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REFEREED PAPER

The Donor-Driven Model and Financial Sustainability: A Case Study from Palestinian Non-Government Organizations

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Abstract

This study presents factors that encourage Palestinian NGOs to embrace financial sustainability employing modern ideologies that encompass community engagement, voluntarism, collaboration, and business-like practices in order to meet societal challenges. The study explores the reliance of Palestinian NGOs on external funds (donor-driven funds) and the environment impact of their attempts at financial sustainability. Data were gathered using semi-structured interviews with 22 NGOs in the West Bank and Gaza in 2019. The data were analyzed through thematic analysis using the computer software MAXQDA. Key findings were that Palestinian NGOs need to alleviate the dependency on a donor-driven model by functioning independently from donors' agendas; and that Palestinian NGOs need to collaborate with each other to centralize their efforts and avoid fragmentation. Further, the Palestinian government needs to revisit the relevant laws to regulate the civil society sector and avoid competition between NGOs and private sector on the one hand, and NGOs and governmental institutions on the other hand.

Keywords

NGOs; Sustainability; Civil Society; Palestine; Donor-Driven; Voluntarism

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Introduction

Palestinian NGOs and other civil society organizations have played a major role in the Palestinian national movement over the last three decades (particularly following the Oslo Accord and the establishment of the Palestinian Authority (PA) in 1993), and this represents a distinctive and unique model in the Arab region. This could be explained by the uniqueness of the political, social and economic environment in Palestine. The observer can see the role of the Palestinian civil society organizations in all facets of Palestinian life. The absence of a public sector for a long time after the Israeli occupation of the West Bank and Gaza in 1967 has created heavy economic and social demands on the Palestinian government after the Oslo Accord in terms of providing public services for all citizens and creating real economic development; this situation opened the doors for an extended role for NGOs in civil society to participate in the development process and in building the institutions for the state of Palestine ([Analoui & Samour 2012](#)).

It is no secret that there is a pervasive view among policy makers and the local community in Palestine that NGOs have failed to achieve their objectives in realizing real development for people and society, and in creating sustainable model for themselves. While the international community has been supporting Palestinian NGOs for decades, the impact of their funds has been questioned by policy makers and society members ([Nakhleh 1989](#); [NGOs' Development Center 2009](#); [Atia & Herrold 2018](#)). Thus, financial sustainability is a challenge that most NGOs in Palestine must address in an evolving and fluctuating funding landscape with NGOs competing to enable effective contribution in social development and improve well-being in a politically complex and rapidly changing environment like Palestine ([Okorley & Nkrumah 2012](#)). Financial sustainability for nonprofit organizations is associated with the risk of their reliance on external funding sources and streams, their ability to prompt community engagement and voluntarism, and whether they consider formalized collaborations a way to respond to dynamic changes in the resource environment (e.g. cutbacks in the donor funds) and to decrease the competition between nonprofit organizations for funding resources ([Sontag-Padilla et al. 2012](#)).

This study mainly focuses on the association between the volatility or instability of external funding and the financial sustainability of Palestinian NGOs. This paper does not intend to shed more light on the already well-documented Palestinian civil society or the role of NGOs during the different periods of Israeli-Palestinian conflict. Instead, it will explain how the financial sustainability of Palestinian NGOs is doubtful in an evolving and unstable funding landscape and the almost complete reliance by NGOs on external funding sources and streams and it will provide strong evidence that financial sustainability is a challenge that most NGOs in Palestine must address to serve the desperate need of communities and help promote and sustain programs and services. The second section presents a brief literature review, setting out the definition of civil society and the development of the concept of sustainability in this sector. The third section provides the research methodology. The fourth section discusses the development of NGOs in the Palestinian context and how NGOs drive the development process in Palestine. The fifth section discusses how to create a sustainable NGOs sector that enables the enhancement of the role of NGOs in Palestinian society.

Literature Review

The increasing number of NGOs in many countries is a consequence of public sector failure to cope with social and economic challenges, alleviate poverty, and cope with bureaucracy and corruption ([Booth 1994](#); [Fisher 1998](#); [Nelson 1995](#); [Clarke 1998](#), [Lewis 2001](#)). NGOs are less bureaucratic than government institutions, more connected to the citizens' needs and concerns, and able to introduce new solutions for development plans and attuned with the required social changes ([Bebbington 1997](#); [Howell and Pearce 2001](#)).

