



**Institute of Social Studies**

Graduate School of Development Studies

**THE ROLE OF DONORS IN STRENGTHENING THE  
SOUTHERN NGO'S FINANCIAL SUSTAINABILITY:  
CASE OF HIVOS NGO PARTNERS IN UGANDA**

A Research Paper presented by:

**LENKA CERNA**  
(THE CZECH REPUBLIC)

In Partial Fulfillment of the Requirements for Obtaining the Degree of:

**Master of Arts in Development Studies**  
Specialisation:

**Politics of Alternative Development**

Members of the Examining Committee:  
Dr. Marlene Buchy  
Dr. Kees Biekart

The Hague, The Netherlands  
December 2005

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**Enquires:**

***Postal Address:***

**Institute of Social Studies  
P.O. Box 29776  
2502 LT, The Hague  
The Netherlands**

**Telephone : -31-70-4260460  
Telefax: -31-70-4260799  
e-mail: [postmaster@iss.nl](mailto:postmaster@iss.nl)**

***Location:***

**Kortenaerkade 12  
2518 AX, The Hague  
The Netherlands**

## ***Dedication***

To my Mum,

who has managed the adversities of life and became a star in her professional and personal life.

Thank you for giving me so much support exactly in the right time and the right way and for being an example of hard work and diligence.

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## Acknowledgements

First I want to thank God for His guidance, love and protection and giving me strength every day.

I would like to express my sincere gratitude to Dr. Kees Biekart for initiating the partnership between ISS and HIVOS without which I could not do this research and for his enthusiasm and encouragement. I am equally grateful to my supervisor, Dr. Marlene Buchy who has been a unique and true inspiration for me. Thank you for giving me your comments so promptly, for your patience and for keeping an open door anytime I needed which has made this research a tremendous learning experience. Special acknowledgement to our PAD convenor Dr. Rachel Kurian for her genuine care and to Karin and Mira for being the best programme administrators.

I express my warm thanks to Marijke Mooij from HIVOS who was the driving force behind this research – thank you for our meetings and your very friendly attitude. My appreciation goes to Julie from HIVOS for her constant support of this research and guidance especially when I was doing field work in Uganda. I also gratefully recognize the assistances of many other HIVOS staff members.

It is a matter of privilege for me to acknowledge my gratitude and indebtedness to all the 40 Ugandan and Dutch respondents who took part in the interviews. I appreciate your time and willingness to share your views, perfect time keeping of the appointments and taking part in the workshop. I hope it was time well spent for you which will contribute to the future financial sustainability of your organizations.

I could not do this research without a constant emotional and monetary support of my family to whom I thank from all of my heart. Thank you for believing in me and taking my education as your priority. Last but not least I thank my boyfriend Debashish for calling me every day during this year at ISS and for his unfailing love and support.

## ***Abbreviations***

<b>AMFIU</b>	<b>Association of Micro Finance Institutions</b>
<b>AmWA</b>	<b>Akina Mama wa Afrika</b>
<b>BRAC</b>	<b>Bangladesh Rural Advancement Committee</b>
<b>CDRN</b>	<b>Community Development Research Network</b>
<b>HIVOS</b>	<b>Humanist Institute for Development Co-operation</b>
<b>FHRI</b>	<b>Foundation for Human Rights Initiative</b>
<b>NOGAMU</b>	<b>National Organic Agricultural Movement of Uganda</b>
<b>VEDCO</b>	<b>Volunteer Efforts for Development Concern</b>
<b>WOUGNET</b>	<b>Women of Uganda Network</b>

## Chapter 1: Introduction

### 1.1. Southern NGO financial sustainability and the role of donors - background

In the recent years, the Southern NGOs are increasingly being pressured by their donors to show that they are financially sustainable<sup>1</sup> (Angey and Nilsson 2004). As captured by some authors (Fowler 2000, Wallace 2003, Michael 2004, Angey and Nilsson 2004) this trend is caused by changing realities of the available aid and its distribution both in the North and in the South.

In the North, donors<sup>2</sup> are becoming increasingly dependent on official aid and thus more exposed to changes in government policies and priorities and at the same time due to a certain disillusion in development cooperation they are forced to be result-oriented. In the South, generally less aid is channelled through the NGOs as some of it is being shifted back towards the governments. At the same time a growing number of Southern NGOs compete for the funding. All these factors together create a pressure on both the donors and the Southern NGOs to think about their financial sustainability.

The issue of financial sustainability is generally new for the Southern NGOs in the sense that most of them have never efficiently explored how they can become more sustainable and lack the capacity of doing so. According to Holloway (2001:9) they had assumed for a long time that “they would continue to be funded from Northern sources ad infinitum” and were not motivated to change this mentality. This has separated them from “the support they might have received from their own countrymen/women and their country’s institutions” Holloway (2001:83).

It has been generally accepted that Southern NGOs are principally in an unequal position towards their donors. Tvedt (1998:224) explains it by “financial resources, conceptual

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<sup>1</sup> The concept of sustainability itself was first officially acknowledged as a development policy objective in 1987 in the World Commission on Environment and Development (WCED)’s report *Our Common Future* (Michael, 2004). The report accelerated the further exploration of sustainability and extended it to various disciplines including the NGO activities.

<sup>2</sup> Degnbol-Martinussen and Engberg-Pedersen P. (1999:53) identify six most important donor groups who “represent different aid models”. The donor group that will be targeted in this paper are the international NGOs with their bases in donor countries who have financial relations with the NGOs operating in the South.



dominance and the unequal distribution of sanction instruments” and argues that “a change in vocabulary – to ‘equal partnership’...will not alter this reality.” Holloway (2001:13) adds that “the funding relations basically obey the golden rule – those who have the gold, make the rules.” The current funding system of NGOs submitting their proposals to the Northern donors to accept or refuse them promotes inequality in these relations. This inequality even intensifies the Southern NGOs lack of financial sustainability and reinforces dependency. On the other hand, the literature also mentions southern NGOs, especially the more established and confident ones who manipulate the donors to get a much higher funding than necessary by exaggerating the budgets manifold. Although the donors principally possess more power the Southern NGOs can well use the funding system for their own benefit (Vincent and Campbell 1989, Fowler 2000, Holloway 2001).

Many authors show that one of the most crucial consequences of the NGOs’ lack of financial sustainability is their prevalent dependence on donors’ funding. Vincent and Campbell pointed already in 1989 that if the donors withdrew at once most NGOs would collapse within one year or would have to stop the greater part of their activities. This dependence makes NGOs vulnerable to the changes in donors’ policies and fashions and compliant with their needs at the account of their own mission (Baldo 1994, Fowler 2000). The testimony of a Malawian NGO official is quite characteristic: “I am in the environment planting trees and the donor comes to me and says “it is a pity you are planting trees when I have all this money for giving credit”. Straight away I become a credit organization.” (Lawson 2000 cited in Michael 2004:125).

According to Angey and Nilsson’s research (2004:24) it has become a ‘buzzword’ used by donors without being properly defined and backed up by their policies. It is not on their agenda to actively promote financial sustainability of their Southern NGO partners (Holloway 2001). The literature almost bursts with the criticism of donors’ unsustainable practices when channelling aid through the Southern NGOs, especially the prevalent project funding and lack of interest to support the NGOs’ institutional or organizational development (Muwema 2005:9). Bebbington and Riddell (1997:107) claim that the donors “can in fact weaken these organizations as representative and accountable institutions within civil society”. The problem is that most donors are not aware of how their policies affect the financial sustainability of their Southern NGO partners.

This research is therefore very timely and brings an issue which needs further exploration. How do the Southern NGOs perceive the need for financial sustainability? How would they like their donors to assist or at least not to hinder the process of gaining financial sustainability? In my view, these questions are not sufficiently tackled in the Northern literature where the Southern perspective is seriously misrepresented and need more research.

In order to get first-hand information the Dutch co-financing agency HIVOS and 6 of their partner NGOs were chosen as a case study. HIVOS has shown a strong interest and need to deeper examine the concept of financial sustainability, to hear the views of their Southern partners and to see what can be done in their further co-operation to help them strengthen it. HIVOS claims that also their partner NGOs have shown a very strong wish to make their organizations more financially sustainable and many of them are currently experimenting with various activities to generate income and other resources. Both sides feel the need for more ideas and guidance.

This research therefore aims to:

#### **I. explore the concept of NGO financial sustainability**

In the literature NGO financial sustainability is understood in many different ways (Vincent and Campbell 1989, Fowler 2000, Holloway 2001). The research attempts to explore them and to contrast the views of HIVOS with their partner NGOs. Southern NGO financial sustainability is not to be taken as an automatically positive concept as there can be also costs to it (Martinussen and Engberg-Pedersen 1999, Holloway 2001, Biekart 2005<sup>3</sup>) that need to be further explored, especially from the primary data.

*Question no. 1.* What are the dimensions of Southern NGO financial sustainability?

*Question no. 2.* Which positive and negative sides do HIVOS and their partner NGOs perceive?

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<sup>3</sup> Kees Biekart – verbal comments to this paper, June 2005

## **II. theoretically explore the resource mobilization strategies of Southern NGOs**

The literature comes with many alternative ways for NGOs to strengthen their resource base next to the donor funding (Vincent and Campbell 1989, Brinkerhoff and Goldsmith 1992, Fowler 2000, Holloway 2001) and also lay certain preconditions for it (Angey and Nilsson 2004:16). Both will be seen from the perspective of HIVOS and their NGOs.

*Question no. 3.* What is the financial continuity of NGOs: levels and prospects of generating own income or other resources in Ugandan context?

*Question no. 4.* Which are the underlying attitudes of the NGOs to achieve sustainability?

## **III. deconstruct donors' policies and explore their effects on the Southern NGO financial sustainability**

Using Fowler's framework (1997:129) of quality of aid, donors' policies will be deconstructed to see in which way they can promote as well as hinder the NGOs financial sustainability.

*Question no. 5.* What are the effects of the donors' policies on the Southern NGO financial sustainability?

## **IV. analyze the role of donors in strengthening the Southern NGOs sustainability**

The research will bring together the all the views to find out the perceived roles of donor in building and strengthening the financial sustainability of the Southern NGO.

*Question no. 6.* How would the Southern NGOS like their donors to support them in building financial sustainability? What is HIVOS view?

The research aims to contrast Southern NGO voices with the voices of the donors and claims to be unique in that way. What do donors expect from the NGOs and vice versa? Are they in the same tune or will they greatly differ? Combining the data, the main research question "*How do HIVOS and their Southern NGO partners see the role of the donor in strengthening their financial sustainability and finding alternative ways of mobilizing resources?*" will be concluded.

## 1.2. Research Methodology

### Primary Data

The total of 41 interviews were conducted in order to obtain primary data, all of them one-to-one interviews which lasted on average 60 minutes (between 30-90 minutes). During the interviews I followed questionnaires (based on the research questions and slightly amended for different groups of respondents, see the Annex 1 and 2) however I tried not to interrupt the respondents from expressing anything they felt about the topic. The questionnaires were based on the research objectives and questions.

I transcribed all the interviews from my notes and sent them back to the respondents by e-mail giving them an opportunity to amend, delete or add any statement. 15 respondents wrote back and I accepted all the suggested changes. Confidentiality was explicitly guaranteed during the interviews.

The respondents come basically from three different groups. First, 21 representatives from 6 Ugandan NGOs were interviewed. The choice of the NGOs was left up to HIVOS who decided to try a mixed sample of NGOs differing by type, activities, size, the length and quality of their partnership etc. and all being based in the Ugandan capital Kampala. The NGOs were officially asked by HIVOS by e-mail if they wanted to be part of the research. By the time of my departure, 3 NGOs sent a positive reply; the other 3 did not react. After arriving in Uganda I contacted all of them and fixed the interviews. Although all the NGOs were showing a great interest in the research, I would not categorize this procedure as participative as the HIVOS NGO partners did not have any say about the topic of the research, nor were the other (non-selected) NGOs informed about it. The variance of the NGOs is being taken into account whenever it makes a difference in the answers; otherwise the NGOs are taken as a block.

In order to cross-check the NGO findings and to enhance discussions and a process of active explorations in the participants I organized a workshop which was attended by 12 NGO representatives. The outcomes of the discussions and the anonymous evaluations were used for the research.

Secondly, 13 interviews with the representatives of the Ugandan civil society were conducted in order to get a broader view from the country. A diversity of respondents was chosen –

NGO consultants, university lecturers, other donor representatives and researchers from two Ugandan research centres. Also these respondents are taken more or less as a block in the analysis with the exceptions of the two donor representatives. For the purpose of this research they are called 'independent respondents.' Lastly, 7 interviews were done with the HIVOS employees in the Hague in order to get the donor perspective.

22 respondents were women; however the representation varies in the three groups – in the NGO group 11 out of 21 interviewees were women, in the other Ugandan respondents group 5 out of 13 and in the HIVOS employees 6 out of 7 were women. I did not find any pattern of difference between the men's and women's answers.

#### Secondary data

HIVOS and the Ugandan NGOs enabled me to study their annual reports, evaluation policies, financial sustainability strategies and other internal documents. Also I collected literature from two Ugandan research centres out of which one research has been done specifically on the topic of financial sustainability.

