

Does Foreign Funding of Civil Society Encourage Democratic or Good Corporate Governance? Some Evidence from Asia.

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Mark Lyons and Ian Nivison-Smith
University of Technology, Sydney

Contact mark.lyons@uts.edu.au

The importance of civil society or third sector organisations in improving the governance of less developed countries has been affirmed frequently by international agencies such as the World Bank and national aid and development agencies such as USAID (eg World Bank 2007, USAID 2005). Strong civil society organisations, representing the views of citizens of a particular country are seen as a way of restraining any government tendency to corruption. Further, following de Tocqueville's insight that membership of third sector organisations encourages wider political participation, it is believed that a strong third sector will underpin a strengthening of democratic governance at the societal level. One might expect therefore that Northern government and nonprofit development agencies, the source of significant funding for third sector organisations in Southern countries would seek through their funding policies to encourage good corporate governance and where possible democratic governance of third sector organisations.

This paper reports research that throws some light on that expectation. What it illuminates is surprising and deserving of more focussed research.

Data

The paper draws on data collected from 492 third sector organisations (TSOs) in six Asian countries: India, Indonesia, Thailand, the Philippines, Vietnam and China (Hasan and Onyx 2008). The primary focus of the original study and thus of the data reported here was the governance of Asian TSOs. That study was a collaborative effort by teams of university researchers in each country coordinated by three researchers at the University of Technology, Sydney. The overall project was funded by a grant from the Ford Foundation.

The data drawn on for this paper came from a survey of between 80 and 100 TSOs in each country. In each country organisations were selected from eight ICNPO categories (arts and culture, business and professional, education and research, environment, law and advocacy, religious organisations, social and economic development and social services). Organisations were selected from lists constructed for three geographical areas: the capital city, another urban centre and a rural area. Within each location selected TSOs included some that were small, relying entirely on volunteers, and others that were medium sized as well as those that had large numbers of employees and/or members. Lists were constructed by each country team. Members of the team then collected data via an interviewer administered questionnaire completed during an interview with a senior person with a good deal of experience in the organisation. In the end, 492 completed questionnaires were

received and coded using an Excel spreadsheet. The smallest number of returns was from Thailand (79) and the largest from India (98).

The sample cannot claim accurately to represent the third sector in each country. There is no way of constructing such a sample frame, but by the use of eight fields and three geographical locations we believe that the results are from a broadly representative group of TSOs. The main bias is toward the larger, more formalised end of the sector in each country. For example, 85% of our sample was incorporated.

Data was collected on a wide range of structural and behavioural variables that contributed to the organisations governance. Data was also collected on other variables that might have some influence on governance. To that end, inter alia, data was collected on the sources of organisational revenue. These were grouped as foreign sources, government (national, state or local), donations from companies and individuals resident in the country and from other sources such as membership fees and sales of goods and services. No attempt was made to disaggregate foreign sources into foreign governments, international organisations, foreign NGOs or diaspora giving.

Methodology

Three “ideal type” models of governance were created using different organisational responses to various variables and organisations conforming to these types were identified.

One was a democratic model of governance, or DG model. The first step for allocating organisations to this model was to discover if they had at least 10 members. The second step was to divide these into those that had a board or committee and those that did not. The second group were examined to see if they may have been collectively, and thus democratically, governed. They were deemed so if they affirmed that members had the final say in organisational decision making and that financial records were made available to the membership.

Those with a board had to affirm that the at least 60% of the board were elected by and thus responsible to the membership; that the final say in the organisation rested with the board or membership and to demonstrate some democratic practices, such as holding a general meeting at least annually. Only 59 or 12 % of our respondents passed these tests and were classified as democratically governed.

