

New  
**Philanthropy**  
Capital

# Giving in India

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A guide for funders and charities



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# Introduction

## Background

This report looks at the nature and role of philanthropy in India, and explores ways to increase its impact. It grew out of the premise that private giving in India has considerable potential to tackle the country's entrenched problems, and money is not being allocated as effectively as possible.

With its roots in religious giving, philanthropy in India has long tended to mean donors funding temples and schools in their villages of origin. This kind of activity is laudable but it can only be a modest step towards tackling India's challenges. It is the contention of this report that donors need to think more strategically about the best use of their philanthropy.

This report argues that giving in India needs to improve and can be made more effective. The Indian voluntary sector is large, including over 1.2 million non-governmental organisations (NGOs). Within this, certain issues should be prioritised and charities chosen on the basis of their outcomes. This will ensure that private funding has a greater impact on people's lives in India.

Underpinning this work is research from a year-long joint venture between **New Philanthropy Capital (NPC)**, a London-based NGO specialising in improving the effectiveness of the voluntary sector, and **Copal Partners**, a leading provider of financial analytics, business intelligence and research services.

NPC was set up in 2002 to improve the effectiveness of the voluntary sector in the UK. It was founded by philanthropists from the financial services industry who felt that too little information was available on charity impact and on effective funding. They decided to found an independent charity to provide an objective and analytical perspective on the role and priorities for private giving.

NPC has developed a tailored methodology for analysing social issues, identifying priorities for philanthropy and judging the effectiveness of individual NGOs. In the past seven years it has applied this approach to over 20 social issues in the UK, including homelessness, autism and ex-offenders. It also carries out cutting-edge analysis of general voluntary sector issues, such as governance, effective grant-giving and results measurement tools. NPC makes

all of its reports freely available on its website ([www.philanthropycapital.org](http://www.philanthropycapital.org)) and uses this research to provide strategic consultancy and advice to funders and charities.

In March 2008, NPC produced the report *Philanthropists without borders*, which highlighted the challenges facing philanthropists working internationally, and explored NPC's potential international strategy.<sup>1</sup> Based on extensive interviews and focus groups with international donors, it showed significant demand for independent advice on how to give effectively. This was mirrored by growing *ad hoc* demand from funders, other intermediaries and NGOs, asking NPC to apply its methodology to the international voluntary sector.

Copal Partners (Copal) is a financial research and consultancy firm that has its main office in Delhi. It started its own charity analysis team in 2006, in response to demand from its clients for advice on their philanthropy. These clients included banks, other corporations and high net worth individuals. This development also reflected Copal's senior management's own philanthropic interest in improving the effectiveness of the Indian voluntary sector. The team has produced an overview of the Indian charity sector, as well as analysis of several of the larger NGOs in India, such as HelpAge India and the Children in Need Institute. All of these reports are available on Copal's website, [www.copalpartners.com](http://www.copalpartners.com).

In March 2008, NPC and Copal decided to pool their efforts and set up a joint venture to explore the effectiveness of philanthropy in India. The aim was to draw on the skills of both partners, and contribute to a growing debate on the effectiveness of the Indian voluntary sector.

## Purpose

The purpose of this report is to explore the current status of philanthropy in India and to test ways of using and synthesising available information to improve its effectiveness. This builds on NPC and Copal's previous experience of voluntary sector analysis, and looks to transfer NPC's methodology and approach to the Indian context. This 'core' methodology is set out in *Funding success*, which is available at [www.philanthropycapital.org](http://www.philanthropycapital.org).<sup>2</sup> An update to this report will be launched in the second half of 2009.

This report explores four main hypotheses:

- Funding for NGOs in India is not working properly—there is a ‘funding market’ linking funders and charities, but it is in important senses ‘broken’.
- Analysing social issues and individual NGOs can help fix this broken market.
- Using NPC and Copal’s analytical framework, donors can prioritise issues and NGOs for funding based on analysis of potential impact.
- It is possible to do in-depth analysis of NGOs in India.

The information and framework set out in this report are presented as useful tools for foundations and donors who are new to giving in India. Using these tools can help structure and inform their giving. NGOs can also draw upon the information in the report to think about their role in the sector, and how to improve their activities and impact measurement.

Beyond this, NPC and Copal aim to stimulate further action and debate. We hope that by demonstrating the potential benefits of using an analytical framework on voluntary sector effectiveness, more organisations and individuals will grapple with these issues. This could either involve applying our approach to a broader set of topics, or proposing a modified or different analytical approach. We believe that India needs a broad-based effort to analyse social problems and the role and success of the voluntary sector’s response.

## Process

Between March 2008 and May 2009, the NPC and Copal joint venture based a team of analysts in Delhi. The analysts looked at the voluntary sector as a whole, as well as researching two issues in depth: early childhood development, and water and sanitation. These topics were chosen based on an analysis of different factors, including level of need, donor interest, and the potential impact of the research.

In order to explore different approaches, the research process used varied slightly for each issue. It roughly shadowed the approach pioneered by NPC in the UK, which follows five main stages:

1. Literature review and interviews with experts, such as government, academics and NGOs;
2. Development of a database of over 100 NGOs working in the sector, including core information and data;

3. Telephone calls with a shortlist of NGOs, selected on the basis of their potential;
4. Field visits to a sample of NGOs (20–30), including in-depth interviews with management; and
5. In-depth analysis of four to six high-performing NGOs.

The whole year’s research has fed into this report and its understanding of the voluntary and philanthropy sector in India. However, the findings specific to the research on early childhood development are being published as a separate report, *Starting strong*. The analysis of the water and sanitation sector is included in this report. It is presented as an example of how to use an analytical framework to understand a particular social issue, prioritise issues for donors, and provide a context for the analysis of individual NGOs.

## Main findings

This report is divided into three parts, each of which explores and develops different aspects of the four main hypotheses.

### 1. The problem and solution

The first section explores the importance of philanthropy in India, in terms of both its scale and its distinctive role in addressing social issues in India. It examines the evidence to see whether philanthropy is working effectively. NPC and Copal’s judgement is that it is not. Funding does not appear to be prioritised optimally and good information on the impact of individual NGOs is rarely available. This is not unique to India, but is consistent with NPC’s experience in the UK and with reports from other national voluntary sectors.

Dealing with this problem is not straightforward, and there is no ‘magic bullet’. NPC and Copal propose that a comprehensive solution will need to focus on at least three areas: encouraging donors to demand information; supporting charities to capture their impact; and improving the flow of information. Seen in this light, it is possible to start creating an argument in favour of the report’s second hypothesis—that analysing social issues and individual NGOs in India can help improve the effectiveness of philanthropy.

NPC and Copal suggest that deeper analysis will improve the flow of information and encourage donors and NGOs to concentrate more on evidence-based decision-making. Specifically, it will provide a more rational set of criteria for donors to choose which issues to fund, which organisations to support and how to improve the quality of funding.

We hope that by demonstrating the potential benefits of using an analytical framework on voluntary sector effectiveness, more organisations and individuals will grapple with these issues.

Pooling efforts and publicising success and failure means that costs can be shared and the chances of success increased.

## 2. Developing a framework

In the second section we look in greater detail at what an analytical framework could look like, setting out a structured methodology based on the approach that NPC has developed in its work on the UK voluntary sector. This focuses analysis on four main factors:

- level of need;
- evidence of what works;
- activity by other actors; and
- the nature of the voluntary sector.

We explore these criteria within the context of the Indian situation. We go into particular detail when looking at the fourth area—the nature of the Indian voluntary sector—as there are a number of features and challenges that are relevant to all donors interested in giving to NGOs in India.

Donors interested primarily in sharing NPC and Copal's insights into the voluntary sector could turn straight to this section (page 6).

The overall framework is not proposed as a definitive single approach to analysis, but rather as one possible model. Any funder has to make choices between different causes and different organisations, but this sometimes happens on the basis of implicit choices and judgements. NPC and Copal's approach is distinctive in that it makes the basis of our decisions explicit and public. Accordingly, feedback is welcomed from readers on this report.

NPC and Copal hope that developing this evidence base will encourage donors to become more effective. So, in addition to using personal interests to determine their funding, donors will have access to objective criteria and advice on how to prioritise where they give, and how to choose individual charities to support.

A further benefit in making our approach and learning transparent is that it stimulates and accelerates further debate about the role and format of analysis in the voluntary sector. The hope is that it will provoke other organisations to propose different models or suggest further refinements, in turn accelerating the development of knowledge in this area.

Finally, we hope that it will help funders become more transparent and share their knowledge more. Pooling efforts and publicising success and failure means that costs can be shared and the chances of success increased. This has not happened enough in the past. A commitment to public knowledge is a central part of NPC and Copal's approach.

## 3. Water and sanitation

The third and last section is designed to test the final two hypotheses of this report: whether it is actually possible in India to prioritise areas for philanthropy and identify effective charities based on available evidence. While we have made a case for the theoretical need for analysis in Section 1 and also sketched out what a possible analytical framework would look like in Section 2, it is only by demonstrating how this framework works in practice that its value can really be brought to life.

NPC and Copal have chosen the water and sanitation sector as a test case, applying to it each of the four stages of the analytical framework (the need; what works; activity by other actors; and the nature of the voluntary sector). With this, we hope to show how we can use available information to identify critical lessons and guidance that are evidence-based and focused on maximising the impact of private giving.

We have highlighted four priority areas for philanthropy in relation to water and sanitation:

- mobilising communities around hygiene promotion;
- piloting technical and financial models for improving water quality and sanitation;
- strengthening the voluntary sector; and
- influencing government.

People may disagree with the exact priorities of the research, and new evidence may change these findings, but NPC and Copal nevertheless believe that this section demonstrates the underlying point—namely that it is possible to use the existing evidence base to channel funding to areas where it is likely to have the greatest impact.

This section can also be read alongside NPC and Copal's sister report, *Starting strong*, which applies the same analytical framework to the early childhood development sector.

### Next steps

This document is intended as a modest step towards better information and analysis of NGOs and social problems in India, and as a diagnosis of a large-scale problem: a broken funding market.



Fixing the way NGOs are funded in India is not in the hands of any one organisation. What is needed is a coalition of efforts. So this report should also be seen as a call to arms for individuals and organisations to support the cause of improving the effectiveness of the voluntary sector.

One part of better funding in India might be a research and analysis organisation dedicated to improving NGO effectiveness. Over the past year, NPC and Copal have begun to sketch out how this might work and what it could achieve, but for it to really work we believe that this initiative should be taken on by a coalition of India-based organisations.

We hope that this document can be an inspiration to Indian philanthropists and NGOs to take up the baton. NPC and Copal will continue to lend their knowledge and support to help increase the effectiveness of Indian funders and NGOs.

### A note on terminology

NPC and Copal have used the terms NGO and charity interchangeably in this report.

Conversions have been done on the basis of £1 = Rs.79 = US\$1.65.



Photograph supplied by Tara Chand

# The problem and solution

455 million people in India live on less than US\$1.25 a day.

Private giving—philanthropy—has a vital role to play in tackling social problems.

**Despite its scale and its potential role in tackling Indian social problems, philanthropy in India does not appear to be working to full effect.**

The situation is partly obscured because of a lack of data. What evidence there is suggests that money is neither being allocated to the most important areas of social need, nor given to the most effective organisations. Instead, funding is dysfunctional.

One way of conceptualising this is as a 'broken' funding market, where money is not allocated on the basis of its potential social impact. The market's characteristics include: donors who do not ask for the right information; charities that do not supply useful information; and poor flows of information around the sector. In NPC's experience, these are also common features in the UK yet they arguably have more serious consequences in India due to the high level of need.

**Better information can help construct a more effective philanthropy market. We suggest that research and analysis can help to allocate assets properly, direct funding to the most effective organisations, and improve the quality of that funding. Undertaken collectively, this would maximise the chances of philanthropy having a significant impact on the lives of disadvantaged people in India.**

## The problem

To some external observers, India is rapidly losing its tag of being a developing country, bolstered by high levels of economic growth and its record as the world's largest democracy. However, scratch the surface and beneath the country's vast market and impressive entrepreneurial potential, it is clear that it still faces serious social challenges. Most visibly it is scarred by poverty, with hundreds of millions of people living without adequate healthcare, education or shelter. Look at almost any area of human welfare and the statistics remain startling. For instance:

- India is more than 30 years behind China in terms of the proportion of the population with completed secondary and post-secondary schooling.<sup>3</sup>

- Despite decades of effort to improve nutrition, 45% of under-threes in India are stunted (in effect, malnourished), a rate worse than that found in sub-Saharan Africa.<sup>4</sup>
- 455 million people in India live on less than US\$1.25 (£0.76) a day.<sup>5</sup>

Why is progress not quicker, and who should be fixing these problems?

A key cause is simply scale: the breadth, depth and complexity of poverty in the country. Clearly it is India itself, working through market forces and through its government, that has primary responsibility for economic and social development. Ask Indians, though, and many are sceptical about the capacity of government or markets alone to deliver the type of change that is needed.

Government is good at doing things at scale but it is often bad at innovation, weak at reaching excluded groups and scrutinising itself, and subject to short-term electorally-driven priorities.

Market solutions also offer scale, and they are responsive to consumer demands in a way that government struggles to be, but market-based approaches for the chronically poor at 'the bottom of the pyramid' are difficult to develop. Some needy people get priced out of goods and services, and markets themselves are prone to failure.

To make progress on development, something more than government and markets is needed. Private giving—philanthropy—has a vital role to play in tackling social problems. It is important, not primarily because of its scale, but because of the things it can do.

Collectively, philanthropic spending is tiny compared with the power of government but relative to other spending, philanthropy can bear risk. It can kick-start innovation. It can fund unpopular causes. It can support voices that hold government and business to account, building the civil society structures that make democracy work. It is free from the pressure of the electoral cycle that can prevent long-term solutions to social problems. It is free from the pressure to generate a financial return that can limit the reach of markets.

So how much private giving is there in India, and how much difference is it making?



## Giving levels in India

Information on giving levels in India is scarce, partly because the giving 'landscape' is complex and partly because information on different sorts of donors is held in different places. Mainly, however, this information is scarce because many donations are never formally captured. The information that is available does not give a single figure. It does though suggest an order of magnitude: hundreds of millions of pounds of private capital, possibly billions, are being spent with the express aim of tackling social problems in India. A significant amount of this goes to NGOs.

The main types of private donor are:

- **Individuals**—These include Indian nationals, non-resident Indians (NRIs), or citizens of other countries with ethnic or emotional links to India. They range from small one-off donors to major philanthropists.

- **Trusts and foundations**—Again, these are split between India-based and overseas organisations (although the bigger international foundations, such as the Bill and Melinda Gates Foundation and the Michael and Susan Dell Foundation, have offices in India). International Non-Governmental Organisations (INGOs), such as CARE and Oxfam, can also be seen in part as specialist foundations, as they fund Indian partners to deliver programmes.\*
- **Corporates**—The growing global trend for corporate social responsibility initiatives has coincided with the expansion of the indigenous private sector and an increased presence of multinational corporations in India. A number of corporates have also set up their own foundations, such as the Goodearth Foundation, which was established by the Eicher group of companies.

Some different estimates that NPC and Copal have heard cited are in Table 1.

In 2006/2007, overseas trusts and individuals gave Rs.123bn (£1.6bn) to charities in India.

Ministry of Home Affairs<sup>6</sup>

**Table 1: Philanthropy in India**

Segment	Scale of giving
<b>Domestic funding</b>	
Domestic corporate and individual donations	In 2004, the domestic Indian fundraising market was measured at US\$500m (£303m), excluding religious and untracked donations. 80% of donations were from individuals. <sup>7</sup>
Domestic individual donations	A 2008 phone survey of 1,012 people in urban India found that 41.2% of respondents gave in the previous year, with an average contribution of US\$11 (£6.70) (excluding religious and family donations). <sup>8</sup>
Domestic corporate donations	In 2000, it was found that domestic corporations gave Rs.2bn (£25m). <sup>9</sup>
<b>Foreign funding</b>	
Foreign remittances, from non-resident Indians (NRIs) direct to individuals in India	Unknown. There are over 400,000 Indian-born remittance senders in the UK. A survey of 150 Indians in Washington State in the US found that the average Indian living in the US gives US\$300 (£182) a year to social causes in India. If this were true of even half of the 1.7 million Indians in the US, social causes would be getting £157m from Indian migrants in the US alone. <sup>10</sup>
Registered foreign funding	In 2006/2007, overseas trusts and individuals gave Rs.123bn (£1.6bn). <sup>6</sup>
Total foreign funding to voluntary sector	Combined foreign funding flows is unknown, but in 1997/1998 it was estimated at Rs.25.7bn (£326m). <sup>9</sup>
<b>Cross-cutting segments</b>	
High net worth (HNW) giving	Unknown. Conditions, until recently, were good. India led the world in HNW population growth at 22.7% in 2008. Sunil Mittal, Anil Agarwal, Shiv Nadar and Rohini Nilekani are Forbes' 2009 'heroes of philanthropy'. <sup>11</sup>
<b>Total funding to Indian NGOs</b>	
Total funding to Indian NGOs: foreign, domestic and public, and self-generated	Unknown. In 1999/2000, it was estimated at Rs.179bn (£2.3bn). <sup>12</sup>

Note: these categories are overlapping and therefore not cumulative.

\* INGOs are increasingly establishing stand-alone country organisations (eg, Oxfam India). But these remain, in part, funders of other local NGOs.

## Trends in giving

The numbers in Table 1 suggest a significant order of magnitude: at least hundreds of millions of pounds. While it is difficult to make projections based on the current data, it is the received wisdom among donors and commentators that the numbers have only grown bigger, at least until the recent global economic downturn. This is derived in part from expectations heightened by India's spectacular GDP growth over the past decade and the growing prominence of philanthropy from the Indian diaspora.

Increases in philanthropy are also reflected in the rise in foreign donations coming into India, all of which have to be reported to the Ministry of Home Affairs under the Foreign Contributions (Regulation) Act (FCRA). This legislation requires all organisations wanting to receive foreign funds to register with the government and submit audited accounts on a yearly basis; they also have to provide details of each individual contribution. Records show that registered donations have increased by almost 150% between 2002/2003 and 2006/2007, from Rs.50bn (£0.6bn) to Rs.123bn (£1.6bn).<sup>6</sup>

Growth here also seems consistent with wider activities in the field of philanthropy. For instance, there has been an increase in the number of high-profile initiatives supporting philanthropy. In India, activities include the work of Charities Aid Foundation India and the emergence of payroll giving initiatives, such as that of GiveIndia, which has channelled Rs.550m (£7.0m) to 150 Indian NGOs over the past eight years.<sup>13</sup>

Overseas philanthropy appears to be growing, particularly from NRIs. This is being stimulated by a growing number of organisations. In the UK, these include the Asian Foundation for Philanthropy and the British Asian Trust, both of whom seek to foster giving to South Asia. In the US, Give2Asia has channelled US\$100m (£61m) from US corporates and individuals since 2001, 29% of which has gone to India.<sup>14</sup> Similarly, the American India Foundation has almost trebled its income over the past five years, from US\$3.4m (£2.1m) in 2003 to US\$9.8m (£6.0m) in 2008.<sup>15</sup>

NPC and Copal's own work on the Indian voluntary sector, of which this report forms a part, is another result of growing interest in Indian philanthropy, from both NPC and Copal's clients.

Trust activity has also been on the up. The recent IT, retail and finance booms have led to a new wave of family and corporate trusts and foundations, such as the ICICI Foundation, which was established in 2007. Traditional foundations are also increasing the amounts they give. Funding from the Sir Ratan Tata Trust, one of India's oldest foundations, grew from Rs.48m (£608,000) in 1995/1996 to Rs.601.6m (£7.6m) in 2007/2008.<sup>16</sup>

India has benefited from 'global philanthrocapitalists', including the Bill and Melinda Gates Foundation and the Michael and Susan Dell Foundation. These organisations bring large sums to the country. For example, since 2003, the Gates Foundation has committed more than US\$330m (£200m) to tackling HIV/AIDS in India.<sup>17</sup>

The growth of social investment in India, although outside this report's focus on philanthropy, is also indicative of increasing flows of capital that are influenced by social concerns. Box 7, in the following section, provides a brief overview of current activity in this area.

However, there are worries that giving levels may decrease.

Most obviously, the global recession is likely to have an impact on giving, even as it increases the social need that philanthropy is meant to address. NPC and Copal have seen no data on this related to India but there are reports of NGOs and UN agencies developing contingency plans to deal with a possible 15–20% drop in income in 2009.<sup>18</sup>

In addition, even during the boom, the amounts of money going to NGOs tackling social issues may have been lower than the hype warranted. Individual giving in India is still predominantly focused on religious causes, and some evidence exists that this comes at the expense of other voluntary organisations. A survey of 6,400 Indians in 2000 found that a high proportion gave to religious organisations—the highest of four Asian countries covered.<sup>19</sup> It also identified low rates of support to other voluntary organisations. Almost half of the high to middle-income Indians who support religious organisations do not support other voluntary organisations.<sup>19</sup> This is consistent with a more recent 2008 survey that found that India had a lower proportion of urban retail givers than Brazil, Russia and China, with 41% giving in the previous year.<sup>8</sup>

All this tells us that India has a lot of money trying to make a difference and there is scope for it to grow, both from within India and from abroad. However, this trend has come up against the global economic downturn and potential funding instability as corporates and individuals scale back their giving and foundations' investment income falls. If this is right, then giving is at a crossroads. With existing and new funding under pressure, there is renewed urgency in using the money that is available to make as much difference as possible. So how does current giving measure up against this test?

## The problem: giving is not achieving maximum impact

How much difference is giving making?

The short answer is: not as much as it should.

It is challenging to assess the effectiveness of giving because donors give their money away in different ways and because there are not agreed benchmarks against which to measure it. Even in the UK, where there is a relatively well-developed philanthropic sector, funders struggle to demonstrate the effectiveness of their work.

But two possible indicators of philanthropy making a difference are: first, that private funding is targeted on need, and second, that it goes to effective organisations. On either of these measures, the evidence that NPC and Copal have seen is that philanthropy is often not delivering on its promise.

### Money may be going to the wrong needs

Logically, one would expect funding to flow to areas and issues of greatest need. Yet this does not appear to be happening. Consider formal flows of foreign funding—one of the few areas where we have relatively good levels of data (largely due to the FCRA legislation mentioned above). Analysis of this funding suggests that money is going to relatively wealthy, high-performing states in India, and not to weaker, poorer places.

For example, when looking at levels of infant mortality, NPC and Copal's analysis of data shows that in 2006/2007, the five worst performing states in terms of high infant mortality rates (Uttar Pradesh, Madhya Pradesh, Jharkhand, Assam, and Orissa) received 11.7% of foreign funding. Conversely, the five best performing states (Kerala, Tamil Nadu, Mizoram, Nagaland, and Maharashtra) received 35.4%.<sup>6, 20</sup> The pattern holds for other indicators and, as a whole, India's poorest states—Bihar, Orissa and Uttar Pradesh—languish near the bottom in terms of total receipts of foreign donations.<sup>6</sup> These states are often called the 'BIMARU' states—a pun on the Hindi word for 'sick', coined from **B**ihar, **M**adhya Pradesh, **R**ajasthan and **U**ttar Pradesh.

Of course, this evidence is not conclusive. The data has significant weaknesses. For example, many foreign donations that look as though they are going to urban areas, such as Mumbai and Delhi, are in reality channelled via the

headquarters of organisations on to poor areas across India. Funding through FCRA is also only one flow among the many that make up the total philanthropy in India.

But this case is supported by anecdotal evidence about the giving behaviour of individuals, suggesting that the flow of philanthropy is biased towards certain areas. Many NRIs, who tend to come from Gujarat and West Bengal, give back to villages or areas where they were born.

Also, funding tends to focus on certain types of tangible activity, such as building physical structures and providing direct services (particularly from private individuals). Within the early childhood development sector, NPC and Copal found that there is high donor interest in constructing schools, while for water and sanitation, donors tend to focus on wells and toilets. Yet often this giving can risk substituting for government responsibilities. Moreover, it leads to the neglect of other areas, such as lobbying and campaigning, which arguably can have a higher impact and which, by definition, government rarely funds.

