THE EXISTENTIAL FUNDING CHALLENGE FOR NORTHERN INGOS

How pre-existing challenges of a decline in INGO income in recent years was already a slow onset threat to the continued existence of some northern INGOs, and why pre and post COVID factors mean that many INGOs /NGOs will have to close, shrink rapidly, or merge in the near term.

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May 2020

Contents

The existential funding challenge for northern INGOs

Income is not everything. For mission driven organisations it is an enabler rather than the purpose, providing the resources to achieve impact. For the public, a way to make a difference and stand in solidarity with the individuals and communities the INGO serves. Income is not everything, but it is needed for continued existence.

Even before COVID, Northern INGOs with long term development and humanitarian mandates were facing, and in some cases already experiencing, an existential challenge to their economic survival. Rapid income growth over many years had plateaued and, collectively, started to drop. This paper draws on the already concerning trends pre-COVID and why, post-COVID, the drop in income for most INGOs will accelerate rather than revert to pre-existing levels. Some INGOs will, by making very significant strategic changes, be able to respond, those that can't will need to close or merge.

The challenges northern INGOs face in terms of relevance, legitimacy and trust with stakeholders combine with funding challenges to exacerbate this potential collapse and disappearance of some of their number. (The challenges for the future of southern NGOs/CSOs are not covered here.)

The world still very much needs northern INGOs. This paper is not intended as a critique or judgment of northern INGOs, their Boards and Executive teams.

This analysis and recommendations are intended as a support to those governing and leading northern INGOs – whether multi member "families" or unitary organisations. Without them, the global social justice movement would be undeniably weaker and less able to address the global challenges of climate change, inequality and the ability of every citizen to exercise their rights. The list of these passionately and very capably led INGOs, extends further than those used for this analysis and also draws on learning from many other medium and smaller INGOs. We need northern INGOs to be financially sustainable, rather than disappear. Pre-COVID trends were already increasing the risk of some collapsing over the next 5 - 10 years. That timeframe and horizon has now shrunk radically and we will see some NGOs disappear much sooner than that.

The bricks and mortar retailers and restaurant chains that had failing business models before COVID were the first to go bankrupt, a second wave will occur later. But those that use this moment to transform stand some chance of survival. Pre-existing challenges means that many INGOs are very much in the same boat. There have been announcements in May by members of INGO families who are having to rapidly shrink because pre-existing challenges have been compounded by COVID (e.g. Oxfam Australia). Some national NGOs are already discussing mergers behind the scenes.

Some potential areas for strategic decisions by Boards and Leadership teams are outlined at the end of this paper. These include addressing focus, purposefully scaling down, investment, mergers, relevance, niche etc.

Ultimately it is about the strategic vision for where your INGO / NGO needs to head between now and 2030 rather than where it will otherwise be forced. There are several future paths for INGOs – three possible paths are to *transform*, *die well or die badly*. The first two are potential ways to achieve the mission, needless to say the latter is not.

Strategic responses to the declining income across the sector were already necessary before COVID. Now those strategic decisions need to be made in a shorter timeframe to ensure that the shared vision, values and roles of northern INGOs are harnessed to achieve the social justice mission.

About the author

The author has worked in the INGO, Social Justice and not for profit sector for nearly 30 years. He has held senior leadership and Board member roles in a variety of international and UK based organisations. He has deep experience in leading Strategy and Transformation programs, supporting restructurings, governance and INGO /NGO mergers. For his first 15 years he was in fundraising.

As Director of Strategy for Oxfam International, he ran the global strategy process and for 5 years the global transformation and change program.

He has provided consultancy support to, amongst others Concern Worldwide, Islamic Relief Worldwide, CBM International, Oxfam, Terre Des Hommes International Federation, ECPAT, Forest Peoples Programme. He has been a visiting Fellow of the TNGO Initiative, Syracuse University and recently a contributor to "Between Power and Irrelevance – the Future of Transnational NGOs".

Methodology and sources

The data and information used in the analysis underpinning this paper are all available in the public domain. It has been collected by the author over more than a decade as an evidence base for strategic insight and planning. The main sources are the Annual Report and Accounts of 7 of the largest INGO families – both their International consolidated reports and member reports. Also used are the reports submitted to Accountable Now by member INGOs. Other sources, such as the OECD's DAC data set and longitudinal analysis have always also been useful.

To make sense, accurately compare and analyse the information contained in these many reports and accounts over the last 10-15 years, also necessitates sector expertise for the understanding of each of the families in the cohort. Each of the 7 INGO's has attracted and lost national members, adjusted its mandate and changed the purpose of its Secretariat and International structures over the years. Categorisations and classifications are also slightly different by family. The author's interaction with senior executives and staff in each of these INGOs has provided that essential knowledge. The lag time for the publication of Annual Reports and Accounts means that almost all the data here covers the period up until the end of 2018 (or March 2019).

The 7 INGO families (all Federations / Confederations with multiple national members) that are the basis of this analysis are the ones where continuous longitudinal data and information is available. They are World Vision International, Save the Children, Oxfam, MSF, Care International, Plan International, Action Aid. [1]

There are other INGOs for which data has been collected but where the data is not continuous and therefore, not possible to use in a 15 year continuous cohort. If you would like your INGO included in further studies or further understanding of how it compares then please contact the author.

If you are interested in the next level of detail for fundraising products, channels, segments and sources for each national market please see the International Fundraising Leadership forum's peer review work. If you are interested in the factors that help or hinder INGOs make and implement the tough strategic decisions then please also read "Between Power and Irrelevance - The Future of Transnational NGOs".

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[1] "Human rights defender" campaigning organisations such as Amnesty and other primarily campaigning organisations, like Greenpeace are not included in this analysis as their mix of income sources and organisational growth has been different.

Income 2003 - 2018: growth, rapid growth, plateau & decline

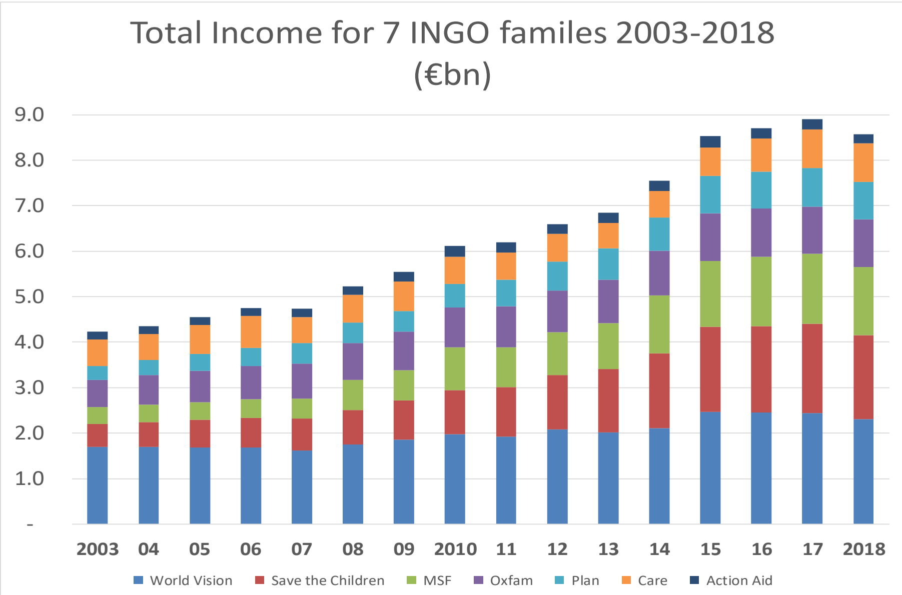
In the Boards and Executive teams of many Humanitarian and Development INGOs there has been a long-held view that growing income will, in the broadest terms, grow impact and thereby better achieve the mission. As more and more programmatic needs were identified, this view made sense, and became more firmly held as their INGO "professionalised" and increased its contract based funding. This in turn enabled growth in the number of countries it programmed in, thematic areas and diversification of overall approaches (such as advocacy and more partnering).

