

# Health of the New Zealand International NGO Sector post COVID-19



COVID-19 has presented a significant health and economic challenge to International Non-Government Organisations (INGOs) operating out of Aotearoa New Zealand. It has also considerably turned up the heat on many organisations and is accelerating existing issues of organisational sustainability and impact effectiveness.

This independent study looks at the health of the sector post COVID-19 and explores threats and opportunities for the future health and effectiveness of the sector.

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## Executive Summary

Never before have we experienced such a comprehensively damaging global health and economic event as that presented by COVID-19.

We've also never been as globally interconnected, making the impact of this even greater. Ironically the most effective medicine to address the health issue - countries and organisations locking down their operations - only serves to exacerbate the adverse economic impacts.

This twin health and economic event also presents significant levels of uncertainty. And there is no comparator nor previous playbook to follow. As such we are seeing wild extremes of prediction spectrums: These range from:

*"We'll be back to business as usual shortly"*

to

*"This is likely to be the most catastrophic single global event in the past century"*

We don't agree with either of those predictions. However, we also don't underestimate the significance and the seriousness of the challenge Covid-19 presents INGOs.

The impacts will be extremely challenging programmatically, operationally, and financially. And for an uncertain length of time. For many in New Zealand's INGO sector this will likely present an existential organisational sustainability challenge.

We do expect there will be casualties.

However, we all know the management maxim; never waste a good crisis. We also believe that the significance of the impact presented by COVID-19 presents a perfect opportunity to explore, to pivot, and to implement new structural, operational, and potentially more impactful models of operating.

The beauty of a blowtorch is that it can change the nature of something really quickly. However, it also demands respect as it can destroy something frighteningly quickly.

The choice for all of Aotearoa's INGOs is how will they choose to respond?

Some of the reading in this report is uncomfortable. Key insights from our work in pulling together this report have included:

- Business as usual or operations as we used to know them, have gone forever
- Organisations will need to adapt to a much more uncertain operating environment
- This will demand some real changes to ways of working
- COVID-19 has presented a blowtorch to many existing sector issues and as such what were previously changes required to be made over a 10-year period are now likely to be required over a 3 to 5 year period, if not sooner
- Looming large in these required changes are:
  - Financial strength of organisations and diversity of revenue streams

- Achieving greater localisation of activity
- Increased collaborations
- Greater focus on impact measurement and reporting

Nothing too radical or new in there. However, the now more urgent imperatives to successfully make these happen is new.

We have to flag that we were concerned about some of the perceptions and reactions we faced in some organisations. Perhaps most worryingly a level of what we believe to be delusion in that “if we just wait this out, it will all go back to normal soon”.

From a strategic perspective we noted the majority of organisations investing most of their governance and management activity in a short-term firefighting approach. While perfectly appropriate to ensure that organisations take appropriate action in the short term, we noted fewer having done significant work moving their focus to a medium and longer term strategic view. Uncertainty was given as the main reason for this. We suggest that greater uncertainty will be the new normal.

However, we remain optimistic that COVID-19 presents many positive opportunities to reshape organisations and activity in the sector. New Zealand INGOs can lead the way by tapping into some of the unique and fantastic features of our DNA to be more nimble, lighter, and more impactful.

And after all, isn't achieving the most positive impact possible what this sector should be all about?

## Methodology

In developing this paper, we have sought a wide range of views from within the sector and from external stakeholders including MFAT (Ministry of Foreign Affairs and Trade), PIANGO (Pacific Islands Association of NGOs) and ACFID (Australian Council for International Development).

Information was gathered using:

- Desk research
  - International and domestic economic insight and data
  - International and domestic health insight and data
  - International and domestic sector and media articles, reports and research
  - Analysis of INGO Annual Reports, and sector wide mapping
- Online survey of New Zealand Council for International Development (CID) membership
- One to one interviews of selected CEOs and Board Chairs and a range of wider stakeholder.

All interviews and the survey were completed on a confidential and non-attributable basis by independent consultants to encourage open and honest participation and to protect the participants.

Note: *Italicised text denotes a quote from a survey or interview participant unless otherwise stated.*

## Global Overview

The COVID-19 pandemic has created an unprecedented environment internationally. The overwhelming theme of commentary is that the health and economic impact of the pandemic will be severe. Albeit with an overlay of significant uncertainty. Further complicating the situation is the changing nature of the geopolitical landscape.

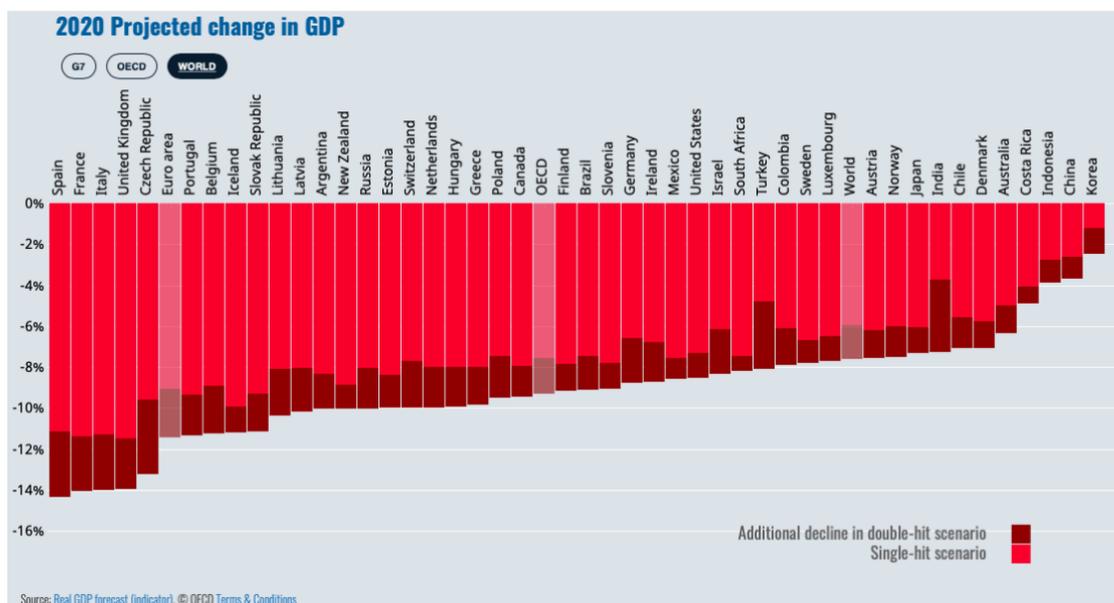
## Economic Outlook

Economic impact projections vary, however there is a consistent theme towards a significant negative effect on the global economy.

The World Bank has stated that global economic activity will shrink by 5.2% this year – the 4<sup>th</sup> worst global downturn over the last 150 years, resulting in an additional 70 million to 100 million people living in extreme poverty.

For smaller economies like the Pacific it is expected by many that the economic effect of COVID will linger longer and require more fundamental changes to how they generate revenue, with many reliant on only one or a small number of revenue sources such as tourism. The need to diversify these revenue sources, including considering other available resources such as mineral extraction, fishing rights etc will create tensions between economic and social and environmental causes.

