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May 2006

Building Governance and Civil Society: Learning and Innovation from Local Funds

From a CARE International project on aid architecture and its impact on civil society

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Acknowledgements

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Acknowledgements are due to all the staff of Manusher Jonno in Bangladesh, the City-Community Challenge Fund (C3) in Zambia; and the Foundation for Civil Society in Tanzania involved in the learning workshops that served as the basis for this report and special thanks for all their hard work in managing these Local Funds.

Thanks also to **Kate Hamilton** and **Zaza Curran** for their comments and contributions on previous drafts.

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Acronyms and Other Terms

BLAST	Bangladesh Legal Aid Services Trust
BRAC	Bangladesh Rural Advancement Committee
C3	City Community Challenge Fund (Zambia)
CBO	Community-based organisation
CIDA	Canadian International Development Agency
CSO	Civil society organisation
CSP	Civil Society Programme (Tanzania)
DCI	Development Cooperation Ireland (now Irish Aid)
DFID	UK Department for International Development
GBS	General budget support
IIED	International Institute for Environment and Development
LCC	Lusaka City Council (Zambia)
LSE	London School of Economics
MDG	Millennium Development Goal
MJ	Manusher Jonno – 'for the people' (Bangladesh)
MoU	Memorandum of Understanding
NCC	Ndola City Council (Zambia)
NGO	Non-governmental organisation
NGOAB	NGO Affairs Bureau (Bangladesh)
Norad	Norwegian Agency for Development
ODA	Official development assistance
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
SDC	Swiss Agency for Development and Cooperation
Sida	Swedish International Development Cooperation Agency
TRACE	Training Centre for Development Cooperation (Tanzania)
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Program
Urban INSAKA	Research, learning and training unit within CARE Zambia - 'meeting place'
US	United States
ZAMSIF	Zambian Social Investment Fund

Executive Summary

This work grew out of a modest project exploring questions around best practice and new approaches within a range of competitive grant-making mechanisms for supporting civil society set up by DFID. The learning process started by looking in detail at best practice from CARE's experience of managing three challenge funds, in Zambia, Bangladesh and Tanzania. These programmes all had core aims centred on poverty reduction, rights and improved governance. As the process developed, an inherent tension emerged between the demand-driven nature of the grant-making activities and the overarching long-term governance and rights agenda, which requires a strategic, somewhat directed, approach. One result of this tension was difficulty in ensuring that the Funds' activities ultimately contributed to their long-term objectives at the same time as adopting the intended demand-driven approach. This provoked broader questions and resulted in the project evolving to consider a range of issues around strategy and policy, as well as the wider aid context in which the Funds operate.

The term 'Local Funds' was adopted for this initiative from Beall (2005) and, although two of the three programmes examined could not be described as 'local', this term was seen as a convenient shorthand for grant-making challenge funds.

In the growing trend towards the delivery of aid through General Budget Support (GBS), there is an attempt to move away from conditional lending and project-based cycles to allow governments to use their own systems and strengthen their ownership of and responsibility for aid. Donors also hope to reduce transaction costs and become more efficient in their aid delivery. Within this context, Local Funds have gained in popularity with donors, seen as mechanism compatible with GBS, and one able to channel smaller resources to the local level for civil society initiatives and to push the demand-side governance agenda.

Given the growing significance of Local Funds, it was deemed important to try to draw out some lessons from experience in terms of how such mechanisms are performing and what kinds of challenges and limitations have been encountered. This report contributes to the ongoing learning initiative by CARE International and others on changing aid architecture and its impact on civil society.

The study emerged from earlier engagement and debates within CARE about a range of competitive funding mechanisms for CSOs and from workshops in 2002 and 2005, the latter building on experiences obtained during an exchange visit to Bangladesh in 2004 held by staff from CARE's three programmes. Local Funds have been used to pursue a wide range of development objectives, the common element being a competitive grant-giving process to support CSOs. CARE has been involved in managing several programmes, which shared a more specific focus on a range of goals around governance, civil society and rights.

This is not a detailed report of the process and outcomes but instead an attempt to present a synthesis of learning, highlighting: i) what we set out to learn and why; ii) what we did learn; and iii) obstacles encountered. It looks at the make-up of Local Funds in general, three case studies on the programmes noted above, and findings/recommendations arising from these in terms of strategic objectives for future set-up of Local Funds. We hope that it will be of use to a wide range of development actors, those involved in design, funding and implementation of similar programmes, and those involved in civil society and governance programming more generally.

Findings in Brief

- **Local Funds with aims around rights and governance need to ensure that there are explicit links built in between these aims and their activities:** Programmes set up around joint poverty and governance-related aims experience constant dilemmas in operationalising these aims. This is because the links between giving grants and impacting poverty and governance are assumed but not necessarily unpacked and planned for. As they are seen primarily as grant-giving organisations, whose impact is derived from the sum of the projects they fund, the activities of the Fund and its ultimate desired impacts are often de-linked.
- **Funds need to consider targeting strategies in order to ensure the poorest and vulnerable are reached:** The kinds of standards and criteria that are set for grant giving sit uncomfortably with the desire to target the poorest. The poorest tend to lack opportunities to organise and to identify project ideas. Local Funds are in danger of advancing the interests of those who are better off and more able to compete.
- **Funds need to find a balance between being demand-driven and encouraging innovation:** Innovation is more limited than is anticipated by designers because what CSOs propose tends to be oriented towards traditional service delivery. In order to achieve significant impact, there is a need to be strategic in grant giving, seeking ideas that complement existing work. The limitation of being driven by demand is that it is hard to be strategic and to achieve cumulative impact. Similarly, it is hard to move away from funding the 'usual suspects'.
- **Funds need to develop risk assessment and management strategies:** There is a fear that taking risks on projects that are ultimately unsuccessful would damage the reputation of the programme and its mechanisms, even when 'project failure' is built in.
- **Programmes need to move beyond grants:** There is a need to combine a Local Fund's core business of giving grants with broader work that incorporates areas such as capacity building, policy work, building networks and specific targeted initiatives, if aims around improved governance and strengthened civil society are to be achieved.
- **Issues around sustainability must be examined:** Local Funds are heavily dependent on donor support and there has been little done to diversify the funding base. Local Funds need to look at how they can begin to leverage local resources successfully. Owing to the way they are constituted, there is also confusion as to what to prioritise in terms of achieving sustainability.
- **We need to be realistic about what Local Funds can achieve and when:** There is often great pressure for Local Funds to achieve impacts quickly while continuing to be demand-driven. Moving away from the day-to-day realities of managing the administrative loads involved in operating a fund is difficult. The kinds of mechanisms and procedures that are characteristic of Local Funds are not appropriate for all CSOs. Given these limitations, there is still a need to ensure diversity of civil society funding beyond a Local Fund operating in a country, and to not expect a Local Fund to achieve all demand-side governance needs.

1.0 | Background to the Learning Initiative

The origin of this current study lies in debates within CARE about competitive funding mechanisms which DFID in particular was actively developing at the time. This report grew out of a modest project exploring questions around best practice for competitive grant-making mechanisms for supporting civil society. At the time that the learning initiative began, CARE was the implementing organisation for three DFID Local Funds: the City-Community Challenge Fund (C3) in Zambia; the Tanzania Civil Society Programme (now the Foundation for Civil Society); and Manusher Jonno (MJ) in Bangladesh. All three programmes have core aims centred around poverty reduction, rights and improved governance. Although the programmes vary in terms of approach, structure and size, they have some important areas of convergence.

