

- Human Rights
- Democracy
- NGOs
- Financial NGOs

Thematic Section

NGOs, Social Movements, External Funding and Dependency

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ABSTRACT *Fernand Vincent looks at issues related to the financing sources and how they relate to the autonomy of nongovernmental organizations (NGOs). Is it possible for these organizations to remain autonomous with regard to their objectives and strategies, when an important percentage of their activities and functioning is financed by external sources? What are the potential risks of these different external financial sources? What interest is there for external partners in financing these activities? Or can one challenge a system when one is dependent on it? He points out the differences between NGOs and transnational social movements (TSMs) concerning both their financing sources and possible implications. He argues that NGO leaders and others must look at how to improve the search for financial and political independence and a transparency that is necessary for the success of the changes they want to promote.*

KEYWORDS *autonomy; transnational social movements; constraints; donors*

An ideal balance

We need to first analyse what are the real costs of international organizations and movements with regard to their needs. The cost categories of these movements are generally the following:

- operational and general costs ('political' costs);
- costs related to activities and programmes (project costs).

It is quite easy to ascertain which costs are related to activities. They can be determined, whether they are personnel costs or other 'operational' costs, since they are directly visible and can be put in separate budget groups closely linked to their activities: sensitization campaigns, lobbying, defending rights, labels, etc.

However, this much cannot be said about the operational (or general) costs that are often directly linked to the political independence of the organization; for example, salaries and expenses of organization leaders, their missions, visits; the policies of network relations and actions; costs related to fundraising; those made to improve the communication between members as well as identifying new members. These expenses often turn out to be badly identified and incorrectly posted.

In order to meet operational political and project needs, organizations use two forms of financial aid: internal and external financing.

The strategies of the nongovernmental organizations (NGOs) aiming to keep their political independence should aim to maximize their internal revenues. Internal financing should above all enable organizations to finance costs of personnel assigned to political tasks: programme and strategy development, negotiations, coordination, representation, etc., as external funding is assigned to project activities.

Internal revenues can have several sources:

- members' contributions;
- donations from members;
- donations from friends and sympathizers sharing the same values;
- donations and participations of the diasporas and national immigrants;
- enrolment fees for organized events;
- income from publications sales;
- income from investments of reserves and capital;
- income from productive activities.

Contributions, such as voluntary work, as well as contributions in kind are also important: making available premises, vehicles, reductions for transport tickets, etc. In many cases, these kinds of contributions are not accounted and often remain invisible.

The potential of internal funding is unfortunately not always used and NGOs capable of ensuring their operations exclusively thanks to this kind of resources are rare. This autofinancing varies, according to the organizations, rarely over that 75 per cent and more in the range of 20 per cent.

External funding

The search for external funding is thus necessary for the survival and the development of NGOs. They seek support from governments, corporations, the related private sector and rich individuals willing to help. But external funding is not neutral; it is often self-serving. Moreover, the NGO managers who call on the 'generosity' of

governmental donors, foundations and companies have an essential concern: how to manage the external financing already received?

Our experience shows that external funding can be as high as 50 per cent without creating a dependence factor, on the condition that the NGO is very 'solid' and 'well managed'. In one study carried out with international development NGOs, we found that, 'if one NGO receives more than 30 per cent of its funding through an external agency, it is not free in its actions' (Vincent, 1994). Above this percentage, the NGO could find itself in a very difficult situation in case of separation between the NGO and the donor due to a political or strategic factor. That does not mean that it cannot maintain its political independence, but that, often unconsciously, it auto-controls itself in order not to lose the funding needed for survival.

The balance thus swings between external and internal financing. The main issue here is not to be rigid with regard to outside funding but to try to avoid possible constraints it can place on the NGO.

