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The Role of International Donor Support in Promoting Civic Advocacy in Post Soviet Armenia

By

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Armenia

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This report draws on ideas, arguments and examples brought up during the course of indept interviews conducted with civil society experts in Armenia. All of these interview participants contributed strongly to this report and to an understanding of advocacy NGO financial sustainability in Armenia.

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Abstract

The aim of this report is to foster existing debate about the role of the international donor support in the development of civic advocacy in the post soviet environment. By elaborating on both the failures and successes of donor support and highlighting existing alternative financial sources for advocacy NGO, this report makes propositions on the future directions that donor support should follow to avoid previous mistakes and become more effective.

Research implemented within the framework of this study is aimed to formulate a model (models) of fundraising strategies for advocacy NGOs, that are applicable in Armenian context and will contribute to NGO sector long term financial sustainability. For that researcher examined available data about the impact of reduction of financial support from international and local donor sources on the non for profit advocacy in varying developing post soviet countries and highlighted successful strategies of advocacy NGOs towards financial sustainability. As a result of in depth literature review in the field of non for profit sector fundraising, the main strategies that are successfully implemented in the former soviet countries have been summarized during in-depth literature review. NGO base line survey and in-depth interviews conducted by the researcher with the experts working for donor organizations, government bodies, business and non for profit institutions, were aimed to provide the overview of the advocacy NGOs financial sustainability, to access the role of donor organizations in ensuring viability of civic advocacy in the country and test the applicability of potential alternative fundraising sources for advocacy NGOs in Armenia.
Based on findings researcher explores what should donor community and other key stakeholders do to ensure the financial viability of advocacy NGOs in post-soviet countries, like Armenia.

Findings of research has shown that although international donor support has largely contributed to the development of advocacy capacity of NGOs in post-soviet Armenia, it failed to develop a financially sustainable (FS) sector of civic advocacy, independent from donor funding. This research has further demonstrated that there is a need for substantial revision of strategies of local NGOs and donor organizations. Significant efforts should be derived towards building new forms of financial strategies among local NGOs and donor communities to ensure institutional development of the advocacy NGOs in Armenia. Otherwise, taking into account the current economic, social and legal context of Armenia, shrinking donor support might lead to complete paralysis of NGO advocacy.

Through this research and analysis researcher has found a number of important findings. Based on these findings she has put forward certain recommendations on optional models of fundraising for advocacy NGOs applicable in Armenian context and recommendations for donor communities on how to contribute to financial sustainability of advocacy NGOs in Armenia. This research has wider implication, since the strategies for NGO long-term sustainability can be replicated throughout various post-soviet countries, which face the similar challenge of reducing donor support for civic advocacy.

**Literature review.**

This chapter presents the summary of academic studies and publications on the role of international donor support in promoting civic advocacy in Post Soviet area. Based on literature review the analysis of strong and weak sides of main strategies, implemented by the key donor
organizations to support civic advocacy in post-soviet environment, is highlighted. The primary emphasis is placed on exploring the alternative funding sources for non-profit sector fundraising (other than international donor grants), especially those models that do not harm the advocacy capacity of NGOs and their independence from funding sources.

Also through comparative analyses of available data from different countries the impact of economic conditions and reduction in financial support from international and local donor sources on the overall advocacy capacity and sustainability of NGOs in post-soviet environment has been examined.

**Conflicting strategies: Sustainable NGO Advocacy Sector or Goal Oriented Groups?**

According to academic literature, international donor aid to NGOs in the post-soviet environment can be divided into three phases (Carothers, 8-10pp). During the first phase, which was in the early 90s, some western private foundations and a few official aid agencies provided a small amount of support to the newly emerging civil society groups involved in advocacy for public interests. The rational was to nurture nonpartisan civil society organizations as future incubators of democracy. During the second phase, which lasted more than a decade and started from mid 90s, donor aid to NGO sector was largely increased. Aid began to go beyond advocacy NGOs towards the service-delivery NGOs working in child protection, public health, youth, education, training and other non-politically oriented fields. This lead to an overall NGO mushrooming in the post-soviet environment, followed by a pattern of most NGOs becoming grant seekers. During the ongoing third phase, which NGOs in Armenia face presently, donor aid for civil society is shrinking as major sources of aid are pulling out from post-soviet countries, like Armenia, due to changing priorities of donor organizations and changes in international context.
By using the USAID strategy in the post-soviet area as an example, the main changes in the causes and general impact of donor support to the NGO sector can be traced. The USAID strategy for supporting the non-profit sector during the last two decades has experienced radical alterations, which had an immediate impact on the development and sustainability of the Sector. The primary objective of the USAID agency was to expand the NGO sector in order to boost the public participation in decision-making. Hence, the resources were spread rather widely and generously, which resulted in thousands of registered NGOs who were largely situated in major urban centers. Leaders of these NGOs were highly westernized English speaking men and women, which are good at national level advocacy. But as a rule, these individual-leading organizations lacked the capacity and links to impact decision making on local levels. Hence, the shift of support towards strengthening the civil society organizations in smaller communities and rural areas was made to ensure the real involvement of grass roots in the public decision-making. USAID projects aimed at supporting grassroots groups who were involved in addressing day-to-day problems confronting citizens. Most of those NGOs were involved in service provision. (Carothers, 10 p).

According to an ongoing academic debate, this multidimensional strategy has largely contributed to the strengthening of Third sector in the post-soviet environment, due to clear-cut links between NGO implemented programs and the direct beneficiaries in communities. Advocacy at the grassroots level has also been reinforced since NGOs are increasingly involved in advocacy projects aimed at public participation in decision making at the municipal level by advocating to have public hearings on the budget at town hall meetings, and for a community development committee. But as the main expectation of the USAID was to see the Civil Society Organizations (CSO) strengthening democratic institutions and ensuring checks and balances of state power at the national level, the donor finances have been shifted towards supporting result
oriented, short-term projects, with tangible results and outputs. This strategy does not necessarily assume the sustainability of NGO sector, but the ability to execute pressure on public decision makers and mobilize public pressure to ensure balanced state power and public participation in decision making. (Carothers, 8-10pp).

In the future, the shape that donor assistance may take is still unclear. But the key strategy is to draw the right implications from previous failures and successes and uncover future directions to support Advocacy NGOs by avoiding previous mistakes.

**What are the alternatives?**

There are two alternatives that warrant discussion in current academic debate. First, is to direct donor resources towards strengthening NGO skills and the environment necessary for the establishment of a self-sustainable non for profit sector. Second is to support result oriented projects to use NGOs as tools to ensure checks and balances of state power.

Post-soviet countries are faced with a difficult choice. Whether to foster the short-term goal oriented activities of Advocacy NGOs to promote public participation in the public decision making and ensuring balanced state power, or to support the long-term sustainability of NGOs and strengthen democratic institutions from the grassroots. Both options offer advantages as well as, notable drawbacks, as there are sharp visible and invisible differences that might play a key role in determining the success of each implemented strategy.

The concern is, as in most cases, that NGOs having high advocacy and lobbying skills are not linked to grassroots programs at local levels. Ordinary citizens lack understanding of those NGOs’ missions, which are active at national levels. To support the Advocacy NGOs that are linked to grassroots programs at local levels might be more time consuming. However, it would
ultimately be much more effective in ensuring the strong participatory role of the Third sector in strengthening democratic institutions and fostering public participation.

Taking into account the magnitude of the current problems—global economic recession; ecology, climate change; geopolitical, national conflicts; even newly established democratic states are not able to provide enough support and meet people’s needs. The lack of sustainable NGOs that are supposed to be closer to communities and address their major problems might lead to major grievances and weaken the legitimacy of newly established democratic governments in post-soviet area.

So we need a strong sustainable NGO sector not only to establish the democratic way of government but to preserve the sought after legitimacy of the government. (Herman, p.312)

At the same time, the holistic approach for whole post-soviet environment is not always applicable, as the nature of the challenges confronting NGOs in the various post-soviet countries is quite different from country to country. In Central and Eastern European countries Advocacy NGOs have not only achieved the establishment of a fairly supportive legal environment for NGO sustainability but also have new funding opportunities through the European Union. While in other regions, Advocacy NGOs have to confront not only the scarcity of donor support but also hostile legal environments that hamper the sector development. Therefore, strategies to support the non-profit sector in those countries should be different from the latter. It should also be taken into account the differences in the level of economic development as there is a visible dependence between the NGO sector sustainability and economic situation in the country.

Advocacy groups in new democracies have a better chance of using local resources, as existing NGO friendly legislation creates a legal environment that advances the Third sector’s financial sustainability.
In countries with an autocratic form of government, the “intervention” of the international community is still vital. Donor’s financial presence ensures not only the continuity of advocacy projects for public participation in decision making, but it also serves as a political incentive for autocratic governments not to halt repression of the Third sector. Still advocacy NGOs may find allies in local governments, lower level public officials, oppositional political parties, and municipal level government officials, who are under the direct pressure from the grassroots level (Herman, 37p.).

Strategies for Advocacy NGOs towards Financial Sustainability

Regardless of the level of economic development of a country and the strength of democratic institutions, there are fundamental strategies with differing levels of effectiveness for advocacy NGOs to gain financial sustainability. Current academic research on the NGO sector categorizes NGO revenue into three main groups.

1. Government funding, including a broad range of direct and indirect support, state subsidies, government grants, contracting, and exemptions from taxation.

2. Private giving or philanthropy: Private giving usually comes in the form of cash and in-kind donations from individuals, businesses, and foundations or other grant-making legal entities. The efforts of volunteers may also be considered donations.

3. Self-generated income: Self-generated income includes membership dues, fees and charges for services (that is, economic activity), as well as income from investments. (Moore, 1p.)

In 2003, John Hopkins University conducted a comparative non-profit sector project, which compared NGO income in 35 countries, including five countries of Central and Eastern Europe, the findings of this project revealed that:
• Self-generated income is the dominant source of revenue in nearly every country surveyed (53%);

• Government or public sector support also acts as a significant source of NGO income (35%);

• Private giving – that is, individual, corporate and foundation-based philanthropy – accounts for only a smaller portion of NGO income (12%). (Hadzi-Miceva, p.5)

There are strategies that might be used by advocacy NGOs to ensure their financial sustainability. Advocacy NGOs who face the challenge of remaining sustainable might use strategy of coalition building. For example, strategic partnerships with political parties will aid in a specific public agenda. This kind of cooperation, if proven to be a strong tool of advocacy, might serve further as a source of financial sustainability. Collaboration with the private sector is another vehicle for NGO financial sustainability and for effective advocacy. Frequently, the interests of the business sector and advocacy NGOs overlap with the fight against corruption, against government abuses, and greater transparency in legal requirements, to name a few. To minimize the risk of ineffective coalition building, the establishment of “umbrella” organizations or secretariats will enable the coordination and linkage of various ties in the coalition.