To drive impact further, executive teams have also focussed on improved programme quality, more sophisticated programme approaches, better targeting of programme spend and, for some, aspiring to become more "globally balanced" organisations.

However, in recent years the stronger headwinds in income raising, the increasingly restricted nature of that income and the size of the INGO superstructure, means the economic model of many INGOs puts them in jeopardy. Even surviving 2020 /2021, the strategic freedom to adapt in order to deliver their mission is highly constrained unless bold decisions are taken soon.

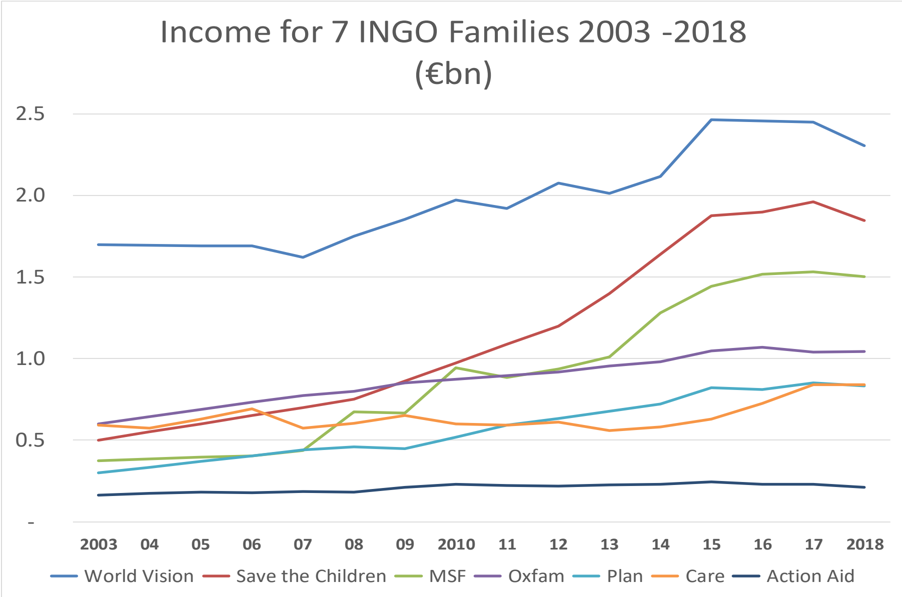
The growth in income for northern INGOs from 2003 until 2018/9 has seen distinct phases. Firstly, moderate growth from 2003 to 2007 followed by rapid growth from 2008 to 2015 followed by plateauing and now declining growth from 2016 to 2019.

Figure 1



The collective trend over these three phases is broadly mirrored in each 7 INGOs in the cohort (with the exception of Action Aid where the middle rapid growth phase did not happen). Whereas year on year variations have very clearly occurred in the past due to the highest profile humanitarian crises e.g. Ethiopia famine, Bosnian war, Rwanda genocide, Asian Tsunami, Haiti earthquake, there has not been a flattening / decline over a four year phase before. Even the three INGOs which tripled their income in the rapid growth phase (Save, MSF, Plan) have seen the same flattening and decline.

Figure 2



Note: where INGOs have reported in $ these have been converted into € using the relevant year's OANDA exchange rates

The overall shape of the three phases has largely been driven by the rapid increase in 2008 -2015 in income from institutional grants and contract funding. The growth in this source has slowed and declined recently. At the same time individual giving income has been hard to generate, on a slower growth trajectory and with decreasing rates of return on investment. The combined effect of the two has caused income to plateau and decline.

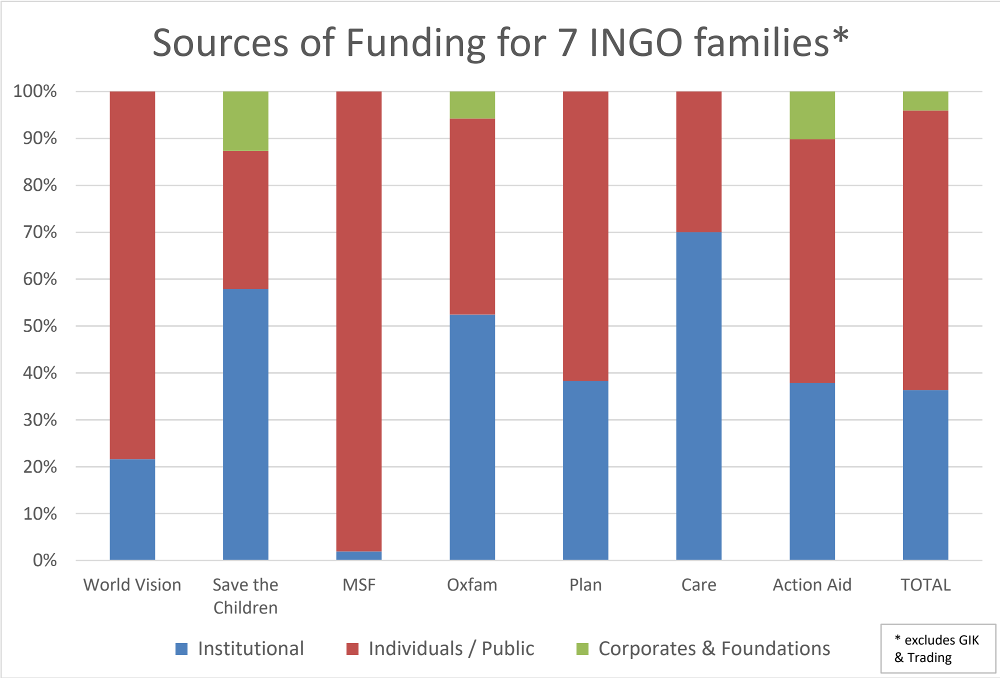
Sources of Funding

For many across the sector, the growth in individual giving simply didn't keep up with the growth in contract income. The exception is MSF, who secure 96% of their funding from individuals / the public. Without MSF the other 6 families collectively only raise 44% from individual giving.

The dependency on institutional / contract funding for a large part of their income is more pronounced in Care (64%), Save the Children (55%), Oxfam (52%, once the anomaly of its Trading income is removed).

There is the added challenge that contract funding is more restricted in its uses whereas, voluntary income is more often unrestricted or lightly restricted. The faster growth in the former from 2003 -18 also means that the ratio of unrestricted to restricted income has declined. Many Boards and Executive teams have seen income swing from the majority being unrestricted or lightly restricted to the majority being restricted and much of that highly restricted. At the beginning of the period a 60 UNR / 40 R split was seen as worrying and something to address. By the end of the period some INGO Boards are trying to halt a decline to below a 20 / 80 split.

Figure 3



Notes:

1. The percentage splits are from 2018 data for each family with the exception of CARE (latest Annual Report being 2017) and World Vision (who have not published their splits since 2016).
2. The large GIK, Trading and "other" figures for World Vision Int are due to Goods In Kind and for Oxfam are mainly from their trading operations (1,200 shops around the world).
3. Oxfam and Action Aid report their foundation income separately to their other Institutional money. Save the Children has also successfully grown income from much larger corporate partnerships than all the others.

The ability to access such significant amounts of institutional funding is dependent on *leveraging* unrestricted income, as this can be used in running the "superstructure". Country offices, regional and global programme management, MEAL, programme quality, compliance, governance support, investment in innovation, cash for pre-financing, a core institutional fundraising capability (globally and increasingly locally) are all needed. Some can be covered by direct and indirect cost recovery but by no means all.

