

Models of INGO Sustainability: Balancing Restricted and Unrestricted Funding

John Hailey, November 2014

Experience tells us that financial sustainability is crucial for the long-term survival and effectiveness of all types of International NGOs. The challenge is how to achieve such levels of financial sustainability...

What we do know is that the more different sources of funds you have the more financially self-sufficient and sustainable you are. In other words the financial sustainability of an NGO depends on its ability to diversify income and access new funds.

This INTRAC Paper explores different models of resourcing strategies that international NGOs (INGOs) have adopted to ensure their financial sustainability. The review of these models is intended to develop our understanding of the different funding options and the importance of balancing restricted with unrestricted funds. Specifically, this paper explores the distinction between gift-based INGOs, aided-INGOs and more enterprise-based INGOs; and analyses the consequences of the different resourcing strategies that different INGOs commonly pursue.

In practice most of the larger INGOs are a mix of these three models. The development of a diversified hybrid resourcing strategy - whereby they are not dependent on one particularly funding stream - is clearly one that most INGOs would like to emulate. However, experience suggests that this is easier said than done. Efforts to ensure sustainability depend on significant investment of time, effort and resources.

1. INGOs and Sustainability

What do we mean by sustainability in the INGO context? A sustainable INGO is one that can continue to fulfil its mission over time and, in doing so, meets the needs of its key stakeholders – particularly its beneficiaries and supporters. As such, sustainability should be seen as an ongoing process, rather than an end in itself. It is a process that involves the interaction between different strategic, organisational, programmatic, social and financial elements.

There are clearly different perspectives on sustainability and what it means in practice. Any analysis of sustainability need to acknowledge the diversity of these perspectives, but also the way that they complement each other and should not be viewed in isolation. For some,

sustainability is concerned with financial viability or long-term economic growth; for others, it is about environmental sustainability and addressing issues of climate change, population growth and resource imbalances. For others, it might refer to programme or “intervention” sustainability, with an emphasis on maintaining the quality of a particular service or programme after a targeted intervention has ended¹.

For some commentators, the focus is on social sustainability and the role of viable civil society in ensuring equity and access to justice. Efforts to gauge social sustainability are complex. This is well-reflected in the methodology used in the CSO Sustainability Index, which relies on a range of indicators to assess the strength and viability of civil society in different countries². The Index is based on seven dimensions: 1. The legal environment; 2. Organisational capacity; 3. Financial viability; 4. Advocacy capacity; 5. Service Provision; 6. Infrastructure and 7. Public image and reputation. The difficulty of trying to collate and measure this mix of criteria well-highlights the complexity and methodological challenges of both preparing and applying such all-embracing measures of social sustainability.

Apart from the established concern for economic, environmental and social sustainability, there is a growing recognition of the importance of organisational sustainability in achieving strategic goals. New methodologies are being developed to identify and assess the organisational characteristics of effective and sustainable NGOs. Commonly, these are based on an assessment of core attributes such as leadership capabilities and management competencies, the capacity to deliver specific services (health, education, etc.), or the ability to pay salaries and cover running costs. But increasingly they also include analysis of an NGO’s ability to anticipate and handle change; in particular adapting to changes in the external environment and the consequences of such changes on their income as well as aging or outdated systems and processes. Sustainable NGOs are those able to respond strategically and effectively to such external changes. They revise their mission and objectives accordingly, access new sources of income, and adapt their systems and processes to meet the new challenges.

In this regard, it is useful to reflect on the criteria for organisational sustainability that was initially developed by Ashoka and has been refined over time. This suggests that the ability of an INGO to manage change and remain sustainable depends on, first, having sufficient and positive public profile, network and reputation to attract resources. Second, having suitable and appropriate organisational systems and processes to be able to attract resources and retain a relationship with the donor or those making the contribution. Third, having the internal capacity and willingness to learn and evolve.

Practice and experience tells us that NGO sustainability is not just about developing new fund raising campaigns or writing clever funding proposals, but as much about ensuring that there has been sufficient investment in organisational systems and processes. In support of this approach, MANGO, a specialist NGO providing accounting and financial advice to the

¹ Intervention sustainability is commonly used in reference to the viability and effectiveness of health service interventions designed to promote sustainable change in local health services.

