek multi-year allocations for VASS (and other NGO programmes within NZAID). NZAID is one of five pilot agencies with whom Treasury has negotiated three-year appropriations for several of its major programmes - but not those covering VASS and other NGO funding. Representations should be made to extend the coverage to include VASS and other NGO funding to encourage stability and predicability in planning. In other areas, the rationale for multi-year appropriations is for better management of annual 'unders' and 'overs'. That is not the case with NGO funding. Indeed, NGOs have demonstrated considerable flexibility in effectively disbursing funds, even with very limited notice. The downside of this flexibility and responsiveness can be the encouragement of an *ad hoc* and piecemeal culture. A planned, phased and programmatic approach is more desirable, as it is more likely to achieve effective results. It is much more likely to be supported and encouraged with multi-year appropriations.

In the meantime, NZAID already has the power to make multi-year notional allocations within its annual appropriations (subject, for example, to the appropriations of the Parliament and continued satisfactory performance). This should be routinely made available to all Block Grant NGOs that have at least two years' successful experience of operating under the Block Grant system. If managed as a staggered three-year rolling programme, with a third of the NGOs coming up for renewal each year, NZAID and VASS would still retain plenty of room for flexibility.

It is our finding that:

important clarification, documentation and streamlining of a number of VASS processes, has occurred. Although there is still room for some ongoing simplification, development of requirements and rationalisation of transaction costs

there is still insufficient attention to promoting a programme approach, as against a project-based approach, within VASS

further advantages and efficiencies could be obtained by increased attention to multi-year funding.

16 **Recommendation 11**

17

The *VASS Handbook* should be updated urgently and systems put in place to ensure that it maintains currency and accessibility at all times, such as through a planned web-based version in addition to hard copy *Handbooks* and updates.

Recommendation 12

New Zealand NGOs need to use the *Risk and Innovation Policy* more confidently, where relevant. VASS needs to assure NGOs that, where they have specifically identified a project as being of high risk, where the *Risk and Innovation Policy* is followed and reasonable steps are taken to minimise or mitigate potential risks, less than satisfactory outcomes from the project will not in themselves jeopardise the NGO's current or future Block Grant status or future project funding.

Recommendation 13

A specific review should be undertaken of the impact of VASS reporting and other requirements on overseas partner organisations, with a particular focus on those considered to be 'non-VASSable' because of difficulties in meeting VASS reporting and other requirements for otherwise eligible projects.

Recommendation 14

A specific review should be undertaken of small, regular project users of VASS to determine why they have not chosen to seek Block Grant status, what would make it easier or more desirable for them to do so, and, if they remain on project funding, what could reduce compliance costs for them without undermining accountability and quality assurance for VASS.

Recommendation 15

Project and programme funding limits under VASS should be lifted to \$160,000 p.a. for project-funded NGOs; and it should be clarified that a global limit applies for multi-year projects/programmes (based on the duration of the project/programme multiplied by the annual limit).

Project and programme funding limits should be removed for Block Grant NGOs able to operate effectively within their Block Grant limit.

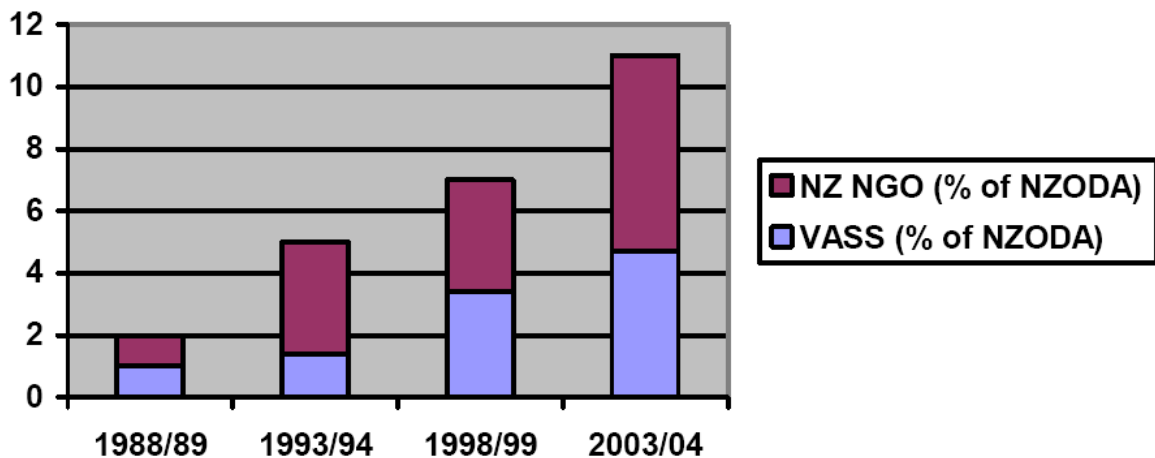
Recommendation 16

NZAID should actively pursue multi-year appropriations for VASS and other NGO funding schemes. In the meantime, VASS should make staggered three-yearly allocations available to all eligible Block Grant NGOs, subject to appropriations of the Parliament and continued satisfactory performance.

Although comparisons are fraught with limitations, especially across different countries, it is clear that New Zealand's spending on international development assistance is one of the lowest among developed countries, even taking into account our relative size and wealth [22]; and there is some evidence to suggest that the share of development assistance provided through NGOs is below the OECD average. In any case, New Zealand is so far down the table of developing countries in its share of GNP spent on international development assistance that the share of GNP contributed through NGOs would be well below average OECD effort.

That said, there has been a *substantial* increase in funds channelled through NGOs in the last decade or more, both in dollar terms and as a proportion of total NZAID funding. It has been estimated that the total funding to New Zealand NGOs represented 3 per cent of NZODA in 1990/91, had grown to 5 per cent by 1993/94 and was approximately 7 per cent by 1997/98. The NZAID annual report estimates that it was approximately 9 per cent in 2002/03. However, it may be substantially more than this and is currently estimated by NZAID staff at 11 per cent (Smillie, 1995; Clark *et al.*, 1998; NZAID, 2004; Programme Manager Civil Society, 2004).

Figure 4.6: VASS and total NZAID funding to New Zealand NGOs, as percentage of NZODA (1988/89-2003/04)



Note: The 2003/04 VASS allocation also includes EMDR. Total allocations to New Zealand NGOs are estimates only. In addition to the above, there has been a significant growth in NZAID direct

funding to developing country NGOs, which represented more than an estimated further 4 per cent of NZODA in 2003/04.

At the same time, other OECD countries have also been increasing their share of development assistance provided through NGOs, frequently from a much higher base. A decade ago, the best estimates were that on average probably around 15 per cent or more of official development assistance was provided through NGOs (OECD, 1995a). This was growing, so is now likely to be a larger share. For example, United Kingdom and Canadian funding through NGOs has increased around 30 per cent over that period.

To date, New Zealand governments have been reasonably responsive to proposals for increased NGO funding. For example, the ACEAD Review (1993) on the role of NGOs in New Zealand international development assistance recommended a major lift in funding, and a 75 per cent increase in VASS funding was provided in 1994/95. The 1998 VASS evaluation identified the capacity for a further substantial increase (up to about 30 per cent) in VASS funding, and since then VASS has in fact grown by \$4million or 66 per cent.

22 4.6.2 *The value of NGOs* 23

The arguments for channelling a greater share of official development assistance through NGOs are well rehearsed, not only in the New Zealand reports referred above but also in the international literature. For example, a number of factors have influenced governments across the OECD to increase the amount and proportion of official development assistance channelled through NGOs (OECD, 1995b). These are:

- *a growing recognition of the role NGOs can play in helping to meet official aid objectives in areas such as poverty eradication*
- *a recognition of NGOs as an important component of civil society, and as a vehicle for strengthening civil society and promoting good governance*
- *the ability of NGOs to involve beneficiaries and to work with poor communities outside the reach of official donor and local government programmes*
- *the role that NGOs can play in delivering assistance to countries where obstacles to official aid are presented by inefficient governments, corruption and political difficulties.*

The World Bank (Malena, 1995) identifies that the reasons it uses NGOs include: their innovation, small size and flexibility; to promote participation; enhancing project uptake (as intermediaries); their capacity to reach the poorest and most disadvantaged; enhancing sustainability by

enhancing community ownership; to facilitate direct consultation and give 'voice' to beneficiaries and communities; and to obtain different perspectives.

Short (1999) identifies some of the subtleties and complexities that NGOs face, by focusing on three current challenges:

"Firstly, the role that international NGOs can play in building strong domestic constituencies for international co-operation and development. Here in the UK, millions of ordinary people contribute money to the main NGOs – a strong sign of their commitment and compassion for those in need in our countries..."

But the challenge for NGOs... is to encourage their supporters to go beyond this deeply honourable charitable impulse and to explain more clearly the growing interdependence of the modern world and the need for more profound changes – in international structures and in consumption patterns – if we are to create a world free of poverty and want in the next century. I know that many NGOs are beginning to do this; but there is much more still to do.

A second key challenge for NGOs is to improve the effectiveness with which they lobby governments and international institutions. And as the relevance of the work of departments of trade, finance, agriculture and environment becomes clearer, the lobbying needs to be more sophisticated. Similarly as crucial agreements are reached in the EU, the WTO, the World Bank or the IMF, NGO lobbying needs increasingly to be transnational so that governments that are holding back progress in international forums are exposed to the pressure of international public opinion.

NGOs can form an invaluable catalytic role, raising issues that others would choose not to raise, advocating fresh ideas and perspectives, new ways of looking at the world. They have always done this but the challenge of the new times is much greater. It is no longer enough to demand change simply within our own national boundaries. NGO campaigning is faced with the challenge to globalise in the face of a globalising world.

The third, most pressing challenge for international NGOs is to give greater focus in their work within developing countries to ways of genuinely empowering the poor – and to acknowledge, as must governments, that the role of external players should be a transitional one. The ultimate aim of all of us – development departments and international development NGOs – should be to make ourselves redundant and success should be measured by how soon we leave, not how long we stay.

Too much of development in the past has been about isolated development projects. The new agenda is increasingly about sector-wide approaches, helping governments to provide key services, such as health and education. The best of these include working with local NGO partners, strengthening their capacity to demand improvements in the provision of key services from governments. But sector wide programmes provide a challenge to NGOs that have in the past set themselves up to deliver projects. The task now is to facilitate the delivery of a universal service rather than to provide for the few that the project can reach." (emphasis added)

24 4.6.3 The place of VASS in the funding mix
25

It is important that increases in NGO funding do not come at the expense of the very characteristics that make NGOs attractive for governments to work with in the first place (Kramer, 1994). A major review for the World Bank and IMF (Cassen, 1994) cautions that while *"increasing use of NGOs is highly desirable, ways have to be found to fund them while preserving their integrity and smallness [by World Bank standards]"*. In order to ensure this, we need to be confident both that NGOs themselves have the absorptive capacity within their own structures and processes to cope with any further significant increase in funding and that the funding mechanism supports rather than undermines the unique features and particular contributions of NGOs that are the reasons governments use them as intermediaries (Nowland-Foreman, 1996).

For this reason it is important that VASS (and other NGO funding channels) remain accessible to, and provide a constructive space for, small and new NGOs as well as large and established NGOs, that they promote the engagement of a diverse range of NGOs using a wide range of approaches, keep space for flexibility, innovation and new approaches, promote rather than punish reasonable risk-taking and learning, support local ownership and participation, and not involve excessive compliance costs. Recommendations throughout this evaluation have been designed with these objectives in mind.

Even with the best designed funding system, however, increased funding can undermine the capacity and special characteristics of NGOs if it is beyond their absorptive capacity. Most of the respondents to the NGO survey (2004) indicated that they had the capacity to utilise significantly increased VASS funding effectively. Only one Block Grant NGO and one other NGO indicated that they are currently at full capacity. Just under a third estimated they could readily absorb and effectively utilise a 10- 50 per cent increase in VASS funds in the next five years. Just under two thirds estimated they could absorb and effectively utilise more than a 50 per cent increase (up from just under one third of NGOs looking for a similar increase at the time of the 1998 VASS evaluation). It is of note that even though VASS funds have increased significantly over the last five years, the capacity of NGOs seems to have increased even further. Given that the respondents represented around 90 per cent of the current VASS budget, this is a very strong indication that a 50-75 per cent increase in VASS could be readily utilised over the next three to

five years, especially if undertaken as a planned and staged expansion, and in conjunction with the measures recommended below to remove identified bottlenecks on growth.

In fact, many NGOs at the national consultation meeting indicated that it is likely they could effectively utilise even larger rates of increases if these bottlenecks were addressed. If a more finely-tuned estimate is required, a small survey could be undertaken of, say, the eight NGOs that currently utilise 90 per cent of VASS funding, to get a more accurate estimate of absorptive capacity once decisions are made about the specific recommendations made in the remainder of this section.

Some NGOs suggested that NGO funding (either in total or through VASS in particular) could be tied to international benchmarks, such as the OECD average of official development assistance (ODA) provided through NGOs. However, these data are not readily available or regularly updated; nor are they necessarily very reliable. Generally, these figures do not include direct funding to developing country NGOs; but in some cases they do, and it is not always possible to disentangle them. Some countries (such as Australia, Switzerland and to some extent the USA) are better at reporting on comprehensive NGO funding data; others miss out funding to NGOs through country and regional programmes and only count funding windows exclusively targeted at NGOs. National figures are also highly susceptible to how certain programmes are delivered – notably, whether international volunteer programmes are managed by NGOs (as in Canada, Australia and New Zealand) or by government agencies (as in Japan and USA). Different surveys of the same country have also reported wildly different figures only a few years apart in some cases, which suggests they are probably measuring different things (Smillie, personal communications, 1998).

Thus, while it is clear that New Zealand funding through New Zealand NGOs is certainly on the low side compared with other OECD countries, the estimated OECD averages would not necessarily provide useful specific targets at this time. Should the international and New Zealand data improve, it might be possible to reconsider this approach.

In summary, however, it is clear that there is widespread recognition of the value of channelling an increasing share of ODA through NGOs, and this has been the long-run global trend. The share of NZODA channelled through New Zealand NGOs, while it has been growing rapidly, started from a very low base and is still significantly behind many other OECD countries. Furthermore, New Zealand NGOs have a capacity to allocate, readily and effectively, substantially increased funding on projects and programmes consistent with VASS requirements and NZAID policy directions.

When asked to identify what changes would be required to absorb a larger increase, several NGOs identified the need to increase matching ratios and raise the limits on individual projects (NGO survey 2004). This point was strongly reinforced in the NGO regional consultation workshops and is consistent with the assessment of an independent analyst (Smillie, 1995), who

earlier observed that the proportion of NZODA support to NGOs would be unlikely to change dramatically unless there was a change in the funding criteria or ratios.

26 **4.6.4 Ratios**
27

The issue of project and programme caps has already been addressed. So here we focus especially on the issue of the matching ratios. Not all NGOs reported they would need the ratios to be eased to enable them to take up significantly increased funds, but those that did were more likely to be the smaller NGOs. Therefore, as well as ratios being an important area for attention when considering the total feasible increases, they are even more important for maintaining the spread of involvement of different types of NGOs, and especially the smaller and 'locally grown' NGOs.

