The Synergos Institute
The Process and Techniques of
Foundation-Building, Experiences
from Eight Organizations
in Africa, Asia and Latin America

Organization Financing and Resource Generation

Darcy Ashman, Elizabeth Zwick and L. David Brown

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Voluntary Sector Financing Program

Case Studies:

- The Foundation for the Philippine Environment
- The Esquel Ecuador Foundation (Fundación Esquel-Ecuador)
- Child Relief and You - CRY (India)
- Foundation for Higher Education (Colombia) (Fundación para la Educación Superior - FES)
- Philippine Business for Social Progress
- The Puerto Rico Community Foundation
- The Mexican Foundation for Rural Development
- The Kagiso Trust (South Africa)

Cross-Case Analyses:

- Formation and Governance
- Organizational Financing and Resource Generation
- Program Priorities and Operations

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Preface

Background

In Africa, Asia and Latin America, citizen participation through a range of civil society organizations has become a growing and vital force. Civil society organizations have brought significant material and human resources from the community level to bear on poverty problems through donations of time, energy, materials and money.

Locally managed and controlled organizations that provide direct financial support to other organizations within their societies have been established over the last decade in many southern countries. A few were established twenty or thirty years ago. These organizations are injecting critical financial as well as technical resources into local civil society and mobilizing resources from a wide variety of sources both domestic and international for this purpose.

Few of them were created with a single large endowment, as was the case with most northern private foundations. Most of them rely on a wide range of strategies to mobilize financial resources including earned income contributions from individuals and corporations and grants from international organizations. Some managed donor-designated or donor-advised funds following the US community foundation experience.

General consensus over terminology has not yet been reached; these new types of organizations are usually referred to as "foundations" or "foundation-like organizations." Though many of these organizations have adopted legal identities as foundations or trusts, others are registered as nongovernmental organizations. In general, they differ in many ways from their northern counterparts . For example, they are more likely to mix program operation with grant-making. Many of them act as convenors of civil society groups, as bridging institutions to other sectors of society or as technical assistance and training providers.

To distinguish this type of southern foundation-like organization from northern foundations we can use a term such as "community development foundation" or "southern foundation" or use a new term. One new term which has been proposed is "civil society resource organization" or CSRO. This term refers to organizations which combine financial assistance to community-based organizations and NGOs with other forms of support for organizations or the civil society sector as a whole. In this series of papers we will use the terms "foundation" and "civil society resource organization" inter-changeably.

This expanding universe of foundations/civil society resource organizations around the world has not been systematically studied. As one of the first steps towards developing an understanding of this sector, Synergos responded to a request from a group of southern foundations. In April 1993, a group of foundations from a dozen southern countries met with northern foundations and official foreign aid agencies to discuss the emerging role of foundations in strengthening civil society in Africa, Asia and Latin America. A major outcome of the discussion was a decision to learn more about how these organizations are created, how they develop and evolve, and how they sustain themselves as philanthropic entities. The group decided on case studies and analysis as the most fruitful approach. The Synergos Institute, which works with local partners to establish and strengthen foundations and other financing organizations, accepted the task of producing case studies on these organizations. These papers are one of the products resulting from this effort.

Methodology

A Global Advisory Committee of southern foundations guided the two-year effort by Synergos. The advisors selected eight geographically diverse cases from over sixty organizations identified through an initial survey. Local researchers were retained in each country and the Synergos research team worked with them and the Advisory Committee to develop a common protocol.

The protocol hypothesized four areas as key to the operational effectiveness and sustainability of southern foundations: origins and genesis of the institution; institutional governance; program evolution and management; and financing. The case researchers studied these issues via multiple data collection methods and sources. The primary method was to conduct direct structured interviews with individuals involved with each case organization, including board members or trustees, the managing director, staff members, grant recipients, and other relevant organizations. In addition to interviews, researchers gathered mission and vision statements, annual reports, operating strategies and plans, internal and external evaluations, financial plans and administrative procedure manuals. Data collected by the different methods were systematically organized into distinct databases which were the basis for each written case study. The case studies were coordinated by the Synergos research team, which then provided the funding to a cross-case analysis team for the preparation of three analytical papers. The two teams prepared condensed versions of the case studies for publication.

Use of the Studies

The eight case studies bring to light key factors that have led these organizations to be successful, and the studies document the crucial processes they have gone through to respond effectively to the needs of their national civil societies. Across the very different conditions that brought about their formation, the cases reveal that foundations/CSROs can play a central and strategic role in strengthening civil society. Their comparative advantage as resource mobilizers enables them to have a large effect both in stimulating new financing and connecting financial resources to the community-level where they can have the greatest impact. In particular, they have excelled at:

- providing seed resources for the growth of civil society organizations in their countries;
- leveraging diverse sources of financing for the projects and programs of civil society organizations;
- assisting northern foreign aid to be channeled to civil society in more sustainable and effective ways; and
- acting as an interface for public policy dialogue between civil society and the government and business sectors.

The case studies and the related analytical papers are a useful tool for those who wish to build foundations/CSROs around the world. Synergos hopes they will be widely used as a catalyst for the development and strengthening of this important group of institutions that provide financing to the voluntary sector.

Acknowledgements

The case study project has involved the talent and contributions of many individuals and organizations over the last two years. We would like to acknowledge their efforts and emphasize that the project would not have been possible to complete without their contributions:

- The Global Advisory Committee: Graça Machel, Foundation for Community Development, Mozambique; Cornelio Marchán, Esquel Ecuador Foundation; Ethel Rios de Betancourt, Puerto Rico Community Foundation; Kamla Chowdhry, Center for Science and Environment, India; Aurora Tolentino, Philippine Business for Social Progress; Paula Antezana, Arias Foundation, Costa Rica; Maria Holzer, Polish Children and Youth Foundation; Eric Molobi, The Kagiso Trust, South Africa.

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- The cross-case analysis team: Darcy Ashman, L. David Brown and Elizabeth Zwick at the Institute for Development Research.

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Introduction

Description of Research Program and Cases

Civil society and its institutions increasingly have been recognized as critical to sustainable economic, political, and social development. Diverse civil society institutions offer opportunities for many different stakeholders to pursue their values and concerns. Civil society institutions engaged in development issues can mobilize the energies of and ensure accountability to grassroots groups that might otherwise be ignored. The diversity, engagement and effectiveness of the institutions of civil society depend on many factors, including the availability of various kinds of political, informational, and financial resources. Without such support, many of the local associations and networks that make up civil society may remain at a level of functioning and influence that severely limits their capacity to contribute to societal development.

Civil society support organizations provide a variety of services and support to civil societies. Some provide information and training, others provide research or technical assistance, some provide policy analysis and advocacy support, still others provide financial support and material resources (see Brown and Korten, 1991; Carroll, 1992). Such organizations face very complex environments, and they are often subject to conflicting demands from very diverse constituencies. Research and technical organizations, for example, must deal with the needs of civil society organizations but they are also subject to standards and expectations of the research communities from which they draw their credibility. These support organizations must deal with multiple "customers," whose expectations and demands may be inconsistent or even contradictory (see Brown & Brown, 1983; Kanter and Summers, 1987; Brown 1991).

The civil society resource organizations (CSROs) that are the focus of this analysis are particularly concerned with two sets of customers: resource providers whose financial contributions enable grantmaking and grant recipients who carry out the social and economic development activities the organizations seek to promote (Hall, 1989; Ylvisaker, 1987). Resource-providers and grant recipients typically have quite different perspectives and interests that CSROs must manage, and the consequences of that "dual nature" infuse many of the organization and management challenges faced by the organizations.

This paper is one of a series that examines the formation and functioning of eight CSROs in very diverse countries of Africa, Asia, and Latin America. Table 1 provides a brief overview of the eight cases in terms of the location and date of founding, their founders and initial missions, and their present programs and annual expenditures.