As the process developed, an inherent tension emerged between the demand-driven nature of the grant-making activities and the overarching long-term governance and rights agenda. An obvious result of this tension was difficulty in ensuring that the Funds' activities ultimately contributed to their long-term objectives. This provoked broader questions and resulted in the project evolving to consider a range of issues around strategy and policy, as well as the wider aid context in which the Funds operate.

There is currently a growing trend towards delivery of aid through General Budget Support (GBS), whereby financial support is channelled through a recipient government's budget, usually through its ministry of finance. This trend marks an attempt to move away from more oppressive conditional lending and the need to conform to donor project management cycles and reporting systems. GBS allows governments to use their own systems, which can strengthen national government ownership of and responsibility for aid.

There is also a desire by donors to reduce transaction costs and become more efficient in their aid delivery. Within this context, Local Funds have been gaining in popularity. These are seen as both compatible with GBS and able to channel smaller resources to the local level for civil society initiatives while pushing the demand-side governance agenda. For many bilateral and multilateral agencies, Local Funds are replacing 'small projects' budgets, which previously went exclusively to NGOs. DFID is at the forefront in terms of support for GBS and, perhaps by extension, is also increasingly favouring Local Fund-type mechanisms.

Local Funds have been used to pursue a wide range of development objectives, the common element being the use of a competitive grant-giving process to support civil society organisations (CSOs) in varying ways. CARE has been involved in managing several such programmes which also shared a more specific focus on a range of goals around governance, civil society and rights.

Given the growing significance of Local Funds as an aid mechanism, and CARE and DFID interest in them, it was considered important to draw out some lessons from experience to date. We set out to discover how the mechanisms were performing in the context of changing aid modalities and funding for civil society, and what challenges and limitations they had met in practice. Initially focusing on three cases, the learning initiative began to highlight some overarching questions about the changing nature and patterns of contemporary aid, and how interventions around governance, civil society and rights might impact poverty in practice.

Earlier workshops organised by IIED in London in 2002 and CARE in Johannesburg in 2003 provided an opportunity to reflect on operating such funds and to identify some of the chief emerging questions meriting further exploration. In early 2004, CARE took this learning further by analysing the three above programmes together, using the same lens, to draw out deeper lessons.

In December 2004, staff from each of the programmes participated in an exchange visit to Bangladesh, sharing experiences in a programme of workshops and project visits and jointly carrying out a study of the MJ programme. Discussions developing over emerging questions set the agenda for a global workshop in March 2005 in London, which intended to address a more finely tuned list of some of the 'big picture' issues: What can Local Funds actually achieve in terms of building civil society and impacting poverty by improving governance? Where do they fit into the wider architecture of aid? How can their effectiveness be enhanced in future? This report aims to highlight some of these burning issues to enable donors, managers, implementers and others involved in the different elements of Local Fund programmes to take these into consideration.

In focusing on this narrower sub-set of programmes, the learning initiative has begun to highlight the importance of overarching questions about the changing nature and patterns of contemporary aid and its impact on civil society, and how interventions around governance, civil society and rights might impact on poverty in practice. As always, with looking at a particular model in isolation and choosing to 'cut the cake' in a certain way, we met limitations in our enquiry. The initiative started to raise some important questions about the relationships among governance, rights, civil society and poverty, and how aid modalities impact these. We realised that this needed to be the subject of broader enquiry. As such, with this learning initiative, we have moved away from a particular focus on one type of mechanism to examine changing aid architecture and its relationship to civil society in a more holistic way. As a part of this, and in partnership with ActionAid International, CARE has completed a research project in Malawi, Uganda and Tanzania (2006) to look at the implications of changing aid relations among DFID, recipient governments and NGOs in the respective countries.

This report looks in Section 2 at the general characteristics of Local Funds, to give some background and detail on their components, with Sections 3 presenting the case studies in depth. Over the course of the learning initiative, some common lessons emerging on issues of strategy, targeting and innovation, and sustainability and institutionalisation. These findings are presented together in Section 4. In addition, an overarching line of enquiry ran through the initiative, relating to questions on the role of Local Funds within the current aid paradigm and a desire to understand the context from which they have emerged. This is chiefly analysed in Section 2, although there are also specific corresponding recommendations throughout the report.

2.0 | Local Funds Explained

The history of Local Funds lies within the World Bank's Social Funds, although UNDP, UN Habitat and a number of bilateral donors (including DFID and Sida) have also taken them up. The term 'Local Funds' was adopted for this initiative from Beall (2005), although such mechanisms have variously been called challenge funds and social funds, among others. It is recognised that the mechanisms may have specific connotations not reflected in the term Local Funds (indeed, it was clear during the study that the term was controversial for some). Equally, two of the three programmes analysed could not be described as 'local'. It is used here merely for clarity and consistency.

This method of support to civil society has gained currency among donors in recent years, as funding has moved upstream through mechanisms such as GBS, as Poverty Reduction Strategy Papers (PRSPs) have become more dominant, and as donors have sought to minimise transaction costs.

2.1 | What do we mean by Local Funds?

Beall (2005) gives a general description of Local Funds as 'quick-disbursing, relatively autonomous from government structures and procedures, and driven by a demand-led approach in which the public voice informs project design, implementation and monitoring'. She goes on to say 'Sometimes presented as a depoliticized way of allocating resources on the basis of need to willingness of beneficiaries to participate, Local Funds can also be used as a vehicle for enhancing governance.' Funds are established as discrete entities, separate from the donor. The box below gives some generic features of Local Funds which give a more detailed understanding of their components.

Some generic features of Local Funds

- Local Funds are a means by which relatively small resources are targeted directly towards disadvantaged groups or local communities, according to predetermined criteria.
- They are believed to be better targeted, distributed closer to where they are needed, with local people more able to decide what they need and to influence what they get.
- They are supposed to be demand-driven, operating in response to expressions of need and initiatives proposed by local actors themselves.
- They are supposed to stimulate partnerships for development. The process of eliciting funds should lead to increased participation. Partnerships will mobilise local resources, leading to greater cooperation among multiple local stakeholders.
- They offer grant funding as opposed to loans, although many require some level of co-financing.
- They are deemed to be swift and flexible.
- Management is devolved from donor agencies to other organisations which are responsible for oversight and day-to-day management.

Source: adapted from Beall (2005).

2.2 | Donor interest in Local Funds

Local Funds are of growing importance in the context of increased use of GBS as an aid instrument. The increase in the proportion of aid being channelled through budgetary mechanisms directly to treasuries in partner countries has meant a greater concentration of aid flows towards government compared with the past[1]. One means of ensuring that this does not lead to an imbalance is directing a proportion of funds into non-government channels. Local Funds are seen as a mechanism for doing this as, to a certain degree, they reflect similar elements to GBS.

