

***The Undermining of the Nonprofit Sector:
The Contracting Regime and Growing Demands on Nonprofit Managers***

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Through a rapid expansion of contracting mechanisms that began with the Great Society programs of the 1960s, the US government has increasingly come to rely on nonprofits to deliver services for which government is either not structured or not inclined to manage directly (Smith and Lipsky, 1993). This same trend that began with social service programs on the domestic front has crossed over into the field of international relief and development. With the expansion of contracting mechanisms, nonprofit organizations have been challenged to pursue their core missions in alternative ways, while nonprofit managers have seen their accountability expand outside of the traditional borders of the independent third sector, and into the political and corporate sectors.

This review of selected federal policies and trends within the competitive arena of international relief and development, including Consortia-based programming, Transformational Diplomacy, the Millennium Challenge Corporation, and the Global Development Alliance, focuses on implications that emerging US contracting approaches have on nonprofit managers positioning for government support.

THE GROWTH OF NONPROFIT GOVERNMENT CONTRACTING

The emergence of nonprofits as preferred government contracting agents can be viewed as a unique occasion for bipartisan agreement. For much of the twentieth century, nonprofits have been regarded as a marketing tool of liberal

causes (Hall, 2005, p. 22). Nevertheless, federal conservatives have increasingly delegated funds and responsibilities to the third sector as a means of effectively diminishing government's direct responsibility for social programs. This delegating provides an opportunity to diminish government size, spending and bureaucracy (Salomon, 2005, p. 81). Recent history has illustrated that whether social service budgets are being slashed or expanded, both sides of the Congressional aisle have channeled available federal resources into contracts with the third sector.

The Contracting Regime – Undermining to the Nonprofit Sector

Nonprofits realized their greatest expansions in government funding following the 1980 election of Ronald Reagan. Yet, even as resources expanded for nonprofits, "Aggressive steps were taken within the new administration to assure that nonprofit organizations which advocated changes unpalatable to the administration would not be given the chance to solicit funds" (Van Til, 2000, p. 32-3). This federal practice is a root cause for the contracting regime phenomenon, which requires historically independent nonprofits to accept and follow the norms of government, rather than adhere to their own nonpartisan agenda (Smith, 2005, p. 373-4).

With the emergence of Transformational Diplomacy (discussed below), this same contracting regime that is now prevalent within US domestic programs is finding its place on the international stage, presenting new challenges in

nonprofit management. As proliferation of this regime is “in effect, serving to transform the nonprofit sector, moving it away from its core mission, commercializing the sector’s operations and compromising its autonomy” (Richmond and Shields, 2004, p. 4). In the continual struggle for financial support, the nonprofit manager is left with the challenge of addressing the organizational mission in a way that not only aligns with the views of the ruling political party, but also promotes US government objectives overseas.

Accelerating the spread of the international contracting regime is the US Agency for International Development’s (USAID) increased expectation on nonprofits to offer consortia-based or multi-organizational proposals. USAID has channeled funds through and encouraged applicants to submit proposals in collaboration with the Twinning Center, a government-sponsored nonprofit venture aimed at linking like-minded nonprofits. With a proposed intent to promote best practices and minimize administrative spending, these consortia approaches also serve to simplify USAID’s internal management responsibilities. At least one noted expert has suggested that this benefit to USAID may come at the expense of the nonprofit community. These “forced consortia” have been the source of management conflicts throughout the NGO arena, and over time, stand to weaken the overall capacity of the third sector by investing government funds in a decreasing number of ‘prime’ or ‘lead’ implementing partners while neglecting others (Shaughnessy, 2004, p. 5).

NEW DEVELOPMENTS IN INTERNATIONAL CONTRACTING

Bipartisan congressional support for nonprofit contracting has been accompanied by several major initiatives in the field of international relief and development, including revamped funding strategies (Transformational Diplomacy), innovative administrative approaches (Millennium Challenge Corporation), and new grant opportunities (Global Development Alliance). Universal among these government-initiated changes are the expanded expectations and responsibilities placed on the nonprofit manager.

