

“Management as Legitimacy: Government Funding for Development NGOs.”

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Paper prepared for the meetings of the Association for Public Policy and
Management (APPAM), Washington, DC
November, 2013

Abstract

Research on foreign aid tends to be linked to international relations and foreign policy rather than to the study of organizations. The growing utilization of nonprofits (NGOs) in the delivery of foreign aid and public services, however, indicates that transnational relationships between governments and development organizations may be starting to resemble “partnerships in public service” in Western countries. Based on a dataset constructed from 135 interviews with leaders of local and international nonprofits operating in Cambodia, we explore the characteristics of nonprofits that are associated with government funding. We argue that professionalization and organizational rationalization provide legitimacy for NGOs, signaling capacity to donors for project implementation. Aligning with research in the United States, we find that professionalized nonprofits are more likely to have funding from bilateral governmental donors than nonprofits with less educated and less trained staff. We also find that foreign governments tend to fund nonprofits with a robust set of monitoring and evaluation practices, suggesting that governments pay attention to the collection of performance information in nonprofits. Finally, our results demonstrate that donor agencies do not prioritize funding for “indigenous” nonprofits or organizations staffed primarily by locals. Taken together, these findings support our argument that the adoption of management practices signals legitimacy and capacity to government agencies, but they also raise questions about the relationship between development projects and the growth of local civil society.

Introduction

Nonprofits are an integral component of the public service delivery system in the United States, contributing to fields as diverse as education, human services, and the arts. Despite the growing complexity of service ties between nonprofits and government agencies, relatively few studies have investigated the characteristics of nonprofits that are associated with having public revenue (Garrow 2012; Stone et al 2001; Suárez 2012). The paucity of research on the correlates of public sector support is surprising because it can help to clarify how bureaucrats utilize performance data and demonstrate how management matters in a cross-sector context (Heinrich 1999; Moynihan and Pandey 2005, 2010). Moreover, empirical work on the topic can begin to address whether or not governments are “smart buyers,” shedding light on the structural characteristics of nonprofits that are associated with receiving government support (Kettl 1993; Garrow 2012).

Government funding of nonprofits through foreign assistance is even less well explored than in the domestic context, but developing a better understanding of public financing for nonprofits is as important at the transnational level as it is at the local or national level (Mitchell 2013). Evidence suggests that foreign aid can contribute to economic growth and democratization under certain conditions, eliciting debates about how best to achieve those dual goals (Kosack and Tobin 2006; Riddell 2007; Paxton and Knack 2011). Over the last few decades, nonprofits (or NGOs) have become much more central to the delivery of foreign aid (Edwards and Hulme 1996; Edwards 1999; Ebrahim 2005; Brinkerhoff 2008). Just as the New

Public Management movement promoted the market and private sector initiatives as alternatives to government in many developed countries, foreign aid shifted away from direct funding to governments in favor of NGOs (Salalmon 1993; Kettl 1997; Brinkerhoff 2008).

Beyond promoting markets and expressing concerns about corruption in host countries, donor agencies also began to view nonprofits as agents of democratization and civil society (Brown 2008; McCourt and Gulrajani 2010; Schofer and Longhofer 2011; Brass 2012). Transnational relationships between governments and service-providing organizations consequently have started to resemble some aspects of “partnerships in public service” in Western countries, with potential benefits for efficiency and civic engagement (Salamon 1987; Robinson 1997). Nevertheless, though several studies have documented the growing focus on management practices in development NGOs, how and whether management practices are related to government funding remains unclear (Lewis 2001; Edwards and Fowler 2002).

Governments have a variety of agendas and interests that influence their giving for foreign aid, and management may be secondary to other concerns (Edwards 1999; McCourt 2008; McCourt and Gulrajani 2010). For instance, with the growth of NGO self-regulation initiatives, bilateral donors may want to offer funding as a way to promote capacity building among local NGOs (Gugerty 2008, 2010), suggesting that smaller, less professional organizations might be more likely to be funded. At the

same time, government agencies have to be accountable to taxpayers and to legislative bodies, contributing to an interest in data collection and performance evaluation that could resemble patterns in the United States in which government funding is associated with professionalism and more sophisticated management practices (Nicholson-Crotty et al 2006; Amirkhanyan 2010). Similarly, in some situations governments and nonprofits are co-producers of public goods, meaning that management capacity in NGOs may be a prerequisite for funding (Gazley and Brudney 2007; Gazley 2008).