³ See <http://www.mango.org.uk/guide/financialsustainability>. For a detailed commentary see: Pathfinder, *Fundamentals of NGO Financial Sustainability*, Watertown, Mass, 1994

sector as a whole, argues that INGOs need to invest in building relationships, risk management and basic good financial practice.³

MANGO's analysis of the characteristics of financially sustainable NGOs suggests that, apart from being able to raise money from a variety of sources, they actively invest in developing and maintaining strong personal relationships with their key stakeholders particularly their donors, supporters, volunteers, staff and beneficiaries. They also have sufficient internal capacity to assess and manage the risks associated with funding and financial resources on a regular basis and in a way that both board members and managers can understand and engage with. Sustainable INGOs also have built sufficient financial reserves, as well as strategically manage and finance all organisational costs and overheads.

What is notable about both the Ashoka and MANGO's analysis of the characteristics of organisational sustainability is that it is not just about an NGO's ability to raise or manage funds, but also about its ability to build on its reputation and to develop and maintain strong external relationships. This is true for both northern-based INGOs and their Southern partner NGOs. A recent study of an integrated water project in Kenya, highlighted the importance of such personal relationships and effective management in ensuring long-term sustainability. The evidence suggested that such positive personal relations between key personalities promoted internal cohesion, enabled effective decision making, facilitated accountability and, above all, built trust between the key actors based on personal rapport and open dialogue. The study also identifies the importance of building external relationships and fostering contacts with external stakeholders whether they are local government officials, community organisations or partner INGOs.⁴

This analysis of INGOs and sustainability has highlighted the need to incorporate the differing, but complementary, views of sustainability; as well as the important role of organisational processes and relationships in ensuring long-term survival and sustainability. But such analysis should not detract from the strategic importance of financial management and effective fund raising as an essential ingredient of NGO sustainability. Key to this is an understanding of the different funding models used by NGOs, and their strategic consequences in terms of their identity, independence and sustainability.

The following taxonomy of funding models is not definitive, but offers an outline structure to help the analysis of the resourcing strategies that INGOs have evolved and adopted to ensure their financial viability and sustainability.

³ See <http://www.mango.org.uk/guide/financialsustainability>. For a detailed commentary see: Pathfinder, *Fundamentals of NGO Financial Sustainability*, Watertown, Mass, 1994

⁴ Spalling.H, G.Brouwer, J,Njoka, *Factors Affecting the Sustainability of a Community Water Supply Project in Kenya*, *Development in Practice*, Vol.24, No.7, Sept.2014.

2. Models of INGO Sustainability

2.1 Gift-based INGOs

The great majority of INGOs, both large and small, depend on the gift economy to maintain their work. They are financed by a range of gifts and voluntary donations. Such gift-based funding strategies, if successful and embedded in the work of the organisation, can be effective and sustainable in terms of ensuring predictable unrestricted income.

Such gift-giving is through a variety of ways including one-off gifts, personal donations and legacies, community collections or special events, regular bank-based giving by standing order or direct debit, child sponsorship, or new approaches to web-based giving (e.g. Giving What We Can, GuideStar, JustGiving, etc). Faith-based NGOs may also raise funds through a range of personal pledges, church collections, or zakat funding. Significant giving is also generated by dedicated humanitarian appeals at the time of some extreme emergency or event (as seen at the time of the Haiti earthquake, the Asian Tsunami or currently the Ebola Outbreak in West Africa).

The extent of the dependence on such personal giving can be seen in the way that most INGOs rely on gifts from the general public rather than funds from official donors. For example, in the UK less than 5% of non-profits carrying out international humanitarian work receive aid from official donors. The data from the UK's official non-profit regulator, the Charity Commission, identifies nearly twelve thousand gift-based development INGOs registered in the UK⁵. Not only do these figures highlight the vibrancy of the sector, but also show the continued support by the general public for the work of such NGOs working internationally.