The agility to respond to Humanitarian crises and the flow of income for them, requires immediately available, unrestricted cash to pre-finance the response – which might or might not be recouped when donors start appearing – and global, regional and local capacity that can deployed and scaled up to deal with absorption capacity challenges.

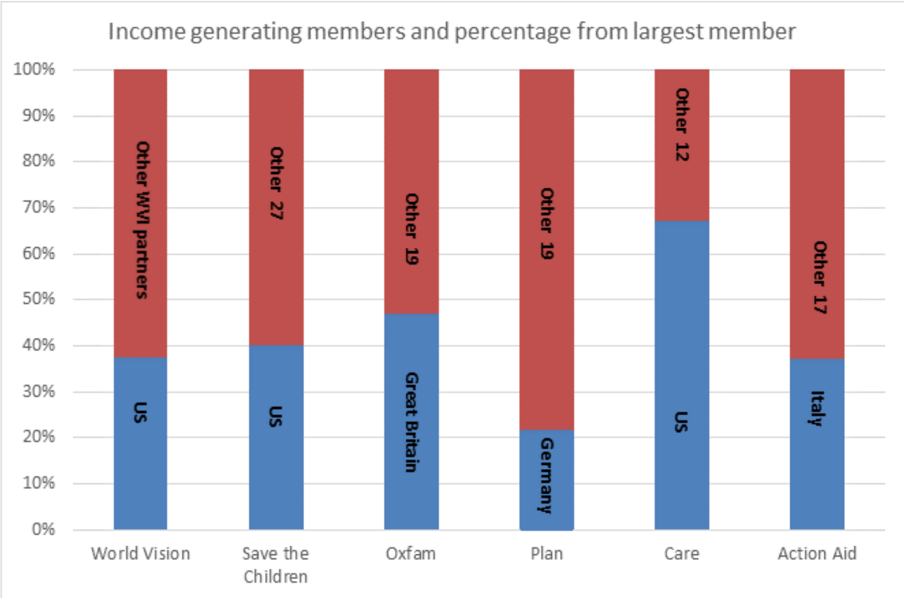
Funding for advocacy work has always been a challenge, some supporters like the approach but over the years it has been hard to translate that support into funding. Some Foundations will, but otherwise it has to come mainly from unrestricted income from the public supporter base. This has created a disconnect between, for example, funds raised from a child sponsorship ask and the use of it for advocacy at global summits, even though the latter can produce longer term and larger impact.

The need for sufficient unrestricted income from individual givers to fund superstructure which in turn can leverage institutional income does not make an easy or compelling fundraising ask. The imagery and nature of public fundraising asks and the share needed for superstructure has been a problem for decades. The increased use of individual donations for leverage purposes has increased impact but does create a thorny accountability question.

INGO families' dependency on a few members: "the big 1" issue

The historical roots of the different families and subsequent growth into more countries mean that each has many members. However, regardless of the number of members or investment approach, each of them (barring MSF) is dependent for a significant percentage of its income on the biggest income generating member or biggest 2. This means that the ups and downs of that member's home market have a disproportionate effect on the whole family – and its sustainability. Recent crises for Oxfam GB and Save the Children UK and the impact on their income – and thus their wider Confederation / Federations - are examples.

Figure 4



Notes:

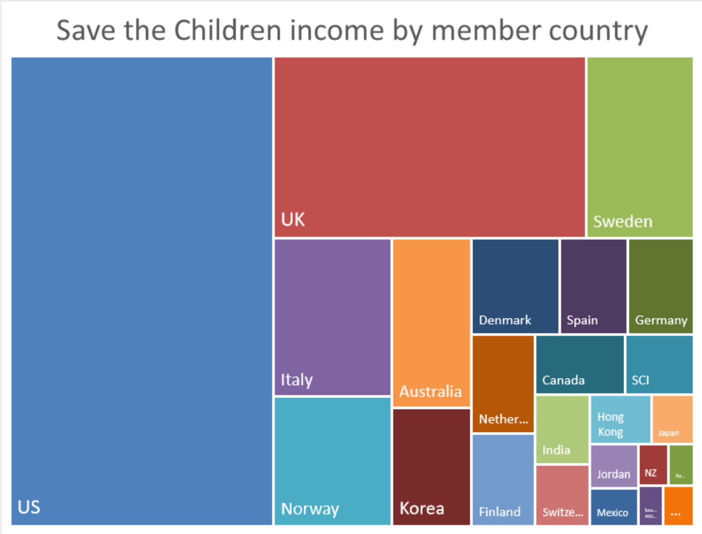
1. The arrangements in MSF (its 5 operational centres and each one having defined relationships with a specific set of members makes its picture more difficult to disaggregate - however it does have a greater spread across more members than the others
2. The treatment of cross member transfers and "elimination" varies to some degree across the other 6. whereas Save the Children's numbers are a result of much larger corporate partnerships

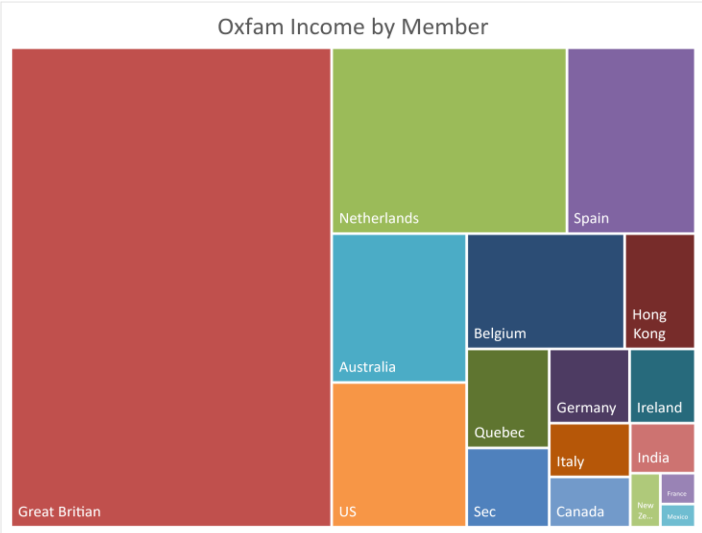
The rationales for growing the number of national members vary. For some families it has been about expanding into new fundraising markets (e.g. Save), for others it is about becoming more globally balanced and with a one member one vote approach (e.g. Action Aid, Oxfam, CARE).

Although the growth in members has happened with the best of intentions, there are very significant power imbalances between members of the family. Even when these are surfaced, they are not easy to address (Save the Children, MSF and Action Aid in different ways perhaps being more successful than others). Many other medium sized INGO families have the same "big 1" and consequent power dynamic challenges.

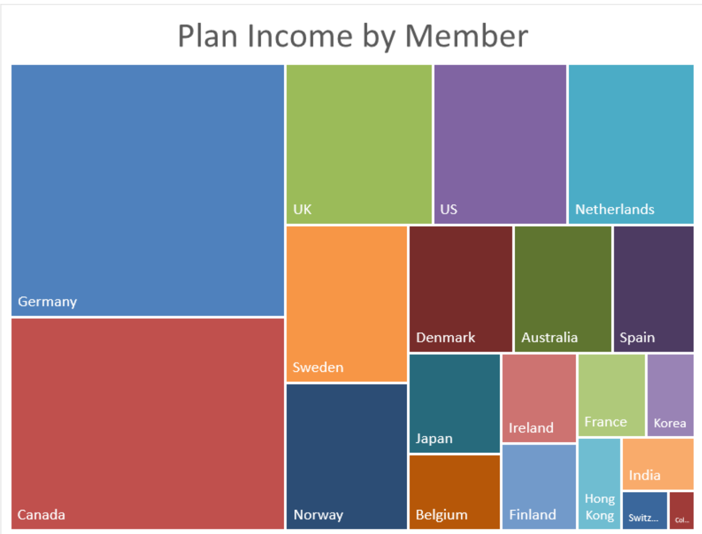
Beyond the "big 1" it is usually the next 2 or 3 members that bring in most of the rest of the income. Two examples are Save and Oxfam.