Table 1: Civil Society Resource Organizations

Organization	Founders and Initial Mission	Present Program and Resources
Mexican Foundation for Rural Development (FMDR) Mexico, 1969	Local business leaders and Catholic clergy founded to channel funds toward social development. provided $2.2 million in 1994.	Support rural economic development with credit and training to farmers. Member quotas and government funds.
Fundación para la Educación Superior (FES) Colombia, 1964	Local business leaders and academics founded to mobilize and channel funds for universities.	Support education, science, cultural activities, health, income generation and environment with grants and training. Banking operations and external foundation grants for $23 million in 1994.
Philippine Business for Social Progress (PBSP) The Philippines, 1970	Philippine corporations founded to promote social development and enable socially responsible business action.	Grants, credit, training and marketing assistance to promote area resource management, local empowerment, and intersectoral partnerships. Corporate donations and external resources for 6 million in 1993.
Child Relief and You (CRY) India, 1979	An Indian professional founded to channel funds to meet the needs of underprivileged children.	Support deprived children in rural and urban areas through grants and awareness raising. Sales of cards. Sponsorships and donations produced $600,000 in 1994.
Fundación Esquel-Ecuador (FEE) Ecuador, 1990	Leaders from civil society and government founded with support from US foundations to support local self-help initiatives by the poor.	Support local self-help initiatives of poor groups through grants, credit and technical assistance for training, health, income generation, and environmental protection. External foundations, donor agencies, and debt swap provided $1.6 million in 1995.
Foundation for the Philippine Environment (FPE) The Philippines, 1992	Government and civil society leaders and USAID and US NGOs founded to provide channel for funding local environment projects.	Support biodiversity preservation and community action on environment with grants and capacity-building. USAID grant and debt swap produced $2.6 million in 1995.
Puerto Rico Community Foundation (PRCF) Puerto Rico, 1985	Local civil society leaders and the Ford Foundation founded to promote community and economic development,health, education, and culture.	Support economic development, community development, art and culture, health, and education with grants. Local donors and US foundations and corporations provided $3.6 million in 1994.
Kagiso Trust (KT) South Africa, 1985	Civil society leaders and European community donors founded to channel funds to community-based organizations and apartheid victims.	Support community-based organizations, microenterprises, education and training, water and sanitation, and urban reconstruction with grants and intermediation. European Community provides $24.9 million in 1992.

These eight cases were selected to be the subjects of in-depth studies organized and conducted by The Synergos Institute. The case studies were undertaken around a common set of questions by case writers who were accorded full cooperation by the current leaders of each CSRO. The resulting first drafts provided a very rich analysis, ranging from 40 to 90 pages of text. The Synergos Institute has commissioned comparative analyses across the cases to help separate out lessons that are unique to the specific context of the case from patterns that recur across cases in many different settings. These comparative analyses seek to identify emerging patterns across the cases without sacrificing the richness of the cases as independent stories. Readers interested in more detailed descriptions of specific situations are referred to the full case studies, available from The Synergos Institute.

The papers in this series focus on three themes: 1) CSRO formation and governance; 2) generation of financial resources; and 3) program priorities and operations. Each paper uses comparative analysis across the cases to identify major features of their operation, critical problems and challenges, and the kinds of strategies and tactics used to deal with these problems. The intent of the analysis is to develop insights into common challenges and problem-solving strategies that will be useful to other CSRO practitioners.

Purpose and Organization of this Paper

A prominent theme running through the papers in this series is the overriding institutional challenge of managing the dual nature of CSROs. This dual nature requires establishing a single organization that can both generate and disseminate funds effectively. It thereby is called upon to bridge very different external environments: the fundraising environment, usually comprised of elites who control large pools of resources, and the grantmaking environment, populated by NGOs and CBOs who intimately understand and directly administer development efforts, but who possess limited resources and resource management skills.

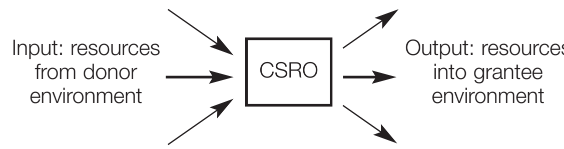

Figure 1: The Dual Nature of CSROs and Financial Implications

The primary task of this paper is to address the "input" side of the duality: resource generation, and its related managerial functions. However, the demands of the funding environment also permeate the internal operations of the CSRO as well as its financial activities on the grantmaking or "output" side. Therefore considerations of financing and resource generation lead us to look at multiple aspects of a CSRO's financial functions in order to fully understand the impacts of the funding environment.

The remainder of Part I of this paper reviews some of the research literature relevant to CSROs and provides a brief overview of the eight CSROs along fundraising dimensions. Part II presents the key findings of this research: the four major challenges these eight CSROs have faced in relation to financing and resource generation. These four challenges appear to be common in the experience of CSROs because they are closely linked to the institutional imperative to bridge the dual functions of fund generation and fund distribution. Part III offers some concluding themes and implications of CSRO funding choices, suggesting promising paths as well as common pitfalls for CSRO resource generation.

Conceptual Background

Recent years have seen an explosion in the number of studies on the organizations of civil society (Clark, 1991; Powell, 1987; Putnam, 1993). In particular, three areas of civil society research provide the conceptual underpinnings for this paper: studies of community foundations, earned-income ventures, and intersectoral relations.

It is important to note that research on US foundations is not necessarily relevant to CSROs because it does not account for the enormous cultural, political, and economic differences between the North and the South. However, important relationships have developed between some southern and northern philanthropic institutions. In particular, five of these eight CSROs received extensive advice and other resources from US foundations and civil society leaders: FES, FEE, FPE, PRCF, and KT. These CSROs therefore have been directly influenced by US ideas and assumptions about foundations and philanthropy. Of the various types of US foundations, community foundations (Magat, 1989) most closely resemble the CSROs studied.

Research on US community foundations offers at least two interesting clues to issues facing CSROs. First, this research posited that community foundations face a fundamental struggle with their essentially dual nature (Hall, 1989). In these organizations a separation has been observed between the fund management function and the grantmaking function, which typically manifests itself in conflict between bankers and community representatives on the Board. A similar pattern emerges within the eight CSROs in this study.

A second relevant theme in the community foundation literature is that evolving funding priorities reflect the changing needs and situations of the larger community. Because of this essentially public nature, they can easily move into the role of supplementing the work of local governments. Thus, and particularly when well-funded, community foundations can become a kind of shadow legislature or "private legislature," (Ylvisaker, 1987). It will be interesting to observe whether CSROs slip into a similar role; indeed, some may have already.

Another area of nonprofit research relevant to CSROs addresses the nature and functioning of earned-income ventures in third-sector organizations. Increasingly, civil society organizations are learning that some of the most profitable and sustainable sources of income are those businesses that they found and operate themselves as part of their internal operations. In particular, program-related products and services can provide a powerful connection between the organization's mission and fundraising needs (Massarsky, 1994). In the case of these eight CSROs, two run lucrative earned-income ventures and two others are experimenting with such approaches. One has quite successfully integrated fundraising into the mission.

Another stream of research has noted the relationships and interdependencies among and between the three sectors of society: the state (governments); the market (large and small for-profit businesses); and the third sector (known in various forms as the nonprofit or nongovernmental sector, the independent sector, the voluntary sector, or civil society) (Brown & Tandon, 1994; Wolfe, 1989). Although CSROs are characterized as primarily third sector organizations, this research demonstrates that they conduct an interesting variety of relationships with organizations and individuals based in the other two sectors. The intersectoral relations of third sector organizations have been explored elsewhere (Brown & Ashman, 1995).

Previous research on US foundations and other nonprofit organizations, then, suggests several initial themes for our investigation of CSROs:

- The dual nature of community-based foundations;
- The potential for wealthy community foundations to behave as shadow legislatures;
- The increasing prominence of earned-income ventures; and
- The importance of intersectoral relationships for many third sector organizations.

An Overview of Eight CSROs

To provide an initial overview, Table 2 describes the CSROs in this study along key fundraising dimensions: major funding mechanisms for start-up; major funding mechanisms for maintenance; and status of any endowment. This table will familiarize the reader with the basic fundraising approaches of this group of CSROs, all of which have achieved financial survival.

