It is very common to find NGOs which have been so concerned with their activities that they have not thought through what it means to be an organization. Such thinking is very important if an organization intends to be sustainable into the future. Increasingly, it has been shown that the common terms an organization uses in its communication with others (its activities, its program performance, its funding, and its equipment) is much less important when considering sustainability than its vision, its culture, its structures, and its systems.

INTRAC has developed an instructive diagram (Figure 4: The Capacity of a Healthy NGO) which illustrates that the sustainable NGO has a hierarchy of features, and that those higher up the pyramid must be in place and functioning well if the features lower down the pyramid have any chance of working.

![Figure 4: The Capacity of a Healthy NGO](image)

This diagram owes much to the thinking of the Community Development Resource Association in South Africa and its director, Allan Kaplan.

When working on localization issues, it is important to keep a sense of balance between management issues and program issues. It is true that an organization with a fine sense of vision and a clear mission will collapse if it is not well managed; but it is also dangerous to have a tightly managed organization that has lost its direction, and has lost any zeal for the work that it is set up to do. NGOs are based on commitment and shared values. If these are not present, even skilled
management cannot cover the fact that the organization is not actually alleviating poverty, reducing exploitation, or otherwise improving lives.

Organizational Lifestyle

The assessment process also gives an organization the opportunity to take a good look at its organizational lifestyle, and to assess whether it should continue its current level of administrative expenditure. It is likely that the foreign-governed (and perhaps foreign-managed) organization will have had its offices in a “good” part of the capital, will have had overseas line telephones, faxes, computers, and vehicles.

Many recent commentators on foreign NGOs have noted their high level of technology and expensive operating style, often contrasting that with the facilities available to government officials in the country concerned. Such high levels of expenditure often raise considerable anger. Localization provides an important opportunity for reconsidering what is “appropriate” for an organization which is operating on the local stage. There is a good opportunity for the organization to think of getting a smaller office in a cheaper part of town, and making do with less equipment. Such savings will possibly offset the costs of the indigenization process. These will be difficult and hard-fought decisions, but these are worth considering.

A new feature for many NGOs is that they can no longer expect respect and approval for what they do from the general public in their own country. For too long now, NGOs have been living in comparative luxury compared to the majority of their peers in government or the private sector, and it is this aspect of their organization (what has been called “the Pajero and PC syndrome”) that forms the dominant impression that people have of them — not the valuable work that they are doing. NGOs (often modeling themselves on Northern NGOs) need to take stock of their lifestyles if they want to regain the moral high ground they once inhabited.

Exit Strategies - Summing Up

We can find intermittent examples of NGOs that have phased over their work to SNGOs. For example, CUSO, the Canadian organization, which helped found ROHSHIKA in Bangladesh and Women for Change in Zambia began out of their in-country offices. The US organization, IVS, Friends In Village Development in Bangladesh (FIVDB) from their in-country office.

Very often this phase over is based on the fact that the money, which allowed the NGO to come to the country in the first place, is running out. With respect to indigenization, CARE is considering setting up a Thai successor to itself. In Bangladesh, Pact has already midwived the PRIP Trust. In South Africa, Pact is preparing for an evolution into an indigenous organization. These efforts are all based on an assessment, after being in the country for some time, that this is the honorable and pragmatic way of leaving, and leaving something behind.
It would make more sense, however, if organizations developed exit strategies before they ever enter a country. If so, then the exit strategy would become part of their thinking, and part of their institutional-building work from the very beginning. Too often, despite donor rhetoric to the contrary, projects do not become self-sustaining, and sustainability has been translated into finding another Northern donor to take over when the funds of the first are curtailed.

There is a need for some other organization to do for Northern NGOs what the Synergos Institute did with their review of what they have termed Foundation-Like Organizations (FLOs). They spotted a trend, surveyed it, reviewed it, and researched key examples to produce a body of knowledge available for use by others. There is a need to study how some NGOs, from the start, develop an exit strategy and pass their experience and expertise to local organizations.

There is no reason why the advance planning of an exit strategy is more applicable to one particular sector or another, and no reason why it will happen more in one part of the globe than another. What it requires is a donor that has been sensitized to the idea, and an NGO development environment in which there is political space, a lack of overt government hostility toward NGOs, and a pool of human resources of sufficient caliber to manage indigenized NGOs. All these factors are more apparent now in the South than they have ever been before.

A successful exit strategy is one in which the SNGO has not only taken over governance, management, and programming, but also devised funding strategies that make it independent of Northern funding. (Few, if any, such cases exist.) What is more likely are independent SNGOs that get funding from a variety of Northern sources, including the old organization — but are not dependent on that organization alone.

Pact has recently published a Handbook on Exit Strategies (1997). The introduction to the handbook acknowledges the need for those with experience in this field to network and share their knowledge.

Notes
1In very poor countries, and places where the distinction between a voluntary Board member and a paid director is not well established, there are frequent arguments over the legitimate expenses that may be paid to a Board member.
2The best guide to the legal and regulatory environment for NGOs is contained in the Handbook for Best Standards and Practices for the Legal Environment of NGOs, which has been published in 1997 by the World Bank and the International Center for Not-for-Profit Law.
3If an NGO is looking for allies, the World Bank is committed to improving the enabling environment for the NGO sector and has, in many places in the world, appointed NGO Liaison Officers. Part of their mandate is to help create favorable environments in which NGOs can operate.
4Pact’s generic document, developed by William Booth and Robert Morin, is called OCA (Organizational Capacity Assessment Tool).
5Synergos Institute - Building Foundation-Like Organizations in the South, by Catherine Overholt, 1996, with eight attached case studies.
III. Building Foundations

It is common for voluntary associations in the North to receive their funding from a variety of different kinds of foundations. Such foundations exist all over North America, Europe, and the Far East, and have often been set up by wealthy individuals or corporate donors to fund voluntary associations in their own countries. This section will focus on foundations in the South that are to some extent replicas of charitable foundations in the North, but which are governed and managed by Southerners. They are usually set up for one or more of five different purposes, as stated in Fox's article for the World Bank:1

1. To foster indigenous philanthropy to support the growth of civil society.
2. To build capacity for the communities and the local NGOs that work with them.
3. To promote collaboration among public, private, and voluntary sectors, as well as official donor agencies.
4. To ensure the establishment of an enabling environment for civil society organizations to form and to operate.
5. To facilitate the legitimacy and acceptance of NGOs and other CSOs among elites, the state, and the public.

The organization that has studied foundation building the most is the Synergos Foundation. Its study concentrated on foundations in Mexico, Colombia, the Philippines, India, Ecuador, Puerto Rico, and South Africa.2 The concept seems a winner: set up a locally governed organization that will have a sustainable income stream which will ensure sustained funding for local NGOs. The fact that relatively few such foundations have come into being suggests, however, that it is difficult to set them up, and difficult to get sufficient funding to make them sustainable. In most of the Synergos-identified case studies, the source of a perpetual income stream was an endowment. As a result this approach has attracted the most attention. Unfortunately, endowments produce a whole new set of their own particular problems,3 and are not the only way of working.

A look at definitions:

**Foundation:** an arrangement in civil law countries (largely Hispanic or Lusitanian countries) whereby an organization manages funds for stated aims and beneficiaries.
Trust (connected to a Trust Fund): an arrangement whereby funds are managed by trustees on behalf of named beneficiaries under the terms of a legal trust instrument or deed.

Endowment: a sum of money that is invested to generate income, (usually from interest). The principal remains invested; the income available for the NGO comes from the interest.

In common usage, trusts and foundations are governance structures which manage a financial instrument to sustain the work of an NGO. The financial instrument is usually an endowment, but it can also use other financial instruments (e.g. a Revolving Fund, in which the fund is serially topped up by a donor, or a Sinking Fund, which is a one-time donation that will slowly be exhausted).

