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## TOOLKIT ON CSO FINANCIAL SUSTAINABILITY

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# INTRODUCTION

Financial sustainability remains one of the most formidable challenges confronting both civil society organizations (CSOs) and the donors—international and domestic—that fund them. The U.S. Government has been in the forefront of efforts to build local capacity and create a vibrant, effective and durable Third Sector. While U.S. financial support for the CSO sector has been increasing globally, there is concern about recipient organizations' dependence on the U.S. and other foreign donors, particularly in regions where funding is in decline and/or donors are “graduating” countries such as Central and Eastern Europe and parts of the former Soviet Union.

This toolkit on promoting financial sustainability for pro-democracy CSOs involved in advocacy and watchdog activities grows out of a larger study on the subject conducted for USAID's Office of Democracy and Governance by Management Systems International.<sup>1</sup> It also draws generously on the Europe and Eurasia Bureau's annual *NGO Sustainability Index*, which tracks progress along seven dimensions, including financial viability. The toolkit is designed as a compact, practical guide primarily for USAID Missions and Washington-based staff to assist in developing and implementing programs to enhance CSO financial durability.

As elaborated in another section, the focus on democracy-oriented advocacy and watchdog groups stems both from USAID priorities in civil society strengthening efforts and the recognition that such organizations are the most dependent on international donors because they face many more obstacles than traditional service delivery organizations and other types of groups in securing funds from local sources.

A disproportionate share of the examples cited in the toolkit is drawn from the former Communist countries of Central and Eastern Europe (CEE). This is no coincidence. The political and financial priority attached by foreign donors to democratic consolidation in the region, the transitional nature of the international assistance programming in the region, some key donors' emphasis from the outset on sustainability goals, and the existence of post-communist governments favorably disposed toward a robust Third Sector all make CEE something of a laboratory for studying financial viability. However, like the original study, this toolkit is global in scope, examining lessons learned and best practices worldwide. Further, while the strategies pursued by groups that have met with greater financial success are appropriately tailored to the unique constellation of conditions in the given country, many of the core components are similar. This comparative perspective informs the toolkit and yields insights into what approaches are more likely to be successful in different settings.

## METHODOLOGY AND SCOPE

The study carried out by Management Systems International employed a hybrid approach, relying on key-informant interviews with a wide range of practitioners and other experts, a review of applied academic

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<sup>1</sup> “Keeping the Pressure On: Sustaining Civic Advocacy,” a study conducted by Management Systems International for USAID's Office of Democracy and Governance, June 2006.

literature<sup>2</sup> and related documentation on CSO sustainability, and mini-case studies of a few dozen organizations distributed across the major geographic regions. Preliminary research suggested that these groups had made significant progress along the financial sustainability continuum and was supplemented by in-depth interviews and examination of organization-specific reports and materials.

The inquiry's original expansive scope was narrowed in two ways. First, the study examined financial sustainability rather than sustainability writ large because it is this dimension that presents the greatest challenge for CSOs worldwide, although the intensifying backlash against international democracy promotion efforts is creating a hostile political climate for civil society in a growing number of countries. USAID's *NGO Sustainability Index* for the Europe and Eurasia region, for example, shows that CSOs consistently lag in the area of financial viability. However, the study explicitly recognizes that the durability of advocacy and monitoring organizations and their ability to acquire the requisite resources to implement programs is inextricably linked with such factors as public image, the prevailing legal and policy framework, and the extent of volunteerism and a culture of philanthropy.

The second way in which the scope was delimited was to concentrate primarily on democracy-promotion advocacy and monitoring/watchdog CSOs owing to USAID's robust support for such organizations and the importance it attaches to their longevity vis-à-vis democratic consolidation, intense concern about their fate in countries where Agency funding is declining and/or Missions are being closed, and the aforementioned hurdles these organizations face in generating resources locally.

## DEFINITIONS

For the purposes of this toolkit, financial sustainability is defined as the ability of civil society organizations to secure the resources they need to carry out their basic mission over an extended period of time. The core idea is organizational durability for groups that are viewed as essential to the democratic evolution of the society. Longevity per se is not the issue, except perhaps in cases of highly authoritarian political systems where the very existence of outspoken pro-democracy groups, even ones completely dependent on international donors, is a highly desirable outcome. Rather, the goal must be to build an effective CSO sector capable of influencing government decision-making and the country's political development more broadly. Stated differently, while the paramount aim of an individual organization may be survival, donors must necessarily focus on the sector as a whole and also attach highest priority to impact, not durability for durability's sake.

There is a generally close correspondence between the most capable groups and those best able to attract funding from a variety of donors and generate income through different activities. But this relationship may not hold in the cases of democracy and human rights groups, which commonly face enormous difficulty in securing adequate funding from local sources. This serious challenge necessitates relaxing of the overly narrow definition of financial sustainability to include diversification of foreign donor support. While probably not a long-term solution, having a large number of international donors does reduce a group's vulnerability and can provide a sturdy platform from which to launch a multi-pronged financial viability strategy.

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<sup>2</sup> The comparative work of Lester Salamon and his colleagues at the John Hopkins University stands out in analyzing issues such as the role, impact and durability of the Third Sector. See, for example, L. Solomon, S. Sokolowski and R. List, *Global Civil Society: An Overview*, Johns Hopkins Center for Civil Society Studies, Baltimore, 2003).

The term “harder core civil society groups,” used throughout the toolkit, refers to the set of organizations that engage in vigorous advocacy activities and/or perform government watchdog functions in the area of democracy and human rights. They frequently have a contentious or outright antagonistic relationship with the host government and are sometimes vilified by large segments of their own citizenries -- two of the reasons why such groups tend to be dependent on financial backing from international donors. Neither host governments nor the conflict-averse private sector are promising candidates to provide financial support for these groups, which also are handicapped by inchoate constituencies that tend to form around provision of seemingly abstract public goods such as democracy and good governance.

