Survival of the Fittest in the Changing Climate of NGOs

By Eleanor Tanner

In the past forty to fifty years, the landscape in which NGOs function has morphed into a very different picture to the one that existed when many NGOs were conceived. As a result, a situation has arisen where old strategies and structures are becoming increasingly less relevant and sustainable for the future of these organisations. Although this is not to say that there is no longer a place for NGOs, it is necessary for several changes to take place in order for them to survive the numerous demographic and economic changes which have occurred, as well as those which will inevitably come in the future.

At the Mokoro Quarterly Meeting (QM) in May 2014, Adam Leach – CEO of Y Care International - joined Mokoro consultants and staff to explore this pressing issue, leading to a discussion on the main problems which need tackling and how this might be possible. This article explores some of the key issues discussed at the QM.

The largest contributors for NGO funding continue to be DfID and the EC. Although the EC's budget for international development has been cut by 1.5% since 2013, the EC is the largest contributor to NGO funding, having channeled $130bn through NGOs in 2011. DfID is the second largest funder, contributing approximately 10% of its budget to NGOs. Other large contributors include Trusts and Foundations. Apart from these bodies, NGO's rely heavily for their financing on individuals, through charitable donations, pay-as-you-earn donations and sponsorships.

A growing problem amongst NGOs appears to be the availability of unrestricted funds, or in other words, funds which they are more or less free to use as they see fit. Those NGOs with an income between £500k and £5m see less than 10% of funds available to them as unrestricted, whereas those below and above those thresholds have unrestricted access to and use of around 25% or more of their income. Subsequently, a situation has been created whereby NGOs with lower incomes have to depend almost entirely on individual donations in order to have free access to a higher percentage of their funds. Following the economic crash in 2008, this dependence has grown to be unreliable as individual giving has been affected and, when considering long term stability, also unsafe for the future of NGOs.

So what is the reason for this high level of restricted funds? Fundamentally, there is public support for international development, creating an obligation for institutional funding to address global development and work in collaboration with NGOs in order to impact global issues. Funders are, however, also concerned about value for money and results, and have gained an increasingly strong say over how their funds are used, seeing the need for donated funds to reach the intended beneficiaries and address the intended issue.

Although the reasoning behind restricting funds is logical, restrictions on funding are likely to lead to a downscaling in other areas of NGO spending. For instance, they could result in decentralised operations and decision-making within NGOs, and a reduction in the use of intermediaries to reach agreements. Additionally, we may see a trend of NGOs working to reduce admin costs – to include joining consortia to bid for work and meet needs holistically, inputting to central funds themselves, as well as making increasing use of out-sourcing. We have already seen movement begin to happen in the shape of a change from grants to contracts, with the ratio of granted to contracted money at £4.6bn to £3.8bn in 2001, and £3.7bn to £9.1bn in 2008.

If NGOs want to keep and increase their access to unrestricted funds and decrease their high dependency on single funding entities, they must seriously consider their arrangements for funding, so that strategies can adapt to change rather than needing to be replaced every time the landscape changes. Potentially, this may call for a Theory of Change (TOC) to highlight how the actions proposed by NGOs can be implemented, and how these actions lead to the outcome desired.

In terms of generating larger funds from different sources and in different ways, a range of possible routes were put forward at the QM. Firstly, there is a growing interest in innovation funds - for instance those being used by USAID Development Innovation Ventures and Sida. There is also huge potential in social impact bonds, which create access to private finance and public investments on a pay-by-results basis. Although these may not necessarily reverse the decline in unrestricted funds, they certainly open up opportunities for a broader, more adaptable and much more sustainable method of funding and spending.

An interesting point concerning the relationship between NGOs and regular donors was also raised during the QM. NGOs desire to remain as independent as possible, and yet are dependent on regular donors. Therefore, a thin line is drawn between independence and partnership. On the other hand, we must also ask the question of what NGOs actually want to be independent of. They cannot function without donations, suggesting they cannot be entirely independent of donors. To add to this, there is also an increase in donors and targeted countries desiring a more professional and focused approach from NGOs. For this reason, we may see NGOs taking on more corporate personas by structuring themselves more synonymously to individual business.

A discussion paper recently published by UNDP also makes an interesting point related to the future of aid funding. 'Where Next For Aid? The Post-2015 Opportunity' comments on how Brazil, China and India - the world's three leading developing economies - now have a practically equal combined output to that of the combined GDP of the G7 countries. Clearly, this will create a change in how developing economies interact with developed ones - although, the poorer nations will still require large amounts of aid to catch up. The UNDP discussion paper also notes that 46% of global savings belonged to developing nations in 2012. This is predicted to rise to 62% by 2030, according to the World Bank, suggesting that there is likely to be a rise in foreign investment from developing nations.

Perhaps in order for NGOs to continue to have an impact, there is need for a stronger focus on financial viability, strategic thinking and collaborative relationships beyond concerns about independence. To achieve this, partnerships that can minimise shocks whilst creating new / alternative strategies to increase unrestricted funds could create a pathway for the future of NGOs and their financing.