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# ***Government Funding and INGOs' Autonomy: A Tool Choice Approach***

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*Abstract:*

Using a public policy tool choice framework, this paper explores the relationship between government funding and nonprofit organizational autonomy by developing a funding-autonomy taxonomy predicated upon different forms of government funding and their implications for organizational autonomy. Applying the new public management's conceptualization of organizational autonomy developed in the Public Management Institute at Leuven University in Belgium, the paper also reframes the indicators of autonomy to apply to NGOs. A key proposition emanating from this paper is that each form of government funding, (i.e., contracts, grants, cooperative agreements, and unrestricted funds), presents its own operating characteristics and programmatic consequences, and therefore uniquely influences NGOs' autonomy.

## **Introduction**

The existence of the nonprofit sector has been explained by theories of government and market failure (Weisbrod 1977; Hansmann 1980; Fama and Jensen 1983). Nonprofits have thus been viewed as entities that fall outside the immediate domains of government and markets (Ware 1989). From a de Tocquevilleian perspective, this idealistic distinction and separation of sectors represents a critical advancement for democracy characterized by citizen participation through nonprofit organizations (Smith 2000). However, in lieu of a three-sector economy with distinct differences between nonprofit organizations (NGOs), the government, and the private sector, others have described a “mixed economy” characterized by blurring sectoral differences (Young 1984; Smith 2000), especially when the ideological independence of nonprofit organizations is threatened by the third sector’s fiscal dependence on government and corporations (Kramer 1985).

As is well known, nonprofit organizations are funded through a variety of mechanisms, ranging from fees, to individual and foundation donations, to government grants, contracts and cooperative agreements. Government funding of nonprofits however remains very controversial. While some authors have emphasized the dysfunctional dependency of NGOs on government funds and thus recommend scaling them back, others have advocated for greater use of NGOs as public service providers and as official implementing partners of government policies and programs (Smith 2000; Salamon 2003). The literature also alludes to the influence of government funding on nonprofit governance (O'Regan and Oster 2002), and increased nonprofit bureaucratization (Goyder 1994; Commins 1997). Anecdotes have also made reference to the impact of

government funding on nonprofit organizational autonomy. For instance, in order to increase its freedom “by relying on less exacting funding sources,” Oxfam America turned down government funding (Brown and Moore 2001). And according to its President and CEO, Direct Relief International turned down USAID funding because of the “new requirement that all aid be branded as “From the American People”” (Crea 2006). The CEO went on to state that “When we [NGOs] get together we love to say we are NGOs, with an emphasis on the ‘N,’ but all we end up doing is talking about USAID” (Crea 2006).

Despite such examples, very little research has been done to identify the indicators of “organizational autonomy” applicable to the nonprofit sector. In turn, very little has been done to empirically explore the relationship between government funding and NGOs’ autonomy. According to Smith (2000), the debate surrounding government financing of NGOs overlooks a very crucial point, that government funding leaves enduring effects on both the organizational culture, autonomy, and the nature of the services that NGOs provide (Smith 2000; Kerlin 2006).

Using a policy tool choice framework embodied in the ‘new governance’ framework (Salamon 2002), I explore the relationship between different forms of government financial transfers and their implications for NGO autonomy. The paper also develops a government funding-autonomy taxonomy predicated upon the different forms of government funding and their implications for organizational autonomy. The paper goes further to identify potential indicators of organizational autonomy applicable to the nonprofit sector by adapting the new public management conceptualization of organizational autonomy developed in the Public Management Institute at Leuven

University in Belgium. A key proposition that emerges from this paper is that different forms of government funding, (i.e., contracts, grants, cooperative agreements, and unrestricted funds) present their own operating characteristics and programmatic consequences (Salamon 2002), and therefore uniquely influence NGOs' autonomy.

### **The So-Called “Third Global Sector”**

International nongovernmental organizations (INGOs, also referred to as NGOs or Private Voluntary Organizations (PVOs) in the United States)<sup>1</sup>, have come to play a significant role in the international arena of relief and humanitarian assistance (Forman and Stoddard 2003). Although they often undertake independent charitable endeavors, they also serve as the operational arms of government, and multilateral assistance agencies such as the World Bank, and IMF (Forman and Stoddard 2002). This post-Cold War proliferation of complex humanitarian emergencies has resulted in an increased demand for INGOs and has heightened their visibility in the international public policy arena (Stoddard 2002; Forman and Stoddard 2003; Grossrieder 2003). Still, the impact of the delicate dance with government on the autonomy of INGOs is not well understood.

International nongovernmental organizations have also been referred to as being part and parcel of the “global third sector,” a sector that encompasses organizations that lie between nations and the market (Wuthnow 1991; Carapico 2000; Boli 2006). INGOs are therefore organizations or associations that operate outside of the *global economy* (dominated by transnational corporations and international organizations such as the Bretton Woods Institutions) and the *global interstate system* (centered on the United Nations) (Boli 2006). To the World Bank, INGOs are “private organizations that pursue

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<sup>1</sup> Note that the acronyms “INGO” and “NGO” are used interchangeably in this text

activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development (Operational Directive 14.70)<sup>2</sup>. I follow the World Bank’s definition of international NGOs, that is, as operational organizations which are typically headquartered in developed countries and carry out operations in more than one developing country<sup>3</sup>.”