### Money may be going to the wrong organisations

The relationship between funding and organisational effectiveness is often weak. Here, the evidence is more indirect—specifically, the absence of the features one would expect to see if donors were using objective criteria to choose the best organisations to support.

Donors generally support NGOs to achieve specific goals or outcomes, be it improving education for children, managing water resources better or providing treatment for HIV/AIDS. Yet it is unclear how most donors are able to make an objective decision on which NGOs they should fund based on their effectiveness. The evidence simply does not appear to be there.

During 2008 and 2009, NPC and Copal spoke to more than 150 grassroots NGOs, mostly in the early childhood development sector or working in water and sanitation. We wanted to know two things: first, what they were trying to achieve with the funding they had received, and second, how they knew that they were being successful.

The striking thing we found was that NGOs are successfully attracting funding and undertaking activities to achieve social change with inadequate evidence of the impact they are

It is unclear how most donors are able to make an objective decision on which NGOs they should fund based on their effectiveness.

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having. Most report back on some information to donors, but often this information is partial, misleading or not meaningfully related to significant changes in the lives of the people they work with. Box 1 describes the situation in more detail.

Only a handful of organisations—less than 3% of our sample—measure their impact in ways we would consider as robust. This means that they:

- have a clear ‘theory of change’, setting out a logical model of how their activities lead to concrete outcomes;

- are able to record project data and capture their main outcomes using embedded internal monitoring systems;
- commission external evaluations for specific projects or at regular intervals; and
- capture the long-term impact of their work.

Very few organisations met more than one or two of these criteria, with particular challenges in relation to embedding internal monitoring and capturing long-term impact. Box 2 looks in more detail at why NGOs do not measure more consistently; while Box 3 sets out some examples of what good measurement looks like.

#### Box 1: NGO impact—what difference are organisations making, and how do they know it?

NPC and Copal looked at over 150 NGOs to find out what difference they were making, and how they knew it. This was not a formal survey but part of an effort to identify high potential organisations in two sectors—early childhood development, and water and sanitation. Charities were identified on three main criteria:

- their size—an income of over Rs.500,000 (£6,300);
- their presence in directories available from organisations like GiveIndia and Indiango.com (see p. 13); and
- recommendations from experts in the field.

All three of these factors make it likely that the NGOs seen are better-established and adhere to higher standards than the average charity in India.

Our main finding was that only a minority of organisations have information easily available that clearly describes their activities, let alone the difference they are making. Where information was available or (in its presence or absence) where NPC and Copal analysts were able to speak to management, information quality was mixed. Charities primarily describe what they are achieving by talking about what they do and/or providing case studies and anecdotes about people they have worked with.

But this information is inadequate for a number of reasons.

*Focus on outputs*—When charities describe what they do, they talk about outputs (the quantification of their activities), not outcomes (what those activities achieve). A strong example of this is NGOs running primary schools, many of which track enrolment and, in some cases, attendance. Relatively few track the difference that school makes to pupil attainment. This matters. NPC and Copal saw a number of educational establishments where each could boast high enrolment rates, but where learning was clearly inadequate (teaching by rote; disengaged students; absent teachers). Survey evidence establishes this as a problem for India as a whole. Outputs are useful to know, but only rarely is knowing what a charity does enough, and this information can in fact be misleading.

*Focus on case studies and anecdotes*—Case studies and anecdotes are useful to give a sense of an organisation, but they may be unrepresentative. Charities rarely draw attention to their failures. Anecdotes risk generalising, misleadingly, from success. They also present a more subtle problem. Out of 100 people in a programme, the odds are that some of them will see their lives improve, just by chance, regardless of what programmes they are or are not enrolled in.

*Lack of long-term data*—Even when charities collect outcomes data, this is usually extremely short term, measuring impact immediately after the end of an intervention and with very little follow-up to judge the sustained impact of their work. For example, measuring exam attainment, but not what this means for future employment, livelihood and health. Of course, new interventions will be unable to do this, yet for more established projects, measuring long-term impact is vital in judging the full scope of their work.

Some organisations measure progress against particular indicators of interest to donors, but they tend to see this as a compliance exercise rather than an integral part of the way that they help their beneficiaries.

**Box 2: Why do NGOs not measure more consistently?**

During our research, NPC and Copal came up against six main reasons why NGOs do not measure their results more.

1. *Because they do not think they need to*—A lot of grassroots organisations are values-driven and rely on proxies for understanding their impact. For instance, the belief that staff have high quality personal relationships with beneficiaries. They rely too on intuition, assuming that scholarships for girls or a place in an orphanage or a rainwater harvesting system are good in and of themselves. This may be right, but without measurement it is impossible to be sure. Moreover, it is easy to overlook weaknesses in an approach if you just rely on whether something sounds or looks like it should work. For example, scholarships may only be going to better-off groups; an orphanage may not be improving children's life chances; and the problem with water may not be volume, but contamination.
2. *Because funders do not ask for it, or do ask, but for different things, or the wrong thing*—Different sorts of donors have wildly different expectations of NGOs. Many fund on the basis of historical relationships where they feel an affinity with the cause or the mission, and do not seek results information. Demands for specific data, where NGOs are implementing particular programmes for funders, are increasingly common. But these are often imposed from 'above' and sometimes prompt resentment where NGOs cannot see their relevance, or where they conflict with other funders' requirements.
3. *Because it seems difficult*—Many development organisations see their work as a process that is non-linear. They feel that the results of this are hard to quantify and cannot be easily reflected in numbers. One example offered to NPC and Copal was how one would capture the impact of a teacher, who previously stood over the class, now sitting at their level. NPC and Copal would argue that it is possible to capture this sort of impact and, in any case, qualitative changes should ultimately be reflected in improved 'hard' outcomes. There are real challenges in measurement: around proportionality; around attribution; in relation to avoiding 'selection biases'. But, with care, these can be overcome.
4. *Because they lack the skills*—This is discussed below in more depth. Grassroots NGOs suffer from shortages of key skills and infrastructure (such as IT). These are substantial barriers and even if NGOs look for external evaluators, they struggle to find individuals or institutions of the necessary quality.
5. *Because it seems expensive*—Donors and charities are often reluctant to divert resources away from core activity but, without measurement, it is likely that resources will not be used properly.
6. *Because of organisational complexity*—NGOs often manage large numbers of projects and it can be hard to design a framework that will adequately capture the results in several different domains.

In the absence of adequate data, the main drivers of funding to particular organisations are largely a mixture of subjective factors.

It is important to note that this is by no means a problem confined to India. NPC's work in the UK has come across exactly the same situation, as have other intermediaries in different parts of the world. Moreover, a lack of results measurement would not really matter if each NGO was doing equally valuable work in an equally effective manner. However, this is logically unlikely to be the case and, based on NPC and Copal's visits to programmes on the ground, NGO performance varies widely. Without objective measurement criteria to understand these variations, it is highly unlikely that funders will choose the most effective NGOs to fund.

NPC and Copal's concerns are underlined by the way that funders choose NGOs in practice. Our experience is that in the absence of adequate data, the main drivers of funding to particular organisations are largely a mixture of subjective factors. These include: personal relationships between funders and organisations; the fact that an organisation happens to have come across a

funder's radar; and the influence of marketing and promotional material. This is particularly relevant for individual donors who, in examples NPC and Copal have encountered, rarely think about impact at all.

The picture on corporates, INGOs and trusts and foundations is more mixed. Some ask for evidence of effectiveness and base decisions on it. INGOs, for instance, increasingly have structured 'partner assessment tools' that touch on impact within a wider framework of analysis considering an organisation's capacity.

There is an irony here. All kinds of donors in India are very conscious of some sort of risk to their funding: corruption and waste. To address such concerns, there has been a marked response from within the NGO community to improve transparency, accountability and standards of governance (see Box 4). Yet there is much less awareness of a different risk: that funding may be going to organisations that are not making good use of it.



One of the biggest challenges facing Indian NGOs is not a lack of capital, but funders who give money without asking for measurement of impact on the final recipient.

Barun Mohanty

### Box 3: Examples of measurement

A need for a focus on measurement is one reason why donors interested in supporting grassroots organisations are often well advised to work through intermediaries. Though their performance is mixed, some INGOs do excellent work in monitoring and evaluation. CARE India and USAID recently released a working paper series on Women and Child Health, highlighting the results and lessons of five years of a massive programme, known as RACHNA.<sup>21</sup> Measurement of its results helped both to establish the value of the programme, and to highlight areas for improvement. For instance, early on in the programme, it seemed that replication of demonstration centres being run by CARE India's partners was going well. But introduction of a household survey of the target areas found low levels of coverage and little change in key behaviours the programme was trying to bring about. Ultimately the programme was corrected, and later evaluation proved it to be extremely promising. Overall, it is thought RACHNA averted 13,356 deaths and was responsible for a gain of 380,719 DALYs (Disability Adjusted Life Years) over its lifetime at a cost of US\$1,098 (£665) per death averted and US\$39 (£24) per DALY gained.

Recently, some NGOs have been involved in the gold standard of measurement—randomised control trials (RCTs) conducted through partnership with MIT's Poverty Action Lab (J-PAL). RCTs create two groups that are identical in all respects except one is exposed to a particular intervention. Any difference in the group outcomes can therefore be attributed to the intervention. RCTs are useful to correct or change beliefs as they provide clear evidence of what works. However, they need to be based on a clear theory as to the basis of interventions and why they work.

J-PAL has worked with a variety of large Indian NGOs including Pratham, an education NGO, and Seva Mandir in Rajasthan, which focuses on integrated rural development. A recent study evaluating an experimental programme to promote uptake of vaccinations has established robustly the effectiveness of using incentives for immunisation. People spend very little on preventative care—often because of small practical obstacles or just not getting around to it. J-PAL's study with Seva Mandir has found that they increased take-up rates by a factor of ten, by buying a kilo of lentils to reward mothers who ensure that their children complete vaccination programmes.

This kind of work is expensive, but by doing it, NGOs can validate existing or new approaches, contribute to the evidence base on how to tackle serious social problems, and attract new funding.

NPC and Copal talked to a range of different grant-makers during our research. The views of some of the most strategic and professional among them are captured in a comment made by Barun Mohanty of the Michael and Susan Dell Foundation: *'One of the biggest challenges facing Indian NGOs is not a lack of capital, but funders who give money without asking for measurement of impact on the final recipient.'*<sup>22</sup>

NPC and Copal believe that when funding is not linked to results evidence, this matters. Most obviously, it matters because where people are giving capital away without an objective basis it is likely to go to the wrong organisations. There is an opportunity cost for the funding itself. It could have improved more lives being spent somewhere else. But 'lazy funding' is also a problem at a structural level. Where funders and NGOs are not focused on effectiveness and measuring their impact, there is little 'market' reward or discipline affecting NGOs: organisations that do measure may be disadvantaged relative to ones that do not (for example, because they bear higher costs). Good projects cannot grow; bad projects are not challenged.

### NPC and Copal's thesis: the funding market is broken

Although patchy, the evidence outlined above supports the first of NPC and Copal's main hypotheses: that the philanthropy market in India is not working effectively. While in an ideal scenario, philanthropy should be flexible, versatile, risk-bearing and a promoter of innovation, in practice it is not being spent in ways likely to maximise its social impact. Rather, NPC and Copal were told that it is often spent conservatively and thoughtlessly—without consideration of the urgency of particular needs, or the likelihood that the organisation funded will really make a difference.

NPC has found it helpful in the UK to conceptualise this problem as a 'broken' funding market. By the term 'market' we mean simply that there is an implicit economic system governing philanthropy. There is both demand for funding from NGOs and a supply of funding from a wide range of donors. The market is broken because it is unlikely that money is flowing to where returns are highest. Funds are being spent, but without knowledge of where they can be allocated for best effect. Indicators of success—which in this



#### Box 4: Transparency and regulation in the Indian voluntary sector

NPC and Copal's joint venture in India was partly prompted by NPC's March 2008 research report, *Philanthropists without borders*, which surveyed 122 philanthropists and carried out in-depth interviews with 19 based in the UK.<sup>2</sup> It found that the main barriers to giving in developing countries were lack of trust, lack of transparency and concern about corruption.

These are not trivial concerns. Waste and corruption are real risks in a country where some NGOs are not real charities but vehicles for political ambition. Even where outright fraud is not practiced, there are more subtle shapes it can take. NPC and Copal have heard of hospitals being built with donors' funds where part of the expenditure has been dedicated to constructing permanent on-site housing for the chief executive and other key staff.

The good news is that a number of in-country initiatives in India are being established to promote good governance, transparency and honesty. Encouragingly, these are from the sector itself.

**The Credibility Alliance (CA)**—[www.credall.org.in](http://www.credall.org.in)—is a national consortium of Indian voluntary organisations concerned to establish better self-regulation. It has established a set of norms to which NGOs can subscribe, designed to operate as 'industry standards'. Minimum norms include: that an NGO is registered; that it has some defined indicators; that it has a board that meets at least twice a year; that it practices full disclosure on board membership and remuneration; and that signed audited accounts and annual reports are available. Desirable norms include that at least two thirds of the board are unrelated by blood or marriage; that salary is broken down by gross monthly level for all staff; and that all international travel is disclosed. Currently, 462 organisations are enrolled as members. The possible flaw in the approach is that certification is based primarily on self-certification, and CA staff just check over documentation. This is clearly not a cast-iron regulatory approach. Recently however, CA has introduced a full assessment process involving a visit from an external assessment team. This allows members to become officially accredited.

**GiveIndia**—[www.giveindia.org](http://www.giveindia.org)—is an online giving portal and philanthropy exchange that allows donors to give online to NGOs that have been validated against CA minimum and desirable norms, with an additional requirement that they commit to report back annually on any donation they receive. It has more than 200 NGOs online, covering 14 states and 27 causes. Validation here includes a visit and in some cases references from partners.

**CAF India**—[www.cafindia.org](http://www.cafindia.org)—provides services to donors and charities and includes on its website a directory of organisations on which it states it has carried out 'due diligence'.

In addition to these bodies serving a quasi-regulatory function, there are a number of databases being established, simply to list different NGOs and improve access to data about the sector as a whole. Guidestar India, a large online database of NGOs (based on self-reporting), is currently being established, with the initial aim of covering at least 1,000 organisations. Indianngos.com comprises a database of 36,000 NGOs, but with much more uneven quality of information available. Another player is Propoor.org, which says it lists over 14,000 NGOs from across South Asia.

All of these initiatives are positive steps towards improving the flow of information about NGOs in India, and they are helping to channel resources. Funds channelled directly to NGOs by GiveIndia comprised Rs.267m (£3.4m) in 2008/2009. CAF India distributed Rs.23m (£291,000) in 2007/2008.

What none of them do is put much visible emphasis on impact or results. CAF goes furthest in this direction, quoting some evidence on impact for organisations it has worked with. GiveIndia highlights impact as a concern but does not have the resources to do its own research. For the other organisations, impact is a level above their area of focus, which is establishing basic information.

NPC and Copal's view is that donors should not focus alone on the risk of corruption. It is one of a range of risks to the effective use of philanthropic capital, but one that already attracts a good deal of NGO energy and attention. It would be ironic if the need for assurance about the tangible problem of money being 'safe' blinded philanthropists to the wider possibility that money is not being used effectively. Equally, it is not enough for NGOs to improve transparency without improving effectiveness.

case are the social impact a charity is having—are not available or are not being used to determine funding allocation.

As NPC and Copal conceive it, the problem is circular. Funders are either not asking for information about impact or are asking for the wrong information. NGOs in turn are unable to provide comprehensive information on what they are achieving. Even when monitoring is carried out, little is made public, particularly when it is negative. Organisations can repeat their mistakes, not learning from the past or from each other, and all of that is likely to mean waste on a large scale—of money and of lives.

This problem is clearly not unique to India. NPC was established as a charity in 2002 precisely because its founders noticed that charitable funding was being decided on the basis of brand and personal connection, with little consideration of impact. Subsequent research has confirmed this impression: many UK charities do not produce strong evidence of their results.

That said, having a broken funding market in India arguably matters more than in the UK, due to the much higher level of need. Charities in the UK are often about well-being and quality of life. In India, they are fundamental to the

We argue that information can improve the allocation of resources.

social safety net that allows people to survive. The issue has been brought into stark relief by the economic downturn, which puts a renewed premium on generating the biggest possible ‘social returns’.

### The solution

The importance of analysis in fixing the broken funding market in India is this report’s second hypothesis. We argue that information can improve the allocation of resources. Knowing more about the impact of an NGO, its capacity, the risks it faces, and the context in which it operates is helpful for any individual donor. It can improve the quality and impact of substantial private funding streams, highlighting what works and ruling out options that do not work.

Beyond this however, analysis and research are public goods that can have leverage. By sharing insights, donors not only improve their own funding but also enhance the impact of the much larger sums being brought to the table by everyone else.

Following on from the model of a broken funding market outlined above, NPC and Copal suggest that a comprehensive solution would focus on each of the main points of failure:

- encouraging donors to demand and pay for information on impact and results;
- ensuring that NGOs measure their outcomes; and
- improving the flow of information within the sector and beyond.

Figure 1 gives a representation of a properly functioning philanthropy market.

Altogether, constructing this market is a large undertaking, and NPC and Copal’s work in India has concentrated on testing the potential of one facet of this solution—analysing particular social issues and NGOs. We explore these below.

Yet, it is important to suggest what a more comprehensive solution to the broken funding market would look like. This can help readers understand the theoretical context for NPC and Copal’s activities, including why we have chosen to focus on analysis and how it contributes to the larger goal of building a better philanthropy market. Also, by setting out this full menu of things that need to be done, we hope that readers will be encouraged to develop their own responses.

### Donor demand for information

Donor demand for information cannot be mandated or forced. Rather, there needs to be an effort to win hearts and minds by building the ‘social business case’. A significant part of NPC’s initial work in the UK was making the case to donors of the need for evidence-based funding decisions.

In India, evaluating the quality of existing funding through research could be a first step. There is a negative component to the information that needs to be gathered—that money is going to the wrong places and being squandered. There is also a positive component—showing that using evidence to allocate resources leads to higher ‘social returns’.

Underpinning these components are two aims: one, to show that information matters whether it is used to help prioritise funding, or to choose the most effective organisation

Figure 1: Functioning philanthropy market



to fund; and two, to show that the quality of information is important. After all, some donors already receive information, but it is often either incomplete or relating to the wrong metrics of success. For example, donors in both the UK and India often focus on administration costs or fundraising ratios (money spent on fundraising vs total raised). Yet as we will go on to explain below, these are often unhelpful proxies of impact, and are only useful within a much wider set of data.

Instead, more useful information would include:

- **an organisation's activities**, including its areas of focus, stage of intervention, number of people it reaches, and basic outputs and costs;
- **evidence for its results**, such as evaluations and internal monitoring systems;
- **organisational capacity to deliver results**, such as the strength of its management, strategic vision and governance; and
- **risks threatening results**, such as financial instability and potential external factors.

In addition to information, more could be done to provide practical support and networking opportunities to donors so that they can leverage existing knowledge better. In the UK, NPC offers a wide range of advisory services to provide this support to funders thinking about their strategic objectives and mechanisms for giving. NPC and Copal are increasingly playing a similar role in India.

### NGO supply of information

Increasing donor demand for information should in theory influence NGOs' willingness to supply it. Strategic donors prompt organisations they fund to capture better data. This in turn helps to promote a culture where charities that measure their impact and are more transparent in their work receive more funding. This is a key part of establishing a social business case for NGOs to supply more information, demonstrating its financial benefits.

Yet the most important part of promoting measurement is proving to NGOs how it can help them function more effectively. With better data, charities are able to identify projects that are working well and those that should be improved or dropped. They are able to make better use of their resources, improving more lives in more profound ways.

Some NGOs recognise this already and think carefully about measurement but others do not, regarding it as a compliance burden. One barrier to improving the situation is the existing dysfunctional reporting requirements.

As mentioned above, donors often ask for the wrong thing or make requests that are disproportionately bureaucratic or time-consuming to comply with. Some NGOs feel an acute power inequality. They say that they cannot think about measuring what matters because they are busy reporting on what does not. Grassroots NGOs in India, a long way both literally and figuratively from some of their funders, find this a particular challenge.

NPC carried out research in Scotland on the reporting burden for NGOs, highlighting numerous incidences of unnecessary and time-consuming reporting requirements.<sup>23</sup> A lot of this data never even ended up being used by donors. The situation in India may well be worse. For some NGOs that NPC and Copal have spoken to, the extra burden of funding requirements has tainted the very process of monitoring and evaluation.

The other crucial component for NGOs measuring their impact and providing a supply of information is support—practical help, money, tools and people. As outlined above, NGOs often have a weak grasp of what should be measured beyond basic output data, and do not know how to go about it. It can be challenging to construct measurement systems to capture complex outcomes in a statistically robust way.

NGOs may also lack proper administrative and central office support that can help them to collect, collate and present information in an accessible manner. Surprisingly, for a country with such a strong IT sector, NGOs' websites are almost uniformly poor.

Achieving all this might mean working with well-resourced partners (like INGOs, engaging consultants or academic researchers), leveraging 'mother' NGOs, or encouraging the secondments of skilled volunteers. In the UK, NPC has set up a measurement team to help NGOs to capture their outcomes. One of its projects is developing a tool for charities to use when measuring their impact on children's well-being—an intangible outcome that charities often struggle to capture. Indian NGOs also need this kind of support.

Crucial to all of this, of course, is money. Donors hold the purse strings and need to be prepared to pay for organisations to gather and distribute information. The benefits of measurement are considerable: NPC and Copal believe they significantly outweigh its cost. This is because measurement helps to improve the effectiveness of NGOs that donors fund; it can provide a way for donors to allocate their funding in the future, and it adds to the lessons and good practice of the sector as a whole.

By sharing insights, donors not only improve their own funding, but also enhance the impact of the much larger sums brought to the table by everyone else.

The most important part of promoting measurement is proving to NGOs how it can help them function more effectively.

**Box 5: NPC's work in the UK**

NPC and Copal's work in India builds on a wealth of activity developed in the UK, where NPC has developed approaches to promote effective funding in each of the three priority areas identified in this report. Some of the specific activities are cross-cutting and international in approach.

**Services for funders**

- *Helping donors get started:* clarifying their objectives, developing effective processes and learning about areas of giving.
- *Building strategy and expertise:* drawing on the research of NPC and others to develop funders' knowledge of social issues, identify gaps and opportunities, and develop funding strategies.
- *Improving grant-making processes:* helping funders to improve how they find, select, fund and monitor the charities they support.
- *Reviewing giving:* working with funders to conduct a strategic review (looking at their focus, approach and impact) to inform future funding.
- *Bespoke consulting:* carrying out a tailored piece of consulting to meet a foundation's particular needs.

**Services for charities**

- *Charity health checks:* providing chief executives or trustees with an overview of the charity and its strengths and weaknesses to inform future development.
- *Bespoke sector research and consulting:* providing bespoke research and advice on key strategic questions.
- *Measuring impact:* helping charities to develop and implement clear frameworks to evaluate their impact, inform strategy and better communicate to funders the impact of their work. Also helping charities with cost benefit analysis to determine the economic value of their work.

**Improving flow of information**

- *Building and sharing public knowledge:* building sector knowledge by analysing particular social issues and identifying priorities for funding and ways to increase the efficacy of funding.
- *Knowledge sharing:* helping to establish the Association of Nonprofit Analysts, a global organisation to help build links and share information.

Analysis and research can often look like transaction costs, but in fact, they are crucial to achieving social change.

**Flow of information**

Finally, there is the flow of information. Increasing supply and demand should lead to improvements in the flow of information in any case. But to have full impact, it ideally needs to be publicly available so that other donors and NGOs can use it; so that lessons are learned; and so that mistakes are not repeated. This is why everything that NPC and Copal produces is freely available. We also seek to encourage disclosure and build an environment where organisations and funders will share bad news as well as good.

