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and Grassroots Engagement**



MEMORANDUM

Re: Analysis of CSO's Financial Sustainability

From: Pact Inc

To: Interested parties

Date: September 22, 2018

Summary:

Sustainability is a crucial element of organizational processes that allows for organization to fulfill its mission. Financial sustainability contributes to long-term survival of the CSO and effectiveness of its work, yet it remains a critical challenge for civil society organizations in Ukraine. CSOs continue to struggle to develop and maintain the resources needed for carrying out their missions. Financial sustainability can serve as a key to more effective constituencies outreach and communication of reforms.

Current financial sustainability of Ukrainian CSO: research and analysis

There are few researches and surveys of the civil society in Ukraine, which cover funding questions and can serve as a resource for understanding the current financial sustainability of Ukrainian CSO.

CCC Creative Center Charitable Foundation, Ukrainian CSO, conducts annual study of Ukrainian civil society organizations to identify the level of development of the Ukrainian civil society organizations and challenges they face at the national and regional levels. **Civil Society Organizations in Ukraine: the State and Dynamics (2002-2013)** Study Report¹ reveals that the grants from the international donor organizations have been and still remain the key source of funding for Ukrainian civil society organizations. The same report indicated that only one third of the surveyed organizations (34% out of 575 CSO) have fundraising plan and raise fund according to it, while 33 percent of the CSOs are searching for funding on ad hoc basis, and 21 percent of organizations conduct special campaigns.

United States Agency for International Development^[SEP] assesses and rates dimensions of CSO sustainability on a regular basis within its CSO Sustainability Index. The latest **2016 CSO Sustainability Index for Central and Eastern Europe and Eurasia** covers developments in 2016 and includes a section on Ukrainian CSO Sustainability².

“More CSOs are seeking to diversify their funding sources, and anecdotal evidence indicates that the share of funding from local donors—including businesses, individuals, and foundations—is slowly growing. For instance, according to ISAR-Ednannia, a local CSO that supports the development of community foundations in Ukraine, the share of local funding in the budgets of twenty-two community

¹ <http://ccc-tck.org.ua/eng/library/drukovani-vidannya/>

² https://www.usaid.gov/sites/default/files/documents/1866/CSOSI_Report_7-28-17.pdf

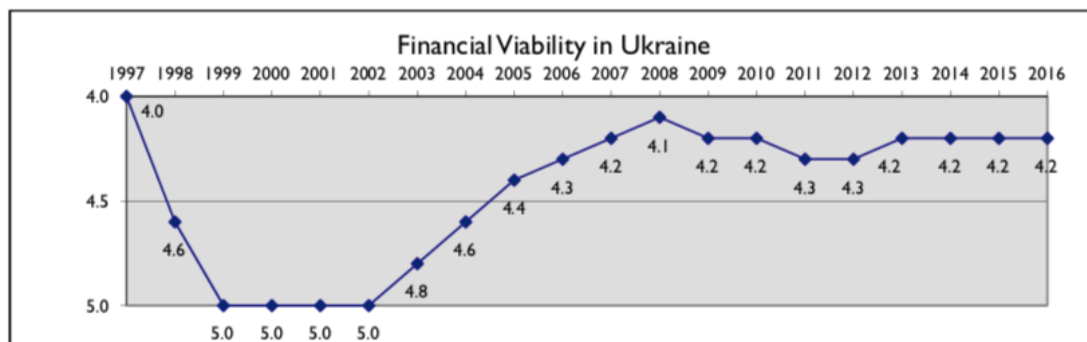
foundations increased from 70 percent in 2015 to 80 percent in 2016. In 2016, CSOs introduced new methods of generating support from the local donor community. For example, some organizations organized fundraising dinners with donors in the town of Stryi. In 2016, CSOs raised \$173,076 for core support and \$846,154 for charitable projects in the areas of education, environment, literature, travel, new technologies, and capacity building through the Spilnocosht and Charity Exchange Stock crowdfunding platforms.

