

Money and Autonomy: Patterns of Civil Society Finance and Their Implications

Shaoguang Wang

Why cannot civil society always live up to its advocates' expectation? This study explores one possible explanation—the implication of different sources of financing for operational autonomy from the state, business, and transnational organizations. Based on an analysis of data from the Johns Hopkins Comparative Nonprofit Sector Project, it shows that the pervasive myth of civil society self-sufficiency has no factual base. There is no country where private giving is the dominant source of revenue for civil society organizations. The study explains why this is the case, identifies actual patterns of civil society finance in the world, and discusses the possible implications of various funding patterns for civil society's autonomy.

The last two decades of the twentieth century witnessed the revival of the concept of civil society. Many viewed its rise as the most promising political development of the post-Cold War era. If the 1980s and early 1990s were a period of romantic adoration of civil society, recent years have become the time of reflection (Foley and Edward, 1996; Berman, 1997; Wolfein, 1997; Verba, Schlozman, and Brady, 1997; Rieff, 1999). While still treasuring the potential positive value of civil society for democracy, people now come to realize that civil society is by no means a paradise epitomized by harmony. It consists of both good and bad actors. Some may work at high-minded aims, but most are simply single-issue groups that are preoccupied with the pursuit of parochial self-interests. The proliferation of the latter “could choke the workings of representative institutions and systematically distort policy outcomes in favor of the rich and well-connected or, more simply, the better organized” (Carothers, 2000).

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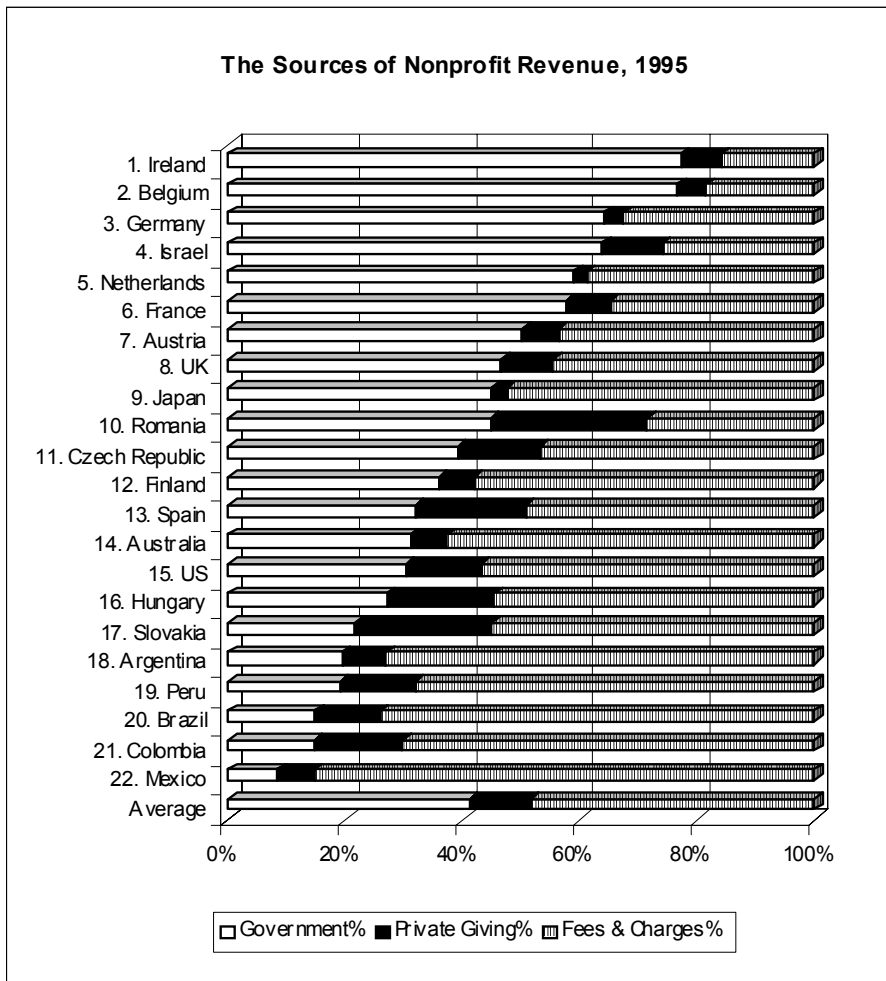
It is one thing to demystify civil society; it is another to explain why civil society cannot always live up to its advocates' expectation. This study explores one possible explanation—the implication of different sources of financing for operational autonomy. Here “operational autonomy” refers to an organization's freedom to formulate and pursue a self-determined agenda without undue external pressures, wherever the pressures come from. In the literature, “civil society” is generally conceived as an autonomous realm of associational life that is “voluntary, self-generating, [and] (largely) self-supporting” (Diamond, 1994: 5). It is the autonomous nature of civil society, many believe, that enables it to countercheck abusive and corrupt state, diffuse social and economic power, pluralize the political arena, and promote accountable and participatory governance, thus contributing toward the creation and maintenance of democracy (James and Caliguire, 1996).

Although autonomy is often assumed to be the trademark of civil society, few political scientists have taken the trouble to explore how much civil society organizations are operationally autonomous from external forces. An organization's source of revenue is no small matter in this equation. Most people would doubt whether civil society organizations could maintain their autonomy if they rely mainly on government handouts. By the same token, if those organizations depend primarily on income from commercial activities, people would wonder about the possible consequences of blurred line between them and for-profit business organizations. In any event, it seems hard for civil society organizations to retain a meaningful degree of autonomy unless they can ensure a vigorous base of philanthropic support in private giving and volunteer labor.¹

According to conventional wisdom, funding does not constitute a problem for civil society. It is widely believed that charitable contributions from such sources as foundation grants, corporate gifts, and individual giving are so plentiful in Western countries that they can not only sustain civil society at home, but also support the growth of civil society in other parts of the world. Hence, civil society has no need to turn to funding sources that could compromise its organizational autonomy (Salamon, 1999). Unfortunately, this pervasive myth has no factual base. Figure 1 establishes unequivocally that in no country for which data are available is private charity the dominant source of nonprofit revenue.

If private giving is not the major revenue source of civil society organizations, what is? Are their revenue sources the same across countries and organizational types? This exploratory study ventures to tackle those questions. The next section defines the key concepts used in this article and gives a theoretical explanation on why charitable donations are unlikely to provide an adequate level of resources for civil society organizations. The following section explains the data's sources, why they are valuable, and what their drawbacks are. The third section examines the actual patterns of civil society finance in developed as well as in developing countries. Due to data limitations, this article is unable to test systematically whether and how the sources of funding affect the behaviors of civil society organizations. Informed by relevant theoretical and empirical works, the final section derives several re-

Figure 1
Money and Autonomy: Patterns of Civil Society Finance and Their Implications



Source: <http://www.jhu.edu/~cnp/country.html> and <http://www.jhu.edu/~cnp/compdata.html>

search propositions that could be readily converted into testable hypotheses for future investigation.

Voluntary Failure and Its Remedies

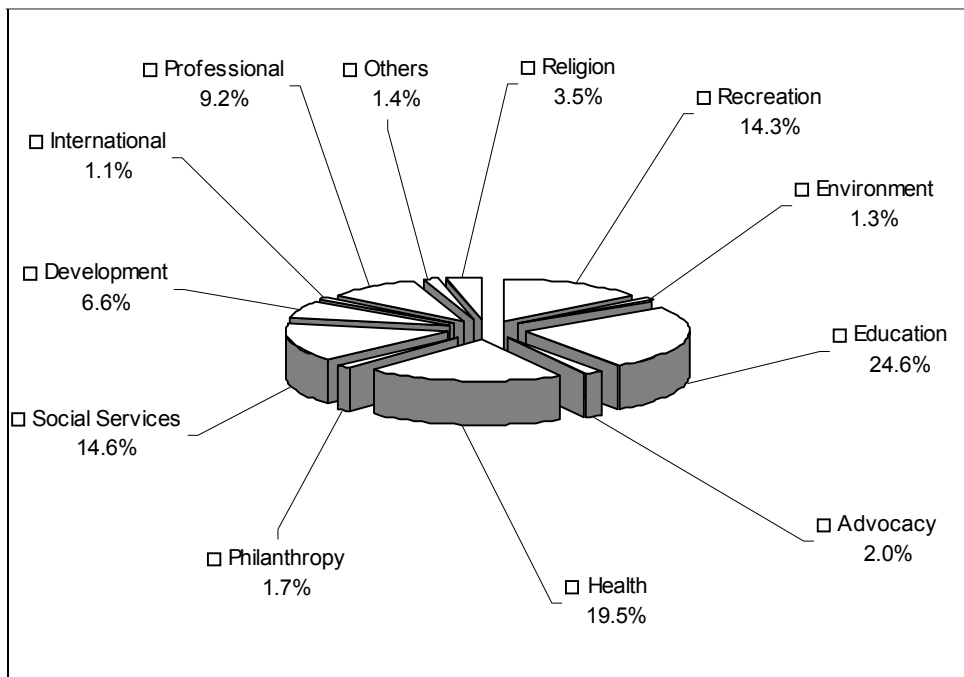
While “civil society” has become one of the buzzwords of our time, there is a great deal of confusion about the exact meaning of the term. Mass media tend to equate it with nongovernmental organizations (NGOs), especially advocacy groups devoted to public interest causes. But focusing on NGOs alone may overlook the presence of many voluntary organizations of other types that also contribute to the formation of social capital and to socioeconomic

and political development (Salamon and Anheier, 1997). As Figure 2 reveals, advocacy organizations (including environmental groups) altogether make up only a tiny fraction of the civil society universe.