Ultimately, the goal is the development of 'public utility' information sources on NGOs and social problems where donors and NGOs can identify who is doing what, how well and with what certainty of success.

In certain cases, intermediaries will be necessary to broker and mediate relationships between donors and NGOs, and also to provide independent analysis of both NGOs' and donors' impacts. Charities and philanthropists can suffer from a failure to properly understand and articulate their own activities and results. They may lack the time, specialist skills or the ability to take an independent perspective on their work.

Beyond increasing the flow of information between donors and NGOs, there is also a need to use wider sets of data to inform decision-making. This includes clearer information on the specific role of the voluntary sector and philanthropy in general. Funders and NGOs are not isolated actors—they operate within a wider context of social needs and government policy, and are part of broader voluntary and philanthropy sectors. Without understanding this broader environment, philanthropists are in danger of misinterpreting data on charities' impact.

**What NPC and Copal have been doing: analysis and research**

Where does NPC and Copal's activity fit in to all this?

As noted above, fixing a broken funding market is a vast agenda and not one that is in the hands of any one organisation to deliver. In the UK, NPC has developed a range of different initiatives across each of these three areas, such as developing measurement tools and providing strategic advice to donors and NGOs (see Box 5). It has also started developing its international offering (see Box 6). For the pilot in India, the joint venture between Copal and NPC decided to concentrate on one vital part of the puzzle.

The approach that NPC and Copal has sought to test is sector and organisational analysis in India. This has traditionally been the main focus of NPC's work in the UK. It involves analysing information on social issues and on individual NGOs, using a public methodological framework, which is set out in NPC's report *Funding success*.<sup>2</sup>

We think sector and organisational research has potential to help overcome some of the funding market flaws. Primarily, it will help augment the third aspect of fixing the funding market outlined above—the flow of information—bringing together key data and presenting it in an accessible and useful way for a donor. Beyond this, it also aims to stimulate donor demand for data and the supply of information by demonstrating the utility and applicability of evidence-based analysis.



Analysis and research can often look like transaction costs. But in fact, they are crucial to achieving social change. While the success of this approach and its role in improving the effectiveness of philanthropy in India is a long-term goal, it has the potential to make an impact in three ways:

- Money will be allocated to priority areas and not to areas that are low priority.
- NGOs will be chosen on the basis of their results and wider organisational effectiveness.
- Philanthropists will improve the quality of their funding.

### The case for analysis and research: how it can help promote the funding market

#### The 'what': Analysis and research supports asset allocation

NPC and Copal make the case for analysis and research first and foremost in relation to what can be termed asset allocation—namely, for a donor, how to choose which causes to support, and for a charity, how to choose which social issues to tackle. Analysis cannot tell someone with a blank piece of paper what to fund or address but it can help with choosing between the competing passions a donor or NGO might have. Better information will in turn influence and shape a donor's interests.

One example of this is provided by The Children's Investment Fund Foundation (CIFF), an extremely strategic funder and one that achieves added impact by making many of its resources publicly available. Many donors fund water and sanitation projects. Donors often like to build pumps as a tangible thing they can point to having created but analysis carried out for CIFF reveals that, relatively speaking, these are not always a good use of marginal resources.

Disease from lack of sanitation is a bigger killer than lack of water in India. According to analysis on CIFF's website, hygiene and washing education costs US\$3.35 (£2) per Disability Adjusted Life Year (DALY) averted\* compared to US\$94 (£57) per DALY for pumps.<sup>24</sup> Clearly there are always uncertainties in this kind of calculation, but the underlying message is a compelling one and useful both for philanthropists thinking about their spending, and for NGOs thinking about their programmes. Using analysis can increase the probability of impact.

As the second chapter of this report shows, analysis can be more useful still where a wide range of relevant factors are brought in. As noted, the approach that NPC has developed

#### Box 6: NPC's international work

While NPC is located in the UK and the majority of our sector research has been focused on UK issues, there has been global interest in, and demand for, our frameworks and approaches. Because we are committed to helping NGOs and funders become more effective, we are extremely interested in pursuing and developing more opportunities and partnerships in Europe, Asia and the Americas. As a result we have created several strategic international partnerships, made our methodologies freely available to anyone with internet access, spoken at conferences around the globe and hosted interns from other countries.

In Germany, NPC has developed a strategic partnership with the Bertelsmann Foundation to help it adapt our charity analysis framework and implement it in their research into charities' effectiveness. Staff from organisations in Estonia and Canada have worked with NPC as interns to absorb and reflect on our approach and share lessons. In Korea, Singapore, Japan, Sweden, the USA and the Netherlands, other organisations with similar objectives have adapted or built on aspects of the NPC approach.

As the global network of organisations analysing NGOs and their effectiveness grows, so does the need for coordination and knowledge-sharing. To meet this need, NPC is helping to establish a professional development body/initiative, the Association of Nonprofit Analysts. This idea was presented to 200 voluntary sector professionals at a conference in London in May 2009, organised and planned by NPC with support from the Bertelsmann Foundation. The conference was attended by delegates from over 20 countries and there was widespread agreement that the initiation of the Association was a good idea that should be taken further.

in the UK, and which has been followed by the joint venture in India, is based on 'sector research'. Sector research reports bring together in one place current information on a specific social problem, what government is doing to tackle it, what other funders are doing, which NGOs are in the space, and what is known about what works. Collectively, this information helps to identify gaps for funders and NGOs where additional or different activity can make a difference. It also provides insight into structural challenges to social problems being solved, including policy failure, a lack of cash, a lack of proven solutions, or a lack of credible implementers.

#### The 'who': Analysis and research supports organisational development

A second area where analysis helps is organisational development. For a donor, the analogy here is with investment. In the absence of price signals that a 'for profit' investor might use, due diligence is even more valuable to the 'social investor'. For an NGO, analysis of its strengths and weaknesses is vital to improving its performance.

There are many different ways of doing this and no single correct approach. NPC and Copal have a 'narrow and deep' evaluation process that uses a structured framework to evaluate organisations. This can be carried out for a donor or for an NGO but in our work in India, we have focused our analysis on organisations working within two main

For an NGO, analysis of its strengths and weaknesses is vital to improving its performance.

\* DALY is a standard World Health Organization metric that combines mortality and morbidity costs.

Efficiency certainly matters but the key challenge for Indian NGOs identified by NPC and Copal's analysis was not waste, it was talent—particularly for professional roles.

sectors: early childhood development and water and sanitation. This segmentation allows understanding of context and makes it easier to draw comparisons between organisations.

Analysts make initial contact with a large sample of organisations recommended by experts, and screen them by an analysis of their documentation and through phone calls. They then visit 20–25 NGOs and carry out a series of interviews with management, trustees, finance directors and beneficiaries. There is then extensive follow-up to dig deep in a number of key areas.

The aim is twofold. On the one hand, it is to identify and analyse NGOs that are making a real impact in order to increase information flow to donors. On the other hand, it is to help NGOs improve directly. Being analysed is in itself a consulting-type service that can highlight areas for improvement.

A distinctive feature of NPC and Copal's approach is that it seeks to look at whole organisations. Our primary interest is in effectiveness and high social impact but helping donors or NGOs deliver high 'social returns' needs more than just evidence of impact. Executing an approach that is highly effective also requires other capacities, including stable management and finances, good governance and the ability to sustain a programme.



Photograph supplied by Justin Canning/Comic Relief Ltd.

Our framework looks at five factors to meet this challenge, which collectively give a deep insight into NGO effectiveness:

- **focus on need**—that it targets excluded groups or neglected issues;
- **results**—that it measures results in a sensible way; that it uses its results to improve its services; that its results compare favourably to peer organisations;
- **management quality**—that it is led well, has a strategic focus, and has strong senior management;
- **ambition**—that it is committed to increasing the number of lives it touches or having a more profound impact upon them; and
- **use of resources**—that it is efficient and stable.

**The 'how': Analysis and research improves the quality of funding**

A third and final area where analysis makes a difference is on how to fund. Donors and NGOs often have a lot of preconceptions about each other and can form relationships under terms that harm both their interests. Analysis of social problems and NGO sectors helps bring these problems to light.

One example commonly mentioned in India is funding for central organisation costs, such as management and central overheads. Project-based funders are often unwilling to meet this part of the expense of NGOs with distorting effects—NGOs end up having to chase projects that are outside their mission and competence in order to pay their central costs.

Associated with this, and discussed more in the next section, is donor concern about 'admin costs' and waste in the organisations that they support. Efficiency certainly matters but the key challenge for Indian NGOs identified by NPC and Copal's analysis was not waste, it was talent—particularly for professional roles. At least until the downturn, many grassroots Indian NGOs were crippled by retention problems and long-term succession risk—partly because of competition for staff during the boom and partly because of low funding. Analysis can help to expose this kind of problem, establishing when low cost is not the same as efficiency.

A final area is the administration of funding: payment release and funding cycles. Short-term funding can impede long-term solutions. Payment in arrears can cause instability and make it hard to manage and plan projects.



# Developing a framework

The previous section made the case that better information would help to improve the effectiveness of the philanthropy market and highlighted the importance of analysing social issues and individual organisations. Yet this still leaves several questions—in particular, what exactly an analytical framework should look like. It also leaves open how it might relate to other factors that affect donors and their giving, such as personal interests and available resources.

From NPC and Copal's perspective, philanthropy is sometimes overly influenced by a donor's subjective concerns. Important issues, such as where available resources can be used for greatest impact, are neglected or inadequately thought through. This is not to say that personal interests are unimportant—they are central both to motivating a philanthropist and to setting a general strategic direction for giving. They should, however, be informed and influenced by actual evidence of impact.

In this section, we outline a possible analytical framework that can provide donors with objective criteria on how their funding can be most effective. This is based on the methodological approach NPC has developed in the UK, and on Copal's experience of the Indian voluntary sector.

We set out the framework within the specific context of the Indian environment. This has a twofold aim: first, to start demonstrating how this analytical framework is of value for donors looking to fund effectively in India; second, to provide practical advice for donors. This guidance includes a checklist of things to work through as well as initial high-level information that donors can draw upon when thinking about their giving. It is aimed particularly at those who are new to giving in India.

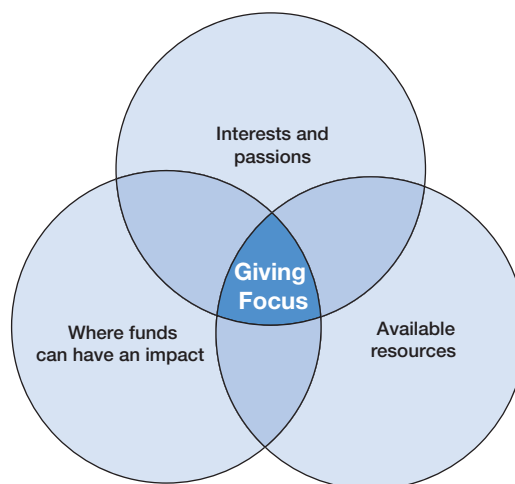
## Factors in giving

When thinking about giving, NPC and Copal traditionally identify three key variables affecting a donor. These variables overlap, influence each other, and produce a final funding decision:

- the donor's interests;
- the available resources that the donor can bring to his or her philanthropy; and
- where funds can have an impact.

The first two issues (interests and resources) are primarily internal factors—that is, answerable in the main by reflection on a donor's values, beliefs, aims and assets. The third (where funds can have an impact) is primarily external—that is, answerable by reference to information about the world. This third issue is the focus of NPC and Copal's analytical approach. NPC and Copal believe that the focus of giving should be where these three factors overlap (see Figure 2).

Figure 2: Factors in giving



## Internal variables

So far, this report has not considered the internal drivers of philanthropy, like individual interests and passions. In one sense, it could be argued that they are part of the problem—where funding is not targeted 'rationally' on addressing need and maximising impact.

NPC and Copal would distinguish between those funders who let their personal interests override evidence of effectiveness, and those who use evidence to shape and inform their interests.

Yet, it is largely individual interest and passion that underpin a donor's involvement in philanthropy and that provide the impetus and motivation for continued giving. Neglecting or overlooking these factors can make philanthropy less involving, less engaging and less satisfying. Over the long term, this may cause people to withdraw or scale back their giving.

Also, looking at it from a macro-perspective, there are many competing good causes. As noted above, analysis cannot on its own fill in a blank piece of paper. Internal drivers are important in helping donors choose between competing choices of effective funding. Yet NPC and Copal would distinguish between those funders who let their personal interests override evidence of effectiveness, and those who use evidence to shape and inform their interests. Data can tell us something about the relative merits of different options.

It is useful to look briefly at what some of these internal factors are. Many donors are not used to articulating them in any structured way.

**Interests**

Donors' interests can derive from multiple sources—for instance, a personal connection to a cause, an issue or place, or religious or ethical inspiration. There are often also group or corporate motivations in play; for a family, bringing them together around philanthropy; for a business, finding a cause that is aligned with the organisation's goals and brand.

These interests can be understood on three main levels:

*Nature of need:* A donor may have strong views on focusing on a particular issue, geography or group. This can be at a general level, such as

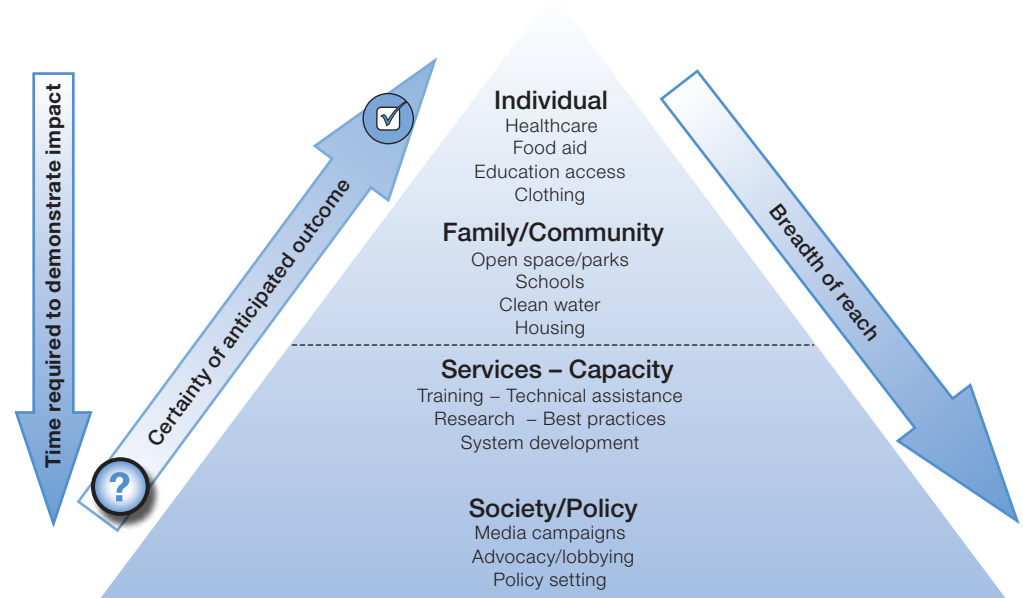
education or women, to more specific and often intersecting interests, such as the healthcare of slum children in Chennai. Because different issues are heavily interlinked, some donors prefer to focus on groups and take a holistic approach in meeting their different needs. Others like the clarity of one issue, such as healthcare or education.

*Nature of impact:* Often a donor may be interested in having impact at a particular level of scale. He or she may want to change the entire policy environment, or conversely want to focus on improving the lives of a small number of people. There tends to be a trade-off between the breadth and depth of an intervention, and the certainty of outcome. NPC's triangle (see Figure 3) makes this clear. A fixed sum of money can do a lot for a small number of people, or less for a large number. Funders can pay for services to be delivered with high certainty of impact but limited numbers, or pay for campaigning and lobbying, where certainty of impact is lower but the potential exists to change whole systems.

For example, a donor interested in livelihood work could have sponsored a job creation programme in a village. Or he or she could have contributed to the campaign that eventually led to the National Rural Employment Guarantee Act, a vast national employment welfare programme.

*Nature of project:* Finally, donors may have specific views on the nature and type of the project they will fund. Some are prepared to pay for risky projects that might lead to innovations, while others want a safer, proven and trusted approach. A key issue at the moment with many international donors is the wish to fund scalable and replicable projects. An important related consideration is exit strategy. Some

**Figure 3: The NPC triangle**



projects are time-limited. Others will need ongoing funding, so provision needs to be made for long-term sustainability.

### Available resources

The second important factor is donor resources. Each donor will have a particular set of assets that he or she can bring to bear on social problems. Most attention is given to finance, but often donors can use a range of other resources as well.

*Financial:* Donors will have a certain amount of money that they want to give. They may also have a clear sense of their level of financial commitment through time—whether one year or multi-year. Increasingly, donors are thinking of different ways that they can structure financial resources to improve impact, away from the traditional grant allocation. Instead, they are exploring ways of using loans, revolving funds and microfinance. See Box 7 for examples of social investment in India.

*Non-financial:* Donors often have significant non-financial resources they can bring to bear. These include: time; skills; gifts in kind (space, venues for events, transport); contacts; influence; and access to networks. Despite their potential impact, these contributions are rarely considered, and both donors and NGOs tend to be less experienced at leveraging these resources consistently.

### External variables

#### Where funds can have an impact

Understanding where funding can have an impact is the focus of NPC and Copal's work. As mentioned above, we feel that funding

decisions are too often determined by personal issues rather than evidence on where funding would have most impact. By expanding the evidence base, NPC and Copal aim to redress this imbalance and increase the role of data in making funding decisions.

In a world of scarce resources and limitless social need, NPC and Copal consider that money should be spent on the most urgent causes that it is possible to address with a reasonable probability of success. To identify these, donors need information about four factors:

- levels of need;
- what works;
- activity by other actors; and
- the nature of the voluntary sector.

NPC and Copal's typical approach is to apply these criteria to a particular social issue. We do this in the next chapter of this report for the water and sanitation sector as an example of how our methodology works in practice.

Before then, it is worth looking at these different analytical stages in more detail and exploring how we might begin to apply them in the Indian context. This helps to flesh out the framework, demonstrate its potential, and also begin to highlight lessons for donors interested in maximising their impact in India. In particular, it is worth analysing the nature of the Indian voluntary sector in some detail, as it provides general lessons that are pertinent to all donors looking to give in India.

In a world of scarce resources and limitless social need, NPC and Copal consider that money should be spent on the most urgent causes that it is possible to address with a reasonable probability of success.



Photograph supplied by Tara Chand

### Box 7: Social investment in India

This report is focused on philanthropy in India—its main unit of analysis is the NGO. Yet a donor should be aware there are other ways of achieving their social aims that go beyond the traditional method of giving grants to charities, most notably social investment. Social investment is a broad term unified by one common criterion: it combines both financial and social objectives.

There are three main forms of social investment:

- **Socially responsible investment:** this involves directing funding to companies that have ethical practices. It is focused primarily on avoiding 'harmful' companies as well as encouraging improved corporate practices related to the environment, social performance, or governance.
- **Social impact investment:** this is where investors place capital with businesses or funds, in order to achieve specific social aims. This capital may be in a range of forms including equity, debt, working capital, lines of credit, and loan guarantees. Examples in India include microfinance, construction of cheap housing, private hospitals and schools and clean energy.
- **Funding social enterprises:** this is the third main area for social investors. Social enterprises are organisations that are run along business lines, but where any profits are reinvested into the community or into service developments.

Social investment, in all of its forms, has been gaining increased traction in India. It is seen as a way to harness the power of global capital for social good, and to tap the potential innovation, efficiency and scale of the private sector. It also makes the money 'work harder' as any financial return can then be recycled and reinvested in other forms of social investment. It is also often argued that having some form of financial expectation is a good discipline on social organisations themselves because it helps to focus attention on the sustainability of the business model.

Despite these potential opportunities and its ability to complement philanthropic activity, social investment in India also faces broad challenges. The first is the difficulty of measuring social impact, a constraint that makes the trade-off between financial and social benefits hard to assess. The second is a relative dearth of organisations with the capacity to absorb large amounts of capital—a lot of the same names get mentioned by different social investors. The third is that the market place is underdeveloped, without a fully developed infrastructure of networks, advisors and intermediaries.

Significant work has happened in the past decade to address these issues. Dedicated social investment funds have grown up to build knowledge and expertise in the area. One of the most well-known social investment funds is the **Acumen Fund**, which was set up in 2001 with seed capital from the Rockefeller Foundation, Cisco Systems Foundation and three individual philanthropists. It funds in South and East Africa, Pakistan and India, and concentrates on critical services: water, health, housing, and energy. It is currently funding 12 initiatives in India, which include a network of maternity and child healthcare hospitals to cater for slum populations, and a firm that tests people for short-sightedness and sells glasses. As with most social investment funds, it has three main criteria in its investments: potential for significant social impact; financial sustainability; and potential to achieve scale.

In 2008, the Soros Economic Development Fund, along with Google.org and the Omidyar Network, set up a targeted \$17m investment fund for small or medium-sized industries (SMEs) in India—a section of the economy that falls between microloans and larger commercial investments. This is being run out of the **Centre for Emerging Market Solutions** at the Indian School of Business at Hyderabad and, so far, it has invested in areas such as waste management and eye hospitals.

As well as specific investment vehicles, there are also organisations that help improve the knowledge and research available on social investment, to provide capacity support and help attract capital to successful schemes. In 2006, the **Monitor Institute**, a think tank/consultancy that focuses on social issues, set up a new Indian initiative called Monitor Inclusive Markets (MIM). This researches the role of for-profit business models in solving Indian social problems and helps them overcome barriers to scale. It is currently piloting efforts to develop affordable housing for slum dwellers in India. The **World Resources Institute**, a US-based think tank, has developed its own New Ventures scheme, in partnership with the US government, to direct capital to businesses in emerging markets (including India) that deliver social and environmental benefits.

A further level of support exists for individual social entrepreneurs. Organisations, such as **Ashoka**, **UnLtd India**, the **Skoll Foundation** and **Social Impact**, provide support to people who have innovative approaches to tackling social issues. As well as usually providing cash awards, they also offer capacity support, coaching and links into wider networks. The Skoll Foundation holds an annual World Forum, bringing together social entrepreneurs, policy-makers and financiers.



## Levels of need

When thinking about different needs, it is possible for a donor to approach the issue from several directions. These include:

- issue or sub-issue (eg, education);
- geography (eg, Bihar);
- a particular group (eg, Muslims); or
- a combination of these factors (eg, the education of Muslims in Bihar).

Ideally, as noted above, a donor would have data on both the numbers affected and the severity of impact. While numbers affected can be relatively straightforward to determine, finding an objective measure for impact is harder—particularly the wider the scope of the analysis.

Attempts have been made to establish common frameworks to understand the importance of relative needs. Economic cost analysis of particular issues can highlight the financial cost to individuals or to the country as a whole. Yet these often rely on tangential assumptions and, in the absence of reliable data, can be based on heroic degrees of estimation. Sometimes the understanding of causal links between issues is poor. When executed badly, this approach also risks undervaluing less tangible issues such as well-being, the environment and quality of life.

Attempts to produce standard comparisons across issues can lead to quite surprising results. For example, the World Health Organization uses DALYs, a metric calculated on the basis of years of life lost due to premature mortality and years of life lost due to disability. In India, the largest category is neuropsychiatric disorders,

in particular depression, while, on the same scale, measles has more of an impact than HIV/AIDS.<sup>25</sup>

Often it is much clearer to judge relative need when looking in detail at a particular social issue (which is NPC and Copal's usual approach), or in making high-level comparisons between different groups and geographies. In India, groups such as women, Muslims and scheduled castes and tribes experience much worse outcomes than the national average. Generally speaking, the states in central and eastern India (in particular the BIMARU states mentioned above) have worse indicators than their counterparts in the south.

## What works

The second factor for a donor to think about is existing evidence of what works. Compelling evidence in favour of a particular approach can help to ensure that philanthropy is directed where it is most likely to have an impact.

Yet when thinking about effectiveness in international development, a donor is unlikely to find many straightforward, risk-free answers. Instead, evidence on the impact of a particular approach exists on a scale of certainty—from the hope of a logical model, to the depth of a large-scale randomised control study.

