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**A NEW PARADIGM IN DEVELOPING COUNTRY
NGO FINANCIAL SUSTAINABILITY**

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OVERVIEW

NGOs in developing countries worldwide face many challenges — from unrealistic should we worry so much about financial sustainability? Simply for the reason that financial sustainability and NGOs will always go hand-and-hand because given NGOs legal status as “non-profit”¹, NGOs are inherently at the mercy of donor² organizations whose inconsistent funding priorities remain a constant risk to NGO’s financial and operational future.

This overview on NGO financial sustainability outlines a new paradigm shift in financial sustainability that is seeing international NGOs looking themselves increasingly in the mindset of for-profit companies, where executive staff and shareholders are not as concerned with profit and loss rather than with long-term growth and community/social impact. By discussing current trends in financial sustainability methodologies used worldwide to promote operational and financial sustainability, this article hopes to highlight models and best practices that will better secure a bright financial future for developing country NGOs in any developing country context.

CURRENT GLOBAL STATE OF NGO FINANCIAL SUSTAINABILITY

The discussion of sustainability (both in terms of institutional³ and financial sustainability⁴) and NGOs is not a new issue and has been around as long as NGOs have existed. It is important to note that this article specifically discusses sustainability in developing countries from an *internal* perspective, focusing on issues and techniques that NGOs have *direct control* over. It is very important to realize when having any discussion about sustainability, the multidimensional nature of sustainability and the simple fact that there are many externalities and challenges — such as political or social environment, legislative framework, underlying philanthropic nature — that effect sustainability that are more or less out of NGOs control. Nevertheless, thinking about the importance of sustainability in the framework of *financial sustainability* is vital if NGOs truly want to continue to secure enough funding to survive institutionally, provide quality services that support their constituency, and maintain a mission driven purpose.

The issue of financial sustainability has recently become even more of a top-priority issue because (a) donor resources available to NGOs continue to decrease; (b) donor agencies worldwide have shifted and narrowed funding into specific, highly political or publicly popular regions of the world (like Afghanistan, Iraq and the Sudan) and into specific markets (such as anti-terrorism and agriculture) that do not usually fund traditional NGO development; (c) the growth in terms of numbers of NGOs

“But while ensuring institutional sustainability requires far more than simple ensuring financial sustainability, the question of how to generate a stable source of financing is indeed one of the most universally recurrent and confound obstacles for NGOs ...”

Lee Davis, Co-Director of the Nonprofit Enterprise and Self-sustainability Team (NESsT)

¹ “Non - Profit” refers to an incorporated organization which exists for educational or charitable reasons, and from which its shareholders or trustees do not benefit financially. Also called “not-for-profit” organization.

² “Donor” refers to any organization that donates money to NGO or other non-profit / not-for-profit organizations. They can include international donors, governments, intra-regional banks (i.e. World Bank), businesses, corporations and / or individuals.

³ “Institutional Sustainability” refers to the overall sustainability of NGOs — i.e. its staff, methodologies, governance / management structure, services, board of directors, public relations, etc.

⁴ “Financial Sustainability” refers to only the operational or financial resource sustainability of an organization. In other words, does the NGO have enough money to keep its doors open, its staff paid and its services provided.

worldwide has tightened competition between NGOs for increasingly limited funding; and (d) donors worldwide have become less willing to fund traditional overhead expenses (salaries, rent and equipment) forcing NGOs to chase more and more donor funds rather than develop long-term program strategies that support their own mission.⁵

Using NGOs in the United States — where data is the most forthcoming and NGOs are the most developed — as an example, it has become increasingly clear that U.S. NGO (both international and domestic) funding sources have started to shift away from traditional sources of funding. In 2003, it was noted that due to the overall slow growth of the U.S. economy, fiscal deficits of both U.S. State and National governments, and an overall decrease in USAID⁶ funding, NGOs in the US are facing the “worst fiscal crisis” they have faced in the past 50 years.⁷ This negative fiscal trend in donor funding and the shift in donor priorities away from NGOs is very significant because U.S. based NGOs on average receive 31% of their income from government contracts (a figure significantly higher for international U.S. NGOs). In 2004 alone, a survey noted that 37% of over 5,000 U.S. NGOs surveyed had a decrease in U.S. government funding from 2003.⁸

This shift in U.S. government funding resulted in a direct and damaging effect to the operational and financial wellbeing of many U.S. NGOs. As shown in Table 1.1⁹, U.S. NGOs therefore started to focus fundraising efforts on diversifying away from traditional sources of financing and into other funding sources such as individual, corporate, foundation grants as well as in for-profit ventures, retail sales, special events, membership fee and/or investments.