From Table 2 we note that seven common fundraising mechanisms seem to be used in varying combinations by these CSROs. These seven funding mechanisms are as follows:

- Earned income from products and services;
- Member dues from the business community;
- Donations from the business community;
- Grants from international philanthropic foundations;
- Grants from foreign governments;
- Debt swaps from foreign governments; and
- Endowments created at start-up.

Each mechanism is discussed in detail in Annex 1, including its advantages, disadvantages, and important implications. Table 2 provides basic fundraising data that is categorized and analyzed in various ways throughout the reminder of this paper.

Table 2: Major Fundraising Mechanisms of Eight CSROs

	Funding mechanisms for start-up	Funding mechanisms for maintenance	Endowment
FMDR	• Member fees & company donations	• Grants & contracts from Mexican government • Grants, revolving loan funds, & grant intermediation from international governmental entities & private foundations • Member fees & company donations, now indexed to Mexican minimum wage. • Fees from agricultural courses & sales of agrochemicals • Local raffles & fundraisers	US$75 million was raised in 1977-78 for an endowment, but lost in the 1982 devaluation when it was needed to pay off loans that had been contracted in dollars. No endowment at this time.
FES	• Modest donations from founding Board of local business & civic leaders • Start-up grants from international philanthropic foundations	• Earned income from financial services ventures. (Earned income grows as FES equity grows, because it can increase volume of financial services at corresponding rate.)	Permanent matching funds & Restricted special funds (funds managed by FES for specific projects & NGOs) comprise over 50% of FES equity. Value: US $42 million.
PBSP	• Corporate donations (0.6 % of pre-tax net income).	• Corporate donations (minimum of 0.2 % of pre-tax net income) • Grant intermediation & co-financing of funds from international & domestic, public & private donors. (PBSPcollects interest & charges administrative fees.)	The Projects Completion Fund was converted into an endowment fund in 1979. Current value: US $3 million.
CRY	• Door-to-door marketing of greeting cards • High-visibility fundraising events	• Door-to-door marketing of diversified theme products • High-visibility fundraising events • Child sponsorship mechanism • Direct mail campaign	Small “Child Development Corpus” fund founded to compensate for seasonal income from greeting cards, & lagbetween manuf/pymnt. 1993-94 value: US $570,000
FEE	• Start-up & operating grants from international philanthropic foundations	• Restricted grants & grant intermediation from international governmental entities & private foundations • Debt swap from US gov’t	Partly restricted endowment US $1 million created in first few years with earmarked funds from international foundations.
FPE	• Debt swap from US government	• Debt swap from US gov’t Current value: US $22.8 million.	Endowment created from debt swap & earmarked for biodiversity.
PRCF	• Grants from foundations • Donations from “Section 936” pharmaceutical corporations	• Restricted grants from US & Puerto Rico to administer own programs • Limited public donations, especially through designated donor funds.	Endowment created at start-up with donations from philanthropic foundations & “936” corporations. Current value: US $10 million.
KT	• Grants from European Union (EU) & other foreign governments	• Grants intermediation from European Union • Proceeds from Kagiso Trust Investments (KTI): venture capital & training fund for black entrepreneurs • Share of proceeds from nat’l lottery	Currently attempting to establish an endowment.

Findings: Major Financial Challenges for CSROs

This study found these CSROs have faced at least four major challenges in relation to financing and resource generation:

1. Making initial funding choices (and managing the ramifications of these);
2. Establishing financial legitimacy;
3. Diversifying funding sources; and
4. Learning to influence the fiscal environment.

CSROs have responded in similar ways to some of these challenges, suggesting near consensus around these points, but have widely diverged in their responses to others. Some challenges present clear choices, such as whether to handle fund management in-house or delegate those responsibilities to an external fund manager; other decisions are more difficult to characterize in concrete terms, such as how best to draw on and develop indigenous philanthropic traditions.

Challenge 1: Initial Funding Choices

Networks of individuals who contemplate founding a CSRO face many choices; because a distinctive, primary competency of any successful CSRO is in resource generation, some of the most obvious choices relate to specific funding mechanisms for start-up financing. However, this study also found that initial funding choices are important to the future of the CSRO in some ways that may not be immediately obvious.

Table 2 demonstrates that CSROs utilize a variety of funding mechanisms in start-up. However, implicit in the specific choice of funding mechanisms are two larger, related questions: 1) which sector of society will initially fund the CSRO — the state, market, or civil society? and 2) will the CSRO be founded with international or domestic funding? Our findings suggest these decisions will carry major consequences for the future.

Table 3 categorizes the sources of start-up funds listed in Table 2 along these two dimensions: domestic vs. international, and societal sector.

It has been noted that a CSRO's initial funding mechanisms typically derive from the connections and experience base of its founders (see the paper on "Formation and Governance" in this series). In accordance with this observation, Tables 1 and 3 together demonstrate CSROs "naturally" gravitating toward those sources with which they have ties. For instance, businessmen in Mexico and the Philippines founded CSROs based on resources from the domestic business sectors of their countries; South African church activists founded a CSRO based on the donations of foreign governments with whom they had allied themselves against apartheid. Looking across all eight cases, patterns emerge along these two dimensions of societal sector and domestic/international start-up funds.

Societal Sector: As noted above, macro-level social dynamics are often categorized into three major sectors: the state, the market, and civil society. CSROs may be founded by networks of individuals grounded in any one, or often two, of these sectors.

Of these eight CSROs, five pursued some or all of their start-up funding from market-based mechanisms: FMDR, PBSP, CRY, FES, and PRCF. These market mechanisms tend to be of two kinds: either the CSRO starts a business of its own or it benefits from the profits of established businesses with which it has some relationship. In the latter case, both FMDR and PBSP established member dues, and FES

Table 3: Sources of Start-Up Funding for Eight CSROs

CSRO	Domestic vs. International	Societal Sector
FMDR	domestic	market: member fees
PBSP	domestic	market: member fees
CRY	domestic	market: product sales & fundraising events
FES	domestic	market: modest donations from founding Board members
international		civil society: grants from international foundations
PRCF	international	market: grants from mainland corporations civil society: grants from international foundations
FEE	international	civil society: grants from international foundations
FPE	international	government: US debt swap
KT	international	government: EU grants

collected modest start-up donations from Board members. PRCF was able to attract donations from mainland pharmaceutical corporations with operations in Puerto Rico.

Of the eight CSROs, three received some or all of their start-up funds from civil society-based mechanisms. Both PRCF and FEE negotiated generous start-up support from international philanthropic foundations, including contributions to an endowment in each case. FES also started its operations with a few modest grants from international foundations, although it later turned to other sources.

Two of the eight CSROs launched operations with funding from government sources — in both cases, from foreign governments with strong political motives. FPE was created out of a "debt swap" between the US and the Philippines in the wake of Marcos' fall from power and under strong pressure from the US environmental lobby; KT was created to siphon resources into South Africa from the European Union (EU), which wished to express its opposition to apartheid.

Domestic vs. International Base: When a CSRO decides to pursue a particular funding mechanism or mix of funding mechanisms for start-up, it also implicitly decides whether to draw resources from a domestic or international base. This choice may carry political weight in the civil society of a particular country or region: some are more skeptical than others of foreign funding, and some have more opportunities than others to accept or avoid foreign funding.

Three CSROs started with primarily domestic funding sources: the two membership organizations for businessmen, FMDR and PBSP, and CRY, with its large public fundraisers and greeting card business. FES' start-up funds included small donations from the Board, which seemed to have an impact disproportionate to their size by establishing a sense of local ownership.

Five CSROs started with international funding sources, two from foreign governments (KT and FPE) and three from international philanthropic foundations (FES, FEE, and PRCF). PRCF also attracted large corporate donations initially, but these were from pharmaceutical companies based in the mainland US rather than Puerto Rican-owned businesses. Therefore these are also characterized as international sources.

Implications of Initial Funding Choices: Given the preceding categorizations, the eight CSROs sort themselves into four major patterns in relation to start-up funding.