## FINDINGS AND FACTORS CRITICAL TO SUCCESS

The global study on CSO financial viability yielded a number of important findings for donors and civil society activists, alike. Among these are:

### NEED FOR ONGOING INTERNATIONAL DONOR SUPPORT WHILE PURSUING DOMESTIC SOURCES

There is no panacea in the search for financial sustainability for democracy promotion advocacy and watchdog groups. The number of harder core democracy CSOs that have become financially viable without generous support from international donors is negligible, owing to the aforementioned impediments they face in securing domestic resources. Groups such as the **Humanitarian Law Center** in Serbia have achieved a measure of financial viability but only by diversifying their foreign donor base. Other organizations, particularly those that combine advocacy and research, for example, the **Institute for Democracy in South Africa** (IDASA) and the **Center for Democratic Development** in Ghana have succeeded in attracting support from international donors and have used it as the platform from which to launch efforts to identify and secure local funding, including from the government.

In general, host governments are reluctant to be held accountable for upholding democracy and human rights norms and standards while their corporate counterparts are cautious about alienating would-be clients –making them both unlikely to provide financial support to outspoken advocacy and watchdog groups (except perhaps to try to co-opt them). Nor in most instances would these CSO pursue such funding for fear it would compromise their independence and reputation.

The bottom line remains that if the USG and the rest of the international donor community are determined to see pro-democracy advocacy and watchdog groups flourish, they probably will have to provide the bulk of the resources for the foreseeable future. This reality was explicitly recognized in the establishment of legacy mechanisms such as the Trust for Civil Society and the Balkans Trust, which sought to soften the blow of rapidly declining international donor funding in Central/Eastern Europe while helping CSOs become more financially viable. At the same time, because many of these vocal, high profile democracy groups have received comparatively generous support from foreign donors over an extended period of time, they’ve had less incentive to devise and implement fundraising and income-generating strategies targeting domestic audiences – despite donor efforts to encourage concern about long-term financial viability.

## HOSPITABLE ENABLING ENVIRONMENT

A legal and regulatory framework conducive to financial viability of the CSO sector is absolutely indispensable. Without the necessary legislation governing charitable giving and a range of revenue generating activities CSOs have little prospect of securing the resources they need to become financially sustainable. Countries with favorable enabling environments at a minimum permit CSOs to form and operate freely within a regulatory framework but without government interference. Most have gone a step further, creating laws specifically intended to assist CSOs in becoming financially viable. These include:

- Framework laws that permit CSOs to engage in fee-generating activities as an additional source of revenue to sustain their non-profit mission;
- Tax laws providing for exemptions to CSOs on their income from grants, donations, dues and in some instances a portion of their income from fee-generating activities; and
- Tax laws granting benefits to individuals and/or businesses that contribute to CSOs with an eye toward increasing resources in the short-term, strengthening ties between CSOs and the communities they serve, and encouraging a culture of philanthropy.

Several countries have gone even beyond these foundational laws to active promotion of the Third Sector, often through government support in the form of contracts, grants or subsidies. In Central and Eastern Europe, a combination of reform-minded governments and effective CSO advocacy coalitions put in place legal frameworks that aim to strengthen the Third Sector and facilitate the quest for financial viability, including through “percentage philanthropy,” whereby taxpayers can designate 1% or 2% of their tax bill to go to eligible CSOs. By giving the taxpayers decision-making authority over a portion of the money owed to the government, these innovative laws depoliticize the funding process and have the added advantage of encouraging groups to market themselves to stakeholders. Commissions and foundations set up to distribute public funds (e.g. taxes, lottery proceeds) to CSOs likewise can promote greater transparency and accountability, largely taking politics out of the mix.

In addition to having a legal framework that encourages philanthropy and permits a variety of income generating activities, CSOs require an environment hospitable to civil society development in other ways. The overall political climate has to be civil society friendly if advocacy and watchdog groups have a realistic chance of becoming financially sustainable, particularly if this is to involve weaning themselves from foreign donors and cultivating local sources. Authoritarian regimes have many means at their disposal for limiting the strength and influence of CSOs, from using laws to restrict access to foreign funding or to stifle criticism, to outright intimidation and harassment to squelch advocacy activities. Moreover, these governments can ensure that no public money goes to CSOs perceived as hostile and also carry out propaganda campaigns through a tightly controlled press intended to diminish organizations’ standing with the general public.

Economic well-being is another environmental factor affecting the prospects for CSO financial viability. As chronicled in this toolkit, there are certainly organizations operating in lower-income countries that have made significant strides in this direction through innovative strategies but overall it is an enormous advantage to be located in a country with a dynamic and growing economy where both individuals and businesses have more disposable income and opportunities for CSOs to engage in for-profit activities are more plentiful.

And yet, if a society lacks a culture of philanthropy, wealth creation will not necessarily translate into more resources for the CSO sector. A comparatively poor country like the Philippines has a strong tradition of charitable giving whereas CSOs in the former Communist countries are dealing with historical legacies that have left citizenries suspicious of CSOs or believing that governments should provide funding.

Closely related to the concept of a philanthropic culture is the spirit of volunteerism. CSOs can rise and fall depending on their ability to attract skilled and dedicated volunteers, who can compensate (up to a point) for lack of financial resources, especially for mass-based organizations. These groups' influence may stem more from a capacity to mobilize the citizenry than from having adequate funds to carry out various types of more conventional programming.

## **STRONG PUBLIC IMAGE**

CSOs in every region confirm the criticality of establishing a high profile and solid reputation for effective programming, top-notch analysis or the whatever the primary mission of the advocacy and watchdog groups happens to be, if an organization is to have much hope of becoming financially sustainable. For donors interested in maximizing the impact of their assistance resources or for would-be local contributors debating to which groups to donate, a CSO's standing with the public will help determine its success in attracting money. A compelling public image is both the result of and helps to fortify a core of loyal supporters among the donor community, government officials or the public at large, and is essential to efforts to expand the base of possible contributors and clients.

