An Enabling Environment for Canadian CSOs:

Appropriate Donor Funding Mechanisms

for Effective CSO Partnerships

A Discussion Paper

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AidWatch Canada

Promoting Social Justice

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Acknowledgements

This Background Paper was originally drafted for a CSO members' Working Group on Diverse Funding Mechanisms within the Canadian Council for International Cooperation in April of 2015. While it has informed CCIC dialogue with Global Affairs Canada on these issues since then, it has not been published by CCIC. The Background Paper draws together a range of options for financing CSOs by government, which may be useful for CSOs facing challenging funding arrangements in increasing numbers of donor countries.

In publishing the Discussion Paper, the author takes full responsibility for the analysis and the framework for CSO funding mechanisms described in the Paper. The text was improved through comments on a draft version by the CCIC Secretariat and members of the Working Group in 2015, but the Paper has not been further edited or endorsed by CCIC and the members of the Working Group as proposals for Global Affairs Canada.

The author also wishes to acknowledge the original work by Real Lavergne, as a consultant, for the Working Group's Discussion Paper in 2014. While my Discussion Paper is very different in structure and content from Real's analysis, some of Real's text is retained in a few sections of this Paper.

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Executive Summary

In February 2015, Canadian CSOs welcomed Minister Christian Paradis' launch of DFATD's *International Development and Humanitarian Assistance Civil Society Partnership Policy*. Building on consultations with Canadian civil society, this Policy commits to "provide merit-based, predictable funding opportunities through equitable, flexible and transparent modalities that will support the diverse roles and types of CSOs in Canada and in developing countries." (DFATD, 2015) Subsequently the Liberal Government launched an International Assistance Policy Review in 2016, the outcome of which will also establish a policy framework for the government's partnerships with CSOs.

The aim of this Discussion Paper is to offer a framework and specific suggestions on different funding mechanisms and how they relate to strengthening the enabling environment for Canadian CSOs consistent with the commitment to a diversity of CSO funding modalities. It takes into account international donor funding experience for CSOs as well as suggestions from a range of members of CCIC and the Provincial/Regional Councils.

The Paper focuses exclusively on potential CSO funding mechanisms in relation to a dedicated CSO government department, such as Partnerships for Development Innovation Branch (PDIB) in Global Affairs Canada (GAC). It does not address current mechanisms for the bilateral Geographic Branches and multilateral Global Issues Branch relating to humanitarian assistance.

As a primary GAC window for civil society partnerships, and in the context of a significant decline in disbursements by this Branch over the past ten years, implementation of a diversity of funding mechanisms is dependent on a major re-investment of resources for this Department and Canada's aid programs as a whole.

A framework to support CSOs, including Canadian CSOs, should embed seven widely-acknowledged and shared principles and overarching objectives that shape CSOs' effective engagement in development cooperation:
1. Work with CSOs as development actors in their own right;
2. Strengthen the diversity of CSOs;
3. Strengthen CSOs as an expression of citizen engagement;
4. Promote responsiveness to CSO partnership priorities and CSO accountability;
5. Create conditions for predictability and managing the impact of transaction costs;
6. Develop appropriate approaches to cost sharing and CSO counterpart funding; and
7. Promote CSO Transparency.

Four common funding mechanisms are proposed and analyzed, which together can have a strong and positive role in strengthening the development effectiveness of CSOs, consistent with the above principles:

1. **Sustainable Development Framework Agreements** for enhanced CSO programmatic capacity and impact (which should determine at least 50% of PDIB's program funds);

2. **Thematic and Decentralized Funds** to engage a broad range of CSOs;

3. **Calls for Proposals** for specific government commitments and priorities; and

4. **Knowledge and Capacity Development Initiatives.**

The following chart summarizes the strengths and opportunities of each modality in reinforcing the effectiveness of Global Affairs / CSO partnerships.   The four mechanisms presume a high degree of responsiveness to CSO priorities and programming, consistent with the principles and the actions and objectives outlined in the *International Development and Humanitarian Assistance Civil Society Partnership Policy* and international good practice in financing CSOs.

Summary of Proposed Financing Mechanisms

Note: This chart provides a very short and incomplete summary of each mechanism, and does not take the place of the more complete elaboration of the rationale, structure and implementation for each mechanism proposed in the Paper.

Mechanism	Purpose	Structure	Financing
1. CSO Sustainable Development Framework Agreement	Programmatic funding focused on enhancing the institutional capacity, scope and scale of a CSO's development programs with developing country CSO counterparts, based on a proven track record with Global Affairs Canada to meet its respective organizational programmatic goals and its development effectiveness.	A multi-year (five year) responsive financing mechanism, based on an institutional proposal covering a substantial number of programs, coherent with each other, designed by the CSO and its developing country counterparts. Policies governing the eligibility, good development practice, cost sharing and institutional assessment developed in consultation with a CSO/GAC Reference Group. All proposals have a minimum of 10% devoted to public engagement in the donor country. Results assessed for the programs taken as a whole, within the context of the CSOs mandate (not each individual program/project). Annual review of results in a learning iterative framework, & an institutional assessment every 5 years.	Cost-sharing guidelines, minimum/maximum GAC contributions to be developed in consultation, but should ensure access for otherwise eligible small and medium organizations. Gradual implementation based on annual call for concept notes. After 3 to 5 years, a minimum of 50% of PDIB's Budget allocated to Sustainable Development Framework Agreements with CSOs.

Mechanism	Purpose	Structure	Financing
2. CSO Thematic and Decentralized Funds	An efficient responsive mechanism to support specific theme or programmatic areas. Open to all organizations, but designed to include small and medium organizations. Option for a Decentralized Fund among these Funds as an efficient granting mechanism for small and medium organizations.	Eligibility and operational guidelines designed to fit the purpose of each Fund, but with strong emphasis on access for small and medium-sized organizations, support for public engagement in the donor country and CSO collaboration on key themes. Where the proposal is for a Decentralized Fund, a transparent CSO accountable structure manages the day-to-day operations and funding mechanism, with systematic accountability to GAC. CSO project/programs proposals for any Fund received in staged funding tranches and approved by the CSO/GAC approval process on the basis of individual project/program merit. This is a non-competitive mechanism. In case of a Decentralized Thematic Fund, GAC plays a key role in advising and accompanying the process, through periodic Advisory Group meetings, but with limited operational demands on GAC officials. Some Funds should be encouraged to include support for new and emerging, small organizations, and to strengthen CSO capacities, which could lead to eventual eligibility for a Sustainable Development Framework Agreement for some.	Thematic & Decentralized Funds could be proposed by GAC or by an interested grouping of CSOs. Financing for specific projects within a Fund is determined by the Fund's thematic criteria, but are responsive to CSO experience and initiatives within these thematic areas. Cost sharing requirements to be determined through consultation appropriate for each Fund. Thematic & Decentralized Funds might make up approximately 25% to 30% of PDIB's programmatic budget.

Mechanism	Purpose	Structure	Financing
3. Calls for Proposals	Leverage the delivery capacity of CSOs on a competitive basis in the implementation of a clearly defined development initiative, limited in time and scope, which is determined by the government.	GAC-initiated competitive calls to CSOs (and other stakeholders) to submit proposals for projects within GAC-established and prescribed eligibility, guidelines and a set time period to submit. All proposals are judged according to a transparent assessment framework that ranks proposals in relation to each other. Reserved for unique situations of an unforeseen priority or specific country situation (e.g. follow up to humanitarian emergency or innovative pilots in a particular issue area), limited in time and scope.	A two-tiered process involving the initial submission of a concept note, followed by a full proposal from those who were accepted in the concept stage to reduce the burden of the application process on the CSO sector. According to the requirements of the Call, CSOs may be required to identify their own cash or in-kind contribution. Proposal development costs covered by CSO. Given the directive approach inherent in Calls, only a small proportion of PDIB's program budget allocated to this mechanism. Other Branches, such a the Bilateral Country and Regional Programs may make greater use of this mechanism.

Mechanism	Purpose	Structure	Financing
4. CSO Knowledge and Capacity Development Initiatives	Program resources intended to support specialized CSOs focusing on and facilitating inclusive initiatives relating to the areas of knowledge and capacity development (K&CD), which complement and add value to GAC/CSO implementation of the effective partnerships. Knowledge/capacity development may be part of other mechanisms, but this mechanism supports common space for peer learning, research, synthesizing lessons and developing a CSO community of knowledge.	GAC develops in consultation with CSOs a conceptual Framework for CSO Knowledge and Capacity Development in all its mechanisms, including eligibility and guidelines for a mechanism specializing in these areas. Based on this Framework GAC's PDIB receives proposals for K&CD from appropriate CSOs, CSO Consortium or Umbrella Organizations, specializing in K&CD, based on the mandate and priorities of the proposing organization and links to relevant CSO constituencies. A non-competitive mechanism based on initial concept papers for a K&CD program, not one-off projects, by interested and eligible CSOs Research, knowledge and capacity development takes advantage of proposing organization's access to donor and developing country CSOs programming experience.	At least 10% of resources for this mechanism will be allocated to K&CD relating to public engagement, with all initiatives encouraged to focus attention on relevant issues for public engagement. Approximately 10% of PDIB's budget in support of CSOs is devoted to Knowledge and Capacity Development Initiatives.

