

Financial Sustainability and Funding Diversification: The Challenge for Indonesian NGOs

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Disclaimer

This research was carried out in collaboration with the Government of Australia, but the analysis and findings presented in this paper represent the views of the authors and do not necessarily represent the views of that Government. Any errors are the authors' own.

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Acronyms

APBD	<i>Anggaran Pendapatan, dan Belanja Daerah</i> (Budget and Expenditure)
AU\$	Australian Dollar
CSIS	Centre for Strategic and International Studies
CSR	Corporate social responsibility
DFAT	Department of Foreign Affairs and Trade, Government of Australia
HIV and AIDS	Human immunodeficiency virus infection and acquired immune deficiency syndrome
HNWI	High Net Worth Individual
ICW	Indonesia Corruption Watch
IDR	Indonesian Rupiah
Kemitraan	Partnership for Governance Reform – Indonesia NGO
NGO	Non-Government Organisation
NSSC	NGO Service and Study Centre
PIRAC	Public Interest and Research and Advocacy Center
SMERU	Social Monitoring and Early Response Unit – Indonesia NGO
US\$	United States Dollar
YAPPIKA	Organisation to Increase Participation, Initiative and Partnership of Citizens in Indonesia – Indonesian NGO

Abstract

Like the NGO sector globally, NGOs in Indonesia face an increasingly challenging funding landscape that threatens their survival and ability to achieve their goals for social change. International donors are reducing their support for Indonesian NGOs. Donor programs have not meaningfully supported NGOs to build alternative resource mobilisation strategies and, despite some notable exceptions, local NGOs have not been able to access funding from emerging donors and private philanthropic organisations or develop creative strategies to access new sources for funding. This brief assesses the current NGO funding landscape, takes stock of efforts to adapt to this changing context and suggests some strategies for NGO directors, funders and the government

1 Introduction

NGO financial sustainability is a key challenge to ensure an effective NGO sector in Indonesia, which has important knock-on effects for the country's continuing democratic consolidation efforts and economic prosperity. NGO financial sustainability is defined here as the 'ability to generate resources from a variety of sources, which will, over time, reduce ... dependency on development assistance funds'.¹

Developing financial sustainability and diversifying funding is important for NGOs as it is ultimately about making sure these organisations' impacts can be sustained over time.² International good practice suggests that to ensure their survival, NGOs need long-term financial support from a variety of sources, as demonstrated by the illustration of possible funding scenarios in Figure 1.

NGO funding can be categorised as restricted or unrestricted (indicating flexibility), and short term or long term (reflecting continuity). Funding types include:

- > grants (project funding or core funding) from international sources such as INGOs or donor agencies or domestic sources such as government;
- > gifts or donations (endowments, one-off or regular donations, and fundraising) from individuals or corporations or foundations;
- > earned-income (fee for service activities and sale of products or services like training, sales or technical assistance) from the government, general public, domestic interest groups or international donors; and
- > in-kind contributions (for example, provision of office space or pro-bono work).

Each of these funding types comes with their own mix of advantages and disadvantages.³ NGOs that do nothing to diversify their funding may continue to manage to survive but will often remain small and relatively ineffective. The type of support a NGO receives affects its ability to be 'independent', to improve the way their organisation runs, to nurture a new generation of NGO leaders, and to engage with government and the private sector.⁴

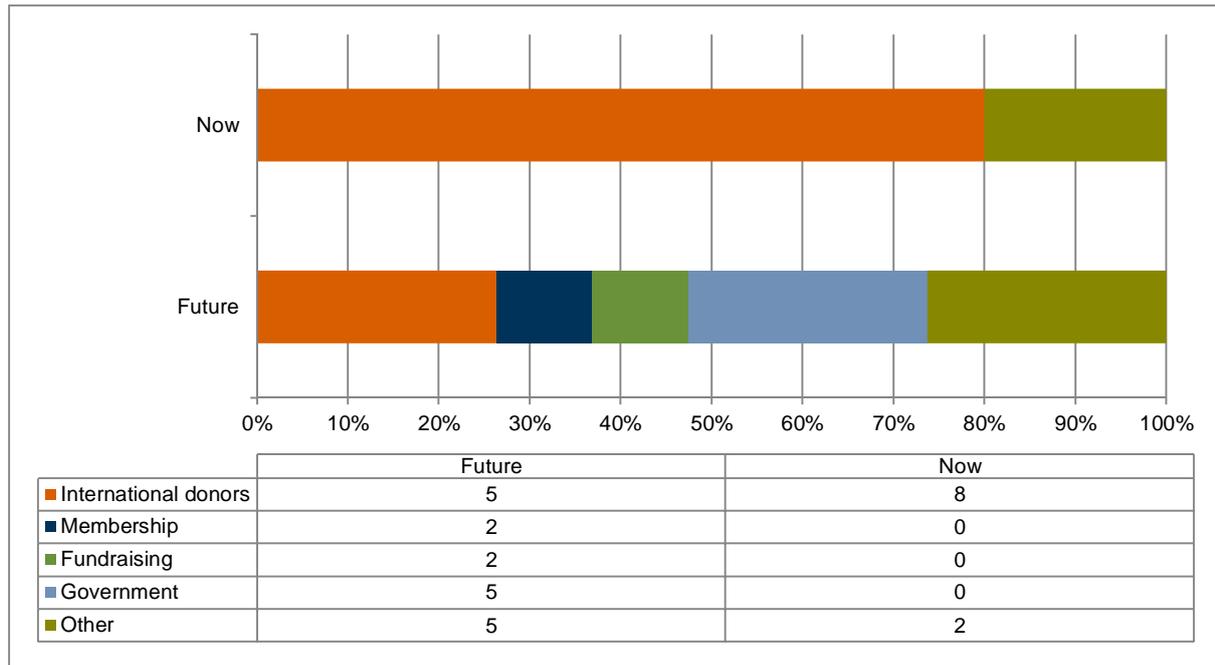
¹ Lewis, 2003, p. 213.

² Financial sustainability is described as 'a state in which an institution has a reasonable expectation of covering its costs for the foreseeable future through a combination of donor funding and locally generated income' (The Population Council, 2008, p.2).

³ IDRC, 2010.

⁴ However, it should be noted that having sustainable financial support does not necessarily mean that NGOs will be more independent. The quality and nature of the financial source is another factor that determines that independency of a NGO. The nature of funding support (gift-based, aided-based and more enterprise-based) will have different consequences on independency (Hailey, 2014).

Figure 1 The NGO funding mix: two funding scenarios



Source: NSSC Survey of NGOs.⁵

The ability of NGOs to develop sustainable funding is a pressing concern for the sustainability of the NGO sector as a development actor in Indonesia. NGOs interviewed during the NSSC design process confirmed that funding sustainability is a key concern for the sector in Indonesia, rating this as one of the top priorities for future support.⁶ Respondents reported that dependence on international funding reduces their independence and ability to set their own agendas – a common concern for NGOs internationally. The key concerns NGOs raised were:

- > the short, project-based funding cycles of the grants they receive;
- > lack of funding made available for operational costs; and
- > lack of information in Indonesian about what funding programs exist.

While the term ‘sustainability’ is frequently used in international development circles, it is difficult to achieve in practice.⁷ International donor funding to NGOs, which has traditionally been the main funding source across the board, is most commonly project-based, and the dependence this creates has been widely documented.⁸ As a result, NGOs shift their agendas based on changing donor priorities.⁹ This has made it difficult for NGOs to remain accountable and devoted to local constituencies and issues, and in other instances has alienated NGOs from their local constituents.¹⁰

NGO financial sustainability is closely linked to the overall environment in which NGOs operate. This includes, for example, the internal capacity of NGOs to deliver services or conduct advocacy, the relationships between NGOs and funders and other important stakeholders, and the inter-relationships between NGOs in the sector.¹¹

⁵ The future scenario is based on a fictional diversified scenario.

⁶ See also: STATT, 2012.

⁷ ‘NGO sustainability’ most simply refers to an NGO’s ability to adapt to changing circumstances and survive. (CAP and NPI, 2012; Abt Associates, Inc., 1994).

⁸ Khieng and Dahles, 2014; Froelich, 1999.

⁹ Khieng and Dahles, 2014.

¹⁰ Edwards and Hulme, 1997; Fowler, 1997; Fowler, 2000.

¹¹ Fowler, 2000; Okorley and Nkrumah, 2012; Aldaba et al., 2000; Abdelkarim, 2002; Devine, 2003; USAID 2013. Consequently, NGO financial sustainability is inextricably linked to the way government, private sector and their peers in civil society view them. NGOs’ ability to deliver services that are seen to add value, and appear accountable and transparent to these actors is

This brief charts the funding diversification challenges facing Indonesian NGOs. It relies primarily on:

- > data and analysis collected as part of commissioned studies;¹²
- > a global comparative review of donor programs used to inform the design of the NSSC; and
- > a literature review on NGO funding sustainability.