An organization that is widely recognized for making a difference increases its prospects for receiving money from individual contributors, foreign donors and host government (in the form of both grants and contracts). Central and Eastern Europe presents an instructive case. In countries that have percentage philanthropy, groups that enjoyed a solid reputation with the public were much more successful in garnering financial contributions from participating taxpayers. Many groups initiated public outreach campaigns to try to raise their profile but found it difficult to "compete" with CSOs that already had favorable public identification.

## **NATIONAL VERSUS LOCAL LEVEL**

Historically, advocacy has been the province of national level, often capital-based groups. These are the organizations that have attracted the lion's share of donor attention and resources for reasons related to visibility, proximity and access, as well as agendas that track closely with donor priorities in trying to influence national decisionmakers. The situation is changing in large part because decentralization and devolution of authority to the local level has rendered municipal level officials a worthy target of efforts to influence political dynamics. In addition, because CSOs operating primarily at the grassroots level appear to be more firmly embedded in their respective polities and have readily identifiable constituencies that can be mobilized, democracy-oriented advocacy and watchdog groups tend to enjoy considerable credibility/legitimacy in the eyes of local residents. Combined with the fact that grassroots CSOs are more likely to own their agenda rather than pursue one shaped or dictated by foreign donors, they have brighter prospects for local fundraising, including in-kind contributions, notwithstanding that wealth is concentrated mainly in the capital and major secondary cities in most developing or transition countries.

## **CHARACTERISTICS OF A FINANCIALLY SUSTAINABLE CSO**

Financially viable CSOs tend to have a number of common characteristics regardless of the nature of their work or the setting in which they operate.<sup>3</sup> This does not mean there is a standard formula for success. Undoubtedly there are financially viable CSOs that do not fit this profile and conversely, no assurance

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<sup>3</sup> See Janet Shapiro, "Action Planning Toolkit, Developing a Financing Strategy," a document produced for CIVICUS and available on the organization's website at <http://www.civicus.org/new/media/Developing%20a%20Financing%20Strategy.pdf>.

that a group with these features will achieve financial sustainability. Broader environmental factors that are beyond the control of an individual CSO -- conducive legal framework, Third Sector infrastructure, dynamic economy, culture of philanthropy-- will also help determine the prospects for viability.

Common characteristics of financially viable organizations include:

- Clarity about mission, values and overall direction and ability to identify constraints and opportunities in the broader strategic environment;
- Diversified funding base, including a significant share of income from local sources;
- Multiple means of generating income (e.g. fee for service, membership, for-profit operations, donor support);
- Financial sustainability plan in place and the basis for strategic decisionmaking;
- Adequate administrative and financial systems (for planning, data tracking etc.) and monitoring and evaluation capability.
- Strong public image based on the quality/impact of work and financial accountability;
- Ability to attract, manage effectively, and retain competent staff and volunteers.

The versatile and highly respected CSO Participa (Chile) has gotten the fundamentals right. Established with the support of USAID, Participa seeks to improve the quality of citizen participation in democratic processes, focusing on public interest issues. The organization has a number of programs designed to strengthen the capacity of citizens to be effective advocates in the policy process and to monitor public institutions. In order to foster greater financial sustainability, Participa:

- planned ahead for donor withdrawal, conducting an organizational assessment two years prior to projected graduation from USAID assistance, analyzing then-current and future missions and developing a strategic plan to guide the transition;
- received USAID institutional development support, enabling the group to bring in proven consultants and to upgrade staff skills with an eye toward emerging challenges;
- expanded its range of programmatic areas consistent with the core mission;
- diversified the donor base to include more foreign donors, Chilean government agencies, multilateral development banks, the Organization of American States, and large and small foundations; and
- instituted fees for services, including consulting work, turning some donors into clients.

## PROMOTING FINANCIALLY SUSTAINABLE CSOS: STRATEGIES AND PROGRAM OPTIONS

Donors and individual CSOs have a shared interest in successful strategies to enhance the latter's financial viability. While some pro-democracy advocacy and watchdog groups have made significant headway without financial or technical assistance from foreign donors, they are the exception. Groups appear much more likely to attain financial sustainability with the help of the international donor community.

Drawing on the experience of CSOs in every region, the strategies and options discussed here are meant to provide donors with practical ideas to help bolster the prospects of pro-democracy advocacy and monitoring groups. Certainly there is much that CSOs, acting individually and collectively, can and must do on their own to enhance financial viability. They have the paramount stake in organizational longevity. But international donors can be instrumental in aiding that process through a variety of interventions ranging from sustainability-oriented grants, technical assistance, training, and endowments to contracting

for services and providing political-diplomatic support. A spirit of partnership and a mutual desire to end dependence on international donors are necessary prerequisites for financial sustainability.

## INTRODUCE CONCERNS ABOUT FINANCIAL VIABILITY FROM THE OUTSET

CSOs that integrate considerations regarding financial sustainability early in their life cycle generally make more progress toward that goal than groups that do not. The experience of the CSO sector in Central and Eastern Europe is instructive. International donors, but particularly USAID, emphasized the transitional nature of assistance programs and strongly encouraged grantees to prepare for the day when foreign donor support would come to an end. Not all groups heeded the advice, though more than in other regions. USAID grants programs typically focused on organizational capacity building and to some extent financial sustainability, and often included skills-based workshops on proposal writing, fundraising, public outreach and communications, and other relevant areas. More systematic follow-up will improve the odds that learning is being applied and also provide information for an updated and expanded database.

The **Open Society Institute/Soros Foundation** informed several of its national foundations in Central and Eastern Europe that funding would come to an end but over a period of a few years in which financial support steadily declined. These local organizations responded by moving to secure alternative sources of funding. In the case of Romania, individual program areas were spun off into separate CSOs, which received national government funding and engaged in revenue producing activities, though the residual advocacy program remains largely dependent on OSI support. In order to encourage its CSO grantees to pursue other sources of funding, OSI often instituted matching grants years before it planned to terminate funding altogether. The **VIA foundation** (Czech Republic) took the initiative in planning for reductions in foreign donor general support and began to raise unrestricted annual operating funds as well as an endowment.

