

COMMISSIONED BY SADP AS FOLLOW UP TO DUE DILIGENCE WORKING PAPER 1
"NGO GOVERNANCE IN CAMBODIA: SERVICE AND SUPPORT OPTIONS
FOR IMPROVING FINANCIAL MANAGEMENT"

Financial Management of Cambodian NGOs

2nd Survey of Grantmakers and Audit Firms

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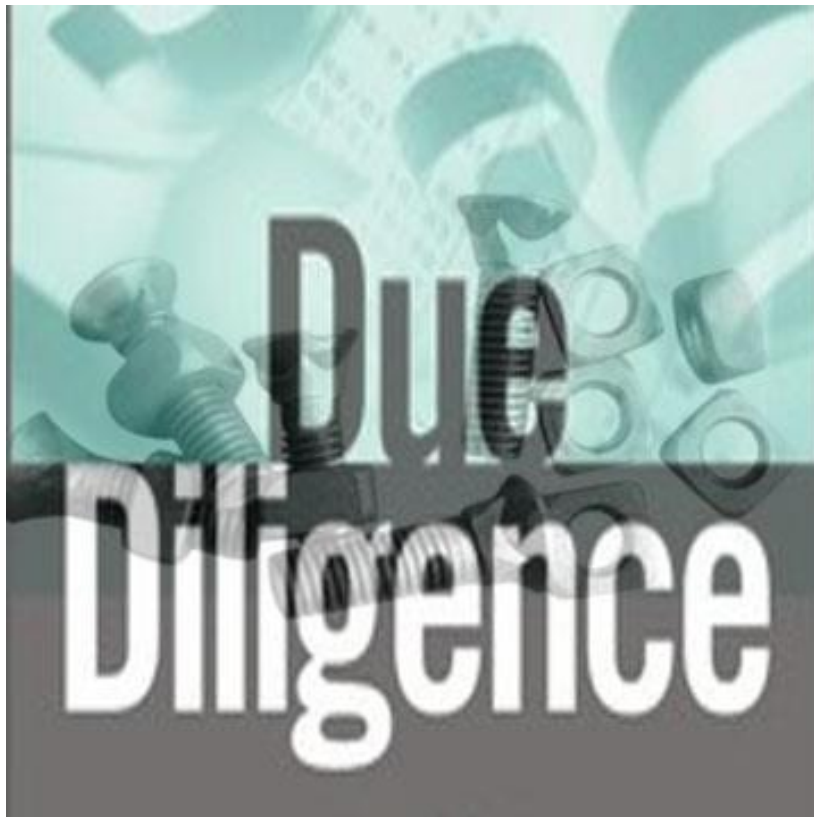


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List of Acronyms

CCC	Cooperation Committee for Cambodia
CPI	Corruption Perception Index
INGO	International Non-Governmental Organization
LNGO	Local Non-Governmental Organization
NGO	Non-Governmental Organization
SADP	Southeast Asia Development Program
TI	Transparency International

Acknowledgements

A survey is nothing without respondents. Those who took the time to talk with me and/or shared data about partners/clients of their organizations are the foundation of everything that this report has to offer.

Special thanks to Mr. Graeme Brown, coordinator of SADP, who read through a first draft and made many valuable suggestions for improving both analysis and text.

Executive Summary

Late 2014, a study on options for improving financial management of Cambodian LNGOs¹ piloted a grantmaker survey with three objectives:

- Testing NGO grantmakers and NGO service providers' willingness to share partner information
- Testing methodology for gathering valid, comparable information
- To the extent this try-out results would result in useful information: getting a first indication of the status of Cambodian NGOs' financial management based on systematically gathered thorough external assessment information²

The information from grantmakers about their assessments of Cambodian grantees was triangulated with data received from an audit firm with a substantial NGO client base.

The pilot was successful enough to trust its results as providing a first indication of the status of Cambodian NGOs' financial management based on systematically gathered thorough external assessment information and to merit the implementation of an improved follow up.

The pilot results were published in May 2015, but during the fieldwork for the 2nd round of the survey an opportunity arose to deepen the dataset of the 2014 pilot. The analysis of the deepened dataset confirmed and strengthened the conclusions drawn from the original dataset. Both the original and the updated 2014 pilot results are included as Annexes in this report on the 2015 survey.

The core improvement **objectives** for this 2015 follow up grantmaker survey were:

- Participation of a larger and more diverse sample of grantmakers funding Cambodian NGOs
- Increasing the number of grantmakers willing to share detailed data that show which NGO has which problem(s)
- Increasing the number of audit firms sharing data on their (I)NGO client base that can be used to triangulate the grantmaker data

The core objectives were met:

- Increased participation: in 2015 18 grantmakers, as opposed to 7 in 2014
- Deepened participation: of those 72% were willing to share partner level data, as opposed to only 29% in 2014
- Four as opposed to one audit firm contributing triangulation data

Main results

The data, across many different ways of looking at them, support the conclusion that grantmakers tend to underreport fraud and other serious problems:

Incidence of problems

1. The 2015 data support the 2014 conclusion (see Annex 3) that an average fraud incidence of around 15-20% seems a reasonable guess.
2. The 2015 data support the 2014 conclusion of average incidence figures for both serious financial system weaknesses and serious governance issues of at least around 25%. 25% is best interpreted as a minimum for Financial Management and the actual figure for Governance is most probably somewhat higher.

Correlations between problems

Similar to 2014, the trends in the two data sources (grantmakers and audit firms) are very aligned, and most patterns found in 2014 hold up or are even more stark in the 2015 dataset:

¹ Henke, R (May 2015)

² The only source of information available was anecdotal and/or self-reporting based

1. NGOs plagued by fraud more often than not have serious financial system weaknesses: 64.7% in the auditor dataset, 91.7% in the grantmaker dataset
2. The chances of an NGO becoming plagued by fraud increases six fold with the absence of proper financial systems. While it is certainly true that proper systems are no guarantee, **weak systems constitute a serious risk.**
3. The story for the (lack of) proper governance is very similar (but no data from the audit firms for this). LNGOs plagued by fraud more often than not have serious governance weaknesses: 75%.
4. Looking at the LNGOs with and without proper governance: the incidence of fraud amongst the LNGOs with serious governance issues, is 52.9%. This contrasts with an 0% incidence among the LNGOs with proper governance. Again, **proper governance is no guarantee but its absence constitutes a serious risk.**
5. Separately, both serious Financial Management issues and serious governance issues are red flags already. Combined this only increases: serious Financial Management issues and serious Governance issues co-occurred in 75% of the fraud cases. The combination of both problems is 8 times more likely to coincide with fraud than not.
6. Also: the co-occurrence of either Governance *or* Financial management issues and fraud, is even more likely (9 and 11 times respectively) than an LNGO having both of these problems but no fraud. In other words, **when both Financial Management and Governance are seriously flawed the fraud risk is huge** (nearly 90%).

Information provided by audit firms

1. **Nearly two-thirds of serious Financial Management issues identified during audits had not been brought to light by previous external audits.** This implies that the 2014 conclusion that given that we are talking systemic weaknesses here, at least some of those weaknesses were present already during the time of the previous (sloppy and/or colluding/fraudulent?) audit.
2. For fraud cases the proportion was even higher: 81.8% of the LNGO fraud cases that also had serious Financial management issues had previous audits that did not point out these systemic issues. Again, the 2014 conclusion can be repeated verbatim: This again can be understood as indicating that **the longer NGOs (are able to) avoid proper scrutiny of their systems and are able to operate for a longer duration of time without the presence of checks and balances provided by such proper systems, the greater the likelihood of the opportunity for fraud turning into actual fraud.**
3. The Incidence figures for Fraud and for serious Financial management issues that the audit firms reported for their INGO client base was very similar to that of their LNGO client base. The 2014 conclusion that "other factors than the status of being locally or internationally registered per se seem to be more important determinants" holds.

What partner assessments tell about grantmakers

1. 11 out of 12 grantmakers who shared data at LNGO level share partners with other grantmakers: 47 of the 87 LNGOs funded by one of these grantmakers was funded by one or more of the others too. This overlap allowed for a comparison of grantmaker assessments of shared partners.
2. **Grantmakers assess shared partners very differently:** about a third of all possible bilateral assessment comparisons are not in agreement.
3. A good half of the grantmakers (6 out of 11) assess shared partners predominantly more critical or more lenient.
4. The number of grantmakers predominantly assessing more critically is limited (only 2), which is difficult to interpret without further probing. Is this due to genuine and legitimate differences in understanding about what are serious problems? A general aversion to assess partners critically? A disinterest in or a lack of sufficient resources to apply proper due diligence in partner assessments? A follow-up with the grantmakers involved (see below) and further improvements to the questionnaire to be used in the 2016 round of the survey can be expected to allow for evidence-based interpretation.
5. One can identify supportive indications in the dataset for all possible explanations. However, for the finding that of the 12 cases of fraud identified by grantmakers in our sample of LNGOs, 4 were not identified by at least one grantmaker who partners with them, the most likely explanation seems to be a lack of (attention to/resources for) due diligence.

Non-response and representativeness

The non-response remained at a level that should be defined as too high for a survey exercise like this that ultimately strives for census-type coverage. The basic participation rate increased from 46.6% to 69.2% of grantmakers contacted, quite a jump, but not enough to retract the overall conclusion drawn from the 2014 pilot that NGO governance, systems and fraud don't yet get the actionable attention they deserve from the funding world.

The increased and deepened participation indicates a shifting understanding regarding the importance of sharing information for the sake of better (collective) due diligence. However, grantmaker thinking about what information about partner LNGOs to treat as confidential stills hampers participation in the survey.

The **participation rate**, both in terms of grantmakers, and in terms of LNGOs 'covered', does not allow for meaningful statistically representative statements about the Cambodian LNGO sector, nor about the LNGO funding community. However, given the triangulated nature of the core findings, the report claims the results are certainly a reliable indicator of the state of affairs within a tellingly large proportion of those universes.

Follow up

Given the assessment differences between grantmakers funding the same LNGOs, the obvious next step is to go back to those and request all involved with the same LNGO to discuss their differences and report back on the outcome.

Introduction

Late 2014, a study on options for improving financial management of Cambodian NGOs³ piloted a grantmaker survey with three objectives:

- Testing NGO grantmakers and NGO service providers' willingness to share partner information
- Testing methodology for gathering valid, comparable information
- To the extent this try-out results would result in useful information: getting a first indication of the status of Cambodian NGOs' financial management based on systematically gathered thorough external assessment information⁴

The information from grantmakers about their assessments of Cambodian grantees were triangulated with data received from an audit firm with a substantial NGO client base.

The pilot was successful enough to trust its results as indeed providing a first indication of the status of Cambodian NGOs' financial management based on systematically gathered thorough external assessment information and to merit the implementation of an improved version.

The list of improvement objectives for next waves of the grantmaker survey was quite extensive⁵:

- Participation of a larger and more diverse sample of grantmakers funding Cambodian NGOs
- Increasing the number of grantmakers willing to share detailed data that show which NGO has which problem(s)
- Increasing the number of audit firms sharing data on their (I)NGO client base that can be used to triangulate the grantmaker data
- Initiating a yearly wave of grantmaker survey with audit firm triangulation
- Improving the description of the core concepts (fraud, problematic financial management, and weak governance) through input from a sufficiently large and diverse group of potential respondents to increase confidence that the assessments of different grantmakers are directly comparable
- Refining the questions asked so as to increase confidence that the reported assessments of different grantmakers adequately reflect their actual assessments
- Including background variables that can be checked against e.g. the CCC database of NGOs to enable a proper assessment of the representativeness of the sample of NGOs covered by the survey (this would also allow for finding correlations between the occurrence of particular kinds of problems and such 'background variables')

All of these would be important improvements but some are more crucial than others. The results of the 2014 pilot strongly suggested that grantmakers' willingness to share information, and to share detailed information (disclosing which of their partners they see struggling with which problem) was the most important hurdle to take. Without broader and more committed grantmaker participation the limitations of the resulting evidence base would make other improvements relatively meaningless.

The time required to fill the survey instrument implemented in 2014 was quite limited for any grantmaker with their due diligence and administration in order. Adding background 'variables'⁶, increasing the confidence that all respondents would understand core concepts in the same way, and increasing confidence that reported partner assessments are complete and do not allow for alternative interpretations would require quite a few additional questions and thus time needed to fill the questionnaire.

Thus the strategic decision was made to prioritize increased participation and keep the instrument as simple as possible. **Annex 4** describes the remaining improvement options for the next wave of this survey.

³ Henke, R (May 2015)

⁴ The only source of information available was anecdotal and/or self-reporting based

⁵ That is what pilots are for: bring as much scope for improvement to light as possible

⁶ describing NGO financial turnover, staff size, program focus, etc.

The strategy was quite successful and many more grantmakers participated and provided detailed partner information, and also more audit firms provided triangulation data (see **Participating grantmakers and audit firms** below).

The data resulting from this study allows for the following usages:

- In general, of interest to all NGO sector stakeholders, it constitutes a more solid empirical evidence base about:
 - The incidence of particular problems in the Cambodian NGO world
 - The correlations between different kinds of problems
- For all the grantmakers who shared detailed data it is a powerful instrument to check on the validity of their partner assessments/due diligence procedures⁷.
- If the intention to make this a yearly exercise is successful, its periodic nature would allow for:
 - Assessing changes/improvements over time
 - Continuous adaptations in response to changes in the context and/or new interests/questions coming out of the discussions about the meaning and implications of the story that the data tell

The first round results were published in May 2015, but during the fieldwork for the 2nd round of the survey an opportunity arose to deepen the dataset of the 2014 pilot. The analysis of the deepened dataset confirmed and strengthened the conclusions drawn from the original dataset. *All 2014 figures used in the tables below are from the updated 2014 dataset.*

The original analysis is available in **Annex 2**, the analysis of the updated dataset is available in **Annex 3**.

⁷ NGO grantmakers vary considerably in their capacity for due diligence. In the survey sample the number of partners per Program Officer may be as small as 3 or as large as 20. Obviously geographic spread, professionalism of the partner, nature of activities and other factors play into the ability to properly assess and monitor, but the bottom-line is that some grantmakers allocate much more staff time to due diligence than others.

Trends over time

Whenever possible, the report shows both the pilot (updated) 2014 and the 2015 results. The underlying rationale is that the survey aims to build a diachronic dataset that allows for interpretation of changes over time. However for this trend analysis ambition to start having any meaning one needs:

- A reasonably consolidated methodology
- A reasonably constant participation rate
- At least a couple of years of data

This survey is still far removed from this ideal and one should thus not make much (yet) of variation between years.

- The 2014 pilot was basically a (successful) proof-of-concept exercise, but certainly hampered by its 'limited-n' character⁸. Only three detailed data sharing grantmakers, and four aggregate data sharing ones means that it matters quite a lot which specific grantmakers participate in the survey. The 2015 round starts getting closer to the situation of individual grantmaker particularities not making that much difference.
- The methodology was kept quite constant for these two waves but is proposed to change for the better (see **Annex 4**) for the 2016 version

Nevertheless, with all these caveats, it still makes sense to keep an eye out for meaningful similarities and differences between 2014 and 2015. They are not to be seen yet as a basis for making definite statements about change (as they are intended to become in the future) but as instigators-of-thought about the possible processes underlying the patterns in the dataset.

The Questionnaire

Funding organizations were requested to share the problems that they come across in partner assessments, by way of using a matrix⁹ with their partner NGOs as rows and three kinds of problems divided into categories of 'severity' as its columns. Some grantmakers felt that disclosing information at partner level - even when covered by a written confidentiality agreement - was improper and/or impossible because of organizational policies. To cater for that, an additional option was added: a table with problems as the rows and categories of severity as columns. This option allows for a quantitative aggregated (thus confidential) picture of how many of their partners have which kinds of problems¹⁰. The first sheet of the questionnaire provided explanations of core concepts¹¹. The questionnaire is attached as **Annex 1**. This annex also contains the questionnaire used with the audit firms.

In other words, for those willing to provide data at partner level, the questionnaire entailed ticking three boxes per partner, for those only willing to share aggregated data, it implied adding up numbers from the partner sheet of the questionnaire and using the sums to fill a separate table.

Given that this wave used the most simple and time-lean instrument possible so as to have maximum chance of increasing and deepening participation of grantmakers, there is still considerable scope for

⁸ Surveys with sample numbers that are way too small to make for the possibility of any statistically significant results are said to have an insufficient 'n' (the commonly used variable letter for sample size; population size is indicated by 'N')

⁹ The questionnaire consisted of an excel spreadsheet with three tabs

¹⁰ However all grantmakers shared their list of partners, so as to enable determining how many NGOs their figures refer to, per grantmaker, as well as in total

¹¹ The results of a session with representatives from seven grantmakers sharing their understanding of (serious) problems of NGOs with financial management contributed to the phrasing of the explanations on this page.

improving the questionnaire. **Annex 4** describes possible questionnaire adjustments for the next wave, including suggestions for an improved audit firm questionnaire.

For this wave, both the descriptions of the problem categories and the categories of their 'severity/seriousness' were adjusted. As the results section below shows, there seems to be much more shared understanding of what the problems are than on what severity category appropriately describes them. Table 1 depicts the adjustments of the problem and severity categories:

Table 1: Adjustments of the probing categories used in the survey

2014 Problem Categories	2015 Problem Categories
Governance problems	Governance problems
Operational system problems , especially regarding financial management	Financial management problems
Fraud/financial mismanagement Program ¹²	Fraud
2014 Severity Categories	2015 Severity Categories
Severe: <ul style="list-style-type: none"> Have closed an organization or brought it to a temporary standstill 	Serious Problem: <ul style="list-style-type: none"> Significant problem, that needs prioritization by the NGO, AND requires action by the board (if they are not the problem themselves) Nearly always requires some form of outside support (by the grantmaker or a contracted service provider) Continued funding is dependent upon decisive action, following agreed upon short-term timeframes
Problem: <ul style="list-style-type: none"> Significant problem, that needs prioritization by the organization, requires action by the board (if they are not the problem themselves) and nearly always outside support (by the grantmaker or a contracted service provider) 	
Weakness: <ul style="list-style-type: none"> Needs addressing within a commonly agreed time frame, often requires outside support, but is within the range of 'normal' OD/improving organizational functioning 	Weakness: <ul style="list-style-type: none"> Needs addressing within a commonly agreed time frame, Often requires outside support, but is within the range of 'normal' OD/improving organizational functioning, and is not a potential 'dealbreaker'.
No Problem	No Problem

The change in severity categories was motivated by the very limited application of the 'severe' judgement by the grantmakers who shared aggregated data (only 3 severe judgements on a total of 134 judgements)¹³. I assumed this to be due to the explanatory description for a 'severe' problem (a 'problem causing temporary standstill or closure of the NGO') which places it at the very extreme of possibilities. For 2015 I thus choose to reduce the number of options (simplifying the choice) while choosing a description for the most severe category that was broader than the 2014 option but conceptually clear enough to indicate unambiguous seriousness: 'Continued funding is dependent upon decisive action, following agreed upon short-term time-frames'. This criterion was reinforced by the use of the opposite concept of 'no dealbreaker' in the second severity category.

The change does not affect the comparability of the 2014 an 2015 data because the four 2014 categories of probing were recoded into three for analysis (aggregating across the 'severe' and 'problem' judgments), making the 2014 and 2015 scales equivalent.

¹² This category was probed in the pilot but its results were not reported. The rationale for this was that the potential diversity in respondents' understanding of what constitutes program problems was too large to make analysis meaningful.

¹³ The two grantmakers who shared detailed data were considerably more critical a total of 27 severe judgements on a total of 106).

Participating Grantmakers and Audit Firms

The primary objectives of the second wave of the survey were to increase the number of participating grantmakers and audit firms, and increase the number of grantmakers disclosing information at partner level. Table 2 shows that these objectives were met.

Table 2: Grantmakers and audit firms' response rate, NGO partner/client base. 2014 and 2015 compared

Grantmaker categories	2014			2015		
	LNGOs covered	Averages	Grantm.	LNGOs covered	Averages	Grantm.
Full sharing	51	24	2 ¹⁴ 13.3%	93	13.5	13 50%
Aggregated sharing	52	14	5 ¹⁵ 33.3%	58	13	5 19.2%
Only fraud cases shared	34		2 13.3%	NA	NA	0 ¹⁶
Approached but no sharing	NA	NA	6 40.0%	NA	NA	8 ¹² 30.8%
Total	103 ¹⁷	17	15	119 ¹³		26
Audit Firm categories						
Participating audit Firms	46	46	1 50%	129-146 ¹⁸	NA	4 80%
Non-participating audit Firms	NA	NA	1 50%	NA	NA	1 20%
Total	46		2			5

Note:

(1) LNGOs stands for number of local NGOs funded by the grantmakers in the respective category, resp. number of LNGOs audited over the last two years by the participating audit firms

Although the objectives were met, the non-response remained at a level that is too high for a survey exercise like this that ultimately strives for census-type coverage. Therefore, although the basic¹⁹ participation rate increased from 46.6% to 69.2%, quite a jump, the overall conclusion drawn from the 2014 pilot (see **Annex 2**), that *NGO governance, systems and fraud don't yet get the actionable attention they deserve from the funding world* still stands.