The NGOs that were part of the field research had many characteristic variations and can be categorised by variables such as whether the organisations are:

- > district / city, provincial, or national NGOs;¹³
- > small, medium, or large NGOs; or
- > branches of larger NGOs or coalitions of NGO networks, or organisations that were not part of such groups.

The brief begins by providing an overview of the state of the NGO funding landscape in Indonesia. It then assesses the different forms of funding available and NGOs' attempts to diversify their funding. It shows that there is a shifting funding landscape that requires Indonesian NGOs and other stakeholders wanting to support them to urgently rethink strategies and approaches.

The final section provides some suggestions for NGO directors, funders and the government that could help create an environment that better supports NGO sustainability in Indonesia. Ultimately, it is hoped that the brief will contribute to improving the understanding of the challenges facing Indonesian NGOs in diversifying their funding, which has both policy and practical implications, particularly for NGO leaders making tough decisions about the future of their NGOs.

2 NGO Financial Sustainability in Indonesia

Much has changed in the NGO funding environment in the fifteen or so years after the fall of Suharto and the democratisation process that followed. Despite the initial influx of international donor support for Indonesia's democratic transition, today NGOs face significant challenges. A number of factors have contributed to this situation:¹⁴

- > International donor funding is in a state of decline. There are only a handful of international donor agencies still providing funding for the NGO sector in Indonesia. This has been the result of Indonesia's emergence as a Lower Middle-Income Country in 2006, and a perception that, from 2004, Indonesia had successfully consolidated its democracy and was in a position of relative political stability.¹⁵
- > Relationships between national NGOs and sub-national NGOs are underdeveloped. This impacts the ability of smaller NGOs that operate mostly within one or in some cases (where districts have recently been administratively split) two cities or districts ability to access funding, capacity development and networking opportunities.¹⁶

also crucial in ensuring overall financial sustainability. See Antlöv, Ibrahim, and van Tuijl (2006) for more information on these views.

¹² STATT, 2012; see also the first brief of the NSSC Research Series: *The NGO Sector in Indonesia: Context, Concepts and Challenges* by Megan McGlynn Scanlon and Tuti Alawiyah.

¹³ City/district NGOs are NGOs that focus their work in one or in some cases – where districts have recently administratively split – two cities or districts; provincial NGOs operate across two or more cities or districts within a particular province; national NGOs are NGOs that work across multiple provinces or at a national scale, many of them serving explicit support functions to the NGO sector overall.

¹⁴ Aspinall, 2011; Mietzner, 2012.

¹⁵ Aspinall, 2011; Mietzner, 2012; and Anand and Hayling, 2014.

¹⁶ See the findings of the networks analysis set out in the fourth brief of the NSSC Research Series: *NGO Networks and the Future of NGO Sustainability In Indonesia* by Jonatan Lassa and D. Elcid Liu. Noteworthy also, a 2012 review of 'Local Capacity Development Lessons Learned – Indonesia' notes that there are no national strong NGOs advocating on behalf of the NGO sector for the enabling environment and the ones that exist are mainly focused on capital cities: (USAID, 2012).

- > A strong civil society support structure has yet to develop, which would enable NGOs to develop the organisational capacity needed to access funding from non-traditional sources.¹⁷
- > Alternative sources of funding are underdeveloped. Beyond Islamic tithing (*zakat*), there is yet to be a strong institutional or strategic philanthropic culture to support the NGO sector in Indonesia, and there is a lack of an appropriate local regulatory framework and tax incentives to support and encourage philanthropy.
- > The relationship between NGOs and the government has changed dramatically. The dual processes of democratisation and decentralisation that ensued after the fall of Suharto requires a much more sophisticated way of engaging. There are opportunities to work with government more closely to inform policy development and implement programs; however, not all NGOs have taken advantage of these opportunities.¹⁸
- > While there is no accurate data to demonstrate that actual overall amounts of funding going to the NGO sector are decreasing, in real terms levels appear to have remained stagnant compared to the rest of the economy. Other parts of the economy, including the government and private sector, have become significantly more sophisticated whereas NGOs are operating in ways similar to the post-Suharto era. This has meant that the way of doing business in Indonesia is changing, but NGOs are less able to change with it.

This context has resulted in challenges for many Indonesian NGOs, as they remain dependent on funding from international donor agencies. While this source of funding is now starting to be reduced and becoming even less secure, the availability of local sources of funding remains insufficient.¹⁹

2.1 Funding Sources: Dependency on Donors

The findings of the qualitative research indicate that most of the revenue coming into the NGO sector in Indonesia is from international donor agencies.²⁰ Some studies have suggested donor funding makes up to 85-90% of funding for NGOs.²¹ Based on data collected for the NSSC design, it is estimated that the estimated annual total revenue for all Indonesian NGOs in 2013 was just over AU\$330 million (IDR 3.4 trillion).²² Of this figure, DFAT is likely to have contributed around 11% of the overall funding for the sector or more than 40% of the estimated revenue for national-level NGO according to reviews conducted for the NSSC design process.²³

The findings of the qualitative research show that, apart from some mass-based membership organisations and government-sponsored NGOs, most NGOs have difficulty accessing public and corporate funding and rarely access potential government funds. Advocacy NGOs are particularly reliant on international donor agencies for their budgets, whereas NGOs focused more on service delivery could access opportunities from the government and private sector.

¹⁷ This is closely linked to the public image of the NGO sector. For the sector to be sustainable, it is necessary that government, the business sector, and communities see a positive image of NGOs, including a broad understanding and appreciation of the role that NGOs play in society. Public awareness and credibility directly affect NGOs' ability to recruit members and volunteers, and encourage donors. While some NGOs might receive very positive coverage in the Indonesian media, overall, public perceptions of Indonesian NGOs are very low (Rukmantara, 2013 and Edelman Indonesia, 2015).

¹⁸ Davis, 2007.

¹⁹ Anand and Hayling, 2014.

²⁰ The research findings show that NGO budgets vary dramatically. Average budgets differ substantially for NGOs between the city/district (IDR 20 million or AU\$2,000), provincial (IDR 500 million or AU\$50,000) and national level (IDR 2.2 billion or AU\$220,000). The majority of NGOs in Indonesia manage relatively small budgets. A 2009 survey of 551 NGOs (mostly on Java) suggested that around 75% of Indonesian NGOs manage budgets of less than IDR 200 million (AU\$20,000) annually and almost 90% manage less than IDR 500 million (AU\$50,000).

²¹ Ibid.

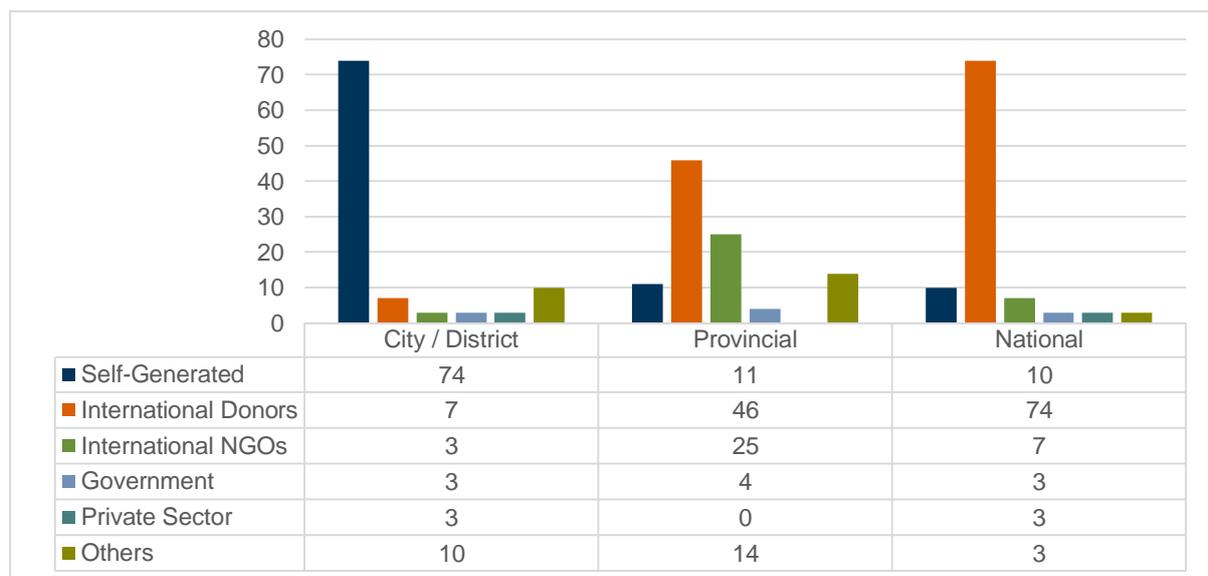
²² This is a very rough estimate and is calculated by adding-up all revenue reported for all local NGOs as part of the NSSC design; dividing this figure by 7 (the number of districts from 4 provinces where data was collected for the NSSC design), and multiplying it by the number of sub-districts in Indonesia (514). These currency conversions were made on 10 June 2015. To the author's knowledge there have not been similar efforts to estimate the total size of the sector.