Local businesses continue to support CSOs in communities where their businesses are located. For example, Uber collected warm clothes from 6,551 individuals in Kyiv during a two-week charity action called UberGiving and donated them to Caritas Ukraine to disseminate to the most needy. Similar actions took place in sixty-five cities in thirty-one countries in Europe, Asia, and the Middle East, with residents in Kyiv being the most generous. However, such examples are still rare, and corporate support continued to decline in 2016 due to the economic crisis.

Although accurate data is unavailable, financial and in-kind support from central authorities and local self-government bodies appeared to decrease in 2016. However, several ministries continued to run CSO grant competitions in 2016. The Ministry of Social Protection routinely provides financial support to CSOs, while the Ministry of Defense awarded grants to CSOs for the first time in 2016, mainly for projects to assist ATO veterans and their families. The Ministry of Youth and Sports organized a funding competition for long-term projects proposed by children- and youth-oriented CSOs. The Ministry is also focusing more on monitoring and evaluation of funded projects. Some local authorities also conducted competitions for project funding in 2016.

While CSOs often collect membership dues and increasingly engage in social entrepreneurship, these sources generally do not provide significant income. According to CIPE, in 2016, the share of income for business associations from membership dues reached 18 percent, while 35 percent of income came from service delivery, and 43 percent came from local and international donors.”

Figure 1. 2016 CSO Sustainability Scores for Ukraine, Financial Viability



As referenced in the

The **State Committee of Statistics** conducts an annual analysis of civil society organizational and their financial activity by evaluating their statistical reports.

The Activity of public organization in Ukraine in 2017 Report includes data from statistical reports of 25,988 public associations and found that they declared almost UAH 7,3 billion in income, including UAH 194 million from the state budget, UAH 250 million from local budgets, UAH 720 million in

membership dues, UAH 3,8 billion in charitable donations (which includes international funding, and funding by Ukrainian citizens and businesses), UAH 1.1 billion from economic activities, and around UAH 1,2 billion from other sources.

While the report does not provide any detailed information about the funding of civil society organization, yet it shows that the amount of the funding for CSOs have increased drastically since 2014 (UAH 4,1 billion in 2014 vs UAH 7,3 billion in 2017), with number of CSO also increasing (21417 CSOs in 2014 vs 25988 CSOs in 2017). This might reflect the increase of donors funding coming to Ukraine associated with conflict at the East of Ukraine, which partially is supported by the data showing the increase of funding in Odesa, Dnipropetrovsk and Kharkiv regions (apart from Kyiv-based organizations, which receive more than 50 percent of the total funding)³.

USAID/ENGAGE partner Democratic Initiatives Foundation conducted an all-Ukrainian survey **Civil Society in Ukraine: level of development, activity and charity** in December 2017⁴. The total amount donated during the year is not high. Out of 2004 respondents, every two out of five Ukrainian (41%) admitted that provided financial or materials (for example, food, clothes) support to civil society organization. More than half of the respondents donated up to UAH 100 and only about 10 percent of respondent – UAH 500 or more.

According to the USAID/ENGAGE **National Civic Engagement Poll**, commissioned by Pact and conducted by GfK in May – June 2018⁵ :

- 28 percent of respondents *are ready to contribute* up to 100 UAH and 11 percent from 100 to 1000 UAH to organization or group that they trust or cause that they believe in. 37 percent of Ukrainians rejected the idea to contribute for this purpose. ^[L]_{SEP} Over the 9 months the numbers did not change much, with number of people ready to contribute higher amount (over 100 UAH) slightly decreasing.

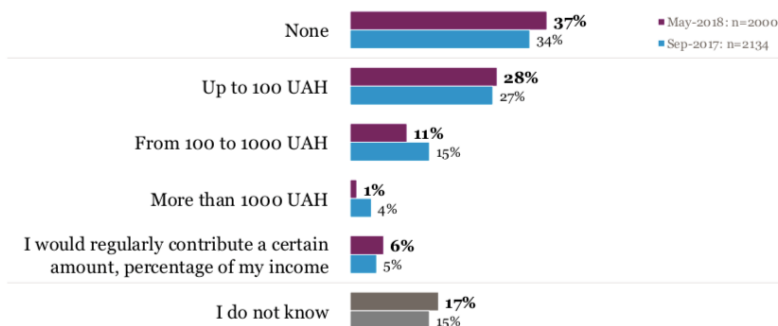
³ http://www.ukrstat.gov.ua/druk/publicat/kat_u/2018/zb/07/zb_go_2017.pdf