Non-response, and the causal role of grantmaker thinking about confidentiality are discussed in **Annex 9**.

The substantially increased number of grantmakers unfortunately doesn't translate into a substantially increased number of LNGOs covered. One grantmaker turned out to fund only INGOs, a couple had only few partners, but the main reason is the overlap between grantmakers in terms of LNGOs

¹⁴ In 2015 one grantmaker could be moved from the aggregate sharing to the full sharing category (see **introduction**). However this table compares the willingness to share in 2014 versus 2015.

¹⁵ Four Grantmakers and one Capacity Builder; in 2015 only Grantmakers were approached for the survey

¹⁶ Two grantmakers who did not provide useable data, did share numbers of fraud cases, but in ways that could not be included in the dataset. One of those two, provided aggregate data on all partners that were not seriously problematic in addition to that but given the unwillingness to include fraudulent (former) partners these data could not be included in the analysis.

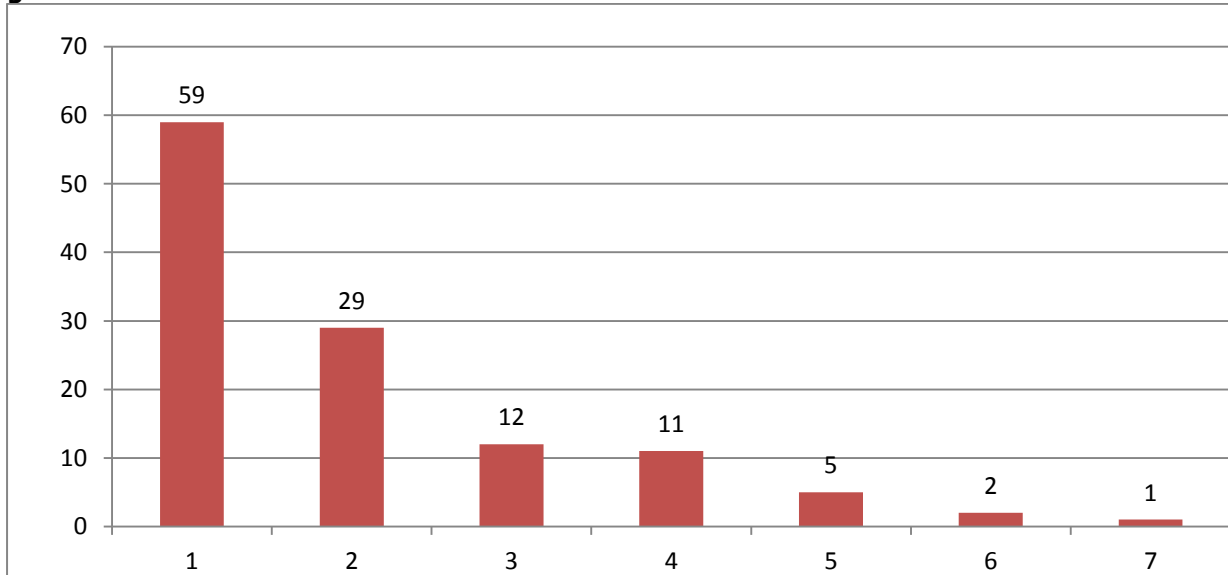
¹⁷ The difference between the total and the sum of the numbers of NGOs in each category is the number of NGOs that are shared between grantmakers in different categories

¹⁸ Audit firms did not disclose their client base, they only provided numbers of LNGO clients audited during the last two years. This figure is an estimate, based on an assumed overlap of 15-25% between the client bases of the three audit firms. This estimated overlap is based on audit firms' information

¹⁹ Full and aggregate data-sharing combined.

funded. Adding numbers of partners without considering overlap between grantmakers would result in 226 LNGOs covered²⁰. Factoring in the overlap reduces this figure to an actual number of 119 LNGOs covered by this sample of grantmakers. As figure 1 shows, 50% of the LNGOs covered received funding from only one of the grantmakers in our sample. The other 50% received funds from two or more funders from the funders participating in the survey.

Figure 1A: Number of grantmakers funding LNGOs covered by the sample of grantmakers²¹



With four audit firms contributing triangulation data their (estimated) number of LNGOs covered is even larger than that of the grantmakers: the lowest estimate is 129.

Results

The analysis below tries to make the most of the limited data available by looking at them from as many angles as possible. That is not only to make maximum use of what we have in hand. It is also to provide the reader with the maximum opportunity to draw her or his own conclusions. Statistics are easily misused and can obscure and distort as much as they can illuminate. Often findings are presented as if they are self-evident, but they nearly always represent *a particular way* of looking at the data, the answer to *particular questions* asked of the data, and by implication, not other questions. I'll ask as many questions as possible, even some logically superfluous ones, because it is by exploring the information from all angles that one best reduces the risk of drawing false conclusions.

Representativeness

Can we say anything about how representative the universe of LNGOs is that the results are based on? The total universe of NGOs covered in the 2014 survey was 103 for all seven grantmakers/capacity builders who (at least partially) provided answers, too small a sample, and non-random at that, to make an analysis of its representativeness very meaningful, even if we had had the required background data.

The 2015 survey covered 119 NGOs, by way of a *non-random sampling procedure*, and did not gather backgrounders, so the data do not allow for unqualified representativeness statements.

²⁰ The grantmakers collectively also funded another 13 non-LNGOs (INGOs and/or Cambodian government orgs); these were not included in the analysis

²¹ The distribution of LNGOs co-funded by X-number of grantmakers in the sample is near identical for the whole sample and the sub-sample of grantmakers who shared partner level data: See **Annex 8**

However, the survey sample size is now in league with studies that have the biggest coverage to date²². Given the serious underreporting of problem incidence when using the aggregated data (see below) for all practical analytical purposes, the actual number of LNGOs covered is 93: the number of LNGO partners of the grantmakers who provided partner level data. And for triangulation purposes we now have information from four audit firms, covering an estimated 129-146 LNGOs²³.

Annex 5 describes the technical meaning of representativeness and explores what sample sizes and other conditions would need to be fulfilled to enable to claim *statistical* representativeness for the grantmakers survey (for both LNGOs and for grantmakers). The annex also discusses the representativeness of the LNGOs covered by the participating audit firms.

However, although the outcomes should still not be interpreted as representing the status of 'the' Cambodian NGO world, they tell us a story, validated by two independent sources, about such a sizable number of NGOs that ignoring them would be irresponsible.

Problem incidence and co-occurrence

With 12 grantmakers sharing detailed LNGO partner information, and 50% of all LNGOs covered by our sample of grantmakers co-funded by at least two participating grantmakers we now have different possible perspectives on the LNGO reality.

A first perspective is to take whatever each grantmaker reports at face value and ignore any differences in their assessments of shared partners.

Table 4: Summary Table of financial (mis)management and its correlates, ignoring overlap in partner portfolios

Data Source	2014 ²⁴			2015 ²⁵		
	Fraud cases	Govern Issues	Fin Man Issues	Fraud cases	Govern Issues	Fin Man Issues
Averages detailed data providers	27%	49%	34%	7.3%	7.4%	6.2%
Averages summary data providers	14%	7%	12%	9.9%	10.7%	9.9%
Averages all Grantmakers	19%	25%	22%	8%	8.3%	7.2%
Auditing Firms	13%		24%	9.9%		24.4%

Note: although the reporting uses the non-rounded percentages, it is important to point out that this is **not** meant to suggest a level of accuracy to decimal percentage points!

However, this use of the data ignores lots of information. Taking the overlap of partners and the grantmaker assessment differences into account makes for a different, and as the analyses of **Annexes 6 and 7** show, more accurate picture. Therefore, the main report devotes no further attention to the aggregated results.

Taking assessment differences into account requires making decisions about which of various possible ways of doing so produces the best description of the LNGO's situation. **Annex 6** gives a full overview of different approaches to take differences into account. Table 5 below shows the results of

²² Excluding the CCC NGO censuses, the biggest samples are the 140 in CCC (November 2012) and (May 2013), the second biggest is 114 in Sua´rez, D. & Marshall, J. (2012)

²³ Audit firms did not disclose their client base, they only provided numbers of LNGO clients audited during the last two years. This figure is an estimate, based on an assumed overlap of 15-25% between the client bases of the three audit firms. This estimated overlap is based on audit firms' information.

²⁴ Three grantmakers provided partner level data, three grantmakers and one capacity builder provided aggregate data, two grantmakers provided aggregate fraud data only.

²⁵ One grantmaker providing detailed partner data turned out to fund only INGOs, thus the results in this table refer to the LNGO partners funded by 12 grantmakers. Five grantmakers provided aggregate data only. Total of all grantmakers covered: 17

the two most easily interpretable approaches (always choosing the most Critical assessment as authoritative or always taking the most lenient version). The full (versus the summary available in table 4) version of the aggregated results is available in **Annex 7** which compares the aggregated and partner level data and concludes that the **the aggregated reporting consistently and seriously underreports** the incidence and the co-occurrence of problem issues, even more so than the most Lenient partner level perspective.

The interpretative narrative below focuses on the **most Critical perspective** (with an occasional reference to the most Lenient perspective) which, for the reasons outlined in **Annex 6**, provides the most accurate representation of the information contained in the dataset.

The incidence of fraud

- Given that the auditing firms' figure of 9.9% is an underreporting that the firms themselves estimate at 50% of the actual incidence (see **annex 6**, section on Underreporting of LNGO problems)
- Given that the grantmakers' figure of 12.9% is an underreporting of the actual incidence (see **Annex 6**, ditto)

The 2015 data support the 2014 conclusion (see Annex 3) that an average fraud incidence of around 15-20% seems a reasonable guess.

This average should be understood as the proportion of LNGOs within the sample of LNGOs covered by this survey that is affected by (detected or existing but not yet detected fraud), within the last two years.

The incidence of serious financial system weaknesses and issues with governance

Table 5 below shows that:

- Given that the 2015 audit firms' incidence figure for serious Financial Management issues of 24.4% is the best estimate we have for actual incidence (unlike fraud this figure is not by definition underreported, although the audit firm data - see section on the importance of due diligence below - suggests is most probably is to some extent)
- Given that the grantmakers' incidence figure for serious Financial Management issues of 15.1% and for serious Governance issues of 18.3% can be expected to be underreported (see **Annex 6**)
- Given that grantmakers' results consistently report Governance issues to be more rampant than Financial management issues, and we have no reason to believe that Governance issues are less subject to underreporting than Financial Management issues.

The 2015 data support the 2014 conclusion of average incidence figures for both serious financial system weaknesses and serious governance issues of at least around 25%. 25% is best interpreted as a minimum for Financial Management and the actual figure for Governance is most probably somewhat higher.

Figure 1A²⁶ below shows that:

- The majority of the NGOs funded by the 12 grantmakers have no *serious* issues (76.3%); this contrasts with the 2014 results (see **Annex 3**)
- However, when comparing with the 2014 figures one can observe a huge increase in reported *weaknesses*, making for *less* LNGOs being assessed as having *satisfactory* Financial management and Governance than last year, despite 2014's much higher figures for *serious* problems. This suggests 2015 reporting is based on awareness of the presence of issues but underreports their seriousness. A finding in line with the assumption that grantmakers can be expected to underreport²⁷ (see **Annex 6**).

²⁶ A comparable table for the most Lenient perspective is available in **Annex 8**

²⁷ That the three grantmakers that provided partner level data in 2014 didn't seem to do so – the ones who shared only aggregate data did (see **Annex 3**) – is a small-N phenomenon explainable by the specific

- When serious issues are reported, the 2015 rank order of highest to lowest incidence is the same as in 2014: most serious issues with Governance (18.3%), then with Financial Management (15.1%), and then with Fraud (12.9%). The range of incidence figures is smaller than in 2014 (see **Annex 3**).

Table 5A: Cambodian LNGO reality 2014 and 2015 results

	2014		2015		
	Detailed data providers ²⁸	Audit firm	Detailed data providers ²⁹		
			Critical	Lenient	Audit firms
Total LNGO partners	65	46	93	93	129-146 ³⁰
LNGOs without any issues	33.8%		29%	58%	
LNGOs with weaknesses (but no fraud)	9.2%		47.3%	31.2%	
Total LNGOs without serious problems	43.1%		76.3%	89.2%	
LNGOs with Fraud issues	29.2%	13%	12.9%	8.6%	9.9%
LNGOs without Fraud	70.8%	87%	87.1%	91.4%	90.1%
LNGOs with serious Financial Management issues	36.9%	24%	15.1%	8.6%	24.4%
LNGOs with Financial Management weaknesses	3.1%	76% ³¹	39.8%	26.9%	75.6%
LNGOs with satisfactory Financial Management	60%		45.2%	64.5%	
LNGOs with serious Governance issues	46.2%		18.3%	8.6%	
LNGOs with Governance weaknesses	9.2%		48.4%	30.1%	
LNGOs with satisfactory Governance	44.6%		33.3%	61.3%	

²⁸ The 2014 results in this table are reported using the critical perspective

²⁹ One grantmaker providing detailed partner data turned out to fund only INGOs, thus the results in this table refer to the LNGO partners funded by **12** grantmakers

³⁰ Audit firms did not disclose their client base, they only provided numbers of LNGO clients audited during the last two years. This figure is an estimate, based on an assumed overlap of 15-25% between the client bases of the three audit firms. This estimated overlap is based on audit firms' information. The incidence percentages ignore this overlap and calculation is based on simple additions of both the numerator and denominator figures. Assuming this aggregate to behave similarly to the aggregate version of the grantmaker data, the comparison between aggregated and LNGO-level grantmaker data (see **Annex 7**) indicates that the **audit firm aggregated percentages underreport actual incidence**

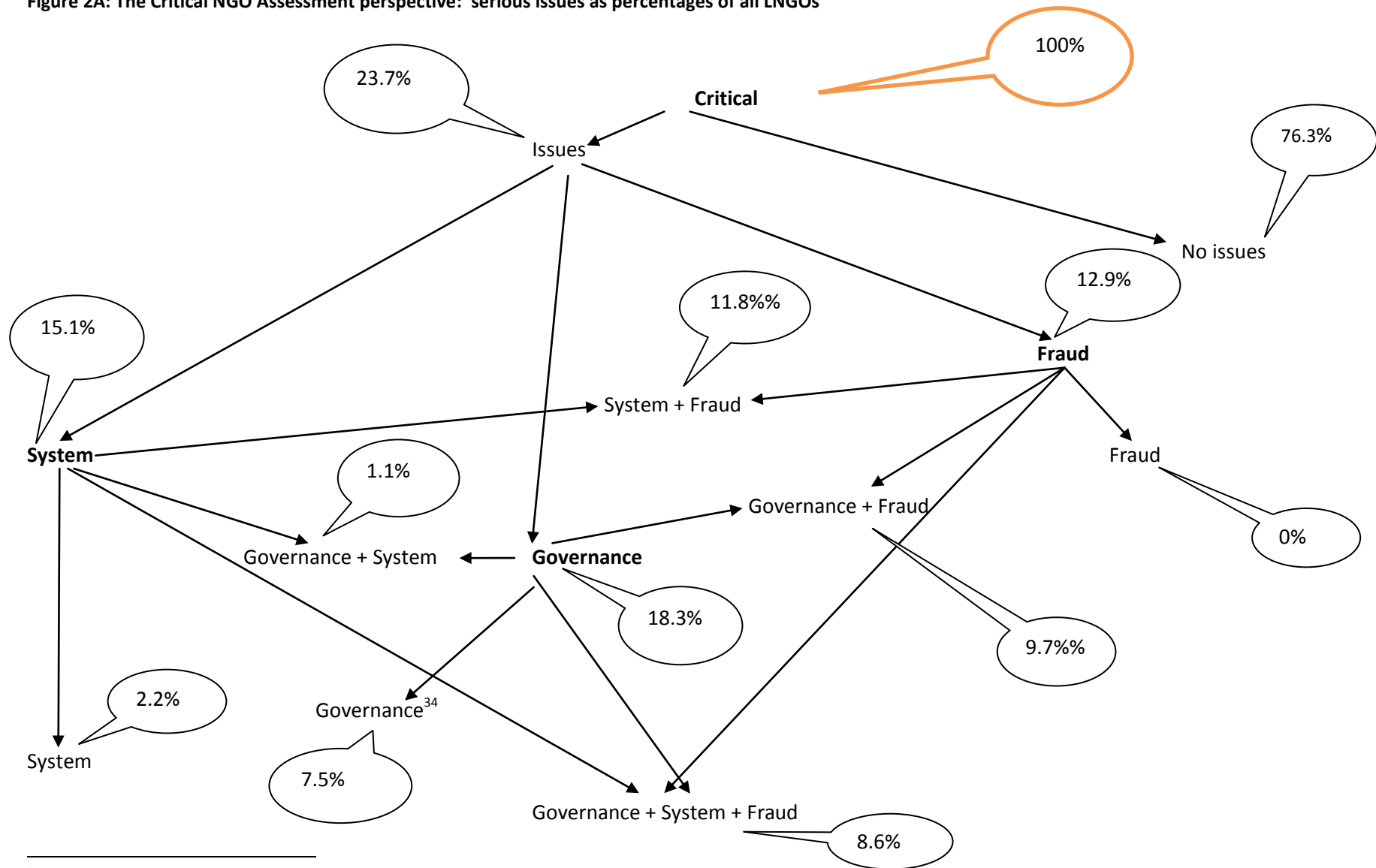
³¹ Auditors were asked binary questions (serious problems versus good), not distinguishing between 'weaknesses' and 'satisfactory'

	2014		2015		
	Detailed data providers ³²	Audit firm	Detailed data providers ³³		
			Critical	Lenient	Audit firms
% LNGOs with fraud, serious Fin Man and serious Gov issues	18.5%		8.6%	6.5%	
% fraudulent LNGOs also having serious Fin Man and Gov issues	63.2%		75%	75%	
% LNGOs with fraud having serious Financial Management issues	73.7%	67%	91.7%	87.5%	64.7%
% LNGOs with fraud having Financial Management weaknesses	0%	33%	8.3%	12.5%	35.3%
% LNGOs with fraud having satisfactory Financial Management	26.3%		0%	0%	
% LNGOs with serious Fin Man issues having fraud issues	58.3%	36%	78.6%	87.5%	26.2%
% LNGOs with serious Fin Man issues without fraud issues	41.7%	63.6%	21.4%	12.5%	73.8%
% LNGOs with satisfactory Fin Man having fraud issues	12.2%	6%	0%	0%	4.6%
% LNGOs with satisfactory Fin Man without fraud issues	85.4%	94%	100%	100%	95.4%
% LNGOs with fraud having serious Governance issues	84.2%		75%	75%	
% LNGOs with fraud having Governance weaknesses	5.3%		25%	25%	
% LNGOs with fraud having satisfactory Governance	10.5%		0%	0%	
% LNGOs with serious Governance issues having fraud issues	53.3%		52.9%	75%	
% LNGOs with serious Governance issues without fraud issues	46.7%		47.1%	25%	
% LNGOs with satisfactory Governance having fraud issues	8.8%		0%	0%	
% LNGOs with satisfactory Governance without fraud issues	91.2%		100%	100%	

³² The 2014 results in this table are reported using the critical perspective

³³ One grantmaker providing detailed partner data turned out to fund only INGOs, thus the results in this table refer to the LNGO partners funded by 12 grantmakers

Figure 2A: The Critical NGO Assessment perspective: serious issues as percentages of all LNGOs



³⁴ An earlier draft of this WP had an incorrect percentage of 1.1% in this figure.