NPC's report, *Funding success*, looks in more detail at ways of categorising different levels of evidence.<sup>2</sup> These are summarised in Table 2. The general lesson is that the standard of evidence increases the further you go down the table. The stronger the evidence behind an intervention, the greater is the potential that it will have an impact in the future.

**Table 2: Different levels of evidence**

Category	Value
Logical model	A basic model of how an activity might work logically, even if unproven, is a good starting point for an NGO.
Similar experience elsewhere	If an NGO has had similar experience elsewhere, then replication may be a good idea, but this needs careful testing.
Research	If research elsewhere indicates that a course of action is good, then applying it in a new context may be a good idea but should be tested as soon as resources allow.
User feedback	Feedback is valuable to ascertain (perceived) quality of services. However, a user saying ' <i>I enjoyed the meeting</i> ' does not prove that the meeting achieved any improvement in circumstances. Well-constructed user feedback can nevertheless form part of systematic measurement.
Demand	Demand gives a clue as to how users value a service. However, high demand for a service may denote desperation for any help, rather than an endorsement of this particular help.
Evaluations	Evaluations are detailed pieces of research determining whether a specific activity works, whether it could be improved or expanded, and what should be measured going forward. It is wise to do a detailed evaluation more than once: later evaluations can show the detail of whether an activity has abated or is still relevant.
Systematic measurement	Some NGOs find a way of systematically determining the improved outcomes for their beneficiaries. This could be reported by users, observed by family members, or collected by professionals, for example, using clinical scales. Ideally this is collated in some way.

Different levels of evidence are expected at different stages of organisational development. For example, a young charity is unlikely to have evidence of its results until it has been running for a period of time.

In development, health interventions tend to have the strongest level of evidence. Eye surgery, anti-worming tablets and immunisations produce direct and tangible returns, in terms of quality of life, education and livelihood. Social and educational approaches face greater challenges in establishing what works, especially where they are aiming for behaviour change.

A major issue for a donor to be aware of is transferability. Just because an approach is effective in one context, it does not mean it will work in another context. Different communities, different delivery mechanisms and different cultural factors will influence impact. Projects that lead to a set of outcomes in one state may not work in another. **Plan International** developed a project to promote better hygiene behaviour in southern India through pamphlets demonstrating hand-washing techniques—yet when it transferred this to the north west, it was initially unsuccessful. This was due to the fact that in the north west, people traditionally used ash to clean their hands. The material had to be tailored accordingly.

Donors also have to think about the structural impact of interventions. It can be extremely tempting for a donor to fund parallel delivery systems where government is not working effectively. Yet this can compound the problems, enabling government to underinvest in an area and using up qualified staff. All this has a wider impact. Donors also need to think about the economic effects. For example, there is a long-running debate over non-emergency food aid, questioning whether its short-term benefits come at the expense of damaging farming capacity.<sup>26</sup>

Over the last decade in India, the focus on development has moved from providing services to a more 'rights-based' approach—in simple terms, building up the skills of individuals and communities to claim their legal rights, and developing the capacity of government to fulfil its obligations. Measuring the impact of these empowerment activities poses greater challenges than simple service delivery projects due to difficulties over attribution and capturing less tangible outcomes, such as self-esteem and gender equality. Results may also take more time to emerge.

The problem of capturing evidence is even more acute for NGOs that operate at a higher level of activity, lobbying government and advocating for policy change. Although the potential impact of this work is significant— influencing government funding, establishing legal frameworks, providing a voice for the excluded—the challenges in measurement

are high. Often it takes years for campaigning activities to pay off and, again, attributing success to any one organisation can be difficult.

In the UK, NPC has produced the report *Critical masses*, which stresses the importance of social campaigning. It suggests that a more constructive way to think about the question is to look closely at an NGO's contribution, rather than ruthlessly searching for proof of its precise effect.

### Activity by government, private sector and other donors

The third factor for donors to look at is how philanthropy fits within the public and private sectors—particularly given the size and impact of existing funding flows from other players. As noted, a philanthropist should be sure not to substitute for government responsibilities, and may have more of an impact by focusing on areas overlooked by existing funders. A clearer understanding of the context highlights possibilities for complementing and leveraging existing work, and can suggest ways of achieving scale and exit (for example, where central or state government takes on an approach that has been piloted by an NGO using philanthropic support).

A key issue for donors to understand is that implementation of government policy in India is patchy, opaque and inconsistent. Despite efforts towards decentralisation, central and state governments still set the agenda and as policies travel down to the grassroots, funds get diverted.

Corruption, lack of accountability and low capacity are problems at all levels of government. These tend to be particularly chronic in areas of higher need, where poor governance is both a product and a cause of underdevelopment. Lant Pritchett of the Kennedy School of Government at Harvard argues that dysfunction in India's public sector is one of the world's top ten biggest problems—of the order of HIV/AIDS and climate change.<sup>27</sup>

Similarly, donors need to consider their relationship with the private sector. This is most obvious in relation to businesses as funders where they are a much larger player in Indian philanthropy than, say, in the UK. But it is also a question of relating to the private sector as a deliverer of services, with India home to an explosion of private schools and private hospitals over the past decade. Many Indian NGOs are cautious about the private sector being used to deliver social ends, fearing that poor people will be priced out, exploited or given poor service. A few donors have increasingly been looking to businesses to deliver approaches at scale—for example, the Omidyar Network, the philanthropic investment firm established by eBay founder Pierre Omidyar and his wife.



A last major set of ‘actors’ that will influence a donor’s decision on where to fund are professional funders—particularly external support agencies such as the UN, INGOs, trusts and foundations and individuals. Their funding can both highlight areas that are over- or under-funded, and present opportunities for co-funding. Co-funding can be good for promoting donor learning, as well as sharing costs and reducing reporting burdens on NGOs. Box 8 profiles the main types of funders in India.

### The nature and needs of the voluntary sector

The final factor, the nature and needs of the voluntary sector, is worth looking at in more detail, and forms the rest of this chapter. For all donors interested in India, knowing more about the sector’s common features, challenges and opportunities can improve their funding. Yet getting to grips with it can be challenging—after all, India has one of the largest and most fertile NGO sectors in the world, with an estimated 1.2 million nonprofit organisations.<sup>12</sup> Even if a donor is familiar with the voluntary sectors in other areas, such as the US, UK or Europe, there are several features unique to India.

The lessons drawn out below are based on NPC and Copal’s own experiences working in the sector over 2008/2009, and on research and conversations during that period with a range of experts. Beyond informal sources, little research on the Indian voluntary sector is available that would allow in-depth analysis of its make-up. The most comprehensive analysis comes from **The Society for Participatory Research in Asia (PRIA)**, yet this was produced back in 2002.<sup>12</sup>

As noted in the previous chapter, NPC and Copal use a particular analytic framework when examining individual NGOs that drills down in to a number of critical areas. We draw on this to comment on the following features of India’s NGO sector as a whole: its finances; its focus on need; its management; and its results.

#### Financial factors

It is hard to generalise about the voluntary sector in India, but the huge bulk of India’s 1.2 million NGOs are tiny—often religious institutions, tiny community organisations or, in a few cases, fronts for political corruption.

The PRIA research found that three quarters of all NGOs rely only on volunteers or have just one paid member of staff.<sup>12</sup> Just 200,000 NGOs are estimated to have an income above Rs.50,000 (£633). In the sector literature, ‘very large’ NGOs tend to be defined as having an income of more than Rs.500,000 (£6,300).<sup>28</sup>

### Box 8: Professional funders that donors need to consider

**External support agencies**—This group comprises all multilateral and bilateral agencies, such as the United Nations Development Program (UNDP), the World Health Organization (WHO), the United States Aid and International Development (USAID) and the World Bank. While each organisation has different remits and strategic goals, they are all supposed to be based on delivering the UN’s Millennium Development Goals (MDGs), the broad set of development targets that the international community has agreed to reach by 2015.

Funding from these actors is largely channelled through government, from direct budgetary support, low-cost loans and funding for specific pilot projects. While NGOs are often a component of these programmes, they are rarely the direct recipient of donations. The major exception is in disaster response, where for reasons of speed and capacity, money is often channelled directly to NGOs.

The government of India recently decided to break off bilateral aid relations with all countries except major donors, such as the UK, US, EU, Russia and Japan and countries that would commit more than US\$25m (£15m) a year.<sup>29</sup> This was part of a general attempt to reorientate India’s image away from being seen as a ‘developing country’. Countries such as Holland, Sweden and Canada have had to end their government-to-government funding, and instead now fund direct to NGOs.

**International Non-Government Organisations**—In India, when people talk about INGOs, they usually mean one of the many international charities that have historically had an office in India, including CARE, Oxfam, Save the Children, Plan International and ActionAid. Many INGOs have now established independent organisations in India (eg, Oxfam India), which the international parent funds or part-funds. A lot of the organisations are functionally equivalent to specialist grant-makers in that they fund local NGOs to deliver against a particular set of priorities, either through individual projects or as part of wider programmes of activity.

The focus for individual INGOs varies from specific issues, such as water and sanitation, to more general development activities, carried out by organisations such as CARE and Oxfam. Traditionally, a lot of the emphasis was on children, as organisations such as Plan International and ActionAid raise funds through child sponsorship. However, these INGOs have broadened their focus, recognising that the well-being of each child depends on the situation of the family and the wider community.

**Trusts and foundations**—Trusts and foundations are an increasingly dynamic force in India. In addition to long-standing international foundations like Ford and Rockefeller, there is a strong tradition of indigenous corporate and family foundations—for instance, the Tata Family Trusts. These have recently been joined by new institutions arising from international and domestic IT and finance industries. Internationally, players such as Cluff, the Bill and Melinda Gates Foundation and the Michael and Susan Dell Foundation, have brought in new skills and approaches, and a particular emphasis on impact measurement.

Again, the range of different foundations, strategies and focuses defy any attempt at general lessons that hold across the broad Indian development sector. However, it is apparent that a lot of the energy is being put towards the ‘big three’ topics: education, health and livelihoods. The ‘Holy Grail’ for many of these foundations is to find something that is rapidly scalable and replicable.

This has lots of implications. Not least, that absorbing large sums of money quickly can be hard for individual organisations. Donors with significant capital often end up chasing the same organisations.

In total, it is estimated that foreign funding provides only 7.4% of funding to the sector.

The Society of Participatory Research in Asia (PRIA)<sup>12</sup>

The other major constraint on non-Indian donors is that only 34,000 NGOs are eligible to receive foreign donations.<sup>5</sup> As noted in the previous chapter, organisations looking for foreign funding are required to register under the Indian government's FCRA legislation. This regulates who can receive foreign donations, and was designed partly as an anti-terrorism measure. However, some NGOs complain that the government has used the FCRA to withdraw recognition from campaigning and policy NGOs that disagree with its policies.

In total, it is estimated that foreign funding provides only 7.4% of funding to the sector.<sup>12</sup> This masks huge diversity in reliance on international philanthropy. The **Child in Need Institute** receives almost half its funding from abroad, while **Sulabh International**, a sanitation charity with an income of Rs. 1bn (£13m) receives no foreign funding.

Within the sector there is a growing appetite to draw on local funding opportunities, both from indigenous trusts and corporates and from individual philanthropists. However, efforts are often limited by low fundraising capacity. Normally, responsibility rests on overworked chief executives. Very few organisations have dedicated fundraisers.

Low fundraising capacity also reflects a more general weakness in financial management. While some NGOs benefit from highly-qualified financial teams, others are lacking—the **Aga Khan Rural Support Programme India** has started an initiative to let other NGOs draw on the expertise of its financial staff. There may be a general lesson here for donors: on the one hand to be patient with organisations that may not have good financial reporting skills; on the other, to provide capacity-building support rather than grants alone.

NGO financial management is particularly important at the moment due to increasing uncertainty in funding. The economic downturn has affected the endowments of foundations, while there are some reports that INGOs that rely on direct debits or popular subscriptions have seen donations dry up.

Funding practices from grant-makers are not always helpful to the sector. Grants are often renewed on a yearly basis, making it hard for NGOs to plan in advance. Charities often struggle to cover their core costs from project-based grants. There are some exceptions to this—INGOs and agencies can fund fairly generously—but here a different problem sometimes emerges, with payment in arrears causing NGOs cash flow problems.

Also, long-term funding relationships (often over decades) have left some NGOs dangerously reliant on one funding source, and without the

impetus to develop. When this ends, either due to changing funding practices or an economic downturn, NGOs are left scrabbling for a replacement. Exit funding (ie, what an NGO is going to do when the donation runs out) should be a key issue for philanthropists.

In order to cope with financial instability and the termination of particular funding streams, many NGOs are trying to build up their corpus funds. These are similar to reserves yet, except in rare circumstances, NGOs are unable to touch the capital. Rather, they use its income as a source of unrestricted funding.

### Activities

Financial instability has dramatic implications for what NGOs in India do and how they do it. It is one of the factors driving a sector that is largely characterised by generalist NGOs—ones that will turn their hands to a number of different activities. To the extent that this reflects organisations chasing whatever funding happens to be available in order to stay afloat, it is an unhealthy trend. However, in many cases it is also a question of mission.

The 'typical' organisation seen by NPC and Copal during our research worked on 'integrated rural development'. Often these organisations began with a focus on one issue in one geography—health or education—before rapidly realising that the barriers to improving people's lives go beyond that intervention alone. Other project strands get added, including work to improve livelihoods, gender empowerment and microfinance.

The challenges to these sorts of organisation are threefold.

The first is about how truly integrated their services are. Good examples think carefully about the links between their different activities and how to overcome all the barriers to (for instance) helping children read or empowering women. A more frequent situation is that the projects are not genuinely integrated, but run in separate places.

The second challenge is about quality. NGOs that are 'jacks of all trades' are sometimes 'masters of none'. Donors need to look closely at how well organisations are able to operate where they are engaged in many activities.

The third challenge is how NGOs pay for 'holistic' approaches. NPC and Copal saw any number of organisations that had built in a livelihood and income-generating activity into their wider project, believing that in the long term this would provide a way for communities to pay for their services, hence making them sustainable. In general, these plans were unproven and sometimes based on unrealistic assumptions. Donors should treat with healthy

scepticism anyone who claims they have achieved scale, sustainability and impact. Most organisations are working towards this, but still need subsidy.

Lack of specialisation in NGOs can make it challenging for a donor to identify NGOs that have a distinctive expertise in a particular area. NGO activities tend to focus on a similar set of topics: children's education, livelihood development, HIV/AIDS work and microfinance have all been identified as areas with thriving NGO sectors.

Many of the big names of the Indian NGO sector work in children's education—such as **Pratham**, **Children in Need Institute (CINI)**, **Akansha** and **AID India**. In contrast, donors may find it harder to identify a deep pool of NGOs working in sectors such as domestic violence, human trafficking and mental illness.

For donors interested in tackling problems in India's cities, the voluntary sector poses a further challenge—namely that it appears to have a strong rural bias. This reflects the large population and high needs of rural areas, but it is also informed by cultural factors.

In particular, many Indian NGOs are inspired by the example of Gandhi, his voluntary work and his attachment to the Indian village as the heart of the nation. Although rapid urbanisation over the past decades has led to increasing needs and populations in Indian cities, it does not appear that NGO numbers, infrastructure and capacity have kept pace.

In the late 1990s, UNICEF drew attention to the lack of education provision in urban slums, and highlighted the work of **Bodh Shiksha Samiti**, a Jaipur-based NGO, as one of the few organisations working in the area. In 1998, Bodh helped set up a National Core Group on urban education to help stimulate further work in the area.

The structure of the voluntary sector also reflects other geographical factors, with NGOs heavily concentrated within certain states and districts. As a general rule, states in southern India, such as Tamil Nadu, Kerala and Karnataka, have a much more vibrant civil society and NGO sector. Conversely, it is in the central and eastern states, such as Bihar, Madhya Pradesh, Uttar Pradesh and Orissa, where fewer NGOs are operating.

This distribution presents a conundrum to donors. Many major professional funders, such as the **World Bank** and **Oxfam**, have begun to redirect their funding towards the north.

It is one of the paradoxes of poverty that the higher the need, the harder it proves to find effective organisations to work with. In many cases, it first requires long-term funding and support to develop the capabilities of

NGOs. Even within states, NGOs are often grouped in certain districts. A USAID study of Jharkhand health NGOs found that 80% of them were found in just under half of the districts of the state.<sup>30</sup>

The UK Department for International Development (DFID) has just finished funding a five-year programme—Poorest Areas Civil Society—to promote civil society organisations across 100 of the poorest districts in India. It is currently tendering for the next five-year phase of the project.

As well as building up NGO capacity in these areas, successful NGOs from other areas of India are opening new regional offices. The **Aga Khan Rural Support Programme India**, which is based in Gujarat, has just opened a new office in Bihar and is about to start work in Uttar Pradesh. Meanwhile, the **Children in Need Institute** from West Bengal set up an office in Jharkhand in 2002 and in Chhattisgarh in 2006.

What about the level of work that NGOs focus on? NPC and Copal's experience is that NGO activities tend to focus on direct services—whether direct implementation (such as running schools or hospitals), or community mobilisation (such as supporting self-help groups). Work at a more abstract level—such as improving the infrastructure of the sector or sharing good practice—is less developed. No comprehensive voluntary sector network exists. **Voluntary Action Network India**, which is the largest umbrella organisation, has a base of 2,500 NGOs—a tiny percentage of the total number.

Yet an interesting recent development is the success of high-level 'rights based' campaigns, often complementing community mobilisation on the ground. These focus on establishing legal rights through the court system, which will influence and monitor government action. In Rajasthan, the **MKSS** movement started a campaign in 1989 to increase transparency in government records and expose corruption. This culminated in a ruling from the Supreme Court in 2004 that forced the Central Government to pass a Right to Information Bill. Similarly, The Right to Food Campaign run by a coalition of NGOs led to an order from the Supreme Court for all primary schools to provide midday meals.

### Management and governance

One of the most surprising things observed by NPC and Copal during our research has been the highs and lows of NGO management and governance.

Taking governance first, little official regulation exists for NGOs in India. Registration requires basic financial information and information on activities. Only two states, Gujarat and Maharashtra, have charity commissioners to

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oversee the sector—and these are overworked and largely administrative. As outlined above, the Credibility Alliance has developed a set of voluntary governance norms, but take-up is still at an early stage.

When looking at the governance of NGOs, the main detail for donors to be aware of is the split between trusts, societies and Section 25 companies (ie, nonprofit companies). These are set out in Box 9. Trusts are traditionally set up when property is involved, such as land or a building, and governed by a small set of people chosen by the founder—often families—who then tend to sit for life. Societies have a governing board made up of members elected by a general body, which is renewed at certain intervals. Section 25 companies are run in a similar vein to societies.

Trusts tend to be more secular in approach than societies. Both are characterised by heavy overlap in staff and what might be seen in the

UK as inadequate separation of oversight and management functions. The advantages of having the same people sitting on the board and running an organisation is alignment: it can be easy for NGOs to make decisions quickly. The downside is lack of independent scrutiny and the risk of ‘group-think’.

In addition to problems with the structure of governance, the other interesting feature of Indian NGOs is the quality of governance. Boards meet infrequently—roughly two or three times a year—and often have a narrow skill set, with little financial, legal or management experience.

A common feature in the sector is the role of the inspirational founder or chief executive. These are charismatic individuals who have built up an organisation and continue to fill most of its main functions. Often this masks a weak senior management team, and an over-reliance on

**Box 9: Trusts, societies and Section 25 companies**

To be considered as a nonprofit organisation in India, organisations have to fulfil four criteria. They have to:

- exist independently of the state;
- be self-governing by a board of trustees or ‘managing committee’/governing council;
- produce benefits for others, generally outside the membership of the organisation; and
- be ‘nonprofit-making’.

Yet, to complicate the issue, nonprofit organisations can be registered under three different sets of legislation:

- The Indian Trust Act (1882)
- The Societies Registration Act (1860)
- Section 25 of the Companies Act (1956)

Each of these groups have slightly different organisational requirements that need to be satisfied.

	<b>Trust</b>	<b>Society</b>	<b>Section 25 Company</b>
<b>Jurisdiction</b>	Deputy registrar/charity commissioner	Registrar of societies (charity commissioner in Maharashtra)	Registrar of companies
<b>Registration</b>	As trust	As society In Maharashtra, both as a society and as a trust	As a company under Section 25 of the Indian Companies Act
<b>Registration Document</b>	Trust deed	Memorandum of association and rules and regulations	Memorandum and articles of association and regulations
<b>Members required</b>	Minimum of two trustees, with no upper limit	Minimum of seven managing committee members, with no upper limit	Minimum of three trustees, with no upper limit
<b>Board of management</b>	Trustees or board of trustees	Governing body or council/ managing or executive committee	Board of directors or managing committee
<b>Mode of succession on board of management</b>	Appointment or election	Appointment or election by members of the general body	Election by members of the general body

Source: CAF India



the chief executive. It can lead to over-work, bottlenecks, and instability when he or she steps down. Despite this, only a small proportion of NGOs appear to have thought about succession plans. Following the Indian tradition of family-run businesses, some NGOs have near-dynastic succession. Others make no preparation at all. This is something that donors should pay close attention to—especially where making large grants.

Lack of depth of management and little planning for succession reflects a wider structural challenge in Indian NGOs—a general weakness of central functions. They rarely have adequate HR, administration or fundraising teams. This is partly due to a concentration of project funding and a lack of prioritisation by management. But it also reflects the priorities of donors and expectations of NGOs.

Many donors express suspicion or concern about administration costs. In practice in India, NPC and Copal saw the opposite problem—organisations unable and (in many cases) unwilling to resource their own structures properly.

This again reflects the roots of the Indian NGO sector. Both Gandhi and other inspirations like the guru Swami Vivekananda emphasised austerity and frugality. It is admirable of organisations to try to live a simple life, but it makes it hard to operate sustainably and effectively.

This has an impact on organisations most directly in relation to recruiting and retaining staff, especially professionals. A strong strain of voluntarism runs through the sector, and salaries are generally small and in some cases non-existent. An analysis by Dasra\* of the salaries of 130 chief executives of children and youth charities listed on the website GiveIndia showed that over half of chief executives do not have a salary, and of those that do, the monthly average pay is US\$449 (£272).<sup>31</sup> Qualified people, especially professionals, are being attracted into multilateral agencies and INGOs where there is much higher pay.

Working conditions are also a factor in recruitment problems, with front-line staff often required to live among the communities they work with. Particularly in deprived areas, turnover of staff can be high. NGOs have responded by hiring locals, both because they are used to living in the area, and also because of their knowledge of the people and the realities of the problems facing them. Yet these recruits often lack formal qualifications and skills, putting a strain on training processes.

What can donors learn from all this? Firstly, and most obviously, that they should look closely at organisational capacity when considering

which charities to support. Often weaknesses in senior management or staff recruitment are not immediately apparent, even while they pose significant challenges to the sustainability of the organisation and its results.

Secondly, donors should be aware that one of the main reasons for poor organisational capacity is low spending on central administration. Some donors pick NGOs on the basis of their administration expenses, but NPC and Copal believe that this kind of approach is simplistic and can actually undermine effectiveness. Sometimes, counter-intuitively, the best way of improving the lives of the people NGOs work with can be to make the organisation increase spending on itself. Donors can directly fund an NGO's central costs, or at the very least ensure that an adequate percentage of their project grant goes towards them.



Photograph supplied by Justin Canning/Comic Relief Ltd.

\* Dasra is a Mumbai-based organisation that works with Indian NGOs to maximise their efficiency, scale and impact.



## Results

As this report has already outlined in the previous chapter, Indian NGOs do not consistently capture much meaningful data on their results. NPC and Copal believe that donors should insist that monitoring and evaluation is built into the projects that they fund and, where relevant, set aside a proportion of their funding for the purpose. It is also in NGOs' interests to measure what they achieve.