Based on a dataset constructed from 135 interviews with leaders of local and international nonprofits operating in Cambodia, we argue that professionalization and the collection of performance data will be associated with bilateral government grants and contracts. We find support for this argument, and we also find that donor agencies do not prioritize funding for “indigenous” NGOs or organizations staffed primarily by locals. Taken together, these findings suggest that professionalization and performance information in NGOs serve as signals of capacity and legitimacy for donor agencies, but they also raise questions about the relationship between development projects and the growth of local civil society.

The Determinants of Foreign Aid (Bilateral Government Funding) for NGOs

Much of the research on government funding for NGOs explores the consequences of that support for the organizations involved. Studies on the topic in the United States demonstrate that government funding can diversify resources in a nonprofit and

increase the likelihood of organizational survival (Gazley 2008; Garrow 2012; Suárez 2012). Work of this nature also reveals that government grants and contracts can transform or shape nonprofits in less desirable ways, by contributing to bureaucratization or decreasing community involvement in governance (Gronbjerg 1993; Guo 2007; Gazley and Brudney 2007). Paradoxically, government funding may reduce flexibility, efficiency, and connections to local communities over time, three of the main justifications for contracting to nonprofits (Smith and Lipsky 1993; Salamon 2012).

Though historically the state has been viewed less as a partner for NGOs and more as a potential adversary or source of tension in international development contexts, parallels increasingly exist between the “conventional” contracting literature and studies on foreign aid (Coston 1998; Najam 2000; Brinkerhoff 2002). For instance, in an important early study on the role of NGOs in the delivery of foreign aid, Edwards and Hulme (1996) wondered whether states and NGOs were getting too close for comfort. They feared that NGOs were becoming too dependent on official development assistance as a source of revenue, posing many potential concerns for accountability. This concern has been reiterated in many subsequent studies, particularly in relation to accountability to local communities (Brinkerhoff and Brinkerhoff 2002; Brinkerhoff 2008; Ebrahim 2005; Brown 2008).

Questions about accountability remain very salient, yet they do not clarify which NGOs are the most likely to have funding from donor governments in the first place.

Understanding the determinants of bilateral funding is relevant to the broader discussion of how public agencies influence NGOs because it highlights the tradeoffs governments face in pursuing development goals. Bilateral donor governments may face a tradeoff between funding NGOs that already have complex structures and administrative controls and those that are more tied to local citizens, but are less administratively developed. If donor governments have little interest in or social obligation toward building local NGO sectors, they may prefer instead to support highly capable NGOs that act as development subcontractors (Cooley and Ron 2002; Fafchamps and Owens 2009). This tendency could be driven by pressures for accountability that emphasize performance and reporting, but such tendencies may also undercut donor goals of developing civic capacity and locally relevant goods and services. To explore the issue, we focus on three lines of argument to explain government funding for development NGOs: rationalization, professionalization, and local embeddedness.

Rationalization and Performance Information

In the nonprofit sector, rationalization refers to the construction of charities as formal organizations (Hwang and Powell 2009). As the nonprofit sector continues to expand and evolve, organizations face increasingly diverse coercive, mimetic and normative pressures in the external environment (Meyer and Rowan 1977; DiMaggio and Powell 1983). Since many nonprofits have missions that are difficult to measure or assess, they often embrace a variety of tools, approaches, and practices to help them appear legitimate and competent as “actors” (Brunsson and

Sahlin-Andersson 2001; Drori, Meyer and Hwang 2006). Sometimes described as managerialism, the incorporation of practices such as strategic planning, hiring consultants, undertaking market analyses, and restructuring serve as examples of rationalization (Roberts et al 2005; Hwang and Powell 2009; Leroux and Wright 2010; Garrow 2012; Suárez 2012).

Another important component or dimension of rationalization is monitoring and evaluation. Many nonprofits conduct audits and regularly update their budgets in order to keep track of their financial performance. Similarly, a growing number of nonprofits engage in program evaluation, whether formative or summative, in order to get a sense of the impact their work is having (Thomson 2011; Carman 2011; Barman and MacIndoe 2012). Even if the collection of performance information does not provide conclusive evidence of efficacy or efficiency, internal efforts to monitor and evaluate an organization could have a positive effect on government funding. Prior research has demonstrated that public managers often do not have sufficient capacity for evaluating partners, and the collection of performance information in a nonprofit may serve as a strong proxy, or signal, of ability (Van Slyke 2003; Nicholson-Crotty et al 2006; Amirkhanyan 2010, 2011; Ohemeng 2011).