A potential concern with increasing funding ratios may be that additional government contributions could 'crowd out' community support and jeopardise NGO independence. It is unlikely, however, that higher ratios will reduce New Zealand public giving. Of all the NGO sectors in New Zealand, the international development sector is the least dependent on government funding and the most dependent on public donations (Robinson and Hanley, 2003). And at least up until the late 1990s, New Zealand NGOs appear to have one of the lowest levels across the OECD of reliance on official development assistance. The proportion of New Zealand NGO income derived from government funding may be as much as 30 per cent lower than the international average estimated by the World Bank, with only France and USA NGOs appearing to have lower levels among the 17 countries for which data were available (Randel and German, 1997; AusAID, 1995b). The CID NGO survey indicates that at least \$60 million is spent overseas by New Zealand NGOs, compared to total VASS and EMDR funding of \$11 million, and total New Zealand NGO funding from all NZAID sources of approximately \$22 million. However, it needs to be acknowledged that *individual* NGOs may receive a significant share of funding from NZAID.

Furthermore, there is anecdotal evidence from fund-raisers and others (reported at NGO regional consultation workshops) that increased ratios are likely to spread available funds further, and may even encourage increased private giving; it was reported that when donors understand their \$10 donation can leverage a matching \$40 contribution from the government, they appear even more inclined to give. Indeed, matching funding is referred to in the United States literature as 'incentive' funding because, from fund-raisers' experience, it tends to increase the incentive for people to give more. There is also some international evidence to debunk the 'crowding out' assumption, with countries with higher levels of government funding to NGOs also having greater private activity (Salamon *et al.*, 2003).

The potential threat to independence of 'over-reliance' on government funding is another matter. There is nothing inherently bad about government funding as opposed to other sources of NGO income (nor inherently desirable, except perhaps that it can have a lower fund-raising cost). More than a century ago, Amos Warner identified the Achilles' heel of voluntary organisations as their "inherent donor dependency, regardless of its public or private sources" (quoted in Kramer,

1994). However, it is widely acknowledged that risk of donor dependency does increase when all or most of your funding 'eggs' are in one 'basket'.

The degree of concentration, rather than the source of income, is the critical issue. Yet this is an issue only to the extent that the organisation grows to *depend* on that income. Thus a fully volunteer-run organisation passing most of its money to overseas projects may be less dependent on 100 per cent government funding for those projects than a larger NGO that has built up staffing and infrastructure contingent on obtaining a small proportion of administrative funding from a large flow of funds. Ultimately 'dependency' may be best measured by the organisation's capacity to say 'No' to funding that may skew or distort their purpose or values.

The Committee to Review the Australian Overseas Aid Programme (Simmons Committee, 1997) was concerned that individual NGOs face a risk to their autonomy as they become more reliant on AusAID funding. Over time they might increasingly shape their programmes to suit AusAID's requirements and priorities, rather than their original mandates. Their role in representing community views on international development could also be affected. However, the Simmons Committee concluded, there is no reason why they should not be able to resist these influences so long as they maintain:

- strong governing bodies [33]
- a firm commitment to their motivating value
- active links with the communities or constituencies they represent.

Government funding caps, where they have been instituted, vary around the world from 50 per cent to 90 per cent, and the Danish development programme that previously had a 90 per cent cap scrapped it in the late 1990s (Smillie, 1999). The problem with funding caps seems to be that either the limits become too restrictive in individual cases if set too low, or virtually meaningless if set too high. We agree with the conclusion of the 1998 VASS evaluation that, given the greatest risks to independence to NGOs lie outside VASS (if VASS remains under NGO ownership and direction), and given the lack of international consensus on what a sensible cap would be, funding caps do not appear to be useful. However, the issue of independence of the sector is important, both for the sector as a whole and for individual NGOs to manage. We would encourage individual NGOs and CID, on behalf of the sector, to monitor trends in this area closely and to discuss implications openly.

We therefore favour increasing funding ratios.

The next issue to consider is whether a proportional lift in all ratios is preferred (e.g. lift general projects from 2:1 to 3:1 and targeted projects, such as Women and Development and Capacity Building, from 4:1 to 5:1). NGOs identified a range of ratio options from 3:1 through to 8:1 (NGO survey, 2004). Moving some projects to 5:1 would put VASS towards the top end of ratios internationally, especially for 'responsive' funding programmes.

We have already identified that being a responsive funding scheme is a crucial defining feature of VASS, and particularly important in achieving the proposed second and third purposes. While, as we have just established, there are no absolute dividing lines, we are concerned that there might be increased pressure on VASS to move towards funding NZAID-determined priorities (geographic, political, and service-types priorities) if five out of every six dollars was coming from NZAID. This is also a concern shared by some NGOs, though by no means all.

A further factor to consider is that of the compliance costs of having differential ratios. One of the areas of greatest confusion, identified both by NGOs themselves (NGO questionnaires, 2004) and independent VASS review consultants (Quinn and Clark, 2003), has been that of distinguishing between the general requirements for gender sensitivity and special features that justify GAD funding, and, to a slightly lesser extent, the general requirements of building in sustainability and special features that justify a Capacity Building grant. This increases uncertainty, and requires increased checking and 'policing' of the boundaries by the PSC. It is of note that this uncertainty and confusion has continued for the five years that these incentive funding windows have operated, despite many attempts to clarify the boundaries in the meantime.

Another option, then, could be increasing all funding ratios to, say, 4:1. This would ease limits on growth somewhat (though perhaps not as much as increasing all ratios); remove a potential area of confusion (and, in a few cases, of acrimony) between general and targeted projects; simplify application and reporting requirements; and still maintain a significant NGO stake (at least 20 per cent) in all projects.

A reasonable trade-off for increasing the matching ratios of all projects and programmes to those currently applying only to Gender and Development and Capacity Building projects would be to expect a more rigorous insistence that gender and capacity issues are fully addressed in all projects.

A potential disadvantage of increasing the matching ratios of all projects to 4:1 is that it removes the current financial incentives for identifying more projects with a specific Gender and Development or Capacity Building focus.

On balance, we suggest that increasing general projects to a 4:1 ratio may be preferred. This is not because we believe that poverty is gender neutral, nor because we believe that gender inequities have been addressed. Nor do we believe that an approach that builds in capacity is more sustainable. However, we do question whether financial incentives are necessarily the best way to encourage and support approaches that effectively address gender inequities and build capacity. Good development principles require gender equity to be addressed. Good development principles require capacity and sustainability to be addressed.

If this approach is pursued, it would be important both to invest in other pro-active strategies to further promote gender equity and capacity in all projects (e.g. through training, mentoring, policies, highlighting good practice, etc.), and to monitor the impacts carefully and closely, so that the shift in ratios does not inadvertently lead to a reduction of emphasis on these important issues.

28 *4.6.5 Workforce planning and other issues*
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A smaller number of NGOs also identified the need for more development staff in order to absorb more funds effectively (NGO survey and NGO regional workshops, 2004). Workforce planning is an important issue that, because of the small size of the sector, has probably not required much attention to date. However, there has been rapid growth in the numbers of development professionals employed by NGOs at the same time as NZAID itself has embarked on a major recruitment drive. So this is an issue that probably cannot be left for much longer to sort itself out, if further significant increases in funding are to be well utilised and the ongoing development of the sector and the continuing professionalisation of NZAID are to be encouraged. A more pro-active and collaborative approach to domestic workforce planning issues is required from both NZAID and the NGO community (at least the larger employing NGOs) to avoid any counter-productive staff poaching or competition.

We will also need to continue to see an investment in infrastructure, capacity and learning of New Zealand NGOs (as proposed in section 6) to ensure ongoing effective absorption of these growth funds. Finally, the orderly, continued growth of VASS and other NGO funding would be greatly aided by multi-year funding and forward planning by NZAID. It is crucial to its effective utilisation that any major increase in VASS funding be clearly planned and phased in over the next three to five years, with a gradual start-up.

Recommendation 17

NZAID should plan for further substantial increases in VASS allocations, in line with NGO capacity to disburse funds effectively in accordance with VASS criteria. It is

estimated that this could represent as much as a 50-75 per cent increase over the next three to five years.

In order to achieve orderly and effective absorption of increased funding:

- NZAID should urgently seek multi-year funding for VASS and other NGO programmes, as per Recommendation 16, or at least a planned forward commitment over a three- to five-year period, on a phased basis with a gradual start-up.
- The co-financing ratios for all VASS projects should be increased to 4:1.
- Individual project and programme caps should be lifted, as per Recommendation 15.
- NZAID and the NGO community, through CID, should establish a more pro-active, collaborative approach to workforce planning, and VASS should continue to invest substantially in capacity and learning for the sector.
- As any special financial incentives are removed for *Gender and Development* and *Capacity Building* projects, VASS should invest in pro-active strategies to further promote gender equity and capacity in all projects (e.g. through training, mentoring, policies, highlighting good practice, etc.), and should monitor carefully and closely the impacts of the change in ratios.

30 4.7 VASS Policy, Management and Strategic Direction

31

32 4.7.1 Administration of the Scheme

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The 1998 evaluation identified that VASS operated with very low overheads in managing the funding scheme. The cost of general funding administration at that time was 2.5 per cent (rising to 5 per cent if NGO evaluation and training costs were included). The administration costs of other New Zealand funders surveyed at the time ranged from 6.3 per cent to 22.3 per cent. The current administration cost is even lower than it was in 1997/98. Including NZAID salaries, it equates to 1.5 per cent of total VASS expenditure or 4.7 per cent if evaluation and training costs are included (NZAID 2004/05 budget; PSC Annual Report 2002/03). This may have risen slightly in some years because of additional costs for the pilot Participatory Impact Assessment, but essentially it remains very low, with the basic administrative component dropping significantly and the investment in learning and evaluation edging up slightly from its modest base. The ratios fall even lower if the costs are averaged out across the additional EMDR funds, which are also administered through the PSC.

Overhead costs for the Scheme have certainly been contained because of the Block Grant system of delegating project approval and management. Costs have also been contained through the system of peer assessment and oversight – not just because this can be cheaper than employing staff, with their associated overheads, but also because it promotes 'accountability of a thousand eyes'. There is very strong evidence in the international accountability literature (see e.g. Kearns, 1996) that such horizontal peer accountability is not only cheaper but also more effective than paper-based, vertical accountability, especially in the non-profit and public sectors.

There is also some evidence to suggest that responsive funding approaches (such as that of VASS), compared to contestable funding and more especially purchase-of-service contracting, are associated with generally lower compliance costs for applicants and lower overhead costs for funders; and they are less likely to be associated with some costly compliance problems, such as compromising quality, concealing information and developing dual systems (Bernstein, 1991; Nowland-Foreman, 1997).

It is our finding that:

- overhead costs of managing VASS and EMDR remain very low. This is of concern, given the stress on the PSC and the relief that additional administrative assistance would provide.

4.7.2 Stewardship and accountability

The reason for these low administration costs of VASS is not inadequate accountability or oversight. Nor is it because of low standards, or expectations that are easily met without effort or supervision. In fact, the 1998 evaluation found the opposite, and this remains broadly the case today.

For example, no NGOs rated the amount of time and resources required to apply for funding as less than appropriate. Some thought it about right, but even more thought it definitely more than appropriate.

There are similar results when NGOs are asked about the time and resources required for reporting back on projects. In dealing with changes over the lifetime of project, all but

one thought the current system was a little too rigid, one thought it was just right and none thought it was too lax (NGO survey, 2004).

Institutional reviews paid specific attention to ensuring that accountability and financial reporting were understood and undertaken responsibly.

While no major concerns were highlighted, there were several helpful suggestions from the reviewers. Along with GAD and issues regarding Guidelines for Religious-Based Organisations, there were more recommendations in this area than in any others (Quinn and Clark, 1999-2002). *Refer to page 80: Question 4.11*

In a substantial two-year study on NGOs and accountability, Sword and Bograd (1996) interviewed United States state regulators and identified a range of the most frequent abuses and accountability lapses. They identified a continuum of abuses from outright theft or fraud to waste and inefficiency:

(i) Stealing, fraud and embezzlement. Outright theft is rare and is covered by general laws, whether in a NGO or not, but it helps to define one end of the accountability continuum. This issue is dealt with in VASS by testing the appropriateness of internal controls and systems as a part of the regular cycle of institutional reviews. NGOs are required to provide detailed reports on completion of projects, including acquittal of funds against the project budget and annual audited accounts that show the flow of VASS funds.

It may be useful for VASS to require recipients to lay a complaint with the New Zealand Police immediately if any VASS funds are stolen or misappropriated. This may be inferred by Guideline 4.3 on "Responsibility for Proper Use of Funding" (VASS *Handbook*, 1999) but could be made explicit. Such a requirement is generally considered good practice, including by other responsive funders such as the New Zealand Lottery Grants Board (Nowland-Foreman, 1997).

(ii) Private inurement, egregious self-dealing and excessive compensation (private benefits). These issues all go to the question of whether individuals are diverting money or other assets to private use or benefit that should be devoted to charitable or non-profit

community benefit. Sword and Bograd identify two recurring syndromes. In what they refer to as the 'Aramony syndrome', after an infamous United States case, a board fails in its duties of oversight by sitting back and overly relying on a strong manager (often a founder or other charismatic leader) who may treat himself or herself to excessive compensation or other benefits. Under the 'self-employment syndrome', the NGO is created or hijacked for the benefit of its manager, and the board (and perhaps other staff) includes many friends and relatives.

These private benefit problems are interwoven with governance issues, and are best prevented and detected by supporting the development of strong and independent boards that clearly understand their roles and responsibilities. Again, this is an issue addressed by VASS in the regular cycle of institutional reviews. It is also indirectly considered in the initial approval of Organisational Profile. This could be strengthened by explicitly including an effective and independent governance structure under the eligibility criteria for approval of a Profile (*VASS Handbook*, Guideline 4.1.1).

(iii) Improper conversion of charitable assets to commercial status. This is a specific issue in the United States, with the conversion of non-profit hospitals to commercial entities. It is not a particular issue in the New Zealand context. However, it is useful to keep in mind the focus on community benefit. In its widest sense, this is one of the significant contributions of impact assessments (which are addressed in section 6). The focus on assuring community benefit is also picked up in a more immediate sense by attention to the nine VASS criteria in both the routine project assessment and project reporting processes. The evidence available to this evaluation suggests that such criteria are systematically applied in both assessment and checking reporting (NGO survey, 2004; VASS files; VASS application and reporting forms).