The correlation between fraud and system/governance issues

Similar to 2014, the trends in the two data sources (grantmakers and audit firms) are very aligned, and most patterns found in 2014 hold up in the 2015 dataset:

- NGOs plagued by fraud more often than not have serious financial system weaknesses: (Table 5: 64.7%-91.7%)
- The exceptions also tell us something: the audit firms identified 35.3% cases of fraud *despite* the LNGO having proper Financial Management (Table 5). A result that confirms the maxim that systems cannot guarantee the absence of fraud. Ill-intentioned individuals will always be able to work their way around systems, at least for a while.
- The combination of the above and grantmakers identifying *no* LNGOs with fraud without there also being (overwhelmingly serious) Financial Management issues (Table 5) also indicates something else: it looks like grantmakers assessments of serious issues is much more influenced by the presence of fraud than is the case for auditors. In other words, *auditors are more willing to label issues serious, irrespective of these issues having already resulted in fraud or not*. This would be in line with the earlier mentioned assumption that the auditors' assessment of the incidence of serious Financial management issues is the less underreported indicator of actual incidence.
- We should however not make the mistake to limit our perspective to fraud cases³⁵. Looking at the NGOs with and without financial system weaknesses separately reveals the importance of systems in a much more dramatic way: across the two sources, the incidence of fraud amongst the NGOs with serious financial system weaknesses, ranged from 26.2% to 78.6% (Table 5). This contrasts with an incidence range of 0% to 4.6% among the LNGOs with proper financial systems (Table5). So the chances of an NGO becoming plagued by fraud increases six fold with the absence of proper financial systems. While it is certainly true that proper systems are no guarantee, **weak systems constitute a serious risk**.
- The story for the (lack of) proper governance is very similar (but no data from the audit firms for this): LNGOs plagued by fraud more often than not have serious governance weaknesses: (Table 5: 75%).
- Looking at the LNGOs with and without proper governance: the incidence of fraud amongst the LNGOs with serious governance issues, is 52.9% (Table 5). This contrasts with an 0% incidence among the LNGOs with proper governance. Again, **proper governance is no guarantee but its absence constitutes a serious risk**.
- Separately, both serious Financial Management issues and serious governance issues are red flags already. Combined this only increases: *serious Financial Management issues and serious Governance issues co-occurred in 75% of the fraud cases* (Table 5). The combination of both problems is 8 times more likely to coincide with fraud than not (Figure 2A).
- Also: the co-occurrence of either Governance *or* Financial management issues and fraud, is even more likely (9 and 11 times respectively) than an LNGO having both of these problems but no fraud. In other words, **when both Financial Management and Governance are seriously flawed the fraud risk is huge** (nearly 90%).
- Looking at it from the other end (Figure 1A, similar to the 2014 finding, see **Annex 8**): when an LNGO has a serious issue of any kind, it has a 50% chance of having fraud, and in 96% of those cases the LNGO has other problems too.

A reflection on causation

The data show very clear patterns of correlation. Unfortunately correlations do not allow us to *establish* causes. However, regarding most of these correlations assuming a causal relationship from one to the other factor seems intuitively way more likely than the other way around³⁶:

The correlation between governance problems and fraud and between poor financial management and fraud makes the assumption of many that proper financial management and proper governance

³⁵ For the more technically interested: I'm taking a Bayesian perspective here.

³⁶ And way more likely than some alternative like a mutually reinforcing process between the two factors or a hidden underlying factor causing both.

structures have an important role and responsibility with regard to fraud way more likely than the assumption that fraud would cause weak financial management and weak governance. The high correlation of both weak financial management and weak governance with fraud throws up the question if there is a causal relationship between proper governance and proper financial management. The prevalent opinion in many funding agencies is that governance has an important role to play in guaranteeing proper financial management (an opinion less prevalent in LNGOs?). That line of reasoning would make for *weak governance being a cause of weak financial management and the existence of weak financial systems*. Strong governance implies a lack of acceptance of weak systems. Assuming weak finance systems causing weak governance is much more difficult to visualize.

The importance of due diligence

The data shared by the auditing firms contained two other kinds of information that allows for some more informed speculation. Table 6 below gives an overview of all information received from the four audit companies. It needs pointing out that *four participating firms is still very much a small-N sample* and thus subject to being seriously influenced by the *particular* firms that contributed data.

One of the more disturbing findings of the 2014 survey was *the incidence of serious Financial management issues* encountered by the data sharing audit firm which had *not been brought to light by previous external audits*. The 2015 results provide a disturbingly similar picture:

- Nearly two-thirds of serious Financial Management issues (61.9%) not brought to light by previous external audits. This implies that the 2014 conclusion that *given that we are talking systemic weaknesses here, at least some of those weaknesses were present already during the time of the previous (sloppy and/or colluding/fraudulent?) audit*.
- For fraud cases the proportion was even higher: 81.8% of the LNGO fraud cases that also had serious Financial management issues had previous audits that did not point out these systemic issues³⁷. Again, the 2014 conclusion can be repeated verbatim: *This again can be understood as indicating that the longer NGOs (are able to) avoid proper scrutiny of their systems and are able to operate for a longer duration of time without the presence of checks and balances provided by such proper systems, the greater the likelihood of the opportunity for fraud turning into actual fraud*³⁸.

³⁷ This particular figure is not included in Table 6

³⁸ One may even assume that not only some of the system weaknesses but probably also some of the fraud was already present during the time of the earlier (sloppy) audit.

Table 6: Auditor data – comparing LNGOs and INGOs and indications of audit quality

	2014 ³⁹		2015 ⁴⁰	
	LNGO	INGO	LNGO	INGO
Total NGO clients	46	14	129-146 ⁴¹	36-41 ⁴²
Fraud cases	13%	14%	9.9%	10.4%
Serious Fin Man issues not pointed out by previous external auditors	67%	50%	52.9%	40%
NGOs with serious Financial Management issues	24%	43%	24.4%	20.8%
Serious Fin Man issues not pointed out by previous external auditors	64%	33%	61.9%	60%
Fraud cases with Financial Management issues	67%	100%	64.7%	100%
NGOs with Financial management issues having fraud	36%	33%	26.2%	50%
Fraud cases without other Financial management issues	33%	0%	35.3%	0%
NGOs with proper Financial Management having fraud	6%	0%	4.6%	0%
NGOs with proper Financial management and no fraud	94%	100%	95.4%	100%

How do LNGOs compare to INGOs?

Also, the audit firm data give us an inkling of how LNGOs compare to INGOs in terms of fraud risk and the enabling factor of flawed Financial Management. The 2014 data, coming from the very limited client base of only one firm was basically anecdotal. The 2015 (estimated) sample size is still limited, but the 2014 results hold up with incidence figures of 10.4% for fraud and 20.8% for serious Financial management issues (of which 60% were not reported by previous external audits) and the 2014 conclusion can again be repeated verbatim:

The patterns in this comparison certainly do not point to much difference regarding either, the incidence of fraud, nor the presence of serious weaknesses in the financial systems of LNGOs and INGOs⁴³.

That LNGOs in general are equally (non-)problematic as INGOs may seem counterintuitive. Many would have expected otherwise, international status being associated with at least some kind of functioning oversight and budget control. Other factors than the status of being locally or internationally registered per se seem to be more important determinants⁴⁴.

What partner assessments tell about grantmakers

Figure 3A below depicts assessment differences (all levels of severity as summarized by a tentative comparative indicator of how each grantmaker assesses its (shared) partners in comparison with the other grantmakers in our sample funding (and thus assessing) these same partners. The range of the indicator for this sample lies in between +1 to -1. Values closer to +1 indicate that *more* of the shared partner assessments of that particular grantmaker are *more critical* than those of other co-funders of those same partners, and values closer to -1 that more of his assessments were more lenient than those of other co-funder⁴⁵.

³⁹ Data of one auditor

⁴⁰ Data of three auditors

⁴¹ Audit firms did not disclose their client base, they only provided numbers of LNGO clients audited during the last two years. This figure is an estimate, based on an assumed overlap of 15-25% between the client bases of the three audit firms. This estimated overlap is based on audit firms' information

⁴² See note 46

⁴³ As well as confirm the importance of due diligence, and attention to proper financial systems and effective governance.

⁴⁴ The only study available that looks in some detail into INGO/LNGO differences in Cambodia is Sua' rez, D. & Marshall, J. (2012) and it (also) suggests that capacity and good practices variability patterns don't overlap with the local-international dichotomy

⁴⁵ The formula used: (number of assessments of shared partners in which the grantmaker is more critical than another grantmaker - all assessment in which she is more lenient)/the total of shared assessments

Designing good, i.e. understandable, meaningful, and non-deceptive indicators is much more difficult than normally assumed. As soon as one starts looking closely at nearly any (well known) indicator, e.g. Transparency International's Corruption Perception index (CPI) score, it is accompanied by a lively methodological debate, sometimes resulting in (several consecutive) adjustments to respond to damning criticism, further debate, etc. So this first effort to design a workable LNGO partner assessment indicator for comparing grantmakers to each other doesn't have any pretensions. Suggestions for better alternatives would be very welcome (please contact the author).

The indicator is a fraction that takes, across all shared partners⁴⁶ of that grantmaker, both the times the grantmaker assesses a shared LNGO more or less critical than another grantmaker, and the extent of the difference (is it a *basic* difference between seeing-no-problems-and-seeing-weaknesses/seeing-weaknesses-and-seeing-serious-problems, or is it an *large* difference of seeing no problems versus seeing serious problems)

The indicator used in Figure 3 below is calculated in the following way:

- The denominator is the total number of bilateral comparisons of grantmaker assessments of shared LNGO partners
- The numerator makes use of the simple addition of more critical and more lenient assessments of that grantmaker, and of additional 'weights' for each *very* different assessment. E.g. if grantmaker A is more critical than grantmaker B about Financial management of shared partner X, that is going to increase the balance of more critical assessments of grantmaker A by one and the balance of more lenient assessments of grantmaker B with 1. If grantmaker A is much more critical than grantmaker B, that increases grantmaker A's balance of more critical assessments by one more, and the balance of more lenient assessments of grantmaker B also increases with one.
- The formula for the numerator is (number of more critical assessments + all 'weights' for the comparisons in which the grantmaker was much more critical) - (number of more lenient assessments + all 'weights' for the comparisons in which the grantmaker was much more lenient)
- The fraction is then multiplied by a factor 10⁴⁷

The advantages of this indicator are that it is not too complex to understand, but it has several drawbacks:

- The indicator has only meaning within the 'universe' of these particular 11 grantmakers in this dataset. It is not going to be comparable across surveys.⁴⁸
- The range of the indicator is not fixed and one can thus not define its meaning in relation to max and min values that represent easy to understand anchors⁴⁹.

One way to assess the added value of this (or any other) indicator is to compare it with the simplest way of looking at assessment differences between grantmakers: the extent to which they are indicating partner LNGOs having serious problems and weaknesses. Obviously, the extent of a grantmaker's use of non-OK assessments is also due to their partner portfolio. It is reasonable to assume that grantmakers 'objectively' differ in the number/share of 'problem' LNGOs in their portfolio. But some of the differences in the use of non-OK assessments can be expected to be due to differences in the willingness to be critical/attention/resources devoted to due diligence and that makes the extent of applying serious problem end weakness assessments a usable proxy.

A simple way to determine 'extent' is to use the maximum number of problem and/or weakness assessments as the benchmark, and determine the percentage of that maximum that a particular grantmaker uses. E.g. if a grantmaker/data provider has x partners, the percentage for serious

⁴⁶ For the distribution of shared partners between the 12 grantmakers: see figure 1B, **Annex 8**

⁴⁷ This is basically arbitrary and doesn't serve any other purpose than getting rid of too many zero's. A factor 100 would have worked equally well, bringing the values within a +10/-10 range

⁴⁸ An advantage is that the indicator values add up to zero and are thus truly comparative within this universe.

⁴⁹ E.g. an indicator with a 0 to 100 range like TI's CPI range where 0 represents the 'highly corrupt' anchor point and 100 the 'very clean' one.

problems would be the ratio (number of serious problems)/3x⁵⁰, for weaknesses it would be (number of weaknesses)/2x⁵¹.

Table 9 below shows the correlations between these simple proxies and the comparative assessment indicator. The positive correlations of extent of problems & weaknesses confirm their status as proxies⁵², but the correlation, though high, are far from perfect and the indicator thus clearly has its own message.

Table 9: Correlations between frequency of use of assessment severity categories and the Comparative assessment indicator

Correlation	Partner level data providers
Problems - Comparative assessment indicator	0.56
Weaknesses - Comparative assessment indicator	0.79
Oks - Comparative assessment indicator ⁵³	-0.82

Table 7: Some relevant background info on the grantmaker assessment comparison

Total grantmakers with LNGO partners	12	100%
Total grantmakers who share partners with other grantmakers	11	91.6%
Total partners of grantmakers who share partners with other grantmakers	87	100%
Range of partners of grantmakers sharing partners	3 to 23	
Average nr of partners of grantmakers sharing partners	15	
Range of shared partners	2 to 23	
Average nr of shared partners	11	67.2%
Partners shared by 2 or more grantmakers ⁵⁴	47	54%
Total nr of bilateral grantmaker assessment comparisons ⁵⁵	822	100%
Assessments agreeing with each other	564	68.6%
Assessments disagreeing with each other ⁵⁶	258	31.4%
Nr of partners about which grantmakers had serious severity disagreements (weights-A)	10	21.3% ⁵⁷
Nr of partners about which grantmakers differed on two or more aspects (weights-B)	16	34% ⁵⁸
Nr of partners about which grantmakers differed most (resulting in both weights A & B)	7	14.9% ⁵⁹
Total nr of weights (and as percentage of all disagreeing assessments)	104	40.3% ⁶⁰
Number of Fraud cases not identified by at least one grantmaker ⁶¹	4	33.3% ⁶²
Number of serious issue assessments (and as % of all assessments)	51	6.2%
Number of serious issue assessments excl. LNGOs assessed as fraudulent	16	31.4% ⁶³

⁵⁰ The grantmaker assesses three aspects (Financial Management, Governance, Fraud)

⁵¹ Fraud has no weakness category

⁵² Obviously some level of positive correlation is to be expected: to score higher on the indicator requires, on average more problem/weakness assessments

⁵³ This correlation of 'problems + weaknesses combined' and the indicator is the positive equivalent of this (negative) correlation

⁵⁴ See **Annex 8** for a visualization of the distribution

⁵⁵ Each LNGO comparison between two grantmakers involves three assessment comparisons (Financial Management, Governance, Fraud), thus 822 assessment comparisons refers to 274 bilateral LNGO comparisons

⁵⁶ Obviously 50% of these are more Critical, and 50% are more Lenient

⁵⁷ Of LNGOs funded by two or more grantmakers in the sample

⁵⁸ Ditto

⁵⁹ Ditto

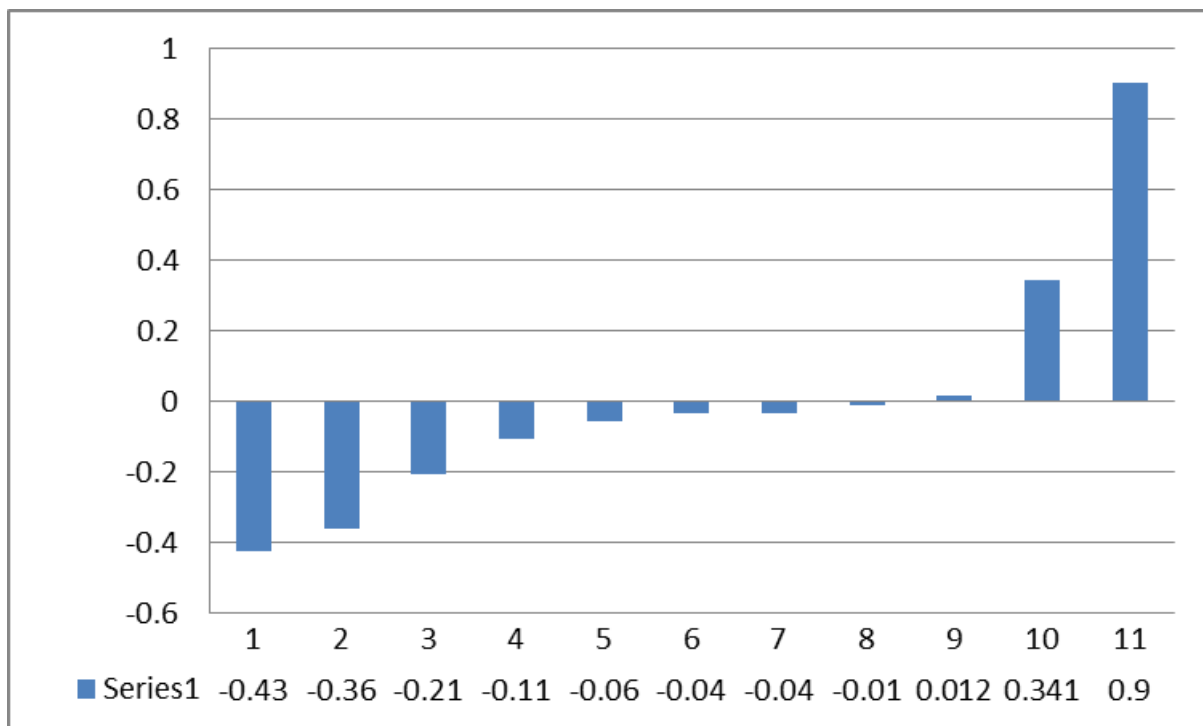
⁶⁰ This can be understood as indicating the contribution of serious disagreements to the indicator scores

⁶¹ This can be seen in **Table 5**: differences in fraud incidence most Critical and most Lenient perspective

⁶² Of the 12 cases identified when taking the most Critical assessment perspective

⁶³ Of all serious issue assessments; as percentage of all assessments it is much lower: 1.9%

Figure 3A: comparative critical assessment indicator values for all 11 grantmakers



Whatever its flaws, the indicator illuminates differences in how grantmakers assess their LNGO partners:

- Grantmakers assess shared partners very differently: *about a third of all possible bilateral assessment comparisons are not in agreement*. To understand what the ultimate meaning of this is, comparing the results of the most Critical and most Lenient perspectives on these grantmaker assessments is illuminating: The most Critical perspective sees 50% *more* fraud cases, the most Lenient perspective sees 43% *less* Financial Management issues, and 84% less Governance issues.⁶⁴
- A good half of the grantmakers (6 out of 11) assess shared partners predominantly more critical or more lenient⁶⁵.
- *The number of grantmakers assessing more critically is limited* (only 2). What does this indicate exactly? Difficult to state anything definite without further exploration of grantmakers' understanding of their own assessments. **Annex 4** therefore suggest improvements to the questionnaire for next rounds so as to get a better grip on these differences, and the current round is going to receive a **follow up** (see below) to better understand the 2015 data.

However, it seems safe to surmise that the number of possible reasons for these differences is limited to a couple of likely candidates:

⁶⁴ See **Table 5A**. This are the figures for both serious issues and weaknesses, just looking at serious issues makes for an even more pronounced picture: the most Lenient perspective sees 75.6% less serious Financial Management issues and 116.3% less Governance issues....

⁶⁵ It merits pointing out that the weights do not alter this fact: the same 6 grantmakers would be identified when severity and number of disagreements for the same partner would not be taken into account.

- A genuine and legitimate⁶⁶ difference in understanding of what constitutes a serious problem, a weakness, and an OK state of affairs,
- A general aversion to be too critical, or
- A general lack of due diligence, which can be either principled or indicative of a lack of resources.

A general aversion interpretation could be read into the following:

- The limited number of serious issue assessments, especially when one excludes assessments of fraud (only 16, or less than 2% of all assessments)
- The very uneven distribution of this subset of assessments: only four grantmakers have more than one, and one grantmaker is responsible for 44% of them

They could also be interpreted as a lack of (resources put into) due diligence which also seems the more likely explanation for the fraud incidence difference when applying the most lenient versus the most critical perspective (see Table 5): 4 fraud cases were not identified by at least one grantmaker who partners with them.

Follow up

Given the sample size, and other methodological limitations of the survey (see **Annex 4**), the above, although much better grounded than speculation, and closer to representativeness than the 2014 pilot, is still not definite evidence.

It seems an obvious next step to go back to the grantmakers who reported differently about one or more of their partner LNGOs than others and request all involved with the same LNGO to discuss their differences and report back on the outcome.

Both the response rate to that request and the outcomes will constitute interesting measures.

It seems an uncontentious assumption that grantmakers receiving information that (a) peer(s) assess(es) crucial aspects of one or more of one's partner LNGOs' functioning differently, especially if they assess them more critically, should be expected to be interested and follow up. The response rate is thus going to be an interesting indicator of grantmaker interest in due diligence and either going to support or undermine the conclusion drawn regarding non-response. The outcomes will throw an interesting light on reasons for different assessments, and the validity of the assumption that the most critical perspective is generally the best description of an LNGO's reality.

All relevant grantmakers are going to be contacted with a request to participate in such a follow up and the results will be included in an updated version of this report.

⁶⁶ Legitimate would refer to those disagreements that, also after frank discussions, remain differences of opinion, all sides understanding the viewpoint of the other discussants, and none of the viewpoints having the support of definite factual evidence to make an 'objective' case for their understanding.

Grantmakers contacted for this survey

1	Action Aid Cambodia
2	HBF
3	Diakonia
4	SADP
5	World Renew
6	Danmission
7	Heifer
8	CARE
9	AJWS
10	DCA/CA
11	Forum Syd
12	NPA
13	Misereor
14	Fin Church Aid
15	Oxfam Aus
16	Oxfam GB
17	Oxfam US
18	Oxfam Novib
19	Pro Victimis
20	The Asia Foundation
21	Brot fuer die Welt
22	ICCO
23	CEPF
24	PACT
25	CRS
26	DPA

The contacted audit Firms were guaranteed full confidentiality, including non-disclosure of their being contacted for participating in the survey.

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Annex 1: Grantmaker questionnaire and audit firm questionnaire

Grantmaker questionnaire

I would be very grateful if you would be willing to share the problems that you come across in partner assessments. I would like to ask you about problems with partners that your organizations was involved with during the last two years. This survey looks at three kinds of problems: financial management, overall governance, and fraud

EXPLANATIONS

To ensure your understanding when answering the surveys is the same as mine, below I describe as best as I can what kinds of issues the problem label is about.