A second model was the corporate governance (CG) model. The construction of this model was more complex than the DG model. There were two steps. First we selected organisations that had a board or committee and where our organisational respondent reported that that board or the membership that elected it had the final say in the organisation. The second step was identifying organisations that met a further set of criteria that that constituted the core of the corporate model of governance as set out in various texts and reports. Five concerned board membership (eg between 5 and 15 members; no more than 25% employees, at least 75% elected by members, appointed by the board or by a sponsoring nonprofit organisation); four concerned organisational procedures (such as board meetings between 4 and 18 times annually, minutes kept of meetings and circulated before hand with an agenda). Only 28 of our

sample (6%) passed all tests, but when we allowed a failure on one of the nine criteria in the second step, 111 or 23% of our sample could be said to meet the CG test.

There was a certain overlap between these two tests. Thirty organisations fitted both the CG and the DG tests, but in terms of our criteria there could not be a complete correspondence. For example, collectively governed organisations that were DG could not pass the CG test; the corporate governance literature does not recognise such archaic/anarchic forms of governance. Similarly, many TSOs that were charities or foundations would not qualify as democratically governed as they had no or few members.

A third ideal type of model was what we called the dominating driving force (DDF) model. We expected to find many organisations that conformed to this model; it is a type of TSO that is often disparagingly referred to in reports on Asian organisations, third sector and business alike (Clarke 2000, Smillie and Hailley 2001). Accordingly we inserted several questions into our questionnaire to identify such organisations. They were organisations where the informant reported that the organisation had a driving force, that that person was the CEO or Chair or Founder (or all of those) and that that person had the final say in the organisation. Ninety six or 20% of our sample had a DDF form of governance. They were distributed pretty evenly across fields, but were significantly over represented in Vietnam and under represented in Indonesia (Lyons and Nivison-Smith 2008).

After allowing for the double appearance of 30 organisations in our DG and CG groups, 236 or 48% of our sample were allocated to one or another of the models.

We then turned to our attention to the variable that was our main interest. Fifty-five percent of our sample claimed to receive some funding from foreign sources. We grouped these into three sets: those that received some but less than one third of their funding from foreign sources; those that received between one third and two thirds and those that received more than two thirds from foreign sources. The last two were identified as dependent and highly dependent on foreign funds respectively. One hundred and twenty-seven or 26% of our sample fell into the dependent on foreign funds set and 39 or 8% were highly dependent.

Expectation

This paper reports the relation between foreign funding and third sector governance, using our three models of governance.

What we expected to find was that foreign funders would favour TSOs that met the usual criteria of good corporate governance and/or were clearly democratic in their operation. Although a newly started organisation may benefit from being led by a dominating driving force we did not expect to find foreign funders giving much support for organisations with this form of governance. That is, we expected DDF governed organisations to be underrepresented among organisations that received much or most of their revenue from foreign funders. Indeed, following resource dependency theory (Pfeffer and Salancik 1978), we expected that among organisations that were highly dependent on foreign funds (and thus most open to the influence of foreign funders) we would find no organisations governed by a DDF.

Findings

Table 1 shows the distribution of each of these groups of TSOs (along with a fourth group of those that received no foreign funds) across our governance types – adding an other category for the slightly more than half of the sample that did not fit any of our types, and, to avoid double counting, another line for those that met both DG and CG models.

Table 1: Governance type by level of foreign funding

Governance type	None	Less than 1/3	1/3 - 2/3	More than 2/3	Total
Numbers					
Corporate governance (CG)	24	17	33	7	81
Dominant driving force (DDF)	41	19	23	13	96
Democratic governance (DG)	18	6	4	1	29
DG + CG	16	7	7	0	30
Other governance types	124	54	60	18	256
Total	223	103	127	39	492
Per cent					
Corporate governance (CG)	30%	21%	41%	9%	100%
Dominant driving force (DDF)	43%	20%	24%	14%	100%
Democratic governance (DG)	62%	21%	14%	3%	100%
DG + CG	53%	23%	23%	0%	100%
Other governance types	48%	21%	23%	7%	100%
Total	45%	21%	26%	8%	100%

From the table it can be seen that 14% of TSOs with a DDF are highly dependent on foreign funds, far higher than TSOs with other forms of governance. More importantly, 33% of TSOs that are highly dependent on foreign funds, and thus most open to the influence of foreign funders are governed by a DDF. This was not the result we expected. Another 24% of TSOs with a DDF form of governance are dependent on foreign funds. By contrast, TSOs with a DG form of governance are under represented both among TSOs that are dependent and that are highly dependent on foreign funds.