While this data is indicative of the extent of private giving and the gift-economy, it should also be noted that there are concerns about the sustainability of the gift-economy. Polls highlight increasing public cynicism as to the value of funding development projects, and the age profile of those providing financial support to INGOs in this way suggests that this is an ageing and diminishing segment of the population.⁶

Philanthropic donations from foundations and trusts are therefore seen as an increasingly important source of funding for the work of INGOs – some of which is restricted project funding, but much of which is through unrestricted donations from family trusts and foundations. The scale of giving from these private foundations and donors is hard to gauge accurately, but we know it is significant and growing. Recent data suggests that there are over 160,000 grant-giving foundations in the US and Europe alone. The evidence suggests

⁵ In 2014 the UK Charity Commission (the UK's regulator of non-profits) classified 11,750 registered charities as being concerned with "overseas aid and famine relief work" (see Charity Commission registration code 106). This data suggests that nearly a thousand new charities working in this area had been created in the UK since 2012. In other words nearly 10% of the UK charities involved in overseas aid work were newly-registered in last three years (few of which would have been recipients of official aid).

⁶ In the UK over half funding for such charities is from people aged over 60 and DFID data suggests that there is there is decreasing concern in the general public about issues of global poverty.

that funding for international development makes up at least 20 per cent of the total funds of those foundations that fund overseas development projects. This is estimated at over \$10 billion per annum - much of which goes directly to projects and programmes run by NGOs and CSOs⁷. In other words, this is a considerable resource which INGOs can access. The other significant players in this area are the increasingly powerful foundation-support organisations (see GrantCraft, GEO and the Foundation Centre in the US or the Association of Charitable Foundations and New Philanthropy Capital in the UK) which advise and support foundations in philanthropic work and, as such, are influential in determining the proportion of foundation funds that go to INGOs.

One of the attractions of gift-based funding is that it is often seen as “free money” in that it may not have the conditions commonly attached to funds from official donors. Strategically it is important to ensure a balanced mix between “unrestricted” and “restricted” funds. Restricted funds are those that can only be used for specific purposes that have been agreed with a specific donor; while unrestricted funds are “free money” that can be used for any purpose that helps the NGO to achieve its mission. A financially sustainable NGO is one which can continue with its core work and meet its mission even if external donor funding is withdrawn. An over-dependence on restricted funds is an indicator of potential unsustainability.

However, the means of fund-raising and the messages used, do imply some implicit constraints. For example, the highly-successful child sponsorship model used by some major INGOs such as ActionAid, Plan, or World Vision, implies some trade-off between enhanced income generation and reduced financial allocation flexibility. While other INGOs such as MSF, who depend on direct donations from the gift-giving public, choose to rely on equally high, but less stable, funding streams in return for increased independence. Many smaller INGOs and their local partners commonly rely on apparently “untied” community funding. But in practice this can be dependent on a range of local relationships, personalities and socio-political dynamics. All of which suggests that such supposedly unrestricted local funding, may not be as free as is commonly portrayed. These examples raise questions around the link between sustainability and independence; and around how the choice of gift-giving strategy impacts on the degree that an organisation can remain mission guided and not donor guided.

2.2 Direct official aid

All the evidence suggests that only a relatively small proportion of INGOs receive official aid (i.e. deriving a proportion of their income from official donors such as DFID or Danida, USAID or AusAid)⁸. These aided-INGOs are normally the larger, high-profile INGOs with established track-record of working with official donors. A small proportion of these aided-INGOs also raise funds from other aided institutions such as UN agencies, the World Bank and other development banks.

⁷ John Hailey, 2011, *NGO Funding and Private Philanthropy*, ONTRAC 49, INTRAC, Oxford. See also B.Pratt, J.Hailey, et al. 2012, *Understanding Private Donors in International Development*, Briefing Paper 31, INTRAC, Oxford.

⁸ DFID gave £740 million to NGOs in 2011/12, of which 13% was delivered as technical assistance and 8% in humanitarian aid. See UK Aid Network, 2014, *UK Aid Breakdown*, UKAN, London

In the UK, it is estimated that only about four hundred UK-based INGOs receive significant official aid funds (for example, the forty development INGOs currently receiving five-year programme funding through DFID's Programme Partnership Arrangements (PPA) or those which receive dedicated humanitarian funding through the EU's ECHO funding mechanism). In some countries (notably Scandinavian countries), it has been common to find a significant percentage (up to 90%) of income for local INGOs coming from official donors (Danida, SIDA, etc.)⁹.

