



# Building the Roadmap for Financial Sustainability for Rights-based CSOs ———— in the Global South ————

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## **About Social Innovations Advisory (SIA):**

SIA was founded in 2018 as a consultancy providing research and advisory services to the social sector. It is committed to building a resilient civil society for inclusive development.

## **About Innovation for Change (I4C):**

“Innovation for Change (I4C) is a global, community-led network of people and organisations who want to connect, partner and learn together to defend and strengthen civic space and overcome restrictions to our basic freedoms of assembly, association and speech. Its seven regional hubs - Africa, Central Asia, East Asia, Latin America and the Caribbean, the Middle East and North Africa, the Pacific and South Asia - exchange ideas and share their successes, challenges and opportunities in incubating social change and building sustainable solutions.”

*“Be willing to fail through trial and error.”*

- **Adnan Topan**, Indonesian Corruption Watch

*“When we brought our new [local fundraising] thinking to the communities, it changed the way they saw us. Before they saw us as Santa Claus handing out gifts. Now they are thinking about their sustainability”*

- **Imung Yuniardi**, Combine Resource Institute, Indonesia

*“When deciding whether to set up another entity or try to transform itself into a social enterprise, the only question an NGO should consider is whether doing business is really a better way to fulfil its mission.”*

- **Ding Li**, Nonprofit Incubator, China

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# Executive Summary

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## *Why this project?*

To provide models and pathways for diversifying funding to stimulate and inspire CSOs to consider other fundraising and business models to diversify their funding streams, with a particular focus on local and self-funding.

## *How was the project carried out?*

We interviewed leaders of 22 CSOs from five countries in the Asia-Pacific, ranging from closed societies (China and Vietnam) to relatively open societies (Hong Kong, Malaysia and Indonesia). These CSOs ranged from small organizations with 1-5 full-time staff, to medium-sized organizations with 6-20 staff, to larger organizations with over 20 staff.

## *How is the report organized?*

The report starts with a discussion of the existing literature on the relevant issues: the current global challenge of closing civic space, including restrictions on access to funding for CSOs; concerns about CSO over-reliance on international funding and its effect on CSO legitimacy and accountability to local populations; and innovating pathways for diversifying access to local funding and resources and their challenges and risks. As the review highlights, what has been missing from the literature is an exploration of actual experiences of CSOs that have engaged in local resource mobilization and diversification. This project aims to fill that gap in the literature by examining the process and mechanisms used by CSOs in mobilizing local resources, their successes and failures, the risks they faced and how those risks were managed.

The next section discusses the findings from our interviews with the leaders of CSOs and social enterprises in Asia. These findings are divided into four major areas.

- How CSOs in each country have responded to funding challenges in different ways shaped by the environment in their country. China stands out because it has one of the most closed societies but also the greatest range of alternative funding and business models.
- The different pathways CSOs took, identifying concrete steps taken such as strategic planning and changes in registration, management, staffing and communications.
- The issue of whether funding diversification strengthened the CSOs' mission and impact. Contrary to our initial assumption that CSOs might find funding diversification to be a distraction from their mission, a surprising number of CSOs told us that funding diversification strengthened their mission.
- The challenges and risks facing CSOs seeking alternative funding and business pathways, particularly the tension between pursuing for-profit business models and preserving their identity and integrity as a CSO.

The report ends with a list of recommendations for CSOs interested in exploring these pathways to financial sustainability.

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<sup>1</sup> While we use civil society organization (CSO) as a general term to describe all the organizations interviewed, one of the organizations (A Better Community) is registered as a business and sees itself as a social enterprise.

### *What are the report's major findings?*

- Alternative funding sources for achieving financial sustainability vary significantly by country and correspond more to the development of that country's market economy and philanthropic environment than to the degree of openness in that country's civic space. For example, China where the government has encouraged growth of the private sector and philanthropy yet heavily restricted civic space, had the greatest range of alternative funding sources.
- Developing different funding and business models cannot happen unless CSO leadership change their mindset and make funding diversification a strategic priority for the organization.
- Developing new sources of funding and business models is not easy, but this project provides evidence that it can be done. About half of the CSOs interviewed for this project have made funding diversification a strategic priority and made significant gains developing new funding sources and/or business models. Another one-third of the CSOs have embarked on different funding diversification pathways with some success but are still in the early stages. Only a few interviewed were still exploring alternative sources and models but had not yet made much progress.
- CSOs that made significant progress on funding diversification not only made it a strategic priority but relied on outside from their board members, funders, consultants, and volunteers and friends in their networks.
- There is a concern that developing alternative funding models such as fee-for-services, social enterprises, and crowdfunding will weaken the advocacy and civic engagement mission and impact of rights-based CSOs. Yet a number of CSOs interviewed expressed that funding diversification actually strengthened their mission and impact.

## Introduction

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**This project began as an effort to strengthen civil society organizations' access to funding and legitimacy among local populations.** Some have posited a strong link between these two issues.<sup>2</sup> As some analysts and practitioners have noted, one reason many CSOs in the South lack legitimacy and trust among local populations is because they get their funding from outside the country, primarily government or private funders in the West. As a result, CSOs spend more of their time and resources focusing on the priorities and programming of Western donors than on strengthening their relationship with local communities and stakeholders such as local businesses, government, academics and media. They spend more time writing reports to demonstrate their accountability to overseas funders than they do communicating their effectiveness and accountability to their constituents at home.<sup>3</sup>

This is of course a generalized picture of the CSO business model that has developed over the last few decades. There are certainly variations in this business model. Some CSOs have been more successful than others at building relationships with local communities and stakeholders and tapping into local sources of support to diversify their funding streams.<sup>4</sup> For other CSOs, localization on any significant scale may not be possible. But the picture I paint does contain a large kernel of truth for many CSOs, particularly the larger, better-resourced and professional ones that have emerged in the South. In China, many of the smaller, more independent, grassroots CSOs also relied heavily on foreign funding until only a few years ago when they began to understand the shaky position they were in and began to diversify their funding by tapping into local sources of funding from the Chinese government and private foundations.<sup>5</sup>