### **1.3. Limitations of the Research**

#### Representativeness of the sample

Only 6 NGOs could be interviewed and these were chosen by HIVOS. Also all the interviewed NGOs operate in Uganda and therefore the country-specific context must be taken into consideration. It cannot be therefore automatically presumed that this sample was representative for all HIVOS partners.

#### Researcher's bias

I believe it is important to reflect one's bias before, during and after the research in order to reveal any incoherence from the side of the researcher. The cultural background, professional experience, personality, age and sex of the researcher matter in my view as they can affect the outcomes of the interviews, the depth the respondents are willing to share.

I had to make clear at the beginning of every interview that I don't belong to HIVOS as an employee and have not come to evaluate but am an independent student aiming for objectivity. Respecting the time and effort of the respondents, I also tried not to create any

expectations in policy changes of HIVOS or other donors as a reaction to the research. A few times the respondents said very frankly that donors should save money by using the local experts for researches like this one. Therefore for the sake of the way I was perceived by the respondents during the interviews I had to stress my low-budget student status and a principle to live completely by local standards.

The researcher's background also greatly influences the way he/she sees the interviewees. I come from a country with a value-based, altruistic and voluntary civil society which according to my Ugandan respondents vastly differs from the Ugandan one and in fact has exactly the opposite characteristics.

Having spent total of 2 years in Uganda out of which 1 year in the village, I know the local prices and wage ranges and have a strong sense of value of money seeing spending from the perspective of the local poor. In my previous work in Uganda I was mostly cooperating with grassroots NGOs that match the "Czech model" of altruism and low costs. Seeing the budgets of the NGOs for this research, I had to be very careful not to be judgemental and accept my role as a listener, which I did manage except for 4 cases where I got into a discussion about the NGO wages and costs.

#### *The suggestions of the interviewees*

During the workshop the participants expressed suggestions about this research, however not all of them could be included as they were out of the scope of this research or could not be managed technically, e.g. to interview NGOs that are not funded by HIVOS or NGOs that have already reached financial sustainability. However, I tried to be as responsive as possible to the participants' requests.

## Chapter 2 – literature review and analytical framework

### 2.1. Dimensions of NGO sustainability

Southern NGO sustainability is a broad concept and academics split it into many components for which they often use their own terminology. Fowler's (2000:183) framework of "Virtuous Spiral" can serve as an example. Its first component is *performance (leadership is also stressed here)* which if recognized by the beneficiaries creates a positive *reputation* and increases possibilities for resource mobilization. This process gives opportunities for constant *learning*, the results of which should be translated into *adaptation* to the new demands. These four elements if systematically worked upon will create a support structure for the NGO sustainability.

Having combined also other theories (Vincent and Campbell 1989, Michael 2004) at least three main dimensions of NGO sustainability can be identified which I will label as: management and leadership; relevance and performance; and access to resources. These are mutually interconnected and together form a body of NGO sustainability.

#### 2.1.1 Management and leadership

The first dimension of NGO sustainability is sometimes referred to as organizational sustainability.

In order to promote sustainability, the NGO management needs to be "cost-effective and efficient" (Vincent and Campbell, 1989:43; Michael 2004) in determining the utilization of the NGO resource base and providing the vision and strategic plans. It should have the ability to develop "problem-solving structures that allow it to adapt successfully to the changing conditions around it" (Stockmann 1997 in Michael 2004:132) or as Fowler (2000:132) calls it the ability of organizational regeneration as "organizations that don't regenerate themselves are unlikely to survive".

Some development practitioners like Jerroo Billimoria<sup>4</sup> even believe that leadership is the key for NGO sustainability; in her own words “sustainability of Southern NGOs is through empowerment of Southern leaders”<sup>5</sup>. Michael (2004:152) expresses its role for sustainability as being “experienced, well-connected and committed”

### **2.1.2 Relevance and performance**

Fowler (2000:179) defines relevance as “continuing to produce something of social value” to the intended beneficiaries, i.e. being responsive to their demands. That also means involving them in decision making, planning and implementation. Basing on relevance, some authors see the NGO performance as a key factor which will guarantee sustainability, e.g. Sergio Haddad (in Fowler 2000:99) “sustainability is when your work is recognized to the extent that you don’t have to fund-raise”.

However, Michael (2004:134) testifies that “for local NGOs constantly living hand-to-mouth, responsiveness and relevance are often only secondary considerations to economic survival”. As a reason of not being sustainable, many NGOs in order to survive change their objectives according to the available funding and therefore in reality this dimension of NGO sustainability matters the least to them.

The 2.1.1 and 2.1.2 components can be summarized under the broader term of “institutional sustainability” Cox and Healey (2000:111). The OECD DAC guidelines 1992 characterize it as having “sufficient management skills, effective delivery mechanisms and participatory approaches” in place to “ensure that policies and incentives take full account of the needs of the poor”.

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<sup>4</sup> Founder of Child Helpline International

<sup>5</sup> Lecture at ISS, February 2005



### **2.1.3 Resource mobilization**

Saying that relevance and responsiveness are most often neglected by both donors and the NGOs, Michael (2004:136) claims that the element of resource mobilization is the most preferred one according to which the NGO sustainability is being assessed by the donors.

Although this third dimension of NGO sustainability also includes the non-financial components (which enable the NGOs to save costs) it is often labelled as “financial sustainability”. The non-financial components will be taken into account also for the purpose of this research.

## **2.2. Southern NGO financial sustainability**

### **2.2.1 How is this concept understood**

Financial sustainability of Southern NGOs was first explored in the academic literature in 1989 by Vincent and Campbell in their book *Towards Greater Financial Autonomy* (Fowler 2000:53). They present the “idealized” model where the external aid is eliminated and NGO can function from its own income (Vincent and Campbell 1989:47). However, they also add alternative models for different categories of organizations.

As underlying requirements Vincent and Campbell (1989:43) emphasize entrepreneurial attitude in all the NGO activities and urge for finding ways of “reducing the administrative expenses without affecting the efficiency” pointing on the “several well-known ways of wasting money” in the categories of “vehicles and field trips, communication and personnel costs” Vincent and Campbell (1989:87).

Holloway’s (2001) understanding of financial sustainability is a bit stricter as he thinks the NGOs should “wean themselves from foreign funding” and pursue alternative financing approach especially by income generating activities and contributions from their own communities. The foreign funding should come only as a “supplement to core financing... on which the NGO is not dependent” (2001: 83). Holloway (2001:12) warns that there are many “artificially sustained NGOs by donor funding” which are not performing well for their communities and will not survive in the future. He sees the core of sustainability in NGO proving the value to the local constituencies and getting support from them.

### 2.2.2 Financial sustainability according to the NGOs' activities and types

The extent of sustainability depends on the type of the NGO and its activities (Vincent and Campbell 1989, Fowler 2000). Michael (2004:143) supposes that NGOs working in advocacy and empowerment have the hardest position to diversify their resource base.

Southern NGOs also differ by the scale of involvement with the state, human resource capacity ("favourite" NGOs versus the struggling NGOs etc.), capacity to absorb funds, capacity to deal with the official aid system, level of connections to the North, local NGOs as well as operational international NGOs. Also the NGO's stage of development plays its role as "the resource strategies in infancy are likely to be different in maturity" (Fowler 2000).

Regarding the type of the NGO, Vincent and Campbell (1989:47) assume that the degree of financial sustainability will be the highest with organizations that sell products (enterprise) and lowest with the social development agencies.

Sustainable enterprises will then predominantly secure income from investments and sale of their products and services and use external aid only as complementary. It is interesting to note that the form of external aid keeps changing during the partnership with the donors from project funding to flexible funds, revolving loan funds, credit guarantee to the stage that the NGO is being able to access to the local credit by itself (Vincent and Campbell 1989:51).

In case of the social development agencies Vincent and Campbell (1989:52) assume that "they will always depend on either external aid or their own government" and consider them relatively financially sustainable if 40% of their income comes from their own sources. As a precondition, the external funding comes in form of flexible, long-term grants and is diversified so that the NGOs don't depend on one donor only.

Can we find some model example as a success story? Fowler (2000) praises BRAC<sup>6</sup> which after 30 years managed to be self-financing (by developing enterprises through the credit programmes and government support) complemented with a well diversified donor base which still plays a major role in funding its development programmes<sup>7</sup>.

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<sup>6</sup> formerly Bangladesh Rural Advancement Committee

<sup>7</sup> Graham White, Donor Liaison Co-ordinator, BRAC, <http://www.brac.net/donors.htm>

### 2.2.3 Benefits versus costs of financial sustainability

Why would donors want their partners to be financially sustainable? Fowler (1997) offers a theory that the donors need to associate with success and show results which is necessary for their own sustainability.

Thomas (2001:13 cited in Michael 2004:142) states that “it is likely that those with the power to formulate and implement policies...conceive sustainability differently from those affected by the policies”. Though the issue of financial sustainability seems to be nowadays quite popular in the donors’ rhetoric, it should not be automatically assumed as desired by the Southern NGOs. The mainstream literature being written mostly from the Northern perspective brings up especially the benefits of pursuing financial sustainability and mentions its costs rarely and briefly.

One of the most commonly mentioned benefits for the Southern NGO is “a greater autonomy and ability to continue their activities” (Fowler 2000). Michael (2004:129) sees as the main benefit “power” because powerful Southern NGOs are more “innovative and creative, take more risks and are willing to experiment, invest in research and in building organizational capacity, and can spend more time closely and carefully developing projects with their intended beneficiaries”.

The cost to sustainability is however not negligible according to some (Biekart<sup>8</sup>). Holloway (2001:12) claims that first of all there is a danger for NGOs of “being diverted from their mission” in their pursuit for sustainability. Secondly some NGOs don’t have capacity to “acquire the necessary management skills” and are not able to face “the increased accountability and transparency to public.” Degnbol-Martinussen and Engberg-Pedersen (1999:296) argue that “financial sustainability will usually be impossible to achieve with activities intended to benefit very poor people”. They warn the projects should not too much focus on sustainability as it could prevail over the focus on the individual projects’ goals.

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<sup>8</sup> Kees Biekart – verbal comments to this paper, June 2005

### 2.3. Strategic options in resource diversification and the role of the donor

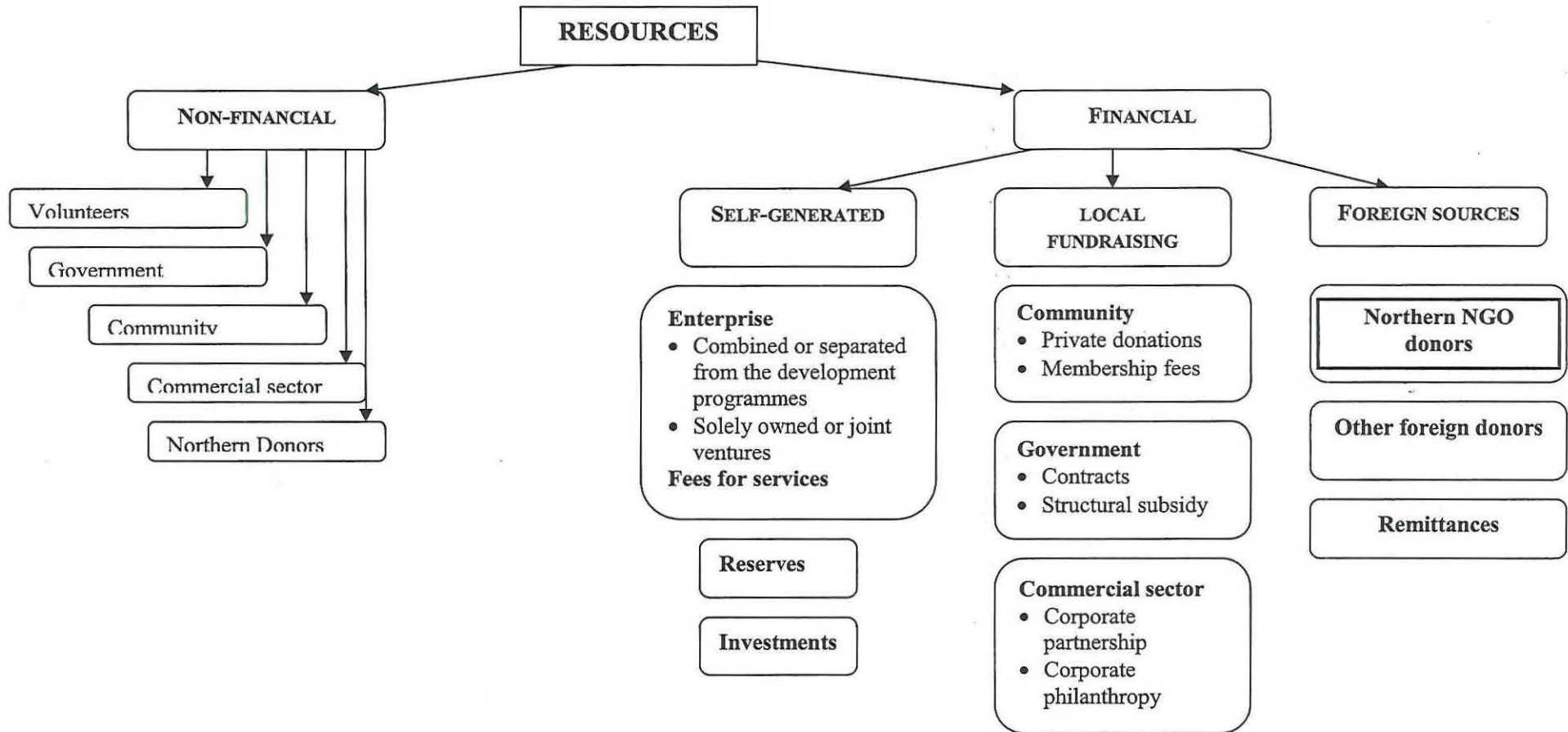
In order to pursue their financial sustainability NGOs are advised to look for other options than the donor funding, which should be only supplementary and preferably in the form of long-term flexible grants (Vincent and Campbell 1989, Brinkerhoff and Goldsmith 1992, Fowler 2000, Holloway 2001).