This figure was then added to the average of the revenue reported by national NGOs, which had been multiply by the estimated number of national NGOs (60).

²³ National NGOs are most likely to receive grants from international donors or the donors' direct partners.

Indonesian NGOs rarely have a diverse range of funding sources.²⁴ As is common globally, NGOs reported a reliance on one source of funding for their activities. Data for NGOs from city/district, provincial and national levels collected during the research for the NSSC design process also supports this finding. The survey of NGOs found that city / district NGOs that are located more remotely from major cities or urban areas in district or provincial capitals tend to rely mostly on self-financing activities, with around 45% stating that their own self-funded or earned-income activities were the most important funding source.²⁵ For city / district NGOs, government (5%) and international donors (15%) are not main funding sources. This contrasts with NGOs located in provincial capitals, which rely primarily on international donors (around 45%) or national NGOs for their funding (around 15%). National NGOs are even more heavily skewed towards relying on international donors (70%) for their funding (see Figure 2).

Figure 2 Main financial sources for city / district, provincial, and national NGOs²⁶



Source: NSSC Survey of NGOs

Dependence on one form of funding has implications for the NGOs' ability to serve the people they are hoping to represent. NGOs reported that relying on year-to-year budgets that depend on outside funding sources had an impact on their ability to plan ahead sufficiently and invest in their own organisations. As documented in the separate piece in on human resources and leadership in this research series, this dependency has impacted on NGOs' ability to hire staff and ensure they have the capacity and capability needed to support program activities. Dependencies on funding sources also have also forced NGOs to align and change their missions in line with donor preferences. In the worst-case scenario, some NGOs abandon their mission for the pursuit of financial resources. But perhaps most important for the long-term sustainability of the NGO sector, this kind of reliance and dependency has damaged NGOs' reputation to the Indonesian public, government and private sector.²⁷

It is probably unsurprising, then, that funding diversity and sustainability are consistently at the top of the list of challenges identified by NGOs as threatening their survival.²⁸ This is a common challenge for NGOs internationally.²⁹ NGOs' increasing dependence on international donors has been a key

²⁴ STATT, 2012, p. 17.

²⁵ In Indonesian, 'swadaya' or self-help or self-reliant activities.

²⁶ For all figures, data represents percentages of NGOs' reported primary funding sources.

²⁷ Antlöv, Ibrahim, and van Tuijl 2006, p. 156.

²⁸ PRIA, 2012 and NSSC Survey of NGOs. In the survey, around 50% of respondents reported funding as the most influential factor influencing their capacity. Mitchell and Schmitz 2012 document how NGOs in the United States found funding diversity to be the most significant obstacle to achieving their objectives.

²⁹ Just as dependency on foreign donors is mostly the case for national NGOs, city/district NGOs are also heavily reliant on self-financing or earned income activities and thus this is a major issue for them.

concern for post-authoritarian and middle-income Asian countries.³⁰ With the 'Golden Era of NGOs' experienced in the 1990s a distant memory, researchers and the international development community are increasingly focusing their attention on funding sustainability beyond international donors.³¹ The landmark *Civil Society at a Crossroads* report identifies a shrinking resource base for civil society globally as one of the main challenges facing NGOs.³²

The nature of the different funding sources (international donors, government, private sector, and earned-income) has implications for NGO sustainability.³³ Each source of funding can offer advantages and disadvantages, and may or may not be appropriate for a particular NGO depending on its financial needs, values and mission. The advantages and disadvantages of several options are described next.

2.1.1 International Donor Agencies

Funding from international donor agencies has been and still is the mainstay for the NGO sector in Indonesia (particularly for NGOs that operate at the national or provincial level, and advocacy NGOs), but the availability of this source of funding is decreasing. It was reported from the interview results that in Central Sulawesi, for example, that advocacy NGOs depend on international donor funding for 99% of their funding. Significantly more national NGOs access funding from international donor agencies compared to city / district NGOs.³⁴ Meanwhile, NGOs located outside of the urban centres of provincial and district capitals have very little direct or indirect access to this source of funding, due to physical distance, difficulties establishing relations with donors, and difficulty meeting the requirements to access the funding. This is partly due to the weak linkages between city / district NGOs far away from urban centres and national and International NGOs, which are the primary recipients of international development funding.

The availability of funding for NGOs from international donor agencies peaked in the aftermath of the overthrow of Suharto in 1998.³⁵ The opening up of political space saw a dramatic increase in funding for NGOs from donors keen to ensure that Indonesia consolidated its democratic transition and could recover from the preceding financial crisis. This period also saw the rapid rise of a new breed of national advocacy and watchdog NGOs (for example, Indonesia Corruption Watch, *Seknas Fitra*, Centre for Electoral Reform and *Kontras*) that were established and supported almost entirely on a system of short-term donor contracts and grants.

Despite the initial influx of funding, international funding for NGOs in Indonesia has decreased dramatically since the early 2000s.³⁶ The resource environment has changed significantly over the last seven years across DFAT projects. While NGOs have had increased access to funding from Australian aid through increasing budgets focussing on issues like HIV and AIDS, gender, and local governance, they have also become increasingly dependent on Australia as a source of funding, as other sources dry up. In the HIV sector, for example, Australian aid is seen by NGOs as one of the last available sources of funding.

Interviews with NGO activists carried out for the NSSC design indicates that the current mode of engagement between donors and NGOs provides very limited financial certainty for Indonesian NGOs. There are very few funders and donor programs in Indonesia that provide NGOs with a guarantee of financial certainty beyond 12 months.³⁷ This is a by-product of the project-based nature of international

³⁰ Parks, 2008; Alymkulova & Seipulnik, 2005; Khieng and Dahles, 2014.

³¹ Agg, 2006; Roche and Hewett, 2013; Fowler, 2000; Holloway, 2001.

³² PRIA, 2012.

³³ See Froelich (1999) for an overview from a resource dependence perspective of the effects of different types of funding (grants and donations; earned-income; government funding) on NGO sustainability.

³⁴ NSSC Survey of NGOs.

³⁵ For a history of funding to NGOs and the role they played in the New Order, see Eldridge (1995); Riker (1998); and Aspinall (2005).

³⁶ Some exceptions exist in 2000s where international funding increased dramatically in 2005 (Indian Ocean Tsunami) and 2006 (Yogyakarta Earthquake).

³⁷ It should be noted that there are a few notable exceptions to the rule here including the core funding provided by AusAID / DFAT to SMERU from 1998 until today, core funding offered through the *Australia Indonesia Partnership for Justice* via The Asia Foundation, the Knowledge Sector Initiative, and an endowment set up by USAID for KEHATI from 1995–2005 totaling \$16.5 million (Hadad, n.d.). According to the Kehati website, 'the Endowment Fund was invested in stocks and bonds through

funding. Even when the donor makes multi-year commitments, contracts are almost always renewed only on year-by-year basis.

The short-term nature of project funding has resulted in many unintended consequences. As is widely documented in the NGO sustainability literature, these arrangements limit the capacity of NGOs to plan ahead and make medium to longer-term decisions about their operations or to develop strategies to ensure longer-term financial viability. The latter includes setting-up systems and resources that can properly plan and implement frameworks for managing different types of funding. Similarly, a number of NGOs have internal regulations about the recruitment of their staff as consultants for donor projects that require that money has to be re-invested into the NGO rather than claimed by the individual.³⁸ This is an important source of funds for some organisations.

Indonesian NGOs typically manage their finances on a project-to-project basis and with little attention paid to staff or organisational development or to long-term organisational strategy.³⁹ The project-based funding system has also given rise to a culture of 'savings', where NGOs wanting to invest in their own organisation do so through unofficial savings not disclosed to donors. Given donors' focus on wanting to see results without paying large overheads to NGOs, the NGOs have instead chosen to build-in their management fees through unofficial savings from donor contracts.⁴⁰

In some cases, NGOs that were used to being 'donor darlings' nearly collapsed when their funding dried-up, due to changing donor priorities and donors no longer providing support to Indonesia.⁴¹ Because of their reliance on this source of funding, national-level advocacy NGOs will particularly feel the brunt of decreasing support from foreign donors in the near future. In other cases, NGOs have become inadvertently overstretched and have not been able to meet donor demands. Some donors have encouraged some local NGOs to act as implementing partners (or funding intermediaries) for large, multi-million dollar programs and to expand the scale of their work beyond the usual scope of their work. This support often comes without any assistance in developing their capacity to manage grants to other NGOs, which can be problematic given the significant administrative burden this sort of role involves. While this has provided some organisations with good opportunities, it has created a major administrative burden for NGOs that were unprepared for large injections of funds.