Domestic Funding from Member Fees: FMDR, PBSP, and FES, three of the oldest CSROs, all started operations with donations from local business people serving as founding Board members. Unfortunately this strategy appears not to provide financial sustainability over the long term: all three have since turned to other funding sources — including international sources for FMDR and PBSP. However, this start-up strategy does appear to create tremendous organizational commitment among founders, and all three CSROs have reaped benefits from this commitment for many years.

Domestic funding from income-generating ventures: CRY was founded to encourage middle-class Indians to take responsibility for the plight of poor children — including financial responsibility. Therefore it has energetically pursued income-generating schemes from the beginning (sales of greeting cards, high-profile fundraisers, etc.) as an integral part of its mission. For CRY this has proven quite sustainable as a funding strategy. Like the other CSROs, it has also diversified funding sources (including offering the public a wider variety of products and services). In another example, FES' financial services, introduced shortly after founding, have emerged as the most lucrative funding mechanism in any of the eight cases examined here.

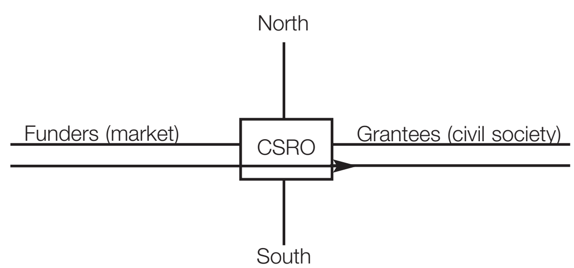

Figure 2: CSROs Funded at Start-up by the Domestic Market Sector

To reiterate an earlier point, CSROs have a dual nature that bridges input and output functions (as depicted in Figure 1). Therefore the infusion of start-up resources for all domestically-founded CSROs could be characterized as follows:

Civil Society Funding: FEE and PRCF are based on an international alliance within civil society. Founded by key leaders in the domestic civil society, they rely heavily on international philanthropic foundations for funding and expertise. Initially, few conflicts may arise between founders and funders regarding social values and program priorities; however, both CSROs in this category have developed critical sustainability issues and are currently struggling to develop new funding mechanisms. In fact, both have experienced less of an ongoing commitment from international foundations than they initially assumed, and have had great difficulty generating domestic resources after an international funding pattern was established.

The transfer of start-up resources from international civil society could be depicted as follows:

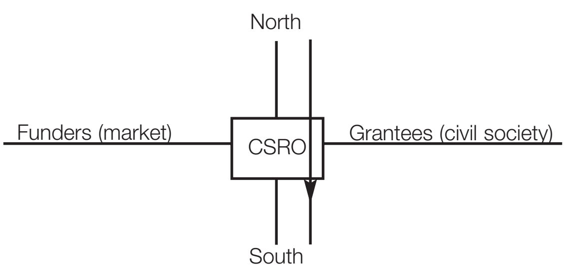

Figure 3: CSROs Funded at Start-up by International Civil Society

Funding from International State Entities: FPE and KT were founded due to the availability of funds from one or more foreign governments, working in alliance with actors from the domestic civil society. Large amounts of funding can be made available in such arrangements, but they remain subject to the changing political priorities of the donor. In addition, mission and program priorities seem to be dictated by the donor, and are accompanied by highly bureaucratic accountability requirements. In KT's case, this was not a sustainable funding mechanism because European Union funding patterns shifted when its policy goals were met and apartheid was overturned in South Africa. As a result, KT practically has had to reinvent itself as an organization, seeking new funding, new programmatic approaches, and new staff to carry them out. It is not yet known whether FPE's endowment will prove sustainable because it is such a young organization.

The transfer of CSRO start-up resources from international state entities could be depicted as follows:

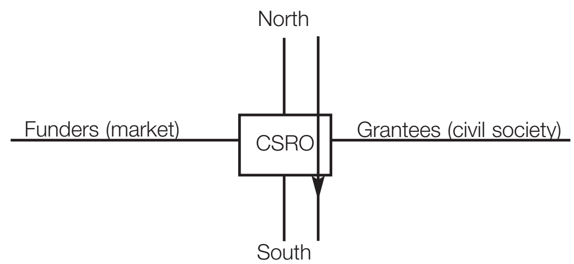

Figure 4: CSROs Funded at Start-up by International State Society

Implications of these CSRO start-up funding decisions will be addressed more fully in our conclusions; our discussion now returns to the remaining challenges.

Challenge 2: Establishing Financial Legitimacy

One of the major competencies that CSROs need to demonstrate in order to establish institutional legitimacy is that of financial management. In order to be entrusted with large sums of money by powerful donors, CSROs typically seek to demonstrate organizational features such as stringent financial control systems and a reputation for transparency in financial matters. It should be noted that the perception of having these features is the real source of legitimacy. Therefore, CSROs take steps not only to create these organizational features but also to publicize them.

The overarching challenge of establishing a CSRO as a financially legitimate institution involves several specific tasks, such as: building its own financial capacity (including fund management skills), controlling overhead, and improving the financial capacity of grantee organizations.

Building CSRO Financial Capacity: Although technically a separate task from establishing legitimacy, building internal financial capacity is a closely related prerequisite from the perspective of elites who control resources. In other words, a CSRO or any other NGO may be capable and responsible in matters of financial management while lacking the bureaucratic structures to demonstrate that to the satisfaction of donors.

But because they are held to strict reporting requirements, new CSROs face the immediate task of building their own institutional capacity to track large sums of money (which often arrive from multiple sources with unique reporting procedures) and distributing them to multiple recipients (who, in turn, are expected to spend them in bureaucratically legitimate and accountable ways). This would be a formidable task for an established organization, and provides special difficulties for CSROs in the start-up phase. Accountants, auditors, and financial managers are needed, as well as computers and other equipment; standard policies and procedures need to be designed and implemented, with formal checks on accountability.

One specific and particularly tricky aspect of financial capacity is that of fund management. Fund management expertise is a necessity for all CSROs, but especially for those generating interest on a large endowment or debt swap (for example, FES, FPE, and PRCF). Even fee-based membership organizations such as PBSP and FMDR sometimes maintain large fund balances and need to manage those carefully. Particularly challenging tasks include proactively managing funds whose currencies are susceptible to high inflation or frequent devaluation, such as those in Mexico or the Philippines, and in striking the appropriate balance of low-risk and high-return investments - a challenge faced by FEE.

This study found that CSROs seem to treat the acquisition of financial expertise as a “make or buy” decision. That is, some learn through trial and error what works in their particular situation and thereby develop or “make” internal financial expertise over time. This was the route taken by FMDR, FES, and PBSP. Other CSROs choose or are influenced by donors to “buy” outside financial expertise: FEE and PRCF hired a fund manager, and FPE contracted financial management tasks to outsiders (the latter could be done on a long-term or short-term basis). KT and CRY changed their staff mix midstream to include more financial professionals, in this way “buying” expertise in order to “make” it internally.

For the three CSROs that chose to “buy,” extensive financial management expertise was already available among founders and/or Board members with business sector experience (FMDR, PBSP, and FES). These older CSROs also honed their financial management skills over many years of trial and error experience. FMDR, for instance, learned two important lessons from painful experiences with currency devaluations and rampant inflation: first, to negotiate all loans in pesos rather than dollars (dollars being almost impossible to repay after a devaluation); and second, to peg member donations to a self-adjusting mechanism such as the minimum wage, rather than at a set value. FES developed its expertise in-house during more than thirty stable years of growth and learning in the financial services industry. PBSP also has many years of experience invested in its current reputation for financial expertise.

CRY, which by policy does not accept foreign funding, has made an exception for a few small international grants for institutional capacity-building. Its efforts to professionalize also have been marked by the controversial decision to hire an MBA to succeed the charismatic founder and CEO. CRY appears to have been more concerned with resource generation than resource management for most of its early years, and Board resistance to the recent CEO appointment suggests painful internal ramifications of shifting from trial and error learning to the strategy of hiring a professional with financial expertise.