In this study, the concept of civil society refers to a whole range of private voluntary organizations that meet a simple criterion—distinct both from the state institutions that are backed up by a monopoly of the means of physical violence and from the market institutions that aim at maximizing profits. An all-encompassing label—“nonprofit organization” (NPO)—is preferable to “nongovernmental organization,” because it is more inclusive. The social space NPOs collectively occupy is called interchangeably “the nonprofit sector” or “civil society.”

It is well known that both market and state may fail. Market failure refers to its inability to provide collective goods either at all or at the most desirable levels. The existence of market failure is usually used to justify government intervention in resource allocation. While the state is able to offer public goods for collective consumption, it may also fail in various forms. One common form of state failure is inefficiency in the state sector, which economists have intensively studied. Another form of state failure seems to have drawn attention only from those economists who study the nonprofit sector. That is, the state tends to provide public goods only at the level and in the forms that satisfied the median voter, thus leaving some people’s demand for public goods

Figure 2²
The Distribution of Civil Society Organizations in 22 Countries



Source: <http://www.jhu.edu/~cnp/country.html> and <http://www.jhu.edu/~cnp/compdata.html>

unsatisfied (Weisbrod, 1986). Where both market and state fail, nonprofit organizations may play a positive role. Unlike for-profit organizations, nonprofits can offer public goods; and unlike the state that can only offer standard provision of public goods, private nonprofit organizations are so numerous and so flexible that they can meet the unsatisfied residual demands by providing public goods supplemental to those made available by the government. To provide public goods and services, nonprofits have to generate adequate and stable flows of income. This is where voluntary actions may fall far short of the goal. Lester M. Salamon calls this “voluntary failure.”³ There are two reasons why “voluntary failure” may occur.

First, if voluntary organizations provide services that have the character of public goods, they are likely to confront the free-rider problem. Public goods have two characteristics, “non-rival consumption” (i.e., one person’s consumption of the goods does not reduce their availability to others) and “nonexcludability” (i.e., if the goods are provided at all, the producer is unable to prevent others from consuming them). Generally, we expect governments to provide public goods through compulsory taxation. The difficulty with voluntary contribution is that potential consumers may be inclined to take a “free ride.” There are, of course, altruists who will not take a free ride (Rose-Ackerman, 1997), but most potential consumers of public goods will. Even some of those altruists may not be willing to make voluntary contributions either, because, worried about the free-rider problem, they may devote their resource to push for government action. Pervasive free riding means that the voluntary solution is likely to end up as a failure. In this sense, philanthropic insufficiency is an inherent shortcoming of the nonprofit sector.

Beyond the free-rider problem, another cause of the “voluntary failure” is the asymmetry in information distribution between potential donors and nonprofit organizations. By definition, donations involve payments for services that are to be delivered either to a whole community (e.g., environmental protection) or to a third party (e.g., charities for poverty alleviation). Either way, the donor is in a poor position to oversee the use made of the donation. To make the matter worse, nonprofit organizations often operate behind a screen of secrecy. Many of them are unwilling to disclose even basic financial and programmatic information. Donors thus have little idea about how their donated funds are used in general, not to mention what uses are being made of their individual marginal contributions to the nonprofit organization. Such asymmetrical distribution of information enables some nonprofit managers to abuse public donations for personal benefits. Recent scandals of high salaries, perks, and outright embezzlement in the United States show how easy it is for nonprofit managers to divert some of the residual to themselves and how difficult it is for donors to monitor nonprofit organizations (Hawks, 1997). With weaker legal framework, the monitoring problem is much worse in other countries. Distrust fueled by such instances certainly also limits the nonprofit sector’s ability to generate revenue through voluntary contribution.

Salamon was right when he pointed out, “the voluntary system, despite its advantages in terms of creating a meaningful sense of social obligation and legitimacy, nevertheless has serious drawbacks as generator of a reliable stream

of resources to respond adequately to community needs” (Salamon, 1987: 111).

There are two ways to overcome the free rider problem. One way is for the state to use its compulsory power to levy taxes and then subsidize the nonprofit sector. The other is to offer positive inducements to those who donate to nonprofit organizations (e.g., tax incentive for charitable giving). In a sense, tax incentives are also a form of state subsidy to the nonprofit sector, because they represent the “foregone” tax incomes of the state. Tax incentive differs from government-direct subsidy in that they allow individual donors to make allocative decisions, while subsidies leave the power to government bureaucrats. Both solutions have their respective pros and cons. The tax subsidy solution may be able to achieve a higher level of allocative efficiency, but the direct-grant subsidy solution is better at overcoming the free-rider problem.

It can be hypothesized that, in countries where the governments offer generous tax benefits to philanthropic giving (and thereby somewhat downsize the public sector), the nonprofit sector is likely to receive relatively more private donations. Conversely, citizens’ voluntary contributions to the nonprofit sector tend to be relatively small in welfare states because they may conclude that they have already paid their “dues” through taxation.

Clearly, the tax subsidy solution can be applied only to countries where personal income tax constitutes an important source of government revenue, and the direct-grant subsidy solution only to countries where the ratio of government revenue to GDP is sufficiently high. It implies that many poor countries, with few people paying income tax and low revenue/GDP ratios, may adopt neither. Although at the low level of development, the demand for collective goods may be low (Weisbrod, 1977: 69-70), such demand exceeds the supply of domestic charitable funds. Thus, inflows of external resources become necessary for the nonprofit sector to survive and operate in those countries.

In addition to providing public goods, nonprofit organizations also provide certain types of private goods and services. When they are organized primarily to meet the interests, needs and desires of their own members (e.g., social clubs, business associations, labor unions, or mutual benefit organizations of various sorts), membership dues may become an important source of their revenue. When they deliver private services to third parties (e.g., care provided by a nonprofit nursing home),⁴ it is possible for them to collect fees and charges to cover their production costs.

Data

The data used in this study are mainly derived from a databank originally assembled by the Johns Hopkins Comparative Nonprofit Sector Project around 1995. Covering 22 countries, the data were first collected by individual country teams, and then submitted to the Johns Hopkins core team for cross-checking and comparison.⁵ In this dataset, revenues referred to inflows of monetary resources received by NPOs during 1995. All sources of revenue were grouped into three categories:

1. Private giving, including donations from individuals, foundations, and corporations. This is nonprofit organizations' unique source of revenue, which sets them apart from the public sector and private for-profit institutions.⁶
2. Government subsidy, including outright grants (direct government subsidies given to NPOs in support of their activities and programs), contract (payments made by public agencies to NPOs for services delivered to eligible recipients of certain government programs), and reimbursements from all branches of government and quasi-governmental entities at all levels (payments to eligible recipients of government programs who purchase services from NPOs).⁷
3. Fees and service charges that NPOs receive from their members (membership dues) and from the sale of their services directly to consumers, whether or not such activities are related to the organization's mission.

To date, this is the only set of cross-national data on civil society funding. However, the dataset also leaves much to be desired. First, the selection of cases focuses on Eastern Europe, Latin America, and OECD countries, omitting such important regions as Africa, the Middle East, and most of Asia. Due to its limited coverage, whatever conclusions this study may draw, they should be seen as applicable only to the regions under investigation. Second, the classification of funding bunches together categories that should be treated separately. For instance, "private giving" in this dataset includes not only donations from individuals but also those from foundations as well as corporations. Yet corporate funding could be as compromising as government funding to many NPOs. Another example is membership dues that are indiscriminately included in "fees and service charges."

