

DFID Poverty Impact Fund Consultation, September 2010

Collective Submission from the Bond Funding Working Group

About the Bond Funding Working Group

[Bond](#) is the membership organisation for UK-based NGOs working in international development, numbering 370 organisations. The [Bond Funding Working Group](#) has 512 individual members representing 192 organisations. The group provides a forum to share experience and information, develop advocacy positions on behalf of the network towards donors, identify learning and training needs and engage in consultation and dialogue with donors.

What are your views on the overall design and scope of the Poverty Impact Fund?

Bond members thank DFID for the opportunity to comment on this new Poverty Impact Fund (PIF) and we welcome the availability of additional funding for UK NGOs working in international development.

Bond would like to draw DFID's attention to the submission made to a previous consultation on this fund in January 2009 (see Appendix 1), particularly sections 3, 4 and 8.

What are your comments on particular elements of the design?

1. Types of grants available

1.1 General comments

Bond members welcome DFID's recognition that funding that targets different sizes of organisation can be helpful in responding to their differing needs. However, we feel that 'Innovation' and 'Impact' are less helpful definitions when referring to smaller and larger organisations and that this distinction implies that small organisations cannot have an impact and larger ones cannot be innovative. It may be more useful to employ different terminology that is more explicit about the size of organisation each window seeks to support.

The focus on smaller and larger NGOs means that those in the middle are liable to fall through the gap. If planned match funding requirements are implemented then many organisations that are too big to be eligible for the Innovation Window will be unable to raise the match funds for the Impact Window. For example, if an organisation has a turnover of £575,000 annually, then they are not eligible for Innovation grant, but also 40% of their income, which is the maximum they can ask for, is below the lower limit for an Impact grant.

1.2 Innovation Window

Bond members feel the name of this window and its focus is restrictive, implying that innovation and learning can only happen as a result of implementing smaller scale initiatives and that larger organisations cannot be innovative. Although we welcome DFID's explicit commitment to funding smaller organisations, we would recommend that this Window is renamed to reflect the range of work undertaken by smaller NGOs – some of it innovative, some of it using tried and tested methods to achieve impact, albeit on a smaller scale.

We would welcome a clearer definition of what DFID considers to be innovative development work. Innovation could be seen as a subjective notion, open to interpretation in various ways, depending on different theories of change and approaches to development. If the MDGs are

to be met by 2015 then innovation in service delivery at a large scale will be necessary. Bond suggests that innovation should also be included in the Impact Window.

In the current proposal, local CSOs are not eligible for Innovation grants. We would suggest the criteria are revised so that local organisations are eligible - being closest to the ground, they are often best placed to identify and implement innovative solutions and some of the most interesting work often originates at local level.

We would like DFID to consider how learning from innovation is shared amongst the sector to ensure maximum benefit to organisations that may look to scale up a tested innovative approach.

Bond members would welcome clarity on the eligibility for Innovation Window grants. In the narrative of the consultation document it states 'annual average turnover of £500,000' but in the table it states 'average income of less than £500,000 p.a. for the past 2 years'.

1.3 Impact Window

Again, Bond members feel the name of this window is misleading as it implies that only larger organisations can deliver impact but do not innovate. Impact is as subjective a term as Innovation; does this refer to long-lasting impact that changes poor people's lives for the better but may take longer to show its deepest impact, or does it mean shorter-term interventions that deliver 'quick-fix', easily quantifiable solutions that may not be most appropriate or long-lasting? Larger scale programmes may well benefit from innovative approaches, or from partnerships between smaller organisations who have pioneered new approaches and larger ones who can deliver to scale.

It is important to ensure that locally registered CSOs eligible to apply should be indigenous local CSOs (nationally registered, run and governed by local staff) rather than registered branches of UK INGOs. Unfortunately, the criteria for the Impact Window suggests that only larger local CSOs will be able to apply thus denying smaller organisations the opportunity to access DFID funds. Bond suggests that DFID looks at the way in which it funds local CSOs, whether centrally or through country offices. Dedicated funds for local CSOs, such as the PACS in India, have worked well.

1.4 Investment Window

There is limited information in the consultation document on the proposed Investment Window. However, reference to 'organisations with strong strategic and policy relevance to DFID' suggests significant similarities with the current PPAs. As the current round of PPAs ends in March 2011 and a process to secure new PPA funding is now underway for arrangements from April 2011 to March 2014, clarity on the timeframe for the Investment Window would be helpful.

If DFID intends to transfer the new PPAs into the Investment Window at some point before 2014, Bond would welcome further information on how this might impact on those PPA arrangements. If the intention is to create the Investment Window as a successor to the 2011-14 PPAs, it would be helpful to gain greater understanding of how this might differ from PPAs.

Bond would like to emphasise the importance of retaining unrestricted, strategic grant relationships with organisations where DFID and NGOs share policy and programme objectives. We would request that further consultation with the sector is conducted on the shape of the proposed Investment Window and would like to draw DFID's attention to the recommendations made to the Civil Society Department on the shape of the new PPAs in July 2010 (see Appendix 2).

We would also welcome reassurance that the Investment Window will not be funded from the initial £40 million available in the first year of the PIF.

2. Grant sizes

2.1 Innovation Window

Bond suggests that the maximum grant size under the Innovation Window be increased to £350,000 or £400,000 to enable smaller organisations to achieve greater impact with their activities. Increased funds would also enable grantees to devote more resources to planning, monitoring and evaluation – essential activities to achieve good quality development results, and all of which contribute to ensuring DFID gets value for money from each grant. Bond members feel that, if smaller organisations are undertaking 'innovative' work, there must be adequate resourcing to take into account that testing new approaches often carries greater costs than tried and tested methods.