The reliance of CSOs on overseas funding helps explain why the recent trend of many states passing legislation restricting foreign funding and CSO activities have had such a devastating effect on global civil society.<sup>6</sup> Governments, learning from each other, have figured out the general CSO business model and responded by hitting CSOs where it hurts the most - in their pocketbook. Perhaps no other case illustrates this more than China where the Overseas NGO Management Law requires all overseas "nonprofit, non-governmental organizations" operating in China to register in some form with the police and report all funding and activities for approval, making it difficult for them to fund the more independent grassroots CSOs. Many Chinese CSOs engaged in activism and advocacy, which have in the past depended heavily on foreign funding, have as a result reported a sharp decline in funding, and some have closed or explored other means of sustaining their operations.<sup>7</sup>

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<sup>2</sup> Civicus' Resilient Roots project seeks to test the link between CSOs' accountability to their constituents and their resilience against external attacks, <https://www.civicus.org/index.php/what-we-do/innovate/resilient-roots>, exploring factors and pathways to strengthening public support, trust and legitimacy. I would posit that an important factor/pathway is related to a CSO's funding model.

<sup>3</sup> This phenomena has been found in a number of regions in the global South. Maria J. Stepan, Sadaf Lahkani, and Nadia Naviwala, "Aid to Civil Society: A Movement Mindset," United States Institute of Peace Special Report, February 2015, p. 6; Anselmo Lee and David Hong, "Civil society landscape mapping in East Asia and the Pacific - A desk review," CIVICUS (August 2015), pp.27-28

<sup>4</sup> Ian Smillie, "Funding for human rights: the BRAC experience," March 17, 2014, <https://www.opendemocracy.net/openglobalrights/ian-smillie/funding-for-human-rights-brac-experience>

<sup>5</sup> Shawn Shieh, "Same Bed, Different Dreams: The Divergent Pathways of Foundations and Grassroots NGOs in China," *Voluntas: International Journal of Voluntary and Nonprofit Organizations* (2017).

<sup>6</sup> Thomas Carothers and Saskia Brechenmacher, "Closing Space: democracy and human rights support under fire," Carnegie Endowment for International Peace, 2014, [https://carnegieendowment.org/files/closing\\_space.pdf](https://carnegieendowment.org/files/closing_space.pdf).

<sup>7</sup> Scott Wilson, "China's NGO regulations and uneven civil society development," *Asia Dialogue*, February 15, 2017, <http://theasiadialogue.com/2017/02/15/chinas-ngo-regulations-and-uneven-civil-society-development/>

This “access to funding” challenge should be a catalyst for CSOs in the South to explore ways to change the business model for CSOs, particularly for rights-based CSOs.<sup>8</sup> It should be emphasized that this is not just about money; it is about helping CSOs strengthen their resilience, legitimacy and accountability to local populations as a sustainable approach to defending civic space. The proposed solution is to help CSOs make the transition to business models that emphasize local financing, more effective and efficient use of local resources (including volunteer and pro bono resources), and require them to strengthen their relationship and accountability to local constituents and stakeholders. As Stepan, et.al. argue, this transition to locally sustainable funding is critical for CSOs to connect with and support local civil society actors and networks that are the drivers of civic campaigns and movements.<sup>9</sup>

This transition will not be easy and will require the concerted support of CSO leaders, funders and other CSO support organizations and networks. This project aims to support this transition by providing a database of cases of best practices and cautionary tales on how local resource mobilization can achieve results in both democratic and non-democratic settings, showing the process, the benefits and challenges for CSOs. Based on these cases, toolkits will be developed to walk CSOs through the process of thinking through the steps needed to achieve financial sustainability and organizational impact.

Given the growing global challenges to civic space, the time is ripe if not overdue for starting on this transition. The expected result will be the emergence of more diverse CSO business models that are more engaged in and accountable to local constituents and stakeholders, reliant on more diverse funding streams, and ultimately more sustainable and resilient.

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<sup>8</sup> Ed Rekosh has been instrumental in highlighting this issue. See his “To preserve human rights, organizational models must change,” OpenGlobalRights, November 28, 2016, and “Rethinking the human rights business model,” Center for Strategic and International Studies, June 2017. Also see Osai Ojigbo, “Local funds for local issues: raising the bar,” OpenDemocracy, February 12, 2014.

<sup>9</sup> Stepan, et.al., “Aid to Civil Society: A Movement Mindset.”



## Methodology

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**This study was carried out in several phases.** We first did a review of the literature on alternative funding and financial sustainability for CSOs, and developed a questionnaire for the semi-structured interviews we would conduct with selected CSOs (see Annex 1). We also developed a template into which the material from the interviews would be transferred to create accessible, easy to read case studies. These templates would then be put online to create a database of CSO cases.

To identify CSOs to interview, we reached out to our contacts in the CSO communities in Asia – researchers, foundations and intermediary umbrella organizations that support CSOs – for recommendations and introductions to CSOs that were exploring ways to diversify their funding. We were initially interested in finding CSOs that originally relied on international funding and were exploring ways to diversifying their local funding, but later included CSOs that had started off mobilizing local funding in diverse and innovative ways. **The CSOs we interviewed were at different stages of the diversification process with differing outcomes.** Some had navigated the process with good results, some had done a few pilots with modest results, while others had made significant progress in the planning stage and were about to launch their new strategy. **We chose a diverse set of countries** ranging from those that CIVICUS identified as having “closed” civic spaces (China and Vietnam) to those that had more open but still “obstructed” civic spaces (Malaysia and Indonesia). **In selecting rights-based CSOs, we took a broader view of the rights-based approach** (see the box below), given that CSOs in closed spaces like China and Vietnam tend to be less explicit in using rights-based language. We thus included a few capacity-building CSOs whose work, while not explicitly human rights-oriented, focused on strengthening grassroots CSOs seeking to empower marginalized groups.

### WHAT IS A RIGHTS-BASED APPROACH?

A human rights-based approach is a conceptual framework for the process of human development that is normatively based on international human rights standards and operationally directed to promoting and protecting human rights. It seeks to analyse inequalities which lie at the heart of development problems and redress discriminatory practices and unjust distributions of power that impede development progress.