FINANCIAL MANAGEMENT PROBLEMS

- Incomprehensive, disorganized accounting **systems**, sometimes still manual, unable to produce proper audit trails or only with great difficulty
- Lacking proper internal controls, especially a lack of segregation of responsibilities regarding authorization and execution
- Lacking proper supporting documentation for transactions, and delays in entering transactions into the system
- Lacking strict controls of cash funds, and lacking regular checks like bank reconciliation
- Lacking regular (at least quarterly, preferably monthly) reporting to management
- No global budgets, reports and audit

- No, limited or outdated financial and related (e.g. procurement) **policies**, so no guidelines for proper financial management
- If policies are in place: lacking enforcement of policies and procedures not being followed

- Which is related to a lack of **financial oversight** by management and board, because they lack the commitment/interest or are not financially literate enough (In that case the board does not or cannot play a role in authorizing financial reports and audits, choosing auditors, etc.)

- And possibly also to a **lack of technical capacity of the finance staff** to implement proper procedures, or a **lack of independence** in the way they can function (often because of a domineering ED)

- A **lack of organizational responsiveness to reported weaknesses**, e.g. weaknesses identified in management letters of auditors or other financial assessments

GOVERNANCE PROBLEMS

- **Non-functioning board**
- **Autocratic ED, no collective decision-making**
- Claiming to be an association while the reality is being an NGO

FRAUD

- **Financial mismanagement**, including the suspicion that this is taking place and the decision to investigate, even if only to clear the org from that suspicion.
- **Nepotism** in hiring, procurement

For Financial management problems and Governance problems the survey uses three categories for scoring the seriousness of the problems

SERIOUS PROBLEM

- Significant problem, that needs prioritization by the NGO, AND requires action by the board (if they are not the problem themselves)
- Nearly always requires some form of outside support (by the grantmaker or a contracted service provider)
- Continued funding is dependent upon decisive action, following agreed upon short-term timeframes

WEAKNESS

- needs addressing within a commonly agreed time frame,
- often requires outside support, but is within the range of 'normal' OD/improving organizational functioning,
- but is within the range of 'normal' OD/improving organizational functioning, and is not a potential 'dealbreaker'.

NO PROBLEM

INSTRUCTIONS

The next page contains a table with your NGO partners as rows and the problem categories (and their seriousness) as columns. Please list all your NGO partners and then for each partner put an X in the column of each category that best describes your assessment. If you are willing to share this page with me, you do not have to fill out the third page. I will treat this information with total confidentiality and will not share with anyone else.

If your confidentiality policy doesn't allow you to share this page with me, please use the information of the second page (NGO matrix) to fill out the table in the third. This table doesn't aggregate and doesn't reveal anymore which particular NGO has which particular problem(s), if any

Please send the page that you can share with me, either NGO matrix or Summary matrix to rh.summit@gmail.com

MANY THANKS FOR YOUR COLLABORATION!

Page 2 of Survey Instrument

(NGO) PARTNER	FINANCIAL MANAGEMENT			GOVERNANCE			FRAUD	
	Serious problem	Weakness	No problem	Serious problem	Weakness	No problem	No	Yes

Page 3 of Survey Instrument

Summary matrix

Problem intensity

Problem nature

- Financial management
- Governance
- Fraud

	Serious	Weakness	No problem	Total

Relationships

- Fraud in combination with serious financial management problem
- Fraud in combination with serious governance problem
- Fraud in combination with both serious financial management and governance problems
- Fraud without serious financial management problem
- Fraud without serious governance problem

Some NGOs deal with several kinds of problems simultaneously, or one after the other (over the last 2 years)

This means that there might be more problems than NGOs

Audit firm Questionnaire

		LNGOs	INGOs	Total
1	Clients half of 2013, 2014, and half of 2015 (until present)			
2	Of 1: Serious financial system problems			
3	Of 2: Serious weaknesses not pointed out by previous external auditors			
4	Of 1: Fraud			
5	Of 4: Serious weaknesses not pointed out by previous external auditors			
6	NGOs with good financial system that nevertheless had fraud			

Annex 2: Due Diligence grantmaker & audit firm survey first wave - original 2014 Data

Objectives

1. Testing NGO grantmakers and NGO service providers' willingness to share partner information
2. Testing methodology for gathering valid, comparable information
3. To the extent this try-out results in useful information: getting a first indication of the status of NGO world financial management based on systematically gathered thorough external assessment information as opposed to anecdotal and/or self-reporting based insights

Partner info questions asked

Organizations were requested to share the problems that they come across in partner assessments, by way of using a matrix with kinds of problems as its rows and categories of 'severity' as its columns. This allows for a quantitative aggregated (thus confidential) picture of how many of their partners have which kinds of problems. To be able to determine how many NGOs the figures refer to, per grantmaker/capacity builder as well as in total, they were also asked to provide a list of their partners.

The problems with the questions asked are detailed below in the section on methodological learnings.

Informants

1. Two auditing and two legal companies dealing with NGOs, one exclusively with INGOs, one exclusively with LNGOs, the others with a mix (one with a majority of its clients being LNGOs, the other INGOs)
2. Three NGO capacity building service providers, that make their own independent assessment of NGOs that they work with/for
3. 13 NGO grantmakers (a mix of grantmaking intermediaries, NGO donors, implementing INGOs and International organizations with a LNGO grantmaking program)
4. Some individuals with lots of NGO financial management and/or NGO governance experience
5. Not all informants were requested to share quantitative information on NGO partners. Such data were requested from one accounting company and 15 grantmakers/capacity builders.

Objective 1: Response

The response to these request can be interpreted as a measure of the NGO grantmakers and NGO service providers' willingness to share partner information.

The auditing companies were requested to share quantitative information and one complied.

In total 15 grantmakers and capacity builders were requested to share partner information. Ten of these were briefed about the objectives and the methodology in an interview, five were approached by e-mail only.

The **level of cooperation** is summarized in the table below:

Full disclosure	2	13.3%	46.7%
Aggregated disclosure	5	33.3%	
Only number of fraud cases shared	2	13.3%	53.3%
No sharing	6	40.0%	
Total	15		

Two grantmakers went beyond the requested aggregated information sharing and disclosed which of their partners were subject to which kind of problem. Five responded using the aggregated format, two only provided the number of their partners with fraud issues, and six ended up not sharing anything (a mix of outright decline to participate, initial interest and subsequent silence, or no response at all). The responsiveness wasn't overly determined by the method of approach: 40% of the total didn't share, half of which were only approached by e-mail, 60% responded in various ways, a third of which was only approached by email.

What to make of this level of cooperation is a matter of interpretation. But, assuming that the time investment required to fill the matrix for any grantmaker/capacity builder with a half-decent system of due diligence and their administration in order should have been not be more than an hour (when the right staff is involved), I suggest that the less that 50% full-response rate indicates a combination of:

- Worries about reputational risks,
- Effective governance and solid (especially financial) systems being in short supply and felt to be at least partially beyond the influence, let alone control of donors, and 'difficult'
- Due diligence and partnership with NGOs being seen as partially conflicting objectives

This interpretation would confirm the initial analysis underlying this exercise that NGO governance, systems and fraud don't get the attention they deserve from the funding world.

Objective 2: Methodology

The basic objective of the exercise was to collect systematic (beyond the anecdotal, and reliable), objective (no self-reporting), valid (based on a thorough assessment) data on LINGO financial mismanagement, and the role played by NGO governance and NGO financial systems. The kinds of problems used to probe were described as follows⁶⁷:

- **governance problems:** non-functioning board, autocratic ED, claiming to be an association while the reality is being an NGO
- **Operational system problems:** systems without checks and balances, especially regarding financial management, disorganized so information is not shared, difficult to locate etc. I am using the assumption that the state/management of the orgs financial system is a good indicator for the general state of its 'systems'.
- **Fraud/financial mismanagement.** Including the suspicion that this is taking place and the decision to investigate, even if only to clear the organization from that suspicion.

The categories of severity used were:

- **severe:** have closed an NGO or brought it to a temporary standstill
- **problem:** significant problem, that needs prioritization by the NGO, require action by the board (if they are not the problem themselves) and nearly always outside support (by the grantmaker or a contracted service provider)
- **weakness:** needs addressing within a commonly agreed time frame, often requires outside support, but is within the range of 'normal' Organizational Development/improving organizational functioning,
- all seems **OK**, strong systems, no major identifiable concerns

Several weaknesses, were evident from the start or came to light early on:

- No instructions were provided about how to (best) to go about getting the figures to fill the matrix. Without instructions quite a few informants thought the exercise more confusing than it need be. When one starts by going through the list of partner NGOs and notes down the (kinds of) problems they have (if any) next to them. Subsequently filling the matrix, then is an easy counting of how many of each kind of problem of each severity category are noted down. If, however, one starts with the kinds of problems and matches NGOs with them, the unavoidable conceptual overlap between the kinds of problems and their very common co-occurrence tends to befuddle judgement.
- Closed answer categories, like the predefined kinds of problems in the matrix, are easy for the analyst but not so easy for the respondent. Describing the reality as they see it in their own words (in technical jargon 'open answers') is way easier. Processing open answers (coding, aggregating, recoding etc.) is extremely time-consuming and thus resource heavy. For a study like this one, the optimal solution, the best compromise between efficiency and validity, is to develop the closed answer possibilities collaboratively with a sufficiently large and diverse group of potential respondents. This will ensure that the answer possibilities collectively cover the conceptual field as perceived by respondents as comprehensively and unambiguously as possible.
- An added (huge) advantage of such a questionnaire development process is that it is an equally good way to decrease interpretation issues regarding the second answer dimension: the severity categories.
- The ultimate ambition would be to make the data gathering not only systematic, objective and valid, but also representative of the NGO world as a whole, and useful in further exploring conditions that help or obstruct integrity, proper governance and other desired characteristics (3rd objective). To fulfil that ambition having some core organizational data for each NGO (all undoubtedly on file with their grantmakers/capacity builders, like size (in terms of budget and/or number of employed staff). This would allow to check the representativeness of the sample of NGOs covered in the exercise against the NGO census regularly conducted by CCC, as well as look for correlations between the occurrence of particular kinds of problems and such 'background variables'. Again, many will have intuitions about relationships, based on their personal experience and/or anecdotes floating about in the gossip circuit. But we don't know which of those intuitions pan out until they are explored in a representative survey.

⁶⁷ Also **program issues** were probed but as the focus of this consultancy took a more narrow focus than initially envisioned, this kind of problem was excluded from the analysis.

Objective 3: a first indication of the status of NGO world financial management

Given all these methodological limitations, can we say anything at all about LNGO financial mismanagement, and the role played by NGO governance and NGO financial systems?

Can we say anything about how representative the universe of NGOs is that the results are based on?

To start with the latter: the total universe of NGOs covered in the survey was 103 for all seven grantmakers/capacity builders who (at least partially) provided answers (it is 94 NGOs for the five that filled the matrix⁶⁸, and 51 NGOs for the two that shared full partner information). That total is too small a sample to make an analysis of its representativeness very meaningful, even if we had had the required background data. It is nevertheless the third biggest sample of NGOs used to date to explore NGO problems⁶⁹. And we have the information from the NGO auditing company as an independent data set, which can be used to triangulate the information received from the grantmakers/capacity builders. So, whatever the outcomes, even if they cannot be interpreted as representing the status of 'the' Cambodian NGO world, they tell us about a sizable number of NGOs, and they are benchmarked against another source of information. So the least we can claim is that this experiment is able to show the potential of systematic, objective and valid information gathering.

We have a staggered kind of data set:

- A sub-sample of five info sources that provide quantitative data about the presence of governance, system and fraud issues amongst their partners, and another of two sources that only provide quantitative data about the presence of fraud. These data don't make correlations between the three kinds of issues visible.
- Then we have another sub-set two info sources that provided us data that enable us to correlate the absence/presence of governance and system issues and fraud.
- And we have one independent info source that shared data about the absence/presence of system and fraud issues (as well as data about previous audits) - but not governance issues.

The analysis below tries to make the most of the limited data available by looking at them from as many angles as possible. But that is not only to make maximum use of what we have in hand. It is also to provide the reader with the maximum opportunity to draw her own conclusions. Statistics are easily misused and can obscure and distort as much as they can illuminate. Often findings are presented as if they are self-evident, but they nearly always represent *particular way(s)* of looking at the data, the answer to *particular question(s)* asked of the data, and by implication, *not other questions*. I'll ask as many questions as possible, some may argue even some logically superfluous ones, because it is by exploring the information from all angles that one best reduces the risk of drawing false conclusions.

To read the following tables correctly it is important to keep the following in mind:

- Figures have been rounded
- The two grantmakers who shared detailed information have specific profiles. One is managing a portfolio that has a history of weak due diligence, which recently went through a thorough check, the other manages a portfolio with longer-established strong due diligence. Both have partner profiles that probably include more smaller, non Phnom Penh based partners than the average grantmaker portfolio.
- Systems issues and governance issues are the aggregates of what data sources indicated as 'severe' and 'problem' cases, excluding the reported 'weaknesses'
- The auditing company's information regarding financial system weaknesses can be considered quite reliable. The company has a good reputation. It's fraud picture is by definition an under-reported reality, because cleverly executed fraud normally requires fact checking beyond what a regular audit investigates.

⁶⁸ **CORRECTION:** This number in the original write up is wrong. The correct number for NGO partners of the five organizations sharing aggregate data is 52; the number of NGO of the two grantmakers only sharing information about the number of fraud cases during the last two years is 34. The Difference between the total number of NGOs covered (103) and the sum of these three subtotals (51, 52 and 34) is the overlap (shared partners) between the three categories.

⁶⁹ Excluding the CCC NGO censuses, the biggest samples are the 140 NGOs in CCC (November 2012) and (May 2013), the second biggest is 114 in Sua´rez, D. & Marshall, J. (2012)

2014 Summary Table of financial (mis) management and its correlates⁷⁰

Data Source	Total Partners	Fraud cases	%	Govern Issues	%	Systems Issues	%
Averages summary data providers	15	1.6	12%	1.2	8%	1.4	10%
Averages detailed data providers	26	6	23%	13	48%	11	44%
Total averages Grantmakers and Capacity Builders	17	2.4	14%	4	18%	3.8	18%
Auditing company	46	6	13%			11	24%

The two providers of detailed data have specific portfolios, but also were totally transparent in their assessment, and explicitly supported the objectives of this exercise. Both are known for their above average due diligence. Their judgments also did not tone down observed issues (e.g. labeling something a 'weakness', rather than a 'problem'). How much of the differences between these two data sources and those that shared only aggregate information is due to which of the above factors is impossible to say. However, the benchmark of the auditing company information does allow for some informed speculation.

The incidence of fraud:

- Given that the auditing company's figure of 13% is an underreporting of unknown but assumedly limited magnitude
- Given that the auditing figure matches the figure of the aggregated data sources
- Given that the detailed data providers have more 'risky' partner portfolios than the average grantmaker, but assumedly also more thorough due diligence procedures than the average

An average fraud incidence of around 15-20% seems a reasonable guess.

This average should be understood as the average proportion of NGOs within the average grantmaker's partner portfolio that is affected by (detected or not yet detected fraud), within any two-year period.

The incidence of serious financial system weaknesses and issues with governance:

Both the stricter than average due diligence as well as the specifics of their partner portfolios are reflected in the reported incidence of governance and systems problems of the detailed data sources. Given that the incidence figure for serious financial system weaknesses of the auditing company seems a reasonable estimate for the sector as a whole, the 10% reported by the aggregate data providers seem underreported. Assuming the same underreporting tendency is affecting their figures for governance issues:

It seems reasonable to assume average incidence figures of both serious financial system weaknesses and serious governance issues of around 25%.

⁷⁰ A more detailed table is included at the end of this Annex

The correlation between fraud and system/governance issues

Now we'll try to make the most of what the data sources sharing detailed information have reported. This time we cannot relegate the detail to the annex and need to deal with it in the main section:

Table of the co-occurrence of fraud and serious financial system/governance weaknesses

	Grantm. 1		Grantm. 2		Auditor	
Total NGO partners/clients	24		29		46	
Fraud cases	7	29%	5	17%	6	13%
NGOs with serious systems issues	16	67%	6	21%	11	24%
fraud cases w weak systems	7 of 7	100%	4 of 5	80%	4 of 6	67%
NGOs w weak systems having fraud	7 of 16	44%	4 of 6	67%	4 of 11	36%
fraud cases w proper systems	0 of 7	0%	1 of 5	20%	2 of 6	33%
NGOs w proper systems having fraud	0 of 9	0%	1 of 23	4%	2 of 35	6%
NGOs w proper systems and no fraud	8	100%	22 of 23	96%	33 of 35	94%
governance issues	15	62%	10	34%		
fraud cases w weak governance	6 of 7	86%	5 of 5	100%		
NGOs w weak governance having fraud	6 of 15	40%	5 of 10	50%		
NGOs w fraud having proper governance	1 of 7	14%	0 of 5	0%		
NGOs w proper governance having fraud	1 of 9	11%	0 of 19	0%		
proper governance and no fraud	8 of 9	89%	19 of 19	100%		

The trends in the three data source are very aligned:

7. NGOs plagued by fraud more often than not have serious financial system weaknesses: (67%-100%)
8. The exceptions also tell us something: up to 33% cases of fraud occurred *despite* proper systems being in place. A result that confirms the maxim that systems cannot guarantee the absence of fraud. Ill intentioned individuals will always be able to work their way around systems, at least for a while.
9. We should however not make the mistake to limit our perspective to the fraud cases⁷¹. However much you may think 67%/33% is already a telling statistic about the importance of proper systems, it is a perspective that seriously undervalues them. Looking at the NGOs with and without financial system weaknesses separately reveals the importance of systems in a much more dramatic way: across the three sources, the incidence of fraud amongst the NGOs with serious financial system weaknesses, ranged from 36% to 67%. This contrasts with an incidence range of 0% to 6% among the NGOs with proper financial systems. So the chances of an NGO becoming plagued by fraud increases at least six fold with the absence of proper financial systems. So **while it is certainly true that proper systems are no guarantee, weak systems constitute a huge risk.**
10. The story for the (lack of) proper governance is very similar: NGOs plagued by fraud more often than not have serious governance weaknesses: (86%-100%).
11. Looking at the NGOs with and without proper governance: across the two sources (no data from the auditor for this), the incidence of fraud amongst the NGOs with serious governance issues, ranged from 40% to 50%. This contrasts with an incidence range of 0% to 11% among the NGOs with proper governance. So the chances of an NGO becoming the plagued by fraud increase at least four fold with the absence of proper governance. Again, **proper governance is no guarantee but its absence constitutes a serious risk.**

The two factors co-occurred in 10 out of the twelve fraud cases the two grantmaking data sources reported on (not visible in the table above). All three data providers were asked explicitly and agreed on what they identified as the more fundamental problem: **governance**. All of the (many) other interviewees who expressed an opinion about this, subscribed to the same view.

⁷¹ For the more technically interested: I'm taking a Bayesian perspective here.

The importance of due diligence

The data shared by the auditing company contained another bit of revealing information that allows for some more informed speculation:

Table of the relationship between weaknesses being known through previous audits and fraud

NGO auditing company	LNGOs	%
Clients half of 2013 and 2014 mostly for FY 2013 and half of FY 2014	46	76.7%
Clients with serious financial system problems	11	23.9%
Of the above: serious weaknesses not pointed out by previous external auditors	7	63.6%
Client audits that brought Fraud to light	6	13.0%
Of fraud cases: serious weaknesses not pointed out by previous external auditors	4	66.7%
Proper systems that did not prevent fraud	2	33.3%

This table shows the importance of bringing weaknesses to light, and thus about the importance of thorough and high quality external audits. Of the 11 weak systems detected by this particular auditor, 7, i.e. 64%, were not mentioned in previous audit reports by other auditing companies. Of the 4 fraud cases within the sub group of NGOs with weak systems, none occurred within an NGO of which the system weakness had already been brought to light by a previous external audit.

It's not so easy to get one's head around interpreting this, but a probable reading, given that we are talking *systemic* weaknesses here, of the fact that *none of the four* NGOs with systemic weaknesses which *had been* brought to light in a previous audit had fraud issues, while *four of the seven* of those which *had not been* brought to light in a previous audit did have fraud, is that **at least some of those weaknesses were present already during the time of the previous (sloppy and/or colluding/ fraudulent?) audit**. This again can be understood as indicating that the longer NGOs (are able to) avoid proper scrutiny of their systems and are able to operate for a longer duration of time without the presence of checks and balances provided by such proper systems, the greater the likelihood of the *opportunity* for fraud turning into *actual* fraud⁷².

Do Local NGOs stand out?

Finally, the audit company data give us a first inkling of how LNGOs compare to other entities in terms of fraud risk and their enabling factor. The company was able and willing to not only report on their LNGO but also their INGO clients, a much smaller sample than their LNGO portfolio, but large enough to make a comparison worthwhile.