The Innovation Window should not be reduced below the suggested £250,000; the reality of contractual and reporting requirements for DFID funding, coupled with the small percentage available for UK administration costs, mean that it would not be worthwhile for most agencies to apply for a three-year grant smaller than £250,000.

Given DFID's commitment to smaller organisations and recognition of the contribution they make to development, already demonstrated in their partnership with Comic Relief to create the Common Ground Initiative, Bond recommends that the proportion of the PIF available to smaller organisations is increased to enable a greater number of organisations to access this fund.

If only £4 million is available under the Innovation Window and all successful applicants receive the full amount of £250,000 then only 16 grants can be made annually, eight per round. The majority of Bond members are small NGOs, meaning there will be a high level of competition for this fund with a limited chance of success for applicants.

Small NGOs, with an annual expenditure of up to £500,000, make up approximately half (49%) of Bond's membership of 370 organisations, meaning that only a minimum of 9% of Bond's smaller members might receive funding from the Innovation Window in a year.

2.2 Impact Window

Bond members are happy with the suggested grant size for the Impact Window.

3. 40% limit of recipient's income

Many Bond members agree that it is sensible to limit the grant size to 40% of a recipient's income to avoid dependency on one source of funding and minimise DFID's investment risk.

However, this limit would hamper smaller organisations' ability to build their capacity up and would only enable the smallest organisations to apply for relatively small amounts of funding. Bond would welcome DFID considering some flexibility on the 40% limit under the Innovation Window.

On the other hand, if the 40% limit is part of the justification for setting such high match funding requirements, then perhaps DFID could reduce the 40% limit as part of a reduction in the match funding necessary to obtain a PIF grant.

The current plans for the PIF state that organisations are able to hold two grants under the Innovation Window and three under the Impact Window yet it is not clear whether each grant would account for 40% of income or two or three grants collectively. Clarity on this matter would be welcomed and we suggest wording along the lines of 'the average value of all PIF grants to an organisation should be less than 40% of annual income'.

4. Focus on MDGs and service delivery

4.1 MDGs

Bond would welcome clarity on the definition of the most off-track MDGs. While some MDGs are globally on or off track, there are discrepancies in certain regions of the world which should be addressed. We would support a more flexible approach that takes into account the different performance of different regions of the world in meeting the MDGs, rather than focusing on specific MDGs.

Although it is important to focus on meeting the MDGs in the next five years, DFID should look at how the PIF might support development work beyond 2015.

4.2 Service delivery

While Bond welcomes funding that prioritises service delivery and focuses on the MDGs, it is important to recognise that this should not be at the expense of work that builds the capacity of Southern civil society, addresses the structural causes of poverty and marginalisation and recognises the importance of rights, governance, accountability and engaging local CSOs and people in decision-making and holding governments to account. Although the Civil Society Challenge Fund (CSCF) focuses attention on these activities, we are concerned that, following the forthcoming review of the CSCF, this fund may become absorbed into the PIF and this work may be lost from DFID's portfolio.

Although civil society can often fill gaps where state service provision is inadequate, this approach must be coupled with the recognition that civil society must also play a role in ensuring governments undertake their responsibilities to their citizens in terms of service delivery and poverty alleviation.

It is also important to complement and enhance counties' own systems for delivering services, rather than creating unsustainable, parallel systems, as well as ensuring poor people are aware of their rights to access services such as health and education.

Further clarity on whether a focus on service delivery refers solely to providing essential services or if it includes a broader interpretation around technical advice and capacity building to improve services, reach and access, and could also include advocacy work on service delivery.

5. Three year grant duration

Bond members feel strongly that three years is not a sufficient amount of time to achieve real impact and change with a PIF grant, particularly for Innovation Window grants, which would be developing new approaches.

If DFID wants to achieve value for money in its grant-making to UK NGOs then it must allow sufficient time for programmes to be properly planned, with the input of beneficiaries and partner organisations, for relationships to be established, for the work to be implemented, monitored, evaluated and adjusted as necessary. Setting short timeframes encourages 'quick fix' approaches that are less likely to lead to genuine, sustainable and long-lasting impact. This is particularly true for the Impact Window, which seeks to deliver work at a greater scale for longer-lasting benefits to the poor.

Bond recommends that the timeframe is altered to up to five years, in line with the CSCF, to enable more flexibility according to the type of work undertaken with a PIF grant.

6. Match funding requirements

The issue of match funding raised great concern in the Bond membership. There was an almost unilateral feeling that match funding should not be a requirement of the PIF.

While Bond understands and supports the underlying notion that match funding should mean DFID funds leverage additional income from elsewhere and that risk is shared more evenly, the practical issues point to strong evidence that match funding, at the levels suggested, is unrealistic for the vast majority of Bond members, most of whom are at the smaller end of the scale.

6.1 Comparisons with other donors

The suggested match funding requirements are considered to be unusually high, particularly in comparison to other donors. While other UK institutional donors, such as Comic Relief and the Big Lottery Fund, as well as DFID's CSCF, encourage applicants to co-finance their

programmes, they take a flexible approach and will fund 100% if necessary. Other donors, such as the EC and Irish Aid, have a variation of between 10% and 25%. Bond members are not aware of any other donor who asks for a proportion of match funding as high as 50%.

