



“DEPENDENCY ON SINGLE CSR FUND: ASSESSING THE FINANCIAL RISKS AND OPERATIONAL CHALLENGES IN NGO’S”

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ABSTRACT :

Non-Governmental Organizations (NGOs) occupy a critical role in regards to social issues, frequently funding these vital missions with Corporate Social Responsibility (CSR) funds. CSR funds are very helpful, however, it is a dangerous to be solely dependent on one particular CSR fund - other funders may fail to support the NGO, and therefore create financial risk and harder operational difficulties. The purpose of this paper is to make a case for being overly dependent on a single CSR fund, the risk and difficulties associated with this, and a discussion of risk mitigation strategies for NGOs.

Keywords : NGOs, CSR funding, financial risks, operational difficulties, dependence, sustainability, diversification, governance, compliance, capacity building.

Introduction

The legislative mandate in India that companies must place a portion of their profits in CSR activities has clearly changed the fundraising landscape for NGOs in the country. CSR funds have become the primary source of funding for many NGOs and allow them to undertake many social initiatives with these funds. However, organizations being dependent on a single CSR fund may put the organization in a vulnerable situation when that source of funding is not available or changed. It is important for NGOs in India to understand the financial risk and operational difficulties associated with funding operation from a single CSR fund as the risks and difficulties may jeopardize their future operational capability.

Problem Statement

There are many challenges with dependency on a single CSR fund by the NGOs: financial vulnerability, operational restrictions and mission drift;

Aim of the Paper

The primary aim of this paper is to assess the financial risks and operational challenges faced by NGOs due to their dependency on a single CSR fund. By examining these aspects, the paper aims to provide recommendations for NGOs to diversify their funding sources, enhance their financial resilience, and maintain operational effectiveness.

Literature Review

Existing literature highlights several risks associated with over-reliance on a single CSR fund. According to a report by The Hindu, CSR funders often contribute little to organizational development and limit payments for indirect costs, which can strain an NGO's financial resources. Additionally, the focus of CSR funders on regulatory compliance and cost minimization can lead to rigid funding structures that hinder NGOs' flexibility and innovation.([The Hindu][1])

Further, research indicates that many NGOs operate with limited resources and capacity, which can significantly hinder their ability to develop robust proposals and execute projects effectively. This scarcity often translates into insufficient staff, inadequate training, and a lack of access to essential tools and technologies. Consequently, NGOs may struggle to present comprehensive budgets, articulate clear project plans, or demonstrate the sustainability of their initiatives.([Funds for NGOs][2])

Moreover, the dependency on a single CSR fund can lead to mission drift, where NGOs may adapt their objectives to align with the interests of the donor, potentially compromising their core mission and values. This misalignment can affect the authenticity and effectiveness of their programs.

Methodology

This study employs a qualitative research methodology, utilizing case studies of NGOs that rely predominantly on CSR funding. Data is collected through interviews with NGO leaders, financial officers, and CSR managers to gain insights into their experiences and challenges. Additionally, financial reports and project documents are analysed to assess the impact of CSR dependency on financial stability and operational effectiveness.

Findings

a) Financial Risks:

1. **Revenue Instability:** Over-reliance on a single CSR fund can lead to significant financial instability if the donor withdraws or reduces funding. This situation can result in cash flow problems, affecting the NGO's ability to meet its financial obligations.
2. **Budget Rigidity:** Dependence on a single donor often necessitates strict adherence to the donor's priorities, limiting the NGO's flexibility in budget allocation and program implementation.
3. **Delayed Disbursements:** Bureaucratic delays or internal restructuring within the donor company can result in deferred payments, impacting the NGO's operations and project timelines.

b) Operational Challenges:

1. **Mission Drift:** To secure and maintain funding, NGOs may align their objectives with the donor's interests, potentially leading to a deviation from their core mission and values.
2. **Resource Misalignment:** Projects may be designed to fit the donor's agenda rather than addressing the actual needs of the beneficiaries, leading to ineffective interventions.
3. **Staff Uncertainty:** Funding insecurity can lead to high turnover rates and difficulty attracting skilled professionals, affecting the NGO's capacity to deliver quality services.
4. **Limited Advocacy and Independence:** NGOs may avoid advocacy efforts that conflict with the donor's interests, compromising their role as independent voices in society.

Conclusion

While CSR funding provides essential support for NGOs, over-dependence on a single CSR fund exposes organizations to significant financial and operational risks. It is imperative for NGOs to diversify their funding sources to enhance financial resilience and maintain operational flexibility. By adopting strategies such as building reserve funds, strengthening donor relationships, and investing in capacity building, NGOs can mitigate the risks associated with CSR dependency and continue to effectively serve their communities.