So-called legacy mechanisms such as the Trust for Civil Society or the Balkans Trust were created by consortia of international donors to ease the transition of CSOs from robust to modest levels of foreign financial support. Rather than prolong recipient dependence, these mechanisms are designed to speed greater self-sufficiency and could be a model for other regions.

**Partners for Democratic Change** works to promote sustainable local capacity to build civil society. Beginning in 1993, PDC began establishing local Centers for Change and Conflict Management that incorporated financial viability goals from the outset and were staffed entirely by host country nationals. PDC provided an initial unrestricted core grant and worked closely with the centers to bolster organizational development --management skills, fundraising, communications and outreach-- over a number of years. Strategic plans were designed to support the CSO's core mission, and prevent foreign donors from dictating the group's agenda. Financial viability strategies for the centers included fees for services and establishment of a limited liability for-profit arm. In almost all cases the centers became financially self-sustaining.

## ENSURE A CONDUCIVE LEGAL ENVIRONMENT

Successful efforts to put in place a framework of laws conducive to the growth and financial health of the CSO sector are invariably collective undertakings involving national government decisionmakers, including legislators, and a coalition of Third Sector groups engaged in advocacy. In numerous countries spanning all regions, coalitions have helped to enact a variety of innovative mechanisms for increasing the level of resources going to the CSO sector. In several Central/Eastern European countries, civil society activists were instrumental in the adoption of percentage philanthropy, whereby taxpayers can designate a portion of their tax bill --usually one or two percent-- to be contributed to CSOs of their

choice. Comparable efforts led to the establishment of publicly-funded national foundations to support the Third Sector (e.g. The **Croatian National Foundation for the Development of Civil Society** and the **Hungarian National Civil Fund Program**) or laws that allow non-for profit groups to engage in business activity as long as the profits support the original work.

In almost all cases, one or two influential and organizationally advanced groups played a prominent role in galvanizing and sustaining the coalition. But it was the ability of a large number of CSOs representing an array of issue areas to coalesce around a discrete set of legislative proposals that produced a civil society friendly enabling environment. The basic strategy was quite similar in the different countries: organize a broad-based coalition that included many of the most well-known and respected groups, engage in public education/outreach and work with like-minded legislators and executive branch officials to craft and enact the desired legislation or regulations. The national governments in question were generally supportive of bolstering the capacity of and ensuring more resources going to the CSO sector – a facilitating condition missing in many countries, where governments are suspicious of CSOs, especially advocacy and monitoring groups, and certainly do not see them as a partner in development.

Donors have a role to play in encouraging the formation of effective coalitions that come together around a common agenda that advances both collective and individual organization interests. Donor support is frequently instrumental in overcoming the collective action problem wherein groups opt not to get involved in coalition work because they know they will benefit from progress (e.g. adoption of helpful legislation) without having to expend time and energy. Support has usually taken the form of grants, sometimes to help fund a group to serve as the coordinator or convener, a pivotal role in the success of many coalitions.

In several countries in Central and Eastern Europe, USAID **Democracy Network** (DemNet) grants helped to establish and/or fortify coalitions dedicated to influencing legislation to benefit the CSO sector. In other countries, local organizations, often grant-making groups or Intermediate Support Organizations (ISOs) will provide coalition building technical support to various groups. This was the case with the **Egyptian NGO Support Center**, which worked with its affiliated groups to press for legislation on rights for the civil society sector, and the **Inter-American Democracy Network** that provides grants for collaborative action on many issues of concern to CSOs across Latin America.

Even without providing additional funding, donors can use their influence and conconvocation authority to facilitate cooperation among groups while also pressing the host government to enact the legislation called for by the CSO coalition. USAID also has provided grants to the International Center for Not-for-Profit Law to analyze legislation regarding the CSO sector and to work with local organizations seeking to influence the content of laws and monitor implementation.

## DIVERSIFY THE NUMBER OF FOREIGN DONORS

For many harder core pro-democracy groups, the most promising path to financial viability has been to multiply the number of foreign donors largely because of the limited potential for raising funds domestically. CSOs such as the **Humanitarian Law Center** in Serbia, the **Institute for Democracy in South Africa**, the **Center for Democratic Development** in Ghana, **Participa** in Chile, and **BRAC** in Bangladesh all have succeeded in attracting resources from a variety of foreign governments and international foundations due to their pioneering and frequently courageous work. Most of these organizations also have raised a healthy proportion of overall funding from domestic sources -- testimony to their determination to lessen their dependence on external sources even as they moved to multiply the number of international donors.

Although the diversification strategy has been employed with credible results by groups in all regions of the world, it can be a risky approach over the long run if/when donors begin to disengage from a country. This process is underway across Central and Eastern Europe, where USAID has already “graduated” a number of countries and long-time foundation supporters of civil society strengthening such as the Soros and Mott Foundations, German Marshall Fund and others are cutting back substantially. Those groups that stand to fair best have used the cushion of comparatively generous international donor support to develop indigenous sources. See text box on the Stefan Batory Foundation.

The Soros Foundation established the **Stefan Batory Foundation** (Poland) in 1988 with the mission of increasing citizen participation in public life and enhancing the role and efficiency of civic institutions in part through providing grants to CSOs. Aided significantly by a generous endowment provided by the Soros Foundation, the Batory leadership moved to ensure its financial future, securing support from other international foundations and foreign governments as well as from Polish institutions, corporations (including through percentage philanthropy) and individuals, and generating income from office space rental, conducting training, and charging for publications.

CSOs located in the countries that have recently gained or will soon gain membership in the European Union will have access, at least in principle, to a new source of funding. The Third Sector will certainly pursue so-called “structural funds” but should understand that tapping into this pot of money may not be so simple due to the high minimum funding levels for projects and the general orientation toward service delivery organizations. The **VIA Foundation** (Czech Republic) has published a “Guide to EU Funds for Non-Profit Organizations,” assisted CSO staff in applying for EU funding, and has provided small grants to groups with projects that might attract EU support.