Advocacy NGOs involved in service delivery that provide services for their beneficiaries, such as trainings, consultation, ex., might also use government funding as a tool for sustainability, as is the case in most Western European countries. It is obvious that governments in the post-soviet environment with scarce resources and capacity to deliver public services will look for partnership with NGOs that have the appropriate skills and capacity.
Percentage philanthropy is another mechanism for NGO sustainability, in which taxpayers allocate a certain percentage of paid taxes to the non-profit sector. The first country to implement this strategy is Hungary: the allocation amount was 1%. In Lithuania, the percentage of paid taxes that goes to NGOs is equal to 2%. In all these countries the NGO sector has improved not only its sustainability but also its public image. However, it is worth mentioning the limitations of the 1 % law, especially the negative impact that it has on philanthropy in general. To ensure that taxpayers are not paying for the NGO sector twice, the government of Lithuania abolished the traditional individual donation incentives. Slovenia followed suit, but included corporations as well. Taking into account that allocated money represents a small part of the sector revenue, the aforementioned strategy might be effective in combination with other sources of funding for NGOs. (Moore, 3-5pp.)

In Croatia, to support the financial sustainability of the NGO sector, the Government allocates 14 % of the national lottery to support the National Foundation for the Development of Civil Society. This is an example of public funds employed to support the Third sector in the country. This may also serve as a tool for decentralizing the government support to NGOs, and similar funds might serve as a source for organizational development of Advocacy NGOs. The main challenge is to enable transparent and fair allocation of the foundation’s resources.

Another strategy is individual philanthropy. The development of the altruistic culture and voluntarism, where the individuals’ money and time might serve as a significant contribution towards Advocacy NGO sustainability, is the main challenge of the sector in most post-soviet countries. The legal framework might have direct impact on promotion of voluntarism in the country. Some countries in the region, such as Poland and the Czech Republic, have enacted specific legislation on volunteerism. Other countries, including Lithuania, have adopted
amendments to existing labor law regulations to ensure that the people involved in voluntarism receive tax exemptions or are not deprived of unemployment benefits.

An alternative fundraising strategy for non for profit sector is **Community foundations**, which are governed by a cross-sector board with representatives from the business, government and NGO sectors. Community foundations are usually organized on the local level, and act as another alternative to foster Advocacy NGO sustainability. This strategy is largely used in Russia, where more than 15 community foundations have been established and are supporting scholarships, study visits and exchange programs. If taking into account the constant need of advocacy NGOs for capacity building and exchange of experiences, community foundations might serve as an important tool in ensuring the durability of advocacy groups.

One of the most important sources of financial sustainability for NGOs is **self-generated incomes**. Enabling advocacy NGOs to be engaged in economic activities is the biggest challenge for the sector. To solve this problem, the first thing to be done is the development of business skills for NGO staff to improve specifically economic and financial planning skills. There are various ways for NGOs to get involved in business, the most prominent one being the “**social enterprise**”. This is a business venture operated by a social NGO, which aims at empowering NGOs to pursue income-generating ventures. Although, there is a tremendous interest, even among international foundations, the field has not been properly developed enough in the post-soviet environment.

Diversification of financial resources through implementation of various kinds of **fundraising strategies** is a different form of strategy. This form of strategy is well known in the West. This form of strategy might be applicable for countries in the post-soviet environment, if the specific skills and capacity can be developed among Advocacy NGOs. This includes, but is
not limited to, such approaches as major gifts, special events, and various kinds of “athons” (telethons, marathons, and walkathons).

Another strategy that gained large popularity in the post-soviet area is membership fee collection. At the same time this strategy might be effective for associations whose members are legal entities and directly benefit from memberships, like professional associations, or community foundations. It is worth mentioning that this strategy is hardly effective for Advocacy NGOs as a fundraising tool. Even in the West, most NGOs don’t use this strategy, due to the high amount of work being put into collecting membership fees without gaining substantial rewards in return (Moore, 5-10). But having larger memberships is one of the important conditions for effective advocacy, so this strategy might be used in conjunction with other strategies in order to ensure financial sustainability of Advocacy groups.

Sustainable and independent sources of funding are needed for NGOs activities, especially now when the overall trend of donor aid is declining. While the NGOs’ local fund-raising possibilities are quite few, the need for foreign support remains high. Foreign funds should be directed towards enabling local NGOs to become masters of their own destiny and not increase their operational dependency on external donors. An integrative partnership is a tool enabling NGOs to learn from their Western counterparts and enhance their effectiveness. Donors should not act as a coach who tries to promote social associations to local NGOs not looking at what is needed in the local context. (Herman, 12p.)

**NGOs financial sustainability and country socio-economic state**

During the current economic recession and the stumbling stock market the economy is softening and private donations have been decreasing. As a result, non-profit organizations are currently facing many critical challenges. Firstly, there has been an increase in the number of
people that need NGO services due to current financial circumstances. Secondly, private philanthropy is down and government budgets are facing shortfalls, which are considered to be the basic financial source for NGO sustainability most countries. On the other hand, the economic crisis has had a direct negative impact on the availability of international funds for NGOs, which is an additional challenge for NGOs in post soviet environment, because international donor organizations are considered to be the basic source for NGO financing.

Historically, the rate of charitable giving tends to decline during economic downturns. According to Grunewald, charitable giving rates fell during the past six recessions in the United States. Rates dropped below zero during four out of the six recessions and almost fell down to 1% in 2002, following the recession in 2001. Therefore, non for profit organizations, that heavily depend upon donations to fund their efforts, have directly suffered from the current recession. Data collected during different economic recession periods since 1973, has shown that private giving falls an average 1.3 to 4.3%. (Grunewald, 2p.)

In what ways is the non-profit sector affected by the economic recession?

- When profits of individual companies are down, corporate charitable giving declines.
- When markets are down, profits on foundation donations and ultimately, grant making budgets diminish tremendously.
- When unemployment and economic insecurity are on the rise individuals donations decrease.
- As financial activity slows and tax returns fall, local and state governments are forced to cut social services and expenditures on such important areas as health and education. (Reiboldt, 2p.)
We are living in anxious times, after extraordinary turmoil in the economy everyone is facing uncertainty and change. The non for profit sector organizations are the ones who are in touch with what is happening day to day in communities. They are the ones that know when people are looking for emergency relief; when they are facing homelessness; when they are dealing with unemployment; when they are dealing with issues associated with disability and mental health. It is the non for profit organizations that are in the communities listening and gathering all of this information.

Economic condition of the country is one of the key variables that might have a significant effect on NGOs sustainability. The economic hardship diminishes local fundraising opportunities as well as reduces the options for philanthropy or volunteerism. An economic crisis creates devastating impacts in developing countries’ ability to fight poverty and to promote social justice. (Reiboldt, 4p.) It is obvious that non for profit sector sustainability will face another challenge during current economic recession.

Findings

In this chapter the main findings of NGO base line survey and in-depth interviews conducted within the framework of this research are summarized. The chapter gives the basic facts about the NGO sector, collected during base line survey with 300 NGOs in Armenia. To access the progress in the non for profit sector financial sustainability in Armenia, research has been built based on the comparisons of findings with results of study “Armenia NGO Sector Assessment” 2004”. For data validation also NGO Sustainability Index, for Central and Eastern Europe and Eurasia, (2002-2008), and Civicus Civil Society Index 2006 have been used. NGO survey also was aimed to reveal which are the financial sustainability strategies that are already used by Armenian NGOs in general, and to test whether those strategies are applicable to advocacy NGOs in country current context.
Basic facts about Armenian NGOs

According to the Armenian NGO sustainability index (2008), there are more than 4000 registered NGOs in Armenia. The main reason for the recent popularity of establishing an NGO in Armenia is because of the numerous grants provided by international donor organizations. However, quantity does not necessarily mean quality. Only 10-15% of registered NGOs are effectively functioning organizations. The majority of registered NGOs are heavily dependent on donor funds and lack financial viability. This fact reduces NGO sector’s capacity for social oversight, since they are forced to adopt their needs and objectives to the interests of the donors. As a result, the NGO sector cannot prosper and continue to operate effectively only based on grants received from the donor organizations. Availability of donor funding also plays a major role for NGO advocacy.

Firstly, every organization needs resources for operation (staff, office, equipment, trainings for human resource (HR)) and organizational development (OD). Secondly, the implementation of advocacy campaigns costs a lot of money (Data collection and analyzing, media campaign, grass roots mobilization, lobbying, networking, coalition building, monitoring and evaluation).

The fact that during the last several years Armenian NGOs has registered major improvements in their advocacy capacity is largely due to the donor funds that have been generously invested in NGO advocacy. According to NGO sustainability index NGO advocacy campaigns during 2008 have significant impacts on the local and national levels. Moreover, comparative analyses of advocacy index since 2000 shows significant improvement from 5.0 to 3.6 in the scale from 1 to 7, (1- 3 = consolidation; 3-5, mid-transition, 5-7 early transition )

Data on the self-assessment of NGOs advocacy capacity according to the NGO survey of this research is depicted in the tables below.
Table 1

<table>
<thead>
<tr>
<th>Advocacy and lobbying capacity of NGOs /self assessment/</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>low AD</td>
<td>33</td>
<td>11</td>
</tr>
<tr>
<td>somewhat low AD</td>
<td>67</td>
<td>22.3</td>
</tr>
<tr>
<td>somewhat high AD</td>
<td>132</td>
<td>44</td>
</tr>
<tr>
<td>high AD</td>
<td>67</td>
<td>22.7</td>
</tr>
</tbody>
</table>

Table 2

<table>
<thead>
<tr>
<th>Productivity of implemented Advocacy project for target group /self assessment/</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>unproductive</td>
<td>17</td>
<td>5.7</td>
</tr>
<tr>
<td>somewhat unproductive</td>
<td>61</td>
<td>20.3</td>
</tr>
<tr>
<td>somewhat productive</td>
<td>96</td>
<td>32</td>
</tr>
<tr>
<td>productive</td>
<td>125</td>
<td>41.7</td>
</tr>
<tr>
<td>DK</td>
<td>1</td>
<td>0.3</td>
</tr>
</tbody>
</table>

However, due to ongoing support from donors, especially USAID, NGOs’ never felt a need to redesign their strategic planning for long term sustainability due to the certainty of continued funding from the West. Although, international donor support has largely contributed to the development of the NGOs’ advocacy capacity in Armenia, it has failed in developing a financially sustainable sector of civic advocacy independent from donor funding.

Figure 1
Changes in NGO funding base
Currently, lack of financial sustainability is the one of the major issues for most of the NGOs in Armenia, and of those NGOs who were interviewed they would like this problem to be addressed. 59% of the NGOs reported about the decrease in their funding (in Yerevan -102; in Regions -76) and only 16.7% reported about the increase in their funding (in Yerevan -30; in Regions -18;). In addition, 70.7% of NGOs assess their financial sustainability as insufficient and only 6.7% of NGOs reported about the high level of financial sustainability.

Although, some prospering NGOs still get funding from their international donors, the amount of financial support is decreasing. Accordingly, “Armenia NGO Sustainability Assessment” from 2001 to 2004 indicates that the number of NGOs that have received donor grants has increased from 20% up to 54%. (Blu & Ghazaryan, 54p.) According to Civicus CSI 2003-2006 report on Armenia only 42% of the NGOs received funding from donor organizations. (Aslanyan & others, 39 p.) According to this research survey, in 2009 the number of NGOs that have received some form of donor grant has reached to 62%. When considering the fact that during last 4 years NGOs have increased their skills working with the donor community, especially in preparing proposals acceptable to donors for funding, the 8% increase in the number of NGOs that have received donor grants is worrisome. This means that there is decrease in funding sources and reduction in opportunities for NGOs to get donor funding.
Additionally, in 2004, 76 NGOs received only one grant, 73 NGOs implemented between 2-5 grants and 12 NGOs benefited from more than five grants. (Blu & Ghazaryan, 54p.) According to a 2006 CSI index only 45% of NGOs have only one source of funding. (Aslanyan & others, 39 p.) Furthermore, now according to this research survey 86 NGOs receive only one grant, 59 NGOs receive between 2-5 grants, and only 6 NGOs benefited from more than five grants.