Table 1.1	
Type of Financing	% of NGO's Surveyed Who Increased Funding from 2003 to 2004
Social Enterprise/Fee – for – Service	80%
Individual and Bequests	57%
Investment	35%
Corporate	34%
Foundation/Non-Profit	32%
Membership Fees	29%

This shift in U.S. funding is important for developing country NGOs in two main ways. First, it shows the importance of *financial diversification*. Due to trends discussed above, a diversified portfolio is the most secure way to achieve meaningful and sustainable growth when primary donors are retreating support. Second, it shows the importance *self-financing*. Self-financing directly reduces dependency on outside players, giving NGOs more say and control over their own financial future.

⁵ Alymkulova, Anara and Didara Seipulnik, “NGO Strategy for Survival in Central Asia: Financial Sustainability.” Policy Brief #22, The William Davidson Institute, January 2005.

⁶ USAID is the U.S. Agency for International Development who is the largest donor of international NGOs in the U.S and abroad.

⁷ “Snapshots: Research Highlights From the Nonprofit Sector Research Fund.” Aspen Institute Publications, No. 32. November / December 2003.

⁸ “2004 State of the Nonprofit Industry Survey.” Blackbaud, Inc. www.blackbaud.com. August 2004.

⁹ Based on a 2004 survey of 5000 U.S. NGOs. Question asked is: “How did your organization’s funding from each source change when compared to last year?” “2004 State of the Nonprofit Industry Survey.” Blackbaud, Inc. www.blackbaud.com. August 2004.

APPLYING U.S. NGO EXPERIENCE TO A DEVELOPING COUNTRY CONTEXT

NGOs in developing countries are heavily dependent on international development agencies (i.e. USAID, Worldbank, EU, etc.) for their operational survival because this class of donors is simply the largest single financial provider to NGO support programs throughout the world. In light of an overall decrease in international donor support for NGOs, technical assistance programs worldwide are beginning to offer integrated non-profit financing models used in the developed world that combine business oriented strategic planning, traditional NGO fundraising, and self-financing models (including social entrepreneurship).

Why is Financial Diversification Vital to NGO Sustainability?

- Risk Mitigation
- Increased Revenues
- Donor Independence
- Long-Term Sustainability
- Strong Financial Management
- Diversification of Financial Resources

This is a *new paradigm* in the way practitioners think about financial sustainability because for the first time, sustainability models are merging strategic *for-profit* and *non-profit* financial diversification strategies into a single comprehensive NGO sustainability methodology. Through this type of model, NGOs begin to think of themselves for the first time as for-profit entities, devoting a variety of assets, personnel, and time to achieve the greatest long-term return on investment that

they can — not in terms of money or profit, but in terms of long-term sustainability, efficiency and social impact.

If NGOs can smartly develop diversified profit-making strategies that truly lead to both long-term future financial growth and positive societal impact, then NGOs will not only be able to garner greater support from their constituencies and shareholders; but they will be able to do so in a sustainable way that will break their constant dependence on international donors who often have their *own priorities* when giving money. Through the combination of *long-term financial planning* and *asset-based diversification*, NGOs concerned about sustainability can ensure that they are not only prepared for their financial future and the inherent risks associated with it, but they will have access to tools, methodologies, and technical support that allow them to develop a solid funding base to leverage donor monies for highest social returns.

A CLOSER LOOK AT AN ASSET BASED FINANCIAL DIVERSIFICATION MODEL

Drawing on decades of experience building the capacity of civil society based non-profit organizations worldwide, international development NGOs such as Counterpart International (CPI)¹⁰ are now at the forefront of the non-profit financial sustainability movement. CPI sustainability technical assistance has shifted from traditional fundraising/grant writing models to integrated non-profit/for-profit fundraising and strategic financial diversification planning strategies. This next section will specifically review *Counterpart's Non-profit Sustainability Model* and how it is successfully helping NGOs achieve real sustainability.