The great advantage of endowments is that, if well managed, they can provide income for the NGO in perpetuity. In addition, governance remains in the South, under the control of citizens of the country in which the NGO exists - not under the control of foreign donor organizations.

The current practice of using endowments for supporting the work of development NGOs has shown that they basically are set up in one of two ways: supporting an individual NGO, or supporting a national grant-making foundation which, in turn, supports the work of local NGOs. See Figure 5 below.
For an NGO, which usually derives its financing from grants, contracts, fees, fundraising, and/or government support, using a trust or a foundation to set up an endowment is an alternative (or possibly a supplementary) way of managing its income stream. The most interesting and novel foundations are not, however, the ones that simply manage an NGO, but those which manage a grantmaking body that helps many NGOs.

In “Reforming Foreign Aid to African Development”, Gorean Hyden pictures four types of structures that could be termed foundations:

The first are the rural development funds that donors began funding in the 70s. Their institutional location was typically in the office of the President and their principal aim was to enable the government to finance small-scale projects outside the framework of its own bureaucracy.

The second type consists of the increasing number of private foundations that have been set up locally, sometimes with assistance from American charitable foundations, with a view to financing small scale development projects at the community level.

The third are public sector versions of the former where donors have establish funds to cater to community or village development.

The fourth are social-action or social-development funds established with the help of the World Bank to deal with the adverse social effects of the macro-economic reform programs.

Hyden then proposes a 5th structure, the Autonomous Development Funds:

1. A public but politically independent institution
2. It caters to both government and civil society
3. It is a funding, but not an operational, agency
4. It aggregates finances from many sources
5. It brings donors and recipients together in new ways
6. It is national in scope of operation.

Goren Hyden’s remarks came as part of a discussion on foundations and endowments that appears in Development Dialogue 1995:2 (published by the Dag Hammerskjold Foundation). A number of scholars looked at the possibilities of new ways of handling foreign aid in Africa. The discussion compared several foundations, including the Philippines Business for Social Progress, the Grupo Esquel, and the Luso-American Development Foundation. Each illustrates a different way in which an endowed foundation can be run:

- The Philippines Business for Social Progress is supported by annual contributions from business firms which have set up the foundation, and with their
income have initiated an endowment. From this base, PBSP has attracted much more funding from external donors.

- Grupo Esquel in Ecuador was originally supported by a grant from the Rockefeller Foundation multiplied by a debt swap. This became the basis for their endowment. With this as a base, they have attracted other external funds, including a large grant from the Inter-American Development Bank.
- The Luso-American Development Foundation was endowed by massive grant funds from the U.S. government to the Government of Portugal. The organization is now debating whether these funds can also be used for assistance in ex-Portuguese countries in Africa.

Clearly, valuable and useful instructions exist on how to set up endowed foundations. These endowments, however, except in the Environment field, have failed to compete with grant funding as the formula of choice for donors.

The Advantages and Disadvantages of Endowments

For individual NGOs, endowed foundations can provide stable financing and give the local NGO ownership and responsibility for the funds. Endowed foundations also reduce dependence on external donors and gives the NGO greater flexibility in its financial decision-making. Because of the longer-term perspective that endowments generate, they allow the NGO to make long-term planning decisions and to provide job continuity.

On the other hand, there is a heavy burden of time and money involved in the start-up period, and the NGO will need to acquire new skills in financial management which it has not had before. There are also some dangers outside the NGO’s control: It is possible, for example, that the principal will be devalued. Finally, some commentators have noted that an assured source of funds gives less incentive to raise other funds, and may induce complacency.

If we are talking about a national NGO foundation, then the process of setting up the foundation will involve a need to build consensus amongst the NGO community (a valuable achievement in itself). Working with a wide range of NGOs will promote the operation of civil society and democratic pluralism. Moreover, the involvement of so many stakeholders anxious to protect their interests means that the foundation will probably set up an accountable governance and management structure. There will be a long process of initiation, however so long that some will feel it to be counter-productive. Also, as before, the money has to be managed — so returns on the investment may vary.

In theory, donors should look with favor on endowed foundations because they move large amounts of money with only a small administrative cost to the donor (and are administratively less burdensome than a large number of smaller grants). In addition, they will not swamp NGOs with more money than they can absorb (for while the actual amount of money is large, the part to be administered on a day-to-day basis is smaller).
In fact, however, donors are very leery of endowed foundations because donor organizations lose the control they have through stringent audit requirements, serial project proposals, reports, and so forth. Apart from this (which many think is the most worrying aspect for a donor), donors believe that there is a danger that the new foundation (or trust) will move away from the original vision or mission that inspired and guided the NGO, and that the NGO may not be able to acquire the necessary skills in financial management. It is very interesting to note that the Soros Foundation, which has made so many grants to Eastern European NGOs, has not yet endowed one of them - for some or all of these reasons. Some Central European NGOs have said that George Soros does not feel that the NGOs have been in existence long enough to prove themselves, and he believes the risks in “handing over the money” are still too great.

A final and important constraining reason donors are leery of endowed foundations is that an endowment requires large funds to help just one organization, compared to the usual method of lots of smaller grants. In order to understand this last point - the amount of funds that are required for an endowment compared to the amount of funds that are required for serial grants - please look at the illustration below (Figure 6):

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This illustration shows an NGO that receives income from an external donor of $40,000 per year, growing to $60,000 per year in a series of three-year grants. After six years, the external
donor helps it with an endowment that is designed to produce a regular flow of $50,000 per year in perpetuity. In order to do that it has to produce the sum of $1,000,000 to be invested with the expectation of net income of five percent on principal.

A donor organization which is making grants of $1,000,000 a year, but in twenty separate grants of $50,000 each grant, may be able to be convinced of the value of an endowment. One can make the case that $1,000,000 spent every year on one endowment will, over twenty years, support twenty self-reliant foundations, whereas the present funding system of grants will produce NGOs that are no more self-reliant at the end of 20 years than they were at the start.

Beyond the usual sort of decisions that we have to make in the world of development NGOs, there are a range of decisions that have to be made in considering endowed foundations.

**Autonomy**

Where institutions are created with public funds, the question of autonomy is critical. How can such an institution (particularly when it is the key foundation for grants to NGOs) preserve its independence and remain free from a variety of political influences? The solution lies in the structuring of the organization with respect to the composition of the Board of Directors and executive management, the designation of appointment and removal authority, and accountability mechanisms. In countries where problems of political influence, corruption and mismanagement are of great concern, appointment of top management and governance structures are key to the success and longevity of an endowed foundation.

**Legal Context**

It is likely that an endowed foundation created to support local NGOs is a structure that will have few if any legal antecedents in Southern countries. The organization proposing the endowed foundation will have to work closely with a lawyer to craft legal documents of incorporation which use existing laws but are not constrained by them.

There will be a second set of laws that need to be closely examined, and those are the ones that relate to taxes and investments. It is imperative that a foundation use its non-profit nature to claim exemption from all sorts of taxes, and it is also very important to have tax breaks/benefits for those who want to donate to the foundation. In the present fiscal climate in many countries of the world where the IMF and the World Bank are laying down stringent conditions on revenue collection for governments, this may well be a high hurdle. The World Bank, for example, has not addressed the contradiction between tax revenue conditionality and the sustainability of organizations of civil society.