Consistent with the de Tocquevilleian view of democratic participation, Boli (2006) points out that INGOs are widely recognized as “the chief representatives of and spokespersons for global civil society, and play an important role in the global governance.” INGOs are thus viewed as the principal instruments or mechanisms through which “world citizens” act collectively, to organize and shape, and express world opinion in the global public sphere, and to foster a global civic culture (Boli 2006). As such, the work of international NGOs influences and shapes the policy decisions of nations, international governmental organizations and transnational corporations. NGOs therefore, have come to be regarded as vehicles for ‘democratization’ and hence, a critical component of a flourishing ‘civil society.’ Normatively speaking therefore, NGOs are supposed to act as a counterbalance to state power by encouraging participative notions of democracy and promoting pluralism. NGOs are therefore viewed as distinctive institutions that exhibit distinct motivations and structural preferences from government.

It has been noted that international NGOs are funded through a variety of mechanisms – some with fewer funders and other with many, and some with restrictive contracts, while others tend to be flexible. In 2003, 71 percent of NGOs’ revenue came from private contributions, 20 percent from government grants, 6 percent from program

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<sup>2</sup> <http://docs.lib.duke.edu/igo/guides/ngo/define.htm>

<sup>3</sup> *ibid*

services and 3 percent was labeled as 'other' (National Center for Charitable Statistics as cited in Kerlin 2006). In addition, there has been an increase in bilateralization, in the sense that more and more funds are being channeled for specific countries and for specific purposes and less as unrestricted grants (Forman and Stoddard 2002; Randel and German 2002). Donors can thus "choose to dictate where and how their contributions are spent," and such power adversely affects flexibility and the equitable distribution of resources (Randel and German 2002:22).

Focusing on the influence of government funding on international nongovernmental organizations' (INGOs) autonomy, this paper, contributes to the debate surrounding "the conflict that has long existed between the ideological or normative perception of government-nonprofit relations and the empirical or factual perception" (Gronbjerg and Salamon 2002). First, I briefly trace the debate surrounding the influence of government funding on the behavior of nonprofit organizations, with a special emphasis on the autonomy of international nongovernmental organizations. Second, I provide a description of alternative characterizations of NGO-government relations from the literature. Finally, I draw a link between the policy tool choice framework and the different funding mechanisms and their implications for NGOs' autonomy.

### **Government Funding and NGOs' Autonomy: Then and Now**

Speculations over the dysfunctional consequences of government funding have been discussed in the literature since the early 1900s. For example, Fleisher (1914) saw the determination of the boundaries between state and the voluntary sector as a complex and perennial problem (as cited in Smith 2000). Beck (1970) and Manser (1974) also identified dependency, a dilution of the advocacy role of NGOs, increased

bureaucratization and professionalization and a loss of autonomy (see Kramer 1985:5) as some of the dysfunctional consequences of government financing of NGOs.

However, very little evidence supports the above assertions. For instance, a study of the Greater New York United Way conducted by Hartogs and Weber in 1978 revealed little data to support the alleged inverse link between government funding and organizational autonomy. Instead, most organizations reported that government funding actually enabled them to carry out their programs more effectively (Kramer 1985).

Another study emanating from an Urban Institute national survey of 3,411 nonprofits conducted in 1982 also revealed little evidence of mission distortion as a consequence of government funding (Kramer 1985).

Kramer (1985) attributes the above conclusions to the payment-for-service form of transactions which involved less control than grants or subsidies, a lack of incentives and capacity for stricter accountability controls and the diversity of nonprofit income sources *inter alia*. Kramer (1982; 1985; 1987) therefore argued that the threat to organizational autonomy is not credible in light of a lack of government oversight and monitoring. Instead, the author argued that the notable high degree of income pluralism was more likely to result in goal deflection [than autonomy loss], as a result of the entrepreneurialism and vendorism stemming from the problem of donor dependency. In response to Kramer's assertions however, one could argue that the government has increased its efforts to foster and demand NGO accountability since the 1980s.

Nonetheless, the speculations surrounding the link between government funding and the loss of organizational autonomy remain pervasive in the literature. Referring to domestic nonprofits, Smith (2000) argued that government funding does affect nonprofit

agencies' operations, particularly the services provided and the clients served. Smith also predicted that "the specific effects are likely to vary depending on the type of services provided, level of professionalization, the agency's origins and mission, as well as, the character of the government-nonprofit relationship."

Hulme and Edwards (1997) also speculate that the risk to an NGO's autonomy appreciates with receipt of government funding. And Kerlin (2006) suggests that NGOs' autonomy is especially at risk when the goals of international NGOs and those of government are not in alignment. Nonetheless, she goes on to point out that the real impact of government funding on nonprofit organizational autonomy is largely unexplored. Perhaps this gap in the literature can be attributed to limited attempts to explicitly investigate the different forms of government financial transfers, the means by which government articulates its institutional strategic interests and preferences, and the dearth of organizational autonomy indicators applicable to the nonprofit sector. Still, it is evident from the literature that there is a pervasive fear of government interference in NGO autonomy through funding (Smith and Lipsky 1993; Hulme and Edwards 1997; Brown and Moore 2001; Smith 2000; Kerlin 2006).