¹⁰ Counterpart International is a U.S. based, non-profit organization based in Washington, DC whose Civil Society and NGO development programs span the globe.

Counterpart's NGO financial sustainability model (see Figure 1.1) is unique in many ways because it is adaptable to any sized NGO in any development country context. Its six pronged approach is not a one-size-fits-all model, but a flexible model that assists NGOs to determine *organizational worth* in order to develop a long term financial sustainability plan that mixes and matches multiple financial sustainability strategies to fit any particular organizations need.



Figure 1.1 – Counterpart International's NGO Financial Sustainability Model

Unlike other NGO sustainability models that focus specifically on a single fundraising technique such as social enterprise or corporate partnership, this module gives NGOs an unlimited menu of different fundraising options that they can use to meet any financing needs in any given funding environment. Counterpart's highlighted model is developed around the core belief that financial sustainability can only be achieved if an organization has a comprehensive, long-term financial sustainability plan and a diversified funding base. Below is a detailed description of each of the six core aspects of the Counterpart sustainability model.

► **Financial Sustainability Action Planning.** Assisting NGOs to achieve real financial sustainability starts with the development of three core plans: (1) *Self Financial Diagnosis*, (2) *Asset Diversification*, and (3) a long-term *Financial Sustainability Action Plan (FSAP)*¹¹. Unlike the other components of the model, this strategy is absolutely mandatory because NGOs cannot achieve real sustainability without comprehensive financial sustainability planning.

1. Self-Financial Diagnosis allows NGOs to develop their own “neutral”¹² evaluation of their NGO's financial status by identifying their past and current revenue base and any or all constraints that are hindering current financial growth. This snapshot of the organization becomes the basis for all future planning and allows organizations to measure their own growth in financial sustainability over a short- and long-term basis.
2. Asset Diversification Plans allow NGOs to (a) analyze their organizational worth by identifying *tangible* (money or property) and *intangible* (intellectual capital, skills/expertise, methodologies, etc.) assets they have within their own organizations; and (b) through a strategic brainstorming process, identify assets that can be leveraged into realistic short- and long-term financial sustainability strategies. The plans also identify *asset gaps* or assets that are not currently available within the organizations that must be obtained before certain strategies can be effectively put into place.

¹¹ All three of components of the Counterpart Financial Sustainability Planning model are trademarked. Each are also supported by computer based management tool that walk NGOs through the entire financial sustainability planning process. NGOs only need initial training before the NGOs can use the programs themselves.

¹² By “neutral” I am referring to the fact that the NGO do their own diagnosis, removing any excuse to blame financial issues of an organization on an outside auditing agency or donor.

3. Financial Sustainability Action Plan (FSAP)¹³ is a comprehensive workplan designed to (a) provide NGOs with a business-oriented financial diversification plan with a clear *Sustainability Vision/Goal, Objectives/Indicators, Issues, Strategies, Tasks*¹⁴ and (b) identify an internal sustainability management task force. Once completed, FSAPs are self-managed; meaning each team member already knows clearly what his or her responsibilities are and when their strategies and tasks are due. FSAP's team approach to strategic planning ensures that the staff commitment to sustainability is obtained at all levels of the organization. With well thought out FSAPs in place, NGOs acquire realistic, adaptable and usable strategic financial planning skills that allow them to properly plan for a profitable financial future.

"To achieve success in fundraising, written goals that can be accomplished, changed, or modified are imperative to success."

