

**POLICY BRIEF**

# Financial Sustainability of Civil Society Organizations in Afghanistan

## Introduction

Civil Society Organizations (CSOs) have made significant contributions to the inclusive and equitable development of Afghanistan. Such institutions are providing critical services and support to Afghans in hard-to-access parts of the country that the government and other actors cannot reach. CSOs also play a key role in advocating on behalf of the Afghan people to their government for promotion and protection of human rights, access to basic services, and good governance, among other issues. However, without an environment conducive to the financial sustainability of CSOs, their efforts and impact can only go so far and their very survival will be challenged. Although the government and international community have recognized CSOs' important roles in the development and reform processes in Afghanistan as highlighted in the recent London and Brussels conferences on Afghanistan, the sustainability of CSOs in Afghanistan after more than a decade of progress is at stake.

In the beginning of the post-Taliban period in 2002, the international community financially supported development in Afghanistan primarily through "off-budget" allocations to UN agencies, international non-governmental organizations (INGOs), CSOs and private contractors rather than to the government.<sup>1</sup> The inflow of unprecedented resources into Afghanistan spurred the growth of civil society organizations in terms of numbers and size and led to the development of professionalized CSOs that exist alongside less formal, grassroots CSOs. This trend slowed with the NATO withdrawal in 2014 and the consequent decline in the level of funding for CSOs and more funding going "on-budget" through the government.<sup>2</sup> The State of the Enabling Environment for CSOs in Afghanistan 2016 index published by AICS underscores that CSOs' financial sustainability is the second highest concern out of four dimensions analyzed in the study of enabling environment for CSOs in the country.<sup>3</sup> This increasingly challenging funding environment warrants a fresh look at civil society development and support programs. Failure to address CSO financial sustainability could have severe impact on the development process in the country. Hard to access and vulnerable communities and groups, including women, children and the disabled, civic space, and key governance reform process will be particularly affected in the absence of a cadre of competent, vibrant, credible and financially sustainable institutions of civil society in Kabul and in the provinces.

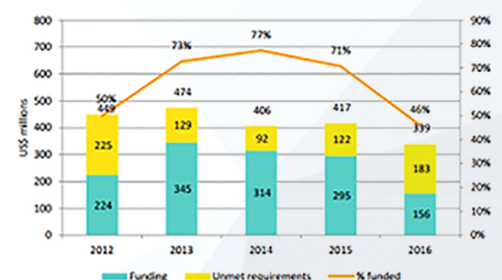
This policy brief discusses CSOs' financial sustainability, highlights key trends, issues and opportunities, and provides recommendations to donors, Afghan government and Afghan civil society. AICS, an Afghan CSO focused on promoting a positive enabling environment for Afghan civil society, prepared the brief based on qualitative field research both in Kabul and key provinces as well as desk review.

## Context and importance of the problem

### A declining donor funding environment

Afghan CSOs are primarily dependent on funding from international donors for implementing their programs and carrying out their day-to-day operations.<sup>4</sup>

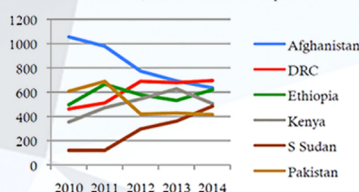
However, donor funding for CSOs is shrinking. According to the United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA) Funding Analysis Report, there is a 27% decrease in funding to humanitarian response plans for Afghanistan in 2016 compared to 2013.<sup>5</sup>



Source: Humanitarian Funding to Afghanistan 2016

### TRENDS IN AID VIA CIVIL SOCIETY

Top 6 Recipient Countries: Official Aid, Gross Disbursements; US\$m at constant 2013 prices



Source: Civil Society Aid Trends, January 2016

Globally, in 2014 Afghanistan dropped to the third largest recipient of aid channeled through civil society, having been the largest since 2006.<sup>6</sup>

As of February 2017, only 1,863 Non-Governmental Organizations (NGOs) remain active from a total of 4,105 registered NGOs.<sup>7</sup> Key informants from civil society attributed the decline in the number of active CSOs to increasing difficulties in accessing financial resources.<sup>8</sup> A significant number of CSOs, particularly smaller CSOs are struggling to meet their basic funding requirements.<sup>9</sup>

## Donors' funding modalities, requirements and grant making mechanisms

Long term funding, support, and investment in building institutional capacity in CSOs along with funding for program implementation enable CSOs to remain relevant, responsive, and effective. Yet in recent years, it has become increasingly difficult for CSOs to secure institutional development or core funding from donors. The increasingly difficult and competitive funding environment is causing CSOs with existing core funds arrangements to question whether donors will continue to offer such funds.