A. Introduction: An enabling environment for Canadian CSOs

In February 2015, Canadian CSOs welcomed Minister Christian Paradis' launch of an *International Development and Humanitarian Assistance Civil Society Partnership Policy* (Civil Society Policy). This Policy fulfills the Minister's commitment to bring forward a civil society policy, made in a comprehensive statement at the April 2014 Mexico High Level Meeting of the Global Partnership for Effective Development Cooperation, regarding "Canada's Commitment to Protect and Promote an Enabling Environment for Civil Society."[1]

Building on consultations with Canadian civil society, this Policy commits to "provide merit-based, predictable funding opportunities through equitable, flexible and transparent modalities that will support the diverse roles and types of CSOs in Canada and in developing countries." (DFATD, 2015)

Subsequent to the election of the Liberal Government in the fall of 2015, Global Affairs Canada (GAC), formerly the Department for Foreign Affairs, Trade and Development (DFATD) launched an International Assistance Review in 2016. The outcomes of this review are not yet known (March 2017), but will presumably set a framework for the future of the Government's partnerships with CSOs, including more diverse funding mechanisms.

The aim of this Discussion Paper is to draw from donor and CSO experience in CSOs/government partnerships an analysis to inform a framework for how GAC should implement its commitment to strengthen an enabling environment for Canadian CSOs through diverse funding mechanisms.

With minor exceptions, all donors use a diversity of funding modalities when partnering with CSOs,[2] and Canada as an aid donor had led the way throughout its 40-year history of partnerships with Canadian civil society. In this history, former iterations of GAC's Partnerships for Development Innovations Branch (PDIB), the Branch dedicated to strengthening CSO partnerships, have had rich experiences in innovative funding modalities with a wide range of Canadian and international CSO partners. However, in mid-2010, the Branch moved away from a diversity of funding modalities with civil society partners to focus almost exclusively on periodic and unpredictable calls-for-proposals and un-transparent unsolicited proposals. This approach has remained largely unchanged to date under the Liberal Government, although there has been more openness to unsolicited proposals by CSOs by the PDIB.

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[1] In late 2011 Canada, along with all stakeholders present at the Busan Fourth High Level Forum on Aid Effectiveness, agreed to "implement fully … commitments to enable [civil society organizations] CSOs to exercise their roles as independent development actors, with a particular focus on an enabling environment, consistent with agreed international rights, that maximizes the contributions of CSOs to development." (Busan Partnership for Effective Development Cooperation, 2011. §22. Accessible at http://www.oecd.org/development/effectiveness/49650173.pdf.)

[2] OECD, 2011. See Figures 4.1 and 4.2 (pages 27 and 28), which show the numbers of modalities used by different donors and the number of donors using each of several options.

Two in-depth membership surveys conducted by CCIC and the Inter-Council Network (ICN) have documented the profound negative impacts of this 2010 shift on the programmatic reach and the developing country partners of many current and former CIDA/GAC partners. Canadian CSOs therefore have welcomed the Policy's stress on the importance of a diversity of funding modalities for supporting civil society through GAC's Partnerships for Development Innovation Branch, although they have yet to see an implementation plan.[3]

Establishing an appropriate combination of funding modalities should be seen as an exercise intended to balance support for a wide range of potential partnerships that maximize their development effectiveness, engaging a wide range of Canadians, while managing risks and transactions costs for both GAC and CSO partners. The OECD Development Assistance Committee (2012) published a comprehensive review of donor/CSO partnership practices. Among the lessons derived in this study, the OECD suggest donors achieve best results through a mix of formal funding mechanisms, whereby the donor matches a particular funding mechanism with different programmatic purposes for engaging with civil society as development actors:

> *Donors should have a mix of formal funding mechanisms, which can be tailored to suit CSO partners, strengthen ownership and match policy objectives. Using an appropriate funding mechanism will contribute to more effective partnerships, maximise impact and value for money and give greater flexibility to adapt to changing situations and needs. Having a mix of funding mechanisms should allow a range of actors of different sizes, capabilities and interests to access funding which contributes to supporting a diverse civil society. The purpose of funding to or through CSOs should reflect the priorities set out in the civil society policy (to ensure) clarity on both sides and a better match between mechanisms, tools and expected results.* (OECD-DAC, 2012: 31)

This Discussion Paper will examine four common mechanisms used by donors, which together could establish a CSO financing framework for GAC in implementing a commitment to a diversity of funding mechanisms within PDIB. Indeed, various forms of these modalities have had a strong and positive role in strengthening Canadian CSOs over the past 40-year history of CIDA/DFATD CSO partnerships:

1. **CSO Sustainable Development Framework Agreements** for enhanced CSO programmatic capacity and development impact;

2. **CSO Thematic and Decentralized Funds**, with a bias towards engaging a broad range of CSOs, including small and medium sized organizations (with diversity in focus, constituencies and size);

3. **Calls for proposals** for specific government commitments and priorities; and

4. **CSO Knowledge and Capacity Development Initiatives**, focusing on organizations specializing in knowledge/capacity development, to strengthen the delivery of results for the CSO community.

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[3] DFATD has continued to use other modalities in other branches, and the Partnerships for Innovation Branch has shown itself open to dialogue regarding the strengths and limitations of calls for proposals.

The focus of this Discussion Paper is to elaborate a potential framework for Partnerships for Development Innovations Branch, the Branch dedicated to the Government's partnerships with CSOs in development cooperation. It therefore does not address important CSO standing arrangements with Global Affairs to ensure a rapid response to humanitarian emergencies. This mechanism is a critically important modality to support humanitarian CSO emergency first-responders. It also does not discuss the important involvement of CSOs in contributing to bilateral initiatives through the Geographic Branches, derived from government-determined bilateral country and regional priorities.

Financing for CSOs through Partnerships for Development Innovation Branch have experienced a long term trend in decline in resources available to this Branch relative to other Branches of Global Affairs Canada for development cooperation (see Chart 1). Between 2010 and 2014, the value of disbursements (in 2015 dollars) for Canadian CSOs (excluding foreign CSOs) by this Branch declined by 22% to a low of $173 million in 2014/15. Full implementation of a diversity of funding mechanisms by PDIB is dependent on a major re-investment of resources for this Department by GAC and for Canada's aid programs as a whole by the Government.
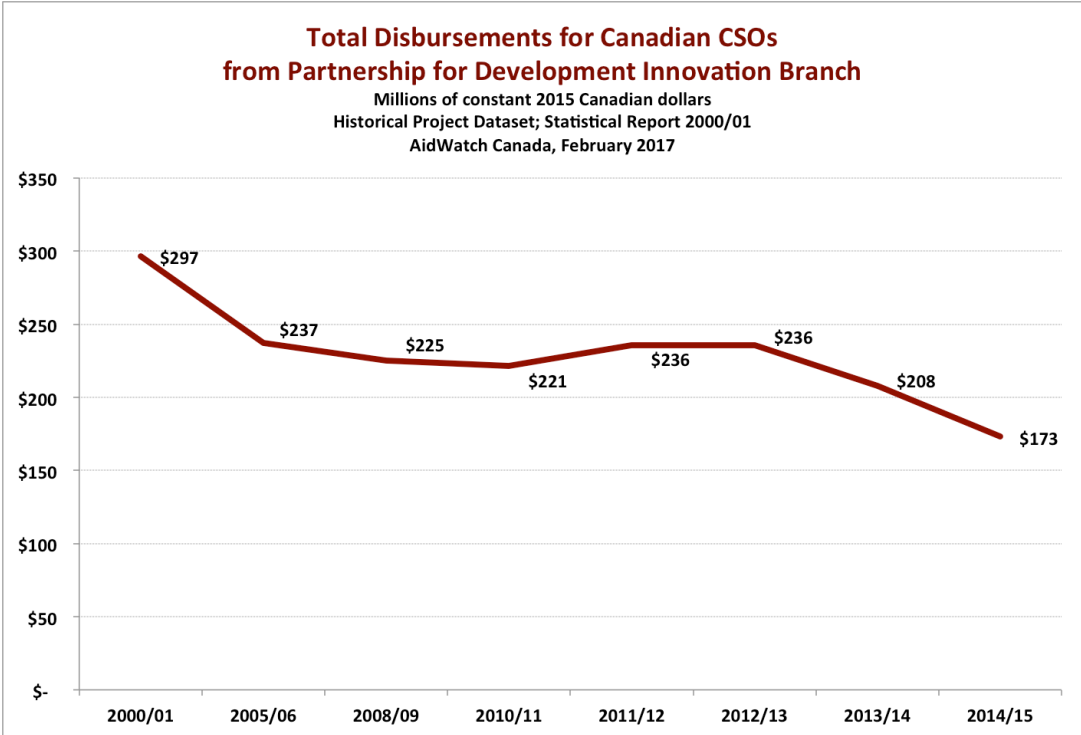
The proposed Framework in this Discussion Paper address only Canadian ODA disbursements through the Partnerships for Development Innovation Branch. As a primary GAC window for civil society partnerships, and in the context of this significant decline in disbursements by this Branch, CCIC and its members have strongly urge the government to significantly increase resources, through several funding mechanisms, to enable it to implement effectively the 2015 Policy on Civil Society Partnerships.