DFID itself moved away from match funding when the Joint Funding Scheme (JFS) was replaced. Experience with the JFS shows that organisations often struggled to raise the matching funds, meaning the project was under-funded and timeframes had to be extended.

6.2 Sharing risk

If the introduction of match funding is designed to share risk with other donors, or the organisation itself, Bond suggests that the 40% ceiling on organisational income from the PIF is already a sufficiently valid indicator of risk sharing and ensuring a diverse portfolio of funding. DFID should recognise that applicants already subsidise the costs of managing and supporting the implementation of projects by underwriting the hidden and difficult to fund costs of running their organisation.

6.3 Challenges in obtaining match funding

A mandatory requirement to find extra support, particularly in these straitened times, would put extra undue pressure on applicants and may reduce the number of strong proposals coming from the sector.

For small organisations, who usually have a small donor base, limited access to significant unrestricted funding and lower staff capacity for fundraising, match funding will be particularly challenging. Innovative work can be difficult to obtain funding for so, although we welcome DFID's focus on this, securing match funding for this type of activity may prove too challenging. Although smaller organisations are the target applicants for the Innovation Window of the PIF, many will find it a struggle to leverage 25% of match funding and the PIF will, therefore, be out of their reach.

For medium sized organisations applying for even the minimum grant of £250,000 under the Impact Window, finding £125,000 to match will prove challenging in the increasingly competitive market for both restricted and unrestricted funds. Competition for other institutional sources of funding is already strong, as it is for trusts and foundations. Setting up a new individual giving programme entails high set-up costs to enter an already saturated market.

For local CSOs in developing countries, match funding will be very difficult to obtain, particularly if they do not benefit from a strong partnership with a Northern NGO. These organisations are likely to have lower levels of income, particularly unrestricted income, less access to other significant sources of funding and lower fundraising capacity.

Bond is concerned that this evidence will mean the PIF only supports larger, more generalist organisations with a high public profile and the ability to leverage substantial amounts of funding from a range of sources. This would mean the PIF would fail in its objective to support a wide range of sizes and types of NGOs, particularly excluding small and local organisations.

6.4 Administrative costs

Assuming NGOs are able to raise additional funds, match funding requirements of any kind place a significant burden on organisations. The additional work entailed in managing income from multiple sources for the same programme, in terms of reporting, monitoring and accounting, presents additional administrative requirements to organisations that may already be under-resourced in key functions such as grant management and finance.

Organisations with experience of match funding arrangements report that it is expensive to manage; accounting is more detailed, there are often divergent reporting mechanisms and fundraising resources are diverted into the additional management of these grants and away from raising unrestricted income to ensure the long-term survival of the organisation and its work. This forces recipients to divert their resources from addressing their principal charitable aims to meeting fundraising and overhead costs.

These factors detract from the important business of ensuring the programme achieves maximum impact and value for money.

The scale of the proposed fund implies that there could be about 50 successful applicants. That would lead to 50 fundraising teams independently, and competitively, trying to raise the £37.3 million of matched funding required. It would also lead to a significant amount of work for independent trusts and other grant-makers, who would inevitably be faced with parallel applications for the matched funding.

6.5 Clarifications

Bond would welcome further clarification on the definition of match funding, including whether it will include goods-in-kind and UK costs.

It is not clear if match funding should be secured at the start of the project or after securing the Poverty Impact Fund. Most organisations use the major funds as a leverage and guarantor to apply for other funders.

6.6 Recommendations

- The nature of the match funding should be kept as open and flexible as possible and must be able to include other government funding, unrestricted funds and in-kind support.
- If match funding cannot be dropped as a requirement altogether, the percentages should be substantially reduced, in both the Innovation and Impact Windows, to enable a broader range of organisations to access the PIF.
- Some organisations have suggested the percentage of match funding required could be staggered to correspond with the percentage of unrestricted funds an organisation is able to attract – a higher percentage of unrestricted funds would entail a higher proportion of match funding in the PIF. Although this may still benefit larger organisations, it would indicate a level of public support for their work. Smaller organisations, or those with a smaller supporter base, would then still be able to apply.

7. Number of grants per year

Bond members are generally happy with the suggested number of grants that an organisation can hold. We would request clarity on whether this refers to the number of grants that can be obtained over a year, or if it refers to the total number of PIF grants held at any one time.

Some Bond members have suggested reducing the number of grants under the Impact Window to two, in line with the Innovation Window. This would increase the number of organisations who would benefit from the Impact Window.

The Impact Window focuses on the MDGs, which are due to be met in 2015. PIF Impact grants made later than 2012 will thus still be operational after 2015 (assuming DFID does not follow Bond's recommendation to extend the grant duration to five years). If DFID wants to see real impact towards achieving the MDGs before 2015, Bond suggests that DFID explores the possibility of front-loading the Impact Window and increasing the number of funding rounds per year so work to meet the MDGs can begin more quickly.

It is not clear from the draft documentation whether DFID wishes to support as many different organisations as possible, or to focus on funding the best programmes and organisations. Theoretically, the Impact Window could be split between only six organisations a year and the Innovation Fund between nine organisations (assuming the maximum grant size and maximum number of grants per organisation were both awarded to all successful grantees). This would suggest that DFID intends to only focus on funding the best programmes, rather than ensuring a variety of organisations and approaches to development are funded, reflecting the diversity of civil society. Efforts to achieve a balance between these two would be welcomed.