As noted above, the rise of international nongovernmental organizations (INGOs) has been attributed to their increasing popularity with government and official donors as credible implementing partners of public policies. This comes in the wake of the dismal failure of the government-to-government foreign and development assistance approach (Hulme and Edwards 1997; Forman and Stoddard 2002; Stoddard 2002; Grossrieder 2003). In a sense, the nonprofit sector projected a distinctive character, one that was recognized as being what governments were not, that is, "not bureaucratic, not rigid, not

directive, and not stultifying of local initiatives” (Smillie 1993) and not corrupt and wasteful. Along with this perception was a reputation of neutrality and impartiality and a level of responsiveness that was characterized by speed, effectiveness, efficiency (Smillie 1993), programming innovation beyond the reach of official political or bureaucratic actors, a participatory approach, and an ability to reach the poorest sectors in developing societies (Smith 1993; Robinson 1997; Forman and Stoddard 2002).

Although INGOs have come to be regarded as the operational arms or the implementing partners of government and multilateral assistance agencies (Salamon 1995; Forman and Stoddard 2002), still, mistrust of INGOs lurks in the shadows. For one, INGOs have been regarded as a veneer for spies or simply as pawns or tools for furthering the objectives of their own national donors (Forman and Stoddard 2002:246). So, while in some circles, NGOs have been depicted as the “saviors of failed economies,” they have also been reviled as puppets of Western imperialism (Carapico 2000).

Such conflicting notions have continued to raise concerns about the impact or influence of funding on NGOs given that those that fund nonprofit organizations may have divergent and possibly conflicting motives, demands and expectations (Salamon 2003; Kerlin 2006). For example, referring to Southern NGOs in Kenya, Anangwe (1995) (cited in Hulme and Edwards 1997) observed that larger NGOs are more likely to have less autonomy given that they are seen as more threatening to the state than smaller NGOs working in the remoter rural areas.

Others have also speculated that nonprofits begin to resemble those who fund them, thus suggesting a blurring of sectors (Young 1984; Brody 1996). Rather than a blurring of sectors or a hierarchical relationship between sectors, the ‘new governance’

paradigm posits an interdependent relationship between government, the private and third sectors (Salamon 2002). Despite this purported interdependency between government and the third sector, INGOs often are “in agreement with government on the basic goals of saving and improving lives abroad, [although they] are at times out of alignment with government in terms of ideology and approach to international work (Kramer 1985; Robinson 1997; Salamon 2002; Kerlin 2006). In light of the increasingly high politicization of foreign aid, given that foreign assistance is becoming a greater tool of foreign policy, INGOs are increasingly confronted with complex questions about their ability to remain autonomous when accepting government funding (Atmar 2001; Duffield, Macrae et al. 2001; Fox 2001; Stoddard 2002; Kerlin 2006).

Related to the politicization of foreign aid, the influence of government funding has also been inversely linked to NGOs' ability to advocate and respond effectively. For instance, “NGOs are facing increasingly difficult questions about their autonomy (Smith 1993), legitimacy, and ability to advocate when accepting government funding” (Kerlin 2006:373). “In several European countries, Canada [and the U.S.], special funds have been earmarked to support NGO activities in regions that are foreign policy priorities of the home governments (such as former colonies) or specific issues of domestic public concerns (such as AIDS, women in development)” (Smith 1993:331). Smith (1993) goes further to state that although none of the restrictions on the funds necessarily run contrary to the goals or interests of NGOs, they do reduce the autonomy of NGOs to set their own agenda, increase the temptation for some NGOs to undertake activities that lie outside of their areas of expertise or scope in order to attract grants and subsidies, and skew their activities towards immediate relief as compared to programs that produce enduring

results. Smith (1993) therefore suggests that scholars investigate the mechanisms by which NGOs are responding to the stringent and restrictive government funding conditions in order to preserve their independence.

It is worth pointing out that nonprofit organizations are not unique in being influenced by their funding relationship with governments and donors. In government, public agencies, though distanced from central government, have also faced questions concerning the devolution of power and authority vis-à-vis the actual discretionary powers that public agency managers have when making strategic and policy decisions on the ground (see Behn 1995; Christensen 1999; Carpenter 2001; Verhoest, Peters et al. 2004). Examples from the public administration and management literature also suggest a positive link between organizational autonomy and performance and responsiveness (Behn 1995; Braadbaart, Van-Eybergen et al. 2007). For instance, Behn's (1995) "big questions" of public management are hinged upon the idea of reducing micromanagement and increasing management discretion in making decisions about performance and staff motivation.