Any framework for CSO funding should be situated within widely-acknowledged and shared principles and overarching objectives, arising from these mechanisms, which shape CSOs engagement in development cooperation. They are consistent with approaches set out in GAC's Civil Society Policy and in donor commitments in Busan, including Canada, to work with and maximize the contributions of CSOs as development actors. They are intended to serve as a common foundation against which to assess the purposes and particular strengths of each of the four funding modalities noted above. These seven principles and overarching objectives include:

1. **Work with CSOs as development actors in their own right** – CSOs, as independent actors, are committed to strengthening development effectiveness in CSO-initiated partnerships in developing countries and in other direct development actions.

2. **Strengthen the diversity of CSOs** – CSOs reflect a wide range of mandates, roles, sectors, size and scale through which they provide development expertise, democratic expression and programmatic innovation.

3. **Strengthen CSOs as an expression of citizen engagement** – CSOs are organized expressions of individual and collective efforts of Canadians acting as global citizens and channels for solidarity, participation and support for development cooperation.

4. **Promote responsiveness to CSO partnership priorities and CSO accountability** – CSOs work alongside other development actors to deepen democratic ownership through their partnerships in developing countries. In this context, CSOs require donor responsiveness to CSO programmatic initiatives rooted in these developing country partnerships. Donors funding modalities must respect the complexity of CSOs' multiple accountabilities to their partners, constituencies and donors for programmatic results and outcomes.

5. **Create conditions for predictability and managing the impact of transaction costs** – CSOs are most effective when they maintain long-term partnerships in developing countries. These partnerships serve as the foundation for sustainable development results that are only possible donor resources are predictable, long term, and donor transaction requirements are both flexible and light.

6. **Develop appropriate approaches to cost-sharing and CSO counterpart funding** – A framework for cost sharing and counterpart funding should be developed for each funding mechanism taking into account essential principles to encourage access for a diversity of CSOs.

7. **Promote CSO Transparency** – CSOs value and view transparency with partners, donors, constituencies, and other stakeholders as essential to their development effectiveness, and acknowledge the International Aid Transparency Initiative (IATI) Standard as the framework for deepening CSO transparency.

The Paper will address each of the four funding modalities in the framework in relation to these principles and objectives, outlining the respective strengths and opportunities, suggesting how each modality can contribute to GAC's implementation of its Civil Society Policy, and highlighting some examples for each. But first the Paper elaborates on each of the seven principles outlined above.

B. Principles and Overarching Objectives

The seven principles and objectives, which should be taken into account in a donor's selection of funding modalities and practices, are derived from current understanding of best practice,[4] and are intended to provide a shared reflection on what is important when developing CSO partnerships.

1. Working with CSOs as development actors in their own right

At the 2008 Accra High Level Forum, Canada worked closely with CSOs and was instrumental in the acknowledgement of CSOs as development actors in their own right in the Accra Agenda for Action.[5] This acknowledgement in 2008 created the basis for the inclusion of CSOs as equal stakeholders in the 2011 Busan Global Partnership for Effective Development Cooperation, and for the recognition that inclusive partnerships with civil society are essential for innovation and accountability in achieving sustainable development results.

Civil society organizations make up a diverse universe of independent organizations freely created and governed by citizens. As such CSOs are a vital and necessary feature in the democratic life of countries around the world. An OECD definition of CSOs is commonly accepted among development actors:

> *"CSOs can be defined to include all non-market and non-state organizations outside the family in which people organize themselves to pursue shared interests in the public domain. Examples include community based organizations and village associations, environment groups, women's rights groups, farmers' associations, faith-based organizations, labour unions, co-operatives, professional associations, chambers of commerce, independent research institutes and not-for-profit media."* (OECD-DAC, 2009)

As independent and voluntary organizations, CSOs have taken seriously the importance of improving their accountability and development effectiveness in their own practices, working through civil society partnerships for development outcomes for poor and marginalized peoples. Accordingly, thorough country-level and global consultations, in 2010, CSOs developed the *Istanbul Principles and Guidelines* as a set of CSO standards for CSO development effectiveness (Open Forum, 2011). Through the 2011 Busan Partnership for Effective Development Cooperation [§22,b] and its GAC's 2015 Civil Society Policy, Canada recognizes the *Istanbul Principles* as the framework that shapes the development work of civil society and

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[4] These principles and core objectives in partnering with CSOs are derived from the Busan Partnerships for Effective Development Cooperation, the Siem Reap Consensus on the International Framework for CSO Development Effectiveness, the Task Team on CSO Development Effectiveness and Enabling Environment Key Messages (http://taskteamcso.com/) and the OECD DAC's Partnering with Civil Society: 12 Lessons from DAC Peer Reviews. They are also reflected in DFATD's Policy on Partnering with Civil Society.

[5] OECD, 2008. *The Paris Declaration and Accra Agenda for Action*, §20, accessible at http://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm

the basis for holding CSOs accountable to their own development practices.

GAC in its Civil Society Policy has recognized the range of roles through which CSOs contribute to development, not only in service delivery where they have close and often unique connections with local processes, but also in strengthening public participation in democracy, sharing expertise in public policy dialogue, and as watchdogs and advocates. (See Box One for a list of strategic advantages related to partnering with CSOs). GAC's Policy clearly emphasises that "in the international development and humanitarian contexts, [CSOs] are found at the international, regional, national and local levels, and are development actors in their own right (GAC, 2015)".

At the same time, CSOs do not work for development outcomes in isolation. Donor funding practices and modalities can have wide-ranging influences on CSO performance as independent actors and the sustainability of development outcomes that result from these partnerships (CIVICUS 2009). For example, CCIC and ICN have documented some of the impacts of the call-for-proposal modality initiated in 2010 by CIDA/DFATD (CCIC and ICN, 2014). The OECD-DAC in its *Partnering with Civil Society – 12 Lessons from DAC Peer Reviews* notes challenges identified by CSOs from "unpredictable finance, lack of funds for management and programme oversight, one-off project funding, unclear guidelines and inconsistent processes, and complex and overly detailed requirements (OECD-DAC, 2012: 31)."

CSOs in donor countries also point to a number of challenges that arise from different donor funding modalities – a) lack of sustainability for institutional management due to restrictions in the terms and conditions of donor grants, often unavailable for these key processes; b) less CSO collaboration at the country level due to competitive donor funding mechanisms; c) DAC donor priorities that are developed with little engagement with developing-country CSOs; d) access to information regarding government strategies and donor plans at country level; and e) pressure for uncritical alignment with government to receive donor funds (Tomlinson, 2013: 86-87). Overall, in CSO partnerships, donors need to consider not only consistency with donor policies and priorities. But they also must pay close attention to the impact of these choices and terms in funding modalities on the capacities of CSOs in realizing effective ownership by developing country CSOs over their goals for development outcomes.

2. Strengthening the diversity of CSOs

Globally there are hundreds of thousands of highly diverse CSOs involved in all aspects of development cooperation as donors, implementing organizations and entities working to improve the capacities of particular constituencies to claim their rights. Canadian CSOs reflect this diversity, ranging from small, informal community-based organizations, to large high profile international NGOs working through local partners across the globe, to faith-based organizations, specialized institutions, trade unions' international programs, or women's rights organizations etc.

GAC's 2015 Civil Society Policy recognizes "the diverse expertise and experience of civil society actors (GAC, 2015). It also usefully highlights a diversity of Canadian CSO roles as trusted partners, implementers, active engagers of Canadians, advocates, researchers, innovators, convenors, among others.