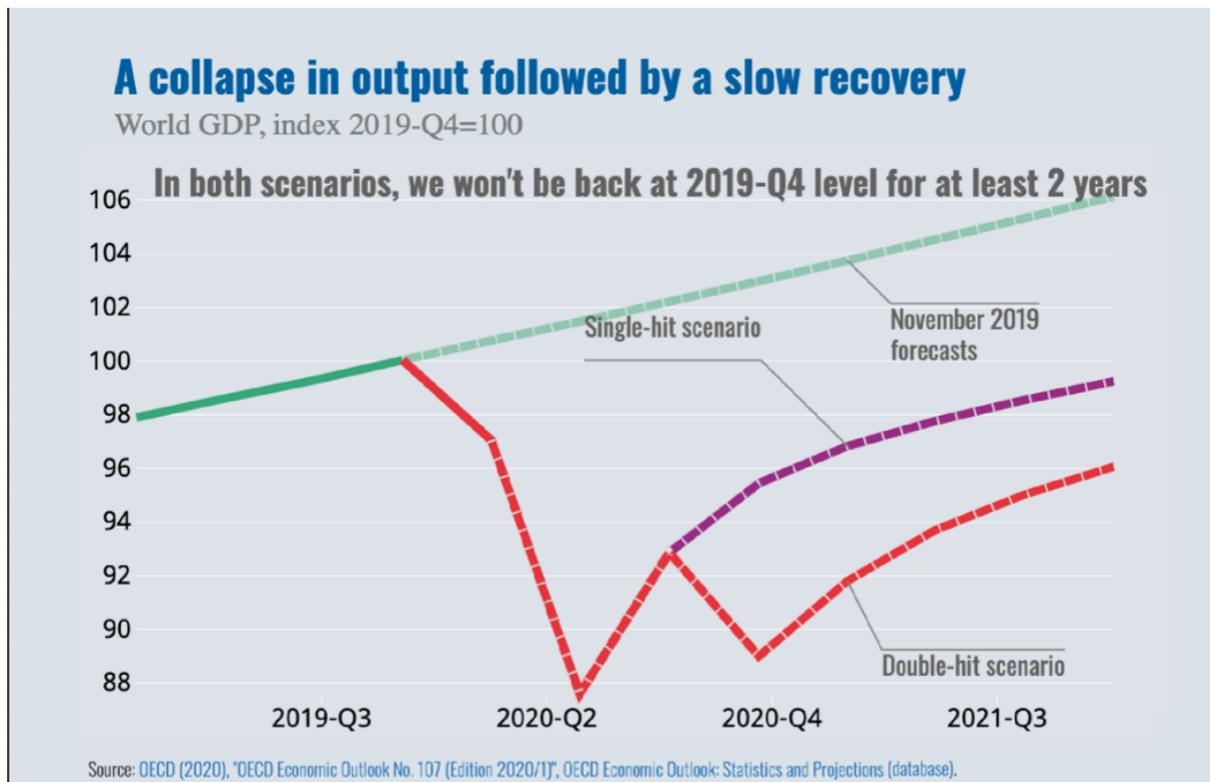
The OECD Economic Outlook<sup>1</sup> published in June 2020 presents their predictions of the economic effect of the COVID-19 pandemic on OECD members countries. The overall effect on GDP is summarised below:



<sup>1</sup> OECD (2020), *OECD Economic Outlook, Volume 2020 Issue 1: Preliminary version*, OECD Publishing, Paris, <https://doi.org/10.1787/0d1d1e2e-en>.

The final economic effect is going to depend on whether the world, or individual countries experience a single or double-hit scenario of COVID-19 outbreak.

The OECD also predict a long recovery timeframe, a view supported by many other commentators. It is not expected that the world will return to Q4 2019 GDP levels for at least 2 years.

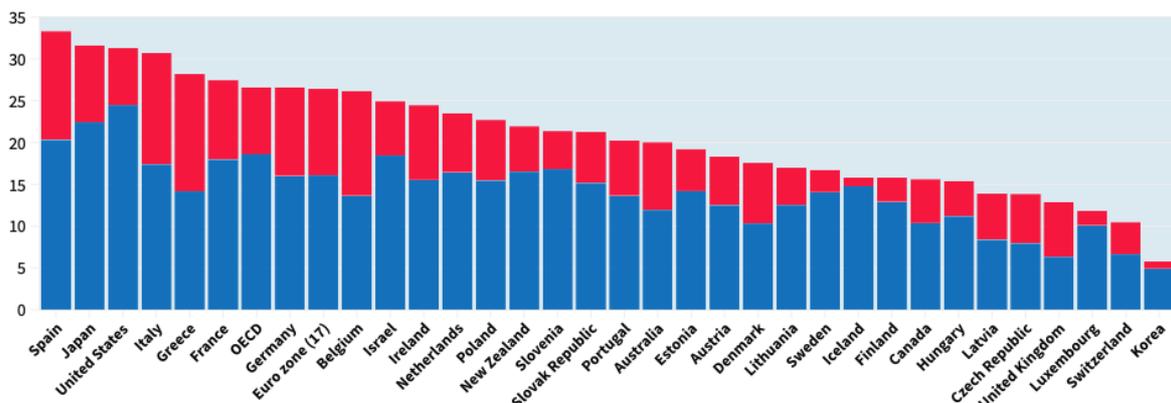


Governments will increase their borrowing to mitigate the impacts of this economic downturn and borrowing levels are expected to increase significantly.

### Public debt projections, 2019-21

Change in % points of GDP

■ Single-hit scenario ■ Additional impact from double-hit scenario



Note: EU countries use the Maastricht definition of debt. • Source: OECD (2020), "OECD Economic Outlook - All editions", OECD Economic Outlook: Statistics and Projections (database). © OECD Terms & conditions

Despite this stimulus unemployment is expected to increase in developed economies and the OECD average is projected to be 9.2% for a single hit and 10% for a double hit this year. This compares to a rate of 5.5% last year and a peak of 8% during the 2009 Global Financial Crisis.

## New Zealand Economic Outlook

Putting a local lens on the economic data the New Zealand Institute of Economic Research (NZIER) predicted the following in its March 2020 Quarterly Predictions<sup>2</sup>:

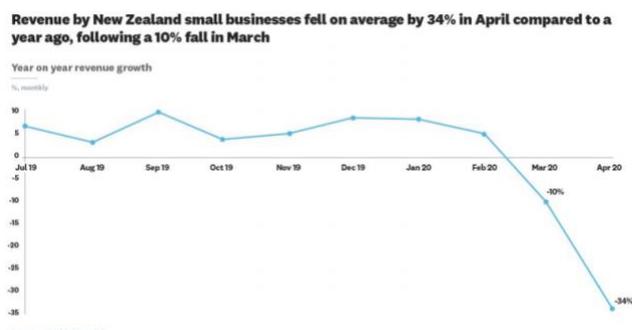
- The NZ economy may still be suffering the effects of COVID-19 as far out as 2024.
- The NZ economy will recover unevenly.
- GDP will fall from \$330 billion in the year to March 2020 to \$305 billion in 2021.
- GDP won't recover until 2023.
- Core Crown Debt to rise from 42% currently to 84% in 2024

The projections by NZIER were supported in an article<sup>3</sup> by economist Cameron Bagrie on June 22<sup>nd</sup> where he outlined that:

- The New Zealand economy had fallen further than predicted as a result of the initial lockdown.
- However, it looked better once it opened up.
- There is a strong likelihood of a double dip recession as subsidies are removed and the tourism sector is slow to recover.