In developing countries, there has been recognition in the last two decades that the liberalizations of markets have failed to respond to the social and economic development challenges. NGOs have gained new impetus in playing an increasingly significant role in development discourse and practice. Therefore, we find an increasing focus among academics and development theorists about the actual role of NGOs in the development movement in developing countries ([Korten 1990](#); [Smillie 1995](#); [Mensah et al. 2017](#)).

Historically, civil society has been one of the main sectors in Palestinian society and a key stone in the socioeconomic development process. Salem ([2012](#)) discussed the reality of Palestinian civil society during the 1990s using three main assumptions. The first assumption is that civil society did not exist before the formation of an independent Palestinian state. This argument states that Israeli occupation as well as the fragmentation of Palestinians severely hampered the creation of a strong and well-structured civil society. The second assumption states that civil society exists to play a prominent role in confronting the burdens emanating from the absence of a Palestinian state by providing health, agricultural, educational and social services alongside other partners. The main view in this approach is that NGOs in the 1980s and 1990s were not a deviation and distraction from the endeavor of Palestinian people for freedom and an independent state. The third assumption suggests that Palestinian civil society is in transition from the old domestic (Al-Ahli) society to new civil society organizations, which is consistent with the transition from occupation to an independent state. In other words, the role of civil society has changed from being under implementation to being complete in the presence of a Palestinian state.

NGOs have constituted the backbone of civil society in Palestine. They play a prominent role in the service delivery and socio-economic development process ([NGOs' Development Center 2009](#)), mainly for the more disadvantaged and marginalized segments of the population. According to the Palestinian Central Bureau of Statistics data (PCBS) that pertain to Palestinian NGOs, there were almost 3,600 NGOs in the West Bank and Gaza in 2015, which provided more than 40,000 job opportunities (around 10% of jobs in the labor market)¹. Palestinian NGOs are defined as organizations or entities that are designed on a voluntary basis outside of the market relationships and beyond the parameters of the state, family or official working times.

NGOs in Palestine may be divided into three main groups ([Abuiyada & Abdulkarim 2016](#)). The first group consists of welfare NGOs (e.g., the Community Rehabilitation Centre for Children), which are the simplest and oldest type of organizations, established at the beginning of the twentieth century. The second group is the second generation of Palestinian NGOs, dating back to the late 1970s, which consists of developmental NGOs (e.g., the Union of Health Work Committee). These NGOs arose in response to the Israeli policies of 'de-development' in the occupied Palestinian territories so as to integrate Palestinians within the Israeli economy. That is, the development of NGOs aimed to build stepping-stones for Palestinian institutions under occupation ([Roy 1995](#)). The third group consists of empowerment organizations (e.g., Women's Affairs Technical Committee), which emerged in the beginning of the 1990s in order to contribute in the foundation of Palestinian democratic government and build the Palestinian National Authority institutions after the Oslo Accord in 1993. Among the main tasks of these organizations were to ensure transparency, empower good governance and pluralism, and enhance advocacy ([Bishara 1999](#)).

Financial sustainability is a challenge that most NGOs must address ([Sontag-Padilla et al. 2012](#); [Diaz & Rees 2020](#)) as it is central to organizational function ([Bowman 2011](#)). Financial sustainability for non-profit organizations enables them to maintain the ability to be financially agile over the long-run in order to serve high-need communities that have consistent and continual demand for services while developing resilience to occasional shocks in funding resources in the short term ([Sontag-Padilla et al. 2012](#)). Thus, the capacity

1 <http://www.pecdar.ps/en/article/979/Mohammed-Shtayeh-Labor-Market-Indicators-are-very-worrying>

of NGOs to provide consistent and quality services to beneficiaries is based on their ability to achieve financial sustainability ([Nanthagopan et al. 2019](#)).

It is crucial for civil society organizations to seriously consider the financial sustainability of their funding programs and policies ([Okorley & Nkrumah 2012](#)), by focusing on their missions rather than on the tools that keep them surviving as this will enable citizens to claim their rights and draw the attention of those who hold the political and economic power ([Hayman 2016](#)). Many civil society organizations are ill-prepared in maintaining their services to vulnerable groups due to the increase in the political and economic constraints ([Hayman 2016](#)), which arise either from poor communication or from poor strategic planning ([Analoui & Samour 2012](#)).

The patronage relationship between funder and grantees was well discussed in the literature ([Walker 1983](#); [Brulle & Jenkins 2005](#); [Goss 2007](#); [Reckhow 2016](#)); this relationship occurs when ‘organizations lose their autonomy and become dependent on their funders, and increasingly implement their funders’ agendas’ ([Atia & Herrold 2018](#)). Much of this literature considers that NGOs express loyalty to the agenda of the funder in order to obtain funding ([Shatzmiller 2001](#); [Brulle & Jenkins 2005](#)).