Mere charity is not enough from a human rights perspective. Under a human rights-based approach, the plans, policies and processes of development are anchored in a system of rights and corresponding obligations established by international law. This helps to promote the sustainability of development work, empowering people themselves—especially the most marginalized—to participate in policy formulation and hold accountable those who have a duty to act.

*Office of the United Nations High Commissioner for Human Rights, FAQs on a Human Rights-based Approach to Development Cooperation, <https://www.ohchr.org/Documents/Publications/FAQen.pdf>*

We then began carrying out interviews with CSOs starting with China which is perhaps unique among the countries we looked at in having a civil society space that is highly constricted yet with a rapidly developing philanthropic and charitable sector where thousands of local foundations and around 20 online fundraising platforms created by large companies now populate the landscape. We moved on to interview CSOs in Vietnam, Hong Kong, Malaysia

and Indonesia (see Table 1 and Annex 2 for the list of CSOs). These ranged in size from small CSOs with a few full-time staff to medium-sized CSOs with 10-30 full-time staff (Table 2). Almost all the interviews were with CSO founders or directors who had an intimate knowledge of strategic changes made in the organization's fundraising and operations.

After the interviews were conducted, the interview material was transferred to the template, sent to the CSOs to review and approve, edited and uploaded online to the Innovation for Change website where it can be found in the [Innovations Gallery](#) and [Toolkits section](#).

**Table 1 \ CSOs in this study**

	Environ- ment	LGBTQ	Disability	Migrants/ Labor	CSOs/ Capacity building	Trans- parency/ Advocacy	Media/ Education
China	2	2	1	2	3		
Vietnam					2		
Hong Kong							1
Malaysia				1	1		
Indonesia						3	1
<b>Total</b>	2	2	1	3	7	3	1

**Table 2 \ Size of CSOs (by # of full-time staff) in this study**

	1-5	6-10	11-20	20+
China	1	2	2	2
Vietnam	1	1		
Hong Kong		1		
Malaysia	2			
Indonesia			2	2
<b>Total</b>	4	4	4	4

## Literature Review

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**There is already an extensive literature on the issues raised in this report:** the challenges posed to civil society in this age of authoritarianism and populism, including growing restrictions on access to funding for CSOs; concerns about CSO over-reliance on international funding and its effect on CSO legitimacy and accountability to local populations; and innovating pathways for diversifying access to local funding and resources and their challenges and risks.

For the past several years, a number of analysts have been warning of a worrisome trend in shrinking civic space across various regions of the world, including the widespread restriction of international funding resources that CSOs once relied on.<sup>10</sup> As CSOs faced more difficulties in securing traditional funding sources, some called for a more concerted effort to identify the root causes of these difficulties and find new, alternative sources of support.<sup>11</sup>

These concerns have sparked a debate over whether CSO reliance on international funding has weakened the legitimacy and accountability of local CSOs in the global South. Critics of past CSO development patterns often point out that grassroots organizations invest significant time and resources holding themselves accountable to their foreign donors rather than to the populations they work among.<sup>12</sup> Authoritarian and even some democratic governments have used this linkage to accuse foreign-funded CSOs of being foreign agents. Strengthening CSO engagement with, and accountability to, local stakeholders, may thus help to counter the shrinking of civic space in these countries by strengthening CSO legitimacy.<sup>13</sup>

In a determined effort to push back and overcome new obstacles, others have proposed innovative strategies for addressing the threats to civic space. Several leading global think tanks and other international institutions have published various reports in recent years about the need to strengthen CSO engagement with governments and the private sector and proposed various legal strategies and digital and physical security measures to deal with more draconian laws. They also propose innovative alternative financing for CSOs seeking greater financial sustainability and accountability to their communities.<sup>14</sup>

For foundations and other funders, new fundraising approaches to sustain the activities of CSOs around the world have been proposed. These innovations range from relying on membership-based or individual fundraising methods that are effective in the global North,<sup>15</sup> to more groundbreaking tactics gaining traction across the world. Such new tactics increasingly involve the use of digital fundraising technologies, creative “impact investment” financing, social enterprise, or cost mitigation through volunteer labor.<sup>16</sup>

**While these innovations bring new opportunities, they also create new risks for grassroots CSOs.** Others point out that growing partnerships across sectors may push CSOs to compromise the integrity of their original mission.<sup>17</sup> Governments, businesses, and CSOs often

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<sup>10</sup> Carothers & Brechenmacher, 2014; Lee & Hong, 2015; Sidel, 2016.

<sup>11</sup> Doane, 2019; Elongue & Vandyck, 2019.

<sup>12</sup> Stepan & Naviwala, 2015; Lee & Hong, 2015; Rochowanski, 2013.

<sup>13</sup> Hodgson, 2016.

<sup>14</sup> Business and Human Rights Resource Center, 2018; International Center for Nonprofit Law, 2018; Rekosh, 2017; Rekosh 2016.

<sup>15</sup> Oldfield, 2017.

<sup>16</sup> International Center for Not-for-profit Law, 2018; Hexun News, 2016; Bickford, 2019; Sabeti, 2011; Ping, 2017; Reddy, 2016.

<sup>17</sup> Lai, 2019.

rely on different metrics to monitor and evaluate success.<sup>18</sup> Some caution that domestic fundraising is an unlikely “magic bullet” to solve the erosion of civic space, and that CSOs would do well to focus not only on creating new revenue streams, but increasing the diversity of revenue streams they depend on.<sup>19</sup> Still others caution that diversifying funding streams is beyond the capacity of many small CSOs who are unable to manage the legal, financial, and technological pathways needed for sustainable growth.<sup>20</sup>

**What has been missing from this literature is an exploration of actual cases of CSOs that have engaged in local resource mobilization and diversification,** understanding their successes and failures, their challenges and risks. Some cases have begun to emerge in the literature, such as the series of articles written for OpenGlobalRights (Rekosh 2016). But these cases only skim the surface, showing us what has been achieved, but not examining the process and mechanisms used by CSOs in mobilizing local resources, their successes and failures, the risks they faced and how those risks were managed.