KT faced staffing problems as it transitioned to its new identity as a development organization. Many of its staff, who were predominantly anti-apartheid activists, appear not to have had the necessary financial and other management skills to carry out the new mission. In response, KT offered retraining opportunities in an effort to "make" in-house expertise, and voluntary layoff packages to enable the Trust to "buy" new staff with the necessary skills.

At the founding of FPE, a complex arrangement of institutional supports was established to ensure responsible management of the fund created by proceeds from the debt swap. This included advice and technical assistance from two well-established third sector organizations: the World Wildlife Fund and PBSP. In addition, FPE contracted with a financial management firm to set up and maintain financial systems for the first three years, after which it is assumed FPE will manage those functions.

FEE started to manage its endowment by trial and error, eventually contracting with a US money manager. (Subsequently the arrangement was terminated and the endowment is invested in a variety of financial instruments in Ecuador.) Along the way FEE also learned to balance low-risk investments in the North with higher-risk but higher-return investments in Ecuador. At the urging of donors, PRCF also hired a US mainland-based professional money manager (whose fee comprises over 10% of operating expenses). These examples highlight the trade-offs between a CSRO managing its own funds — possibly losing some of its value in the process of learning from mistakes — and hiring outside expertise to protect that value but paying a substantial fee while forgoing the opportunity to develop those skills in-house.

Managing Overhead: One overhead problem involves generating enough unrestricted funds to cover overhead expenses — a challenge for some CSROs with mostly restricted income, such as FEE and PRCF. Another, opposite problem is limiting overhead expenses to an acceptable proportion of program expenses; this has been an issue for PBSP, FPE and PRCF. The practice of internally setting a maximum overhead level contributes to the perception of legitimacy, for donors view reasonable overhead rates as an indicator of responsible stewardship. However, as has been noted, CSROs can be expensive to operate due to requirements for highly qualified staff and sophisticated information systems. It can be difficult to build a professional organization on low overhead.

CSROs manage these opposite problems of covering and controlling overhead in a variety of ways. The former requires a dependable, nonrestricted stream of income over time; the latter involves an awareness of the legitimacy function of keeping overhead low and the ability to manage expenses accordingly.

Covering Overhead: These expenses do not appear to be a major issue for CSROs with steady sources of income, such as FES and FPE, although it is for several others. A common approach to this problem seems to be establishment of an endowment for this purpose. FPE, PBSP, CRY, FEE, and PRCF have done this. FEE's and PRCF's endowments have proved insufficient to meet the CSRO's full needs, and CRY's is too new to know. FEE's endowment-related issues include raising unrestricted, rather than restricted, endowment funds; FMDR and PRCF's include protecting the endowment from erosion by inflation or devaluation. CSROs dependent on foreign governments, such as KT, lose overhead support along with program funding, forcing personnel layoffs and other budget cuts.

Controlling Overhead: This appears to be an unexpected challenge for CSROs which receive large infusions of external resources, such as PRCF and FPE; internally setting limits emerges as an important control mechanism. PBSP has self-limited overhead at 15% of total expenses; FPE's maximum overhead was set at 20% in the formal agreement signed at the time of the debt swap, although it has received permission to make exceptions for capital expenditures such as computer equipment. PRCF's overhead peaked in 1989 and through internal measures was reduced over one-third by 1994, reflecting its growing scarcity of resources.

Some CSROs do not face these control issues. FEE is forced by an inadequate resource base to keep overhead low (about 5.5%), and CRY appears to operate on a shoestring budget as a part of its culture, basing its work in private homes for many years. Although controlling overhead may not be perceived as a financial problem in certain quarters at FMDR, some of its regional centers have expressed resentment about the apparently high costs of the foundation infrastructure. That these expenses were not published with the rest of the budget until the 1980s suggests this is a sensitive issue for the organization. It seems that even in this case, where neither covering nor controlling overhead appears as an explicit problem, it still carries symbolic weight in relation to issues of stewardship and fairness.

Improving the Financial Capacity of Grantee Organizations, such as Nongovernmental Organizations (NGOs), Community-based Organizations (CBOs), Grassroots Organizations (GROs), and People's Organizations (POs): NGOs and other organizations of civil society are typically informal, values-driven, and less concerned with fiscal details than with effective programs. CSROs often find that these grantees on their "output" side are unable to meet the stringent reporting requirements imposed by donors on their "input" side: this has been a challenge for FES, PBSP, FEE, PRCF, and KT. CSROs are therefore cast as intermediaries between these two external environments: exacting, elite donor bureaucracies, and projects "on the ground" with limited financial skills and very different priorities. In response, CSROs typically provide NGOs with capacity-building services, or financial support for purchasing those services, as part of their grantmaking packages. (This phenomenon is explored more fully in the paper on "Program Priorities and Operations" in this series.)

Challenge 3: Diversification of Funding

Once a CSRO has procured initial funding and successfully weathered the demands of start-up, it often faces a new set of challenges related to maintaining fiscal viability. CSROs voluntarily move to diversify funding sources for two reasons: to minimize dependence on any single funding source, and to create a more steady, less cyclical income flow. Of these eight cases, FMDR, PBSP, FEE, PRCF and KT learned that initial funding sources were unable or unwilling to provide the ongoing level and predictability of funding they needed. Others faced rapidly shifting political and/or economic contexts that made new opportunities available (for FES) or threatened existing funding sources (for KT).

The challenge of achieving financial sustainability motivates CSROs to look beyond one-time infusions of resources which may appear attractive at start-up. FMDR, PBSP, FEE, and PRCF essentially were forced to diversify; KT is moving to a completely new funding base, from international to domestic. In each of these cases, the challenge became one of reorienting the organization to a new funding environment — or combination of funding environments — with very different demands. Of the many challenges facing CSROs, long-term sustainability is one of the most difficult to manage.

Table 4: Sources of Start-Up and Maintenance Funding for Eight CSROs

CSRO	Start-Up: Domestic vs. International	Start-Up: Sectoral Base	Maintenance: Domestic vs. International	Maintenance: Sectoral Base
FMDR	domestic	market: member fees	domestic international	government: grants & contracts market: member fees civil society: grant intermediation
PBSP	domestic	market: member fees	international & domestic; domestic	civil society: grant intermediation market: member fees
CRY	domestic	market: product sales civil society: fundraising events	domestic	market: product sales civil society: fundraising events civil society: direct mail
PRCF	international	civil society: grants from international foundations market: grants from mainland corporations	international	civil society: restricted grants from international foundations civil society: grant intermediation
FEE	international	civil society: grants from international foundations	international	civil society: restricted international grants and grant intermediation government: US debt swap
FES	international domestic	civil society: grants from international foundations market: donations from founding Board	domestic	market: earned-income ventures in financial services
FPE	international	government: US debt swap	international	government: US debt swap
KT	international	government: EU grants	domestic domestic international	government: grants market: KT Investments government: EU grant intermediation

This section explores the changes these eight CSROs have made in their funding mechanisms over time. Table 4 compares start-up funding mechanisms with those introduced later in the life of the CSRO.

Table 4 demonstrates that seven of the eight CSROs have shifted and diversified their funding strategies; only the relatively young FPE has not. Most CSROs have added at least one new major mechanism to their funding base, some have added more, and most have explored many more. The only funding mechanism that may be able to sustain a CSRO alone beyond start-up is a hefty debt swap, such as that enjoyed by FPE. CRY's product sales and fundraising events also have been quite lucrative. And although FMDR and PBSP continue to collect member dues, this start-up mechanism also has not proved sufficient to ensure sustainability.

In addition, some funding mechanisms appeared only after start-up, including government grants and contracts, direct mail, grant intermediation, and post-start-up endowments. Specific advantages and disadvantages of each of these maintenance funding mechanisms are described in Annex 2.

The evidence suggests that CSRO founders can assume they will need to diversify funding sources at some point, except possibly in the fortunate event of a large debt swap. Opportunities for new funding mechanisms will depend, as did start-up mechanisms, on institutional goals and relationships (FMDR), a dynamic sense of mission that grows with the CSRO (CRY), and the resources of members (FMDR and PBSP). In addition, CSROs which have established financial legitimacy also will be able to raise funds by offering grant intermediation services.