In Palestine, the majority of NGOs are donor-driven organizations where their patronage comes mainly from foreign aid ([Atia & Herrold 2018](#)). Although, this patronage relationship makes them more professional and well regulated, yet the NGOs remain accountable to donors and hold greater affinity for their donors’ agenda than for the needs of their communities ([Atia & Herrold 2018](#)). The objectives for many of the Palestinian NGOs are externally defined through the funder, with very limited involvement of indigenous Palestinians in the definition of these objectives and allocation of funds ([Nakhleh 1989](#)), and this has created unequal relationships between donors and grant recipients and depoliticized the NGOs sector, leading to crises in their sustainability and legitimacy ([Nakhleh 1989](#); [NGOs’ Development Center 2009](#); [Atia & Herrold 2018](#)). This has reinforced the discussion in Palestinian society about the efficiency and real objectives of the NGOs programs, and has kept the financial sustainability of the Palestinian NGOs strongly associated with reduction of external funding to the Palestinian territories.

In addition, the volatility of Palestinian NGOs stems from the legal and administrative challenges which mainly result from the Israeli blockade to Gaza and the control of monetary transactions between the West Bank and Gaza as well as with other countries. The division between the West Bank and Gaza where each area is controlled by different authorities has limited the registration and funding to organizations that are affiliated with their political parties. Above all, the continuous financial crisis of the Palestinian government has limited the accessibility of NGOs to public funds because donors’ funding is not enough for these organizations to sustain functionality on their own ([Analoui & Samour 2012](#)).

After the Oslo Accord, some changes have been incorporated in the nature and distribution of international funds to Palestinian NGOs, such as, an increase in professionalization and specialization, less solidarity funding, a decrease of regional funding at the expense of foreign funding, and stricter rules for funding mechanisms ([Challand 2009](#)). However, these changes have created unfavourable side effects; they hampered the available space for NGOs to set priorities for their communities and allowed for international donors to dictate these priorities. Also, many activities of Palestinian NGOs are still devoted to relief and aid programs ([Abu Odwan 2013](#)), while failing to emphasize sustainable development concepts. Therefore, in the light of the substantial cutbacks in the donor funds associated with the large number of competing NGOs in Palestine, the main question is how does the dominance of the donor-driven funding model (adopted by the bulk of Palestinian NGOs) impact the NGOs’ financial sustainability while maintaining their community-based services and responsiveness to the Palestinian needs?

Research Methodology

In order to answer the research question on how to understand NGOs in Palestine from the perspective of sustainability, the authors employed a qualitative research method, using interviews (Saunders et al. 2017). In this study, in-depth interviews were carried out in 2019. Each interview lasted between 30 and 60 minutes. The interviews were recorded and transcribed, an important step in capturing the interview data effectively. Questions were focused on understanding and analyzing the interrelationship between the donor-driven funding model and financial sustainability for Palestinian NGOs. Although some of the interview questions may have been considered controversial according to the individual political preference of a typical Palestinian, the response rate was quite satisfactory, with twenty-two of the twenty-three targeted NGOs participating. It is important here to note that Palestine is a small society, and the researchers are known in the NGO sector.

Table 1. Interview questions and themes emerging

Question	Themes
Describe the degree of impact of NGOs on the development process in Palestine	<ul style="list-style-type: none"> • The role of NGOs in the service delivery and socio-economic development process in Palestine • The expansion of NGOs sector in Palestine in response to the increasing societal challenges
What are the main challenges that face the NGOs sector in Palestine?	<ul style="list-style-type: none"> • NGOs and political challenges in Palestine • The increasing demand for NGO's services • The conditions attached to funding • The difficulty in abandoning the donor-driven model • Fragmentation of NGO sector • NGOs and bureaucracy • NGOs and the question of efficiency and accountability
Do you think that Palestinian NGOs play a significant role in dealing with the economic and social challenges that face vulnerable groups in Palestine such as, youth, women and refugees?	<ul style="list-style-type: none"> • The ability of NGOs to respond to the increasing economic and social challenges in Palestine • The ability of NGOs to target vulnerable groups in Palestine
How do you see the future of the NGOs sector in Palestine within the dynamic changes in the political, social and economic environment in Palestine? For example, the cutting of USAID funds to the Palestinian government and NGOs by the Trump Administration.	<ul style="list-style-type: none"> • The response of NGOs in Palestine to the changes in the political environment • Political changes and the financial sustainability of NGOs in Palestine