⁴ <https://dif.org.ua/uploads/pdf/13963398165a9eef1b022177.77359526.pdf>

⁵ <https://dif.org.ua/en/article/the-dissatisfaction-of-ukrainians-with-the-current-government-is-growing-while-trust-of-civil-activists-increases>

46% of Ukrainians are ready to contribute some money personally. 37% are not ready to contribute personally to a cause that they believe or organization they trust, and this share increased from 34% in September 2017

A19. What amount would you contribute personally to a cause that you believe in and to an organization or group that you trust?

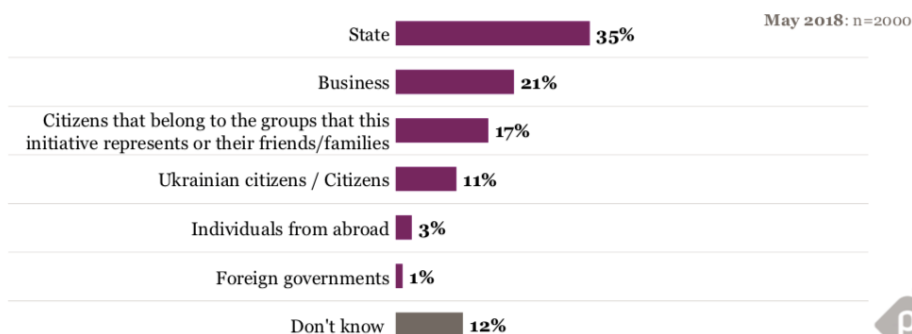


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- There is small number of people who are *ready to regularly contribute a certain amount, percentage of their income* for CSO (5% in September 2017 and 6% in May 2018).
- When asked about *who should finance civil initiatives and/or NGOs* over a half (56 percent) of Ukrainians leave this to state (35 percent) and business (41^[SEP] percent). Only 11 percent of respondent said that citizens should financially support CSOs, and 17 percent named citizens^[SEP] that belong to the groups that this initiative ^[SEP]represents as a funding source (when asking as a multiple response set in September 2017, almost twice as much respondents support last two ideas).

One third thinks that the state should primarily finance Ukrainian NGOs, one in five—that it's business's duty. These answers are followed by related people (17%) and Ukrainian citizens (11%). Only marginal percentages think that it's up to foreigners (3%) or foreign governments (1%)

A18. Who do you think should mostly finance civil initiatives/NGOs? — single response set*



*In Sep'17 this question was asked as multiple response set, and in May'18 it was asked as single response set

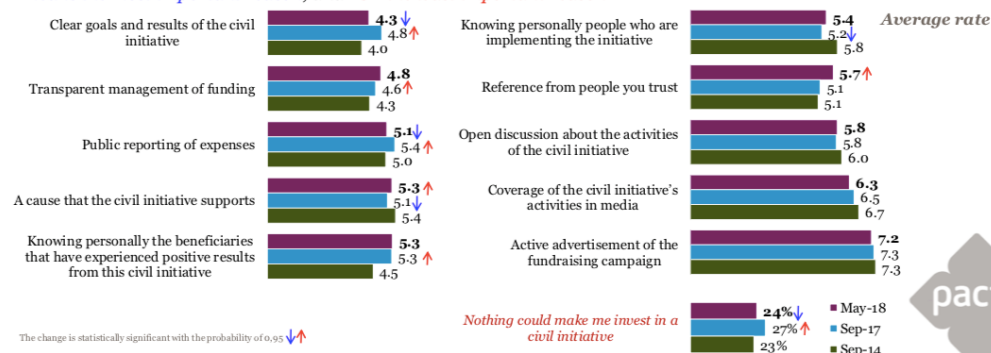
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- Citizens would financially support the initiative primarily if they understand clear goals and results of the civil initiative. Financial transparency is named as the second important reason, and over the last 4 year, slightly more people chose this option.

Having clear goals and results is a #1 reason to financially support an initiative. Financial transparency is the second most important reason, and it has improved since 2014. Public discussions and media coverage keep their "least important" rates.