Constraints and dependency

External financing tends to impose some degree of constraint. In order to identify the form of constraints we have analysed some agreed contracts between NGOs and external partners. The biggest challenge for the NGOs seems to be to take into consideration the demands of its donors, because losing the financial aid would have severe consequences not only for the activities, but also for remunerated personnel. NGO 'self-control' appears more frequently than one would think and it is for this reason that it is something to be carefully watched.

Contractual arrangements often contain negative restrictions or conditions for the NGO. Some examples are:

- The donor partner can impose choices and methods of handling funds on the NGO's projects. For instance, the stipulation to pass assigned funds through a UN agency makes programme management more difficult and

deprives the executing organization of a percentage of 'administrative expenses'.

- The donor partner's choice to finance their own projects and not the NGOs.
- The participation of the aid agency in the form of technical assistance provided by permanent personnel of the same nationality and remunerated directly by the agency.
- The limited duration of the contract gives the aid agency a great amount of power and obliges the NGO to negotiate and renegotiate every year or every 2 years the requested aid.
- The distribution and allotting of aid for specific expenses, which could be easily financed by other agencies and the refusal to finance 'that which can not be financed' (by the NGO) representing the costs of personnel, missions, or general expenses. This obliges the NGO to limit the number of administrative staff members.
- The dependency of the NGOs and research centres of the South in the research programmes. As 'subcontractors' or 'the field' where surveys are carried out and from where the necessary statistics are obtained; the institutions from the South are put into an unacceptable dependency position by the institutions of the North.
- The use of the 'project approach' and of planning and evaluation tools (log framework) which are aid tools and not tools for internal administration of the NGO and which oblige the NGOs to state outputs which they know from the outset will not be met.
- NGOs are forced to accept disbursement plans in regular installments often to the advantage to the donor agency (the interest from investments stay accredited to the donors, who received the funds in a single deposit at the beginning of the year) rather than favouring the NGOs, which may, due to this disbursement approach face difficulties in complying with its commitments.
- Conditions, such as having to return investment interests of the unused funds according to the expenditure plans.

Constraints like these have often an effect on the successful development of projects and sometimes on the structures of these organizations resulting

in delays in payment of wages, lack of funding for key personnel, priorities of the NGOs coming after the donor's priorities, or direct relations of experts with their own government.

As Deborah Eade argues in a special issue of *Development in Practice*: 'Any external funding has repercussions on reporting and encourages corruption by centralizing the power in the hands of those who are assigned the job of fundraising.' Thus external financing is not to be denied, but it cannot be accepted at any price (Eade, 2004: pp. 78–79).

Consequences of financial constraints

The lack of financial autonomy has harmful effects on the organization's personnel policy. The NGO would like to count on highly qualified and experienced collaborators over a long period. But the lack of means does not allow for a recruitment policy nor for developing loyalty from personnel: salary offers and advantages are uncompetitive with the private sector; there are no possibilities for a personnel training policy.

Another area that is directly affected by the lack of means and financial autonomy is the financial resources of the organization. If means are limited and the need to negotiate external aid appears, it is certain that the NGO will face cash flow problems due to a delay in the deposit of the negotiated aid or to a lack of availability of internal financial means. This entails consequences for the payment of bills and sometimes for paying monthly salaries. These effects disturb the institution's management and the working atmosphere due to the lack of security.

Finally, and this is probably the worst effect, the lack of financial autonomy forces the organization's administration to dedicate much of its time and efforts to research, administration and the justification of the aid received. It is well known that this takes a lot of time, including the time of the NGO leaders. The time dedicated to fund raising is taken at the expense of time to devote to policy-making, developing strategies and programmes, essential for the development and success of the movement's actions. They will reduce the time dedicated to creativity and future strategies.

The lack of financial autonomy affects largely the sustainability of the organization. Long-term sustainability and financial autonomy of the NGO depend on their own funding and their capacity to maintain financial resources at a comfortable level, as well as on the leader's capacity to negotiate long-term external aid. However, these goals are mostly not achieved. NGO leaders would prefer to plan their policies, strategies and programmes over 3, 5 or even 10 years. The externally financed projects would then become secondary; they would become at the appropriate time the instruments of their goals and their policies as they are integrated into their programmes.