We then conducted a multivariable logistic regression to determine if this apparent and unexpected positive relationship between dependency and, especially, high dependency on foreign funds and having a DDF form of governance was significant independently of other variables, such as age of organisation, field or country, which may be contributing to this result.

The dependent variables in these regressions are whether organisations are dependent or highly dependent on foreign funding. Table 2 contains a list of the independent variables. All are described in Lyons and Nivison-Smith 2008; those that are important in our analysis will be elaborated below.

Table 2: List of independent variables included in multiple regression analyses

VARIABLE NAME	VARIABLE DESCRIPTION
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DDFORG	DDF organization
DGORG	DG organization
CGORG	Organisation passes "corporate governance" criteria
WORKPAID	Paid staff do most of the work in the organisation
INCORP	Organisation is incorporated
GROACT	Activities have grown in last 3 years
GROFUND	Funding has grown in last 3 years
GROSTAF	Staff has grown in last 3 years
HIPERF	Organisation is a high performer
FORMPLAN	Organisation undertakes formal planning activities
FORMFIN	Organisation follows a formal financial procedure
EXTREP	Organisation has external reporting
CCHINA	Country: China
CINDIA	Country: India
CINDO	Country: Indonesia
CPHIL	Country: Philippines
CTHAI	Country: Thailand
CVIET	Country: Vietnam
FARTS	Field: Arts and culture
FBUS	Field: Business / professional
FEDUC	Field: Education
FENVIR	Field: Environment
FLAW	Field: Law & advocacy
FREL	Field: Religious organization
FSED	Field: Social / economic development

The results of the logistic regression are shown below.

Table 3 identifies the independent variables predicting TSOs that are dependent or highly dependent on foreign funding (ie receive > 1/3 of their revenue from foreign sources).

**Table 3: Significant independent variables predicting dependency (>1/3<2/3) and high dependency (>2/3) on foreign funding
Cox & Snell R-squared of final model: 21.7%**

Variable description	Influence	P-value	Odds ratio
DG organisation	-ve	0.02	0.408
Paid staff do most of the work in the organisation	+ve	<0.001	2.956
Organisation follows a formal financial procedure	+ve	0.01	2.243
Country: Indonesia	+ve	0.004	2.486
Country: Philippines	+ve	<0.001	4.675
Country: Thailand	+ve	<0.001	9.368
Field: Business / professional	-ve	0.02	0.297
Organisation < 20 years old	+ve	0.002	2.086

Table 3 shows a surprising number of variables are independently correlated with being dependent or highly dependent on foreign funds. For our purposes the most important is that a democratically governed organisation is significantly less likely

than an organisation with any other form of governance to be dependent on foreign funds. This suggests a bias against this form of governance by foreign funders.

There was no significant independent relationship between this level of dependency on foreign funds and being governed by a DDF. This suggestion is amplified by a significant positive bias revealed by examining the results of a multivariable logistic regression using high dependency on foreign funds as the dependent variable.

Table 4: Significant independent variables predicting high dependency (>2/3) on foreign funding

Cox & Snell R-squared of final model: 5.0%

Variable description	Influence	P-value	Odds ratio
DDF organisation	+ve	0.03	2.327
Organisation follows a formal financial procedure	+ve	0.02	5.378
Field: Law & advocacy	+ve	0.007	3.076
Organisation < 20 years old	+ve	0.04	2.579

Table 4 identifies four variables that are correlated with being highly dependent on foreign funds. One of these is that the organisation has a DDF form of governance. This means that for the 492 Asian TSOs in our sample, those governed by a DDF are more than twice as likely as those with other forms of governance to be highly dependent on foreign funds.