Holloway (2001:10) hits the point generally shared in the literature - whilst many NGOs are quite experienced with obtaining donors' funds they lack skills of how to market themselves and are unaware about the local possibilities. The widespread dependency on the donor money is obvious.

The graph below presents options for resource diversification in a detailed way. The academics however differ in their recommendation of which combinations are the most optimal ones. Fowler (2000:60), Vincent and Campbell (1989:43) prefer non-financial and self-financial options to the grants from the government or from the commercial sector as they see many dangers in a too tight involvement with them. Vincent and Campbell (1989:96) stress the creation of a capital reserve fund, establishment of income generating activities and the sale of services and want the NGOs to become "development enterprises providing well-managed and cost-effective services or products for the community".

Holloway (2001:10) on contrary promotes fundraising from the local civil society as he claims that the local support and philanthropy are one of the most crucial pillars for NGOs to reach sustainability.

Strategic options in resource mobilization/diversification\*



\* Adapted from Fowler (2000: 63) and reworked

### **2.3.1 NON-FINANCIAL RESOURCES**

Fowler (2000:68) explains that the non-financial resources are relatively an unexplored area and receive only limited attention although they can substantially save the NGOs costs. Fowler himself added them to his framework in 2000 in the book *Virtuous Spiral* on contrary to the book *Striking Balance* from 1997. Fowler claims that besides saving costs the non-financial flow helps not to lose the “altruistic spirit of voluntarism”, involves the poor who are “least likely to have money to contribute” and “bring a number of intangible but vital benefits, such as e.g. relational networks etc.” Therefore according to him the non-financial resources are very important to pursue if NGOs wants to reach financial sustainability.

#### **Northern donors**

Some Northern donors can more easily offer non-financial assistance than the funds, e.g. enabling access to training, education or support to attend international conferences and workshops. Donors can also link the Southern NGOs to other organizations and thus get international support for their activities.

#### **Community/members**

As mentioned above Fowler (2000) claims that engaging the community and members to support the NGOs work also non-financially will increase their ownership of the NGO's projects and the overall stability of the NGO. Vincent and Campbell (1989:64) recommend that the NGOs accept membership fees paid in kind and any other contributions, shall it be labour, land, machines, vehicles or tools.

#### **Volunteers**

There is a discourse of how beneficial volunteers can be for the NGO financial sustainability. Michael (2004:137) argues that “volunteers have proven to be a successful strategy for survival for organisations but has not proven a successful strategy for sustainability”. On the other hand volunteers do “provide substantial technical, material, informational and relational advantages and can contribute also in terms of knowledge and information” Fowler (2000:70). They help with simple as well as professional work (e.g. consultancy, fundraising) and contacts (Vincent and Campbell 1989).

Fowler (2000:73) claims that although “volunteer management can be very time consuming” as they require constant motivation and want to see the difference their work makes, their potential informal ‘gifts’ to the NGOs may outweigh the technical resources they require.”

### **Commercial sector**

Fowler (2000:73) explains that the NGOs can benefit from the commercial sector either in kind (e.g. donations of materials, new or used equipment, furniture or vehicles etc.) or by getting free or cheaper services (audit, legal consultancy, marketing advice, advertising space etc.). Being aware and trying to avoid the danger of “commercial misuse of the NGOs name and reputation”, these contributions mean considerable saving of the NGOs’ costs.

### **Local government**

The local government similarly as the commercial sector can provide e.g. “rent-free premises, equipment, free technical services (training, transport etc.) or donate in kind (seeds, fertilisers etc.)” (Vincent and Campbell 1989:146).

## **2.3.2 FINANCIAL RESOURCES**

### **2.3.2.1. LOCAL FUNDRAISING**

It is known that in the South (and especially in Africa) there are fewer opportunities for local fundraising because of “traditions of voluntarism within family, kin, ethnic and religious groups and not third-party organisations” (Fowler 1995). Other factors also play a role, e.g. the political economy of a country, its historical and cultural circumstances and legal conditions and how the local NGOs are perceived domestically. At the same time, as was said above by Holloway (2001), the NGOs often lack the skills to raise funds locally. Vincent and Campbell (1989:145) reason: “the NGOs in the South often neglect local sources of funds because raising money from Northern donor agencies seems to be easier.”

On the other hand all the above mentioned authors strongly encourage the NGOs to become more creative and more determined to get local funding.

### **General public/community**

Fowler (2000:115) argues that “the citizen base or the grassroots have more financial potential than assumed” and it is only the question of how to stimulate it. He encourages the

NGOs to become “citizen-based”, i.e. organizations where “a reasonable proportion of income is derived from people who believe in and are intimately related and committed to the organization.” So however small, the NGOs should not disregard the individual contributions. The same applies to the membership fees which do increase the commitment of the members and therefore should not be neglected.

Vincent and Campbell (1989) suggest establishing networks of well-off individuals, collecting door-to-door, among local families or through internet which is very common in the North but can also gradually work in Southern conditions especially by emerging of the middle class.

### **Local government**

Southern governments greatly differ in their policies and friendliness towards the NGOs and tensions are not uncommon. Despite of that, the government can formally promote the Southern NGOs by providing the possibility to carry out projects on its behalf, obtain consultancy contracts (research studies, evaluations, training) or by exemption from customs duties and taxes etc. (Vincent and Campbell 1989, 146).

According to Michael (2004:171) donors should help the local NGOs gain space with the government as they “have the influence to “encourage” the governments to include local NGOs in their projects and to collaborate with a range of civil society groups when planning and executing larger development programmes.” This recommendation is very timely when we consider the above-mentioned changing realities of channelling the aid.

### **Commercial sector**

In the North partnerships between the NGOs and corporate sector are more and more common. It is partly by the fact that mostly their contributions are tax-deductible and there is a certain pressure from their consumers for a good image (Vincent and Campbell 1989).

In the South the commercial sector is still a relatively new funding source for NGOs to consider, however some authors express home and suggest that next to funding corporations can also subcontract some activities to NGOs, such as independent research etc. (Fowler 2000:108)



However, because the companies are guided by “strategic self-interest” and regard “corporate philanthropy as another form of investment”, NGOs have to be careful so that their reputation and autonomy will not be harmed. Also they prefer “tangible, hard outcomes” (Fowler 2000:110) and will hardly engage into financing advocacy or lobbying the government for other than their interests.

The donors can help here with their contacts especially trying to intermediate long-term partnerships linking the international businesses to the Southern NGO and reward them by offering publicity in the North (Vincent and Campbell 1989).

### **2.3.2.2.SELF-GENERATING**

#### **Income-generating activities**

Fowler (2000:81) claims that “the answer to future NGO resource mobilisation lies in social entrepreneurship”, which can be pursued together or separately from the NGO development programmes and their impacts. He recommends that the NGOs entrepreneur within their fields of expertise and that they diversify their activities.

By becoming a sort of “hybrid” NGOs must be careful not be drawn away from their original objectives and be able to solve new issues that will necessarily emerge – legal conditions, knowledgeable management, different attitudes etc. Also the issues of public perception, differences between an NGO culture and a business culture or hostility from the business sector must be counted with (Holloway 2000:44).

The literature warns that income generating enterprises can often go wrong and create a loss. The NGO must be therefore realistic about how much profit it can make and plan very carefully especially for human resources and starting capital (Vincent and Campbell 1989:67).

The lack of the latter mentioned resources represents a bit obstacle for many NGOs as most donors are not willing to support income-generating activities and investments especially if they are separated from the NGO’s mission. In case the NGO does not manage to negotiate with the donors; Fowler (2000:93) suggests in-kind donations of equipment, materials and/or professional services, funding from the well-wishers or from the reserve fund or loans and grants from the government or commercial sector.

### **Fees for services**

Charging the beneficiaries for NGO services is according to Fowler (2000:100) becoming more and more common, however it raises the “issues of access and exclusion” as the charges may be “a barrier for the poorest that the NGO wishes to reach.” The challenging side of it is that the NGO will probably find out if there is a real demand for their services or not.

### **Reserves and investments**

On contrary to Fowler (2000), Vincent and Campbell (1989) believe that “the key to financial security can be found in the creation of reserves and a capital fund”. Because of the prevalent donors’ unwillingness to support them, Vincent and Campbell encourage the local NGOs to save their own income. At the same time they can negotiate with the donors to be allowed to use a percentage of their funding for special reserve funds e.g. general reserves, risk reserves or reserves for research, innovation, new projects or renewal of assets.

Fowler (2000:95) acknowledges that “the vast majority of NGOs would prefer to have ‘an endowment’” fund and consider it as an easy option how to generate income. However, Fowler and other authors urge the NGOs “to be realistic” as “total self-financing from investments is highly improbable.” Fowler adds that it is also “unhealthy because it can lead to complacency and stagnation” and “having to pay continuous attention to fundraising keeps the NGO on its toes.”

### **2.3.2.3.FOREIGN SOURCES**

Besides funding from international donor agencies there are alternative foreign sources mentioned in the literature e.g. remittances or other Northern donors (the EU, World Bank etc.) though in the latter case “the bureaucratic threshold is quite high” (Vincent and Campbell 1989). Another interesting alternative is establishing a branch office in the North in order to fundraise according to the Southern NGOs’ needs although this way is financially impossible for most Southern NGOs.<sup>9</sup>

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<sup>9</sup> Jerroo Billimoria, Child Helpline International Lecture at ISS, February 2005

Donor funding often represents even 99% of the NGOs' budget and comes often from one major donor. To reduce this dependency NGOs are being advised to struggle for diversifying their donor base and to learn how to manage multiple donors (Fowler 1997).

One of the ways of negotiating long-term flexible funding, strategic plan and a common system of monitoring, evaluation and reporting with more donors, is according to Vincent and Campbell (1989:82) forming the donor consortia. NGO should weight the possible disadvantages of this move. Jehan Perera (1997:156) brings an example of a donor consortium created for Sarvodaya Movement which had in the end detrimental effects on this organization as the donors united and took over the policy and decision-making of the NGO and therefore she recommends them to NGOs which are already well established.

#### **2.4. The effects of donors' policies on Southern NGO financial sustainability - quality of aid**

Vincent and Campbell (1989:58) suggest that the donors should make it their objective to help the Southern NGOs to “establish and strengthen themselves, and to gain a reasonable degree of financial autonomy”. They go even further claiming that this is “the main role of Northern NGOs” as a result of which the Southern NGOs should be able to raise funds by themselves.

The effect of donors' policies is influenced firstly by their attitude and willingness to fit the funding to the needs of the NGO sustainability, their ability to do so as they are also under pressure from their own donors and lastly by ‘the right’ knowledge to opt for the most suitable policies.

In order to understand better the prevalent criticism of donors' policies being unsustainable, I will deconstruct them by Fowler's framework (1997:129) of ‘quality of aid’ (6 components) and later analyze their effect on the Southern NGOs' sustainability.

##### **2.4.1 Funding conditions and expectations**

Some authors mention the importance of how and which NGOs are chosen for funding at the first place. Michael (2004:165) documents that there is a tendency to prefer the large and international NGOs at the expense of the local ones who should be given preference because their value lies also in contributing “to the cultural sustainability in the long run.”

Most aid comes with donors' conditions and expectations attached to it, which are in the literature generally seen as having a negative impact on the NGO sustainability. Donors are being criticized for putting such conditions on NGOs which hinder them from accessing other resources and thus reinforce dependency (Holloway 2001). Vincent and Campbell (1989:45) disapprove donors who “actively prevent creation of reserves and even seem to discourage income-generating activities” and don't allow assigning any percentage for investing into the NGOs' financial sustainability.

Fowler (1997:130) however argues that some donors' conditions increase effectiveness of the NGOs and their sustainability acknowledging that "setting the right conditions is probably the most critical factor to a donor's professionalism".

#### **2.4.2 Funding methods**

The trends in the preferred funding methods have been changing as some have been proven as not suitable for NGO sustainability. However, according to the literature there is a broad gap between what is optimal in theory and what the reality on the ground is. The method of project financing was criticized already in 1989 by Vincent and Campbell (1989:40) as inefficient and being a "straitjacket", however it still remains as one of the most commonly used ones by the donors who till today show lack of interest in the NGO institutional development (Vincent and Campbell 1989, Fowler 2000, Holloway 2001, Michael 2004).