Comparing data on LNGOs and INGOs

	LNGO		INGO	
Total NGO clients	46		14	
Fraud cases	6	13%	2	14%
Serious weaknesses not pointed out by previous external auditors	4	67%	1	50%
NGOs with serious systems issues	11	24%	6	43%
Serious weaknesses not pointed out by previous external auditors	7	64%	2	33%
fraud cases with weak systems	4 of 6	67%	2	100%
NGOs with weak systems having fraud	4 of 11	36%	2 of 6	33%
fraud cases with proper systems	2 of 6	33%	0	0%
NGOs with proper systems having fraud	2 of 35	6%	0	0%
NGOs with proper systems and no fraud	33 of 35	94%	8 of 8	100%

With such sample sizes and no possibility to check for any bias in the samples, it is impossible to say anything definite but the patterns in this comparison certainly do *not point to much difference* regarding either the incidence of fraud nor the presence of serious weaknesses in the financial systems of LNGOs and INGOs⁷³.

That LNGOs in general are equally (non-) problematic as INGOs may seem counterintuitive. Many would have expected otherwise, international status being associated with at least some kind of functioning oversight and

⁷² One may even assume that not only some of the system weaknesses but probably also some of the fraud was already present during the time of the earlier (sloppy) audit.

⁷³ As well as confirm the importance of due diligence, and attention to proper financial systems and effective governance.

budget control. Other factors than the status of being locally or internationally registered *per se* seem to be more important determinants⁷⁴.

As argued earlier, this study cannot provide a solid evidence base to further explore this but it hopefully brings enough non-common-sensical data to the table to convince the NGO world audience that we the matters at hand need serious attention. And repeating an exercise like this properly, i.e. methodologically better executed, and comprehensively enough to be able to go beyond informed speculation.

This is probably the right place to challenge another common popular perception on the basis of information received during this study. Another source, a law firm (with many INGO clients) shared their overall evaluation that INGOs in Cambodia are troubled by fraud and governance problems *to the same extent* as the private sector in Cambodia. LNGOs and especially INGOs are more trusted by the general populace, as consistently evidenced by opinion surveys, than the private sector⁷⁵. But the reality, as illustrated by the experience by that particular law firm's clientele, is probably that it is not the not-for-profit status *per se* but other factors that matter in differentiating between responsibly and accountably run integer organizations and fraudulent organizations.

The auditor's data, in combination with the law firm's assessment suggest that LNGOs, INGOs and the private sector in Cambodia *all* operate within and are affected by the same general environment (wherein impunity rules) *to roughly the same extent*. Within these broad categories there are big differences, bigger than the differences between them. It seems reasonable to expect corruption within the government sector to outweigh that of the private and not-for-profit sectors by several factors. But it would be extremely unwise to assume that the NGO sector stands out from other parts of society as an island of propriety within this flawed institutional setting.

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Detailed table of financial (mis) management and its correlates

Data Source	Total Partners	Fraud cases	%	Govern issues	%	Systems issues	%
Donor 1	22	0	0%	3	13.6%	0	0.0%
Donor 2	9	0	0%	0	0.0%	0	0.0%
Donor 3	7	3	43%	0	0.0%	0	0.0%
Capacity Build 1	11	0	0%	3	27.3%	3	27.3%
Donor 4	18	2	11%	0	0.2%	4	22.2%
Donor 6	23	3	13%				
Donor 7	16	3	19%				
Average	15.14	1.57	12.3%	1.21	8.2%	1.4	9.9%
Donor 1	24	7	29%	15	62.5%	16	66.7%
Donor 2	29	5	17%	10	34.5%	6	20.7%
Average	26.5	6	23%	13	48.5%	11	43.7%
Total averages	17.24	2.40	14.3%	4.03	18.3%	3.80	18.3%
Auditing company	46	6	13.0%			11	23.9%

⁷⁴ The only study available that looks in some detail into INGO/LNGO differences in Cambodia is Sua´rez, D. & Marshall, J. (2012) and it (also) suggests that capacity and good practices variability patterns don't overlap with the local-international dichotomy

⁷⁵ See Annex 6

Annex 3: Due Diligence grantmaker & audit firm survey first wave - updated 2014 Data

During the 2015 fieldwork I interviewed a former resident representative of one of the grantmakers that had contributed aggregated data to the 2014 survey. He had left his position just a couple of months before the 2014 fieldwork period and offered to share detailed data on the 2012-2014 partner portfolio of that grantmaker. Analysis below updates the 2014 results when one includes the disaggregated information⁷⁶ from this grantmaker. On top of being disaggregated, this version was also considerably more critical of the quality of partners' financial management, governance and identified more cases of fraud in this grantmakers' partner portfolio (7 instead of none).

The significance of different partner assessments from the same grantmaker

This described difference between the original assessment and the 2015 update is everything but trivial. It indicates the possibility of more widespread serious misreporting⁷⁷. The misreporting could be due to:

- Explicit institutional decisions about how to represent one's partner portfolio to outsiders, or
- Implicit tendencies toward honesty/bluntness⁷⁸ of the individual who fills the questionnaire, or
- Extent of access to the institutionally available Knowledge about the partner of the individual who fills the questionnaire

The most basic issue regarding this misreporting is the likelihood that it tends toward underreporting or over-reporting of problems. The specific example that triggered this update could either indicate underreporting by the original 2014 questionnaire respondent, or over-reporting by its 2015 respondent.

The consequences of *general tendencies* toward underreporting and over-reporting are different⁷⁹: if one assumes *under-reporting* the dataset allows for strong statements about *minimum levels of incidence*; if one assumes *over-reporting* the dataset doesn't allow for strong statements about anything⁸⁰ unless one has a good handle on its level (on average, a grantmaker over-reports 10%, 20%, 50%? of the problems within their partner portfolio...)⁸¹.

The default assumption of this report is to assume a general tendency toward underreporting⁸². However, in the practical application of this assumption the report tries to ensure that its claims to establish a this-is-minimally-the-case description of Cambodian LNGO reality is based on fully transparent and replicable analyses.

⁷⁶ As opposed to aggregated data included in the original results reporting (see Annex 1)

⁷⁷ Misreporting is defined in terms of the knowledge available to the grantmaker. In other words, not in terms of the 'real' situation of the partner NGO. What the grantmaker doesn't know cannot be reported and thus not misreported.

⁷⁸ Obviously there are more possibilities, and most share the property of having normative connotations that make it difficult to have dispassionate conversations about their presence and influence other than in very general terms.

⁷⁹ If there is no general tendency toward one or the other, *and the sample-size of grantmakers is sufficiently large*, one may assume that the tendencies to underreport and over-report cancel each other out.

⁸⁰ About NGOs; it obviously allows for statements about grantmakers' reporting on problems with partner NGOs

⁸¹ Having insight into the level of underreporting would allow to shift statements about problem incidence from minimum level to extent of the mis

⁸² For reasons, see Box 1 below: most critical assessment core assumption

The incidence of fraud, financial management issues and governance issues

Table 1: 2014 Summary overview of financial (mis)management and its correlates with added detailed data provider⁸³

Data Source	Total Partners	Fraud cases	%	Govern Issues	%	Systems Issues	%
Averages summary data providers	14	1.8	14%	0.8	7%	1.8	12%
Averages detailed data providers	24	6.3	27%	12	49%	8.3	34%
Total averages Grantmakers and Capacity Builders	17	3.3	19%	5.4	25%	4.6	22%
Auditing company	46	6	13%			11	24%

The additional information confirms and strengthens the original conclusions drawn:

1. An average fraud incidence of around 15-20% seems a reasonable guess. The added cases of fraud make 20% the more likely reality.
2. It seems reasonable to assume average incidence figures of both serious financial system weaknesses and serious governance issues of around 25%.

Original reporting concentrated on the increased fraud risk associated with financial management/system problems and weak governance. The below table updates the findings based on the additional detail. The somewhat altered ratios of the increased risk caused by weak financial systems/management and weak governance (weak financial system at least three rather than six-fold, weak governance six-fold rather than at least fourfold) continue to support the original conclusions:

1. while it is certainly true that proper systems are no guarantee, weak systems constitute a huge risk
2. proper governance is no guarantee but its absence constitutes a serious risk.

On top of that they now quantitatively reflect the originally reported communis opinio that weak governance is the more fundamental problem.

⁸³ A more detailed table is included at the end of this Annex

The correlates of fraud

Table 2: The co-occurrence of fraud and serious financial system/governance weaknesses based on aggregated data of three detailed data providers

	3 Grantmakers		1 Auditor	
Total NGO partners/clients	65		46	
Fraud cases	19	29.2%	6	13%
NGOs with serious systems issues	24	36.9%	11	24%
fraud cases w weak systems	14 of 19	73.7%	4 of 6	67%
NGOs w weak systems having fraud	14 of 24	58.3%	4 of 11	36%
fraud cases w proper systems	5 of 19	26.3%	2 of 6	33%
NGOs w proper systems having fraud	5 of 40	12.2%	2 of 35	6%
NGOs w proper systems and no fraud	35 of 40	85.4%	33 of 35	94%
governance issues	30	46.2%		
fraud cases w weak governance	16 of 19	84.2%		
NGOs w weak governance having fraud	16 of 30	53.3%		
NGOs w fraud having proper governance	3 of 19	15.8%		
NGOs w proper governance having fraud	3 of 34	8.8%		
proper governance and no fraud	31 of 34	91.2%		

The trends in the two data sources are very aligned:

1. NGOs plagued by fraud more often than not have serious financial system weaknesses: (67%-74%)
2. The exceptions also tell us something: up to 33% cases of fraud occurred despite proper systems being in place. A result that confirms the maxim that systems cannot guarantee the absence of fraud. Ill intentioned individuals will always be able to work their way around systems, at least for a while.
3. We should however not make the mistake to limit our perspective to the fraud cases⁸⁴. However much you may think 67%/33% is already a telling statistic about the importance of proper systems, it is a perspective that seriously undervalues them. Looking at the NGOs with and without financial system weaknesses separately reveals the importance of systems in a much more dramatic way: across the two sources, the incidence of fraud amongst the NGOs with serious financial system weaknesses, ranged from 36% to 58%. This contrasts with an incidence range of 6% to 13% among the NGOs with proper financial systems. So the chances of an NGO becoming plagued by fraud **increases at least three fold** with the absence of proper financial systems. So **while it is certainly true that proper systems are no guarantee, weak systems constitute a huge risk.**
4. The story for the (lack of) proper governance is very similar: NGOs plagued by fraud more often than not have serious governance weaknesses: (84%).
5. Looking at the NGOs with and without proper governance: the incidence of fraud amongst the NGOs with serious governance issues is 53%. This contrasts with an incidence 9% among the NGOs with proper governance. So the chances of an NGO becoming the plagued by fraud **increase six fold** with the absence of proper governance. Again, **proper governance is no guarantee but its absence constitutes a serious risk.**

The two factors co-occurred in 12 out of the 19 fraud cases the three grantmaking data sources reported on (not visible in the table above).

⁸⁴ For the more technically interested: I'm taking a Bayesian perspective here.

The additional detail also starts making it worthwhile to look at the correlates in more detail, i.e. not only from the perspective of their relationship with fraud. The table below includes all co-occurrences of different kinds of problems allowing for some tentative conclusions.

Describing LNGO reality through only partially agreeing grantmaker assessments

However, before doing so, we need to have a look at the decision rules underlying the numbers in tables 1 and 2 above. In the original analysis, the two grantmakers who shared detailed information did not share any partners that had fraud issues. Thus the co-occurrences of fraud and weak financial systems and/or weak governance were all reported by one or the other of the two. However, when looking at the co-occurrence of all problems across *three* grantmakers' assessments, some fraudulent partners are shared and the co-funding grantmakers are not in perfect agreement regarding issues they see those partners struggling with. Partial or full disagreement regarding NGO partners requires decision rules. If assessments differ which one is the analysis going to take into account?

With **two grantmakers** the choices regarding one problem area (either Financial Management or Governance) are limited: they agree or not. Agreement can be about three possible states: serious problems, weaknesses or no problems. Disagreement can also take three forms: disagreement about the NGO having issues, with one grantmaker perceiving a serious problem or a weakness while the other rates the NGO as having no problem, or (agreement about the NGO having issues but) disagreement about the severity of the issues ('serious problem' or 'weakness'). In total this already makes for six possibilities, and the disagreement scenarios require decision rules.

When two assessments differ:

- Do we prioritize the most critical one?
- Do we prioritize the most lenient one?
- Or do we look for a way to take the disagreement into account?

With **three grantmakers** the choices increase substantially because now, apart from all three agreeing on one of three assessment options (three possibilities), disagreement comes in many varieties (seven structurally different forms), and most (six) of these come with a majority and a minority opinion. So we're up to ten possibilities. Adding more grantmakers further increases the number of possibilities: **Four grantmakers** makes for 15 possibilities (3 full agreement options, and 12 forms of disagreement, some of which are majority/minority, some are 'draws', with equal numbers seeing issues and not seeing issues), but fortunately the basic decision rule choices remain the same. Prioritizing either the most critical or the most lenient assessment, or take the disagreement into account.

Prioritizing the most critical or the most lenient assessment are simple rules and can be applied unambiguously to any set of disagreeing grantmaker assessments of an NGO.

What is essential when applying either rule is to be clear about the core assumption made. The below exercise, applying different decision rules, does not show it because of the very small number of disagreements about co-funded NGOs, but applying the 'most critical assessment trumps' rule may result in a substantially different depiction of Cambodian LNGO reality from applying the 'most lenient assessment trumps' rule.

That difference is crucially influenced by the assumptions made when choosing either the most critical or the most lenient assessment. So **what are the underlying assumptions:**

Box 1

Most critical assessment core assumption: grantmakers are bound to underreport problems with their partners. It is in their interest to show positive results, and not be seen to have problems with NGOs that they fund. It is unlikely that any grantmaker will perceive problems with the financial management and/or governance (let alone fraud) of a partner NGO when all is perfectly in order. The seriousness of the problem perception may be disputed but that the issues are in need of improvement is very likely. Thus, when more grantmakers fund the same NGO and any of them perceives a problem issue while the others don't, or one/some perceives more serious problems, that assessment is likely to be the best description of what is actually happening.

Most lenient assessment core assumption: given the uncertainties regarding grantmakers' interpretation of both the issues and their severity, it is important to establish an uncontentious this-is-minimally-the-case description of Cambodian LINGO reality. However, to the extent that the above described underreporting assumption is realistic the trade-off this choice comes with is serious underreporting.

Taking disagreement into account can be done in various ways.

Two methods try to *preserve all information contained in the data*, but do so in different ways:

- One can assign 'weights' to assessments and calculate a summary 'score' for the NGO
- One can take assessment differences into account by taking the assessments themselves as one's unit of analysis, and base one's conclusions on the total 'universe' of assessments (rather than NGOs)

Assigning weights would be a denial of the ordinal character of our 'severity scale'. The method in which disagreements are taken account without arbitrarily assigning weights, by taking them as the unit of analysis and describing profiles of differences in terms of how often they appear within the 'universe' of all assessments made, is therefore preferable. It does not discard any information and does so without making untenable assumptions.

One method *accepts the loss of some information* but tries to mitigate for the oversimplification of applying the most critical/most lenient rules for NGOs that are co-funded by more than two grantmakers in the sample:

- One can specify additional rules for how to deal with majority/minority assessment profiles and with draw profiles to arrive at summary NGO assessments

Without applying such nested rules, one ignores the potential weight of more than one grantmaker seeing the same reality. A possible way to take this into account is to *first* apply a rule that recognizes the information contained in the agreement between grantmakers, *then only*, if needed, apply the basic rule within the subgroups of grantmakers (to decide upon which 'severity' assessment should be applied).

For the **majority/minority assessment profiles**, only one decision rule makes sense: the majority is correct (which may be either the assessment about if an NGO has issues, or the assessment *how serious* the issues of an NGO are). If within the majority, 'severity' assessments differ, one can apply the basic rule one has decided to apply for 'simple' cases.

In cases of a **draw**, my choice is to prioritize the most critical half of the assessments (be it the perception of issues, or be it the most serious assessments). In case the severity of the issue assessment differs within the prioritized half, again, one can apply the basic rule one has decided to apply for 'simple' cases.

Box 2

The **assumption underlying this choice for dealing with 'draws'** refers to the two basic above assumptions underlying the most critical and most lenient decision rules (see box above). If more than one grantmaker perceives an issue with a partner NGO or agrees on a more critical severity assessment of the issue one can take that on board - and thus mitigate underreporting - without undermining the legitimacy of the claim that the overall picture of Cambodian LINGO reality arising from this dataset is an uncontentionally *minimal* depiction of problems.

Each method offers its own perspective, highlighting different aspects of the NGO plus grantmaker reality. Although using the blind men and the elephant story for these differences would be overdoing it I am a strong believer in looking through as many different lenses as possible at data. Partially because different perspectives reveal different aspects, but also, and even more so, because each perspective not only reveals but also hides, comes with its own particular bias. Thus, the decision to report the results of all of these decision rules applied to the data.

Obviously, the differences between these perspectives are minimal when reporting on the very small sample of the 2014 survey. So their differences are 'academic'. However, the second (2015) wave of this survey has a much larger number of overlapping NGO assessments and these different ways of looking at the data do result in somewhat different conclusions, are tools that reveal somewhat different aspects, and compensate for each others' biases.

Table three gives the results for all perspectives described above:

- Critical NGO assessments: when an NGO is co-funded by *more than one grantmaker* the most critical assessment, irrespective of the number of different assessments, is taken as the one best describing the NGO's situation
- Majority/Draw critical assessment: when an NGO is co-funded by *two grantmakers* the most critical assessment is taken as the one best describing the NGO's situation. When co-funded by *more than two grantmakers*:
 - When there is a majority opinion, whatever it is, that is taken as the best descriptor; within a majority opinion the most critical assessment of the issues is chosen as the best descriptor of the NGO's situation
 - When there is a draw, the assessment of *the most critical* grantmakers is taken as best descriptor. When assessments differ in severity within the most critical category, the most critical version is taken as the best descriptor.
- Majority/Draw lenient assessment: when an NGO is co-funded by *two grantmakers* the most lenient assessment is taken as the one best describing the NGO's situation. When co-funded by *more than two grantmakers*:
 - When there is a majority opinion, whatever it is, that is taken as the best descriptor; within a majority opinion the most lenient assessment of the issues is chosen as the best descriptor of the NGO's situation
 - When there is a draw, the assessment of *the most lenient* grantmakers is taken as best descriptor. Within the group of most lenient assessments, when grantmakers disagree about the severity, the most lenient assessment is taken as the best descriptor.
- Lenient NGO assessment: when an NGO is co-funded by more than one grantmaker the most lenient assessment, *of however many there may be*, is taken as the one best describing the NGO's situation.
- Assessments as units of analysis: each grantmakers assessment is counted individually and the resulting co-variation patterns are reported in terms of their share of the total number of grantmaker assessments

Table 3: Different perspectives on the co-variation of grantmaker assessments ⁸⁵

Issues	Critical NGO Assessment		Majority/Draw Critical Assessment		Majority/Draw Lenient Assessment		Lenient NGO Assessment		Assessments as unit of analysis	
Fraud	1	1.5%	1	1.5%	1	1.5%	1	1.5%	1	1.4%
Fraud + System	2	3.1%	2	3.1%	2	3.1%	2	3.1%	2	2.7%
Fraud + Governance	4	6.2%	4	6.2%	4	6.2%	4	6.2%	4	5.5%
Fraud + System + Gov	12	18.5%	12	18.5%	12	18.5%	12	18.5%	12	16.4%
Subtotal	19	29.2%	19	29.2%	19	29.2%	19	29.2%	19	26.0%
System	6	9.2%	6	9.2%	6	9.2%	6	9.2%	6	8.2%
System + Fraud	2	3.1%	2	3.1%	2	3.1%	2	3.1%	2	2.7%
System + Governance	4	6.2%	4	6.2%	4	6.2%	2	3.1%	4	5.5%
System + Fraud + Gov	12	18.5%	12	18.5%	12	18.5%	12	18.5%	12	16.4%
Subtotal	24	36.9%	24	36.9%	24	36.9%	22	33.8%	24	32.9%
Governance	9	13.8%	8	12.3%	9	13.8%	9	13.8%	10	13.7%
Governance + Fraud	4	6.2%	4	6.2%	4	6.2%	4	6.2%	4	5.5%
Governance + System	4	6.2%	4	6.2%	4	6.2%	2	3.1%	4	5.5%
Gov + Fraud + System	12	18.5%	12	18.5%	12	18.5%	12	18.5%	12	16.4%
Subtotal	29	44.6%	28	44.6%	27	44.6%	27	41.5%	30	41.1%
No Issues	27	41.5%	28	43.1%	29	44.6%	29	44.6%	34	46.6%
Total	65	100%							73	100%

Given that for our very small sample of grantmakers and their shared partners the three perspectives are so similar, it makes no sense to elaborate on them. So we'll continue only with the critical NGO assessment the results of which are visualized in Figure 1 only.

