FACILITATING FINANCIAL SUSTAINABILITY

EXECUTIVE SUMMARY

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INTRODUCTION

Financial sustainability remains a critical challenge for civil society organizations (CSOs) around the world. Although a variety of toolkits and research papers exist examining specific sustainability strategies, many CSOs continue to struggle to develop and maintain the resources they need to carry out their missions. This constraint limits organizational autonomy by inhibiting long-term planning and flexibility in designing and implementing activities. Financial sustainability is also a key piece of the puzzle to empower local organizations to take greater ownership of the development process, as a robust resource base provides the resilience needed for organizations to experiment with new models that reduce long-term donor dependence.

About the Facilitating Financial Sustainability Program

The Facilitating Financial Sustainability (FFS) program, jointly conducted by LINC, Peace Direct, and Foundation Center, was launched in 2017 to develop and test ways that different actors (including donors, policymakers, intermediary organizations, and CSOs themselves) can work together to improve the factors that drive local organizations' financial sustainability in different development contexts. As part of the United States Agency for International Development (USAID) Local Works program, FFS uses a combination of research and on-the-ground testing of approaches to improve local organization financial sustainability to support the Local Works goal of enabling local communities to drive their own development.

The research series examines the factors that underlie successful CSO financial sustainability approaches for organizations in six countries: Bosnia and Herzegovina (BiH), Colombia, Democratic Republic of Congo (DRC), Mexico, Philippines and Uganda. Combining qualitative analysis from in-depth interviews with CSOs and funders, as well as a first-of-its-kind quantitative analysis of thousands of grants supporting financial sustainability, the research series considers effective strategies and approaches for organizations interested in improving CSO sustainability.

About This Report

This paper synthesizes the findings from the analyses of both funders and CSOs. This represents one part of the three-part FFS research series, and is best considered alongside the other two papers in the series to give a holistic perspective on CSO financial sustainability: Funder Approaches to CSO Sustainability, which includes a deep-dive analysis of the landscape of strategies used by funders interested in supporting sustainability, and Understanding Factors Driving CSO Financial Sustainability, which lays out the full findings from interviews with representatives from more than 30 CSOs.

Download the full report at http://sustainability.linclocal.org/research/

METHODOLOGY

The FFS research series addresses the overarching question: *What factors are particularly conducive to local CSO financial sustainability, allowing local organizations to take ownership of the development process, and what can different actors do to improve these factors?*

To answer this question holistically, we carried out two lines of inquiry: one with the CSO as the analytical starting point, and one with the funder as the starting point. These lines of inquiry combine qualitative and quantitative methods, each providing a unique way of examining sustainability from a particular lens that when taken together provide a full picture of approaches to supporting sustainability.

The six countries (BiH, Colombia, DRC, Mexico, Philippines and Uganda) were selected for the study based on various factors. Primarily, we aimed to include a breadth of contexts in terms of geographic diversity, level of economic development, and stability to understand how drivers of sustainability might differ depending on context. To help narrow selection, we also focused on countries which had sufficient data available for analysis within Foundation Center's Grants Database (the source of data for the accompanying funder analysis). The final selection of countries was made according to the level of interest for participating in the study displayed by local stakeholders, including USAID and CSO representatives. In total, across all six countries, the research consisted of interviews with over 120 individual stakeholders and data from approximately 1,800 grants. This resulted in two deep dives into the funder and CSO analyses and a final synthesis of key cross-cutting results, covered in this paper.

Overall Research Approach

1 A Qualitative Comparative Analysis (QCA) and overall examination of common themes across semi-structured interviews with CSO representatives to understand the factors identified as critical drivers of sustainability in different contexts. The QCA approach provides a helpful way to structure qualitative case data into meaningful insights by examining how different combinations of factors can lead to the same outcome. QCA is particularly well-suited to examining drivers of sustainability across different contexts because it acknowledges the complexity of this topic and does not presume there is one "path" to financial sustainability, but rather many different "recipes" that combine various internal and external factors to drive success. This is combined with an overall analysis of notable themes that emerged from the interviews.