These authors advocate for the shift in financing from projects to the organization itself. They suggest that after an initial period when the NGO can prove itself, the donors should move towards more flexible ways of funding based on programme grants, institution-building grants which go towards the administrative budget of the Southern NGO, unearmarked organizational grants, revolving loan funds or bank guarantees helping the NGO access credit from the commercial banks.

Holloway (2001:83) goes further and suggests to the donors to expand the funding methods so that they can specifically target the NGO financial sustainability as a priority, e.g. "building reserve funds, providing venture capital funding, financing fundraising strategies and endowments." On the other hand he has an interesting point claiming that NGOs in fact don't ask for this in their proposals and characterizes it as an "chicken-and-egg situation" – the NGOs are not familiar with the local fundraising strategies and are not active enough to involve the donors in assisting them and at the same time donors have very little experience with providing the start-up capital and don't target the NGO financial sustainability.

Another issue often being mentioned in the literature is the amount of foreign funding provided. Vincent and Campbell (1989:33) and others warn against "increasing the NGO's

income significantly over a short period of time”, which can fast throw the NGO into a severe dependence.

Lastly, many authors strongly criticize the unwillingness of many donors to finance the overhead expenses of the Southern NGOs (Smillie 1997). Though it is very crucial to decide where to draw the line (e.g. to get qualified employees but at the same time not to spend too much on salaries) the donors need to assign a percentage of their funds towards the NGOs administrative costs in order not to undermine their financial sustainability.

#### **2.4.3 Administrative burdens**

Though Fowler (1997:132) does not question the necessity of “the authenticity and accuracy of financial and narrative reports”, if every donor insists on their own format of reporting “they complicate NGOs system of financial management” and take a significant amount of the NGO staff time which results in decreased capacity and sustainability. Michael (2004) criticizes the too many expectations on NGO’s reporting saying that the donors would not meet them themselves.

#### **2.4.4 Predictability and reliability of funding**

Fowler (1997:132) states that “NGOs work in the world of unreliable funding” when at the same time availability of long-term term resources and feeling of security in the funding relationship is a “precondition for effective development initiatives.” On the other hand, NGOs also have a part to play to win the donors’ trust and motivate them towards reliability by continually providing feedback and proving high performance.

#### **2.4.5 Continuity and necessary duration**

Fowler (1997:132) defines continuity as “the ability of the funder to ensure the support NGO requires as long as it demonstrates its merits.” He stresses that the continuity should be based on performance and proven impact of the funds and not on “fashion, self-interest or donor politics”. He does not approve the commonly used project-based funding given for a specific number of years (e.g. 1-4) as it brings insecurity for the NGO staff and a consequence that “evaluation becomes a threat or a ritual to justify donor decisions already made rather than a tool for learning.”

To donors who want to work with sustainable local NGOs, Michael (2004:168) advises to build long-term funding relationships to “help NGOs achieve space, financial independence, international links and a political profile”.

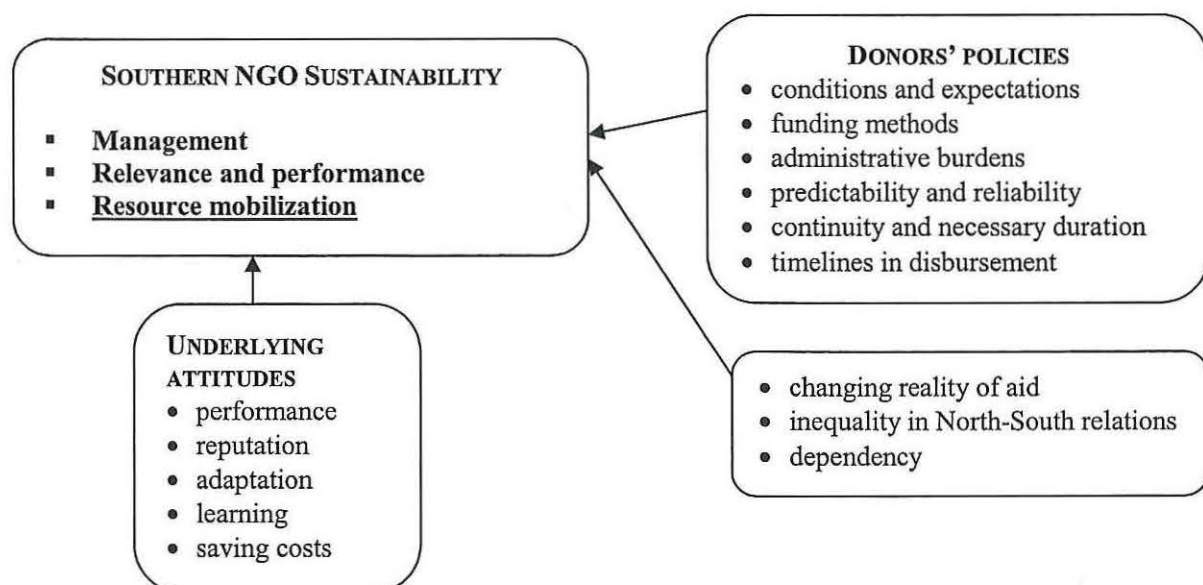
#### **2.4.6 Timelines in disbursement**

In this last component of donors’ policies, Fowler (1997:132) shows that the quality of aid can be lowered by delayed disbursements by the donors. He demonstrates that these are in reality a “common lament of Southern NGOs” which unfortunately “usually have no penalty for the giver”. They not only cause an extra work, de-motivation of the staff and burden for the NGOs but also “reduce transparency” in the Southern NGO financing and threaten their financial sustainability.

## 2.5. Analytical Framework – the Role of Donors in Southern NGOs' Sustainability

In this section the dimensions of Southern NGO financial sustainability were analyzed with the focus on resource mobilization. At the same time donors policies were deconstructed and it was pointed out how they can affect the Southern NGO sustainability. These will be used in the following chapter and tested on the primary data from HIVOS and the Ugandan respondents. It will be found out if the outcomes from the interviews will correspond with the following analytical framework which summons up the analysis from the chapter 2.

According to this framework, the Southern NGO sustainability is influenced by donors' policies, outside effects and also by underlying attitudes within the NGO.





## **Chapter 3: The case study of HIVOS and its NGO partner organizations in Uganda**

### **3.1. HIVOS as a donor - introduction**

HIVOS, the Humanist Institute for Development Co-operation was established in 1968 in the Netherlands as a non-governmental secular foundation. In 1978 it became one of the co-financing organizations who receive funds from the Dutch development co-operation budget. HIVOS works through the local 825 partner organizations in Africa, Asia, Latin America and South-East Europe by providing funding, networking, lobbying and knowledge sharing activities (HIVOS 2004). Its policies are based on two fields; sustainable economic development and civil society building.

Being part of the co-financing programme, 90% of HIVOS income in 2004 came from the Dutch government. The remaining funding was raised from the private funds (5%), EU-funds (3%) and other funds (2%). However, this portfolio will have to change starting from 2007 as the Dutch ministry implemented a new funding condition for their funding - 25% of HIVOS budget must be acquired from its own contribution.

HIVOS however strongly and openly opposed this policy arguing that distribution of government funds for development cooperation should be directed only by “quality and the results of the work in the South” (HIVOS 2004) and not by excelling in the competition on the charity market. HIVOS managing director Manuela Monteiro expressed their fear that “fierce competition for the favors of private donors appears inevitable” and that “the market will dictate supply” (Monteiro 2005).

We can therefore see that HIVOS’ own financial sustainability has emerged as a new issue and a big challenge. Having had the funds secured from the government, HIVOS could undisturbed pursue their agenda, being active more in networking, lobbying, capacity building instead of food aid or service delivery and also in the fields like culture and human rights. HIVOS did not have to worry about their public image in the Netherlands and marketing skills and could build their strengths of “innovation, individualistic themes and risk taking” (Monteiro 2005). Having to pursue the new rule HIVOS might have been pushed to change their policies especially when trying to become visible in public.

### 3.2. HIVOS quality of aid

HIVOS proclaims using “principles of good donor practice: openness, consistency and professionalism” (HIVOS 2004). However, one has to first of all ask if financial sustainability of their Southern NGO partners is part of HIVOS’ policy and in what way.

In HIVOS ‘organization assessment’<sup>10</sup> financial sustainability is not termed specifically however part II point 9 (implementation capacity) brings up ‘perspectives of continuity of the organization’ and point 10 (financial capacity) assesses ‘financial continuity, level and prospects of generating own income or other sources’. In the mid-term evaluation, section 4.5 is assigned for ‘sustainability of the organization and its programme’ in terms of “socio-cultural acceptance by men and women and long-term financial, institutional and ecological viability” (HIVOS 1999:7).

It has been shown that NGO financial sustainability is present in HIVOS assessments and evaluations. However, a HIVOS representative commented: “I don’t think we actively encourage all partners to financial sustainability. We discuss this with the partners who are interested (which is about 20%) – many are just happy to receive and to carry out. But we promote it indirectly by requiring them to have other donors, watching the overhead costs, quality of finance and audit and their strategic planning.” However, she admitted that so far in East Africa they have had only limited success with the financial sustainability development of their partners and therefore need more research. Let’s then see HIVOS policies in the light of Fowler’s (2000) quality of aid framework according to its analysis in the chapter 2.

#### *Funding conditions and expectations*

HIVOS would withstand Michael’s (2004) criticism of donors who prefer to fund large and international NGOs as on contrary HIVOS’ focus is to finance “risky yet promising new initiatives” (HIVOS, 2005) that “focus on one particular theme or on a limited target group and are mostly grassroots and membership organizations” (Walters 2005:11). However, the partners are required to be “independent and autonomous organizations that exist because of their own aims and vision and not because of HIVOS’ support” (Walters 2005:11) and should be relevant to HIVOS policies. Regarding other funding conditions and expectations HIVOS is of an opinion that none of them hinders the NGO financial sustainability in any way.

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<sup>10</sup> used for assessing a potential Southern NGO partner

### *Funding methods*

HIVOS would also pass the Vincent and Campbell's (1989) and Fowler's (1997) criteria as it provides flexible, long-term funding and "makes explicit choices for institutional and/or organizational support to partner organizations and has reduced its project support" (Walters 2005). However, seeing Holloway's (2001) view that the donor should actively target and focus on the NGO financial sustainability HIVOS has probably not reached this highest standard yet.

### *Administrative burdens*

HIVOS partners are obliged to submit annual and audited financial reports once a year and HIVOS believes that "guidelines as these serve not only donor agencies but primarily the reporting organization itself as a tool for management and policy support". In order to save cost and time partners are encouraged "to produce one overall report for all their stakeholders" (HIVOS 2002:6).

### *Predictability and reliability of funding*

Allocating mostly the funds from the Dutch co-financing programme HIVOS is a reliable and predictable donor within the duration of the signed contract.

### *Continuity and necessary duration*

HIVOS in most cases signs a three year contract with its partner organizations and conditions its prolonging by mutual satisfaction of both sides based on the regular evaluations. Because HIVOS wants to support prevalently new and creative initiatives, it sets a 10-year limit for funding. After that it expects the partners to have grown substantially and have built the capacity to identify new donors. The partnership can be exceptionally prolonged if the NGO becomes a 'strategic partner'. All the interviewed HIVOS respondents agreed with the 10+ policy and found it beneficial for the partner NGOs in the sense that it gives them security for the particular years but at the same time motivates them to look for other sources as they know the funding is limited.

From the above analysis it is obvious that HIVOS quality of aid is on a very high level and HIVOS has generally an image of a very progressive donor. Will this correspond with the findings in the field?

## Case study of Uganda

After the era of bloody civil wars, coming of the National Resistance Movement government in 1986 brought much awaited stability and caused massive inflow of donors who because of the missing state structures started channelling their funds especially through the NGOs. However, since 1994 the foreign support to NGOs has changed and a number of donors, such as EU and WB have chosen to support community work through government departments (Muwema 2005:10). At the same time there is a trend of tightening donor conditionalities (Angey, Nillsson 2004:24) – reality of which Uganda has almost entirely been sheltered from in the past, being a ‘model pupil’ of Western donors. Dijkstra and van Donge (2001) point on Uganda’s foreign aid dependency<sup>11</sup>, domination by donors, excess of imports and increasing of external indebtedness. Also the number of NGOs is dramatically increasing every year (Angey, Nillsson 2004:24).

These changing realities of aid represent a threat to the Ugandan NGOs, who according to the CDRN research (2004: 7), are “a very recent creation” with prevalent weaknesses such as “dependence on donors, lack of focus and questionable stability and financial sustainability”.

*“Here people don’t raise a finger as it is not their money. It is not even the government money coming from the taxes. The people should start making contributions to their own sustainability which will hook issue of accountability.”*

*Ugandan consultant*

Most of my Ugandan independent respondents stated that their civil society has never had a serious value base and is on the first place for alternative employment that pays better than government or others. Rather than poverty reduction many NGO workers care about alleviating their own poverty and will do everything not to lose their job, which can negatively affect the NGO impact and also their advocacy work in challenging the state.