A20. If you decided to financially support a certain initiative, which factor would play the crucial role for your decision? Please rate them according to their importance/role, where

1 means the most important reason, and 10—the least important reason

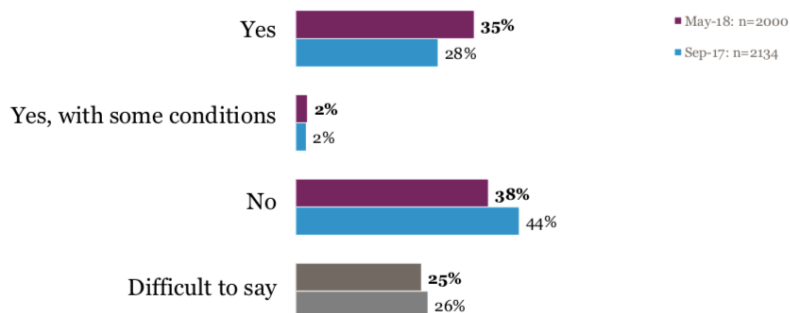


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- Over a third of Ukrainians believe that government should support CSO activities with taxes investments, and this number is growing since September 2017.

The share of Ukrainians who would support taxes investment to CSO activities went up from 28% in September 2017 to 35% in May 2018. However, almost the same share (38%) would not support such initiative

A21. Would you support a legislative initiative which obliges the government to invest taxes paid by you to support CSO activities?



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USAID/ENGAGE support to CSOs for enhancing their financial sustainability

As a part of its effort in supporting national and subnational organizations, networks and coalitions to promote their constituency engagement, linkages between national and subnational stakeholders, inclusion and human rights agenda, as well as their efforts in promoting reforms and explaining reforms to citizens in Ukraine, ENGAGE evaluated CSO financial sustainability capacity within institutional RFA.

In 2018, USAID/ENGAGE received 78 applications for the Institutional grants (Institutional Core-Support to Non-Governmental Reformers). As the part of the application USAID/ENGAGE evaluated

CSOs' funding experience. Almost half of organization-applicants (37 out of 78) had more than two source of funding, including receiving grants, and funding from the public, business and the state. Overwhelming majority of civil society organization that applied for core support have financial support from international and national donor grant. Few organizations (Center for Social and Economic Research – CASE Ukraine; Publishers' Forum, NGO; Vinnitsa Regional Non-Governmental Organization "Union of Entrepreneurs "Stina"; VIDKRYTE SUSPILSTVO UKRAINY, GO; Institute of Analysis and Advocacy; Non-governmental organization “Global Office”; «Podolian Agency for Regional Development» (PARD); Public Television NGO) noted that they earned income from activities and events, expert services, social entrepreneurship, charity auctions etc.

USAID/ENGAGE conducted Pact's Organizational Performance Index (OPI) exercise for 17 CSOs in 2017-2018. 15 CSOs were evaluated in 2017 as a part of selection process for institutional core support, and 2 selected for institutional support CSOs passed the OPI exercise in 2018 to inform their capacity development plans.

The Pact OPI is an approach that helps set up baselines and measure change in organizational performance over time. Under Sustainability domain (one of 4 domains within OPI), CSOs are evaluated on ability to ensure its services are supported by a diverse base of local and international resources (Resource sub-area)⁶.

The results of the OPI exercise revealed that most of the CSOs under evaluation have developed their financial sustainability, and as the part of it, are working on diversifying funding (see Figure 1 and Figure 2). Four out of 17 civil society organizations have succeeded in leveraging at least 20% of resources needed for the current operating year from a source other than their primary donor, and every second out of 5 CSOs leverage resources to support programs and services from at least two donors, foundations, corporation, individuals or other funders in addition to their primary donor, with no single source of funding representing more than 40% of the organization's total resource base.