2 A quantitative analysis of the grants that support financial sustainability in each of the six countries, culled from Foundation Center's database of over 7 million grants awarded by grantmaking foundations,[2] combined with qualitative interviews with a subset of these funders. The quantitative analysis provides an overall perspective on which funders are supporting financial sustainability, what strategies funders are using to support financial sustainability, and what types of CSOs are receiving financial sustainability support. The interviews provide insight into the approaches and strategies of funders identified as supporting CSO financial sustainability and identifies key lessons from the work of these funders.

FINDINGS

1 FINANCIAL SUSTAINABILITY IS A CRITICAL BUT HIGHLY UNDER-RESOURCED ISSUE FOR CSOS

Across the six countries included in the research, grants supporting financial sustainability represented about 5 percent of overall grantmaking awarded to benefit these countries during the same time period. Given how broad the inclusion criteria were, this low percentage demonstrates an overall lack of investment by foundations in the long-term sustainability of local organizations. Interviews with CSOs across all six countries confirmed the lack of intentional and dedicated support for organizational financial sustainability. While funders often demand that CSOs develop sustainability plans for projects, there is rarely financial or non-financial support for these organizations to improve their own long-term sustainability, with nearly all support instead being strictly tied to program-related activities.

KEY TAKEAWAY

Intentional support for organization financial sustainability is a rare but critical resource to allow local organizations to carry out their missions effectively, providing a major opportunity for impact for funders willing to try flexible and deliberate sustainability support strategies.

2 SOCIAL CAPITAL IS A CRITICAL ENABLER OF SUSTAINABILITY FOR LOCAL ORGANIZATIONS, ESPECIALLY IN DIFFICULT ENVIRONMENTS

The analyses revealed the importance of Social Capital. Support from the local community in particular was cited as a key "invisible resource" underlying long-term organizational financial sustainability. Orgranizations mentioned how local community members can support project implementation, and organizations in challenging environments mentioned this as a critical enabler of their resilience to the inevitable ups and downs of donor funding.

KEY TAKEAWAY

Support from the local community can be just as critical to financial sustainability as more tangible resources and assets. Organizations can build local community support into their financial sustainability strategies by proactively planning to involve the community at every stage of its projects.

The grants data analysis and corresponding interviews with funders and organizations revealed network building to be another major strategy for developing Social Capital. Roughly 17 percent of grants in the dataset incorporated a network development approach. CSOs reported generally positive experiences with networks, with over 80 percent of the organizations citing some form of network participation as a driver of their sustainability.

KEY TAKEAWAY

Funders interested in supporting CSO financial sustainability can build Social Capital of partner organizations including peer networks and leadership development; however, these should be developed with input and ownership by local stakeholders.

3 SMALL POOLS OF UNRESTRICTED FUNDING CAN BE CRITICAL FOR ORGANIZATIONAL RESILIENCE DURING DIFFICULT TIMES

Across all country contexts, CSO representatives discussed critical points in their history during which a relatively small amount of completely unrestricted funding proved critical for their resilience in the face of severe resource challenges. In many cases, this funding did not come from institutional grants, but rather from a combination of sources scraped together: staff contributions, social enterprises or small side businesses like food or guesthouses, local membership programs, Board donations, collections from local religious congregations, and crowd-funding from online sources. Though generally small in amount, the complete lack of restrictions on this funding allowed organizations to put in place structures and activities to greatly improve their financial position and expand their impact.

KEY TAKEAWAYS

- **Using creative mechanisms to develop small pools of unrestricted funding can positively impact on organizational sustainability by providing necessary flexibility to get through difficult periods and plug important gaps in programming.**
- **Funders providing unrestricted support can maximize their impact by considering the time frame and structure of the funding, with multi-year support and reserve fund structures giving organizations the ability to plan for the long term.**

4 LOCAL FUNDERS AND INTERMEDIARY ORGANIZATIONS PLAY AN IMPORTANT BUT OFTEN-OVERLOOKED ROLE IN BUILDING SUSTAINABLE CSO ECOSYSTEMS

The grants data and interview findings demonstrate the central role of local and international intermediary organizations – both those re-granting funds, as well as intermediaries carrying out their own programs to support the financial sustainability of other local CSOs.