Other researchers have also observed that although the steady increase in government funding for NGOs to undertake development and relief work in developing countries has been taking place since the 1960s, the changes in both the amounts and purposes of such funding raise serious challenges to international NGO autonomy (Smith 1993; Gronbjerg and Salamon 2002). Gronbjerg and Salamon (2002) add that the changes in government funding were also accompanied by changes in the nature of government-nonprofit relations. In particular, the substantial growth in government spending and support of nonprofits inadvertently "created the need for greater formality

and structure,” and subsequently a loss of flexibility not only for nonprofit organizations but also for government.

Though chiefly ignored, there are several other largely positive sides to this complex story. For example, closer relations with government have been associated with increased professionalization on the part of NGOs (Kramer 1985; Korten 1990 cited in Robinson 1997). While recognizing the dangers of “too close” a relationship with donor governments, Commins (1997) notes that, closer relationships have led to positive results at least for World Vision International (WVI), where the organization has been able to achieve some balance between work done in the field and policy work on aid issues. In particular, WVI has been able to exert influence on public policy by persuading governments to revise their funding priorities; (i.e., ‘reverse agenda’) (Commins 1997). Commins (1997) also points out that although the umbrella association InterAction was concerned that government funding of its members would result in reduction in public policy work, a review of the period from the mid-1980s to the mid-1990s revealed that this has not been the case. Commins therefore does not seem to regard the loss of organizational autonomy as the main concern. Instead, he is more concerned about NGOs’ ability to be accountable to multiple actors or funders.

The literature does reveal differences between NGOs and donor preferences, particularly on where aid is provided and the kinds of programs offered (e.g., Smith 2000). While it is commendable that WVI criticized the U.S. government for cutting assistance for human development programs such as those related to child morbidity, mortality and education in the early 1990s (Commins 1997), Mawer (1997) points out that donor influence on NGOs is far greater than NGO influence on donors (reverse

agenda). As such, it would seem that donors, intentionally or inadvertently, have relatively more power to reshape NGO activities than the other way round. Many authors seem to agree, based on examples of NGOs around the globe (see (Dichter 1997; Hodson 1997; Pearce 1997; Perera 1997), that “the tail (NGOs) is not wagging the dog (donors)” (Hulme and Edwards 1997). It would seem that there is increased pressure on NGOs to become public service contractors (PSCs), that is, “market-,” as opposed to, “value-oriented<sup>4</sup>” nonprofit businesses serving public purposes by selling their services as implementers of donors’ and government agencies’ projects and programs (Korten 1990 cited in Robinson 1997). Moreover, as suggested by Salamon (2002), different policy tools or instruments, that is, different forms of financial transfers, result in varying operational characteristics and programmatic consequences, and hence differentially influence NGO autonomy.

### **Alternative Characterizations of Government-NGO Relations**

Young (2000; 2006) and Najam (2000) provide alternative characterizations of the government-nonprofit relationship that describe and explain how different kinds of relationships develop between NGOs and the government. According to Young (2000; 2006), the relationships between government and nonprofits are animated by different economic theoretical strands. The “supplementary model” postulates nonprofits as fulfilling the demand gap for public goods and services left unsatisfied by the public sector. This is consistent with the government and market failure theories. As such, as the private financing of public goods increases, government expenditure is expected to drop. This inverse relationship implies that as the public sector takes more responsibility for the

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<sup>4</sup> Value-oriented NGOs are nonprofits that define their programs on the basis of their social missions, and then seek the funding required to implement them (Brown and Korten 1991, as cited in Robinson 1997).

provision of public goods, there is a less need for voluntary collective provision. Young's "complementary" view depicts nonprofits as partners to government, carrying out the delivery of public goods while the government serves as the financing partner. This is done through contracts and grants. This view is also consistent with Salamon's (1995) view of nonprofit agencies as implementing partners of government. In this direct relationship between nonprofits and government, an increase in government funding, results in increased levels of nonprofit activities. Finally, while the "adversarial model" does not posit any particular relationship between levels of nonprofit and government activity, it describes a reciprocal relationship where the former pushes the latter to make public policy changes and maintains accountability to the public. In turn, the government influences the behavior of nonprofits through regulation and oversight of its services and responds to its advocacy initiatives as well. Young however does not question whether different funding mechanisms would affect these relationships in the same way.

Najam (2000) bases his Four-C's model of NGO-government relations on a theory of strategic institutional interests by examining the outcomes of the relationship when the goals (ends) and the strategies (means) of government and NGOs converge or diverge (see Table 1 below). Building on Najam (2000) the present paper explicitly views the different government funding mechanisms as means through which the government articulates its strategic interests and priorities. Najam (2000) also posits a fifth possibility characterized by non-engagement. This is evidenced by the decisions by INGOs such as Oxfam America and Direct Relief International to pass on government funding.