One rationale for GBS is that it enhances the ability of governments to pursue their own reform agenda. The underlying assumption is that by focusing on government's own accountability mechanisms, GBS will improve transparency and accountability to the country's parliamentary institutions and electorate. In this sense, it is supporting the supply of reform, in order to make such reform more likely. However, good governance requires more than just benevolent government: it also requires an active civil society to hold government to account and to demand reform. Local Funds are seen as a way to address this 'demand side'. They are seen by some donors as a mechanism to balance the emphasis on government-oriented budgetary aid instruments: with their emphasis on poverty, governance and civil society, they explicitly focus on the demand side of pro-poor governance reform, facilitating the voice to hold government accountable.

Donors have for a long time been financing multiple small-scale projects in strengthening civil society. The recent move upstream of donor aid, of which GBS is a part, owes partly to dissatisfaction with the project-based approach and its association with parallel structures, lack of sustainability and limited scale. In particular, donors find that the project-based approach incurs high transaction costs, associated with managing large numbers of relatively small projects in relation to the scale of their potential impact. The advantage of Local Funds is that these costs are moved away from the donors to the Funds, which are established as discrete entities separate from the donor. By setting up Local Funds, donors are able to continue to support small project-oriented activities while passing on transaction costs to a separate entity.

[1] It is worth noting that on the whole it seems that this has not resulted in less money going to CSOs, as highlighted in CARE International/ ActionAid International (2006). CSOs are getting similar levels of funds but the proportion of ODA going to governments overall has increased.

3.0 | Case Studies of Local Funds

The case studies on Zambia and Bangladesh are largely extracted from Beall (2005), which supplies a much more detailed explanation of systems and procedures. The Tanzania case study is extracted from Wiseman (2004). Information was true at the time of writing.

3.1 | The City Community Challenge (C3) Fund (Zambia)

Background to the C3 Fund

The City Community Challenge (C3) Fund was a pilot project operating in two cities, Lusaka and Ndola, bringing small-scale catalytic funding to assist low-income urban communities and their representative local authorities in engaging in sustainable poverty reduction initiatives. In fund parlance, it was a classic ‘challenge fund’, a term popular with DFID for this type of initiative. It began in October 2000 with a sum of £500,000 from DFID and was managed by CARE Zambia, under the Urban INSAKA programme. A second phase, funded by UN Habitat with US$200,000, aimed to consolidate experience from the first phase and to consider future replications of the C3 Fund at national level. C3 Phase II came to an end on 31 March 2005.

Zambia was no stranger to social funds, notably the Zambian Social Investment Fund (ZAMSIF) funded by the World Bank to the tune of over US$64 million, focusing on poverty reduction through support to district planning. Beginning in July 2000, ZAMSIF had spent US$13 million by mid-2005, supporting 156 community-based projects. Key bilateral donors are engaged in ZAMSIF, which is now providing block grants to district authorities that can show evidence of capacity to manage local poverty reduction initiatives. An important dimension of the overall environment in which C3 was piloted was the desultory, if not moribund, decentralisation process and the fact that ZAMSIF funds were being used to encourage it to go forward. This, together with ZAMSIF’s focus on the district (and city) level, meant that there was a niche for C3 to work locally and at micro level in ways which could engage with both ZAMSIF and city councils.

One goal of C3 was to ensure breadth of coverage and spread across cities; C3 Zambia was also keen for the C3 methodology to penetrate government as quickly as possible. A second goal was to assess the viability of challenge funds as a mechanism by which international development agencies such as DFID might reach and empower poor people, particularly within the context of GBS. A third goal was to develop effective and transferable mechanisms capable of channelling multiple small-scale funds to community-led initiatives in the context of urban development partnerships, ideally involving government agencies, CSOs and the private sector. Longer-term goals included capacity building of councils to deliver services in concert with communities, and of communities to engage confidently with local authorities.

Zambia is the second most urbanised country in Africa, with half of the country’s population of over 10 million living in cities and towns, characterised by sprawling informal settlements and poor infrastructure and services. Zambia’s urban population is overwhelmingly poor. This scenario presents a major development challenge for cash-strapped municipal governments, which have found it impossible to keep up with the demand for infrastructure development and service delivery. In Lusaka and Ndola at the time of the C3 pilot, most council staff had to wait for their salaries, which were many months in arrears. As a result, both Lusaka and Ndola City Councils (LCC and NCC) were unable to deliver the most basic services, let alone engage in development initiatives in poorly served areas. Strikes and go-slows were commonplace and senior management could not implement reforms or innovations in the face of crushing debts and low staff morale. These were trying conditions under which to try and initiate a fund.

The original goal of C3 was to assist organisations of the urban poor and their representative local authorities to undertake localised poverty eradication initiatives through the provision of resources for small-scale innovative activities of broad community benefit. This was done through grants for small, medium and large project funds. Small grants were for projects costing up to a maximum of US$5,000. Approval for these was delegated to the C3 management team, following criteria developed by the C3 national advisory group. Small grants were for low-cost and tightly focused projects of short duration; simple and fast-track application and approval procedures aimed to encourage applications from the most excluded groups. Medium-cost longer-term initiatives were those between US$5,000 and US$10,000 and faced tighter procedures, although delegated authority for approval still rested with C3 management. Large projects were those over US$10,000; these needed authorisation from the national advisory group. General conditions for all sizes of grant are listed below.

C3 general grant conditions

- All projects should complement city council activities.
- All projects must have tangible (real/evident and measurable) results.
- All projects must be able to prove the need for the proposal.
- Only groups/organisations can apply and must contribute to the project in cash or in kind from their won resources or from resources raised elsewhere (50%).
- Urban INSAKA must have open access to all projects funded by C3.
- Groups/organisations must accept that their details will be publicised when receiving funds.
- There is no limit to the number of times a group can apply. Groups which have received C3 funds before must prove that they have finalised what they applied for previously.
- All activities must be legitimate and project applicants are solely responsible for fulfilling any related statuary taxation requirements.
- Projects are excluded which aim to carry out activities typically within the remit of central government (i.e. government ministries as opposed to local government).

In kind contributions were counted and recorded by C3 staff on behalf of the applicants, for example by valuing their labour and the time they spent on C3 activities, including: preparing proposals; community labour; and time spent organising participation and in meetings. As one of the aims of C3 was to leverage resources from other donors, if these supported the same project as C3 was funding this was included as an external contribution to the 50% match fund (for more information see Beall, 2005).

It was agreed from the outset that C3 funds in Zambia would complement or reinforce city council activities and avoid creating parallel structures as much as possible. Although CARE managed C3, it was implemented in partnership with the city councils for sustainability, and their capacity building (and that of communities) was a key aspect of project implementation. By narrowing the focus of the projects in this way, C3 ensured that it would receive technical assistance from LCC and NCC, which had expertise in the relevant service delivery areas. Partnership arrangements were a condition for projects above US$5,000 and applicants signed MoUs or contracts to encourage the local authority and other partners to provide support to the projects over the long term, so that they could remain sustainable. One challenge was to ensure regular funding for the C3 approach, both externally from donors but also internally from government. LCC slowly increased its interest in and support for C3, whereas NCC was enthusiastic from the start to become a full partner, responsible for distributing and monitoring funds almost immediately.