### Box 10: Some of the questions donors could ask when visiting an NGO

#### Activities

- What is the problem that you are trying to tackle?
- How will the different activities you are carrying out address it?
- What about elements of the problem that you are not addressing? To what extent are you working with other organisations to fill those gaps?
- How coherent are your activities? Are they greater than the sum of their parts? What are the links between them?
- Which social groups are you reaching? Which are you not reaching?
- How does what you are doing fit in with government services?
- How is the community involved?

#### Results

- What are you achieving—not just in terms of outputs (eg, number of schools built or meals provided), but also in terms of outcomes (eg, improvement in learning or nutrition)?
- How do you know? What evidence do you have?
- What external evaluations have you done?
- How do you use your results? To improve your services, for fundraising, to share lessons learnt?
- How do you compare to peer organisations?
- What have you stopped doing because it was ineffective?

#### Management

- What are the key challenges facing your organisation?
- What are the strengths and weaknesses of your trustees and how involved are they in your work?
- Do you have a succession plan for your chief executive?
- Do you have problems with recruitment, and at what levels?
- What training do you provide for staff?
- Do you comply with Credibility Alliance norms?

#### Ambition

- Where do you want the organisation to be in three years' time?
- Are you seeking to grow, and if so, how?
- What influence have you had on government and on other NGOs?
- What do you need funding for? What difference will extra funding make?

#### Finances

- How stable and diverse is your funding?
- How many months of reserves do you have?
- What do your services cost per user?
- How financially sustainable are your projects?
- Who is in charge of your finances?

Yet even when donors do insist on monitoring and evaluation activity, in NPC and Copal's experience, it is too often focused solely on external one-off evaluations, rather than embedding internal monitoring mechanisms. While this may be useful for that particular project, it does little to improve the ongoing ability of individual organisations to see what progress they are making day to day. And too often, external evaluations are poor quality and of limited value, neither asking the right questions, nor doing it in a methodologically robust way.

## Where does this leave us?

This section has sketched out a possible analytical framework that can help philanthropists start to think about how to allocate funding. It began by touching on:

- donors' interests and passions;
- donors' resources; and
- where funds can have an impact.

It argued that the intersection of these concerns is the optimal place for a donor to concentrate funding.

It went on to argue that to understand the last of the considerations, where funds can have an impact, it was necessary to analyse four key areas, comprising:

- level of need;
- what works;
- activity by other actors; and
- the nature of the voluntary sector.

It looked in particular detail at the last of these, in order to highlight the strengths and challenges facing Indian NGOs as a whole.

NPC and Copal hope that this information has helped to identify some general lessons that a donor can use to inform and improve their giving.

More broadly, this analytical framework also provides a structure and a format for donors to consider individual NGOs. When NPC and Copal analysts visit NGOs we tend to group questions around each of these four areas. Some generic examples of these questions are included in Box 10; these might prove useful for a donor when visiting charities.

The next part of this report puts this analytical framework under a more rigorous test. It aims to demonstrate how it can be applied to a particular social issue, and to show how it is possible to set out useful guidance for donors based on the available evidence. This seeks to demonstrate the validity of the analytical framework and its potential to be applied to other social issues in India.

# Water and sanitation

This chapter uses NPC and Copal's framework to analyse a specific sector in India: water and sanitation. It demonstrates how the framework might be applied in practice and explores its validity and usefulness in India. The underlying purpose is to test the final two hypotheses proposed at the beginning of the report—that by using analysis it is possible both to prioritise areas for philanthropy, and to identify effective NGOs.

The starting point of this analysis is needs relating to water and sanitation. Analysis of needs helps identify priorities for action. We establish that access to safe water and sanitation is not just important in itself—it underpins a much wider set of outcomes such as better health, education and income generation.

It is estimated that each year, 400,000 children in India die of diarrhoea, 37.7 million Indians are affected by waterborne diseases, and 73 million working days are lost due to illness.<sup>32, 33</sup> A disproportionate share of this burden falls on the rural poor, women, scheduled castes and slum dwellers.

The analysis then looks at 'what works'. Some of the elements required for improvements in accessing safe water and sanitation are clear: education; stronger local institutions; proper financing; appropriate technologies; and water conservation systems. Yet the evidence base in favour of specific models is often weak and heavily contextual. The report therefore seeks to identify common principles of success for a donor or an NGO to take on board, such as sustainability, local suitability and equity.

The final stages of the analysis comprise an overview of existing activity, funding and the NGO sector. The story in India is in two parts. On the one hand, there has been massive government investment in water and sanitation infrastructure over the past three decades. But on the other hand, grave problems persist and while the private sector has an increasing role to play, major gaps and opportunities still exist.

Using this framework, NPC and Copal seek to show that it is possible to build on this analysis to identify priority areas where philanthropy is likely to have the greatest impact. These comprise:

- mobilising communities around hygiene promotion;
- developing new financial and technical models around water quality and sanitation;
- strengthening the voluntary sector; and
- influencing government provision.

Although people may disagree with the exact nature of these priorities, we believe that the information and analysis in this section provides a strong rationale for prioritising and channeling funding based on evidence of impact. We hope that this chapter is useful for donors looking to invest in this sector, and also helps to underline NPC and Copal's more general hypotheses: that analysis and research counts.

## Stage 1: Needs

The first stage of analysis is to unpick the level of need within a sector. This includes trying to get a grip on the importance and impact of the problem and the wider effect it has on other interlinking areas. It is then necessary to look in more detail at the exact nature of the needs in the sector—how they vary between different sub-issues, geographies and groups. This helps to dig underneath the headline figures and pull out variations in needs and areas that are sometimes overlooked.

All of this provides a donor with an initial framework to start thinking about his or her giving. This includes getting a proper understanding of the nature and context of the issue, becoming familiar with commonly used terms and targeting resources where needs are highest.

‘The combination of safe drinking water and hygienic sanitation facilities is a precondition for health and for success in the fight against poverty, hunger, child deaths and gender inequality.’

World Health Organization<sup>34</sup>

‘We shall not finally defeat AIDS, tuberculosis, malaria, or any of the other infectious diseases that plague the developing world until we have also won the battle for safe drinking water, sanitation and basic health care.’

Kofi Annan<sup>35</sup>

What this analysis seeks to do is disprove the charge that water and sanitation is a peripheral issue.

## The importance of water, sanitation and hygiene

Most people recognise the need for clean water and sanitation, yet donors do not always appreciate how vital it is for a broad spectrum of other outcomes. Analysis suggests that improving water, sanitation and hygiene leads to better health, reduced poverty, increased education and—more surprisingly—greater security and equality.

The World Health Organization (WHO) estimates that every US\$1 spent on improving water and hygiene leads to a return of between US\$5 (£3) and US\$11 (£7).<sup>36</sup> The WHO also found that water, sanitation and hygiene problems cause almost 10% of India’s disease burdens.<sup>37</sup> This is due to the effects of contamination from heavy metals, such as arsenic and fluoride, as well as the more pedestrian but potentially deadly matter of the impact of bacterial and faecal material. Diarrhoea is the second biggest killer of children under five in India and contributes to the country’s widescale malnutrition rates, with almost half of Indian under-threes being underweight.<sup>38, 4</sup>

Poor sanitation and stagnant water helps spread diseases like cholera and malaria and, particularly in overcrowded city slums, contaminates drinking water. Without water to bathe with, people develop skin and eye infections and women can face gynaecological problems.

How, though, does inadequate water and sanitation link to poverty? One route is through its effects on health, with money diverted to medical expenses, even as illness stops people from working or children from attending school. But it has even more direct effects. When water is not available, people have to rely on expensive alternatives, such as bottled water, which take up a disproportionate proportion of their income. Where water is available, the simple matter of the time it takes for people (typically women) to collect it has an opportunity cost in relation to work, family care or education. Water collection can take up to four hours a day.

The effects on education go beyond absenteeism from school and low enrolment. Lack of toilets, facilities to dispose sanitary pads and privacy constitute a significant barrier to girls continuing in education beyond adolescence.

A final area to think about, again sometimes overlooked by donors, is the broader cost of inadequate water and sanitation to dignity, security and equity. Often it is these issues that are most relevant to people without access to water and sanitation themselves. Without toilets, women have to wait until early morning or evening to defaecate in the fields, which is inconvenient and leaves them vulnerable to attack.

What this analysis seeks to do is disprove the charge that water and sanitation is a peripheral issue. Instead, it demonstrates that it is both important in its own right, and also strongly related to other more mainstream concerns, such as education and poverty. The potential impact of successfully addressing water, sanitation and hygiene disadvantage is considerable.

## Water, sanitation and hygiene needs in India

At first glance, a donor would be forgiven for thinking that the situation on water and sanitation in India is reasonably promising. In 2004, according to government statistics, 95% of all rural habitations and 91% of urban households had access to safe water.<sup>39, 40</sup> And although the numbers for sanitation had not reached those heights, figures have doubled over the past eight years.<sup>41</sup>

However, dig beneath the headline figures and a more disturbing reality emerges. The main government numbers only capture ‘coverage’—that is whether a village has a well, a slum has a standpipe, or a house has a toilet. Key questions are not captured in this data, such as:

- whether an individual gets reliable, sustainable and good quality water;
- whether toilets are actually used; or
- if hygiene practices improve.

Adequate data giving a clear picture in each of these areas across India does not exist. Pulling together different pieces of research, it appears that there are still major gaps. The following analysis picks apart the sector according to issue, group and geography. Only by looking at these areas in more detail can a donor get a clearer idea of relative levels of need and possible priorities for funding.

## Needs by issue

### Water

#### Quantity and accessibility

Measured in terms of handpumps and wells, access to water in rural areas has improved significantly over the past three decades. In total, four million handpumps, 1.6 million public standposts and 160,000 mini-piped water supply schemes have been built—largely due to government investment and improvements in technology, such as the design of the borewell and the handpump.<sup>40</sup>

However, these numbers fail to take into account whether the water sources actually continue to provide enough water. In practice, handpumps break down, wells dry up, and growing populations put extra stresses on depleted water resources. Government programmes during the 1980s and 1990s had a supply-side focus, with little emphasis on maintaining and sustaining water sources (a crucial mistake that donors should learn from). Yet despite this, villages are still counted as being ‘fully-covered’\* in government statistics.

In 2003, the government commissioned a major habitation survey to get a clearer picture. This found that in reality, the number of rural habitations considered to qualify as ‘fully-covered’ had actually dropped by 314,000 between 2000 and 2003. On this revised basis, the total proportion of fully-covered rural habitations in India was only 58%, and in some states, such as Bihar, numbers were as low as 31%.<sup>42</sup> Even in 2007, after major additional investment, the government found that there were still a quarter of a million ‘slipped back’ habitations.<sup>43</sup>

Indian cities do not escape access problems, despite having more sophisticated piped water infrastructure and higher levels of coverage. In urban areas, the main problem is twofold: firstly, that not enough actual water gets delivered through this infrastructure, and secondly, that the poorest and most disadvantaged groups get overlooked.

Donors may be surprised to learn that Indian water utilities are the worst performing in Asia, and no city provides anywhere near 24-hour water for all its citizens. The best cities claim to provide around 12 hours, and most only provide water for a couple of hours a day, often at uncertain times. In 2007, the city of Rajkot supplied water for 20 minutes daily, while customers in Hyderabad and Bangalore received water on alternate days.<sup>44</sup> Around a fifth of households connected to municipal water systems have to supplement their water supply from other sources.<sup>45</sup>

In cities, access to water is largely dependent on land tenure. While people living in planned communities have access to 24-hour water, thanks to water tanks and private boreholes, people in slums depend on communal standpipes and water tankers. These can be both unhygienic and unreliable, causing people to wait for hours and providing insufficient water per head. The situation is worse for people in unofficial or ‘non-notified’ settlements, which make up half the slums in India, and therefore largely exist outside of government services and statistics.<sup>46</sup> These have to rely on buying water from private water vendors at inflated costs.

Based on this analysis, we are unable to prioritise between rural and urban areas—reliable data is not there, and on all accounts levels of need are significant across both categories. The key point for donors to understand is that often it is worth looking at government statistics in some detail in order to get a clearer picture of what is happening.

#### Quality

The other major issue with water supply in India is its quality. Large swathes of India are affected by contaminated groundwater with high levels of arsenic in Bihar, iron in Orissa and fluoride in Uttar Pradesh. The WHO and UNICEF estimate that about 66 million people in 17 states are at risk due to excessive fluoride, while around 13.8 million are at risk due to arsenic.<sup>47</sup>

Quality problems are reportedly increasing due both to population pressures and a growing reliance on groundwater. New wells are being dug in areas that are affected by heavy metals, while over-extraction of groundwater is degrading previously safe water sources. Salinity is a growing problem in coastal areas as seawater encroaches into empty water tables. According to the government, in 2006/2007, nearly 200,000 habitations across India were affected by heavy metals and salinity.<sup>48</sup>

Other pollutants and contaminants are also on the rise. Increased use of pesticides by farmers is adding to nitrate poisoning, as chemicals run into local wells. On a larger scale, run-off from factories, tanneries and other industries pollutes surface water.

Even in cities where water is supposed to be treated before use, quality problems can slip through. In Hyderabad, in May 2009, five people died after drinking bad water from their taps, and dozens were hospitalised.<sup>49</sup>

In 2006/2007, nearly 200,000 habitations across India were affected by heavy metals and salinity.

Department of Drinking Water Supply<sup>48</sup>

Donors may be surprised to learn that Indian water utilities are the worst performing in Asia, and no city provides anywhere near 24-hour water for all its citizens.

\* Fully-covered means that each person has access to 40 litres per day; and that the water source should exist within 1.6km in the plains and 100m elevation in hilly areas.<sup>53</sup>



The state of Andhra Pradesh has built nearly three million household toilets since 2001, yet it is estimated that half remain unused or are being used for purposes other than sanitation.

Water and Sanitation Program<sup>51</sup>

The key message here is that access to water is not the end of the story. It is tempting for a donor to consider that funding water provision is enough, without thinking about its quality. Or to assume that people who already have access to water have no problems in this area. Yet without dealing with quality issues, people will continue to suffer major health problems.

### Sanitation

The second issue of need after water is sanitation. In 2002, almost a sixth of all people in the world without access to sanitation lived in India.<sup>34</sup> A major government push has helped improve this situation. In 2008, the government estimated that 57% of rural households in India had access to a toilet—compared to 22% in 2001.<sup>41</sup>

Yet this still leaves a vast number of people without access to a toilet—43% of Indian households corresponds to hundreds of millions of people. Moreover, the total number of people with poor sanitation is likely to be much higher than the numbers without access to toilets, since toilets often go unused.

In Himachal Pradesh, over 300,000 toilets were built in the 1990s, but an evaluation of a random sample in 2003 showed usage of less than 30%. In Maharashtra, of the 1.6 million toilets constructed during 1997 to 2000, only 47% were being used.<sup>51</sup> The state of Andhra Pradesh has built nearly three million household toilets since 2001, yet it is estimated that half remain unused or are being used for purposes other than sanitation.<sup>51</sup>



Photograph supplied by Tara Chand

Why do people with access to toilets fail to use them? There is no single answer. One reason is poor quality design and a lack of water for cleansing. Another is inadequate understanding of the benefits. There is also an important dimension of cultural opposition. Many people are simply not used to it—they feel that having a toilet in or near the house is unhygienic or that they should continue their ancestral practices. In some cases, social rituals have grown up around female group defaecation.

These cultural factors are often overlooked by donors—particularly those that dismiss traditional practices as irrational or anti-modern. However, tradition and social *mores* can have a significant impact on actual behaviour and the success of different interventions. Any sector analysis has to integrate this ‘softer’ background into a proper understanding of the issue.

### Poor hygiene behaviour

The third key issue highlighted by this analysis of water and sanitation needs is hygiene behaviour. For donors this is probably the most overlooked and least understood aspect of water and sanitation. Yet it also has major potential for impact. Numerous studies show that hand-washing is a simple and cheap method of dramatically cutting down the spread of disease.

Part of the challenge is establishing the current situation, in that hygienic behaviour is not straightforward to measure. Some of the available studies appear to record unrealistically high levels of compliance. For instance, a study by the Global Hygiene Council found that 13% of people in India do not wash their hands after using the toilet, and that 18% do not wash their hands before eating food.<sup>52, 53</sup> Experts believe that the real proportions are higher than this.

The way that people wash their hands is also important. Many people in India do not use soap. In some areas the traditional way to wash hands involves dipping them into a bowl of water—forgoing the benefits of physical scrubbing—and as members of the same family often use the same bowl, this can actually spread diseases. Using ash to scrub hands is a better alternative, and soap better still.

Poor hygiene can be traced back to habit, poor education and a general lack of water and other hygiene ‘hardware’, like soap and bathroom facilities. Few households have private bathrooms; instead, people are forced to wash in dirty water and ponds.



All the evidence that NPC and Copal have seen suggests that the need for improved hygiene is vital. Due to the high impact of diseases, such as diarrhoea, any efforts to prevent them have significant repercussions and can be highly cost-effective. As quoted in Chapter 1, analysis carried out for CIFF showed that successful interventions tackling poor hygiene cost US\$3.35 (£2) per DALY, compared to US\$94 (£57) for a pump.<sup>24</sup>

### Needs by group

Of course problems can be broken down in different ways, and many donors thinking about water and sanitation will want to target resources on the groups that are worst affected. At a very basic level, the main indicator of poor access to water and sanitation services is poverty. Those on lower incomes are less likely to live in areas with good infrastructure, less able to influence public spending, and have less money to improve their situation by buying storage tanks, bathrooms or purifiers.

Moreover, while it may seem like pointing out the obvious, it is important to appreciate that access varies with different levels of poverty. This is partly why NGOs often specifically refer to 'the poorest of the poor'. Otherwise, there is a danger that interventions focus on the easiest to reach and simplest to move out of poverty, neglecting the people at the very bottom.

Yet looking beyond poverty, certain groups bear the brunt of poor water and sanitation. Women and scheduled castes and tribes all tend to have greater needs. This is the case across most of the main social issues in India—from poor education to poor health. The implication is that whatever a donor's interest is, it is always worth looking at the situation of these groups, as they are likely to be particularly excluded.

### Women

Women are disproportionately affected by water and sanitation because they traditionally bear the main responsibility for the household. They are the ones who wash the house, clean cutlery, collect water and bathe children. It is also women who often have to deal with the consequences of poor sanitation, such as looking after sick children.

As noted above, the time it takes to collect water is a primary burden. One study estimated that half of a woman's daily calorific intake went on collecting water. Spine problems and arthritis develop from carrying heavy amounts on their heads. There is also a significant opportunity cost involved, as women are unable to develop household production, look after children, or even just have time to rest. Collectively, this is one of the structural mechanisms by which gender inequality is caused and reinforced.

### Scheduled castes and tribes

The 2001 census found that members of scheduled castes are twice as likely to lack a household water connection, compared to the general population. Only 17% of scheduled tribes have a toilet in their house, which is well below the general figure of 43%.<sup>54</sup>

This is partly due to higher levels of poverty and poor education among these groups but entrenched social, political and economic discrimination is also a factor. A study of 11 states found that in nearly half of villages, people from scheduled castes were denied water by other 'higher' castes.<sup>54</sup> Children were unable to use water vessels in schools because of 'purity' issues; while households were made to wait until last before drawing water from the well.

Particular sub-castes are often trapped by tradition and social pressure into a practice known as manual scavenging—in effect, collecting human excreta for a living. Manual scavengers are the focus of government and a number of NGOs, as they suffer from three main obstacles. Firstly, economic exploitation is common, with wages as low as Rs.50 (£0.63) a month. Secondly, health problems are high; the majority of scavengers have anaemia while 62% suffer respiratory diseases, 32% have skin diseases, and 42% have jaundice.<sup>55</sup> Thirdly, they experience considerable social discrimination and prejudice.

Even though manual scavenging was made illegal in 1993, estimates suggest that there are still as many as 1.3 million manual

For donors interested in focusing on a group, it is hard to think of a more disadvantaged and troubling segment than communities engaged in scavenging work.



Photograph supplied by Tara Chand

scavengers—almost all of them female.<sup>56</sup> In some cases, the role has evolved, with manual scavengers employed to clean city drains—often handling sewage without protective clothing. It is estimated that more than 20,000 people die cleaning Indian drains each year.<sup>57</sup>

For donors interested in focusing on a group, it is hard to think of a more disadvantaged and troubling segment than communities engaged in scavenging work.

## Needs by geography

A third and final aspect of need for a donor to consider is geography. Local topographical, cultural and political factors all influence and shape the access that people have to good water and sanitation. Donors may wish to focus on a particular state, or define a strategy by rural or urban considerations.

**Table 3: Water and sanitation characteristics by state 2005/2006**

States & union territories	% of households with access to safe drinking water <sup>20</sup>	% of households with access to sanitation (toilet facility) <sup>20</sup>
<b>India</b>	<b>87.9</b>	<b>44.6</b>
<b>North</b>		
Delhi	92.1	92.4
Haryana	95.6	52.4
Himachal Pradesh	88.4	46.4
Jammu and Kashmir	80.8	61.7
Punjab	99.5	70.8
Rajasthan	81.8	30.8
Uttarakhand	87.4	56.8
<b>Central</b>		
Chhattisgarh	77.9	18.7
Madhya Pradesh	74.2	27.0
Uttar Pradesh	93.7	33.1
<b>East</b>		
Bihar	96.1	25.2
Jharkhand	57.0	22.6
Orissa	78.4	19.3
West Bengal	93.7	59.6
<b>Northeast</b>		
Arunachal Pradesh	85.0	80.6
Assam	72.4	76.4
Manipur	52.1	95.6
Meghalaya	63.1	71.3
Mizoram	85.0	98.0
Nagaland	62.8	85.6
Sikkim	77.6	89.0
Tripura	76.1	96.6
<b>West</b>		
Goa	80.1	76.0
Gujarat	89.8	54.6
Maharashtra	92.7	52.9
<b>South</b>		
Andhra Pradesh	94.0	42.4
Karnataka	86.2	46.5
Kerala	69.1	96.1
Tamil Nadu	93.5	42.9

### Particular states are worst affected

Individual states face their own distinct environmental issues. For example, Rajasthan has 10% of the surface area of India, but only 1% of its surface water, and Andhra Pradesh has almost no groundwater left.<sup>58, 59</sup> Yet donors should bear in mind that these are not just ‘facts of nature’, but are part of wider political, economic and social decisions.

Contrary to India’s stereotype as a ‘hot’ country, the problem it faces at the moment is not primarily one of inadequate water full stop. Rainfall is high, groundwater has historically been strong, and India contains a number of perennial rivers. Rather, not enough has been done to protect and augment water resources. Instead, groundwater is diverted to agricultural production; rainwater is allowed to run out to the sea; and surface water has become contaminated by pollutants.

Table 3 sets out data from the National Family Health Survey (2005/2006), which breaks down information on household access to water and sanitation by states. Unsurprisingly, the states with the weakest indicators tend to be the eastern and central states—Orissa, Uttar Pradesh, Bihar, Jharkhand and Madhya Pradesh.\*

These eastern and central states also tend to do badly in other areas, such as education and health. In a 2003 review of the least developed districts in India, 65 of the worst 69 were found in the five states mentioned above.<sup>60</sup> This reflects a range of factors including weak state government, an underdeveloped civil society, and low economic development.

This can be frustrating for donors who want to focus on high need areas, as it makes it harder for funding to have an impact. Compared to richer states, fewer effective NGOs are in place, existing systems are weak and government has lower capacity. Expectations often have to be scaled back, both in terms of impact and timescales.

So, while evidence of need would suggest that funding should be directed to northern states, it will also require more in-depth due diligence of NGOs and their capacity, as well as possibly more hands-on support. One way for an individual donor to surmount this is by channeling funding through foundations or INGOs with established infrastructure and contacts in these states.

However, while it is useful to make wider comparisons between states, there are dangers in being too dogmatic. Even within states that

are considered to be ‘developed’, there are individual districts that have acute problems. NPC has heard worries from some experts that needy districts in states such as West Bengal and Andhra Pradesh are now getting overlooked by funders.

### Urban versus rural

The other way of analysing need geographically, already touched on above, is through separating urban and rural issues.