Such official donors are now questioning such levels of aid dependency and are putting pressure on the INGOs they support to develop more diversified funding strategies. This trend is partly due to financial exigencies, political and ideological pressures, but also an increased disaffection among the general public as to the principle of foreign aid and the use of tax money to support countries and projects overseas at a time when there are significant pressures on government finances locally.¹⁰

While there has been a growth in official funding of INGOs over the last twenty years (most dramatically in the area of funding of emergency and humanitarian work), the projections are that official aid for INGOs will be reduced (as has already been seen in Australia, Canada, Ireland and the Netherlands) or restructured. This is reflected in the moves to develop new funding models such as contracting or Payment By Results commissioning, or the use of large consortia-based funding frameworks based on competitive bidding processes (as is projected to happen in the UK with the proposed termination of the current PPA programme funding for INGOs).

The continued reliance by some INGOs on such official funding raises questions about their sustainability. This includes questions as to the reliability and predictability of such funding at a time when aid budgets are being cut; as well as the impact on their identity and independence resulting from the onerous nature of the conditions attached to such funding; as well as the transaction costs associated with servicing such official aid funds (e.g. meeting due diligence criteria, tracking data, financial reporting, etc.).

A variation on the aided-INGO is the contracted-INGO. In other words, those NGOs which rely on contracts and commissions that are awarded by official donors - either multilateral or bilateral donors, government departments, or foundations. There is a growing trend by official donors to contracting and NGOs have responded accordingly.¹¹ For example, in the South many local NGOs depend on such contracts from local government to run their projects or programmes, while in the North we have seen a growing number of contract-dependent INGOs.

⁹ Data for major global INGOs, such as CARE and Save The Children, suggest that they are increasingly reliant on funds from official donors. See Baobab, 2014, ICSO Global Financial Trends, Baobab Briefing Paper 1,

¹⁰ See UK YouGov Poll in 2011 which suggested that nearly 40% of UK voters were unfavourable to the principle of foreign aid.

¹¹ DFID's spend on "contractors to deliver aid programmes" doubled between from £0.6bn to £1.2bn between 2008 and 2014. USAID increased contracting commissions 700% in the period 2000-08 to over \$14billion.

This is well reflected in the business model adopted by those INGO which operate in a way akin to value-based consultancies. They bid for projects in the development market place, and differ from for-profit consultancies because of their particular developmental values, the way they build long-term partnerships or have particular relationships with civil society. Examples of this include INTRAC (which works to support and strengthen civil society through training, consultancy and research); Action on Poverty (APT works with partners to develop small enterprises and promote economic empowerment); or the Washington-based Technoserve, which helps entrepreneurial men and women in the developing world capitalize on business opportunities that create jobs and income for poor people. Technoserve works with a range of public- and private-sector partners (including USAID, the Coca-Cola Company or J.P. Morgan), and in keeping with their private-enterprise approach, evaluate their performance using business metrics.

2.3 Enterprise supported

A small number of development INGOs generate a proportion of their income from enterprises or commercial ventures that they own and run. These can either be self-standing commercial enterprises with clear profit-based business goals as exemplified by the subsidiary companies created to support BRAC, the major Bangladesh-based INGO; or complementary for-profit enterprises that also have developmental goals such as Oxfam's high street shops. Such INGO business subsidiaries are distinct from the evolving social enterprises outlined in the next section.

Typically enterprise-supported INGOs rely on a mix of gift and aid income, and profits from their subsidiary enterprises make up only a relatively small proportion of total income. Such enterprises are commonly either direct trading activities, such as Oxfam's shops or Practical Action's publishing business; or service-provision ventures where an INGO sells a particular expertise. For example: Transparency International offers anti-bribery training through its Training and Advisory Services; Practical Action provides a consulting service in the area of sustainable or alternative technologies; and Marie Stope's Options Consulting Service provides specialist support in the area of sexual and reproductive health.