In addition to providing CSO grantees with technical assistance and holding workshops on proposal writing, fundraising, devising business plans, or similar useful skills, core funders also can assist in identifying other governments or foundations that might be interested in providing financial support. Simply making introductions or informing would-be donors about the importance and valuable work of the advocacy and watchdog CSO sub-sector can be enormously helpful to individual organizations.

An innovative twist on diversifying the number of foreign donors is to internationalize operations. CSOs working in countries such as the Czech Republic or Poland, where international donor presence has declined steeply, approached their former funders about working beyond their national borders. A number of Polish CSOs, for example, were given money to carry out work in Ukraine and Belarus while the **People in Need Foundation** (Czech Republic) worked even farther a field. **IDASA** (South Africa) and **Participa** (Chile) likewise secured funds to work in Southern Africa and throughout Latin America, respectively.

## CULTIVATE LOCAL DONORS AND DEVELOP A LOYAL CONSTITUENCY

That pro-democracy advocacy and watchdog CSOs are highly dependent on foreign donor funding is unlikely to change in the near future. But these groups should make a concerted effort to identify and pursue domestic donors --individuals, business, government and other institutions (e.g. indigenous foundations)—and the related task of building a strong base of loyal supporters and constituents through its programs and outreach efforts.

The attempt to expand the local donor base can be labor intensive and frustrating for advocacy and watchdog groups accustomed to securing financial support from international funders but face a tougher road on the domestic front. Groups need to think strategically, assess their comparative strengths (and

possibly redress weaknesses), and identify promising opportunities. This analysis is one element of an overall financial sustainability plan.<sup>4</sup>

As previously noted, a strong reputation and favorable public image are indispensable to cultivating local donors especially but not only in countries that have adopted percentage philanthropy permitting taxpayers to designate 1% or 2% of their tax bill to specific organizations. Strategies for building a strong public image are examined in a later section.

CSOs often make the mistake of overlooking the possibility of building a base of reliable individual donors. While a culture of personal philanthropy is not well established across much of the world, CSOs even in lesser developed countries have been successful in generating a meaningful amount of contributions from members and other would-be supporters through direct appeals, innovative fundraising events, door-to-door solicitations and many other strategies. Having conducted a 7-country study in Asia showing that individuals are willing to donate to CSOs, the **Venture for Fund Raising** in the Philippines helped numerous organizations to cultivate individual local donors--through direct mail, creation of donor databases, targeted research, and improved public communications and marketing-- with considerable success.

In their various fundraising efforts, CSOs are not just targeting individual donors but increasingly are focusing attention on the private sector --homegrown businesses as well as multi-national corporations-- as a possible funding source in terms of charitable giving and possible clients for products and services (e.g. research, training). Businesses are coming to recognize that CSOs have expertise that can help their bottom line, for example advising on its local grant making or convening multi-stakeholder dialogues to deal with conflicts over resource management or extractive industry practices. At the same time, the business sector is well aware of the scourge of corruption and in many countries has shown a greater willingness to make common cause with advocacy groups engaged in combating corruption and demanding greater accountability and transparency in governing institutions at the national and local level. This emerging mindset could open up new possibilities for corporate giving to CSOs that previously would have been considered off-limits.

Capitalizing on greater interest in the business community in corporate social responsibility, CSOs are making headway, with the important caveat that democracy-oriented advocacy and watchdog groups stand much less chance of securing such funds given the corporate sector's powerful proclivity to avoid controversy and fund "safer" efforts to help marginalized or disadvantaged people. Still, pro-democracy CSOs such as the **Stephan Batory Foundation** (Poland), **Institute for Public Affairs** (Slovakia), **BRAC** (Bangladesh), **Non-Profit Enterprise and Self-Sustainability Team** (mostly Central and Eastern Europe), **Venture for Fund Raising** (Philippines) and many of the other organizations that were part of the full CSO Financial Sustainability Study developed corporate outreach strategies.

Local foundations, including community foundations, are becoming more common and constitute a promising indigenous source of funding, albeit more for service delivery groups than for outspoken

**BRAC** (Bangladesh) is committed to empowering poor women politically and economically through a variety of programs, including micro-finance. Working throughout the country and establishing a very large pool of successful beneficiaries, BRAC has a large homegrown constituency and robust international reputation. While it does not engage in forceful advocacy, BRAC is in many ways a classic hybrid CSO combining service delivery and efforts to influence the broader policy framework. BRAC receives funding from an array of foreign donors (e.g. government development agencies in the U.S., Canada, United Kingdom, Netherlands, Sweden and others, various UN agencies, and foundations). More impressive still, capitalizing on its strongly regarded work and high-visibility across the country, the group has been successful in raising money from a range of Bangladeshi sources, individuals, businesses and local foundations.

<sup>4</sup> So-called SWOT analysis ("Strengths, Weaknesses, Opportunities and Threats) is a standard assessment tool common in the democracy and governance field and other venues.

advocacy and monitoring CSOs involved in democracy building. As wealth creation accelerates philanthropic-minded individuals are increasing their contributions to non-profit organizations, grant-making institutions among them. In Poland, Hungary, the Czech Republic and other countries of Central and Eastern Europe there has been a large increase in the number of homegrown foundations. But even in relatively low GDP countries, domestic foundations are sprouting, usually at the community level and geared toward social services or small infrastructure projects.

One notable exception to the strong tendency on the part of national and local governments to eschew funding for harder core advocacy groups, many of which target those very institutions for their poor performance in upholding democratic norms and practices, appears to be CSOs that conduct research and analysis while carrying out policy-related advocacy. Granted, the lobbying is rarely confrontational, it tends to take the form of debate and attempts to prevail on the merits of a particular policy option rather than staunch public criticism and bringing pressure to bear on decisionmakers by mobilizing supporters.

Although they face difficult questions regarding their ability to exercise independent judgment, many research and analysis organizations have succeeded in marketing their services to governments (or specific ministries) that are eager to have access to substantive expertise even if recommendations run counter to existing or planned policy. **The Center for Democratic Development** (Ghana) and the **Institute for Democracy in South Africa** are two examples of organizations with excellent analytical capability that have carried out work for national and local governments, which had an evident interest in high quality analysis. By all accounts, they have maintained their integrity and well deserved reputations for superior work, while also exercising some degree of influence on the content of high-level policy debate.

