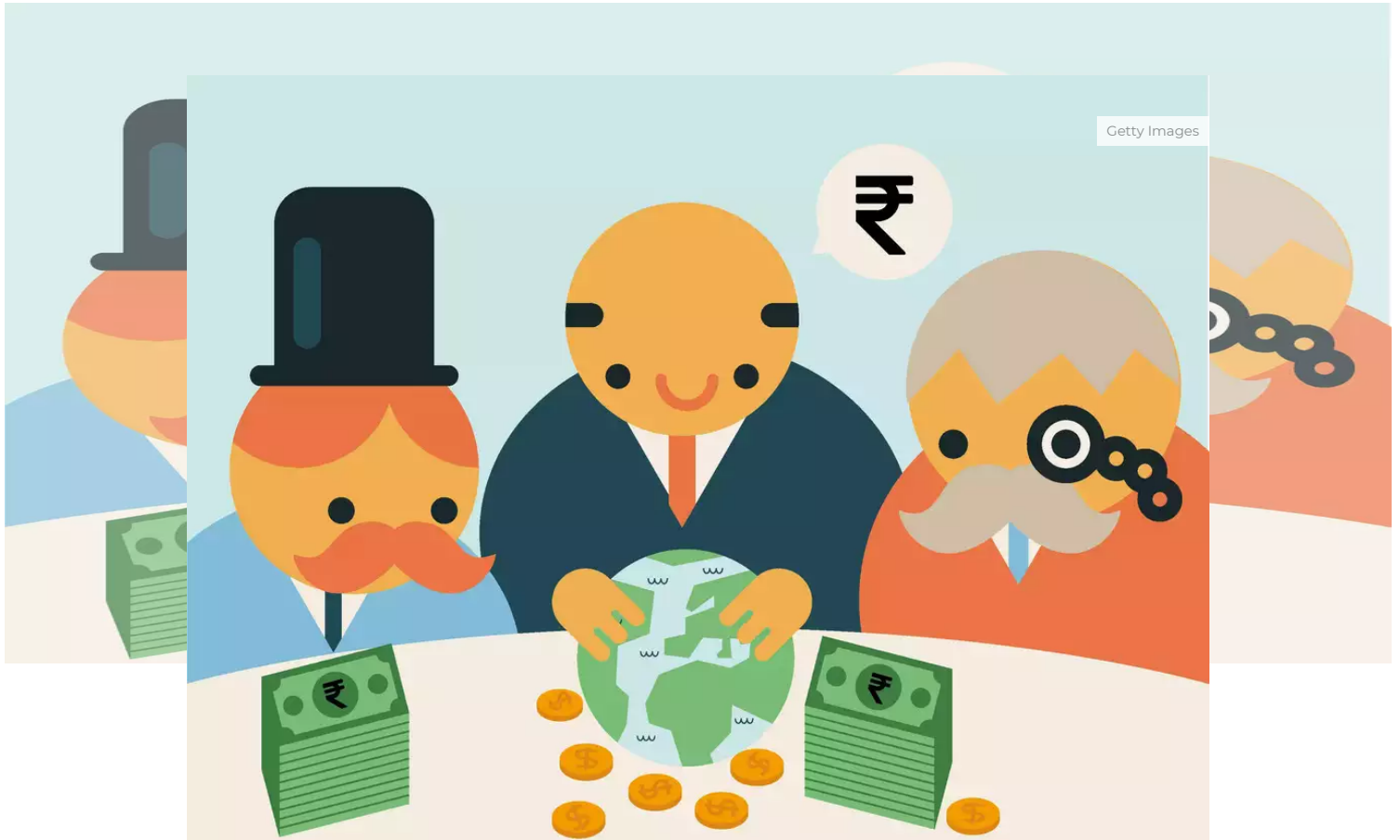


How funding choices can lead to an oligopoly of non-profits, and how to avoid it



Synopsis

A matter of concern is that the constraints of smaller non-profits, which are set up to attract more liberal funding, are being used to feed the coffers of the larger and technocratically managed non-profits, leaving the smaller, grassroots non-profits to fight age-old battles.

Fundraising for non-profits has become increasingly challenging in view of regulatory measures. In recent times, there has been a shift in the narrative in favour of long-term grants, unrestricted grants, and corpus grants to reduce stress on the leaderships of non-government organisations (NGOs) and enable the building of organisational capacity to carry out social-sector work.