⁸⁵ This table shows that **Tables 1 and 2 above did not apply the most lenient NGO assessment decision rule**

Figure 1: The Critical NGO Assessment perspective

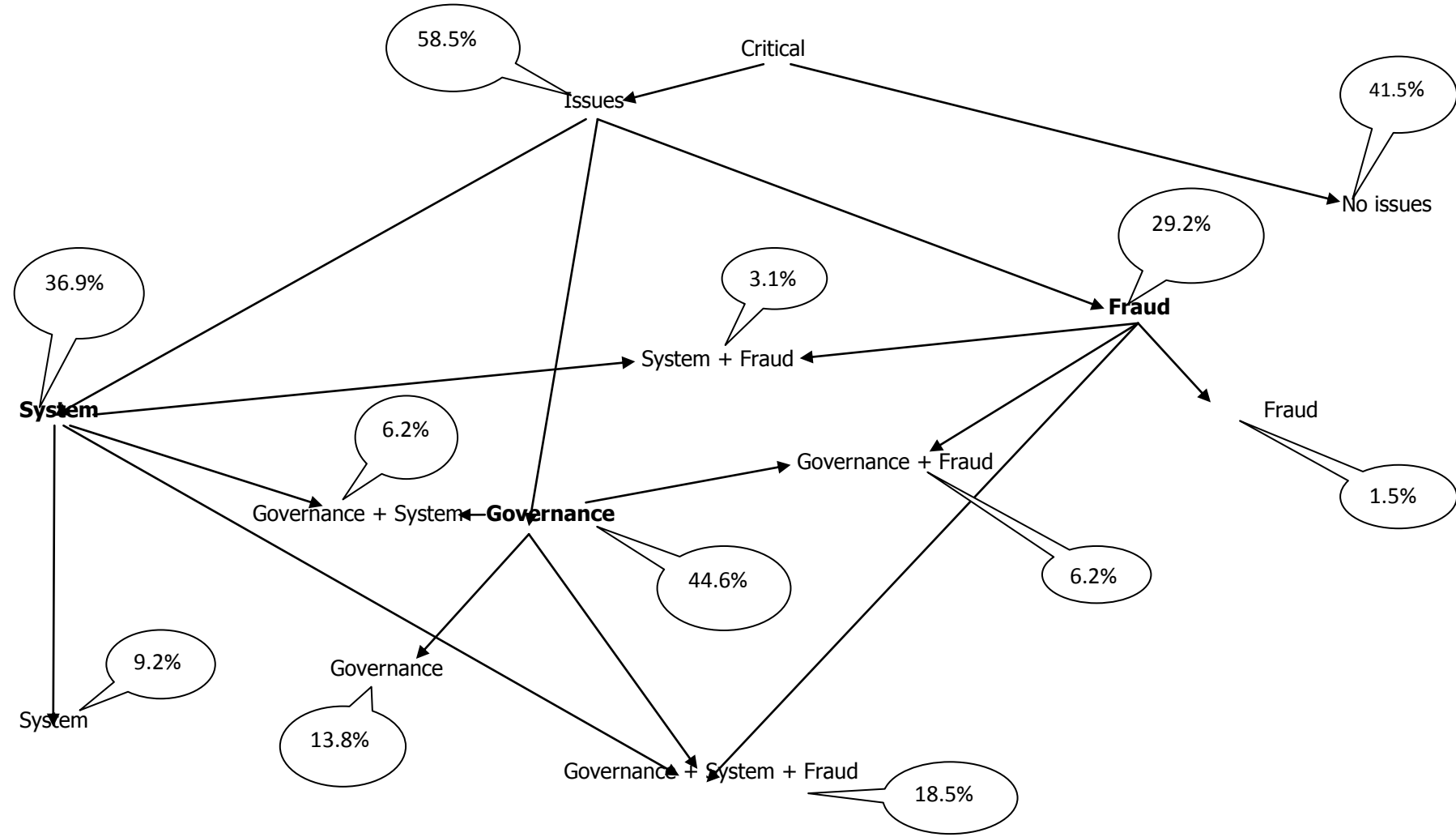


Figure 1 visualizes that:

- The majority of the NGOs funded by the three grantmakers have issues (58.5%)
- Overall, mostly regarding Governance (44.6%), then with their Financial Management/System (36.9%) and then with Fraud (29.2%)
- When they only have one issue, the rank-order is the same: Governance (13.8%), System (9.2%) and Fraud (1.5%)
- And when NGOs struggle with more than one issue, by far the most common is that they are plagued by all (Governance + System + Fraud, 18.5%), followed by Governance problems combined with either Fraud or System issues (6.2%), followed by System and Fraud without Governance issues (3.1%)
- If an NGO has any issue, it has a 50% chance of having fraud, and in near all of those cases the NGO has other problems too.

Differences between grantmakers in assessing the same partner

The additional detail also makes it interesting to start looking at the extent to which grantmakers that share a partner differ in their assessment of them. The data start telling us something about the grantmakers as well as about their partners. Table 4 below depicts assessment differences (all levels of severity). The table includes a tentative comparative indicator of how each grantmaker assesses its partners. The range of the indicator for this particular sample of grantmakers and their shared assessments lies in between +1 to -1. Values closer to +1 signify that the particular grantmaker assessed more shared partners more critical than any other co-funder of that same partner, and values closer to -1 signifying he assessed more shared partner more lenient than any other co-funder⁸⁶.

Table 4: Grantmaker differences in assessing partner NGOs

			Grantmaker1	Grantmaker 2	Grantmaker 3
Total partners	65		24	29	20
Partners shared by 2 grantmakers	6	9.2%	3	5	4
Partners shared by 3 grantmakers	1	1.5%	1	1	1
Possible assessments	54		15	21	18
Assessments in agreement	5	77.8%	10	18	14
Assessment in disagreement	4	22.2%	5	3	4
More critical when in disagreement			4	0	2
More critical weights			2	0	2
More lenient when in disagreement			1	3	2
More lenient weights			1	2	1
Comparative indicator			+0.74	-0.93	0.19

Obviously the indicator has only meaning within the (very small) universe of grantmakers that are being compared. But to the extent that the number of grantmakers is going to increase during the next waves of this survey, it is going to become more indicative of any particular grantmaker's 'strictness' in assessing its partners.

⁸⁶ The formula used: [(all assessments of shared partners in which the grantmaker is more critical than another grantmaker + weights) – (all assessment in which she is more lenient + weights)]/the total of shared assessments; Weights: being much more critical/lenient (the difference between seeing no issues and serious issues) is taken into account by adding one to the balance of critical/lenient

Annex 4: Suggested methodological improvements for the next wave of the grantmaker survey

Grantmaker Questionnaire

(1) Adding background variables

I would suggest as a minimum:

- Financial turnover/Budget
- Phnom Penh based/Province based/Phnom Penh headquarters with provincial offices
- Externally audited/audited by one of its funders/not independently audited

If more deemed feasible:

- Years in existence
- Sector

Ideally also:

- Number of staffs

Advantages:

- Representativeness of the NGO sample can be checked against the periodic CCC census of Cambodian NGOs and its membership database
- A crucial aspect for establishing the similarity of the grantmaker LNGO sample and the audit firm LNGO sample
- variations of problem patterns across backgrounders can be explored

Disadvantages

- Even adding the minimum two backgrounders means that grantmaker staff will need to consult their files on the NGO partner to provide answers. The survey is going to be perceived as needing more time.

(2) Dealing with recall issues

The survey probes experiences with NGO partners *over the last two years*. Recall Issues are a core topic of interest amongst survey methodologists. Requiring a respondent to go back go back two years is a long stretch. The natural tendency is to start from the present and this means that events within the period they are requested to consider, tend to be forgotten more to the extent that they are further back in time. An appropriate strategy when researchers are "...most concerned about completeness and accuracy and more worried about underreporting answers than in overreporting"⁸⁷ as is the case for the grantmaker survey (which underreports by definition⁸⁸) is aided recall: "... a question-asking strategy in which survey respondents are provided with a number of cues to facilitate their memory of particular responses that are of relevance to the purpose of the study".

The suggested way of doing it in a next wave of the grantmaker survey is:

- Ask grantmaker respondents to first list all NGO partners of the organization two years ago
- Then, ask all questions for those partners.
- Then ask respondents to list all current partners, and answer all questions for those NGOs not yet on the previous list

⁸⁷ <https://srmo.sagepub.com/view/encyclopedia-of-survey-research-methods/n10.xml> (accessed 23-10-2015)

⁸⁸ Grantmakers are only aware of part of the actually occurring problems

- Ensure that each question is explicit about the problem/weakness/fraud having occurred *at any time during the last two years*. The 2015 instrument catchwords in the second page matrix - which did not remind the respondent that a tick was required even when a problem/weakness had occurred in the past but had been solved by now.

Advantages:

- Increased confidence that a partner who was discontinued close to the beginning of the two year recall period is not forgotten (discontinued partners can be expected to have a more than average problems, thus this is going to mitigate underreporting).
- Increased confidence that problems that have occurred during the recall period by solved are still reported (again: mitigation of underreporting)

Disadvantages:

- More complicated survey instrument, probably a felt need for grantmaker respondents to have a quick check with their files (which is a psychological hurdle to participation)

(3) Conceptual clarification

Of the three core concepts, *financial management issues* and *governance weaknesses* are difficult to further clarify. Differences between grantmakers in terms of their assessment of *how serious* particular issues are trump differences in their understanding of what is at stake.

However, *fraud*, was defined in both the pilot and the 2015 second wave in a way that may have resulted in unnecessary underreporting.

Although the explanation mentions the two major types of fraud prevalent in Cambodian organizations: financial mismanagement and nepotism in hiring and/or procurement, grantmakers differ in how they tend to assess and/or label it.

On top of that, the explanation of fraud requests to report both, proven fraud and suspicions serious enough to have led to investigation. Some grantmakers are unwilling to report that a fraud investigation is ongoing. This is related to the confidentiality issue discussed under the paragraph of **Participating Grantmakers and Audit Firms**, and cannot be solved by better/alternative questionnaire design. However, there are others that *would* report an ongoing investigation but have forgotten the fraud 'definition' as per the explanation page of the instrument by the time they come to tick the cells, and the catchword fraud in the matrix only elicits proven fraud.

Suggested improvements:

- Separate questions for financial misappropriation, nepotism in hiring and nepotism in procurement
- Separate questions for proven fraud and fraud under investigation
- Resulting in four (only one nepotism question) or six (two for nepotism) questions instead of one

Advantages:

- The increased confidence in the mitigation of underreporting as described above for aided recall
- Better understanding of kinds of fraud

Disadvantages:

Additional questions making the instrument look more time consuming; however, given the relative infrequency of fraud, in combination with the attention it gets within a grantmaker when it has to be dealt with implies that grantmaker respondents would normally be able to answer from memory rather

than having to consult files. In other words, the additional time required by these questions would be very limited.

(4) Additional detail

Researchers are never satisfied with the data they get, more is always better. However, that sentiment doesn't necessarily result in increased actionable understanding. So one needs to consider very carefully which, if any, information need merits additional questionnaire time.

Possible suggestions for next waves:

- An indication of the 'scale' of financial misappropriation in either absolute amounts or amounts defined in terms of a proportion of the NGO's yearly budget: closed question
- When a serious problem/weakness cell is ticked: open question probing the most important aspect of the issue

Advantages:

- Much more information that can feed into the interpretation of the described reality and the understanding of relationships between problems.
- Much more information that can feed into the interpretation of assessment differences between grantmakers, and their follow-up
- Directing the respondents' attention to a more detailed level of thinking about issues is, again, a version of aiding recall and can thus be expected to have positive effects of full reporting.

Disadvantages:

Additional questions make the instrument look more time consuming. Questions regarding problems/weaknesses regarding financial management and/or governance may sometimes/regularly require a quick check with the files.

(5) Only partner level data, not aggregated

As annex 7 shows, aggregated data do not add much value once enough detailed data providers participate in the survey. One can also argue that now the argument about detailed versus aggregated data has been 'won' – as indicated by the substantially improved willingness of participating grantmakers to share partner level data – offering the option of aggregated data-sharing option makes life too easy for grantmakers who want to look cooperative but are not willing to share at a really useful level. It makes it easier than necessary.

Suggested improvement: the survey instrument only offers one, partner level answering option

Advantages:

- Data analysis is simplified
- (If the next improvement is also applied) it is going to be more difficult to stick to (what I would argue is) an untenable position regarding confidentiality.

Disadvantages:

Risk that participation rate may be negatively affected.

(6) Disclosure of which grantmakers (do not) participate in the survey

Both the 2014 pilot and the 2015 first wave of the survey guaranteed grantmakers who were contacted that their decision about if and how (share detailed data, share aggregated data, or not share any data) to participate would not be disclosed. The core reason for this approach was the priority given to increasing and deepening the level of grantmaker participation. In itself this was successful but participation is still quite far removed from delivering a statistically representative sample of LNGOs. However, one may argue that the 2015 participation rate constitutes sufficient critical mass to legitimate the rationale for the survey and the importance of partner level sharing. I would assume that the trend toward increased willingness to participate and share (what used to be seen as 'confidential') evidenced in 2015 will continue over time. And that this (growing) critical mass is going to work as peer pressure on (as yet) non-participating grantmakers.

Suggested improvement: the next wave reporting is going to disclose which grantmakers participate, and do not participate in the survey

Advantages:

Transparency and potential for peer pressure.

Disadvantages:

Risk that participation rate may be negatively affected.

Overall

Given that some of the above makes for a more complicated, time consuming instrument, it is highly recommended to pilot a new questionnaire for a next wave with three or four willing grantmakers, and use their feedback⁸⁹ to decide what additions are feasible and make for actionably improved understanding, and what additions are counterproductive in risking increased non-response.

Audit firm Questionnaire

The phrasing of the questions turned out to be not totally clear to all participating firms, resulting in some need for additional (e-mail) clarifications after receiving some the responses. This problem can be prevented by rephrasing some of the questions to make their meaning unambiguously clear.

Although theoretically audit firm are stakeholders that (also) profit from what this survey brings to light, given their business model, their participation is even more dependent upon the survey not taking much time to complete.

Only one addition is therefore proposed for the 2016 edition: some detail on the cases of fraud.

⁸⁹ Feedback on how much time different questions add, what additional file checking is required for which question, etc.

Annex 5: Representativeness

Why is it important to think about the representativeness of a sample? And what would be required for a grantmaker survey to claim representativeness?

Knowing how representative a sample is of the population that it is drawn from allows us to quantify the confidence we can have that whatever we find to be the case in our sample is meaningfully close to what is true for the total population that this sample is drawn from.

Regarding what is required various answers are possible, depending on what one considers the most important purpose of the survey.

A representative sample of Cambodian NGOs

When focusing on the survey's objective to provide evidence-based information on financial management and related issues faced by Cambodian NGOs, the relevant organizational universe to take into account is the Cambodian LINGO sector.

Do we already have representative factual knowledge of the sector? I am aware of only two efforts:

(1) the CCC censuses with their associated surveys of registered CSOs in Cambodia: two waves, 2011 and an improved version in 2012; and the associated CCC NGO database⁹⁰.

(2) Sua ´ rez and Marshall's⁹¹ 2010 survey

Both have limitations. Before describing these, I'll summarize some basics about sampling and its role in producing meaningful indicators about the total 'population'.

Sampling

As long as one remains aware of the pitfalls of simplified statistics, the technical jargon surrounding sample-based statements about the population of interest is not difficult to understand. Statements all read something like this:

We're 95% confident that the average of our indicator of interest within the total population of interest is within a (confidence) interval of plus-or-minus X% (the margin of error) of the average of the particular sample taken from the total population for this particular study.

By way of an example: if we want to know what the average annual budget of Cambodian NGOs is, and we cannot ask all NGOs (if we could do that, our study wouldn't be called a **survey** anymore but a **census**, and we could calculate the actual average and be 100% sure it would be spot on⁹²), but can only collect information about the budget of 100 randomly chosen NGOs, we'll find an average budget of those 100 that is e.g. US\$ 300.000. Statistical theory would then allow us to calculate the range within which the actual average annual budget lies, with a high probability. The calculation would for example determine that the real average lies within the range of US\$ 265.000 and US\$ 345.000. And the meaning of high probability would be that if we would repeat our study 20 times, each time starting with a random sample of 100 NGOs from the total population of NGOs, in 19 out of those 20 studies (in 95% of the 20 samples), the sample average would be within that range (aka **confidence interval**).

⁹⁰ CCC (March 2012), CCC (May 2013), http://ngodb.ccc-cambodia.org/Visitor/Summary_Repors.aspx (accessed 27 October 2015)

⁹¹ Sua ´ rez, D. & Marshall, J. (2012)

⁹² Perfection is impossible in practice (there are other important sources of error other than sampling error) so also censuses do not reveal reality perfectly, but they surely get closer than surveys.

Amongst the **pitfalls** easily overlooked are the following:

- The variability of the population under investigation is a core determinant of the outcome of these calculations. *Diverse* populations require larger samples to reach meaningful levels of confidence and error margins. Both the population of LNGOs and the population of grantmakers are quite diverse (big differences in annual budgets, etc. etc.). That makes getting good population estimates more difficult.
- When the sample is larger than 5% of the total population the formula needs adjustment by a correction factor that *reduces* the margin of error. That is certainly the case for any survey of NGOs let alone for a survey of grantmakers. This makes getting good population estimates easier.
- The above, aka '**standard error**', is what statistics can deal with, but it only covers part of the sources of the so-called **total error**/bias - jargon for all that decreases the confidence we can have that our sample tells us something meaningful about our population. Two major sources of bias in that category are:
 - Not having a proper sampling frame.
 - Non-response.

The unfortunate reality is that because we have formulas to deal with the former while the latter sources of bias are more difficult to quantify, the latter are often ignored. A good illustration of what foolishness such tendencies can result in is the use of online surveys (which tend to have very low response rates) for anything other than probing the opinions of netizens defined by their willingness to participate in online surveys. To make the results of such exercises look statistically sound, the implementer will try to reach the sample size required to make statements with reasonable margins of error at acceptable levels of confidence. How? Calculate the required sample size, e.g. 400 respondents, multiply with the inverse of the expected response rate, e.g. 5 for an expected response rate of 20%, and send out 2000 requests to participate in the online survey. All without a thought about the differences between the 20% who are probably going to respond and the 80% who don't.

Another related pitfall is that the confidence levels and intervals are only valid for statements regarding the whole sample. But normally we are as much or even more interested in (differences) between various sub-groups within the sample (men versus women, NGOs plagued by fraud versus those that are not, etc etc.). However for these one needs to take the size of the particular sub-groups/samples as one's base for the formulas. One major reason why one wants reasonably small confidence intervals for the whole sample (i.c. 1% to 5%) is that larger intervals for the whole sample imply *very large to meaningless intervals* for sub-groups.

With the above in mind: **a summary of what we know (and don't know) on the basis of this existing evidence:**

Taking all available sources into account the CCC 2012 census manages to locate and contact 670 active LNGOs, 576 of which were funded in 2012⁹³. It also reports that 255 LNGOs could not be contacted ("This was primarily due to insufficient contact information available at the time of the census"⁹⁴). This gives a maximum of 'formally' active LNGOs of 925. But a more realistic estimate would take those receiving funding as its baseline and assume that maybe a maximum of 30% of those that could not be traced are existing and active, resulting in a total number of 661 LNGO.

⁹³ I only report the LNGO findings, not the data on INGOs and Associations. The census uses many descriptive categories and the relationships between reported numbers in different tables/statements are not always clear. But ambiguities are not substantial enough to potentially distort the reality emerging from the data. But see my remarks on sampling, which is a much bigger issue

⁹⁴ CCC (May 2013), p.21

The CCC NGO database currently lists 827 LNGOs. However, CCC staff confirms that the 2012 survey is more up to date than its database.

We therefore take 661 **our best guesstimate for the number of active LNGOs in Cambodia.**

With this assumedly realistic guesstimate of the population size in hand we can assess the sample sizes used in the NGO surveys. Do they allow for strong statements about the total population of Cambodian NGOs?

Assuming a random sample and using the formula for proportions⁹⁵ with a correction factor **one needs a sample of 250** to get at the most used values for the error margin (2.5 %, making for a confidence interval with a 5% range) and a 95% level of confidence that the population value is within this range.

The sample size for the 2010 Sua'rez & Marshall survey was 112 LNGOs, the sample size of the CCC 2012 survey was 142 LNGOs⁹⁶. This makes for confidence intervals of 7.4% and 8.6%. Not ideal but for statements about the whole sample still quite meaningful.

So much for the standard error perspective on these efforts to create representative snapshots of the local Cambodian NGO sector. What about other sources of error?

Both have issues with the sampling frame as we do not have a consolidated list of all NGOs to sample from. The 255 LNGOs in their sampling frame that CCC couldn't locate in 2012 is substantial compared to the 670 that they ultimately sampled from. The comparable numbers for Sua'rez et al. are 50 not located against 180 sampled.