Figure 2. Level of financial sustainability of 17 Ukrainian CSOs based on Pact's OPI methodology ⁷

⁶ Please note that within OPI exercise each sub-area is articulated in four levels of benchmarks that describe increasing levels of performance. Level 1 maps to the lowest level of performance and Level 4 to the highest. More detailed information on OPI can be found here - <http://www.pactworld.org/library/pacts-organizational-performance-index-handbook>

⁷ OPI exercise. Sustainability domain, Resource sub-area levels: Level 1 The organization is developing a resource mobilization plan that clearly identifies both the resources needed for programs and services and potential providers/sources for these resources. Level 2 The organization has a resource mobilization plan that clearly identifies both the resources needed for programs and services and potential providers/sources for these resources. Level 3 The organization has succeeded in leveraging at least 20% of resources needed for the current operating year from a source other than their primary donor. Level 4 The organization has succeeded in leveraging resources to support programs and services from at least two donors, foundations, corporation, individuals or other funders in addition to their primary donor. No single source of funding represents more than 40% of the organization's total resource base for the current operating year.

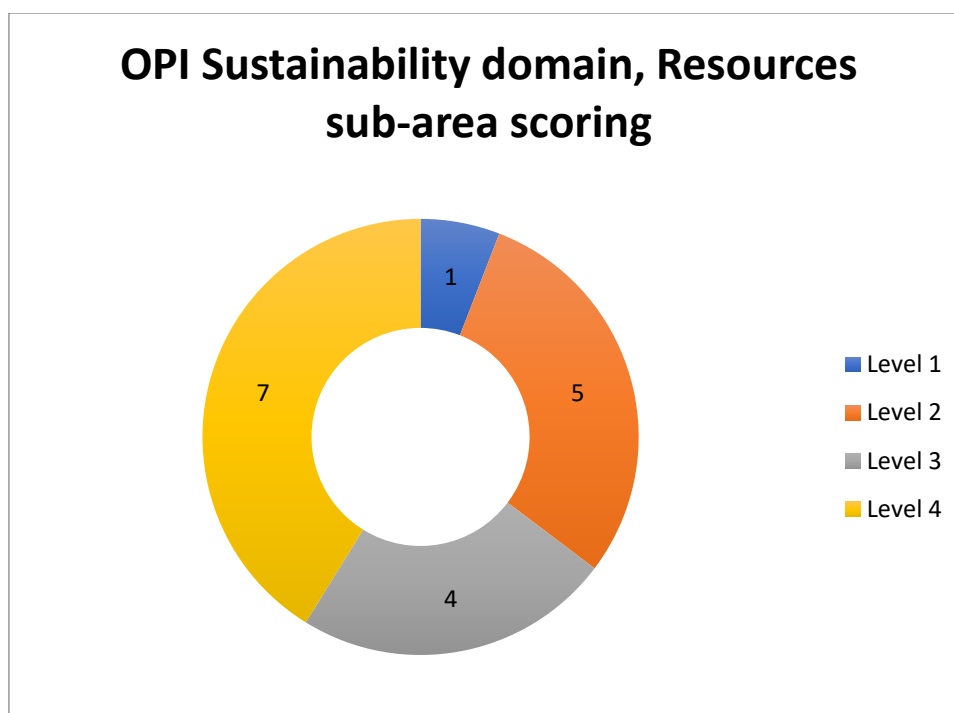
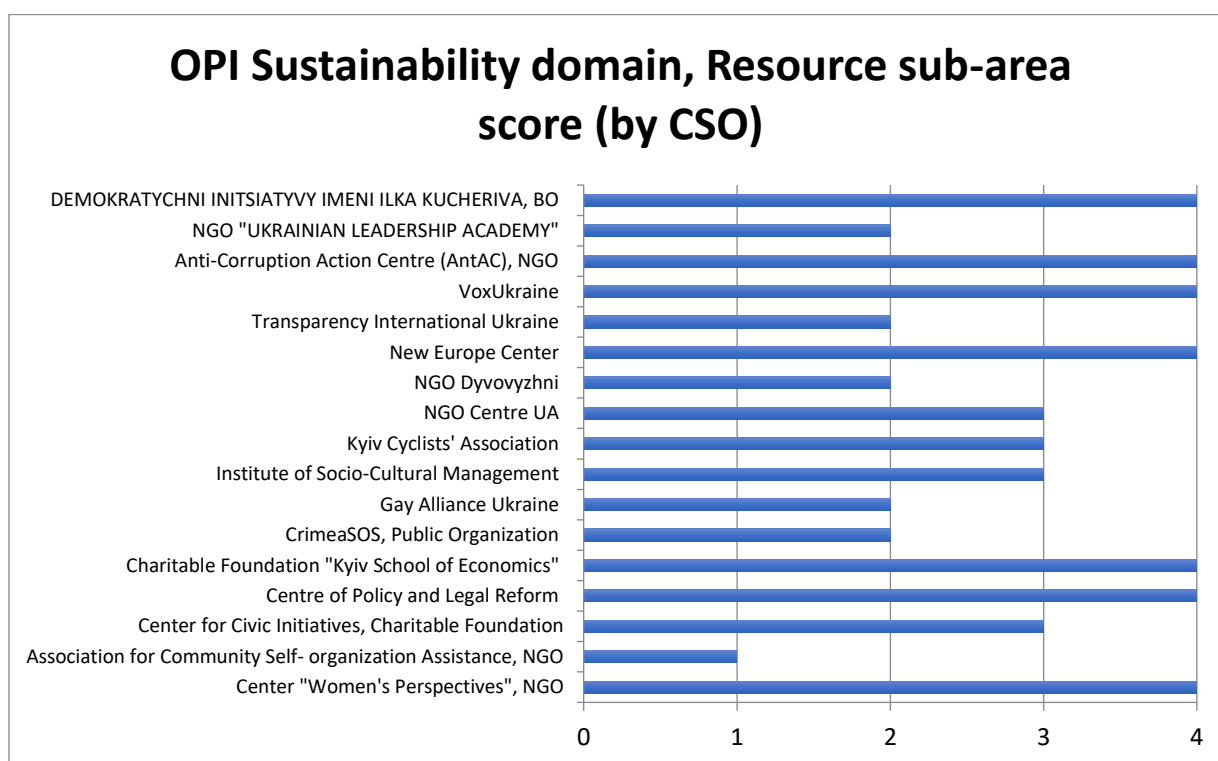