These statistics indicate that there is a significant decrease in number of NGOs, which receives multiple grants. According to this research findings, there has been a diversification of funding sources. Only 29% of the NGOs reported that the international donor grants are the only source of financing. Only 39 of the NGOs funding totally comes from alternative sources. However, funds from alternative sources are not more than 25% of the funding base for 1/3 of the NGOs.

Table 3

<table>
<thead>
<tr>
<th>What percentage of NGO funding comes from alternative sources</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 10%</td>
<td>38</td>
</tr>
<tr>
<td>from 10-25%</td>
<td>61</td>
</tr>
<tr>
<td>from 30-45%</td>
<td>22</td>
</tr>
<tr>
<td>higher than 50%</td>
<td>18</td>
</tr>
<tr>
<td>100%</td>
<td>39</td>
</tr>
</tbody>
</table>

It is also worth mentioning that NGOs that have diversified funding sources do not necessarily show higher financial sustainability. Although, comparing with the NGOs that receive funds only from international donors, NGOs with diversified funding sources demonstrate more financial sustainability.

The charts below observed the relationship between the financial sustainability (FS) and diversification of funding sources based on this research survey finding.
Taking into account the important challenges that the non profit sector faces in the post-soviet countries, it is high time to explore the roots of the donor communities’ failure to develop a sustainable and effective NGO sector, which is still, after an intensive long term investment, vulnerable to forces both within and beyond its control.

One of the main problems is that while most donors acknowledge that non profit organizations should be evaluated on the merits of their programs, they are very conscious about how much NGOs spend on administration and fundraising. In order to win the tender, NGO managers have to under invest in institutional development, strategic planning, and data
collection for performance evaluation as well as staff capacity building. In most of the developed and democratic former Soviet countries, NGO advocacy can be entirely eroded as a result of reduced donor funding. For example, in the Baltic States the NGO sector registered a sharp decline in efficiency and sustainability due to the cuts in US grants (even though it was partially compensated with the EU funding). The non for profit sector in the Baltic States had still faced tangible hardships due to the lack of sufficient donor funding. The reduction of funding sources had a negative impact in almost all indicators of NGO sustainability including organizational capacity, service provision, and public image (Herman, 6p.).

As Danelian (2002) clams, Advocacy NGOs are catalysts for representative democracy. This perception is heavily leaned on the successful experience of interest groups in the West that are promoting plurality and public opinion. Via NGOs that are involved in the formation of public policies, society putting pressure on mechanisms fall short of a real representative government. Thus, a lack of financial sustainability, that jeopardizes the existence and effective performance of NGO advocacy in post-soviet countries, is a serious challenge for building and consolidating democracy.

Although, some NGOs in Armenia are still getting the funding from international donors, it is apparent that the amount of the financial support is decreasing. Thus, the big challenge for many NGOs will be to find the alternative sources that will guarantee the continuity of civic advocacy.

**Assessment of alternative funding sources used by Armenian NGOs**

This chapter explores several alternative funding sources that are used by Armenian NGOs, and make conclusions on their applicability and effectiveness in the Armenian context based on the NGO survey data and analyses of in-depth interviews with experts.
Political parties as a source for financial sustainability.

There is limited cooperation between political parties and NGOs from election to election. Majority of NGOs understate the importance of such cooperation. It is worth it to change one’s attitude and look for new possibilities of cooperation. *(Representative of donor organization)*

According to the majority of experts that have been interviewed during this research NGOs should be involved in cooperation with political parities only based on social agreements. Financial support from political parties might bring dependency and limitation in the civil society autonomy. As a result, this might tarnish the public image of NGOs.

Only three interviewed experts would consider the possibility of NGOs receiving financial support from political parties. The three interviewed experts explain that there is a lack of such partnership, because of a lack of culture and skills. At the same time, the survey among NGOs reveals that 20.7% of NGOs have cooperation with political parties. Almost 68% of them assess this cooperation as productive. Only 2.3% NGOs mentioned that they actually receive financial support from political parties and only 7.7% of NGOs reported that they are receiving nonfunctional support (equipment, office) from political parties. The other 79.3% of NGOs don’t cooperate with political parties. The table below indicates the main reasons why NGOs do not cooperate with political parties as indicated by the NGOs during survey.

**Table 4**
Reasons for not cooperation of NGOs with political parties

<table>
<thead>
<tr>
<th>% NGOs</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>Have statutes that prohibit any cooperation with political parties.</td>
</tr>
<tr>
<td>53%</td>
<td>Consider that civil society organizations should not be politicized because this cooperation might harm their public image.</td>
</tr>
<tr>
<td>34%</td>
<td>Does not consider cooperation with the political parties productive.</td>
</tr>
</tbody>
</table>
According to “Nations in Transit 2008” report on Armenia, the fact that government operated non-governmental organizations (GONGOs), are actively involved in all major political activities, particularly in election observation, has a negative implications for the independence of civil society and public image. The report further mentions that many of the civil society groups that have been involved in election monitoring, had no prior involvement in election-related or democracy-building activities, but had amended their charters just before the elections to be included in election observation. This raises doubts about their worth and impartiality.

When studying the relationship between the cooperation of political parties and the effectiveness of implemented advocacy campaigns of NGOs, no significant correlation has been revealed. Similarly, there is no significant correlation between the NGO financial sustainability and cooperation with political parties. The charts below explore these relationships.

**Figure 5**
Correlation between the NGO financial sustainability and cooperation with political parties

Data shows that NGOs fail to cooperate with the political sector to make their advocacy campaigns more
effective. In addition, this cooperation does not contribute to financial sustainability of the NGO sector. These facts might reduce the incentive to foster the financial interactions between the political parties and NGO sector.

**Conclusion**

Research findings show that there is no appropriate base for political and civil sector financial interactions. For the majority of NGOs, the current political system is not open for cooperation and it is not transparent. NGOs that receive financial support from political parties have a negative public image. There is general concern that financial support received from political parties might limit the independence and autonomy of the civil sector. Expert opinion leaders conclude that only after the total transformation and improvement of the political system in Armenia, the financial interactions between the political and civil sectors will not harm the overall development and image of the NGO sector.

**State financial support**

This will only be possible through a serious approach and mutual trust. Governments should have trust towards NGOs. NGOs should have proven capacity and professionalism. If an NGO is sustainable and have well established management mechanism in place there is no danger of any dependency. *(Representative of donor organization)*

Comparative data analysis in this field implemented during last years in Armenia leads to the conclusion that there is some improvement in NGO-Government financial interactions. According to an NGO assessment survey in 2004, 33 % of the NGOs mentioned Armenian government as an potential future funding source for them. *(Blu & Ghazaryan, 81p.)*
According to Civicus civil society index report for Armenia for 2003-2006, 36.4% of NGOs felt that the dialogue between the civil society and the State were restricted, whereas, 40.3 % felt that it was on a medium level. Only 10.4 % of NGOs assessed this cooperation as extensive. (Aslanyan & others, 39p.)

Currently, only 54% of NGOs consider their cooperation with government bodies as productive. At the same time 36.3 % of NGOs have reported that they are participating in tenders offered by the government. Moreover, during this research survey 43% of the NGOs mention government bodies as a source for non-financial support and 22.3% receive funds from the government. These figures have significantly increased since 2004. According to the NGO Sector Assessment 2004 report the government financed 11% of the NGOs. (Blu & Ghazaryan, 84p.) Whereas, the Civicus CSI index report from 2003-2006 indicated that this number was not above 7 %. ((Aslanyan & others, 39p.)

At the same time, according NGO survey findings 19.3 % of the NGOs reported that they have absolutely no cooperation with the government and 26.7 % of the NGOs reported that their cooperation with the government as somewhat unproductive.

Although the government might serve as a serious source for NGO funding, the leaders of the NGOs feel that there is a lack of well established mechanisms and transparent procedures of governmental grant allocation, because only a limited number of NGOs receive grants from the state. Lack of trust towards grant allocation procedures creates doubts amongst NGOs that state grants might result in the limitation of their autonomy.

In view of this almost 52% of the interviewed experts consider this practice not applicable in the Armenian context. In order for this to work, constructive improvements are needed, including the establishment of a transparent grant allocation mechanism, the changing of
attitudes among state authorities on the role of the NGOs, and significant improvement in the capacity and professionalism of the NGOs.

Meanwhile, more than 45% of the interviewed experts during current study consider that NGOs should become more and more involved in the public service delivery and get more possibility for state financial support. Despite these low figures, there are some signs of progress. The chart below represents the relationship between the financial sustainability and state financial support. According to this chart, there are less NGOs with high insufficiency in financial terms among those receive financial support from the government.

**Figure 6**
**Financial sustainability of NGOs vs. state financial support**

According to the chart above it is apparent that state financial support is effective for NGOs with the lowest level of financial sustainability. However, state financial support is ineffective for those NGOs who reported about somewhat high or high financial sustainability. Below is a bar graph, which indicates the relationship between effectiveness of implemented advocacy projects and financing from the state structures.

**Figure 7**
Figure observed relationship between Advocacy campaigns effectiveness and state financial support

It appears when looking at the chart that NGOs that receive state financial support are capable to implement effective advocacy campaigns. The majority of the NGOs that receive state funding reported that they had a somewhat high effective advocacy project (46.3%). This figure is lower among those NGOs that do not receive state funding (27.9%).

While it is apparent that the NGOs who are being state funded are not deterred from their overall capacity to implement effective advocacy projects their concentration in the bar chart is still moderate. Only 28.4% of NGOs funded by state reported highly effective advocacy projects. While NGOs who did not receive state funding assessed their advocacy projects as highly effective (45.5%).

**Conclusion**

State funding should be developed especially for those NGOs that need financial resources to keep their NGOs financially afloat. State funding might serve as a survival tool. It also will enable the continuance of moderately effective advocacy projects. However, majority of the NGOs that are implementing highly effective advocacy projects are those that are “free” from state support.

When you consider the fact that among the NGOs that have high capacity in advocacy, only 36.8% of NGOs apply for state funding. This might be explained partially by the lack of trust towards grant allocation procedures, which impedes the involvement of the NGOs with high advocacy capacity and experience to apply for government funding.

Another reason might be the existing loopholes in the legislation regulating in the field of state contracting for service provision. Law creates barriers for NGO involvement in public service delivery directly. According to the Constitution of Republic of Armenia (RA), Article
33.1 and 42.1) all legal entities including NGOs might be involved in entrepreneurial activities, but NGOs can generate funds for their budgets only by establishing Limited Liability Companies (LLC) (Law on Non-Government Organizations of RA; article 4.3). However, to manage the LLC, NGOs need more resources and skills, which in most cases they lack because of their inadequate experience in entrepreneurial activities. Therefore, it is not surprise when only 12.3% of the interviewed NGOs are involved in social enterprise, according to survey conducted within the framework of this research study.