The economic consultancy Infometrics has been tracking the effect of the COVID-19 economic shock on employment and has predicted that a second wave of job losses could see 80,000 more people unemployed over and above the 40,000 that lost jobs during lockdown<sup>4</sup>. This second wave of job losses would occur after the end of the wage subsidy scheme.

Accounting software provider Xero have also provided some informative analysis of the economic effect of COVID-19 on small business in New Zealand<sup>5</sup>. As can be seen in the graph to the right revenue in small business, which makes up over 95% of New Zealand businesses, fell by 34% year on year in April.



<sup>2</sup> <https://nzier.org.nz/events/quarterly-predictions/>

<sup>3</sup> <https://www.newshub.co.nz/home/money/2020/06/coronavirus-get-ready-for-a-double-dip-recession-economist-cameron-bagrie.html>

<sup>4</sup> <https://www.newshub.co.nz/home/money/2020/06/coronavirus-up-to-120-000-kiwis-predicted-to-lose-jobs-economist.html>

<sup>5</sup> <https://www.xero.com/content/dam/xero/pdf/media-release/xero-data-reveals-covid-19s-initial-impact-on-nz-small-business-sector.pdf>

This analysis by Xero also showed that jobs in small business declined 4% in March, the equivalent of 24,000 jobs.

These high-level numbers are being felt at a household level as shown in the Commission for Financial Capability's report 'Impact of COVID-19 On Financial Wellbeing'<sup>6</sup> which estimates the following:

- 13% (232,500) of households have lost more than a third of their earned income as a result of COVID-19.
- 34% (608,000) of households were experiencing financial difficulty.
- 70% of households said they had either less than one month or no savings to draw on.

Comparable surveys in the UK and Norway indicate that New Zealand households are in a noticeably poorer position than their counterparts in these countries. In the case of the UK, this is despite the significantly higher health impact of COVID-19.

<sup>6</sup> <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Research-2020%2B/COVID-19/CFFC-COVID-19-Research-Report-May-2020.pdf>

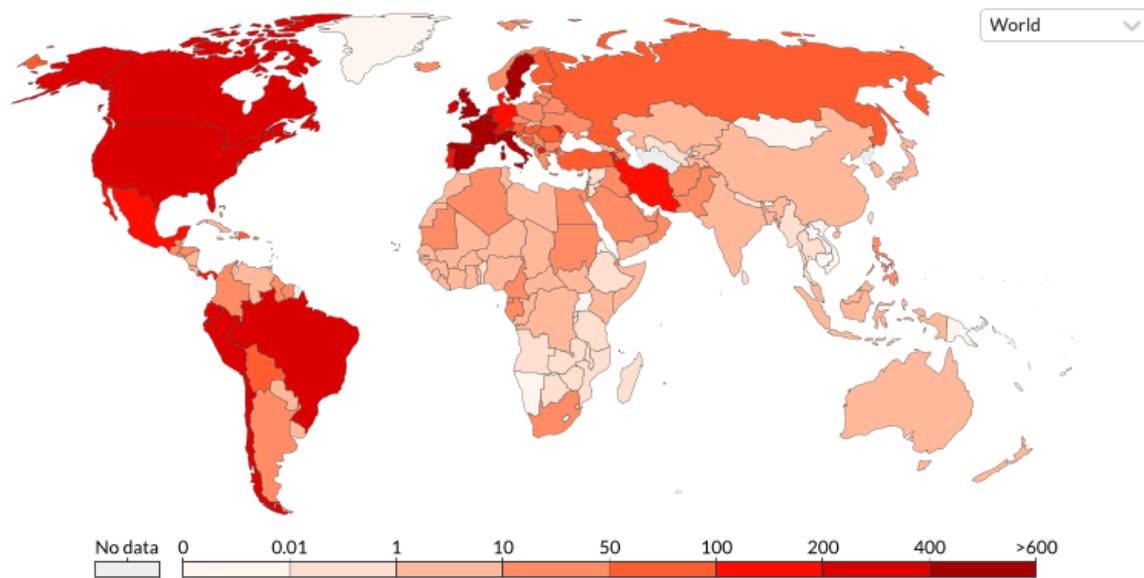
## Health Outlook

The true health impact of COVID-19 is very much still developing and for much of the world the impact is unknown as testing rates are low. The map below shows the situation as at June 21, 2020

### Total confirmed COVID-19 deaths per million people, Jun 21, 2020

Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true total number of deaths from COVID-19.

Our World  
in Data



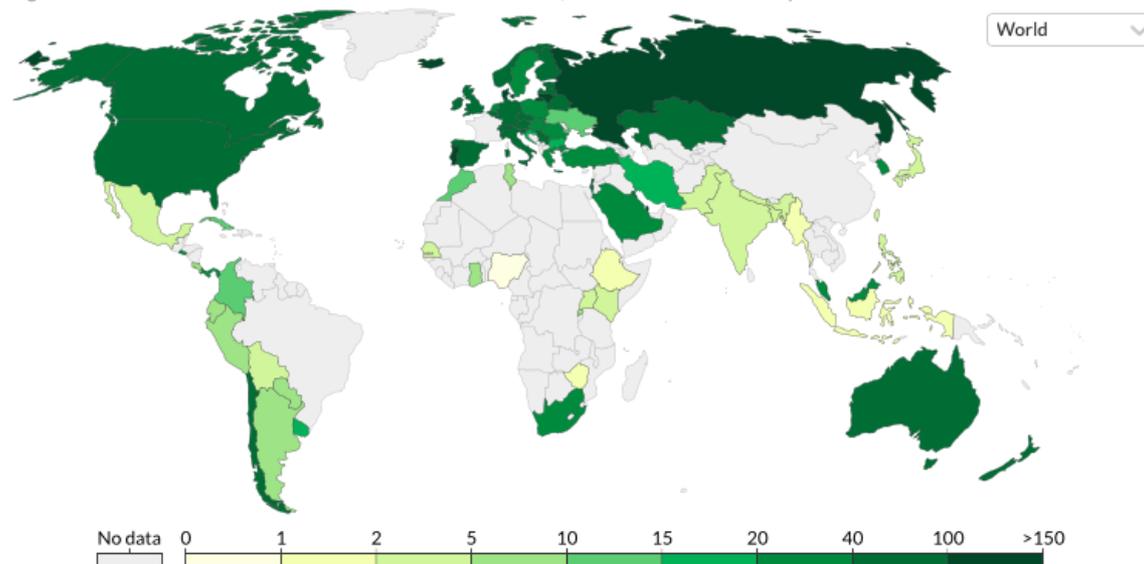
Source: European CDC – Situation Update Worldwide – Last updated 21st June, 11:30 (London time)

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### Total COVID-19 tests per 1,000 people, Jun 21, 2020

The figures shown relate to the closest date for which we have data, with a maximum of 10 days' difference.

Our World  
in Data



Source: Official sources collated by Our World in Data

Note: Comparisons of testing data across countries are affected by differences in the way the data are reported. Details can be found at our Testing Dataset page.

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Of concern is the speed at which many developing countries are seeing the numbers of cases double. Even with the very limited number of tests relative to population we are seeing much of Africa and Asia feature at the top of the scale for time to double the number of cases.



Sadly, most developing countries have under-resourced and under-developed health systems. This combined with the lack of practicality of social distancing or other lockdown measures which have been the most effective spread mitigation measures in the west points to a potentially dire health result in many developing countries.

