

# **The Potential Effects of Donor Funding Schemes on the Diversity and Sustainability of Central and Eastern European CSOs: the Example of the EEA and Norway Grants**

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## **Abstract**

In the context of a shrinking civic space in many Central and Eastern European countries, Civil Society Organisations (CSOs) are seen as crucial actors to maintain key characteristics of healthy democracies. CSOs in Central and Eastern Europe rely to a high degree on foreign funding, while external donors are regularly targeted by governments and media in beneficiary countries. In this context, political questions centred on the influence of donors on local CSOs' agendas have been at the centre of attention of most scholars. However, external funding also has an impact on the very structure of the third sector.

This paper thus aims at answering the following question: how does this specific type of grants affect the organisational structure of funded CSOs and their financial viability? The study uses the concepts of isomorphism and sustainability to describe the expected effects of donor schemes. The case study for this paper are the EEA and Norway Grants, the grants funded by Iceland, Norway and Liechtenstein, which have been considered the main source of external funding for CSOs in the region. These grants have created an original set-up for their funds to CSOs in order to address some issues specific to this sector. The point of view adopted in the study is an *ex ante* one as it focuses on the newly created Active Citizens Fund (ACF).

This paper analyses three particularities of this fund: fund operators, small grants schemes and capacity building. Each of these measures is described to find out whether it can be expected that it will address the challenges of viability and diversity effectively, or whether it feeds into these adverse effects. The paper concludes that eligibility criteria for grants and capacity-building activities are two areas at high risk of causing isomorphic processes. Regarding sustainability, it concludes that even with innovative approaches, project-based funding shows limits and thus suggests core funding could be an option considered by external donors for trusted CSOs. The paper eventually opens perspectives for future research in this field, in particular longitudinal studies.

## **Point for practitioners**

This paper will review existing innovative ways of funding CSOs to find out whether these measures are also effective in promoting sustainability and diversity of organisations. Some aspects are particular to the Central and Eastern European context, but this region is far from being the only one experiencing a shrinking civic space and therefore most findings should be of interest to everyone working for donor organisations worldwide. It should also be relevant for practitioners funding CSOs at national or local level, as some analyses also apply to other types of grants. It could also allow CSOs, whether they benefit from external funding or not, to adopt a critical eye on the different sources of funding available and gain back some agency by spotting some inadequate support, in particular training. Indeed, the paper flags two areas at high risk of triggering isomorphic processes, namely eligibility criteria and capacity building activities

Keywords: EEA and Norway Grants, isomorphism, sustainability, CSOs

This document only reflects the views of its author and not of any mentioned organisations.

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## Introduction

North-North donor funding of NGOs is a rare phenomenon, and an under-researched one. Given that the current restriction of civic space is a global phenomenon also affecting EU Member States, this should be remediated, and this paper aims at starting a discussion in that sense. Even more so since governments and the media in Central and Eastern Europe have not waited for academic literature to be published before targeting foreign donors. In this highly politicised and emotional debate, existing contributions focus on a potential “mission drift” of organisations under the influence of foreign donors (Bennett and Savani, 2012; Kamstra and Schulpen, 2014). What is lacking however, is a discussion on how external funding could impact the very structure of the third sector in Eastern and Central Europe. The existing research that tries to capture a broader picture of donor effects focuses on North-South funding (Kontinen, 2005; Chahim and Prakash, 2014).

In order to address this issue in the North-North dichotomy, the paper will use a case study. The two main actors that fall into the category of donor funding to European CSOs are the EEA and Norway Grants and the Swiss contribution to the enlarged EU. This study will focus on the EEA and Norway Grants and their new Fund supporting civil society, the Active Citizens Fund (ACF). Firstly, because of the size of this support that makes it a key actor in this field and secondly, because of the innovative nature of the fund.

This paper thus aims at answering the following question: How does this specific type of grants affect the organisational structure of funded CSOs and their financial viability? In a first step, isomorphism and sustainability of organisations will be defined as tools to capture effects of donor funding. In a second step, the relevance and importance of these elements in the current Central and Eastern European context will be addressed. The paper will ultimately analyse the unique set-up of the EEA and Norway Grants new Active Citizens Fund and how it is expected to contribute to or mitigate the development of the described adverse effects.