One other local source is actually not located in the target country. Vibrant diaspora communities exist around the world and are responsible for significant financial flows to the country of origin. In addition to providing remittances to family members left behind, more established and prosperous diaspora communities are a source of financial support for various charitable and other CSOs in the mother country. Democracy-related advocacy and watchdog groups do not appear to be big beneficiaries of such funding but nor have they made a systematic effort to tap into this potential source. International donors might provide technical assistance or grants to these groups to help them develop outreach strategies targeting diaspora populations. These communities are not only a promising source of political philanthropy, they also can become strong advocates of democracy building efforts with the governments of their countries of origin as well as their newly adopted countries.

## GENERATE INCOME

There are numerous ways in which a CSO can generate income and the right strategy is one tailored to the strengths of the organization, taking account of the constraints and opportunities presented by the prevailing environment. Most financially successful CSOs tend to employ a combination of approaches.

### FEES FOR SERVICES AND FOR-PROFIT BUSINESSES

Charging fees for services and starting a for-profit business involve the same basic idea of generating income based on selling some service or product to clients, whether CSOs, corporations or government.

Led by Intermediate Support Organizations such as the **Egyptian NGO Support Center**, CSOs of all kinds, including the full range of groups examined in the CSO Financial Sustainability study, are beginning to get in the habit of charging fees for services. The most commonly provided service in the sector is training. Rather than offering workshops and courses just to fellow non-profit organizations, which are accustomed to getting them for free, groups are marketing their wares more broadly, targeting

businesses, government and even former donors. Charging fees for services requires the CSO to calculate costs (e.g. salary, administrative, overhead) and determine projected demand for contemplated services. At the very least, fees should cover these costs and better yet, yield a profit.

In some instances former donors or implementing partners have become clients, hiring the one-time grantee CSO on a contract basis to conduct training, undertake a study, or carry out a survey. **IDASA** (South Africa), and **Participa** (Chile) are two prominent examples. USAID implementing partners such as the National Democratic Institute have provided support to local groups that subsequently received sub-contracts, having achieved the requisite capability to carry out the desired work. The change in the relationship is often a first step in the local CSO moving more aggressively to identify other clients.

Many CSOs try to go the next step. Rather than charge fees for services on an ad hoc basis, they set out to establish a for-profit arm or a stand-alone, full-fledged business enterprise, which they expect will generate resources to cross-subsidize the organization's core activities. Business ventures that are more closely linked to the mission and core values of the CSO have a higher rate of success, probably because the product or service is seen as more credible, assuming the group has a strong reputation. But the challenges involved in establishing a successful business are formidable. Among these are:

- enactment of necessary tax and other laws to permit CSOs to engage in profit-making businesses;
- staff with the requisite business expertise;
- skepticism among the public, core supporters and even staff about a group's foray into the business world;
- market research to assess demand for the product or service;
- development of a sound business plan with cost projections; and
- securing start-up capital.

A number of CSOs have met these challenges and created profit-making ventures that subsidize the former's public interest activities. **The Non-Profit Enterprise and Self-Sustainability Team (NESsT)**; see accompanying text box), which helps CSOs to create money-making businesses, established a successful for-profit arm that targets corporate clients and has generated significant resources for the non-profit operation.

## SALES

Intellectual property and products such as books and training manuals that organizations have routinely given away for free can be a source of revenue as can t-shirts, caps etc. with the organization's logo or some other identifying feature. The **Egyptian NGO Support Center**, for example, has raised a meaningful portion of its budget by selling standard manuals and directories but also has tapped into internet technology and sold website hosting services and website advertising space.

**The Non-Profit Enterprise and Self-Sustainability Team (NESsT)**, which operates primarily in Central and Eastern Europe, works in an in-depth way for 3-5 years with CSO-created social enterprises (for-profit operations that have a direct public interest purpose) by providing capital and capacity building through its Venture Fund, training on business plan development, financial management, accountability, fundraising, change management, innovation and leadership; and a global on-line "shopping" portal where social enterprises can link up with potential customers. "A Guide for Self-financing for Non-Profit Websites" is one of their popular products. NESsT established a for-profit division that markets products and services to corporate clients and generates about 30% of the annual revenue for the non-profit wing of the organization. NESsT also has been successful in attracting corporate donors, drawing heavily on the finance sector.

In addition to developing products for which people will pay, CSOs also have to consider how to market their wares. **The Institute for Public Affairs** (Slovakia) has devised innovative ways to sell its products, including an e-shop on their website and use of distribution networks domestically and internationally. **Oxfam** has been successful in opening up a small number of stores in selected countries to sell crafts

made by beneficiaries of its various programs. In-kind donated items also can be money-makers, a practice more common in the U.S. and other developed countries than in the developing world.

More controversially, a CSO can use its name as an asset, in essence selling it in return for financial compensation. For example, a business might approach a respected environmental group to endorse its product as being “green”, and be willing to pay handsomely. Advocacy and watchdog CSOs need to think long and hard about such opportunities, taking into account that a reputation for integrity and independence may be their most valuable asset and should not be placed in jeopardy casually.

As is the case with income generation from fees for services, CSOs are well advised to thoroughly assess the market for their existing or envisioned products before committing significant resources (printing a large number of copies of a how-to manual, for example) and also must be able to calculate costs to know how much to charge or how many of an item they must sell to turn a profit. As with fundraising and other areas critical to financial sustainability, having in-house expertise can make a big difference. Many donors recognize this and provide training and sometimes grants for organizations to hire expert consultants.

## GOVERNMENT CONTRACTS

The large majority of government funding for CSOs is channeled through local service delivery providers, often targeting vulnerable groups, using grant or tender mechanisms.<sup>5</sup> Some of these organizations do engage in advocacy but it tends to be couched in terms of boosting resources rather than pressing for needed policy reforms. As has been pointed out, the exception to government’s general reluctance to provide funding for pro-democracy advocacy and watchdog groups is work done by think tanks. Governments are increasingly prepared to contract with such centers, which often will use the subsequent analysis to debate, discuss and advise the government on different policy options. **IDASA** (South Africa), the **Center for Democratic Development** (Ghana) combine both serious analytical work, advocacy and other civil society-focused programs and have received government contracts.