H1: NGO collection of performance data will have a positive association with government funding.

Professionalization

The growing complexity of organizational structures constitutes one aspect of the transformation of the nonprofit sector, but a related dimension is the professionalization of nonprofit work itself. The literature on professionalization initially focused on sovereign fields like medicine and law, stressing clear barriers to entry and unique claims to specialized knowledge. Over time the concept has become more expansive, contributing to the “professionalization of everyone” (Wilensky 1964; Abbott 1988). Professionalization now tends to reflect two different trends in work, the growing reliance on full-time, paid staff, and the shift towards a labor force with diverse academic credentials (Brint 1994; Berman 1999; Hwang and Powell 2009). Both of these trends are relevant to the nonprofit sector and could influence government funding for development NGOs.

Many studies of the nonprofit sector in the United States have documented the move from a volunteer, “amateur” workforce to a staff-centered workforce (Smith and Lipsky 1993; Karl 1998; Hwang and Powell 2009). The expansion of nonprofit management programs also captures the second trend in professionalization, a turn toward academic certification, and these patterns are evident in development NGOs as well (Smith 1987; Smillie 1994). Professionalization could contribute to government funding because human capital arguments presume that education contributes to ability, and public agencies may use academic credentials as an indicator of capacity. Similarly, professional associations often spread or diffuse best practices on topics like program evaluation, and professionalized nonprofits may be

viewed as more competent or legitimate (DiMaggio and Powell 1983; Moynihan and Pandey 2010).

H2: NGO professionalization will have a positive association with government funding.

Local Embeddedness

Rationalization and professionalization draw attention to organizational structures, processes and the skill sets of staff, but donor countries may consider additional criteria when deciding which organizations to support through grants and contracts (Smith 1987). For instance, civil society and democratization often are core concerns for donor agencies, suggesting that governments might prioritize local initiatives and local NGOs in their funding decisions (Bebbington and Riddell 1995; Brinkerhoff 2008). Rather than contracting just with high capacity NGOs, then, donor agencies may choose to provide funding specifically for local NGOs (Brown and Kalegaonkar 2002; Gugerty 2008, 2010). From this perspective, government grants to nonprofits might have the goal of capacity building for local civil society, leading public agencies to prioritize local organizations over their international counterparts.

Alternatively, a great deal of research indicates that development initiatives tend to be donor driven and focused on specific projects, leading to technical cooperation that produces as much “capacity replacement” as capacity building (Edwards and Fowler 2002; Godfrey et al 2002; Chanboreth and Hach 2008). The central issue is

whether government funding focuses primarily on subcontracting for program delivery or also on building local capacity and local knowledge (Riddell 2007). As with rationalization and professionalization, governments may expect INGOs and foreigners to have greater capacity for subcontracting, leading them to prioritize international organizations. Similarly, governments may believe that there is a greater likelihood of accountability and transparency when funding foreign nonprofits. Though both perspectives on funding are plausible, we argue that:

H3: Local embeddedness will have a positive association with government funding.

These three lines of argument draw attention to organizational management and highlight plausible explanations or alternatives for government funding to development NGOs. In the following section we discuss the empirical country context for our study, Cambodia, and we also describe the efforts we undertook to collect and analyze our data. From there we discuss our results and specify the implications of our findings.

Country Context, Data and Methods

Cambodia is an impoverished country with a long history of governance problems and social conflict. Cambodia became a sovereign nation-state in 1953, but in 1975 a communist group led by Pol Pot took control of the country. The Khmer Rouge, as the insurgents were known, perpetrated genocide and promoted agrarian policies that led to famine; as many as 2 million people died during their short reign

(Gottesman 2004; Kiernan 2002). In 1979 Vietnam invaded Cambodia to overthrow the Khmer Rouge, and the United Nations later intervened to restore stability. In 1991 the Paris Peace Accords were signed, and in 1993 the United Nations oversaw democratic elections in the country. The international community has been very involved in Cambodia since that time, particularly through the provision of foreign aid. Official Development Assistance (ODA) comprised 9% of Gross Domestic Product in 2009, and the proportion of public expenditures that come from aid has remained steady at nearly 90% since 2005 (CDC 2010, 2010a; Sato et al 2011).