Figures 5 -7





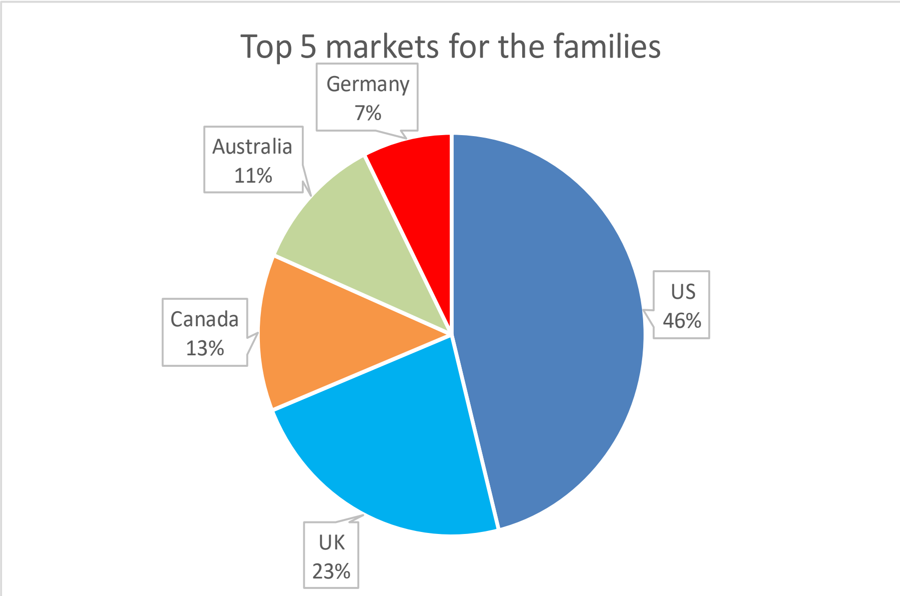
Even for those with the most diverse spread, it is still the case that the majority of the income still comes from a few national members.



Reliance on the same handful of markets / DAC donors

The lack of diversity in income by member is one of two related issues. The other being that the families are largely dependent on the same handful of countries for their individual supporters and state development cooperation donors.

Figure 8



Notes:

1. Does not include MSF (for same reasons as figure 4)

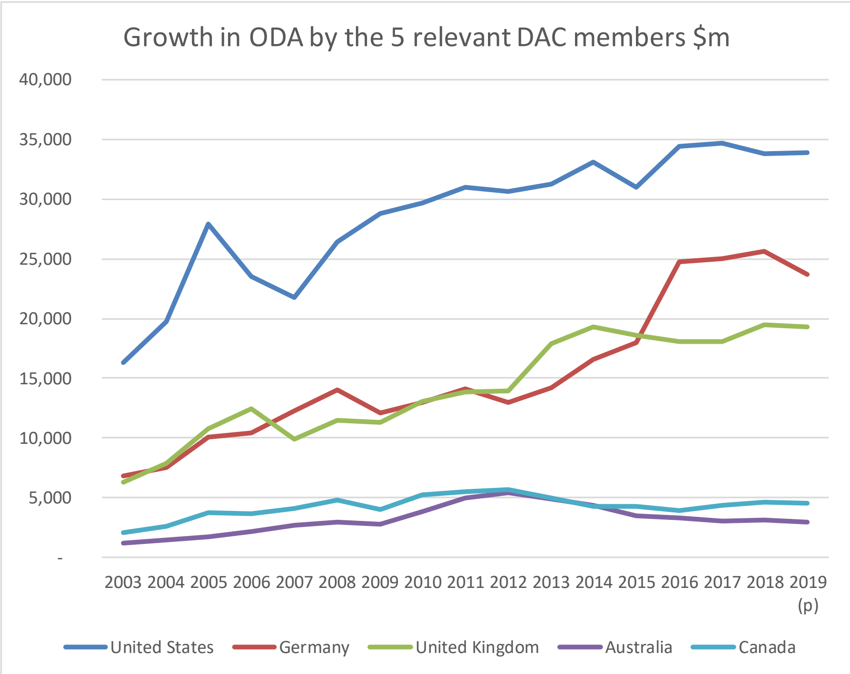
The combination of the "big 1" and the dependency on few markets, give rise to several challenges:

1. INGOs are competing with each other for income in the same markets
2. All are saturated markets
3. They represent most of the international development and humanitarian spend globally
    a. The US, Germany and UK account for 51% of ODA spend by the 29 Development Assistance Committee (DAC) member countries
    b. The next tier of countries (with the exception of Japan) are also countries which are at saturation and the same INGOs have already been present in them for many decades (Sweden, Netherlands, Italy, Canada, Norway, Switzerland, Australia, Spain, Denmark, Belgium).
4. ODA and individual giving in "new" countries in the global south is very small *and* northern INGOs are not the preferred recipients
5. If public awareness (and thus political support) for an issue is lower in these countries than in the rest of the world, it is hard to raise income for the whole.

Additionally:
These are the countries from which the majority of global ODA comes. This is a consequence of public support for international development and for responses to humanitarian crises – both as individual givers and as electors mandating their governments. Consequently, it is understandable why these are the markets in which INGOs "compete" for funds.

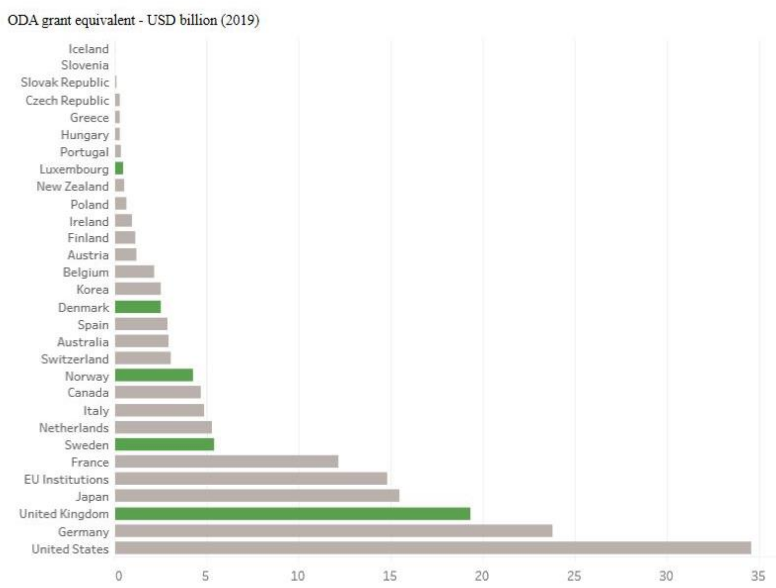
The challenge is that these are also countries where government ODA spending in absolute terms has followed the same trajectory of growth, rapid growth, plateauing as for the INGOs in figures 1 and 2 and especially those most dependent on institutional funding.

Figure 9



In absolute volume terms, the US, Germany and UK provide 51% of all ODA from DAC member nations. With Japan and France this rises to 69%. Whilst most of this *doesn't* go through INGOs (and the share has been declining in some countries) dependency on the big three cannot easily be mitigated by accessing ODA channelled to INGOs by other DAC donors.

