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**NGO STRATEGY FOR SURVIVAL IN CENTRAL ASIA:  
FINANCIAL SUSTAINABILITY**

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## **Key Challenges for the NGO Sector in Kazakhstan and Kyrgyzstan**

One of the greatest challenges facing non-profit organizations (NGOs) in Central Asia, particularly Kazakhstan and Kyrgyzstan, is how to sustain and support NGO activities financially. The primary reasons why NGOs need to find different strategies for long-term survival are:

- Decreased donor funding in general
- Decreased allocations for the Central Asian region
- Donor focus on new markets, specifically Georgia, Azerbaijan and Armenia
- Decreased amounts for the social programs

The most sustainable financing strategy is to diversify income sources. A sustainable approach to NGO financing is one that avoids dependency on any single source of revenue, external or internal. It is difficult to determine a formula for the percentages that need to be derived from various sources in order to support a “financially sustainable NGO.” However, a balance between externally and internally generated resources is necessary to allow an organization to meet its operating and administrative expenses while maintaining the freedom to determine its program priorities and projects, irrespective of donor preferences.

Most NGOs in Central Asia remain heavily dependent on external financial assistance from foreign donors. In fact, international support constitutes the single largest source of NGO funding in the region. This presents a two-part problem for local NGOs. First, the level of international funding is unstable. Resources for NGOs have been decreasing because many donors have shifted their attention to other priorities — greater need, political expediency or publicly popular regions of the world.<sup>1</sup> Second, existing international funds in the region often are earmarked for particular projects or for limited project cycles. Donors frequently attach specific limitations on how money can be spent, designating particular issues or themes, or specifying support only for program expenses. This has made it difficult for NGOs to raise adequate funds for their ongoing operational expenses. The current donor enthusiasm for project-based funding puts the emphasis on NGO activities rather than on sustaining the organizations themselves. In practice, institutional or organizational development remains a lower priority. NGOs are forced to go “where the money is,” regardless of whether the project priorities identified by a prospective donor mesh with the long-term strategic plans of the organization. This situation has led NGOs into an endless cycle of resource dependency.

## **Strategies for NGO Financial Sustainability**

Counterpart International– Kazakhstan/Kyrgyzstan began implementing a three-year Civil Society Initiative Support program in July 2003<sup>2</sup>. The program’s overall goal is to

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<sup>1</sup> “The NGO Entrepreneur: Nonprofit in Purpose, For-profit in Approach” by Lee Davis, *Surviving Together*, autumn 1997

<sup>2</sup> CSSI program is funded by the United States Agency for International Development (USAID)

contribute to the development of stronger, more sustainable NGOs through technical assistance, training and direct grant support. The ultimate objective of institutional development in the program is to enable NGOs to become organizationally and financially sustainable and, thus, viable for the long term. Achieving financial sustainability is a daunting task for NGOs, and Counterpart has explored different methods for obtaining and earning money:

- Donated money (social contracting, corporate giving, traditional fund-raising and private gifts)
- Earned income (social enterprise, including fee-for-service)

Regional sources of NGO funding from local and national agencies, private entities and public donations have not yet developed to a level sufficient to meet demand. The poverty, corruption and social problems in Kyrgyzstan present major obstacles to local philanthropic development. Therefore, large companies operating in Kazakhstan must fulfill their social responsibility. For example, oil and gas companies have social responsibilities in the areas of operation and production in the community, the environment and other social sectors, such as hospitals and educational institutions. Most foreign companies have formulated their corporate philanthropic strategy, which include making donations to events, giving grants for socially worthwhile projects and so on. This potentially could become one of the strategies for promoting NGO financial sustainability in Kazakhstan. There are some constraints, such as shortfalls in the legal environment (which offers no tax exemptions to encourage company donations) and a high risk of non-transparency, as well as lack of awareness about fund expenses and places to contribute.

However, good corporate citizenship is not just about donating money. There are many creative ways to invest in the community, including partnerships with community-based organizations, employee-volunteer programs, membership on non-profit boards and in-kind donations of goods and professional services.<sup>13</sup> The primary means for conducting business philanthropic strategies are public-relations campaigns, liaisons and publications about project implementation. The most favorable conditions for corporate/business philanthropy are found in the West Kazakhstan region, Ust-Kamenogorsk, Astana, Karaganda and Almaty cities.