Are You Making Fundraising Mistakes?
Bill J. Harrison

- ▶ **Social Enterprise/Fee for Service** is an emerging financial diversification methodology where NGOs use market-based approaches to earn commercial income. Social enterprise/fee for service models develop NGOs' capacity to incorporate for-profit business planning (including planning in marketing, finance, production, and human resources/operations) to develop full-fledged commercial enterprises (i.e. a microcredit company) or simple profit-making activities (i.e. fee-based training). Profits accrued from these activities build up an NGO's discretionary financial assets¹⁵ that can be used to fund NGOs institutional costs, future investments, new products and services, etc.
- ▶ **Public/Private Partnership (PPP) Development** focuses on building the capacity of NGOs to enter into joint contractual fee-based partnerships with public or private sector (i.e. with business and/or governments) to carryout a mutually beneficial service to the communitiy. Contracting business partnerships with government and corporate entities are a natural choice for NGOs as they entail leveraging tangible and intangible assets that can be useful to those sectors. With the rise of the Corporate Social Responsibility (CSR)¹⁶ and Social Partnership¹⁷ programs, PPP development is a huge, virtually untapped market of future NGO financing.
- ▶ **Grant Writing/Strategic Donor fundraising** is traditional fundraising from international donors (i.e. USAID) and/or foundations. *Value added* strategic grant development approaches teach NGOs how to use grants to the *highest return* through developing management systems that ensure all grant funding is aligned with, and maximizes, NGO's mission and pursuit of social objectives. This approach replaces the traditional pursuit of grants for direct and indirect cost recovery needed to sustain the organization's basic operations. Grant money therefore supplements, rather than dominates, NGO strategic management philosophies.

¹³ Financial Sustainability Action Plans (FSAPs) are also a trademark of Counterpart. They are adapted from the S.A.P. management model designed by Ron Askin to support for-profit firm level strategic development and enterprise improvement.

¹⁴ All terms — Vision / Goal, Objectives / Indicators, Issues, Strategies, Tasks — are specific terms used in Counterpart financial sustainability programs.

¹⁵ Discretionary funding is an internal cost pool of funding not controlled by rules and regulations of outside donors.

¹⁶ *Corporate Social Responsibility (CSR)* is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

¹⁷ *Social Partnership* is defined as a joint partnership between national or local government and the third sector in a mutually beneficial social project usually developed by a community using participatory community technologies.

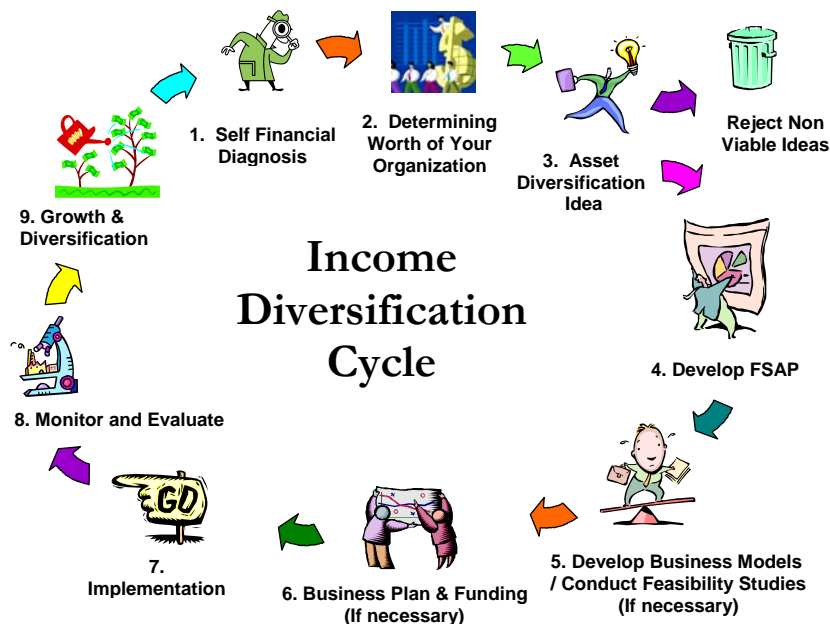
- ▶ **Membership Service Development** works with NGOs to establish, expand and/or strengthen membership programs. NGOs use their assets to develop comprehensive mission driven *member service packages* to attract and sustain members and receive funding from membership fees.
- ▶ **Traditional Fundraising** works to strengthen traditional fundraising programs that focus on individual donations, bequests, direct marketing campaigns, telemarketing, planning giving, internet giving and one-time/recurring fundraising events. Traditional fundraising programs are fortunately starting to gain support even though they are many times overlooked in developing countries due to the supposed lack of historical individual philanthropy.