However, there are exceptions, with the Bangladeshi-INGO BRAC being the most commonly cited example. It has an ambitious sustainability strategy, and in 2013 only a third of its annual expenditure of \$545 million came from official donors. Much of its income is generated by the different enterprises it owns. These include a bank, internet and mobile phone companies, printing businesses, feed mills, tea companies, fisheries, dairy, etc. All of these operate commercially and their profits used to support BRAC's development activities. BRAC employs now over 120,000 people in eleven different countries, and is one of the largest development INGOs operating today

A crucial element of the enterprise-supported strategies of such INGOs is that they commonly incorporate a developmental purpose with a profit-generating goal. For instance, Oxfam is a major trading presence in the UK. It is one of the top-ten high street retailers with 700 shops across the country and a significant on-line shopping presence. While these shops are expected to generate income, they also have a developmental role in terms of selling fair-trade goods or handicrafts that benefit local producers, as well as a wider educational role.

Practical Action has two wholly-owned subsidiary companies with a commercial and developmental remit. One, Practical Action Publishing, comprises book and journal publishing and book retailing via mail order and the internet, geared to the needs of development professionals and academics worldwide. The other is Practical Action Consulting which provides independent research and professional advice to a range of clients around issues of technology and development and enterprise development. While these subsidiaries are expected to be profitable, it is clear by the way they operate that their wider societal and development remit is a key determinant of the strategies they pursue and the operational decisions made. Other European INGOs, such as ICCO in the Netherlands, Helvitas in Switzerland or the Bristol-based Development Initiatives are in the process of developing similar value-based for-profit consulting subsidiaries.

In practice, this is a relatively rare model and in most cases enterprise-funded INGOs receive only a small proportion of their income from such ventures. Experience also suggests these subsidiary enterprises have high start-up costs and can be a significant management burden and as a result carry high transaction costs.

2.4 Evolving Social Enterprises

A small, but significant trend, is where an INGO evolves (or incubates) an autonomous social enterprise; or where a business, donor, and INGO work together to form new collaborative enterprises.

The growth of new social enterprises and social franchises and the support they have received from governments and donors has been one of the defining characteristics of service provision over the last ten years. Increasingly, social services, health and education are being offered by such providers. Take Lagos in Nigeria as an example: 60% of schools are now private and 40% of children from families in the lowest third of income distribution are in such private schools. Private education is no longer the domain of a rich middle class and is increasingly being seen as a service delivered to all income levels by a range of for-profit businesses and social enterprises.

This trend is well-reflected in the range of new entities being created by different NGOs across the world. The development of new social franchising models is seen in the success of Marie Stope's global network of BlueStar clinics, and in Basic Need's franchise model designed to provide mental health support in the poorest communities. INGOs increasingly support the development of new social enterprises. BRAC, for example, has actively promoted the development of a range of social enterprises which in 2013 had a combined turnover of \$165 million.

There are a number of recent cases where an existing development INGO transmogrifies itself into a viable, market driven social enterprise. The ambition is that their future income will come from selling products or services, rather than relying on donor income or commissions. Examples of this include SolarAid's development of SunnyMoney and SNV's proposed strategic evolution to a social enterprise. This evolution is partly driven by the desire for greater economic and market sustainability, and partly by the increasing dissatisfaction with the constraints inherent in the existing aided-INGO model.

SolarAid is in the process of evolving from a traditional gift-based INGO promoting the use of solar power in Africa to a development enterprise selling high quality solar lighting across Africa. This new business model is run through a newly registered social enterprise (SunnyMoney) which is now working in four African countries to promote solar lighting with the intention of eradicating the use of kerosene lamps while becoming financial sustainable.¹² In 2008, SolarAid created SunnyMoney to run its operations in Africa. SunnyMoney uses an innovative distribution model to sell solar lights in rural off-grid communities dependent on costly, toxic kerosene for lighting. By building a sustainable market for solar products, SolarAid and SunnyMoney aim to eradicate the kerosene lamp from Africa by 2020.