An example of dependence on an international donor drawn from the NSSC research is a city / district NGO in Eastern Indonesia working in the livelihoods space. Drawing on good performance in implementing activities under one of their programs, the NGO was provided with a sizeable multi-million dollar grant to deliver livelihood programs, which resulted in a nine-fold increase in staff numbers. However, the international donor provided over 90% of the organisation's total revenue. A review conducted of the organisation noted activities would not continue after donor funding ceased. This may have dire impacts for the organisation.

One of the major factors limiting NGOs from accessing more funding is poor financial and management capability, which is created by an over-reliance on project-specific international donor funding. This holds NGOs back from taking advantage of opportunities to engage beyond the life of a project and from developing the internal capacities required to successfully raise more funding to support their agendas. Some of the NGOs that traditionally rely on donors are looking to alternative sources of funding – like self-generated revenue – to address the shortcomings of the international project funding. These efforts are discussed in the following section.

2.1.2 Earned-Income

NGOs that traditionally rely on international donor funding, such as larger organisations operating at national or provincial levels, are experimenting with new approaches to raising funds. This earned-

the capital market. The return of the investment was used for funding the grant programs executed by KEHATI's partners (Yayasan Kehati, 2013; Maxim, Hadad, and Sitorus, 2003).

³⁸ In fact some NGOs and think tanks pay lower salaries with the hope of encouraging this practice. CSIS, for example, adopts this approach by encouraging its staff to seek outside work to compensate for lower salaries.

³⁹ Ibid.

⁴⁰ The Asia Foundation, 2014.

⁴¹ LBH Jakarta is a pertinent case in point. They suffered an internal financial crisis in 2011 that threatened their survival. See: <http://www.antaraneews.com/berita/260309/lbh-jakarta-dilanda-krisis-keuangan>.

income – also known in Indonesian as *swadaya* (voluntary or self-help activities) – is already a main source of funding for city / district NGOs.⁴² In fact, results from the survey of NGOs showed around half (46%) of city / district NGOs said that earned-income is the primary source of funding for their organisation, while only a minority of national NGOs and provincial NGOs identified this as a main funding source.⁴³

The findings from the interviews and focus group discussions conducted as part of the NSSC design process indicates that Indonesian NGOs have trialled a variety of ways to raise funds and to prepare themselves to access funds that could be offered by the government, private sector and the general public. NGOs working in service delivery and social services have trialled earned income activities in various forms including membership fees, charging fees for services (for example, consultancies, expert inputs, facilitators, event organising, setting-up businesses (for example, café / coffee shop, room renting, training facilities) and other initiatives (for example, bazaars and selling t-shirts).

However, it should be noted that advocacy NGOs are still limited in the amount they can raise through earned income activities. Nevertheless a few notable examples of these initiatives exist: the *Pusat Studi Hukum dan Kebijakan* think tank is offering legal training for legislators through their Jentera School of Law.⁴⁴ The school, which was launched in July 2015 for the new academic year 2015 / 2016, is seen among other things as a way to diversify their funding to support its core activities. Other NGOs, like *Seknas Fitra*, have considered establishing similar schools for budget transparency training; however, these are yet to be established. *Komite Pemantauan Pelaksanaan Otonomi Daerah* has set up a for-profit entity to attract city / district government funding for training activities (see the discussion of potential streams of government funding in section 2.1.3 below).⁴⁵

Overall though, the alternative resource mobilisation strategies that are currently being used in Indonesia are very limited and many of these are still in their infancy. Moreover, in most cases, they are not successful at meeting the financial needs of the organisation and it is questionable whether the effort necessary to set-up and manage self-funding activities is cost effective. Many more organisations invest in this and fail than those that are successful – which makes a case for a sectoral approach, rather than a lot of individual organisations with limited business skills trying it alone. The limited amount of staff NGOs have been able to commit to such activities given the demands of their core activities and the required skills to carry out such activities has been the main limiting factor. These earned-income generating activities are also in some cases problematic because of the tendency to distract the organisation from its core mission. Given the significant focus on earned-income from city / district NGOs, it is important for them to consider how this might impact their program work.

Although using social media and ‘crowd-funding’ for NGO fundraising is a growing trend for NGOs in countries like Australia, the US and India, Indonesian NGOs have not made inroads in this area. Although the use of social media is noticeable in response to disasters or for individuals in need, it has not been used successfully to raise funds for a standing organisation.

2.1.3 Government Funding

The opening up of political space and decentralisation of power to the districts following the 1998 reformation has created many opportunities for NGOs to be directly engaged with city / district governments. The treatment and regulation of NGOs by the government is widely regarded by NGOs as the second most important factor (25%) impacting NGOs’ ability to do their jobs reported in the survey of NGOs. However, compared to international donor funding, government funding for NGOs is limited, particularly for NGOs who are engaged in social services and economic issues. While an important alternative funding source for NGOs, the government tends to rely on international donors to

⁴² Self-financing can be defined as ‘the procurement of revenue by internal entrepreneurial methods... strategies used by NGOs to generate some of their own resources to further their mission.’ Planning For Sustainability: Supporting NGOP Self-Financing Ventures (Atkinson and Messing, 2002).

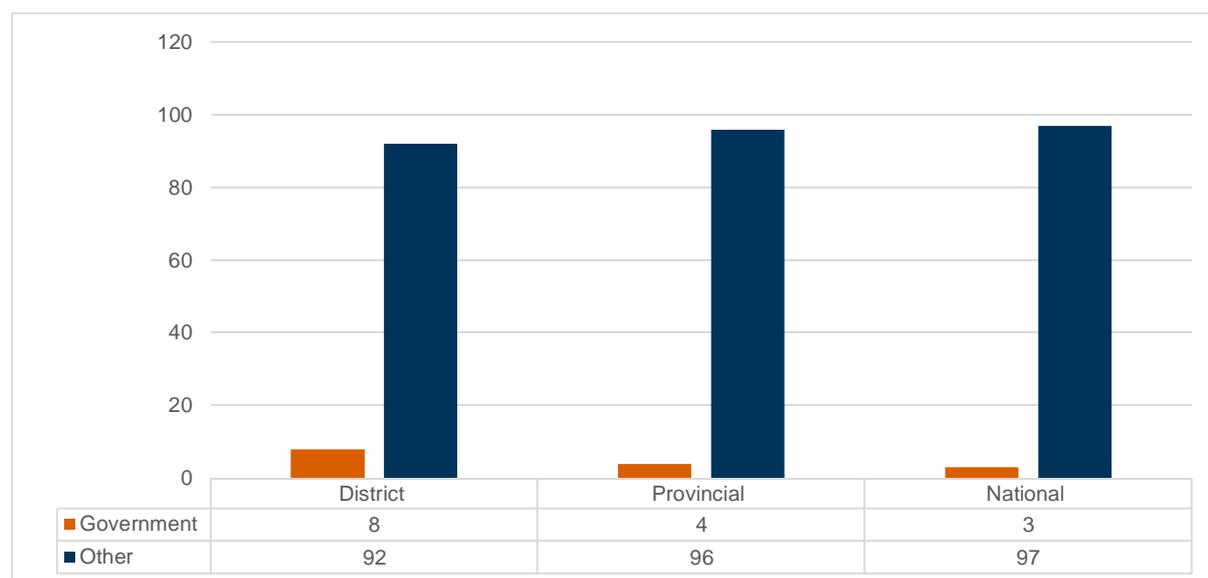
⁴³ Only 3% of national NGOs and 11% of provincial NGOs.

⁴⁴ See <http://indonesiajentera.org/>.

⁴⁵ Another example is *Yayasan Prasasti Perdamaian*, which generates income through a café it operates in Semarang, or Combine, Gaya Nusantara who sell their merchandise to the public (BAPPENAS, 2011, p. 86).

pay for NGO services (on behalf of the government) through grants, or expects NGOs to provide these services on a pro bono basis.⁴⁶

Figure 3 Government funding for NGOs



Error! Reference source not found. indicates in orange the priority at which NGOs at district, provincial and national level identified government as their primary source of funding, according to the percentage of responding NGOs. For all groups surveyed as part of the NSSC design, government funding was considered a main funding source for only 3% of the organisations. While it is difficult to ascertain the total amount of funding governments given to NGOs in Indonesia, the findings from the qualitative and quantitative research conducted as part of the NSSC design process demonstrate that government funding still only makes up a small overall portion of NGO funds.

2.1.4 Potential streams of government funding

While there is still an extremely limited pool of funds paid to NGOs from government, the government provides institutional funding to NGOs primarily through grants and project contracts. Government funds can be used for a variety of activities but NGOs surveyed report that the funds tend to be used primarily for joint activities or events.

There are four main potential streams of government funding:⁴⁷

1. *dana hibah* (grant funding): accessed from the city / district government budget (APBD) by NGOs;
2. *dana sosial* (social funding): accessed by submitting a proposal to the city / district government (APBD); and
3. *dana belanja tidak terduga* (one-off unexpected funding): accessed for one-off activities like responses to natural disasters or other disasters involving human casualties.⁴⁸

⁴⁶ For example, The *Australia Indonesia Justice Program* has funded NGOs – namely the Indonesian Institute for an Independent Judiciary (LeIP) – to work with the Supreme Court to establish the Justice Reform Team Office and push for legal reform (*Australia Indonesia Partnership for Justice*, n.d.)