According to Deloitte & Touche Managing Partner Robert Denove, in addition to product, price, positioning and promotion — traditionally known as the "four Ps of marketing" — philanthropy can become the fifth marketing "P." Smart marketers can use philanthropy to increase their competitive advantage. Philanthropy could go beyond donated money and create great value for the community as well as a better corporate image for a firm through improved relationships between the public and business sectors. Many large international companies already have concluded that good philanthropy is good business. NGOs in Kazakhstan should develop a business-philanthropy strategy in their region by identifying target companies and promoting the benefits that firms could reap through their participation.

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<sup>3</sup> DC cares; [www.dc-cares.org](http://www.dc-cares.org)

Initially, the easiest type of business philanthropy would be social partnerships with NGOs and a combination of monetary and in-kind donations of items such as used computers. Most companies have a policy of replacing their computers every five years. Firms usually give their old computer equipment to their employees for free or attempt to sell it even though the market value is low and additional costs (advertising, tendering process, time and space for storage) are incurred. Other examples of in-kind donations include the provision of free consulting services (by companies that hire paid consultants) and products supplied by food-processing firms that could be distributed to the needy. Contracts for the implementation of social programs are also possible. The strategy behind business philanthropy could be based on the dissemination of proposals to clients and the organization of income-generating activities, such as brokering services or administering projects.

In Kyrgyzstan, there are only a few examples of corporate philanthropy. One of the best is Micro Crediting Agency (MCA), which was created through the “Leader” Public Association and received financial support from Kumtor Operating Company. Kumtor is one of the biggest gold-mining companies in Kyrgyzstan that provides grant and loan support to NGOs in the region. The mission of MCA is to alleviate poverty by providing employment opportunities and supporting the entrepreneurial development of local NGOs and communities in the Issyk Kul region (one of seven regions in Kyrgyzstan) through improved access to loan funds<sup>4</sup>.

The discretionary income of the general population is generally not great enough to support philanthropy, especially because people lack a local tradition of private charitable giving. Therefore, although the development of a local philanthropic base for NGO initiatives may be the preferred solution for NGO-financing problems in the region over the long term, this process will take time and require cultural, social and economic change.

## **Social Enterprise**

*Social Enterprise (SE) is one of the financial-sustainability strategy components, with application of concept and features for Kazakhstan and Kyrgyzstan.*<sup>5</sup>

Social enterprise is any socially responsible<sup>6</sup> income-generating activity whose revenue is used to support the organization’s mission.

Mounting frustration with the current funding status quo and the desire to decrease donor dependency have prompted non-profits to utilize private-sector entrepreneurial principles.

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<sup>4</sup> Civil Society in Kyrgyzstan: Problems and Perspectives / International Center “Interbilim” / Collected articles / Bishkek, Kyrgyzstan 2003 / “Community Foundation concept in conditions of Kyrgyzstan: perspectives of development” by Alymkulova Anara, Doranova Asel

<sup>5</sup> Social enterprise is one of the main strategies of NGO financial sustainability within the framework of the “Civil Society Support Initiative” program implemented by Counterpart International

<sup>6</sup> Socially responsible means no drugs, guns, tobacco, alcohol, prostitution, gambling or business prohibited by law.

Counterpart has introduced the SE concept to Kazakh and Kyrgyz NGOs in an effort to create a new breed of entrepreneurs and to stimulate the formation of a larger, sustainable pool of resources for NGO initiatives. Going beyond the traditional donor-grantee relationship, Counterpart's approach focuses on a new organizational "hybrid" – non-profit in purpose and for-profit in approach – using the so-called "double bottom line" concept. As a hybrid, social enterprise is driven by two strong forces. First, the targeted social change often benefits from an innovative, entrepreneurial or enterprise-based solution. Second, the sustainability of the organization and its services requires the diversification of its funding stream, including the addition of earned income.<sup>7</sup>

Counterpart's experience has demonstrated that social enterprise has great potential as a sustainability strategy for non-profits in emerging economies where markets are undeveloped and entry barriers are low. Comprehensive, well-structured programs, which complement business training and loans, legal advice and networking, increase the likelihood NGOs will successfully create sustainable social enterprises that achieve both financial viability and social impact over the long term. Counterpart's SE methodologies provide the tools and input needed to assist target NGOs in their business activities. Ultimately, Counterpart's goal is to help NGOs develop solid funding bases, which sustain their core social programs through earned income and incorporate the strategic use of grants for supplementary services and auxiliary social programs. With Counterpart's assistance, target NGOs have established or expanded their income-generating activities and, at the same time, achieved their organizational missions.