Finally, it is very important that the foundation has the opportunity to invest some or all of its endowment in hard currency. It is true that protective currency regulations are being abolished in many places, but it should not be taken for granted that substantial amounts of money can always be invested off-shore.
Inasmuch as endowed foundations are a desired new form of institution in the South, it may be sensible to take a fundamental or radical approach to restructuring the legal system. Anne Williams says in her description of the Luso-American Development Foundation, “it may, in the long run, be more advantageous to modernize the legal structure with respect to the different types of organizations now flourishing in the world. In that way there will be a much better “fit” between the foundation and the legal framework. Any time there is an uneasy “fit” the organization can also be subject to arbitrary decisions on the part of authorities.”

Check List for Endowments

A check list for those interested in endowed foundations reveals the value of having a specialist to help in setting up the structure:

1. What are the laws, policies and regulations about endowments?
2. Who are the potential donors?
3. What is the history and experience of previous endowments from the NGO perspective?
4. What is the available expertise on these topics?
5. What is the likely cost of setting up the endowment?
6. Where can the money be invested?
7. What income is it likely to produce?

Experience with Endowed Foundations

Most of the experience with endowments comes from the environmental NGOs: they have been entrepreneurial and far-sighted in moving from serial grants to endowments, and they have knowledge of how it is done. But endowments have also been put into place in a variety of other fields, including NGOs in general (Trust for Voluntary Organizations in Pakistan), health NGOs (PROCOSI in Bolivia), and credit and small enterprise NGOs (Polli Korma Shahayak Foundation in Bangladesh). Organizations that are themselves grant-making foundations (like the Ford Foundation and the Rockefeller Foundation) have skills and experience in the establishment of foundations and endowments and are prepared to teach others about it. In the case of some of the longest established endowed foundations (WARF in West Africa, and Puerto Rico Development Foundation), the Ford Foundation took prospective Board members on a study tour of community foundations in the USA. They also did this with the Foundation for the Philippines Environment.

Experience with endowments in some countries also comes from bequests or foundations set up by rich individuals.

The assets of the endowment do not need to be in the form of financial instruments, and do not need to come from donations. The Islamic legal/religious tradition has the very interesting idea of waqf, which is a donation of property (land, building, shares) to Allah, and the appointment of a local management committee to make sure that the income from the property is used for a
specified purpose. Because this structure is religious in purpose it receives a tax exemption. The *waqf* tradition is a useful counterpoint to the multimillion-dollar thinking of most people concerned with endowed foundations. A *waqf* foundation may be quite small, but may still be enough to produce the income required to sustain an orphanage or small clinic.

There is a body of sophisticated knowledge available from The Debt for Development Coalition in the USA concerning Debt Conversion/Debt for Development Swaps: these are highly complicated arrangements with the Central Bank of a country whereby a portion of a country’s external currency debt can be bought at a discount in foreign currency - giving a larger amount of local currency to be used for some public purpose.

Paul Weatherley provides a useful list of eight possible attributes of endowed foundations’ which, “depending on the way they are set up and managed, can be attractive to donors, governments and civil societies.” His thinking is on behalf of funds for the environment, but they can be adapted to general purpose NGO support funds. They are:

1. Participatory: national funds encourage the participation of interested parties (government agencies, business sectors, and relevant interest groups) in all aspects of NGO development work. They become democratic and accountable nodes of empowerment capable of moving beyond narrow sectoral interests.

2. Representative: national funds encourage the representation of diverse interests in common activities that require cooperation and shared control.

3. Ethos building: national funds promote value systems that feature democratic principles, cooperation, and accountability, and move beyond the limitations of particular sectors or professions.

4. Robust: national funds can be designed with multiple accounts and multiple sources of funding. Diversity encourages stability, growth, self-reliance, and independence.

5. The right level: when developed at the national level, or, where circumstances warrant, at the regional level, NGO funds are at their most effective level in striking the balance among international, national, and local objectives.

6. Growth with minimal displacement: because of their ability to deal with multiple sources of income and multiple clients, national funds help distribute large infusions of capital so that they do not build one institution or program at the expense of others, or result in “all or nothing” competition. This encourages greater efficiencies within the system, and greater net benefits overall.

7. Absorptive capacity: national funds can accommodate donor’s needs to move large sums of money with fewer staff, while respecting recipients’ needs for stability,
steady growth, multiple and small initiatives, and long-term institutional growth.

8. Focus: national funds create an ideal focus for donor and recipient interactions. They can jump-start long-term processes that encourage synergy among donors and recipients, create platforms of potential interest to an ever-widening spectrum of capital sources, and serve as a vehicle for building local capacity for responsible decisionmaking.

“Foundation-Like Organizations (FLOs): the future of sustainable development” by Philip S. Robertson Jr. contains a very useful overview of the growth in endowed national foundations. Mr. Robertson believes that endowed foundations are the future, but points to four obstacles which inhibit their adoption:

a. Less money available from Northern donors as a whole.
b. Northern donor reluctance to lose control.
c. Too great reliance on Northern funding to start the endowed foundation.
d. Suspicion and interference from Southern governments who see such institutions as competitors for funding.

Other Forms of Grantmaking Foundations

While endowed foundations seem a very sensible way of ensuring a sustainable income stream to a grant-making foundation, there are successful examples which have set themselves up differently, or which use endowments as only one amongst several formulas for financial sustainability. Synergos has studied how the Fundacion Para la Educacion Superior in Colombia makes money from financial service ventures; how Child Relief And You in India makes its money from sales of cards and public donations, and how the Kagiso Trust in South Africa makes its money from investments in a number of black owned businesses, and a share of the proceeds from the National Lottery.

Another interesting model which seems to be gaining ground in the South is the United Way approach (usually being actively promoted by United Way International). Here, the sustainable income flow depends very heavily on creating the confidence of the public in a mechanism to collect funds and distribute them on a yearly basis. This often requires a large commitment of volunteer time since an annual campaign has to be mounted. This modality seems to have reached a high pitch of success in the Community Chest of Singapore, which has attracted and coordinated donations from the public at large, specialized groups of the public through societies and clubs, and the corporate sector.

Building Foundations - Summing Up

Again, as with Exit Strategies, we can find examples of foundations in many places in the world, at many stages of their development, and these have been catalogued best by the Synergos
Institute and the Inter-Agency Planning Group (a loose network of environmental organizations coordinated by UNDP for the Global Environmental Facility). Many of the foundations for single organizations are set up for environmental concerns, though some of them are also grantmaking foundations. What is new is a process in which the groups of civil society as a whole in a country of the South sit down and try to think through what they need in terms of resources and alliances to sustain development NGOs and CBOs in perpetuity. What is much more likely is that the initiative for a grantmaking foundation comes from a donor, or from a particular funding opportunity.

In considering foundations many factors may intrude to skew the thinking of the leaders of the NGO sector in a country. In Pakistan in 1992, for example, the US made available to the government a grant of $30,000,000 which it wanted to be used for a trust fund for the voluntary sector. This gave birth to the Trust for Voluntary Organizations (TVO), but this was not preceded in any way by a nationwide debate on what the voluntary sector needed; as a result, the early days of the TVO were difficult as the government tried to find ways of getting its hands on the money. A recent example of a pro-active donor is USAID in Zimbabwe (in March 1997) offering to set up the Zimbabwe-American Development Foundation. There is nothing in their announcement that suggests that this idea has come from a consensus-building exercise amongst Zimbabwean NGOs.

One of the best examples of a successful debate about the role of NGO foundations in a country is the Foundation for the Philippines Environment, which catalyzed a far-reaching and fundamental series of discussions about the future of environmental NGOs in the Philippines amongst the NGOs, the government, the donors, and the business community. The particular element that catalyzed the debate was a debt swap between the World Wildlife Fund and the Haribon Society (a Filipino environmental NGO), but the Philippine Third Sector was already in an advanced stage of reflection, discussion, and debate about its future following the evolution of the national CODE-NGO (Caucus of Development NGO Networks) from a number of variously partisan NGO umbrella organizations. The Synergos Institute covers this particularly well in a case study.