But internal financial means are only sufficient for planning in the short-term (1 or 2 years at the most, but not more). Only external aid added to NGOs own resources can facilitate medium or long-term action planning. However, this kind of support has no interest in the long-term. It only finances projects for periods between one and three years and for each project 'the end date of financial aid' is scheduled ahead.

A basic fact is that aid operates according to project, rarely according to longer programme plans and never as long-term institutional support. If the organization's financial autonomy is limited, there will be major consequences for sustainability, because the difficulties we mentioned earlier will perturb the NGO's management and will probably contribute to the end of the organization's activities.

Constraints or solutions?

The majority of NGOs cannot be financially totally autonomous. This means that they cannot function properly by merely relying on their own resources, on members' contributions or the profit from the sales of publications. They need external funding.

But, how can one assure greater financial autonomy, if not by the creation of capital, invested, providing its own revenues, which can be added to the NGO's internal resources? To constitute this capital is a compulsory goal of these organizations. They can do it by 'endowments', properly placed from an ethical and financial

point of view, or by the generation of revenues from the sale of services, publications or other goods.

Our experience shows us that if these management strategies are applied, we have been able to create reserves equivalent to 30 per cent of our annual budget. A better preparation of the dossier concerning request for financial aid and adequate administration of this aid have enabled us to create a reserve acceptable by the donors: a reserve fund for contractual obligations (amount of financial obligations in case of suspension of activities: personnel indemnities, rents, other commitments), a reserve fund to cover exchange rate differences, renewal of equipment, risk funds, and a fund for future projects (Vincent and Campbell, 1989).

Another means, perhaps the best one, is to improve an organization's autonomy through 'membership', high in number, committed, prepared to participate, and share responsibilities and work to be carried out on a voluntary basis.

As aid is not neutral, NGO unable to generate internally 50 per cent and more of their revenues are subjected to more pressure than other organizations and should be concerned about this situation. NGO leaders must maximize the revenues stemming from members' contributions; the best solution against dependence is a strong, mobilized, motivated and large 'membership'. As far as possible, it is important not to allocate external aid to the financing of 'political' costs; in other words, costs of secretariat personnel, strategic expenses and costs entailed by the search for innovation. A clear distinction should be made in the bookkeeping with regard to these expenses and they should be financed by members' contributions and other internal revenues.

The stronger and more effective the organization, the easier negotiations will be with donors. This implies that the organization should be capable of providing internal means to control activities, financing and personnel management and of carrying out adequate self-evaluations thus avoiding that the donors should do it themselves which would entail well-known consequences. For example, the aid agency of a big country was prepared to finance our NGO through 'General

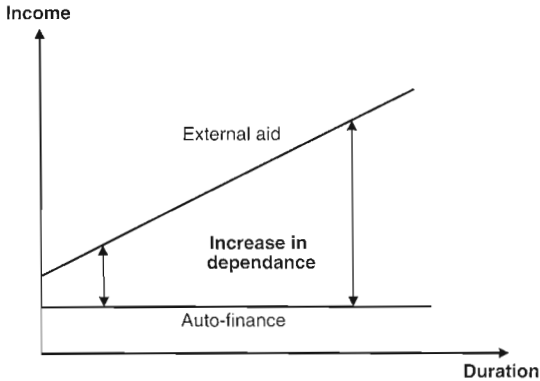


Diagram 1: First stage. Source: Vincent and Campbell, 1989: p. 22.