Ensuring the integrity and transparency of the contracting function (e.g. so that government does not issue contracts to friends and relatives who run CSOs or to groups it helped to establish) can be a challenge. Also, legitimate, independent CSOs need to know where tenders are published and have confidence that the decisionmaking process is a fair one.

In pursuing competitive tenders, CSOs also have to acquire expertise in proposal writing and depending on the type of contract, ensure they can calculate costs and estimate the time it would take to carry out a particular assignment. Groups want to avoid under-budgeting and also doing a poor job, which would hurt their reputation and ability to land future work.

## FUNDRAISING

Fundraising can take a variety of forms. Membership fees can be an important source of revenue for advocacy CSOs either because they have a large number of individuals and institutions that pay modest dues or boast a small but well-to-do membership that can afford substantially higher annual donations. Those who join an organization usually expect some services but it could be as simple as wanting to be

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<sup>5</sup> A compelling case is World Learning’s bilingual education program in Guatemala. It began as a USAID-funded project and was later spun off into a CSO, AQBI, which was initially dependent on USAID but later landed a large grant from the Ministry of Education and corporate support.

kept informed about the group's activities (e.g. via a newsletter) based on a shared public interest. Other times members may be seeking material benefits as in the case of unions or professional associations. Organizations need be conscious of how much money they are spending to provide services to members and are advised to charge dues that at a minimum cover those costs.

Direct mail appeals are much more common in developed countries where the combination of socio-economic conditions, basic infrastructure and CSO financial and administrative capacities make such a strategy more viable. **The Venture for Fund Raising** (Philippines) and a few of the other CSOs examined in the MSI study did use direct mail as one element of their overall financial viability plan. As with other fundraising approaches the goal is to turn first-time donors, prospects and potential prospects into regular contributors, while ensuring the cost-effectiveness of the search for additional donors.

Direct mail campaigns can be expensive and CSOs should always do a test run of a small percentage of the list of names to see whether the piece resonates with would-be contributors. On tips for increasing the chances of success for direct mail campaigns—from drafting a compelling appeal letter and telling the receiver what their donation would help to achieve—see the CIVICUS toolkit.<sup>6</sup>

Special events fundraisers are popular with almost all groups that have made substantial headway in attaining financial viability and cover a vast array of conventional and novel ideas. Some of the more common ones include annual awards dinners, benefit concerts and sporting events/competitions, sponsored runs, walks and swims (e.g. contributors pledge a monetary amount for every kilometer covered), raffles, auctions, yard sales and more. With the proper advance planning signature events can sometimes attract media coverage (especially if attended by well-known personalities from politics, culture, entertainment, sports – although dealing with such people can also be challenging), further aiding the goal of raising money and elevating a group's public image. As with direct mail campaigns, special events can be expensive, and require a highly competent staff to carry out successful, money-making affairs.<sup>7</sup>

## ENDOWMENTS

Virtually every CSO aspires to have an endowment, annual income from which provides a percentage of the organization's overall budget. Some groups establish an endowment by setting aside a modest amount of money each year that over time, if the investments are managed wisely, can become a substantial sum. Other CSOs have launched campaigns or special appeals dedicated explicitly to creating an endowment. Still others, a fortunate few, receive a large amount of money from a single donor or group of donors for the expressed purposes of setting up an endowment. **The Stephan Batory Foundation** in Poland was originally established by the Soros Foundation and many years later received a building, which generates rental income used to fund its various programs, including grants to local CSOs. Having an endowment or portfolio of investments requires expert financial management that may not exist within the CSO, necessitating professional assistance from the outside. Executive boards can be of great help in this regard, especially if it has members accustomed to dealing with institutional investments.

## MATCHING GRANTS

A number of donors intent on providing incentives for CSOs to be more aggressive and innovative in raising revenues have put in place matching or challenge grants. The details can vary but the central idea of financial support contingent on the organization securing funding from other sources is a constant. In Romania and other countries, the **Soros Foundation/Open Society Institute** provided funding conditioned on its local national foundation raising a progressively larger portion of the overall budget.

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<sup>6</sup> Ibid., p.33.

<sup>7</sup> Ibid., pp 34-35.

The same “tie-off” strategy was used by OSI in Slovakia, where the **Institute for Public Affairs** received funding at fixed, steadily decreasing levels over a number of years but the money was conditioned on the organization raising its designated share from other sources.

## **BUILD A STRONG PUBLIC IMAGE**

CSO leaders have come to understand that their long-term financial vitality depends in large part on how they are perceived by the public and are taking steps to elevate their standing first and foremost by implementing programs that make a difference in people’s lives and ensuring higher visibility (for example, through wider media coverage) for their work. It is increasingly common for organizationally advanced CSOs to have on staff a person responsible for public outreach and media relations in an effort to branch out beyond their core constituency or target beneficiaries. Whether these people have the requisite skills is less certain but the idea that public image matters, has taken hold. And from large and/or clever demonstrations and novel fundraisers, to issuing annual report cards grading government performance and simply cultivating strong links with print and broadcast journalists, CSOs are devising myriad ways to gain wider public recognition for their work.

Media coverage is a major determinant of public attitudes toward civil society and unfortunately journalists are far more likely to cover some scandal involving CSOs than to report on a compelling project that has demonstrably helped people or brought about a much needed reform.

Individual organizations have a difficult time overcoming a negative reputation for the sector as a whole. If the citizenry holds civil society in low regard, even demonstrably capable organizations will be tarnished with the same broad brush.

Pro-democracy advocacy and watchdog organizations, which often lack a coherent constituency, are at a distinct disadvantage although where media is relatively unfettered, contentious relations with the national government can make for good stories. Importantly, CSO representatives report that press coverage of CSO activities tends to be much better and more favorable at the local level, a positive trend but of little help for harder edged democracy and watchdog groups principally focused on the national government.