Donors rarely sit down with NGO leaders and talk about the best strategy for the future of the sector, and the ways that society can be galvanized to appreciate the work of NGOs and support their sustainability. Too frequently initiatives come from one donor (often the Ford Foundation - in West Africa, Puerto Rico, Mozambique, and most recently, Kenya); but however such an initiative is introduced, it will likely have to compete in an unhelpful donor climate. Donors are usually fighting for their market share of existing NGOs and responding to imperatives from their head office, not signals about what is best for the NGO sector in that country. Examples of where external donors contribute jointly to setting up grant-making foundations are few and far between. The fuel which drives NGO development at present is donor-initiated project funding, rather than any considered strategy by external donors for establishing and sustaining the NGO sector in a country.
While the body of experience in national development foundations lies with the environment sector NGOs, there is no reason why this formula cannot be used in other sectors. It does require a level of financial sophistication, and a basic set of accommodating laws about taxes and investments, however, and these may not be at the same level everywhere. Experience has shown that with political will these requirements can all be met, but it may require a long and arduous journey that some may believe is not worth the effort.

A successful endowed national foundation is one which has respect and trust not only from its clients, the NGOs, but also from other segments of society on which it depends, including the government and the business sector. It will be one with a wide variety of indigenous funding sources, and one which has the expertise to invest these wisely. In the enthusiasm created by this new field, rhetoric and wishful thinking has sometimes outstripped performance: a foundation with a narrow representation, dependent on funds from one external donor (as seems to be the case with the Ford Foundation-supported Kenya Community Development Foundation), has missed the opportunity that this modality gives for convening, growing, and sustaining the NGO sector within the nation.

The missing element is often investment from the business community. Too often, the business communities in the South prefer social investments that provide some clearer identification of their company with the activities of the NGO. It is more difficult to get the business community to put its social investment funds into an organization along with others. The Philippines Business for Social Progress (PBSP) is rare in that the corporations fund a multipurpose foundation, but it has also strategically considered the “What’s In It For Me” factor that is present in all dealings with the business sector. The PBSP offers a package to the business sector in which businesses contribute 1 percent of pre-tax profits every year, of which 0.2 percent goes into the common funds of PBSP, and 0.8 percent is for the company to commit to projects in its own name - usually involving employee benefits, or environmental work in the vicinity of the factory. Such an arrangement is very attractive to businesses which are trying to prove themselves good corporate citizens, impress their work force, and, at the same time, have neither the expertise nor manpower to themselves become a funding organization.

Notes
2There have been a number of publications from the Synergos Institute. The most complete is Building Foundation-Like Organizations in the South, by Catherine Overholt, 1996, with eight attached case studies.
3See Endowments as a Tool for Financial Sustainability — A Manual for NGOs, published in 1994 by PROFIT with AID funding; Handbook on Endowments - Using Alternative Funding Mechanisms to Support Agricultural and Natural Resources Management Programs in Africa, by Paul Weatherley (published by the University of Missouri with
USAID funding, but sadly never completed); and Options for Sustainability - Endowments as a Modality for Funding Development Work (2 volumes - Report of Seminar and Reader), published by Pact Bangladesh in 1993.

For reasons which are not completely clear, the environmentalists have made the most use of endowed foundations (though not always with the purpose of making grants to other NGOs). They even have their own association, the Interagency Planning Group on Environmental Funds. A May, 1995 document by this group listed 79 existing Environment Funds.

The best example to learn from is the well-documented Foundation for the Philippines Environment. The Foundation for the Philippines Environment - A Case Study, by Teresita del Rosario, Oct 95. From the Synergos Institute.


The unfinished Handbook on Endowments from the University of Missouri.


IV. Southern Resource Mobilization

Leslie Fox’s comments in his CIVICUS paper are a good place to start looking at the options for Southern local-resource mobilization:

Formalized philanthropy in Southern countries is hampered by two factors (i) a cultural tradition that may not promote voluntary giving and (ii) the lack of a resource base than can support philanthropic gestures.

There are a surprising number of ways in which voluntary giving is practiced in the South, but the practice is rarely linked to the kinds of work that NGOs typically implement. Even in a poor country like Tanzania, impressive amounts of money are mobilized by clans for weddings and funerals, while all over the Islamic world the traditions of zakat and waqf are carried on. Waqf, (a form of endowment) is very much restricted to endowments for religious purposes, and zakat (titheing) is bound by very detailed regulations. There is much work to be done both in encouraging more innovative fundraising and fund mobilizing techniques by NGOs in the South, and in adapting existing fund-mobilization traditions to take on a more developmental perspective.

In theory, there is no reason why zakat should not be used for small-scale credit revolving loan funds, rather than to buy food for a one-day blow out. Egypt has a tradition of turning zakat funds into development tools.

In order to clarify what options are open to SNGOs, this section is a review of Northern domestic resource mobilization possibilities and how applicable they may be, as well as a review of original indigenous fundraising ideas from the South. The variety of techniques is larger than what is generally thought of as “fundraising”. As well as street collections, for instance, fundraising also can involve collaborative contracts with government at both national and local levels, the SNGO starting its own business, and the SNGO going into partnerships with existing businesses. The Director of the International Fund-Raising Group complains that he always has the same initial response whenever his organization runs a fundraising training workshop which includes new techniques of fundraising and fund-mobilizing: “it may work there, but it will never work here.” His strong conviction, based on a great deal of experience, is that most proven techniques will work in most places — but they do require a great deal of effort and perseverance.

Domestic fund-mobilization techniques are not just about raising domestic money (as opposed to foreign money). They are also about creating indigenous supporters who care about the work and are prepared to support and defend it.
Self-Financing

For a community based organization (CBO) and for a mass organization or movement, it is fundamentally important that they have contributions from their members, which may be in-kind, donations of labor (used in turn to create some capital assets), purchasing of shares, or the payment of fees. Apart from mobilizing untied funds for the CBO, it is a measure of the members’ confidence in the organization, and donating ties them into the organization - frequently buying them the right to elect officers, decide policy etc.

For a CBO, the support of richer members of the local community by donations of cash or land is also a very important element of self-financing — both to create capital for the organization, and to obtain the support of local leaders. Where class conflict is an issue, this is obviously more problematic.

For all SNGDOs, the option of selling memberships or obtaining donations from supporters is both possible and necessary. Again, apart from the cash raised, such local financing ties local supporters into the organization who may then be useful in many other ways to the organization. The subscriptions can be used to support the general work of the organization and can be augmented by special drives for particular programs or projects.

Movements and mass organizations have a particular advantage here since an organization with many thousands of members, even if they are individually donating only a little, will be able to amass serious funds, which will enable it in turn to invest and build up a capital fund. The experts in this field are the organizations of Sahelian pastoralists which RAFAD has helped, where the collected funds of many small contributions are multiplied by guarantees in hard currency from banks in Switzerland.

Local Financing

There are numerous techniques for fundraising from the general public. These include door-to-door collections, street collections, payroll contribution collections, and one-off special events (fairs, films, shows, sports). Fundraising can also be in cash or in kind. This is one of the most common ways of raising funds in South Asia, and has been used for religious and cultural events, and particularly for disasters, as well as less frequently for ongoing development work.

More specialized fundraising is targeted at particular segments of the public (i.e., clubs, societies, local foundations, local businesses and philanthropists). It can involve basic requests for money or can be carried out through games, raffles, lotteries and the like. In-kind business contributions are often very useful, such as skilled personnel loaned to a SNGO.