The diversity of Canadian CSOs is an important core strength of CSOs in development cooperation, strengthening democracy and broad participation. This diversity creates multiple spaces for populations to express their interests and take ownership of development initiatives as well as for Canadians to connect to these initiatives.

GAC should therefore design financing mechanisms in ways that support the unique capacities and comparative advantages of different types, sizes and expertise of CSOs. Tensions between support for diversity and the need to focus on GAC priorities require careful consideration of longer-term advantages. It is possible to focus too much in specific partnerships for particular policy goals, or concentrate resources on short-term priorities. Contributing to development progress as a donor requires both the ability to translate a long-term comprehensive vision into effective initiatives, but also a flexibility to respond to highly complex and unpredictable challenges. Situations and government priorities change, and diversification can enable future priorities to be met through knowledgeable and experienced organizations and existing partnerships.

CSOs provide channels that allow GAC to diversify its portfolio of interventions without overtaxing government institutions. CSOs create channels for GAC to respond to a much wider range of opportunities by leveraging what Canadians and Canadian CSOs have to offer in different countries and sectors of expertise. This means that overall long-term effectiveness of GAC will be enhanced by remaining responsive to diverse initiatives by CSOs outside the narrow range of focus that it may have chosen for its country programs.

Focus is important, and CSOs themselves have been increasingly examining their programs over the past five years to focus their priorities, partnerships and programs.[6] But diversity too is important. In Canada, diversity is one of our greatest strengths, upon which its development cooperation should build.

3. Strengthening CSOs as an expression of citizen engagement

Canadian CSOs have a strong history and focus on citizen engagement, both as the expression of their work with Canadians and as an objective in developing countries. There is intrinsic value in involving Canadians as "global citizens." Many Canadians see a value and have a commitment to engage in mutually enriching relationships with partners in developing countries around shared development objectives. These relationships widen our collective vision beyond national borders. Citizen engagement of this sort may involve making charitable donations, but also sharing of ideas, expertise and cross-cultural experiences to

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[6] See CCIC & ICN, 2012 and 2014.

solve what are considered mutual challenges. The opportunities for Canadian engagement of this nature occur primarily through CSOs.[7]

The intermediation role played by CSOs in mobilizing Canadian engagement in development cooperation has a number of implications for DFATD's support for civil society:

- It suggests a policy framework that provides support for a diversity of opportunities for a wide range of Canadians to become involved.

- It requires a rich institutional web of CSOs through which Canadians may engage, depending upon what they have to offer as volunteers or the development priorities they are most likely to support.

- It should provide space for professional associations and other CSOs able to mobilise specialized Canadian expertise on a voluntary basis, as well as for small and medium CSOs filling particular niches of interest to particular constituencies, in effective ways.

- It suggests an essential role for CSOs, not just to work in developing countries, but to engage Canadians in their communities, in their workplace or in their places of education or faith, to strengthen public awareness and engagement on development and global issues.

- It suggests the importance of support for joint coordinated actions and programs to improve the effectiveness of the sector in ways that strengthen their roles in public engagement and advocacy.

- It suggests the importance of support for capacity building towards good practices along the public engagement spectrum (from charity to partnership to solidarity) through a diversity of strategies and engagements.

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From this perspective, CSOs and partnerships with government may be understood as ever evolving public assets, with CSOs and GAC sharing responsibilities for the health and growth of the sector. In a recently published, *Engaging with the Public 12 Lessons from DAC Peer Reviews and the Network of DAC Development Communicators*, the OECD notes:

> *"Civil society … provides an important platform for the type of dialogue [with citizens] that may simply not be possible for government, and can afford to engage in the kind of nuanced, in-depth communication that may be too cumbersome or unrealistic for centralised campaigns. Because of its role in consultative and policy-making processes, civil society can also help 'translate' policy challenges into local solutions, thereby empowering constituents to take an active role in development (OECD-DAC, 2014: 39)."*

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[7] The Inter-Council Network defines public engagement as follows: "Public engagement can be defined as those activities and processes which enable individuals and organizations to traverse along a continuum from basic understanding of international development practices and the underlying principles directing those practices, through to deeper personal involvement and informed action on sustainable human development around the world. By engaging individuals and organizations in the global fight against poverty, the rights and responsibilities of Canadians are articulated and individuals and organizations can become active global citizens." See : http://www.globalhive.ca/PDF/PEPaper_March11_Final.pdf

Engaging Canadians in Canada's development cooperation effort has always been an objective of Canada's aid program. This objective and its policy implications have sometimes been lost from view in recent years. GAC's Civil Society Policy, however, clearly acknowledges and recognizes the crucial role of CSOs as a "principal mechanisms to engagement individual Canadians and to raise awareness of and involvement in international development." The Policy commits to "to supporting initiatives that: encourage Canadian volunteers, raise financial resources for development cooperation, and act as a channel for Canadians to personally engage and contribute to development (GAC, 2015)." Much could be gained by strengthening support for public engagement in the overall balance in GAC's aid program.

An important related aim for GAC's commitment in its Civil Society Policy should be to promote citizen engagement through CSOs in developing countries. Canada has had a long-standing commitment and practice to protect and promote a democratic space for civil society in developing countries. GAC should complement this commitment through appropriate financing for CSO partnerships that help build a sustainable institutional fabric of civil society for democratic governance in those countries.

4. Promoting responsiveness to CSO partnership priorities and CSO accountability

CSO partnerships with developing country counterparts represent an important part of every CSO's institutional capital and are fundamental to their development effectiveness. With more than 40 years of experience, many Canadian CSOs make considerable effort to ensure that their own program priorities are directed by the expressed needs and priorities of their Southern partners. In this regard, both flexibility and long-term partnerships, based on trust and mutual respect, are key to building stable capacities that respond to these local conditions and produce in turn sustainable development results. Continuity in maintaining those partnerships, which are delivering results, is thus a key condition of CSO effectiveness.

While CSOs enjoy significant trust from the public and local stakeholders, CSOs must in turn be accountable for their development actions and results. In doing so, they rely upon strong oversight by elected Boards of Directors, transparent dialogue with partners, communications with constituencies, program reports and external financial audits, in addition to external compliance with various CSO-managed Codes of Conduct. Program integrity and development outcomes are closely related to the ability to sustain effective accountability. For many CSOs, the latter is derived from the specific nature of their programming relationships, rooted in long term engagement with partners, and balancing ethical, legal and contractual demands for accountability (Open Forum, 2011:17-20). All too often the focus of CSO accountability has been limited to onerous reporting requirements to donor agencies emphasizing detailed quantifiable results, rather than shared analysis and lessons learned with affected populations (see below).

Such considerations underscore the importance of responsive funding modalities in GAC, i.e. the capacity of GAC to shape its funding mechanisms to respond to the particular development initiatives of its CSO partners. Responsive programming is what allows GAC to engage in partnerships with CSOs as development actors in their own right, with their own priorities and areas of focus. Responsiveness, in turn, allows for appropriate strategic choices by a particular CSO on how to focus its efforts based on this CSO's

areas of expertise, history and existing partnerships. From the CSO perspective, this approach is often described as "the CSO right of initiative."

While GAC may wish to encourage a higher degree of focus on the part of an individual CSO where there is evidence of insufficient strategic direction, it makes little sense from an aid effectiveness perspective for DFATD to impose its own ever-changing strategic and sectoral choices on CSOs. To do so is to disrupt the continuity of CSOs' own efforts, thus undermining their effectiveness, their niche expertise, the sustainability of their development efforts, and their accountability to local stakeholders.

GAC may also choose to focus some of its own work with CSOs. But in defined areas of strategic Canadian intervention with CSOs, it should avoid emphasizing "focus" as a criterion of aid effectiveness in its partnerships with CSOs. Many Canadian CSOs already have strong geographic and programmatic focus in the priority countries, and a history of work in GAC's key thematic areas.[8] Where there may be some divergence in the degree of focus, CSOs' development experience is an investment in Canadian development knowledge that will inform and contribute to effective implementation of future sectoral and country strategies.

5. Creating conditions for predictability and managing the impact of transaction costs

Canadian CSOs are often on the front lines of development, working in partnership with CSOs in developing countries, which share similar objectives. The latter face multiple vulnerabilities where governments fail to protect fundamental human rights of marginalized and discriminated populations to organize, participate in public policy and follow community-based development paths. Sudden donor funding cuts and shifting priorities compounds these vulnerabilities.