**Table 1: Four-C's Model of NGO-government Relations**

		Goals (ends)	
		<i>Similar</i>	<i>Dissimilar</i>
Preferred Strategies (means)	<i>Similar</i>	COOPERATIVE	CO-OPTATION
	<i>Dissimilar</i>	COMPLEMENTARY	CONFRONTATION

Source: Najam (2000)

It is evident that NGOs face fiscal challenges associated with changes in their funding terrain and issues relating to receiving funds from multiple sources, which may have divergent and possibly conflicting motives, demands and expectations (Salamon 2003). While the legitimacy of INGOs can be positively associated with receiving government funding, the credibility of an INGO may come under threat as aid recipients begin to suspect that the organization is no longer connected at the grassroots levels (Kerlin 2006). In Salamon's (2003) words "a serious fault line seems to have opened in the foundation of public trust on which the entire nonprofit edifice rests." The questions regarding the legitimacy of NGOs are therefore centered on their representativeness, transparency, and accountability (Boli 2006: 344). However the link between legitimacy and organizational autonomy is also one that remains relatively unexplored.

**Government Funding Mechanisms: A Policy Tool Choice Approach**

While different NGOs can be viewed as the 'policy tools' of government (Salamon 1995; Forman and Stoddard 2002), perhaps this view also offers an interesting framework for understanding the complexity of NGO-government relationship. Hulme and Edwards (1997) view the relationship between NGOs and donors in terms of bargaining and negotiation, with coercion as a possible strategy. Consistent with this

view is the “new governance” approach which argues for a shift from the traditional public administration paradigm of command and control to negotiation and persuasion (Salamon 2002). Schneider and Ingram (1990) also suggest that policy tools are selected on the basis of the kinds of behaviors they intend to coerce (Schneider and Ingram 1990). This “new governance” approach therefore shifts the unit of analysis from specific programs to “tools” or “instruments” used to achieve public purposes (Salamon 2002).

The “tool choice” view is predicated on the assumption that public policies are designed to generate specific kinds of behaviors from people (or organizations) who otherwise would not have exhibited specific kinds of behaviors on their own accord (Schneider and Ingram 1990; Salamon 2002). Hence, the forms or tools of financial transfers used by government (i.e., grants, contracts and cooperative agreements) also define the set of actors engaged in the crucial implementation phase of programs, the roles they play, and the nature of the activities a program involves, such as the degree of coercion employed (Brown and Moore 2001; Salamon 2002). Tool choice therefore not only influences the outcome of the process, it is also profoundly political in that different tools provide some actors an advantage in determining how policies or programs are executed, how discretion is to be utilized, and ultimately whose interests will have an upper hand (Schneider and Ingram 1990; Peters 2002; Salamon 2002; Schneider and Ingram 2005). And as Salamon (2002:606) noted, “each of the tools has its own distinctive features, skills requirements, operating procedures, and asset of institutional relationships.”

The tool choice approach also suggests that two layers of tools are at the disposal of government. First, NGOs can be viewed as public policy tools under the assumptions

posited by Salamon (2002) and Schneider and Ingram (1990). This is also consistent with the “reinvention of government” (Osborne and Gaebler 1992) and “hollow state” paradigms (Milward and Provan 2000), where it can be argued that the popularity of the nonprofit form as a policy implementing tool emerged in response to government and market failures (Weisbrod 1977; Hansman 1980; Fama and Jensen 1983). According to the policy tool premise however, not only is the nonprofit form a policy tool in and of itself, the different ways in which NGOs are funded represent another set of policy tools available to the government. Conceptualizing the government-NGO relationship in this manner may afford us an understanding of the motivations behind the choices among policy instruments (Schneider and Ingram 1990; Salamon 2002). As has been observed, “when a reasonable level of funding is combined with an institution design that creates incentives for agents to perform as promised and the system is stable, reasonable outcomes are likely to result” (Milward and Provan 2000).

Gronbjerg (1993) outlines four major types of funding sources for nonprofit organizations, fees, special events revenues, donations and public funding (Gronbjerg 1993). While public funding in the 1960s and 1970s spurred the growth of the nonprofit sector (Smith 1993; Gronbjerg and Salamon 2002), the nature of funding has revealed a notable decline in discretionary grants and contract spending. However Gronbjerg and Salamon (2002) also point out that regardless of these changes, the share of government spending and support to nonprofits has grown considerably, though taking a different form. Kerlin (2006) on the other hand, underscores three forms of government financing, contracts, grants and cooperative agreements. Of interest here, USAID tended to provide funding to INGOs more through grants rather than contracts; for instance, in 1997 fiscal

year, 61.1 percent were grants (compared to 17.6 percent in contracts), 86 percent in FY2002 (compared to 14 percent), and 68.3 percent in FY2004 (compared to 8 percent)<sup>5</sup>. This does not include other forms of government funding such as unrestricted funds and non-monetary supports.

Kelman (2002) and DeHoog and Salamon (2002) identify two types of contracts, a procurement contract and one that entails the purchase-of-services for the recipients rather than for the government's own use. The former contract is analogous to a private sector business arrangement and is used to purchase or lease property or services for the direct benefit of the federal government, in exchange for money (Kelman 2002; Kerlin 2006). Unlike "contracting for the procurement of products and services used directly by government," the latter is a purchase-of-service contract, for the delivery of government-funded services by the NGO to external recipients (DeHoog and Salamon 2002; Kelman 2002). In the former, the NGO essentially makes a promise to provide certain services, in exchange for money, and the latter is an agreement by which the NGO is enlisted by government to deliver services to particular clients (DeHoog and Salamon 2002). Given their high level of output specificity, contracts tend to be rather coercive, allow less discretion in full and open competition, and in some sense "involve a voluntary incursion of obligations in exchange for compensation" (Brown and Moore 2001; Bean and Conlan 2002; Kelman 2002; Kerlin 2006).