(iv) Misappropriation of funds. Misappropriation refers to funds that are provided for one purpose being used for another purpose (no matter how worthwhile or legitimate). One of the basic differences between not-for-profit accounting compared with commercial accounting is the importance of donor-imposed restrictions on income. Income is frequently restricted in the purposes to which it can be applied. Unfortunately, this is not adequately acknowledged in New Zealand accounting standards, which eschew 'fund accounting' and prefer the same approach to accounting for all entities, essentially based on a commercial model (Newberry, 1993). Thus protection against misappropriation is more reliant on donor-imposed requirements. VASS NGOs are specifically required to ensure "that all funds are disbursed and accounted for in accordance with VASS criteria and requirements and are strictly used for the purpose for which funding was approved" and significant budget variations are required to be reported (*VASS Handbook*, 4.3). Block Grant NGOs, for example, are required to identify use of VASS funds clearly,

either in an audited financial statement or a letter from an independent accountant or auditor confirming that the funds have been used for the purposes intended. Block Grant NGOs also submit in-depth reports on a sample of projects selected by the PSC each year, with further in-depth reports required for institutional reviews.

In addition, there are specific requirements regarding how to manage changes in projects during implementation (*VASS Handbook*, B12), which make expectations very clear. In the past, the requirements have probably been too rigid, but currently they provide a better balance between flexibility and ensuring funds are applied to the approved purpose (NGO survey 2004).

(v) *Mismanagement*. This refers to waste of assets, letting the NGO get into financial neglect, or lack of oversight, and

(vi) *Inefficient or ineffective operation*. These two categories raise questions about when it is appropriate for funders (or other external agents) to become involved in the internal operation of independent NGOs. On the one hand, a funder has a legitimate interest not only in the money being spent but also in ensuring value for money and ensuring community benefit. On the other hand, a funder cannot manage 'for' an NGO. Apart from practical limits to such interference, it is also not desirable for this to occur to the point where it undermines the independence and thus the long-term sustainability of the NGO (Kaplan, 1999).

Indeed, given that the single predominant factor associated with lapses across the accountability continuum is inadequate oversight by an effective and independent board (Sword and Bograd, *op. cit.*), and that excessive interference in management is more likely to sideline and undermine the effectiveness and independence of boards (Nowland-Foreman, 2000), excessive supervision and management interference by a funder is likely to be counter-productive, actually increasing the risk of long-term accountability lapses or abuses rather than reducing them. This is an important part of NGOs' maintaining a balance between what Najam (1996) refers to as accountability to *patrons* (supporters, donors, funders, etc.), to *beneficiaries* (the people and communities served), and to *ourselves* (NGO mission, goals, members, volunteers, staff, etc.).

While at times there have been concerns that VASS has 'tipped over' into excessive interference in NGO operations and management, this is most frequently experienced in

the reporting requirements discussed in Section 6. The strong emphasis in the VASS system on self-evaluation, learning and capacity building provides a more constructive approach to preventing major abuses and responding to minor accountability lapses. There are, however, some ways in which this could be strengthened and current reporting requirements streamlined further. This is dealt with in detail in section 6.

The range of accountability issues identified by Sword and Bograd (*op. cit.*) broadly represent a continuum from least frequent abuses to more common lapses, and also from more easily detected to more difficult to detect problems. It is a mistake to focus only on the sharp end of abuses and to overlook the more commonly occurring lapses and inadequacies at the other end of the continuum. Care is required, though, that this does not lead to internal interference in the NGO that could ultimately undermine its sustainability and accountability. A focus on a strong and independent board and a concern with outcomes, impacts and results are more appropriate and effective checks against mismanagement and inefficiency or ineffectiveness.

It is our finding that:

VASS has sound systems for reporting and financial accountability, which are well able to address the full range of potential accountability lapses. It is perhaps better equipped to prevent and take remedial action against the more common (and less readily detected) lapses of mismanagement or ineffectiveness than many other funding programmes, because of its strong emphasis on learning and capacity building (see section 6).

some minor aspects of the VASS guidelines could be made more explicit so that expectations of NGOs are clearer

some reporting requirements are burdensome and could be eased (as discussed in section 6) without any significant weakening of the fundamental accountability architecture.

Recommendation 18

The current VASS guidelines on 'Responsibility for Proper Use of Funding' should include an obligation on New Zealand NGOs to lay a complaint with the New Zealand Police if any VASS funds are stolen or embezzled.

Recommendation 19

Eligibility for acceptance of a VASS Profile should include an explicit requirement for an effective and independent governance structure.

4.7.3 PSC workload and administrative support

The Project Selection Committee manages the VASS allocation and EMDR funding. It assesses applications, reviews reports, draws up a budget for the annual allocation of funds into various categories, liaises with NGOs on its decisions, contributes to the development of VASS policy, criteria and guidelines, determines the annual evaluation programme of NGOs, and identifies training needs.

A number of factors appear to have conspired to increase the PSC workload significantly over the past five years. EMDR project funding was added to their responsibilities. The emphasis on a more supportive approach to reviewing Block Grant NGOs has resulted in additional workloads for the PSC as a whole and for individual members in their liaison roles. There has also been a reduction in administrative support provided to the PSC, and generally PSC members report feeling unsupported by NZAID through the upheaval of the establishment and transitional stages of the new agency.

In terms of workloads, PSC members are now involved in meetings for 12 days a year, with at least a further 12 days reading the substantial meeting papers and assessing individual applications. This is about double the time required at the time of the 1998 evaluation, when PSC members said their workload was "demanding but manageable". Further time again is required in their PSC liaison roles (each with between 10 and 16 organisations that are registered with VASS). A further 30-40 days' commitment may be required in the year they are the PSC representative on an institutional review (which is approximately every fourth year for each PSC member).

In 1997/98, the VASS Project Selection Committee (PSC) considered 114 applications. In 2003 the PSC received 63 VASS project applications, 167 annual reports from Block Grant NGOs, and 32 applications for EMDR. In 2002, 33 in-depth reports were requested

and received. There were 100 Block Grant annual notifications for the August 2004 PSC meeting (VASS and EMDR database, 2004).

The transition period of NZAID being established was a particularly difficult time for the PSC. Part-time contracted staff were provided by NZAID and there was great difficulty getting access to files. Records are incomplete and PSC members have talked of looking through their own files to find records of past decisions, for example.

While some of these issues have been addressed, and there is great relief among all concerned to have a dedicated part-time PSC Administrator, it is not surprising that this evaluation has identified major, and perhaps unrealistic, workload expectations of the PSC members. Excessive workloads are not sustainable in the long run and risk reducing the pool of potential members and the diversity of interests represented. This in turn undermines the participatory characteristic of the Scheme's management, may lead to burn-out of those willing and able to serve, and restricts what a number of PSC members identified as the invaluable capacity building and learning experience of serving on the PSC, which in turn serves to strengthen the sector as a whole. For example, as a result of unexpected resignations and a lack of alternative candidates, most current PSC members are associated with Block Grant NGOs. At its worst, this could be a self-limiting restraint on further expansion of the Scheme. Some of the earlier recommendations in this report should reduce workloads for members; increased administrative support, as proposed later in this section, would ease the situation somewhat.

The liaison role for PSC members can be straightforward or demanding. It is not something that members necessarily have specific training in or task descriptions for. While there is always a fine sense of judgement involved with these roles, we believe that the liaison role has become too burdensome at times, and can be highly unpredictable when deciding whether to stand for election. This is especially when an NGO – Block Grant or project – is having difficulty. Then the liaison role can run the risk of being complicated. We consider that the PSC should think seriously about allocating resources to engage consultants/mentors to work alongside 'struggling' project applicants and Block Grant NGOs 'of concern'. An issue to take into account in doing this would be managing the balance of building up some (pool of) expertise in the sector with the unlikelihood of one person being able to satisfy all demands. The demand is likely to be lumpy. Such a change would help clarify the roles of PSC members in moving from information giving and advice to mentoring, a distinction that has been intended but not always followed. As much as anything else, it would help clarify the NGO community's perceptions of roles.

Recommendation 20

The liaison role of PSC members should be simplified to focus exclusively on information giving, with separate mentors engaged to work with those NGOs needing more intensive support or assistance.

The PSC is supported by a part-time Administrator, funded by NZAID but housed in the CID office. The decision to 'outsource' this support from NZAID was controversial at the time and is still questioned by some, although the quality of the work undertaken by the Administrator is not in question. Servicing and membership support for the PSC from NZAID has reduced over the last three years from a part-time NGO Manager and full-time VASS Administrator, when at the same time the scheme has grown in size and complexity. The current staff input includes part of a Programme Manager Civil Society (estimated at around 0.25 FTE), 24 hours a week PSC Administrator (0.6 FTE) (only recently increased to that level), and part of an NZAID Programme Administrator (estimated at around 0.2 FTE), who finds the competing demands burdensome when she is responsible for supporting other team members and programmes in NZAID. Furthermore, the workload has grown substantially at the same time as the administrative support has reduced, and perhaps equally importantly, that support has become 'fractured' across a number of people in different physical locations, and with different reporting arrangements, resulting in associated higher transaction costs.

While there may have been sensible reasons for an independent administrative position at the time – primarily because of the disruption arising from the formation of NZAID, with the additional intention of reinforcing the independence of the VASS and EMDR – there are costs in the resulting split. These include a reduction of the already small-scale support, loss of back-up capacity, some necessary duplication and co-ordination costs, some loss of informal linkages, some increased confusion, and data base and IT complications. Given the recent history of considerable disruption, we suggest that current arrangements not be disturbed unless absolutely necessary. This would add unnecessary disruption just as the new system is settling down and would cut across the highly effective work undertaken by the current Administrator. But in the medium term (when there are staff changes or other significant restructuring) it would be desirable to bring the support back together in one place. The schemes are unlikely ever to be able to achieve full out-sourcing; nor would this necessarily be desirable, as it would weaken linkages with the wider NZAID. So we envisage that eventual consolidation of administrative support should be back in NZAID, with steps taken in the meantime to find ways of reducing the transaction costs involved with the separation.

It is also clear that the role should be expanded. We understand from NZAID staff that in the past the VASS Administrator would check project applications for completeness, getting additional information required before PSC meetings, etc. A reinstatement of this approach is likely to reduce the number of times NGOs are requested by the PSC to provide additional information. Given the more focused capacity building and partnerships approach being pursued with VASS, there is also value in the PSC being able to monitor trends in VASS/EMDR applications and reports. Such analytical support is becoming increasingly important. Section 6 discusses external relations and communication about VASS and EMDR. The PSC is likely to need staff support here as well. With the administrative component having dropped to just 1.5 FTE, there is plenty of room for increased investment for the PSC to fulfil its management responsibilities for the schemes adequately.

Recommendation 21

Staffing and administrative support should be increased immediately to at least 1998 levels. Under current circumstances, that would require increasing the VASS administrator position to the equivalent of full-time. A formal scoping exercise should then be undertaken to assess current and medium-term support needs for the PSC realistically, based on incorporating additional analytical, external communication and administrative support.

4.7.4 Strategic direction

In many ways, the last few years have been a time of "all hands to the PSC pump" for members. Fowler (1997) identifies common limitations on committee effectiveness:

- a team has too many tasks to perform
- insufficient distinction is made between policy and operational issues, leading to overloaded agendas
- deliberations require decisions that must be specifically generated, but where there is no extra capacity to do so.

Some of these characteristics ring true for the PSC. Workload demands have meant that maintenance decisions have to a certain extent crowded out a more strategic focus.

Cornforth (1995) identifies that committees with leadership, management and oversight roles have four interconnecting areas of responsibilities:

- strategic overview
- stewardship and accountability
- external relations and communication
- self maintenance, in order to operate effectively and efficiently as a committee

The PSC has clearly been strong on stewardship and accountability for the funds it is responsible for, but has been less strong on strategic direction, with crowded meeting agendas and increasing operational demands. From discussions with PSC members and the submission prepared by the PSC for this evaluation, it is evident that members have been aware of a number of problem areas and issues needing to be addressed, but have not been able to deal with everything. One major area is how to address the integration of the Participatory Impact Assessment pilot; another is how to ensure certainty and closure around the development of the Guidelines for Religious-Based Organisations. Yet another is how to encourage and foster VASS small user participation in the PSC.

One particular strategic policy issue we would identify as requiring early attention is that of disability and development. This is primarily an issue for the normal VASS policy development processes, but with inadequate attention available to lead policy debates and direction-setting, disability issues were presented to us several times during the course of this evaluation. This included a submission prepared by an *ad hoc* NGO Working Group on Disability (July 2004). We are aware that in the same way that poverty is not gender-neutral, people with disabilities are likely to be among the poorest of the poor. The NGO Working Group argued that:

- a human rights approach should be the starting point for dealing with disability in development, in line with the UN Declaration on the Rights of Disabled Persons

- a set of basic principles should be adopted in line with the (then) Australian Council for Overseas Aid's approach
- a number of changes should be made to the *VASS Handbook*, flowing from the above
- an additional funding window should be created for Disability and Development projects, with a 4:1 funding ratio.

We were highly sympathetic to the approach suggested by the Working Group and understand that a lack of focus on disability issues to date has been a source of concern to some NGOs.

As we are suggesting elsewhere a move away from specific incentive matching ratios, we would not favour the creation of a separate funding window for this purpose, but otherwise believe this is an area justifying more attention. In particular, we would encourage the PSC and the NGO community to consider incorporating appropriate changes in the *VASS Handbook* to reflect the above principles, including a general recognition of this issue along the lines of the following:

The underlying principles on which the VASS criteria are based are as relevant to those with disabilities as to other members of the local community. A key requirement of VASS is that projects should address the needs of the poorest of the poor. Many of those with disabilities in a community are the poorest of the poor, yet their voices are often unheard or ignored. It is important to ensure that community consultations do not ignore the views and needs of those with disabilities and that the participation of people with disabilities in project design, implementation, monitoring and evaluation are adequately allowed for.

However, we believe that this policy issue should be dealt with in the normal VASS policy development process, and there is no reason why this should not occur in a timely way. Our recommendations in this section are largely designed to carve out some space in the busy PSC agenda to progress strategic policy issues such as these, as part of the ongoing development and continuous updating of VASS.

We also received complaints of micro-managing and 'nit-picking', and some evidence that the PSC can appear to be "*Handbook-led*". We believe this is related to two factors: (i) not having clearly stated and agreed overall purposes for VASS (which we have

discussed earlier), so that all decision-making needs to be referred back to the *Handbook* or to precedents, and (ii) the sheer workload pressures discussed above.

We have also reached the conclusion that five years is too long to wait for evaluations to provide space to identify trends and patterns. The last five years have seen significant change in the national and international development environment for VASS and EMDR. The next five years could be equally challenging and change-orientated. Five years, while an appropriate gap between comprehensive evaluations, is too long a gap between analysing patterns and trends of use, assessing developments and reflecting on strategic needs related to VASS and EMDR. We see built-in, low-key, informal assessments on a more frequent and routine basis as being as important for the PSC to undertake, manage and communicate as the business of the VASS and EMDR. Realistically, this would only be possible with additional administrative and analytical support.

Associated with the emphasis on stewardship and less time to focus on the bigger picture and strategy, the role of the PSC as having the 'moral authority' to make policy decisions arises. It is important to have such authority to be able to manage the Scheme on behalf of NZAID and the NGO community. While the provision of additional administrative assistance to the PSC should free up some time, we believe there are two other factors that would assist the PSC take a broader and more strategic role in relationship to VASS and EMDR management.