## Methodology

This paper, while using well-known concepts coming from the sociologic study of organisations, will keep a focus on practice-oriented matters and will aim to find some recommendations and possible ways forward for other practitioners of the field. It is also worth mentioning that the terms NGO and CSO will mainly be used in an interchangeable way in this paper.

This paper will use the EEA and Norway Grants as a case study as it is the biggest external funder of civil society organisations in Central and Eastern Europe. The EEA and Norway Grants are funded by Iceland, Liechtenstein and Norway and support projects in 15 EU Member States. This research will however exclude Mediterranean countries and will focus on Central and Eastern European EU Member States, which are also the biggest beneficiary countries of these Grants. The paper will furthermore focus on CSOs promoting democracy and human rights, because they face a bigger challenge than NGOs providing services in becoming financially independent and viable (Blair, Burgerman, Elzeney & Herman, 2005, p.15). These NGOs are also important recipients of EEA and Norway Grants funding under the newly created Active Citizens Fund, as at least a third of the grant amounts shall be allocated to democracy and human rights relevant projects (Manual for Fund Operators of the Active Citizens Fund, p.10).

The approach adopted here is an *ex ante* one, focusing on the innovations this donor has introduced in its set-up for the new financial mechanisms, and not on the results of the funding. This study is thus based on a document and literature review. The sources used are primary data to a large extent, stemming from the website of the EEA and Norway Grants. The main documents used for the period 2014-2021 will be legal or quasi-legal documents, such as the Terms of Reference for the role of fund operator of the Active Citizens Fund (ACF), the manual for Fund Operators (FOs) of the ACF, the guidance document for outcomes and outcome indicators for the ACF and a text of open calls for proposals from Slovakia. These documents taken together provide a clear description of the new institutional set-up of these Grants, which are the case study of this paper.

In terms of secondary data, the paper will build on the existing scholarly research on institutional change and will apply it to the context of Central and Eastern Europe and the EEA and Norway Grants. Reports stemming

from donor organisations, e.g. the EEA and Norway Grants but also USAID and Sida are crucial to define the context in which donors operate in Central and Eastern Europe. These sources are also very important to present the most recent approaches to sustainability and financial viability of funded CSOs.

## **1. Sustainability and isomorphism of CSOs: a definition**

The first key concept in this research is sustainability. The sustainability of Civil Society Organisations has been defined by different donors and actors of the development and cooperation world. In its Civil Society Organisation Sustainability Index (CSOSI), USAID measures the sustainability of each country's third sector based on seven dimensions: legal environment, organisational capacity, financial viability, advocacy, service provision, infrastructure, and public image. However, this paper will use the term sustainability as a way to describe financial viability only. Organisational capacity and infrastructure of the sector will be addressed through the concept of isomorphism. A lack of financial viability for an organisation can mean that the organisation will heavily or exclusively rely on volunteer work and that ultimately it is at risk of disappearing entirely.

In this framework, the concept of sustainability is closely linked to the one of financial independence. It can be discussed whether reaching complete financial sustainability, as in independence from foreign donors, is even possible for organisations focused on core issues of good governance and human rights protection, the focus of this paper. Some experts of the third sector go as far as saying that “financial sustainability (beyond simply diversifying foreign donor support) for harder core CSOs is a chimera” (Blair et al., 2005, p.15). Most donors however (as the one studied in this paper) continue functioning with this objective as a target, since project-based and thus short-term funding is still the norm, making the question of “life after funding” a central one (Mukhopadhyay and Eyben, 2011).