There is an established cooperation of NGOs with state bodies in the ministerial level. In 2008 the Ministry of Labor and Social Affairs adopted guideline regulating the NGO-state cooperation. It states that the Ministry should provide requested information, implement joint projects and activities, and insure the involvement of NGO representatives in the development and amendment of public policies and strategies (The order of Minister of Labor and Social Affairs on July 17, 2008 N 97-²/1). This guideline lacks some very important elements. The guidelines are very vague on the topics of information exchange, joint discussions and feedback, and implementation of joint projects and activities. On the other hand, it does not regulate the process of social contracting, provision of social services by NGOs. It also does not provide the procedures on how the selection of beneficiary NGOs is taking place. There are major loopholes to the guidelines that enable the Armenian government to contract NGOs, which significantly weaken the state-NGO social partnership and their effectiveness. This contributes to corruption and limitation of NGOs autonomy.

Lack of transparent state mechanisms in fund allocation from one side, and a limitation in skills and experience of NGOs in providing public services from another side contributes to the limited involvement of the NGOs in the public service delivery through contracting with state. There is a need to adopt legal acts that will regulate social contracting, involvement of NGOs in
social service provision, and selection of beneficiary NGOs as well as advocacy oversight for allocation of state budget funds for social contracting. But there is obvious ground for progress. Common efforts of both the NGOs and the donor community in initiating several advocacy projects in this sphere will largely contribute to this process.

**Philanthropy**

| There are limited cases of philanthropy in Armenia. Philanthropy to become more relevant, legal taxation incentives should be adopted just like in many other countries. (Representative of donor organization) |

The lack of philanthropy culture and the absence of legislative incentives for philanthropy are the two main barriers identified by interviewed experts for limited individual donations to the NGO sector. Another important factor is a lack of trust towards NGOs and the lack of traceability of donated resources.

Also among other barriers in order to promote philanthropy, experts identify a lack of corresponding capacity of NGOs to attract individual donations. Sometimes NGOs refuse to take donations as this might harm their independence. Only 3 interviewed experts expressed the opinion that they are heading towards philanthropy in Armenia and they will be developing this form of strategy in the coming years. Others argue that for philanthropy to be developed in Armenia, there are too many things that need to be changed, from legislative amendments, to drastic changes in attitudes and culture. Although, majority of interviewed experts have a skeptical image of the current state of philanthropy in the country, they leave space for optimism, hoping that in the future this might become more applicable in our country.

The results of this survey conducted amongst the NGOs shows that currently donations serve as a source of funding for almost 30.3% of NGOs. Whereas, only 62% of the NGOs
receive non-financial support from individuals (this includes individuals that are members of an organization).

From the year 2004 to 2009 there were no significant differences in number of NGOs that received donations. In 2004, it was about 31%. This includes the 18% of the NGOs who received donations from members (13% of this statistic came from wealthy community members. (Blu & Ghazaryan, 84p.) Civicus CSI report on Armenia from the year 2003-2006 indicated that 23 percent of survey respondents made financial donations to NGOs. (Aslanyan and others, 31p.) This was a significant percentage for a country like Armenia because where a large part of population receiving humanitarian assistance and social support.

At the same time philanthropic contributions does not contribute to the stability of NGOs in financial terms. About 66 % of the NGOs that receive donations reported a decrease in their finances. Only 11% of the NGOs reported an increase in financing and the remaining 23% of the NGOs claim that there has not been any significant change in their financing during the survey implemented for this report.

![Figure 8](image)

The chart presents a self-assessment of the NGOs that benefit from philanthropic donations on their financial sustainability and effectiveness of implemented advocacy for their beneficiaries.
It is apparent that the donations do not contribute to the financial sustainability of the beneficiary NGOs. Only 6% of the NGOs that receive donations assess their financial sustainability as high and 36% of the NGOs that receive donations assess their financial sustainability as extremely insufficient.

At the same time 39% of the NGOs that benefit from donations, assess effectiveness of implemented advocacy projects as very high. Whereas, only 3% of the NGOs assess their advocacy project as ineffective.

Thus, NGOs who receive donations are more likely to implement projects that meet the beneficiary’s needs. While usually viewed as an indicator of civic activism, volunteerism is also an important part of NGOs sustainability. Contribution of time and expertise is seen as more important as contributions of money or material.

Majority of the experts interviewed during this study mentioned that there was a lack of law on volunteerism, which is the main obstacle hampering the philanthropy culture in the country. At the same time, 85.7% of interviewed NGOs reported that they have volunteers. Among them 40.5% of the NGOs reported an increase in the number of volunteers during last two years, and only 17.2% of the NGOs reported a decrease in the number of volunteers.

Considering the fact that according to an NGO survey conducted in the year 2001 and 2004 about 90% of the NGOs reported having volunteers. (Blu & Ghazaryan, 53p. It is becoming obvious that Armenian NGOs are volunteer driven organizations. This assumption can be supported by a study conducted by Civicus CSI Index 2003-2006 on Armenia. According to this study, 80% of the citizens were involved in collective and volunteer actions in an informal way. While 37-38% were involved in volunteer activities mobilized by civil
society organizations or municipalities. (Aslanyan & others, p.32) There is solid ground for promotion active and regular volunteer support to NGOs.

**Conclusion**

Philanthropy is an indicator of domestic social support to the non-profit sector, which is very important in countries like Armenia where the international donor support to the non-profit sector is reducing.

During an economic crisis in Armenia the numbers of NGOs that benefit from individual donations have not been significantly changed. When taking into account the lack of local tradition of giving in Armenia and the lack of NGO skills to reach out to the communities and mobilize their support this might seem as progress in this field and leads me to the conclusion that there is an emerging philanthropy culture in Armenia.

A summary of interviewed experts’ opinion and survey data analysis during my research shows that individual donations do not serve as a source for long-term financial sustainability. Individual donations serve a short term solution to NGOs operating in Armenia because it does not provide a stable source of income to the NGOs, who are trying to help the Armenian communities. However, this is a powerful incentive for NGOs to implement advocacy projects that meet the stakeholder’s needs.

At the same time there is solid ground in Armenia to promote volunteerism as a form of philanthropy. Yet, there is a lack of attention being paid to the benefits of volunteerism, the factors that might affect the effectiveness of volunteerism are: public awareness on the importance of volunteerism, promoting private sector support, and research on the impact of volunteering. But the most important one is the importance of the legal regulatory framework in place. Lack of law on volunteerism leads to the following outcomes:
Absence of a legal definition of “volunteer”: as a result volunteers are seen as paid employees by the Armenian government. Consequently, NGOs may be accused of violating labor laws, because they have hired labor without signing an employment contract. This is considered illegal in Armenia.

Unemployed persons who are now involved in volunteer work might be seen as an employee for that NGO by the Armenian government and as a result they may lose their unemployment benefits.

Lack of taxation reimbursement for volunteering expenses and treating voluntary labor as taxable is a serious obstacle for recruiting and mobilizing volunteers. Hence, adoption of law on volunteerism is a priority for philanthropy promotion in Armenia.

**Percentage philanthropy / Law on 1%**

Percentage philanthropy is a new phenomenon for Armenia. Serious steps should be taken to implement Law on 1%. Transparent mechanism for finance allocation should be developed; otherwise the public image of NGOs might be harmed. *(Representative of donor organization)*

A study conducted by the NGO sector assessment in the year 2004 revealed that there was intensive progress in NGO related legislation. However, they further argued that there are still places that needed to be improved in order to facilitate financial sustainability of the non-profit sector. *(Blu & Ghazaryan, 31p)*

During my research interviewed experts have been asked to assess the applicability of percentage philanthropy or law on 1%, which is 1% of paid taxes allocated to the NGO sector, in the Armenian context. Percentage philanthropy has been recognized as effective by two-thirds of the interviewed experts (20). Although they express concern that this might be not as much effective yet, as there is a serious need for special legal procedures that will regulate the
allocation of state funds to NGOs. The public and the NGOs themselves are not ready to advocate and lobby for such appropriate legal amendments in Armenia.

From the thirty experts who were interviewed for this report only 6 of them considered that the law on 1% is not applicable and it will not be effective in Armenia due to current socioeconomic situation and the major loopholes of the taxation system. There were four experts interviewed for this report who felt differently, they believed that taxation incentives should not be applied to NGOs and that everyone should have equal taxation responsibilities in Armenia.

Other interviewed experts claimed that there should not be an amendment in legislation regulating the NGO sector. There were four experts who felt that the laws are quite good and meet NGOs current needs. They further claimed that there is no need in new laws instead there should be an improvement on the implementation of laws.

It is apparent that for some groups of stakeholders the question is still whether we need to amend the legislation in the field of civil society.

**Conclusion**

The lack of transparency and accountability in the field of taxation and allocation of state budget creates public distrust. There is danger that involvement of the NGOs in this poorly regulated sphere will harm the public image of the NGOs even more than the possible contribution to the financial sustainability of their sector.

Secondly, for the law on 1% to work, it should be well formulated, in order to eliminate any discrepancy in later implementation. Among serious questions that should be addressed on law on 1% is who will select the potential beneficiary NGOs; how the allocated money should be used; what will be the procedure of monitoring and reporting on used resources; what will be the
resource allocation procedure? The most important of all, whether there is public understanding and support for law on 1% in Armenia.

Currently, the adoption of law on 1% is a serious challenge for the NGO sector. Without strong public backing and explicit implementation mechanisms in place, the law might seriously harm the public image of the NGOs. However, taking into account the major positive impact that adoption of law on 1% might have on the overall financial sustainability of the NGO sector; NGOs should consolidate their joint advocacy efforts for the publicity on the issue and later on adoption of the Law on 1%.

**Community foundations**

In Armenia, NGOs are isolated from the community. Community foundation might work only if NGOs work with the community and for the community. *(Representative of donor organization)*

The opinion of experts about whether community foundations might serve as an alternative source for NGO financial sustainability is quite controversial. About 33.3% of the experts interviewed for this research expressed that this source of funding is not applicable in the Armenian context. Some of the major obstacles that experts identify are scarce resources, high level of poverty, and limited involvement of NGOs in community development. Furthermore, these experts shared negative opinions about the establishment of community foundations as they might lead to the limitation of independence in the NGO sector. To be supported by the community, NGOs should be recognized and highly involved in community issues; though this is not the case in Armenia.

According to the survey, implemented for this report only 6% of NGOs identify community development as a main priority. The other 60% of the interviewed experts view community foundations as a future source for NGO funding. Although, the experts recognize
that there is a lot of work to be done in this direction, including the development of well-defined mechanisms, promotion of a positive public image and cooperation between the community and the NGOs, they consider this approach applicable in Armenia.

Some experts expressed the opinion that community foundations will face similar challenges as state funds, such as a lack of transparency in funds allocation procedures, lack of trust and traceability of the flow of funds. According to others, community foundations are not created to provide support to NGOs, but to serve the needs of the community. This is pure cooperation, a win–win situation, where both the community and NGOs will benefit.

Despite the different opinions shared by the majority of the experts they agree that this direction should be further studied and developed.

**Conclusion**

Community foundation is a new phenomenon in Armenia. Taking into account the established traditions of cooperation between the NGOs and local level decision makers and the importance of fostering the involvement of NGOs in addressing problems in local communities, community foundations might be quite a productive way to cultivate this process.

There is no serious precautions against promotion of this practice in Armenia. The basic concern is related to lack of resources in the community level.