We would also welcome clarity on how many applications an organisation can submit per funding round and would recommend following the Civil Society Challenge guidelines, which

allow two applications per organisation and also allow organisations to resubmit previously unsuccessful concept notes.

8. Number of funding rounds per year

Many Bond members feel that one funding round per year for the Impact Window is not sufficient and would prefer there to be two rounds. Experience of the CSCF (which has one round per year) suggests that one round per year leads to a long wait between the preparation and submission of a proposal and the start of project implementation. During this gap, circumstances on the ground may have altered significantly, rendering the original proposal less relevant.

Increasing the number of rounds per year would allow organisations to apply for funds at a time more convenient for them and their partners, spread workloads across the year and stagger reporting deadlines, which would also benefit DFID staff.

Bond recommends two funding rounds per year for both windows.

9. Ineligible activities

Although the list of activities that would not be eligible under the PIF is predominantly standard to most donors, Bond would like to seek clarity on several points.

9.1 Research

Bond accepts that academic research would not necessarily be something that DFID wanted to fund under the PIF. However, any development intervention should be based on evidence, analysis and careful planning and research is an essential component of these activities. Research is necessary to for work under the Innovation Window in order to identify, develop and document successful models that can subsequently be scaled up to achieve greater impact and value for money.

Some clarity in the distinction between academic research and action research would, therefore, be welcomed.

9.2 Core support

Many Bond members raised concerns and requests for clarification on the issue of core support. There were requests to clearly define what is meant by core support and whether this refers to staff costs in the field and capacity building activities. Unrestricted funding, which is often used to cover core costs, is not in abundant supply in the sector and organisations must be able to fully recover all costs associated with their programmes. It would be helpful if DFID were able to clarify what is meant by core costs and whether these can be funded by the match funder.

9.3 Funding to governments or for-profit businesses

Again, further clarity on this issue would be welcomed. Whilst many Bond members agree that the PIF should not be used to directly fund governments or for-profit businesses, it is necessary to recognise that sustainable development work often entails working closely with both the public and private sectors and that this can result in greater success than NGOs working in isolation. For example, NGOs often provide support to developing country governments on technical issues where that government lacks expertise and capacity. This approach can achieve longer-term impact and increase technical capacity amongst civil servants and government officials. Similarly, government service providers may require capacity building or technical support in order to improve their ability to deliver vital services to developing country populations. NGOs may try to raise awareness amongst governments of the demand for services and the rights people have to access them, or they may seek to influence the private sector to change their policies, practice and investment choices to benefit poor people or the environment, for example.

Appendix 1

Conservative Party: Poverty Impact Fund Consultation, January 2009

Collective Submission from members of the BOND (British Overseas NGOs for Development)¹ Funding Working Group²

1. What should the application process be for NGOs who want to access the Fund?

BOND members see the existing DFID Civil Society Challenge Fund as a good model for applications, with a two stage process of a concept note followed by a fuller proposal for organisations successful after the first stage. BOND suggests that there should be a reasonably thorough qualitative assessment at concept note stage, rather than simply checklist validation, with organisations only invited to submit a full proposal if they have a moderate-to-high chance of success, for example a success rate of 30-50%.

A two stage process is an efficient approach for both donor and applicant, as well as those of partner organisations in the global South, with the majority of resources being invested in the generation and consideration of a full proposal that has a reasonable chance of being funded.

Information and guidance should be clear, straightforward and accessible online, both in the UK and in the South, taking into consideration the limited IT capacity and bandwidth in many developing countries.

Lead time between concept note and full proposal deadline should be kept to a maximum of six months. Additionally, lead time between submission of the full proposal and decisions on successful proposals should be minimised where possible. Currently the full application process to the Civil Society Challenge Fund can take a minimum of 18 months, during which time realities in the field may well have altered significantly and new factors may impinge on the delivery of the original project proposal.

Deviation from the advertised timetable can have considerable knock on effects on resource planning for organisations in the UK and their partners in the South. The Poverty Impact Fund managers should ensure that deadlines are adhered to wherever possible.

How many funding rounds should there be every year?

There should be at least two application rounds for funding each year, and perhaps as many as four, allowing enough time for proposals to be properly developed, in collaboration with partners in the South, rather than rushing to meet one or two submission dates per year.

¹ BOND (British Overseas NGOs for Development) is the membership organisation for UK-based NGOs working in international development. For more information please see www.bond.org.uk

² The BOND Funding Working Group currently has 175 BOND member organisations, providing a forum to share experience and information, develop advocacy positions on behalf of the network towards donors, identify learning and training needs and engage in consultation and dialogue with donors. For more information please see www.bond.org.uk/pages/fwg.html

2. What should the minimum and maximum grant sizes be?

BOND members broadly agree that the maximum grant size should be up to £5 million. However, the lower end of the scale presents a variety of options for consideration. Smaller NGOs find it increasingly difficult to access smaller sums of funding that do not require significant investment of their limited resources in proposal development or high levels of match funding. For example, EC funding is largely inaccessible for smaller NGOs because of match funding and pre-financing requirements.

Thus, BOND members suggest a minimum grant size of £50,000 to enable access for a wide range of NGOs.

Larger grants may benefit from an initial development grant of up to £25,000 to conduct meaningful research, consultation and planning with Southern partners and beneficiary communities.

There should be flexibility in the number of years a grant runs for. In some scenarios it may be appropriate to only run a project for one or two years. However, in other cases, particularly for larger projects that aim to scale up or replicate over time, funding will be required for multiple years, up to seven years.