Based on review of the grants data, approximately 19 percent of total funding for financial sustainability was awarded via either local or international intermediary organizations. Local funders all cited the importance of a few key international funders who provided them with flexible, multi-year support. At the same time, they all emphasized ongoing challenges in obtaining unrestricted funding from both local and external sources.

Interviews with CSO representatives revealed patterns among the organizations that are successfully able to mobilize resources from local funding sources. Organizations mentioned that internal governance and staff resource mobilization capacity were critical drivers of sustainability, or that they had developed a successful social enterprise model.

KEY TAKEAWAYS

- **Local funding is still a relatively small share of overall formal grantmaking in many countries.**
- **This funding can take many forms that often do not fit neatly into Western conceptualizations of "funder/ grantee" models but plays a crucial role in developing overall sustainable ecosystems.**
- **The financial sustainability of organizations relying on domestic resources is often driven by strong governance, technical capacity, or social enterprise models.**

5 SUPPORT AND STRATEGIES FOR FINANCIAL SUSTAINABILITY VARIES SIGNIFICANTLY ACROSS SECTORS

Sixty-nine percent of financial sustainability funding across all six countries was directed toward organizations focused on human rights. By contrast, of the total grantmaking for all six countries, only 26 percent of grants dollars were awarded in support of human rights. By comparison, funding for areas more traditionally thought of as service-oriented, received a much smaller proportion of funding in the financial sustainability set when compared to the overall set.

Human rights funders tend to support organizations and movements that face particular challenges and constraints in mobilizing resources from government, the private sector, and individual donors – a concern that was raised by several of the funders and CSO representatives interviewed. On the other hand, organizations involved in service provision have a much greater potential for developing social enterprise models to generate revenue.

Findings from the grants data analysis show that the population focus of financial sustainability funding does differ from that of the overall grantmaking, with funding to vulnerable groups over-represented in the data.

KEY TAKEAWAYS

- **Organizations involved in advocacy efforts such as human rights are much more likely to receive support directly targeted towards financial sustainability. Whereas organizations providing services have much more potential to develop social enterprise revenue generation strategies than advocacy organizations.**
- **The population served also makes a difference in levels of financial sustainability support, with CSOs supporting vulnerable groups disproportionately targeted for such support.**

6 TECHNICAL CAPACITY IS AN IMPORTANT DRIVER OF FINANCIAL SUSTAINABILITY, AND CAN BE A POWERFUL TOOL FOR CULTIVATING OTHER KEY ORGANIZATIONAL QUALITIES

Capacity building is a popular strategy for supporting CSO financial sustainability: in the grants dataset, 45 percent of grants incorporated some level of capacity building. Interviews indicated this is largely demand driven, with explicit requests from grantees for support on technical capacity issues such as strategic planning or financial management training. In many cases, funders award general support coupled with different kinds of organizational capacity building. This can take the form of a separate organizational development grant, access to external consultants and training, peer learning and exchange, and/or on-going support by funder staff to identify and work on specific organizational priorities.

CSO interviewees agreed with the importance of technical capacity building. The QCA analysis revealed that strong internal Technical Capacity allowed organizations to formally demonstrate transparency and compliance through well-developed reporting mechanisms. CSOs attributed part of their sustainability to things such as an "annual strategic plan," "monitoring and evaluation systems (M&E)," and "transparent" or "reliable" financial systems. These systems were perceived as essential for organizations gaining credibility amongst communities and partners and for developing and maintaining vital relationships.

KEY TAKEAWAYS

- **Funders can effectively support sustainability by pairing funding with technical support.**
- **Organizations can strengthen their Social Capital through investing in aspects of Technical Capacity**
- **Creative partnership models can help fill technical capacity gaps when internal capacity development may not be available.**

7 ORGANIZATIONAL CULTURE SUPPORTS RESILIENCE TO EXTERNAL SHOCKS AND IS A KEY ENABLING FACTOR FOR FINANCIAL SUSTAINABILITY

The QCA analyses also revealed Organization Culture as a key source of resilience for organizations facing exogenous shocks and was viewed as a vital resource supporting long-term organizational financial sustainability. CSO participants discussed how the passion, commitment and flexibility of staff during times of financial strain allowed for them to continue operations and avoid organization closure.