The nonprofit sector is actually composed of two different kinds of organizations. The first are primarily member-serving organizations, including sports clubs, choral societies, business and professional associations, labor unions, and mutual-aid and cooperative organizations. While serving some public purpose, those organizations are largely organized to pursue the interests of their members. The second kind consists of primarily public-serving organizations, including a variety of funding intermediaries and a wide range of educational organizations, service providers, social welfare agencies, and advocacy groups. These organizations are mostly established to provide services for people who are not their members. The demarcation between the two types of organizations is by no means unambiguous. Nevertheless, it seems reasonable to treat dues paid to member-serving organizations as some sort of purchase while regarding dues paid to public-serving organizations as some sort of contributions. When incomes of different natures are mixed up, some key distinctions may be lost.

Third, the dataset ignores an important source of funding—financial inflows from overseas—altogether. Whereas nonprofit organizations in all countries rely more or less on the three sources of funding identified by the dataset, those in developing and transitional countries may depend largely on foreign money. Funds from foreign sources include grants and contributions from foreign government institutions (e.g., USAID), foreign corporations, international institutions (such as UNESCO, UNICEF, and the World Bank), and Northern foundations and nonprofit organizations. Northern nonprofits may

in turn obtain their money from individual and corporate donors as well as from their governments. Although no systematical data on foreign funding are available, the literature on global Southern civil society is full of case studies that reveal the magnitude of dependence on foreign funding, which provides the empirical base for the relevant discussion below.

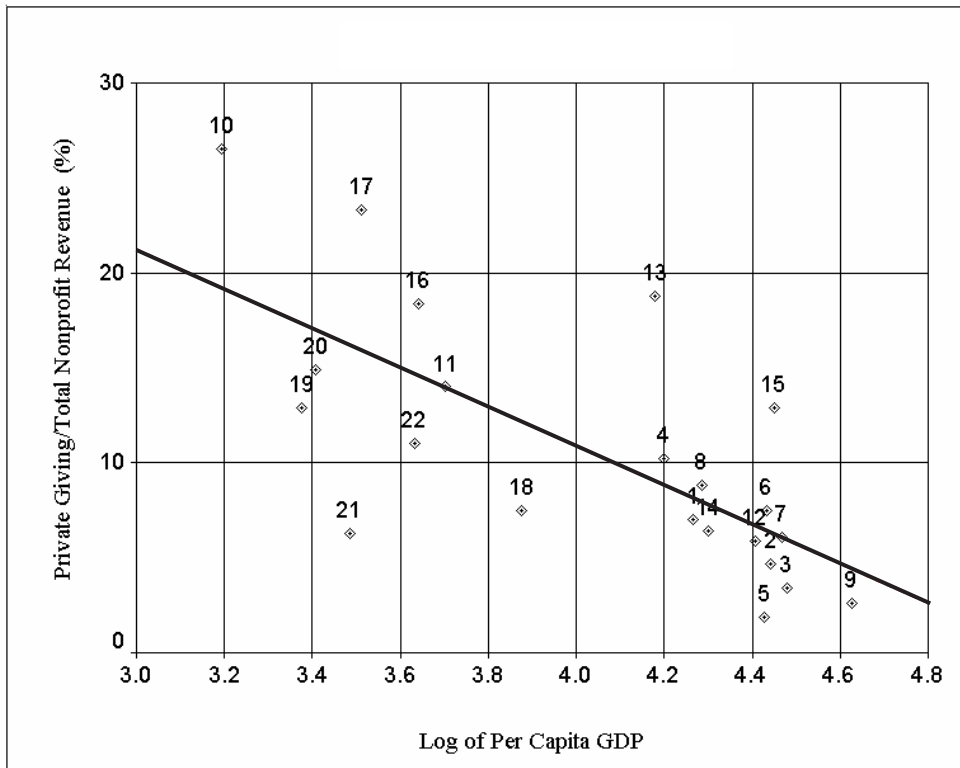
Finally, a vital drawback of the dataset is that it provides no information on how much nonprofit organizations in these 22 countries enjoy operational autonomy. Thus, it is impossible to test empirically whether funding patterns actually affect civil society autonomy.

Patterns of Nonprofit Finance

Private Giving Dominant Pattern

This pattern is a theoretical possibility, but does not exist in the real world. Let us first focus on incomes directly coming from private philanthropy. Although nonprofit revenue sources differ greatly from country to country, one thing is nearly universal, that is, in no country is private charity the dominant

Figure 3⁸
Private Giving and Per Capita GDP



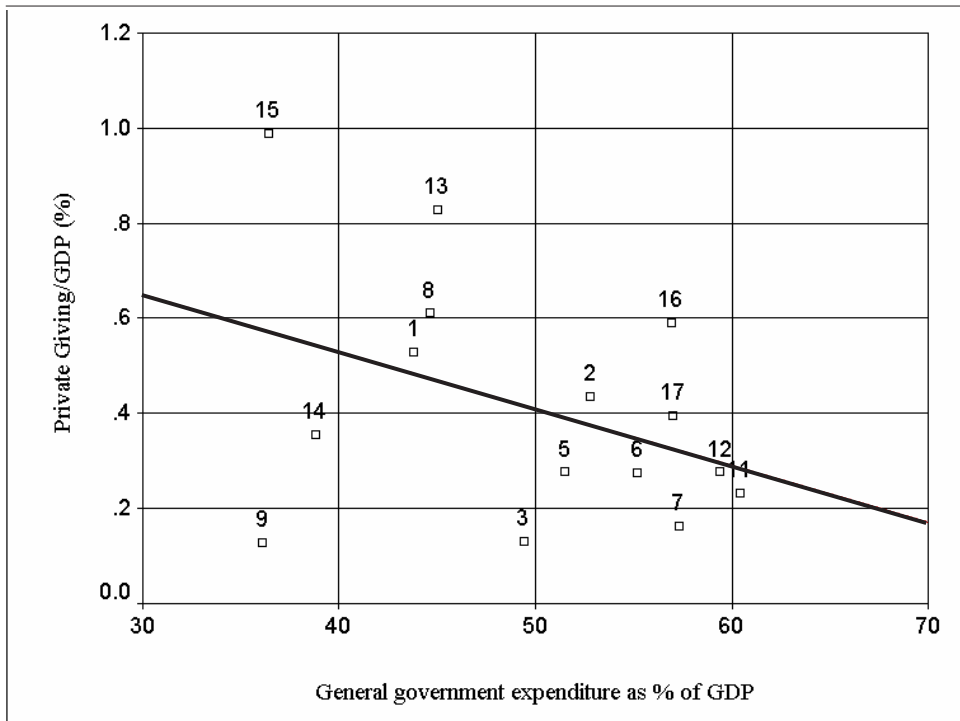
Source: <http://www.jhu.edu/~cnp/country.html> and <http://www.jhu.edu/~cnp/compdata.html>

source of nonprofit finance (Figure 1), which notably contradicts the conventional wisdom.

Nevertheless, the weight of private giving in nonprofit financing varies across countries. How do we explain the disparity? Figure 3 suggests that the level of economic development is a key determinant. Whereas the share of private giving is generally miniature among developed countries, it is higher among Latin American countries and substantially higher among East European countries. This is so not because philanthropy is well developed in those poor countries, but because governments there fail to play a big role in financing the nonprofit sector, thus artificially bumping up the relative importance of private giving. As a matter of fact, relative to the overall size of economy measured by gross domestic product (GDP), private giving is generally much smaller in developing countries than in developed countries.

In the developed world, the importance of private giving for nonprofit financing also varies. Figure 4, which includes only data on OECD countries, confirms that there is a trade-off relationship between the relative sizes of the public sector and private giving. Nowhere in the industrial world are tax incentives for private giving more generous than those offered in the United States. As a result, Americans seem to be more willing to make charitable contributions than people elsewhere (#15 in Figure 4).⁹

Figure 4
Private Giving and the Size of Public Sector



Source: <http://www.jhu.edu/~cnp/country.html> and <http://www.jhu.edu/~cnp/compdata.html>

What if membership dues of public-serving organizations are included under “private giving” rather than under “fees and charges”? Would the inclusion of such dues substantially change the picture painted above? Probably not. First, in most countries where data are available, membership dues are an insignificant source of revenue for nonprofit organizations. In the United States, for instance, 240,569 relatively large nonprofit organizations that filed returns for tax exemption in 2001 reported total revenue of \$897 billion for the year.¹⁰ Income from membership dues constituted less than 1 percent of the total (Table 1).¹¹ Even if small organizations were to be included, membership dues would not become a major source of nonprofit revenue, which is borne out by numerous surveys of nonprofit organizations in American states and cities (Greater Kansas City Community Foundation, 2000; Executive Committee, 2003; Minnesota Council of Nonprofit, 2004; El Pomar Foundation, 2004). Similarly, several separate surveys establish that income from membership dues makes up no more than 7 percent of total nonprofit revenue in Canada (Canadian Centre for Philanthropy, 2003; Statistics Canada’s Income and Expenditure Accounts Division, 2004).