Experiences and lessons learned

Under the trying conditions reviewed above, C3 goals were difficult to achieve in the case of LCC. Establishing the programme in the city centre proved to be complex although, in the smaller city of Ndola, the NCC was more receptive and became an important partner from the outset.

The issue of match funding is often a vexed one in low-income contexts. In Zambia, lack of resources was a problem not only for the two cash-strapped councils but also for poor urban residents, many without jobs or regular incomes. DFID's contract with CARE required that all applicant groups had to show a 50% contribution (in cash or in kind) to the projects they wanted to implement and the C3 management team had to be imaginative and innovative in assessing this. In both cities C3 achieved buy-in from area-based organisations and community groups.

The success of C3 in Zambia owed in part to the determined effort to engage local government and to strengthen communities with regard to their dealings with public authorities. The need for projects to focus more narrowly, on complementing council activities rather than duplicating them, meant that LCC and NCC could input technical assistance and that beneficiaries could engage with them more fruitfully.

The C3 methodology was also a contributory factor: avoiding prescription, beyond basic adherence to the methodology, C3 facilitated local authorities and communities in jointly setting their own targets and working arrangements. The mechanism allowed for upward accountability to DFID and the UK taxpayer, while emphasising downward accountability to local governments and citizens, on the grounds that C3 funds were 'owned' by the ultimate and intended beneficiaries. With this in mind, application, approval and monitoring procedures were kept light in order that grantees were excused from all but the most necessary reporting requirements. Light touch management tools also were developed to ensure that red tape did not exclude the busy, the illiterate and the most needy.

None of this was achieved easily. In particular, DFID and CARE International found it difficult at first to 'let go' and to accept the 'light touch management tools' tailored to local capacities (as opposed to international donor standards and expectations). Disbursement was also slowed down by bottlenecks higher up the chain in DFID and CARE. However, part of the innovation of C3 was that it adopted a 'learning by doing' approach, which involved donors and international programme managers doing much of the learning and having to adapt their own procedures. Anxieties about misappropriation of funds have been largely misplaced, with only a few groups misusing funds. Similarly, fears that C3 funds would be siphoned off to compensate for unpaid salaries were also ungrounded. On the contrary, the NCC used C3 as a tool to lobby the Minister of Local Government and Housing, who promised to pay salary arrears, thus allowing the local authority to get on with its tasks.

Donor coordination was not easy, as different donors tend to maintain their own agendas despite being committed, theoretically at least, to increased donor coordination. Ensuring regular funding was also difficult, and the limited leverage of resources from the private sector was disappointing. The C3 project came to an end in March 2005, having tried but failed to obtain more funding. They were not as successful as hoped, within the timescale, in mainstreaming C3 systems and procedures to ensure sustainability within the city councils. Little analysis of C3 impact has been carried out in terms of the sum of its parts, beyond an overall evaluation in 2003. This would be extremely valuable now that the programme has finished and some time has passed, in order to be able to examine and share lessons on its longer-term impact.

3.2 | Manusher Jonno (MJ – Bangladesh)

Background to MJ

Manusher Jonno (MJ), meaning ‘for the people’, is a small funds programme established in Bangladesh in 2002. It is currently funded by DFID to the tune of around £15 million, including a grants commitment of £13.5 million over five years. It is jointly managed by a consortium of organisations including CARE UK, CARE Bangladesh (lead), Deloitte & Touche Emerging Markets (UK), BLAST and LSE, and implemented by the MJ staff team, termed the Secretariat. MJ is overseen by a Steering Committee of prominent Bangladeshi professionals, which acts as the governing body of the project, providing strategic direction and approving projects above £45,000. There are 10 members on the Steering Committee, with the MJ team leader acting as an ex-officio member. DFID, CARE Bangladesh and BLAST have observer status.

MJ broad thematic focus areas

- Improving the quality of institutions of governance to meet human rights obligations.
- Influencing improvements in policy formulation and implementation.
- Helping poor people to advocate for equal rights and access to resources and opportunities.
- Promoting the rights of women and children.
- Promoting rights of the extreme poor and socially excluded people.

MJ aims to enhance the capacity of poor women, men and children to demand improved governance and realisation of their rights. MJ supports local and national initiatives that help build the voice of the poor and their capacity to be heard, including promotion of their rights and improved governance. The project does this primarily by awarding grants to NGOs which submit appropriate proposals and meet strict selection criteria. The project design envisaged that after three and a half years, MJ would become an independent national organisation under Bangladeshi law. The rationale was to develop an independent, indigenous Bangladeshi institution that could address the social and political constraints which prevent disadvantaged people from achieving their rights (DFID, 2004). This process is currently underway.

Projects supported by MJ include initiatives seeking to increase pressure on government and political and other elites and to provide better access to decision-making processes, resources and services. Of primary concern are sustained social mobilisation efforts which make duty bearers more aware of their obligations or which raise awareness of disadvantaged people on their civil, political, economic and social rights. More difficult to get off the ground but increasingly in focus are projects building the capacity of government and other duty bearers to respond. Unlike C3, therefore, MJ was designed as an ‘arm’s length’ programme, which would retain autonomy and distance from government institutions in order to enhance the voice of target citizens. This was consistent not only with programme aims but also with the broader context in Bangladesh, where civil society has a long history and where there is a strong local NGO sector with some, such as the Grameen Bank and BRAC, as big in size and influence as some government departments.

Inasmuch as the MJ team had to adapt to new ways of doing things, particularly the ‘permission’ to fail, so potential grant awardees and project partners were at different levels of awareness and experience in terms of human rights and governance. It became clear, therefore, that part of the assessment process in MJ required identifying the ‘level of readiness’ of applicant organisations to take on both their won project objectives and the more high risk rights and governance agenda being advanced by MJ in its funding priorities. It was found, for example, that some organisations were only just coming to terms with rights-based approaches while others were already engaging government in policy dialogue.

As with C3, MJ funded projects of different sizes. However, MJ is a far bigger programme and the range of project sizes is greater as well. The Secretariat went through a learning curve in terms of devising appropriate management tools and procedures. The take-up of the first MJ call for projects was enormous and, in order that the team could cope, efforts were made to streamline and speed up mechanisms for processing applications without compromising the maintenance of a viable database for monitoring purposes. This was essential, given that the second round attracted almost as many applications.

Summary of applications submitted in first two rounds of MJ funding	Round 1	Round 2
Application received	1,444	1,284
Request to submit project proposal	64	51
Project proposals received	58	35
Project proposals kept aside for capacity building	34	15
Projects finally selected as MJ partners	24	20

Source: Beall and Lewis (2003)

Even though almost half the applicants in the second round were rejected on the grounds that they were service delivery projects, it was clear that MJ's staffing complement needed to be expanded if the team was ever to engage in the social mobilisation and advocacy dimensions of its mandate. This was also necessary given their involvement in capacity building on how to develop coherent proposals among worthy but inexperienced partners, and the fact that not all partners could move immediately into action and implement projects, some requiring considerable capacity building in order to move forward, especially in financial management.