## Geopolitical Impact

Three key factors will shape the post-COVID geopolitical landscape; how countries manage their increased debt burden, the battle between nationalism and globalism and the respective power positions of the United States and China.

As outlined earlier, to manage the economic impact of COVID-19 Governments have increased, or are planning to increase public debt levels considerably. This will affect the geopolitical landscape both in terms of how generous Governments are in maintaining foreign aid funding and in their attitude to debt relief, which will be particularly important for emerging and developing countries.

In the lead in to the COVID-19 pandemic, the world was experiencing a rise of populist, nationalist governments that rejected the predominant multilateral institution led model of the last 50 years. Behaviours that are consistent with this more nationalistic approach have been seen in the initial restrictions on exports of Personal Protective Equipment (PPE) and debates over how a vaccine would be distributed if or when one is developed. The depth of nationalistic sentiment could also affect the public support for international cooperation and overseas aid funding. In a recent article published by BOND<sup>7</sup> on a survey by the Development Engagement Lab in the UK, it showed public sentiment for global cooperation being “more important than ever” was at 70%, however support for increasing the aid budget had declined from 42% in January to 38% in April.

The increasing tensions between the USA and China have also escalated post-COVID and show no signs of easing under the current Governments of both countries. There appears to be a push by both nations to increase the influence they have in global affairs, China largely through both the Belt and Road initiative and their approach to providing PPE to COVID affected countries, and the USA through its restrictions on PPE and its treatment of multilateral institutions such as the World Health Organisation (WHO).

The effort to reduce the spread of COVID-19 has also seen countries act swiftly to close borders, including initially in the European Union which had prided itself on its open border approach. This has seen a rise in a focus on national wellbeing at the expense of others and an increased focus on domestic needs for support from philanthropic and public funders.

This increased focus on national activity has also seen countries revisiting local supply chains to enhance their resilience. This has potentially significant implications for developing countries that rely on their role in these supply chains and broader commodity trading in general.

It remains to be seen if this will result in a significant long-term adverse impact on globalisation but the flow on effects could be more than just economic. With the strength of global organisations such as the UN, the World Bank, The World Health Organisation and many others intrinsically linked to globalisation the future of these institutions and the collaborative approach they deliver is at risk.

<sup>7</sup> <https://www.bond.org.uk/news/2020/06/how-to-talk-about-covid-19-insights-from-the-british-public>

## Impact on International Non-Government-Organisations (INGOs)

While there is an increasing amount of research underway on the impact of COVID-19 on international NGO's the real effect is still being fully understood and, in many cases, is still developing.

Informative data has come from the UK and through the Development news platform Devex.

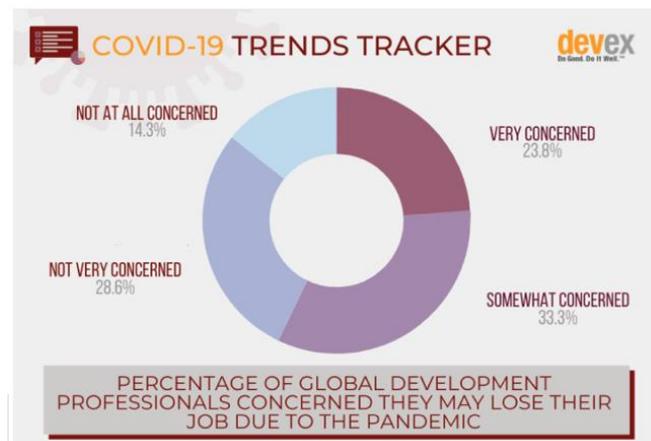
A survey published by BOND<sup>8</sup> indicated that:

- 53% of UK INGO's were cutting programmes.
- 43% of INGO's would collapse in the next six-months without Government support, up from 29% in March.
- Small and medium sized organisations (below £20million) were at most risk.
- It was expected that the ramifications on funding would be felt most in the 2021 financial year, but would last for several years.

The biggest risk factor to INGO's was identified as the approach that institutional funders would take and how they demonstrated their ongoing commitment to international development.

Devex reported in their COVID Trends Tracker<sup>9</sup> of over 500 respondents from 119 countries that:

- 55% were concerned their organisation wouldn't survive financially.
- 57% were concerned they would lose their job.
- 63% reported activities had been reduced.
- 24% reported loss of employment or income.



The impact on revenue is a consistent concern across reports and FINZ and the Fundraising Institute of Australia surveyed 472 NGOs in their 'COVID 19 Impact on Fundraising' report. This report identified that:

- New Zealand organisations were at greater risk than their Australian counterparts.
- Over 50% of all respondents believed their fundraising would be down by over 20%.
- Only 34% reported having adequate reserves.
- The majority expected the duration of the impact of COVID on finances was 2 years or more.

<sup>8</sup> <https://www.bond.org.uk/news/2020/05/programmes-at-risk-as-more-ngos-face-closure>

<sup>9</sup> <https://www.devex.com/news/exclusive-coronavirus-hits-development-pros-livelihoods-97143>

## NZ Sector Context

The experience of lockdown has seen us all living in our own little bubbles for a period of time. While this has been a unique experience for many, we are all also somewhat guilty of living in our own organisational bubbles.

As such it is important to provide some reminders of the broader sector context in which INGOs in New Zealand exist and compete for limited resources, specifically funding.

### **Size of the NZ Not-For-Profit (NFP)/Charitable sector**

The INGO sector operating out of New Zealand sits within a broader charitable and NFP sector. New Zealand currently has over 27,000 registered charities. This itself is a subset of an estimated 115,000 NFP entities. While many of these are either small or micro this still represents a comparatively significant number for a country with the small population size of New Zealand.

Sadly at an aggregate level, a plethora of small entities can also mean lesser overall impact due to duplication of administration and compliance activity, and the lack of benefits achieved from economies of scale.

The sector being made up of such a large number of separate entities also represents significant competition for all resources.

### **Size of the NZ INGO sector**

The NZ INGO sector according to a CID survey consists of approximately 50 organisations and total annual income of \$202million.

### **Financial Capacity of the NZ INGO sector**

The New Zealand Cause Report<sup>10</sup> – a 2017 JB Were publication made some salient observations on key features of INGOs in New Zealand and highlighting its vulnerability.

*The two issues which are generally present for international activities (aid) organisations are their heavy reliance on donations and bequests and their low profit margins. This is similarly true for the New Zealand groups. Philanthropy comprises a very large component - 70% of the sectors income. While this speaks to the generosity and value donors place in this important sector, it also tends to lead to low profit margins when many organisations want to highlight that every dollar donated goes to the field, rather than building any sustainable capacity for the group to reach a more balanced income mix. This understandable desire to help now, potentially hinders their ability to help in the future. This has left the sector with a very high income to assets ratio meaning a new chase for donors each year with little on-going resources to assist. ...While organisation numbers are under 80, they have almost doubled since 2010. Volunteering is strong. The Australian sector is very similar with a large reliance on*

<sup>10</sup> <https://www.jbwere.co.nz/media/41bhoesn/the-jbwere-nz-cause-report.pdf>

*philanthropy, a tight profit margin and an asset poor balance sheet. In addition, their reliance on mass market philanthropy, which has been slower than either high net worth, foundations or corporate giving, has seen pressure gradually build for the sector.*

Fast forward to 2020 and these financial capacity issues still seem to hold and if anything, have become more pronounced.