In many cases, local government bodies have the responsibility and authority to decide on the management of (and thus the income from) local resources like markets, tolls, wharves, common land, and water, as well as the authority to decide on contracts for local infrastructural projects. In most of South Asia, for example, the access to these resources is grabbed by powerful people (many of whom are already on local government bodies already) who use it as one of the many
ways they have for consolidating their income and power. It is, in principle, quite possible for SNGOs’ clients/members to both get elected to local government bodies and ensure that SNGOs bid for and get control of local resources — and thus acquire the income that goes with that control. In practice, however, this is hard to achieve.

Sometimes national governments can be seen as SNGO donors. The best example comes from India, where CAPART has become an important source of funds for Indian NGOs (which would otherwise be looking for external financing). Indian NGOs make proposals for funds within certain guidelines, and the government body provides funds. In some cases the objections that SNGOs have about external donor financing are common to this method of financing as well — in effect, just replacing an external donor with a national government. In a democracy, however, (at least in theory) the votes of the electorate can influence government policy - whereas SNGOs find it difficult to influence external donor policies.

Rather than making grants to SNGOs, however, some government departments may be prepared to subcontract development projects (or elements in them) to competent NGOs. Sometimes the funded projects are a part of government policy, and they invite NGOs to apply for subventions to allow them to carry out the project (for example, distributing condoms, carrying out literacy programs, or vaccinating people). In India one department has even issued a directory of collaborative opportunities open to NGOs.

In some cases, a government may seek to subcontract with SNGOs to handle a particular part of a government program (e.g. baseline studies or research and evaluation). In many cases, external donors to the government make the involvement of SNGOs a condition for their funding of a government’s development project. SNGOs can, in theory, both do their intended work via government funding, and earn income by subcontracting to do a job for the government. A frequent problem, however, is the lack of congruence between government and SNGO aims and practices in carrying out development work.

SNGOs (particularly those which have programs which involve the creation of new wealth for which a service fee can be charged) have started to look at the existing banking system as a means of mobilizing capital. Their work can sometimes be financed by soft loans from a bank or finance house. Banks can also be asked for in-kind contributions of financial expertise to help SNGOs decide on the feasibility of an investment decision.

Enterprises

In discussions about NGO domestic resource mobilization possibilities, the idea of a Southern NGO owning a profit-making enterprise often appears to be the most attractive tool in the toolbox. Basically, this means helping a SNGO to start, or to take part in, some form of profitable enterprise, the profits of which are then used to fund the NGO. While under the right management this makes a lot of sense, the experience of many SNGOs suggests that it is more difficult
than it seems, and that a lot of thought and preparation needs to be put into such an idea before it is realized.

If it was simple to make money, then a lot more SNGOs would be doing so. It is quite possible for an NGO to enter into an enterprise which makes no income at all, and may even have a negative influence on the organization as it siphons off management and staff time. This leads to perhaps the most important warning for an NGO thinking of entering an enterprise: the enterprise is only the means to earn money for the end, which is the mission of the SNGO. If the enterprise becomes too demanding of time and resources, and if the income is relatively small, then it should be stopped. In addition, it is important that the Board remember that the chief purpose of the SNGO is improving the lives of the particular target group, not making money.

A skilled entrepreneur who works for an NGO, or who can be persuaded to help an NGO, and who can actually deliver a profitable enterprise for an NGO can, on the other hand, be a most useful person. He can open up a new era of untied funds, an end to vulnerability and instability, and the possibilities of a capital fund which can be fed into an endowment. Someone who can see the opportunities involved in mixing resources and satisfying needs, and who is prepared to take risks, is a very important asset to an NGO which is trying to find ways of generating income.

There are a huge variety of enterprises in which a SNGO can become involved, ranging from running hotels to selling handicrafts. What follows is a look at the variety of different enterprises that NGOs can invest in, and the risks and opportunities involved in each.

Succeeding Together - NGO stake in an income-generating activity

Here the organization takes a stake in an income-generating activity.

Suppose that an NGO’s mission is to increase the income of its members or of its target group by improving profitable avenues for self-employment. The NGO helps people to take on a new activity making something for which there is a local demand (e.g. baskets, farm tools, soap, or clothes) or for which there is a foreign demand (e.g. craft items or specialized foodstuffs). The NGO helps with the start-up funding, technical training, quality control, and marketing, and enables the target people to sell their products and make a better income for themselves. If the NGO does this on the basis of a project funded from external sources, its ability to continue doing the work depends on renewed grants from such sources. If, on the other hand, it takes a service fee on the goods that are sold, this becomes income for the organization. It then becomes a sustainable income for the organization which will allow it to keep doing this work in perpetuity - and, moreover, accumulate reserves which it can use for other development purposes. A very valuable part of this kind of operation is that the enterprise acts as a reality check for the organization. If the enterprise succeeds, the organization succeeds. If the enterprise fails, then the organization fails. This guards against the possibility of giving people advice which the organization itself does not have to live by.
Fees-for-Service Arrangements

Here the organization asks its target group to pay for the services that it is providing - (and possibly was previously providing free).

SNGOs usually claim to be working with poor people - if not the poorest, at least people with little disposable income. It has been customary in the past for NGOs to offer such people free services in the belief that they could not pay for them. NGOs' experience, particularly in the health field, has shown that even poor people are prepared to pay for some services, and that the provision of certain services need not be a net drain on the SNGO providing them.

Where the organization is offering a service to its constituency which is, in turn, creating income for them, then it seems entirely possible for a fee to be charged; but when the organization is asking its target group to pay for a service that is not easily connected to increased income for them (like literacy, for example), it seems, on the face of it, harder to justify. However, experience has suggested that people who, by definition, have little disposable income, are prepared to pay for services if they are good, needed, and accountable to the customers.

Where income creation is involved, there is little difficulty in charging a fee. The most common example is the provision of credit. A handling charge or service fee, expressed as a cost of providing the credit, can pay for the costs of the credit program, and keep an organization self-reliant. Usually the credit-providing SNGO is offering a considerably better alternative to the other form of informal credit - the moneylender - and the customer is quite prepared to pay a small fee for the service of getting non-exploitative credit. The fee is also deducted at the source and is therefore easily available to the SNGO.

If an NGO offers vocational training, entrepreneurship training, or other services for which fees cannot be paid up front, with the intention that the trained person will then earn a higher income by outside or self-employment, then the NGO might charge a deferred fee once the person has increased his or her income. While maybe more difficult to collect, experience from work with disabled people and from hospitals which have handled rehabilitative operations suggests that people who have been helped to become productive again are very eager to pay back the costs over a period of time.

As donors and NGOs alike take on a more market-oriented philosophy, there is a lot of interest in cost recovery and selling of services. It is where the NGO is thinking of charging a fee for services that do not result in additional income to the person concerned that the problems arise. This has bedeviled USAID's attempts to make family planning programs pay for themselves. While a certain amount can be made from cost recovery, the full cost is rarely recouped. USAID's present practice is to set up profit-making firms that sell contraceptive supplies ("social marketing"), and use the profits to subsidize other family planning work.

The push towards cost recovery or fees for service comes from two sides. The first is psychological, and argues that services which are paid for are more valued, and that therefore it is more effective to demand payment for services provided to the poor because they will value them
more and use them more effectively. The second is more pragmatic, and assumes that the NGO’s previous behavior of offering free services came from a discredited socialist perspective, and that payment for services should be the norm. There is a lot of pressure on, for instance, family planning organizations to sell their condoms or other family planning equipment, and for rural clinics to ask out-patients to pay for each visit.