Second, generally speaking, membership dues do not constitute a major source of revenue for public-serving organizations (Table 2). True, professional associations and unions are almost exclusively financed through membership dues. Recreational and cultural organizations, as well as housing

Table 1
Revenue Structure of U.S. Nonprofits

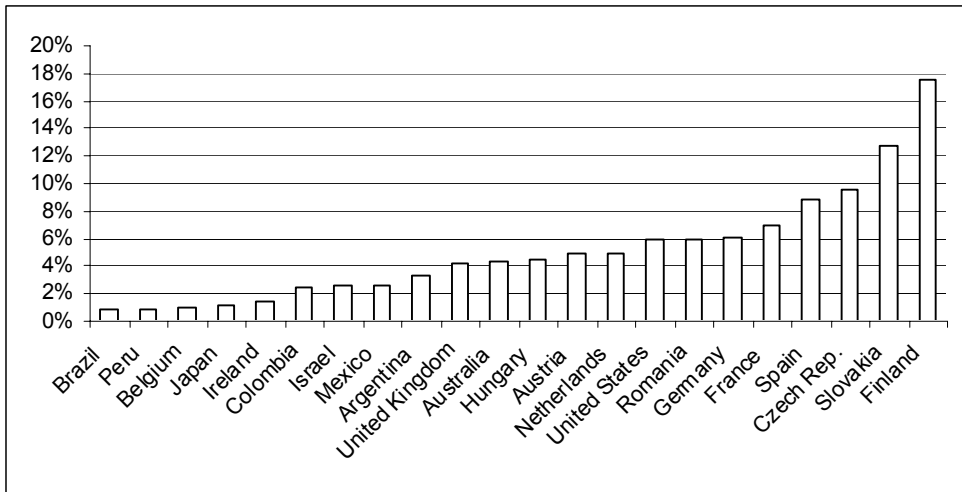
Year	1997	1998	1999	2000	2001
Program service revenue	64.5	66.9	64.7	66.9	70.3
Contributions, gifts, and grants	19.4	21.5	21.9	23.0	23.7
Membership dues and assessments	0.9	0.9	0.8	0.8	0.8
Other	15.3	10.7	12.6	9.4	5.2
Total	100.0	100.0	100.0	100.0	100.0

Source: <http://www.irs.gov/pub/irs-soi/02es01ge.xls>

Table 2
Reliance on Membership Dues by Type of Organization

		Orientation of Organization	
		Member-serving	Public-serving
Degree of Reliance on Membership Dues	High	Business, professional and unions, culture and recreation, housing	
	Relatively High		Environment, civic, and advocacy
	Low		Development, education, health, social services, philanthropy, international

Figure 5
Proportion of Environmental, Civic and Advocacy
Organizations in the Nonprofit Sector³



Source: <http://www.jhu.edu/~cnp/country.html> and <http://www.jhu.edu/~cnp/compdata.html>

cooperatives, also derive a relatively high proportion of their income from this source. However, members in such organizations tend to view dues as the equivalent of a charge that entitles them to association services. Therefore, it would be erroneous to consider such dues as private giving. Among public-serving organizations, only environmental, civic, and advocacy organizations gain modest income from membership dues. A recent study, for example, finds that dues comprise only a relatively small percentage of overall revenues (normally below 25 percent) for large and high profile environmental organizations in the United States (Bosso, 2003). Other types of public-serving organizations rely mainly on either government handouts or service charges.

Third, environmental, civic, and advocacy organizations do not dominate the nonprofit scene (Figure 5) in any country. In some Scandinavian (Finland, Norway, and Sweden) and central and eastern European countries (Czech Republic, Slovakia, and Hungary), membership dues may represent a large share of nonprofit revenue, but such income mainly goes to member-serving organizations rather than public-serving organizations (Salamon et al., 1999).

It is ironic that the United Nations' System of National Accounts defines a nonprofit organization as one that receives at least half of its revenue from private giving (Salamon and Anheier, 1996: 62). Using this definition, we would not be able to find many nonprofit organizations in the world.

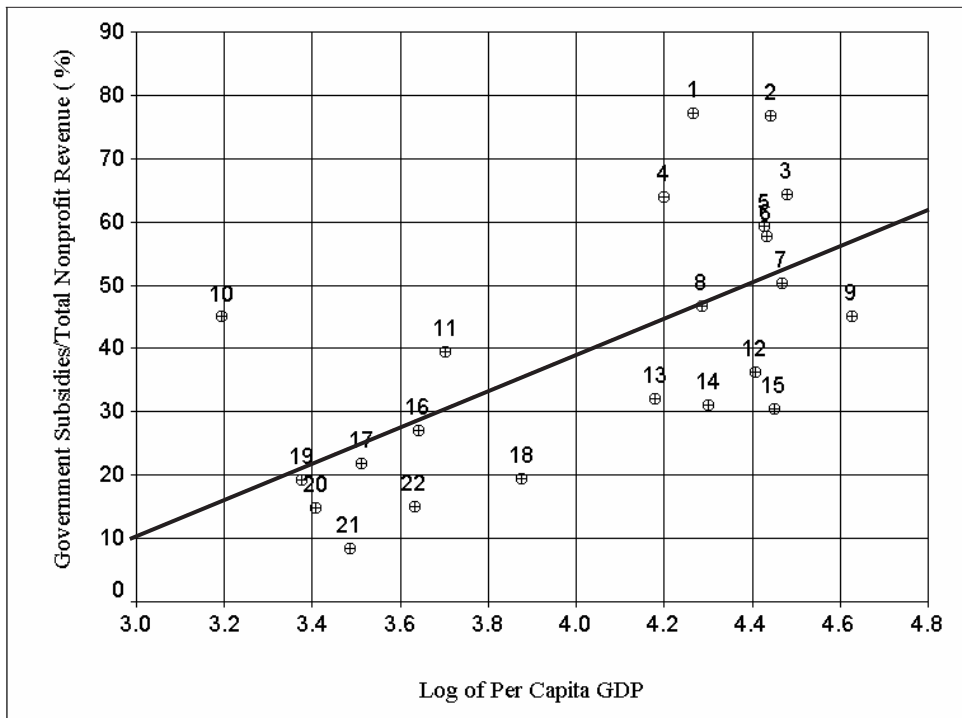
Government Dominant Pattern

The government dominant pattern is common among European countries, where the single largest funding source of the nonprofit sector is government subsidies and grants. For instance, government accounts for 64.3 percent and

57.8 percent of total nonprofit income in two large continental countries, Germany (#3 in Figure 6) and France (#6), respectively. In small European countries such as Ireland (#1) and Belgium (#2), government support is even more pronounced. All those countries are characterized by high personal income tax rates. In a sense, those governments have collected people's contributions on the behalf of the nonprofit sector.¹³

In the civil society literature, the authors often assume that the relationship between the nonprofit sector and government is one of inherent conflict, in which one's gain is the other's loss. Were this view right, the government would never lend support to nonprofit organizations. European cases suggest that the government-nonprofit relation could be a partnership where the government relies on NPOs for the actual delivery of services, while NPOs rely on the government for financial support. Such a cooperative relationship allows both parties to use their own strength to counterweigh each other's weakness. Government financing helps nonprofit organizations solve the problem of funding shortage, while private provision is generally more efficient than government provision. As a result, rather than having limited the growth of civil society, government intervention may actually facilitate its expansion (Salamon, 1995).