⁴⁷ Asa, 2012.

⁴⁸ At the time of writing, two other funding sources – *Dana Aspirasi* (Aspirational Funds) and *Dana Desa* (village funds) – appear to be two additional potential funding sources. According to early reports, *Dana Aspirasi* will provide all 560 legislators of the House with up to Rp 20 billion of state funds earmarked each year to develop their respective electoral districts; see: <http://www.thejakartapost.com/news/2015/06/24/house-deals-severe-blow-jokowi.html>. Reports suggest that in 2015, villages are set to receive over 20 trillion rupiah (approximately US\$1.5 billion) in Dana Desa. See: <http://www.eastasiaforum.org/2015/06/27/indonesian-village-decentralisation-is-all-money-no-plan/>.

4. *Swakelola* activities: self-administered projects where the government agency acts as the financial principal and the NGO acts as the technical implementing agency.⁴⁹

Outside of these institutional funds, some NGOs have established private small business entities or *Perseroan Terbatas* to access government procurement opportunities that are only available to businesses.⁵⁰ For example, two of the country's leading think tanks, SMERU and Centre for Strategic and International Studies (CSIS) have both created for-profit entities to take advantage of contracts offered by the government. Anecdotal evidence suggests that this has been a useful way of attracting government funding.

Another way for accessing government funding outside of providing services at the institutional level is through a system where individual NGO staff are provided honorariums for services they provide as experts.⁵¹ NGOs interviewed during the NSSC design process, report being invited as resource persons to national or regional planning exercises, sharing information with their government counterparts, being committee members for events, implementing government programs, conducting advocacy, and working as experts for the drafting of legislation.

2.1.5 Determinants and challenges of government funding

The results from interviews and focus group discussions indicate that in practice, there are a number of determinants of accessing funds from the government, including:

1. personal relationships with government officials built on trust;
2. an established track record linked to point 1; and
3. institutional procedures and the regulations of each of the parties;

These factors create a situation where the same group of NGOs, usually those which have for-profit arms, tend to provide services for government.

On the whole, NGOs experience a number of challenges accessing government funding. There are difficult procedures to access the funds, including complex reporting requirements, timing and planning issues (where the government has to plan ahead for the following year through the MUSRENBANG process for what it will include in its budget while it is rare for an NGO to do so), and a mismatch between government funding allocations and programs with NGOs' programs.⁵²

Given the alleged corruption often associated with government contracts, NGOs that do receive funds from the government are often seen to lack credibility by their peers. These organisations have also been widely criticised in the mass media. This stems from a long history of government personnel allegedly siphoning funds through shell (*plat merah*) NGOs in the New Order era.⁵³ As a result, national and advocacy NGOs surveyed for the NGO Sector Review claimed they did not want to be associated with government contracts. This is particularly the case for NGOs with an advocacy focus operating in the environment, anti-corruption, democratic promotion or budget transparency areas.⁵⁴

⁴⁹ In this funding scenario NGOs cannot carry out more than 50% of the work. See: <http://dfw.or.id/wp-content/uploads/2011/10/referensi/KEPPRES-2003-80-LAMPIRAN-3.pdf>.

⁵⁰ The results of the survey of NGOs indicates that despite the willingness of some NGOs to establish for-profit arms to access government funding, many NGOs are against setting up a for-profit arm as they feel it goes against their non-profit nature.

⁵¹ See the government regulation on honorarium for resource persons here: http://www.pme.itb.ac.id/wp-content/uploads/2014/04/SBU_2014.pdf. During consultations for NSSC, one BAPPEDA official expressed their desire to create a regulation requiring all engagements be made with the institution.

⁵² Ibid.

⁵³ '*Plat merah*' refers to the red license plates used by state-owned vehicle license plates in Indonesia (McCarthy and Kirana, 2006; Ibrahim et al., 2009). These NGOs were founded by government officials or parliamentarians to take advantage of state budget procurement opportunities.

⁵⁴ An unpublished paper on 'The Potential for NGO Funding from the Government' 2014 documents a large number of corruption cases involving *dana bansos* (social assistance funding grants from Banten, DKI Jakarta, Jawa Barat, Nusa Tenggara Timur, Nusa Tenggara Barat, Jawa Tengah and Kabupaten Brebes in Jawa Tengah).

2.1.6 Future potential for government funding

Despite the generally limited environment for government funding and possible negative associations with receiving such funding, government funding is an underutilised alternative funding source that could potentially provide a means to diversify NGO funding. This will particularly be the case in areas where bureaucracy reforms are successful and provide systematic entry-points for NGOs to feed into policy-making and service delivery.

In a positive development, there are two recent national-level initiatives the government have established or are working to establish to provide funding to NGOs to deliver services in a more substantial way beyond ad-hoc contracts for services, namely:

- > the establishment of a legal aid mechanism by the Ministry of Law and Human Rights with an annual budget of approximately IDR 50 billion (AU\$5 million) for NGOs delivering legal aid services;
- > a proposed commitment by the Government of Indonesia through the Ministry of National Development Planning (*BAPPENAS*) to establish a democracy trust fund to support NGOs working on election issues.

Although neither of these mechanisms are yet fully operational, the initiatives indicate that the Government of Indonesia is in principle willing to provide budget for NGO services. There are also indications that city / district governments have been more proactive to engage with city / district NGOs.

2.1.7 Private Sector and Philanthropic Funding

Private sector funding still only contributes very marginally to overall NGO budgets.⁵⁵ There appears to be some small-scale support for national NGOs but this has yet to play a big role for provincial or city / district NGOs. According to the 2015 Index of Philanthropic Freedom, Indonesia ranks 56 out of 64 countries assessed.⁵⁶ The Index assigns countries an overall score of between one and five, with one representing an environment that impedes philanthropic activities and five representing an environment that supports them. Indonesia scores '2.5' which suggests that Indonesia's philanthropic environment is considered uncondusive to institutional philanthropy. The report notes that while philanthropy is recognised as a valuable moral pursuit, this is not reflected in government policies governing civil society and giving.

⁵⁵ PIRAC, 2007; Anand 2014.

⁵⁶ Hudson Institute, 2015.

Figure 4 Private sector NGO funding

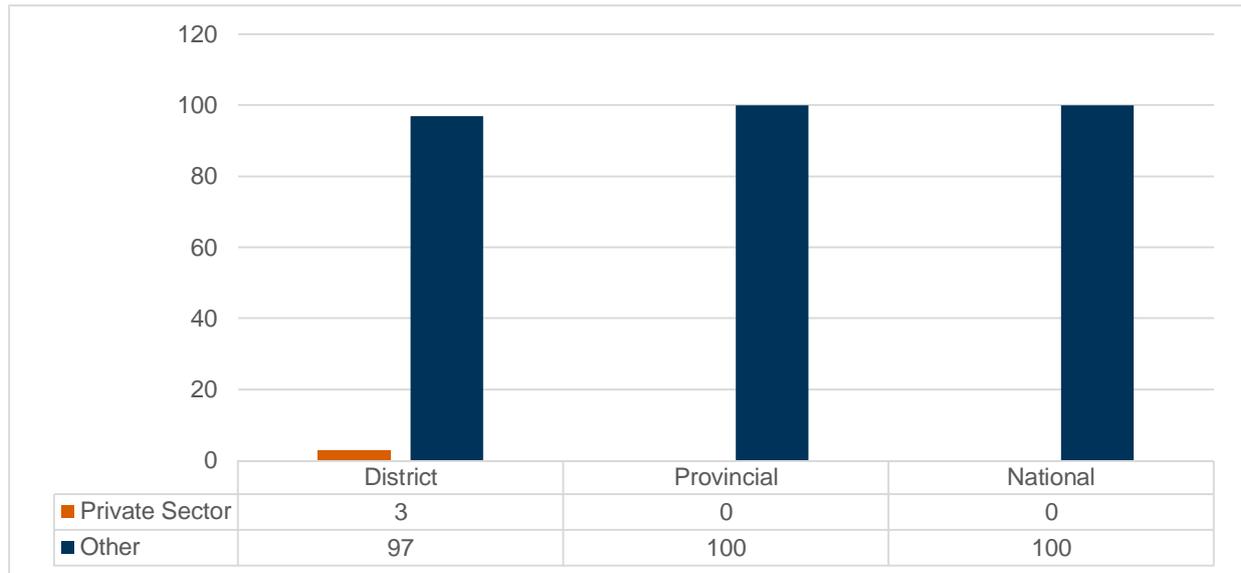


Figure 4 indicates in orange the amount of respondents from NGOs at city / district, provincial and national levels that reported the private sector as their primary source of funding.⁵⁷