It is true that no one knows what the market will bear until it is tested, and it is undoubtedly true that the poor are prepared to pay for services (particularly education, health, and credit) providing that they are good, reliable, and provided by someone who can be held accountable. The final truth is, however, that the very poor may be prepared to pay, but they cannot pay very much — and they are unlikely to be able to pay the full and real costs of the service. Again, there is a possible clash when NGOs with a mission to help the poor and disadvantaged are only able to do so by charging the very poor to the limits of their ability to pay. Some organizations make payment-for-services the norm, but are structured to provide free services for a certain portion (perhaps up to 10 percent of their clientele).

One advantage of fees-for-service arrangements is that it will soon become clear to the NGO which of its services people are prepared to pay for and which they are not. The forces of the market place may well show the NGO that poor people are prepared to pay for health insurance, for instance, but not for literacy classes. Such market feedback is very valuable for NGOs, many of whom continue to deliver services for many years without rigorous evaluation of effectiveness and impact.

The NGO seeking to collect fees-for-service should be prepared to recognize the difficulties that poor people have in paying for services in cash, even when they accept the principle of payment. NGOs should be prepared to take payment in kind (chickens, firewood, or grain, for example) and either turn them into money themselves or offset them against other expenses.

Spin-Offs - Enterprises linked to the work of the NGO

Here NGOs’ skills and experiences in a particular field are marketed to others who are not the target group.

It is quite possible that richer people or organizations are prepared to pay for the kind of services that an NGO is offering to poorer people; it is also possible that an NGO, by a smart examination of commercial possibilities, can see ways in which its own skills and equipment can be packaged in a different way to provide a product or a service that can earn income. In some cases this can contribute to the mission of the organization, in a different way; in other cases it will simply be an enterprising way to raise money.

An NGO which works in agriculture, for instance, and whose usual work is agricultural research, applying that research, and extension of crops for landless and marginal farmers, may well find that it is the only organization in the vicinity which has the knowledge and equipment for soil testing, or the only local organization with agricultural machinery repair facilities. If the NGO is
looking for a way to earn income, it needs to look at its resource base, and see who might be interested in paying for its services, either as they are, or with some modification. Larger farmers might be prepared to pay for soil testing, for instance, and smaller farmers for machinery repair. The potential problem with this concept is that the income generating activity may start to assume an unbalanced importance in the work of the NGO to the detriment of the work that it was originally formed to do.

Anything to make money

Here the NGO looks for a money-making enterprise that has no links at all to its own work. For an NGO with a strong need to develop some income of its own, the idea that it might be possible for the NGO to own a stand-alone source of independent income seems like a fantasy. There are, however, some examples of how this might be done. One, which occurs relatively frequently, is for the NGO to raise the money to buy property, both to house the NGO’s office and also to rent out rooms or floors to provide income to the organization. OXFAM, in the UK, pays for the costs of its large four-story headquarters building by renting out the ground floor shops. Apart from the example of property, the variety of enterprises which an NGO might seek to own or to have shares in is a product of the local economy, local benefactors (who may give goods in kind), and local entrepreneurial flair. One NGO in Bangladesh, BRAC, owns a garment factory, a cold storage plant for potatoes, and a printing press. An NGO in Thailand owns an alternative travel agency; and an NGO in Sri Lanka, Sarvodaya, owns a motor vehicle repair garage.

The whole point of such enterprises is to make a handsome profit, and to turn this profit over to the NGO to be used for the NGO’s core work. For the NGO to make a profit requires the services of a person experienced in running a business, and such people are rare in the world of NGOs. While the idea is very attractive and financing is possible (though not easy), few projects overcome the difficulties of identifying a business enterprise that is likely to continue to make money into the future. Another difficulty comes from the need to divide the management of the enterprise from the management of the NGO. A third difficulty is the potential clash with the vision and mission of the organization, and the possibility that the enterprise may become more important than the NGO which spawned it.

Partnerships with the Business World

Here the NGO works with a business to achieve objectives that are beneficial to both parties. Two methods for generating income from the business sector entail appealing to their philanthropic sense and fundraising from them. Another method is to enter into joint ventures with firms in the business sector that will be profitable to both the business and the NGO.

Some commercial businesses are concerned about development problems, but do not see how they can help (except by creating wealth and paying taxes). Sometimes it is possible for the
NGO to suggest new ideas to businesses which can be seen by them as enlightened self-interest, such as ways to expand their markets, or save costs, or improve their image, which at the same time can be beneficial to an NGO, and through the NGO to poor people.

Such ideas require a difficult balance of idealism and pragmatism, creative vision and practical hard work. A business can be asked by an NGO to collaborate at many different levels — from sponsoring the production of a book, for example, right through to working with them on a specific program. A little bit of creative thinking will suggest many possibilities. The well-known firm, Body Shop, for instance, makes its money from a variety of beauty and skin care preparations made from natural, often exotic plant products. It is definitely interested in environmental projects which are concerned with protecting biodiversity and discouraging habitat loss. While an NGO will rarely find a business which sees its own interests served by simply underwriting the costs of an NGO’s operations, there are many possibilities for mutual advantage to be had in special projects or campaigns.

There is another equally valuable reward which comes from working with the business world, however, which is of strategic importance to the NGO sector. By collaboration with the business sector, NGOs become better known to and valued by an important part of modern society. Forming alliances with the business world is a valuable strategy for NGOs vis-a-vis the government, for instance.

While many of the ideas presented above are already well known to Northern NGOs, very few NGOs in the South have yet put their toes in the water. It is seen by many to be easier to rely on writing proposals to external donors for funds. Observers of NGO attempts in these fields have also noted some problems and issues.

Problems and Issues

- **NGOs need an entrepreneurial approach**

  The reliance on grants has discouraged an entrepreneurial approach amongst NGOs (except for the honing of the skills needed to approach donors and package proposals for them). A very definite change in approach and change in perception is needed by managers of NGOs if they are going to seriously consider the variety of possible income generating activities. In many cases, it will involve re-examining prejudices and entrenched beliefs. In many cases, it will also mean thinking like a business person looking for investment opportunities — and this is not something with which many NGO leaders have experience. The background of most NGO leaders is politics, social work, and academia — very rarely business.

- **Belief that income generation is important & proposal packaging is not enough**

  Donor manipulation, donor packaging, and donor managing have become learned skills with many NGO leaders, and a fall-off in donor funds is often met by an increasingly desperate search to mine unexplored donor territory or to respond to donor imperatives.
It will be hard for many NGOs to be serious about the difficult job of moving their organizations toward a posture of financial self-reliance. The decision to do so must not simply be one of seeking alternative sources of funds, but must be accompanied by an analysis and acceptance of the political and social implications of being dependent versus the implications of being independent.

Looking for and developing alternative sources of financing will be very difficult for many NGOs, and at many stages they may want to slip back into their previous attitudes. The decision to become independent has to be a serious one, arrived at after serious consideration of the options, and with a clear understanding of the organizational changes required. In many cases, NGOs should be prepared to undertake a strategic planning exercise before starting into alternative financing mechanisms.9

• *Losing the Vision*

NGOs are organizations driven by a vision of a better society. The work that they do, for the most part, reinforces that vision. Health outreach, credit schemes, and literacy programs, for example, bring staff into touch with their target — the poor — and re-inforce their motivation to continue doing this work. When the focus becomes making money (even though the money made will be used for the work of the organization), a new set of attitudes starts creeping in, and many NGOs are concerned that they will lose their internal cohesion. Some NGOs are so concerned about this that they would prefer to isolate the income-generation part of the organization from the rest of the work of the organization, recognizing that two different personality types are likely to be attracted, and that one will tend to “infect” the other to the detriment of the organization.