Challenge 4: Influencing the Fiscal Environment

In addition to the predominantly internal financial management challenges which must be met in order to establish legitimacy, CSROs typically face another set of challenges in their external fiscal environment. Global and national economies change quickly and are vulnerable to a range of state and market interventions. CSROs move large amounts of money — often across national borders — and face a dizzying array of macro-level forces and events which can directly impact their financial viability. These include major economic and political upheavals, shifting legislative practices and priorities, and the histories and evolving cultures of their own societies. These challenges must be met in order to survive.

Responding to Economic and Political Events: CSROs, by definition, are founded in countries and regions with limited economic growth, stability, and/or opportunities. Governments change hands by legal (as in South Africa) and extralegal means, including some by revolution (as in the Philippines). Currencies are drastically devaluated overnight, evaporating not only CSRO fund balances but also the wealth of actual or potential local donors (as in Mexico and the Philippines). Economies are liberalized (as in Colombia) and nationalized. Powerful international donors frequently shift funding priorities for both program content and geographic areas of interest (a lesson FEE, KT, PRCF, and FPE learned). As organizations tightly integrated into the international economy, CSROs must closely track all these external developments — and more. They constantly are challenged to identify not only potential threats presented by external developments, but possible opportunities as well.

One of the most striking opportunities described in these case studies was that presented to FES when Colombia liberalized its economy in the late 1960's. FES founded the first of its many financial ventures in response to this opening and has continued to build on this advantage to this day. Similarly, the relatively bloodless Philippine revolution in 1986 presented opportunities to PBSP and FPE for generous funding from external players eager to support the country under its new government. This historic turnover in power also provided unfamiliar opportunities for the civil sector to collaborate with the Philippine government, requiring NGOs to contemplate new postures beyond the unflinching opposition most had maintained under Marcos.

Ironically, the successful conclusion of the South African anti-apartheid campaign presented a fundamental institutional threat for KT, when EU funding slowed and shifted; corresponding opportunities for KT were still being identified and explored at the time of the case study. And for PRCF, the changes in mainland US tax legislation that enabled donations from the "936 corporations" presented a short-term opportunity only. Such tax breaks are highly politicized and therefore unreliable for ongoing income flow.

Working with National Tax Codes: In fact, tax laws are of special interest to the third sector in most countries. Tax codes providing for philanthropic deductions and/or exemptions can foster the habit of public giving characteristic of some nations (such as India and the US). However, several CSROs have grappled with less supportive tax environments, and their experiences may be instructive for others.

FEE learned that Ecuador provides few tax benefits for philanthropic donors. In this way the unfavorable tax environment helped thwart FEE's initial plans to raise funds through public donations, and forced the foundation to formulate a funding strategy relying more on other sources.

PRCF functions under a system that benefits only selected third sector organizations in Puerto Rico — and, as a relative newcomer, it was not included in this group. PRCF initially resisted pursuing tax-exempt status, which in Puerto Rico is taken to signal an alliance with a particular political party. However, at the time of the case it had concluded that tax-exempt status was a fundraising necessity and started working the system to gain access.[1]

In South Africa under apartheid, KT learned that tax-exempt status was a political rather than a procedural matter: as a participant in the anti-apartheid struggle, the Trust was unable to acquire a corporate exemption number from the government. As in the case of FEE, KT turned to sources other than public or corporate donations, which at the time happened to be plentiful.

FES apparently has needed to exercise its formidable political influence to protect its favorable tax status, providing the most successful example of a CSRO actively shaping the tax environment. It should also be noted that FES and CRY both pay taxes on part of the income earned by their business ventures. With so many other funding sources evaporating earned-income ventures are likely to become increasingly common for all kinds of third sector organizations; thus, CSROs and NGOs increasingly will require familiarity with the tax codes regulating their profit-making ventures.

These examples indicate that start-up CSROs should look closely at national tax codes in order to develop the most well-informed and realistic fundraising plans, especially with regard to public donations. Established CSROs can proactively study, monitor and even influence tax legislation. In this way they may be able not only to serve their own institutional interests, but also to positively affect the tax environment for the civil sector as a whole.

1 PRCF also is trying to take advantage of more liberal mainland US tax policies by appealing for donations from wealthy Puerto Ricans living there. For CSROs based in countries with a large and wealthy diaspora, this may become an increasingly common funding approach; CRY is beginning to experiment with it as well.

Fostering Philanthropic Culture: Like all organizations, CSROs exist in complex societies with habits and cultures of giving developed over centuries. In some cultures the kind of formal philanthropic infrastructure with which CSROs are associated may be new and unfamiliar; for instance, donating money to a formal organization that strives to distribute it according to "objective" criteria may comprise a major departure from previous practices of community giving. Under these circumstances some CSROs consider fostering public habits of financial giving to be one of their primary challenges. In the absence of historical precedent (as well as favorable tax codes, as has been noted), this can be an immense challenge. PRCF and FEE both face this challenge.

Each of these CSROs has learned that its initial ideas of pursuing financial donations from private citizens, as is the practice of US community foundations, does not have the same applicability in Ecuador or Puerto Rico. In addition to unsupportive tax structures, each of these cultures appears to have specific cultural habits and philanthropic histories that make them poor candidates for imported fundraising techniques. These realities have motivated both FEE and PRCF to consider more culturally appropriate approaches to generating resources. They had recently reached these conclusions at the time of the cases, so we have little information about alternative approaches that may be emerging.

With so few clues toward a solution, the problem of public giving remains. However, it can be posed another way: in the absence of a widespread cultural practice of making monetary donations to professionalized development organizations (such as NGOs and CSROs), can CSROs benefit from other indigenous traditions of giving? Graca Machel, the Executive Director of the Fundacao para Desenvolviemento de Comunidade (FDC), a Mozambican CSRO, recently addressed this point in the regional context of Southern Africa:

> As we discuss ways in which we can raise the critical funds we need to release the energy of civil society, let us remember... Dignity and pride in accomplishment come from within. It is crucial that we concentrate our energies within our region and ask how we can develop appropriate mechanisms for generating resources from within our own countries...
>
> Our communities themselves have been highly successful since well before the advent of colonialism in providing an institution for organized giving on the local level. The concept of giving is thus deeply woven into the fabric of our culture and traditions. Mutual aid takes very different forms among our various peoples but they all share the concept that some portion of community resources should go toward helping the needy survive and flourish. (Machel, 1996)

Indeed, setting aside some portion of proceeds from productive labor, and pooling those proceeds in the interests of the local community, is an accepted practice in most if not all cultures. But in the context of global capitalism, which leaves many communities with little or nothing in reserve after meeting basic requirements of survival, raising local resources is a challenging path to pursue. Leslie Fox, another thoughtful observer of CSROs, develops this point further:

> There are a growing number of cases... where Northern CSOs [civil society organizations] have been working to develop community development foundations in the South, and this trend is likely to continue and grow. Once the habit of voluntary giving and voluntarism becomes part of normal associational life, however, comes the issue of disposable income. For the 1.2 billion poor and the

> many more who are living at life's margins, it is neither likely nor reasonable to expect that they will be able to contribute to worthy causes outside their households or beyond their communities or local self-governing associations for the foreseeable future. The best hope for private giving to formal philanthropic institutions is from the growing middle class emerging in many southern countries and the far more narrow but well-endowed elite. One obvious answer for the future is general economic growth combined with an improvement in the habit or "art of associating together" for mutual benefit. (Fox, 1996)

CSROs face, then, a chicken-and-egg scenario: they are established to foster social and economic development, but a certain level of development is also required to sustain them. This suggests CSROs and economic development are mutually reinforcing. In fact, the economic contexts of these eight CSROs suggests they are most likely to survive in societies with at least a moderate level of economic development in terms of global capitalism: India, Colombia, Puerto Rico, South Africa, Mexico, the Philippines. Of the eight, FEE probably struggles hardest to survive with the fewest local economic resources; Ecuador is probably also the least economically developed nation of the set.