Ugandan NGOs have automatically expected that the Northern donors dispose with unlimited funds and therefore have not given for many years much thought about their financial sustainability. This security is diminishing with the above shown changing realities of aid and forces NGOs to put financial sustainability on their agenda.

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<sup>11</sup> Donor flows financed nearly half of the national budget in 2003  
[www.usaid.gov/policy/budget/cbj2005/afr/ug.html](http://www.usaid.gov/policy/budget/cbj2005/afr/ug.html)

### 3.2.1 HIVOS NGO partners in Uganda

The table below shows a brief overview of the 6 HIVOS NGO partners from Uganda that were chosen to participate in this research.

Name	Type	Specialization	HIVOS partner since	FS strategy	Fundraising person	% of donor funding	No of significant donors*
AMFIU	member-based network	Microfinance	2000	yes	no	95%	3 (3)
AmWA	general	Networking, advocacy, training of women	2003	no	no**	99%	3 (3)
FHRI	membership	Human rights	1993	yes	no	97%	6 (8)
NOGAMU	membership	Organic agriculture	2002	no	no	96%	2(2)
VEDCO	general	Food security, Agricultural entrepreneurship, micro credit	1995	yes	yes	99%	2(4)
WOUGNET	member-based network	ICT for women	2004	no	no	97%	1(2)

*\*significant donors = contributing more than 10% (5%) of the NGO's budget*

*\*\* fundraiser in the UK head office*

## Chapter 4: Voices of HIVOS versus the Ugandan NGOs and the independent respondents

### 4.1. Financial sustainability of Southern NGOs

#### 4.1.1 Is NGO sustainability a priority for the NGOs?

Being conscious that the topic for this research was formulated by HIVOS alone I wondered in the first place if the Ugandan NGO partners and the independent respondents also find financial sustainability as one of their priorities and are interested in its further research.

In the interviews all 21 NGO respondents described their situation as being almost entirely dependent on donor funding and very vulnerable if the donors decided to terminate. Although two NGOs had a study about financial sustainability done, not much has been successfully implemented so far. For the rest of the NGOs it was the first time that they solely focused on financial sustainability alone.

*"Financial sustainability should be at the table of every donor small or large. Every organization needs to look at future not on funding it has for 3 years."*

*NGO representative*

The participants agreed that financial sustainability should be pushed through as an emerging issue and they welcomed the research in a way that it can inform the donors about their views.

*"Most donors are not like HIVOS, e.g. Ford and others just say "we are out". You should therefore also target HIVOS counterparts in the donor world. How to accelerate the research's impact?"*

*Ugandan researcher*

They required feedback of the research and suggested an open forum (e.g. in the form of an online discussion) between HIVOS and the partners at the end of the study where they could discuss the way forward and ensure the findings would be unpacked and put to use by all the stakeholders and also by other donors. Some wondered why this research is done in isolation as e.g. NOVIB did a similar study last year and called for more donor coordination. The independent Ugandan respondents appreciated the research as very topical but were even more sceptical about its impact. They criticized both, the donors and the Ugandan NGOs for not being seriously concerned about their future financial sustainability but rather trying to make most of the present funding.

## Dependency and unequal positions

There is a clear gap in how HIVOS and their partner NGOs think about each other's role in terms of bringing financial sustainability to the agenda.

The Ugandan NGOs take a passive position and wait till the donor declares the issue a priority.

HIVOS on the other hand seems to see no reason

why financial sustainability should be a donor concern in the sense that Dutch government also does not lead them in their sustainability.

Several HIVOS respondents expressed that their NGO partners put too many expectations on their donors but don't look enough at their internal strength and only rarely get out of patron-client

thinking. A HIVOS officer said she would like the partners to be more provocative in their thinking and would not even mind having "a good fight about the issue" with them. More of them expressed that the partners lack the notion of negotiation.

*"Donors think financial sustainability is our business in which they don't have to intervene."* NGO representative

*"In meeting with partners I often feel some resistance in discussing FS. Maybe they are afraid and associate it with the donor's termination?"* HIVOS representative

*"They don't want the donor to intervene but ask for everything. Are they aware of the position they take?"*

*"It seems that the donor is negotiating with them but they are not negotiating with the donor."* HIVOS representatives

HIVOS anticipates that the NGOs act as equal, state their priorities and needs themselves and include them in their proposals. In this regard, HIVOS doesn't take into account the reality of unequal power relations (Tvedt 1998, Holloway 2001) and seems to be culturally insensitive expecting the Ugandans to be direct and equalitarian. This attitude, though HIVOS calls is progressive, can be also viewed as naive and causing that most of the NGOs so far don't have financial sustainability on their agenda.

### 4.1.2 Contrasting definitions of financial sustainability

Christina Nilsson who did a research on financial sustainability for CDRN (Angey, Nilsson 2004) wrote to me: "it is important that the concept of financial sustainability is being discussed in an NGO context more thoroughly as everybody uses it without having defined what it means." Another researcher pointed out that the donors' definitions of NGO sustainability often clash with the way African NGOs perceive it and one must therefore understand the assumptions the Dutch donors bring and compare them to the Ugandan reality.

Having combined the opinions of the interviewed staff HIVOS defines financial sustainability as diversification of the resource base, which ideally means having a financial reserve and a

regular source of own income that can cover at least the overhead expenses. However, for some NGOs (e.g. lobbying) who cannot become financially sustainable by generating their own income it means diversification of the donor base and having 3 or more 'good' donors. HIVOS portrays good donors as those who cover programme as well as overhead costs and offer long-term contracts. HIVOS respondents stressed that financial sustainability involves working with low overhead costs and requires building strong management, financial and marketing skills through which they will be able to sell themselves.

The vast majority measures financial sustainability according to the percentage of the budget they can generate by themselves whilst the desired percentage differs and the respondents thus split into three groups. The first group indicated that financial sustainability means being able to finance the overhead costs while programmes are based on funds from diverse partnerships with the donors. The next third prefers at least 50% own funds while the last group of respondents define financial sustainability as being able to survive completely without donor support.

The background of the respondents shows certain though not a very strong trend (diverse views within most organizations) of difference according to the type of the NGOs and their activities. The organizations selling products (e.g. NOGAMU) tend to see financial sustainability as fully generating their own income whilst networks doing mostly lobbying (e.g. AMFIU) and human rights organizations (e.g. FHRI) for whom it is difficult and mostly undesirable to get funds from the government or the commercial sector, tend to aim at covering their overhead costs only.

The NGO respondents, they accented especially the NGO relevance, clear identity, supporting institutional learning and intellectual ability pointing out that financial sustainability is beyond diversification and is more about building long-term partnerships with the donors and the government. Also they stressed that one must see financial sustainability

*"Many NGOs think about sustainability in terms of putting structures. Before we had these white collar jobs how were we meeting? Under the trees! We will have to go back one day."*

*Ugandan researcher*

within the value system in which NGOs operate which in Uganda is a completely different scenario than in the North where the governments fund many activities. More respondents appealed to donors to understand this local context and to negotiate from the point of



Southern understanding and not the Northern policies. Following this statement many of these respondents complained that the donors don't articulate a proper definition of financial sustainability though they keep demanding it in the project proposals.

One can see differences in how all the respondents define the financial sustainability. Whilst the NGOs tend to see it as money because they primarily think about their own survival, HIVOS translates it more into the need of acquiring skills and change of behaviour and attitudes. It is important to take the point of the independent respondents that donors should not only make their definitions of financial sustainability known but also try to see them from the perspective and context of their NGO partners.

#### **4.1.3 Contrasted views on benefits of financial sustainability**

A typical NGO view was that the donor funding brings many fears about the future and has too many limitations that don't allow development the NGOs would wish. Therefore the NGOs believe that financial sustainability can grant them freedom to decide on their own, more opportunities and less worrying about their resources.

HIVOS on the other hand sees these expectations as unrealistic. One respondent stated: "what I sense here is that they think the freedom is there if they get sources from elsewhere but e.g. going commercial they are very restricted in what they can do. I think they are sometimes like dreamers." Speaking from her own experience she warns that financial sustainability can in fact imply more conditions attached.

Generally, HIVOS sees the whole struggle as necessary and beneficial in the point that the NGOs are being forced to be more self-critical, can add expertise and better communicate their work to the public whereas NGOs expect a fundamental increase of their power and self-determination.

#### ***The perceived benefits of financial sustainability***

##### ***Ugandan NGOs***

- ***Freedom*** (stated by most respondents and on the first place)  
*"Financial sustainability means being able to make your own money and spend it whenever you want on whichever relevant purpose. Also if an emergency situation arises a sustainable NGO can respond according to the needs and is not constrained by resources."*
- ***Flexibility***  
*"You are able to respond to your agenda with flexibility and with minimum constraints. Now we*

*are often scared to change and tell the partners about it as they can say we did not plan properly”*

- **Predictability, clear understanding of sources**  
*“You don’t have to worry about resources, staff development and about the institution. You can draw the kind of staff you need as you can afford to pay them.”*
- **Gaining bargaining power and confidence**  
*“Increased bargaining power to get better terms and conditions. You are able to say that something conflicts with your mission. When you depend 100% on the donors you are compromised.”*

#### **Independent respondents**

- **Autonomy**

#### **HIVOS**

- **Opportunity to add expertise and become more effective (stated by most respondents)**  
*“Strengthened organizational and financial management, learning how to formulate themselves better, how to better report and set indicators for their achievements.”*
- **Independency, stronger identity and self-confidence**  
*“The NGO does not suffer from the dependency syndrome.”*
- **Long term influence**  
*“The NGO gains long-term influence, which is important because most goals are long term.”*
- **Easier to attract new donors**  
*“All stakeholders will be more confident that the NGO can handle financial affairs.”*

#### **4.1.4 Contrasted views on negative sides of financial sustainability**

Many NGO respondents first answered that there are no negatives in pursuing financial sustainability but after some thinking came out with various risks out of which the most prevalent one is the danger of being diverted from their original mission and target group which was unambiguously shared by the independent respondents. The latter ones also reflected the Ugandan reality and brought into attention the practices NGOs are forced to start when they are pushed into financial sustainability (‘survival gymnastics’).

HIVOS respondents on the other hand seem to reflect their own struggle as they can compare their situation before/after ‘the 25% rule’. Because they had to reorganize for this purpose and now a great deal of their time goes into fundraising and having to take into account various demands of those who provide the money, they characterize this extra work as the main cost of financial sustainability even for the NGOs. However, they seem not to realize the dangers which are perceived by the Ugandan respondents which could be detrimental for the NGOs beneficiaries in case HIVOS decided to push for the NGO financial sustainability.

Overall financial sustainability is perceived as a positive concept and with the exception of

*The perceived negatives of financial sustainability*

**Ugandan NGOs**

- **Danger of compromises in the mission and target group** (mentioned by most of them)  
"Some NGOs change their mission and become like the private sector."
- **The poor will not be able to afford the services**  
"Service charges may discourage membership especially in rural areas with low income."
- **Taxes**  
"NGOs are not allowed to go into business and if you do, government puts very high taxes on you. Donor money is not taxed."
- **Extra costs**  
"The cost of the study we did and also the cost if its implementation."
- **Nothing – 4x**

**Independent respondents**

- **Danger of compromises in the mission and target group** (mentioned by most of them)  
"Financial sustainability doesn't necessarily translate to the impact in the ground! And too much pressure to be sustainable brings many dangers..."
- **Too much power for the NGO elite**  
"Having an income from commercial business it will not be their work for the NGO that will give them power."
- **Southern NGO survival gymnastics**  
"When the donor requires that NGOs generate part of the budget themselves and cuts the funding by that percentage, the NGOs need the money so they sign for it but then they use the money from the projects for their operational costs and it goes mostly unnoticed. It is always the beneficiaries who lose."

**HIVOS**

- **Cost in man-hours** (mentioned by most of them)  
"It takes some people from your team to do fundraising who could otherwise be used for NGO work."
- **Danger of making mistakes**  
"The NGOs can panic in the process if they are not sure about their income while salaries and rent has to be paid."
- **You have to take into account all the demands**  
"You have to comply with the criteria of those that provide the funds. If it is public, you must provide the image they like. If it is a donor, you must match with their mandate."
- **Nothing – 2x**

the independent respondents, most interviewees have not given much thought about any negative sides.

The lack of considering positives and negatives of financial sustainability is also revealed in discrepancies in the NGO answers – on one side they see freedom but on the other side danger of having to change their original agenda and invest extra resources. HIVOS seems to realize the unrealistic expectations and lack of conceptualization from the side of the NGOs but on the other hand it fails to see the real dangers that NGOs might encounter as it is busy with its own reality.

#### 4.2. The NGOs' role and underlying attitudes in achieving financial sustainability

A Ugandan researcher once told me: "if you have a good service to offer, donors will always find you." Can good performance guarantee the NGO financial sustainability? Also Fowler's (2000:183) framework for sustainability "Virtuous Spiral" starts with performance. How do the HIVOS partners see their part in building financial sustainability and is it different from HIVOS and the independent respondents?