Firstly, we have come to see the name "Project Selection Committee" as a misnomer. The Committee does not just select projects, especially for Block Grant NGOs (which disburse 90 per cent of VASS funding). It oversees and manages a multi-million dollar overseas community development scheme in which there are high levels of moral and functional accountability to the broader New Zealand community, the NGO community and the main funder and partner (NZAID). We believe the name should be changed to reflect that role.

Secondly, each member, except for the NZAID staff member, has a primary job with his or her own organisation. We have come to the conclusion that the strategic focus of VASS and EMDR would be assisted by the appointment of a part-time independent chair to give particular focus over a three- to five-year term.

This independent chair could: assist in maintaining continuity, especially between meetings; reduce the transaction time associated with chair changeovers; fill a supportive role in representing the PSC; foster wider community buy-in and be a public spokesperson (in representing decisions made by the PSC). We see this role as being part-time and especially valuable over the next few years, to drive implementation of the recommendations arising from this evaluation. We envisage this role being filled by someone with wide and deep NGO experience and with standing or mana with the international New Zealand NGO community. We also envisage the appointment being made jointly by the NGO community and NZAID, to reflect the partnership nature of VASS (and EMDR).

We are aware of concerns raised by some NGOs about this suggestion. These centre around a feared loss of ownership of the VASS and EMDR schemes by the NGO community and potential loss of its independence. In fact, we see the greatest threat to the independence of VASS and EMDR in a failure to appoint a part-time independent chair at this stage in its development. Without such an independent appointment, we see a PSC either unable to fully grasp the potential of its role or excessively reliant on NZAID staff and individual personalities. We see an independent chair as serving, rather than taking away from, NGO ownership or from PSC member communication with NGOs. This role would enhance the capacity for PSC members to undertake a more strategic approach, while reducing some of the load on PSC members and thus making democratic participation in the PSC more possible. It would more realistically provide a person able to concentrate on ensuring the committee processes work effectively and are followed through, in the place of what is currently a six-monthly rotation among already overloaded PSC members.

It would certainly be crucial that specific appropriate qualities and attributes for the role be identified and agreed between NZAID and the NGO community and that a process for appointment also be agreed that reflects the partnership approach inherent in VASS and EMDR.

4.7.5 Committee maintenance

Maintaining an effective, well run committee that operates to and harnesses the strengths of its individual members while providing a clear and united voice is essential. This requires clarity of role and function, clear decision-making processes, training and support for members and planning for continuity and succession. Therefore, separately, and as a fundamental step, we consider that any management committee should have

clear roles, and tasks defined and described, and an induction/orientation process for new members so that clarity of role, purpose, structure, task and relationships are established from a common basis.

As these broader programme and strategic management responsibilities of the PSC are spelt out, it would also be important to review again the appropriateness of the current level of PSC member remuneration. [34] There are serious questions about whether the current level of remuneration remains adequate to back-fill the time and expertise demanded of PSC members responsible for managing two multi-million dollar schemes.

An increase in PSC member remuneration may be one way of encouraging members from small VASS and EMDR users to stand for and remain on the PSC. Their lack of current engagement is of concern and is a significant gap, potentially reducing understanding of the issues facing small users. At the very least, it gives the perception of the PSC having a greater connection with the issues of Block Grant NGOs. There may be other avenues that could be investigated to encourage small user participation in the PSC, such as support to the NGO in order to release the time of a member.

Recommendation 22

The title of the PSC should be changed to be more descriptive of its full range of roles as a management committee or board for the (renamed) VASS and EMDR.

Recommendation 23

An independent chair should be appointed who can play an internal PSC chairing role and a public role in fostering understanding of VASS and EMDR, within the NGO community, across NZAID, and with other stakeholders. This role should be based on agreed position qualities and attributes, and should be appointed through a process that reflects the partnership between NZAID and the NGO community.

Recommendation 24

An induction process should be designed and implemented for new PSC members, to ensure clarity of purpose, role, tasks and relationships from an agreed common base. At the same time, a process for succession planning should be established to plan for PSC membership choice and continuity – including facilitating smaller user participation.

4.7.6 PSC communications

This evaluation was asked *inter alia* to look at communication channels between the PSC, CID, NGOs and NZAID. Some aspects of communication have been addressed in other parts of this report – especially that between NZAID, the PSC and NGOs. Here we discuss issues around communication from the PSC to the wider NGO community.

The first question in the NGO questionnaire was whether or not information about VASS and EMDR was easy to find. With a response averaging 3.5 on a five-point scale, the general message is that it is all right, but not very easy.

Given how long VASS has been operating we were surprised to find at the regional consultation workshops how much of the discussion centred around explaining what VASS and EMDR are – their principles, purpose, criteria and processes. We see this as a reflection of several contributing factors:

- new members joining the NGO community – either new organisations joining CID, or new staff (voluntary or paid) within individual NGOs, as the NGO community is in a phase of rapid growth and expansion
- the pivotal role of the *VASS Handbook* as the key information source, but its lack of a clear purpose statement and its failure to be kept up to date and accessible in recent years
- an overtaxed PSC focused on keeping the VASS and EMDR 'show on the road', with little time to look at the bigger communication picture – including operating with temporary and changing administrative support for almost a year
- the absence of newsletters communicating issues, trends and news from the PSC

- the paucity of VASS and EMDR information on NZAID and CID websites.

All of these factors combine to show a communication and information 'hole'.

In seeking information ourselves for the evaluation, we also became aware of how little information about VASS and EMDR is available in the public domain, and yet how rich the information resource is. This includes:

- PSC annual reports
- PSC decisions made at the two-monthly meetings
- outcomes of workshops around key issues for VASS and EMDR
- VASS and EMDR-related issues arising from CID and NDRF meetings
- key trends and issues from the institutional reviews.

Recent research on what NGOs value most from funders has shown that there are three key dimensions:

- the quality of interactions with funder's staff, based around: fairness, responsiveness and approachability
- clarity of communication of a funder's goals and strategy involving: clear and consistent articulation of objectives
- expertise and external orientation of the funder including: understanding of the fields and sectors, and the ability to advance knowledge and affect public policy (Centre for Effective Philanthropy, 2004).

While this research is US-based and primarily concerning private funders, there is no reason to believe that findings in New Zealand of funding from a public source would be different in any significant sense. In fact, it is surprisingly similar to feedback received by the New Zealand Lottery Grants Board – also a responsive funder – in its annual customer satisfaction surveys (Colmar Brunton, 2004). The need for clearly and

consistently presented information on VASS and EMDR has certainly been reinforced again and again in this evaluation.

The 1998 evaluation suggested a periodic newsletter. Two were produced but the practice has not been continued. It is no longer in the revised job description of the VASS Administrator, although the PSC has recently been reconsidering the value of a newsletter, such as an email newsletter prepared after each meeting. We think it is important for this to be reconsidered. More generally, there is an opportunity to spread more widely the information about VASS and lessons learned. This can probably be done simply, for example by creating an NGO/VASS/EMDR corner on the CID and/or NZAID web-sites, providing information from the reviews and workshop discussions, information on PSC decisions and PSC annual reports. However, any such steps should be taken as part of developing a coherent package of information and communication about VASS and EMDR that is timely and relevant to NGOs (i.e. user-focused).

Recommendation 25

Active steps should be taken to communicate about VASS and EMDR, particularly to ensure clear and consistent information about VASS's purposes, and updated information on issues, trends, decisions and learning. A coherent package of simple information and communication approaches should be developed.

5. The EMDR Funding Approach and System

5.1 Introduction

This section of the report looks at:

- the EMDR recommendations of the 1998 evaluation and the origins of the NGO EMDR scheme
 - findings in relation to implementation of the recommendations
 - steps forward from here.

Components of Objectives 2 and 3 of the evaluation terms of reference are addressed in this section of the report. These include reviewing: the criteria and guidelines of EMDR in terms of their consistency with NZAID policy; the process for EMDR policy-making and communication with NGOs; NGOs' understanding of EMDR policies; and the ability of the NGO community to utilise government funds.

5.2 Origins of the EMDR Scheme

The establishment of an NGO EMDR scheme was recommended in the 1998 evaluation and took place in 2000. The evaluation team noted that, aside from the Red Cross, the funding available to NGOs for emergency disaster relief was *ad hoc* and unpredictable. They argued that there is a case for supporting humanitarian work by NGOs because it is a long-standing area of NGO effort and NGOs have often called on the government to provide additional support in this area. The evaluation also noted an increasing understanding in the international community of the linkages between emergency relief, rehabilitation, reconstruction and development, and the need to be thinking 'development' in response to emergency situations. NGOs were seen to have a valuable contribution to make in this area (Clark *et al.*, 1998). Action on the EMDR recommendation was led by the Development Cooperation Division, in consultation with the NGO Disaster Relief Forum and the PSC ("Plan for Implementation of the VASS Evaluation", 1998). As mentioned in section 3 of this report the Development Cooperation Division, at the time of the 1998 evaluation, had limited experience with and understanding of emergency management and disaster relief. This is still an area for development in NZAID and among New Zealand NGOs.

5.3 Design and Operation of EMDR

5.3.1 Purpose and scope

The EMDR allocates funding to NGOs for disaster relief in developing countries [35] on a global basis. Its core funding involves \$1 million per annum, but through one-off re-allocations expanded to more than \$5 million in 2002/03. As a result of improved financial management arrangements in NZAID, such levels of 'windfall' funding are not expected in the future.

The underlying rationale was to provide some core level of funding for NGOs to undertake humanitarian work in a planned way, and to improve the linkages between emergency relief, rehabilitation and reconstruction, and sustainable development. The specific objective of the EMDR NGO funding window is to provide a transparent and consistent means for New Zealand NGOs to access NZAID funding for emergency and disaster relief, rehabilitation and mitigation activities in developing countries.

5.3.2 Policy and guidelines

In comparison with VASS, the EMDR funding window has a simply presented policy and set of guidelines. In order to be considered, an application from a New Zealand NGO should demonstrate that it:

- is consistent with the programme's objective (i.e. emergency and disaster relief, rehabilitation and mitigation activities)
 - is consistent with the guiding principles of the NZODA policy framework
 - has identified and satisfactorily addressed gender and equity issues.

The application should also demonstrate that:

- the expertise/experience of the implementing agency is appropriate/sufficient for the activities proposed
- there is an existing sound relationship between the New Zealand applicant and the implementing agency
 - the proposal is well thought out, with clear objectives and activities
 - the proposed activities are realistic and able to achieve the objectives
 - the proposal is cost effective
- the proposal directly benefits those who are the victims of a disaster/emergency

- the proposal is communal rather than individual in focus and has benefits for a significant number of people affected by the disaster/emergency
- as far as possible, members of the target population are involved in the appraisal, planning, implementation and monitoring of the project
- the proposal recognises the special needs of vulnerable groups, particularly women and children, in disaster/emergency situations and has developed specific strategies to ensure these are addressed
- where applicable, the minimum standards set out in the Sphere Project [36] handbook (water supply and sanitation, nutrition, food aid, shelter and site planning, health services) are met
 - systems for monitoring and review are built into the project design.

These guidelines were developed jointly by the Development Cooperation Division and NGOs. Proposals can be put forward by any New Zealand NGO with an approved VASS Organisational Profile. The responsibility for identifying and formulating proposals lies with the applicant.

The NGO Disaster Relief Forum (NDRF) provides a forum for New Zealand NGOs involved in international disaster relief. Its key objectives are to:

- act as a co-ordinating point and forum for liaison with the New Zealand Government on matters relating to overseas disasters
- provide information to the media and public on NDRF membership, contacts and forum concerns
 - develop inter-agency cooperation where possible through the sharing of experiences and information concerning international disasters and relief activity
- facilitate greater awareness and interest in potential and existing international disaster situations
 - promote greater understanding of the relationship between disasters and development.

The NDRF is an independent informal grouping, with essential coordination and administrative support provided by the Council for International Development (CID). One current practical and recently developed New Zealand NGO collaboration initiative is of six NGOs (Adventist Development and Relief Agency, Caritas, Christian World Service, Save the Children, Tear Fund and UNICEF) to share a joint 0800 number for donations to specifically agreed emergency appeals. NDRF is in the process of clarifying its direction for the next few years. This is likely to include a greater emphasis on policy development and policy dialogue with NZAID, and will build on new links being created with the Ministry of Defence (Discussion NDRF meeting, 14 September 2004).

5.4 Applications, Approvals and Reporting

Applications are made on the NZAID Emergency and Disaster Relief application form, following the process set out below.

5.4.1 Immediate Relief Project proposals

In situations where a disaster/emergency would warrant a major New Zealand response, NZAID will notify the CID CEO of:

- an estimate of funding to be made available to NGOs
- the range of funding for individual projects
- an indication of the time frame in which applications must be submitted.

5.4.2 Rehabilitation and Mitigation Projects

Applications are assessed at the October and February PSC meetings by the PSC plus the NDRF Chair.

The distinction between these two categories has blurred, as is evident from funding applications and comments from NGOs and NZAID. Proposals are assessed against the stated criteria on a contestable basis. While originally the quality of the proposal and the capacity of the proposing agency were the prime criteria, some effort has also been made to ensure diversity and spread of funding across NGOs. In practice, the quality of applications has improved over time and the issue has become one of too many good quality applications for the funding available (Interview PSC, 2004). NGOs are required to state the amount of their own funds remitted to the project for which EMDR funds are being sought. This should be taken into consideration by the Committee, along with a match with criteria.

When the project is completed, all recipients must submit a report on the agreed form. Reports should be submitted within three months of completion of the project. The quality and timeliness of the reporting will be taken into consideration in subsequent funding applications. The report is expected to include a financial acquittal against the original budget, confirming that the funds received were used for the purposes outlined in the application. An explanation of variances is required. Funds not used for the agreed purpose must be refunded.

5.4.3 Management and administration

Originally it was intended that applications be assessed by a committee consisting of the EMDR Programme Manager as Chair, the Chair of the NDRF or a nominated representative, the Chair of the PSC or a nominated representative, and the NGO Programme Manager. In reality, there has not been an EMDR Programme Manager and decisions are made by an expanded PSC which includes the Chair of the NDRF. In order to facilitate rapid responses when required, some decisions are made by email.

5.4.4 Funding

When the scheme was established, the range of funding for individual projects was seen, as a general rule, to fall between \$20,000 and \$80,000. Guidelines for EMDR note that the ceiling may be increased in the final disbursement each year if considered appropriate by NZAID. From the very first year of operation (2000/01) applications were received and approved for higher amounts, with a range of \$45,000–\$200,000 applied for.

Following years saw varying amounts applied for, but the upper limit of \$80,000 was tested early on.

A small administration allowance was introduced, with applications being able to include a maximum of 1 per cent of the total grant received for New Zealand NGO overheads, as long as they were associated directly with the administration costs of managing the funds received.