Isomorphism is a concept coming from the field of sociology of institutions and developed by DiMaggio and Powell in their article: “The iron cage revisited: institutional isomorphism and collective rationality in organizational fields” (1983). Isomorphism is defined as similarity in structure and rules among organisations. It is the end result of an institutional isomorphic change. DiMaggio and Powell distinguish three mechanisms of isomorphic institutional change: coercive isomorphism, mimetic isomorphism and normative isomorphism. Coercive isomorphism refers to change that is induced through the use of authority, such as the state or another organisation on which the CSO is dependent. Mimetic isomorphism takes place in situations of uncertainty in which organisations tend to model themselves after other organisations considered successful. Normative isomorphism stems from the professionalisation of organisations, which creates a pressure coming from the changing nature of staff or the diffusion of models by peers, through networks for instance. In the case study of the paper, we will see that these mechanisms are often intertwined, and that the relationship of donors to funded organisations are often characterised by multiple institutional isomorphism pressures, mostly unintended.

Di Maggio and Powell's theory has been heavily criticised in the past years, especially when applied to third sector organisations. Main criticisms include the possibility of identified mechanisms to create divergent change and not only isomorphic change (Beckert, 2010) and a vision of change as an exceptional state that is limited in time and reaches an end stage and not as a continuous process (Arvidson, 2018). Some authors have suggested new typologies of change: evolving change, episodic change, inherent dilemmas, and conflicting logics (Arvidson, 2018) or new typologies of reaction to contracting through the state: comfortable contractors, compliant contractors, cautious contractors, and community-based non-contractors (Buckingham, 2012). More radically, some authors have suggested that the theories are a social construction (Mizruchi and Fein, 1999).

Nevertheless, this theoretical framework is still highly relevant to the specific context of this paper. Indeed, the paper focuses on one interaction only, namely the one between the donor and the beneficiary organisation and does not aim at describing all interactions in the environment of NGOs. Moreover, this paper is written *ex ante*; a more refined typology of change and effects of organisations will be possible through a longitudinal study. It is worth noticing that this theory has already been applied to Civil Society Organisations and donor funding even in recent articles (Chahim and Prakash, 2014; Kamstra and Schulpen, 2014; Beck, 2014). Andrada Nimu was the first one to apply Di Maggio and Powell's theory of isomorphism to Central and Eastern European NGOs in her article published in *Europolity* in 2015: “A Theoretical Approach to the Effects of External Funding on Women

and Gender Based NGOs in Romania and Poland”. This theory is thus academically still relevant and well-suited to the study of the phenomenon described in this paper.

## **2. Why lack of sustainability and isomorphism are adverse effects from a donor perspective**

Sustainability of funded CSOs is a challenge for all donor institutions. There are several consequences of funding CSOs that are potentially detrimental, but one of the main fears of donors is that funded organisations will become dependent to their grants. In that case organisations would not be reinforced, but rather fragilized in the longer term. This can be of particular concern for donors that mainly provide project-based and short-term funding. This is the case of the EEA and Norway Grants and most donors funding CSOs in Central and Eastern Europe, for instance the bilateral Swiss fund. In a scenario where all organisations operate on that basis but do not coordinate their funding periods and calls for proposals, consequences on the third sector at national level can be disastrous. To illustrate this risk, I would like to extensively quote the USAID CSO Sustainability Index 2017 for Romania:

“According to the Romania 2017 research report, funding from foreign governments and other public international institutions represented the main source of income for 34 percent of NGOs in 2015. Such funding, however, was severely limited in 2017. Very few CSOs received funding from the European Structural Funds 2014-2020 during the year. Calls for proposals relevant to CSOs’ work (...) were launched, but the selection and contracting processes were substantially delayed, so in many cases, contracts had still not been signed by the end of the year. Under the Active Citizens Fund of the EEA Financial Mechanism 2014-2021, €46 million will be available for democracy and human rights, social justice, environment and climate change, gender equality, and gender-based violence. However, these funds were not accessible in 2017. The selection of the Operator for this mechanism was postponed to 2018 and calls for proposals may not become available until 2019. The Swiss-Romanian Cooperation Program awarded no new funding in 2017, while the forty-nine projects selected for financing in 2016 as part of the Civil Society Participation Thematic Fund completed their implementation during the year.” (CSOSI, 2018, p.174).