3. What should the eligibility criteria be?

All applicants applying to the Poverty Impact Fund should be registered as a charity in the UK with the Charity Commission and be able to demonstrate capacity, experience and ability to manage a grant of this size and nature. Additionally, eligibility criteria should follow the model of the DFID Civil Society Challenge Fund in its exclusion of, in particular:

- Projects that discriminate between individuals or groups of people on the basis of their race, sex, sexual orientation, religion, disability or age
- Evangelising or proselytising
- Civil disobedience

BOND welcomes the Fund's focus on sustainability, particularly its emphasis on demonstrating local ownership and direct feedback from beneficiaries. Whilst BOND is supportive of the Paris Declaration, and the Accra Agenda for Action commitment to national rather than donor priorities, we are concerned about strict alignment with national poverty reduction strategy plans (PRSPs) of host countries. National strategies can often not be sensitive to specific local priorities and local government structures are rarely meaningfully involved in their formulation; so flexibility to include priorities identified at a more local level should also be considered for funding, provided they are not directly contrary to national policy. Additionally, BOND is uneasy about the contradiction between the emphasis on sustainability and local ownership and the absence of a requirement for all proposals to include working with local partners in the South. Poverty Impact Fund proposals should demonstrate clearly that they are responding to needs identified by local communities in the South and that marginalised and vulnerable groups are able to participate in consultation, planning and feedback – as is often not the case with programme priorities defined by central government. If, as the consultation paper states, the Conservative Party envisage the Poverty Impact Fund being 'demand led' this demand must demonstrably come directly from those living in poverty in the South, not from the UK NGO sector.

Thus, BOND would strongly recommend the Fund does not accept applications from organisations who do not propose to work in partnership with Southern civil society organisations. Implementation should also focus on meaningfully building the capacity of a local organisation to become an active and vocal player in civil society. The focus on innovation is positive and BOND members would like to see this taken one step further with the encouragement of consortia led by UK NGOs that include either other UK NGOs and / or other types of organisation, as well as Southern partners. It is important also to note that innovation – by definition – carries with it a higher level of risk factors than more predictable tried and tested programming approaches. Failure, identification of lessons, and dissemination of them may be an outcome of particularly innovative programmes looking for new and more effective solutions to age-old problems.

4. What should the match funding element be – what percentage of funds should DFID provide, and what percentage should be provided by the NGO itself? Should these levels vary? If so, in what circumstances?

The issue of match funding raises many problems for UK NGOs, particularly for small and medium sized organisations. BOND members do not fully understand from where it is envisaged significant amounts of match funding may be leveraged. A stringent requirement for match funding would prove exclusionary for organisations with a low percentage of funding from individuals (i.e. smaller NGOs), which requires high investment for relatively low returns on a small scale. Neither do smaller NGOs have the access to high levels of unrestricted funding to match a Poverty Impact Fund grant that many of the largest organisations do. The main sources of match funding for UK NGOs may include donations from individuals, the private sector, trusts and foundations, or other donors. In the current economic climate it is likely that the income available from these sources of funding will be significantly reduced over the next two to three years, and it is likely that this will hit small to medium sized NGOs, who do not have significant reserves, more, thus excluding smaller to medium sized NGOs from applying.

It may also tend to exclude niche technical programmes (which often emanate from the smaller end of the sector) and innovation. An across the board match funding percentage would favour larger organisations and marginalise smaller NGOs who often work on single issues or champion unpopular causes. A significant match funding requirement will encourage UK NGOs to invest in fundraising rather than building high quality, sustainable programmes in the South. BOND members strongly suggest that the match funding approach be reconsidered, particularly as the economic downturn is expected to be long and deep and to have a significant impact on NGO fundraising.

Although BOND members share the desire to link government funded development work with leveraging support from the UK taxpayer, we feel this may be achieved more effectively by undertaking activities to build a constituency of support for development, such as public engagement and development awareness work.

5. What systems should we use to monitor and evaluate monies used by the Poverty Impact Fund?

Monitoring and evaluation raises a number of matters for BOND members. In terms of pure financial accountability, externally audited programme accounts and quarterly

financial reporting (as with existing DFID grants) should provide sufficient information. All projects should submit an end of project evaluation and longer-term projects (of four years and more) should conduct a mid-term review of progress. Quantitative and qualitative monitoring, evaluation, impact assessment and learning require a more thoughtful approach. BOND members welcome the emphasis on obtaining direct feedback from beneficiaries and suggest that participatory approaches to monitoring and evaluation are a compulsory part of the Poverty Impact Fund reporting requirements, combined with reporting from UK staff visits. Some assessment of how the grant has strengthened capacity in the Southern partner organisation would also contribute to sustainability.

Every NGO has existing internal monitoring and evaluation systems of its own so systems for the Poverty Impact Fund should reflect those existing systems, rather than applying external systems in a similar way that the Paris Declaration requires donors to use local monitoring and evaluation processes rather than imposing their own.

High quality monitoring and evaluation is expensive and must be adequately resourced by the Fund. Budget allocation for technical support on monitoring and evaluation and finance at the local partner organisation would build capacity and sustainability and is a proven model in other demand-led funds, such as the Global Fund. Sufficient monies should also be set aside for the dissemination and sharing of learning, both internally and amongst other NGOs.