It was identified right from the beginning that the overall funding limits would be prescribed by the Development Cooperation Division/NZAID, according to the resources available for the particular disaster at the time. There was the potential, which has also become a reality, of additional funds to the base EMDR NGO funding window allocation of \$1 million.

While the initial allocation for the window is set at the beginning of the financial year, it was identified early on that there would be two ways in which the allocation could be increased during the year:

- In the course of the financial year, if a disaster or emergency is of exceptional severity, and increased Development Cooperation Division/NZAID attention is warranted, consideration will be given to increasing the allocation. (In 2000, this was seen as applying usually only in response to a situation in the Pacific. The world situation has changed since then.)
- At the end of the financial year, provision may be made for funds to be transferred to the NGO funding window from savings made elsewhere in NZAID.

It was established at the beginning of the scheme that any increase in the EMDR NGO funding window would be at the discretion of NZAID.

5.5 Overall Findings

Overall, EMDR has been welcomed as a fund for New Zealand NGOs and their partners to work in the area of emergency and post-emergency assistance (File reviews, interviews

and NGO consultations, 2004). As originally intended, it is a more transparent process than the previous in-house decision-making and the PSC can be accountable back to the NGO community. Nevertheless, some NGOs felt the PSC membership does not have sufficient specialist expertise for EMDR. This was not a view shared by all.

Generally it is recognised that, compared to VASS, EMDR is at a more fledgling stage of development and requires further development on a number of fronts. The EMDR work is important because it sets the tone of many development programmes that may follow and, if done poorly, can undo good work that has been built up over years. Therefore a system or process that encourages NGOs and government to improve the quality of humanitarian assistance needs to be maintained and further developed.

Comments made to this evaluation team reflected some of the debates in the literature and among New Zealand NGOs that emphasise the seamless *continuum* between emergency situations and ongoing sustainable community development, and the importance of participation and capacity-building approaches, even in an emergency or disaster (see e.g. Goodhand, 2004; Pratt, 2003). NGOs expressing these views were concerned that the EMDR guidelines and procedures give inadequate emphasis to appraisal, monitoring and evaluation, disaster preparedness and prevention, and peace-building activities. They also felt that the allocation level for administration that currently sits at 1 per cent suggests that EMDR work is seen as simply remitting funds overseas. NGOs were asked if the current 1 per cent was sufficient. Nine of the ten NGOs who answered the question said it was not, and suggested increases ranging from 5 per cent to 6.7 per cent as a contribution.

On the other hand, some NGOs were concerned that the EMDR guidelines were too much like those applying to ongoing development situations, such as those used for VASS, and felt there was too much emphasis on participatory approaches, partnerships, gender analysis, etc. These NGOs emphasised the *differences* between emergency relief and sustainable development. Some also felt there was inadequate recognition of differences within emergencies, for example between emergency relief, rehabilitation and mitigation.

As mentioned in section 3 of this report, the development of NZAID policy and guidelines is work in progress. The *Building Peace and Conflict Prevention Policy* has been recently approved by ministers. NGOs have been consulted in its development. There are draft guidelines for emergency management and disaster response for the Pacific, and draft guidelines for complex emergency and transition facility. NZAID's Five

Year Strategy identifies that a focus will be on vulnerability to poverty being reduced through peace building and conflict prevention, humanitarian support and community safety (NZAID website, September 2004). As part of humanitarian support, NZAID intends to pursue a seamless transition from humanitarian to development phases of disaster recovery, and through this to address the risks of creating dependency and economic distortions.

Regional workshop discussions identified the relative 'newness' of NGOs in direct provision of humanitarian assistance and emergency management. In general, New Zealand NGOs have been fund-raisers rather than providers. There is unlikely to be any NGO with a staff member focusing full time on EMDR, with 0.6 FTE likely to be the biggest staffing allocation (Discussions NDRF meeting, September 2004). Nevertheless, NGO expertise is growing and NGOs may be understating their developing expertise in the area.

Focused involvement is also relatively new for NZAID. Not only are the policies and guidelines new or developing, NZAID is only just appointing staff to its first specialist positions. There is a newly created EMDR position in the Pacific Group and a similar position to be created in the Global Group. There is value in NZAID and NGOs building expertise together in, for example, assessment, quality initiatives, evaluation and learning processes. Certainly, almost all NGOs seemed to agree that there needs to be a high-level reassessment of the overall purpose, focus and criteria of the EMDR NGO funding; and that it also needs to be considered in the light of:

- increasing conflicts
- NZAID's wider role in emergencies and disasters
- NZAID's being a relatively small player internationally, providing much of its funding through international agencies such as the United Nations.

5.5.1 Purpose and criteria

Block Grant NGOs are the largest users of EMDR funding. Six of the eight Block Grant NGOs are consistent applicants. A further Block Grant NGO has applied from time to time and the eighth applied only once (EMDR database, 2004). Five non-Block Grant

NGOs have applied for EMDR funding, with two of these being consistent and successful applicants.

The majority of NGOs consider the EMDR criteria to be clear, although none thought they were very clear and two considered the criteria to be unclear. No Block Grant NGOs found them unclear, whereas 30 per cent of non-Block Grant NGOs found them unclear or marginally clear. In the range of responses to a question about PSC consistency in assessing EMDR applications, only one NGO felt that the PSC is very consistent in its assessment of applications for EMDR; a further two considered it to be consistent, and two considered it to be inconsistent.

In comparison with VASS, the criteria and guidelines for the EMDR funding window are very simple. They are also very general. Because of their general nature they cannot be considered inconsistent with currently developing NZAID draft guidelines, but NGOs are keen to see an approach that is based on 'appropriateness for purpose', including criteria developed for the type of emergency situation, forms to reflect this, and the weighting of allocations customised according to the emergency situation.

The 'continuum' issue was reflected in debate around recognising the difference between emergency work and development principles. Given NZAID's position on humanitarian aid and the continuum approach being adopted internationally, it is perhaps more appropriate that attention be given to understanding the differences between (i) immediate, urgent assistance in an emergency, (ii) protracted emergencies and (iii) ongoing development; and how to bridge these phases effectively. Understanding the capacity and experience of NGOs and their partners will be crucial. Now is also the time to assess how much the fund should be supporting training, evaluation processes and improved learning by NGOs and partners.

5.5.2 Policy coherence between NZAID and NGOs

Policy coherence between NZAID and NGOs around emergency disaster management was seen as extremely important and emerged as an issue in a number of ways. NGOs commented on the fledgling state of EMDR expertise development within NGOs and NZAID, and the fledgling leadership from both. This included a wish for a specific strategy and policy development forum – a constructive space for discussion, debate, policy and role clarity. This could build on the current work of the NDRF. Questions

were raised about NDRF's policy development and advocacy roles and effectiveness. The absence from NDRF of the Red Cross, as a key EMDR organisational player, was mentioned with concern. During the course of this evaluation, connections between NZAID EMDR draft natural disaster and conflict management guidelines and environment and human rights policies were just beginning to be explored.

It is our finding that:

continuing work is required to further develop the purpose, criteria and policies of the fledging EMDR scheme

in particular, developing a policy on EMDR in joint discussions between NZAID and NGOs is a high priority. This will provide a framework for priorities and for role and relationship clarity, and will guide funding level decisions.

5.5.3 Transparency and PSC structure

At the time of the 1998 VASS evaluation, the PSC seemed the logical structure to connect allocation of EMDR funding to NGOs. The peer review system was seen as a significant asset for the fledgling EMDR grants scheme. NGOs that responded to the questionnaire now have split reactions to the peer review system. Four organisations thought it effective or very effective, and four rated it ineffective or not at all effective.

Almost all of these NGOs had received EMDR funding.

Concerns lay around a sense of insider knowledge held by PSC members and the lack of availability of assessment guidelines. While eight organisations saw the roles of the EMDR PSC as being clear or very clear, two considered them to be unclear. Underlying the feedback from NGOs is concern around the sharing out of limited funding, and a lack of clarity about roles and decision-making processes by the EMDR PSC. The EMDR PSC decision-making process includes members leaving the meeting when an application with which their NGO is involved is being considered. Given the relatively small pool of applicants, this can be a frequent occurrence.

Structural options have been suggested, including:

- an expanded NDRF advising the PSC on EMDR policy, funding criteria, procedures, workplan, training and evaluation/lesson learning
- a modified EMDR PSC, with an augmented EMDR capacity – for example adapting the current PSC to have two members elected from NDRF/CID, or appointing the NDRF Chair and Vice-Chair to the PSC
 - creating a new group, separate from PSC, to allocate EMDR funding
 - adding a second NZAID staff member with EMDR expertise.

The more predominant school of thought is that administration of the EMDR should remain with the PSC. The underlying rationale for this is that many problems occur within NGOs when the process or operation of dealing with emergencies is split from development: for example, uneven workloads, duplication of skills and management effort, strategic conflict, lack of ongoing relationships with partners, and possible divergence in approach between the emergency response and development teams. Whichever structural options are pursued, they will require a clear purpose and clear roles and guidelines.

The high workload of the PSC members and the need for more strategically focused decision-making would be assisted by having an independent chair of the re-named PSC, clearer roles for Committee members, and analytical capability built into the resourcing and support for the Committee. Those changes would reduce the currently unsatisfactory situation that arises around decision-making on applications from PSC member organisations. Decision-making would also be assisted by involving the two new NZAID EMDR programme managers in advising the Committee and strengthening liaison between NZAID, the PSC and NDRF over EMDR. With NDRF likely to take a much stronger role in clarifying policy directions for NGOs, it could also be advisable to increase representation on the Committee from EMDR-specialist NGOs.

It is our finding that:

the PSC is the relevant body to manage the NGO EMDR fund, but the current structure does not cope well with EMDR proposals when so many applicants are also on the PSC

the appointment of an independent chair of the PSC, and bringing in analytical skills to support the work of the PSC, should provide much needed strategic and policy analysis assistance on issues, trends, problems and solutions for EMDR

in addition, other structural strengthening should be investigated further in a more intensive look at the EMDR.

5.5.4 EMDR funding and NGO capacity

Most applications for EMDR funding are for Africa, with some for Asia and a few for the Pacific. Proportionally, applications for Asia have decreased over the years and have increased for Africa. There has been a slight increase for the Pacific, with the Solomons' conflict and natural disasters in Fiji, Tonga and Niue being the areas of focus. In 2000/01, 50 per cent of funding applications were for Africa, just under 40 per cent for Asia, almost 10 per cent for the Pacific and 3 per cent for Palestine. In October 2003, only one was not for Africa and there was additional specific funding for Iraq. Most years have seen funding made available above the baseline. For example, in 2001/02 supplementary funding was made available for Afghanistan.

In 2003, an additional \$5 million was made available by NZAID. This big swing in allocation and recent apparent political involvement in funding allocations are both appreciated and resented by NGOs [37]. While the reasons behind the availability of an additional \$5 million to EMDR in 2003 – and the absence of such a windfall in the future – are generally understood, this wild fluctuation cut across the steady growth of NGO capacity. The key concerns for NGOs when there are large swings in funding are the impact on juggling significantly altered workloads, the impact on organisational capacity and partner relationships, and difficulties in developing systematic learning. Despite dissatisfaction and concern, there was appreciation of having the funds made available. Managing the funds was demanding, but the increase showed the significant potential capacity of organisations to handle increased funding. NGOs have indicated in this evaluation that the current limit of \$80,000 per grant is no longer appropriate, with \$200,000 being a more realistic figure.

As well as clarifying the capacity for dealing with higher limits, the windfall also provided the opportunity for New Zealand NGOs to receive assistance for work with more established partners in areas with more protracted emergency issues. Sudan, Angola, Ethiopia, Zimbabwe and the Thai-Burma border emerge consistently for applications for a mix of water supply, displaced persons and refugee assistance, drought relief and supplementary feeding programmes.

When funding for the current crisis in Sudan was to be allocated by NZAID, several NGOs involved in NDRF expressed concern. The NGOs appreciated the manner in which NZAID responded to their concerns, and noted that their own ability to apply for the new, one-off funding in four days demonstrated the capacity and readiness of the NGOs to respond in emergency situations.

There was general agreement that the current level of \$1 million annual EMDR funding has meant that many eligible projects are not funded. An assessment of the October 2003 EMDR funding round indicates that while 18 applications met the criteria, only 11 received funding. The total capacity at the October round for the 18 projects amounted to \$2,109,059, with funding available being \$1 million. For the February 2004 round, 11 applications met the criteria and of those seven were supported. The total capacity indicated for the 11 applications was \$1,271,351 and the actual amount available was \$500,000 (NDRF letter to Associate Minister of Foreign Affairs and Trade, February 2004).

Some NGOs had a concern that the relatively limited funding led to 'sharing' EMDR funds around applicants on the grounds of 'fairness', and saw this as undermining priority being given to the highest quality projects. The PSC has had difficulty determining priorities when several applications meet criteria and when there is simply insufficient money. It is actively working on ways to address this. No NGO has suggested an uncapped funding window for EMDR. However, of those organisations responding to the questionnaire, seven indicated they could absorb more than a 50 per cent increase in funds for EMDR and one between 20-50 per cent more. Three wanted no increase at all. There is clearly a readiness to explore funding levels further. Positive aspects associated with increased funding for EMDR were identified by NGOs as including:

- allowing for continuity with partners and therefore greater preparedness for additional disasters, or moving to a development stage after an immediate disaster has passed
- contributing to building NGO capability
- providing the opportunity to assist with operational and administrative funding and AM&E
- the ability for the scheme to have more frequent funding rounds and provide more immediate access to funding.

5.5.5 Funding allocation system

The original planning for EMDR identified the difference between emergency and rehabilitation. Given that the very essence of many emergencies is that they are unplanned, EMDR needs to be flexible in timing. Funding allocation therefore needs to be based on NGO capacity and partner relations. The way in which money was made available for the Sudan emergency identified the importance of clarifying (i) the relationship between NZAID and EMDR (and therefore the PSC) when NZAID and NGOs are reacting immediately to an emergency, and (ii) potential funding levels available for this immediate response.

In addition to short-term responses to emergencies, ongoing funding needs to be provided both to sustain a capacity for management within New Zealand NGOs and to provide funds for ongoing rehabilitation and development work arising from emergency events. Another aspect to consider is that some NGOs operate in areas where the situation is essentially a protracted emergency – for example, Palestine or the Thai-Burma border. A funding system is needed that captures the complexity of issues while setting clear criteria and guidelines. While this needs further investigation, it is clear at this stage that it is worth considering some type of approach, similar to the current Block Grants system, that allocates funding on the basis of organisational capacity, partnerships, emergency needs 'reactiveness', needs assessment capability, and learning from experience.

The EMDR scheme has not yet been able systematically to incorporate active learning from experience. We see this as important for effectiveness, identifying issues for focus and capacity and building shared understanding among NGOs. It could also build a clearer understanding of the distinctive role and 'added value' of NGOs. Aspects raised during the course of the evaluation were the international networks that many NGOs are part of and long-term relationships established with partners. A specific suggestion made to the evaluation team, and that we think deserves consideration, is for monitoring and evaluation to be part of the overall NGO EMDR funding and with monitoring responsibility held at the EMDR PSC level, not at the individual agency level.