**This project seeks to address this gap by documenting cases of CSO domestic resource mobilization in more detail,** showing how these cases involve challenges of organizational change and restructuring that may call into question that CSO’s very identity and mission. The assumption is that if CSOs are to be persuaded to move in this direction, they need to understand not only the achievements made by CSOs in changing their business and/or fundraising model, but also the difficulty of the task involved, and what steps other CSOs took to surmount these difficulties, some of the challenges and pitfalls they face and how they have managed them.

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<sup>18</sup> Bickford, 2019.

<sup>19</sup> Elongue and Vandyck, 2019.

<sup>20</sup> Ibid.; Behar, 2018; Baumi, 2016.

# Findings

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## 01. CSO responses to the decline of foreign funding

CSOs have been thinking of this issue and seeing warning signs, such as the withdrawal of foreign assistance and restrictions on foreign funding, for some time, and some have taken action to diversify their funding. Given that the countries in which they work are quite heterogeneous with varying constraints and opportunities for civil society and local resource mobilization (see Table 3), their responses have not surprisingly been quite diverse. They have also been quite entrepreneurial, tapping into the platforms, partners and resources available, while staying within their country's political and legal confines. Even within the most closed societies such as China and Vietnam, CSOs were able to find alternative sources of funding and other resources. In Table 4, we summarize the distribution of alternative sources used by CSOs in each country.

**Interestingly, Chinese CSOs showed the greatest range and diversity among all the countries examined**, with many CSOs tapping into nearly the full gamut of available sources. Part of this can be explained by the Chinese government's high-level support of philanthropy and charity, passage of a Charity Law in 2016, and the explosive growth of private foundations and online fundraising platforms over the last 10 years. CSOs in Vietnam, which shares a similar political and economic system with China, Malaysia and Indonesia tended to focus on developing fee-for-service programs and social enterprises due to the dearth of government funding, local philanthropy and public fundraising platforms.

### CHINA (CLOSING CIVIC SPACE)

**China has one of the most restrictive environments for CSOs but also great potential for philanthropy** which is growing rapidly along with the explosion of wealth in the country. Over the last few years, the Chinese government has been cracking down on activists and advocacy groups and in 2016 passed a Foreign NGO Law that places tight restrictions on foreign NGO funding and activities. At the same time, they have made significant efforts to promote philanthropy and charity, passing a Charity Law in 2016 along with other regulations and initiatives to encourage the growth of foundations, charitable organizations and online charitable fundraising platforms. Both the central and local governments have channeled substantial funding to outsource services to CSOs, and philanthropic institutes and initiatives have blossomed. Government funding, online funding and Chinese foundation funding have now replaced international funding as the main source of funding for Chinese CSOs.

Chinese CSOs have responded to this new environment by finding a wide range of creative ways to mobilize domestic resources. To fill the gap left by foreign funding and avoid too much reliance on government funding, many Chinese CSOs have turned to Chinese foundations and to crowdfunding via the large corporate crowdfunding platforms such as Tencent and Alibaba. Some CSOs are also using other market-oriented mechanisms such as charging for fees and experimenting with social enterprises.

## VIETNAM (CLOSING CIVIC SPACE)

Vietnamese CSOs have depended on foreign funding but starting around 2010, the environment became more difficult as foreign funding began to dry up and the government placed more administrative requirements on CSOs to get access to foreign funds. Local CSOs also have to compete with CSOs established by international donors and CSOs.

Unlike China, Vietnam lacks a strong philanthropy sector and government funding for CSOs. As a result, Vietnamese CSOs have few alternative sources except for the business sector and social enterprise.

## HONG KONG, MALAYSIA, & INDONESIA (OBSTRUCTED CIVIC SPACE)

Hong Kong CSOs have not changed their ways much, relying on tried and true fundraising channels such as face-to-face fundraising. In Malaysia and Indonesia, which are relatively more open and democratic, CSOs do not face the closing civic space seen in China and Vietnam and are able to access overseas funding without many restrictions. However, overseas development funding has declined as these countries have become more developed, and there is more competition over what funding there is. Some overseas development funding trickles down to grassroots CSOs as small subgrants from larger international CSOs, donors, and companies, but they are far from enough to sustain the organization. Some Malaysia and Indonesian CSOs as a result have begun taking steps toward financial sustainability by setting up business units, companies or social enterprises selling their services as consultants, trainers and event organizers, and leasing their office space.

**Table 3 \ Environment for alternative funding sources in selected Asian countries/territories**

	Civic space <sup>21</sup>	Foreign funding	Government funding <sup>22</sup>	Local philanthropy <sup>23</sup>	Corporate partnerships	Fees for service <sup>24</sup> /social enterprise	Online crowdfunding <sup>25</sup>	Public fundraising <sup>26</sup>
China	Closed	Declining and closing	Yes	Limited but growing quickly	Yes	Yes	Yes	Limited but growing
Vietnam	Closed	Declining and closing	No	No	Yes	Yes	Undeveloped	
Hong Kong	Narrowed	Open	Yes	Yes	Yes	Yes	Yes	Yes
Malaysia	Obstructed	Open but declining	Underdeveloped	Limited	Yes	Yes	Limited	Yes
Indonesia	Obstructed	Open but declining	Underdeveloped	Limited	Yes	Yes	Limited	Yes

**Table 4 \ Sources of alternative funding by country/territory**

	International funding <sup>27</sup>	Government funding	Local philanthropy	Corporate partnerships	Fees for service/social enterprise	Online fundraising	Public fundraising
China (13)	8	7	10	6	6	8	3
Vietnam (3)	3	0	0	2	1	1	
Hong Kong (1)	1	0	0	0	0	0	1
Malaysia (1)	1	0	0	0	1	0	0
Indonesia (5)	5	0	1	2	5	0	2

<sup>21</sup> Civic space - refers to the political and legal environment for CSOs, using rankings developed by the CIVICUS Monitor, <https://monitor.civicus.org/>.

<sup>22</sup> Government funding - refers to central/local government contracting to CSOs, but not to fees paid to government agencies for consultancies/trainings provided by CSOs, which is covered under “Fees for service.”

<sup>23</sup> Local philanthropy - refers to whether there are local foundations that give grants and other forms of support to local CSOs

<sup>24</sup> Fees for service/social enterprise - refers to profit-making initiatives providing consulting and training services for a fee, or addressing a social or environmental problem through a market-driven approach.