The strategy created by Counterpart to support social enterprise in Kazakhstan and Kyrgyzstan has the following main components:

- Develop the capabilities of NGOs for managing different aspects of social enterprise by providing an introduction to the SE concept (SE overview and organizational readiness for SE development; business-idea generation, asset leverage/selection and screening criteria; feasibility analysis; and business planning)
- Initiate a zero-percent interest loan program and establish funds and fund management

The financial-sustainability strategy created by Counterpart to support the work of its target groups is part organizational development and part business training and development. Over the course of its first year of operation, the Counterpart approach appeared to be largely successful. Investments (in the form of technical assistance and training support) were made by Counterpart in a portfolio of 25 NGOs, using the "venture philanthropy portfolio" approach. Strategic or venture philanthropy uses a "portfolio approach" taken from venture capitalism, in which venture capitalists make both financial and technical investments in a group of new or growing businesses known as a portfolio. In Counterpart's case, the portfolio refers to a group of NGO participants, and its size is the number of portfolio members.

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<sup>7</sup> "Unleashing new resources and entrepreneurship for the common good: a scan, synthesis, and scenario for action" by Tom Reis / W.K. Kellogg Foundation, January 1999

## Counterpart International's Portfolio of Investments

### Kyrgyzstan

**16 NGOs:** There are 16 NGOs in Kyrgyzstan, including nine Civil Society Support Initiative Centers, CSSCs<sup>8</sup>, that geographically cover all regions of the country

- Issyk Kul CSSC (“Leader” Public Association)
- Talas CSSC (“Aikol” PA)
- Naryn CSSC
- Jalalabad CSSC
- Kerben CSSC (“Aibek” PA)
- Nookat CSSC
- Kant CSSC (“Alga” PA)
- Karabalta CSSC (Center of Community Initiative Support “Consulting” PA)
- Batken CSSC (“For International Tolerance” Public Fund PF)
- “Association of CSSCs of the Kyrgyz Republic” PA
- “ADRA-Kyrgyzstan” PA
- “Sairon” PA
- “Babushka Adoption” PF
- “Center for elderly people” PA
- Women Entrepreneurs Support Association of the Kyrgyz Republic
- “Counterpart-Sheriktesh” PA

### Kazakhstan:

**9 NGOs:** In Kazakhstan there are eight CSSCs and the Association of CSSCs “ARGO”

- SMEDA, Aktobe, West Kazakhstan
- Tan, Atyrau, West Kazakhstan
- Zubr, Ust-Kamenogorsk, East Kazakhstan
- Iris, Semei, East Kazakhstan
- ASTRA, Astana, Central Kazakhstan
- Ecocenter, Karaganda, Central Kazakhstan
- Kostanai, North Kazakhstan
- Zhalgas Counterpart, Almaty, South Kazakhstan
- Association of CSSCs “ARGO”

Since the “portfolio” is an investor approach, the results are measured in terms of “return on investment.” The SE financial and technical contributions, which are considered investments, are monetized, and the returns are assessed for social and economic impact. Economic returns to social enterprise are standard measures borrowed from business – profit/loss, gross margin, sales turnover and market penetration. SE also tries to capture economic returns to the community – increased tax base (more money for public social expenditure) and diminished donor dependency (money for social investments). Social

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<sup>8</sup> CSSC – Civil Society Support Initiative Center supports local NGOs (provides information, training and other services); created on the basis of local NGOs in different regions of the countries

impact is hard to measure, but the following indicators can show social returns – declining subsidies, new social investments and increased coverage of social costs.

### **Prospects for the Future**

NGO self-financing is relatively unknown in the NGO community. More attention needs to focus on how best to promote this revenue-generating alternative among NGOs in Kazakhstan and Kyrgyzstan and how to evaluate its overall effectiveness as a self-sustainability strategy. Counterpart International— Kazakhstan/Kyrgyzstan will continue to document, analyze, assess and help support NGO self-financing initiatives. It also will stimulate viable local funding alternatives by providing flexible resources, information and capacity building. NGOs require assistance to develop management strategies, staff capabilities and skills, organizational and legal structures, start-up funding, financial and accountability mechanisms, business planning and marketing tools. Collectively, such efforts can help NGOs move beyond discussions of “sustainability” toward the development of concrete alternative strategies, such as self-financing, and turn resource dependency into greater autonomy and self-reliance.

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