In terms of sheer numbers, India is predominantly a rural country, with the 2001 census showing that 72% of the Indian population live in the countryside.<sup>61</sup> And 28.3% of the rural population was in poverty, compared to 25.7% of the urban population.<sup>62</sup> This is reflected in much lower headline water and sanitation statistics, as well as a host of other problems including literacy rates, education levels and poor health.

But while rural disadvantage has been the traditional focus of government and funders, there is a growing argument for increasing the focus on urban issues. Rapid urbanisation is leading to a recalibration of the landscape of need, with the urban population expected to reach 41% by 2030.<sup>63</sup>

Already, urban infrastructure is under strain, with many cities struggling to supply water and remove waste in densely populated areas. As noted above, the brunt of the burden is felt by people in slums—particularly those who are ‘unofficial’ and therefore considered largely outside of government responsibility. They are also particularly vulnerable to outbreaks of diseases, such as cholera or dengue fever.

So on both counts—numbers affected and degree of need—urban issues are gaining importance, and due to demographic shifts, this is expected to continue. Focusing attention on cities now can help head off problems in the future.

### Stage 2: What works?

Having looked at the nature and levels of need in the sector, the next stage of analysis is to see what can be done about it. By identifying approaches and interventions that have a strong evidence base, it is possible to direct donors to areas with potentially high impact. Thinking about what works can also provide criteria for donors to judge current activity in the sector, and see how closely government, NGO or private sector activity reflects good practice.

Unsurprisingly, the states with the weakest indicators tend to be the eastern and central states—Orissa, Uttar Pradesh, Bihar, Jharkhand and Madhya Pradesh.

While rural disadvantage has been the traditional focus of government and funders, there is a growing argument for increasing the focus on urban issues.

\* Due to difficulties and inconsistencies in data collection, there are some anomalies. Apparently over 90% of households in Bihar and Uttar Pradesh have access to improved sources of drinking water, yet this is inconsistent with other sources of data. Information in the same NFHS-3 survey states that these two areas have the lowest percentage of households connected to piped water supply.

By identifying approaches and interventions that have a strong evidence base, it is possible to direct donors to areas with potentially high impact.

A need for strong local institutions is a central theme to all Indian development work, because they are critical to enforcing state and central government accountability.

In terms of the practicalities of carrying this out, numerous data sources exist—such as government documents, academic studies, UN evaluations and NGOs' own information. Yet these vary in terms of quality and also in the level of evidence that they provide. As explained in Chapter 2, evidence can be provided with varying degrees of robustness.

Rarely is it possible to identify any magic bullets. The complexity of the social problems involved and India's vast cultural and geographical diversity challenge attempts to impose a standard solution. Individual problems often require tailored solutions.

Given these challenges, NPC and Copal think that it is more productive to focus on general components of success rather than specific interventions. The available evidence does suggest that these common components and qualities underpin successful approaches. Looking at them in more detail can provide donors with transferable lessons to apply to any consideration of individual projects.

In the water, sanitation and hygiene sector, NPC and Copal have identified five main components that need to be in place to ensure good access to water, sanitation and hygiene. These are:

- education and information;
- involvement of local institutions;
- appropriate technology, infrastructure and expertise;
- adequate financial resources; and
- environmental resources.

Details of what each of these components entails, and examples of good practice, are set out below.

It is important to bear in mind however that not all interventions will address all of these five areas at once; many will focus on a particular element. Covering all of these five disparate areas can be challenging for a single organisation. An NGO that knows how to work with communities does not necessarily have technological or financial expertise. Likewise, government departments may have technological knowledge, but no clear knowledge of environmental considerations. Partnership working is often key.

The key lesson for a donors is that, even when looking at an individual intervention that is focused at a particular component, it is important to see it within this wider context. Weaknesses in any one area may undermine the overall impact. So, while a project may educate and inform the community about sanitation, if the money is not there, or if local institutions are not involved, its effectiveness will be seriously weakened.

## Education and information

Education and information have traditionally been seen as add-ons to more capital-intensive projects. Yet recent reviews have highlighted their central importance in successful interventions.

This is partly because education stimulates demand for improved water and sanitation. While considerable demand exists for access to more water, there is less 'natural' impetus for other improvements, such as sanitation, hygiene and improved quality.

From NPC and Copal's analysis of current efforts, it appears that more successful programmes invest in activities at the community and household level, focusing on door-to-door campaigns, social marketing of sanitation products, and hygiene promotion among poor and vulnerable groups.<sup>64</sup> Larger and less targeted awareness-raising activities, such as radio advertisements, appear to have less impact.

As well as changing *attitudes* towards sanitation, hygiene and water, it is also important to change *behaviour*. Knowledge and understanding of germs and the impact that sanitation can have is not enough: people still need information, reminders and prompts on what they should do—that they should wash their hands, how they should do it, how to clean utensils, and the different purification techniques for water.

Delivering behaviour change in relation to hygiene is one of the most vexing and least well-understood areas of water and sanitation. NGOs use techniques, including classes in schools, poster campaigns and peer influence, but improvements tend to be difficult to embed, and may not last over time.

There is an opportunity for an 'engaged' donor to support research here into better approaches. This is likely to involve working closely with communities, health experts and local government.

A final area of education and information is community mobilisation and empowerment. This can sometimes sound woolly to donors. Yet it is pivotal in terms of ensuring that people know their rights and have the confidence to do something about enforcing them. Often people are unaware of the legal responsibilities of government or municipal utilities, and do not know how to hold them to account. Supporting community 'empowerment' is a way of potentially leveraging wider resources. For example, women's self-help groups can be encouraged to run community toilet complexes, or to provide microfinance facilities for sanitation hardware. This relates closely to the next component of good water and sanitation—local institutions.



## Local institutions

A need for strong local institutions is a central theme to all Indian development work, because they are critical to enforcing state and central government accountability. Water and sanitation services are no exception. Alongside the gram panchayat (main village council), each village is also supposed to have a water and sanitation committee. In addition to its political role, this can drive a greater sense of ownership and involvement, helping to embed operations and maintenance systems. Where this works well, people have more knowledge and investment in the project, and are able to devise local systems to raise revenue. As a consequence, results have been shown to be quicker and more sustainable.<sup>65</sup>

Yet the involvement of local institutions is not a guaranteed sign of success—donors need to be sensitive to this. For instance, there are cases where villages have given low priority to water and sanitation, or certain aspects of it, such as quality. Even where it is a priority, local institutions can lack technical knowledge of different water systems and how to implement them. Without self-confidence or proper leadership, they may be unable to deal with higher levels of government or with contractors.

The limitations of village governance in relation to water and sanitation are most clearly visible in relation to socially marginalised groups. Dalits, tribals and poor groups often face prejudice within villages and get overlooked in spending decisions. This is a difficult problem for NGOs to overcome, as they have to tread a fine line between working within village institutions to strengthen their confidence, and challenging exclusion.

The key questions for donors to ask are: how is the local community involved? How is that community being defined? And who is excluded from it?

## Technology and infrastructure

The third necessary component of successful water and sanitation services is appropriate technology and infrastructure. Though this area tends to be the focus of most spending, important parts still get overlooked—in particular, the ability to choose the right technology, how best to implement it, and how to maintain it in the future.

### Choice

The temptation for many funders is to produce standardised technology. This leverages economies of scale and specialisation, but the danger of this approach is that it reduces the

ability of communities to choose the water and sanitation system that is best for them. Local people are often unaware of the full range of options available. Instead, they can be locked into systems that are externally imposed and do not suit them, their needs or the local environment.

### Implementation

There are numerous examples of water and sanitation facilities being badly implemented—wells being dug in the wrong place and latrine pits being constructed so that sewage flows into the garden or contaminates drinking water.

Implementation problems reflect the lack of expertise at all levels—from geohydrologists who are able to find water sources, to engineers who can build check dams, to masons who can construct latrines. In addition, in some cases there are cultural barriers. NPC and Copal heard about one case where village latrines were constructed to fit in with vedic positioning (an Indian version of feng shui), but which meant they ended up flooding regularly.

### Ongoing maintenance

Without regular repair, pumps and toilets stop working. The main challenge here is financial—funders have tended to be better at meeting capital costs than establishing systems to meet ongoing revenue costs (see below). Additional barriers are the continuing need for technical know-how and access to parts.

A lesson of this problem is that, as a general rule, donors should prefer simple technologies. Rope pumps, for instance, are an ancient technology that can easily be repaired by rural communities (where water tables are not too deep). Traditional rainwater harvesting sources, such as underground tankers and community ponds, provide a relatively low-cost way to collect water in drought-prone areas.



Photograph supplied by Tara Chand



The amount of freshwater available per person in India is declining rapidly, and it is predicted that by 2020, India will be a water-scarce country.

Targeting women is important because of their own needs and also the wider impact they have on the behaviour of their husbands and children.

## Resources

The fourth component of successful water and sanitation schemes is financial resources. This includes money for initial capital costs and, as noted, for operations and maintenance.

Traditionally, government has provided substantial subsidies for toilets, wells and sewerage systems, then has continued to contribute to operations and maintenance. The difficulty here is that funding constraints limit scale, and maintenance funding tends to get neglected.

These factors have led many analysts to look at market-based approaches to financing water—and this is where much of the cutting-edge thinking in the sector now sits. The advantage of involving communities and individuals in paying for their own water and sanitation is twofold. First, ongoing user payments can help improve the sustainability of projects (they are not dependent on outside funders; locals are more involved). Second, if projects are self-financing, it is easier for them to grow and be replicated in order to reach more people.

The key concerns of a market or fees-based approach centre on equity and access. Some NGOs argue that by making people pay for water or sanitation, the really poor will get priced out, or will be forced into using too high a proportion of their income. Targeted subsidies may be able to offset this risk, but for donors and NGOs who see water as a right rather than a commodity, this is not an adequate response.

## Environment

The fifth and final component of successful water and sanitation schemes is environmental sensitivity. Without thinking about local water resources, projects are at serious risk of failure—both short-term and long-term. How to factor in future risks is especially tricky given that utilities with high capital costs are meant to last a generation, yet there are major uncertainties about the impact of climate change.

The amount of freshwater available per person in India is declining rapidly, and it is predicted that by 2020, India will be a water-scarce country—which means that there will be less than 1,000 cubic metres per head.<sup>66</sup> This is exacerbated by significant seasonal and geographic disparity. Some areas of Rajasthan get an average of just 150–300mm of rain a year, while floods plague regions such as Bihar and Orissa.<sup>67</sup> Half of India's annual precipitation occurs in 15 days, and 90% of annual river runoff occurs in a four-month period.<sup>66</sup>

For any project, efforts need to be taken to protect and augment water resources—in particular, groundwater. Around 85% of rural drinking water sources depend on groundwater, yet water levels are dropping alarmingly.<sup>68</sup> In Ahmedabad, the city's water table has dropped an average of seven feet per year in the past 20 years.<sup>69</sup>

The main threat is agriculture, which uses 92% of all groundwater extracted, as compared to the 5% used by the industrial sector, and the 3% left for domestic use.<sup>70</sup> Drinking water is prioritised over other forms of water under the government's National Water Policy. However, there are few effective ways to police use and restrict extraction of water. Instead, large agricultural farmers are able to deplete groundwater sources, with little legal recourse for community opposition.

Donors who are serious about tackling the structural causes of inadequate water and sanitation in India may need to fund policy, research and campaign work to address the distortions caused by over-exploitation of groundwater. However, as set out in Chapter 2, there is a trade-off: this work can potentially have impact at scale, but is also risky and uncertain to produce results.

## Common qualities

The five elements set out above provide a donor with a broad outline of what needs to be in place to improve water, sanitation and hygiene provision. Every project that a donor looks at should be located within this framework—and even if it is focused on only one of these areas, donors should ask questions about how it fits with these other components.

Another way of looking for potential indicators of success is to look in detail at the characteristics and qualities of individual projects. Successful interventions share four common qualities: sustainability; local context; equity; and a focus on impact.

**Sustainability** is an important theme linking the components—whether talking about financial models, technology, education and information, environment or local institutions.

Associated with the idea of sustainability is the need to tailor initiatives and approaches to the **local context**. External systems that are parachuted in without proper consultation, and without input from communities and the people that are actually using them, are unlikely to last or work.

**Table 4: A matrix showing examples of the interaction between the components and qualities of successful water, sanitation and hygiene interventions**

Components qualities	Education and information	Local institutions	Technology and infrastructure	Resources	Environment
<b>Sustainability</b>	Hygiene promotion activities that are embedded into school curricula	Female self-help groups that have the capacity and organisational structures to attract and maintain membership	Handpumps that are easy to repair and fix, using local technology and labour	Urban community toilet complexes that are able to cover costs through charging users	Wells that do not over-exploit groundwater, and are complemented by water charging structures, such as check dams
<b>Local context</b>	Sanitation promotion activities that take into account local cultural practices—such as the use of ash or anal cleansing	Local water committees that are elected by community members and responsive to their wishes	Water purification systems that are chosen based on the type of impurity found in that local area	Community enterprises that raise income for the maintenance of communal water sources	Handpumps in flood prone areas that are protected from contamination by being placed on a raised platform
<b>Equity</b>	Information campaigns that include women and scheduled castes, along with the rest of the community	Local village water committees that include female representatives and members of scheduled castes	Water delivery systems that are connected to all members of a village and not just a certain caste	Water supply systems that reach all members of a village	Urban sanitation infrastructure that ensures waste is not kept and processed in slum area
<b>Integrated</b>	Information and education activities that stress the importance of water quality, as well as the quantity of water	Local water committees that also address sanitation and hygiene problems	Toilet complexes that also provide bathing facilities and access to clean water	Community toilet schemes that use revenue earned for hygiene promotion activities	Rural sanitation systems that ensure that the disposal of human excreta does not contaminate water sources
<b>Focus on impact</b>	Systems to capture change in behaviour due to interventions aimed at hygiene promotion	Monitoring systems that can capture and judge the impact, transparency and success of local government	An understanding of the amount of water delivered through urban water infrastructure	Clear data on the costs and charges of running systems, and realistic assumptions about people's willingness to pay	Data on the rate that groundwater levels are dropping

The principle of **equity** involves ensuring that all people are helped and included—for instance, so that women and lower castes are represented in local institutions. This is not just a matter of social justice, but also of efficacy. Targeting women is important because of their own needs and also the wider impact they have on the behaviour of their husbands and children. Likewise, when thinking about sanitation, overlooking disadvantaged groups has repercussions for the whole community, as it can potentially lead to the spread of infectious diseases, such as cholera.

Across all five components, initiatives for water, sanitation and hygiene need to be **integrated** to maximise their impact. Increasing the amount of water available alone will make some difference, but will offer a lower 'social return' if sanitation and hygiene issues are ignored. Likewise, it is hard to promote hygienic activities, such as hand-washing, without providing enough water.

It is important to note that this does not mean that the same organisation needs to provide water, sanitation and hygiene—specialism will

sometimes be a better model—but it does mean that the links between the different areas need to be made carefully.

A final theme is that efforts have to be planned with a clear **focus on impact**. Building toilets and wells is not an end in itself, but a way to improve the well-being of people and affect long-term outcomes such as better health, livelihood and education. Measuring success in these terms, rather than just in outputs like 'pumps constructed', is the best way of judging the impact of different approaches.

For a donor considering where to fund, thinking about these areas does not give a single answer to the question 'what works?', but they do provide a framework for judging the quality of different services, as can be seen in Table 4. Where a donor comes across a programme that neglects sustainability, local fit, equity, outcomes and partnership, it should raise a red flag. More generally, using this approach can empower donors to challenge and question NGOs.

Influencing government has considerable potential—whether it is lobbying and campaigning or illustrating what a successful project looks like.

### Stage 3: Government and other funders

A difficulty for a donor who cares about government is in unpicking exactly what is happening, and how closely official policy matches reality.

The third part of NPC and Copal’s analytical framework for thinking about social problems involves looking at the role of other actors in the sector, including government, the private sector and other funders. This helps to make philanthropy more effective in several ways.

First, it provides general background to enable a funder to engage credibly with NGOs and government.

Second, it helps focus resources on gaps. Without knowing what else is happening, a philanthropist is at risk of wasting money on something that is the government’s responsibility or that could be better addressed through the private sector.

Third, it facilitates thinking about partnership work, scale and exit. Donors may choose to fund direct services where government provision is non-existent. They may fund projects that complement and build on top of government initiatives. Or they may decide to develop projects that influence or get taken on by government.



Photograph supplied by Tara Chand

Influencing government has considerable potential and risks—whether it is lobbying and campaigning or illustrating what a successful project looks like. But it matters: after all, government has the ultimate responsibility for water and sanitation services, and it is the only actor with the money, the infrastructure and the legitimacy to reach India’s 1.2 billion people.

#### Government

A difficulty for a donor who cares about government is in unpicking exactly what is happening, and how closely official policy matches reality. For example, since 1992, it is local government that has had the actual responsibility for delivering water and sanitation services. The role of central and state governments has been to act as facilitators through enabling policies, budgetary support and capacity development, but this has been slow to happen. In the words of the government’s Planning Commission\*:

*‘Due to their inherent weaknesses like funding constraints, low technical ability, the devolution of power is yet to make a desirable impact on the ground. While sporadic success stories are trickling in, this concept has yet to go a long way.’<sup>40</sup>*

In practice therefore, central and state government policies are still the main influences on the sector. The story is one of them shifting focus over the past two decades, moving from a heavily supply-side model to one focused on stimulating demand.

#### Traditional focus on supply-side policies

From the start of the 1970s, the government focused its rural efforts on building up the water and sanitation infrastructure in rural India. Through the Accelerated Rural Water Supply Programme (ARWSP), the Department of Drinking Water Supply (DDWS) channelled money to state engineering departments to build wells.

A major weakness of this approach was the lack of community participation and low emphasis on sustainability. Often water systems would be built with no understanding of local needs, with no consideration of local water resources and with no real mechanism for ongoing operation and maintenance. While state government was technically responsible for repairs, the allocated budget was modest and responsiveness slow. Even where communities wanted to repair systems themselves, they lacked the relevant skills.

\* The government body that sets the framework for India’s economic development through a series of five-year plans.

### Box 11: Urban government policy

When looking at urban government policy, a donor would be forgiven for wondering exactly what was going on. All the publicity and focus has been on rural initiatives, while urban efforts are largely hidden—either integrated into large-scale infrastructure development projects, or part of a long-standing and inefficient programme to convert dry toilets into latrines connected to the sewage system.

The recent announcement of a new National Urban Sanitation Policy in October 2008 might be the start of greater government focus on urban issues, but the exact details of the strategy are still unclear. The initial policy outline seems to be based on the rural Total Sanitation Campaign, with an emphasis on awareness generation, operation and maintenance, and establishing open defaecation-free cities.<sup>71</sup> While it is still too early to say for sure, the programme's development may provide interesting opportunities for philanthropists.

The government approach to urban water supply has traditionally been about building up the necessary infrastructure, and less about running it successfully. Although water and sanitation spending makes up most of the main government infrastructure funding projects, Indian water and sanitation utilities are, as already noted, regularly rated as the worst in Asia. Water supply is unreliable and insufficient for people's requirements, and it does not reach those in most need. This is partly due to problems raising revenue and partly due to poor management of the services.

In 2007, only a third of urban utilities were able to recover their operating costs. A key reason for this is that they undercharge for water. Some utilities, such as the one serving Kolkata, do not bill residential users at all.<sup>72</sup> Others keep prices artificially low. For a family of five living on the poverty line and using 20 cubic metres of water a month (which is the international standard—roughly ten bathtubs), it would cost 1–2% of average income. Affordability thresholds developed by the WHO suggest that 5% is a more appropriate figure.<sup>73</sup>

What can be done about it? Efficiency improvement is one answer—reforming and retraining public utilities to overcome high-staffing ratios and poor management. But from the other side, many analysts argue that the only long-term solution is to raise prices to cover operating costs.

Charging more for water is a vexed topic but there is some survey data to suggest that even poor Indian families would be willing to pay more for a better service.<sup>74</sup> However, urban governments are worried about alienating voters, as well as the danger that rising costs would penalise the very poor.

Donor sympathies may also be divided here. On the one hand, it does seem that access to water is a basic human right that should be subsidised by government. Yet on the other, excessively low costs mean that in reality water supply in urban areas is unstable and low quality. Also, it appears that the bulk of government subsidies do not go to poor families, but instead go to companies that use high volumes of water at reduced tariffs.<sup>75</sup> The 40% of people without any access to water from utilities get nothing.

In truth, unless a donor has millions at their disposal, their own utility company, or wants to fund a particularly focused advocacy group, utility reform is not going to be easy to engage with. Beyond, that is, getting a clearer idea of the context and challenges facing urban NGOs. Moreover, there is a strong argument (often made against the World Bank) that overseas donors should not have such a strong role in influencing urban water policy.

By contrast, an interesting recent development has been a growing trend to involve local communities in government's decision-making around urban water and sanitation. It is important not to overstress this; in the main, decisions are made at state level, or by public utilities where local people cannot hold people to account or communicate their preferences. However, interesting initiatives are being explored by municipal corporations to listen and to involve local groups in planning and delivering services. In some cities, local groups have been able to persuade local government to extend water and sanitation infrastructure into unofficial urban slums.

National sanitation policies took the same approach, although starting somewhat later. From 1986, the Central Rural Sanitation Programme (CRSP) provided a 100% subsidy of Rs.2,000 (£25) to families below the poverty line to construct toilets but, again, community participation was low. Toilets were built without any attempts to persuade people to use them, to educate communities on the benefits of sanitation, or to teach people how to operate and maintain them.

Over the 1990s, there was a growing realisation that these approaches were not working. In response, a number of pilot projects were developed such as the Swajal project in Uttar Pradesh and the Intensive Sanitation project in West Bengal.<sup>75, 76</sup> These were designed to test out different ways of stimulating community demand and improving sustainability. Their success led to a change in government approaches and policy in regards to rural provision; innovation in urban water policy has lagged behind. While the focus of this section is on rural government policy, Box 11 sets out current progress with urban policy.

## Box 12: Main demand-driven government programmes

### Total Sanitation Campaign (TSC)

The Total Sanitation Campaign started as a pilot project in 1999, and has since grown to be the government's major programme in the area of sanitation. It covers 590 of the 610 districts of India.<sup>41</sup> In 2007/2008, the budget for the programme was US\$235.56m (£143m).<sup>77</sup> Its scale and importance mean that any donor visiting water and sanitation projects will need to know about it.

This is not least because its design incorporates some of the lessons of earlier policy failure. Although the scheme has evolved slightly over the years, its core principles include that it is community-led, focused on information, education and communication (IEC) activities, and involves minimum subsidies. Funding is meant to go to developing a supply chain of technology that can provide a flexible menu of options rather than a 'one size fits all' approach.

Central government provides most of the money, but individual states have been able to adapt and experiment with the programme.<sup>75</sup> In Maharashtra, for instance, the government has pursued a 'community-led total sanitation' approach that has broadened the focus beyond individual toilets, and concentrated on making villages 'open defaecation-free zones'. Cash prizes were awarded to successful villages.

This community-focused approach is now at the centre of a lot of sanitation thinking. Central government itself backed 'open defaecation-free' zones in 2003, when it started the Nirmal Gram Puraskar ('Clean Village Award'). Under this scheme, cash incentives are given for panchayats, blocks and districts that are fully sanitised. As of October 2008, the TSC has supported the building of 57 million household toilets, 680,000 school toilets, and 200,000 anganwadi (nursery) toilets.<sup>41</sup>

### Swajaldhara

On water supply, the main programme that donors should know about is called Swajaldhara, which makes up 20% of the government's main funding stream—the Accelerated Rural Water Supply Programme (ARWSP). Started in 2002, it is a significant improvement over its forebears. Key principles include that it is:

- **Demand-driven:** Communities decide on the choice of the drinking water scheme including planning, design, implementation, control of finances and management arrangements.
- **Community contribution-based:** Communities have to share costs (initially 10%) and pay 100% of operation and maintenance costs.
- **Community owned:** Communities own all water systems.
- **Water conservation focused:** Projects should include groundwater recharge systems and rainwater harvesting.