This example materialises different risks such as the dependence to funding and lack of synergy between donors. It would not come as a surprise if a number of Romanian CSOs did not resist the year 2017, in the absence of the main sources of foreign funding. The dependence to foreign funding is also explained by decreasing funding of NGOs from state budgets in most Central and Eastern EU Member States, although there are exceptions to this trend (e.g. Slovakia, CSOSI, 2018, p.204). In any case, the CSOs targeted by the EEA and Norway Grants pursue activities that are less likely to receive state funding, e.g. watchdog activities, advocacy activities for human rights, empowerment of minorities etc (Blair et al., 2005, p.15).

While sustainability has been a goal of funding for a long time and a priority any donor is conscious about, the concept of isomorphism as an adverse effect of foreign funding that should be mitigated has only been a recent realisation for donors, especially in the context of the current shrinking civic space worldwide, and in Central and Eastern Europe in particular. This trend of reduced civic space is a major concern for most western donors. As expressed in the Swedish development agency (Sida) report on closing of civic space, “donor governments have multiple reasons for defending civic space, which spring from a vision of civil society as a pillar of healthy democratic states and pluralistic societies; (...) and from the inherent value of civil society. The closing space trend runs counter to donor government goals and interests.” (Effective donor responses, 2018, p.3).

The Active Citizens Fund (ACF) of the EEA and Norway Grants is considered a flagship activity internally and is seen as having a major added value externally (Mid-term evaluation, 2015, CREDA). It has also been the target of negative campaigns in the media in some of its beneficiary countries (see for instance “Soros is not the only one” by Markéta Šichtářová on Remix, published in 2018), and has caused some major tensions with certain beneficiary countries. Disagreements on the civil society programme have even prevented to find an agreement on a Memorandum of Understanding for the new financial mechanisms in Hungary (“Hungary and Poland risk losing €1bn in Norway aid row”, Aleksandra Eriksson, EU Observer, 3 May 2017). But against all types of resistances, the EEA and Norway Grants have decided to focus even more on democracy and human rights projects (now at least a third of grant amounts) and less on service provision under the new financial

mechanisms. It is thus evident that the shrinking space for CSOs is considered a as a major concern for this donor.

Diversity of third sector organisations is seen as a key factor for an open space for civil society, and therefore becomes a key priority for donors. In its report on countering the shrinking of civic space, Sida states: “it is no longer sufficient for donors to work only with traditional CSOs, some of which may have diminished capacity to influence social transformation; to be effective, donors should find ways to engage with informal groups, movements, social media activists, and others. A broad and diverse civic sector that includes all of these actors is also more likely to be resilient and adaptable in the face of the closing civic space challenge.” (Effective donor responses, 2018, p.32). In academic literature, the risk of homogenisation of NGOs as a negative effect of donor funding has been flagged for a long time now (Kontinen, 2005; Kamstra and Schulpen, 2014; Beck, 2014). It was recently summarised this way: “although in principle isomorphism could involve the ‘diffusion of good practices’, the term is primarily associated with a fear that NPOs [Non-profit Organisations] will lose important organizational traits as they become more bureaucratic and/or more business-like” (Arvidson, 2018)

As diversity and thus polymorphism is valued, a growing trend towards homogenisation and isomorphism of civil society organisations is seen as negative. The intervention of donor funding on the fragile equilibrium of civic space affects the diversity of organisations in two ways: firstly, through the choice of funding or not funding organisations and secondly, through the way donors support chosen organisations. In terms of “who” the grants are supporting, donors can – even unconsciously – contribute to isomorphism processes by only supporting organisations that meet their expectations “for how an organisation of this type (...) looks and behaves” (Leiter, 2007, p.3). In practice, these expectations can be expressed through eligibility criteria, or remain unsaid but influence individual choices in selection processes or even lead certain organisations not to seek external funding because expectations are internalised. This results in bigger, older and more professional organisations in urban areas having more chances of receiving funding. This isomorphism is an “ex ante” one, but an “ex post” one can appear once the decision of funding a certain organisation has been made. Regarding how organisations are supported, donors do not necessarily realise that they can also be part of the problem by choosing approaches that trigger isomorphic processes. This can mainly happen through e.g. reporting requirements or capacity-building activities that will compel funded organisations to adopt management style considered exemplary.