In addition, donors' eligibility, compliance and reporting requirements have become increasingly difficult, demanding and rigorous. While presumably meant to increase transparency and accountability, the processes are rigid and characterized by onerous paperwork and reporting loads. They do not take into consideration the realities on the ground and the needs of smaller, provincial based CSOs. As a result, a small number of relatively bigger, predominantly Kabul-based organizations receive the largest share of donor funding.

Most donors do not provide meaningful feedback to unsuccessful applications for funding. As a result, they and the CSOs lose an important opportunity for learning, capacity development and building trust.<sup>10</sup> This characteristic of some donors' grant making mechanisms has resulted in CSOs questioning transparency and integrity of the processes, contributing to perceptions that donors' funding processes are not transparent.<sup>11</sup>

Additionally, donors often do not set their funding priorities in consultation with CSOs. As a result, there are discrepancies between the real needs in the communities and funding priorities set by donor organizations. This has forced CSOs to choose between implementing donor-driven projects rather than undertaking projects that respond to communities' needs the CSOs have identified. In the context of a shifting funding environment, this practice can affect credibility of CSOs in the communities, with implications on CSO financial sustainability as they try to diversify funding sources, particularly contributions from communities.<sup>12</sup> The Ministry of Economy's Annual Activity Report of NGOs for 2015 underscores the importance of regular collaboration and coordination among NGOs, donors and line ministries in order to ensure an inclusive needs assessment, project design and implementation.<sup>13</sup>

Finally, some donors do not even fund Afghan CSOs. According to a recent UNAMA Civil Society Mapping of CSOs, 47 % of CSOs have institutional capacity and expertise to attract and use any form of formal funding for their programs, but only 20 %, mainly NGOs, access donor funding on a regular basis.<sup>14</sup> As per MoEc' 2015 Annual Activities Report of NGOs, 71% of total NGO expenditures was spent by International NGOs who implemented 2,598 projects while 29% of this expenditures was made by National NGOs who implemented 1,537 projects.<sup>15</sup>

Some donors have already understood the need to consider different mechanisms and funding modalities. For example, the EU is assessing to begin providing a window for medium- and small-sized CSOs to develop their capacities through sub grant to grassroots CSOs.<sup>16</sup>

## Diversifying CSOs funding

Diversifying CSOs funding streams to sources other than international donors is an effective strategy to ensure financial sustainability.<sup>17</sup> To do so, CSOs need to operate in an environment with a favorable legal framework and supportive policies. They also need institutional capacity to access diverse funding sources.

While the Afghan government recognizes CSOs' roles and contributions to the development and reform efforts in the country, it has not yet created a mechanism that would contribute to the financial sustainability of CSOs through allocation of funding for CSO development in the national budget. In addition, processes such as rendering tax declarations and obtaining tax exemptions are inconsistent affecting CSOs operations and resources.<sup>18</sup> Moreover current legislation does not provide for incentives to promote CSO – Private Sector partnerships.

Current efforts of the Afghan government, CSOs and INGOs for revising the NGOs Law, establishing tax incentive mechanisms, developing regulations to encourage volunteerism and drafting a Community Foundation Law are encouraging measures that would contribute to financial sustainability of CSOs. However, these reforms have been underway since 2012 in some cases, without any substantial movement as of 2017.

Even if supportive legislation were in place, potential contributors do not understand and recognize the added value of partnering with CSOs. This is due to CSOs' limited capacity and credibility to pursue partnership opportunities with the private sector and individual donors. Such capacities would include an ability to demonstrate mutual interest, impact, relevance and cost effectiveness as well as address questions regarding transparency and efficiency of CSOs.<sup>19</sup> The State of Enabling Environment for CSOs in Afghanistan (SECCA) 2016 report revealed that some CSOs need more capacity development, especially in writing quality proposals and fulfilling other administrative requirements of donors.<sup>20</sup> Most CSOs do not understand the role, and use the expertise and network, of their Board of Directors in fundraising. Innovation in fundraising is not actively explored and utilized by CSOs in Afghanistan.

Likewise, indigenous philanthropy remains an untapped resource for CSOs in Afghanistan. Individual philanthropic giving has considerable potential to grow in Muslim societies like Afghanistan due to long-standing giving practices such as the obligatory Zakat, which is rooted in Islam's ethics and the broader Islamic concept of charity.<sup>21</sup>



Additional exploratory study is needed to understand the volume and patterns of philanthropic giving in Afghanistan, analyze obstacles that limit CSOs ability to benefit from it, and recommend strategies for utilizing philanthropic giving in support of CSO financial sustainability.

## Conclusion

A vibrant and vocal civil society is one of Afghanistan's key success stories. Afghanistan's recent development gains, including in health, education, governance and human rights would have not been possible without civil society's contributions. In order to build on, and consolidate, these development gains, the existence and functioning of robust, vocal and vibrant CSOs are critical.