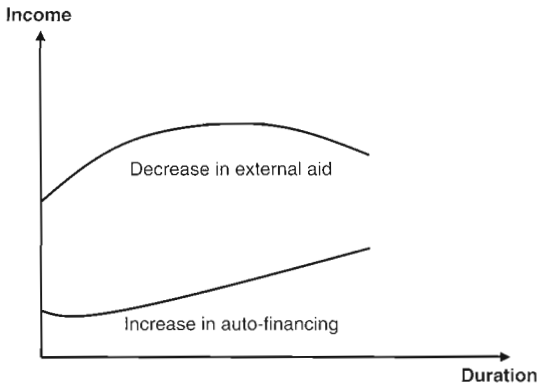


Diagram 2: Second stage. Source: Vincent and Campbell, 1989.

To defend the informally organized TSMs, it is important to note that their campaigns are often more credible to the people, since they are promoted by several organizations acting as a network and their goals and informal approach have more popular appeal.

One of our publications (Vincent and Campbell, 1989: pp. 31–41) describes the necessity NGOs to strive towards financial autonomy in their actions.

The **first stage** is the founding of the organization. Own resources are limited with strong external support. There is also therefore dependence (Diagram 1).

The **second stage** is that of the organization's 'adolescence'. It increases its own resources and diminishes funding from outside (Diagram 2).

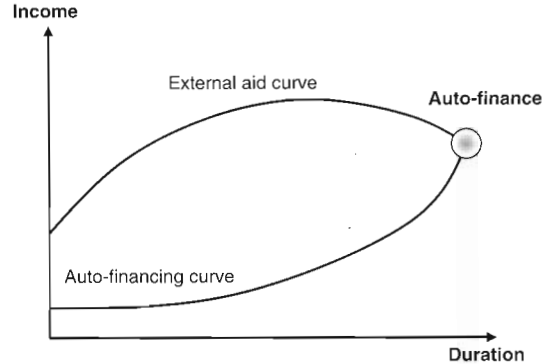


Diagram 3: Third stage. Source: Vincent and Campbell, 1989: p. 31.

The **third stage** is that of autonomy. Outside funding is no longer necessary (Diagram 3).

It is important to underline the importance of the black circle in this diagram. 'Funding deposits/ Capital' which would have to be created progressively by strict internal management of the credit and the contracts negotiated by the NGO with support (Vincent and Campbell, 1989: pp. 10–108) in order to strengthen these Funding deposits which when invested will generate highly appreciated interests to cover what we have called the 'unfinancable' (Vincent and Campbell, 1989: pp. 89–101).

Conclusions

We agree with others in the field that makes it difficult to map out financial dependence Anderson (2001: p. 225) and Hulme and Edwards (1997: p. 20). However, a certain number of dangers are evident and need further research. What is required is research first of all inside the organizations themselves, and then with the leaders of the social movements so as to take stock of the possible obstacles and dangers of financial dependence in order to avoid them.

The most important difficulty encountered has been the access to information. It is much easier to discuss with the leaders of these movements campaigns on their strategies and the actions they take than their ways of obtaining funds. Not only is it difficult to obtain information but also certain leaders are reticent to be totally transparent in

Development 49(2): Thematic Section

giving out this information; there are many who use the excuse of the need for confidentiality.

It is surprising to note that the leaders of NGOs and TSMs are not concerned by the necessity of transparency in the organizations that they lead. This is all the more surprising since they themselves are often the first to blame governments, corporations and enterprises for their lack of transparency. Proof of this has been the reticence, or even negligence, to reply to our demands for information and difficulty in finding this information either in their documentation or on their websites for all to see.

Even if we did not have enough time at our disposal to carry out a more thorough analysis,

what appears of importance to us is to share our first observations and conclusions with the leaders of NGOs and TSMs, so they can verify and complete the data with their own experiences. Our objective has been to place in the hands of these leaders a first tool that will facilitate discussion and allow them to improve their funding strategies. But having initiated and followed this objective, we now find we have to go further. There needs to be an exchange between the partners: Northern and southern governments, foundations, corporations and other enterprises, and, finally, improve the data collected by a few carefully selected case studies.

Translated by Katrien de Moor.

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