<sup>25</sup> Online fundraising - refers to fundraising using online platforms

<sup>26</sup> Public fundraising - refers to face-to-face fundraising as opposed to using online platforms

<sup>27</sup> International funding - refers to grants from foreign governments or international NGOs and foundations, but does not include corporate funding which is under “Corporate partnerships”

## 02. Pathways to financial sustainability

### ADOPTING A STRATEGIC MINDSET

**Organizational change needs to start at the top.** Given that we are talking about changing the organization's funding and operational models, CSO leaders need to have a mindset that this change is worth doing for the long-term health of the organization. They need to communicate the importance of that change to the rest of the staff and make it a strategic priority. CSO decision makers should regularly be carrying out analysis and forecasting about relevant political, economic and social trends in their country as well as relevant regional and international trends. They need to do a "market analysis" which looks at the opportunities and constraints for local funding. Changing one's business and fundraising model requires knowledge of the political and legal environment and what is feasible in that environment. Can CSOs engage in profit-making activities? Can they generate income as long as it is re-invested in the CSO? Can CSOs apply for government funding? Can they do crowdfunding and are there legal crowdfunding platforms?

#### HAVING A STRATEGIC MINDSET

**Indonesia Corruption Watch (ICW)** -- "A change in mindset was needed, recognizing that international funding in Indonesia was declining."

**Friends of Nature (FON)** realized it had to put together a new fundraising plan in 2015 when it heard the Chinese government was beginning to draft the Foreign NGO Law which would restrict foreign funding to Chinese CSOs.

### GETTING HELP FROM OTHERS IN YOUR NETWORK

**CSO leaders should understand that CSOs took different approaches to changing their funding and business model.** Some do it on their own, taking small steps, piloting new funding sources and making internal changes when needed. Other CSOs make it a strategic priority, drawing up a new strategic plan and bringing in outside help, such as consulting with its board and funders, and drawing on help within its network such as legal advisers, professional fundraisers and consultants specializing in organizational change and business planning and strategy. One of those consulting firms, A Better Community (ABC), is profiled here and was involved in helping some of the Chinese CSOs profiled here in their transition. While there is no one right way, **our research indicates that CSOs who take a more strategic, systematic approach and seek help from others** - their board, funders, consultants, professional volunteers/members within their network - **are more likely to institute more meaningful and effective changes.**

**Funders can play an important role.** A number of CSOs interviewed for this project were part of Ford's BUILD program which provides long-term core support to CSOs engaged in institutional strengthening and sustainability. Ford's BUILD grants gave these grantees the resources needed to experiment with innovative funding and business models. Another example was Aiyou Foundation, a private foundation in China, provided trainings on cross-sector innovation for their grantees. These trainings brought in business leaders to lead



workshops for CSO leaders on business management, strategy, revenue diversification, and innovation.

## TAKING A STRATEGIC, SYSTEMATIC APPROACH

**Facilitators** in China drew up a five-year plan to reduce its reliance on govt funding and increase funding from foundations and crowdfunding.

**Indonesian Forum for Budget Transparency (FITRA)** went through a review of its organization, registration status, advocacy work to see if they could register companies that would operate as social enterprises, and how FITRA would ensure control and ethics of the companies

**Friends of Nature (FON)** drew up a strategic plan in 2015 when it knew the Foreign NGO Law was being drafted to restrict foreign NGO funding and activity in China

**Management and Sustainable Development Institute (MSD)** in Vietnam set a new five-year strategy (2015-20) to diversify its funding sources, and set a target to reduce its reliance on international funding from 90 to 70 percent of its budget.

## GETTING HELP FROM OTHERS IN YOUR NETWORK

**ICW** drew on its network of partners - CSOs, accountants, business people - to identify opportunities and provide guidance for its new strategy and training company.

**Facilitators** diversified its cooperation with Chinese foundations and government agencies and worked with foundations and technology platforms to do crowdfunding.

**FITRA** hired outside consultants to help develop its public finance academy and its media company

**LGBT Association** drew on a network of members who are LGBT or LGBT supporters to help with online fundraising and carry out outreach with local communities and officials. It also collaborated with online fundraising platforms and foundations and with consulting companies like ABC.

**Lin Community Center** in Vietnam had one board member who had worked for an international company and served as a bridge between the Center and the business community

**MSD Vietnam** had to do market research and surveys with businesses to understand what kind of programs would attract business support. They learned by doing and studying the experience of other local CSOs that had partnered with the business community.

## THINKING OUTSIDE OF THE BOX

Diversification can be a way to maintain a CSO's independence so that it is not too dependent on one source of funding. At the same time, taking money from the government and companies can undermine a CSO's independence, particularly if your CSO does advocacy. **CSOs concerned about taking government and corporate money can consider setting up structures to shield the CSO from conflict of interest** (see the section on Challenges and Risks below).

Multiple registrations that are governed and managed according to their distinct purposes can help. This includes setting up a subsidiary company to separate the nonprofit and for-profit work and avoid conflicts of interest or setting up a foundation to do local fundraising. Others set up social enterprises to market their services and products in ways that promote social impact.

### REGISTERING MULTIPLE ENTITIES

In 2015, knowing a NGO law was being drafted by the Chinese government that would restrict foreign funding, **Friends of Nature** registered a foundation and a company which turned into a Nature School functioning as a social enterprise carrying out its environmental education programs.

Indonesian CSOs like **FITRA**, **Combine Resource Institution (CRI)** and **ICW** registered companies to generate income for their consulting and training services and products. **INDEF** registered a subsidiary company which helps to subsidize the CSO. While many of these were traditional consulting companies, **FITRA** and **CRI** also set up social enterprises - media companies and schools - to expand their social impact and constituencies.

Even without formal registration, some CSOs have come up with creative solutions such as adopting an informal membership structure. For China's LGBT Association, building a nation-wide network of members has been very effective in expanding the Association's online fundraising efforts.

A Better Community (ABC) set up an internal wiki system with the detailed history of all consulting cases previously undertaken by the organization providing a system for volunteers to review past cases and ensure more consistent quality.