Cambodia is one of the most aid dependent countries in Asia, and besides its reliance on aid, Cambodia confronts many of the challenges of aid fragmentation. The country receives aid from a wide variety of countries, all of which have their own priorities, projects, and goals. According to a recent study, aid fragmentation in Cambodia is much higher than the average for all aid recipient countries, comparable to levels in the most dependent countries like Mozambique and Ethiopia (Sato et al. 2011). Appendix 1 presents an overview of bilateral foreign aid to Cambodia from 1998-2007, demonstrating the breadth of support. Japan is the largest donor, providing almost 35% of bilateral aid, but the other 65% is distributed among more than fifteen bilateral donors. While NGOs are central to the delivery of this aid in Cambodia, ODA provided by bilateral donors remains the predominant form of foreign assistance. A Cambodian government analysis estimates that NGOs “provide or manage approximately 20 percent of all aid to Cambodia” (CDC 2010a, p. 14).

Data

Our sampling framework was designed to provide a nationally representative sample of local and international NGOs in a country that has received little attention from public management scholars (Berman 2011). We first defined an NGO population based on the 1,240 organizations that were listed on the Cambodian government's Council for the Development of Cambodia (CDC) online database (www.cdc.khmer.biz). We then chose 230 organizations at random from this database, divided evenly between local and international NGOs. Of this original group we confirmed that 16 had closed and another 34 had no current contact information. This left 180 organizations, from which we were then able to interview 135 organizations, or 75 percent. To address the issue of non-response (and closings) we adjusted the sample using survey weights obtained from a multivariate response function. This weight also was adjusted to correct for the original sampling imbalance between local and international NGOs.

The data collection process began with an initial proposal and survey instrument that was shared with a small group of Khmers (Cambodians) and foreign consultants who work in the NGO sector in Cambodia. Together with a local consulting firm we finalized the survey instrument, translated it into the Khmer language, and then piloted it in four NGOs in Phnom Penh. For the final data collection the interviews took place in NGO offices or, in a few cases, in local cafes. The interviewee was allowed to choose the language of the interview (English or

Khmer). To help with the consistency in the interview across languages, a small group of interviewers (4) carried out approximately 15 interviews together at the beginning of the data collection period together with at least one of the two main researchers. The remaining interviews were completed between October 2010 and June 2011, and on average the interview took about 75 minutes to complete.

Dependent Variable

The dependent variable is a dichotomous indicator for whether or not an NGO has direct funding from a government in the form of bilateral donor assistance. We asked organizational leaders to discuss their sources of revenue, and with government funding we followed-up by asking about the specific agencies that provided funding. Based on our sample, a total of 36 NGOs in the sample had funding from governments, or 22 percent. Table 1 demonstrates that a few NGOs had resources from multiple governments, with 43 government grants and contracts mentioned in the interviews. Australia and the United States provided the greatest number of contracts, 9 and 8 respectively, but 16 different countries are represented. The table also reveals that the majority of funds go to international organizations, not local NGOs. Interestingly, not a single NGO in our sample, local or international, had funding from the Cambodian government.¹

¹ Some of the assistance received by these NGOs may have come through other international NGOs that are themselves the recipients of bilateral aid. Our goal is to model the direct funding decisions of government bilateral agencies rather than those of NGOs.

[Table 1 about here]

Independent Variables

Table 2 summarizes all of the independent variables used in the analysis, divided into the various categories introduced in our conceptual discussion – professionalization, rationalization, and local embeddedness. We expect professionalization to be positively associated with government funding, and our indicator is based on three measures that cover different aspects of the concept within these organizations: leader education, staff education, and staff training. Based on our interviews, 81 percent of NGOs send staff members to professional training, 83 percent of NGO leaders have at least an undergraduate degree, and 57 percent of NGOs have a majority of staff with an undergraduate degree. To create a single measure we incorporated factor analysis based on tetrachoric correlation coefficients (due to the dichotomous nature of the indicators), and the three variables load onto one factor with an Eigenvalue of 1.17. Appendix 2 demonstrates the effect of each component variable on government funding.

Our second group of measures focuses on rationalization as measured by the collection of performance information including data used for monitoring and evaluation in NGOs. More than 90 percent of organizations in the sample report having an annual budget, and most update their budget on a quarterly basis. Moreover, about 60 percent of the sample reports having had an external financial

audit. We also found that 37 percent of the organizations reported using a census or survey database, and many incorporated diverse needs assessment strategies. We asked about program evaluation as well, finding that 13 percent employed formal data collection processes by using questionnaires, interview protocols and impact indicators. A relatively large group of NGOs (32 percent) also incorporated a formalized evaluation model, often outsourcing the work to external evaluators that come from a home office or are hired by the NGO. We included all of the variables in Appendix 3 in a factor analysis using polychoric correlation coefficients. All of the indicators load onto one factor that has an Eigenvalue of 2.58 (for more information see Author Cite 2013).