Table 1. continued

Question	Themes
Do you think that the Palestinian NGOs should change their donor-driven business model to gain more elasticity in dealing with the increasing societal challenges and dynamic changes in the political, social and economic environment in Palestine and the world? Why?	<ul style="list-style-type: none"> • Unequal relationships between donors and grant recipients • NGOs and the question of sustainability and legitimacy
What are the alternatives for Palestinian NGOs to achieve financial sustainability and independence from local and international donors?	<ul style="list-style-type: none"> • Trade-off between the dominant donor-driven model and financial sustainability
Do you think that the Palestinian NGOs should adopt a profit-oriented model beside their present service-free social model? Why?	<ul style="list-style-type: none"> • New business model for NGOs which allows for revenue generation • The feasibility of service-free social model in the NGOs sector
Describe the relationship within NGOs and NGOs and the government? Is it based on collaboration and integration or competition and fragmentation?	<ul style="list-style-type: none"> • Fragmentation of NGOs sector • The relationship between government and NGOs in Palestine: integration or competition • Overlapping and duplication of NGOs projects and the question of sustainability

The interview transcripts were analyzed using thematic analysis (Attride-Stirling 2001). Table 1 above summarizes the questions and lists a sample of the themes that were derived. Pseudonyms were allocated to participants.

Results and Discussion

NGOs BETWEEN THE RISKS OF RELIANCE ON EXTERNAL FUNDING AND FINANCIAL SUSTAINABILITY

This section draws attention to an aspect of the data suggesting that Palestinian NGOs should rethink their objectives and programs in the context of sustainability in order to override the funding constraints and to alleviate the heavy burden of donor-driven strategies.

Nonprofit organizations in low-income communities are tasked with creating a balance between ‘(1) meeting the expectations of mainstream funders and/or governing bodies and (2) staying connected to the local community and being perceived as genuine’ (Sontag-Padilla et al. 2012). The interview data indicate that many of the NGOs in Palestine have failed to create this balance and have become vulnerable to the fluctuation and volatility of external funding. Such vulnerability has brought grave challenges to the sustainability of their schemes and projects as expressed by more than half of the interviewees in the study. For instance, Suha, an employee in an international NGOs in Gaza, stated: ‘Unfortunately, Palestinian NGOs depend totally on the donor’s funding, which creates many challenges for our ability to provide our services’; while Lara, a project coordinator in one of the international NGOs in education and social business noted: ‘Many of the NGOs do not work within the developmental objectives in Palestine, since they mainly are governed by the

donors' objectives'. Perhaps most starkly, in an interview with Salma, a director of a well-known NGO for women affairs in Gaza, she said: *'The development and growth of the NGOs were not determined based on societal needs assessment, rather based on the agenda of donors and what they think it is important for the beneficiaries.'* Suha's, Lara's, and Salma's views are recurrent across the data and are consistent with current literature that explicate the ways that the relationship between donors and grant recipients in Palestine are unequal, and that NGOs are used to dictate the agenda of the international donors in an unsustainable way ([Nakhleh 1989](#); [NGOs' Development Center, 2009](#); [Atia & Herrold 2018](#)).

Many of the NGO leaders who participated in the study (such as Sami, Zaher and Rani) think that the increasing number of NGOs after the Oslo Accord in 1993 was unreasonable and ineffective. For example, Sami expressed his resentment about the number of ineffective NGOs:

'Unfortunately, we are currently talking about 3000 ineffective institutions, no more than 500 effective institutions, the remaining are small grass root institutions... The institutions in the West Bank and Gaza, which are active, do not exceed 500-700 institutions.'

The ineffectiveness of NGOs is apparently explicit in further interviews with Zaher and Rani, who are both directors of well-known non-government research institutions. Zaher stated that: *'the development and growth of the NGOs were not determined based on societal needs assessment, but as a direct consequence of the generous funding from the international donors in the last twenty years'*, that has left adverse implications for the autonomy of Palestinian NGOs and has become, as Zaher added: *'controlled by the agenda of donors and what they think it is important for the beneficiaries'*. This view is shared by Suha, who asserted that: *'NGOs in Palestine obtain huge funds, but unfortunately, the highest share was not employed in an efficient way, which hampers a lot the social development'*.