### **Relationship with Government**

In many respects the NZ INGO Sector has a unique and sometimes complex relationship with Government. INGOs deliver aid and services for Government but often in a partially funded manner. They are also unique in the fact of sometimes being funded on a matched donation basis. While this approach can be seen to ensure there is an equal commitment to a project, it also can be disastrous for programmed activity (& relationships) should the INGO's ability to raise the matched funds fail.

By its nature Government funding seeks to deliver excellent value for their taxpayer spend while also minimising any delivery risk. As such contracting and reporting to Government for funding can be complex and time and resource consuming. These are costs of receiving this type of funding and are borne by the INGOs.

Many in the sector who receive funding from a variety of different funders complain at the lack of alignment in compliance and reporting requirements. When all funders are also expecting extremely high levels of operational efficiency, the differing reporting and compliance requirements expected can present INGOs with a practical conundrum. Compliance can cost a lot.

### **Relationships with Global parents and partners**

A global parent or partner generally provides great resources. Some New Zealand INGOs are lucky enough to receive advantageously disproportionate levels of support. However, all is not well with the international INGO model. This has been clear for some time pre-COVID and now COVID is acting and likely to continue to act as a blowtorch on those challenges.

The following is an excerpt from *The Existential Funding Challenge for Northern INGOs* by Barney Tallack in May 2020:

*We need northern INGOs to be financially sustainable, rather than disappear. Pre-COVID trends were already increasing the risk of some collapsing over the next 5 - 10 years. That timeframe and horizon has now shrunk radically, and we will see some NGOs disappear much sooner than that.*

*The bricks and mortar retailers and restaurant chains that had failing business models before COVID were the first to go bankrupt, a second wave will occur later. But those that use this moment to transform stand some chance of survival. Pre-existing challenges means that many INGOs are very much in the same boat. There have been announcements in May by members of INGO families who are having to*

*rapidly shrink because pre-existing challenges have been compounded by COVID (e.g. Oxfam Australia). Some national NGOs are already discussing mergers behind the scenes.*

*Some potential areas for strategic decisions by Boards and Leadership teams are outlined at the end of this paper. These include addressing focus, purposefully scaling down, investment, mergers, relevance, niche etc.*

*Ultimately it is about the strategic vision for where your INGO / NGO needs to head between now and 2030 rather than where it will otherwise be forced. There are several future paths for INGOs – three possible paths are to transform, die well or die badly. The first two are potential ways to achieve the mission, needless to say the latter is not.*

*Strategic responses to the declining income across the sector were already necessary before COVID. Now those strategic decisions need to be made in a shorter timeframe to ensure that the shared vision, values and roles of northern INGOs are harnessed to achieve the social justice mission.*

The immediate impact of COVID-19 has also been significant on a few of the large global brands with significant redundancies being announced in the UK and closer to home in Australia.

The impact of this on New Zealand is likely to be mixed. Some examples of New Zealand operations of large global brands have a great reputation as demonstrating the great New Zealand number 8 wire approach to innovation and a practical *just get in and do it* attitude. We are also so small on the world scale that many have also been able to occasionally adopt a “seek forgiveness rather than ask permission” approach to trialling innovations and/or not always totally following the global mandate.

## Survey and Interview Outcomes

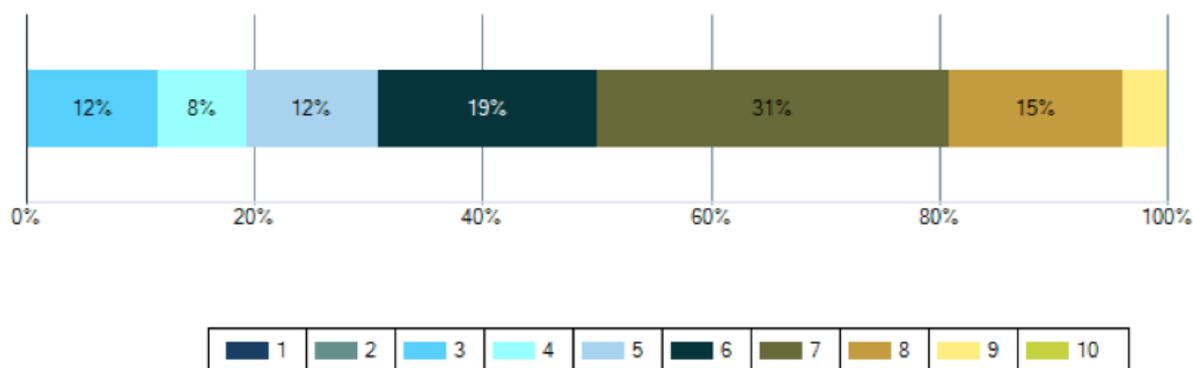
New Zealand INGO's were surveyed over a two-week period, with 26 (more than half CID membership) taking up the opportunity to respond.

Of these 9 were also engaged via detailed interviews with the CEO and Board Chair(s).

The survey and interviews focused on the experience of these INGO's during the recent initial stages of the COVID-19 pandemic (between March and July). All activity was undertaken during a period where the health impact was under control in New Zealand and developing in many of the programme countries and the economic impacts were a topic of much debate and supposition as to the potential medium to long-term effects.

### Challenges

The respondents to the survey largely believed that COVID-19 presented a very real threat to their organisations with 46% of respondents rating the threat at 7 out of 10 or higher. Only just under a third rated the threat as 5 out of 10 or lower.



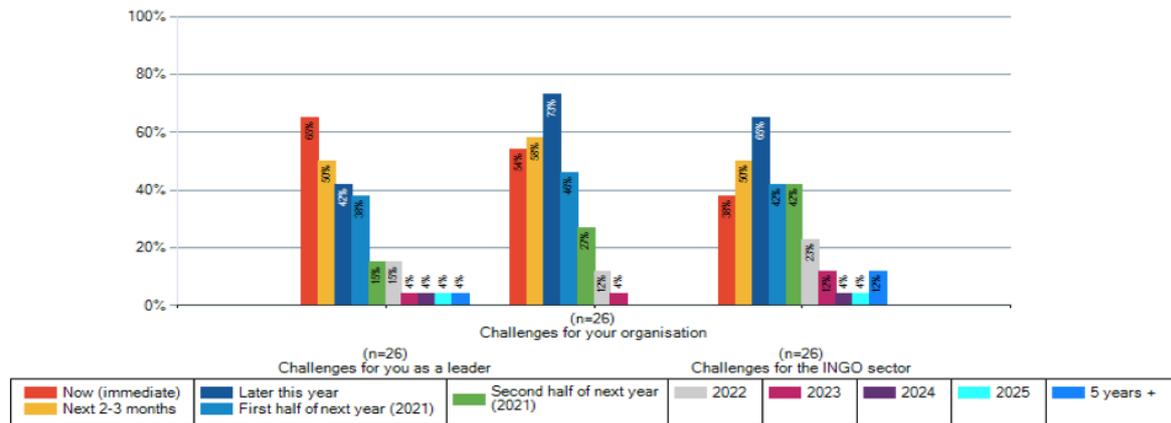
In terms of how this threat was being realised the primary challenge being faced by leaders was in the area of staff management and wellbeing during the immediate stages of the COVID-19 response. This also included the need for clear leadership for staff in challenging times. There was a strong sense that the leaders who responded felt a burden of care to their staff.

