

## **DIVERSIFICATION OF FINANCIAL SOURCES AS A FACTOR OF SUSTAINABLE DEVELOPMENT OF CIVIL SOCIETY INSTITUTIONS**

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Civil society institutions are increasingly involved in solving social problems, protecting public interests and delivering community-based initiatives. Their sustainability depends on financial resources, but the quality of those resources is as important as their volume. A civil society institution may receive a considerable amount of funding in a given year and still remain financially vulnerable if the funding is temporary, concentrated in one donor, or restricted to a narrow project. Therefore, diversification of financial sources becomes one of the key factors of sustainable development.

Financial diversification means the formation of a balanced portfolio of income sources that reduces dependence on one channel and increases the organization’s ability to continue its mission under changing external conditions. For civil society institutions, such a portfolio may include state grants, subsidies, social orders, membership fees, donations, sponsorship, corporate social responsibility projects, international donor programs, paid services allowed by legislation, crowdfunding and reserve funds. Each source has advantages and limitations; therefore, the main task is not to replace one source with another, but to create a stable and transparent combination of resources.

The importance of diversification is related to several practical risks. First, donor dependence can limit institutional autonomy and create uncertainty when a program ends. Second, project-based financing often covers only direct activities and does not support administrative capacity, staff development or long-term planning. Third, the absence of reserve funds makes civil society institutions vulnerable to delays in transfers and unexpected costs. Finally, a narrow funding base may reduce trust among partners because the organization appears financially fragile.

In the context of Uzbekistan, the legal and institutional environment provides several instruments for supporting civil society institutions, including state grants, subsidies and social orders within the broader framework of social partnership. These

instruments create an important foundation, but sustainable development requires that they be combined with non-budgetary and community-based resources. Diversification can strengthen not only financial stability, but also public participation, accountability and the social legitimacy of civil society institutions.

**Table-1**

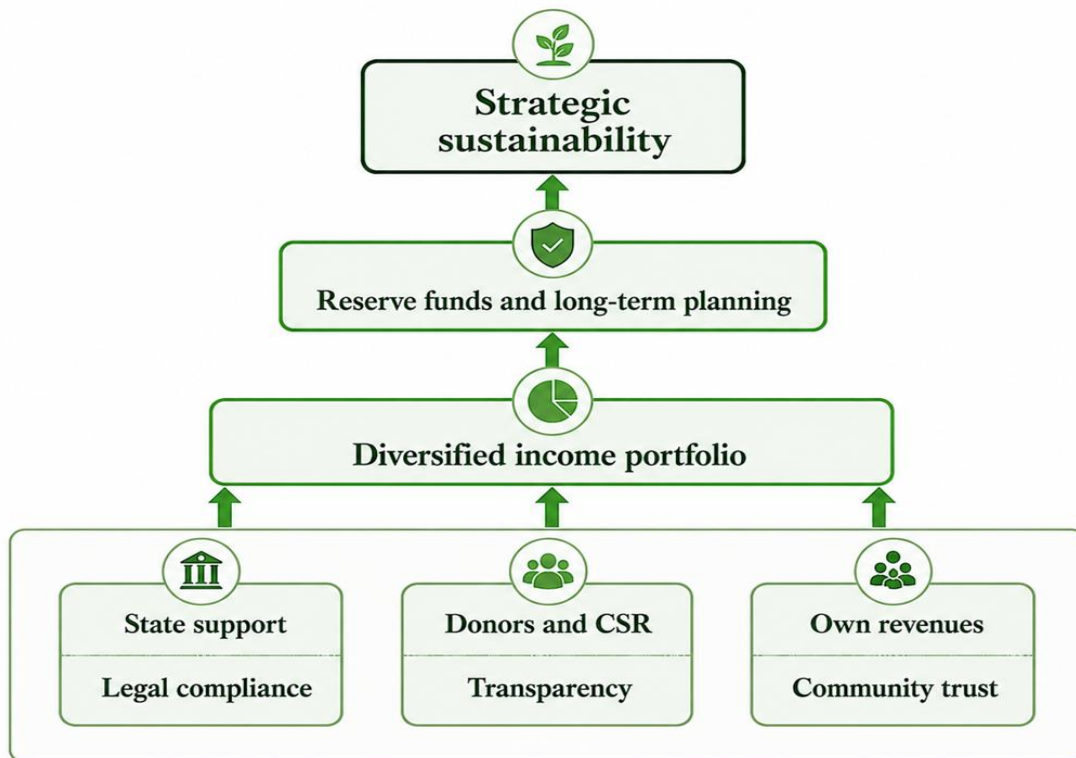
**Main sources of financing and their role in the sustainability of civil society institutions**