• *Personnel Problems*

NGOs will have to hire different kinds of staff to handle the business sides of their work if they are serious. Their reward systems are likely to be different, and their salary structures and incentives/benefits packages are likely to evolve differently. Some NGOs see this as a possible destructive force in an NGO’s cohesion; others respond by running two (or more) sets of organizations with different rules and expectations.

• *Tax and Law*

NGOs work within the laws of the countries in which they are registered. The laws usually define non-profit agencies differently from for-profit agencies, and few countries’ laws have clarified the legal position of an agency which makes a profit in order to enrich its target groups, not its stockholders. The laws are, for the most part, not helpful, and the lack of clear legal identities and legal guidelines make many NGOs scared of getting into organizational income generation in case they are accused of breaking the law, or in case they are taxed to such an extent that they do not make enough income to warrant the venture. Furthermore many NGOs are sensitive to accusations that they are disguised profit-making, self-aggrandizing organizations, and they should have a clear public relations strategy before walking into what many would see as minefield.

Politically there is a lot of confused thinking. Governments (even those who like the work of NGOs) recognize the value of decreasing dependence on outside financiers, but worry that
NGOs which have their own sources of funds will not be controllable in the same way as they are when external financing is subject to a government approval mechanism. Governments who do not like NGOs will find many ways of accusing NGOs who are trying to become financially self-reliant of being a new class of exploiters.

Legally, the status of a non-profit company, or a charitable foundation exists in most countries of the South, and with it goes the possibility of tax relief, but in no country is the path well used and smooth.

• **Worries about NGOs becoming Exploiters**

  Many NGOs are wary of getting into business enterprises because the models of business practices that they observe in their own countries have persuaded them that exploitation of the work force in order to satisfy the greed of the owners is the norm. They are therefore very worried that they will have to behave in a similar way to make the profits that they desire, and that they will become part of the problem, rather than part of the solution. The idea that an NGO can become not only a fair employer, but also a successful and profitable entrepreneur, is a mighty challenge, one that some NGOs are wary of taking up.

• **Anti-business feeling**

  “Making a profit” has been, in the past, a dirty phrase among many people of a leftist persuasion, and many NGO staffers come from such an ideological background. Models of fair, honest, and just entrepreneurs who have contributed to society by transforming raw materials into publicly available goods, and in the process have not exploited their workers, damaged the environment, broken or evaded the law, or suborned public officials, are few and far between. As a result of this many NGOs have had little contact with business people, and distrust has built up and fed on itself.

  While the increasingly pervasive ideology of the market place and privatization have eroded some of these attitudes, they are still strongly held among many NGOs. As “Filthy Rich — And Other Non-Profit Fantasies” puts it,

  Traditional Non-Profits are distrustful of money. Many of them disagree with the traditional “bottom-line” thinking of the for-profit world. They fear that if concerned with money they will lose their social goals. They fear money will pollute their mission. They fear they will lose their non-profit virginity.

  These attitudes apply equally to mounting a fund-raising event to coax money from the rich, to running a business venture to create money, and to investing endowment funds in a bank which will lend the money to others. Closer acquaintance with well-managed businesses may help dispel these attitudes.
What Proportion of Financial Autonomy?

When NGOs do some serious research into the income-generation strategies that are available to them, they are frequently dismayed by the small quantity of income they are likely to get for the amount of time and effort invested. Complete financial autonomy seems unattainable. There are two observations on this:

a. Involvement in external funding has, in many cases in the South, accustomed NGOs to a life-style, program, and management practices that are out of keeping with cost-effectiveness and the practices of comparably sized, locally funded organizations. If there were competing demands on the funds, and if the available income were hard-won from fundraising or self-financing ventures, it might be that the NGOs would decide on a simpler and less expensive operation. One response to worries about how an NGO could ever raise sufficient funds is to reduce the quantity of funds that it needs to raise.

This has implications for administrative costs, and also for the way the NGO carries out its programs. When funds are relatively freely available there is tendency to subsidize programs, give away money and avoid the hard logic of sustainability. If funds are hard-won, more attention is paid to cost recovery, to sustainable programs, and to cost effectiveness. An organizational commitment to financial autonomy, as was mentioned before in connection with “Losing the Vision,” is likely to lead towards serious re-appraisals within NGOs about their work and their operating styles.

b. Many NGOs approach organizational income-generation issues with a desire to diminish their dependence on external financing, and to give themselves more control over the funds they manage than is possible in the external-donor and project-dominated structures. NGOs are happy to apply for and receive external funds provided that they are not dependent for their organizational survival on this method of financing. A good case can be made for saying that an NGO should generate sufficient funds to cover its basic operating costs from non-external sources, but approach existing funding agencies for its program costs. Such an approach, preferred by many, can be shown in the following diagram (Figure 7: Suggested Model)
Funding agencies exist, and their job is to spend money on development projects. They seem likely to continue to exist—albeit at reduced levels of expenditure. While a small SNGO may see it is better for the organization to be fully integrated into the local economy, and better for it to be less dependent on external donors, that small NGO may well not see a problem in taking donor funds for programs—provided they are on terms acceptable to the organization.

On the other hand, an organization seeking full financial autonomy must try to put together a mosaic of domestic resource mobilization techniques, and might look like the following diagram.
In Figure 8, an NGO has built up a number of different domestic sources of funds and has, as soon as possible, created a Capital Fund that can be invested. Many NGOs will feel that this model, though admirable, is impossible without a philanthropic tradition for development work and at least a small upper and middle class with disposable income.

A comparison of the preceding diagrams with Figure 1 shows the enormous differences involved in moving from external donor dependency to greater financial autonomy.

**Southern Resource Mobilization - Summing Up**

While many small NGOs in the South can point to the occasional dinner dance, charity cricket match, or street collection, they often rightly complain that these generate only small amounts of money and take an inordinate amount of work. If this is what they mean by domestic resource mobilization, they recognize that there is no way that such resources can run their organizations.

We need to look at some examples of how successful NGOs have run their whole operation on locally collected funds. One example is Lok Kalyan Samiti (LKS) in New Delhi, which runs an eye hospital based on a direct mail program that the Director slowly built up. He now has 30,000 active supporters who regularly send money to LKS and he has started coordinating a network of over thirty eye hospitals all over South Asia to raise funds. Another example from India is Child Relief and You (CRY), which is a donor agency in India helping a variety of different child
development NGOs. It raises its money from a huge greeting cards operation which it initially modeled on the UNICEF greeting cards scheme.

Both these examples reflect some important points: India has a substantial middle class, and its culture of philanthropy is well developed. These two organizations also collect for causes that are well established in the public mind as worthy of charitable support (the disabled and children). NGOs have to be canny and strategic in thinking about who their work might appeal to and in deciding on the fundraising modality which might be appropriate to their cause. In Bangladesh the prospect of raising money from the public for women who have survived rape at the hands of the Pakistani army during the war of independence was not good, given the feelings of shame that the Bangladeshi culture associated with such women. In such a case, a better way of raising money was to buy and export the functional sisal rope pot holders that the women used, which could be marketed in the West as ornamental plant pot holders. This was the route taken by CORR-The Jute Works. The organization expanded into a huge craft export business which has not needed any foreign assistance since 1974, and is now a Bangladeshi donor organization using the profits from its enterprise.

It is possible for NGOs to make money domestically, but it is rare that a single idea will generate enough income. It is more likely that an NGO will have to have a number of fundraising ventures going at the same time. A great deal more research and publicity is needed on those organizations which have been successful and how they have become so. I attempted to do this in Bangladesh with case studies of 4 organizations (one of which was CORR-The Jute Works),11 but there is a need for more examples internationally. One example captured in Phil Robertson's paper is the Belize Protected Areas Conservation Trust which has arranged with the Government to receive a $4 tax added on to the departure tax for every foreign tourist.