It is extremely important to understand this local/country context, because it points to the importance of continual and predictable support as a fundamental condition of effectiveness. Partnerships and other institutional assets take a long time to establish and are easily lost when funding is suddenly cut. The most successful programs tend to be long-term in nature, involving learning by doing, and developing more successful intervention strategies over time. Funding mechanisms that do not take into account the institutional and partnership trajectory of CSO partners can undermine the potential to achieve sustainable results. As explained in a formal evaluation of CIDA programming from 2005 to 2011:

> "…partnership programming does not necessarily results in sustainable results if there is not a focus on broad-based institutional support (of partner organizations in developing countries). There needs to be mutual trust based on long-term partnerships for project results to be sustainable. … Building these relationships takes time and may need investments in

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[8] In a review of the Historical Project Data Set, in 2014/15 (the last year for statistics), almost two-thirds (60%) of programming supported by BDIB, which was allocated to a country (i.e. excluding regional programming), was directed to one of the current 25 GAC priority countries. Geographic Branch programs were 71% focused in the 25 priority countries in that year. (Author's calculations)

travel costs and dialogue. CIDA's changing operational approaches … may inadvertently have an adverse effect in this regard (CIDA 2012: 41).[9]

GAC should be looking to funding modalities that ensure this degree of continuity of support that is best suited to promote development effectiveness of Canadian CSO development initiatives.

Closely related to issues of donor predictability and continuity of support is the approach to transaction costs in the choice of funding mechanisms and practices.[10] GAC requirements impact directly on CSO transaction costs in its partnerships with developing country counterparts. Direct costs for administration and project management are understood by Canadian CSOs and GAC and are built into project/program agreements. But the impact of donor funding policies on CSO transactions costs in other areas has become considerable in recent years. Measures liable to increase transactions costs for CSOs include the following:

- Uncertainty about future funding, made worse by lack of predictability about funding mechanisms, which force CSOs to focus on short-term risk management measures rather than long-term strategic analysis;

- Sudden changes in funding priorities, which may force CSOs to quickly invest scarce resources in their private fundraising efforts or cut-back on existing partnerships;

- Use of a project-based approach rather than long-term arrangements based on institutional knowledge and trust, with more temporary arrangements requiring a higher degree of oversight;

- Use of a competitive approach leading CSOs and their partners to invest considerably more funds in the submission of project proposals than in the past, without ways to recover those costs when a project/program is refused;

- Cuts to umbrella organizations (such as CCIC and NSI) that provided valuable learning and analytical services for the CSO community as a whole; and

- Onerous reporting requirements that emphasize detailed reporting on quantifiable results and "contractual accountability" while demanding little in terms of in depth analysis and lessons learned.

A challenging area for CSOs is finding the support for analysis, dialogue, institutional learning and strategic programming. As GAC's Partnerships for Development Innovation Branch is eager to promote innovation, it needs to also consider transactional support for organizations that may have the ability and inclination to be innovative, but are struggling to fund the strategic analysis that they need in order to do so successfully.

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[9] Thanks to Real Lavergne for this example.

[10] A number of like-minded donors, under the leadership of Sida, have developed a set of "Key Principles for Harmonization and Alignment" and Guidelines for their implementation in their requirements for support civil society through donor country civil society organizations. These donors are working closely with the OECD DAC Peer Review Team to encourage donor peer reviews to take into account these Principles. GAC's funding modalities might be an opportunity to reflect this work on harmonization and alignment of donor requirements.

6. Developing appropriate approaches to cost-sharing and counterpart funding

As valued partners, GAC's CSO Policy acknowledges that "a variety of predictable merit-based funding mechanisms allows a wide range of CSO partners from across Canada and in developing countries, new and established, to plan and develop sustainable initiatives." At the same time, the Policy suggests, "Canadian CSOs, as independent actors, must strive to be both politically and financially independent and seek funding from various sources. This enables them to better reflect the views of their constituents and secure their own sustainability." (GAC, 2015) Canadian CSOs have been committed to securing their financial sustainability. It is estimated that in 2014 they raised approximately $2.1 billion in tax-receipted gifts from Canadians in addition to other sources of revenue.[11] Globally, CSOs have committed to "strengthen the financial sustainability and independence of CSOs by broadening their funding base, wherever possible, in order to reduce dependence on politically-tied or conditional assistance." (Istanbul Principle #8, Open Forum, 2011, p. 17)

GAC/DFATD/CIDA has a rich experience in different cost-sharing / co-financing partnership arrangements with Canadian CSOs. It is agreed that CSO counterpart funding promotes ownership, a meaningful sense of partnership, and accountability to the Canadian public. As a development actor in its own right, counterpart funding is one, but by no means the only, measure of CSO ownership of its programming.

It is therefore acknowledged that cost-sharing and counterpart funding should be part of the criteria for each of funding mechanisms. However, the experience of both GAC/DFATD/CIDA and CSOs, strongly suggests that these arrangements need to be developed specific to each funding mechanism through consultations with CSO counterparts. A number of principles guiding cost-sharing are proposed for Partnerships for Development Innovations Branch, which might guide these consultations:

   a) **Flexibility** in cost-sharing arrangements, both between mechanisms and within a given mechanism, is essential to account for the diversity of financial capacities of organizations, their scale of operations, the nature of the activities and the CSO mandate.

   b) **Cash-based cost sharing** should be set at levels that are sustainable for Canadian organizations, encouraging engagement of both new and well-established CSOs in Canadian development cooperation efforts. Consideration should be given to transparent and accountable non-Canadian revenue for Canadian-registered organizations, where appropriate.

   c) **In-kind contributions** should be allowed in all mechanisms, particularly for small and medium sized organizations, to ensure greater access to funding opportunities. But such contributions should be based on clear guidelines about both eligible contributions and their share in counterpart funding. The application of these guidelines may differ between mechanisms based on the purposes of the

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[11] Tomlinson, B. "Small and Medium-Sized Canadian Civil Society Organizations as Development Actors: A review of evidence," Inter Council Network, April 2016, accessed March 2017 at http://aidwatchcanada.ca/wp-content/uploads/2016/07/ICNSMOStudy_Final_kg_Graphics_3.pdf.

mechanism (e.g. mechanisms targeting small and medium sized organizations may allow a greater share and a broader definition for in-kind contributions).

d) **The provision of no counterpart funding** should be strictly an exception, and only where there is a clear rationale based on a compelling development contribution from an organization with unique circumstance that severely limits the possibility of other sources of revenue.

e) **Humanitarian partners** should be exempt from cost sharing requirements (as is currently the case) with a view to ensuring that humanitarian assistance is provided in a timely manner to trusted humanitarian partners in line with humanitarian principles.[12]

Cost sharing and counterpart funding arrangements that takes into account these guiding principles and approaches will provide a strong basis for sustaining and expanding partnerships between GAC and Canadian CSOs – allowing each party to deliver on their respective mandates, while leveraging each other's unique capacities.

7. Promoting CSO transparency

GAC has been successfully implementing its commitments to the International Aid Transparency Initiative (IATI) with respect to its aid transactions.[13] CSOs are also increasingly committed to strengthening full transparency of their programs, although Canadian CSOs for the most part have not yet published their programmatic information to the IATI Standard. Nevertheless, both GAC and CSOs acknowledge that mutual transparency is the foundation for effective donor/CSO partnerships whereby the advantages of the partnerships are easily identified.

The specific purposes, terms and conditions and outcomes for donor funding modalities must be transparent. At the same time, CSOs also have to strengthen their efforts to be systematically transparent in setting out their development priorities, experience and lessons (with IATI as one option). While funding modalities may encourage transparency, they also need to do so in ways that do not impose onerous – conditions in calling for greater transparency – taking into account the various challenges facing CSOs including cost, workload and protection of the rights of partners and vulnerable individuals. In partnering with CSOs, GAC needs to be cognizant of the complexity of transparency for CSOs, and particularly the rights of partner organizations in developing countries, which often face serious government-imposed restrictions, where full transparency may affect their continued work or even existence.

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[12] As noted earlier humanitarian assistance is largely outside the purview of this paper, which is focused on Partnerships for Development Innovation Branch. Humanitarian organizations also support, where appropriate, collaboration with GAC in the use of the "matching funds" mechanism, which aims to encourage Canadians to support specific responses.

[13] While welcoming this commitment to IATI and other ways that GAC has improved access to project information, Canadian CSOs have raised serious concerns about a lack of transparency on current avenues for access to funding and on funding decisions. See CCIC and ICN, 2012.

C. Funding Mechanisms

Given the principles and overarching objectives described in the previous section, a number of funding mechanisms follow. These mechanisms, taken together, should be designed to support the diversity of Canadian CSOs, including small and medium size organizations, long-standing trusted partners, as well as new actors in the sector. They should prioritise long-term funding; support the ability of Canadian CSOs to respond to their partners' needs and priorities; and balance transparency and fairness with effectiveness and efficiency.