When MJ was designed, the political climate in Bangladesh was relatively benign and there was an emphasis on innovation and risk. By the time it was implemented, however, there were serious tensions within the NGO community and between CSOs and government. Under such circumstances, the MJ Secretariat and Steering Committee decided that, at least initially, MJ would avoid funding controversial issues which might put it and its partners at risk. Although it was envisaged that MJ would fund a diversity of organisations both within civil society and in partnership with the private sector, its registration with the NGO Affairs Bureau (NGOAB) has limited it to funding only organisations registered there, basically professional NGOs.

Experiences and lessons learned

The MJ Secretariat has learned from its own experiences in streamlining procedures and assessment processes. MJ has been very successful in counselling partner organisations, for example by advising small and less experienced organisations to narrow their sights or to scale down their ambitions. However, they stand open to accusations of favouritism in fulfilling their capacity-building role. A solution being considered is the contracting out of this function.

A second challenge relates to how MJ should respond when their partners come up against the vested interests that inevitably arise in human rights and governance work. For example, one partner organisation with a project on land rights encouraged a land invasion, which led to violent reactions between opposing claimants. The MJ Secretariat had to decide whether it should provide emergency relief, even though this was not part of their mandate, and whether it should express solidarity with partner organisations or not.

Similar dilemmas arise when partners request that MJ intervene on controversial political issues. This goes to the heart of whether MJ is simply a funding agency or a lead organisation in the field of human rights and governance. Although there is a wide consensus across the Secretariat and management team that MJ is the latter, it is recognised that caution and prudence must be exercised in order that the organisation can continue to be a source of funding over the longer term. Meanwhile, the limit put on MJ funding by NGOAB led to a bias in the first round of project appraisals towards funding known organisations with a good track record and welfare-oriented projects. This did not fit neatly with the rights-based and governance approach underpinning the MJ rationale, although it was argued that addressing socioeconomic rights was fundamental to the MJ approach to poverty reduction and livelihoods. Given these dilemmas, MJ needs to exercise and to be seen to be exercising transparent policy, and to strengthen its position and impact in terms of human rights and governance by addressing networking and advocacy issues.

The most pressing management issues relate to achieving readiness for the transition from a project under CARE to an independent, indigenous Bangladeshi grant-making institution. This will be done through the formation of a trust, which is seen by DFID as integral to achievement on the grounds that 'discrete donor funded projects are no substitute for a Bangladeshi-owned and driven initiative' (DFID, 2004). DFID has assessed MJ as on track and in the process of becoming an independent organisation. Much work is needed before the existing Steering Committee can become a body able to direct a trust and to provide leadership and oversight by way of a robust and independent governance system. It is recognised that MJ needs to expand and diversify its staff in advance of becoming a fully fledged independent organisation.

3.3 | The Foundation for Civil Society (Tanzania)

Background to MJ

The Foundation for Civil Society became a registered non-profit Tanzanian company in September 2002 and started full operations under this structure in January 2003. In its previous incarnation it was the Civil Society Programme (CSP), a competitive grant-making mechanism for CSOs, designed, funded and managed by DFID beginning in 2000. The CSP was divided into three operational agents, each managed separately by DFID. CARE Tanzania was the management agent, overseeing the grant-making process; TRACE (a Tanzanian training organisation) was the capacity-building agent, providing pre-designed training to applicants and grantees; and the national evaluator, Fatma Alloo, was responsible for evaluation of grantees as well as developing linkages among organisations. TRACE and Fatma Alloo still fulfil their functions under the management of the Foundation. CARE has no role in the new order.

The Foundation carries out the same principal functions of the CSP, although it is now rolled together under one organisation and is governed by a Board and a Council of Members. The Foundation is funded by four bilateral agencies: DFID, SDC, Royal Netherlands Embassy and DCI (now Irish Aid). Funding was committed up to the end of 2005 for a sum of US$10.7 million, although agencies saw their commitment stretching out well beyond that. There has recently been a policy decision that donors will only sit on the Council (heads of offices and deputies) and not on the Board: the two donors currently on the Board will be phased out in 2006 and it will be made up only of CSOs and private sector and government representatives. CIDA and Norad are prospective donors and members of the Council, for which they pay US$100 per year.

The Foundation was developed in response to two key factors within DFID at the time. Firstly, there was a need to address internal inefficiencies in dealings with civil society, which had focused mainly on funding a number of locally based international NGOs through not particularly strategic or transparent mechanisms, resulting in high transaction costs. Attempts to achieve economies of scale with the Direct Funding Initiative, which delivered support to CSOs across Uganda, Tanzania and Kenya through joint funding agreements, had not been particularly successful. Secondly, it was felt that DFID needed to develop an effective mechanism to balance the growing GBS focus, with an emphasis on building the voice of Tanzanian civil society to hold government to account and ensure effective civil society participation in the PRS process.

The Foundation aims to establish a support mechanism for CSOs which will enable effective engagement in poverty reduction efforts as set out in government policies. It hopes to do this by: building the capacity of CSOs and networks to participate in policy dialogue on poverty reduction; holding government and private sector to account; and enabling the vulnerable to participate in the development process. Grants are focused towards four main impact areas:

Four main impact areas of Foundation grants

- Policy engagement: allowing the voices of the poor to be heard in policy formulation processes.
- Governance: ensuring that public institutions function in a transparent manner and that people are aware of their rights.
- Safety networks: providing the most vulnerable with mechanisms through which to voice concerns.
- Advocacy: strengthening links among CSOs to enable effective advocacy to take place, and strengthening individual organisations to develop their skills to advocate effectively.

Between January and December 2003, the Foundation managed 123 projects (some of which were carried over from the CSP), and completed and closed 71. It disbursed close to US$1.5 million, divided between two grants schemes: medium grants, not exceeding TZS35 million per year (around US$27,800), and rolling grants, not exceeding TZS5 million (around US$4,000).

The Foundation has recently developed the capacity-building aspect of its work. Previously, it conducted very basic training on how to manage funds, but is now moving towards building relationships with grantees that go beyond specific projects. This will start with the Foundation conducting a capacity assessment for every grantee and then building a range of skills needed in CSOs, including fundraising, advocacy, leadership, partnership (with other CSOs and government), organisational sustainability, etc. The Foundation is also attempting to reach smaller or less capable organisations by encouraging partnership and networking among CSOs; it is particularly encouraging applications from CSO consortia.

The CSP's approach of setting targets, demanding quality and timeliness, and paying market rates to the delivering agent was unique, changing the way people thought about grant-making. It examined a wide range of sources in design and operation and then set about experimenting by drawing up an initial framework. After every CSP grant round, the CSP grants committee spent a half to one day reviewing systems and developing grant policy.

It was not always intended for the CSP to become an independent organisation. However, once the programme was into its second year, DFID began exploring possibilities for its future with other donors. SDC showed immediate interest and joined a Steering Committee to guide the Foundation's establishment, with a view to encouraging further civil society sources on a longer-term basis. The committee chose to register as a company limited by guarantee, the most accountable form of incorporation in Tanzania. In early October 2002, the Foundation's Council appointed an interim Board of Directors comprised of three SDC, three DFID and one DCI member. Further funding was soon forthcoming from the Royal Netherlands Embassy and (DCI).