Rani introduced two opposite observations about the reconstitution and growth of the NGO sector in Palestine in the last 20 years. In the first observation, Rani found that the growth of NGOs is important and has two main imperatives: *'First, to bridge the gap in public services in many sectors like agriculture, health and education. Second, many of the NGOs are grassroots, well connected with the local community and unbiased to any region or political group which make them preferred by the international donors to work in socio-economic development issues for vulnerability groups'*. The second observation is similar to Zaher's and Suha's views; Rani believes that: *'the massive flow of donors' fund created the reasons for the steady and unjustified growth of many of the NGOs which were established based on small projects or seed funds.'*

The discussion of financial sustainability among Palestinian NGOs is not new, but it was fueled recently after the U.S administration stopped its aid program to the Palestinians in West Bank and Gaza, including the mass fund for Palestinian NGOs². This important contextual fact was a key reference point during the interviews. Most of the stakeholders included in this study think that the NGOs in Palestine have become worried about how to preserve the continuity of their services, and showed concern for the need for a new hybrid form of organization that is able to sustain activities when external funding is withdrawn or severely curtailed, or in the case where funds are conditional. For example, Salma confirmed that:

'Palestinian NGOs follow the agenda of donors without any considerations for sustainability... We are all at high risk if we do not sustain our services and organizations, the solution is to search for new organizational structures that can create social value while generating revenues.'

Here, Salma speaks of adapting to this new and challenging funding environment. Sixteen of the twenty-two interviewees in the study stressed the need to re-think their business model in the light of the dynamic changes in the political and economic environment at the local and international levels. In this way, Salma

² <https://www.independent.co.uk/news/world/middle-east/us-palestinian-aid-cuts-israel-occupied-west-bank-gaza-usaid-a8758456.html>

and others expressed views that cohere with the broader sector, that sustainability is crucial in order to handle the reduction and removal of external funding for Palestinian NGOs, and to strengthen the role Palestinian NGOs play in positive social change to effectively face the surrounded threats and challenges ([The Coordination Council for Palestinian NGOs 2016](#)).

A further theme within the data relates to conditional funding (see [Hailey 2014](#)) and the tensions around the respective agendas of funders and fund recipients; a tension that creates a dilemma for many of the Palestinian NGOs by shaping their plans and projects, questioning their sustainability, as well as influencing their impacts on society. Suha explicates this point:

'The NGOs follow the agenda of donors without any considerations for the sustainability, therefore we find that social impact is still absent for many projects.'

Awad, a director of local NGOs in one of the refugee camps in the North West Bank, has also raised the concept of 'conditional funding' to stress the unequal relationship between donors and grant recipients:

'Conditional funding is one of the main obstacles we face in serving vulnerable groups, in many cases, donors predetermine the type of projects that should be supported...Many times they refuse to fund socially innovative ideas which might create financial sustainability for our organization and instead support projects that are not a priority for the society and vulnerable groups.'

Suha and Awad's points of view here assert that funders are invested in agendas that may not be sensitive to the local context, and therefore not suitable to addressing service sustainability and social issues. Many international donors impose conditions on how the beneficiaries dispense the funding money. Although some of these conditions are important for showing transparency and accountability ([Kilby 2006](#)) and ensure that donors' money will not be channeled to production and administration cost, yet they impede NGOs from being sustainable.

PROMOTING COMMUNITY ENGAGEMENT TO DRIVE FINANCIAL SUSTAINABILITY

It is well documented that international funding altered the philosophy of voluntarism that was predominant in most of the Palestinian NGOs for many years ([Hammami 2000](#); [The Coordination Council for Palestinian NGOs 2016](#)), orientating staff towards wage labor and, eventually, towards highly paid salaries with heavy monitoring and evaluation mechanisms. This also pushed many of the Palestinian NGOs to amend their approach into more specialization and professionalism which created unfavourable effects. It decreased the space available for NGOs to define priorities for their communities and it allowed international donors to define and change priorities ([Challand 2009](#); [Abu Odwan 2013](#)). This issue was discussed in depth by Sami who emphasizes the high costs of such an approach in the absence of voluntarism:

'The problem that we faced as NGOs is that some or all of us started out from public bases and affiliations, therefore, these institutions took on a similar nature of societal movements such as youth, women and student movements. As a result of donor pressure, it has become necessary to raise the professional level of these institutions, as it was no longer possible to get support without having the internal, administrative and financial capabilities. Therefore, pressure has been exerted towards governance and administrative and evaluation systems... most institutions have not been able to maintain a large level of youth base and to move into professional institutions.'