##### *NGOs perception of their role in achieving financial sustainability*

- **Win donors' trust**  
*"We must keep terms of agreement and report consistently."*
- **Strengthen financial systems and financial controls**  
*transparency*
- **Clear governance structure**  
*transparent leadership*
- **Qualified and committed staff**  
*"NGO should build their career and capacity."*

##### *Suggestions from HIVOS*

- **Develop a sustainability plan and feel confident to discuss it with HIVOS and other donors**  
*"Believe in the importance of FS. Drop the fear of it. Do more research."*
- **Improve the NGO internally**  
*"Improve your planning, monitoring and marketing skills."*
- **Try to change a certain mentality**  
*"There is an idea that we have lots of money. I receive proposals for workshops in very luxurious hotels – but wouldn't it be better to spend that money rather for the NGO-activities or trainings? Write realistic work plans and budgets. Donors will reject them anyway. It is demoralising if you manage to raise e.g. only 50%. It is a strategy – yes but a wrong perception!"*
- **Keep overhead costs as low as possible**  
*"We have here 9% for overheads. Some NGOs submit even 45%! They want to be commercial – do you think a company can have a 45% cost?"*
- **Take initiative**  
*"There are millions of publications on financial sustainability on internet. They should be pro-active and explore."*
- **Understand HIVOS**  
*"They say "HIVOS should..." – but they know our organization, everything is on our website. Where is the initiative to look at our website? Do they think about the person in HIVOS behind the desk?"*
- **Fundraising person**  
*"Raising funds is usually not in their work plan and it is more an ad hoc activity, not a structural activity."*
- **Deliver quality**  
*"If they deliver good results they can become donor darlings and in that way achieve financial sustainability."*

In the NGO voices there is a clear tendency to make their organization as attractive as possible for the donor funding in order to survive. Performance to their beneficiaries was

mentioned only very briefly and was not given a central role as an instrument to reach financial sustainability. HIVOS voices again bring a message of equal partnership – if the NGOs see financial sustainability as their priority, they should use their capacity to look for information and develop a strategy which they can then discuss with HIVOS. Besides taking their own initiative, transparency and internal NGO qualities are seen as key to attract more donor funding. Performance in the sense of benefiting the target group was hardly tackled.

Many independent respondents pronounced the Southern NGOs as generally internally weak, often based on the charisma of an individual and not democratic. They said

*“If they do anything wrong and donor says it is not wrong and the state says nothing, it all goes unnoticed.”*

*Ugandan researcher*

that many are being created as form of employment to alleviate NGO staff’ own poverty and therefore they take donors as their constituency and have learned to do what the donors want, which cannot be sustainable in the long run. Besides having a local constituency, most independent respondents see quality and efficiency as the fundamental prerequisites for financial sustainability together with being able to market themselves. A Kampala based NGO representative brings her view of the prerequisites of NGO financial sustainability.

***NGO example of a good practice?***

*“We have recently refused the donor money but this self-determination is to me the sign of sustainability! It is the ability to be forward looking and thinking strategically. Our principles are strong and you can lose the money now but will regain it in the future. We agreed with our employees to decrease their incentives as we have all contributed to this situation. Normally people who run away are people who have productivity problems. You will always have financial challenges but the sign of sustainability is that you won’t give up. As an attempt to promote our sustainability we have decentralized our finance management, invest in our staff and take regularly time to reflect.”*

***Fundraising person***

A few HIVOS respondents referred to the importance of a skilled fundraising person for the NGOs financial sustainability. The same suggestion came as one of the Angey and Nilsson’s (2004) conclusions and also in the Muwema’s (2005) sustainability strategy for FHRI. As NGOs themselves did not get into it, I asked them about fundraising person separately. Out of six, only one NGO has a full-time fundraiser otherwise it is mostly the programme officers who look for money. Fundraising is at the moment not an area the NGOs would budget for and according to Muwema (2005:12) fundraising expenditures are often hidden in administration costs.

### *Keeping overhead costs low*

HIVOS respondents showed their annoyance about the exaggerated budgets and NGOs' expectations of unlimited funding and stressed low overhead costs as a necessity for becoming financially sustainable. However, though they set a percentage limit for overhead costs they don't pay much attention to the NGO salaries and way of spending which leaves an enormous space for abuse. No NGO respondent stated anything about a strategy to save costs as part of struggle for financial sustainability. Only after being asked explicitly, some stated that they try to use e-mail instead of posting, public transport and cheaper accommodation etc., however most NGOs seem to have no strategy as such. According to Vincent and Campbel (1989), the overall attitude of every NGO should be to run at the lowest possible cost as long as it does not deteriorate the quality or efficiency of the NGOs performance. The attitude of the NGO leadership to always look for alternatives before investing money is according to these authors vital as part of the strategy for financial sustainability of every organization.

### *Salaries*

Muwema (2005:4) in his study for FHRI states that "the majority of the people in Uganda earn less than \$ 1200 per annum", i.e. 183,229 Ugandan Shillings per month<sup>12</sup>, which is in fact still more than a official government salary for secondary school teachers. However, even if we take UgSh 400,000 as a line for a Kampala officer, how can one justify the UgSh 1,500,000-3,000,000 which is a standard salary range in HIVOS NGO partners' budgets, with some directors obtaining even double of this range? Muwema (2005:4) brought the above stated comment in the context that "the use of ...monthly or yearly donations to the foundation are questionable" and the membership fees are "just a drop in the ocean" (Muwema 2005:11). Basing on the literature, one cannot talk about financial sustainability if the NGO salaries are so much outside the local reality and of what the society can afford to pay.

The NGO representatives brought many arguments to defend their salaries are appropriate, i.e. controlling the quality of their work, preventing staff to leave abroad, having to be representative to deal with the donors and being able to support their extended families. One representative stated that the average salary in Uganda is scandalous and it is a human rights

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<sup>12</sup> Exchange rate UgSh 1,832.29 per \$ 1, Bank of Uganda, November 11, 2005  
[http://www.bou.or.ug/majorates\\_111105.htm](http://www.bou.or.ug/majorates_111105.htm)

issue to pay people more. Others meant that if you work for the poor it does not mean you should also be poor.

A DANIDA representative together with the independent respondents showed concern about the excessive salaries and said that it is the role of the donor to carry out salary surveys, monitor salaries and require transparency.

One researcher brought an interesting point that the NGO extreme salaries are a reaction

*"We were planning to support an NGO and during the next meeting their board decided to double the salary of all their staff. We said it was not acceptable for us. We had a system in place and had the staff and capacity to find these things and monitor them. Many other donors don't have this."*

*DANIDA representative*

to the prevalent project funding as people try to benefit themselves as much as possible before the project closes down. He claimed that NGO staff would be willing to negotiate a lower pay if they had a long-term security.

***Providing local salaries for sustainability – example of a good practice?***

*"When I came to Uganda I felt very guilty to pay my people two dollars a day. But you must see it in context as it harms people more to make them used to western standards and then drop them when the projects shift. They are then on the street and are not able to adjust back. We got one local woman who had been employed with CARE and she had horrendous requirements – an excessive salary, vehicle and per diems which we could never meet. Sustainability is what the community can sustain and if you don't want to destroy Africa, you must inject the money according to the local standards."*

*Jason, manager, USA*

***Lack of incentives for cost-saving***

Most independent respondents acknowledged that the way the NGO spends affects their financial sustainability and were quite critical about the abuse of NGO resources: "there is a tremendous abuse of vehicles including stealing fuel. Also the overheads – my goodness - there is a lot of wastage in telephone, internet, stationary, petty cash. Small small things become big expenses. NGOs should be able to cut their costs." A researcher adds: "It is NGO culture where there is a lot of waste. There should be a culture of cost-saving!"

***We should follow Lenka's example?***

*When organizing refreshments for the research workshop, I was advised by the NGO director to use the outsourcing company which charged 'only' 10,000 UgSh per lunch. This would imply paying 150,000 UgSh for lunch only, which is more than a monthly salary of a secondary school teacher.*

*With the help of the local friend and the NGO cook I therefore organized all the refreshments (including drinks and snacks) from the nearby restaurant for only 70,000 UgSh (whilst giving a very good price to the local women). Thanks to these savings I was able to contribute 75,000 UgSh to the NGO as a rent. The director praised this 'alternative' behaviour and commented: "we should take Lenka's idea. NGOs supporting the very poor should take them as part of their spending policies."*

However, there are hardly any donor incentives for NGOs' economical behaviour. After NGOs submit overrated budgets, donors often cut them by a certain percentage but still the allowance is higher than needed. As most donors don't allow transferring the saved funds, the NGOs then must spend according to the plan. High spending has also become part of their standard. If the above mentioned NGO however had to raise funds locally, there is a high probability that their managers would rather make use of their cook and fully equipped kitchen to buy the food from the local stores for 10% of the price of the outsourcing companies. Also as jobs with foreign-funded NGOs are extremely hard to find and there are many qualified graduates who go unemployed for years, I would argue that if the donors set a limit for wages, only a bare minimum of employees would leave.

*Do donors require Western standards?*

One NGO director was very frank with me: "We are part of development industry – if you don't follow the standard you won't raise any funds. A good annual report will raise me much more resources than a cheap one – this is about marketing and PR. You have to decide who your stakeholders are. You can't raise resources simply because the work you do is good." NGO directors often referred to the fact that 'good people' are hard to find and cost a lot of money. Who are the good people? One consultant answered that confidently – people who can speak donors' language to write good reports and to attract funds and added that most donors are not knowledgeable about the local standards as they stay in the artificial world of expensive hotels.

It is up to HIVOS and other donors to realize that most NGOs don't see performance as the main underlying prerequisite for their financial sustainability and instead concentrate on how to please the donor whilst accepting their Western standards. One can easily conclude that such system is by itself unsustainable in the long run.



### 4.3. Strategic options in resource base diversification

Whilst some of the interviewed NGOs are already able to get a certain percentage of their budget by themselves, others never thought much about alternative funding. The fact remains that in all the 6 interviewed NGOs the donors contribute more than 95% of the budget, in 2 NGOs even 99%. Let's have a closer look at the possibilities of the NGO resource base diversification.

*"This topic was an eye-opener for me as I realized that 95% of our funding is from the donors and that there are so many other sources to explore."*

*A workshop participant*

### 4.4. Non-financial resources

None of the NGO respondents talked about non-financial resources as one of the strategies for financial sustainability except for two respondents (both from the same NGO) who stressed using volunteers in order to save costs (mostly fresh graduates) and accepting in-kind sources. Only one respondent from the independent group mentioned that NGOs should use "as much volunteers as possible to save costs this way" and also to ask the donors for an expatriate. The others did not think about non-financial contributions from their communities, members, commercial sector or the government as the literature had suggested and also did not count training provided by their donors.

### 4.5. Financial resources

#### 4.5.1 LOCAL FUNDRAISING

As expected from the literature review (Fowler 1995, Holloway 2001) the NGOs have generally not been able to do local fundraising very successfully, especially not from the general public, corporations or the government. The NGO representatives acknowledged that they miss expertise and capacity for fundraising and have not planned for it in their budgets. They stated that generally they need to find more innovative and specialized ways of packaging their PR and employing a fundraising person. They were not aware of the possibility of tax reduction for the local donors suggested by Angey and Nilsson (2004)<sup>13</sup>.

<sup>13</sup> Section 35 in the Income Tax Act provides private sector and private people with a 5% tax deduction when giving donations for charitable causes.

### *Local fundraising*

#### **Community**

- **Private donations**

*"We have not been very successful so far but should look inwards and see how we can make use of traditional philanthropic giving in our societies and use that to enhance our resource bases. There are wealthy people who can be philanthropic."*

- **Membership fees**

*"Membership fees are the only source, which is predictable. But so long they cannot even meet the salary of one person in a year."*

#### **Government**

*"Subcontracting is not easy as NGOs fear the government. Things are not good; you are going to implement the agenda of the government and are pressured to do things in a certain way. You are going to lose your identity."*

#### **Commercial sector**

*"The local businesses have conditions and it often ends up in their promotion."*

External factors also play a role especially in the case governments, private donations and commercial sector. With the latter one, most NGOs had generally a bad experience. They complained that the commercial sector has too specific conditions, follows only their interest or responds only to NGOs with a political patronage. In the case of government funds, most respondents were rather fearful about it, however a few see a potential in this source and try keep applying for a research or other contract. Private donations were not explored enough though some admitted there is a middle class being formed in Uganda that could contribute. In these views NGOs were backed up also by the independent respondents who characterized this situation as typical for African countries; however Uganda being donor-driven, NGOs are too much dependent on the donor funds.

The membership fees are the most common part of local fundraising; however they represent only a small fraction of the NGO income. Also when paying the fees the expectations of the members usually tremendously rise and some NGOs are not capable to meet them. One NGO therefore decided not to deal with membership fees anymore and shifted towards paid services with a standard cost for all. HIVOS supports the NGOs to collect membership fees and to negotiate for their increase, however complains about the tediousness of collecting them.

#### ***NGO suggestions to the donors to help them with the local fundraising***

- require and support a fundraising person in the NGO budget
- do more to marry the interest of the commercial companies and the local NGOs

- advocate for the NGOs to get more funds from the government
- sponsor government policies in new fields of interest (e.g. organic farming) so that NGOs can obtain grants

It is clear that most NGOs have not been so far much occupied with the local fundraising.