Figure 6
Government Subsidies and Per Capita GDP



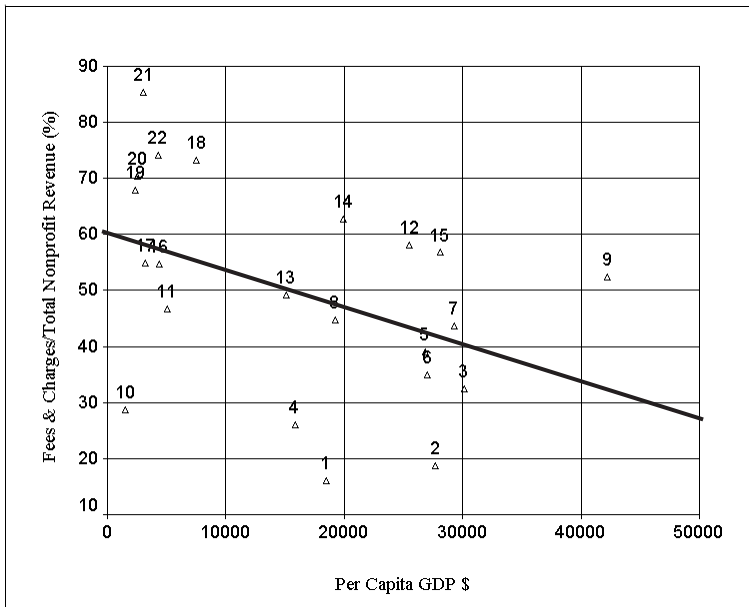
Source: <http://www.jhu.edu/~cnp/country.html> and <http://www.jhu.edu/~cnp/compdata.html>

Fee-Dominant Pattern

In some countries, income from fees, charges, and commercial activities surpasses all other sources of nonprofit revenue, constituting the largest share of total support. Such countries tend to cluster in the upper-left corner of Figure 7, namely those with per capita GDP lower than \$10,000, including all Latin American countries and some transitional countries. In these cases, it is the failure of the state in supporting the nonprofit sector that magnifies the importance of this source.

There are exceptions where per capita GDP is much higher than \$10,000, but the share of income from fees and charges exceeds 50 percent of total nonprofit revenue. The prominent examples are Australia (#14 in Figure 7), Finland (#12), and the United States (#15). True, the United States has the highest level of charitable giving and most developed private foundation sector in the world, but the dominant income source of America's nonprofit sector is fees, service charges, and commercial incomes. Since the Reagan era, due to cutbacks of government subsidies and stagnant private giving, American NPOs have been under constant budgetary pressure. To find alternative sources of income, they have moved into the commercial market in a big way. NPOs are now in all kinds of businesses, ranging from YMCA's fitness centers to museum's gift shops to universities' alliances with big corporations. Scholars use such phrases as "commercial transformation" to describe the historical change that has happened to the American nonprofit sector in the last two decades (Weisbrod, 1998). If the current trend continues, which is very likely, the already highly commercialized American nonprofit sector will become even more so.

Figure 7
Fees & Charges and Per Capita GDP



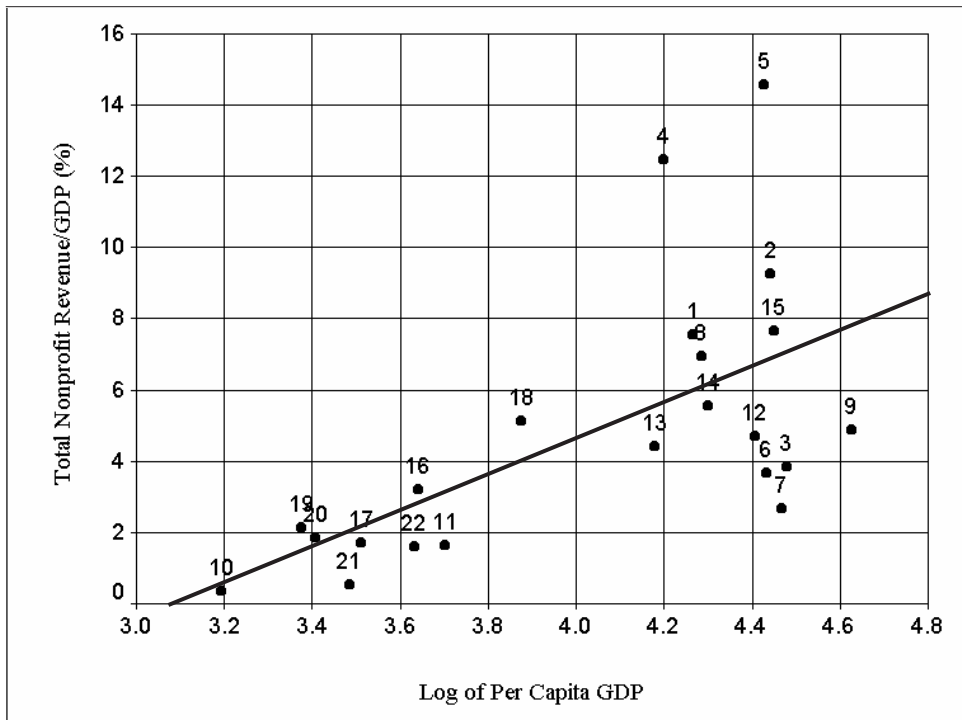
Foreign Aid Dominant Pattern

For two reasons, NPOs in the global South (SNPOs) are unlikely to obtain much funding from domestic sources. First, their governments tend to be weak in extractive and administrative capacity.¹⁴ When governments are struggling to acquire sufficient revenue to sustain their own basic operations, we cannot expect them to spend much on subsidizing NPOs. Second, because people are generally poor and governments institutionalize no tax incentive, SNPOs find it hard to mobilize private giving.

Figure 8 confirms this inference for Eastern Europe and Latin America: Almost all countries from these regions crowd together in the lower-left corner, which means that, regardless of the structure of revenue sources, the overall levels of nonprofit income relative to GDP tend to be much lower in those countries than in developed countries. Unfortunately, no systematic data on poor countries in Africa and Asia are available. Otherwise, the depressing state of nonprofit financing in the Third World might be more vividly demonstrated.

Where do SNPOs get their funds then? Official development assistance (ODA) from the OECD Development Assistance Committee (DAC) countries plays a crucial role. ODA had grown continuously from the early 1950s until

Figure 8
Fees & Charges and Per Capita GDP



Source: <http://www.jhu.edu/~cnp/country.html> and <http://www.jhu.edu/~cnp/compdata.html>

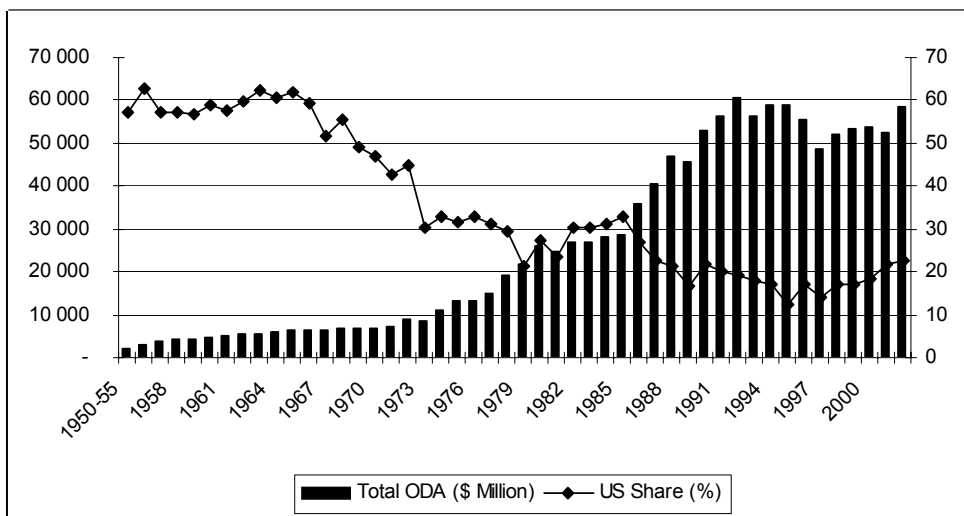
it peaked in 1992. Since then overall aid level began to recede and fluctuate. By 2002, ODA did not return to the level achieved 10 years before (Figure 9).

At the same time when the overall level dropped, the proportion of official development assistance that flowed through Northern NPOs (NNPOs) increased. Some major bilateral aid donors now channel a large share of their official development assistance funds through NNPOs. In 2002, for instance, Sweden sent 14.1 percent of its ODA through NNPOs; Norway, 11.9 percent; Belgium, 11.7 percent; and the Netherlands 11.4 percent (see Figure 10). Excluding the United States, the average percentage of bilateral ODA channeled through NNPOs rose from 3.6 percent in 1984-1985 to 7.6 percent (or about \$2 billion) in 2002.¹⁵

Among 22 DAC countries, the United States has always been the largest donor, even though its share of the total ODA has declined in the last four decades. In 2002, the ODA from the United States stood at \$ 13.3 billion dollars, accounting for 23 percent of the roughly \$58 billion dollars disbursed in ODA in the same year (OECD 2003). Since the early 1980s, the U.S. Congress has required a growing portion of foreign aid to be distributed through NNPOs (OECD 1988: 84). By 1996, USAID was already channeling more than 30 percent of its aid through NNPOs and committed to increase it to 40 percent by the turn of the century (Kakarala, 2001). It is therefore safe to estimate that the USAID disbursements through NNPOs were probably between \$4 to 5 billion in 2002.