Figure 10



ODA on a grant equivalent measure by members of the OECD Development Assistance Committee (DAC). Preliminary data for 2019.

Changes and headwinds in the fundraising environment

Outlined below are the pre-existing challenges. For short term COVID and medium term COVID challenges please see the later section.

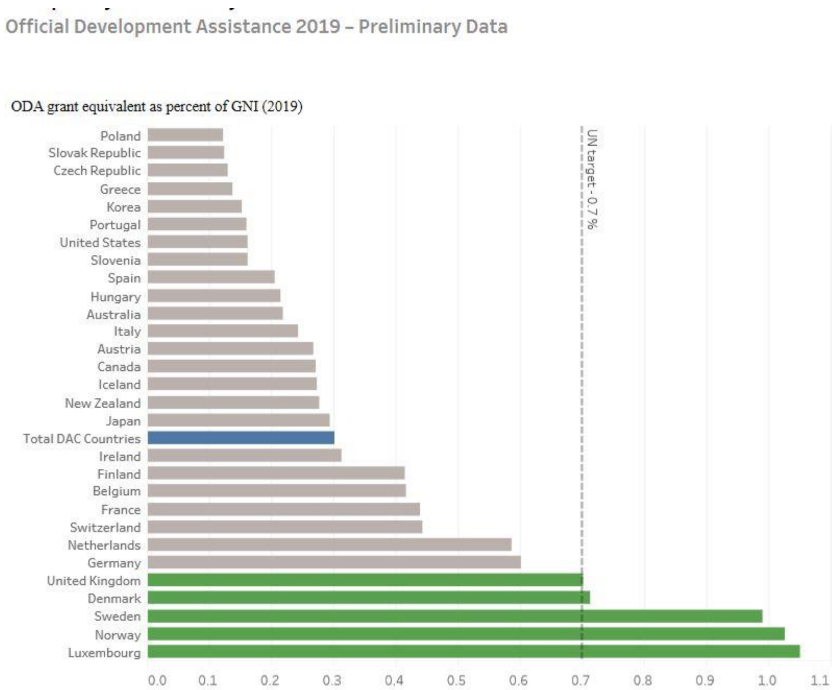
In the unlikely event that there was a return to “normal” post COVID, the underlying trends mean that northern INGOs still have a perfect storm of income challenges that would drive *some* to the wall. The impacts of COVID will merely shorten the timeframe over which this happens.

a) State actors – development co-operation / international development funding

The 0.7% of GNI commitment has produced significant growth in development cooperation funding over the years – but now less so over the last few as even the more progressive and committed state donors:

- Have pulled back from 0.7% - the total for all DAC countries is 0.3% (for example, one of the star donors - The Netherlands - used to give more than 0.8% but In the last 5 years has dropped to under 0.6%. Only 5 of the 29 DAC countries now give 0.7% or more (Luxembourg, Norway, Sweden Denmark, UK).

Figure 11



- No longer provide core funding or semi restricted PPA or framework agreement type funding (which was a hallmark of donors like Netherlands, Denmark, UK). The two waves of cuts in Christian Aid (pulling out of some countries and then having to further focus down from 24 countries and to 15) in the last 18 months are a direct result of not securing a replacement for their 4-year funding from DfID.
- Cut out smaller NGOs (DfID many years ago and SDC has just implemented a lower threshold of €10m annual turnover below which it won’t fund).

- Increasingly expect NGOs to pre-finance out of their own unrestricted cash (this caused Merlin to have to merge into Save)
- Have come out of entire regions (e.g. UK out of Latin America)
- Have been recategorizing spend in other ministries as Aid (especially Foreign Affairs)
- Within the diminishing pot, have been allocating a greater percentage to multi laterals and/or private sector actors
- Have introduced value for money and results based approaches to funding
- Use consortia approaches to pass more of the risk to the NGOs leading the consortia
- Have hugely increased compliance requirements

The bigger challenge is the rise of populist and isolationist governments in some of these countries leading to a significant loss of political support or interest in long term development, and some of the more protracted humanitarian crises. Alongside this is the short, medium and long term need of European / US donor countries to rebuild their economies and service their now massively increased debts – taking focus away from ODA. The downgrading relative to other priorities means that some INGO leaders are concerned that development cooperation ministries will lose independent status (e.g. that post BREXIT the UK government could merge DfID into the FCO as happened in Canada with CIDA moving into Foreign Affairs – and give it more of an overtly trade related focus). Antipathy towards INGOs campaigning agendas on inequality and perceived political leanings is also more overtly being used to challenge the 0.7% approach.

Although the experts inside USAID, DfID and others, understand the realities of International development and Humanitarian programming, the departments cannot entirely mitigate the changes to shifting political priorities in the amount and use of ODA. This has been seen in Canadian and Australian ODA spending in previous changes in administration.

Overall, this means that the "cake" has stopped growing, the range of themes / geographies and approaches that these donors will fund is narrowing – and the costs of processes / staff / professionalism to manage donor requirements (especially compliance) have increased enormously but Indirect Cost Recovery for the necessary superstructure hasn't.

Some of the newer state donors (e.g. the Gulf, Brazil) and newer institutions like the Asian Development Bank aren't necessarily as interested in Western / northern INGOs / NGOs as the NGOs are in them. Nor are the amounts of funding they collectively allocate sufficient to fill the gaps in northern institutional funding. Mixing public campaigning with securing institutional funding in these countries is also harder than in those where the INGO is "Headquartered".

Some INGOs have been accused of going for institutional money opportunistically when they don't have the thematic focus or expertise to deliver those grants. The criteria for when to take money and for what have become less robust in some INGOs as existential challenges have built up.

Responding to the changes / flattening / decline in institutional funding has suddenly got a lot harder with COVID. It would be pleasantly surprising if the need of many of the Western European states / US to rebuild their economies and tackle the surge in government debt / deficits didn't affect development cooperation budgets. Unfortunately, there is a strong likelihood that it will accelerate the decline. For the reasons outlined in earlier sections, this will make quite a few northern NGOs financially unsustainable – and we will see some collapses and forced mergers.

b) Foundations

For some of the large (more campaign / popular mobilisation minded) INGOs and medium and small "human rights defenders" there has been a move to secure (primarily US) Foundation grants as a replacement. This is because they will fund more innovative / riskier approaches, advocacy, give a higher percentage for NICRA/ Indirect Cost recovery and are often willing to fund over longer periods. They have, even in the more recently endowed foundations, been able to attract high quality expertise that understands the complexity involved in achieving outcomes / impact (e.g. how the Gates Foundation rapidly developed over its two decades).

However, the rush to the same foundations (Ford, Rockefeller, Hewlett, Gates, OSF) outweighs the availability of funding – and there have been unrealistic expectations by some smaller NGOs as to how much they can get, for example, for core funding. It is also the case that the endowments for Foundations have taken a significant hit because of COVID and thus the funds available from them in the medium term. (See Hewlett example.)

c) Disintermediation

There was much talk about the threat to INGO/NGO funding from disintermediation (as part of a wider localisation agenda) - where institutional donors would start going direct to southern partners / NGOs. In reality the result hasn't yet been as severe as when the Grand Bargain was agreed in 2016. In many fragile and conflict affected states the reality is that northern INGOs are securing the same funding by direct engagement with the funder's representative at country level as well as global level.

