

# **All the Truth about NGO Funding in Kyrgyzstan: Numbers and Facts**

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## **Introduction**

Today fundraising is a pressing problem for NGOs in Kyrgyzstan more than ever before. Donor support to NGOs has reduced lately due to various changes in their priorities and strategies. Are NGOs ready to survive without donor support? To find an answer to this question, I have analyzed whether NGOs have other sources of funding which would replace donor grants. My field report is based on 45 interviews with local NGOs from Chui and Osh *oblasts*.

31 NGOs (68,8%) out of 45 are fully funded by donors. The rest 14 organizations have other sources of funding such as renting real estate, selling services, membership fees, and social entrepreneurship. However, only three of them earn enough profit to be financially sustainable. The income of other 11 NGOs is very limited. At best, it can cover administrative costs, salaries of staff, and some part of activity expenses. At worst, it barely pays for administrative costs. At any rate, all their activities are financed by donors too.

As a result, it can be stated that, at present, NGOs in Kyrgyzstan can hardly survive without donor grants. They do not have alternative sources of funding similar to donors. The sources available now bring little income. NGOs see the state and a business sector as the potential funders in future. Currently, they mainly provide in-kind support. A lack of favorable legislation and a presence of negative stereotyped opinion among the sectors impede NGOs receive financial support from the state and the business sector.

## **Available funding sources of NGOs**

44 (98%) out of 45 interviewed NGOs receive grants from donors. 31 (71%) of 44 are totally funded by donors. The rest 14 (31%) of 45 NGOs have other sources. They can be classified into four broad categories: (1) renting real estate; (2) selling services; (3) membership fees; (4) social entrepreneurship.

The first category is *renting real estate*. Only two NGOs out of 14 generate income by renting their premises. The income that they earn covers their administrative costs and salaries of

staff. It should be pointed out that NGOs, which own premises and base their organization there, were not included in this category since it cannot be considered as an income generating activity.

The second category is *selling services*. Five NGOs out of 14 earn income by selling different services such as monitoring, evaluation, consultation, research, training, and educational courses. However, only one NGO manages to cover not only administrative costs as other four NGOs do but also salaries of its staff and some activity expenses.

The third category is *membership fees*. Members of three NGOs pay membership fees on a regular basis. All three organizations have a large number of members. However, they differ greatly from each other on their mission and target group, which influence a rate of membership fees. For the first organization, funds coming from membership fees make up its total annual budget. The NGO is an association of business entrepreneurs and firms. Therefore, the rate of its membership fees is high. The association provides a wide range of services and promotes interests of its members. Donor funding is an addition to them. This type of NGOs can be called a 'consumer' NGO.

The activities of the second NGO are interwoven with Muslim religion. Its members are religious people and donate funds very generously mostly in the form of membership fees. The NGO implements most of its activities for these funds. The third NGO receives little income from membership fees. The rate that they charge is small due to incapability of members to afford higher fees. The income even does not cover administrative costs. Most of its activities are implemented on donor funds.

The fourth category is *social entrepreneurship*. It is when NGOs have an enterprise and use the income to solve social problems. Only one NGO out of 14 occasionally engages in social entrepreneurship. The income earned the NGO spends mainly for its institutional development.

The above has indicated that, apart from donor grants, 14 NGOs (31 %) out 45 get funds from four other sources. However, seven of 14 can hardly cover administrative costs on the income that these sources bring. Therefore, all their activities including salaries of their staff are financed by donors. For three NGOs of 14, these sources bring more profit, which covers not only administrative costs, but also salaries of staff and some activity expenses. Nevertheless, they also rely on donor grants. The remaining three NGOs of 14 manage to reach financial sustainability for the income from alternative sources of funding.

#### **More on funding sources ....**

Renting real estate seems to be the most stable and income-generating. It along with trading and investing are the main sources of profit for NGOs in other countries as well. For

example, Scottish voluntary organizations generated 50% of their funding in 2006 in such a way (SCVO statistics 2007)<sup>1</sup>. Further, according to the above, membership fees are as stable as renting. However, members should be interested in services of the NGO and able to pay membership fees. My research indicates that many NGOs are supposed to have membership fees but they do not have them for a number of reasons. One of them is that their members cannot afford to pay membership fees. Therefore, they mainly provide voluntary support rather than financial one. Another main reason is that activities of the most NGOs aim at public in general. As a result, members do not get personalized services and are not interested in paying membership fees.

Selling services has been noted by interviewees as less income generating. The problem is that the services, which most NGOs provide, are social and oriented to a disadvantaged part of population. In most cases, they cannot pay for the services. Therefore, at present, it is very difficult and even unfeasible for NGOs to sell their social services to their target audience. However, NGOs can sell their skills and experience. As has been indicated above, this is already practiced. NGOs provide chargeable services such as training, consultation, research, monitoring, evaluation and courses on different subjects. The above has shown that the income from this source can cover at least administrative costs of NGOs. To increase their income, the interviewees have noted that they need to overcome such problems as a lack of clients and poor marketing and management skills.

At present, there are few clients, who need such services. The main clients were NGOs themselves. However, since overall activeness of NGOs reduced due to a lack of donor support, the demand for services such as training, consultation, research, and others fell down too. To find other solvent clients, e.g. business or the state, NGOs need to make a marketing analysis. To do this, they noted that they lacked for time, resources, and skills.