The asset diversification process is cyclical in nature, starting with a diagnostic assessment — both of the NGO’s financial state and its current worth (measured by its tangible and intangible asset base). Once an NGO has a better idea of both where its current financing is coming from and what tangible and intangible assets are at its disposal, it can enter the brainstorming/business planning stage. The brainstorming or analysis stage is necessary to help NGOs weed through different short- and long-term financial sustainability ideas and models before investing critical resources in ideas that never really had a chance of success in the first place. Maximizing efficiency and minimizing waste is the key to this model because as all NGOs know, resources are, and will always be, very limited.

“Don't wait until there is a problem with your fundraising program, but instead, conduct periodic reviews of your fundraising needs, programs, and capabilities.”

18 Common Fundraising Mistakes...and How to Avoid Them by Nora McClintock

Once truly viable ideas have been identified, the NGOs will finalize their financial sustainability plan, develop necessary business plans, and puts ideas into action. Now that financial diversification has started, NGOs begin to continuously track and monitor their new financial sustainability ideas’ success (i.e. profitability) based on a series of pre-set financial targets.



NGOs reflect on whether their plan of action is really achieving the financial return they projected, and they make adjustments as necessary. On an annual basis the cycle of planning, diversification and evaluation starts anew given changes in the organization, external environment, new funding opportunities, etc. Figure 1.2, better illustrates in detail this cyclical model for financial sustainability and income diversification.

Figure 1.2 – Counterpart’s Financial Diversification Cycle

Counterpart currently utilizes this model in Afghanistan, Bulgaria, Armenia, Azerbaijan, and throughout Central Asia¹⁸. In Kazakhstan and Kyrgyzstan (where the model¹⁹ has been utilized the longest), the overall success in terms of long-term strategic financial planning, increased revenues and overall financial diversification is impressive with over 90% of participating NGOs now using long-term financial sustainability plans and 80% having diversified funding of at least three sources. Civil Society Development Association (ARGO) and Kyrgyz National Association of Civil Society Providers (KG ACSSC) saw 2005 growth in non-donor funding by 15% and 40% respectively — significantly exceeding all estimated non-grant income targets for that period.

Overarching Financial Sustainability Best Practices

This article attempts to demonstrate the central idea that comprehensive sustainability planning based on the tenants of asset diversification, self-financing and traditional fundraising/grants is the most effective paradigm to assist NGOs achieve real financial sustainability. Given the flexible nature of this model and the simple fact that the path towards financial sustainability is different for all NGOs, this final section will highlight best practices²⁰ (noted below) that any NGO should take into consideration when developing a asset based financial diversification plan. Six notable, overarching financial sustainability best practices are as follows:

1. *Do Not Circumvent Mission for Money* — NGOs should seek long-term sustainability to support their mission, not the mission of their donors. All activities, including fundraising and income generation should be mission focused — the testament to the values an organization holds. Mission drift is real and should be avoided.
2. *Board of Directors (BOD) Needs to Fundraise* — All persons in an NGO should be concerned with fundraising, from the program assistants to the BOD. Although usually an untapped resource in developing countries, board members must be involved in the fundraising process whether it is asking for donations, opening doors, or identifying/solidifying potential donors.
3. *Partnerships Matter when Diversifying Funding* — NGOs need to establish and foster partnerships early and often with all forms of potential givers — from donors to companies to government to individuals. Relationships and trust do matter, and if a potential donor is comfortable with the mission and work of an NGO it is more than likely to give and give often. An unformed, uneducated and unmotivated donor is one that will probably not make future money available.

“Traditional fundraising begins at home — it is vital to be able to demonstrate that all of your organization’s board members, officers, staff and volunteers make significant gifts to the NGO.”

Joel J. Oros, The Dorothy A. Johnson Center for Philanthropy and Nonprofit Leadership

¹⁸ Central Asia includes Kazakhstan, Kyrgyzstan, Turkmenistan, Tajikistan and Uzbekistan.

¹⁹ The model was developed and introduced in December 2004 as part of the USAID financed; Counterpart managed Civil Society Support Initiative (CSSI) in Kazakhstan, Kyrgyzstan and Turkmenistan.