Grants, on the other hand, are payments to NGOs by government as a gift to either foster or support some activity (Bean and Conlan 2002). They are used to "transfer resources where there is considerable freedom for the recipient to pursue an agreed-upon program and substantial involvement (participation or intervention) of the sponsoring

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<sup>5</sup> Source: The USAID VolAg Reports for 1997, 2004 and 2006

government agency is not expected” (Kerlin 2006). Unlike contracts, grants tend to be relatively noncoercive, leaving considerable leeway over the operation of programs (Brown and Moore 2001; Bean and Conlan 2002; Kelman 2002; Kerlin 2006). According to Knapp (1997, cited in Young 2000), “the increased specificity through the replacement of grants with contracts, will threaten to undermine the autonomy” of those NGOs receiving a substantial amount of government funding through grants. The third funding alternative to grants and contracts are “cooperative agreements, [which] are a means of transferring resources to recipient providers, though recipients can expect involvement of the sponsoring government agency during project implementation” (Kerlin 2006).

Embedded in the above view is that, while government funding may be used to attract NGOs to provide particular kinds of services or to implement particular kinds of policies for the government, the variations in the mechanisms through which funding is provided (that is, contracts, grants, cooperative agreements as well as other funding mechanisms) in and of themselves also serve as tools to coerce and determine specific kinds of behaviors and relationships from NGOs. In this light therefore, a double-layered relationship exists in that, while the ‘willingness’ of government to support NGOs may symbolically foster a co-productive or participatory behavior or relationship (Edelman 1985; Schneider and Ingram 2005) on the part of NGOs, the very character of each funding mechanism ensures that the strategic institutional interests and preferences of the government are met, thus differentially influencing NGO autonomy. The fact that “our knowledge of the operating characteristics and programmatic consequences of these different instruments...have lagged behind badly” (Salamon 2002:610), justifies the policy tool choice approach.

## **Dimensions of Nonprofit Organizational Autonomy**

Just as a case has been made for granting public agencies autonomy in order to improve their responsiveness (Braadbaart, Van-Eybergen et al. 2007), a similar argument can be made with regards to INGOs. And given the uncertain and unstable environments which INGOs operate, as well as the shifting nature of problems that they respond to (Fox 2001; Grossrieder 2003; Gurr and Harff 2003), some degree of independence and flexibility is essential to promote speedy response and efficiency. Using the multidimensional conceptualization of “organizational autonomy” postulated by Verhoest, Peters et al. (2004), I attempt to reframe the concepts into indicators that may be applicable to NGOs (see Appendix 1).

‘Organizational autonomy’ can be defined as the ability of an organization to formulate and pursue policy or program goals and strategies that are reflective of social needs and organizational vision. Verhoest, Peters et al. (2004) however, provide a more comprehensive definition which separates the concept into two layers. First, organizational autonomy is defined as the extent of an organization’s decision making competencies. This encompasses *managerial autonomy* (the extent to which an agency has some decision making competencies delegated from government about the choice and use of inputs) and *operational or policy autonomy* (the extent to which an organization can take unilateral decisions or be consulted about processes, procedures, policy instruments, target groups and societal objectives and outcomes).

Secondly, autonomy is defined in terms of the *constraints* that may impede the implementation of an organization’s plans or decision making competencies (Verhoest, Peters et al. 2004; Braadbaart, Van-Eybergen et al. 2007). This formulation comprises

four dimensions – *financial* (the extent of dependence on government funding), *structural* (how much the organization is shielded from government influence through lines of hierarchy and accountability), *legal* (the extent to which agencies are legally protected from government interference) and *interventional autonomy* (the extent to which an agency is free from *ex post* accountability requirements, and threats of sanctions) (Verhoest, Peters et al. 2004). Constraints also includes *ex ante* controls such as the formulation of rules, conditions or standards that provide direction for NGOs as to the desired policy goals, thus influencing how the provided financial inputs should be utilized; and *ex post* controls, which are demands placed to verify whether the intended goals were achieved.

In light of these definitions, government-NGO relationships can be regarded as being concerned about “the particular objectives that an actor seeks to achieve through interacting with others” (likely to include officially stated goals as well as hidden ones). Constraints on the other hand relate “to the levers that an actor may use to control or influence other actors...” (Hulme and Edwards 1997), and these include persuasion by the use of argument (Majone 1989; Salamon 2002), and offering financial incentives or direct coercion (Schneider and Ingram 1990; Hulme and Edwards 1997).

The description of contracts, grants and cooperative agreements provided above suggests that government funding involves constraints that limit the INGOs spending discretion and other operational decisions in varying degrees. For instance, given that government contracts are more exacting and that they are utilized to provide funding to nonprofits through the purchase of specific kinds of services, contracts are less likely to grant high levels of operational or policy autonomy (see Table 2 below) (Knapp 1997

cited in Young 2000; Dehoog and Salamon 2002; Kerlin 2006). As such, relative to grants, contracts allow less autonomy (Brown and Moore 2001; Bean and Conlan 2002). The constraints or controls embedded in grants and cooperative agreement on the other hand allow higher levels of autonomy since they leave room for INGOs to make operational decisions (Bean and Conlan 2002; Kerlin 2006).