For organisations and the sector two predominant challenges were reported, funding and programme continuity. In many of the responses in this area concerns were raised at the sustainability of the traditional operating model under the increased pressures the post-COVID environment presented.

Many respondents felt that the COVID-19 crisis had not necessarily created new challenges but had had the effect of concentrating and speeding up challenges that were facing their organisations and the sector before the pandemic. There was a common theme that COVID-19 was acting as a blowtorch to increase the intensity of these challenges and the need for a quicker response. One respondent described the sector as "lurching from year to year

hoping next will be better". COVID-19 was seen as a disruptor that would need more than a continuation of this activity.

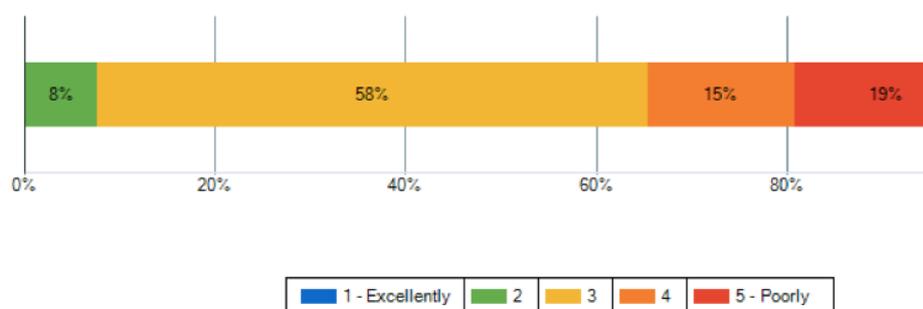
Predominantly the pressures around funding and programme continuity were expected to peak later this year and remain as moderate threats through 2021. However, given the experience of the 2008 Global Financial Crisis, where similar but smaller economic effects occurred, and the effect this had on funding for development over the next decade the short timeframe of anticipated effect and the speed of recovery may be ambitious.



Of particular concern for many respondents was being able to generate match-funding for the MFAT grants they had received. This concern was both immediate and systemic, with real concerns not only about the ability to fundraise the amounts required in the post-COVID environment but in general.

In comparison to other non-profits or charities half of respondents were concerned that the INGO sector would fare worse with both the public and government. The thinking that charity began at home and stayed at home was seen as a very real threat as the economic situation in New Zealand deteriorates.

A mismatch was evident between the expectations on organisational recovery compared to sector recovery. 92% of respondents claimed the sector was not well placed to respond but rated their organisation as being well positioned.



Similarly, the time to recover was longer for the sector than the organisation. This difference in how respondents viewed their organisation and sector suggests that either

there is little faith in the ability of other organisations or a lack of brutal honesty about the reality facing organisations.

Organisational strength was relatively strong across the sector with governance, staff and culture considered very good or better for most respondents. Areas of greatest risk were in the financial strength, management structure, systems and processes and international affiliations or partnerships.

### Mitigation Activity

Organisations were delivering mixed responses to mitigate the identified risks. These responses varied from waiting to see how the current uncertainty developed to implementing significant organisational reviews and changes.

Managing finances was the most active area, with a real focus in many respondents in attempting to identify new fundraising opportunities and on cost reduction. A number of organisations indicated that they had either cut staff or were planning to if the financial impact of the pandemic worsened.

Fundraising efforts were primarily in the digital area with more effort being put into moving traditional fundraising initiatives online.

For those organisations who indicated that they were facing significant threat from the impact of COVID-19 there was increased activity emerging to review their organisational design and strategy. This activity was expected to deliver fundamental changes in how the organisations operated and financed their work.

Whilst the need for increased collaboration, innovation and change in operating models was identified by many respondents these were not areas that featured strongly in either the current or planned mitigation activities for the majority of respondents.

### Barriers to Effective Response

With a desire for increased collaboration, innovation and change in operating models there was a sense of frustration expressed by some respondents that achieving this was difficult. For others the more immediate changes were also proving frustrating.

Behind these frustrations were some common issues that included:

- Lack of internal capacity in either human resource availability or capability.
- Lack of required skills to deliver – “No one knows how to do it”.
- A shortage of funding in general, but especially for any change initiatives.
- Internal reluctance and entrenched views of either staff or boards, or both, to change how the organisation worked.
- A high level of risk averseness to try new initiatives, especially at a time of increased pressure. This was also expressed as a fear of failure.

- Uncertainty in the approach that funders would take, this was particularly evident with MFAT funding.
- An unwillingness between organisations to collaborate to reduce costs, increase capacity or improve impact.
  - Reluctance to learn from the private sector
  - NFP sector thinks it is unique
  - Many people have only ever been in this sector
  - Sense of entitlement justified by doing good and lack of commercial rigour
  - Prevalent perception that all business is bad i.e. the enemy rather than another possible leg to the stool.

## Impact of Barriers

Among a core of the respondents was a strong sentiment that this was a time that the sector had to grasp and use to drive reinvention. The impetus for change was described as one of relevance, that if the sector didn't "adapt and change within five years we may not exist". Another said "the biggest barrier is complacency and the desire to go back to how it was".

The issues of relevance were highlighted in the following comments:

- *"The fundamentals of the sector are what they were 10 - 20 years ago".*
- *"The position of NGOs as a result of COVID-19 needs to be re-examined and not taken for granted. If the social narrative of the role of NGO's is not well articulated then scaling up will be difficult. Social contracts and social licenses will be important with the wave of changing political landscapes."*
- *"They can't take it for granted that they have a right to exist."*
- *"This is not an opportunity for change - it is essential."*

When asked what they would change if they could, respondents offered a range of answers but the most prevalent related to addressing these issues and included the need for increased collaboration, new models of working and a shift towards a focus on impact.

This last point uncovered frustrations at both the focus on the micro detail in projects by organisations and, particularly funders (with MFAT being specifically mentioned by several) and also the practice of placing brand ahead of mission or impact when making decisions on potential collaborations with other INGO's or local organisations. The issue of increased demand for real localisation, where local organisations led the design and implementation of projects they identified as being what was needed, was seen as a major factor in the future of development work and this was not being progressed by a focus on organisational needs or branding. It was felt that there was a distinct role for MFAT in being part of the solution to these issues and working with the sector to better define the role of INGO's in localised development and to change to a higher-level impact focus.