However, CSROs require both economic and social resources to establish effective patterns of resource generation at start-up; the value of local human and social capital in this process should not be underestimated.[2] For instance, Graca Machel identified a little-explored and potentially creative direction for pursuing indigenous resources. With this vision, she and others founded the FDC of Mozambique. If FDC successfully learns to adapt indigenous resource generation practices, it will serve not only as a model for the region but also as an inspiration for even culturally dissimilar regions. Importantly, even the smallest successes in this area will enhance the autonomy of any CSRO in relation to external donors.

Together, Machel's and Fox's perspectives on CSRO fundraising highlight the core challenge addressed by this paper: to generate sufficient resources for current CSRO operations and future sustainability, while maintaining institutional autonomy. As we have seen, past CSRO choices regarding resource generation have been closely related to the long-term sustainability of the institution. In the future, CSROs will continue to develop the most effective approaches from the past as well as experiment with new ones; techniques for building on pre-existing traditions of sharing and habits of giving surely will be among the most interesting areas of experimentation.

2 Putnam defines human capital as "training that enhance(s) individual productivity" and social capital as "features of social organization, such as networks, norms, and trust, that facilitate coordination and cooperation for mutual benefit" (1993).

Discussion and Implications for CSRO Practitioners

This study found CSROs face at least four major challenges in relation to financing and resource generation: 1) making initial funding choices (and managing the ramifications of these); 2) establishing financial legitimacy; 3) diversifying funding sources; and 4) learning to influence the fiscal environment. These challenges are all closely related to the overriding institutional challenge of managing the inherently contradictory dual nature of CSROs. As has been stressed, this dual nature requires establishing a single organization that can both generate and disseminate funds effectively.

Two additional themes emerge from the examination of these eight cases: the importance of internal intersectoral alliances and of a domestic power base. In addition, we have noted below potential pitfalls and promising paths for CSRO resource generation.

Internal Intersectoral Alliances: Many financially successful CSROs build intersectoral alliances inside their own organizations. They take advantage of any market experience among founders and members in order to establish funding mechanisms and financial management systems while utilizing development expertise from the NGO sector in providing program services. In this way they effectively draw from the unique strengths of each private sector: the business sector's pragmatism and experience in generating wealth and the NGO sector's egalitarian values and experience working with the poor.

In addition, international state entities sometimes contribute to CSROs with their ability to support a carefully defined policy goal with tremendous resources. This ability benefits CSROs in the special cases when that policy goal is shared by both.

It should be noted that CSRO values and ideology shape available funding options. For instance, FEE probably could not adopt the fundraising practices of CRY. This would be true for several reasons, including differences in organizational context, culture, and ideology. However, the evidence from these cases suggests that a CSRO with a "pure" NGO culture will be more challenged to achieve financial sustainability than one built on an alliance with the business sector. NGO personnel who consider founding a CSRO would be well-advised to contemplate the benefits of a hybrid organization with hybrid values and culture.

In fact, one of the most important implications of these case studies is that it can be a tremendous challenge to successfully combine business and social development cultures, values, and priorities within a single organization. This is the internalized version of the "dual nature" challenge of CSROs.

Domestic Power Base: These cases demonstrate the importance of establishing a pattern of domestic support from the start, because initial dependence on international donors has proven difficult to reverse. New CSROs must assume that international support will be short- to medium-term at best and strategize from the beginning about how to develop other sources when they reach the need to diversify. Thoughtful observers of CSROs consider ongoing development of indigenous support mechanisms a top priority for the survival and growth of these kinds of organizations.

Potential Pitfalls: Aside from the potential pitfalls of starting a CSRO with purely international resources, or with no support from the local business community, highly successful CSROs may want to contemplate a danger facing some community foundations in the United States.

As noted early in this paper, powerful local foundations in the US may, over time, develop more influence in some areas than the local government. They have even been considered "shadow legislatures" by some (Ylvisaker, 1987). In such cases, issues of accountability become prominent and must be managed if the organization is not to risk the wrath of the community and the disempowered government. These eight cases do not indicate whether this situation has already developed for a CSRO, but certainly the potential exists for the more wealthy and powerful among them. This sectoral reversal would be most likely in countries with weak governments.

Promising Paths: Promising paths of resource generation for CSROs include the cutting-edge fundraising techniques that have been discussed in this paper: appeals to wealthy citizens living abroad; earned-income ventures, especially when closely linked to the mission; building on indigenous traditions of giving; and strategically-focused cases of grant intermediation.

In founding a new CSRO, staff and Board members are tempted to focus completely on immediate survival; however, these eight cases demonstrate that success requires a dual, long-term focus on an evolving social vision and a sustainable resource base. (If these are closely linked, the CSRO's chances of survival increase.) The most effective CSROs are designed to survive for at least the moderately long-term — that is, for decades rather than years. Founding decisions need to be made accordingly.

In the process of learning to fund CSROs successfully, important lessons may emerge for a larger challenge: how to transfer resources most effectively to the South so it controls the direction and progress of its own development agenda. Although their strongest funding mechanisms are still evolving, CSROs have already become innovative and important organizational participants in the struggle for international development.

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Annex 1: Advantages and Disadvantages of Key CSRO Funding Mechanisms for Start-Up

Unique advantages and disadvantages, and some important implications, emerge in relation to each of the most common CSRO funding mechanisms.

1. Earned Income from Products and Services: Earned-income ventures have been effectively utilized by CRY, FES, FMDR, and KT; earning one's own resources has many benefits. In every case it fosters indigenous exposure and support for the CSRO; and, as in the cases of CRY and especially FES, it can be quite lucrative. It provides a consistent revenue stream for FES, FMDR, and CRY. In addition, earned income ventures closely linked to the mission can help carry out that mission, as in the cases of FMDR's agriculture courses, CRY's greeting cards, and the small-business development services KT provides through KTI.

Earned-income ventures also have their drawbacks, which are most apparent in the cases where these mechanisms have been most highly developed. In CRY's case, the seasonal nature of their products — holiday greeting cards — presented the challenge of managing cyclical revenue. To address this challenge, they have tried to diversify their products to include a wider range of holidays and have set up an endowment to cover overhead in times of limited cash flow. In addition, CRY has found it challenging to manage effectively the production, distribution and collection processes required by their products. They have built a large and decentralized business that requires sophisticated management skills.

FES's central challenge appears to be less tangible, although no less important. There is some question whether attending to the daily operations of a sophisticated financial conglomerate may have contributed to a loss of clarity in some parts of FES about the organization's social mission. In addition, one might wonder how autonomous a corporate entity such as FES could be in funding NGO projects that criticize, monitor, or challenge the national government or other powerful financial institutions.

Launching an earned-income venture always carries the risk of failure and financial loss, as was the case in FMDR's failed honeymarketing business.

In sum, earning one's own income can provide a relatively consistent revenue stream with the greatest autonomy from external donor demands. Although customer demands replace donor demands, customers (unlike donors) typically do not demand influence over program priorities or financial systems. To be most beneficial, earned income ventures require favorable tax laws, as in the case of CRY in India or FMDR in Mexico. However, the most successful ventures, such as those of CRY and FES, do pay some taxes. As noted in the paper, it appears that more than once FES has been called upon to protect its tax status in the legislature. In such cases it is critical to have cultivated legislative influence.

In addition, managing large and complicated ventures successfully requires sophisticated management skills, which CSROs need to either learn or hire from the outside. (This theme is developed more fully in the section in this paper on "Establishing Financial Legitimacy".)

2. Member Dues from the Business Community: This practice carries the great advantages of fostering interest and commitment from the business community, and contributing to a perception of legitimacy among other funders.

Having access to the financial and managerial expertise of local business leaders and to their open and pragmatic approach to solving development problemsis a tremendous advantage for any CSRO. In addition, regular dues can be a relatively lucrative source of income, at least for a time; FMDR, PBSP, and FES have all found this to be true.