Disintermediation by public / individual donors hasn't manifested as deeply as expected either – *yet*. This could well be a matter of time to manifest rather than the underlying trend disappearing.

d) Public / individual giving

This has been a huge challenge for most agencies over the last decade (with notable exceptions) and why the rapid growth had been coming from institutional funding. There are a set of interrelated challenges for northern INGOs

- The main markets (US, Western Europe – including UK) are saturated
- International development ambitions and Humanitarian needs are not as high on the public consciousness as they were in e.g. the "Asian Tsunami" and "Make Poverty History" years of 2004-5. Amongst ourselves we know the issues are just as important now as they were then and we talk about them just as much but the attention of the public and media outside our "bubble" has diminished.
- Humanitarian crises, although there are many more, are mostly protracted and "political" rather than natural disasters – making it hard to get media interest – which is absolutely core to successful public appeals
- Longer term declining trust in NGOs / charities (exacerbated rather than initiated by the 2018 PSEA coverage) shows up across most countries. As shown in the long-term tracking in the Edelman Trust Barometer and Globescan surveys.
- The aging profile for regular giving supporters means large numbers of retirees reducing or, at end of life, ceasing their donations. Note: although legacy income has grown a little, international development attracts far less legacy income than health, hospice / care charities.

- The Millennial generation onwards "join issues not organisations"
- Cost of acquisition of individual donors has increased significantly with ROI down to half the level it was at the beginning of the period and, for products like face to face fundraising with payback periods now extend beyond 2 years due to high "lapse rates".
- Tired fundraising products e.g. £2 a month – and products that have not significantly changed but don't necessarily reflect the changes in the NGO's programme approach (e.g. Child Sponsorship which is a major part of Action Aid, World Vision and Plan's income).
- Longstanding INGOs having difficulties in keeping up with and maximising digital channels. The agility and collective digital mindset of INGOs lags some way behind the new digital entrants. in Interaction's 2019 NGO Futures CEO survey, this was the highest rated trend CEOs identified as affecting their organisation.
- The 2008 financial crisis and its impact on disposable income had made the environment hard - the likely protracted recession and mass unemployment from COVID will entrench that.

Additionally, the focus on institutional funding has meant that some INGOs have not necessarily kept the same level of engagement with their grassroots volunteers, the ones who generate community based fundraising, and could even be accused of having taken them for granted.

This picture for public fundraising is undoubtedly gloomy, but there are some rays of hope:

- Faith based INGOs (see Islamic Relief, World Vision) have grown their individual giving – from obligations to donate – and making international development / humanitarian an even more inspiring channel for that (e.g. Zakat, Qurbani and orphans). It is notable that Water Aid have developed a Zakat product.
- "Single issue" charities (as they are perceived) also such as Water Aid are doing well – probably related to the "issue not organisation" sentiment of millennials on top of strong investment
- Rapid onset humanitarian crises – especially natural disasters still have resonance IF they get media coverage
- Much more expert use of supporter journeys has enabled some NGOs to maximise the income from the supporters they do attract and retain (not all the NGOs are as expert though….)

Approaches to growing the family

Whilst the three phases of growth are very similar for each of the INGOs (except Action Aid). The strategic decisions made at Board and Senior level on the approaches taken to growth have been different. That is not to say that each approach has produced the aimed for results and sometimes opportunistic moments presented themselves.

For each family, its strategic approach to future organisational form and growth is aligned to its own Theory of Change for achieving impact through humanitarian, long term development and advocacy.

The different long term approaches to increasing their NGO family include growth:

- Through focus on fewer themes and at scale to become the "go to agency" for funders they already had relationships with and new ones e.g. Save in US, UK
- From investment in new OECD fundraising markets like Japan or Korea. E.g. World Vision, Save (Oxfam in a smaller way)
- To achieve a more "globally balanced" family – growing members from the global south to "democratise" and for legitimacy, relevance, accountability (and related to the external advocacy / popular mobilisation approach) e.g. Action Aid, Oxfam and CARE

- From focussed, longer term investment at scale in strategic markets for individual giving (MSF)

The nuances in rationales, approaches, sources, products and markets for each of the 7 INGOs in the cohort are outlined in more detail in the annex.

Immediate COVID issues and *Possible* Post COVID implications

It would be a foolish person indeed who could predict the outcomes of COVID for the missions, organisational forms and existence of northern INGOs.

This paper outlines the pre-existing trends and the more recent headwinds from 2016 onwards that were already creating income challenges for northern INGOs.

At this point it is not possible to do robust analysis of the future impact COVID 19. The following notes on the potential longer-term impact of COVD 19 are based on conversations with INGO CEO / Executives and some US academics specialising in INGOs/TNGOs, all in the late March / April period.

Almost everyone in an executive role is occupied in the second quarter of 2020 with scenario planning. The immediate drop in *public* fundraised income and covering of costs being the main driver. The projections for loss of public unrestricted income in 2020, as shared by CEOs and Fundraising Directors, have ranged from 10% to 50% in 2020 depending on the mix of fundraising products/channels, estimated duration of the acute crisis phase and guesstimated trajectory towards the new normal.

In the *short term*, despite the headwinds and dependence on institutional funding, having a much higher percentage of income from already secured contracts gives those NGOs more time to manage cash and plans for a soft landing. In the *medium term* operational challenges in delivering on existing contracts disrupts the future pipeline. The *long term*, however, is a different challenge. Partly because northern governments need to rebuild and simultaneously manage hugely increased public debt – with the knock on effect that no *additional* ODA money will available and 0.7% is no longer a widely politically supported goal.

Some NGOs were already in the process of implementing restructurings as a result of the 2018 / 2019 declines in income outlined in this paper. The willingness by some northern governments to provide money for job retention gives a very short term respite in mid-2020. However, the restructurings will need to be deeper and for Boards and leadership teams and all the more psychologically painful as valued colleagues will be leaving for a very uncertain job market.

It has been the case in previous strategy development processes that some NGOs have overestimated the longer term impact of a zeitgeist issue (an example being the Arab Spring which created enthusiastic projections for the level of change active citizenship / popular mobilisation could generate in their next five year strategy) – whilst under estimating the impact of the great financial crisis of 2008 on their 5 plus year income. The INGO futurists / strategist group that produced the excellent 2016 ICSC “Exploring the Future” analysis of mega trends, identified the rise of nativism and weakening of global governance bodies and international leadership on issues from climate change to Syria. At that point in March 2016, very few predicted the double whammy of June’s UK BREXIT referendum and the outcome of the US election in November.

The global nature of the COVID 19 short and medium term impacts makes it much more like the GFC. For many of the mega trends already extant in the external analysis it is probably more a case of the crisis amplifying or hastening their effects (as BREXIT and the US November elections amplified the weakening of global leadership and inward looking focus of many governments).

Key thoughts which have been shared verbally or in emails so far, and not supported yet by detailed research or policy papers, range from the small and immediate, to long term and more profound. Perhaps not a surprise but the list of potential negatives is longer than the potential positives.