### **3. How the EEA and Norway Grants partially contribute to and partially avoid these effects**

After having described why sustainability and polymorphism of civil society organisations are two important parameters for a vivid civil society and thus important to donors, we will examine whether these aspects are taken into account in the particular set-up of the funds to Civil Society Organisations of the EEA and Norway Grants. The Active Citizens Fund 2014-2021 indeed has some particularities compared to the other programmes funded and managed by this institution. This section will analyse some of the most preeminent characteristics of this fund, and will give a quick assessment on whether we can expect these measures to promote sustainability and polymorphism of civil societies in beneficiary countries or not.

#### **3.1 Fund Operators**

The first major characteristic of the ACF, is that that unlike other programmes, this fund is “directly contracted”. In most programmes funded by the EEA and Norway Grants, a sum of money is transferred to a beneficiary country *via* the country’s institutions, which in turn will be responsible for launching open calls for project proposals. In this set-up, the Ministry of Budget is usually the National Focal Point and the Ministry in charge for the programme area (Culture, Health etc.) is the Programme Operator, which is in charge of launching calls. The fund for civil society however, is directly contracted, meaning that the FMO (the Financial Mechanism Office which manages the Grants) directly contracts a Fund Operator based on a call for proposals, and it is then the Fund Operator (FO) which will regrant the funding and launch the call for project proposals. Fund Operators are usually a consortium of NGOs themselves.

This particular measure has been assessed as positive, as it clearly limits the possibility of an influence of the beneficiary states' institutions over the project selection procedure (Mid-term evaluation, 2015, CREDA). It also allows the bigger NGOs to put their unique knowledge of the third sector in their own country in practice. However, it has never been discussed what role this Fund Operator structure plays in guaranteeing more sustainability or diversity in the third sector in beneficiary countries. The starting point for this discussion should be the Terms of Reference for Funds Operator, which are similar from one beneficiary country to another, as well as the calls for project proposals.

If one reads the Terms of Reference for the role of Fund Operator, it can find in the eligibility conditions the following criterion: "At least one organisation in the consortium bidder must have sufficient experience in strengthening civil society capacity and sustainability". This criterion implies that the FO will have to help the grantees increase their capacity and sustainability. Providing capacity-building activities like training and workshop is an important role of the FO as we will discuss later. The second part of the sentence on strengthening the sustainability of civil society is however less clear. What should be understood is probably that capacity building activities also promote the sustainability of beneficiary organisations. The system of Fund Operators could therefore be a useful tool to promote sustainability of organisations, even if the exact way in this will be done remains unclear. It should also be reminded that FOs do not have margins of manoeuvre when it comes to maximal duration of implementation of projects or overall budget allocated to their country.

In terms of promoting polymorphism, it is difficult to draw any clear conclusions. Some eligibility criteria to become fund operator are "to have experience working with the civil society sector in the beneficiary country", "have sufficient re-granting experience", and to "be non-profit making with a non-commercial purpose". On the one hand, giving the power to an NGO among others to allocate grants to the rest of the sector is a guarantee for a thorough expertise. It can be expected that Fund Operators know where the needs are and can help obtaining a good geographical coverage and diversity in grantees, even though the agency of FOs should not be denied and they could also partly follow their own objectives while performing their duties. Overall however, there are still chances that regranting through Fund Operators fosters polymorphism.