There are many debates regarding the best systems and approaches to measure the success of a project and the change that occurred as a result of NGO intervention. Much time and effort has been spent on developing systems and existing DFID approaches to monitoring and evaluation are entrenched in many organisations. BOND asks that the Conservative Party acknowledges and understands this before making any changes. BOND would welcome further dialogue with the Conservative Party on this matter.

6. The Fund will be demand-led but what guidelines should we use to achieve the best balance of projects in terms of size, sector and country allocation?

Guidelines for the Poverty Impact Fund should focus primarily on the evidence of need. The Development Assistance Committee (DAC) of the OECD publishes a list of countries in receipt of Official Development Assistance (ODA) based on 2008-2010 aid flows, which may be a useful starting point for geographical focus³. Although this list is sub-divided according to per capita gross national income (GNI) it is important to remember that this does not always reflect the extreme income disparity in parts of Asia and Latin America, where higher GNI masks extreme poverty in some regions, or amongst particular sections of the population. The Millennium Development Goals (MDGS) should also be considered as useful guiding themes. Country eligibility should be based on poverty, not political or trade, considerations. BOND members would appreciate clarity and guidance on which, if any, sectors (e.g. health, education) the Poverty Impact Fund seeks to focus, while allowing flexibility and scope for innovation and response to emerging needs. However, funding should not be allocated on a purely geographical or sectoral basis, but to projects that will have the most impact on the lives of people living in poverty

³ This list is available at <http://www.oecd.org/dataoecd/62/48/41655745.pdf>

and achieving the MDGs. Attempts to 'balance' the portfolio may be seen as contrary to the paper's stated rejection of 'top down' approaches.

7. How should we strike the right balance between encouraging innovative projects and ensuring concrete outcomes?

Innovative does not necessarily mean new. BOND members feel that concrete outcomes that have been achieved by taking a particular approach, and learning that has emerged from past work, can be applied to subsequent 'innovative' projects. More clarity on what is defined as 'innovative' would be helpful. Innovation, in some senses, is anathema to concrete, pre-defined outcomes and comes from taking (calculated) risks and trying new approaches. Demonstrating that a proposal will draw on learning and experience is one way to mitigate against a project failing to meet its objectives. It is also important to take into account the benefits that unintended outcomes can have.

As discussed in the response to question 2, smaller grants to conduct scoping exercises, consultation, research and pilot projects is a potential method to identify where innovation could lead to positive impact on the lives of those living in poverty.

8. Do you have any other comments you would like to make?

BOND members welcome this opportunity to respond to consultation questions on the proposed Poverty Impact Fund and look forward to more discussion with the Conservative Party on funding for NGOs and the vital role that civil society, in both the UK and the global South, has to play in development.

BOND would be interested in further dialogue with the Conservative Party around the following points:

- Approaches to development – BOND members question the implied assumption in the consultation document that taking a rights-based approach to development, focusing on governance and raising awareness of development issues in the UK are not adequate guidelines for development work. Taking a rights-based approach empowers people living in poverty and builds their capacity to hold their own governments to account on, for example, service delivery. Equally, governance is central to development and to building a strong civil society, a vital tenet of a functioning democracy. Raising awareness of development in the UK is imperative to build continued support for development spending by the UK government and is part of our responsibility to educate citizens about the complexities and challenges of the world we live in. Development paradigms are moving away from traditional service delivery approaches towards a more progressive agenda that puts Southern citizens at the heart of the development process, whether their role is as participants in work that effects social change, or as advocates for their own rights and needs. BOND would value more debate on perspectives on effective development practice as it would be widely seen as regressive to revert to conventional service delivery, and substituting for government, unless this were by way of imaginative collaborative working with government and other actors to look for new models.
- Advocacy – BOND members would be interested to hear more about the Conservative Party's views on funding advocacy work. Although advocacy impact can be more challenging to quantify than conventional service delivery, this should not deter the Conservative Party from recognising its importance and

allocating resources accordingly. Advocacy, and particularly building the capacity of Southern organisations to advocate, is crucial to Southern civil society's ability to hold their governments to account on their responsibility to provide basic services, and strengthens the fight against corruption and lack of transparency. Advocacy work in the North has, of course, also been critical to some of the achievements in advancing the interests of the poor with regard to climate change, aid, trade and debt policy at a global level.

- The role of consultants – Civil service reforms have focused on lowering the headcount in government departments, leading DFID to employ consultants as fund managers, at greater cost to the taxpayer. This trend has had some adverse effects on relationships between NGO grant recipients, consultant fund managers and DFID staff and has often meant that learning and valuable experience has been held outside of DFID and therefore effectively lost to the institution.
- Proposal assessment panel – BOND members would be interested in exploring the idea of an assessment panel made up of representatives from NGOs and the private sector, as well as civil servants. BOND looks forward to input on the make up of this panel but would like to express concern that NGO representation is not drawn only from large, influential NGOs. Specifically, we would ask the Conservative Party to consider BOND secretariat representation on this panel as a more neutral party with the mandate and ability to speak on behalf of a broad range of 350 UK NGOs (including all the largest players) with no vested interest in any member NGO in particular. BOND members would also like to express concern over private sector involvement and suggest strongly that it should be drawn from those with a robust understanding of the complexities of international development work.
- Adding to existing funds – BOND welcomes this new source of funding for UK NGOs, in addition to existing DFID funds. However, BOND members question whether it is necessary to set up a new fund and whether similar objectives could be achieved by revising the guidelines and eligibility criteria of the Civil Society Challenge Fund and increasing the monies available in, and the scope of, that Fund.
- Learning – BOND strongly urges the Conservative Party to commit to learn from the experiences of past and present funding schemes targeted at UK NGOs, not only those from the UK government, but other donors too (such as BIG Lottery Fund – International Programme, Comic Relief, etc).