Our third group of indicators addresses the local embeddedness of NGOs. We include two measures for social embeddedness. The first is an indicator of network participation, or the total number of NGO networks to which the NGO belongs (average is 2.2 networks), important intermediaries in development contexts (Brown and Kalegaonkar 2002). The second is a factor based on tetrachoric correlation coefficients for local embeddedness. The indicator is based on three dichotomous measures (Cambodian executive director, all staff are Cambodian, the NGO has no international office), all of which load onto one factor with an Eigenvalue of 2.62. Appendix 2 demonstrates the effect of each component variable and relevant controls on government funding.

[Table 2 about here]

In order to test these various arguments and reduce the possibility of omitted variable bias, we include a number of general controls. This begins with three indicators for primary field of expertise, designed to capture potential variation related to programmatic focus (health, education, and human rights). We also include age, an important control because some management practices could develop with time and experience. The average age in the sample is almost 13 years, with a standard deviation of nearly 10 years (the indicator is logged to reduce skewness). We include an indicator for NGO size based of the number of staff employed by the organization as well. The average staff size is 52, but the standard deviation is large because of a number of very big NGOs in the sample. This indicator also is logged to reduce skewness.

The final control deals with resource diversity. Nonprofits often have multiple sources of revenue for implementing their missions, ranging from market-based income from program services to grants from foundations and subcontracts from other nonprofit organizations. Some sources of income can provide legitimacy for a nonprofit, demonstrating to other donors that they are capable at procuring funds (Hwang and Powell 2009). From this vantage point, governments are attuned to the funding environment and may consider support from multiple types of donors to be a sign of competence among nonprofits (Lewis 2006; Brown 2008).

The nature our data means we are unable to utilize maximum likelihood measures to assess goodness of fit (or for other purposes) in our models. A core assumption of maximum likelihood is that cases are independent of each other. Because we incorporate weights to address oversampling of international NGOs and nonparticipation bias, however, maximum likelihood and the statistics based on it become inappropriate. Consequently we rely primarily on F-tests in the models we present (for more information see Korn and Graubard (1990) and Stata Corporation (2011)). In addition, our data are cross-sectional. As a result we do not draw strong causal inferences about the relationships among our variables, seeking instead to explore the factors associated with bilateral government funding.

Results

Our empirical models begin with bivariate regressions presented in the first main column of Table 3. The regressions in that column serve to establish a baseline for understanding how the controls and the other substantive variables are related to government funding. As the results show, all of the independent variables except for network memberships produce statistically significant effects. In addition, the age and size of an NGO is associated with government funding. These results are quite straightforward, particularly if the size and the age of an NGO tend to serve as a proxy for other more substantively meaningful indicators of capacity. Finally the primary field of work for NGOs does not have a strong relationship with government funding. Here again the result is reasonable since foreign aid flows to many sectors

of Cambodian society. From there we turn to multivariate regression models, presenting the results for each conceptual frame and the controls.

Model 1 considers the influence of professionalization on government funding. The results demonstrate that professionalization has a statistically significant, positive effect on the likelihood of having government support. Organizations that send their staff to trainings and are led and staffed with more university graduates are more likely to have government funding than organizations that score lower on the factor score for professionalization. Model 2, which also focuses on the management of NGOs, highlights the importance of monitoring and evaluation on having foreign aid. As the results show, NGOs that engage in more collection of performance information are significantly more likely to receive foreign aid than NGOs that adopt fewer tools for assessing performance. Taken together, models 1 and 2 provide strong support for the association between NGO management practices and government funding.

Model 3 clarifies the role of local embeddedness in government funding. Interestingly, the effect for local embeddedness is statistically significant but negative, demonstrating little support for the idea that government agencies might privilege domestic nonprofits as a way to build capacity in civil society. Whether international NGOs and NGOs staffed by foreigners are more capable or accountable than their local counterparts remains unclear, but they are more likely to receive foreign aid. The coefficient for number of network memberships is not statistically

significant, however, suggesting that participation in local intermediary organizations is not salient for explaining government funding of NGOs. Even though networks are important in a variety of different development contexts, they seem to play a much larger role in providing training than in directing funding from government agencies (Brown and Kalegaonkar 2002; Brown 2008).