Taking into account Canada's historical and recent experience and mechanisms being used to good effect by other donors, four mechanisms are proposed:

1. CSO Sustainable Development Framework Agreements (SDFA) for enhanced CSO programmatic capacity and impact;
2. CSO Thematic and Decentralized Funds to engage a broad range of CSOs;
3. Calls for Proposals for specific government commitments and priorities; and
4. CSO Knowledge and Capacity Development Initiatives (K&CD)

Each mechanism is considered in relation to a) its primary purpose, b) its structure (how it might work), c) its consistency with the seven guiding principles and objectives, d) priority areas where the mechanism would realize its purposes, and e) possible ways forward in its implementation. It is assumed that implementation of such a funding framework would be achieved over time as the several mechanisms become fully functional and as existing commitments are completed.

1. CSO Sustainable Development Framework Agreements for enhanced CSO programmatic capacity and impact

a) Purpose:

The overall purpose of a multi-year CSO Sustainable Development Framework Agreement is programmatic funding focused on enhancing the institutional capacity, scope and scale of a CSO partner organization, with a proven track record, to meet its respective organizational development goals. A Framework Agreement is intended to maximize the exchange of development expertise and sustain a depth of programming (sectoral and geographic) for highly experienced Canadian international development CSOs with their developing country counterparts.

A Framework Agreement will allow Canadian CSOs to deepen and strengthen the capacities and programmatic reach of developing country counterparts for service delivery in the areas of health, education or water, for productive activities in rural and urban settings, for mobilization of the voice of poor and marginalized people, for democratic accountability, and for building trust and resilience in communities affected by conflict and weak governance. All of these program areas build on existing CSO

expertise, but also require predictable, longer-term and focused programmatic funding, sensitive to the priorities and experience of each CSO partner.

b) **Structure**[14]

DFATD negotiates A multi-year (five year) CSO Sustainable Development Framework Agreement (SDFA) with a CSO would be negotiated with GAC where there has been a very substantial CIDA/DFATD/GAC experience with this CSO and a history of good development practice by the CSO. The SDFA is derived from a CSO-initiated proposal covering a substantial number of programs, coherent with each other, designated by the CSO and designed with its counterparts in developing countries, as distinct from one-off support for a specific project or program. Annex One provides some considerations for basic conditions of eligibility for a SDFA. The mechanism should include a diversity of types and sizes of organizations, as well as their respective roles and regions of origin in Canada, and the possibility of consortia.

While the proposal must be broadly consistent with the GAC's overarching development goals, the SDFA is guided by the CSO mandate and priorities. The supported programs are designed and implemented by CSOs respecting the highest standards of good development principles and accountability (e.g. *the Istanbul Principles for CSO Development Effectiveness*) to which they should be held accountable. Given the essential importance of public engagement, all SDFAs should include an allocation of at least 10% of the value of the agreement for public engagement work in Canada. A particular organization may also choose to have public engagement as one of its primary programming objectives, which may then form a significant set of activities for this organization's SDFA.

Guidelines for cost-sharing arrangements should be developed in consultation with a representative CSO platform such as CCIC, respecting the principles noted above, assuring some access for eligible small and medium organizations. GAC funding for a SDFA is linked to, and progress is assessed, in relation to a results framework for the programs as a whole and the CSO's institutional mandate, and not for each individual program or project initiative within the Agreement. There could be an annual assessment of progress in a meeting between GAC and the CSO, with an agreed schedule of payments over the life of the Agreement based on annual financial and narrative reports. Assessments of progress and the achievement of development results may include learning processes with one or more SDFA partner on mutually agreed development challenges, facilitated by CCIC, Provincial/Regional Councils, or other thematic CSO platforms.

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[14] There is significant experience with Framework Agreements in the UK's DFID support for selected UK CSOs, IrishAid, AusAid and in several the Nordic countries. See INTRAC, "Support to Civil Society Organizations: Emerging evaluation lessons," 2013, pp 7-8, accessible at http://www.oecd.org/dac/evaluation/Evaluation%20Insight%20Civil%20Society%20FINAL%20for%20print%20and%20WEB%2020131004.pdf and Independent Commission for Aid Impact (UK), "DFID Support for Civil Society Organizations through Programme Partnership Arrangements," Report #22, May 2013, accessible at http://icai.independent.gov.uk/wp-content/uploads/2010/11/ICAI-REPORT-DFIDs-Support-for-CSOs-through-PPAs.pdf

Eligibility for continuity of support might be grounded in GAC staggered five-yearly independent institutional evaluations that review the capacities of the organization to achieve its mandate and organizational programmatic results in ways that maximize excellence in results, development effectiveness principles, innovation, sustainability and a learning environment. Collectively, the annual assessments of progress in SDFAs can form a significant body of evidence towards an annual narrative report on GAC results obtained through its Civil Society Policy.

c) Consistency with Guiding Principles

The SDFA is highly consistent with the recognition of CSOs as development actors in their own right. It is a donor partnership model of support that maximizes organizational flexibility, which permits a CSO to support partner-driven priorities. It is able to manage its programs in ways that respect and build capacity for local ownership with its developing country counterparts.

On the GAC side, an SDFA allows PDIB to develop a more comprehensive understanding of the programming choices of its CSO partners, take advantage of their country/sectoral experience, while promoting rich dialogue on development strategies and outcomes and more balanced partnerships with various types of highly experienced CSOs. Together these partnerships create a strong foundation for documenting sustained development outcomes for PDIB.

The SDFA modality creates the institutional resources and opportunity for a long-term and programmatic approach to public engagement of Canadians based on overall institutional programs, rather than as a sideline of individual projects. The mechanism promotes greater opportunity for CSOs to invest in and experiment with innovation, a specific goal of PDIB, and to support programs that may include more risk, based on the certainty of funding for an institutional set of programs over a five-year period.

The SDFA model creates conditions for highly predictable finance that is fully responsive to CSO programmatic priorities. The Agreement can be structured to support multiple forms of accountability, including engagement of developing country CSO counterparts. By encouraging a programmatic and institutional approach, an SDFA can create conditions for improvements in programmatic transparency.

While GAC start-up costs may be challenging, over the life of the Agreement, SDFAs are a very efficient means to manage transaction costs for both GAC and the CSO. Such framework agreements have allowed a country like Norway, for example, to manage a program about 15% larger than GAC's Partnerships Program with a staff of 28 people compared to the approximate 130 staff needed in GAC's case.[15]

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[15] Budgetary expenditures were $298 million in PDIB in 2012-2013. This was managed by 131 full-time equivalent staff (CIDA 2013: section on Canadian Engagement for Development). Data for Norway were obtained by email by Real Lavergne from Ivar Evensmo, Senior Adviser for Media and Civil Society, Civil Society Department in NORAD, on Oct. 28, 2014. In the latest estimates submitted to Norway's Parliament, that department has an annual budget of 1.99B NOKs (CDN$340 million) with partnership agreements that are managed by 28 staff.

d) Priority Areas

According to the OECD, institutional programmatic funding is a "good way to provide funds when CSOs have the strategic, organisational and professional capacity to manage resources effectively" (OECD 2012:7). Any given CSO program may cover a variety of programming areas based on the priorities and programmatic coherence of eligible CSOs. These areas are also likely to be consistent with GAC priorities. In terms of sectors, a recent study demonstrated that 63% of GAC disbursements through CSOs in 2014/15 were directed to a set of sectors that can serve as a proxy for poverty-targeted investments.[16]

Given the nature of this mechanism and eligibility conditions (see Annex One), it is more likely that large and medium-sized organizations would access this funding modality; however, smaller organization should be considered eligible if they meet the basic eligibility conditions, with cost sharing policies developed to encourage medium and small organizations that are otherwise eligible.[17]

Building a portfolio of SDFAs would require significant GAC resources in PDIB and an iterative approach is therefore essential. A competitive selection process each year for pre-qualification to negotiate a SDFA might be considered. Establishing the policies governing SDFAs, as well as general oversight, should be done with the support of a joint GAC/CSO reference group, supported by a CSO platform such as CCIC, to ensure maximum effectiveness. Some basic eligibility criteria, while by no means exhaustive, are suggested in Annex One. Maintaining an SDFA agreement would be subject to rigorous institutional and programmatic assessment of the CSOs involved, such that some organizations may no longer qualify, and new organizations may enter depending on GAC's PDIB budget, CSO capacities and performance.