The well-established Dutch INGO SNV has adopted an evolving strategy towards becoming a hybrid social enterprise. In an effort to move away from its dependence on official aid funding, it hopes to generate income by providing advice and capacity building support. It intends to build on its existing network of local partners to equip local communities, businesses and organisations with the tools, knowledge and connections to become more sustainable by increasing their incomes and accessing local services.

An example of an INGO incubating a local social enterprise is FarmAfrica's evolving relationship with Sidai Africa. This is wholly owned by FarmAfrica, and was established in 2011 by FarmAfrica's ex-CEO. But it operates as an autonomous social enterprise. Sidai aims to deliver high quality and affordable veterinary and other livestock services through a network of 150 branded franchises. Each franchise is owned and staffed by qualified veterinarians, livestock technicians and other professionals. Sidai operates as a registered company in Kenya, and had a turnover of £1.6 million in 2013. Its goal is to be financially sustainable while also revolutionizing the way that livestock and veterinary services are offered to pastoralists and farmers in Kenya.

Another evolving model is where INGOs develop collaborative partnerships with local businesses or major multinationals. For example, CARE and PLAN's partnership with Barclays Bank to develop their Banking on Change Programme intended to enhance access by the poor to basic banking services in eleven countries. Other examples include Vodafone's partnership with AMREF in Kenya, or Digicel's relationships with the Irish INGO, Concern. A variation on this is where an NGO social enterprise collaborates with multinational companies, such as the way that Galvmed works in partnership with major pharmaceutical companies like Pfizer or Meril. Galvmed is a non-profit global alliance that makes affordable livestock vaccines, medicines and diagnostics accessible to farmers across the developing world.

An alternative hybrid model is where a corporation works in collaboration with an official donor to support the development of a specialist INGO. GirlHub, for example, is a strategic collaboration between DFID and the Nike Foundation (the philanthropic arm of the

¹² Other market-based providers of solar home systems and other renewable technologies include: the Grameen Bank's affiliate Grameen Shakti in Bangladesh; or D-Light, an alternative light provider funded by social investment and venture capital firms in India & US, such as the Omidyar Network, Acumen Fund, Gray Matters Capital and which works in partnership with Christian Aid in India.

multinational sports company Nike). Girl Hub is a British registered NGO with an annual turnover of c. £2 million, with operations in Ethiopia, Ruanda and Nigeria. It helps decision-makers and donors to address the needs and rights of adolescent girls. It sees itself as a catalyst organisation. Girlhub's strategy is to combine DFID's development expertise and global reach with Nike's experience and expertise – particularly in communication, business planning and innovation, and the experience of the Nike Foundation's international work to empower adolescent girls. Another example is the collaborative support provided by Coca-Cola and USAID to support the Water and Development Alliance (WADA) and its programmes across Sub-Saharan Africa.

It should be noted that there are concerns about this trend of INGOs evolving into social enterprises. It is argued that the drive for profitability inherent in such ventures undermines their humanitarian values and identity. Many believe that the way that social enterprises work is fundamentally different from the way INGOs work, with their different values, goals and resourcing strategies.

The theory of change that underpins the work of social enterprises is also seen as distinct from those of INGOs. Social enterprises operate in the expectation that they will continue to grow and work on the premise that they can attract sufficient investment to ensure continuity and develop their position in a social market place. Whereas most NGOs hope that at some point in the future they will “do themselves out of a job” because their work will be sufficiently effective to remove poverty and suffering in the communities with which they work. Despite these concerns, there is clearly a momentum around the evolution of new social enterprises, and the Boards and senior management of many INGOs see the social enterprise model as the basis for future sustainability.

2.4 Micro-credit – sustainable INGOs or viable enterprises

There is some debate about the position of micro-credit schemes and micro-finance institutions (MFIs) in any typology of sustainable non-profits. There are questions as to what extent they fit either the NGO or social enterprise model. Or because of their reliance on their own asset-base and loan repayment income, they are a distinct model in their own right.