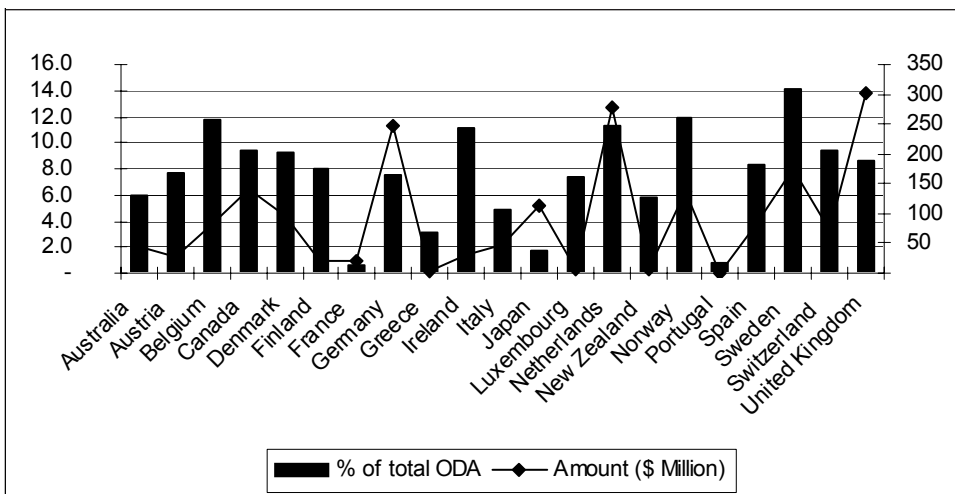
In addition to bilateral contributions, international organizations such as the World Bank, regional development banks, U.N. agencies, the European Commission, and the like have also joined the effort to bolster NPOs in the

Figure 9
Official Development Assistance, 1950-2002



Source: OECD, Statistical Annex of the 2003 Development Co-operation Report, http://www.oecd.org/document/9/0,2340,en_2649_33721_1893129_1_1_1_1,00.html.

Figure 10
ODA to/through NGOs, 2002



Source: OECD, Statistical Annex of the 2003 Development Co-operation Report, http://www.oecd.org/document/9/0,2340,en_2649_33721_1893129_1_1_1_1,00.html

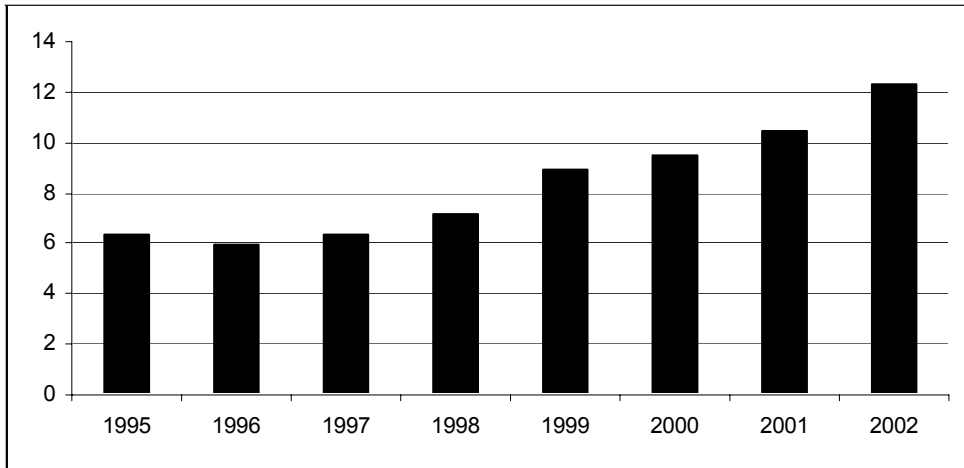
developing world. For example, in 1989, nearly 20 percent of the World Bank's project funds had already been channeled through NNPOs. By 1999, the figure grew to more than 50 percent (Kakarala, 2001).

It is clear that over the past 25 years, a growing proportion of bilateral and multilateral official support to SNPOs has gone through NNPOs. Yet it does not mean that NNPOs' disbursements to SNPOs are financed entirely by their home governments and international organizations. In fact, NNPOs raise most of funds from private donors in their home countries. As Figure 11 shows, the amount of grants mobilized by NNPOs for developing and transitional countries rose in recent years and reached \$12.3 billion dollars in 2002.

As a result of greater funding made available by foreign governments, international organizations and NNPOs, SNPOs have experienced phenomenal expansion in the last two decades. The influx of funds makes SNPOs in many countries highly dependent on foreign donors. A study of 62 NGOs in Eastern Africa found that 36 received 75 to 100 percent of their funds from foreign sources, and seven NGOs received between 50 and 75 percent. Only in 18 organizations, less than 25 percent of income originated from abroad (Gariyo, 1995: 133-34). The situation elsewhere in the Third World was more or less the same.

In India, NGOs had become heavily dependent on foreign funds by the early 1990s. One study estimated that in 1992 nearly 90 percent (about Rs. 9 billion) of NGO income (Rs. 10 billion or \$580 million) came from foreign sources, with the remaining 10 percent filled by government subsidies (Farrington and Lewis, 1993: 93; Mathiot, 1998). The proliferation of foreign-funded NGOs continued in recent years. According to India's Home Ministry,

Figure 11
Grants by NNGOs to Aid Recipients
(\$ Billion)



Source: OECD, Statistical Annex of the 2003 Development Co-operation Report, http://www.oecd.org/document/9/0,2340,en_2649_33721_1893129_1_1_1_1,00.html.

about 20,000 organizations had registered under the country's Foreign Contribution Regulation Act by 2000. Total foreign funds received by those organizations increased from Rs 3,403 crore in 1998-99 to Rs 3,925 crore in 1999-2000 to Rs 4,535 crore (about \$993 million) in 2000-2001 (Research Unit for Political Economy, 2003). India's neighbor, Sri Lanka, was no different. According to James's research (1989b: 299), "foreign contributions are by far the largest single source of income, providing 87 percent of total revenues." South Africa's anti-apartheid organizations were largely a creation made possible by foreign funds (Habib and Taylor, 1999).¹⁶

Western donors have also contributed to the emergence and development of the nonprofit sector in Eastern Europe. The most famous case was probably the Solidarity organization in Poland, which was financed to a large extent by American labor unions and other official and unofficial institutions (Salamon, 1995: 252-53). Solidarity was only one of many Polish NGOs that drew their income mainly from foreign sources. Without foreign funds, a wide range of nonprofit projects and programs in Poland could never have existed (Regulska, 1999).

Poland is not alone in this regard. After the collapse of the Soviet bloc in 1989-1990, many Western foundations and NPOs have set up their offices, helped establish local NPOs, and even built up umbrella organizations in Eastern Europe. They brought an unprecedented flow of funds to the region, which made "many nonprofit sectors in the East Europe highly dependent on foreign funding" (Kuli, 1999; Richter 1999). According to USAID's *2002 NGO Sustainability Index*, this situation has not changed in the 12 years since the transition.

Although the levels of economic development are generally higher in these transitional countries than in most Third World countries, both private giving and government financial support are very limited. Therefore, in some countries (Albania, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Kazakhstan, Kosovo, Kyrgyz Republic, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan), the NGO sector remain entirely dependent on foreign donor funding; in others (Armenia, Belarus, Croatia, Georgia, Latvia, Macedonia, Moldova, Montenegro, Romania, Russia, Serbia, and Slovakia), local NGOs still found it difficult to operate without a constant infusion from outside. Only in the Czech Republic, Hungary, Lithuania, and Poland has income from local sources recently exceeded foreign financial support (USAID, 2002).

Funding Patterns of Different Types of NPOs

The above discussion reveals that private giving does not contribute much to nonprofit financing in any country. Whereas the government-dominant pattern prevails among developed countries, the fee-dominant pattern and the foreign aid-dominant pattern reign in Eastern Europe and Latin America. Yet the national-level data glosses over significant variations within the nonprofit sector in any given country. The nonprofit sector is made up of many different organizational types, each of which may have distinctive funding sources. For instance, the funding sources of environmental groups may be quite different from those of choral societies or business associations. By lumping together the revenues for all NPOs in a country, the highly aggregated data fail to provide information about the sorts of funding offered to or accepted by any particular type of groups.