On the negatives side, issues and potential challenges <u>mentioned</u>, included the following:

- A further rise in nativism in the normative thinking of northern / western populations leading to:
    - Turning away from international development issues
    - Further weakening of global governance,
    - A rise in "Charity begins at home and stays there"
- Further undermining of the validity of rights / "social values" by a range of governments - from Hungary to Brazil - and those more dependent on FDI from China - leading to
    - Faster shrinking of civil society space – for example the clampdowns on the media and activists in countries like the Philippines.
    - A rejection of the rights-based approach to human development
- Use of COVID lockdown to eject INGOs from IDP / refugee camps (e.g. Cox's Bazaar) which will make it harder to re-enter
- The greater indebtedness of northern governments and consequences (as raised earlier)
- Reduction in funding from US Foundations – Hewlett have formally announced that their endowment funds have shrunk by so much that though they will be able to meet this year (2020) and 2021 commitments, their available grant funding is significantly lower and they will not be using their usual unallocated budget for new bidders.
- Commodity price collapse disproportionately affecting Africa and parts of Latin America
- China: if the long planned "soft landing" for its economy now becomes a "hard landing" how will its internal debt mountain unravel? What are implications for every country which has built up debts as a result of China's Foreign Direct Investment approach?
- Media attention for already low visibility ongoing humanitarian crisis disappears almost completely in the short and medium term
- Inequality accelerates "intra" country, "inter country" and between global and national
- Retailers and manufacturers (clothing, FMCG, automotive) concerned about secure supply chains look for "closer to home" solutions, disrupting successes in lifting people out of economic poverty in East / South Asia and increasing urban poverty in those countries
- Unrestricted income from individuals declines in the short term *and* the longer term from
    - Diminished interest – as above
    - Lack of cut through with media now and over next few years
    - Activity led fundraising (e.g. sponsored events, charity shops in the UK) – which generates primarily unrestricted income has ceased in the immediate term with no clarity that it will return to pre COVID levels in the medium term.
- Reduction in unrestricted income reduces the INGOs ability to:
    - use unrestricted income to leverage restricted contract based funding means even larger drops on the institutional side (leverage in reverse)
    - invest and innovate (e.g. in digital), fund the less attractive but necessary parts of the organisational superstructure and support services

    - control and retain its strategic freedom
- The impact on cash flow / reserves
- Final financial collapse of some long struggling national members of the bigger INGO families (e.g. several mentioning peers or members of their own INGO family which have been close to insolvency in challenging fundraising markets and domestically hostile environments). See also the announcement by Oxfam Australia in the first week of May that it has been forced to halve its workforce as soon as the government job support package runs out.
- For UK NGOs - COVID impacts multiplied by BREXIT impacts – leading, for example, to a reduction in EC funding pots and the diminished ability to access them.

Some thoughts which have been emerging from CEOs / others on potential positives include:

- Recognition of global interconnectedness galvanises public and political support for complex global issues that need global solutions e.g. climate change, inequality, migration
- People's understanding of the precariousness of public health, livelihoods, food security etc will make them more understanding of the challenges faced by populations in other countries and thus more receptive to awareness raising of issues and fundraising asks
- General sentiment about "What really matters" for welfare and "happiness" changes attitudes from ever increasing material consumption and towards less tangible but important contributors – community, health, "acts of kindness"
- A generally increased understanding in government, investment fund managers, TNCs / other private sector boards as well as public and third sector leaders of what globally interconnected means when "push comes to shove" - which might accelerate commitment to working on climate change, sustainable supply chains, food systems
- Normative political economy thinking on neo-liberal / GDP growth model changes
- An injection of institutional funding for health, WASH / WATSAN programming (Water Aid were particularly positive on this)
- "Never wasting a crisis" - using the opportunity to finally make some of the tough strategic choices on themes / sub themes / geographical spread.
- Also, the opportunity to end some pilots in programme, fundraising or others are that had been worth trying but haven't worked and only being kept alive because people are emotionally invested in them
- The opportunity to simplify or cease cumbersome processes – swinging the pendulum back after several years of it swinging to organisational risk averseness and time consuming processes influenced by heavy compliance matters (although mentioned as a short term gain by at least three people, it wasn't clear how the compliance works in the longer term)
- Merger opportunities will arise as some NGOs become more precarious – allowing strategic acquisition of expertise / brand profile (two potential mergers of named NGOs were notionally mentioned)
- In at least one of the families, the option to merge some of the smaller European members into entities like Plan or Save already use e.g. France & Belgium or Austria & Czech Republic.

What might Boards and Leadership teams want to consider as ways to address these existential challenges?

Whilst quarters 2 and 3 of 2020 are occupied with scenario planning, it is possible to begin making decisions that loosely shape the future areas of what to cut or focus on that fit the role, niche, specialisms, geography, and the necessary investment areas. For revising their strategies and, those already about to start their new strategic planning processes, this is the time for major strategic choices rather than easier to decide course corrections.

Some things that Boards and Leadership teams might want to consider:

- It is not just your INGO /NGO's income that will most probably decline, it is a sector and ODA problem, which in a small way is reassuring but at the same time is the environment in which northern INGOs will be operating
- The cake is getting smaller – competition on the Fundraising front will probably become more aggressive, generating smaller returns on investment for all than previously. With whom can your NGO "collaborate and consort" on shared approaches, public awareness raising approaches, superstructure and "back office" support?
- Setting flat at best, but better still, reduced income targets not just for 2020 and 2021 but for the next 5-year period (and realistically even beyond that).
- watch carefully the contract vs individual giving income ratio – resist the temptation to fill the unrestricted hole from individual giving with opportunistic new contracts
- (even more necessary than before) defining your niche / role in a way that can be easily articulated, resonates with and inspires ALL your stakeholders
- Using trusted critical friends from different stakeholder groups to *really* critique your long-held beliefs about your expertise, niche, "unique" approach and especially your relevance.
- On the latter, listening especially to what southern civil society organisations who are not funded by your organisation really think about your NGO's contribution and role.
- Determining what your long term response to localisation is going to be
- Questioning how wide your organisational mandate needs to be e.g. focussed on humanitarian in fragile & conflict affected contexts or global advocacy across (all) countries, regions and global bodies.
- NOT cutting awareness raising and income generation investment (aside from the innovations that didn't work) even though you would like to protect medium term programme spend at current levels. A mistake made in the past by several INGOs. Do as Hewlett has done, with a five-year approach to protect longer term fundraising investment
- Reflecting on whether this a finally the moment in which you can (or have to) merge northern members of your family. This could both reduce costs / complexity *and* improve the ratio of northern and southern members to meet aspirations to become a more globally balanced organisation
- Being realistic about the long-term cost and complexity of creating new members – and how many markets are really likely to generate sufficient income for the national member and the wider family
- Focussing (focussing and focussing) – use the reality and the "opportunity" of funding declines to finally make the hard decisions on those areas that will have to be cut. E.g.
    - Those themes and sub themes that are not your strongest and someone else does better

    - Geography – countries where programme, although good, cannot achieve scale or incurs too much superstructure cost – or no longer includes large numbers of your target group (e.g. tighten to FRACAS)
    - Previously agreed initiatives, innovations and tests that haven't worked but that everyone has been too polite to cut

  For those areas where cuts have to be made – celebrate their past success and mourn their passing – historically they were the right areas to work on, run by great people and generated results. Being brutal in decision making and empathetic in execution.
- Mergers: agree the principles and most important elements of any strategic business case should the opportunity suddenly arise as others run out of cash / funding pipeline
- Acquisitions – based on your analysis and the input of critical friends – be clear what you need to build strength in and, should the chance arise, acquire it (especially digital)

Relevance: niche & role

- seek input of critical friends on your role & real added value in the movement
- especially southern Civil society
- decide on how your organisation wants to respond to localisation
- robustly critique whether your expertise is as unique to your organisation or as strong as you have long believed / wished
- articulate your niche & role in a way that resonates for all stakeholders

Focus

- Cut themes / sub themes that aren't your expertise / niche / core competence or where you don't have scale
- come out of countries where programme scale isn't possible (nd /or overhead ratio too high)
- close unsuccessful innovations
- focus hard so that there is space for adapting in the disruptive / fluid environment

Income: sources & budgets

- set flat or smaller income targets for next 5 years - cut deep for room to adapt later
- watch the contract vs individual giving income ratio - don't rush to fill the gap with new contracts - keep enough unrestricted to stay strategic
- be realistic about size of potential and time to test new sources (3-5 yrs)
- protect public awareness budgets
- collaborate on income generation (where competion is unecessarly impacting ROI

Members & mergers

- lay out rationale & vision for growth or not
- question if new members is right approach for your global balance & localisation aims
- be more realistic about markets for new members or fundraising and time needed
- whether to merge national members in north
- prepare your principles / criteria / approach for opportunistic mergers

Most importantly now is the time to consider the bigger question – will your INGO/NGO:

- **Transform:** to become more relevant, sustainable and better able to achieve the mission, with a more focussed mandate, role, niche that communities want *and* that the wider movement wants from you

- **"Die well"** – merging, spinning out or giving away expertise, programmes and other assets to partners, other NGOs, other parts of civil society in the global south or global north so that they can continue the mission

OR will it

- **"Die badly"** – leaving no assets for other parts of the movement to build on

As said at the beginning of this paper. The social justice movement needs sustainable Northern INGOs/ NGOs whether they have any or all of a humanitarian, long term development or advocacy mandate - just as much now as it did before the plateauing and decline of income.