On the other hand, there is a risk for this asymmetry to result in a mimetic isomorphism process as defined by Powell and DiMaggio, by which "organisations model themselves on other organisations" (p.151). The main factor for mimetic isomorphism according to the authors is uncertainty, e.g. goal ambiguity of organisation and symbolic uncertainty created by the environment. Organisations active in the field of protection of human rights, promotion of democracy and good governance etc. are particularly subject to goal ambiguity if compared to NGOs focusing on service provision. At least a third of the regranting amount under the Active Citizens Fund shall be allocated to democracy and human rights relevant projects, so this issue of uncertainty is very relevant in the case of the EEA and Norway Grants. Moreover, the environment these organisations evolve in is also not very favourable to a clear identity of NGOs. In this context, having a well-established and funded NGO giving training to sometimes more fragile organisations could result in a mimetic process, whereby grantees could start replicating internal structures of the FO on themselves, consciously or not. This risk obviously does not mean that this set-up should be discarded altogether. But it is a possible adverse effect that should be taken into consideration and be mitigated accordingly, for instance through insuring that consortia of Fund Operators also include a diversity of organisations and not a single type of them, to allow representation of alternative models for smaller, grassroots or less professional funded organisations.

### ***3.2 Small Grants Schemes***

Another challenge for any type of external funding is indeed to reach smaller organisations, grassroots organisations or organisations in more remote areas. The EEA and Norway Grants address this issue by allowing for the possibility of using small grants schemes. The names of these schemes vary, but the idea behind all of them remains the same: smaller grants are supposed to increase the reach of funding, because of their size but also through reduced administrative requirement and sometimes other exceptional measures like lower cofounding rates. In the context of the Active Citizens Fund, the manual for Fund Operators clearly states that "The principle of proportionality should be applied and Fund Operators should consider simplified procedures for smaller grants" (Manual for Fund Operators of the Active Citizens Fund, p.36). For this section, we will mainly use an open call for proposals of micro-grants in Slovakia as an example. The conditions of smaller

grants can differ from one Beneficiary Country from another, but this open call can be considered rather typical and thus representing this type of funding quite well.

Regarding the impact on sustainability of organisations, these schemes address one of the factors that is considered as a challenge for civil society organisations when receiving external funding, namely the disproportionate size of funding compared to management capacities of organisations (Blair et al., 2005, p.10). Donors have an interest in reaching smaller organisations, but these cannot handle larger funding and financial management that usually goes with grants. Donors will therefore have to reduce the size of grants and reduce the administrative and financial requirements that go with grants. In practice, it means that donors are accepting higher risks of mismanagement and/or shift the administrative burden from project promoters to themselves or another intermediary (in our case, the Fund Operators). The maximal grant size in the Slovak micro grant fund is EUR 8,000, with a cofinancing of 10% (i.e. EUR 800, half of which can be covered in kind through voluntary work). In that regard, small grants schemes seem to be an effective solution to one of the challenges to sustainability.

However, one issue is not solved by these schemes, which is one of the main adverse effects of project-based funding, namely the difficulty to survive as an organisation once the project is completed. For example, in the micro grants for Slovak CSOs, the maximal duration of projects is 12 months (p.6). This can be considered extremely short, especially for smaller organisations that are often more fragile. In terms of sustainability, small grants schemes therefore offer some solutions but face the same challenges as any other short-term project-based funding.

Regarding the fostering of polymorphism among CSOs, the very nature of small grants schemes is a positive factor, because smaller, grassroots and more remote organisations can potentially access grants too. The size of funding and requirements are more adapted to their capacities, as previously stated. However, there are limits to the diversity of organisations that can access funding. In the section on eligible applicants, the call for proposals for micro grant funding in Slovakia states “An eligible applicant is registered in the Slovak Republic in one of the following categories: a) Civic Association according the Act No. 83/1990 Coll. on the Association of Citizens; b) Foundation according the Act No. 34/2002 Coll. on Foundations; c) Non-profit Organisation Providing Public Beneficial Services according the Act No. 83/1990 Coll; d) Non-investment Fund according the Act No. 34/2002 Coll. on Non-investment Funds; e) Non-profit Organisation according the Act No. 116/85 Coll. on terms for activities of organisations with international aspect; f) Association of Legal Entities under the Act No. 40/1964 Coll. on Civil Code; g) Slovak Red Cross under the Act No. 460/2007 Coll. on the Slovak Red Cross. Political parties, religious organisations, social partners, profit distributing cooperatives, **informal and ad-hoc groups and individuals are not eligible applicants**” (p.5). This kind of conditions can be clearly analysed as coercive isomorphism: the Fund Operator, an organisation other CSOs are dependent on, exerts its authority by pressuring organisations in complying with certain standards.