An interesting feature of the programme is that government intervention is staggered, from initial funding for community mobilisation, to a two-tier payment system for implementation, with final authorisation coming from central government. Overall the aim of the programme is '*shifting the role of government from direct service delivery to that of planning, policy formulation, monitoring and evaluation, and partial financial support*'.<sup>78</sup>

### National Rural Drinking Water Quality Monitoring and Surveillance Programme

A third policy development that will inform donor practice and influence resource allocation is the National Rural Drinking Water Quality Monitoring and Surveillance Programme. This was started in February 2006 and now makes up 20% of the government's water budget.

Under the programme, the importance of quality issues is spread through information and education activities. Local communities are meant to be given kits to test the quality of their water sources; positive samples are then tested at district and state levels.<sup>79</sup> The idea is that by making water contamination better known and more visible, it will help create demand among the populace for cleaner water, increase the pressure on government and water suppliers to improve services, and encourage safe practices like boiling.

### Growth in demand-focused work

The main trend in the development of government policy over the past decade has been the shift towards initiatives that stimulate local demand. Government programmes such as the Total Sanitation Campaign (TSC) and Swajaldhara are explicitly designed to empower communities through education and information, to make interventions more responsive to local needs, and to reduce the use of central subsidies. Recent attempts to improve water quality monitoring have

continued this community involvement theme. See Box 12 for an account of the three main government programmes.

What do these three programmes mean for donors? The implications are at least threefold:

First, they show that government is taking water and sanitation more seriously, devoting substantial resources to it. A mid-term evaluation of the TSC in 2004 found that hygiene education had increased, drop-out rates in schools had fallen by 64%, and enrolment increased by 48%.<sup>80</sup>



Second, due to the focus on community involvement and information, education and communication, government is starting to involve and fund NGOs to deliver parts of its programme. This provides opportunities for philanthropists to provide match funding or to fund joint programmes.

And third, despite improvements in government policy, significant weaknesses still exist—particularly around implementation and community involvement. These challenges tend to remain across most government activity in India. Getting a clear idea of exactly how this affects how government policy translates into reality is a key role for analysis. Only by understanding this are donors able to identify opportunities where they can make improvements, strengthening existing resources and filling in any gaps. It is these challenges and problems that we will look at next.

## Current challenges

### Lack of government capacity

The first major challenge that government faces in implementing its new initiatives is a lack of capacity, particularly when looking at community involvement. Water and sanitation projects are usually overseen by state engineering departments who have little history of working with communities.

One well-documented example comes from the state of Andhra Pradesh, where the Public Health Engineering Department recruited temporary ‘resource officers’ to deal with the community-mobilisation aspect of the TSC. But the short tenure of the position made it hard to recruit experienced or locally-respected personnel. Resource officers were generally young and inexperienced, with little professional support, training or incentive to serve the communities. Unsurprisingly, usage rates of toilets constructed as part of the project were less than 50%.<sup>64</sup>

Government has also found it hard to live up to its ambitious pledges on setting up a new mechanism for testing water quality—water testing kits and laboratories. In Jammu and Kashmir, out of 14 districts, only four had water testing labs, of which one was not functional. Haryana clinics were supposed to test 94,000 samples between 2002 and 2007, yet only 13,980 were tested.<sup>61</sup>

This lack of government capacity should provide greater opportunities for NGOs—particularly as their traditional strength is working with communities. And in some cases too, government is outsourcing the community component of its programmes. For example, in Mandi District in Himachal Pradesh, three full-time NGO workers have been employed

to oversee the TSC programme.<sup>62</sup> Yet, as shown above with Andhra Pradesh, there are also many examples where government unsuccessfully tries to deliver on its own.

### Lack of proper decentralisation

The second major problem, the lack of proper decentralisation, is both a product and a cause of constrained government capacity. It can be easier and quicker to run things from the centre, or just to ignore the requirements for community involvement. A government review of its policies stated that:

*‘While our programmes have elaborate guidelines for community involvement, it is obvious that field-level adoption is far from satisfactory.’<sup>140</sup>*

In a study of 1,700 rural piped water schemes, less than a third were actually managed by the villages themselves.<sup>63</sup> Even when the local community has been involved, disadvantaged groups remain overlooked. In villages in Bihar—even those that have been awarded the Nirmal Gram Paraskar award (see Box 12)—no consultation with poor Dalit communities had taken place and women were not aware of the programme.<sup>65</sup>

### Corruption and political interference

Proper implementation of projects has also been affected by corruption and political interference. A wealth of anecdotal evidence suggests that local politicians are able to influence the design and location of projects. NGOs report significant problems in getting needy villages funded, as politicians prioritise their own constituencies. Or they undermine the long-term viability of certain projects, such as community toilets, by making election promises to provide these services for free.



Photograph supplied by Tara Chand

The lack of proper decentralisation is both a product and a cause of constrained government capacity.

Despite a recognition that the ultimate aim of every sanitation program is to improve public health and well-being, program performance is almost always measured by physical or financial progress.

World Bank

In Jharkhand for instance, 10,341 sites were drilled for construction of Deep Tube Wells between 2002 and 2007. Yet over a tenth of these were declared as unsuccessful due to wrong selection of sites, which were often chosen at the insistence of local politicians, rather than any geohydrological data.<sup>81</sup>

#### Inadequate focus on behaviour change or other outcomes

A fundamental problem in what government is doing is that progress on all of these projects is still being measured in terms of numbers or percentage coverage. Indicators are not designed to capture either usage or behaviour change. As a recent World Bank study of the TSC says:

*'Despite a recognition that the ultimate aim of every sanitation program is to improve public health and well-being, program performance is almost always measured by physical or financial progress. In other words, government ministers and program managers are interested in how many toilets have been built for their money, rather than the program's long-term impact on the incidence of diarrhoeal disease or on infant mortality'.<sup>84</sup>*

These metrics impede a focus on the real drivers of change, such as community involvement and demand management. Enthusiastic officials are instead often striving to meet ambitious coverage targets, such as the achievement of 100% coverage within their jurisdiction, regardless of the real impact.

#### Box 13: Privatisation

One of the most controversial issues in water and sanitation has been the involvement of business—in particular, the privatisation of urban water supply. While hailed on some sides as a viable solution to poorly performing municipal water utilities, it has also faced stiff opposition from community groups. They feel that water is a public good rather than a private commodity, and that privatisation would automatically lead to higher prices that shut out the poor.

The debate has raged over the past 15 years, with occasional flashpoints—such as the attempted privatisation of the Delhi water board or the successful privatisation in Bangalore. It has also brought in other dynamics, in particular criticism of the power of 'foreign' funding bodies, such as the World Bank and the Asian Development Bank, to set the agenda.

For donors, unless they are passionately interested in funding anti-privatisation community groups or have links to private water utilities, the intricacies of this debate are probably not relevant. Instead, it is enough to know that it is taking place and that the global evidence base on this debate is not conclusive in favour of either private or public water and sanitation utilities. The World Bank says that privatisation is just one of a possible range of answers.

#### Private sector

Of course, government is only one player in water and sanitation, and donors also need some understanding of the other main agent shaping the environment: the private sector. A key question in water and sanitation debates is what should be paid for by donors and government, and what services could be provided through the market.

Donors may have heard about the major debates on the privatisation of public water utilities across the world (see Box 13). However, this has tended to obscure discussion of other types of private enterprise in the wider sector that are probably more relevant to donors' decision-making. For a significant proportion of people, small businesses, such as masons and bottled water sellers are the main way they access water and sanitation services. Roughly three quarters of all the toilets built in rural households had been constructed by the private sector, with the rest built by government and NGOs.<sup>84</sup>

Interesting work is going on to explore and extend the role of the private sector, looking at the problem from two directions: firstly, extending and developing lines of credit to reach the poor (ie, microfinance); and secondly, developing the skills and capacity of the private sector to provide a better, cheaper service. There may be opportunities here for donors to support 'social businesses'.

The original focus of microfinance was on income-generating activities, but recent developments have also focused on providing credit for improved water and sanitation infrastructure, such as connection to sewerage systems or buying household water purifiers. The thinking here is that saving money on increased productivity and fewer medical expenses will lead to savings in the long term, and also better access to water may help earn an income through increased household production (eg, growing and selling vegetables).

Currently, it seems that microfinance is able to fill a useful gap, reaching people just below or above the poverty line. Yet the poorest of the poor are not necessarily viable customers, and the recent economic downturn has affected the ability of microfinance lenders to draw down credit, limiting the people they can reach.

During our research, NPC and Copal visited one specialist water microfinance provider. Its ideas were interesting, but the model was underdeveloped, with limited deal flow and inadequate capital to grow. Donors wanting to operate in this area should recognise it is a high-potential but high-risk option at the moment.

Elsewhere, work is being done to develop and improve the market in water hardware and sanitation and hygiene supplies. The government's Total Sanitation Campaign, described above, calls for the development of rural sanitary marts (basically, local supply shops) that would be run by self-help groups, NGOs or local government. UNICEF also funded a programme in Bihar to encourage, train and support masons in sanitation—both in terms of construction techniques and marketing their products.

The development of social enterprises, with avowedly social aims, provides opportunities for philanthropists to contribute financial and non-financial resources. This has also enabled philanthropists to think about other financial mechanisms, beyond grant-giving, such as loans or equity stakes.

Yet while social enterprises and private sector involvement is becoming increasingly trendy, it is important not to gloss over its risks and challenges. Establishing social enterprises and nurturing new businesses is difficult, particularly for people or NGOs without private sector experience. Conversely, donors must be sure that social enterprises do have an explicit social agenda and are not just a hook to attract extra capital or make up for a deficient business plan. Beware social enterprises that promise too much.

## Funders

The final area of government and other funder activity to consider is that undertaken by professional agencies like INGOs, trusts and foundations. This is particularly important for new donors who may be able to leverage professional skills and experience.

The story here is that water and sanitation is growing in popularity—after years of being relatively overlooked and under appreciated. The Millennium Development Goals include the target to halve the proportion of people without sustainable access to safe drinking water and sanitation by 2015.<sup>65</sup> This has helped provide a focus and framework for funding going into the sector.

Unpicking exactly what is happening is challenging; little coordination exists; donors often do not publicise information; it is unclear how much money is being spent or where it is going. However, it is possible to piece together some indicative information for different groups of funders.

## Multilateral and bilateral agencies

Looking globally, US\$6.2bn (£3.8bn) or 7% of all aid directed through multilateral and bilateral agencies goes to the water and sanitation sector. India gets more of this money than any other country—receiving 13% of the total. Most of this came from Japan (US\$635m/£385m), the World Bank (US\$130m/£79m) and the European Union (US\$47m/£28m).<sup>66</sup>

These big sums are largely in the form of interest-free loans for major infrastructure projects, such as the Bangalore Water Supply System, or to augment state strategies. The EU is funding the Rajasthan State Government €80m (£69m) over three years to strengthen water supplies across the state.

Funding is also directed to NGOs, particularly by the small bilateral agencies that are no longer able to direct government-to-government support.

## International Non-Governmental Organisations (INGOs)

The main specialist INGO operating in this area is WaterAid, although other organisations, such as Plan, ActionAid, Oxfam and Save the Children also fund water and sanitation projects on a large scale as part of their work. Plan also provides the secretariat for a network of water and sanitation organisations, the WES-Net. CARE is currently looking at establishing a specific stream for water and sanitation.

WaterAid India is the liaison office for the international WaterAid organisation, an INGO based in London. In 2007/2008, it channelled £2.3m to partner NGOs, working across a range of issues. Over the past decade, it has gone through a general recalibration of focus—moving its headquarters from Tamil Nadu to Delhi, and narrowing its focus to ten states, mainly in the north. In each of these states, it has a strategy that it implements through funding a range of partner NGOs. For example, in Orissa it is funding ten partners to provide blanket water and sanitation coverage in the district of Puri. If successful, state government has agreed to replicate the model in other districts.

As well as funding individual NGOs, WaterAid also aims to build up the capacity and skills of the sector. It does this through supporting NGO networks, such as in Bihar and Orissa, and holding conferences to share good practice and research. It recently held a national conference, in partnership with UN-HABITAT and the government of Madhya Pradesh, on urban water and sanitation. Urban issues are an increasing focus of its work.

The main trend in the development of government policy over the past decade has been the shift towards initiatives that stimulate local demand.

Looking globally, \$6.2bn (£3.8bn) or 7% of all aid directed through multilateral and bilateral agencies goes to the water and sanitation sector.

Organisation for Economic Cooperation and Development<sup>66</sup>

The new wave of business philanthropists—such as ClIFF, the Bill and Melinda Gates Foundation and the Acumen Fund have also started to look more closely at the sector.

A donor looking for a range of specialist water and sanitation NGOs in India is likely to be disappointed.

## Corporates, Trusts and Foundations

Trusts and foundations can be divided into two main groups—those that fund water and sanitation as part of their general programmes, and those with a specific focus. The bulk tends to be in the first group—including established players such as the Tata Foundations, the Ford Foundation and the Michael and Susan Dell Foundation. Often funding spans both drinking water and general water management, such as irrigation and groundwater.

The new wave of business philanthropists—such as ClIFF, the Bill and Melinda Gates Foundation and the Acumen Fund have also started to look more closely at the sector. This is partly because of the level of need, but also because of possibilities for expansion, replication and scalability. Increased government commitments, and the potential for community and individual contributions, provide a strong environment for sustainable business models.

Water and sanitation is rarely a specific funding stream for foundations. If it is, it is largely part of a wider specialisation on water resource management, as with the Ford Foundation and the American Indian Foundation. The Arghyam Foundation, set up in 2005 by a private individual, is the only dedicated funder that NPC and Copal have come across.

Yet there are also corporate foundations where water and sanitation ties into their work. Hindustan Unilever funds the Shakti Vani project to spread hygiene practices. The international Coca-Cola Foundation funds work in the water sector and has recently given a substantial grant to the Naandi Foundation, an NGO based in Andhra Pradesh.

## Stage 4: Voluntary sector

The final area of analysis is the structure of the voluntary sector. This matters primarily because NGOs remain the central 'unit of action' for philanthropists, despite growing interest in quasi-market approaches.

Where effective NGOs do not exist in a certain area, it limits a funder's ability to act. Likewise, donors benefit from a clearer understanding of the features of the sector and the challenges that NGOs often face, as it can help improve the effectiveness of their funding. This is relevant both in terms of choosing which organisations to fund, and also in improving the quality of their funding.

When NPC and Copal analyse voluntary sectors and individual NGOs we concentrate on four main areas:

- activities;
- results;
- management and leadership; and
- finances.

Comprehensive data on these areas is limited, both for individual NGOs and, in particular, for the sector as a whole. Yet NPC and Copal's research into a spectrum of individual NGOs has highlighted some general observations that can usefully inform funding.

### 1. Activities

The first main area that NPC and Copal look at is activities. This involves getting to grips with what NGOs, as a whole, actually do within the water and sanitation sector.

A donor looking for a range of specialist water and sanitation NGOs in India is likely to be disappointed. Instead, for most organisations, their water and sanitation work is part of a wider portfolio of projects focused on general community development. This can make it hard to identify NGOs working in the sector, and get a handle on what proportion of their time is spent on water and sanitation issues.

Nonetheless, it is possible to divide the activities of the sector into a crude typology of five main areas of activity. Categorising different activities into this kind of taxonomy helps to highlight areas where NGOs are traditionally strong and prevalent, and also provides a way for funders to think about possible areas they could fund.

The key areas are:

- community work;
- project implementation;
- developing pilot projects;
- strengthening the structure of the sector;
- and lobbying and campaigning.

Many NGOs in the sector work across these different areas, but we will consider each of these activities in turn below.

The first area, **community work**, has been the traditional focus and strength of NGOs in this sector. **Utthan** was founded in 1981 in the Bhal district of Gujarat, one of the poorest areas in the state. Its aim was to work with disadvantaged communities, (particularly women) and it soon started to focus on water and sanitation, major issues in the drought-prone region. In 1991, it carried out a survey of needs in Gujarat and highlighted three other districts where it thought its expertise working with communities would have most impact.



Its first major project was working with village communities to help establish specialist water and sanitation sub-committees—*pani samitis*. These would help coordinate local services, interact with government and help to collect fees for the operation and maintenance of local water systems. The success of this project led the state government to make *pani samitis* mandatory in each village. In 2009, the Minister in charge of rural drinking water sent a letter to each state water board to encourage them to form *pani samitis* in their area.

The bulk of Utthan's current work is building up the capacity of these *pani samitis*, to ensure they have the necessary skills, motivation and knowledge to carry out their responsibilities. It currently supports around 400 villages, as well as running the People's Learning Centre on water and sanitation, which produces and disseminates literature on topics such as good hygiene practices and the impact of unsafe drinking water. It has recently run intensive awareness activities on 'ecosan' toilets, a technology that is particularly appropriate in Gujarat's flood-prone coastal areas.

Other organisations, such as **Jal Bhagirathi Foundation** in Western Rajasthan, do wider awareness raising activities. The Foundation found that few people had much idea about their rights around water and what services government was meant to provide. It ran water education and awareness campaigns across 300 villages in the Thar desert of Rajasthan.

As well as awareness-raising and community work, Jal Bhagirathi Foundation also helps to implement water and sanitation projects, reviving traditional water conservation systems in the Thar desert. These include a complex system of 'Tankas', village ponds and channels that help to collect and conserve the sporadic rainfall in the region. In the 18 months of the project, it helped build 76 community Tankas, 14 school Tankas, two community Beris and 98 'Talabs' (natural reservoirs).

This meant that the 'water-distress months' in all villages reduced by three to six months. The time saved for most women and children was five to six hours a day. An independent evaluation of the work calculated that it reduced water costs by 140%. It also helped reduce competition for water between villages.

The history of the sector has seen a general movement from community mobilisation and education to the **direct implementation of programmes and projects**, the second group in our typology. Although this can ensure proper community participation in the design and construction of water and sanitation systems, progress is not always smooth.

In some cases, NGOs lack the necessary technological skills. Employing properly trained engineers can be expensive, and staying on top of technological advances is time consuming. In certain cases, the benefits of water and sanitation projects are jeopardised by shoddy implementation—poorly constructed latrines will pipe sewage directly into drinking water sources.

The **Aga Khan Rural Support Programme India (AKRSPI)** is one of the largest NGOs in the north west of India, with an income of Rs.180m (£2.3m) and activities that stretch from Gujarat to Bihar. It works across drinking water, more general water resource management and livelihood promotion. Its activities rely on a stable of engineers and technicians, with specialist knowledge of water projects. It currently helps 35 villages to construct water supply systems as part of the government's Swajaldhara funding project. This involves constructing check dams, digging wells and building water delivery systems.

One of AKRSPI's innovations is the design of a new delivery system for drinking water. This establishes water tanks for clusters of houses, where water can be stored in case of power cuts that stop water from being pumped. UNICEF has highlighted it as an example of good practice. An in-depth evaluation of one of the village systems found that after four years, it had improved outcomes across a range of indicators. Outcomes included: a rise in monthly family income of 25%; time savings of 3.8 hours; a reduction in waterborne diseases of 80%; a reduction in medical expenditure of 73%; and a decrease in the school drop-out rate.

For its work, AKRSPI brings in funding from three main sources: the government; the communities themselves; and philanthropy. In this case, its main funding source is the European Commission (EC).

The EC funding has also helped AKRSPI to set up a laboratory to test water purity in the district of Surendranagar. This not only tests water from AKRSPI's projects, but is also used by government to test water across the district. So instead of having to use facilities in the capital, there is a quicker option run by trained professionals. Based on the results of these tests, AKRSPI can help communities to rectify the impurities.

One of the things this has helped to track is the decline of water quality from the source. So while the water may be relatively clean when drawn from the well, it becomes progressively contaminated by poor hygiene practice as it is carried into the household, stored and then consumed. AKRSPI is now developing a programme focused on hygiene promotion.



The largest sanitation charity in India is **Sulabh International**, which runs 7,500 toilet and bathroom complexes across India catering for ten million people each day. It also provides cleaning for hospitals, schools and major public events. Costs are covered through user charges, and it receives no foreign philanthropy.

Sulabh also tackles the social prejudice and economic disadvantage of manual scavengers. It runs its own school and vocational centre, to train the children of scavengers and help integrate them within the general population. It also raises awareness of the situation of scavengers through media work and events. It recently ran a fashion show and organised a ceremony with the President of India.

The third main activity for NGOs, beyond working with communities and implementing projects, is **developing pilot projects of new technological and financial models**.

In Orissa, the NGO **Gram Vikas** has developed a specific approach to help rural villages with their water and sanitation, and to strengthen their local governance practice. This involves insisting that village committees sign up to a stringent list of conditions before starting a project, to ensure that provision is equitable, sustainable and covers sanitation. The conditions include:

- Everyone in the village has to sign up and contribute to the construction of pumps and toilets.
- Women and all disadvantaged groups have to be involved in decision-making and local committees.
- Communities have to agree to build high quality facilities, including piped water to each house, and individual latrines and bathrooms.
- Communities have to establish a system to pay for operations and maintenance—for example, using community land for cashew farming.
- A corpus fund has to be established so that the interest can be used to subsidise new households to connect to the system.

In return, villages receive Gram Vikas' support in applying for government funding, its help implementing the project, and also an extra subsidy on top of the community contribution and government subsidy.

Although expansion is limited by the willingness of villages to accept the terms of the programme, this programme has spread to over 500 villages across Orissa. It has also worked with other NGOs in Madhya Pradesh and Bihar to replicate the model, as well as further afield in Tanzania.

**Gramalaya**, based in the city of Trichy in Tamil Nadu, has developed a model where community toilets in slums are run by female self-help groups. While the city corporation provides the facilities, and in some cases water and electricity, the self-help groups organise the operation and maintenance of the facility.

This includes installing child-friendly toilets, maintaining cleanliness and organising repairs. A small fee is charged to cover costs, with any surplus either going to develop community assets—such as community halls and rainwater harvesting schemes—or into a central fund. This fund is then used to subsidise facilities in areas where they are unable to cover their costs due to low usage or where local government requires that they pay for electricity.

The **Naandi Foundation** in Andhra Pradesh has established a model for providing purified water in areas of high contamination. In 2006, it established Community Safe Water Schemes (CSWS) in 25 villages that lacked access to clean drinking water—reaching 12,500 households. Each CSWS involves establishing a village water treatment plant where people can get access to clean water for a small fee (generally 10 paise [0.001pence] per litre).

The model depends on coordination between three main partners:

- Panchayats provide a regular source of water, secure land, organise a community financial contribution and electricity.
- The Naandi Foundation acts as project manager and provides pre-financing for each project, as well as collecting user fees. It raises awareness and carries out measurement.
- A private company, WaterHealth International, which is based in the US, has established a new technology to purify water by UV rays—UVWaterworks™.

Following the success of the original project in establishing sustainable schemes, the Naandi Foundation has developed and expanded its work. In response to a request from the Government of Punjab, it set up schemes in 53 fluoride-affected villages during 2008 using reverse osmosis technology supplied by Tata Industries. Similar schemes were set up in 2009, in Haryana and Rajasthan. Over the next two years, the Naandi Foundation hopes to reach 1.3 million people.

The fourth area of activity for NGOs is in **improving the structure and performance of the water and sanitation sector as a whole**.

One of the interesting developments of the last couple of years is the construction of various online networks and resources that NGOs, government, academics and individuals can use to share and disseminate information.

The **Arghyam Foundation** established the India Water Portal with funding from the National Knowledge Commission (a government council). This is a web-based platform to gather information and resources about water, in order to share good practice and stimulate debate. It includes a range of different materials, research and articles, resources to use in schools, and links to organisations working in the field. In 2008, it also established an online portal for sanitation.

This complements the WES-Net group—set up by the UN agencies and other major stakeholders, and supported by Plan International. Again, this shares information about training sessions, workshops and events. With the help of **WaterAid**, it is aiming to lead and coordinate research in the sector, identifying gaps, building partnerships and minimising overlaps and unnecessary repetition.

