Local Fundraising in Developing Countries Attractive Market Opportunities?

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The Johns Hopkins research on global civil society separates three major sources of financial revenues for NGO’s: Fees, government support and philanthropy. The researchers conclude that NGO’s in developing countries depend more on fees and philanthropy than NGO’s in other countries.

International aid donors are interested in the financial sustainability of the NGO’s they support. Some donors have initiated programs to stimulate local fundraising done by their partners in developing countries. Local fundraising is defined as a method of obtaining financial donations for the benefit of a local ngo’s objective from local private donors. Fees, grants from donors abroad and governmental grants are not considered as local fundraising.

Will local fundraising become a major source of income for NGO’s in developing countries? Some developing countries will probably have more attractive market opportunities than other countries. How can international aid donors know which developing countries are more suitable to stimulate local fundraising?

The aim of this research is to measure the market attractiveness for local fundraising, whereby developing countries with a higher monetary fundraising revenue per capita are considered as more attractive. Other sources of philanthropy, like the giving of time or the giving of goods are excluded from this research.

Research question

- How large is the market attractiveness for local fundraising in developing countries?

Theories and concepts

Porter (1980) explains the attractiveness of markets with his five competitive forces model. This model is based on the dynamics of commercial markets in which more competition will lead to lower margins and thus to lower market attractiveness.

Porter’s model is widely adopted in commercial strategic planning.

However the dynamics of fundraising markets do not necessarily be the same as the dynamics of commercial markets and no empirical evidence is available to justify the use of Porters model for fundraising markets. Van Diepen (2009) concludes that competitive mailings over time tend to have a complementing effect on fundraising revenues of Dutch
In contrary to Porter’s model more fundraising competitors will lead to higher market attractiveness.

Research methodology and design

In this research a market attractiveness model for local fundraising is constructed. The model is based on three key determinants. The first determinant is the giving capacity of citizens. The rationale is that market attractiveness will increase if more citizens are financially capable of giving money to NGO’s. For this determinant two indicators are used: GDP per capita and the Gini coefficient. The hypotheses for these indicators are:

- If in a country the GDP per capita is lower, then the fundraising monetary revenue per capita will be smaller;
- If in a country the Gini coefficient is lower, then the fundraising monetary revenue per capita will be larger;

The second determinant is based on the asking capacity of NGO’s. The rationale is that market attractiveness will increase if more NGO’s become active fundraisers. An indicator for this determinant is not easily available. In most countries the number of fundraising NGO’s and their fundraising activities is not registered. Chamber of Commerce data are not easily comparable. Most countries however do have a tax exempt policy for fundraising NGO’s. A good indicator for the asking capacity of NGO’s might be the registration of NGO’s for tax exempt purposes. The hypothesis for this indicator is:

- If in a country the number of NGO’s with a tax exemption status per capita is lower, then the fundraising monetary revenue per capita will be smaller;

The third determinant is based on the fundraising environment in a country. The rationale is that if a country is suffering from severe instability it is not a favourable market situation for fundraising. Another factor to be considered is the availability of an efficient payment infrastructure. For this determinant two indicators will be used: The failed state index and the number of banking accounts per capita. The hypotheses for these indicators are:

- If a country ranks higher on the Failed State Index, then the fundraising monetary volume per capita will be smaller;
- If in a country the number of banking accounts per capita is higher, then the fundraising monetary revenue per capita will be larger;

A cross-section analysis is used to test the hypotheses in countries where reliable data on local fundraising is available. If indicators prove to be significant then the corresponding data for developing countries is collected and imported in the constructed data model. With this data model the fundraising market attractiveness per developing country is calculated.

The key findings of this research are:

- A theoretical model to assess the market attractiveness for fundraising in developing countries is developed and empirically tested;
- A new dataset for assessing fundraising market attractiveness in developing countries is completed and developing countries are ranked in their market attractiveness for local fundraising;
References


Salamon, M.L., Global Civil Society; An overview, Johns Hopkins University, 2003