²⁰ Best practices are from a selection of research and articles, most importantly from Counterpart International published best practices, Faustino, Jamie. “*Nine Steps to a More Successful Resource Building Program for NGOs.*” Philippine NGO Memo, Issue No. 6. August 1008 to March 1999, and from Nonprofit Good Practice Guide www.npgoodpractice.org.

4. *Don't Forget About the Individual* — Even though the culture of philanthropy is not very advanced in most developing countries, the power of the individual can be quite profitable. It does take a long time to develop and sustain a profitable individual fundraising plan, but NGOs that develop this fundraising mechanism many times find a huge resource either in terms of in-kind or financial contributions. If people care, and are properly engaged and informed, they will give.

“It is critical to remember that organizational buy-in for financial sustainability must occur at all levels of an NGO — from the BOD, to executive director to the receptionist.”

*Mark Granus, Chief of Party,
Counterpart International, Almaty,
Kazakhstan*

5. *Resist Fads When Seeking Financial Sustainability* — NGOs sometimes jump very quickly at fads in fundraising or to donors who promise easy money (usually at the sake of its mission). Long-term financial planning is the key to sustainability. NGOs need to resist trendy fundraising or diversification fads and stick to their strategic sustainability plans that are in accordance with their organization's mission.

6. *External Environment Does Matter* — Although not the central focus of this article, building truly *sustainable* NGOs is a multidimensional challenge entailing both internal factors — developing and strengthening organizational capacity — as well as external factors — establishing a more secure and supportive resource and regulatory environment.²¹ NGOs in developing countries where a proper enabling environment does not exist need to work with, and advocate to, governments in a proactive and participatory way to ensure they establish a legislative framework that supports long-term non-profit growth.

CONCLUSIONS

Ensuring the financial sustainability of NGOs in developing countries is a top organizational developmental priority for any NGO serious about securing a long-term future for its organization. This overview on NGO financial sustainability provides a brief overview of NGO sustainability and outlines a new paradigm shift in financial sustainability where NGOs now look at themselves increasingly in the mindset of for-profit companies — where asset diversification and long-term financial planning are key, and NGOs' shareholders and constituents are concerned in investing in long-term growth and community/social impact. The current trends, best practices, and the NGO financial sustainability methodologies illustrated in this article are proven at a minimum help NGOs plan for, and hopefully achieve, some level of improvement in their operational and financial sustainability. If you are an NGO serious about sustainability always remember: *Think big, plan accordingly and diversify.*

²¹ Davis, Lee “Sink or Swim: The Struggle for Sustainable NGO Financing.” REC: The Bulletin 7/1. Insight: NGO Financing. www.greenhorizon.rec.org/bulletin/Bull71/NGOs.html. NESST.

ABOUT THE AUTHOR

CAESAR LAYTON is an organizational development specialist with over 10 years of expertise in non-profit financial sustainability and business association development. During his career to date, Mr. Layton has developed multiple innovative models (as well as published three articles) for increasing financial and organizational sustainability of non-profit organizations, including models in asset based financial diversification, social enterprise and public private partnership. Mr. Layton has also been deeply involved in developing models and methodologies in macro-development areas, specifically in economic competitiveness and business environment improvement.

Mr. Layton currently serves as the Technical Advisor for Development Alternatives Inc (DAI) on a \$20 million dollar, 4-year competitiveness program committed to increasing jobs and income; improving business and investment climate, and increasing the competitiveness and productivity of Indonesia's economy and enterprises. In this capacity he oversees all activities related to internal and external business association development and advocacy components of the project and oversees a \$1 million dollar business environment improvement grant fund. Mr. Layton recently served as the Regional Deputy Chief of Party for Counterpart International, Inc., (CPI) on the \$15.5 million dollar USAID Regional Civil Society Support Initiative in Central Asia. He is also concurrently served as Senior Economic Development Technical Advisor for CPI's USAID economic development components throughout Central Asia. Prior to his field assignments, Mr. Layton served as Interim Director of CPI's Division of Enterprise Development in Washington, DC, where he provided management oversight to a \$12 million dollar SME development and NGO institutional growth portfolio. Mr. Layton has a Masters Degree in International Economics from American University in Washington, DC.