Due to lack of research implemented in this field, it is impossible to assess the applicability of this practice. To fill the information gap in this field, it is recommended to look into countries that have or are currently using this approach and to see if community foundations will be suitable and productive in Armenia.

**Membership fee**
The significance of membership fee for NGOs is not quite understood in Armenia and they do not use it appropriately. We should work in this direction. \textit{(Representative of donor organization)}

According to survey implemented for this report, currently membership fee is a source for funding for about 37.3\% of the interviewed NGOs. However, a study conducted in the year 2004 indicates only 18\% of the NGOs received some financial support from its members. (Blu & Ghazaryan, p 76) it is apparent that there is a significant increase of membership fees collecting by NGOs. This is apparent also, if you take into account the data provided by the Civicus CSI 2003-2006, which mentioned that 22\% of NGOs benefit from membership fee collection (Aslanyan & others, p 38).

\textbf{Table 5}
\textbf{Membership fee vs. financial sustainability}

<table>
<thead>
<tr>
<th>Membership</th>
<th>Is the membership financial source for your organization</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Increase</td>
<td>2</td>
<td>43</td>
</tr>
<tr>
<td>Decrease</td>
<td>31</td>
<td>53</td>
</tr>
<tr>
<td>Same</td>
<td>38</td>
<td>87</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>112</td>
<td>184</td>
</tr>
</tbody>
</table>

According to the collected data for this report only 37.5\% of the NGOs that collect membership fees are located in the regions; other 62.5\% operates in Yerevan. The types of NGOs that are collecting membership fees are humanitarian assistance and professional association NGOs and they constitute 60\% of the NGOs who collect membership fees. 46.2\% of NGOs that identify their main sphere of activity in community development collects fees.
Experts, interviewed for this report consider that socio-economic conditions are playing a significant role in determining whether membership fees might be a financial source for NGOs. On the other hand, there is no correlation between the decrease in membership and a membership fee to be collected by NGOs. About 42% of the NGOs that have reported an increase in membership also collect membership fees. In addition, 53% of the NGOs that reported reduction in membership did not collect any membership fee. Thus, those who have a concern that a membership fee might be a reason for a decrease in NGO supporters are not supported by this data. At the same time, in spite of an economic downfall, numbers of NGOs that are collecting membership fees is increasing. This might be partially explained by low membership fees usually used by NGOs.

The chart with data collected for this report indicates that majority of NGOs that assessed their financial sustainability as high claim that membership fee is a financial source for their organizations.
In addition, my findings show that NGOs that collect membership fees are more financially stable than other NGOs that do not collect membership fees. Of those NGOs who collect membership fees, only 37.6% reported a decrease in finances since last year, but at the same time 61.2% of NGOs that do not collect membership fees report a decrease in financing.

**Conclusion**

Armenia has a population of 3 million; it is quite a small population, so NGOs overall benefits from collecting membership fees might be quite limited. On the other hand, for advocacy groups large membership might be important during their campaigns.

Membership fee collection is becoming more popular among NGOs in Armenia. NGOs reported that membership fee collection has increased since 2004 by 19%. Considering the fact that membership fee is a relatively stable source of funding for NGOs, despite its limited potential to contribute to the overall financial sustainability of advocacy NGOs. If it is properly developed in Armenia, membership fees might be a stable source for financial and human resource for NGOs.

**Figure 10**
The chart explores relationship between financial sustainability self-assessment and membership fee collection.
Fundraising activities

This is an applicable practice for Armenian advocacy NGOs. But there is a need for professional skills and experience, imagination, appropriate approach, proficiency and culture in order to have an effective fundraiser. There are very few fundraising activities organized by NGOs, due to the lack of all the above mentioned. (Representative of donor organization)

Fundraising activities (marathons, concerts, auctions) is new for the Armenian non-profit community, and so far it has not been popular. According to data collected for this report only 35% of the NGOs reported that they organize fundraising activities but not on regular basis, and only 6.3 % of the NGOs name fundraising as a financial source for their organization.

According to a majority of interviewed experts fundraising strategy is quite applicable in Armenia. Only three experts expressed the opinion of fundraising strategies used by NGOs not working in Armenia. The main reasons for skepticism are: (1) lack of appropriate culture in society: methods that are used in fundraising for western cultures are not convincing to local populations; (2) a lack of transparency, especially concerning where the collected funds go. Another important barrier is the lack of knowledge and experience among NGOs on how to effectively organize a fundraising.

These concerns are shared by other experts who consider this approach of NGO fundraising applicable to the Armenian context, despite the above mentioned obstacles. They identify the need for special training and experience.

According to data collected for this report, there are about 40.8 % of NGOs that are involved in organization of fundraising activities and have participated in fundraising trainings. Overall, 59.6 % of NGOs say they actively participate in fundraising trainings. It is worth mentioning that the majority of the NGOs that are participating in fundraising trainings are from regions in Armenia and not the capital.
Conclusion

Despite the fact that fundraising activities might serve as a funding source, which might significantly influence the financial sustainability of the non-profit sector, Armenian NGOs still lack the understanding of the fact that spontaneous fundraising campaigns cannot be effective. In order to raise funds, it needs to be well organized and planned in accordance with the mission of the NGO. However, NGOs still lack the proper experience and knowledge of the basics in fundraising. The major problem is the lack of proper trainings, the systematic approach to planning and implementing fundraising activities, which are designed to address both the needs of local population and be relevant to the mission of the NGO that organized the fundraising activity.

Another significant obstacle, which hampers the effectiveness of organized fundraising campaigns are lack of trust on the funds allocation procedures and lack of tractability of flow of funds. This concern derives from the public image of NGOs and their transparency and public disclosure of NGOs financial flows.

To make fundraising activities more popular and effective there is a serious need in capacity building of NGOs in the field of fundraising activity organizations and implementation.

Business sector as a funding source for NGOs:

Experts express almost unanimous opinion that NGO- Business cooperation in Armenia is at an effectively low level but opinions are expanding on whether it should be further developed or not. A conflict of interest and a danger of losing sector independence are possible side effects of the NGO-Business sector cooperation, an issue that was raised by 25% of interviewed experts within the framework of this study.
However, other interviewed experts can see a possible future for NGO-business cooperation. According to these experts NGO-business cooperation can result in NGO sector sustainability and it fosters a culture of social corporate responsibility and mutual trust. The ability of the NGO sector to identify and attract potential supporters from the business sector is another aspect mentioned by opinion experts that might play an important role in building productive cooperation between NGO-business sectors. The pros and cons are almost the same; the lack of transparency, traceability in NGO expenditure, and danger to lose independence and autonomy of actions/opinion.

At the same time the number of NGOs that are cooperating with business sector is increasing. According to a current survey result conducted for this report, 56 % of the NGOs cooperated with the business sector. Furthermore, 89.7 % of the NGOs that cooperate with business organizations assess their cooperation as being productive.

Only 22.7% of the NGOs reported that they receive non-financial support from business sector. Regional NGOs are more inclined to cooperate with for profit sector. About 59.3% of regional NGOs cooperate with business organizations. The number of NGOs who reported about receiving funds from the business sector are quite small, only 5.3 %. Almost the same percentage of NGOs reported about receiving financial support from the business sector during the Civicus CSI survey conducted in 2006 (7.7%). (Aslanyan & others, p.38)

**Figure 11**
**NGO – business sector cooperation**
According to findings of survey conducted for this research, the main reason why NGOs do not cooperate with business organizations is because of the lack of partnership among business organizations. Only 14% of those NGOs are unwilling to cooperate with business organizations. Different research pieces on social responsibility in Armenia indicate that the business sector has little understanding of the concept of social corporate responsibility and has no incentive to contribute to CSO activities. There are some high profile companies who provide some financial support to NGOs mainly to promote a positive image, to cover up criminal activities, to gain support of CSOs or pressures from government, as identified in Civicus CSI report 2003-2006. (Aslanyan & others, 51p.)

**Conclusion**

Cooperation with the business sector indicates the ability of NGOs to create a relationship with the for-profit sector that are mutually beneficial. According to research conducted for this report, there are only a few NGOs who demonstrate the ability to involve local businesses in funding NGO activities yet. NGOs understand the importance of cooperation with business sector. Majority of NGOs have no cooperation with the private sector due to their unwillingness to cooperate from the side of business and difficulties in finding partners. This might be a result of poor quality NGO work and the lack of expertise to build a partnership.
According to Profit Law of RA, business entities may benefit from donating to a non-profit sector by receiving income tax reduction, and if the business sector is not aware of this law, it is the fault of the NGOs. NGOs should find better ways to inform businesses about their activities and possibilities of cooperation.

**Diaspora as a financial source for NGOs**

The fact that financial support to Armenian NGOs from the Armenian Diaspora has increased from the year 2001-2004 by up to 7%, (from 16% to 23%) and in-kind contribution up to 6% (8% to 14%) during the same period, had been seen as an indicator of shifting Diaspora support from the state to the non-profit sector. ([Blu & Ghazaryan, p 75]) However, this is not the case when you look at the support of the Diaspora to the NGO sector today. The support of the Diaspora to the NGO sector is still not on a regular basis and is inadequate to be compared with donor contributions to the non-profit sector in Armenia.

**Figure 12**
The chart explores the relationship between the cooperation with Diaspora and Financial Sustainability of NGOs based on data from survey.

The chart shows that the majority of NGOs assessing their financial sustainability as sufficient (high or somewhat high) cooperate with Diaspora. But this does not mean that cooperation with Diaspora is a prerequisite for financial sustainability of NGOs, as 57.9% of
NGOs that have cooperation with Diaspora assess their financial sustainability as insufficient (low, somewhat low).

At the same time it is worth mentioning that there is increase in cooperation between Diaspora and NGO sector. According to a baseline survey conducted within the framework of this research about 41.3% of the NGOs reported that they cooperate with Diaspora. While, 89.7% of those NGOs that have cooperation with Diaspora claim that this cooperation is productive.

Only 12% of the NGOs do not cooperate with Diaspora due to their unwillingness. The main reason given by NGOs of not cooperating with Diaspora is because NGOs find it difficult to seeking partners (88%).

**Figure 13**

NGO-Armenian Diaspora cooperation assessment

<table>
<thead>
<tr>
<th>Does your NGO cooperate with Diaspora</th>
<th>productive</th>
<th>somewhat productive</th>
<th>not productive</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>59%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>42%</td>
<td>87.9%</td>
<td></td>
</tr>
</tbody>
</table>

Within the framework of my research indebt interviews with representatives of Diaspora has been conducted to reveal the main reason of lack financial support to NGOs in Armenia. All of the respondents mention the following statements as an obstacle for the productive cooperation between Armenian Diaspora and NGO sector in Armenia:

- Lack of trust;
- Feeling that all are not equal before the law;
You need patronage to start business or other activities in Armenia; and

An abusive, intrusive, unresponsive, inefficient government that tolerates and fosters an unfair, discriminatory society that favors oligarchs and crests not equal conditions for everyone.

Conclusion

According to data collected for this report, many consider that financial support from Diaspora might replace the money from donor organizations, but the full potential of donor support to the NGO sector is not fully utilized. Moreover, Diaspora is not serving as a source for regular and sufficient financial support to the non for profit sector. The reason as to why the majority of the NGOs do not cooperate with Diaspora is because they are having a hard time finding a partner. Thus, NGOs lack the capacity and knowledge to build a partnership. In turn, Diaspora might not be interested in supporting NGO activities.