2. CSO Thematic and Decentralized Funds to engage a broad range of CSOs

a) Purpose

The aim of CSO Thematic and Decentralized Funds is a responsive mechanism designed to provide particular opportunities for projects and/or program proposals from small and medium size CSOs, dedicated to specific thematic or programmatic areas. Within this mechanism, some Funds could be designed as a Decentralized Fund, administered by a representative and accountable CSO body, which would provide an efficient and effective granting mechanism, whose administration is decentralized from GAC's PDIB. Thematic and Decentralized Funds could be proposed by either GAC or an interested grouping of Canadian CSOs.

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[16] Author's calculation derived from GAC's Historical Data Set for 2014/15. See Brian Tomlinson, "Draft Framework for Assessing Global Affairs Canada Civil Society Policy / International Assistance Review Commitments to CSOs as Development Actors," unpublished draft developed with the Policy Team of CCIC, February 2017.

[17] Other mechanisms, described below, should give substantial priority to medium and smaller organizations.

b) Structure

A Thematic Fund would be designed in consultation with an appropriate set of specialized CSOs, a CSO Consortium or an Umbrella Organization. An interested CSO Consortia or Umbrella Organization could also submit a proposal for a Thematic or Decentralized Fund. The design of these Funds should aim for eligibility and operational guidelines that are open to all types of CSOs, but also clearly promote and enable access for small and medium sized organizations working on international development and public engagement issues, with regional balance from all parts of the country. The Funds would be designed to encourage new forms of CSO collaboration on thematic priorities, peer learning within the Fund, and support for small pilot initiatives and innovations that might be scaled up for wider impact. Support for public engagement programming would be a key characteristic of all Thematic and Decentralized Funds.

Thematic Funds would consider project/program proposals submitted by eligible CSOs and approval would be on the basis of individual proposal merit against clear criteria for eligible program areas. These Funds should be non-competitive mechanisms in order to be more receptive to small and medium sixed organizations. A reference group involving knowledgeable CSOs and experts could work with GAC officials to advise and accompany each thematic/decentralized Fund particularly focusing on developing opportunities for peer learning.

In the case of a Decentralized Fund, the managing CSO or consortium would be accountable to GAC for the day-to-day operation and management of the Fund. GAC would clearly play a key role in advising and accompanying the process, but with limited operational demands on GAC officials. The organization managing a Decentralized Fund would receive, review and approve project/program proposals, based on CSO eligibility criteria, project/program assessment criteria, and an independent review process to determine successful proposals. The eligibility, assessment criteria and review process would have to be mutually agreed between the managing CSO/consortium and GAC. A Fund Advisory Group composed of GAC officials and relevant stakeholders in the Fund would meet at least one a year to establish an annual work plan, address outstanding issues, ensure CSO conflicts-of interests are avoided, and support mutual learning.

As well as working with established CSOs, some Funds could make provisions for supporting new and emerging organizations in international development, including building capacity around established development principles, codes of ethics and operational standards. Support for this area of programming will strengthen the overall accountability of CSOs against common standards (such as the Istanbul Principles) and good development practice. Such support might lead to eventual eligibility for individual organizations for a Sustainable Development Framework Agreement.

c) Consistency with Guiding Principles

Thematic and Decentralized Funds can provide a mechanism to extend the contributions of Canadian CSOs in key thematic areas and programmatic priorities for GAC as well as CSOs. They create efficient ways to

support a diversity of smaller community based organizations involving local people in these priorities (particularly in the case of a Decentralized Fund). Through their responsive nature, Thematic and Decentralized Funds can provide GAC with opportunities to take advantage of the depth of thematic experience among select Canadian CSOs as well as the initiatives of small and medium community-based organizations.

Thematic and Decentralized Funds provide GAC with an effective mechanism to facilitate the aggregation of intermediate results in key thematic areas. This efficiency may be particularly true in a Decentralized Fund where the emphasis is on programs and projects from a wide range of small and medium sized organizations across the country, and CSO results are aggregated by the managing CSO/consortium. Decentralized Funds create access for smaller CSOs where the transaction costs for DFATD are very high relative to the amount disbursed, but manageable in a specialized Decentralized Fund.

d) Priority Areas

Three or four Thematic and/or Decentralized Funds might be established on key cross-cutting themes in Canadian ODA such as women's rights and empowerment, democratic governance, enhancing the inclusion, capacities and contributions of small and medium-sized Canadian organizations, or deepening the public engagement of Canadians in Canada's development cooperation. Creating efficient mechanisms for GAC to establish a geographic or thematic reach, otherwise unattainable, through programs/projects with small and medium sized organizations from communities across the country.

There is a history of experience within PDIB with respect to such Funds of various sorts, including a program of agricultural research with IDRC, and a small grant programs managed by ACCC and the AUCC.

3. Calls for Proposals for specific government commitments and priorities

a) Purpose

The primary purpose of calls for proposals in PDIB would be to leverage the delivery capacity of Canadian CSOs on a competitive basis in the implementation of a clearly defined development initiative, which is determined by the government. While there can be specific circumstances that give advantage to PDIB in calls for proposals, Geographic (bilateral) and Global Issues (multilateral) windows and mechanisms may be more appropriate for this "directive" programming, as such programming falls more within their mandate.

b) Structure

Based on the experience of calls for proposals within PDIB since 2010, PDIB would initiate a call to CSOs (and sometimes other stakeholders) to submit proposals for projects on a competitive basis within GAC-established and prescribed eligibility, guidelines and a set time period to submit. While the guidelines may differ between calls, they are established based on establishing a "level playing field" for competition among eligible CSOs, and on specific GAC "needs" for programming in a given development area or

country. All proposals follow a given format and are judged in relation to each other according to an assessment framework that ranks proposals.

c) Consistency with Guiding Principles

Calls-for-proposals as a directive and competitive mechanism have clear lines of accountability to GAC, are based on the principle of equal access for all eligible CSOs, with an agreement negotiated following a successful bid. This mechanism can be effective for GAC in generating a range of programmatic responses in clearly and narrowly targeted geographic areas or issues (see Priority Areas below), where GAC is seeking to ramp-up its intervention through the expertise of mainly large-scale operational Canadian International NGOs (INGOs).

The CCIC/ICN Surveys of Canadian CSOs (2012 and 2014), however, have documented a number of ways in which this mechanism, when broadly employed in funding Canadian CSOs by PDIB, has seriously undermined their effectiveness as development actors:

➢ Moving a civil society community of practice from one engaged in stable long-term partnerships to one that is defined by an ongoing sense of heightened competitiveness and crisis derived from sustained funding uncertainty;

➢ A bias in favour of large and established CSOs familiar with the exigencies of the competitive process, with reduced opportunities for medium and small CSOs, who face the prospect of suddenly scaling back support for partners;

➢ A return to an emphasis on a project mode of support, limiting CSOs' ability to manage a strategic programmatic approach to priorities, increasing the transactions costs for CSOs compared to program support, and limiting in depth consultation with partners due to short windows for developing proposals;

➢ The inherent difficulty for GAC in comparing proposals that are in fact not easily comparable, raising questions about the fairness of the win/lose character of the process compared to more flexible merit-based approach, involving negotiated and possibly more iterative program development with GAC;

➢ Encourages a competitive CSO environment that limits possibilities for shared learning with peers or broad cooperative partnerships;

➢ Increased uncertainty and inefficiency due to the loss of dialogue between GAC and CSOs submitting proposals; and

➢ Potentially disastrous consequences for CSOs and their partners when proposals are unsuccessful in contexts where continuity is needed to ensure sustainable impact from ongoing partnership arrangements.

d) Priority Areas

Calls for proposals as a modality for supporting CSOs have their place in GAC as a whole, but given the experience since 2010 as documented by CCIC (see above), for PDIB they should be limited to unique circumstances. Some such circumstances might include the following:

➢ Calls for proposals as a mechanism to channel CSO support for specialized and sometimes-unforeseen GAC priorities, with support clearly demarked for a given period of time and purpose.

➢ Calls for proposals as a mechanism to respond to unique one-off situations (such as second-stage reconstruction following a country-specific humanitarian emergency or an interest in generating innovative pilots in a particular issue area). Some recent examples include the Youth Internship Programs, the Haiti Post-Earthquake reconstruction funding, and the Canada Fund for Africa Climate Resilience.

Where calls-for-proposals are contemplated, CCIC and ICN have made a number of recommendations to be considered for refining current practice to make this mechanism a more targeted and effective mechanism for PDIB (CCIC & ICN, 2012):

➢ Create a two-tiered process with an initial concept note, with clear and transparent criteria for evaluation, leading to an invitation to submit a full proposal if the concept note is accepted.

➢ Make sure that the calls-for-proposals are more inclusive, and that small and medium-sized organizations, which have can have distinct value-added role in Canada's development efforts, may apply and have a fair chance of getting their proposals approved.[18]

➢ Increase opportunities to engage with GAC at various stages of the call-for-proposals process, such as having access to staff to ask questions and to seek clarity on responses.