International donors can work with the CSO sector and with individual groups, to promote a more positive image among the citizenry, government and the corporate sector – all the potential sources of local financial backing. A strong reputation stems from a combination of high quality, high impact (and usually high visibility) programming or expert analysis along with reliable systems to ensure integrity in administration and operations. Does the work of CSOs make a difference? Is it advancing tangible interests of the target group, whether disabled children or the entire population, as in the case of organizations promoting public goods such as human rights or the rule of law? People want to know that CSOs are effective in carrying out their programs and that money is spent prudently. In countries where the government is perceived as corrupt, feckless and generally delinquent in providing basic services, CSOs often are held in higher regard, providing a foundation on which CSOs can build in seeking domestic sources of funds.

Accountability and to a somewhat lesser extent transparency are also significant determinants of public image. Confidence in an organization or the CSO sector as a whole will depend on the extent to which people believe it is well run. Few prospective donors will want to give money to a group that is thought to be poorly managed or financially irresponsible. Relatively low taxpayer participation rates in percentage philanthropy in some countries may reflect persisting concerns about the sector. Here again, international donors can help ensure that CSO recipients of financial and/or technical assistance have sound financial management systems in place.

CSOs are beginning to understand the importance of concerted steps to persuade would-be contributors and clients that their organizations are effective and use funds responsibly. Legislation regulating the CSO sector and designed to give the public greater confidence in the integrity of these organizations is not a substitute for genuine self-policing. It is imperative that CSO sector leaders move to put in place Codes of Conduct and similar measures aimed at enhancing or restoring public confidence.

International donors can also help to enhance the image of CSOs domestically by using every opportunity to endorse their legitimacy, help publicize their accomplishments and push reluctant national governments to see CSOs as capable, reliable and indispensable partners in the development process.

The **Institute for Public Affairs** (Slovakia) succeeded in its stated goal of developing a reputation for top quality analytical work as a way of attracting support from institutional donors internationally and domestically as well as from individual donors. The organization's books, reports and other publications have generated a modest amount of income but have been far more important in elevating the group's profile and credibility, which has been the key to raising money, including through percentage philanthropy mechanisms that reward groups with strong name recognition. The **VIA Foundation** (Czech Republic), a charitable organization that promotes CSO sustainability, developed an excellent reputation in the corporate community that led many prominent international businesses to channel their own grants programs through VIA.

According to the group CIVICUS, some basic rules that CSOs should follow to burnish their image in the service of financial sustainability include:

- Don't compromise on core values.
- Have a vision and mission you can "sell" and a clear strategy for realizing them.
- Understand the broader strategic environment and assess trends.
- Know your principal constituency well and be responsive to their needs.
- Make information about your group widely available and easy to access.
- Develop a logo and a signature phrase that stand out.
- Cultivate the media by doing newsworthy events, providing expert commentary etc.

The **Center for Education on Drugs** (CEDRO) in Peru, relied on its sophisticated and well publicized opinion surveys and dedicated community outreach (which yielded many volunteers), including civic education initiatives, to strengthen its credibility, which the group's leaders then exploited in approaching domestic donors. The **Egyptian NGO Support Center**, an intermediate support organization (ISO), likewise established a reputation for first-rate training programs and further boosted its public standing and attractiveness to local donors when it became a full-fledged Egyptian organization.

## BUILD CAPABLE ORGANIZATIONS

A CSO's prospects for financial viability rest in large measure on its overall capability. Organizations that do not have a clear mission, eschew strategic planning, lack sound financial and administrative systems, do not attract and retain capable staff, and either lack or fail to adhere to a financial sustainability strategy are highly unlikely to make much progress in becoming financially sustainable. Donor grants, training and other forms of assistance that place CSO financial health in the broader context of organizational development and general capacity building are on the right track. It is rare that a group which is poorly managed and lacks the basic elements of a solid organization can thrive financially. There are instances of charismatic and/or high profile figures founding CSOs that immediately attract robust funding but their longevity depends on becoming capable organizations.

As discussed early on in this toolkit, effective, strong organizations come in all sizes and are found across the full civil society spectrum but they generally have a number of common characteristics beginning with bold yet steady leadership that practices strategic planning, clarity about mission and values, well-

trained and motivated staff in the requisite areas (e.g. fundraising and outreach) and reliable administrative and budgetary-financial systems.

Another often overlooked element is a quality board, which can be invaluable in terms of providing general direction and raising money – so long as they don't get involved in the day-to-day running of the CSO. The Thai CSO **Prateep** devoted a great deal of time and energy to assembling a hard-working, politically and financially well connected advisory board which was both adept at and willing to engage in fundraising.

## ENCOURAGE A CULTURE OF PHILANTHROPY AND VOLUNTEERISM

Ultimately, CSOs, including “harder core” pro-democracy advocacy and watchdog groups, will have to raise the money they need from domestic sources if they are to become financially viable for the long-term. National and local governments may be part of the equation but the general public and the corporate sector will have to provide the bulk of resources. It is in the collective interest of all CSOs to help nurture a culture of giving and volunteering. There is no simple solution, short-term fix. Civic education that explores the role of civil society in a democratic system and encourages young people to get involved in a country's political life should be part of any comprehensive strategy. Governments that demonstrably value the contribution of civil society to a country's socio-political advancement and enact laws to facilitate philanthropy are also essential. For their part, CSOs need to give citizens, businesses and local foundations a compelling reason to contribute money or devote their time and energy. Agendas that resonate with would-be donors and volunteers are the place to start.

Some advocacy and watchdog groups appear to understand their financial viability is tied to the emergence of a culture of philanthropy and volunteerism. For example, the **VIA Foundation** has worked with the corporate sector in the Czech Republic to increase annual giving by the business community to civil society. It publishes a guide to corporate philanthropy and helped establish a Donor's Club, as well as been active in conducting seminars on CSR, and hands out annual awards to outstanding corporate donors.