Also a type of NGO and its activities do play a role as NGOs that show direct benefits and don't challenge the government have a greater chance to acquire public, commercial and government funding. Human rights and lobbying organizations will hardly be able to be successful here.

*"NGOs have to start raising funds locally from their own citizens to strengthen their constituency for the cause they fight for. Then you get the inner strength and are pushed to be more accountable."*

*HIVOS representative*

However on the other hand, donor money seems to be more comfortable, bigger and comes in one lump and therefore NGOs prefer it. Basing on the previous analysis of the NGO sustainability local fundraising is not only about money but also about building constituencies and relevance in the community. Unless donors want to let NGOs consider them as their constituency they should seriously push more for the local ways of fundraising. HIVOS seems to agree with this point (see box no. ) however practical implementation of this is still missing.

#### **4.5.2 SELF-GENERATED FUNDS**

##### **Income-generating activities (IGAs)**

Almost all NGOs plan to charge money for what they now provide free of charge, shall it be consultancy, publications or training. A few NGOs already get a profit from selling products, T-shirts, photocopying, or renting premises and some already have experience with IGAs that did not prove profitable and decided to leave them. Most respondents agreed that there must be a clear distinction between the NGO and the business. Whilst NGOs did not see a problem in engaging in any business as long as they look at the motive of profit making and maintain the NGO ethical integrity, a few independent respondents including Angey, Nilsson (2004) disapprove it as they think it is important NGO IGAs fall within their scope of work and general aim in order not to lose accountability to their beneficiaries.

The NGOs mentioned two biggest obstacles they face when trying to pursue IGAs. First is the high taxation. One workshop participant suggested a possibility of getting a tax weaver if the NGO associates itself with a parent ministry; however characterized it as a very laborious exercise depending on the good-will of the ministry. The second obstacle is the unwillingness of donors to support the IGAs.

Whilst HIVOS agrees that by providing free services, NGOs are falling into the trap of patron-client relationship and should therefore ask for contributions the recipients can afford, they are a bit critical about their effectiveness when we talk about NGO financial sustainability. They pointed out that some activities are „small money“ and „not transparent.“

*“Partner NGOs don’t investigate enough the suggestions they make in their proposals. Ideas are often not realistic and don’t generate own income. They have a tendency to look only at money coming in and tend to forget the analysis of the costs”*  
HIVOS representative

However, the strongest message from HIVOS to the NGOs was about the need to be realistic in planning their IGAs and to explore thoroughly the profitability of their proposals more before submitting them to HIVOS including calculating their administrative costs. HIVOS pointed out that training centres are hardly commercially attractive and profitable.

### **Endowment fund, reserves, investments**

Most NGOs would like a percentage from the projects to regularly go to reserves throughout the partnership with the donors and are very keen to have an endowment fund<sup>14</sup> as they believe it can provide them financial sustainability. Pointing out that donors are not very interested in this way of support, the NGO representatives appealed to donors to relax their apprehension.

HIVOS representatives indicated that if the NGOs had explored more about the endowment funds they would have found that HIVOS is too small to provide enough cash for this purpose.

Some also disapproved the idea behind the

*“As you say ‘give a man fish’ – give me a live fish not a dead fish. I will put it in my pond and it can produce and then I can eat the small fish.”*

NGO representative

*“It appears they don’t understand how endowment funds work. To run your NGO out of endowment fund you need millions. Where do we get them?”*

HIVOS representative

<sup>14</sup> A large amount of funding kept on a saving account. The interest from this account can be used for the programme and overhead funding. (HIVOS 2004)

endowment funds as it make the NGO more like a bank but will not make them better and more eligible in what they do.

### **Ownership of premises**

Owning their own premises symbolizes for many NGOs security of continuation their work. However, this is very rarely listened to from the side of the donors. HIVOS though has contributed to some of their NGO partners for this purpose in the past, has not a good experience with this type of support, reasoning that very often the NGO plans were not well thought through, were more extravagant than needed and not realistic and in the end don't bring the expected savings but on contrary became a liability for the NGO.

HIVOS representatives said during the interviews that NGOs are welcome to prepare a business plan however seemed to

*"They will not have to pay rent but must pay the maintenance and the taxes which are altogether often more than paying a rent."*

*HIVOS representative*

be sceptical beforehand basing on their negative previous experience.

### ***NGO suggestions to the donors to help them with the IGAs***

- help us to start a profit activity or leave a space for investment
- before you leave you should leave us with some money that we can invest and generate some income

Generally speaking, the local income activities have had limited impact to the general cost structure of the organization (Muwema 2005:12). There seem to be two reasons for that. First, compared to the donor funding local fundraising and IGAs are very small money. Secondly, donors are not enthusiastic to sponsor these activities. HIVOS seems to be an exception in the theoretical understanding of the importance of the local ways of raising funds and also has demonstrated it few times by financing the NGOs plans. However having had a generally bad experience it has now become sceptical about the profitability of such activities.

Blaming only NGOs however will not help their sustainability. HIVOS should accept its part of responsibility in having approved plans that were not realistic and try instead to become more knowledgeable about the local fundraising opportunities.

### 4.5.3 FOREIGN SOURCES

HIVOS tries to motivate the NGOs to diversify their donor base by financing only a part of the budget so that they have to find funding for the rest. HIVOS NGO partners do manage multiple donors however in most cases one or two donor dominate the budget. NGOs suggested that donors who are terminating should recommend them to other donors as the termination after certain years of partnership is not based on their performance but on the donors' policy. Only one NGO mentioned that they managed to acquire EU funding thanks to the help from HIVOS but for others this type of foreign funding seem to be too distant and bureaucratic.

One of the NGOs is currently in a donor consortium and seems to be content with it confirming the advantages of harmonizing reporting and maximizing the funds. However, none of the respondents voiced out establishing donor consortia as a strategy for getting better conditions from their donors and therefore promoting their financial sustainability.

#### *NGO suggestions to the donors to help them with the other foreign sources*

- train and support the NGOs to get other foreign funding
- help them to diversify their donors base

Diversifying the donor base can be the only way for some type of NGOs to reach financial sustainability. However, in the interviews I have generally missed NGOs being focused to negotiate better conditions in their funding relationship with the donors.

#### 4.6. The role of the donor in supporting the NGO financial sustainability

##### 4.6.1 NGO voices

In this part it is fair to again state the NGOs were asked about donors generally so the following statements are not specific to HIVOS. NGO respondents appreciated HIVOS to be the first one to bring the topic of financial sustainability on the table. However from their responses I could clearly sense the inferior position of the NGOs. E.g. repeating that “A good donor maintains good communication and enables to discuss at the same level so that the unequal power relations don’t play any role” implies according to my view a passive role of the NGO. Do the NGOs maintain a good communication too or do they wait for the donor?

###### *Attitude of a good donor*

- *Understanding NGO’s vision and mission*
- *Understand our challenges – should make more field visits*
- *Discuss the conditions they give us*
- *Giving autonomy and trust*
- *Enabling us to acknowledge our weaknesses*

The NGO responses reflected some bad experiences with those donors who enforce their way, however in my opinion again show the inequality in the funding relations: “the donor should discuss the conditions they give you. Because we need the money we accept them though we know we cannot manage to fulfil them.”

###### *The role of donors - NGOs views*

###### ***Financial sustainability as a donor policy objective***

*“Donors can give you all the money and once you finish the programmes you are left in a more unsustainable position than before.”*

###### ***Facilitate our financial sustainability strategy***

*“Donors should use their wide knowledge and exposure and facilitate an in-depth analysis of our situation, business opportunities and feasibility of addressing them.”*

###### ***Invest into institutional development and training of the staff***

*“To contribute towards the financial, lobbying and management skills of the NGO team. As this is quite expensive, not many donors do that.”*

###### ***Support our IGAs***

*“Unfortunately few donors are interested in business - in the proposals they tend to leave out things that make money. How do they then think we can generate money internally or begin something?”*

###### ***Guidance***

*“Inform us about the best practice to achieve financial sustainability.”*

###### ***Linking us to other donors***

*“Share the contacts with us, recommend us to other donors.”*

###### ***Lobbying/advocacy and marketing***

*“They should advertise that here in Uganda you cannot do without our NGO and also recommend our facilities to others.”*

It has come up during the interviews that though the issue of financial sustainability is not at all new, most donors don’t have it on their agenda as their priority for support which is the core problem. NGOs suggested that donors should sponsor NGOs sustainability strategies

they require a lot of money for which they have not budgeted and support their execution (IGAs, reserves etc.). Execution is the problem as already 3 NGOs drew up their financial sustainability strategies but so far they have not made much difference. An NGO consultant was not surprised: "We write things the donor wants to hear and it sells and it ends there... the sustainability plans are never implemented."

One of the strongest requests was that donors should have an exit strategy which they need to introduce already from the beginning of the partnership. Also NGO representatives were very eager to learn lessons from other countries about pursuing financial sustainability and the donors' termination.

From the NGO responses one can say that donors' attitude and actions are Alfa and Omega of the NGO financial sustainability which would confirm HIVOS claim that NGOs just wait for the donor to do for them instead of taking their own initiative.

#### **QUALITY OF FUNDING FOR FINANCIAL SUSTAINABILITY**

- **Predictability of funding ( exit strategy)**  
*"Define the exit strategy already at the beginning of the relationship and provide the support they promised."*
- **Funding methods**  
*"From our 12 donors only 2 provide budget support. As our bargaining power is limited, we must accept this funding although it doesn't give basis for the future survival. Some donors don't provide overhead costs."*
- **Funding conditions**  
*"Donors should not require remitting back the remaining funds, being the exclusive partner or telling us to first implement the projects and then they will refund."*
- **Flexibility**  
*"Being forced to apply all activities despite changed circumstances leads to resource wasting."*
- **Administrative burdens**  
*"Donors should avoid setting unrealistic deadlines and conditions, i.e. photocopying all support documents on monthly or quarterly basis is very costly."*
- **Continuity of funding**  
*"Some donors only want you for the project life and use you as mere channels of their funds. So why do we talk about financial sustainability?"*
- **Timelines in disbursement**  
*"HIVOS gives us the whole budget for the whole year at once and we mostly report once a year. Other donors don't do that."*

Fowler's (2002) model of quality of aid worked here as the respondents mentioned all of its components as predicaments for financial sustainability with predictability of funding on the first place. The points that are criticized in the model as undermining the NGO financial sustainability (project and short-term funding, not providing overheads, administrative burdens etc.) unfortunately do remain a practice of many donors. HIVOS' quality of aid was



very appreciated and in most cases rated as the best donor. However, I would argue here that even a high quality of aid doesn't necessarily translate into financial sustainability if it is not accompanied by proper monitoring of NGO spending and performance. The following quote can speak for itself why some donors are popular: "Dutch donors are very good; they don't have so many restrictions and also give enough money. Americans for a contrary are very complicated and require knowing every detail."

*Continuity of funding — seeing the bigger picture*

It was brought up at the workshop that the number of NGOs in Uganda is dramatically rising<sup>15</sup> and is expected to double by 2010, most of which are creations of donors. The participants stated that the 10+ policy directly contradicts the efforts for NGO

*"Here the donors tell you 10+ and by then you reach the maturity and they shift to the small ones working in the same field. Does that make sense?"*  
NGO representative

sustainability because when the donor terminates their partner NGO, it starts again building a small NGO which might be operating in the same field, copying the NGOs ideas and later become their competitor. They would prefer donors to go for strategic partner NGOs that constitute the best practice as e.g. in the Netherlands there are also only 5 co-financing NGOs. This is certainly a very valid point which donors should consider when terminating their long-term partnerships and choosing new NGOs to shift to.

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<sup>15</sup> CDRN (2004:7) – in the year 2000 there were 3500 NGOs registered in Uganda, in 2003 already 4700 NGOs

#### 4.6.2 Voices of the independent respondents

The independent respondents' recommendations resembled the NGOs' ones in the sense that the donors need to put financial sustainability on their agenda, try to actively pursue it from their side and demand the actual execution from the NGOs. Another very strong request was stressed – donors should set up a proper monitoring system to ensure their money is not being misused.

DANIDA suggested certification of NGOs - a scheme that would ensure certain NGO standards and a lower risk of investing in them (also mentioned in Fowler 2000:179). An NGO consultant suggested creation of the South based trust funds established within a specific field like a large endowment fund instead of small ones to each NGO. They could be used by NGOs in transition (e.g. termination of the main donor, change of leadership) to promote their sustainability.

##### *Criticism of HIVOS*

Although the independent respondents recognized HIVOS in many ways as an outstanding donor, they also voiced out some criticism in respect with their NGO partners financial sustainability. First, they commented that “HIVOS tends to over finance” and NGOs get large sums of money which they are free to use.

More respondents were pointing at the fact that HIVOS does not have a regional

*Some donors don't want to dictate and like to give freedom but often the money disappears.”  
Independent respondent*

office in Uganda and cannot therefore network well with other donors. They also claimed that it affects HIVOS capacity for proper monitoring and being knowledgeable about the local context. They showed scepticism about relying entirely on the local consultants who ‘can write good reports but don't reveal all things.’