## MAKING CHANGES IN REGISTRATION, OPERATIONS, STAFFING & COMMUNICATIONS

**Our interviews show that changing the business and fundraising model is not an easy process.** It requires a significant investment in time in getting outside help, and carrying out changes in the CSO's registration, operations, staffing and communications strategy, while also considering how to deal with challenges and risks. A few of the CSOs we interviewed have explored funding diversification without making much progress. Still others had made significant progress but were still in the early stages when it was too early to draw conclusions. **About half of the CSOs we interviewed had made funding diversification a strategic priority and made**

significant progress in developing new funding sources and business models. They had registered new entities such as foundations and companies and created fundraising team and/or hired outside consultants to develop a new business and fundraising strategy.

## CHANGING MANAGEMENT, STAFFING, AND COMMUNICATIONS

**CRI** in Indonesia created a new fundraising team of 3 staff, hiring two new people from the outside

The **Disability Innovation Center** in China brought in a consultant on multi-sector innovation that merged with the team to work on its coffeeshop social enterprise

**Facilitators** in China hired a staff to focus on external relations and retrained another staff to focus on regular communications with its individual donors about its programs and their impact.

**Friends of Nature** created a fund-raising team of 2 FT and 2 PT staff to diversify their funding, particularly online fundraising/crowdfunding and expand their network of individual donors

**Human Rights for Hong Kong** hired a consulting company to carry out its direct dialogue fundraising campaign

**ICW** strengthened its public fundraising division (3 staff) to expand its public donations, and just set up a knowledge management division for its fee-based training programs.

**Lin Community Center** in Vietnam set up a fundraising department about five years ago to develop corporate partnerships and funding. There are now four staff in that team working on writing grants, outreach to companies, marketing and communications.

**MSD Vietnam** recruited new staff with business experience and had help from one MSD board member with business experience, and international volunteers, to develop CSR and CSV programs. In engaging the business community, it also has had to change its communication style, focusing on impact to demonstrate these programs have a clear return on investment for businesses.

### 03. Does funding diversification strengthen a CSO's mission and impact?

The intention of most CSOs in diversifying their revenue is rarely because they think it will make their work more effective and strengthen their mission. The main reason most CSOs moved in this direction was because getting foreign funding was getting more difficult and they needed to survive. This is not easy for CSOs to do because for many, their core identity and mission lies in being not-for-profit. Some have criticized the focus on funding diversification because they fear CSOs will place the pursuit of funding over their mission and will move so far in the direction of marketing their services and products to generate revenue that they move away from their civic engagement and advocacy function. This is what practitioners call “mission drift” and scholars call “goal displacement.”

## DIVERSIFICATION STRENGTHENS CSO'S MISSION: EVIDENCE FROM CHINA

Crowdfunding, and cultivating a group of regular donors, required **Facilitators** to communicate regularly with the public about their work. This aligned with its mission of strengthening public awareness of internal migrants in China, and its transparency and accountability to the public.

In countries where the public has little knowledge of human rights or trust in civil society, social enterprise can be an intermediate step to gain that trust. The **Disability Innovation Center** came to this realization training blind baristas to raise awareness and support among the public for people with disabilities.

**FON's** Nature School which provides environmental education to the public aligns with its mission to promote greater public participation in environmental protection. In addition, its online donation program connects with donors who are giving because it supports FON's legal advocacy work which many Chinese foundations and companies will not support.

The **Pro Bono Foundation** was set up to mobilize local funds to sponsor and incubate projects closer to the human rights part of the spectrum that would have a difficulty getting support in China. Through the foundation, CSOs like **China AIDS Walk** are provided with a legal identity and fundraising platform.

The **LGBT Association** cultivated a membership that actively participates in its crowdfunding by creating a network of engaged supporters with broad impact that work on issues that are generally perceived as sensitive and not aligned with government priorities. Its strong network uses a unified strategic message to promote its mission and services.

The **Disability Innovation Center's** director came from a civil society background and had been struggling to find a way to integrate people with disabilities into society and have them recognized as equals. He found that a social enterprise was able to more effectively connect with the public on the issue of disabilities by making it more tangible and relatable.

**Tianjin Green Collar Environmental Protection** believes crowdfunding strengthens its public-facing work and is in keeping with their mission to increase public participation in environmental protection as it makes the public more aware of their work.

These risks are certainly real as we discuss in the section on Challenges and Risks and should not be underestimated. Still, **some people have hypothesized that moving from foreign funding to local funding may actually strengthen a CSO's engagement with its beneficiaries and other stakeholders and help it to strengthen its impact and mission. We were surprised to find that a number of the CSOs we interviewed confirmed this hypothesis.** Some said that charging fees for trainings resulted in participants taking the trainings more seriously and sending a message to other CSOs and communities about the need to consider the financial sustainability of their activities. A Better Community (ABC), which does consulting on organizational change for CSOs in China, believed the introduction of a fee-for-service model motivated its CSO clients

to implement recommendations made by ABC volunteer consulting teams, whereas when they were not paying a fee, CSO managers took the recommendations less seriously.

A number of CSOs felt that carrying out online fundraising found it forced them to communicate more effectively and regularly with the public. Others saw crowdfunding and establishing companies/social enterprises to provide trainings and schooling to the public or young people, aligning with their mission to promote public participation and social movements. CSOs in China (see the box above) working to improve the public's perception of migrants (Beijing Facilitators), and environmental groups working on strengthening public participation in addressing pollution (Friends of Nature and Tianjin Green Collar), found that online and public fundraising strengthened their mission because it forced them to more better and more regularly communicate their issues and work to the public.

CSOs in Indonesia, such as FITRA, ICW and INDEF (see the box below) whose mission is to promote civic engagement and social movements on budget transparency, anti-corruption and sustainable economic development, believe setting up training centers, schools and academies will allow them to train a new generation of social justice advocates to work in the public and private sector.

**These cases show that CSO service delivery created for the purpose of generating income does not have to conflict with the traditional civic engagement and advocacy functions of rights-based CSOs.** In other words, service delivery on one hand, and civic engagement and advocacy on the other, should not be thought of as mutually exclusive. Indeed, some of these cases demonstrate that if done the right way, the two can reinforce one another and, in doing so, strengthen the outcomes and impact these CSOs seek to achieve in their work.