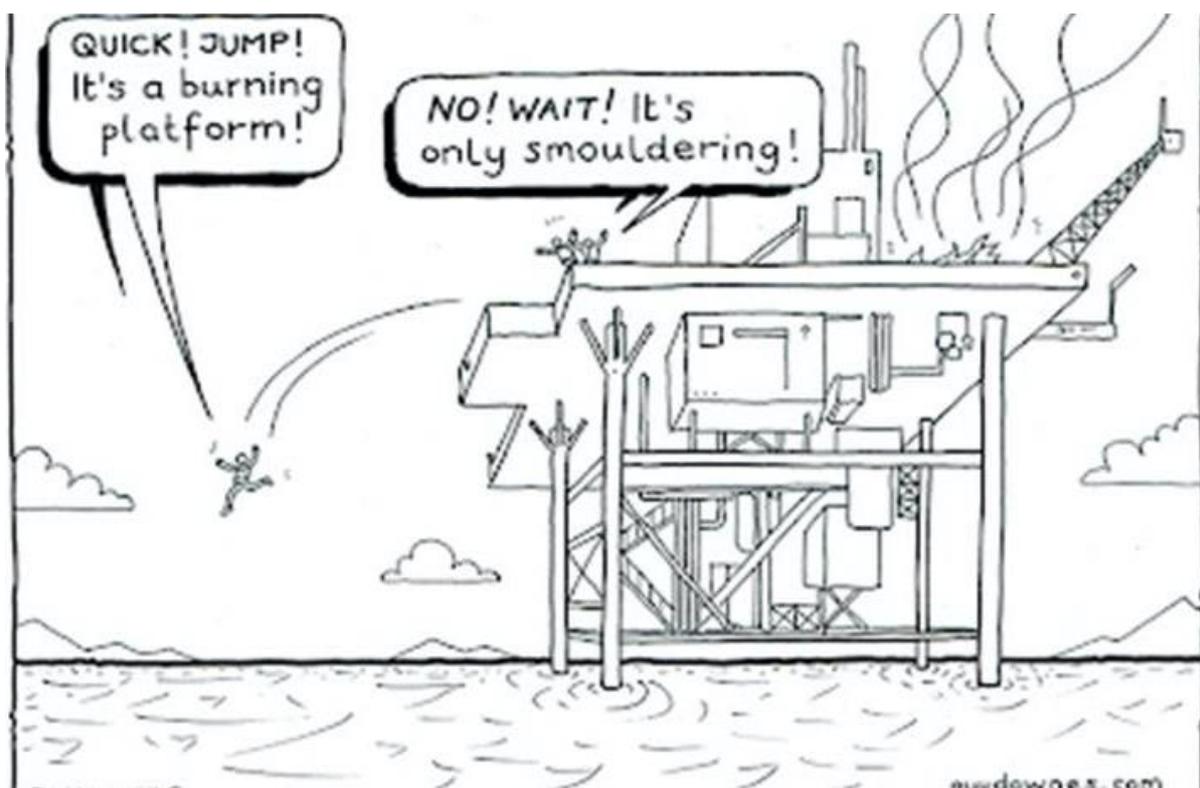
The other area that the barriers were hindering was the approach to, and delivery of innovation. Given how many of the issues that were identified were considered to have existed pre-COVID it was disappointing to see how little traction existed in developing truly

innovative solutions to these challenges. There was a sense of frustration among some respondents to this, but also a sizeable core that were looking to make small changes to existing activities that were demonstrating declining effectiveness.

For those respondents who felt a sense of frustration at the lack of innovation there was sharp critique of the sector as a whole and of MFAT as a major funder and stakeholder. This critique centred around the complacency the sector demonstrated, the deeply entrenched views on how things 'should' be done, and a lack of support for the increased risk that true innovation requires.

In collating the responses to the survey and interviews it has become clear that there is a growing recognition that the solid platform the sector has delivered from over the past 50 years is now a burning platform and that real change is needed. The COVID-19 crisis has given increased oxygen to the fire and it is up to the sector and its stakeholders to recognise this and respond accordingly.

But a concern remains as to whether the sector can embrace change or whether it is too complacent?



*“There is a stasis in the sector (& in our organisation). It’s like we are static and unable to get unstuck. We’re continually peddling a bit harder just to stand still. Not able to break through. Covid has been useful as forces some change. Gives the imperative and balls to take action. But is the change going far enough? Our sector is slow. Not as regularly or brutally accountable as the business sector is. There is also the disconnect between funder, agency, and beneficiary. This complex relationship results in a lack of true accountability and creating the most impact.”*

## Opportunities

The good news is that there are many.

The accompanying reality though is that they mostly require embracing change. And change is usually, at least initially, hard and uncomfortable. Human nature is that we are wired to resist change. Sometimes this plays out at an unconscious or subconscious level. We explore this more under our observations on barriers and recommendations below.

The other fact about opportunities is that they cover a very wide range from minor iterative improvement to a fundamental step change. Some changes just increase busy-ness, others change the world.

One of our interviewees summed up a significant number of opportunities in the following somewhat scathing and blunt appraisal of the INGO sector as a whole:

*There is really muddled thinking in the sector. It is also secure and complacent about risk. It needs to:*

- 1. Get its focus back to the beneficiary*
- 2. Remember your organisation's key focus*
- 3. Trim all superfluous stuff*
- 4. More donor accountability*
- 5. More and better impact assurance*

Our view is that the above list is an excellent action guide for a healthier future (for any type of organisation actually!) In essence it describes an organisation that is clear on why it exists, focuses on it rigorously, measures effectiveness, and communicates well.

The following are key opportunities we see creating the most impact:

### Clearly define the value proposition of organisations and the sector

INGO's should be able to clearly demonstrate the added value their engagement adds. Too often this is difficult for stakeholders to see and, in the most extreme instances, New Zealand based INGO's are seen as little more than a conduit for money to local partners or country offices.

Leveraging the opportunities below, and drawing on the experience of operating in the restricted COVID-19 environment provides an opportunity to realign organisations and the sector behind an operating model where the value add is clear to all stakeholders and the focus of efforts is on how this value is used to maximise impact.

In defining the real value add an organisation can provide it may be necessary to question the way things are done now and look at whether they are delivering the impact they should or if new ways of doing things are required. As one respondent said:

*We couldn't keep the status quo, we have had to adapt. The sky hasn't fallen, in fact we have realised better ways of operating.*

Establishing clearly demonstrable value will require a willingness to look at increased collaboration, a focus on mission ahead of brand and, potentially a willingness to look at how rationalisation might reduce overheads and increase impact.

### Leverage our uniqueness

As a nation we are blessed with many unique and noble attributes as Kiwis. We are practical. We are small. We are nimble. We are innovative because we have had to be. Number 8 wire thinking, and DIY is in our national DNA. (Albeit we have to ensure that we don't apply an approach that is at the "She'll be right" rather than the professional end of the spectrum).

Others will always have more money than us so we shouldn't try and compete with that. However, our greatest value as organisations is applying what we are expert and unique at.

### Leverage our location

We are a multi-cultural country with a lot of Pacific heritage. The Pacific is in our backyard. We are also appreciated as honest brokers and often seek to provide a hand up and not a handout (because we can't usually sustainably afford the latter!).

We appreciate the significant moral and ethical dilemma. Choosing where one provides aid is a little like being asked to choose your favourite child. However in a post COVID-19 world where travel may be much more restricted for the foreseeable future this may be a difficult but sensible choice to apply more resources in our own backyard where we are best placed to provide impactful assistance.

Keying into other issues unique to our location like climate change, and social justice from a New Zealand lens may also be a way to engage new funding supporters. While acknowledging all the considerable challenges we still have as a nation, we also have much to be proud of. As regards climate change and social justice, we can be a role model. How well are we leveraging this in our INGO operations?