The difficulty is in maintaining this kind of revenue stream through economic downturns. Both FMDR and PBSP found their members cutting back on donations during economically lean time;: at the very time, it could be argued, that projects for the poor are most critical to maintain. This required diversification of funding sources beyond member dues for both of these CSROs. Both also reported that it was quite labor-intensive to maintain the extensive infrastructure necessary to elicit and track regular donations. Similar to earned-income ventures, this approach also requires favorable tax deduction laws in order to be most effective.

On the other hand, FES' one-time-only Board donation policy established the commitment of the business community, without trying to rely on this source over the long run. FES never planned to run a CSRO with local donations, receiving most start-up funds from international foundations and soon shifting to income-earning ventures. However, collecting personal donations appears to have consolidated an early commitment from the local entrepreneurs whose expertise later helped FES establish a financial services empire. In sum, this funding mechanism creates a CSRO driven by the indigenous business sector, its values and habits, its priorities, strengths, and weaknesses.

3. Donations from Business Community: PRCF's use of this funding mechanism may provide some interesting lessons for other CSROs. According to the case, PRCF pursued and received start-up donations from "Section 936" pharmaceutical corporations operating in Puerto Rico (named after the section in the US tax code providing tax breaks for US companies willing to set up Puerto Rican operations). These donations, as well as their local operations, may have led PRCF to perceive these corporations as "domestic" business partners. However, when PRCF returned for follow-up donations, the 936 companies refused, expressing no interest in local social and economic issues. This clarified that the underlying motive for the contributions had been to help protect 936 corporate tax status, which at the time of the initial donations had been up for review in Congress.

This situation differed in important ways from the more complicated interests of those domestic businesses supporting PBSP, or even FMDR. The contrast between these cases suggests CSROs are unlikely to receive sustaining support from the international business sector; support from the domestic business sector requires some organizational influence in exchange, such as CSRO membership or Board responsibilities.

4. Grants from International Philanthropic Foundations: PRCF, FES and FEE were founded with grants from international foundations. An advantage of this mechanism is that it may be one of the most readily available sources of funding for CSROs located in nations with relatively limited formal business sectors. In addition, receipt of such funding immediately provides international exposure for an indigenous CSRO and is often accompanied by other kinds of international advice and assistance. It can also provide the necessary leverage to open the door to other funding sources, such as PRCF's use of Ford Foundation grants to raise donations from the 936 corporations as well as other international foundations.

Unfortunately, the fickleness of foundation priorities, both in terms of program areas and geographic emphasis, makes this a notoriously unsustainable funding mechanism. In addition, it is almost impossible to obtain overhead or endowment support from international foundations at any stage beyond start-up, and difficult even then. Sometimes even endowment grants are restricted, limiting the autonomy and flexibility of FEE, for instance, in evolving its own priorities according to lessons learned from experience. For all these reasons, it seems most strategic to rely on international foundation grants only as a supplementary resource (as did FES) and not to provide the ongoing funding base.

5. Grants from Foreign Governments: The European Union provided large sums of money for KT to distribute among South African community-based organizations; many southern countries have experienced the huge influx of resources that northern governments can raise to back a political priority. However, these situations typically involve burdensome accounting and reporting mechanisms for both the CSRO and its beneficiary organizations, as was true for KT. In addition, a CSRO dependent on grants from foreign governments could have a credibility problem in the indigenous civil society if they do not operate in alliance with respected actors of civil society (although this was not the situation with KT). Finally, KT learned that political priorities in the north change much more quickly than the ability of CSROs and NGOs to implement the fundamental changes necessary for true development.

6. Debt Swaps from Foreign Governments: CSROs who have negotiated international debt swaps, such as FPE and FEE, enjoy some unique benefits. Most importantly, this mechanism can free up large sums of frozen resources that would not otherwise be available for development activities. It also re-orders one of the most exploitive aspects of North-South relations by reducing the national debt; even a small debt swap demonstrates an alternate solution to this enormous macroeconomic burden. In FPE's case, the debt swaps were accompanied by multiple forms of technical assistance.

On the other hand, debt swaps impose stringent application, reporting, and financial management requirements. When large amounts are involved, the start-up process can be long and labor intensive, as FPE learned, and by definition requires working closely with the national governments. In addition, FPE's organizational mission of protecting biodiversity was determined by government and NGO actors in the donor country, limiting the ability of NGO founders to set their own environmental agenda.

7. Endowment Created at Start-up: FEE, FPE, and PRCF received international funds at the time of their founding earmarked for the establishment of an endowment. Advantages of this funding mechanism include enabling the CSRO to capitalize on the excitement generated at start-up, and sometimes tapping unique funding sources (such as the US foundation interest in Puerto Rico that led to the establishment of PRCF). In the best scenario, an endowment also contributes toward the sustainability and self-sufficiency of a CSRO.

However, the use of FEE's and FPE's endowments are restricted; PRCF and FEE made mistakes in learning to manage funds that eroded their endowment principal. Importantly, it appears that PRCF's internationally funded endowment inhibited later donations. It is also very difficult to raise a self-sustaining endowment without a special relationship to a lucrative funding source interested in a CSRO's program priorities or national context (this has been FEE's challenge). Finally, reliance on this capital-intensive funding mechanism creates an additional beneficiary: the financial markets and market managers who tend the endowment and also benefit from its investment.

Annex 2: Advantages and Disadvantages of CSRO Funding Mechanisms for Maintenance

Funding mechanisms adopted later in the lives of CSROs also have advantages and disadvantages unique to each.

1. Government Grants and Contracts: FMDR pursued government grants and contracts to supplement private resources and to continue carrying out its mission of proving that the business sector can manage development better than the government (see the paper on "Program Priorities and Operations" in this series). In addition, this coincided with an effort on the Mexican government's part to privatize previously state-run functions.

2. Direct Mail: CRY's adoption of direct mail appeals appears to be a logical and appropriate extension of its mission to publicize the plight of poor children among middle-class Indians, and persuade them to take responsibility for acting to ameliorate the problem.

3. Grant Intermediation: Our research found this to be an interesting and important set of funding mechanisms that may be unique to CSROs. This broad category includes co-financing (such as when PBSP accepts outside donations to scale up successful projects in a kind of joint venture); FMDR's and FEE's co-administration of large loan funds provided by powerful donors such as the IDB, World Bank, or a domestic government agency; PRCF's self-administration of projects funded by outside donors; and PRCF's pass-through of funds earmarked for specific NGOs by donors. In addition, KT's extremely detailed level of accountability to the EU could be considered another form of grant intermediation. In all these cases, CSROs exercised shared or limited influence over decisions regarding the dissemination of funds; this can be contrasted with CSRO control of unrestricted funds, which can be directed to any program or organization it wishes.

Grant intermediation appears to become viable only after a CSRO has demonstrated legitimacy as a financial manage, and therefore would not normally be a mechanism available at start-up. It allows the CSRO to "sell" its expertise in grants management (sometimes quite profitably) in order to help cover overhead and other expenses. Benefits for the original donor presumably can include not only indigenous financial accountability, but also supplementation of funding with capacity-building services provided by the CSRO to the ultimate grantee.

4. Endowment Built up Over Time: FMDR and PBSP have taken the approach of building an endowment over time. This seems to be harder than raising an endowment at start-up, but carries the important advantage of allowing a self-funded CSRO to retain initial control of its own agenda. It allows the CSRO to develop its own methods of operation on a small scale before facing the pressure to scale up to determine the exact percentage of resources it wishes to distribute at start-up. FMDR's and PBSP's experiences suggest that building an endowment over time allows a CSRO to develop its own identity, values, and methods, before having to manage a large influx of capital and the concomitant external demands.

However, building an endowment has been painfully slow for FMDR, because it did not happen to have a reserve fund available to transform into an endowment as did PBSP. FMDR also raised a great deal of money that was lost in a series of severe currency devaluations. In addition, PRCF learned that it is easier to raise unrestricted endowment funds at start-up rather than later. And before his death, the founder of CRY expressed his concern that endowing CRY could create organizational complacency — which that organization now has the opportunity to test as it launches its first endowment campaign.

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