The other independently significant variables indicate other characteristics of TSOs that are likely to be highly dependent on foreign funding. Not surprisingly, such organisations are likely to follow what we described as formal financial procedures (that they prepared annual budgets and financial reports) – organisations that did not would be unlikely to be supported by foreign funders. Of organisations highly dependent on foreign funds 95% followed formal financial procedures, compared to a proportion of 78% among organisations not highly dependent on foreign funding.

TSOs highly dependent on foreign funds are also likely to be less than 20 years old. Indeed, 84% are aged less than 20 years, compared to a proportion of 66% among organisations that are not highly dependent on foreign funding. This could suggest that foreign support is important in the early years of many TSOs, while they build a domestic profile, but it may also reflect a big increase in foreign funding for TSOs, and thus in foreign funded TSOs, in Southern countries over the past 20 years.

Finally, among organisations that are highly dependent on foreign funding, 26% are in the field of law and advocacy, compared to 10% among organisations not highly dependent on foreign funding. This may indicate the sensitivity of some governments and domestic funders to the causes that might be pursued by TSOs in this field, thus making them highly dependent on foreign sources of funds.

Discussion

The research shows that in our six Asian countries, of TSOs that get all or most of their funding from foreign sources, organisations governed by a DDF are over-represented. It also shows that TSOs that are democratically governed are

significantly underrepresented among those organisations that receive more than 1/3rd of their revenue from foreign sources. These outcomes are not accidental. They suggest a bias among foreign funders toward organisations with a DDF form of governance and against those that are democratically governed.

There are several possible explanations for these results. One is that it is a consequence of the exclusive focus of foreign funders on a limited set of performance metrics. They are interested only in service outcomes: that is they don't mind how the organisation operates, just so long as it produces results – a reduction in poverty in certain villages, marked improvements in literacy or maternal health, the championing of human rights and so on. And, certainly, TSOs with a DDF may well be good at producing those results. But there is a hint in our results that suggest that this is not the case. Our sample included a number of TSOs that had been identified by various key informants in each country as being high performance organisations. There was a slight negative correlation between having a reputation for high performance and being governed by a DDF. The correlation proved not to be significant in a multivariable logistic regression, but it suggests that an explanation that foreign funders favour high performance organisations, irrespective of how they are governed will be hard to sustain.

Another explanation is that foreign funders are easily impressed by the leaders of TSOs that are a dominating driving force. In some respects, a single energetic personality provides greater assurance of effectiveness than evidence that a complex variety of governance procedures are followed.

But whatever the explanation, this analysis suggests that far from seeking to encourage democratic or good corporate governance of TSOs, most foreign funders are perfectly happy to encourage TSOs which practice a DDF form of governance, a form of governance that is both anti-democratic and against principles of good corporate governance. Clearly, whatever outcomes those foreign funders are seeking from their funding program, they do not include good corporate or democratic governance.

But the implications are stronger, and more disturbing than that. It may even be that foreign funders favour and encourage organisations governed by a DDF. This is the conclusion one is led to by viewing the results through the lens of resource dependency theory (Pfeffer and Salancik 1978). This says that organisations that are heavily dependent on a single source of revenue will be greatly influenced, even controlled by that source. So if there is a bias among TSOs that are highly dependent on foreign funds toward those that are governed by a DDF, this suggests a preference for this form of governance by those funders.

An important caveat must be emphasised. The results reported above come from a study of governance in Asian TSOs, not of foreign funding. We are not suggesting that a majority of foreign funds to TSOs go to those with a DDF form of governance. We do not have data on total amounts of funding. In addition, as noted earlier, we cannot distinguish between the various sources of foreign funds. It is possible that a large portion of foreign funds are from country nationals living overseas and that they disproportionately favour organisations with a DDF, but there is no suggestion elsewhere that diaspora funding is of such a scale. We certainly cannot say anything

about the selection processes of foreign funders. But what we found suggest that such explicit study might be well worth while.

It certainly appears that many foreign funders are indifferent to the growth of civil society in the South or do not believe that the governance of civil society organisations has anything to do with the strength of civil society overall.

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