However, a reduction in the development aid for and through CSOs, constraints in the enabling environment for CSOs, shortcomings in donors funding and grant making mechanisms, deficiencies in CSOs organizational capacity, particularly in fundraising, governance and outreach, CSOs' reliance on foreign funding and limited effort on diversifying funding sources has affected CSOs' financial viability. Absent immediate and bold measures by the government, donors and CSOs, CSOs ability to contribute to the development and reform efforts in the country, and their very survival as the third pillar in a democratic society will be at risk.

## Recommendations

The Afghan government, donors and CSOs should jointly develop a national framework to create effective solutions and institutional mechanisms for CSOs' financial sustainability in Afghanistan. The document should define the role of the government, international community and civil society in supporting financial sustainability of CSOs, including measurable and clearly defined timelines, deliverables and indicators that would enable stakeholders to regularly monitor progress. A Steering Committee comprised of CSOs, government, donors and private sectors representatives should be established to review progress, set direction and provide regular report to stakeholders.

The Afghan government in collaboration with CSOs should address the legal constraints impeding CSOs financial sustainability by expediting the review and approval process of the NGOs' Law and Foundations Law. Also, the government should establish mechanisms that encourage philanthropy, tax incentives for corporate sector and volunteerism.

A transparent public procurement process that allows for equitable opportunities for Afghan CSOs in the implementation of development and service delivery programs (i.e. Citizen Charter) can contribute to the financial sustainability of CSOs in Afghanistan. Afghan CSOs are efficient and present in the hard to access areas of the country. Therefore, CSO-government partnerships in service delivery and implementation of development programs can result in more effective, and efficient program implementation.

Donors funding modalities should create a learning and empowering environment for CSOs. In addition to increasing funding for and through CSOs, donors should set their funding priorities in consultation with CSOs allowing for needs based program design and implementation.

Donors should ensure transparent and functioning mechanisms for providing core fund/institutional support for CSOs exist, contributing to continuity, and long-term planning and program implementation. Ensuring CSOs in the provinces have equitable access to donor funding is key to the development of a robust and effective civil society in Afghanistan. Donors should encourage mechanisms, including trust funds, consortium funding and re-granting, enabling smaller, provincial based CSOs to access donor funding.

Donors grant making process should create a supportive, empowering and learning environment for CSOs. Donors should provide detailed feedback to unsuccessful applications, enabling them build their proposal development skills. Donors should fund and support CSOs' systematic, tailor-made and result-oriented capacity building interventions, specifically focusing on building capacity in fundraising, financial management, reporting and internal controls.

CSOs should enhance their efforts to diversify their funding sources. In addition to forging partnerships with multiple donors, CSOs should also work on raising funds from the private sector, receiving community contributions, implementing income generating activities, testing and starting social enterprises, and digital fundraising, including crowdsourcing and using social media.

In order to sustain and diversify their funding sources, CSOs should demonstrate they are trusted partners for the government, donors, the private sector and a credible voice for the public. In doing so, CSO should demonstrate accountability not only to donor and government, but to the public – their main constituency. Demonstrating technical expertise and specialization, efficiency and cost-effectiveness, relevance and impact can prove effective in diversifying CSO funding. These can be achieved through regular and accurate reporting of their resources, programs and impacts using different outlets i.e. social media, CSOs websites, annual reports, and community gatherings.

The Ministry of Economy should continue producing its “Annual Activities Report on NGOs” and include information on NGOs funding trends, with data on NGOs funding sources and modalities.

## About Afghanistan Institute for Civil Society

To Support a credible and competent civil society sector in Afghanistan by linking CSOs, donors, government and capacity building services through culturally appropriate certification schemes. The institute will encourage the growth of a vibrant civil society, promoting pluralism and participatory, non-discriminatory development in Afghanistan.

### AICS's Objective

1. Raise credibility of the civil society sector by certifying local organizations against locally defined and internationally recognized standards;
2. Systematize capacity building efforts of local organizations by coordinating initiatives against measurable performance indicators;
3. Strengthen the role of civil society in Afghanistan's development through collective efforts of policy dialogue and active engagement with government, donors, the private sector and the broader civil society sector;
4. Provide a channel for resources for civil society by strengthening philanthropic and corporate social responsibility efforts.

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- <sup>8</sup> Ibid
- <sup>9</sup> Focus Group Discussion with CSOs, Kabul and Herat provinces, 2016/2017
- <sup>10</sup> Key Informant Interview with CSOs, 2017
- <sup>11, 12</sup> Ibid
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### Disclaimer

This policy brief was made possible by the generous support of the American people through the United States Agency for International Development (USAID) under the terms of its Associate Cooperative Agreement Number 306-A-14-00001 (Afghan Civic Engagement Program) implemented by Counterpart International and its partners. The contents and opinions expressed herein are the responsibility of Afghanistan Institute of Civil Society (AICS) and do not necessarily reflect the views of USAID, Counterpart International, and Agha Khan Foundation.