At times, as Sami continues his talk about the shift in the idea of development for steadfastness that predominated the business model of Palestinian NGOs over the period from the 1970s to 1993 and development for the construction of a new state, he explained:

'After Oslo and the illusion of an independent Palestinian state there was a shift in the idea of development (development for steadfastness into development for the construction of a new state), some believed that we have moved from national liberation into a stage of a new state under construction. This caused a merging between those development strategies mentioned above and many institutions started working towards [building and capacity development of farmers, teachers], and also many human rights institutions started emerging to support governance... If the NGOs cannot adapt to the reality and develop themselves in different sections, they will eventually disappear.'

Sami attributes the comparative successfulness of his and some other Palestinian NGOs to the development approach they follow (*development for steadfastness*). In his view, it is important to create a link between development work and relief work in a creative and distinct manner, as well as to the culture of voluntarism they have adopted: *'We consider ourselves a sustainable NGO as we have plenty of volunteers who help us in our core business.'* This relationship between voluntarism, steadfastness and financial sustainability was made explicitly in further interviews with Salah, the director of an NGO in one of the refugee camps in the south of West Bank, which receives volunteers from many foreign countries. He stated: *'The voluntary work is very important for the sustainability of our projects, we cannot afford big salaries and administrative cost.'* He stressed the role of student volunteers from the local universities or international volunteers in implementing entrepreneurial projects in cooperation with vulnerable groups.

Sami's and Salah's views are consistent with the current literature (see [Bray 2010](#); [Sontag-Padilla et al. 2012](#)) which demonstrates that the contribution of volunteers in less-resourced communities to maintain financial sustainability of non-profit organizations and fostering support from the community are key factors in the enhancement of community engagement. Volunteers can complement existing staff, offer expertise that non-profits may not have readily accessible, and enhance productivity and program delivery ([Sontag-Padilla et al. 2012](#)). For example, more than half of the non-profit organizations in USA in 2009 relied on volunteers in order to enhance current operations and address financial sustainability during a period of economic downturn ([Bray 2010](#)).

FINANCIAL SUSTAINABILITY IN A CHANGING AND COMPLEX ENVIRONMENT

Many of the civil society organizations are ill-prepared in sustaining their services to vulnerable groups in the increasingly challenging political and economic conditions ([Hayman 2016](#)). NGOs in Palestine are not working in a void, they are highly affected by the changing and complex environment which is also characterized by huge socioeconomic challenges and political instability ([The Coordination Council for Palestinian NGOs 2016](#)), mainly due to the continuation of Israeli occupation since 1967. These factors may not be controllable and are beyond the NGOs' control, which makes the attainment of financial sustainability a complex task. Thus, NGOs must have the wherewithal to react to these environmental stressors in order to prompt financial sustainability. Moore (2000) argues that the fit between the internal capabilities and the challenges and opportunities of the environment in which it is operating is crucial for an NGO to achieve sustainability of funding.

For example, Zaher, a senior researcher in civil society and research officer in a local Palestinian NGO, talked about the repercussions of Israeli occupation as one of the most uncontrollable factors that constrains NGOs who seek implementation of social innovation projects in the agriculture sector for vulnerability groups in the West Bank:

'We consider social innovation projects in agriculture and agribusiness as a priority in our support, it is a national issue too... There are more than 4400 handicapped people from the Israeli persecution, also thousands of families who miss their main dependents in the Israeli prisons, therefore the social innovation can increase their resilience... But, the confiscation of Palestinian agricultural land by the Israeli occupation to build settlements restricts the exploitation of this land from the Palestinian farmers or entrepreneurs for social innovation projects'

Hanadi, a social entrepreneur working in an NGO for youth entrepreneurship, explained how the occupation has led to severe fragmentation of the entrepreneurship and innovation system in Palestine:

'Occupation is the big challenge for social entrepreneurship, the movement between West Bank and Gaza is very hard due to the Israeli siege against Gaza since 2007. This makes the innovation system in Palestine even more fragmented, constrains the mobility of entrepreneurs and ideas between the two regions, and complicates the collective work and the exchange of resources, and hardens the process of innovation and startups mainly in Gaza strip.'

In the last two decades, the dynamics in the political environment in Palestine has left marked disruption in the flow of donor funds to Palestinian NGOs. For example, the winning of Hamas in 2006 election (the main party in Palestine with religious roots) has led to the drying up of international funds to both the Palestinian government and NGOs ([De Voir and Tartir 2009](#)). Salma documented her experience with the political or conditional funding:

'Some international donors stopped their fund to the NGOs in Gaza Strip for political reasons, which was also consistent with the siege imposed by Israel since 2006'.