Investment in personal development and support of staff on a personal level, for example providing financial support for the education of staff members' children, creates deeper levels of commitment and loyalty from staff towards the organization and its goals, which can be a vital tool for staff retention in contexts where INGOs frequently poach skilled staff from local CSOs. Interviewees stressed that this not only reduces staff turnover but also ensures that employees can focus fully on the technical aspects of their work, thereby producing better results in project implementation and supporting the long term financial sustainability of the CSO.

KEY TAKEAWAYS

- **Committed and flexible staff can be a vital safeguard against exogenous shocks and support long-term financial sustainability for CSOs in challenging contexts**
- **Organizations can increase their resilience by nurturing strong Organizational Culture, particularly though investing in staff support and skills development.**

8 NON-FINANCIAL RESOURCES AND ASSETS CAN BE JUST AS IMPORTANT AS FINANCING IN DEVELOPING LONG-TERM SUSTAINABILITY

Many successful organizations stressed the ways in which non-financial resources make at least, if not more, of a difference for achieving financial sustainability. Although these resources may not show up on a balance sheet, they allow an organization's financial resources to cushion against the inevitable ups and downs of funding cycles and increase organizational resilience. Examples of non-financial resources explicitly mentioned as key drivers of sustainability include: Land and housing; Local volunteer time (including uncompensated staff time); International volunteer time; and Locally-sourced in-kind goods (such as housing materials).

Acquisition of hard assets such as land is particularly supportive of financial sustainability and has several advantages: saving on month-to-month overhead costs by eliminating the need to pay rent; providing a hedge against rental market fluctuations that can be impossible to accommodate with pre-set program budgets; and providing an opportunity to generate revenue by using some portion of the property, such as office sub-leases or event space. Furthermore, the use of volunteers and in-kind materials are well-established ways to lower expenses relative to impact. However, some organizations saw these methods as more deeply connected to their sustainability than simply as ways to lower expenses.

KEY TAKEAWAYS

- **Funders often think about sustainability primarily in terms of financing, but alternative resources and assets can help build resilience**
- **Hard asserts can be particularly important as a productive and stable resource to leverage, and "soft" assets such as volunteers can help reinforce community Social Capital and provide a resilient means to implement programs in difficult financial times.**

CONCLUSION AND NEXT STEPS

This executive summary summarizes the results and lessons from a systematic analysis of interviews with over 120 CSO representatives, funders, and other stakeholders and quantitative analysis of nearly 1,800 grants focused on supporting the financial sustainability of local organizations. The analysis reaffirms the need for a greater focus from funders on sustainability, as well as providing nuance into the ways in which different funding and organizational development strategies can be particularly effective in facilitating improved sustainability. We encourage those interested in diving deeper into the topics presented here (including the full methodologies used, snapshots of all of the CSOs included in the analysis, and discussions of a more extensive set of results) to read the full report, as well as the accompanying deep-drive reports, *Funder Approaches to Supporting CSO Financial Sustainability* and *Understanding the Factors Driving CSO Financial Sustainability.*

The next step for the FFS team is to put this research into practice with the development of "Action Learning Groups" of local civil society stakeholders in three of the countries included in the research: Uganda, the DRC, and Colombia. These groups will take these research findings as a starting point for prioritizing local barriers to sustainability and developing collective strategies and activities to undertake to help overcome some of the local barriers. The FFS team will be publishing further learning notes and guides based on this experience to help other practitioners use the lessons learned from this activity to improve their own approach towards facilitating financial sustainability.

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DISCLAIMER

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Principal Authors
Matthew Guttentag, Megan Renoir, Anna Koob, Inga Ingulfsen and Becky Tolson

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Back cover photo: Henri Ladyi talks during a CRC visit to the 'Peace Market' they helped set up in the village of Kilya. North Kivu, Democratic Republic of Congo. Peace Direct/Greg Funnell

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