It is difficult to determine current levels of overall charity and philanthropic giving in Indonesia, but anecdotal estimates suggest that philanthropy is still driven by individual donations, which are highly unstructured, difficult to track and ad-hoc in nature.⁵⁸ Donations tend to centre on religious-based giving, disasters and orphanages.⁵⁹ Institutionalised philanthropy is still a relatively new practice in Indonesia; but the concept developed quickly following the financial and political crises at the end of the 1990s.⁶⁰ A high-rate of giving (*kedermawanan sosial*) has accelerated the amount of fundraising activities in Indonesia. A household survey carried out by the Public Interest and Research and Advocacy Center (PIRAC) in 2007 found that money donated by Indonesians increased from IDR 663,661 in 2004 to IDR 767,272 in 2007. They also found that while in 2000 and 2004 only 16% of people gave to charity, in 2007, 43.7% of people said they gave to charitable causes.⁶¹ Additionally, there has been a significant growth in the number of high net worth individuals (HNWI) in Indonesia – with analysts expecting this to continue to increase – who have established family philanthropic organisations.⁶²

The way in which philanthropy was implemented in the New Order era has also shaped views of giving and philanthropy today. Much has been written about the way in which philanthropic giving through the establishment of government foundations was used to support Suharto's family businesses and other interests.⁶³

In 2014, PIRAC and *Dhompot Dhuafa* research on 'Trends in Corporate Philanthropy in Indonesia' documented an increase in the total amount of philanthropic funding from IDR 8.6 trillion

⁵⁷The field research did however show that NGOs operating across a province or in two more districts of a province have received funding from private sector. For example, an NGO which works on community, women, and children service and empowerment in Muaro Jambi receives funding from an extractive company which operates Jambi; and an NGO of social and cultural movement in Palu receives funding from a business philanthropic institution. For a good overview of NGO efforts at fundraising from the public and private sector, see BAPPENAS (2010, p. 73).

⁵⁸ PIRAC (2015) for example, the report notes that 72% of philanthropic activities are incidental in nature; BAPPENAS, 2011, p. 55.

⁵⁹ Ibid.

⁶⁰ Anand and Hayling (2014); Rosser and Edwin (2010, p. 4) also documents how the CSR developed in the late 1990s following the fall of Suharto.

⁶¹ Abidin and Kurniawati, 2005; and Johnson and The Philanthropic Initiative, Inc., 2010.

⁶² There were 36,215 HNWI in Indonesia in 2013, holding US\$230 billion in wealth. The number of Indonesian HNWI is forecast to grow by 32.2% to reach 51,003 in 2018, while HNWI wealth is projected to grow by 32.3% to reach US\$336 billion by 2018. Indonesia Wealth Report 2014, Wealth Insight (WealthInsight, 2014).

⁶³ Rieffel and Dharmasaputra, 2008; Johnson and The Philanthropic Initiative, Inc., 2010. For example, in 1976, Suharto issued a decree that ordered all state owned banks to provide 2% of their profits to *Yayasan Supersemar*. Another Presidential Decree in 1996 ordered entrepreneurs to give 2% of their after-tax profits to *Yayasan Sejahtera Mandiri* (YDSM).

(US\$860 million) in 2013 to IDR 12 trillion (US\$1.2 billion) in 2014.⁶⁴ Perhaps unsurprisingly, philanthropy is dominated by companies located in Java (82% in 2014) and activities tend to be implemented in areas around where their company operates (63% of this being in Java). In both 2013 and 2014, the top three sectors to receive the most support from corporate philanthropy are education, health and the environment.⁶⁵

2.1.8 Potential streams of funding from the private sector

Private sector funding can come from international or domestic sources and includes:

- > direct private sector donations and CSR funding from corporations to NGOs;⁶⁶
- > grant funding and donations from philanthropic foundations (international or domestic / family or corporate);
- > traditional individual charitable donations whether through religious tithing or traditional fundraising; and
- > endowments to support the establishment or ongoing activities of NGOs.

Of the limited engagement with the private sector, the majority of attention has been focused on public fundraising and to a lesser extent endowment funds (by natural progression from original establishment under these arrangements).

2.1.9 Determinants and challenges of private sector funding

Despite a growing philanthropic sector, the qualitative research conducted for the NSSC design indicates that interaction between NGOs and the private sector is still very limited. Personal relationships are regarded as the best way to access private sector funding. There is potential for private sector funding in providing technical services, working together for programs, and scholarships. Non-funding based relationships include NGOs being intermediaries between business and local communities who are in conflict with each other, for humanitarian activities, and with NGOs helping to establish networks for the businesses for social causes like scholarships.

At a macro level, for a critical mass of NGOs to be financially viable, the economy must be robust enough to support NGO self-financing efforts and generate philanthropic donations from local sources. Factors influencing the financial viability of NGOs include the state of the economy, the extent to which philanthropy and volunteerism are being nurtured in the local culture, as well as the extent to which government procurement and commercial revenue raising opportunities are being developed.

Much like government funding, the ability of NGOs to access private sector funding depends on strong personal connections, procedures that enable easy access to the funding, and alignment of NGO activities with the private sector organisation. However, there are difficulties in establishing solid relationships due to the way in which Indonesian institutions chose to disperse or use their philanthropic or CSR funds, which does not align with international standards and understandings for philanthropic best practices.

Additionally, interview and focus group discussions results showed that informants reported difficulty in accessing information from the private sector on available funding. It is very difficult to access funding information on CSR and other philanthropic activities and little information about how to access these opportunities. Ultimately, this has meant that many NGOs have been wary of private sector funding for the same reasons of attracting government funding – they are worried it may impact on their independence and legitimacy.⁶⁷

⁶⁴ Surprisingly there has been a drop in the number of activities and companies involved: In 2014, there was a total of 1416 social programs involving 400 companies, whereas in 2013 there was 1856 social programs, involving 455 companies.

⁶⁵ Ibid.

⁶⁶ BAPPENAS, 2011, p. 42.

⁶⁷ Anand, P. U., and Hayling, C. 2014.

Many of the CSR arms of large companies chose to directly implement activities rather than find existing NGO partners with knowledge in the area to do so.⁶⁸ In some cases businesses will channel their funding through their own foundations, for example, Sampoerna Foundation, Rajawali Foundation, Ancora Foundation all act as intermediaries to channel funds for their parent companies. These foundations then mainly directly implement social programs.

The government is responsible for the overall regulatory environment governing the impact of public and corporate giving, including private sector CSR funds and tax exemption for individual donations. The CSR law introduced in 2007 mandates corporations in the natural resources sector to allocate 2% of their budget to charity or CSR activities. However, there is little oversight and enforcement, and businesses tend to fund their CSR activities through their own corporate foundations, which makes it hard to ascertain the effectiveness of this as a potential funding resource.⁶⁹ There is also the associated issue of lack of clarity around what constitutes CSR activity and what the law requires from companies in terms of CSR.⁷⁰

Taken together, the CSR legislation and the lack of incentives to promote corporate giving have inhibited the growth of a more vibrant institutional philanthropic community.⁷¹ There are also limited tax incentives that would otherwise encourage private sector companies to fund NGOs. NGOs can only obtain tax-exempt status for the purpose of religious donations (*zakat*), for natural disasters, sports, research and development, building of social infrastructure, or for education facilities.

2.1.10 Future potential for private sector funding

Regardless of the underdeveloped institutional philanthropic sector, Indonesia ranks highly in its propensity to give in global rankings. In the 2013 World Giving Report Indonesia was ranked 17th worldwide,⁷² with 63% of Indonesians reported to give regularly. An earlier study conducted by PIRAC found that 98% of the public regularly gives or volunteers their assistance to help others.⁷³

There are a growing number of domestic philanthropic organisations that may have potential to provide support to NGOs including:

- > **Domestic corporate foundations:** *Yayasan Dharma Bakti Astra*; Ancora Foundation; Putra Sampoerna Foundation; Yayasan Mitra Mandiri; Rajawali Foundation; Djarum Foundation; *Yayasan Rio Tinto*; *Yayasan Unilever Peduli*; and the Coca-Cola Foundation Indonesia.
- > **International philanthropic foundations:** Bill and Melinda Gates Foundation; Open Society Foundation; Ford Foundation; William and Flora Hewlett Foundation; Aga Khan Foundation; Wellcome Trust; and Bloomberg Philanthropies.
- > **Family foundations:** Eka Tjipta Foundation, The William Soeryadjaya Foundation (WSf); Bakrie Center Foundation; Medco Foundation; Bosowa Foundation; Arsari Djojohadikusumo; CT Foundation; and the Tanoto Foundation.
- > **Islamic philanthropy:** *Dompot Dhuafa*; and *Rumah Zakat*.
- > **Community philanthropy:** Social Trust Fund.
- > **Media philanthropy:** Metro TV, and Kompas.⁷⁴

Of particular note, mass media philanthropy – involving fundraising through print and electronic media – has recently become a unique feature of the Indonesian philanthropic landscape.⁷⁵ Indonesia also has a well-established tradition of Islamic religious-based charity and individual giving, particularly

⁶⁸ In fact, a PIRAC study from 2015 documents that 59% of corporations manage their own CSR funds compared with those choose to implement through other organisations (35%) (PIRAC, 2015).