The continuation of the Israeli occupation of the Palestinian lands in the West Bank and Gaza that began in 1967 has negatively affected the successful functioning of the institutions of a future state of Palestine ([Samara, 2000](#)) reflected in a weak regulatory environment and the continuation of work on obsolete laws and regulations. For example, there are several laws regulating the work of NGOs, some of which are old as the Jordanian Companies' Law No.12 of 1964, which is still the applicable law in the West Bank with some amendments and additions ([Paltrade 2014](#); [Abdeen 2015](#)), especially with regard to non-profit companies and the preparation of special bylaws which was enforced in 2010 ([Abdeen 2015](#)). While in the Gaza Strip two laws from the British mandate are still applicable: The Companies Law No.18 of 1929 and the Ordinary Companies' Law No.6. of 1930 ([Paltrade 2014](#)). Sami is critical of the operation of NGOs *under different legal systems*. The inadequacy of the regulatory environment in Palestine was demonstrated by 15 interviewees out of 22 (including Salma, Sami, Lara, and Sohaib). For example, Sohaib and Lara who seek to enhance financial sustainability in their institutions by prompting social innovation projects expressed their dissatisfaction about the regulatory framework in Palestine and the way it inhibited support for social innovation projects. Sohaib, who is the general director of a local NGO for sustainable development and an expert in ICT-based social innovation, stressed that:

'You cannot go and register a social innovation enterprise. Our law is not adapted to this kind of organization. For example, our organization had an opportunity to obtain \$200,000 from external donors to invest in private projects or companies, but the Palestinian laws did not allow us to invest because we are registered as non-profit organizations. Palestinian law does not allow us to generate revenue, they don't want us to invest and generate revenue. Therefore, we will lose this kind of funding' He continued *'In Palestinian law there is no difference between charitable and development organizations, all of them are under the umbrella of charities ... This highly limits the work of NGO'.*

Lara confirmed Sohaib's view:

'I don't think that the government is aware about social innovation, because there are no laws and regulations here. A government's role is important in accreditation, laws and regulation to support social innovation.'

Sami raised the multiple legal systems that dominate in Palestine, hampering the activities of NGOs in Palestine:

'We operate under the Israeli regime in Jerusalem and the Israeli military regime in Area C, in addition to Hamas control in Gaza and the Palestinian Authority in the West Bank. These four legal systems exert pressure on NGOs.'

Nonprofit organizations are experiencing increasing pressures to be more business-like and to focus on income-generating projects to prompt financial sustainability and growth (McDonald 2007). Innovation in nonprofit organizations is important as one of the best ways to face the growing environment of uncertainty and competition (Jaskyte 2004; Jaskyte & Dressler 2005; Choi 2014). Nonprofit organizations can play a prominent role in innovations addressing social issues or social innovation (Dover & Lawrence 2012). We find many NGO stakeholders across the data who are eager to promote the idea of social innovation to prompt financial sustainability; many of them (including Salma, Zaher, Lara, and Sohaib) think that the sustainability of funding is linked with the extent to which NGOs are able to differentiate their activities and to build their funding strategies on innovative projects to avoid repetition and duplication. For example, Salma calls on NGOs in Palestine to 'search for innovative and entrepreneurial ideas', she criticized the duplication of ideas and projects: 'The market is now saturated with traditional projects such as embroidery and classical handicrafts'. However, Salma again posed a question which demonstrates the hindering legal and institutional framework in Palestine, and the tension between the Palestinian NGOs and government institution: 'How can our projects generate money and achieve profit? Laws and regulations are not flexible in Palestine if we would like to start an innovative project that generate profit.'

USE PARTNERSHIPS AND COLLABORATIONS TO BUILD CAPACITY TO ACHIEVE FINANCIAL SUSTAINABILITY

Palestinian NGOs were on the top of the list of many international donors, but the situation has been drastically changed in the last few years as other countries were added to the list such as Syria, Yemen, Iraq, Libya. This has been aggravated by the intense competition between Palestinian NGOs for the shrinking donor funds, fragmentation and duplication of NGOs programs (NGOs' Development Center 2009).

In this context, Suha stressed that 'There is a destructive competition between the NGOs in Palestine'. This competition between NGOs hampers the financial sustainability of the nonprofit sector in Palestine, as Zaher stated: 'One of the main obstacles for financial sustainability of NGOs in Palestine is the fragmentation and duplication of projects... We don't want to duplicate efforts and waste money.' He suggested that: 'NGOs should undertake project mapping to avoid overlapping; not all NGOs do that, this depends on how honest they are in their development approach.'