### **A way to financial sustainability: overcoming obstacles**

All interviewees said that a lack of financial sustainability is one of the key weaknesses of the NGO sector in Kyrgyzstan. However, only 14 of them have financial sustainability as a priority in their plans. The rest of the NGOs still rely on donors. To a question, whether it is feasible for NGOs to achieve financial sustainability, the majority of respondents was very skeptical and said that it would be very difficult to achieve it.

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<sup>1</sup> Scottish Voluntary Sector Statistics 2007. [Internet] Available from <<http://www.workwithus.org/srd/research/ViewResearchItem.aspx?researchItemID=758>> [Accessed on 26 July 2007]

Most of the interviewed NGOs see the state and the business sector as the potential sources of funding in future. However, at present, they mainly provide occasional in-kind support. All interviewees said that they had never received any funding from the state. Nevertheless, the state rendered in-kind assistance to them in the form of premises, technical equipment, information, and other non-financial support. In most cases, this support is indicated in money equivalent in the projects of NGOs. The business sector, for the most part, offers one-off charitable support.

There are two key factors that impede NGOs to raise more funds from the state and the business sector. First of all, there is no favorable legislation that would enable and motivate them to support NGOs. Most NGOs talked about a law on social contracting, which could serve as a basis for the state to contract NGOs for social services. However, this law has not been approved yet. The interviewees noted that the business sector also needs some legal incentives to support NGOs. Such motivation would improve a philanthropy activity, which is underdeveloped in Kyrgyzstan at present. At this point, it should be stressed that not only the state and business need a favorable legislative basis but also the NGO sector itself. My interviewees expressed discontent with a current tax code by noting that it levies taxes on them unfairly.

Secondly, all three sectors have a negative stereotyped opinion of each other, which holds them back from having more effective partnership with each other. NGOs believe that the state does not have funds to finance them since it even cannot finance its own bodies. Because of this believe, NGOs do not even attempt to turn to the state for financial support. The state, in turn, is suspicious of the NGO sector. Particularly, it questions their openness and transparency. Further, the business sector is not properly informed about NGOs. Moreover, the attitude of the state towards NGOs is reflected on the attitude of the business sector towards NGOs because the latter is dependent on the former.

In brief, the mechanism of interaction between these three sectors is not fully established yet. To promote financial sustainability of NGOs, all above mentioned problems should be properly addressed. In addition, NGOs should develop institutionally with a particular focus on the improvement of their marketing and management skills to sell their services and engage in social entrepreneurship effectively. Further, they should ameliorate their openness and transparency, guard their integrity and credibility, gain trust of not only the state and business but also of population. Increased trust in NGOs can encourage population to join NGOs and pay membership fees. This, in its turn, would raise a status of NGOs' beneficiaries/members and make NGOs accountable to them and driven by their needs.

At present, the beneficiaries/members play a passive role by being merely users. NGOs not always take into consideration their opinion. My research revealed that NGOs were mainly

guided by priorities and requirements of donors rather than their beneficiaries when developing their projects. There were disappointing cases, when disadvantaged people, such as disabled children, victims of domestic violence, drug users, had to stop receiving services from NGOs because their donor funding finished and they changed their activities for which they could find funding. The empowered status of beneficiaries/members would make NGOs search for funds based on needs rather than needs based on funds.

Further, the sources of income might depend on the nature of NGOs. Among my interviewees, there were NGOs, which fully understood their mission and possibilities. In accordance with them, they identified feasible sources of funding for their organizations. Therefore, it has been concluded that it is necessary to properly map what kind of NGOs there are and what sources of income these NGOs can have.

Based on my research, NGOs can be divided into broad three categories: social service, human rights, and 'consumer'. Social service NGOs are those who deal with social issues, represent disadvantaged and vulnerable layers of population and provide services to these groups. The second group is human rights NGOs, which deal with protection of human rights. The third group is 'consumer' NGOs. These are those NGOs, which provide services for and represent interests of a certain group of population on the basis of a regular membership fees.

For social service NGOs, the best options of funding sources would be the state, the business sector, public donation and social entrepreneurship. Human rights NGOs could earn most by selling services such as monitoring, evaluation, research, consultation, and collaborating with business. Most human rights NGOs said that they would not to accept funding from the state in order to stay independent and to be able to check on the state. Consumer NGOs would benefit most from membership fees. Additionally, for all NGOs, investing, renting and trading would be appropriate.

## **Conclusion**

To sum up, NGOs in Kyrgyzstan are not ready to survive without donor support. Donors are the sole funding source for most NGOs. A very limited number of NGOs have additional sources of funding. It is real estate renting, selling services, membership fees, and social entrepreneurship. However, the income they earn rarely covers more than administrative costs. Therefore, even these NGOs rely on donor funding to carry out their activities. Very few NGOs have solid ideas for financial sustainability. Most of them are skeptical about possibilities of NGOs to reach financial sustainability in near future.

The state and the business sector are seen as the potential sources of funding in future. At present, they mostly provide in-kind support. For better collaboration between the sectors, there is a need for adoption of favorable legislation as well as properly informing the sectors about each other. Furthermore, NGOs should invest in their institutional development with a special stress on the improvement of marketing and management skills and their openness and transparency.