⁶⁹ Rosser and Edwin 2010; Anand 2014

⁷⁰ Interestingly, despite the mandatory legislation for mining companies, the trade, services and investment sector is the highest contributor to philanthropy (34%) in 2014, followed by the finances and consumable goods sectors (15%) (PIRAC, 2015)

⁷¹ Anand and Hayling, 2014.

⁷² Charity Aid Foundation, 2013.

⁷³ PIRAC (Indonesia) and Asian Development Bank, 2002.

⁷⁴ Jakob, 2014; Anand and Hayling, 2014.

⁷⁵ Anand and Hayling, 2014.

through *zakat* (religious tithing) which has increased significantly in the last decade.⁷⁶ As a result, some organisations and media corporations hold fundraising events for natural disasters and other causes,⁷⁷ and increasingly fundraising efforts rely on SMS technology, the internet, and mass media to raise funds. However, these two sources have been very focused on religious causes, for example, support for Islamic *pesantren* (boarding schools) and orphanages, and for disaster response efforts.⁷⁸

Crowd-funding is now also increasingly being used to raise funds for particular events and causes. For example, *kitabisa.com*; *wujudkan.com*; *gotongroyongfund.com*; and *ayopeduli.com* are notable platforms. Each of these portals have raised funds ranging from IDR 2 million (AU\$200) for a *Yayasan Mpati*: 'Autism is not a Joke!' campaign, to IDR 2 billion (AU\$200,000) for a campaign run by the Indonesian Child Protection Commission to stop child abuse.⁷⁹

An interesting phenomenon is the establishment of NGO and in particular think tanks with private endowment funds (*dana abadi*), like the Megawati Institute, CSIS, the Habibie Institute, Wahid Institute, and the Freedom Institute.⁸⁰ The Board and the NGO founders have a particular responsibility in this regard. The board's commitment to establish an endowment fund and diversified funding base is particularly important to ensure the NGO's financial sustainability.⁸¹ Yet, just as dependence on a single source of funding from international donors is perhaps a danger for many national and advocacy NGOs, relying too heavily on one source of private endowment can also be dangerous. For example, CSIS was forced to identify alternative funding after the financial and political crisis of the late 1990s and the value of the endowment fell drastically, affecting their ability to operate effectively. Setting-up an endowment also requires strong financial management skills to ensure the funds can be used effectively.⁸²

Finally, it is noteworthy that some international NGOs and agencies have successfully raised funds from the public, namely World Wildlife Fund, Greenpeace and the United Nations Children's Fund.⁸³ This indicates that there is potential for NGOs to access funding from public donations.⁸⁴ However, city / district NGOs' attempts to attract donations from the public have not been as successful. Notably *Lembaga Studi Dan Advokasi Masyarakat* (Institute for Policy Research and Advocacy (ELSAM)), LBH Jakarta (*Lembaga Bantuan Hukum* or Legal Aid), *Wahana Lingkungan Hidup Indonesia* (The Indonesian Forum for Environment (WALHI)) and Indonesia Corruption Watch are a few examples of prominent national advocacy NGOs that have attempted to do so but have yet to see significant rewards.⁸⁵

2.2 Intermediary Support Infrastructure

There is a growing awareness that a fully functioning intermediary support infrastructure is key to ensuring that NGOs can develop their financial capabilities and diversify their funding sources.⁸⁶

⁷⁶ One such organisation took in IDR 5.3 billion (AU\$523.000 AUD) in *zakat* contributions in June 2012 alone: PIRAC, 2015; Johnson and The Philanthropic Initiative, Inc., 2010.

⁷⁷ NGOs show a flexibility advantage in humanitarian disasters, notable given how disaster-prone Indonesia is. The scope and cause of the humanitarian disaster varies significantly from flooding in Jakarta, forest fires in Kalimantan and Sumatra, to ethnic violence in Eastern Indonesia, NGOs demonstrated that they can be the frontline responders in humanitarian crises.

⁷⁸ Jakob, 2014.

⁷⁹ For more information on the stop child abuse campaign see: <http://www.gotongroyongfund.com/project/campaign-stop-child-abuse/>. For more information on the 'Autism is not a Joke!' campaign see: <http://www.autismindonesia.org/index.php/78-blog/41-kampanye-autism-is-not-a-joke>

⁸⁰ Other prominent examples: KEHATI, which from 1995-2005 received \$16.5 million for an endowment fund (Hadad, n.d.) and Indonesia Conference on Religion and Peace which is said to only operate on its endowment fund. (BAPPENAS, 2011, p. 80).

⁸¹ BAPPENAS, 2011, p. 88.

⁸² Gonzales, 2004.

⁸³ *Palang Merah Indonesia* (Red Cross Indonesia) is also thought to have had some success in fundraising from individuals, government and corporations (Donatur PMI, 2011)

⁸⁴ A BAPPENAS report from 2010 estimates that based on NGO self-reported data, public fundraising could bring an additional IDR 30-40 million (AU\$3-4,000) a month. (BAPPENAS, 2011, p. 72).

⁸⁵ In 2014, LBH Jakarta made IDR 86,543,000 (approx. AU\$8,600) through fundraising and selling merchandise (LBH Jakarta, 2014). ICW was able to collect around the same amount (IDR 84.028.600 or approx. AU\$8,400) over a period of a year (2010-2011) through fundraising in the available information published on its website (Indonesia Corruption Watch (ICW), n.d.). WALHI also documents very small individual donations totalling IDR 3.13 000 from 33 donations over the period of a year (2013-2014) (WALHI, n.d.).

⁸⁶ These have also been called 'Civil Society Resource Organisations' (CSROs): 'Locally owned, governed and operated; private and nongovernmental; independent and nonprofit, have a mission that contributes to the participation of civil society in addressing development problems; and mobilise resources from within or outside their countries and pass them on to other civil

Strong sectoral infrastructure is necessary to provide NGOs with broad access to NGO support services. Intermediary support organisations providing these services must be able to inform, train, and advise other NGOs, and provide access to networks and coalitions that share information and pursue issues of common interest.

The existence of intermediary organisations can drive domestic efforts to improve the accountability of the sector, improve the quality of local organisations through capacity development, act as umbrella organisations to push for reforms that will support the sector, build bridges between civil society and other sectors, and mobilise financial resources:

*The support infrastructure for civil society provides services and support towards the CSO capacity building, such as: information services, data centres, resource centres, technical assistance, or fund raising.*⁸⁷

Intermediary organisations can play a vital role in improving the financial sustainability of Indonesian NGOs through supporting the development of organisational capacities (including financial skills) and creating links among NGOs, as well as serving as funding intermediaries to channel grants to smaller organisations which may not have the ability to access such funding sources independently.

In Indonesia, the intermediary support infrastructure is very limited.⁸⁸ The findings of the survey of NGOs identified that organisations operating at the city / district level are isolated from national organisations, and that there a weak ‘trickle down’ of funding from national to city / district NGOs. This finding about Indonesia’s “missing middle” is supported by other reports.⁸⁹ The 2006 Civil Society Index for Indonesia reports that the ‘support infrastructure’ is underdeveloped and this has continued through to 2014.⁹⁰ The NGO support sector is very limited and consists mainly of organisations providing capacity building for specific issues, usually with international donor funds, rather than serving as funding intermediaries or providing broader linking or support functions.⁹¹

In 2006, there were only 25 such organisations in Indonesia, but this number has now increased with the majority (40 organisations) located in Java.⁹² Among the most prominent intermediary support organisations are:

- > *Perhimpunan Filantropi Indonesia*, the only organisation to provide guidance on philanthropy in Indonesia;
- > PIRAC, an NGO devoted to building NGO resource mobilisation and fundraising capabilities;
- > *Konsil LSM* (NGO Council), which works to improve the accountability of NGOs;
- > The Biodiversity Foundation (*Yayasan Kehati*), which supports hundreds of small NGOs and CBOs working in environmental issues’;
- > YAPPIKA (Civil Society Alliance for Democracy), which supports NGOs that run democratic local governance programs;
- > *Kemitraan* (Partnership), a CSO capacity-building organisation.⁹³

society groups via grants or other financing mechanisms (Winder, 1998; The Synergos Institute, 2002). For more information on Intermediary Support Organisations see Ashman, Carter, Goodin, and Timberman (2011).

⁸⁷ Ibrahim, 2006.

⁸⁸ Winder, 1998; The Synergos Institute, 2002; Ibrahim, 2006, USAID, 2012.

⁸⁹ See Clark, nd; McCarthy and Kirana, 2006:13, cited in STATT, 2012. This phenomenon is often found elsewhere as cited in PRIA, 2012.