NPC and Copal have been surprised by the lack of sharing and cooperation between NGOs in the field. Often organisations appear to concentrate only on their own work, and do not share their lessons with others. They seem to worry that they might lose funding, that they are helping ‘competitors’ and also feel that the lessons they learn are not necessarily relevant in other locations.

This is regrettable, and NPC and Copal believe that NGOs should proactively look at how they can share and disseminate their lessons for wider impact. In Gujarat, the NGO **Utthan** has started a ‘training the trainers’ scheme, building up a cadre of NGOs, professionals and academics who can then advise local village water and sanitation committees, reaching villages where Utthan does not work.

Beyond this, **Plan International** is looking to develop formal qualifications for people working on water and sanitation, which can be delivered through higher education providers or universities. Currently, practitioners have to go abroad to receive high-level training, and instead have to learn on the job.

The final main role of NGOs is **lobbying and working with government**. Often this is done in an *ad hoc* and sporadic manner. Chief executives of water and sanitation charities, such as Nafisa Barot of **Utthan** and Joe Madiath of **Gram Vikas**, represent the sector on national committees and steering groups. Meanwhile, on a day-to-day level, NGOs look to lobby and influence local government officials—normally as part of their existing projects.

In rare cases, NGOs’ lobbying coalesces around certain campaign issues. The **Jal Bhagirathi Foundation** (JBF) has been focusing on the issue of groundwater and trying to introduce legislation in Rajasthan to regulate its extraction. Currently, no national law protects groundwater; instead, it is left to the states to regulate.

In 2005, JBF organised a conference with other stakeholders and NGOs to discuss a shared approach to groundwater legislation, and water resources more generally. This was followed up by a workshop with state officials, and the appointment of the foundation to the ‘Expert Committee for Integrated Development of Water Resources’. This has produced a state water policy, which is currently being debated in the state legislative assembly. If it passes, it has the potential to have a significant impact. It is a strong example of the benefits that lobbying can produce.

## 2. Results

Having looked at their activities, the second aspect of the voluntary sector to examine in detail is results, in particular the outcomes of individual NGOs. This chapter has already spelled out general components and qualities of a successful intervention, to help donors to recognise what a well-designed intervention looks like. However, this is not a substitute for an in-depth analysis of each NGO’s impact measurement. This is vital in identifying organisations and projects that have a strong track record of delivering results or the potential to deliver results in the future.

Measurement in the water and sanitation sector, as with the voluntary sector as a whole, is largely poor. Generally speaking, there are three main types of data that can be collected: outputs (such as numbers of toilets and wells); outcomes (such as usage of toilets and access to water); and impact (such as reduced level of diseases and increased income). In almost all circumstances NGOs concentrate on output, while outcomes and impact tend to get overlooked.

This lack of data is worrying, and arguments used to justify these gaps can be weak. Often NGOs point to the fact that the general links between improved water and sanitation and better outcomes and impact are already established, and it is therefore unnecessary to do it again. This will be a common story in other sectors. But it misses the point.

First, it is too simplistic to assume that the work of all NGOs leads to improved water and sanitation—particularly over the long term. NPC and Copal have heard of many examples of projects that have wasted time, effort and motivation—wells that have run out within weeks, or hygiene promotion work that has not led to any behaviour change.

Second, even successful approaches that follow good practice examples produce different levels of results in different contexts. Understanding how these differ is important both to charities looking to improve their services and to donors wanting to make informed funding decisions.

Other reasons for lack of measurement include: inadequate staff time to collect data; no central capacity to manage and organise internal monitoring and data collection; and inadequate donor interest. Funding is rare for intensive evaluations and NGOs have complained about the difficulty of finding trained researchers who can carry out quality studies.

These are all real barriers, and a major aim of philanthropy should be to provide funding to pay for this work. Yet often funding is not the only barrier, and is part of an uneasy nexus of unwillingness to measure and poor capacity. NGOs may be reluctant to expose their activities to outside scrutiny and fear that funders may misinterpret their results.

A key question is what level of evidence a donor should expect to see. Quality of data differs significantly, from large-scale randomised control studies, to basic monitoring of toilet usage. In general, the larger and more established an organisation is, the greater the burden of proof should be. Bigger organisations have more resources, the capacity and the longitudinal data to demonstrate impact.

**AKRSPI** received specific funding from the Ford Foundation to establish a corpus fund for its research. In 2004/2005, this paid for a full-time researcher to pull together different evaluations and look in more detail at individual projects. Since then, it has been able to pay for one-off studies and evaluations, and in 2007/2008, it spent Rs.1.3m (£16,000) on monitoring and evaluation.

Other organisations benefit from one-off grants for evaluation work. The **Naandi Foundation** received funding from the Bill and Melinda Gates Foundation to carry out an in-depth evaluation of its water work. The content of the report is still being finalised.

As well as external evaluations, NGOs should also have some form of internal measurement and monitoring system to ensure that results are maintained and mainstreamed across all of their projects. Too often, successful individual evaluations are fixated on as indicative of all of the NGO's work, for all time.

In Orissa, the NGO **Gram Vikas** has a strong reputation for data collection, integrating baseline surveys, follow-up questionnaires, and long-term indicators into its projects. This data includes: expenditure on healthcare; incidence of disease; and income and productivity. It has been able to establish a team of people in its central office to help collect and collate the data, as well as regularly drawing on external academics.

Gram Vikas has recently reviewed its data collection system, to ensure that it is continuing to collect the right information. This has involved piloting a new way of measuring improvements in female empowerment using pictures. It has also looked at ways of training project staff to improve the quality of the data they collect.

### 3. Management and leadership

Management and leadership is the third area of the voluntary sector that NPC and Copal analyse. This ranges from the make-up and structure of governing boards and senior management, to questions over staff retention and recruitment. Analysis of management and leadership helps to establish the organisational strength of the NGO, and identifies possible risks to its activities and results—for example, key staff leaving or insufficient oversight. Considered alongside activities and results, it gives insight into which organisations are really delivering within a sector.

NPC and Copal have been impressed by many of the chief executives that we have come across during our research on water and sanitation. The NGOs in the sector include some committed, knowledgeable and charismatic individuals. Many have both national and international reputations, sitting on global councils and regularly participating at some of the main international conferences.

Yet, as noted in the previous chapter's account of Indian NGOs as a whole, it appears that the strength and charisma of these individuals often masks a general weakness at the level of senior management. Organisations have tended to grow up around their founders, and chief executives' time is often spread thinly over a wide range of activities—from fundraising and programme management to strategy and vision. This leads to bottlenecks, delays and a lack of focus on long-term strategy.

A donor should always be extremely careful to look beyond the chief executive of an organisation and get some idea of the depth of senior management. The question of succession is often pertinent particularly when the current chief executive is the organisation's founder. Surprisingly often, succession plans are not in place.

The reliance on the chief executive is compounded by the apparent weaknesses of trustees and governing bodies in water and sanitation NGOs. Meetings are rare, often only two or three times a year, and board members usually have limited experience of areas beyond the voluntary sector. Lack of skills in finance, legal issues and HR are a particular weakness. Chief executives are also often on the board, which (again, as noted for NGOs generally in the previous chapter) confuses the boundaries between operational management and oversight, and may help to explain the lack of succession plans.

NPC and Copal's analysis found that the central capacity of NGOs is often weak across the sector. Organisational functions such as HR, financial management and administrative support are normally underdeveloped and operate on a shoestring budget.

Staff issues are another common problem in water and sanitation NGOs, both in retention and recruitment. The focus on building strong relationships with communities they work with often leads to field staff living in isolated and uncomfortable communities. Staff from outside the community can find it hard to acclimatise and can leave after only a short time in post, at great disruption to projects. In response, NGOs are increasingly hiring people from the areas they work in. This has several other benefits, such as increasing local knowledge, building up the skills of local communities and overcoming suspicion.

However, local recruits may not have a strong set of qualifications and skills, and will require training to come up to speed. Training budgets and supervision are often inadequate.

A final issue is recruiting people in the first place. As mentioned in the previous section, pay is extremely low across the sector. This makes it harder to recruit candidates at all levels of the organisation. The water and sanitation sector is no exception.

#### 4. Finances

Finances are the final issue that needs to be considered by a donor when looking at the nature of the voluntary sector and the potential of individual NGOs. This helps to establish an organisation's future stability and its ability to sustain and grow projects. It is also important to ensure that finances are being used properly and efficiently.

While the situation differs markedly across the water and sanitation sector, it is possible to pick out some common features (some of which have already been touched on above).

**Focus on project funding:** Funding for work in the water and sanitation sector tends to be project-based. Donors give money for NGOs to fulfil specific activities and objectives. Yet this rarely takes into account the full cost of running these projects if all the management, central running costs and overheads are included.

**Financial management is weak:** Poor financial management is partly a chicken and egg situation. Without adequate central funding, NGOs are unable to pay for good quality financial staff, which in turn makes it harder to fully cost projects and manage funding.

**Despite exceptions, most funding is short-term:** NPC and Copal have come across extremely divergent experiences in terms of length of funding. Several of the NGOs we visited have benefited from committed and long-term funding streams. **AKRSPI** has had ten years of funding from the EC, while **Gramalaya** has had funding from WaterAid on and off for decades. It is still their largest grantee in India.

There does seem to be a link between long-term secure funding and successful NGOs. Because NPC and Copal's research has been focused on identifying examples of good practice, a disproportionate number of organisations we have visited have benefited from long-term funding relative to the rest of the sector.

Our wider analysis of the sector suggests that long-term funding is the exception to the rule. For most NGOs in the sector, funding can be extremely short-term and precarious. Although funding is often arranged for three-year periods, this can be dependent on an annual review, which makes it harder for NGOs to plan in advance, to offer security for their staff and to sustain projects.

As noted in Chapter 2, one response to the vagaries of funding flows is that NGOs are often focused on building up their corpus fund. This is effectively an endowment, similar to financial reserves, yet the capital is not meant to be touched. Instead, the interest is used at the discretion of the charity.

**Growth in joint funding models:** A welcome trend in the past five years has been the growth of joint funding models. This includes coordinating and bringing in money from government, community contributions and philanthropists.

Unpicking the exact nature of joint funding models is difficult, as funds are not necessarily directed through NGOs' accounts. In a number of cases, community contributions and government subsidies get paid into community bank accounts. Also, community contributions can be paid in kind, in the form of labour or local materials.

**Drawing down loans:** A final development in the sector is the growth of larger NGOs drawing down loans from banks, in order to pass money on to individuals or communities who would otherwise not have access to credit. This seems particularly useful when government subsidies are paid in arrears and subject to delays.

#### Lessons for donors

The last ten pages have covered great swathes of information: the importance of water and sanitation; the current situation; the gaps in government activity; and the nature of the voluntary sector. Where, then, does this leave donors? Beyond simply having access to more information, is it possible to use this analytical framework to identify a relatively clear set of priorities for a donor and tools to choose effective charities and improve funding quality? NPC and Copal suggested earlier in this document that there are at least three key questions that donors need to answer in any funding decision: what to focus on; which organisations to fund; and how to fund. We would argue that the information above provides insight that helps answer all these questions.

## What to fund

Based on the cumulative empirical analysis of this section, NPC and Copal have highlighted four areas where we believe that funding can have the most impact. These are:

- mobilising communities around hygiene promotion;
- developing new financial and technical models around water quality and sanitation;
- strengthening the voluntary sector; and
- influencing government programmes.

Each of these is explained, below.

### **Mobilising communities and building capacity—particularly around hygiene practices and behaviour change**

Community work is one of the traditional strengths of the NGO sector, and one that is often overlooked by government and the private sector. Evaluations have shown that in-depth and long-term relationships rooted in local knowledge produce the best results, rather than one-off temporary approaches to education and empowerment.

While government has started to fund NGOs in this area, sums are still small-scale and largely a precursor to infrastructure development. So while government will support NGOs to mobilise communities and support them to implement projects, it rarely sustains funding once projects and systems are in place.

This is particularly telling in the area of improved hygiene practices. Improving hand-washing is one of the most cost-effective approaches in the sector. It is low-cost and has a high positive impact on diarrhoea, malnutrition, mortality and lost productivity. Yet hygiene is often overlooked and ignored, compared to the more tangible and high-profile water and sanitation sectors. Without a change in hygiene behaviour, the results of other interventions, such as better toilets and access to improved water sources, are bound to be less effective.

Although few NGOs have established hygiene projects, it is an area of growing interest. Donors can help organisations pilot different approaches and establish a better evidence base. While its importance is well-established, there is little evidence on the best way to improve hygiene practice.

### **Developing new financial and technical models around water quality and sanitation**

A key role for the voluntary sector is developing new pilot projects, using its flexibility, expertise and links with communities. As the above analysis has shown, it has been able to establish different models to deliver drinking water in a more successful and sustainable manner, such as AKRSP's work in Gujarat. However, more work needs to be done in the area of water quality and sanitation. Government projects still struggle on these points, while private sector activity is uncertain and overlooks the most disadvantaged.

The voluntary sector is beginning to rise to the challenge, often integrating community contributions, government initiatives and the potential of the private sector. However, many of these initiatives are still small-scale and struggle to demonstrate their impact, let alone improve their model and scale up and replicate their work. Private philanthropy can give NGOs the flexibility and security to experiment, to look at ways to develop and grow their model, and to measure their impact properly.

### **Strengthening the voluntary sector**

The third area moves away from direct services and into the more intangible concept of strengthening the sector. Although water, sanitation and hygiene are relatively discrete issues, the voluntary sector lacks much cohesiveness. This is despite the common challenges that most NGOs in the sector face, which are highlighted in this chapter's account of the sector's activities, results, management and finances. Moreover, the sector lacks the infrastructure to bind it together in order that, collectively, it is greater than the sum of its parts.

This latter point is changing to some extent; the establishment of internet portals and the growing emphasis on conferences, networks and sharing good practice are positive developments. However, coordination and partnership are improving from a small base and face strong resistance. NGOs are often unwilling to share their own lessons and remain suspicious of learning from other people. The emphasis on grassroots experience, while important, tends to blind organisations to the possibility of learning from work in other areas.



It is NPC and Copal's impression that this absence of a strong sector infrastructure leads to considerable replication of work, as different organisations 'reinvent the wheel' across India. They miss out on research and lessons that have been learned.

Strengthening the capacity of the sector as a whole could also help overcome organisational weaknesses. Shared HR or financial management support could help NGOs struggling to maintain their central functions. Lobbying and campaigning work could also be improved by working in networks and combining and consolidating experiences and data.

### **Influencing government programmes— and lobbying and helping community campaigns**

Frustrating and unwieldy as it often proves to be, government plays the key role in the sector, whether as service provider, funder or regulator. Influencing and improving the way it works has the potential to reach millions of people across India.

Action is needed at all levels of government, from central departments to local officials. NGOs have a potentially large role here—either providing targeted and expert advice, or supporting individuals, social campaigns and self-help groups to hold government to account.

However, few NGOs have the capacity and capability to carry out this role. Also, the lack of data on the effectiveness and impact of lobbying and policy influencing work makes it harder to allocate funding between NGOs. It is often left to INGOs and UN agencies who have the capacity, credibility and contacts to reach government. There is a space potentially for an engaged donor to support more grassroots activity.

### **Who to fund**

Once a donor has chosen an area to target, the next decision is identifying effective NGOs to fund. How does the analysis in this chapter help to identify which organisation to fund?

Primarily, it provides donors with a framework and a toolkit for judging and analysing NGOs themselves. Looking at an organisation's activities, results, management and finances is vital in establishing its potential for delivering impact.

Moreover, the information and the data included above helps donors to put this analysis within the wider context of the voluntary sector—to see whether its experiences or attributes are exceptional or typical.

In a more practical way, this analysis also starts to suggest and to spell out ways for funders to identify NGOs. There are numerous mechanisms to help identify NGOs, including co-funding with other funders, working through INGOs and intermediaries, and doing independent research.

Working through other funders appears to be a sensible way to donate—leveraging their existing infrastructure, knowledge and relationships. Particularly for donors with large amounts of money but little time, co-funding provides a way to share risk, magnify funding and minimise reporting requirements. Co-funders may bring to the table complementary non-financial resources.

Yet finding other funders can be challenging, as few have distinct water and sanitation funding streams. Unless large amounts of money are involved, other funders may not want to engage. More fundamentally, it is important to choose co-funders who have a shared strategic vision and who choose NGOs based on their results and impact.

The same considerations around shared strategic vision and a focus on impact are also pertinent when looking at INGOs. Again, they have the benefit of existing networks and relationships and can bring in other sources of funding. They can also absorb a range of donations from small to very large amounts. Donors can fund INGOs directly to help them in their own work, networking and campaigning. In the water and sanitation sector, they are some of the few organisations that are able to fill this role at scale.

Donors can choose to find NGOs directly or with the help of intermediaries. Credibility Alliance and GiveIndia's website has lists of NGOs that have met basic due diligence criteria, while other sites such as WES-Net, India Water Portal and Indianngos also have lists of NGOs.

In all cases, donors have to think clearly about what they are trying to achieve and how the NGO will be able to deliver that. As set out above, this involves going through a series of issues that contribute to an organisation's ability to deliver results.

## How to fund

The third and final area where donors can use the analysis in this report is in improving the quality of their funding. Consistent lessons from our analysis include:

### Building capacity

The importance of improving the capacity of NGOs is one of the most consistent findings to come out of this report. The vast majority of the NGOs that NPC and Copal visited and spoke to (with a few notable exceptions) struggled with poor capacity. This was due to several reasons:

- a culture within the voluntary sector of deprioritising central functions;
- an over-reliance on chief executives;
- the prioritisation of direct services at the expense of central costs; and
- a lack of funding.

It is this last point that appears to be the most telling factor, as NGOs reported receiving funding for specific projects, but without covering the full cost of running central functions.

NGOs find it hard to pay for training and infrastructure. Yet by directing money to these areas, a donor has the potential to improve the way an organisation runs, strengthen the quality of its services and provide a basis for growth.

Building the capacity of the organisation also involves focusing on staff resourcing issues. Raising salaries can help retain and recruit high quality workers.

In many cases of course, NGOs require more than just financial assistance. For donors with extra capabilities or contacts, there is potential to use these resources directly to advise and support NGOs in developing their effectiveness.

### Funding impact measurement and evaluation

Another core way of improving the quality of funding is to ensure that project funding includes a component for monitoring and evaluation. A donor may also want to fund internal monitoring systems directly. Doing this has considerable potential for maximising the impact of funding.

Ensuring that projects are properly tracked, monitored and evaluated helps to establish the impact and value of each project. It can demonstrate the importance of continuing a project and also point out ways to improve it.

Proving an approach's impact can also help to get it re-funded—whether by another philanthropist or, ideally, by government funding streams. Successful lessons can also be shared throughout the sector.

Again, there is a non-financial component here. Some specialist or experienced funders have contacts and advice on how to improve data management.

### Helping with networking and knowledge dissemination

NPC and Copal's analysis found that the amount of dissemination and knowledge sharing between NGOs working in water and sanitation is poor, and that NGOs' activities are isolated and cut off from each other. Project funding rarely covers disseminating and sharing these lessons. These are often extra costs borne by charities themselves. Donors should rectify the situation.

Moreover, donors who are funding across multiple organisations to tackle the same issues can help to organise networks and conferences to share lessons and experiences.

### Taking a long-term view

A final area is the question of timing. In the past, funding has been weakened by a short-term approach. *Ad hoc* funding does not necessarily allow an organisation to establish and test a new model. Conversely, funding that goes on for years without scrutiny of the relationship has the danger of making both parties complacent. NGOs are in particular danger if the relationship breaks down for any reason.

Instead, donors should be aware of the length of time necessary, and work out an exit plan—what happens after their funding runs out. Is the plan to get government to pay, to increase community contributions, or to find other grant-makers? These are important questions that donors should be thinking about even before they start funding.

# Conclusions

This report aims to be a cross between a manifesto, a toolkit for donors and an in-depth analysis of the water and sanitation sector. Underpinning it all is the argument that better analysis and research can help to improve the effectiveness of philanthropy in India.

In the first section of the report we explored a key hypothesis—that philanthropy in India is not working as effectively as it could be. From the available evidence, it appears that funding is not being allocated to the greatest needs and that NGOs are not being chosen on the basis of their impact.

The chapter went on to build a theoretical model of why this is the case, introducing the concept of a broken funding market: donors are not asking for information, charities are not supplying it, and the flow of information is poor.

The broken funding market provided the context for exploring another of the report's hypotheses—that analysing social issues and individual NGOs offers a way to fix these problems and improve the effectiveness of philanthropy. Analysis helps donors to decide three things: which issues to focus on; which charities to support; and how to structure funding for greatest impact.

The second section of the report suggested a potential analytical framework, derived from NPC's work in the UK. This is based on looking at donors' interests, resources and which issues can be tackled. Deciding which issues can be tackled has four stages of analysis: needs; what works; the activity of other actors; and the nature of the voluntary sector.

The remaining parts of this report tested the potential of this framework to provide useful information and guidance for donors. It was applied to the Indian voluntary sector as a whole then, in Chapter 3, applied specifically to the water and sanitation sector. This sought to demonstrate how it is possible to analyse existing information to provide guidance and advice to philanthropists.

## Yet more work needs to be done

Alongside its sister report, *Starting strong*, this research is NPC and Copal's initial contribution to the wider discussions of effectiveness in the Indian voluntary sector. More needs to be done to explore and test some of the issues and ideas raised. There is a lack of primary research on the nature and the scope of the voluntary sector in India, as well as analysis of social issues and specific geographies.

Both NPC and Copal are looking at ways to continue and develop discussions and initiatives to improve the effectiveness of the Indian charitable sector, but for it really to work, we believe that this initiative should be taken on by a coalition of India-based organisations. We hope that this document can be a basis for action and provide the call to arms for philanthropists and NGOs to develop this work further.

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# Other NPC publications

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Research reports are focused on specific areas of charitable activity in the UK unless otherwise stated.

### Community

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- **Short changed:** *Financial exclusion (2008)*
- **Lost property:** *Tackling homelessness in the UK (2008)*
- **Hard knock life:** *Violence against women (2008)*
- **When I'm 65:** *Ageing in 21<sup>st</sup> century Britain (2008)*
- **Not seen and not heard:** *Child abuse (2007)*
- **A long way to go:** *Young refugees and asylum seekers in the UK (2007)*
- **Home truths:** *Adult refugees and asylum seekers (2006)*
- **Inside and out:** *People in prison and life after release (2005)*
- **Grey matters:** *Growing older in deprived areas (2004)*
- **Side by side:** *Young people in divided communities (2004)*
- **Local action changing lives:** *Community organisations tackling poverty and social exclusion (2004)*
- **Charity begins at home:** *Domestic violence (2003)*

### Education

- **Inspiring Scotland:** *14:19 Fund (2008)*
- **After the bell:** *Out of school hours activities for children and young people (2007)*
- **Lean on me:** *Mentoring for young people at risk (2007)*
- **Misspent youth:** *The costs of truancy and exclusion (2007)*
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- **What price an ordinary life?** *Financial costs and benefits of supporting disabled children and their families (2007)*
- **Don't mind me:** *Adults with mental health problems (2006)*
- **Valuing short lives:** *Children with terminal conditions (2005)*
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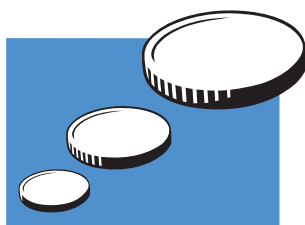
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- **Funding our future II:** *A manual to understand and allocate costs (2002, published by acevo)*

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# New Philanthropy Capital

New Philanthropy Capital (NPC) is a charity that maximises the impact of donors and charities—it does this through independent research, tools for charities and advice for donors. Its research guides donors on how best to support causes such as cancer, education and mental health. As well as highlighting the areas of greatest need, NPC identifies charities that could use donations to best effect.

Using this research it advises clients and their trusted advisors, and helps them think through issues such as:

- Where is my support most needed, and what results could it achieve?
- Which organisation could make the best use of my money?
- What is the best way to support these organisations?

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