**Table 2: Taxonomy of Government Funding and Organizational Autonomy**

		Degree of Organizational Autonomy		
		<i>High</i>	<i>Low</i>	<i>Medium- to-High</i>
<b>Constraints or Controls on Decision Making</b>	<i>High</i>		CONTRACTS	
	<i>Medium</i>			COOPERATIVE AGREEMENTS
	<i>Low</i>			GRANTS

Table 2 above therefore posits a relationship between government funding and organizational autonomy predicated on the constraints embedded in the different forms of government funding. The table suggests that different funding mechanisms proffer varying levels of autonomy as a function of the controls embedded in contracts, grants, and cooperative agreements. As noted by Robinson (1997), contracting not only has the disadvantages of causing internal conflicts between the field staff and headquarters staff, the “involvement in project implementation and service delivery through contracting can [also] deviate NGOs from their primary objectives and compromise their autonomy.” The taxonomy in Table 2 is also consistent with the inverse relationship between autonomy and controls imposed on decision making suggested by Verhoest, Peters et al. (2004). This, however, has not always been strictly the case; specifically, in the 1950s, federal

and state contracts and grants lacked stringent guidelines and regulations (Smith 2000; Bean and Conlan 2002). Bear in mind that this taxonomy may be limited to United States government-NGO relations since government-nonprofit relations vary widely across different countries. For example, funding from the Scandinavian governments is less restrictive than funding from the U.S. government, in terms of how and where funds can be utilized (Overseas Development Institute 1995).

It is also important to recognize that the government typically provides funding on a project-by-project basis and hence NGOs may have a reasonable expectation of secure funding from year to year, even in the face of the application-and-approval ritual (Smillie 1993). From an organizational autonomy perspective, tedious application-and-approval rituals may exist as *ex ante* controls used to manipulate the processes, policy instruments, outputs or outcomes and performance of an organization (Verhoest, Peters et al. 2004). Cognizant of this project-by-project funding mechanism, Forman and Stoddard (2002) also point out that NGOs require large sums of money to fund large-scale relief projects. A six-month project, therefore, may require up to a \$1 million; given that such large sums of money are at stake, the autonomy of recipient NGOs may be jeopardized (Forman and Stoddard 2002).

## **Conclusions**

This paper suggests that a thorough, in-depth study of each funding mechanism is needed in order to fully understand their embedded behavioral assumptions and implications for nonprofit autonomy (Schneider and Ingram 1990; Salamon 2002). A better understanding of the behavioral assumptions of policy tools such as contracts, grants, cooperative agreements, and other government funding mechanisms, as well as

viewing NGOs as policy tools of government, may help us fully appreciate the actual influence of government funding on NGO autonomy. Moreover, different structures of accountability may also be embedded in tool choices and these may purposely or inadvertently translate into controls or constraints on the decision making competencies of NGOs. As Gronbjerg (1993) noted, explicit accountability requirements on external agents may limit management discretion over the internal disposition of resources.

The next step in this research is to formally develop and test the dimensions of autonomy that are applicable to NGOs. While I adopt Verhoest, Peters et al.'s (2004) multidimensional concept of organizational autonomy, its applicability to the nonprofit sector must be investigated empirically and its actual association with government funding tested. Another research issue is to systematically test the link between organizational autonomy and performance especially in light of the increasing popularity of utilizing nonprofit organizations as the primary implementing partner of public policies.

NGOs have complained that funder/donor power can pose limitations on their programming independence and lead to donor micro-management (Forman and Stoddard 2002). It seems, therefore, that NGO effectiveness requires greater coordination between NGOs and donors. Such coordination will reduce mismatches between relief and development projects and their funding (Forman and Stoddard 2002:268). However, the challenge remains for NGOs to “safeguard their independence, their principles as each organization defines them, and their comparative advantage, while at the same time forging closer partnerships with the public and private sectors...” (Forman and Stoddard 2002).