Model 4 presents the results for the analysis when all three lines of argument are considered together, along with the controls. The results for professionalization and performance evaluation are robust, revealing that both indicators have a positive association with government funding. Since both indicators retain their explanatory power, these results suggest that forms of training (formal and informal) and the collection of information on performance are related but empirically distinctive aspects of NGO management. The coefficient for local embeddedness remains negative, indicating that foreign governments do not privilege or prioritize local organizations over organizations staffed by foreigners or with bases in other countries. In fact the results seem to indicate quite the opposite – even when taking into account a variety of controls and several indicators for management practices, local NGOs are far less likely to receive foreign aid than their international counterparts.

Discussion

Research on NGOs in development demonstrates that many policies and practices have changed over the last few decades, with increasing pressure on NGOs to

become more accountable and professional in their management approaches (Edwards and Fowler 2002; Lewis 2006). NGOs have become central actors in the delivery of foreign aid, and they also play an important role in promoting social change (Brass 2012; Brinkerhoff 2008). Besides growing in visibility and relevance, the last few decades have witnessed a “global associational revolution,” a dramatic growth in the number of NGOs since the Second World War (Boli and Thomas 1997; Salamon et al 1999). While this growth has been increasingly recognized and documented, many questions remain regarding the implications of this growth in NGOs for government-NGO relationships and the delivery of public services. The majority of research on NGOs either considers their effects at an aggregate level or presents case studies of organizations, meaning that how management matters for funding and practice has received comparatively little attention (Brown 2008; Ebrahim 2005; Fafchamps and Owens 2009; Longhofer and Schofer 2010).

Our study makes several contributions to the extant literature on NGOs. To begin with, we link foreign government aid for NGOs and the concept of transnational governance to public management (Mitchell 2013). Prior research has demonstrated that public agencies in the United States are limited in their ability to monitor their nonprofit partners, particularly with the hollowing out of the state (Van Slyke 2003). International contexts present formidable challenges for monitoring NGOs as well, and we have argued that professionalization and data collection on performance provide credibility and legitimacy for NGOs (Lewis 2008). Professionalized NGOs and organizations that develop an extensive monitoring and

evaluation regime may not actually be better at implementing projects than other organizations, but we suggest that the adoption of modern management practices sends important signals about capacity (Karl 1998; Hwang and Powell 2009).

At the same time, decisions about foreign aid often have political motivations, implying that the aid allocation process and the NGOs that receive foreign aid may differ significantly from the “partners in public service” approach prevailing in United States (Salamon 1987; Riddell 2007). From this perspective, contracting decisions in the United States and other developed countries presumably will be based on considerations about merit and organizational capacity from pre-determined contracting criteria. In development contexts, notions of capacity might be less salient or less clearly defined. Moreover, if donors seek to build the capacity of NGOs – particularly in contexts like Cambodia where civil society remains nascent – measures of capacity could be negatively associated with funding. We find that professionalization and the collection of performance data are quite relevant for government funding of NGOs in Cambodia, similar to findings in the United States (Garrow 2012; Stone et al 2001; Suárez 2012). These results imply that management practices in NGOs have a strong association with foreign aid to NGOs, demonstrating that “management matters” in transnational contexts (Mitchell 2013; Moynihan and Pandey 2005).

While we do not discount the importance of politics and other motivations that differ across contexts, if the majority of funding for development NGOs in Cambodia

is disbursed for project implementation then our results for professionalization and data collection are not surprising. Some research on foreign aid in Cambodia lends support to this interpretation, concluding that: “Cambodia’s experience since 1993 suggests that most projects have been donor-driven in their identification, design and implementation, to the detriment of capacity development” (Godfrey et al 2002, 369). This approach to funding also helps to explain our results for local embeddedness. If donors prioritized capacity building and the construction of civil society we might expect to see support for local organizations to “outweigh” professionalization, monitoring and evaluation, but we do not even find evidence that public agencies prioritize local organizations over foreign NGOs.

We also tie research on nonprofit management to the literature on performance management in the public sector. Though a large literature exists on how government agencies monitor and evaluate nonprofits once contracts are established, these studies usually do not consider the organizational characteristics of nonprofits that are associated with funding in the first place (Moynihan and Pandey 2010; Nicholson-Crotty et al 2006). Rather than focusing on how public agencies monitor and evaluate their contractual partners, we attend to how nonprofit collection of performance data influences the likelihood of government funding. As might be expected, the collection of monitoring and evaluation data is associated with government funding, aligning with the New Public Management focus on using performance measurement as a way to encourage accountable and results-based management (Amirkhanyan 2010). Our results suggest that this focus

may even direct funding away from local organizations and towards more professionalized international organizations.