Transformational Diplomacy

Under the policy of Transformational Diplomacy, enacted during fiscal years 2007 and 2008, the US State Department intends to "align foreign aid priorities with national security interests" (Interaction) and to restructure all international humanitarian and development assistance programs to align them with foreign policy (Bates, 2006). Randall Tobias, Administrator of the US Agency for International Development (USAID) has promoted the policy as a means of "helping to build and sustain democratic, well-governed states that will respond to the needs of their people and conduct themselves responsibly in the international system". Among its key principles, the Transformational Diplomacy plan calls for "establishing a common foreign assistance strategy, and focusing

our [US] resources on the attainment of the goal and objectives of that strategy” (Tobias, 2006).

Focusing humanitarian and development resources on a common foreign assistance strategy represents a formal departure from the independent nonprofit’s traditional focus of helping those in need, and presents a new challenge to the nonprofit manager. Rather than providing assistance where it is most urgently needed, nonprofit managers are to be advocates and implementers of the US State Department’s overarching mission to “build and sustain democratic, well-governed states” who “conduct themselves responsibly in the international system”.

Global Development Alliance

Launched in 2001, the Global Development Alliance (GDA) offers funding to nonprofits whose international relief and development plans are based on sustainable business models and strategic alliances between private and public partners. The GDA program has arguably realized those objectives proposed by USAID, distributing \$500 million of funding in its first two years, reportedly leveraging an additional \$2 billion in private resources, which have benefited the world's poor and helped to achieve U.S. Government development assistance objectives (Wise, 2004; USAID, 2006).

The requirement for business partnerships places new demands on nonprofit managers and the up-front investment for nonprofits is substantial.

During the program design stage, service-oriented nonprofits who seek GDA funding are required to frame their humanitarian objectives within a business strategy. Only after shopping their concept throughout the corporate sector and obtaining written commitment for private contributions is the proposal considered competitive for GDA funding. At the implementation stage, nonprofit managers responsible for mobilizing corporate partners (and their contributions) have fallen victim to poor planning, without sufficient knowledge of foreign business practices, without proper business agreements, and without funding (USAID, 2006, p.27).

Millennium Challenge Corporation

The Millennium Challenge Account (MCA), representing more than \$1 billion annually in new US foreign assistance funding, was launched in 2004 with "strong bipartisan support...to implement a new model for providing foreign aid to the world's developing nations. In this new model, aid is provided to those countries that: Rule justly; Invest in their people; Encourage economic freedom." MCA funds are administered outside of traditional USAID channels, by the Millennium Challenge Corporation (MCC), "a United States government-owned corporation...purposely designed as a small corporation to promote, support and ensure accountability for the innovative foreign aid strategies it administers" (MCC, 2006).

Accessing MCA funding presents at least two significant challenges to the nonprofit manager. First, nonprofit managers in search of MCA funding should first understand the political nature of the MCC, in that it is chaired by the Secretary of State and controlled by a Board of Directors whose members are appointed by the US President. Second, MCA funds are generally awarded by foreign-controlled branches of the MCC, each with their own comprehensive plan for national development. Thus, nonprofit managers positioning for MCA funds must be knowledgeable of development plans that have been established outside of traditional US channels, and then present their MCA development proposals to foreign nationals. Under this mechanism, nonprofit managers find themselves in the uniquely challenging position of negotiating overseas with foreign corporate executives to access US government funding.

SUMMARY

This brief analysis of US government funding policies cites several examples that suggest nonprofit managers seeking government funding are increasingly required to operate within a competitive contracting regime and outside of their traditional, independent environments. In order to qualify for government funding under Transformational Diplomacy, nonprofits managers must be prepared to function in the arena of international politics, implementing development programs that promote US foreign policy. The Global Development

Alliance requires that nonprofits perform functions traditionally reserved for the corporate sector, including international marketing and business development. The Millennium Challenge Account requires that nonprofits develop programs within an entirely new corporate context outside of traditional government funding channels, and exhibit proficiencies as both corporate negotiators and international diplomats.

Experts have suggested that among the most important effects of the privatization of US social services of the 1980s and 1990s was the light cast on a shortage of professionally trained nonprofit managers and entrepreneurs who could “master the increasingly complex and turbulent policy and funding environment” (Hall, 2005, p. 23). Similarly, the emergence of new government policies and contracting mechanisms for the provision of international social services, such as Transformational Diplomacy, the Global Development Alliance, and the Millennium Challenge Account suggests increased attention to professional development is required among managers of international nonprofits.

To remain competitive, nonprofits seeking US government funding for international development programs will require broader managerial expertise. Specifically, nonprofit management will be expected to display competencies with respect to international business practices, corporate negotiations, and foreign diplomacy.

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