⁹⁰ Ibrahim, 2006, p.35-36.

⁹¹ A survey undertaken of funding sources for intermediary support organisations in Indonesia in 2000 found that 65% of NGO revenue was from overseas sources. Domestic sources consisted of earned-income and fees (33%), interest on endowment funds (17%), corporations (17%), individual giving (14%), others (5%), national and city/district governments (5%), NGOs (3%), and other (11%) (The Synergos Institute, 2002).

⁹² STATT 2012, p. 25.

⁹³ In fact, one of the main reasons for the establishment of *Kemitraan* was the recognition by many UN staff that there was a dearth of strong intermediary support organisations. The same reason is also cited for the creation of BAKTI by ex-World Bank staff – to ensure that their activities in Eastern Indonesia were sustainable.

- > BAKTI (*Yayasan Bursa Pengetahuan Kawasan Timur Indonesia*), which carries out capacity development, documents and shares information about development practices, and provides information about funding opportunities for NGOs in eastern Indonesia; and
- > Indonesia Business Links, which describes itself as a ‘resource centre for corporate citizenship’⁹⁴ by focusing on providing advice and information to business about conducting CSR activities in Indonesia.

These organisations can help to mitigate the effects of dependence on foreign donors and help increase financial sustainability by developing resource mobilisation and fundraising strategies of city / district NGOs. Efforts thus far have been piecemeal, as these organisations face many of the same capacity issues as their NGO counterparts, and are still heavily dependent on foreign donors for their funding.

2.3 Efforts at Funding Diversification

Recognising the changed funding landscape in Indonesia, some funders and NGOs have placed more emphasis on NGO sustainability. Despite some elementary work undertaken to date, the review of DFAT’s engagement with NGOs as part of the NSSC design work found that there was not any evidence of successful donor projects being able to assist NGO partners to identify alternative means of funding. The review identified projects across a number of sectors that had examined options to diversify funding, including through CSR activities or developing business plans. Part of DFAT’s support to a city / district NGO, for example, included scope to examine options for income generation beyond DFAT support. The most likely means of support was identified as income generation. A later review of progress towards income generation activities noted however that this was unlikely to ensure sustainability should DFAT support cease.

Other programs in the health sector have also undertaken a scoping study to provide recommendations on funding options for NGOs. To date, however, these efforts have not had much success and gained little traction due to broader enabling environment factors holding back domestic support. Importantly, the scoping study notes that these issues lay outside the domain of individual projects, requiring a more systematic improvement in the NGO operating environment. Key constraints at the health sector-level identified include the inability of half of NGOs to make use of the (narrow) CSR provisions in legislation, a lack of tax incentives for donations and specific sectors (such as HIV and AIDS) facing difficulties accessing funders because of the issues they work on.

Finally, there is a suggestion from some funders that new approaches being adopted by international donors – including the use of core funding – may create disincentives for NGOs to identify alternative, non-donor sources of funding. While there is only anecdotal evidence to date, this is said to restrict NGOs’ need to work on alternative strategies. This suggests that donors need to:

- > focus on helping NGOs to build staff capability in this regard; and
- > develop strategies that incentivise access to government funding (for example, trial the use of matching commitments by donors, if NGOs can access government funds).

There are also significantly different skills sets required between competencies of NGO staff in undertaking the substantive work of NGOs, such as advocacy, research and the like, and those competencies required to raise funds either through donors or the private sector.

3 Implications and Recommendations

There are a number of options available for the government, funders and Indonesian NGOs to improve their financial sustainability. All stakeholders can potentially play a role to improve NGO sustainability. Financial sustainability will ensure that NGOs can maintain their independence, improve the way their organisation operates, nurture a new generation of NGO leaders, and better engage with

⁹⁴ See <http://www.ibl.or.id/en/profile/about-us>.

government and the private sector. Much more can be done to ensure that NGOs, the government, private sector, and funders are emphasising NGO sustainability in all their work:

3.1 Recommendations for the Government of Indonesia

- > Consider tax exemptions for the NGO sectors not covered in the current arrangements, for example, gender, health, education, poverty alleviation and climate change / environment.
- > Emulate the Democracy and Legal Aid Fund initiatives the Ministry of National Development Planning and the Ministry of Law and Human Rights have initiated, and create more institutional funding for NGOs on specific themes, for example, to support development plans through *Musrenbang* (national planning process).
- > Improve the transparency of funding schemes for NGO and make the budgeting and administrative processes for NGOs better align with capacity of NGOs seeking the funds, which will encourage greater interest from NGOs, including putting in place procedures that favour competitive proposals.
- > Support the legal and regulatory environment especially regulations to facilitate new entrants, help prevent governmental interference, and give NGOs the necessary legal basis to engage in appropriate fundraising activities and legitimate income-producing ventures.

3.2 Recommendations for Funders (private sector and international donors)

- > Ensure that funding promotes sustainability: project funding that includes appropriate overheads for the work being delivered; grant or core funding that creates incentives to diversify funding and support for the NGO to develop capacities for resource mobilisation and cost recovery.
- > Support organisations like the Resource Alliance, Synergos Institute, or Venture for Fund Raising to work with Indonesian NGOs to improve their capacities to attract philanthropic funding and generate revenue from services. This could also be achieved through establishment of a National NGO Support Centre that systematically works with NGOs on these issues.
- > Provide long-term support coupled with capacity development assistance for intermediary support organisations, such as PIRAC, *Dompot Dhuafa* or *Perhimpunan Filantropi Indonesia*, that from the key link between funders and city / district NGOs and recipients.
- > Measure NGO sustainability to the Indonesian funding and philanthropy environment. While it might be tempting to expect NGOs can raise funds easily like in more developed countries, the preconditions for such success are only just beginning to appear. As most previous experience indicates little success, funders should not set overly ambitious goals for what it can achieve in this space.
- > Hire an in-house or external fundraising and philanthropy specialist to work with organisations on developing resource mobilisation plans/strategies and to link up Indonesian NGOs with philanthropists.
- > Consider providing seed-funding for NGOs who are trialling innovative self-financing initiatives.

3.3 Recommendations for Indonesian NGOs

- > Hire external philanthropic support services through the likes of *Perhimpunan Filantropi Indonesia* and PIRAC to help identify potential funding sources outside international donors and to come up with funding diversification plans.

- > Invest in the infrastructure (e.g., IT, human resources, training) needed to successfully diversify funding resources.⁹⁵ For example, NGOs could invest in a shared online portal to publish their annual reports as a way of improving their transparency.
- > Ask donors to pay the correct overheads for the work that is being completed or advocate for and put in place the systems for the establishment of an endowment fund to ensure longer-term sustainability.
- > Invest in the design of a quality cost recovery support system in your organisation to be able to determine overhead rates.
- > Design fundraising strategies that identify a good mix of funding sources (self-financing activities, international donors, individual and corporate donors) and a mix of direct, indirect support.
- > For larger organisations, hire a designated staff member for resource mobilisation.
- > Intermediary Support Groups like *Konsil NGO* or *Perhimpunan Filantropi Indonesia* could support corporations and other CSR bodies to develop a code of ethics for foundations and private sector funders to ascribe to.
- > Intermediary support organisations and groups like *Konsil NGO* or *Perhimpunan Filantropi Indonesia* document and create non-financial incentives (such as awards) to recognise and incentivise transparency and accountability in NGO financial reporting. Examples such as documenting transparency and Millennium Development Goal Awards can be drawn upon for home-grown local incentive schemes.⁹⁶
- > Intermediary support organisations can map potential CSR funding sources that relate to different NGOs and act as a broker between NGOs and corporations.⁹⁷

4 Conclusions

NGO sustainability is a key concern for all NGOs and any funder wishing to support NGOs. Indonesian NGOs, like their counterparts in other middle-income countries, face a more challenging funding landscape. The shifting funding landscape requires an urgent rethink of funding strategies by Indonesian NGOs and other stakeholders wanting to support Indonesian NGOs.

This means that NGOs need to focus more on diversifying their funding. Donor-based NGO support programs and private foundations need to ensure that their support does not create more burdens for these organisations but encourages the overall sustainability of the sector and the individual NGOs' position within it.

This brief sought to document the experiences of Indonesian NGOs with funding diversification efforts based on a series of studies conducted by the NSSC design team. It demonstrated that Indonesian NGOs are also adapting to the changing funding landscape – attempting to attract more local sources of funding, and seeking to diversify their resources – but much more can be done to make the most of these opportunities.

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⁹⁵ New media technologies in particular can increase visibility and financial viability. Most NGOs, have been challenged to find new ways to both engage with their constituencies and the public and to identify sources of funding. Social media, blogs, and interactive NGO websites have allowed many NGOs with tight budgets or little public relations experience to heighten their exposure and improve their connectivity with constituencies.

⁹⁶ See www.transparify.org.

⁹⁷ This could build on very preliminary work done in BAPPENAS, 2011, p. 84.

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