Developing a funding structure that reflects the three main types of approach needed for dealing with natural disasters and conflicts is a logical direction to take – that is, one that incorporates:

- (i) immediate reaction or responsiveness

- (ii) preparedness for mitigation and management. This is likely to include protracted emergency situations in which some NGOs operate.
- (iii) rehabilitation and development following a disaster.

A “block grant” system is likely to suit aspects (ii) and (iii).

This is supported by a clearly stated proviso by one NGO that any "block grant" system should also take into account NGOs' consistent links to the New Zealand community in order to maintain the principle of partnership between the people of New Zealand and those affected by disasters in other countries. A policy consensus would be useful around the relative weighting that should be given to funding for the three main areas.

It is our finding that:

NGOs have the capacity to absorb additional EMDR funding. For this they need some certainty of funding in order to build capacity and partner relationships

the original two-pronged system is ripe for redesign, to deal with a focus on (i) immediate reaction or responsiveness, (ii) preparedness for mitigation and management, and (iii) rehabilitation and development following a disaster. The second and third aspects are probably suited to a “block grant” type of arrangement

the level of funding would ideally be identified as a result of an EMDR policy approach jointly discussed between NGOs and NZAID.

5.6 Future Steps

The fledgling nature of the EMDR funding scheme has been underscored in this evaluation, but the basic concept of the fund has not been questioned. Issues requiring further investigation cover almost all aspects of the scheme.

Recommendation 26

The time is ripe for a jointly discussed NGO/NZAID approach to EMDR funding, within which:

- a more clearly and fully defined set of goals for humanitarian assistance should be developed that finds the common ground and shared principles between NGOs and NZAID, and builds on NZAID's *Conflict Prevention and Peace Building Policy* and CID's position paper on *Conflict Transformation* (2004)
- the different contexts and consequent roles of NGOs, NZAID, the military, international agencies, consultants and other players should be identified
- the levels of funding (or means of establishing funding levels) should be determined.

Given the increasing attention that NZAID will be giving to EMDR, the emerging strength of NGOs' knowledge of emergency and natural disaster management and rehabilitation, New Zealand NGOs' connections with international NGO networks, and the likely greater emphasis on policy development by the NDRF, there should be joint discussions around the shared principles that underpin NGOs' and NZAID's policies. These can be explored and form the basis of a common understanding. This approach would be consistent with the *Strategic Policy Framework for Relations between NZAID and New Zealand NGOs*.

Recommendation 27

The time is also ripe to update the design of the funding scheme itself. NZAID, the EMDR PSC and the NGO community, through NDRF, should investigate options to re-develop EMDR around a scheme focused on (i) immediate reaction or responsiveness, (ii) preparedness for mitigation and management, and (iii) rehabilitation and development following a disaster. Specific steps include:

- identifying appropriate funding levels in line with policy directions and common understanding, including connecting NGO funding with organisational capacity and the strength of the in-county partner capacity and delivery mechanisms
- strengthening and clarifying criteria, guidelines and forms, with an emphasis on 'fitting them for purpose', on relationships with local partners, and on their capacity
- incorporating the role of NGOs involved with partners in protracted emergencies
- fostering learning, partnership and local capacity building

- the development of tools to assist decision-making, which in turn will assist with transparency of decision-making and understanding of the decisions made by the PSC
- investigation of (i) responsive funding for immediate emergencies and (ii) some form of “block grant” arrangement, plus individual project grants, including capacity building of both NGOs and NZAID, covering assessment, quality initiatives, evaluation/learning processes
- appropriate administration and AM&E funding for New Zealand NGOs that essentially shifts the role of the New Zealand NGOs with EMDR from being post boxes to active partners. Levels could be consistent with those for VASS
- developing a stronger EMDR role within the renamed PSC and a more explicit relationship with the NDRF.

6. Development Outcomes, Learning and Evaluation

6.1 Introduction

The 1998 evaluation placed considerable emphasis on active and shared learning for New Zealand NGOs and their partners involved with VASS. It also emphasised the importance of gaining a greater appreciation of development impacts. The evaluation specifically recommended “*that a revised evaluation system be instituted, with the following components:*”

- *a schedule of reviews of all major users of VASS over a 3-5 year cycle, with a narrower focus on validating compliance with minimum VASS standards and providing independent verification of self-evaluations ...;*
- *instant withdrawal of Block Grant status be[ing] restricted to instances of fraud and serious negligence on the part of the NGO, resulting in misuse of funds ... otherwise deficiencies are identified in a review, the problem areas identified and a specific time negotiated within which they are to be corrected;*
- *each year a sample of 3-5 per cent of projects of all NGOs not subject to an institutional review be[ing] analysed to confirm compliance of the project with VASS requirements;*
- *a regular programme of impact evaluations be[ing] instituted, with the primary focus on learning and improving the knowledge base of the NGO community;*

- *the PSC regularly distribut[ing] listings of approved projects ... consider[ing] a periodic VASS newsletter and discuss[ing] with the Development Resource Centre whether it could act as a clearing house for evaluations..."* (Recommendation 25, Clark *et al.*, 1998)

The current evaluation was required to assess the effectiveness of the NGO review process and the impact of the pilot Participatory Impact Assessment (established as a first step to address the impact evaluation recommendations). This section also looks at the quality and value of training and mentoring provided under VASS through CID.

Context

The *Millennium Development Goals* adopted by the United Nations General Assembly in 2000 and the *International Development Targets* agreed by world governments at United Nations conferences in the 1990s symbolise an increased emphasis on development results and focusing on *measurable development impacts*. This is reinforced in NZAID's Five Year Strategy.

Along with the particular goals, there is a shifting emphasis towards development results or impacts, and the relationships and processes that help achieve them. This includes adopting a wider range of delivery mechanisms for development resources other than short-term projects, and working towards aligning donor support more closely with partner priorities – often referred to as '*harmonisation*'. Within this environment, growing attention is being given to civil society – international NGOs, national NGOs and community-based organisations.

The 1998 VASS evaluation emphasised the importance of assessing impacts and developing a learning culture within VASS. The key components identified for a learning approach were: support, capacity building, self-review, peer learning and external verification – with NGO-wide debate about lessons learned and their implications for VASS, NGOs and partners. Issues connected with capacity building have been addressed elsewhere in this report (especially section 4).

6.2 Approaches to Learning

The learning and outcome aspects incorporated into VASS as a result of the 1988 evaluation build on past practices. They include:

- each PSC member having a liaison responsibility with a number of NGOs (this aspect is discussed in section 4)
 - training and mentoring contracted by the PSC and provided through CID
- AM&E, Partnerships for Development, Capacity Building and Management Support funding (these aspects are discussed in section 4)
- project reporting for individual grants and annual reporting by Block Grant NGOs; in-depth reports and institutional (NGO) reviews
- production of reports on lessons learned from review, and NGO workshops to discuss them
 - piloting of a participatory impact assessment (PIA) approach.

It is clear that great strides have been made in developing learning approaches. NGOs frequently identified learning, relationship building, monitoring and evaluation, and sharing 'lessons learned' as a particular strength of VASS (and, to a lesser extent, of EMDR). The AM&E, Partnerships for Development, Capacity Building and Management Support funding are seen as especially useful. Smillie (1996), an independent commentator, has noted that VASS was perhaps unique among similar funding schemes internationally in its long-standing emphasis on sharing lessons learned from the evaluation and review processes. Participants and some others also commented very favourably on the learning encouraged by the Participatory Impact Assessment pilot programme - especially the cross-NGO learning and the separation from any direct funding or auditing mechanisms. The 1998 evaluation emphasised separating evaluation from compliance.

The idea of the 'learning organisation' has been popularised in recent years, and its concepts have general appeal. Britton (1997) applies the concepts specifically to the context of NGOs, and has developed a simple diagnostic tool (the learning NGO questionnaire) that NGOs can use to assess their current capacity for organisational learning. Britton argues that the key principles underlying learning organisations are participation, empowerment, a willingness to embrace change and the acknowledgement of grassroots experience. We have used this framework, especially its eight dimensions of a learning organisation, to assess briefly the current systemic learning strengths and weaknesses of the VASS funding schemes. The assessment was judged to be less useful for EMDR, as a much less developed scheme. In summary, we found VASS to be a

funding scheme that is relatively strong on creating a supportive culture and on mechanisms for drawing conclusions and to some extent on integrating learning into strategy and policy; it is weakest in accessing external learning and developing a collective memory.

Britton notes that all systems have two major sources of learning: what the system itself does and what others do. He argues that it is not enough to be clear about what the system itself (in this case, VASS) is achieving; it must also actively seek out learning from elsewhere. This requires a genuine openness and willingness to share its own learning (which means being willing to share the learning from failure as well as from success).

‘Remembering’ is also a crucial element of organisational learning, according to Britton. Although it is true to say that systems cannot learn (only people can), he argues it is reasonable to say that systems can forget. If learning is locked in the heads of individuals, the system (in this case, VASS) becomes very vulnerable if those individuals leave or forget. Simple documentation of experience is rarely adequate but is better than nothing. Many NGOs have recognised the importance of unlocking each individual's memory, but few have, as yet, developed systematic ways of ensuring that their knowledge and understanding are made widely accessible to colleagues both in their own organisation and beyond.

6.3 PSC Liaison

As a specific element of the VASS system relevant to learning, the liaison role of PSC members is both welcome and at the same time seen to be the most unclear of the 'support and quasi-learning' roles. Basically, there is an inherent tension in the relationship between applicants and the PSC liaison person because NGOs are applying for money. No specific question was asked in the questionnaire about the liaison role. However, in a number of discussions with NGOs we received mixed feedback about how the role was undertaken by PSC members, although with no questioning of the concept of a support and information role. An underlying difficulty in assessing effectiveness is the lack of guidelines or training for PSC members in undertaking the role, including how far the lines between information, support, mentoring and guiding can be blurred. Nor are there any role descriptions or guidelines to which NGOs can refer to check expectations. It is unreasonable to assume that all PSC members will automatically hold all the skills required. The risk of confusion or a clash of styles between a PSC and an NGO staff member is high, and was certainly referred to in the course of the evaluation.

It is our finding that:

there is confusion around the liaison role of the PSC member; the PSC liaison should focus on information provision, with other, more specific learning and assistance provided through other channels (see section 4.7.3)

6.4 CID Training and Mentoring

The training workshops provided through CID were strongly endorsed. NGOs were asked how many members had attended VASS-related CID workshops in the past four years. All but one NGO had had members participating. Eight of the NGOs had between one and five members taking part, and seven NGOs had more than six members participating (NGO survey, 2004). The majority of NGOs found the workshops satisfactory or positive, although two NGOs were less impressed. One of these found the process for identifying training needs unclear and a little *ad hoc*. Workshops were seen by a group of NGOs as specifically contributing to better practice on AM&E visits, with an improved ability to appraise and monitor partners, to develop policies, and "*to bring a better institutional understanding of the Treaty and its relevance to our work*".

Findings from VASS institutional reviews provide a rich resource of information on which to base training workshops. The PSC also asks CID to hold specific workshops around issues of the moment, such as the Small Agency meeting in 2003. While the connection with VASS and VASS review findings was seen as useful, at least two NGOs, as well as the former CID Training and Capacity Building Manager, felt that more general training seemed to create a more relaxed atmosphere, with less attention being given by NGO staff to learning the 'right things to do' to attract VASS funding. On a number of occasions, more learning was reported when it was not directly tied to funding considerations or merely to meeting funding criteria.

According to CID, the *mentoring* scheme is in its infancy and only beginning to be used. It was introduced at the request of the PSC in 2003, in recognition of the need for more in-depth assistance than the PSC liaison role can provide. It has involved mainly working with small NGOs and those new to VASS (CID Annual Report, 2004). Only four NGOs said in questionnaire responses that they had used mentoring; two of those have separately identified the value and assistance of mentoring, particularly in learning about

community development and VASS requirements. The value of mentoring and training being provided separately from the PSC was specifically commented on by several NGOs during consultations. This is a clear and impressive implementation of 1998 evaluation recommendations and there appears to be considerable value in pursuing mentoring and training further – especially if the number of NGOs with approved Profiles continues to expand.

It is our finding that:

CID-led training has been particularly useful and practically helpful for NGOs, especially when separated from direct funding considerations

although the mentoring facility is only beginning to be used, it has been specifically useful to NGOs in explaining, and engaging with, the philosophy and development principles of VASS. Drawing a distinction between the liaison role of PSC members and mentoring was valuable and should be encouraged further.

6.5 Reporting

Those using individual project funding find the reporting back requirements clear, with the system for reporting being useful for encouraging learning and feedback. The picture is considerably more mixed for Block Grant NGOs, with a 2.8 average on a five-point scale, and a noticeable spread of responses. Three of the eight Block Grant NGOs responding found the system of annual reporting not useful or not at all useful. Only two found it very useful. The 'VASS Form 5' process used for annual reporting attracted considerable comment in discussions with NGOs and in questionnaire responses. Essentially, it is seen as having become a much more substantial component than originally intended and certainly than the design of the forms indicates. For those experiencing difficulties it was seen as time consuming, not focusing on progress towards outcomes, providing little added benefit and attracting PSC feedback that can be negative, not specific, or with goal posts shifting from year to year.

The tension with the annual reporting for Block Grant NGOs is around the extent to which decision-making is truly delegated to Block Grant NGOs, or whether the reporting is being used as a monitoring and compliance mechanism. At the very least, there is confusion for some Block Grant NGOs. Section 4 of this report discusses a variety of approaches to dealing with accountability requirements. With the Block Grant system, a key feature is the NGOs managing the projects and programmes themselves and, with

their partners, fulfilling the overall VASS purpose and meeting specific criteria. It can become second-guessing for the PSC then to take on a close monitoring role on an individual project or programme basis. In the Issues Paper distributed as a part of this evaluation, we talked about promoting simultaneous 'loose/tight' controls – loose on procedures and detail and tight on values, purpose and outcomes. The annual reporting through VASS 5 reports is one of the areas where we consider that a looser rather than a tighter approach is required.

In reading the 1998 evaluation, and from discussion with NGOs and NZAID staff, this certainly appears to have been the original intention. Our suggestion is that in re-examining the VASS 5 reporting form and process, the emphasis should be simplified (especially for multi-year projects or programmes), with brief reporting on (i) whether or not the project or programme is on track to meeting its goals and objectives, and (ii) identifying any issues/concerns arising with the PSC in relation to goal, purpose and VASS criteria. There should be no need to keep rewriting the overall goal and objectives on an annual basis, and no need to report at a specific activity level.

There may be underlying issues of concern for the PSC with an NGO's quality, standards or compliance with purpose, criteria and principles. We believe these should be addressed separately and most appropriately through specific in-depth reports, or ultimately the institutional review – which does not need to wait until scheduled, if particular concerns arise earlier.