Our findings add to ongoing discussions about the role of NGOs in development as well. None of the NGOs in our study receive funding from the Cambodian government, raising questions about the role of NGOs in public service provision in the country. If international donors stop supporting these NGOs, there is little indication that the Cambodian government will fill in the gaps in program services or continue with ongoing projects (Brinkley 2011). This issue has been a concern for development scholars for several decades, particularly in relation to capacity development (Edwards and Hulme 1996). Given that we find little evidence that foreign aid serves the direct purpose of capacity building, or even that funding prioritizes local organizations, the long-term implications for development remain unclear. NGOs do seem to work in partnership with government, but not the local government, and international NGOs may leave without foreign support.

Finally, we echo other scholars in seeking to discern how development funding shapes the priorities and goals of NGOs, particularly in local community contexts (Edwards and Hulme 1996; Bebbington 2005; Brown 2008). If professionalization and rationalization provide legitimacy for NGOs, as we argue, local civil society may not benefit or grow in a sustainable manner through foreign aid. Several studies suggest that rationalization can produce an instrumental focus that devalues social relationships in an effort to achieve technical efficiencies (Townley et al 2002;

O'Dwyer and Unerman 2008). In short, professionalized and rationalized organizations may be quite effective at implementing programs, but performance could come at the expense of local ties and a community focus (Gronbjerg 1993; Guo 2007; Gazley and Brudney 2007). Future research can build from our study by clarifying the connections between professionalization, rationalization, and local embeddedness in development contexts.

While our results indicate that governments are attuned to signals about capacity and legitimacy, it is important to note that a major limitation of our work is its cross-sectional nature. A longitudinal component would help to clarify the direction of the relationship, a pressing next step. Nevertheless, our argument aligns with the broader literature on performance measurement in the public sector, implying that legitimacy is relevant regardless of the causal mechanism (Amirkhanyan 2010, 2011; Thomson 2011; Carman 2011). Government funding may “make” nonprofits legitimate by obligating agencies to professionalize and develop rationalized practices, or nonprofits may procure government resources because they have the qualities that donors prioritize and privilege. Whichever the case, the adoption of modern management practices and approaches seems to be as closely linked to government support in development contexts as in countries like the United States.

Taken together, we establish an agenda for linking foreign aid to NGO management. As foreign aid increasingly gets funneled through NGOs instead of through public agencies, more research is needed to understand which types of organizations

receive support and why. NGOs often are described as pivotal to the production of social capital and democracy in international discourse, and these organizations also deliver programs and services to communities in need (Schofer and Longhofer 2011). We find that professionalization and efforts to collect performance information are associated with bilateral government funding, suggesting that public agencies are attuned to management practices in NGOs. However, local NGOs are not more likely to receive funding than foreign NGOs, reinforcing the need to develop a better understanding of the relationship between development projects and the growth of local civil society.

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Table 1. Governments Providing Foreign Aid to NGOs Operating in Cambodia

Government	NGOs Funded	International NGOs	Local NGOs
Australia	9	6	3
United States	8	5	3
Germany	4	2	2
France	3	1	2
Denmark	3	2	1
United Kingdom	3	3	0
Japan	2	2	0
Norway	2	1	1
Finland	2	2	0
Ireland	1	1	0
Belgium	1	1	0
Canada	1	1	0
Sweden	1	1	0
Netherlands	1	0	1
Austria	1	1	0
New Zealand	1	1	0
Total	43	30	13

Note: These are raw numbers, not based on weighted data. NGOs can have funding from more than one government; 36 NGOs have funding from governments. None of the organizations in our sample received revenue from the Cambodian government.

Table 2: Variables, Means and Standard Deviations

Variable	Sample Average	S.D.
<u>Dependent Variable</u>		
Bilateral Government Funding	.22	-
<u>Independent Variables</u>		
<i>Professionalization:</i>		
Education and Training	.74	.31
<i>Rationalization</i>		
Performance Information	1.20	.37
<i>Embeddedness:</i>		
Networks	2.19	1.82
Local Ties	.66	.47
<i>Controls:</i>		
Main field of work:		
Education	.22	--
Health	.22	--
Human Rights	.16	--
Funding Diversity	1.88	1.01
NGO size (log)	2.88	1.15
NGO age (log)	2.30	.64

Source: Author Data

Notes: All averages based on weighted data. Professional is missing 7 cases, performance data is missing 3, and sector categories are missing 1. Other variables have all 135 cases.

