

Government funding of development NGOs: what's the right amount?

by Jonathan Pryke
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Recently on the Devpolicy Blog my colleagues [analysed](#) how reliant Australian development NGOs are on government funding. In their analysis they were clear that they were “not in a position to say what level of reliance of government funding is too high”. While such analysis has not been conducted in Australia before, new research from the US sheds some light into how much government funding might be too much.

In her just-published [journal article](#), University of Maryland's Milena Nikolova uses panel data from US-based development NGOs that have competed for USAID funds (similar to Australia's ANCP group of NGOs) between 1947 and 2005 to analyse whether there is a 'crowding-out' effect from government funding and, if so, at what level that occurs. The analysis shows that when government funding is up to a third of total NGO revenue it acts as 'seed money' to promote additional private donations, but beyond that level it displaces funding from private sources.

While the research assumes that donors review financial information before making a gift ([research](#) and personal experience suggest otherwise) it does attempt to account for organisational age (to capture reputation and sustainability), organisational efficiency (measured by ratios of fundraising, program and administrative expenses) and whether or not they are a religious organisation. Even with these caveats the author still finds her results to be robust.

So why would government funding over that level displace private donations? The author provides two explanations. The first is that tax-paying donors may view government grants as a substitute to their own contributions or might perceive the NGO as heavily influenced by the government. The second is that as government grants continue to grow charities might reduce fundraising, suggesting that actions undertaken by the NGOs themselves could induce crowding out.

Whatever the reason, it appears that, at least based on US data, a third of revenues from the government looks to be the tipping point.

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