The preference must be for INGOs to transform and if not, then plan to die well, to ensure that their shared vision, values and role are not completely lost before the mission is achieved.

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For a thorough, deep and broad exposition on why it is hard for INGO governance and leadership to agree the need to change, what to change, merge, obstacles and the potential ways forward please see

Between Power and Irrelevance – The Future of Transnational NGOs from Oxford University Press

George E. Mitchell, Hans Peter Schmitz, and Tosca Bruno-van Vijfeijken. Afterword by Barney Tallack

For futures thinking for the sector that goes *beyond* the existential funding challenge see the work of the International Civil Society Centre's Scanning the Horizon Group, BOND Futures and Innovation Group and Interaction's NGO Futures work.

ANNEX: Approaches, sources, rationales, markets and products by family

Save the Children

There was a very clear moment in 2009 when the 2010 -15 strategy was signed off and the decision made to move from an alliance to a more corporate structure with SCI becoming responsible for managing programme delivery for Save as a whole. This replaced the “unified presence” model which sought, not always effectively, to harness the disparate strengths of the national members in programme countries.

This change enabled Save to become the “go to agency” that could deliver at scale on a core set of themes. This was accompanied by the “professionalisation” of Save, along with an approach to governance that explicitly linked strategic oversight and direction setting to the size of different members’ financial contributions.

These changes enabled Save to attract significantly more institutional income, create a clear and compelling fundraising proposition and to invest in fundraising markets at scale.

Save the Children is highly dependent on Save US (followed by Save UK) for its global income. In addition to the challenges of diversity of markets it creates a power dynamic that Save has explicitly reflected in its governance. Save has invested in other markets and developed new members but it takes a long time – Save India now rises €26m ten years after its creation as a member.

Also notable is Save’s success in attracting funding from corporate partnerships (see note re Oxfam & Action Aid). They are often described as a having a more “corporate” approach and thus able to develop partnerships with the private sector of significant scale e.g. IKEA.

Action Aid

In the early 2000’s Action Aid’s leadership came to the conclusion that the organisation would not be able to make significant impact on poverty and social justice issues only with the income it raised. They felt that and ODA and charity as drivers of development were becoming less effective and that their support to communities that could hold state actors and other duty bearers to account was the way to achieve deeper impact. The profound and visionary Board decision in 2003 to transfer power from Action Aid UK to the international body was made with the intent that over time the existing national members would be joined by programme country offices becoming national members.

This meant that in the intervening years Action Aid has invested in its southern members - not as fundraising market prospects but to create democratically equal members which in turn deliver programme and underpin Action Aid’s national and global advocacy. Not all of these members are financially strong – or generate significant percentages of action Aid income.

In 2018 Action Aid is still dependent on a few members (UK, Italy and Denmark) for its funding. The UK and Italy provide most of the individual giving money still using a child sponsorship model. Action Aid has not managed to grow its income significantly over the 2003-2018 period – and part of the increase that came when Denmark joined ActionAid.

MSF

MSF has a very strong policy position on not taking money from governments / institutions that they feel directly or indirectly create humanitarian crises.

MSF has also been purposeful and, with more access to unrestricted funds, more able to invest in public fundraising across its national members than most others.

It has five members that act as “Operational Centres” responsible for delivery – and each of these is supported by a designated set of national fundraising members.

MSF’s tighter humanitarian mandate and, in fundraising imagery and asks, a tried and tested approach, gives it a much more straightforward / traditional fundraising proposition than some of the others and one that can be rolled out globally more easily than, say Oxfam or Action Aid.

With this proposition, clarity of the role of the supporting national members and availability of resources, MSF has also been purposeful and more able to invest in public fundraising across its national members than most others. For each new market the decisions are for larger, longer term investment than say, Oxfam or CARE have been able to provide for their new members/affiliates.

CARE

The funding engine of CARE has been to use unrestricted to leverage institutional income (with USAID, Netherlands, Canadian and Australian DFATs, Netherlands, DfID being the main sources) hence 55% of total income coming from institutional sources.

A challenge for Care is that two thirds of its public income comes from CARE US creating a huge dependency on this income for CARE as a whole. As other members increase their own income from their national development cooperation donor the margins of public (vs institutional) income are very thin.

CARE made the decision in 2014 to develop southern members with an aspiration and rationale to become more globally balanced (similar to Action Aid and Oxfam).

CARE also has fundraising “subsidiaries” run by national members in adjacent countries e.g. CARE France running CARE Belgium, CARE Austria running CARE Czech Republic.

Oxfam

The affiliates in the Oxfam Confederation have a range of funding models. Largely because the confederation grew as well-established national organisations with different names and histories joined the confederation over the years.

Although not as overarching as MSF, Oxfam affiliates have a range of policies that limit the amounts they can raise from particular donors e.g. Oxfam GB not taking more than 10% of its income from any one institutional donor (with some occasional exceptions) and Oxfam America taking no money from USAID. These policies are for both diversity of funding and campaigning independence reasons.

The popular mobilisation and campaigning work that Oxfam does is hard to fund from institutional sources – although Foundations and some of the national donors that fund civil society building do contribute. The spread of individual supporters doesn’t only raise income but also provides a mandate for the campaigning work. However, in most of its markets it has been harder and harder to increase unrestricted income from new supporters than it was at the beginning of the decade.

The confederation as a whole is dependent on Oxfam GB (not UK as Oxfam NI and Oxfam Ireland are run as one entity) for a large part of its funding – which is operating in a very saturated market.

Like Action Aid, Oxfam has been expanding its number of affiliates from the global south – in addition the necessity for it to address legitimacy, relevance and accountability questions – this also underpins its ability to do national and global level advocacy (which has increased as part of its approach over the years).

Oxfam has two investment pots – one to support new affiliates – and one for investing in fundraising for small and medium affiliates (these overlap to some degree). The growth in members from the global south to a point where they are financially sustainable is a very long journey (mirroring the experience in CARE, Plan and Action Aid).

Like CARE, it has subsidiary fundraising entities in other countries which are run by affiliates rather than being national affiliates in their right e.g. Oxfam NOVIB (Netherlands) overseeing the Sweden fundraising entity and Oxfam GB overseeing the Korea fundraising entity.

Whilst Oxfam (with Unilever or M&S) is able to develop some corporate partnerships, their more visible campaigning activity does make the partnerships more challenging for both sides. Although when they do work it has other benefits for impact e.g. Oxfam helping Unilever analyse the poverty footprint of their supply chains).

World Vision

The World Vision International partnership includes national entities, regional offices and other entities giving it a different approach. It does have a dependency on World Vision US for a large percentage of its income, but not as much as CARE or Save.

Child sponsorship is a key fundraising proposition as well raising public fundraised income from Churches – these are very successful meaning that, once GIK are excluded, it raises nearly 80% of its monetary income from individuals.

World Vision is notable for the amount and percentage of its income it generates from the Asia / Pacific regions.