Moreover, this kind of restriction goes against the recommendation developed in literature that informal groups should be supported, as current forms of activism for a more open civic space are often informal. This is especially important in the current context of closing civic space. Sida recommends the following: “Adapt aid modalities to current realities: With the emergence of social movements, social media, youth activists, and others as key change actors, donors should recognize the need to sustain a more diverse array of CSOs. Effective aid modalities might envision (...) funding for groups and movements that may not be formally registered, among others” (Effective donor responses, 2018, p.4). FRA, after a survey in its database of human rights organisations, found that over a quarter of organisations name eligibility criteria and financial capacity criteria as one of their main barriers to funding (FRA Conference Paper). Even the mid-term evaluation on NGO programmes of the EEA and Norway Grants recommended to “allow further re-granting by Operators to intermediaries to provide micro and small grants to grassroots initiatives, informal groups and small organizations. Change eligibility criteria to include grassroots and informal groups for this category of fund” (Mid-term evaluation, 2015, CREDA, p.11). It should also be reminded that many NGOs have to survive in a hostile environment and do not officially register out of fear of being harassed or threatened (FRA Conference Paper).

### ***3.3 Capacity Building***

Capacity building has been a priority of the EEA and Norway Grants' support to civil society for a long time. Under the previous financial mechanisms 2009-2014, capacity building was part of all programmes, but not in a harmonised way (Mid-term evaluation, 2015, CREDA, p.71). It was recommended to adopt a more coherent approach in the following mechanisms 2014-2021. This change is reflected in the new manual for Fund Operators, that states that «the Active Citizens Funds shall adhere to the following conditions, which are considered key to fulfilling the Programme objective: (...) At least 15% of the regranting amount shall contribute to capacity development and sustainability of civil society including NGOs» (Manual for Fund Operators of the Active Citizens Fund, p.10).

Apart from these large amounts of funding set aside, a lot of recommendations on capacity building activities are also provided in the Annex D to calls for Fund Operators, a guidance document on outcomes and outcome indicators in the Active Citizens Fund. This document sets the principle of a separate outcome on capacity building in all programmes, and even suggests a wording for it: "Enhanced capacity and sustainability of civil society (organisations and the sector)" (Guidance on Outcomes and Indicators, p.10). Some activities are also listed as possible ways to implement capacity building.

Increased sustainability is seen as an objective of all capacity building activities. What is striking is the level of ambition in a precise dimension of sustainability, namely diversification of sources of funding. It is recommended to count the "Number of CSOs with at least two funding sources, each comprising at least 30% of their total annual budget". Even without knowing the target for this indicator, which varies from one programme to another, it is evident that this indicator is extremely ambitious. If one considers that an important part of organisations receiving training on diversification of funding sources will also be implementing projects funded by the EEA and Norway Grants, it means that this funding should not represent more than 40% of the annual budget of funded NGOs.

This measure clearly promotes sustainability of organisations as it decreases the dependence of NGOs to one particular source of funding, that is moreover project-based and short-term. But there is a risk that this expectation might be unrealistic. In a 2005 report on key factors of financial sustainability of NGOs, USAID experts described financial sustainability of "harder core CSOs" (active in the areas of human rights, democratic governance etc.) to be a "chimera" (Blair et al., 2005, p.15). Beyond the deeper discussion on whether full sustainability is a legitimate expectation that donors can have or not, the report also raises a practical issue: "holding out the possibility of greater financial viability for pro-democracy advocacy and watchdog groups is dangerous because doing so encourages and compels these organizations to neglect their founding mission in pursuit of an unreachable goal" (Blair et al., 2005, p.15). Diverse sources of funding is definitely a factor for financial sustainability, however a balance should be struck between extreme financial dependence and very high expectations in diversification, that may overuse the capacities of NGOs.