Figure 3. OPI scores on financial sustainability of 17 Ukrainian CSOs



Taking into account the result of the performed exercise, USAID/ENGAGE worked with 9 civil society organizations to include financial sustainability efforts into Capacity Development Plans as the part of three-year institutional core support. Taking into account that USAID/ENGAGE plans to conduct Organizational Performance Index exercise repeatedly for its core support partners, CSOs ability to enhance of financial sustainability will be tracked over the next few years.

USAID/ENGAGE, in close consultation with USAID, and other stakeholders, continues to develop Sustainability Strategy to guide ENGAGE and other donor efforts on how to promote durable civic engagement. The strategy will provide recommendations on pursuing one of the financing models set forth in the UNITER Feasibility Study⁸ or alternative models. Moreover, it focuses on actionable steps for developing parallel elements of sustainability, such as local resource mobilization, private sector engagement, and supportive government policies. [1]As the part of the Sustainability Strategy, USAID/ENGAGE will continue support to CSOS for fostering the diversification of the financial support.

Analysis and conclusions:

- There is a limited number of research and publications in the field of civil society developments, and CSO financial sustainability in particular. Existing research digs into the key funding sources and distribution of funding, yet lack the analysis of why certain stakeholders are reluctant in supporting CSOs' activities. Therefore, there is a need for deep, qualitative research on the topic.
- Civil societies in Ukraine remain greatly dependent on the funding from international and local donor organizations. CSO should continue diversifying their funding by involving supporters and volunteers, building relationship with business and practicing social entrepreneurship, which would allow to ensure sustainability of their initiatives and activities.
- Ukrainians are ready to support civil society organizations in fulfilling their vision and mission, yet such support remain quite low. Developing user-easy instruments that would allow people to financially support the cause of the civil society organization both could ensure that CSOs have regular funding from public for their activities (even if it remains on the low level) and might increase the number of citizens ready to do so. This is the same true for businesses, which do support civil societies in Ukraine, but their support remains low.
- Civil society sector needs a funding strategy and set up financing mechanism. Such mechanism should reflect the diversity of organizations and their activities, as well as variety of needs of the sector.

⁸ https://pdf.usaid.gov/pdf_docs/PA00M1SR.pdf