Indeed the selected in-depth reports were seen as much more useful by Block Grant NGOs, with a 3.7 average on a five-point scale, and with the questions in the AM&E section providing helpful 'philosophical' questions encouraging thinking about issues, increasing focus on relevant activities for results and encouraging consideration of cross-cutting issues. Some suggestions were also made for redesigning the questions to increase clarity.

It is our finding that:

the handling of VASS 5 reporting is not being used in the manner originally intended. We suggest it be simplified to report on whether or not the programme or project is 'on track' and to raise with the PSC issues of concern or relevance over fulfilling goals and objectives or meeting VASS criteria

overall, in-depth reports are seen as useful learning and assessment mechanisms for NGOs, and should be continued. They should perhaps be used more frequently if the PSC has concerns or issues it considers

should be explored more fully.

Recommendation 28

Block Grant annual project reporting (using the VASS 5 form) should be simplified to report on whether or not the programme or project is 'on track' and to raise issues of concern or relevance with the PSC over fulfilling goals and objectives or meeting VASS criteria.

In-depth reports should be used if the PSC has issues of concern about adherence to project/programme goals and objectives or to VASS principles and criteria.

6.6 Institutional Reviews and Lessons Learned

Two of the consultants who were part of the 1998 evaluation were engaged as consultants for the institutional reviews from 2000 to 2004. Over that time, 15 reviews were undertaken, with all of the Block Grant NGOs and five project-funded NGOs reviewed. Indeed, one of the Block Grant NGOs has been reviewed twice in this time. Only three of the NGOs reviewed did not complete the NGO questionnaire for this evaluation. Two of the three participated in other aspects of the evaluation process. Thus we were able to receive full feedback on these mechanisms. The strongly positive side of engaging the same consultants has been a consistency of approach and a deep understanding of the purpose behind the reviews. NGOs have appreciated the active approach taken with NGOs, especially having a year to address review recommendations (NGO survey, 2004; NGO interviews). In the past, the VASS PSC could remove an NGO's Block Grant status immediately after an unsatisfactory review, and the 1998 evaluation recommended this be dropped.

Initially, reviews started on a three-yearly cycle. This was seen to be too frequent and demanding for New Zealand NGOs and their partners, and unrealistic for the PSC, so was extended to five years. The reviews are seen as being particularly useful for feedback and learning for the individual NGOs involved. Strong support was expressed for the combined self-review, external review and engagement in discussing draft review

findings. Five organisations found them very useful, with an overall average rating of 4.5 on a five-point scale.

Some NGOs commented that knowing an institutional review will take place has helped lift the internal standards of organisations – especially for appraisal and monitoring, and not just for VASS-funded activities. Another commented that it was akin to having two professional consultants assisting the NGO, at no cost to the organisation. The majority of NGOs were keen to see the gains made from learning-orientated reviews maintained, greater emphasis placed on assessing impacts, and a decrease in the number of reviews for NGOs operating satisfactorily. One typically positive comment was:

“We felt the whole review was a very positive process, and although there were some issues which had to be clarified with the reviewers before their final report, it was a very positive experience, which we welcomed.”

Another NGO commented that

“[W]hen new consultants are contracted to undertake the institutional reviews they should be made very aware that it is our expectation the reviews will continue to be learning experiences, and not return to the prescriptive “big stick” fearful days of the mid 1990s, prior to the last VASS evaluation.”

While there were many positive comments, the experience of a small group of NGOs was of too great a focus on micro-managing, with multiple recommendations that are too detailed and too much emphasis on compliance, systems and management rather than development outcomes and impacts. One commented

“[W]e would like to see the review have a much higher focus on impact learning which would involve our partners more.”

One NGO felt there were still punitive elements in the institutional reviews. The process was seen as being more akin to an audit, with “*examples picked and conclusions drawn from isolated examples*”.

At least three NGOs raised concerns about the review process, reporting that they needed to smooth the 'ruffled feathers' of partners afterwards. Key concerns seemed to be around intensive questioning and directive organising that was inadequately sensitive to community or local NGO requirements. These comments raise a range of issues, such as clarity of review process and purpose, and managing expectations. There is almost always a need to convey to partners that it is not they who are not being reviewed, but the New Zealand NGO. It is probably also useful to see this information in the context of comment from a few NGOs that they have received negative feedback from partners about the impact of meeting VASS requirements (NGO survey, 2004).

It is our finding that:

the institutional reviews have been particularly useful for individual NGOs, involving a combination of self-review and external examination

some reported dissatisfaction around purpose and style is worth understanding more fully

there is a strong desire to focus learning around programme (and project) impacts, the systems needed to achieve impacts and the learning obtained from increased understanding of what contributes to desirable impacts.

6.7 Wider NGO Learning

Overall, learnings from the reviews have clearly been very useful to individual NGOs, and also useful to the wider NGO community, albeit to a slightly lesser extent. Feedback mechanisms from reviews are seen as dynamic and credible. The VASS-related CID training clearly reflects some of the issues emerging from institutional reviews, for example confusion over GAD. The PSC has also responded to other issues, including interpretation of guidelines for religious-based organisations. NGO workshops to discuss learnings are valued and we see there is potential for greater and more actively focused learning.

This could include NGOs identifying the key development issues emerging from VASS-funded programme work, especially as NGOs become more strategically focused and are working with an NZAID that is also more skilled and focused on development outcomes. These issues may relate to:

- fundamental *process* questions, such as partnerships, community participation and gender equity
- development *topics*, such as education, health, environment, human rights or fair trade
- *policy* areas, such as NGO-government relationships, harmonisation and poverty reduction strategies.

Then there is the question of how the learning can influence VASS policy and practice – and how the learning can be effectively and productively discussed with NZAID. We have already suggested engaging additional administrative resource for analysing issues for the PSC. We see this, combined with an independent chair who has the role and time to devote to facilitating a strategic focus, as the first steps towards a systematic process for applying the learnings.

Shared learning opportunities between NZAID and NGOs were available in the past. They could, and should, be reinstated and actively planned. This is particularly important given the *Strategic Policy Framework*, the shared set of development principles between VASS and NZAID, the increased first-hand knowledge held by NZAID, and the increasing value in collaborative, or harmonised, approaches to address development issues. These steps would strengthen the learning focus of VASS and contribute more fully to the 'virtuous circle' for NGOs referred to by Roche (quoted in Quinn and Clark, undated) of mutually reinforcing learning, engagement with social and political processes, development of high quality professional norms across agencies, strategic focus and engagement with government.

It is our finding that:

shared learning among NGOs is valuable and valued

the shared learning process is one step towards what could be more focused policy- and programme-orientated discussions among NGOs and between NGOs and NZAID.

6.8 Participatory Impact Assessment

The 1998 evaluation recommended that the development impacts of VASS funding be assessed. Although originally the terms of reference for institutional reviews included reference to undertaking impact assessments, the PSC decided to approach the issue of impact assessments by undertaking a pilot Participatory Impact Assessment (PIA) in South Asia and the Pacific, separately from the institutional review process. This was innovative in international development terms and an exciting development for the Scheme. It built on findings from participatory social assessment undertaken in New Zealand (Rivers *et al.*, 1986; Taylor *et al.*, 1995) and participatory approaches to international development (Chambers, 1997; Tandon, 1990 and 1995).

Six New Zealand NGOs and their partners were involved in the PIA pilot. The process was designed and led by the two consultants undertaking institutional reviews and Rajesh Tandon from Delhi-based Participatory Research in Asia (PRIA). The objectives of the pilot were:

- to strengthen the capacity of New Zealand NGOs and their partners to carry out participatory impact assessment
- to demonstrate an approach that might be used by the VASS PSC to conduct impact assessment of VASS-funded NGO work on an ongoing basis.

The pilot has been well documented (Quinn and Clark, 2002; Clark and Quinn, 2002 and 2003), and the feedback from those participating is rich, strong and largely very positive (NGO survey and interviews, 2004). Rajesh Tandon (quoted in Clark and Quinn, 2003) identifies four key characteristics that should underpin participatory impact assessment. It should:

- be educational – all involved should learn from participation in the impact assessment, including community members, implementing organisations and donors

- be developmental – it should contribute to revitalising the development initiative being studied and inspire, motivate and energise those involved
- be empowering – it should be undertaken in such a way as to enhance the confidence of those involved rather than undermine them, and contribute to a greater sense of purpose and commitment, as well as faith in their ability to achieve results
- attempt to clarify objectives and future strategies – it should not be limited to an explanation of historical events but also aim to clarify future directions, recognising the dynamic and continuous nature of development efforts.

There is clear evidence from the changes in organisational structures, programme design and delivery and the strengthening relationship between New Zealand NGOs and their partners that these characteristics were well met in the pilot (Clark and Quinn, 2003; Nowland-Foreman 2003). See, for example, Figure 6.1, which lists some of the changes identified by New Zealand NGOs that took part in the pilot PIA.

Particularly helpful in undertaking the pilot was the absence of any direct link with funding or compliance considerations, and the opportunities for cross-learning and support. Learning by the NGO and its partners, and with peers from across the New Zealand NGO community, was able to take place on a genuine partnership basis (Clark and Quinn, 2003; Nowland-Foreman, 2003; NGO interviews, 2004). It is clear that participants were generally able to share information openly, in a relaxed manner and with their eyes on the bigger picture of working to achieve high quality development results and ownership by affected communities.

Figure 6.1: Changes as a result of the PIA pilot, as identified by New Zealand NGOs

"Increased recognition of the importance of goal statements, how they are arrived at and whose aspirations they reflect"

"In-service training for a projects working group"

"The use of more participatory tools in NGO monitoring visits and consistent impact questions in all field visits"

"Improved systems and monitoring and evaluation for partners"

"Increased learning"

"Increased community participation"

"Increased confidence"

"Supporting partners to integrate PIA into their planning cycle"

"Greater understanding of participatory techniques and their use"

(Source: NGO survey, 2004)

New Zealand NGOs are now also able to provide examples of using the approaches from the PIA pilot in their work with partners, and of partners using them in their work with communities and beneficiaries. The only issues of concern raised were the time involved for both New Zealand NGOs and their partners, and disruption to partners' activities in some cases, with some finding it too onerous and somewhat daunting to repeat (NGO survey and interviews, 2004).

The PIA pilot has also highlighted the importance of focusing on impacts and the processes for achieving them. While VASS has a community development focus (which requires an attention to process), this does not necessarily mean that there cannot also be attention to learning and promotion of good development practice around *impacts* in developing countries as much as around the *process* of good development practice.

The challenge (and the opportunity) now is not to lose the learning but to build the impact assessment into the normal evaluation and learning process. Some NGOs have a concern (which we share) about the possibility of lost momentum if it remains unclear how the

pilot may be followed up. However, there is also a concern that implementing the PIA in the way it was piloted, on top of all other programme management, accountability and review requirements, will be too demanding of people and money for VASS, for New Zealand NGOs and for their partners.

Indeed, it is probably this concern that has led to the hesitation and uncertainty as to what the next steps for follow-up from the pilot should be.

It is our finding that:

the PIA pilot was valuable. It broke new ground and opened doorways to effective participatory approaches for identifying potential impacts from development work and for assessing results.

while an intensive focus on results and learning, such as the PIA pilot has been able to provide, is recognised as valuable, it is unlikely to be integrated effectively into the VASS approach unless more space is created for it by reducing other requirements.

6.9 Designing a New System for Monitoring, Evaluation and Learning

We are impressed with the concerted effort that has been directed towards a more learning approach to monitoring, evaluation, impact assessment and performance improvement. We would like to see these initiatives built on and reinforced in a manner that is manageable, achievable and sustainable for the longer term.

Najam (1996) distinguishes between *functional* and *strategic* accountability. The former focuses on ensuring that funds are spent on the intended purposes, and tends to be primarily for funders and donors. Strategic accountability, on the other hand, is concerned with whether best use is being made of available resources, having the most effective impact, and addressing issues most important for achieving the organisation's vision and mission.

Functional accountability is of limited though specific use to the NGO (mainly in terms of ensuring compliance with restrictions on use of funds and correcting errors, as

discussed in section 4.7.2 above), whereas organisations are able to learn and improve their operations from strategic accountability. Functional accountability ensures the NGO stays within the boundaries of what is acceptable; strategic accountability questions whether the NGO is doing all that is possible for the best results (sometimes regardless of what was intended). Both forms of accountability are clearly required in any robust system. VASS, with its general emphasis on self-evaluation and learning, including through institutional reviews, the PIA pilot, attention to dissemination of 'lessons learned' and flow-through into training opportunities, ensures both elements are built into its approach. It probably achieves a better balance than most New Zealand domestic funders and many other international funders [38].

The critical issue is that one form of accountability should not be imposed in a way that reduces the capacity for the other. Smillie (1995) identifies two primary reasons for evaluation: learning; and verification and control. Both are important, but Smillie reports that an excessive emphasis on the latter will almost guarantee the former is compromised, if not seriously impaired. He concludes that there is little evidence internationally that funder-inspired evaluation has actually contributed to greater effectiveness, transparency or accountability of NGOs:

"In an effort to avoid negative findings and a concomitant funding reduction, an NGO is likely to conceal failure, reduce risk and/or undertake things to conform to the funding agency's idea of good development. The first stunts learning, the second stunts initiative, and the third stunts independence. None enhances effectiveness." (Smillie,1995)

Funders should be able to be assured that their contributions are spent effectively and efficiently. Smillie stresses, however, that current trends (in the name of increased accountability) seem to push NGOs away from these concepts, turning them from their own strengths, values and constituencies:

"[S]tressing the control and verification of evaluation and insisting on government management of the process will not foster learning and knowledge... [T]he opposite, however – an emphasis on learning and self-evaluation – can satisfy much of the need for verification and control." (Smillie, 1995)

In part, this depends on facilitating greater accountability of an organisation to its *own* stakeholders and to its vision and mission. In particular, Smillie argues that, rather than impose increasingly detailed reporting and evaluation requirements, funders should:

- provide longer term, block grants for whole programmes
- require each organisation to commission a basic level of evaluation itself
- provide the resources for such self-evaluation
- insist that the results be made public to the sector and others.

This is remarkably consistent with the basic architecture of VASS, and with the enhancements we propose in this evaluation.

As indicated earlier, institutional reviews are largely seen as very useful by New Zealand NGOs. The less punitive approach is appreciated, and the off-shore field visits, while an expensive component of the reviews in terms of both money and time of all parties, are especially valued (even though there is sometimes confusion about who is being reviewed, the New Zealand NGO or its partner). The efforts to promote more of an atmosphere of learning in these reviews over the past five years have been noticed and appreciated by many NGOs. However, a number still identify what they see as 'punitive' elements. To some extent, this may be impossible to remove completely, as one of the purposes of the institutional review is to inform future funding decisions and verify compliance with VASS principles and requirements. So, at its best, it is about learning how to comply effectively.

Several NGOs have indicated (NGO survey, 2004) that they are keen to focus more on assessing and understanding impacts. The high quality institutional reviews and the pilot PIA have no doubt contributed to this desire, along with stronger partner relationships.