Source	Main advantage	Potential limitation	Sustainability role
State grants and subsidies	Legally defined support for socially significant initiatives	May be temporary and tied to administrative criteria	Provides institutional and project-based stability
Social orders	Connects public needs with service delivery by civil society institutions	Requires strong reporting and implementation capacity	Links funding with concrete social services
Donations and sponsorship	Flexible and community-oriented source	Depends on trust and communication with supporters	Strengthens local ownership and public engagement
Membership fees	Regular internal income for associations	Limited if membership base is narrow	Improves autonomy and internal responsibility
Paid services within legal limits	Generates own revenue and reduces donor dependence	Requires professional management and market demand	Supports long-term operational capacity
Crowdfunding and digital campaigns	Mobilizes small contributions from many supporters	Needs digital skills and strong public communication	Expands participation and visibility

Table 1 shows that each financing source contributes to sustainability in a different way. State support can provide institutional predictability, donor programs may bring innovation and expertise, community donations strengthen public trust, while own revenues increase autonomy. However, no single source can fully guarantee

sustainable development. A diversified model is effective only when the organization has transparent accounting, clear financial planning and a realistic strategy for resource mobilization.

Diversification should be understood as a gradual process. At the first stage, civil society institutions need to assess their current income structure and identify the share of each source. At the second stage, they should determine the risks connected with concentration, short-term funding and restricted expenditures. At the third stage, a resource mobilization plan should be prepared. This plan may include donor mapping, communication with business partners, development of membership programs, creation of paid services and formation of reserve funds. At the final stage, the results of diversification should be monitored through financial indicators such as income concentration, liquidity and the share of unrestricted funds.



**Figure-1. Diversified financial model of sustainable civil society institutions**

Figure 1 presents diversification as a layered model. The foundation consists of legal compliance, transparency and community trust. Without these elements, it is difficult to attract any stable financial source. The middle level includes a diversified income portfolio, which should combine public and private, domestic and international, project-based and unrestricted resources. At the upper level, reserve funds and long-term planning transform diversified income into strategic sustainability.

**Table 2**

**Financial concentration risks and diversification measures**

<b>Risk</b>	<b>Indicator of weakness</b>	<b>Diversification measure</b>	<b>Expected result</b>
Donor concentration	One source provides more than half of annual income	Search for alternative donors, partners and public programs	Lower dependence on a single funder
Short-term funding	Most resources are linked to one-year projects	Introduce multi-year planning and reserve policy	Higher continuity of programs
Restricted budget	Funds cannot cover administrative or development costs	Negotiate overhead coverage and develop own revenues	Stronger institutional capacity
Low community engagement	Small number of local contributors or members	Develop membership, volunteering and crowdfunding campaigns	Higher legitimacy and social support
Weak liquidity	Cash gaps occur between project tranches	Create operating reserve and monthly cash-flow plan	Reduced risk of operational interruption

A key methodological issue is the measurement of diversification. It is not sufficient to count the number of funding sources, because several nominal sources may still depend on the same donor or the same type of project. Therefore, diversification should be assessed through both quantitative and qualitative indicators. Quantitative indicators include the share of the largest source in total income, the share of unrestricted funds, the ratio of own income to external support, and the number of months covered by reserves. Qualitative indicators include donor diversity, reliability of contracts, flexibility of funds and compatibility of financing with the organization’s mission. At the same time, diversification should not lead to mission drift. Civil society institutions may be tempted to accept any available funding even when it does not correspond to their strategic goals. This can weaken institutional identity and reduce the quality of services. For this reason, a diversification strategy should be mission-based. Each new income source should be evaluated according to three criteria: whether it supports the social mission, whether it is financially sustainable, and whether it preserves transparency and accountability.

The role of the state remains important in diversified financing. Public support can encourage diversification by creating transparent grant and subsidy programs,

supporting social entrepreneurship, promoting tax incentives for philanthropy, and developing mechanisms of social contracting. In addition, state institutions can provide methodological support for financial planning and reporting. Such measures do not replace independent resource mobilization; rather, they create an enabling environment in which civil society institutions can strengthen their autonomy and public value.

In conclusion, diversification of financial sources is a strategic factor of sustainable development for civil society institutions. It reduces dependence on one donor, improves resilience to financial shocks, expands social participation and strengthens institutional autonomy. However, diversification produces positive results only when it is supported by transparent accounting, internal financial control, realistic planning and strong public communication. A diversified income structure should therefore be treated as a long-term management objective rather than a short-term fundraising activity.

The following recommendations may be proposed: civil society institutions should regularly analyze the concentration of income sources; they should develop resource mobilization strategies linked to their mission; reserve funds and cash-flow planning should be introduced; reporting systems should distinguish restricted and unrestricted funds; and public support mechanisms should encourage the attraction of additional non-budgetary resources. Implementation of these measures will contribute to the sustainable development of civil society institutions and improve their capacity to serve public interests.

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