In order to have extensive support from Diaspora, high transparency and effectiveness of the NGO sector are imperative. The NGO sector should be highly efficient in its activities and competent in its mediatory role between public opinion and public policies. It is also important for NGOs to be able to show measurable results and positive outputs of implemented activities, which is not the case in Armenia. The high risk of insufficiency and wasted resources impede Diaspora’s larger investments in the NGO sector. To reinforce trust towards non for profit organizations, NGOs should build on their managerial and operational capacity.

ANALYSES LEADING TO ACTIONS

In this chapter the main analyses are presented about the financial sustainability of advocacy NGOs in Armenia. The correlation between financial sustainability and advocacy is presented
based on research findings. Also there is elaboration about the main obstacles for NGO financial sustainability highlighted by stakeholders.

The chapter also analyses findings about the impact of socio-economic development of Armenia on overall financial sustainability of the sector. And also there are analyses of findings about the role of different stakeholders, including donor organizations, state and NGOs themselves on the development of financially viable NGO sector in Armenia.

**State of financial sustainability of advocacy NGOs in Armenia:**

If NGOs are financially sustainable, they will be able to concentrate their efforts on fulfillment of their missions (representative of donor institution).

Our society is not ready for an NGO sector that is financially independent and viable (Representative of state institution).

According to an almost unanimous opinion of experts from international and local donor organizations, interviewed during this research, the financial sustainability of advocacy NGOs in Armenia are very low, they remain highly dependent on donor support and are unable to show long term viability.

The opinion of experts from the state and business sector are somewhat different. Although, some state officials agreed that the financial sustainability of NGOs should be improved, the majority of representatives from the state and business sector assessed the level of financial sustainability of advocacy NGOs as moderate. Only those respondents that come to the state or business sector from NGO sector and has deeper understanding of the sector problems, asses the financial viability of advocacy NGOs as minimal.

As indicated in the chart below, 33.7% of the NGOs assessed their financial sustainability as insufficient and only 6.7% of NGOs assessed their financial sustainability as highly sufficient according to this research findings.
from the chart above proves that state authorities and business representatives are unaware of NGOs major problems. Business and state officials’ opinion about the level of financial sustainability of NGOs coincide with data from 29% of NGOs.

Considering the important role that state and business sectors might play in promoting the financial sustainability of NGOs, there is notable information gap about NGO sector financial sustainability issue. There is a need of campaigns aimed to increase awareness on the problem of NGO financial sustainability and the possible ways on how other sectors of the community might be able to contribute in addressing this major issue.

The fact that more than 90% of interviewed experts from donor organizations agree that advocacy NGOs should be financially viable, proving that the donor community in Armenia is ready to support the projects that are aimed at promoting the NGO sector’s long term sustainability.

There are three ISOs in Armenia that have the mission to support the NGO sector. Experts from these ISOs recognize the importance of having a NGO sector that is financially viable. Beginning in 2009, one of these organizations adopted a strategic priority to foster sector financial sustainability. Data has been collected during indebt interviews within the framework of this report.

<table>
<thead>
<tr>
<th>Financial sustainability of NGOs /self assessment /</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly insufficient</td>
<td>111</td>
<td>37</td>
</tr>
<tr>
<td>Some-what insufficient</td>
<td>101</td>
<td>33.7</td>
</tr>
<tr>
<td>Some-what sufficient</td>
<td>67</td>
<td>22.3</td>
</tr>
<tr>
<td>Highly Sufficient</td>
<td>20</td>
<td>6.7</td>
</tr>
<tr>
<td>DK</td>
<td>1</td>
<td>0.3</td>
</tr>
</tbody>
</table>

This data as indicated

49
For interviewed experts financial viability is important especially for those NGOs that have long lasting priorities such as democratization and human rights protection, but this is not the case in Armenia. Almost 70% of NGOs that are involved in human rights and public policy formation is claimed to be financially unsustainable. According to survey data the most vulnerable NGO sector in terms of financial viability is ecological and children rights protection NGOs. Whereas, NGOs that are financially viable are mostly involved in activities aimed to contribute to the economic development of Armenia.

**Table 7**

**Self assessment of NGOs FS by operation sectors**

![Bar chart showing self assessment of NGOs financial sustainability by operation sectors.](chart.png)

Experts’ opinion on the importance of enduring financial sustainability of NGOs versus interim financial support for specific project implementation is also not unanimous. Although, a pressing majority of experts agree that NGOs should have a long term financial sustainability to be able to effectively realize their missions. However, there are experts who claim that NGOs should receive financial resources only for the implementation of specific projects. There is still
a long way to go before convincing experts that financial sustainability of NGO sector is an indispensable attribute of a viable and strong civil society.

Conclusion

Those NGOs that claim to be highly financially sustainable do not indicate low level advocacy capacity. At the same time, 25.2% of the NGOs that assess their advocacy capacity as high claim that in terms of financial sustainability they are extremely weak.

Analysis of the correlation between the NGOs advocacy (AD) capacity and financial sustainability (FS) self-assessments, lead me to conclude, that majority of the NGOs that show some level of financial sustainability have sufficient advocacy capacity. Thus, advocacy skills help build financial sustainability for NGOs up to a certain point. High advocacy skills are not a prerequisite for financial sustainability. With the concentration in the moderate quarters, higher advocacy capacity does not necessarily lead to higher financial sustainability but higher financial sustainability builds the ground for higher advocacy capacity of NGO.

It is worth mentioning that the same relationship might be traced between the financial sustainability of an organization and productivity of implemented advocacy projects. NGOs that
reported a moderate or high level of financial sustainability had also assessed their advocacy campaigns as moderate or highly effective. There is not an NGO with high scores for financial sustainability and low score for effectiveness of advocacy campaigns. In sum, finance sustainability leads to the effectiveness of advocacy campaigns. However, the capacity to implement advocacy campaigns effectively does not necessarily contribute to the financial sustainability of NGOs. There is about 42.2% of NGOs who reported that their advocacy campaigns had a high impact and assessed their financial sustainability as extremely low.

**In conclusion, supporting and strengthening the financial sustainability of the NGO sector will also contribute to the strengthening and effectiveness of advocacy capacity of NGOs.** Meanwhile, supporting and strengthening the advocacy capacity of NGOs will not contribute to improvement of financial sustainability of NGOs.

![Figure 15](image)

The chart represents the relationship between the financial sustainability and effectiveness of implemented advocacy projects.

Statistics above do not show a strong correlation between alternative sources of funding and financial sustainability of NGOs. Therefore, the NGO sector financial sustainability is heavily dependent on the financial support provided by donor organizations and none of the alternative sources is well developed to substitute donor funding. At the same time, NGOs financial
portfolio, which totally constitutes from international donor financial support heavily lack financial sustainability, and about 70% reported a decrease in financing.

**Figure 16**
The chart indicates the self-assessment of financial sustainability of those NGOs, which are totally financed by international donor funds.

![Chart indicating financial sustainability](image)

It should be acknowledged that some of the alternative funding sources presented above has real potential for development and can be effective in terms of supporting financial sustainability of advocacy NGOs in Armenia.

**Main obstacles for NGO financial sustainability**

Experts, interviewed for this report have identified a set of internal and external factors that potentially hamper the financial sustainability of the non-profit sector in Armenia, particularly for NGOs that are involved in advocacy.

Some experts believe the greatest interventions must be made internally within organizations. Whereas, other interviewed experts consider that the primary focus should be on the external factors, otherwise the sector development will be a short-term success.
<table>
<thead>
<tr>
<th>External factors hampering financial sustainability of NGOs</th>
<th>Number of experts that mentioned the problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal framework regulating NGO field and taxation in Armenia</td>
<td>20 experts</td>
</tr>
<tr>
<td>Lack of sufficient state support, limited and non transparency of state financing, over financing of state structures on expense of the non-profit sector, insufficient state budgeting, lack of state NGO cooperation in public service delivery</td>
<td>6 Experts</td>
</tr>
<tr>
<td>Lack of supportive political and civic culture</td>
<td>6 Experts</td>
</tr>
<tr>
<td>Political situation and instability. Donors do not invest money in Armenia. Political instability creates obstacles for sector involvement in active advocacy.</td>
<td>4 Experts</td>
</tr>
<tr>
<td>Lack of donor support. They work with strong NGOs; there is little chance for newly created ones.</td>
<td>2 Experts</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Internal factors hampering financial sustainability of NGOs</th>
<th>Number of experts that mentioned the problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of appropriate skills and experience</td>
<td>9 experts</td>
</tr>
<tr>
<td>Inadequate efforts by NGOs; they always look for support from the outside. They look for money and not for implementation of their mission. They always complain of not having t support from donors, but do not work to convince the donors that they deserve the trust.</td>
<td>9 experts</td>
</tr>
<tr>
<td>Lack of trust towards NGOs in society, not supportive public image.</td>
<td>8 experts</td>
</tr>
<tr>
<td>Lack of transparent and effective NGOs’ management internal system in place. No appropriate management strategy, lack of internal democracy in non-governmental organizations.</td>
<td>2 experts</td>
</tr>
</tbody>
</table>

The main obstacles, identified by the experts during interviews, that hinder NGOs financial sustainability are that the legal framework regulating the NGO sector. Areas that further need to
be improved are taxation, barriers for NGO involvement in income generating activities, and the absence of laws on voluntarism.

A deficiency of supportive legal framework was also identified by the majority of NGO representatives. About 77.8% of NGOs identified the sector’s legal framework as unsupportive. Whereas, only 6.7% of the NGOs identify the NGO legal framework as highly supportive, they have identified their main obstacle being a lack of implementation of laws. Among the internal factors that hamper the sector’s long-term financial sustainability experts cite a lack of skills and not adequate efforts made by the NGOs;

- Only 59.1% of interviewed NGOs report that they have participated in fundraising trainings.
- Only 28.7% of NGOs have implemented projects aimed at increasing the financial sustainability of NGOs. While only 18.4% of implemented projects were actually productive, according to the assessment of NGOs who had implemented those projects.

**Armenia’s socio-economic development plays a factor in NGO financial sustainability.**

*Experts also have been asked to answer to the question concerning the impact of socio-economic conditions and the relationship this has on the financial sustainability of NGOs operating in the country.*

There were 25 experts who answered that socio economic conditions in the country is an important factor that plays a key role in financial sustainability of NGOs. There were three experts who felt that the bad socio-economic conditions might serve as an incentive for state and other public structures to support NGOs to contribute to the resolution of the main grass roots
problems. The remaining five experts consider that financial sustainability of NGOs is not related to the socio-economic conditions in the country.

Figure 17

The chart presents the correlation between Armenia's GDP per capital during the last decade and the index of financial sustainability for the non-profit sector in Armenia, based on the NGO Sustainability Index, for Central and Eastern Europe and Eurasia, (2002-2008).

According to the chart above the financial sustainability index has been altered together with the change in Armenia's GDP per capital. There are no significant alterations to the variables that determined the NGO sector overall sustainability, including the legal environment, organizational capacity, and service provision. Along with the growth in the GDP per capital, advocacy capacity and the public image of NGOs in Armenia also has been improved. It can be assumed that with the sharp decline in the GDP during the current economic recession the
financial sustainability index along with the index of advocacy and public image for Armenian NGOs will be reduced in the upcoming years.