Money for fundraising ventures does require start-up capital, however, in line with the old adage that you need to have some money to make money. And for organizations that are almost wholly dependent on foreign funding, the usual avenue for requesting such start-up venture capital is to tap foreign donors. Sadly, very few foreign donors, in spite of their repeated rhetoric about self-reliance and sustainability, will provide funds for this purpose — and often cite their own rules and regulations as an excuse. One very pragmatic example from Bangladesh both illustrates the value of external donors helping with internal fundraising and, because it was considered too maverick and was closed down, illustrates the problem: CIDA Small Projects Fund, which was restricted to one-time grants, realized that most of the small NGOs doing credit and income-generating projects could not continue to sustain themselves after the CIDA money was spent. They therefore asked the project holders to suggest what capital items would be required to make sufficient money to pay for their overhead and, after negotiations, bought these for them. A fleet of ten rickshaws hired out produced enough regular income to pay the salary of the accountant.

Worldwide, the Red Cross has been one of the few NGOs which has thought through the logic of sustainability and has, in many cases, linked Northern Red Cross organizations to national
Red Cross, or Red Crescent, organizations in the South. The Northern Red Cross organizations have paid for the costs of a building to be owned by the Southern organization, and, if well managed, the rents from this will pay for the programs of the Southern organization in perpetuity.\(^{12}\)

Two factors are therefore essential for SNCOs to become sustainable from domestic resources: a commitment to this modality, and a willingness to wean themselves wholly or partly from Northern donor funding; and, commitment from the Northern donors to help the Southern donors in this task. This means investing in training, in research, and in venture capital. The logic is clear — but the gap between rhetoric and reality is wide.

In addition to the need to document Exit Strategies (in the same way as Synergos Institute documented case studies of foundations), there is also a need for an organization to document examples of Southern resource mobilization. We know that there are many ways to approach it, and that appropriate strategies can be successful even in countries which, on the face of it, have neither a middle class with disposable income nor a tradition of philanthropy.

Notes

1The Indonesian Islamic reformist NGO, Lembaga Pembangunan, Penelitian dan Penembangan Ekonomi Sosial, has tried different modalities of using Zakat funds, but the idea has not taken off in Indonesia.

2Most fundraising devices used in the South for development purposes are Southern equivalents of techniques also used in the North, (Harambee pledging in Kenya is not so different from public pledges at fundraising events in the North). One technique I observed in Botswana I have never seen elsewhere; it is a reverse talent competition/auction where people volunteer to sing/recite/dance, egged on by their friends who pledge funds for them to do so, and they can only be stopped by others pledging more funds to get them to sit down! The organizers win either way.

3RAFAD is based at 1, Rue de Varembe, 1211 Geneva 20, Switzerland and offers the following services: "RAFAD is known first and foremost for its International Guarantee Fund, which has been operational for ten years, serving some fifty partners based in 15 countries in the South. RAFAD also guides its partners towards creating their own guarantee funds or joint national funds. In such cases RAFAD shares its experience in creating and managing guarantee funds with its local partners. RAFAD also contributes towards the creation of local investment companies, helps with the creation of debt swaps, or any other alternative financial instrument or mechanism which promotes sustainable development." RAFAD is closely allied with IRED, whose book *Towards Financial Autonomy* (mentioned above) is the basic text for so much of the thinking on NGO sustainability.


6An interesting case study is Prosalud in San Salvador, funded by USAID, which was able to show that poor people were prepared to pay for a high quality health service. Prices were pitched at a level that gave Prosalud a margin to subsidize the very poorest 10 percent who could not pay at all.
This section owes much to the thinking and practical work of the Prince of Wales Business Leaders Forum, an organization whose purpose is to build partnerships between the business and NGO worlds.

In one of the few cases where an NGO leader is an ex-business person, Mr. Abed of BRAC in Bangladesh, the differences are very visible. BRAC successfully runs a variety of businesses.

A recent book by INTRAC, NGO Funding Strategies: An Introduction for Southern and Eastern NGOs, by Jon Bennet and Sara Gibbs, is very good on this subject.


Four Case Studies of Locally Financed NGOs, Pact Bangladesh, 1992. See also Private Sector Funding of Development in Bangladesh - What Possibilities are There?, Drezler/Huda. 1992, Pact Bangladesh and Developing Domestic Sources of Funds - a Review of PYDO Practice in Bangladesh, by Datta Gupta et al., Pact Bangladesh and OXFAM Bangladesh, 1994.

V. New Directions - Where Will They Lead Us?

At the start of this piece, we have seen how Northern governance can be phased over into Southern governance and management for Southern NGOs; we have seen how foundations can be set up in the South which will access funds from many sources and be Southern-managed resources for the sustenance of Southern NGOs; and, we have seen how Southern CSOs can develop new partnerships with domestic resources and institutions so that they can gain both financial and political support for their work.

If all of these measures are put into place, what will the situation look like? Compare the following diagram to the diagram at the start of the article (Figure 2):

Figure 9: Preferred Pattern of NGO Assistance
What you can see here is:

- A reduction in size of the Northern NGO’s work in the South.
- A new actor, the Autonomous Southern Foundation, which receives help from many different sources to assist Southern NGOs.
- A substantial income flow from private giving in the South.
- A substantial income from corporate giving in the South.

What you can infer is:

- Decisions on CSO programming will be made in the South.
- The Autonomous foundation will be endowed, and will present a sustainable income flow for Southern NGOs.
- The public, government, and private sector all support the work of the autonomous foundation and, by implication, the NGOs that it supports.

These measures, (and for all of them we can point to some proven examples) will go a long way to ensuring that decisions are taken in the south, that resources are mobilized in the south, that the populations in the south are linked to the work of CSOs, and that their work is sustainable.
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THE UNIT OF DEVELOPMENT: NOT THE PROJECT

Under the traditional project-specific approach, the national NGO of a developing country serves as a contractor carrying out the agendas of Northern donors. Although donors claim that Southern NGOs are agents of change, they rarely encourage self-reliance to the point of sustainability. Thus the NGO remains hostage to the project cycle, and if new projects are not forthcoming to replace those that have been completed, the organization in all probability falls apart. Richard Holloway, Senior Associate and Zambia Representative for PACT, reviews three strategies which will enable NGOs to become sustainable organizations. Price $10.00, 1997 (45 pages).

THE NGO-BUSINESS HYBRID: IS THE PRIVATE SECTOR THE ANSWER?

The question of “organization sustainability” for grassroots organizations in developing countries has become more urgent in view of both diminishing development resources and increased expectations directed toward Southern NGOs. Generating sufficient funding of NGO activities has always been and continues to be the biggest difficulty facing the development community. One way to bring income into an organization and their projects is for the organization to start businesses. Lee Davis, the Co-Director of NESsT, examines fifteen NGOs and their attempts to generate income through commercial ventures. Mr. Davis identifies key issues and obstacles that exist in implementing self-financing approaches to supplement traditional public and private project-based donor funding. Price $20.00, 1997 (138 pages).

SETTING THE DEVELOPMENT AGENDA: DEVELOPMENT VS. DEMOCRACY?

What might be called an over-supply of foreign aid is flooding into new democracies, particularly in the former Eastern bloc, due to Americans’ eagerness to promote “civil society” institutions there, especially indigenous NGOs. The great challenge facing NGOs in the new democracies as elsewhere, is to develop strategies that will enable them to interact with the external environment to gain resources and to manage successfully the ones they have. Ann Hudock, who works for AID’s Center for Democracy and Governance, outlines how shrinking outside assistance can actually assist NGOs toward self-sufficiency. Price: $10.00, 1997 (55 pages).

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