Experiences and lessons learned

Donor representatives believe that the Foundation holds a great deal of strategic importance for their agencies, despite the relatively small amount of funding within its overall portfolio. Although the Foundation does not represent DFID's only funding to civil society, it does form the majority. Ironically, given an initial intention to cut transaction costs, the Foundation has absorbed a significant amount of several DFID staff members' time. As one DFID staff member explained by interview, 'for its sum, our engagement in the Foundation is completely disproportionate. Although it has been questioned internally at different times, (this investment) has been deliberate. There is a strong internal belief in the concept and the model – it's been crucial to underpin that with continuity of active support.' For many donor staff involved, the Foundation provides much needed grounding and more hands-on engagement than most of their other work. In the words of one staff member, 'the feeling among staff working in donor agencies that have moved to a budget support agenda is that there's less opportunity to be in touch with the realities of Tanzania – the Foundation provides that opportunity to some extent'.

The Foundation has become a convenient mechanism for donors to channel funds to civil society, at a time when many are relaxing regulations to allow them to move towards funding Tanzanian organisations directly. However, the Foundation has not had the absorptive capacity to manage the funds it receives and has struggled under donors' expectations. There is a concern that bodies like the Foundation can become the main or only channel for civil society funding, putting them in a very powerful position and upsetting organisational balance within the sector. This is a particularly sensitive point at the current time, as many CSOs believe that they are receiving less funding in the GBS climate. It is critical that the Foundation builds up a strong profile, identity and direction before it takes on further funding. The pressure for this to happen quickly, as a result of donors wanting to join the table, might disrupt the pacing of this journey.

Beyond this, there is concern about the longer-term financing of the Foundation. Although the donors interviewed saw the likelihood of funding for up to 10 years, the Foundation, similarly to MJ, has to consider what to do on a longer-term basis. Early explorations into the setting up of an endowment have suggested this would be extremely complicated, although it clearly warrants further investigation. It is believed by some interviewed that the Foundation has a role to play in building local philanthropy and encouraging donations from private and public sources, but this would involve a battle with the current tax system.

In terms of donor coordination, the Foundation is believed to have been very successful. One interviewee stated that 'the Council of Members itself represented donor coordination of civil society activities'. The Foundation enabled donors in the midst of working out their strategies for funding civil society to do this more quickly and coherently, even the non-funding members. Although the Foundation represents a good opportunity to harmonise around civil society policy issues, it was stressed that this could be seen as an added bonus, not the purpose. Concerns are reflected in relation to the increasing numbers of bilateral agencies involved, weakening the vision of the Foundation and risking takeover by donor interests.

It was clear from interviews that the fact that the Foundation was a registered Tanzanian organisation was a very important part of its identity. Staff who had worked under the CSP and had remained with the Foundation felt that their sense of ownership and commitment had increased and that this was a significant motivator in their work. For grantees, it demonstrated a longer-term commitment and stability in funding within a precarious and fast changing funding landscape. Time and again the term 'unique in Tanzania' was used and noted as crucial to its identity and potential achievements. When asked where they saw the Foundation in five years' time, interviewees varied in opinion between a successful funding agency and a cutting-edge civil society forum engaged in connecting organisations of all sizes to national policy debates and processes. Diverse aspirations are a positive sign, but without a strong identity around which to mobilise, it is easier for the Foundation to get pulled in different directions.

4.0 | Findings and Recommendations Drawn from the Initiative

It is clear from the case studies above that, despite differences in conditions and in methodology, there are areas of convergence and some main lessons to be drawn from the experiences in Zambia, Bangladesh and Tanzania. Against the broader background of moving away from project-based aid, of particular significance was a lack of clarity of vision and positioning for Local Funds, between the activities funded and a longer-term focus on human rights and governance. Success for Local Funds involved engagement with both local government and grant beneficiaries; only C3 in Zambia really achieved the former. In particular, a broad base of beneficiaries and light management contributed to guaranteeing inclusion; donors needed to stand back at the same time as making further efforts to present a harmonised approach. Achieving sustainability was not easy for any of the three Funds, and depended in part on clarifying management roles and processes, finding innovative ways to obtain resources, and 'learning by doing'. Funds sometimes feel a pressure to work quickly and to avoid 'project failure'. To various extents, these issues presented themselves across the three countries.

This section highlights a series of issues regarding how to meet objectives, all of which present tensions around impacting poverty/poor people versus impacting governance and civil society as a means to reduce poverty. One of the largest areas of discussion was around how to balance operating a demand-driven entity with the need to target the poorest, and how to ensure innovation and clear strategic development. Questions arose as to whether this was actually realistic within the structure of a Local Fund. There was also a focus on Local Fund relationships with government and how this can be made most strategic. It was difficult to obtain clarity on this issue, sometimes because the Funds were constituted so differently in this regard and sometimes because the programmes do not yet have enough experience. In addition, questions were asked about the different ways Local Funds might be institutionalised, and the implications of this, as well as about the kinds of impact being sustained: What effects do different methods of institutionalisation have on achieving aims?

This study does not assess the impact of each programme but tries to draw out broader lessons in their development. However, it was clear that in drawing on individual experiences, interpretations of the questions differed considerably, depending on the context. The views of those implementing the programmes were often different to those who had been behind designing or funding them. We attempt here to move away as much as possible from studying implementation and make-up of a specific programme towards highlighting an understanding of programmes' broader implications and the strategic issues they, and therefore donors, practitioners and other involved, face. In terms of plugging current information gaps, this is where we believe this report can add most value.

4.1 | Unpacking aims and building clear linkages with activities

Local Funds that are set up around joint poverty and governance-related aims experience constant tensions and dilemmas in operationalising these. Tensions appear to arise because, in the aims, the links between poverty and governance are taken for granted rather than unpacked or explained. Consequently, each programme has to arrive at its own interpretation of the links and decide on its own prioritisation of the issues at hand.

Although 'poverty reduction' is established as a project goal, it is unclear how core project activities are expected to impact this: the link between giving grants and impacting poverty is assumed but not necessarily planned for. In part, lack of absolute clarity in Local Funds is a reflection of the fact that they are primarily grant-giving organisations, whose impact is derived from the sum of the impacts of the projects they fund. As such, the activities of the Fund itself and its ultimate impacts are somewhat de-linked.

- Aims and expected impacts around poverty reduction and governance need to be unpacked and not assumed; links must be clearly built between the impact level and activities. A clearly designed monitoring and evaluation strategy can support this process.
- Programmes need from the beginning to build in the space to be open and analytical about tackling their underlying assumptions and about the expectations made of them.

4.2 | Tensions in operating a demand-driven mechanism

There are tensions between the way Local Funds are configured, as demand-driven grant-giving entities, and the aim of impacting poverty by working with the poorest. The kinds of standards and criteria set for grant giving can make a Fund inaccessible to poor and vulnerable groups, as they tend to lack opportunities to organise and identify project ideas. In this way, Local Funds are in danger of advancing the interests of those who are better off and more able to compete.

This is particularly felt in identifying suitable partner organisations: the poorest may not have access to the existing NGO sector or the opportunity or capacity to form their own organisations, but approaches always require some such organisations to exist. Programmes therefore experience tension around the issue of identifying whose capacity is meant to be built through their work: that of the poor people, who are the ultimate target group of their work, or that of the organisations, which are the primary vehicle through which they work – and whether it is possible to combine these. The difficulty is that the design of the programmes does not anticipate these obstacles, and it is therefore difficult to adapt.