➢ Create greater transparency prior to and during the assessment process, disclosing the assessment criteria when launching the call-for-proposals, and the rationale for the outcomes of GAC ranking of the different proposals. Calls-for-proposals should also be much clearer about what exactly GAC is looking for, and not leave this to interpretation.

The 2012 CCiC/ICN study recommended a full and transparent evaluation of the impact of the call-for-proposals mechanism since 2010 in PDIB in the context of the ODA Accountability Act, GAC's interests in strengthening civil society engagement in development, and the endorsement of the *Istanbul Principles* at the 2011 Busan High Level Forum and GAC's Civil Society Policy.

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[18] For a discussion of the potential advantages of small and medium organizations as development actors, Inter-Council Network, 2016. Small and Medium Size Civil Society Organizations as Development Actors: A review of evidence, A Report prepared for the Inter-Council Network by Brian Tomlinson, AidWatch Canada, April 2016, accessed March 2017 at http://aidwatchcanada.ca/wp-content/uploads/2016/07/ICNSMOStudy_Final_kg_Graphics_3.pdf.

4. CSO Knowledge and Capacity Development Initiatives

a) Purpose

Support for CSO Knowledge and Capacity Development Initiatives (K&CD) are critical program resources implemented by specialized CSOs. These initiatives focus on inclusive CSO programs for knowledge and capacity development, which complement and add value to GAC/CSO implementation of the Policy on Civil Society Partnerships.

GAC's Civil Society Policy looks to CSOs,

> "to adopt innovative approaches to development and poverty reduction, in developing countries and on the global stage, that deliver results effectively and efficiently. To that end DFATD will place increasing focus on incubating innovative ideas, testing promising initiatives, and scaling up those with the potential of widespread impact and effectiveness." (GAC, 2015, 5)

While all CSOs place different degrees of importance on learning, knowledge generation and capacity development, specialized CSOs, such as CSOs or some CSO policy coalitions, have been uniquely created for the purpose of structuring a common CSO space for sharing knowledge, facilitating peer learning, conducting research, and synthesizing development lessons essential for development innovation.

Despite this focus in this mechanism on specialized organizations within the CSO community, it is assumed that knowledge and capacity development would be an important aspect of many CSO program and project proposals made through other PDIB CSO financing mechanisms. The latter make up an experiential foundation for a CSO community of knowledge that is informed through practice and ongoing partnerships with developing country counterparts. This mechanism facilitates the sharing of knowledge among CSOs, building upon this experience.

b) Structure

It would be important that PDIB develops in consultation with relevant CSOs, a conceptual Framework for GAC Support to CSO Knowledge and Capacity Development through all its funding mechanisms, including a mechanism for CSOs specializing in these areas. This Framework would establish clear guidelines on eligibility, programmatic scope, and modalities for support. The development of the Framework should be informed and draw lessons from the experience of other donors in this area and previous CIDA/DFATD/GAC partnerships. Based on this Framework, specialized CSO, CSO Consortium or Umbrella Organization would submit proposals for programs in Knowledge and Capacity Development with CSO constituencies and development practitioners, which is based on the mandate and priorities of the proposing organization and the needs of the sector. The focus for this mechanism would be on comprehensive program proposals for K&CD, as distinct from one-off projects or events. While other financing mechanisms should consider knowledge and capacity development within their mandate, in this mechanism, the mandate of the proposing organizations, such as a CSO research centre, consortium or an umbrella coalition, would be principally dedicated to Knowledge and Capacity Development.

c) Consistency with Guiding Principles

This mechanism supports the capacity development of Canadian CSOs as actors in their own right, including a focus on innovation for CSO development effectiveness. Through the constituencies of experienced CSOs in Knowledge and Capacity Development, CSOs that are grounded in years of development practice and the knowledge of developing country partners, is the foundation of learning and capacity development. The mechanism has the potential to create an institutional foundation for all Canadian CSOs (and other development actors) and GAC to benefit from CSO research grounded in their experience of the realities of developing countries.

Knowledge and capacity development initiatives can create a strong basis for pursuing multi-stakeholder approaches to development, consistent with this emphasis in GAC's Civil Society Policy. Initiatives in learning and knowledge development have the potential to bring together Canadian and Southern CSOs, as well as other relevant stakeholders, such as the private sector and local government, around common goals.

d) Priority Areas

The primary partners for this mechanism would be CSOs, networks, coalitions and consortium specializing in capacity building, knowledge creation, innovation and its dissemination, policy work and learning processes. Initiatives in these areas bring together Canadian and Southern CSOs, as well as other relevant stakeholders, such as the private sector and local government. Developing country and international CSOs, global networks and coalitions should also be eligible for K&CD support. Examples may include CIVICUS or the CSO Partnership for Development Effectiveness (CPDE). Examples of special K&CD initiatives might also include CSO collaborations such as the MNCH Network and other CSO communities of practice working in Canadian ODA priority areas (volunteer sending and humanitarian assistance).

4. Conclusions

The primary purpose of this Discussion Paper has been to describe a number of funding mechanisms in support of CSO partnerships consistent with the commitment in GAC's 2015 CSO Policy and the intent of the current Liberal Government. What emerges from this review is the wide range of considerations that need to be taken into account in developing a funding framework that responds and supports the initiative of a rich diversity of Canadian CSOs. A good starting point for this exercise is to always to consider each of the seven principles and primary objectives discussed in the first part of the Paper. The balanced application of those principles and objectives requires an understanding of the practical dimensions of CSOs' contributions to development and thereby the added value to the Canadian effort in effective development cooperation. These CSO realities condition how best to achieve the primary objectives of the Civil Society Partnership Policy. There are no simple recipes.

The four mechanisms set out as a potential framework for financing CSOs presume a high degree of responsiveness to CSO priorities and programming, which is consistent with the implementation of the 2015 Policy. Directive calls-for-proposals have their place, but as a generalized tool for allocating funds, they suffer from too many deficiencies to allow for PDIB or its CSO partners to operate as the results-oriented and strategic organizations they aspire to be.

Within the framework of the four mechanisms, the Paper has discussed their relative importance, with a strong and growing emphasis on CSO Sustainable Development Framework Agreements as a preferred mechanism. But it should also be noted that in addition to diversifying funding mechanisms, Canadian CSOs have been seeking a gradual increase to both the overall Canadian aid budget and in funding through PDIB (which has been has been declining precipitously for more than a decade). Continued decline in PDIB's budgetary levels will preclude much of the innovation suggested in this Paper (and many innovative roles for CSOs in a new strategy for Canada's International Assistance. On the other hand, increases in the overall aid budget, and in PDIB's share in these increases, would create conditions that will allow for a greater focus on new actors and on more innovations in a challenging world for development cooperation, as well as a return to international recognition of Canadian leadership in CSO partnerships.

While urgent action is needed to address current funding challenges in renewing partnerships with CSOs, a an appropriate funding framework will benefit from the new spirit of dialogue between Global Affairs Canada and the CSO community in Canada.

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Annex One
Some Considerations for Eligibility Criteria for
a Sustainable Development Framework Agreement

Eligibility criteria are set out here only to provide some examples for areas to consider in determining access to a Sustainable Development Framework Agreement. Such criteria and operational guidelines for these Framework Agreements need to be developed by GAC in consultation with representative CSO platforms such as CCIC.

CSOs that aspire to become a "Framework Organization" with GAC might demonstrate the following fundamental conditions in a consistent proven track record.

- Evidence of institutional resilience and a long-standing record of excellence in administrative and programmatic performance, consistent with criteria set out in the ODA Accountability Act, as shown through institutional evaluations and past experience;

- Existence of a clear and convincing development strategy and a focused intervention model on the part of the CSO;

- Evidence of sustained and participatory partnerships with developing country counterparts in designing and implementing the organization's development cooperation;

- Evidence of operating against good practice international standards such as the *Istanbul Principles for CSO Development Effectiveness*;

- Evidence of systematic monitoring of results at the programmatic and institutional level by the CSO.

- Evidence of a learning-based organization capable of adjusting to new realities and constantly working towards increased effectiveness;

- Evidence of consistent public engagement with Canadian constituencies including but not limited to resource mobilization (with criteria established by GAC for a minimum in self-financing related to the programs covered by the Agreement); and

- Evidence of cooperation/collaboration with relevant actors and contributions to build and sustain an integrated institutional foundation in the sector.

Additional policies for the Sustainable Development Framework Agreement that might be considered beyond basic eligibility, include guidance on good development practice, a transparent assessment framework, cost sharing, reporting requirements, and the key elements for institutional assessments that inform eligibility for future SDFAs.