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Appendix 2

PPAs as a Funding Mechanism

Current PPA holders were asked to share their organisational views on the positive and less positive aspects of PPAs and to consider the value of this kind of funding arrangement compared to other funds available to UK NGOs, as well as recommending improvements that should be included in the next round of PPAs.

Which characteristics of the current PPAs should be retained?

The following characteristics of the current PPAs were identified as particularly valuable and should be retained in the development of the next round of PPAs:

1. Strategic, unrestricted funding

- The unrestricted nature of PPA funding is undoubtedly its unique selling point and should be retained. Moves to further restrict PPAs would make it very challenging for recipients to continue to innovate, invest in more risky programming and the UK development sector would certainly be the poorer for it
- PPAs are a strategic partnership investment in an organisation, rather than in a specific project, programme or activity, enabling innovation and risk-taking and allowing organisations more flexibility over a longer period of time to adapt to changing scenarios and priorities. They also encourage the longer-term investment and commitment that is required to deliver sustainable, long-lasting poverty reduction and development, thus achieving greater impact than short-term, tied project funding can
- PPA funding allows organisations to work on important issues or in areas where it can be difficult to attract conventional project funding, for example for advocacy and influencing work, unpopular or hard to reach target groups, unfashionable issues or regions, or cross-regional initiatives
- PPA funding enables UK NGOs to invest in media capacity through which they can contribute to building a constituency for development in the UK
- This kind of unrestricted funding also facilitates work that makes organisations more effective, such as improving monitoring and evaluation, programme management and other systems, staff development, restructuring, partnerships, mergers; the benefits of these improvements can all be passed on to partner organisations in the South, thus increasing the impact of DFID's funding
- Moving beyond project funding enables organisations to be more flexible in their response to emerging issues, e.g. climate change, the global economic crisis
- PPAs allow DFID to scale up its reach and impact by funding organisations who work in different countries, communities, themes and sectors. If DFID continues with plans to scale back its geographical reach, PPAs may be a way to ensure it maintains a presence; the Latin America PPAs are a prime example of this approach
- The predictability of multi-year (six years) funding and the advance knowledge of the value of the grant enable organisations to plan well ahead. It also provides financial stability in times of economic turbulence and this stability can be passed on to UK NGOs' partners in the South
- PPAs are seen as one of the most progressive and innovative mechanisms for funding development NGOs and are the envy of many other government donors and UK government departments, as well as civil society in other countries and are emulated by other donors

- Civil society is a valuable partner for DFID, reaching areas and issues that DFID is unable to, working with poor and marginalised communities around the world, strengthening southern civil society and working with southern partners to improve governance, working in the UK to mobilise public support for DFID and development and being strong advocates in the UK and internationally on key development issues
- PPA funding can help leverage other funds for an organisation, thus increasing the impact and value for DFID
- Funding civil society represents one of the most direct (and accountable) ways for DFID to spend aid money. The PPA itself has huge potential both for generating compelling evidence for development aid effectiveness and for acting as a catalyst for innovation, learning and best practice in the sector

2. Cost effectiveness and results management

- The low transaction and administration costs and overheads of this type of funding arrangement, both for DFID and the recipient, mean more money gets to the people who need it and value is multiplied. The 2006 National Audit Office report, *Working with Non-Governmental Organisations*, indicated that the administrative cost of PPAs for DFID was 0.15% of the PPA budget, compared to 0.3% for the Civil Society Challenge Fund budget
- Performance frameworks and self assessment allow DFID and PPA holders to measure and demonstrate results and can contribute to strengthened monitoring and evaluations systems and enable NGOs to critically assess impact at the organisational level, all of which can be passed on to partners in the South
- For DFID, given the relatively low cost of management, an increasingly effective performance management framework and the assurance of financial probity provided by statutory audit and reporting frameworks for NGOs, there is a strong incentive to maintain the unrestricted nature of the PPA on a cost effectiveness basis
- PPAs are a cutting edge example of how DFID are living up to the commitments of the Paris Declaration and Accra Agenda for Action, which promote predictability, a focus on results rather than conditionality, and mutual accountability between donor and grantee

3. Relationships and influence

- The 'partnership' with DFID is valued by PPA holders and the arrangement enables policy dialogue with many parts of DFID, as well as leveraging contact with other UK government departments and bilateral and multilateral institutions
- Holding a PPA gives organisation access to many different development actors, enabling them to provide technical advice, ideas and solutions to both developing country governments and communities
- The PPA holders are more than the sum of their parts – they are able to share experiences, innovative ideas and learning with each other and DFID is able to draw on a wealth of experience and evidence on development from these organisations

What has been problematic and how might this be resolved?