In reality, most micro-credit schemes were established with the help of significant official funding and continue to be underpinned by support from development banks or governments in terms of loan guarantees and preferential borrowing rates. What is clear is that there is a great range of different non-profit MFIs and microcredit schemes with a sustainable, developmental focus. Formal figures suggest at least 10,000 operate globally.¹³ Most micro-credit schemes or MFIs are registered as non-profits and designed to be self-sustainable; while a small proportion operate as independent businesses, most actively seeking external investment funding to grow their work.

¹³ Most commentators would suggest this is an underestimate of the total number of MFIs and micro-credit schemes operating around the world.

Over 2000 of these MFIs are registered on MIXMarket¹⁴. These include such major MFIs as the Grameen Bank, ASA and BRAC in Bangladesh, Spandana, SKS and SHARE in India, Caja Popular Mexicana, Compartamos, BANTRA, or Pro Mujer in Latin America. Some, like Compartamos, Faulu, Kenya Womens Finance Trust, SKS and Spandana, operate as dedicated microfinance businesses, while others like ASA, BRAC, KADET, Pro Mujer or SEWA have a wider developmental agenda and engage in other development activities. The scale of MFI operations across the developing world is reflected in the MIXMarket data:

- Africa (721 MFI's with total assets of \$10.3bn with 5.5m active borrowers and an active loan portfolio of \$7.2bn)
- Latin America (522 MFI's with total assets of \$34.6bn with 18.1m active borrowers and an active loan portfolio of \$27.8bn)
- South Asia (465 MFI's with total assets of \$6.6bn with 36.4 active borrowers and an active loan portfolio of \$5.9bn)
- East Asia (403 MFI's with total assets of \$49.9bn with 14.9m active borrowers and an active loan portfolio of \$14.9bn)

Micro-credit and micro-finance is a rapidly evolving area. It has become the focus of much media and political interest. This is well reflected in the interventions by the Bangladesh government in the work of the Grameen Bank or the negative political and media commentaries on the perceived exploitation of the poor by some Indian MFIs.

There is also growing commercial interest in MFIs which has attracted new (but not always appropriate) investment. Furthermore, new consortia are being developed linking traditional INGOs with new banking partners. This is exemplified in the way Barclays Bank, CARE and PLAN work in partnership to expand their Banking on Change programme, as mentioned above; or the way that the Global Alliance for Banking on Values links commercial banks and MFIs with a development/CSR agenda. In many ways, the micro-credit sector is illustrative of the organisational innovation and hybridisation that are needed to ensure long-term sustainability.

3. Conclusion

The balance between restricted and unrestricted funds seems to me to be at the heart of any debate about the financial sustainability of any NGO or civil society organisation. An over-dependence on restricted funds is an indicator of potential unsustainability. Thus over-reliance on official aid funding with all the associated restrictions and conditions should be seen as an indicator of concern. In practical terms, this means that a financially sustainable NGO is one which can continue with its core work and meet its mission, even if external donor funding is withdrawn.

This paper has explored some of the issues around sustainability and identified the characteristics of sustainable INGOs. From the analysis of the different financial models and

¹⁴ MIX Market is the largest microfinance database with over 2100 MFIs in 110 countries registered on its site. MIXMarket is intended to strengthen the microfinance sector by providing data and analysis to enable potential investors and funders to make informed decisions about specific MFIs, evaluate risks and assess performance.

the different resourcing strategies commonly used by INGOs, it was apparent that the great majority of INGOs, particularly smaller ones, rely on voluntary contributions. Fully aided-NGOs are a rarity. But it is also apparent that there is growing interest in new financing models and the development of alternative enterprise-based funding models that reduce an NGO's dependence on traditional gift-incomes and official aid.

The trend seems to be one of developing greater independence and resilience through diversifying income sources and a willingness to explore more entrepreneurial routes to financial sustainability. INGOs will need to think strategically about their financial models and adopt strategies that will help them maintain their independence and still be sustainable. This trend will have major implications for NGOs in terms of their identity, values and culture. It also means that new and different skills and competencies will be needed by staff and board members. INGOs will have to reassess what core capabilities and competencies are needed, and understand how best to transform themselves to handle the new financial realities. All of which suggests that the search for financial sustainability will have significant implications for individual NGOs and the sector as a whole.