Regarding the promotion of polymorphism, a suggested outcome indicator in the guidance document is "number of CSOs with effective management procedures". This indicator is clearly showing an isomorphism process by trying to induce a specific type of management of organisations. In the definitions of DiMaggio and Powell, this could be interpreted as a normative pressure process, with some aspects of coercive and mimetic isomorphism. Normative pressure is related to the professionalisation of organisations, which could be seen here in the willingness to induce management procedures coming from professional organisations to smaller or less formally organised structures. According to Tiina Kontinen, "in the case of NGOs normative isomorphism can be observed by the increasing "professionalisation" taking place in the number of workshops, training and capacity building programmes in which the NGOs learn to make use of the latest development discourse, the latest tools accepted and change their activities accordingly" (p.5). This type of capacity building could also fall under the coercive isomorphism category, which has already been touched upon. According to DiMaggio and Powell, coercive isomorphism can be more subtle and less explicit than legal obligations. The authors give the example of neighbour organisations in urban communities that even when committed to participatory democracy, are driven to developing hierarchical structures to gain support from more hierarchically organised donor organisations (p.151). This case-study shows that differing organisational structures can be given up on to secure support from bigger organisations which have more traditional and efficient management procedures. Moreover, capacity building activities are often performed by Fund Operators, which are big CSOs themselves; we can therefore see a mimetic aspect to these activities too. Once again, the aim of this analysis is not to dismiss capacity-building activities in general, which are usually perceived as positive by beneficiary organisations and

by external experts alike. It is rather for donors to be cautious when defining internal structures of organisations as exemplary, and to promote a variety of organisations adapted to all types of engagements.

## Conclusion

There is a consensus among donors and international organisations that there is an inherent value of having a diverse and long-standing third sector. Avoiding isomorphism and achieving complete financial viability and independence of organisations is however a nearly impossible task for donors funding CSOs, especially when these deal with core issues such as human rights and democratic governance. Donors should nevertheless not go for the easiest way and give up on trying to minimise adverse effects of their funding. To that extent, the innovative approach of the EEA and Norway Grants should be recognised as an ambitious attempt to be as beneficial to the third sector as possible, and has been noted as a positive example for donor institutions in several reports of international organisations (Challenges facing Civil Society, 2017, FRA). It should also be noted that donors of course have other objectives and constraints than the two dimensions studied in this paper.

As we have seen however, each of the particularities of the set-up of the EEA and Norway Grants have potential positive and negative effects on the sustainability and diversity of funded organisations. The Fund Operator knows the needs of the sector well and could thus help reach smaller organisations; placing a CSO in a *primus inter pares* position could however trigger mimetic isomorphism. Small grants schemes can reach more and smaller CSOs and thus foster diversity; but the requirements and duration of grants create a typical situation of coercive isomorphism and lack of sustainability. Capacity building activities aim at supporting the sustainability of funded organisations; they induce however a certain type of management which can be analysed at normative pressure.

The paper has highlighted areas where donors should be very careful not to induce isomorphism. These are mainly eligibility criteria and capacity-building activities. An important recommendation for donors would be to be extremely cautious when setting eligibility criteria and make them as broad as possible, keeping in mind of course that funding smaller and less formal CSOs is riskier. A second recommendation would be to be cautious when defining particular management structures of CSOs as exemplary, as it could lessen the diversity of organisations, which do not all aim at becoming professional and hierarchical.

Regarding sustainability, many of the adverse effects of this set-up are created by an underlying issue that has not been addressed, namely project-based funding, which is mainly short-term. The reports and recommendations on having core-funding options and longer-term support, especially for bigger and trusted organisations, are numerous (Griffin and Judge, 2010; Challenges facing Civil Society, 2017, FRA). It remains to be seen whether the EEA and Norway Grants and other important donors will eventually take these into consideration. On a scholarly level, it will be important to see if the hypotheses on adverse effects of external funding on a structural level described in this paper are realised or not. This will require an in-depth research, including a mapping of funded organisations over two funding mechanisms, 2009-2014 and 2014-2021, to see if they have managed to find other resources to maintain themselves in between funding periods and whether their organisational structures have evolved over time.

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