Local Funds are generally designed to be responsive to ideas emerging from civil society (NGOs, CBOs and/or poor people) rather than directive. In reality, Funds conform to criteria established by the funding agency and local actors have to choose their activities from a predetermined set of options. Funds find that few project proposals actually relate to desired goals, so the demand for appropriate projects has to be created. At the same time, in order to achieve significant impacts, it is desirable to be strategic in grant giving, deliberately seeking out project ideas that can complement and build on existing work and add up to a larger programme of change. This involves funds being somewhat directive rather than purely responsive.

The value of being demand-driven, as a basic feature of Local Funds, is that it fosters a higher degree of ownership of project ideas which come out of CSOs' own interests rather than through pushing by the Fund and its donor. This in turn fosters greater sustainability of project activities and impacts. However, being demand-driven makes it very difficult to be strategic and to achieve cumulative impact. Therefore, innovation is more limited than those engaged with Local Funds anticipate at the design stage. Funds have found that grantees/partners find it difficult to move away from traditional service delivery or welfare-oriented projects and, consequently, programmes are not able to take advantage of the ambitious governance and human rights agenda set for them. The critical question that a Local Fund must face, therefore, is how to support and reward innovation, especially in the long term, and how to balance this with a demand-driven approach.

Alternatively, if being demand-driven does not easily foster innovation and/or substantial programming and impact around specific goals, such as rights, governance and citizen engagement, and if there is a real desire to make steps in these directions, is a Local Fund really the most appropriate mechanism? Should Local Funds move away from being demand-driven to being proactive and directive? If so, does a competitive grants mechanism have a significant role to play? There is a tension at the heart of the Local Funds model, insofar as the main mechanism at their disposal suits a demand-driven process but many of the expectations embodied in the Local Funds as programmes – including impacts on poverty and governance – would be more efficiently pursued through a strategic directive model.

Although it might be planned that a Fund supports a diverse range of organisations within civil society, on the whole they tend to be funding the 'usual suspects'. The dilemmas of grant giving through a demand-driven approach have been highlighted above, but funds need to encourage more unconventional partnerships between organisations if they to be able to reach a different type of organisation, even when they are limited in what types of organisation they can fund.

The private sector is not prominent within Local Funds' work. This is a significant omission if programmes are about poverty reduction: the private sector (and the market in general) must surely play a key role in achieving this in the long term.

- Supporting innovation, and taking development work in important but new directions, suggests Local Funds should look at new CSOs or areas of activity and analyse their own activities, with a wider perspective on potential areas of impact and innovation. This means that a Fund should analyse its own impact within a bigger picture of development and economic, social and political processes, not just against its own narrower aims.
- There is a need to combine a Local Fund's core business of grant giving through a competitive process with broader work incorporating specific designed initiatives targeted at smaller and more remote organisations. If Local Funds are still to be demand-driven, they need to invest substantially in creating the capacity within NGO sectors/beneficiary groups to articulate their demands. A grant-giving element could form a part of a larger rights and governance programme with more directive, innovative and risk-taking elements, also incorporating capacity building and networking at a regional/district level to enable better outreach.
- Even where capacity building has been incorporated into programme design, Funds struggle to develop successful long-term strategies alongside their grant giving. There is a need, therefore, for a multi-tiered capacity-building approach targeted at grantees as well as at unsuccessful applicants and possibly those beyond applying.
- To be able to assume that working with civil society will impact poor people, specific procedures need to be in place to ensure that CSOs and their projects have linkages to the poor, such as being accountable to specific poor communities, being made up of them, or serving their needs. This is not automatic. Further, this linkage must be made a priority: it will not happen otherwise. One way of ensuring such a linkage is if CSOs have a direct relationship with target communities. Local Funds should prioritise support to community-based grassroots groups rather than professional NGOs. Attention must be paid to creating capacity at the target group level, rather than expecting that building the capacity of formal CSOs alone is enough.
- However, while it is valuable to have this focus, there are other ways of tackling the needs of the poorest, sometimes with greater impact. A variety of approaches should be balanced.
- To impact the poor, it is helpful to link multiple different sets of actors and types of CSOs.
- Funds tend to slip into certain norms, even though they start out by being innovative. They need to be alert to avoiding certain types of project becoming too dominant, and to work to keep a diverse project portfolio that reflects the Fund's broader mandate.
- In part, this is about ensuring that the public image of the Fund's work is appropriately framed: it may not matter that a Fund supports a wide range of activities if only one or two types tend to be reported on or visible to the public eye. Funds should not become too relaxed about public perceptions of their work, or about concerns with being transparent and enjoying public legitimacy. Similarly, if a Fund has tended towards awarding grants mainly to more elite city-based NGOs, they need to be realistic about the time it might take to turn this around and change the perception that this is what they do.

4.3 | Developing grant systems and procedures

Establishing an effective and transparent mechanism, recruiting a strong team and selecting the first round of partners take longer than programme design anticipates. It is seen as particularly important to get things right from the beginning and ensure the programme is ready to receive applications. Making poor project selections in the first round, for example, would compromise the Fund's reputation before it got going. Funds also find it difficult to disburse funds at the rate anticipated in the programme design and therefore tend to share low burn rates, with a great deal of external pressure to spend more quickly. Pressure to spend funds faster and earlier has been found to be counterproductive to the Funds' long term effectiveness and impact.

- Not less than one year is required for a high-quality inception and lead-in period, in other words awarding the first grants approximately one year after initiating the programme.
- Annual targets for disbursement should be more flexible. At the least, they should reflect the lesson that earlier rounds will very likely involve smaller disbursements to fewer partners, the rate and size of disbursements increasing over time as confidence in the systems, partners and impacts grow.
- Ideally, specific figures for annual disbursements should not be set until the first round of grants is well underway: at this point, the Fund is for the first time in a position to understand the likely rate of uptake of grants and level of investment in other activities (e.g. capacity building) required before grant disbursal speeds up.
- A Fund should phase different activities, putting more emphasis on capacity building and awareness raising in the earlier phases (and measuring achievements and impact accordingly), and building up to grant giving as the main business in the medium-term. Practice so far has tended to be the opposite.

4.4 | Assessing and managing risk

Working with the poorest requires more investment in capacity building and is more risky than working with already proven and established NGOs. However, programmes tend towards being risk averse, because there is a fear that taking risks on projects that are ultimately unsuccessful would damage the reputation of the programme and its mechanisms. The investments the programmes have made in establishing transparency and legitimacy would be undermined by apparent project failure.

This risk aversion tends to emerge from the Local Funds themselves, not from the need to satisfy donors. Even where there is leeway for a significant amount of 'project failure' in the way the programme indicators have been designed (i.e. the programme can be deemed successful even if some individual projects funded by it do not work out well), programmes and their boards/steering committees seem to be unwilling to take these risks.

- Designers and implementers need to develop effective risk management and assessment strategies so as to encourage willingness to see riskier projects undertaken in the interests of innovation and greater reach.
- It might be advantageous to build in a realistic timeframe before which programmes feel able to take on riskier projects and organisations. Once a programme feels established and has built a good reputation for itself it may be willing to take on more risk.