We support this wish to focus on impact assessment and propose to separate more clearly the learning aspects from ensuring compliance and informing funding decisions. This will involve a stripped-down institutional review process, based exclusively within the New Zealand NGO. It will focus on satisfying the PSC that the funds have been disbursed as reported; that it has complied with VASS principles and requirements; and that it has satisfactory policies, systems and people in place to continue to establish and maintain

partner relationships effectively, and to select (in the case of Block Grant NGOs), manage and report on projects in line with VASS criteria. (In the case of Block Grant NGOs taking a more programmatic approach – see section 4.5.1 – the review may also examine the NGO's programming capacity.)

The 'lessons learned' arising from this process will primarily be about means of ensuring compliance with VASS principles and requirements (which should essentially be about good development practice). It may also identify VASS principles, policies or requirements that need to be amended, clarified or expanded.

We acknowledge that some depth and richness will be lost to the review process by not including visits to selected overseas partners and projects. However, this will reduce costs (in terms of both money and time) imposed on VASS, the New Zealand NGO and its partners, and will remove one source of confusion for overseas partners.

Even more importantly, we believe that simplifying and focusing the institutional review and removing the off-shore component will provide the necessary constructive space for the integration of an ongoing participatory impact evaluation and learning component into VASS in a much more sustainable way. Without creating such space, we seriously doubt a feasible future for impact assessment in VASS on any more than an exceptional basis.

A number of NGOs have indicated nervousness at losing the field visits, not just because that is often the most significant learning component of institutional reviews, but also because of a fear that NGOs will be able to 'get away with' a less than satisfactory approach if there is no field visit. However, it is our conclusion that participatory impact assessment approaches (which of necessity require field visits) will not be able to be embedded into VASS without the reduction of other requirements on the PSC, on New Zealand NGOs and on their partners. We are firmly convinced that more general learning and more valuable impact-focused learning will be able to take place through our suggested approach. Institutional reviews are inevitably associated with assessing ongoing funding eligibility, no matter how much those involved intend to take a positive learning and developmental approach.

We are also confident that well designed New Zealand-based reviews should be able to detect significant gaps in systems, policies and approaches. If the stripped-down

institutional reviews found issues requiring further investigation, this could lead to a broader organisational review. That could include field visits to projects for verification, if necessary, but would be the exception, when issues are serious and cannot be verified in any other way. There would, for example, be nothing to stop the reviewers phoning, faxing, or emailing overseas partners, for instance to confirm that funds were disbursed and used for the purposes intended, and to ensure that what is said in reports or on the New Zealand NGO files actually happened. Additional in-depth reports could also add to the New Zealand-based 'desk review' of the New Zealand NGO if required. It has been suggested that field visits could perhaps be reduced to every second institutional review. However, we believe this will leave residual confusion about the role of these visits and is still not likely to clear sufficient space for the new learning-based mechanism, based on the PIA pilot.

Assessing impacts

PIA is one particular method for focusing on development impacts and results, learning and sharing lessons. It is also particularly well suited to VASS, because of its participatory and developmental methodologies. However, in considering how to integrate such an approach into the operation of VASS, it is important not to be limited exclusively to PIA as a particular tool, but rather to focus on the six essential features of the PIA pilot that we believe made it especially valuable:

- voluntary participation
- holistic focus on development impacts and results
- participatory and inclusive approach
- separation of evaluation and learning from compliance, accountability and funding decisions
- engagement of New Zealand NGOs and their developing country partners as equal partners in learning (rather than one checking up on the other)
- engagement of New Zealand NGO peers so that they could learn from each other.

It was clearly the *process* of engagement and involvement that produced the insightful learnings.

We propose that a participatory impact assessment and learning component that reflects the above principles be incorporated into VASS (and potentially into EMDR, as it develops). On a regular cycle, the opportunity (and appropriate funding) should be provided for a small number of New Zealand NGOs and their partners to participate in an intensive impact assessment, reflection and learning consortium. We envisage the learning consortium could be organised around a geographic region, or could be focused around a theme (for example, implementing micro-financing, promoting gender equity, supporting the transition from humanitarian assistance to sustainable development, etc.) or issue-based (for example, the religious factor in development). It would utilise PIA or similar methodologies that incorporate each of the six essential features listed above, and would include expert facilitation and support. Generally only one learning consortium would operate at a time, and it would be fully financed by VASS.

Participation would be conditional on a strong commitment to sharing 'lessons learned', as the purpose is as much about sharing the lessons with the *wider* NGO community as it is about the particular learning that takes place within individual participant NGOs. Like the *Lessons Learned from Institutional Reviews*, this should identify lessons specifically for (i) the NGO community, (ii) policy or procedure issues for VASS, and (iii) implications for future training/mentoring needs analysis.

Recommendation 29

Simplified institutional reviews should be established that focus on assuring systems are in place to meet VASS requirements and adherence to VASS principles. These should be based solely within the New Zealand NGO, unless further investigation is requested by the PSC, on the recommendation of the NGO or the review team.

Recommendation 30

On a regular and ongoing cycle, opportunities should be provided for New Zealand NGOs and their partners to engage in supported and funded learning consortia. These could use PIA or similar methodologies, but must be designed to meet the six essential features identified by this evaluation (voluntary, focus on impacts, participatory, focus on learning, engage partners, peer-based).

Footnotes

- 1 See section 4.2.4 for an explanation of the process of achieving an approved Organisational Profile and a description of Block Grant status.
- 2 The Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD), of which the New Zealand Government is a member, uses a peer review mechanism.
- 3 Personal communications with NZAID Human Resources Manager, October 2004
- 4 VASS principles were important foundation thinking when Towards a Safe and Just World was being prepared.
- 5 The Monterrey Consensus (2002) is a declaration of global commitment to meeting the challenges of financing for development. NZAID senior officials participated in the development of this consensus.
- 6 Referred to in discussions around improved government-NGO relationships, such as a national hui in May 2004, and in developing relationships between the Ministry of Health and NGOs.
- 7 Based on NZAID material prepared for 2004 DAC Review
- 8 The Good Governance Fund Pacific was restructured into (i) the Pacific Programme for Strengthening Governance, incorporating the Law and Justice Programme, and (ii) the Global Good Governance Programme, which was \$300,000 in 2003/04.

9 Responsive funding allows NGOs themselves to determine projects and programmes within agreed guidelines, rather than being contracted by a government funder to provide a specific service pre-determined or 'purchased' by the government.

10 VASS funding has also risen to projects in the Solomon Islands – from \$5,000 in 2001/02 to almost \$220,000 in 2003/04. However, this comparison is less useful, as the crisis in the Solomon Islands is likely to have contributed substantially to less NGO activity in 2001/02.

11 Emergency Management and Disaster Relief NGO funding is also managed by the PSC, with the inclusion of the chair of the NGO Disaster Relief Forum (NDRF) in the PSC when EMDR decisions are considered. See section 5.

12 Where an NGO has an Organisational Profile approved or provisionally approved, they are eligible to vote at the NZAID/NGO meetings which elect NGO representatives to the PSC.

13 [Missing data]

14 This is not to minimise the value of international networks and affiliates. However, they are now more likely to be adding value to the New Zealand NGO contribution, not substituting for it.

15 This is particularly significant when the 30-40 full-time equivalent programme staff employed by NGOs in New Zealand (and representing many more actual individuals) are compared with the 45-50 New Zealand-based programme staff employed by NZAID.

16 Matching funding is not generally required in most domestic funding, nor in the four strategic relationship agreements NZAID currently has in place or is developing with the Council for International Development, the Development Resource Centre, Trade Aid Importers, and Volunteer Service Abroad, nor in most contracted and contested funding through NZAID or other agencies.

17 While there are minor variations in usage, SMART objectives generally means those that are Specific, Measurable, Appropriate, Realistic and Time-bound.

18 Sometimes it may be assumed, erroneously, that partnerships only come in one size and shape. Indeed, some have expressed the concern that the systems and processes for VASS may be based on a simplistic model of a single New Zealand NGO having a single relationship with a single developing country NGO. In fact, as is recognised from the experience of VASS, “the number of stakeholders involved often makes the concept of partnership in development complex. For example, there are often a number of levels of relationships: within communities; between the community and a local NGO/CBO; between the local NGO/CBO and a national NGO; between the national NGO and one or more donor NGOs; between donor NGOs; and between donor NGOs and ‘back donors’ (eg their government aid agencies)... One NZ NGO was funding a project managed by its Australian counterpart and maintained contact with both its office in Australia and its field office in the country concerned. The project was being implemented by two in-country NGOs that, as part of the project, had established an organisation of beneficiaries. Therefore there were at least six organisations involved with project planning and support at different levels.” (Quinn and Clark, 2003)

19 The issues are not necessarily simple to resolve. Water for Survival report (personal communications, 2004) that prior to amalgamation they had grown to the stage where the administration of the organisation had become too much of a burden for the voluntary structures they had in place. They tried delegating tasks, but after an unsuccessful attempt it was decided that further delegation would not work and was only postponing a more radical change. Their income from donors was not sufficient to pay for the staff needed to do the core administrative work. After many discussions at Board level and with members, it was decided that an amalgamation with Oxfam, who had the administrative structures in place, would be the best long-term option for Water for Survival. The move from being a volunteer organisation to one that has paid staff is usually a major transition for any organisation. Water for Survival report that their major pressure point was in handling the financial and donor relations side of fund-raising (which we note is not eligible for VASS administrative funding), not the programme management side, where they had quite an enthusiastic volunteer committee with wide-ranging skills (but which was eligible for administrative funding). Larger NGOs already operating on a staffed basis can, for example, allocate administration funding to eligible areas and free up other self-generated income to cover ineligible areas. This flexibility is not necessarily available to small, all-volunteer NGOs.

20 The value of developing new collective 'mind sets' should not be underestimated. Such an approach is probably the single biggest factor in turning around the punitive and 'sudden death' approach to Block Grant eligibility to a more supportive and developmental approach, following the 1998 VASS evaluation.

21 Department for International Development, United Kingdom

22 For example, as noted earlier, Quinn and Clark (2003) identify up to six levels of relationship for potentially just one project.

23 WID linkages grants were available for up to four phases with a single women's organisation: an appraisal grant for development of a funding relationship; a grant to appraise a project to initiate or consolidate an NGO's relationship with a women's organisation in a developing country; a grant to initiate a funding linkage; followed by a grant to consolidate a partnership with a women's organisation in a developing country (Clark et al., 1998). It is especially this last 'consolidation' phase that may be artificially cut short by the current limit of only two PfD grants per partner.

24 It was envisaged that the transfer of skills to the New Zealand organisation could also occur, but would be supported by the New Zealand organisation itself or by relevant domestic funding sources (or in any case would not be a legitimate charge on VASS).

25 The 1998 VASS evaluation found that "a number of NGOs who provide 'volunteers' to undertake humanitarian work or provide technical assistance in developing countries have difficulty accessing VASS because their programmes do not meet VASS criteria. This does not mean that the work is not useful. It just does not fit... Attempts to shoehorn volunteer-sending projects into VASS have been frustrating both for those involved in VASS funding and the applicant NGOs. If such projects are viable and effective, they are more appropriately assessed alongside other volunteer-sending activities and encouraged to learn from VSA's considerable experience in these processes" (Clark et al., 1998).

26 The IPPP is a small responsive fund within CIDA that will provide up to C\$10 million over a four-year pilot period to match the development expertise of Canadian Aboriginal entities with the development requirements of indigenous peoples in Latin America and

the Caribbean, to help reduce poverty in the region (Canadian International Development Agency, undated).

27 The Department for International Development (2001) commissioned a scoping study on Getting it Right Together: Black and Minority Ethnic Groups and DFID's Development Agenda. It has allocated UK£750,000 over three years in a Strategic Grant Agreement with a black and minority ethnic civil society consortium to address some of the issues raised in that report, especially in the area of information sharing and capacity building of black and minority ethnic civil society around strategies for poverty reduction in developing countries.

28 Work undertaken for the 1998 VASS evaluation found that funding for administrative costs at that time by other donor countries ranged at its lowest from five percent in Australia to 7.5% in Canada, 8-9.5% in Sweden and 10% in the UK (Smillie 1998, SIDA 1998 & DFID 1997 quoted in Clark et al, 1998). This may have since increased, as the trend had been increasing recognition and funding of NGO administrative costs over time.

29 If VASS makes an administrative contribution less than its matching grant proportion, it is implying that public donors should be funding a greater share of the administrative costs than it is prepared to support. If anything it is more likely that public donors will be less informed and less understanding of the importance of adequate support for administrative costs as a part of effective project management.

30 It could, for example, be prudent use of AM&E funds to support additional monitoring and evaluation visits to collect information on a face-to-face basis for reporting. Similarly, if a known organisational weakness is identified, it could be good to provide CAP funding alongside or in advance of the project funding.

31 Around three quarters of VASS project applications are approved on first consideration, while 90-98 per cent of Annual Notifications or In-depth Reports from Block Grant NGOs are considered satisfactory on first submission (VASS data base, 2004).

32 Despite its commitment to a funding goal of 0.7 per cent, New Zealand is currently contributing only 0.22 per cent of GNP to development assistance. This leaves New Zealand with a rank of 19 out of 22 OECD countries for the proportion of GNP provided for international development assistance. Furthermore, the proportion has been slowly dropping, and is down from 0.27 per cent in 1999, and significantly less than New Zealand's previous high of 0.52 per cent in 1975.

33 As we note below in section 4.7.2, the maintenance of a strong and independent board is addressed in VASS in the cycle of institutional reviews and indirectly in the initial approval of an Organisational Profile. We propose that this be strengthened and made more explicit in the future – see Recommendation 19.

34 We understand this issue has been raised with the State Services Commission (SSC) in the past and the key consideration is where the PSC 'sits' on the SSC's list of public committees and associated meeting fee levels.

35 As defined by Part I of the OECD Development Assistance Committee (DAC) list

36 Sphere is an international agreement among several humanitarian NGOs, the Red Cross and Red Crescent to support alleviation of human suffering from calamity and conflict, and to assist those affected to have a life with dignity. Sphere provides a handbook, a process of collaboration and commitment to quality. More information can be found at www.sphereproject.org.

37 Money cannot be moved between 'appropriations'. NZAID has five appropriation groups for aid and development purposes, excluding funding of the Agency's overhead costs. These are: annual appropriations for International Agency Funding; New Zealand Voluntary Agency Grants; multi-year appropriations for Pacific Development Assistance; Global Development Assistance; and Emergency Relief.

38 The 1998 VASS evaluation, for example, found that while most domestic funding schemes had robust accountability and compliance systems, most prominent domestic funding schemes surveyed had no specific allocation for evaluation. The one scheme that did so spent less than 0.1 per cent on specific evaluation activities (while VASS spent 2.3

per cent at the time). There were few, if any, examples of routine dissemination of 'lessons learned' by domestic funders, as has now become routine under VASS.

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