And both have issues with non-response issue, with Sua'rez et al. reporting 25% non-response across LNGO and INGO samples and CCC reporting a minimum of 11.5 % across but way more for particular question like the one on annual budget.

Conclusion: the total errors for both studies are substantial. But I would still consider the results meaningful, at least for characteristics of the whole population of LNGOs.

The following interesting LNGO population estimates merit mention here:

- The 2012 CCC census reports that nearly 50% of the LNGOs are Phnom Penh based
- The 2012 CCC survey reports a mean of 17.4 full-time and part-time members of staff for their sample of LNGOs
- The 2012 CCC survey reports a median annual budget of US\$ 50.000 and an average annual budget of US\$ 289.000. This suggests a skewed distribution of annual turn-over with a relatively large number of NGOs having a small budget and a relatively small number having (very) large budgets
- The Sua'rez et al. survey confirms this picture: with 43.6% of their sample having annual budgets below 50.000, another 20.6 budgets between 50k and 100k, the next 25% budgets between 100k and 250k, and the largest LNGOs with budgets bigger than US\$ 500.000 constituting 10.8% of the sample. The median annual budget of their sample fell in the 25k-50k category, the average was US\$ 246.000

⁹⁵ Different descriptive statistics each have their own formula calculating the often unknown variability of the sampling distribution. The formula for proportions (the percentage of a the sample having a particular trait of interest) is the easiest to use when variability is unknown.

⁹⁶ For particular questions the non-response rate was however substantial, e.g. the questions about annual budget were only answered by 107 LNGOs, making for a confidence interval similar to that of the Sua'rez & Marshall study.

- In addition to this the Sua'rez et al survey provides some insights into the how long NGOs have been in existence, giving the following percentages for their LNGO sample: 14% for those up to 5 years of age, 26% for those between 5 and 10 years and 60% for those between 10 and 20 years.
- These backgrounders, taking the required margins of error into account are useful descriptors of the Cambodian LNGO sector.

A representative sample of Grantmakers funding Cambodian NGOs

When focusing on the survey's objective to provide evidence-based information on due diligence by grantmakers funding Cambodian NGOs, the relevant organizational universe to take into account is that of grantmakers active on the Cambodian 'market'.

The only resources giving a clue about numbers are the Directories published by CCC⁹⁷. The most recent one (2013) is woefully incomplete: 19 grantmakers in our sample are not listed in this directory. The older seems more comprehensive but is a nearly a decade old. Based on these lists a guesstimate of the **total population of grantmakers active in the Cambodian LNGO sector is 75.**

This guesstimate implies a **sample-size of 49 grantmakers** to enable 95% confidence level statements about population-wide proportions within a confidence interval of 5%.

When one would define the relevant universe of grantmakers more narrowly and leave out bilateral and multilateral donors as well as embassies (none of which were approached to participate) a total population guesstimate of **50 grantmakers** is more realistic.

That guesstimate would imply a **sample-size of 44 grantmakers** as sufficient for 95% confidence level statements about population-wide proportions within a confidence interval of 5%.

Representativeness of the 2015 grantmaker survey

It is obvious that the 2015 survey is still far removed from claiming representativeness as a basis for either, statements about the Cambodian LNGO sector, or about the grantmakers funding that sector.

Cambodian NGOs

Unlike the above described surveys, the grantmaker survey does not claim to collect information on a *random sample* of Cambodian NGOs. Its sample of NGOs is the result of what the participating grantmakers happen to fund.

We do not have backgrounders that would allow for a comparison of the 'profile' of the sample with the profile of those of the 2012 census and two surveys and the CCC NGO database.

On the other hand: our LNGO sample doesn't have non-response issues.

And the survey has audit firm data to triangulate part of its findings. We have no information on the representativeness of the combined client base of the three firms who shared aggregated data. And because of that we do not even know how accurate our guesstimate for the total number of LNGOs covered by that combined client base is. Thus, from a strictly technical point of view, (in)comparable levels of incidence and patterns of co-occurrence of Financial Management problems of LNGO partners/clients, can therefore not be ascribed to either differences in the representativeness of their samples *in any kind of statistically quantifiable form*. Nor, for that matter, to differences in knowledge about the partners/clients, differences in what grantmakers and external auditors regard as acceptable, or differences in willingness to share 'negative' information about partners/clients. *However*, this survey wouldn't include a triangulation effort if I were not persuaded by its basic rationale: "Once a proposition has been confirmed by two or more independent measurement processes, the uncertainty of its

⁹⁷ CCC (November 2005) and CCC (2013)

interpretation is greatly reduced. The most persuasive evidence comes through a triangulation of measurement processes⁹⁸. This is also the principle that underlies the rule of thumb of journalism, especially the investigative version, to always have more than one source for crucial bits of factual information.

Overall, my assumption is that the triangulation more than makes up for the non-randomness of the sampling procedure.

Grantmakers

The objective of statistically defensible representativeness is less crucial here than what I, for want of a better term, label **critical mass**. The participating grantmakers are the primary audience of the findings and as long as a sufficient number of especially prominent grantmakers participate the findings about their differences should suffice to motivate individual and especially collective action for change. What constitutes critical mass expectedly will be influenced by the sample-size, but in a commonsensical rather than technical way. As long as the sample-size 'looks' decent, it will be accepted as representing the peer group. What is decent is expectedly also going to be influenced by the number of LNGOs (co)funded by the collective of participating grantmakers.

The assumption this survey makes is that the collective of participating grantmakers is going to be perceived as having more critical mass to the extent that the LNGO sample gets closer to the size that is statistically required to be called representative⁹⁹.

Representativeness of the sample of LNGOs covered by participating audit firms

The estimated number of LNGOs covered by the participating audit firms is 129 to 146¹⁰⁰. One can argue that the 'universe' of LNGOs potentially covered by external audits is considerably smaller than the estimated number of active LNGOs in Cambodia. Available info¹⁰¹ points to a maximum of 60% of LNGOs being independently audited (either by an external auditor, or by a grantmaker). That would mean a universe of only 400 LNGO, rather than 660. Our sample thus covers a third of the total universe and can be expected to be closer to the standard for statistical representativeness than the sample of LNGOs covered by the participating grantmakers. However, the subset of LNGOs covered by the audit firms differs from the universe of *all* active LNGOs in ways that we can speculate about but have no real handle on.

Having said that, the financial management of members of the subset, *on average*, is more strictly scrutinized than that of members of the whole universe of active Cambodian LNGOs. To the extent that external checks have *any* positive effect, their financial management should thus be (marginally) better, and their incidence of fraud lesser. This strengthens the usefulness of the audit firm data for triangulation purposes because they can be interpreted as underreporting the incidence of problems in the total universe of active LNGOs.

⁹⁸ Webb et al. in Bryman (undated) Triangulation:

<http://www.referenceworld.com/sage/socialscience/triangulation.pdf> (accessed 27 October 2015)

⁹⁹ Even if that statement would need to be qualified by caveats about e.g. the non-random character of the sample

¹⁰⁰ 129 when one assumes an overlap of 25% in client portfolios (most probably too high) and 146 if one assumes an overlap of 15% (most probably too low); audit firms themselves guessed 20% overlap.

¹⁰¹ Summarized in Due Diligence WP 1, Annex 3

Annex 6: Comparison of different decision rules for assessing LNGO issues

As described in the update on the 2014 survey results (**Annex 3**) with more grantmakers sharing detailed assessment information about their LNGO partners, the overlap of their LNGO portfolio, i.e. the LNGOs that they share with one or more other grantmakers participating in the survey, makes for a need to explicate the decision rules one applies when the grantmaker assessments of a shared partner differ. Whose partner assessment is going to be used to describe the situation of that LNGO? The most critical one? The most lenient one? Some kind of aggregated judgement?

This annex reports the results of applying all possible decision rules outlined in Annex 3

1. Those based on taking **the LNGOs funded by more than one grantmaker in the sample as the unit of analysis:**
 - **Critical NGO assessments:** when an NGO is co-funded by *more than one grantmaker* the most critical assessment, irrespective of the number of different assessments, is taken as the one best describing the NGO's situation
 - **Majority/Draw critical assessment:** when an NGO is co-funded by *two grantmakers* the most critical assessment is taken as the one best describing the NGO's situation. When co-funded by *more than two grantmakers*:
 - When there is a majority opinion, whatever it is, that is taken as the best descriptor; within a majority opinion the most critical assessment of the issues is chosen as the best descriptor of the NGO's situation
 - When there is a draw, the assessment of *the most critical* grantmakers is taken as best descriptor. When assessments differ in severity within the most critical category, the most critical version is taken as the best descriptor.
 - **Majority/Draw lenient assessment:** when an NGO is co-funded by *two grantmakers* the most lenient assessment is taken as the one best describing the NGO's situation. When co-funded by *more than two grantmakers*:
 - When there is a majority opinion, whatever it is, that is taken as the best descriptor; within a majority opinion the most lenient assessment of the issues is chosen as the best descriptor of the NGO's situation
 - When there is a draw, the assessment of *the most lenient* grantmakers is taken as best descriptor. Within the group of most lenient assessments, when grantmakers disagree about the severity, the most lenient assessment is taken as the best descriptor.
 - Lenient NGO assessment: when an NGO is co-funded by more than one grantmaker the most lenient assessment, *of however many there may be*, is taken as the one best describing the NGO's situation.
2. The one taking **the assessments themselves as the unit of analysis:**
 - Each grantmakers assessment is counted individually and the resulting co-variation patterns are reported in terms of their share of the total number of grantmaker assessments.

The LNGO realities emerging from these four decision rule perspectives differ in substantial but interpretable ways from each other:

Table 5B: Cambodian LNGO reality based on the information of 12¹⁰² detailed data providers: four perspectives

	LNGOs funded by participating grantmakers as unit of analysis				Grantmaker assessments as unit of analysis
	Critical	Draw-Critical	Draw-Lenient	Lenient	
Total LNGO partners/assessments	93	93	93	93	177
LNGOs without any issues	29%	39.8%	49.5%	58%	45.2%
LNGOs with weaknesses (but no fraud)	47.3%	41.9%	38.7%	31.2%	43.5%
Total LNGOs without serious problems	76.3%	81.7%	88.2%	89.2%	88.7%
LNGOs with Fraud issues	12.9%	9.7%	9.7%	8.6%	9.6%
LNGOs without Fraud	87.1%	90.3%	90.3%	91.4%	90.4%
LNGOs with serious Financial Management issues	15.1%	12.9%	9.7%	8.6%	9.6%
LNGOs with Financial Management weaknesses	39.8%	29%	26.9%	26.9%	28.8%
LNGOs with satisfactory Financial Management	45.2%	58.1%	63.4%	64.5%	61.6%
LNGOs with serious Governance issues	18.3%	12.9%	8.6%	8.6%	10.7%
LNGOs with Governance weaknesses	48.4%	44.1%	37.6%	30.1%	40.7%
LNGOs with satisfactory Governance	33.3%	43%	53.8%	61.3%	48.6%
Proportion of LNGOs with fraud, serious Financial Management and serious Governance issues	8.6%	6.5%	6.5%	6.5%	4.5%
Proportion of fraudulent LNGOs also having serious Financial Management and Governance issues	75%	66.7%	66.7%	75%	47.1%
Proportion of Fraudulent LNGOs having serious Financial Management issues	91.7%	100%	88.9%	87.5%	70.6%
Proportion of Fraudulent LNGOs having Financial Management weaknesses	8.3%	0%	11.1%	12.5%	23.5%
Proportion of Fraudulent LNGOs having satisfactory Financial Management	0%	0%	0%	0%	5.6%
Proportion of LNGOs with serious Financial Management issues having fraud issues	78.6%	75%	88.9%	87.5%	70.6%
Proportion of LNGOs with serious Financial Management issues without fraud issues	21.4%	25%	11.1%	12.5%	29.4%
Proportion of LNGOs with satisfactory Financial Management having fraud issues	0%	0%	0%	0%	1%
Proportion of LNGOs with satisfactory Financial Management without fraud issues	100%	100%	100%	100%	99%

¹⁰² One grantmaker providing detailed partner data turned out to fund only INGOs, thus the results in this table refer to the LNGO partners funded by 12 grantmakers

	LNGOs funded by participating grantmakers as unit of analysis				Grantmaker assessments as unit of analysis
	Critical	Draw-Critical	Draw-Lenient	Lenient	
Proportion of Fraudulent LNGOs having serious Governance issues	75%	66.7%	66.7%	75%	52.9%
Proportion of Fraudulent LNGOs having Governance weaknesses	25%	33.3%	33.3%	25%	47.1%
Proportion of Fraudulent LNGOs having satisfactory Governance	0%	0%	0%	0%	0%
Proportion of LNGOs with serious Governance issues having fraud issues	52.9%	50%	75%	75%	47.4%
Proportion of LNGOs with serious Governance issues without fraud issues	47.1%	50%	25%	25%	52.6%
Proportion of LNGOs with satisfactory Governance having fraud issues	0%	0%	0%	0%	0%
Proportion of LNGOs with satisfactory Governance without fraud issues	100%	100%	100%	100%	100%

The most Critical and most Lenient assessments (LNGOs as unit of analysis) are straight forward and easy to interpret. The 'weighing' alternatives do not seem to add much additional insight. The Draw-Critical and Draw-Lenient figures overwhelmingly fall in predictable ways in between the Critical and Lenient figures. The pattern of the Assessment figures is a bit more complicated, and has some interest as a representation of the raw data. Future waves of the survey will continue to report Critical, Lenient and Assessment perspectives, to be as transparent as possible, but, similar to the choice for this report, will concentrate on **the most Critical perspective as the most meaningful**.

Underreporting of LNGO problems by the most Critical perspective

The 2014 survey (see **Annex 3**) argued that even the most Critical perspective underreports the incidence of problems. As this is a core assumption for the reading of the evidence in this report, it merits closer scrutiny. What are the reasons for this bold assumption? It is based on a smorgasbord of reasons, all pointing in the same direction:

- It would be great if we could assume some generic/universal bottom line for petty/retail corruption. A bottom line only determined by shared human psychology, not amplified by additional institutional and/or cultural/value factors. That would make for an interesting frame for assessing any results regarding this phenomenon in countries that are known for their corruption-conducive context like Cambodia. Unfortunately no credible evidence allowing for quantifying such a bottom line exists. Nevertheless, it seems silly to assume that the bottom line would be 0% so by way of working hypothesis I offer 5% as reasonable for such a bottom line. In the future I hope to be able to make this hypothesis more plausible by presenting supporting evidence¹⁰³.
- To the extent one goes along with such a bottom line assumption of 5% fraud/corruption *in any sector, anywhere*, the most Critical perspective figure of 12.9% incidence of fraud in the Cambodian LNGO sector, given the country's pervasive 'culture of corruption'¹⁰⁴ seems, if anything, very low.

¹⁰³ In other words, this is work in progress that will hopefully find its way into a later Working Paper in this Series. T give an indication of the kind of supportive evidence I am thinking of/looking for:

- A credible estimate of the number of Directors of Dutch Quango's (in Dutch jargon semi-public institutions) who have 'derailed' is 5%.
- A credible estimate of scientists guilty of fabrication, falsification or modifying data or results at least once is 5%

¹⁰⁴ See Annex 5 in Due Diligence WP 1

- Looking at the issue from the other end of the spectrum, (obviously) 100% is the upper limit and would be a wildly unrealistic assumption for the Cambodian LNGO sector. However, at least some informants consulted for this survey claimed very high proportions of LNGOs with 'irregularities' in their Financial Management. As the credibility of these personal experience-based impressions is impossible to assess, it does merit attention that, in general, 'whistleblower-type' insights into sector-wide issues tend to provide substantially higher incidence figures than the 'officially sanctioned/admitted' description¹⁰⁵. From this perspective, the 20% figure that this report argues for as being a credible estimate given the dataset used is anything but high.
- Evidence-based assessments of fraud (and other forms of corruption)¹⁰⁶ by definition underreport the phenomenon¹⁰⁷. As problems can only be assessed if indications of their existence have come to light, which is not always the case, any measurement like ours, even its most critical version, cannot but underreport. The audit firms providing triangulation data were very open about this and even willing to give a ballpark ratio of 1:2 for 'identified fraud': 'existing fraud'
- It is a well-established fact¹⁰⁸ that survey respondents' answering tendency for reporting issues that (may/are feared to) reflect negatively on themselves is to underreport (in this case fraud and other serious problems of a partner LNGO – how does it look to relevant stakeholders like backdonors, etc. when many of a grantmaker's partners are having serious problems...). Research on the extent of this underreporting tendency shows that it can be extensive.
- The survey methodology had additional shortcomings (see **Annex 3**: recall issues and conceptual clarification) that all strengthen the potential for underreporting

Conclusion: The most Critical perspective on KNGO reality should be considered the best approximation this dataset can deliver but still underreports reality

Fortunately the dataset allows for a follow-up possibility that can provide some empirical indication of the underreporting: see **Follow Up** in the main report.

¹⁰⁵ To give but one example, an assessment by a former World Bank staffer (1983-1995 and 1998-2002) about the pervasiveness of corruption in World Bank funded projects states that all of the 100 projects that he has worked on (mainly in Africa) (at least) 'reeked' of corruption (Berkman, s. 2008, p.273)

¹⁰⁶ One can argue that the same is true, although to a somewhat lesser extent, for (other) Financial management and Governance problems.

¹⁰⁷ As opposed to *perception* of that incidence which can (also) overreport

¹⁰⁸ Add references

Annex 7: Comparing aggregated and detailed reporting

With 12 grantmakers sharing detailed partner-level data, it starts making sense to reflect on the methodological need to include aggregate data at all. The 2014 pilot required inclusion of aggregate data because the majority of grantmakers, who shared partner information, were only willing to share aggregated data. 12 grantmakers, providing partner-level information about a total of 93 LNGOs are a sufficiently large dataset to assess the methodological pros and cons of continuing to do so in future waves of this survey.

The table below compares the LNGO reality emerging from the aggregated reporting, which does not take overlap in partner portfolios into account, with the picture provided by an analysis of the partner level reporting.

It is evident that **the aggregated reporting consistently and seriously underreports** the incidence and the co-occurrence of problem issues. **Consistently** as in that the incidence of fraud, serious Financial Management issues, and serious Governance issues, as well as all of their combined occurrences is lower in the aggregated reporting than in the partner level reporting. **Seriously**, as in that it is lower to much lower than the *lenient* version of the partner level reporting, which (see **Annex 6**) is characterized by serious underreporting itself.

Giving participating grantmakers the option to report at aggregated level can be expected to have boosted the participation rate (and thus the total number of LNGOs covered). So offering this answer option made sense, given the aims of this wave of the survey. Table 5B below shows both the aggregated results of *all* data providers and the aggregated results of the *sub-sample* of data providers who shared partner level data. If one compares the results for the sub-sample with those of all data providers it is evident that increasing the sample size of participating grantmakers from 13 to 18 (with a consequent increase of LNGOs covered from 93 to 119) somewhat diminishes the *level* of underreporting but not the phenomenon itself, nor its consistency.

In a way one can interpret the tendency of the data patterns in the larger (all data providers) aggregated sample to converge *more* on the pattern in the partner level sample as a confirmation that the partner level sample provides a realistic (be it still underreported) depiction of Cambodian LNGO reality. But a much better way to strengthen the confidence in the data would be to increase the sample size of grantmakers sharing detailed partner level data.

Or phrased differently, now more¹⁰⁹ grantmakers are willing to share detailed data, grantmakers sharing only at aggregate level do not add much value to the survey anymore. As the next wave of the survey is going to make the participation of grantmakers transparent (reporting on whom of the approached responded – see **Annex 4**) it seems best to only use a detailed reporting format in the next (2016) wave, so as to make the choice to participate unambiguous.

¹⁰⁹ One would like to say 'sufficient' but that is not yet the case.

Table 5C: Cambodian LNGO reality based on the information of 13 detailed data providers: Comparing aggregated and partner level reporting

	2015			
	All data providers: aggregated	Detailed data providers		
		aggregated ¹¹⁰	partner level	
			Critical	Lenient
Total LNGO partners	119	93	93	93
LNGOs without any issues			29%	58%
LNGOs with weaknesses (but no fraud)			47.3%	31.2%
Total LNGOs without serious problems			76.3%	89.2%
LNGOs with Fraud issues				
LNGOs with Fraud issues	8%	7.3%	12.9%	8.6%
LNGOs without Fraud	92%	92.7%	87.1%	91.4%
LNGOs with serious Financial Management issues				
LNGOs with serious Financial Management issues	7.2%	6.2%	15.1%	8.6%
LNGOs with Financial Management weaknesses	92.7%	93.8%	39.8%	26.9%
LNGOs with satisfactory Financial Management			45.2%	64.5%
LNGOs with serious Governance issues				
LNGOs with serious Governance issues	8.3%	7.4%	18.3%	8.6%
LNGOs with Governance weaknesses	91.6%	92.6%	48.4%	30.1%
LNGOs with satisfactory Governance			33.3%	61.3%
% of LNGOs with fraud, serious Fin Man and serious Gov issues				
% of LNGOs with fraud, serious Fin Man and serious Gov issues	5.3%	3.2%	8.6%	6.5%
% of fraudulent LNGOs also having serious Fin Man and Gov issues				
% of fraudulent LNGOs also having serious Fin Man and Gov issues	64.6%	35.2%	75%	75%

¹¹⁰ This analytic lens aggregates across the individual grantmaker reports, not taking the overlap in their partner portfolio's into account. This also means that the co-occurrence of Financial management and Governance **weaknesses** and fraud cannot be established (as the aggregated reporting format doesn't make that visible. And, it doesn't allow for establishing the number of LNGOs without serious problems because it is not possible to see the overlap between LNGOs with serious Financial Management issues and those with serious Governance issues (the aggregated reporting focuses on the co-occurrence with Fraud). Hence this column has some empty cells.