1. Mutual Accountability

- The Mutual Accountability Framework has still not been finalised or implemented. This was an important indicator of the strategic partnership and shared objectives of the PPA agreement between DFID and NGOs. Mutual accountability should be reflected and implemented more strongly in future agreements, in recognition of the vital role that accountability mechanisms play in partnerships of this nature

- Implementation of the Mutual Accountability Framework would also have helped PPA organisations build relationships with other parts of DFID, such as the Policy teams and Country Offices, which would have further increased the value of PPAs for DFID
- Noting the extent to which DFID is decentralised and works increasingly through other agencies, such as multi-laterals, it would be helpful if constructive dialogue between DFID and its PPA partners (DFID's major civil society partners) at country level is reciprocated and has greater potential to affect DFID's policy and practice
- It would be helpful to have a clearer indication of how DFID will demonstrate accountability for its contribution to PPA outcomes, for which it shares responsibility with its partners

2. Performance frameworks and reporting

- Feedback on self assessments and performance frameworks has not always been timely or clear and many PPA holders remain unclear on whether recommendations in feedback must be implemented or whether they are suggestions for optional improvements
- DFID's feedback on PPA reports has generally been scant and light on detail, suggesting DFID itself has struggled to allocate sufficient resources to manage the PPAs to best advantage
- The use of consultants during the drafting of the performance frameworks and the self-assessment process diminished direct contact and discussion with DFID. It would have been more helpful to get direct feedback from DFID on the self-assessment report, and also to receive generic feedback on all the self-assessment reports. There needs to be more DFID staff time invested in regularly reviewing and providing feedback on performance frameworks and an end to the use of consultants for this purpose. Although some interesting ideas have arisen from meetings with consultants, this practice does not lend itself to consistency of approach and should be abandoned
- It is clear that there is not yet a viable model for PPA performance frameworks; there needs to be greater clarity and consistency from DFID in the next version of the performance framework and a clear understanding amongst PPA partners of what DFID is looking for. DFID feels it doesn't have the evidence it needs to show the cost effectiveness of PPAs; PPA agencies are frustrated that, despite their best efforts, the feedback on their baseline and evaluation plans is still largely critical
- An overarching performance framework should be developed that better reflects what DFID sees as the common strength of UK NGOs, rather than their thematic or geographic focus. At the last meeting between DFID and PPA holders in October 2009, Nick Dyer suggested these might be:
 - Influencing policy and practice
 - Building the capacity of civil society in the South
 - Building support for development
 - Service delivery
- The goalposts and agreements related to PPA management are constantly shifting, requiring frequent revision of logframes, indicators and performance frameworks and, consequently, a significant increase in workload for both UK PPA holders and their partners in the South. For example, half way through the current PPA period, feedback was received on the indicators used in the performance framework – it would have been better to receive this at the outset. These changes have taken priority over conversations about achievements and strategic policy engagement
- There has been a consistent lack of clarity and consistency on definitions of both 'value for money' and 'impact'. PPA holders understand the need to demonstrate both of these to DFID in their planning and reporting but a lack of shared understanding of these issues

has hampered their ability to do this. There should be a broader process to develop technical guidance for PPA holders on data requirements, data collection tools, how data should be analysed and presented and a common understanding of terminology

3. Learning

- More emphasis on sharing and learning amongst organisations, as well as between PPA holders and DFID, should be a feature of the next round of PPAs, with a focus on peer review, peer learning and thematic evaluations
- There should be increased investment of DFID staff time in joint learning between DFID and PPA holders on monitoring and evaluation (M&E). Both DFID and the development sector would benefit from sharing good practice and innovations in M&E and it would contribute to demonstrating aid effectiveness and enhance accountability to stakeholders in the South. The meetings arranged by the DFID Evaluation Department at the end of 2009 were useful and should be replicated

4. DFID capacity

- PPA holders recognise that DFID is under significant pressure to reduce administration costs and overheads and that many of the recommendations made in this paper require additional resources. However, PPAs are already recognised as being a particularly cost effective funding mechanism and the provision of additional staff resources could help unlock significant additional value for money. The Civil Society Department and PPA Stakeholder Managers are effective as the situation currently stands but do not seem to have the additional capacity required to expand their role to meet the recommendations outlined in this paper. If increasing the number of staff is not an option then more cross-departmental and divisional support could be mobilised; for example, the Evaluation Department could take on a more formal role in supporting PPA management

5. Strategic approach vs. project funding

- For various reasons (political pressure, NAO recommendations), DFID has found it difficult to apply a truly strategic approach to PPAs and is still trying to apply project funding approaches to a strategic partnership. There is thus a disconnect between what PPAs were ostensibly established to achieve and how they are now managed in practice
- The challenges inherent in retaining the flexibility and longer-term nature of PPA funding but at the same time introducing sufficient rigour to demonstrate development impact and value for money have not been fully resolved by DFID. There is a risk that the processes and resources required to establish baselines and measure and verify indicators for such large and wide-ranging programmes could detract from progress in achieving objectives
- PPAs could return to being organisational level agreements between DFID and civil society partners in areas where their strategies align. This approach could be seen as parallel to direct budget support to Southern governments, in which case accountability for organisational standards and performance should be the emphasis
- Alternatively, PPAs could continue to develop as large programme grants focused on the delivery of specific programme objectives. This would compare with other civil society funding schemes but would be larger, more cost effective and flexible for both DFID and the partner NGO, in which case the emphasis would be on programme performance, through indicators and targets. DFID needs to be clearer on which direction it is taking and why and then tailor accountability measures accordingly
- With the next round of PPA funding, it would be good to see both PPA partner agencies and DFID take a far more a more strategic and proactive approach to PPAs in order to unlock more of the potential in these funding arrangements

6. Funding allocations

- Funding allocations should be based on a more rational and transparent set of criteria. Past performance and organisational capacity are good proxies for future allocations and other factors, such as support and constituency in the UK, global reach and influence, could also be considered. DFID should also make it clear the relationship (if any) between allocation and size of organisation

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