**Whose role is significant in ensuring financial sustainability of NGO sector?**

Experts have been asked to assess the importance of public institutions in contributing to the financial sustainability of NGOs. The task was formulated in a way also to see the role priority among mentioned institutions. There were seventeen experts who mentioned NGOs as the main public actor who should contribute to the financial sustainability of the non-profit sector in Armenia and among them ten experts gave the NGOs primary role in this.

About fifteen experts indicated donor communities in contributing to the financial sustainability of the NGOs and among them six experts gave them the primary role.

Whereas, fifteen experts identify the state as a responsible party to contribute to the NGO sector financial sustainability and among them ten experts put them at the dominant position when considering other institutions.

<table>
<thead>
<tr>
<th>Institutions that should contribute to NGO sector financial sustainability.</th>
<th>Primary factor</th>
<th>Secondary factor</th>
<th>Third factor</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGOs</td>
<td>10 experts</td>
<td>5 experts</td>
<td>2 experts</td>
<td>17 experts</td>
</tr>
<tr>
<td>State</td>
<td>10 experts</td>
<td>5 experts</td>
<td>_</td>
<td>15 experts</td>
</tr>
<tr>
<td>Donor community</td>
<td>6 experts</td>
<td>7 experts</td>
<td>2 experts</td>
<td>15 experts</td>
</tr>
<tr>
<td>other (business, Diaspora)</td>
<td>1 experts</td>
<td>2 experts</td>
<td>_</td>
<td>3 experts</td>
</tr>
</tbody>
</table>

**How Donors might support the NGO sector financial suitability.**
Experts identify a set of activities that donors might be able to implement for NGO sector financial sustainability. Among the top activities, experts ranked donor contributions to the overall organizational development of NGOs, including human resource development and capacity building in spheres related to management and financing.

Financial support from donors also ranks as an important contribution towards NGO sector financial sustainability. Only three experts mentioned that easy money gained from donors is not the right way of financial sustainability promotion. According to them if the financial support from donors would be cut, NGOs will start to think seriously about their financial sustainability.

Table 11

<table>
<thead>
<tr>
<th>Set of activities from the donor community that might contribute to NGO sector financial sustainability</th>
<th>Number of experts that mentioned the activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational development/capacity building /human resource development</td>
<td>12 experts</td>
</tr>
<tr>
<td>Financial support</td>
<td>9 experts</td>
</tr>
<tr>
<td>Experience exchange</td>
<td>7 experts</td>
</tr>
<tr>
<td>Trainings</td>
<td>6 experts</td>
</tr>
<tr>
<td>Financing longer term projects</td>
<td>5 experts</td>
</tr>
<tr>
<td>Contribute to the amendment of legislation in the NGO sector</td>
<td>3 experts</td>
</tr>
<tr>
<td>Cut the NGO financial support</td>
<td>3 experts</td>
</tr>
<tr>
<td>Technical support</td>
<td>2 experts</td>
</tr>
</tbody>
</table>

Donor communities who will or will not support to NGOs financial sustainability

<table>
<thead>
<tr>
<th>Donor communities who will or will not support to NGOs financial sustainability</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>There is nothing absolute and stable in the world. If NGOs have some stability it will strive for continuity. It is important for donors to deal with these NGOs but what is more important is to see their work transparency and expertise. As a rule donors provide grants for short term projects but with long term objectives to support NGOs sustainability. (Representative of donor organization).</td>
<td></td>
</tr>
</tbody>
</table>
Whether the donor community is interested in promoting the NGO sector’s financial sustainability in Armenia was a question put forth to the interviewed experts for this report. It is disheartening to note that nine experts expressed the opinion that donors are not interested: they are looking for short term projects with measurable and immediate outputs and results. According to another thirteen experts, donors are ready to provide support for the NGO sector financial sustainability. Others consider that everything depends on a specific case; it is a matter of problem justification by NGOs and correspondence with the mission of the donor community.

Furthermore, the interviewed NGO experts claim that donors will support NGOs financial sustainability; six are representatives from donor organizations or Intermediary Service Organization (ISOs) that support the NGO sector. Of the nine experts that have said that donors are not ready to support a NGO financial sustainability project, seven were representatives of the donor community.

**Conclusion and recommendations**

In this chapter the main conclusions of the research work on the advocacy NGOs financial sustainability in Armenia are summarized. Also recommendations to donor organizations are presented on the issue of supporting civic advocacy sustainability in Armenia.

**Recommendations to be carried forward by donor organizations**

Experts involved in activities with the NGO sector, especially donors, are largely understanding of the importance of financial sustainability of the NGO sector in Armenia. However, they are not ready to invest directly in building long term financial sustainability of NGOs, but they are ready to support projects that are aimed to contribute to financial sustainability of NGO sector in large. Donors are more likely to support relatively short term projects with well defined outcomes contributing towards NGO financial sustainability. Hence,
the major actors in this battle for financial sustainability are the NGOs themselves. To be successful, the NGO community should recognize as a major priority promotion of financial sustainability of the sector and come together in a joint effort aimed for diversification of financial sources available for sector.

Figure 18
The chart represents the state of the NGO sector in Armenia based on the self-assessment of NGO representatives according to a scale from 1 to 4, where 1-is the lowest and 4-is the highest score.

Taking into account the current economic, social and legal context of Armenia, shrinking donor support might lead to complete paralysis of NGO advocacy. Therefore, there is an urgent need to review the strategies of local NGOs and donor organizations. This report shows that more than of 35% of the NGOs’ financial source is purely international donor funds. The other 65% of the NGOs who benefited from alternative financial sources, 57% of those NGOs total organizational budget constituted from financial flows from donor organizations.

Figure 19
This chart represents data on NGOs represented in a percentage number that receive financial (internal cycle) and non financial (external cycle) support from alternative funding sources.
Based on the data from this chart collected during this study there is an indication that none of the alternative sources of funding can currently replace the financial support from donor organizations. If donations were drastically reduced the non-profit advocacy sector will collapse in Armenia. Taking into account the current economic condition and the correlation between the economic state of the country and financial sustainability index of NGOs, there is a possibility, that the financial sustainability level of Armenian NGOs will be further reduced.

This leads me to conclude that donor organizations that are interested in civil society development in Armenia should continue to provide financial support to Armenian NGOs, especially those NGOs who are involved in advocacy and have had a solid input in advocacy initiatives in the past. Therefore, NGOs should focus their attention to donor support in order for them to be more effective. An alternate strategy can be the squeezing of the number and scope of grantee NGOs benefiting from a specific donor organization. Especially during the current economic recession, when many donor organizations themselves experience reduction in their financing resources, support provided to the specified group of NGOs, which includes advocacy NGOs, will be short term strategy for donors to ensure the viability of advocacy NGO sector in Armenia. As a long term strategy might serve the support provided to projects that have such subsidiary effects as promotion of alternative funding sources for advocacy NGOs in Armenia. Through my field research I have identified alternative sources, as a possibility to serve financial
sustainability to the NGO sector, if it is encouraged by donor support. These are the alternative sources:

**State funding:** There seems to be no direct indication of the dependency or limitation of autonomy, but the fact is that the majority of NGOs that are implementing moderate effective advocacy projects those who are “free” from state support.

Lack of transparent state mechanisms of fund allocation from one side, and a limitation of skills and experience of NGOs in providing public services from another side, has contributed to a limited involvement of NGOs in public service delivery through contracting with the state. There is a need to implement legislation that will regulate social contracting, involvement of NGOs in social service provision and selection of beneficiary NGOs. In addition, there should be established mechanisms allowing public oversight over the allocation of state budget funds for social contracting.

Despite the above mentioned obstacles, if state funding was given to NGOs it might be of special importance to those NGOs who desperately need financial resources. State funding might serve as a survival tool, though will enable implementation of moderately effective advocacy projects, without any grave changing impact on public policies and politics.

**Individual philanthropy:** Individual donations do not serve as a source for long-term financial sustainability to Armenian NGOs. Individual donations are a short term solution and it does not provide a stable source of income and it exists on a small scale in Armenia. However, individual philanthropy provides a powerful incentive for NGOs to implement advocacy projects that meet the needs of stakeholders. Although, there is lack of local tradition of giving donations and lack of NGOs reaching out to the communities and mobilizing their support, there is hope because there seems to be a significant amount of progress in this field. In sum, there is an
emerging philanthropy culture in Armenia, which is an indicator of domestic social support to the non-for-profit sector. This is very important in countries like Armenia, where the international donor support to the NGO sector is reducing. One of the ways to promote individual philanthropy is to provide taxation incentives for individual donations.

Volunteerism: There is solid ground to promote volunteerism as a form of philanthropy. While usually viewed as an indicator of civic activism, volunteerism is also an important part of NGO sustainability. Contribution of time and expertise are twice as important input as contributions of money or material. Due to lack of attention being paid to the benefits of volunteerism, it does not carry the same form of significant contribution that might affect the financial sustainability of the non-profit service sector. The number of NGOs that reported about their organizations involvement of volunteers is stable and it (2001-90%; 2004-90%; 2009-85.7%) proves that there is a firm basis that this form of philanthropy in the country is growing. The factors that might affect effectiveness of volunteerism are public awareness of the importance of volunteerism, promoting private sector support, and research on the impact of volunteering.

Fundraising activities: Armenian NGOs lack proper experience and knowledge to implement effective well organized and planned fundraising activities, which are designed to address the needs of a specific group of audience and derived from the mission of the NGO.

There is also a lack of trust on the funds allocation procedures, which derives from the public image of NGOs and lack of transparency and public disclosure of NGOs financial flows.

To make fundraising activities more popular and effective there is a serious need in capacity building of NGOs in the field of fundraising activity organizations and implementation. More
transparency and publicity of NGOs in the financial field will support to build a more trustworthy public image for the non-profit sector in Armenia.

**Community foundation:** Community foundation is a new phenomenon in Armenia. Due to the fact that the community is lacking resources, community foundations do not serve as a solid ground for NGO financial sustainability. At the same time, due to the established tradition of cooperation between NGOs and local level decision makers and the importance to foster the involvement of NGOs in addressing problems in local communities, community foundations might be quite important.

**Membership fee:** Membership fees is not an adequate source of funding for advocacy NGOs and very few NGOs can provide a direct benefit to their members. This illustrates a wider problem that Armenian citizens are not well educated in terms of social responsibility. On the other hand, NGOs have failed to establish close contacts with their beneficiaries. Economic hardships and the country small population are other reasons that NGOs are deprived from the opportunity to collect adequate amounts of membership fees.

At the same time, the collection of membership fees is becoming more popular among NGOs in Armenia. Membership fees are a relatively stable source of funding for NGOs, despite its limited potential to contribute to the overall financial sustainability of advocacy NGOs. If membership fees are developed they might serve as a source of stable resources for NGOs.

**Business as a source of financing:** Due to the lack of expertise to build a partnership and work directly with the business sector, Armenian NGOs fail to create a relationship with the non-profit sector that are mutually beneficial. Although, Armenian legislation provides some tax incentives for business entities that make donations to non-profit organizations, there seems to be a major part of the business sector that is not aware of this law. Unawareness of the law by
the business sector and unwillingness to cooperate are the main barriers for an NGO-business nonproductive partnership. Nevertheless, there is wider understanding among NGOs on the importance of such cooperation. Majority of them are looking for a partnership with the business sector. It is also worth mentioning that the NGO-business cooperation might be really effective if there is not a conflict of interest and it does not harm the autonomy of the NGOs.