## **DIVERSIFICATION STRENGTHENS CSO'S MISSION: EVIDENCE FROM INDONESIA**

**FITRA** and its member CSOs seek to create a social movement for budget transparency and socially-just budgetary processes and policies. They believe their social enterprises – a consultancy, a media company, and a public finance academy - will help them make better use of their extensive knowledge resources to achieve this mission by engaging the public, and training future generations, to shape government views and policies.

**FITRA** also believes its social enterprises will help it expand its impact by bringing in more resources to support its 13 local member CSOs. Foreign funding does not support activities in certain regions, so business revenue will help to expand their impact in these regions.

**CRI**, a community media and knowledge management CSO, looked at the communities who took its free trainings and found they implemented what they learned for a short time but then stopped. The communities did not take the trainings seriously because they were free and attended more out of obligation. But after CRI began charging for their trainings, the participants became more responsible and active in applying the knowledge learned. Charging for trainings thus aligned with its mission to empower its trainees.

## DIVERSIFICATION STRENGTHENS CSO'S MISSION: EVIDENCE FROM INDONESIA (CONT.)

CRI's new approach to financial sustainability also changed the mindset of its partner communities. Before, the communities took what CRI provided for granted without asking questions about their needs, and whether the support they were getting is sustainable. One community is now carrying out its own fundraising.

**ICW** sees public fundraising not as just another revenue source but an indicator of their mission in promoting public support for and participation in the anti-corruption movement that ICW seeks to advance. In addition, its new company will use its extensive resources and data on corruption in trainings that will strengthen its engagement with the public and private sector.

**INDEF** has set up a School for Political Economy, partly funded by its consultancy company, to train a younger generation of Indonesians to become involved in advocacy on economic and financial issues.

## 04. Challenges and Risks

A number of CSOs interviewed also recognized that there are challenges and risks in diversifying their local sources of funding and had to take steps to address them. Some CSOs felt charging fees for services might conflict with their mission of serving marginalized groups that lacked the ability to pay and had to modify their fee policy to minimize this risk. Others seeking corporate partnerships, and government consultancies, recognized this might undermine their independence and integrity.

Some strategies they followed to manage these risks included setting up a business unit separate from the CSO and putting in place governance structures and internal codes of conduct to ensure the CSO's integrity. Interestingly, Chinese CSOs tended to play down the challenges and risks whereas the Indonesian CSOs took them more seriously perhaps because a number were advocacy CSOs who were considering offering consulting or training services to government agencies and concerned this might undermine their independence and integrity.

### ADDRESSING CHALLENGES AND RISKS

**Facilitators** in China saw risks to charging fees for its afterschool programs because it feared this would lead to giving more slots to migrant children from wealthier families who could pay, leaving fewer slots for disadvantaged families, which would run counter to its mission.

## ADDRESSING CHALLENGES AND RISKS (CONT.)

**INDEF** in Indonesia faced the challenge of separating its advocacy and public policy work from its consultancies for governments and companies in order to preserve its identity as an independent think-tank. To address this challenge, it built a firewall by registering a company, separate from its not-for-profit foundation, to do consultancies.

Before setting up its social enterprises, **FITRA** reviewed its legal status, its advocacy strategy, and its organizational structure to decide who should become directors of the company and how FITRA can control the company to ensure the ethics of the company align with FITRA's values.

As a foundation, **CRI** in Indonesia cannot engage in business activities so it created a company for its training center. But this required taking steps to ensure none of its board can be the directors of the company, and place limits on the company's registered capital in accordance with the Foundation Law.

Two Vietnamese CSOs – the **Lin Community Center** and **MSD Vietnam** - recognize that there are risks to corporate partnerships and recommends conducting due diligence on companies being approached for partnerships, and adopting internal codes of conduct to ensure that corporate fundraising does not conflict with the CSO's mission. Their management and board of directors also play an important role in deciding what kind of support it can accept from the business community.

## Conclusion

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The cases collected and analyzed in this financial sustainability project were intended to highlight realistic pathways to financial sustainability for rights-based CSOs in the global South. The objective of this project was to provide inspiring models and cautionary tales of financial sustainability for CSOs operating in diverse countries, both democratic and non-democratic, and in civic spaces ranging from relatively open to closed.

The cases illustrate the concrete measures CSOs had to take to change their funding and business model. This change is by no means easy and requires bold leadership, strategic vision and thinking outside of the box, as well as changes in the organization's registration, management, staffing and/or communications strategy. There are challenges and risks that come with taking these pathways, but as these cases show, there are steps CSOs can take to manage and minimize these risks.

We recognize innovating new approaches and models can be daunting for many. As some CSOs we interviewed confessed, they had thought about financial sustainability for years but never really taken action. Perhaps not every CSO currently has the capacity to emulate these models, but all CSOs face resource challenges and those challenges are growing with the assault taking place on civic space in many parts of the world.

### FINANCIAL SUSTAINABILITY PATHWAYS TAKEN BY CSO'S IN ASIA AND AFRICA

#### Developing consultancy services

*INDEF (Indonesia), Debate Cameroon*

#### Starting a for-profit subsidiary company to generate income

*CRI (Indonesia), Northern Sector Action on Awareness Creation (Ghana), Development Expertise Center (Ethiopia)*

#### Leasing office space, and other assets/property of the organization

*North South Initiative (Malaysia), Southern Africa Trust (South Africa)*

#### Organizing events and services for fees

*Our Journey (Malaysia), Coordinating Assembly of NGOs (Swaziland)*

#### Creating a membership structure based on fees or volunteers to lower costs

*LGBT Association (China), Human Rights Focus (Uganda), and Ugandan Association of Women Lawyers*

#### Starting a social enterprise

*Disability Innovation Center (China), Friends of Nature Nature School (China), FITRA's public finance academy (Indonesia), SEMA (Uganda)*

#### Private sector funding/partnerships

*MSD Vietnam, Lin Community Center (Vietnam), Musika (Zambia), Kenya Community Development Fund*



## FINANCIAL SUSTAINABILITY PATHWAYS TAKEN BY CSO'S IN ASIA AND AFRICA (CONT.)

### Crowdfunding

*Tianjin Green Collar (China), Human Rights for Hong Kong, China AIDS Walk, Africa Foundation for Development, Kirwa Foundation (Nigeria)*