	2015			
	All data providers: aggregated	Detailed data providers		
		aggregated	partner level	
			Critical	Lenient
% of Fraudulent LNGOs having serious Fin Man issues	65.2%	36.1%	91.7%	87.5%
% of Fraudulent LNGOs having Fin Man weaknesses	34.8%	63.9%	8.3%	12.5%
% of Fraudulent LNGOs having satisfactory Fin Man			0%	0%
% of LNGOs with serious Fin Man issues having fraud issues	78.2%	56.4%	78.6%	87.5%
% of LNGOs with serious Fin Man issues without fraud issues	21.8%	43.6%	21.4%	12.5%
% of LNGOs with satisfactory Fin Man having fraud issues	11% ¹¹¹	10.7% ¹¹²	0%	0%
% of LNGOs with satisfactory Fin Man without fraud issues	89%	89.3%	100%	100%
2015				
% of Fraudulent LNGOs having serious Governance issues	73.7%	51.9%	75%	75%
% of Fraudulent LNGOs having Governance weaknesses	26.3%	48.1%	25%	25%
% of Fraudulent LNGOs having satisfactory Governance			0%	0%
% of LNGOs with serious Gov issues having fraud issues	57%	34%	52.9%	75%
% of LNGOs with serious Gov issues without fraud issues	43%	66%	47.1%	25%
% of LNGOs with satisfactory Gov having fraud issues	2.8% ¹¹³	4.1% ¹¹⁴	0%	0%
% of LNGOs with satisfactory Gov without fraud issues	97.2%	95.9%	100%	100%

¹¹¹ Satisfactory Financial Management in this cell and its complement (one cell down) **includes LNGOs with Financial Management weaknesses**; see footnote 2

¹¹² Satisfactory Financial Management in this cell and its complement (one cell down) **includes LNGOs with Financial Management weaknesses**; see footnote 2

¹¹³ Satisfactory Governance in this cell and its complement (one cell down) **includes LNGOs with Governance weaknesses**; see footnote 2

¹¹⁴ Satisfactory Governance in this cell and its complement (one cell down) **includes LNGOs with Governance weaknesses**; see footnote 2

Annex 8: Additional Figures and Tables

Figure 1B: Comparing the distributions of the numbers of grantmakers funding LNGOs of all grantmakers and the subsample of partner level data providing grantmakers

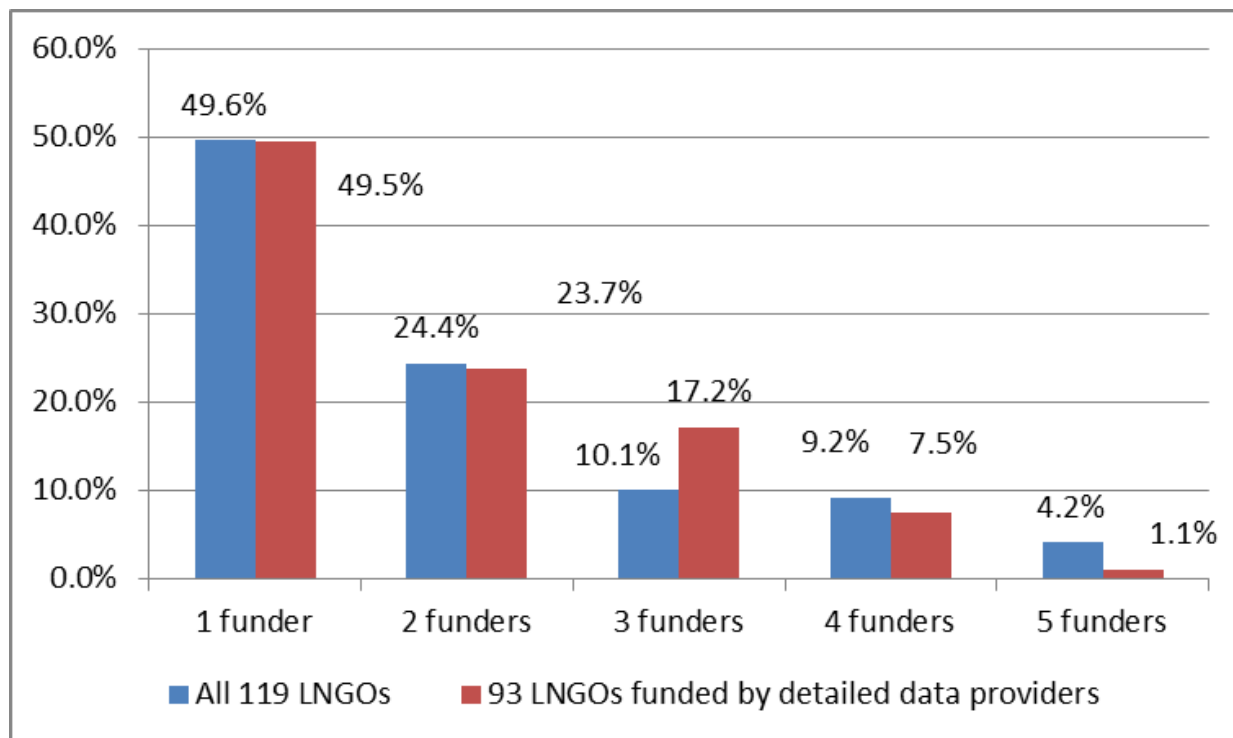


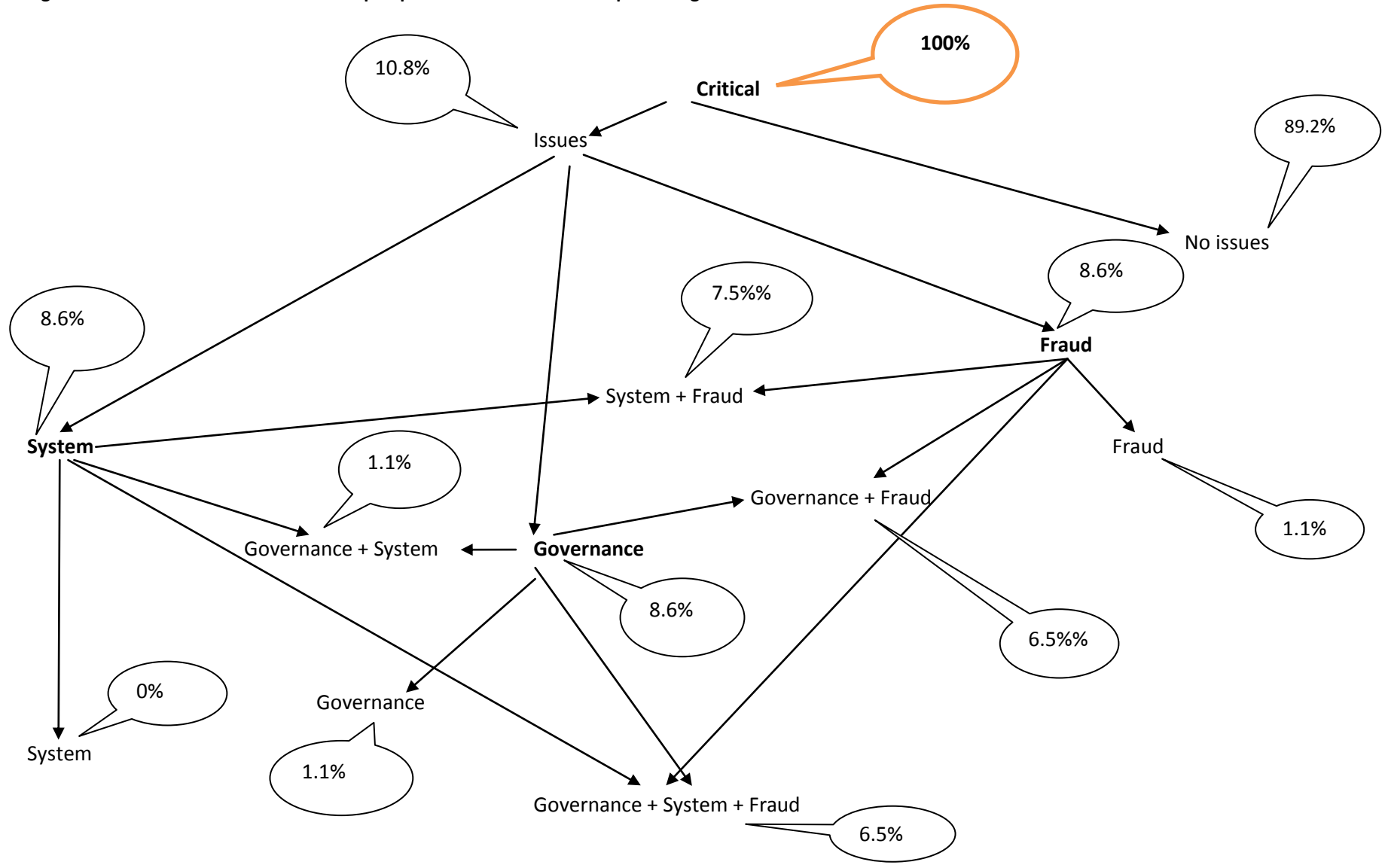
Table 9: Comparing correlations between assessment severity categories – all aggregate data providers versus partner level data providers

Correlation	All data providers	Only partner level data providers
Problems - Oks	-0.52	-0.44
Problems - weaknesses	0.28	0.15
Weaknesses - Oks	-0.93	-0.92
Problems + weaknesses - Oks	-0.96	-0.95

Explanations:

- For each grantmaker/data provider, for each severity assessment category, the percentage of that category of its maximum value is calculated. E.g. if a grantmaker/data provider has x partners, the percentage for serious problems would be the ratio (number of serious problems)/3x, for weaknesses it would be (number of weaknesses)/2x
The table shows the correlations between these percentages
- When one would remove all data providers with only a limited number of partners (less than 6) the correlations are considerably stronger but the point of the table is not the correlations per se but the pattern. The pattern is very similar, irrespective of including or not including grantmakers with small numbers of partners

Figure 2B: The Lenient NGO Assessment perspective: serious issues as percentages of all LNGOs



Annex 9: Non-response and confidentiality

Non-response

It merits pointing out that as much as possible was done to make it easy for funders to participate.

The fieldwork started with a general briefing of the objectives of the grantmaker survey¹¹⁵ to CCC and 9 grantmakers¹¹⁶. The majority of the 26 grantmakers approached was subsequently paid a personal visit to explain, discuss confidentiality and other worries, and plead the case for the importance of increased and deepened (full versus aggregated disclosure) participation. Those that couldn't be visited (because of time constraints or because they were not in country) were approached by e-mail.

Table 3: How grantmakers and audit firms were approached

Approach categories	2014		2015	
	Grantmakers	Audit firms	Grantmakers	Audit firms
Personal briefing	10	1	15 ¹¹⁷	5
E-mail approach only	5	1	11 ¹¹⁸	0
Total	15	2	26	5

Non-response was only accepted after a minimum of three follow ups. The average number of follow-ups was 4, with a range of 1 to 10. For those that did not cooperate the average was 6 follow-ups, with a range of 3-8¹¹⁹.

Although it is indisputable that the response rate would have been even (much) lower without the described persistence, the efforts to entice participation in the pilot had been similar. That the second round of the survey was successful in increasing and deepening grantmaker participation is therefore most likely indicative of a changing view amongst grantmakers about the importance of sharing information for the sake of better due diligence.

It appears that non-participation in the 2015 survey could be only due to one of three factors:

- Disinterest in the issue
- Objection against sharing (any kind of) partner information
- Putting this survey and issue low down in a list of priorities

To avoid misunderstanding of my interpretation of non-response: when identifying 'disinterest' as one of the three contributing factors, I am making a relative statement. Disinterest as compared to other issues, and disinterest as compared to the interest of other grantmakers. Actions speak louder than words, and it is difficult to defend one is seriously interested to collaborate with other grantmakers in dealing with

¹¹⁵ And two affiliated follow up projects to the Due Diligence work reported in WP1

¹¹⁶ Two represented by a colleague from an affiliated organization (see also note 13)

¹¹⁷ Two of these were briefed indirectly, through a colleague from a closely related grantmaker who had offered to be the champion for the survey within this group of affiliates

¹¹⁸ One was present at a general face to face briefing about the survey project but was not paid a subsequent personal visit

¹¹⁹ These figures exclude follow-ups pursuing clarifications regarding data received. 5 of the 17 grantmakers that provided data were approached to clarify certain aspects so as to ensure proper understanding of their information.

these issues, if they prioritize this issue enough to free staff time to respond¹²⁰, and you don't. Unless the third reason is the major driving factor and one has serious doubts that responding is of any use in dealing with the issue.

It is difficult for a researcher to doubt the value of his knowledge-generating profession but it would be disingenuous to deny the possibility that this survey is just a waste of time. However, I would expect that serious interest in the issue would then imply some sort of engagement to advocate for other courses of action. Especially in light of the widely shared understanding that dealing with the issue requires collective action, with sufficient critical mass, to have any chance of making a difference¹²¹. But, similar to the pilot, non-response was a mix of outright decline to participate, initial interest and subsequent silence, or no response at all, never engagement arguing for adjustments of the survey or alternative approaches. Funders feedback on how more participation could be obtained would be most appreciated.

Confidentiality

The report on the first wave speculated on the reasons behind more than 50% of the approached grantmakers *not sharing* anything, or very little (only number of fraud cases)¹²² but the responses to the second wave highlight a new division: grantmakers (under guarantee of a confidentiality agreement with the researcher) sharing information about which of their partners they see struggling with which problem versus grantmakers only willing to share aggregate data.

When comparing the reporting of grantmakers only willing to share at an aggregated, anonymized level, and those willing to share partner-level data, there are no indications that the aggregate data providers hide behind confidentiality to mask e.g. an unwillingness to assess partners critically, or in any other way would report differently from those disclosing partner-level information. If anything, **Table 4** in the main text would show that aggregate data providers assess somewhat *more critically* than partner-level data providers. And Table 9 (see **Annex 8**) shows that, when looking at grantmakers' application of severity categories, adding the aggregate data providers to the analysis *increases* the correlations between categories, indicating that the two kinds of data providers are very similar.

This makes the 'loss' of aggregate data providers all the more unfortunate. In this 2015 survey round, their willingness to share partner-level data would have boosted the number of LNGOs covered from 93 to 119, a 28% increase in sample size!

While it is clear from table 1 that the dominant understanding within the grantmaking community of what is and is not too confidential to share has changed considerably, those unwilling to share are quite adamant.

To the extent possible, I have pursued the underlying reasoning, requesting clarification of this position so as to better understand it and received explanation like these:

- "We are not allowed to disclose information on individual partners. [This] is an understanding of [us] not to share information about partners without their consent. We are even stingy with addresses".
- "[HQ] felt it wasn't appropriate to share this type of information with a third party, irrespective of what the information was to be used for, and irrespective of any assurances of confidentiality".
- "We can share publicly available information, like proven cases of fraud that have been reported in the media, but we cannot share insights gained from the privileged access we have to partners. That

¹²⁰ Given a survey that doesn't take much time to fill in and for which those approached have been given many weeks to respond. Obviously during crisis situations even this may not be enough but it is very unlikely that this would be the explanation for the majority of non-responders.

¹²¹ The assumption that the survey has potential meaningfulness thus implies that non-response actively harms the collective effort....

¹²² I have nothing to add to those: See Annex 2

knowledge is comparable to the proprietary knowledge acquired by an external accountant during an audit and cannot be disclosed to anyone."

- "We have an understanding with our partners that we only share information with their knowledge."

Due Diligence WP1 devoted a lot of attention to the perceived¹²³ tension between accountability and relationship management. The above explanations all frame their position as a relationship-considerations-trump-everything-else argument.

I find this framing difficult to understand for the following reasons:

The request for information at the level of individual partners was accompanied by an explicit offer to provide a written non-disclosure agreement, guaranteeing that the shared information would not be shared with anyone else and that any reporting on the survey results would only be at an aggregate level, not disclosing any NGO names.

The two lines of argument against this guarantee were that the risk of leaks can never be zero, or that the purpose for which information is shared holds no importance for the principle.

The first argument is indisputable, but also disingenuous. To do anything, with respect to anything, entails by definition risks. We (need to) take those risks, and do so continuously, to accomplish anything we value.

The second argument elevates a principle above anything else and thus avoids uncomfortable questions about the consequences of doing so. The research aims to generate actionable knowledge that does not harm but support Cambodian NGOs. Sticking to the principle does diminish the potential of the information shared for that aim by others, and thus harms a collective effort. The study aims to support Cambodian NGOs primarily through influencing the behaviour of their donors. The analytic value of receiving data at the level of individual grantees is two-fold: it enables the best possible understanding of how various problems are interrelated, and it enables the comparison of grantmaker assessments and thus feeds into their self-evaluation. A grantmaker sticking to the principle says no to both potential benefits. That's the direct costs of taking that position.

Another angle is that I find it very difficult to come up with any legitimate reason for honouring total secrecy about not-for-profits, that have a mission to serve the public good, that are funded by public money, and that are in general rhetorically vocal about the importance of transparency and accountability, especially with respect to government, but also regarding their own sector. It is common knowledge that the practical attitude regarding organizational transparency in the Cambodian NGO sector is not very aligned with this rhetorical position. Very similar to the Cambodian government, *any* information is in principle 'secret' until those in charge have decided otherwise. I find it difficult to understand why anyone funding an NGO would leave this attitude totally unchallenged.

Obviously, it does make a lot of sense, both from a risk management perspective (organizational information *can* be misused) and from a relationship management perspective (trust requires a measure of confidence in one's partner *not* misusing insider knowledge), to build funder-recipient relationships upon the explicit understanding that a grantmaker is not going to share any *potentially harmful* information about their partner without telling them so, or, in a more principled version, without prior consent. But, as argued above, I do not see how the survey information could be harmful for the partner. One may argue that fraud is different, especially fraud suspicions (as opposed to proven fraud). The counter-argument would be that not sharing such information is potentially facilitating fraud. Which objectives is more important?

¹²³ A tension perceived by nearly all NGOs and most grantmakers

Yet another, but related angle is that the survey asks about the grantmaker's assessment of their partner. Its value is based on the assumption that the grantmaker's opinion is evidence-based, but the survey doesn't ask for the evidence, only for the opinion. So, for those refusing to share their opinions about a partner the principle of confidentiality goes beyond facts and covers basically any evaluative statement about the partner.

What does grantmaker commitment to this level of confidentiality say about the relationship with their partners? If this commitment is thought necessary to establish trust, commitment from what is de facto the dominant partner (principal) in the relationship, something odd is going on. Normally this level of confidentiality is only granted under 'duress', never voluntarily, think relationships between service providers like management consultants and their clients, i.e. commercial take-it-or-leave-it contracts. And the reason seems clear to me: a healthy relationship on equal terms does not preclude the ability of either partner to share their opinion, or even facts about the other¹²⁴.

Finally, a practice observation: my personal experience as a grantmaker¹²⁵ has taught me that information about individual partners is regularly shared with other grantmakers. Obviously under the expectation that the info is treated confidentially, but mostly without first informing the partner, let alone formally requesting their consent. Common scenarios for this are conversations between grantmakers who share the same grantee, and requests for reference checks from a grantmaker who considers engaging with a new grantee. It is very well possible that the grantmakers approached for this survey who showed the most principled attitude regarding confidentiality stick to it in practice at all times, but my personal past experience would suggest principled positioning when faced with formal requests about partners in general, but pragmatic sharing of information about a specific partner with known peers.

It is my sincere hope that the use this report makes of the detailed data shared by most grantmakers is going to convince those who decided to only share at an aggregate level to reconsider for the next wave of this survey.

¹²⁴ Unless this would have detrimental consequences and the relationship is intended to continue. I am aware that this description is ideal-typical and real life has many shades of grey. The point though is that this kind a commitment of what is de facto the principal in a relationship is at the reverse extreme of what one would expect. Unless grantmakers in development know something that the rest of the world doesn't, or achieve things peers in other sectors don't, it seems worth reflecting on this.

¹²⁵ Three years as Coordinator of the ICCO partner portfolio in Cambodia