**Diaspora as a source of financing:** Diaspora is not serving as a regular and sufficient financial source for the non-profit sector. Although, NGOs largely understand the importance of cooperation with Diaspora in Armenia, the full potential of Diaspora support to the NGO sector is not being fully utilized. NGOs lack the capacity and knowledge to build an effective partnership. At the same time, there is insufficient interest from the side of Diaspora to support NGO activities. Insufficiency of implemented activities and a high risk of misuse of resources are among the main reasons that impede Diaspora’s larger investments in the NGO sector. Very few NGOs are known by Diaspora as highly efficient in their activities, competent in its mediatory role between public opinion and public policies, with strong managerial and operational capacity. Financial support from Diaspora will not replace the money from donor organizations, until the non profit sector in Armenia establishes itself as highly transparent, independent and an efficient public sector.

In conclusion, for all these strategies to work, donor organizations operating in Armenia should amend their long term strategies and adopt a course of action aimed in the promotion of infrastructure essential to ensure the prosperity of above mentioned alternative forms of financial support to Advocacy NGOs. This includes but is not limited with financing of projects that will derive significant efforts and resources towards improving the existing legal framework and strengthening alternative financial sources, which already exposed a potential to be effective in the Armenian environment. In particular, there is serious need to amend the legal framework
regulating the NGO sector. Areas that should be improved are taxation, barriers for NGO involvement in income generating activities, and the absence of law on volunteerism. The adoption of law on 1% is another serious step towards the financial sustainability of the NGO sector. Consolidated advocacy efforts of NGOs might create public support and establish prompt ground for adoption of the law on 1%.

A long term financial sustainability might be achieved, if there is considerable respect towards the main mission of the NGOs and public trust in what the advocacy group is doing, or “to put it succinctly, NGOs need to follow their own advice when it comes to promoting democracy and good governance” (Herman, 12p.).
References:


Appendix 1

The study approach and methodology.

**Goal of the Research Project:** To formulate a model (models) of fundraising strategies for advocacy NGOs in Armenia, that leads towards long term financial sustainability of the sector and will be relevant in Armenian context. By accessing the effectiveness and applicability of different fundraising strategies for advocacy NGOs in Armenia, to explore what form and direction international donor support should take to make NGO advocacy and fundraising stable and long term viable.

Research questions are:

- Do Armenian NGOs involved in advocacy demonstrate financial long term viability?
- How can international donor organizations contribute to the financial viability of NGOs involved in advocacy as a component of institutional development?
- What are the alternative sources of funding for advocacy activities of NGOs in Armenia?

Research Hypothesis is:

The researcher argues that the shift of support provided to NGOs towards the strengthening of sector financial viability as a component of institutional development, leads to the sustainable NGO advocacy in Armenia.

**Methodology**

1. Desk research

Desk research has been conducted in June-October of 2009 to study scholarly research done on the strategies of advocacy NGO financial sustainability. To develop a successful framework,
researcher implemented study of current scientific articles and research of more than 30 scholars in the field.

The Researcher has thoroughly examined the Data of NGO Sustainability Index for Central and Eastern Europe and Eurasia conducted during last decade. The primary emphases have been placed on exploring the correlations between financial sustainability and the advocacy index in post soviet countries.

Also through comparative analyses of available data from different countries the impact of economic conditions and reduction in financial support from international and local donor sources on the overall advocacy capacity and financial sustainability of NGOs in varying developing post soviet counties has been examined. Also online articles and editorials have been studied to explore opinions and case studies in the field.

In view of possible insufficient variations of fundraising strategies used by Armenian NGOs, during desk research, the available models in other post soviet countries that have successful have been studied. As a result of in depth literature review in the field of non for profit sector fundraising, the main strategies that are successfully implemented in the post soviet countries have been summarized. The primary stress has been put on those models of fundraising strategies that do not harm the advocacy capacity of NGOs, especially their independence from funding sources.

2. Leaders opinion survey /qualitative data analyses/

Opinion survey is the form of qualitative data collection through in depth interviews conducted with experts in the field of civil society, public and business authorities that are dealing with NGOs in Armenia. These interviews have produced a wide range of issues and opinions about the relevant fundraising strategies for advocacy NGOs in Armenia, leading
towards long-term financial sustainability. Opinion leaders have been chosen through purposive sampling based on the criteria of relevance and interest to NGO sector development. In this stage, the snowball sampling method has been implemented. The Sampling frame included leading representatives of international donor organizations, ISOs, (Intermediary Support NGOs) central and local government officials, mass media and business representatives.

The open-ended questionnaire has been developed based on the desk research findings.

<table>
<thead>
<tr>
<th>List of experts of in-depth interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alex Sardar</td>
</tr>
<tr>
<td>Counterpart International, CASP, Armenia</td>
</tr>
<tr>
<td>Alina Hovhannisyan</td>
</tr>
<tr>
<td>UMCOR, Armenia</td>
</tr>
<tr>
<td>Anahit Khachatryan</td>
</tr>
<tr>
<td>Oxfam GB Armenia</td>
</tr>
<tr>
<td>Any Dallakyan</td>
</tr>
<tr>
<td>AUA, Turpanjian center of policy Analyses</td>
</tr>
<tr>
<td>Armine Udumyan</td>
</tr>
<tr>
<td>State Commission on Protection of Economic Competition of RA</td>
</tr>
<tr>
<td>Arsen Stepanyan</td>
</tr>
<tr>
<td>Counterpart International, CASP, Armenia</td>
</tr>
<tr>
<td>Artak Malghasyan</td>
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<td>«Yerevan Djur» CJSC, Armenia</td>
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<tr>
<td>Arthur Hayrummyan</td>
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</tr>
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<td>Bella Dallakyan</td>
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<td>British Embassy of Armenia</td>
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<tr>
<td>Davit Chitchyan</td>
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<tr>
<td>Civic Development &amp; Partnership Foundation, Armenia</td>
</tr>
<tr>
<td>Gevorg Aboyan</td>
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<td>Jinishyan Memorial Foundation, Armenia</td>
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<td>Hrayr Aramyan</td>
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<tr>
<td>State Commission on Protection of Economic Competition of RA</td>
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<tr>
<td>Jirayr Edilyan</td>
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<td>Civic Development &amp; Partnership Foundation, Armenia</td>
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<tr>
<td>Kristine Barsegyan</td>
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<td>CASSALS &amp; Association, Armenia</td>
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<tr>
<td>Mane Tadevosyan</td>
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<td>Counterpart International, CASP, Armenia</td>
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<tr>
<td>Manik Sahakyan</td>
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</tr>
<tr>
<td>Margarita</td>
</tr>
<tr>
<td>HOFF Foundation, Armenia</td>
</tr>
<tr>
<td>Name</td>
</tr>
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<td>-----------------------------</td>
</tr>
<tr>
<td>Mariam Stepanyan</td>
</tr>
<tr>
<td>Naira Hakobyan</td>
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<td>Naira Sultanyan</td>
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<td>Nune Harutynyan</td>
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<td>Nune Pepanyan</td>
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<tr>
<td>Philip Hovhannisyan</td>
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<tr>
<td>Piruza Sargsyan</td>
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<td>Rafik Sargsyan</td>
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<td>David Amiryan</td>
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<tr>
<td>Shiraz Kirakosyan</td>
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<tr>
<td>Tatevik Margaryan</td>
</tr>
<tr>
<td>Viktoria Grigoryan</td>
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<tr>
<td>Zara Janibekyan</td>
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</tbody>
</table>

7 dual citizens were interviewed, and 4 of them agreed to mention their names.

<table>
<thead>
<tr>
<th>Name</th>
<th>Affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nairy Hovhannisyan</td>
<td>I class specialist of the Department of Armenian communities of the Nearest and Middle East at the Ministry of Diaspora of the RA</td>
</tr>
<tr>
<td>Yervand Hovhannisyan</td>
<td>Businessman</td>
</tr>
<tr>
<td>Tomas Samuelian</td>
<td>Dean of the Law Department at American University of Armenia</td>
</tr>
<tr>
<td>Ani Sargsyan</td>
<td>Second year student of PSAI at AUA</td>
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</table>

3. Survey among NGOs in Armenia. /Quantitative data analysis

As based on the preliminary assumption crucial majority of advocacy NGOs in Armenia lacks any practices for financial sustainability, the NGO survey was aimed to reveal which are the financial sustainability strategies that are already used by Armenian NGOs in general, and to
test whether those strategies are applicable to advocacy NGOs. That is why, for the purpose of this study, the data has been collected from “active NGOs” involved both in advocacy, service provision, democratization NGOs and ex. There is no precise definition of an “active NGO”, hence the criteria for the selection of the survey participants has been formulated according to the goals and objectives of the current study. As a primary sampling frame, the NGO.am database (1100) has been chosen. This database is a constantly updated database of information on NGOs in Armenia that are currently operating, so the findings might be generalized over the all active NGO community in Armenia. From the created list, by a systematic random sampling method 300 NGOs have been selected.

<table>
<thead>
<tr>
<th>Sphere of activities / NGO missions</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>6</td>
<td>2.0</td>
</tr>
<tr>
<td>Art, Culture</td>
<td>26</td>
<td>8.7</td>
</tr>
<tr>
<td>Children, Family Issues</td>
<td>28</td>
<td>9.3</td>
</tr>
<tr>
<td>Community Development</td>
<td>13</td>
<td>4.3</td>
</tr>
<tr>
<td>Economic Development</td>
<td>18</td>
<td>6.0</td>
</tr>
<tr>
<td>Education /Youth</td>
<td>66</td>
<td>22.0</td>
</tr>
<tr>
<td>Environment, Ecology</td>
<td>19</td>
<td>6.3</td>
</tr>
<tr>
<td>Handicapped Issues</td>
<td>7</td>
<td>2.3</td>
</tr>
<tr>
<td>Health, Medical Problems</td>
<td>18</td>
<td>6.0</td>
</tr>
<tr>
<td>Human Rights, Public Policy</td>
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<td>13.0</td>
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<tr>
<td>Humanitarian Assistance</td>
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<td>3.3</td>
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<tr>
<td>Mass Media</td>
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<td>1.7</td>
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<tr>
<td>Minority rights</td>
<td>8</td>
<td>2.7</td>
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<tr>
<td>Professional Association</td>
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<tr>
<td>Social issues</td>
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<td>5.7</td>
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<tr>
<td>Women Issues</td>
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<td>4.7</td>
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<tr>
<td>Location</td>
<td>Frequency</td>
<td>Percent</td>
</tr>
<tr>
<td>---------------</td>
<td>-----------</td>
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<tr>
<td>Yerevan</td>
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<td>53.3</td>
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<td>Lori</td>
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<td>Shirak</td>
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<td>8.0</td>
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<td>Syunik</td>
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<tr>
<td>Gegarkunik</td>
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<tr>
<td>Vayoc Dzor</td>
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<td>Tavush</td>
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<td>Aragacotn</td>
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<tr>
<td>Ararat</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>300</strong></td>
<td><strong>100.0</strong></td>
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</table>

For comparative analyses, research has been built based on the comparisons of findings with results of study “Armenia NGO Sector Assessment” 2004”. For data validation also OSI NGO sustainability index 2008 and Civicus Civil Society Index 2006 have been used.