Table 3: Summary of Predictors of Bilateral Government Funding

Independent Variables	Bivariate	1	2	3	5
<i>Professionalization</i>					
Education and Training	2.79***	3.03***	-	-	2.39**
<i>Rationalization</i>					
Performance Information	2.77***	-	2.73**	-	2.32**
<i>Embeddedness:</i>					
Network Memberships	.15	-	-	.10	.01
Local Ties	-1.95***	-	-	-1.99**	-1.43**
<i>Controls</i>					
Main area of work:					
Education	-.63	-.05	-.51	-.54	-.40
Health	-.01	.43	-.14	.35	.30
Human Rights	.18	.30	.19	.35	.69
Funding Diversity	-.07	-.20	-.26	-.17	-.33
Size	.35**	.43*	.45	.25	.18
Age (log)	.68*	.77	.28	.45	.52
Constant	-	-6.59***	-6.31***	-1.96	-6.73***
Sample Size	-	123	123	123	123
F-Test	-	2.99***	2.25**	2.40**	2.53***

Source: Author Data

*** p<=0.01; ** p<=0.05 level; * Significant at p<=0.10 level

Appendix 1. Share of ODA in Cambodia by Bilateral Donor (1998-2007)

Donor	Share of Donor Disbursement (%)
Japan	34.9
United States of America	12.6
France	9.4
Australia	7.7
China	7.2
Germany	5.9
Sweden	5.5
United Kingdom	4.7
Republic of Korea	3.2
Belgium	1.7
Denmark	1.7
Canada	1.5
Netherlands	1.1
Norway	.7
Finland	.5
New Zealand	.5
Switzerland	.5
Russian Federation	.2
Other Bilateral Donors	.5

Source: Chanboreth and Hach (2008)

Appendix 2: Summary of Predictors of Government Funding, Using Controls and Decomposed Factors as Independent Variables

Independent Variables	Professionalization			Local Embeddedness		
	1	2	3	4	5	6
<i>Professionalization</i>						
Leader has a BA degree	2.27**	-	-	-	-	-
Majority of Staff has a BA	-	.95*	-	-	-	-
Staff Training	-	-	.62	-	-	-
<i>Local Embeddedness:</i>						
Local NGO	-	-	-	-1.27**	-	-
Cambodian Executive Director	-	-	-	-	-1.60***	-
All Staff are Cambodian	-	-	-	-	-	-1.69***
<i>Controls</i>						
Main area of work:						
Education	-.14	-.35	-.28	-.81	-.45	-.33
Health	.40	.16	.03	.04	.27	.39
Human Rights	.27	.14	.01	.01	.38	.45
Funding Diversity	-.15	-.17	-.13	-.01	-.06	-.29
Size	.43	.51**	.49*	.39	.42	.31
Age (log)	.72	.65	.50	.49	.41	.56
Constant	-6.12***	-4.63***	-4.18**	-2.75*	-2.35	-2.29
Sample Size	123	123	123	123	123	123
F-Test	2.20**	2.24**	1.49	2.23**	2.32**	2.30**

Source: Author Data

Notes: We do not decompose the factor for performance because that is addressed elsewhere (Marshall and Suárez 2013).

*** $p < 0.01$; ** $p < 0.05$ level; * Significant at $p < 0.10$ level.

Appendix 3: Factor Loadings for Performance Information (Monitoring and Evaluation)

Variable	Sample Average	Factor Loading
External audit	.60	.72
Prepares annual budget	.91	.69
Regularly updates budget ^a	4.05	.48
Data collection activities ^b	.76	.55
Use secondary or census data	.37	.59
Needs assessment strategies/methodology		
Interviews, questionnaires	.52	.51
Needs assessment model	.15	.38
Evaluation strategies / methodology		
Quantitative or change-oriented	.13	.38
Evaluation model	.32	.40
Eigenvalue	----	2.58
N	----	132

Source: Author Data

^a Frequency scale: 1=Never; 2=Annually; 3=Bi-Annually; 4=Quarterly; 5=Monthly

^b The indicator is an average of eight general data collection activities like creating targets and baselines.