Table 3 identifies the funding sources of 12 different types of NPOs in the 22 countries covered by the Johns Hopkins Comparative Nonprofit Sector Project. There are three patterns:

Private Giving Dominant Pattern: This pattern includes only one type of organization, namely, religious institutions (including churches, synagogues, mosques, and other religious worship organizations). Interestingly, even traditional charitable organizations (philanthropy) do not rely mainly on private giving.

Government-Dominant Pattern: Three types of organizations clearly receive more income from government allocations than from any other sources. They are organizations whose primary intent is to offer various services to the society (education, health, and social services). Since some of such services (e.g., primary and secondary education, mental health and crisis intervention, income support and maintenance) are of public nature, it makes sense for the government to subsidize their providers. Organizations engaged in international activities also fall into this category, but in this case, public sector payments exceed private giving by only a very narrow margin.

Fee-Dominant Pattern: Seven types of organizations fit this pattern; among them, three are public-serving (philanthropy, environment, and advocacy), three are member-serving (professional, recreational, and others), and the remaining one is mixed (development and housing). As pointed out above, the

Table 3
Funding Structure of Different Types of NPOs in 22 Countries

	Government		Private Giving		Fees	
	Average %	S.D.	Average %	S.D.	Average %	S.D.
Health	56.42	27.54	10.58	14.64	33.04	25.59
Education and Research	47.17	27.70	7.75	7.63	45.04	25.65
Social Services	47.08	16.84	16.83	14.01	36.00	17.94
Civic and Advocacy	39.04	24.44	21.13	18.60	39.92	24.33
International Activities	37.73	24.20	36.09	26.03	26.14	29.37
Development and Housing	34.39	24.95	11.09	13.63	54.61	25.98
Environment	32.48	24.81	23.87	17.91	43.65	26.69
Culture and Recreation	21.46	14.36	13.13	12.18	65.17	20.20
Religious and Worship	17.56	24.96	55.17	36.04	27.22	27.21
Philanthropy	15.95	19.73	35.73	26.77	48.36	31.60
Professional and Union	6.42	8.20	5.13	6.80	88.46	11.83
Others	6.40	8.71	24.20	40.10	69.20	37.91

Source: <http://www.jhu.edu/~cnp/country.html> and <http://www.jhu.edu/~cnp/compdata.html>

category of the “fees and charges” in this dataset lumps together two different sorts of revenues: membership dues and charges for services and sales. In the cases of the three types of public-serving organizations, membership dues can be considered as contributions akin to private giving.

It may not be accidental for different types of organizations to adopt different funding patterns. Perhaps NPOs have taken the possibility of external influence into account and accepted or rejected funding accordingly.

Implications for Autonomy

The preceding section identifies patterns of nonprofit financing across countries and organizational types. The question is, what are the possible implications of various funding patterns for civil society’s autonomy? Unfortunately, no systematic data on NPO behavior are available for the 22 countries covered by the Johns Hopkins Comparative Nonprofit Sector Project. It is impossible to test empirically how funding patterns impinge on civil society organizations’ operation. The best I can do is to put forward some propositions to spur future empirical research on this important subject. A review of the existing theoretical and empirical works reveals that four variables can largely explain whether an organization’s funding pattern (or the nonprofit sector’s overall funding pattern) will affect its degree of autonomy: the nature of the organization, the nature of the dominant revenue, the composition of revenues, and the compatibility of objectives of the recipient and donors. Several propositions can be derived from this observation, but require testing in future research before we can have much confidence in their generalizability.

The Nature of the Organization

Proposition 1: Civil society is composed of many different types of organizations, some with stronger need for autonomy than others.

For obvious reasons, autonomy is vital for faith-based organizations, advocacy groups, and professional associations. In contrast, for nonprofit service providers, autonomy is less important. This may explain why such organizations universally have high proportions of their revenues from government sources.

The Nature of Dominant Revenue

Proposition 2: For the sake of autonomy, membership contribution is preferable to any other sources of revenue.

Revenue from membership dues has three features: it is an internal source that comes from a large number of members, with each member's contribution being more or less equal. Consequently, no one is in a position to dictate the future course of the organization. This may explain why the funding patterns of faith-based organizations and professional associations tend to be dominated by membership fees.

Proposition 3: Among external sources, private giving is preferable to others.

When an organization can enlist support from many individual donors, no single donor is in a position to threaten its autonomy. Contributions from large foundations and corporations may come with some strings attached, and could compromise the NPOs' missions (Craig and Eckert, 1986). Compared to funds from commercial activities, governments, and foreign donors, donations from foundations and corporations are perhaps less detrimental to NPOs' autonomy.

Proposition 4: The more dependent a NPO is on the government for funding, the more likely the imbalanced power relationship will compel the organization to change its basic missions and characters.¹⁷

When a nonprofit organization relies on the government for funding and the government relies on the organization for service delivery, some see a "partnership" that benefits both (Salamon, 1995), while others see a "patron-client relationship." As Frumkin points out (1998: 11), "for there to be a true partnership between government and nonprofits, there must be a relative balance in power between the sectors." However, power distribution between government and NPOs is anything but even. James is right when he concludes from his comparative study: "government regulations often follow government funding" (James, 1993). In contrast, given its size, power, and monopoly status, the government is relatively immune to pressures from NPOs. If NPOs have to deliver state-financed services on the terms defined mostly, or even exclusively, by the government, they can hardly be true "partners" with the government. It is perhaps more appropriate to call them "agents" of the government.¹⁸ As the patron of NPOs, the government can lure them to concentrate their activities in areas where they would not otherwise.¹⁹ For instance, Smith and Lipsky find that many American radical organizations born in the 1960s have gradually transformed themselves into "docile, homogenized, public-supported social service bureaucracies—a process driven by years of dependence on government grants" (Smith and Lipsky, 1993: 10-11).

Proposition 5: The more commercialized a nonprofit organization becomes, the more likely it will suffer an identity crisis, even if it can retain its organizational autonomy.

When NPOs depend mainly on charges for services or sales, the behavioral line between for-profit and nonprofit organizations may become blurred. To maximize income from services or sales, those organizations may have to hire managers who have pecuniary instead of nonprofit motives and values (dedicated volunteers may not necessarily be effective program managers). To attract such moneymaking-oriented managers, they have to somehow change their traditional compensation practice, which is likely to result in the violation of the nonprofit constraints. To maximize fee income, it may also be necessary for NPOs to move into markets that are unrelated to their mission activities but could yield substantial commercial returns. By doing so, they may encounter fierce competition from for-profit companies that happen to operate in the same markets. In an increasingly competitive environment, NPOs might have to modify their missions and further change their operations to survive financially. Moreover, where services are provided only to people who can afford to pay, NPOs' service structure and client focus will inevitably change. As NPOs behave more like for-profit companies, they would be perceived as such, leading to the same distrust that people feel toward for-profits. That explains why this trend of commercialization has greatly worried those who place high hopes on the nonprofit sector (Salamon, 1999b; Young 2002; Eikenberry and Kluver, 2004).

The Composition of Revenues

Proposition 6: The more concentrated an organization's sources of revenues are, the more likely the dominant patrons will use their leverage to impede its autonomous development.

It is always dangerous for an organization to rely on a single source for its revenue, whatever the source is. A single philanthropist can exert mighty influence over the agenda of a struggling NPO; a large foundation may sway the direction of a NPO that depends upon a constant, and constantly renewed, stream of funding from it; and a powerful government funding agency may impair an organization's autonomy by making funds conditional on certain requirements or goals (Froelich, 1999).

Proposition 7: The more concentrated the nonprofit sector's sources of revenue are, the more likely the dominant donors will influence the direction and structure of the whole sector through strategic patterns of giving.

If the nonprofit sector's incomes depend mainly on government, the government is in a position to decide how to allocate funds, which organizations to support, what services the sector should deliver, and the like. To the extent that government funding can somewhat configure and reconfigure the sector, the sector's autonomy is infringed.²⁰

Donors' impact on the structure of the nonprofit sector is probably more pronounced in Third World and transitional countries where indigenous NPOs rely predominantly upon external financial support. Numerous empirical studies

have shown that foreign donors often use their own preferences, priorities, and concerns rather than local needs to dictate which types of local NPOs will dominate the scene (Edwards and Hulme, 1998; Demenet, 2001; Henderson, 2002). For example, with the explicit objective of promoting “civil liberty” and “democracy” worldwide, the U.S. government assistance programs in many countries specifically focused on supporting local “liberal” and “civic” organizations. Organizations that did not operate in those areas were normally not eligible for U.S. assistance. Many American foundations shared the same preference (Habib and Taylor, 1999; Regulska, 1999; Saulean and Epure, 1999).

