

**MECHANISMS FOR DIVERSIFYING FUNDING SOURCES AND
REDUCING FINANCIAL RISKS IN SUBSIDY-BASED FINANCING OF
NON-GOVERNMENTAL NON-PROFIT ORGANIZATIONS**

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Non-governmental non-profit organizations are important participants in solving social problems, protecting public interests and strengthening civic participation. In Uzbekistan, state subsidies are used as one of the financial instruments for supporting socially significant initiatives. However, a subsidy becomes effective only when it is integrated into a broader financial management system and does not create excessive dependence on one source of funding.

Subsidy-based financing has a dual nature. It provides a predictable resource for institutional development, but may increase vulnerability if the organization relies mainly on one public channel. Therefore, diversification means combining state support with donations, sponsorship, membership fees, donor programs and own revenues permitted by legislation.

Table-1

Directions of diversification in subsidy-based financing of non-profit organizations

Direction	Practical mechanism	Financial risk reduced	Expected management effect
Co-financing requirement	Part of the activity is supported through donations, sponsorship or own resources	Dependence on one budget source	Higher responsibility and resource mobilization
Reserve formation	A fixed share of unrestricted income is accumulated for operating continuity	Liquidity gaps and delayed transfers	Stable implementation of social services
Own revenue within legal limits	Training, consulting, publications or other permitted services are developed	Restricted use of project funds	Greater autonomy and flexibility

Partner financing	Business, donors and local government resources are combined around social priorities	Narrow financial base	Shared responsibility for social impact
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Table 1 shows that diversification should be connected with the logic of subsidy management. If a state subsidy only covers current activities and does not stimulate additional resource mobilization, the organization may remain financially vulnerable. Conversely, when subsidy rules encourage co-financing, reserve policy and transparent accounting, public funding begins to generate a multiplier effect.

The first mechanism is a flexible co-financing principle. For small community initiatives, co-financing may include volunteer work, local donations or in-kind support. For larger organizations, it may include sponsorship agreements, donor grants or paid services allowed by law. The second mechanism is the formation of operating reserves. Even a small reserve improves continuity when subsidy transfers are delayed or unexpected costs arise.

The third mechanism is the use of activity-based budgeting. Each expenditure should be linked with a specific activity and expected result. This approach reduces the risk of formal spending and helps compare the cost of activities with social outcomes. The fourth mechanism is financial risk mapping before the subsidy agreement is signed. It allows the organization and the funding body to identify weak liquidity, concentration of income and administrative capacity problems in advance.

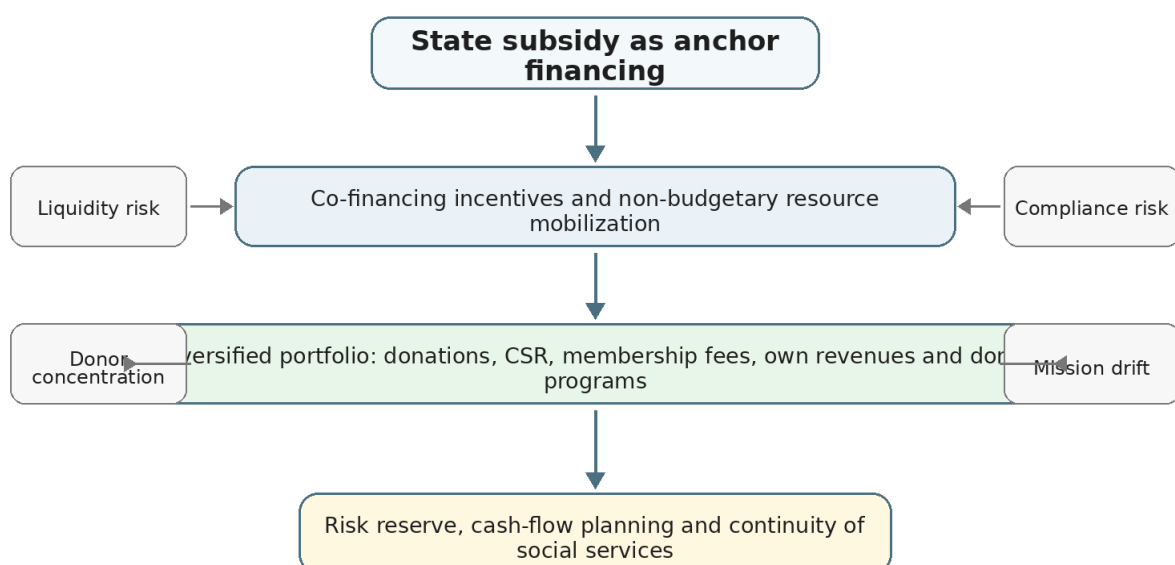


Figure-1. Diversified financial model of sustainable civil society institutions

Figure 1 presents diversification as a layered model. Legal compliance, transparency and community trust form the foundation. State support, donors and own revenues create the income portfolio, while reserve funds and long-term planning convert this portfolio into strategic sustainability.

Table-2

Financial concentration risks and mechanisms for their reduction

Risk area	Typical manifestation	Risk reduction mechanism	Indicator for assessment
Source concentration	One subsidy or donor forms the dominant part of annual income	Set recommended limits and attract additional partners	Share of the largest source in total income
Liquidity gap	Delay in transfers interrupts planned activities and wages	Use monthly cash-flow planning and operating reserve policy	Number of months covered by reserves
Restricted budget	Funds cover activities but not administrative capacity	Negotiate overhead coverage and develop own revenues	Share of unrestricted funds
Mission drift	Organization accepts resources not related to its mission	Assess each source by mission, legality and transparency	Compatibility of financing with strategy

The risks presented in Table 2 prove that diversification must be measured not only by the number of income sources, but also by their stability, flexibility and connection with the organization's mission. Quantitative indicators may include the share of the largest source, the share of unrestricted funds and reserve coverage. Qualitative indicators include reliability of contracts, transparency of conditions and compatibility with strategic goals.

In conclusion, diversification of funding sources is a necessary condition for reducing financial risks in subsidy-based financing of non-profit organizations. It strengthens autonomy, improves resilience to delays and expands public participation. State subsidies should therefore be designed not only as direct support, but also as an

instrument that motivates co-financing, reserve formation and responsible financial planning.

The following practical proposals may be advanced: subsidy applications should include a short diversification plan; operating reserve indicators should be introduced into financial reports; public support programs should encourage non-budgetary resources; and methodological assistance should be provided on budgeting, cash-flow planning and financial risk management.

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