The central thesis of this shift is that when an NGO's leadership spends more than 50% of its time in fundraising activities, and worrying about the following year's **funding, it results in weakening of NGOs, and pushes their work towards the superficial and shallow.**

However, this shift in narrative has not benefited all NGOs equally. It is a matter of concern that the constraints of smaller non-profits, which are set up to attract more liberal funding, are being used to feed the coffers of the larger and technocratically managed non-profits, leaving the smaller, grassroots non-profits to fight age-old battles.

Big funds, big names

MacKenzie Scott made news in July 2020 with her **announcement of USD1.7 billion in unrestricted grants to 116 NGOs across the globe**. Organisations that received gifts from Scott were, on average, considerably larger than the typical non-profit. The median budget of recipient organisations was about USD8 million prior to receiving the grant. The median staff size was about 50 staff members. By contrast, **the National Council of Nonprofits (United States) reports that 92% of nonprofits operate with a budget of USD500,000 or less**. This means that NGOs that received unrestricted funding from Scott were considerably larger in human capacity and had much bigger budgets than the average NGO.

In March 2023, the Rohini Nilekani Philanthropies announced funding to prioritise mental health. Funding of **INR100 crore was made for a Nimhans-NCBS collaborative research project** to understand the causes, correlations, and course of five major illnesses — schizophrenia, bipolar disorder, obsessive-compulsive disorder, dementia, and addiction — and explore potential interventions and treatments for them. Nimhans is India's premier mental health institute, does pioneering work in its field, and is well-deserved of the funding.

Nimhans also consistently receives funding from the Ministry of Health and Family Welfare under the Union Budget. In **2021-22, the allocation was around INR 500 crore**, and the budgetary allocations have consistently increased over the previous years'.

In March 2023, the Azim Premji Foundation announced plans to offer no-strings-attached corpus grants to non-profits. A “perpetual funding” of INR25 crore to INR200 crore each to more than a dozen social organisations was announced and **Pradan was among the first set of organisations to have received the corpus grant** from the foundation. While not much is known about other recipients, and there is nothing objectionable about giving to Pradan, it is important to note that Pradan was also **one among 13 Indian recipients of the MacKenzie Scott's grant**. Other recipients include Goonj, GiveIndia, ACT Grants, and Piramal Swasthya, which are all massive, technocratically managed NGOs, whose fundraising challenges are different from those of smaller grassroots NGOs, whose founders often spend more than half of their time in fundraising efforts.

The options for small NGOs

The concern is that large non-profit organisations repeatedly receive funding, and attract new funding models, while smaller NGOs remain unattractive candidates.

The smaller NGOs are then caught in a perennial cycle, because funding begets more funding.

When only a few organisations benefit from newer and larger grants, there is a likelihood of the emergence of an **oligopoly** of NGOs. This concern magnifies in the context of reducing propensity towards sub-grants, because larger non-profits that access funds are being gradually dissuaded from sub-granting. Not only did **FCRA sub-grants become illegal over-night**, the Finance Act 2023 proposes that, **if one charitable organisation donates to another charitable organisation, only 85% of such donations given will be considered as application of income for the donor charitable organisation.** This leaves smaller non-profits with only one option — to deliberately develop capacity for direct fundraising.

But successful fundraising is dependent on several factors. One is the ability to write sophisticated grant proposals, put together a swanky pitch deck, and be well entrenched in a network of funders. But trained communications personnel are hard to come by for the social sector. This is due to the dearth of good academic programmes that create social-sector professionals with high-calibre writing skills.

In addition, institutional capacities have to be built for robust legal, tax, and financial compliance, since funders look for genuine institutions that can demonstrate that they are compliant with the law of the land. Typically, small non-profits do not have in-house capacity, and either outsource their legal and compliance requirements or rely on pro bono advisory. In India, there is a dearth of affordable, high-quality legal-advisory services for non-profits.

Besides, funders also look for rigorous monitoring and evaluation and impact-measurement practices, to establish the credibility of the organisation that they will be funding. Fund-constrained non-profits would be unable to engage or retain talent that provide these services.

What needs to be done

First, trust-based and unrestricted funding to smaller non-profits will help them break out of the perennial cycle. Equally, it is the responsibility of the funding ecosystem to build capacities such as legal, impact measurement, and communications for non-profits. Funders can either subsidise these services for the non-profits or support organisations that provide such services.

Second, funders must intentionally diversify their investee portfolio to include non-profits that have not received prior institutional funding, to avoid intentionally or unintentionally creating an oligopoly of isomorphic non-profits that repeatedly access premium funding opportunities.

Finally, generating empirically rigorous research in philanthropy will help identify and discern the patterns in flows of funding to various types of non-profits. This, in turn, can inform and shape strategies to strengthen grassroots non-profit

initiatives.

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