## Appendix 1

### Proposed Indicators to Measure Different Dimensions of Nonprofit Organizational Autonomy

Dimensions	Potential Indicators	Dimensions of Control by Government
	<i>Autonomy as having own DM competencies:</i>	<i>Control as the Ex Ante &amp; Ex Post limitations of DM competencies by rules &amp; A priori approval procedures:</i>
<b>Managerial autonomy</b>	<ul style="list-style-type: none"> <li>▪ <u>Strategic managerial autonomy</u> concerning financial management</li> <li>▪ <u>Operational managerial autonomy</u> concerning financial management: can the organization fully or partly decide how that money is used within a funded program?</li> <li>▪ In the last 5 years, have you ever turned down funding from any source? If yes, what were your reasons?</li> <li>▪ In the last 5 years, turned down government funding? If yes, what were your reasons?</li> </ul>	<ul style="list-style-type: none"> <li>▪ <i>Ex ante controls</i> on inputs by rules (Heyman's (1998) Input control can range from <i>extensive control</i> (centralization of financial transactions), <i>moderate control</i> (centrally prescribed procedures for financial transactions) to <i>low control</i> (regulating the general principles to which the financial procedures &amp; transactions by the agency must comply)</li> <li>▪ Ex ante approval of decisions or changes to government funded programs (concerning management of financial resources)</li> <li>▪ Ex post accountability controls</li> </ul>
<b>Policy (Operational) Autonomy</b>	<ul style="list-style-type: none"> <li>▪ To what extent the organization can take decisions about the choice of target group for its policy in relation with the funding agency</li> <li>▪ Is there an oversight mechanism for the selection of target groups?</li> <li>▪ To what extent can organizations make decisions about where to operate? (As it relates to the government funded program or other policy initiatives within the organization?)</li> <li>▪ To what extent can organizations make decisions about what strategies (means) to use within government funded programs?</li> <li>▪ To what extent does the funding government prescribe and limit NGOs activities?</li> <li>▪ To what extent do your organizational strategies align with the government funding your organization?</li> <li>▪ To what extent do your goals align with those of the government funding you?</li> <li>▪ To what extent do you agree or disagree with the following statement, "Foreign assistance is based more on U.S. strategic interests than need in a given country?" (strongly agree, agree, mildly agree, or strongly disagree)</li> <li>▪ To what extent is the organization involved in the program or project design? (Robinson 1997)</li> <li>▪ To what extent have delays in procurement and funding hinder project implementation (i.e., Operational risk)? (Robinson 1997)</li> </ul>	<ul style="list-style-type: none"> <li>▪ <i>Ex ante control on processes or performance control</i> (referred to as <i>quality of control</i> – the extent to which the organization is controlled by results (Mardjana 1993)) by specifying ex ante rules, standards &amp; norms concerning (in order of high control to low control) <ul style="list-style-type: none"> <li>▪ processes</li> <li>▪ policy instruments &amp; quantity &amp; quality of outputs or outcomes</li> <li>▪ objectives and effects</li> </ul> </li> <li>▪ Ex post accountability controls</li> <li>▪ Inflexibility of project modifications (Kerlin 2006)</li> <li>▪ Short-term expectations of outcomes (Kerlin 2006)</li> <li>▪ Burdens of applications (Kerlin 2006)</li> <li>▪ "Lack of flexibility on contracting procedures can be a cause of project delays and implementation obstacles..." (Robinson 1997; Dehoog and Salaman 2002; Kelman 2002)</li> </ul>

*Government Funding and INGOs' Autonomy: A Tool Choice Approach*

<b>Dimensions</b>	<b>Potential Indicators</b>	<b>Dimensions of Control by Government</b>
<i>Autonomy as being shielded off governmental constraints on Actual DM:</i>		<i>Control as the Constraints on the Actual use of the DM competencies delegated to the agency:</i>
<b>Structural Autonomy</b>	<ul style="list-style-type: none"> <li>▪ What is the composition of the board &amp; what is the share of representatives of government on the total number of representatives?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Control by influencing the agencies' decision through hierarchical &amp; accountability lines</li> </ul>
<b>Financial autonomy</b>	<ul style="list-style-type: none"> <li>▪ How much of the organization's revenue comes from: -</li> <li>▪ Government grants? Contracts? Corporate Agreement? Other government sources (Specify _____)</li> <li>▪ Selling products &amp; services?</li> <li>▪ Gifts, sponsoring, donations</li> <li>▪ Other sources (Specify: _____)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Control by requiring budget approvals or changes</li> <li>▪ Contract compliance and regulatory requirements (Robinson 1997; Kelman 2002)</li> </ul>
<b>Legal Autonomy</b>	<ul style="list-style-type: none"> <li>▪ Are any of your activities governed by the laws of the government?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Control [Regulations] by limiting how nonprofit funds can or cannot be used (e.g., limits on how much money can be used for direct political advocacy (Gronbjerg &amp; Salamon 2002; Peters 2002))</li> </ul>
<b>Interventional Autonomy</b>	<ul style="list-style-type: none"> <li>▪ Does the NGO have any influence in the setting of goals and norms of the organization or not?</li> <li>▪ Is the performance of the organization measured?</li> <li>▪ What kinds of indicators do the organization measures?</li> <li>▪ Who determines which indicators to measure? The government contract, grant or corporate agreement? Or the NGO in consultation with the government? Or the government in consultation with the NGO?</li> <li>▪ Is the performance of the organization evaluated by government</li> <li>▪ Is the organization subject to sanctions for failure to comply with contract, grant or corporate agreement terms?</li> <li>▪ Is the organization subject to sanctions (and rewards) for poor or good performance?</li> <li>▪ Is the organization subject to audit (ex post)? If so who audits?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Control by influencing the agencies' decisions by means of reporting requirements, evaluation and auditing provisions against externally set goals and norms and by (threat of) sanctions or direct interventions.</li> </ul>

Adapted from Verhoest, Peters et al. (2004)

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