HIVOS reacted to this criticism that having a regional office in Uganda and other countries would only increase bureaucracy and their overhead costs. They stand for their values of partnership in which some degree of liberty is necessary for the NGOs autonomy.

***The role of donors - Independent respondents***  
***To make financial sustainability part of their strategy and demand its execution.***

*“Donors should insist that whatever structures the NGOs are trying to put in place must also have a sustainability element”*

**Exit strategy policy**

*"Termination stage must be part of the plan."*

**Budget and long term funding needed, providing overheads funding**

*"Development is looked upon as a project. Most of our work is long-term and you cannot get all the results in 3 years. So I recommend to the donors – enter in a long-term strategic partnership of 15-20 years and put some benchmarks in it."*

**Monitoring system (strongly stressed)**

*"The donors need to be very wise and critical of what the NGO proposes! Rules must be put, report them and monitor them This is worthwhile to do."*

**Attitude of a good donor**

*"Share the same ideology, principles and thoughts and continually support each other morally and politically."*

**Creating capacity of NGOs**

*"Continuous capacity building being part of the grants. Support programmes of training, income generating activities and structures."*

**Marketing the NGO**

*"HIVOS is not active in Uganda. They don't network with other donors who support the same organizations like them. They should help the NGOs to create these networks. But they lack the capacity; they don't have a regional office in Uganda."*

**Lobbying**

*"Northern donors should lobby at the government not to lower the funds to NGOs, to provide tax relieves and to encourage the people to donate, to build a culture of philanthropy. Donors can push a lot as their support goes to the tax body."*

### 4.6.3 Voices of HIVOS

Examining the table with summarized HIVOS' responses, they very closely follow what the NGOs ask for. I was impressed during the interviews how diligently the respondents followed HIVOS values. HIVOS out of principle delegates a lot of power to their NGO partners and sees its role in pursuing financial sustainability mostly as advisory and financing the required trainings. However, as financial sustainability is still a new topic many of the suggestions are not being systematically practised. HIVOS must ask itself which of the below statements it actively promotes.

#### *The role of donor - HIVOS*

##### ***Advisory role, financial support to trainings***

*"We are very busy and have a lot of partners and therefore a limited time for guiding. So partners can apply for training on in-depth knowledge how to develop fundraising and income raising strategies."*

##### ***Being open for discussions***

*"NGOs should be allowed and feel safe to voice their problems to the donor and be sure the donor will help them. Donors should be solution oriented."*

##### ***Keep financial sustainability on the agenda when meeting the partners***

*"Take the fear away that discussing FS mean we want to phase out."*

##### ***Understand NGOs particular context but be critical***

*"Donors shouldn't just accept everything – excusing the NGO that it doesn't have capacity. Donors should have minimum standards."*

##### ***Reliability, Credibility, Transparency***

*"For the NGO it is important to be sure money is coming."*

##### ***Provide core and overhead funding and flexibility***

*"We cannot provide the funding forever. We should make it clear from the start what the duration will be but it can then be shorter or longer, we cannot guarantee it."*

##### ***Encourage the NGO to diversify***

*"We could demand that the partners have a certain percentage of their own income though often it is very hard."*

##### ***More coordination among the donors***

*"There is a lot of talk about the donor coordination – but often they are only partner-specific. There should be more streamlining in reporting to the different donors, especially in financial reporting to make life easier for the NGOs. However, we cannot have relations with all the donors."*

The fact is that both HIVOS and Ugandan NGOs operate in different realities, and therefore even if they say the same thing it does not translate to the same. To give an example, one HIVOS respondent claimed that "donors should not accept any budget – I just refused one proposal that asked for 50,000 Euros for fuel only. Donors should not provide too much at a time." This view is well-founded also in the literature (Vincent and Campbell 1989, Fowler 1995, Holloway 2001), however "too much" in Dutch reality is very different from the Ugandan one. HIVOS might cut the budgets half and still over-finance.

HIVOS does not want to dominate out of principle, as e.g. putting strict rules on spending “is not the type of relations we want, as we want to work with genuine people who we want to also trust.” Basing on the knowledge that generally the Ugandan civil society is not value based and the public does not hold NGOs accountable as they don’t consider the donor money as theirs, it creates a short-term artificial situation when NGOs are trying to make the best of the “easy donor” money and don’t plan much about sustainability. Under such conditions I agree with the above mentioned critics that HIVOS is not exercising their power in the right way – where certain rules for spending would benefit the poor in the final effect and promote the NGOs sustainability. Therefore, although HIVOS can be admired for its very high quality of aid, it can be criticized for its unrealistic model of equal partnership and overlooking the harsh reality in Uganda.

## **Chapter 5: Conclusion**

The aim of this study was to explore the concept of NGO financial sustainability, the resource mobilization strategies and to deconstruct donors' policies to see their effect on the NGO financial sustainability. The study contrasted the views from the Ugandan NGOs with the standpoint of their donor and was enriched by the perspectives of the independent respondents. For the respondents the topic of financial sustainability is a newly emerging one and all stakeholders wanted its further exploration.

### **The summary of analysis**

- HIVOS presumes that the NGOs are equal and genuine partners and does not count with the 'politics' of handling the donors and the reality in Uganda where financial sustainability stretches from the organization to the very existence of their employees.
- Because of the HIVOS assumption of equality and the reality of unequal power relations there have been different perspectives of who should bring the topic of financial sustainability to the agenda and therefore many NGOs have not yet conceptualized this issue. HIVOS, reflecting its own struggle, presumes that the implications it faces are the same also for the NGOs, however different reality was revealed by the NGOs and independent respondents which if omitted might lead to serious consequences for the beneficiaries.
- So far most NGOs have taken their donors as constituency and have pursued financial sustainability through diversification of donors' base. The NGOs generally miss expertise and capacity for local fundraising and IGAs and got used to spending way beyond the local standards because of the availability of the donor funding. HIVOS finds the local fundraising and IGAs crucial for financial sustainability but sees NGOs plans as unrealistic and unprofitable.
- The NGOs particularly call to the donors to make financial sustainability as their policy objective, to support their fundraising activities and reserve building whilst the independent respondents stress proper monitoring systems and execution of the NGO financial sustainability strategies. All respondents underlined the importance of quality of aid (Fowler 1995), in which HIVOS was assessed as a donor with difference however it was shown that it is not the only prerequisite for achieving financial sustainability.

Basing on the main findings, HIVOS needs to consider the unequal power relations and dependency in the donor-recipient relations and to accept its active role in bringing financial

sustainability to the agenda and to adjust its policies to fit the Southern reality. It was shown that in order to support Southern NGO sustainability the donor needs to realize the importance of the local constituencies and promote local fundraising and IGAs and at the same time introduce incentives and limits for NGO economical behaviour. As HIVOS already scores high in its quality of aid in contrast to other donors, one of the few implications in this regard was considering the danger of NGO proliferation as a result of the 10+ rule.

In order to give a final conclusion to the main research question 'How do HIVOS and their Southern NGO partners see the role of the donor in strengthening their financial sustainability' I can briefly state that their underlying views do reflect the same values and it is a question of putting them into practice. The NGOs in this case seem to require certain paternalism which HIVOS presently tries to avoid.

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## Appendix A

### The list of respondents

#### NGO representatives

No.	Organization	Name of the interviewee	Position
1.	AMFIU	Charles Kilibo	Programme manager
2.	AMFIU	David Baguma	Executive director
3.	AMFIU	Drollah N. Ssebagala	Accountant/administrator
4.	AMwA	Lydia Mbanza	Uganda programme officer
5.	AMwA	Salomy Nakazzi	Financial officer
6.	AMwA	Sarah Mukasa	Sub-regional programmes manager
7.	FHRI	Livingstone Sewanyana	Executive director
8.	FHRI	Rose Kamuli	Finance officer
9.	FHRI	Sheila Muwanga	Project Coordinator
10.	NOGAMU	Derick Tenywa	Local marketing officer
11.	NOGAMU	Ireen Kugonza	Sales person
12.	NOGAMU	James Ssentongo	Accountant
13.	NOGAMU	Moses Kiggundu Muwanga	Director
14.	NOGAMU	Susan Nansimbi	Administrative secretary
15.	VEDCO	Charles Kiwuuwa	Operations manager
16.	VEDCO	Henry Kizito Musoke	Executive director
17.	VEDCO	Jennifer Namusoke	<b>Resource mobilisation</b>
18.	VEDCO	Josef Bbemba	Team leader
19.	VEDCO	Sarah Nassaka Musoke	Finance manager
20.	WOUGNET	Dorothy Okello	Director
21.	WOUGNET	Milton	Financial manager

#### Independent respondents

No.	Organization	Name of the interviewee	Position
1.	Uganda Management Institute	Peggy Kagondoki	Student
2.	Makerere University	Eric Ochen	Lecturer
3.	Makerere University	Prof. James Sengendo	Lecturer
4.	Nordic Consultancy Bureau	Stella Mukasa	Consultant
5.	DESAM Int. Consultants	Dan Opio	Consultant
6.	DANIDA	Silvia Angey	Programmes officer
7.	DANIDA	Frans Michael Jansen	Programmes officer
8.	Whole Life Project	Jason	Director
9.	Uganda National NGO Forum	Arthur Larok	Programmes officer
10.	CDRN	John de Conink	Researcher
11.	CDRN	Rosemary Adong	Director, researcher
12.	Centre for Basic Research	Frank Muhereza	Researcher
13.	International Work Group for Indigenous Affairs (IWGIA)	Christina Nilsson	Researcher

#### HIVOS representatives

No.	Name of the interviewee	Position at HIVOS
1.	Marijke Mooij	PO Gender, women & development (East Africa)
2.	Tamme Hansma	PO Human rights & democratization
3.	Edit Tuboly	PO Sustainable production
4.	Miriam Elderhorst	PO HIV/Aids
5.	Carola Leering	PO Arts & Culture
6.	Helena Mina da Silva	Financial Officer

## Appendix B

### The questionnaire for the NGOs and independent respondents

<i>Interview questions</i>	<i>Comments – how it fits to the research framework</i>
1. Do you find the topic of this research useful for your organization?	<i>They might find it top-down or have other more important issues to think about</i>
2. How do you understand the concept of sustainability? What does it mean to be sustainable as an organization?	<i>Here I can see if they are pressured to be sustainable – either from the donors directly or by changing circumstances etc.</i>
3. Can you list the positive and negative sides of achieving sustainability?	<i>To find out the cost of sustainability and who will bear it (e.g. the beneficiaries, NGO staff?)</i>
4. Can you draw the resource base of your organization – the sources you already have and the ones you plan/want to have?	<i>When drawing, can describe all the advantages and obstacles when pursuing that particular source. How do they evaluate projects that have been tried? Constraints? - should not forget the in-kind sources - later should get figures/percentages for each source!!!</i>
5. Looking at your resource base, what role do your donors play in achieving/not achieving the particular sources?	<i>Here I can test if I will hear about the donors' conditions, funding methods, predictability etc. HIVOS policies</i>
6. What role do you play here?	<i>What should the NGO improve? What should the NGO do to negotiate better terms? What is their part?</i>
7. What makes a good partnership?	<i>Here I am curious if they will confirm the theories of unequal relations, donor dominance, incoherence etc. - need to know the negative sides too</i>
8. What would you suggest to your donors to do to support your organization's sustainability?	<i>e.g. in relation to their 10+ policy considering the Ugandan context</i>
9. What should the donor <u>avoid</u> in order to prepare the partner NGO to become sustainable during the duration of the partnership?	<i>- which policies are hampering the NGOs sustainability</i>
10. Anything more to add?	
11. Are you interested in a workshop with other HIVOS NGO partners and others (e.g. consultants, academia etc.)	

*The questionnaire for HIVOS staff*

<i>Interview questions</i>	<i>Comments – how it fits to the research framework</i>
1. Why do you think HIVOS initiated the research about NGO financial sustainability? What are your challenges?	<i>Why is this topic important for HIVOS?</i>
2. How do you understand the concept of NGO financial sustainability? What does it mean to be sustainable as an organization <i>First for your NGO partners and then for HIVOS.</i>	<i>Ugandan NGOs are very much interested in HIVOS definition of financial sustainability and also would like to see how HIVOS practices it.</i>
3. Can you list the positive and negative sides of achieving sustainability? <i>First for your NGO partners and then for HIVOS.</i>	<i>To find out the cost of sustainability and who will bear it.</i>
4. Can you draw the resource base of HIVOS – the sources you already have and the ones you plan/want to have?	
5. How can the HIVOS NGO partners reach financial sustainability? What would you suggest to them?	
6. Looking at your suggestions, what role does the donor play in achieving/not achieving the particular sources?	
7. What makes a good donor?	
8. What do you think HIVOS should do to support the partner NGOs financial sustainability?	
9. What should the donor <u>avoid</u> in order to prepare the partner NGO to become sustainable during the duration of the partnership?	<i>Which policies are hampering the NGOs sustainability?</i>
10. What do you expect the local NGOs should do to promote their financial sustainability? What are the challenges?	
11. How did you come with the 10+ policy?	<i>Partners are interested why 10 years etc.</i>
12. Anything more to add?	

<b>How do I feel about the interview?</b>	<i>Confidence, personality The experience of the interview</i>
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