### Social enterprise AND crowdfunding

*Friends of Nature (China)*

### Consultancy services AND private sector partnerships/volunteering

*A Better Community (China)*

### Crowdfunding AND consultancy services

*Indonesia Corruption Watch*

**We hope that these cases will stimulate and inspire CSOs and funders** to incorporate financial sustainability into new projects and strategic planning, and not to wait before it is too late. Some may think that only larger, better-resourced CSOs have the capacity to carry out changes in their funding and business models and it is true that the CSOs that undertook more strategic, systematic changes tended to be the larger ones, sometimes with help from funders to make that transition. **These cases show however that size is no excuse for making changes.** Small CSOs were also able to take small steps toward financial sustainability, such as leasing assets such as office space, crowdfunding, charging fees for trainings and other services, or creating a network of volunteers/members to lower personnel costs. Even if the income generated is initially small, it is unrestricted income that can be invested in a reserve fund for unexpected expenses, and the experience may open doors to other paths to financial sustainability.

**CSOs should take heart that many like-minded organizations are experimenting with these pathways, often with encouraging results.** While the cases in this project are only a small sample of CSOs in East and Southeast Asia, other recent initiatives looking at alternative funding and business models show that CSOs and funders in many parts of the world are taking action to change their funding and business models. **Indeed, the pathways taken in the cases profiled in this project are very similar to those highlighted in another study of West African CSOs (WACSI and I4C-Africa 2019).** In the box on the previous page (*Financial sustainability pathways taken by CSOs in Asia and Africa*), we list the common pathways and examples of CSOs that have taken these pathways or some combination of these pathways.

**Most importantly, these cases suggest that financial sustainability can go hand in hand with strengthening the mission, impact and legitimacy of CSOs within their country.** One concern CSOs have about diversifying their funding is that they will become so focused on following the money that they lose sight of their mission. A number of the cases profiled in this project show, however, that the diversification of funding can in fact strengthen a CSO's mission and impact, because it provides other channels for the CSO to engage, educate and influence domestic stakeholders and the public.

## Recommendations

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**01 | Start early and at the top.** Whether you need to change your organization's business and fundraising model is a long-term strategic issue that will take time to process and discuss at all levels of the organization. Because of the complexity of the issue, the time to start addressing it is now. And because it is a strategic issue, the initiative will need to come from the leadership. Like some of the cases profiled in this report, CSOs can either wait until external changes in the environment force them to act or they can be proactive and create a strategy while they still have options available.

**2 | CSOs should go through an environmental and organizational assessment** to see if they need to change their business and fundraising model. Ideally this would be done with involvement of the board and staff so that there is as much buy-in as possible.

**3 | Think outside the box.** Rights-based CSOs generally excel at finding entry points for their advocacy or activism, but when it comes to changes in their fundraising and business models, they tend to stay in the not-for-profit box and not consider alternative business and fundraising models. Be open to different strategies and models.

**4 | Consider measures that will diversify your CSO's business and fundraising model** such as registering a subsidiary or affiliated organization as a company or foundation to give you more options for generating revenue. This allows you to separate your for-profit activities from non-profit activities in order to manage conflicts of interest.

**5 | Consider resources and skills that your CSO has accumulated over the years** - reports, cases, databases, training curriculum - that could be packaged and marketed as products and services to governments, international organizations, companies, or the public for a fee. Some CSOs have used their resources and expertise to provide consultancies and trainings for a fee, while others have started academies or schools to educate and train the next generation of activists or social entrepreneurs. Remember that service provision and public advocacy are not mutually exclusive.

**6 | Changes in the CSO's business and/or fundraising model can be carried out either organically and incrementally, or more systematically** by coming up with a strategic plan and involving the board, funders and others in your network. The CSOs in our research that took the second approach were able to come up with more innovative, long-term models, with greater staff buy-in, but this strategic planning process itself requires resources and funding. The CSOs that went through this process were generally also fortunate to have core funding support from their funders, or they were large enough that they had reserve funds to support the process.

**7 | Mainstream financial sustainability in your CSO by having an income-generating component** in your strategic plan and, when possible, in every project concept.

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# Annex 1: Questionnaire

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## Background of your NGO

1. What is your NGO's mission, work, registration status, and history
2. How many staff (full-time, part-time, volunteer) in your NGO, and what are their responsibilities?
3. What revenue sources does your organization currently rely on (provide approximate revenue distribution)?
4. What kinds of challenges are you facing now?

## Your NGO's business and fundraising model

5. What changes have you made in your funding and business model? Why did you make these changes, and where did you get your new ideas from?
6. What steps were involved in developing these new funding sources?
7. What changes had to be made in the NGO in terms of board governance, registration and management, staffing, and staff responsibilities? What about your communications or public relations strategy? Did you have to change the way in which you describe your work?

## Challenges and Sustainability

8. How has your new development strategy affected the NGO's ability to realize its mission and objectives? Has it moved it closer to its mission or farther away?
9. What other challenges and risks do you face with your new development strategy?

## **Annex 2: CSOs Interviewed for this Study**

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A Better Community (ABC) (China)  
Beijing Facilitators (China)  
Beijing Pro Bono Foundation (China)  
Capacity Building Assessment Center (CBAC) (China)  
China AIDS Walk (China)  
Combine Resource Institution (CRI) (Indonesia)  
Disability Innovations Center (pseudonym) (China)  
Indonesian Forum for Budget Transparency (FITRA) (Indonesia)  
Friends of Nature (FON) (China)  
Human Rights for Hong Kong (pseudonym)  
Indonesia Corruption Watch (ICW) (Indonesia)  
Inno (China)  
iSee (Vietnam)  
Institute for Development of Economics and Finance (INDEF) (Indonesia)  
LGBT Association (China)  
Lin Community Center (Vietnam)  
Management and Sustainable Development Institute (MSD) Vietnam  
Nonprofit Incubator (NPI) (China)  
Our Journey (Malaysia)  
ruangrupa (Indonesia)  
Tianjin Green Collar Environmental Protection (China)  
North South Initiative (NSI) (Malaysia)