4.5 | Measuring impact

The monitoring and evaluation of these types of programmes is complex, because of the multi-layered nature of their operation, and can be laborious for implementers. This has often been underestimated in terms of time and resources.

- Effective systems need to be developed, able to capture impact on the ground, the sum of these impacts and the overall influence of the Fund on the long-term goals, usually around poverty reduction and improved governance. An evaluation system needs to be able to unpack and test assumptions.
- As it is initially difficult to interpret development in terms of the Fund's overall portfolio and strategy, the setting up monitoring and evaluation systems needs to be organic. Start with the minimum requirements in terms of ensuring 'light touch' monitoring systems are in place for the first rounds of grants, but leave some space to develop overall purpose-level monitoring until the programme has had time to bed down.

4.6 | Relationships with government

It seems to be generally agreed that Local Funds have neither successfully built engagement with government at national or district level, nor really explored the kind of roles they should play here[2]. This seems to be tackled inadequately at design level as well as, perhaps by extension, in implementation. As such, relationships tend to be either distanced or functional. Where programmes do make headway in making government or parliament aware of the Fund's existence and activities, they seem rarely to have gone beyond this to a deeper engagement.

A possible cost of being more directive in grant giving is that a Local Fund is less likely to be perceived by government as a neutral actor. Depending on the context, this could have negative implications for the Fund in achieving its ultimate aims. In particular, if a Fund is setting the agenda for governance improvements, rather than merely supporting civil society's latent demand for it, it would be difficult to claim political neutrality and enjoy the benefits that this might bring. That Local Funds can operate as facilitators within civil society alone may be unrealistic.

- Engagement with government needs to be thought through more explicitly at the design phase, along with the possibility of incorporating an active role for government and balancing this effectively with concepts of independence and legitimacy among CSOs.
- It is necessary to understand government policy and policy processes, particularly with respect to how this governs NGOs and aid flows and how it might limit the range of options available to a Fund. For example, problems with registration have had major implications for what kinds of organisations a programme is able to fund. This can seriously limit the possibility of achieving objectives if a programme has been designed around funding a diversity of organisations and initiatives. In this instance, Funds need to be flexible in assessing potential repercussions and adapting to changing circumstances.
- Understanding the political environment also means bearing in mind the nature of local government and any changes that are underway: where local government reforms are in process but incomplete, there are good opportunities for impact, but specific strategies for engaging in strengthening local authorities must be in place.

[2] The exception is C3, which was constituted within two city councils so had engagement with government at the district level (although the issue still held the same relevance for C3 at national level).

4.7 | Sustainability and institutionalisation

Most donors choose to establish a Local Fund under the initial management of an intermediary organisation. There are considerable advantages to a Fund being under the wing of an established organisation as a medium-term arrangement while it sets up and develops its own internal systems and procedures. Once it has had the chance to do this, turning a programme into a national organisation can bring greater flexibility, away from a parent organisation's or donor's policies. This space needs consciously to be created – simply becoming a national entity does not mean independence.

Leveraging alternative funding has become a vexed issue. While there has been success in leveraging funding from other bilateral development partners, there have been very few achievements in terms of diversifying funding bases, seeking more localised sources, or trying to encourage local philanthropy through public donations. In circumstances where this has been explored, national legislation tends to have been a barrier, although this has not been pushed any further, nor has policy work around these areas of legislation developed. Again, this clearly limits the amount of national independence a Local Fund can establish and how downwardly accountable it can be.

- It can be useful to have a broad consortium of organisations involved in a Local Fund; however, roles and responsibilities of all partners in the consortium need to be very clearly defined in order for it to become self-managing and smooth to operate. In the absence of such clarity, it becomes time consuming and unwieldy to manage and can draw programmes away from their central focus.
- To cultivate local ownership and identity, the local implementer should participate in design. Funds tend to involve lengthy external design processes followed by tendering for a managing agent through a prescribed project document. It would be beneficial to make this a more flexible and open process where people who will be involved in implementation are able to influence set-up.
- Local Funds need the autonomy to seek other types of funding and avoid being co-opted into different priorities.
- Ideally, a Local Fund should try to mobilise local resources, as this lends legitimacy and authority to the Fund as a local entity rather than as a tool of donors. This needs to be built into the design from the beginning.

5.0 | Final Recommendations for Donors, Designers and Implementers

What they say they aim to achieve needs to be what they are designed to do

- It seems an obvious point, but the stated objectives of the funds are not always in line with what is actually done and what is feasible, given the way they are structured. This is especially the case with higher-level goals, notably for impacts on the poor/poverty and sometimes linkages to rights or governance.
- Programme mission statements and similar statements of intent are invariably ambitious and optimistic; in practice, programmes have tended to act more narrowly than this would suggest. To a significant extent, they are substantially focused on simply giving grants.

A realistic timeframe must be allowed for significant impacts to be achieved

- The timeframe for impact must be negotiated and negotiable, and options for extension of timeframe and further funding should be left open.
- A realistic timeframe is five to 10 years and not less; continued long-term support to Local Funds is required on a significant scale to achieve impact.

Resource flows must reflect and support the objectives of the Fund

- There needs to be a plan for sustainability and withdrawal of the managing agent from the beginning.
- As in the case of GBS, the flow of funds needs to be consistent, flexible and predictable, at levels and on a timescale that reflect a realistic commitment to the achievement of objectives.
- There needs to be reliable communication between donors and implementers but implementers also need the space away from the donor to be able to develop and experiment.

Local Funds can not be the solution to all demand-side requirements

The reality check is that it is hard for Local Funds alone to fulfil expectations in their entirety about demand-side roles. They usually control relatively small budgets and are constrained in many other ways. For instance, it takes time to find and cultivate suitable partners with the capacity to carry out appropriate projects; high administration loads come with each project funded, and compliance and capacity building use up time and resources. Therefore, Local Funds can not generate substantial and meaningful demand-side pressure in a great hurry. In addition, their mechanisms and procedures may not be appropriate for all types of CSO or all demand-side actors: they may be an important part of efforts to enhance demand-side voice in pursuit of good governance, rights and poverty reduction, but their place within a broader picture and within specific contexts needs further thought. Expectations over their potential role must be realistic.

- Donors and their country partner governments are increasingly aligned behind the MDGs, which set the requirement for poverty reduction on a significant scale. Since Local Fund programmes are seen as part of this picture, this implies a need for demand-side impact on a significant scale also.
- It is unlikely that such scale can be achieved through 'transactional' projects focusing on delivery and direct impact; it is likely, therefore, that many donors will be more interested in some perceived 'transformational' dimensions of Local Funds – particularly where they can stimulate civil society voice and pro-poor governance reform.
- If Local Funds can not produce these impacts alone, on the scale or of the nature required, then something else is needed for them to impact poverty reduction meaningfully. As such, it is in the interests of Local Funds themselves to be realistic about their own contribution to poverty reduction. This realism would allow them: i) to identify additional activities that they could take on to deepen impact; ii) to identify contributions that other partners might make, perhaps facilitated through Local Fund networking; and iii) to identify areas of impact which they are not likely to address (and therefore require other approaches). This would all assist in ensuring that what Local Funds do is best located and designed to contribute to poverty reduction, in coordination with other actors.

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