Nonprofit organizations face financial challenges and dynamic changes in the funding climate during turbulent economic times, therefore many of these organizations have begun to consider formalized collaboration and partnerships as a strategy to respond to the changing resource environment and increased competition between nonprofit organizations for donor funds (Connolly and York 2002; Renz et al. 2010). Rose-Ackerman (1982) predicted high expenses for fundraising in a competitive market with free NGO entry. An NGO can increase its fundraising if an additional NGO enters the market and the amount of overall donations is assumed to be fixed (Aldashev and Verdier 2010). However, collaborations provide capacity building for nonprofit organizations and help them to obtain critical resources and reduce the risks

associated with financial uncertainty as well as improving their abilities to efficiently and effectively meet the needs of their communities (Sontag-Padilla et al. 2012). Most of the NGO leaders who participated in this study are convinced that the idea of collaboration and working together does enable NGOs to meet the expectations of beneficiaries because of the role this plays in their financial sustainability. For example, Sami stressed that *'an important factor that has played a significant role in our successful financial sustainability is our partnerships and integration with other stakeholders; we do not work individually, since we aim to create real partnerships between us and other institutions to integrate and join forces'*. Rita, an executive director of an NGO for women's empowerment, was quite passionate about collaboration: *'Collaboration can create a miracle, it can also create a great change'*.

However, NGOs stakeholders (such as Sami, Sohaib, and Jad) were critical of the relationship between government and NGOs by pointing out that the relationship is not based on complementarity and collaboration, but rather on changes between competition and skepticism, which negatively affects the endeavor of the financial sustainability of NGOs. For example, Sami summarized this point explicitly:

'We are facing competition between some departments of the institutions of the Palestinian Authority and civil society institutions through the transition of some ministries from being an incubator and umbrella for NGOs' activities to having a decision-making role. Some are convinced that as long as the Authority has been formed and we have ministries, there is no need for civil society institutions.'

Jad, a project director in leading an NGO for agricultural development, was dissatisfied with the government role and the weak collaboration with local NGOs in Palestine:

'The government should respect the social contract with the community and NGOs. It should introduce stimulus packages such as tax exemptions, direct subsidy, monitoring, follow-up, and partnerships.'

An NGO is financially sustainable if its core work will not collapse, even if external donor funding is withdrawn. However, most Palestinian NGOs working in a development context are donor-driven and are not meeting the needs of their beneficiaries in the long term. Therefore, a sustainable approach to funding is an important strategic objective that Palestinian NGOs need to seriously consider.

Conclusion

In the absence of public funds, weak connections and limited support between the private and government sectors and NGOs, most Palestinian NGOs find themselves completely dependent on international funding. As shown earlier in this article, because of the volatility in international funding sources due to political and economic reasons, Palestinian NGOs have encountered many challenges during the last twenty years in their pursuit of financial sustainability. This has pushed many to sharply decrease or wind up their activities in the post Oslo Accord period (1993 – present). The situation is such that political and legal notions and conditional funds, put more pressure on NGOs and civil society organizations to be more pro-active and demand oriented. This requires that these organizations work together, share resources and avoid duplication and refrain from competition. To maintain sustainability, NGOs need to revert to the voluntarism that was dominant in Palestine in the 1970s and 1980s. In addition, Palestinian NGOs might need to keep their social aims but at the same time start thinking of income-generating projects. Further progress may also rely on establishing social solidarity and working to strengthen the social bonds in the country, while at the same time achieving an economic goal of providing products and services at low prices.

A core contribution of this paper is its rich illustration of how the financial sustainability of Palestinian NGOs is doubtful in an evolving and unstable funding landscape and the almost complete reliance by NGOs on external funding sources. This study also provides strong evidence that financial sustainability is a challenge that most NGOs in Palestine must address to serve the desperate need of communities and

help promote and sustain programs and services. Palestinian NGOs need to ensure sustainability through stakeholders' involvement and focusing on their target groups in building their programs and services.

While the findings of this research are based in the current climate, further research in this endeavor could certainly unveil other key factors impacting the sustainability of Palestinian NGOs. As stated earlier in this article, Palestine is a complex and rapidly changing political context, and this is ever more the case as we move further into increased US support for Israel a likely further term of a Netanyahu administration and a Europe that is both reticent to hold Israel to account for its oppression of Palestinian civil society and also financially stretched in the midst and aftermath of the Covid-19 crisis. These are unpredictable and potentially even more challenging times in many senses, the likelihood is that many of the challenges documented here will be exacerbated and Palestinian NGOs will need greater resilience and innovation if they are to work towards a meaningful sustainability. This must be the future focus of Palestinian NGOs and academic inquiry into third sector organizations in Palestine.

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