Another example is international funding for women’s organizations in Latin America and Russia. As Alvarez note, international funding agencies and foundations based on developed countries were inclined to favor larger, already well-resourced, more professionalized feminist NGOs whose work had measurable “policy relevance” over smaller, less formalized, typically more grassroots- or identity-solidarity-oriented movement organizations (Alvarez, 1998; 1999).

The availability of foreign funds in certain areas, as opposed to others, tends to induce new organizations to emerge and to lure existing ones to move into these areas to compete for the funds. In general, urban NPOs with the greatest ability to communicate with foreign donors are advantageously positioned to obtain most generous support. Consequently, in many Third World and transitional countries, there appear to be two types of NPOs: those with substantial foreign funding and those with little or none. The groups with much foreign funding are able to survive and flourish, while the groups lacking those funds often wither away prematurely or remain small (James 1989b). As Vargas and Mauleón (1998: 56) suggest, unequal funding may lessen the visibility of organizations without financing, heighten competition for access to resources, and weaken solidarity among NPOs. Keck and Sikkink also note that foreign funding often exacerbates resource and power imbalances among activist organizations and thus “preclude the participation of many NGOs based in the developing world” (1998: 182).

The more serious problem is that those nurtured by foreign money do not necessarily respond to the interests or needs of the local population. In a sense, they are artificial creatures. To acquire foreign money, those organizations often have to model themselves on professionalized and bureaucratized NNGOs. To find favor with foreign donors, they are sometimes willing to compromise their independence.²¹ What is worse, foreign funds tend to oscillate. Those organizations that are not rooted in the local society are extremely vulnerable to the fluctuation of foreign funds. Reductions in foreign funds could destroy or at least paralyze some of them.²²

The Compatibility of Goals

Proposition 8: The more incongruent the objectives of a dominant contributor and the recipient are, the more likely the dominant contributor will leave the recipient subservient.

Put differently, the possible impacts of dominant donors on individual nonprofits analyzed above need not arise as long as the objectives of the donors and recipients are compatible. When congruence characterizes the relationship between the donor and recipient, then more funding is better.

Conclusion

Contrary to conventional wisdom, we can hardly find a country in today's world where private giving is the major source of revenue for civil society. Civil society in almost every country relies mainly on government handouts, commercial earnings, or foreign contributions. Thus, civil society faces a dilemma. Private giving may be good for maintaining operational autonomy, but relying exclusively on it would hinder civil society from growing. While it is easier to raise funds through commercial activities, from government or from foreign donors, civil society organizations often have to alter their missions and characters to obtain such incomes. Since it is unrealistic to expect private giving to become a major source of nonprofit income, the only feasible solution to the dilemma is to avoid relying too much on any single source of revenue, whatever the source is.²³

Notes

1. Important as it is, financing is but one of many dimensions of civil society, but the limited space does not allow a thorough treatment of other facets.
2. The relative size of each type of organizations is measured by its share in the total expenditure incurred in the operation of all civil society organizations in 22 countries in 1995.
3. Salamon's concept of voluntary failure is broader than mine (Salamon, 1987).
4. Such services tend to be ones that involve asymmetric distribution of information between consumers and producers (Hansmann, 1980).
5. Country data tables can be downloaded from the project's website <http://www.jhu.edu/~cnp/country.html> and comparative data tables from <http://www.jhu.edu/~cnp/compdata.html>. For detailed information about the method of data collection, please consult the note "Methodology and Data Sources" at <http://www.jhu.edu/~cnp/pdf/method.pdf>.
6. In theory, individual giving should include donations of money as well as volunteers' time. In this study individual giving refers only to monetary contribution, thus excluding the imputed value of volunteer labor.
7. It is important to distinguish financing from delivery. Governments often finance the production of quasi-public goods such as education and health care, but delegate at least part of the delivery to the private sector.
8. In Figures 3-4 and 6-7, 1=Ireland, 2=Belgium, 3=Germany, 4=Israel, 5=Netherlands, 6=France, 7=Austria, 8=U.K., 9=Japan, 10=Romania, 11=Czech Republic, 12=Finland, 13=Spain, 14=Australia, 15=U.S., 16=Hungary, 17=Slovakia, 18=Argentina, 19=Peru, 20=Colombia, 21=Mexico, 22=Brazil.
9. In some countries, such as Sweden, large donations are actually discouraged, because they imply "a trade-off of pecuniary wealth for status and control that are frowned upon by the Social Democratic ethos" (James, 1989a: 54).
10. Under Tax Code section 501(c) (3), religious organizations as well as organizations with annual gross receipts totaling less than \$25,000 are not required to file.
11. Theda Skocpol (1999) recently points out that "locally rooted and nationally active membership associations" have become a relic in the United States.
12. This is measured by FTE workforce (including volunteering) in different types of nonprofit organization.

13. In Italy, for instance, the government allocates annually a certain percentage of its tax revenue to religious groups, especially Catholic Church. Similarly, the Swedish government charges a church tax up to 1 percent of total individual income to support the Lutheran Church, the state church in the country. Recently, Hungary follows these examples, introducing a 1 percent law, albeit in a slightly different form (Kuti, 1996; Barbeta, 1997; Lundstrom and Wijkstrom, 1998).
14. There are exceptions. Governments in some Middle Eastern countries are able to obtain sizable revenue from oil rents, which allows them to maintain relatively high government revenue/GDP ratios. As a result, those states are in a position to subsidize NPOs directly. Egypt is an example, where the government funds about 50 percent of the registered NPOs, and nearly all of those working in the areas of social service provision and development. I thank an anonymous reviewer for bringing the case of Egypt to my attention.
15. The 1984-1985 figure is cited from Robert Fugere (2001), while the 2002 figure comes from OECD (2003).
16. The share of foreign funding to Southern NPOs in some countries, including South Africa, has somewhat decreased in the last couple of years. Optimistic scholars and practitioners have begun to debate on the "future beyond aid." It is too early to tell whether this trend will continue and what impact such change may bring about in the Third World nonprofit sector.
17. In the United States, government has emerged as a major philanthropist in various traditional areas of philanthropy (Boris and Steuerle, 1999; Brook, 2000; Guo, 2004). For comparative studies, see (Gidron, Kramer, and Salamon, 1992; Kramer 1989).
18. In a 1998-1999 survey of nonprofit social service agencies, the Canada West Foundation found that "a small but significant portion of the sample reported that their funding arrangements with the state leave them with no autonomy" (ASDP, 1999).
19. Even tax law may not be as "neutral" as it appears. For instance, the U.S. government has used tax law to affect nonprofit behavior by "channeling" NGOs in general and social movement and advocacy organizations in particular along certain well-tamed lines. See the webpage of the Urban Institute's "Research Initiative on Nonprofit Advocacy," http://www.urban.org/advocacyresearch/about_seminars.html. Such practice may be more prevalent in Third World countries where governments have much greater control over NGOs. I thank an anonymous reviewer for reminding me the possible impact of tax law on nonprofit behavior.
20. The degree of governmental control may be a function of the method of financing. Some modes of funding may give government more measures of control than others. In a detailed study of the nonprofit sector in Germany, Helmut K. Anheier and his colleagues (1997) distinguish two types of public sector revenue: government grants and third-party payments. They find that in Germany the state dependency thesis applies only to one subset of nonprofit organizations, namely, those that are predominantly financed through government grants. Others find that contracts for purchase of services tend to be more restrictive than unconditional grants (Kramer, 1989: 231-233). In the U.K., a shift from outright grant aid to purchase-of-service contracting has given rise to complaints that government is undermining the sector's advocacy function (Salamon and Anheier, 1996: 121-123).
21. A good example is Russia's women organizations (Sperling, 1999; Richter, 2000).
22. For instance, the influx of funds—especially from Scandinavian countries, the European Union, and U.S. foundations—encouraged anti-apartheid NGOs in South Africa during the 1980s. After the landmark 1994 election, however, the foreign donor community has begun to channel funding directly to the government, which resulted in a several financial crisis for most NGOs, except those "liberal" NGOs that continued to receive money from American official and nonofficial institutions (Habib and Taylor, 1999).
23. In both developed and developing countries, NPOs have been concerned over the impact of the "funding treadmill" on their everyday functioning and the effect of donor agendas on their operational autonomy. Many of them have managed to carve out some autonomy by diversifying funding sources or working mainly with donors whose objectives are congruous to their own.

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