### Leverage others

*If you want to go fast, go alone. If you want to go far, go together – African proverb.*

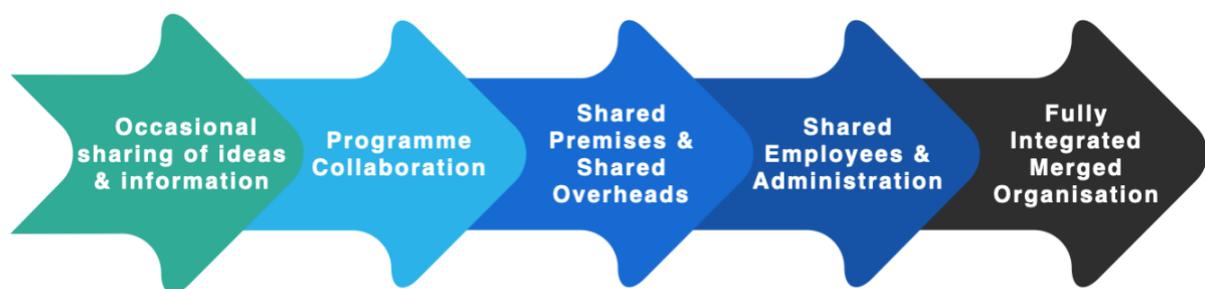
Collaborations and mergers are possibly one of the most talked about but least done issues in the INGO sector. We explore the reasons why they don't happen in the Barriers section.

However, we firmly believe that this represents a significant opportunity to deliver more effective impact. We also fully appreciate that these are not easy.

We wish to highlight that the collaboration discussion doesn't always lead to mergers which some people fear. However, that is one extreme end of the spectrum and requires parking egos and self-interest firmly at the door of any discussions. Interestingly in our experience, collaborations if brave enough often overcome many of the perceived fears and can then assist moving to ultimate mergers, or some form of combined more efficient better resourced entity structure.

Often where we do see green shoots of collaboration sadly many examples are fairly low level, and often just involve some basic cost savings. This can be a very valid operational tactic e.g. sharing premises to save overhead costs. However, we would suggest that to achieve much more exponential benefit from collaborations one needs to go deeper and be more bravely radical and strategic.

A useful way to think of collaborations is to think of a continuum from the simple to the fully integrated. Often organisations move along the continuum as the confidence and comfort with the collaborating partners grow.



Linking back to leveraging uniqueness, Aotearoa is unique in that we are a country of only five million. As such our economy has many attributes of a village. And one of the great advantages of a village is that there aren't the deep silos. You can chat to the Prime Minister at the airport. You can sit next to a Government Minister, or an influential business leader on a plane. While trying to understand our positive impact is perhaps more natural for the charity/NFP sector, we also have a Government concerned with taking a more holistic wellbeing view towards budget policy setting, and a corporate sector increasingly aware of their broader impacts and social licence to operate. This presents a unique opportunity for more cross sector collaborations from New Zealand However, first we have to get over ourselves and also learn to walk in the shoes of others to understand their perspectives.

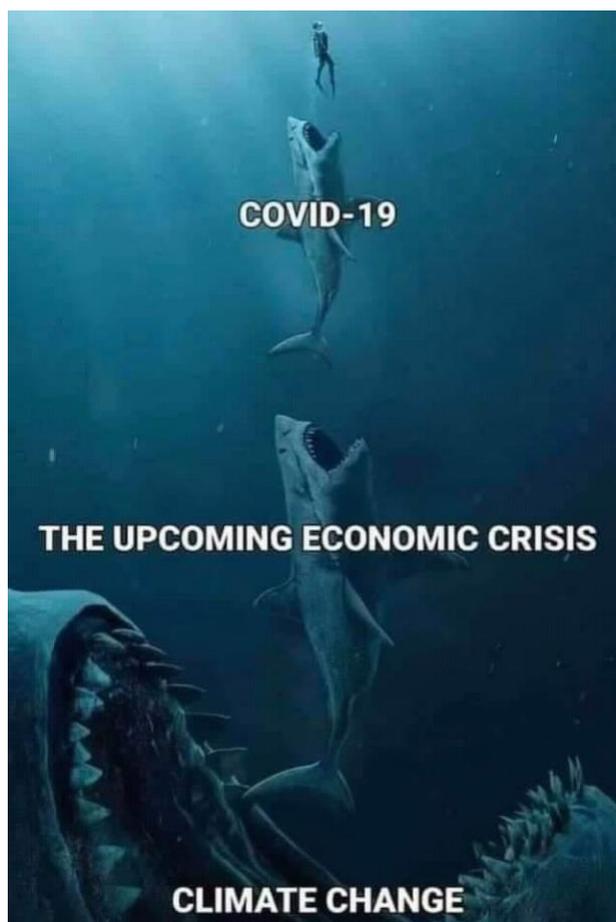
In addition to looking at the unique abilities New Zealand INGO's can offer there is also a significant opportunity to increase the role of local partners and resource's in programme countries. The restrictions on travel have provided an enforced reliance on local resource to manage projects through the challenging times and there are numerous reports of this being very successful. We have also learned to use technology to a much greater effect, increasing the ability to work from New Zealand to support and empower these local resources. With this becoming the current 'business as usual' model the move towards increased localisation can be advanced.

## Keeping Perspective

The COVID-19 crisis, with its significant health and economic effects, will see the focus of Governments and communities move to address the immediate challenges before them. While the importance of meeting these immediate issues cannot be denied, there is also a need to ensure that the long-term macro issues, particularly climate change, that have a global impact are not forgotten in this process.

Issues such as climate change should not be considered as separate from the social and economic impacts of COVID-19. For example, developing new, sustainable revenue generating activities can play an important role in job creation.

We see an important role for INGO's in maintaining a focus and pressure for action in these areas. If long-term development objectives are to be achieved the focus needs to remain on the issues that will dominate the future. Sometimes they won't be as immediately confronting and urgent as something like a pandemic, yet that doesn't diminish their longer-term impact. The following perspective on the scale of issues is food for thought:



## Barriers

### Ourselves

Without question, the number one barrier to effective change is ourselves. We are defined but also limited by our skills and past experiences, our habits, our comfort zones, and our mindsets.

With the exceptions of teenagers with underdeveloped prefrontal cortex's, and a few rare exceptions, humans are wired to seek comfort and safety. This has kept our species alive. However, it also makes change harder.

In addition, living in a safe first world country like Aotearoa New Zealand with first world standards of ease and comfort can also significantly decrease the imperative for change.



We have talked already of the concept of a burning platform. In our experience the platform needs to be burning much hotter in the NFP/Charity world than it does in the business world before change action is taken.

Linked to this is the very uncomfortable observation (and one that we expect will make us unpopular with many) that there seems to be a greater sense of entitlement in the wider charity/NFP sector.

This entitlement or 'right' to exist represents a strong practical barrier to change as it is so deeply linked to an individual's personal motivations. Our assessment is that this entitlement perception stems primarily from two issues:

1. *"I am doing good by working in the sector"* – which flows on to a personal rationalisation that my/our work deserves to be supported.
2. A lack of business brutality – Sometimes business is easier than the NFP/charitable world. The primary success measure is more binary; have we made money or not? This leads to more binary decision making on starting, and stopping, activities. The other key difference in the business world is the value exchange nature of transactions and the direct relationship between the two parties. If the customer is not getting good value, they will vote by withholding money. This usually

immediately impacts the transaction and sends a clear message to the provider, usually resulting in modifying behaviour. In contrast, the NFP/charitable sector is usually characterised by a tripartite relationship where the beneficiary is not paying for the service and disconnected from the donor. Accordingly, there is often a value exchange communication disconnect which arguably results in slower change.

*There's a sense of entitlement justified by doing good and complete lack of commercial rigour*

## Our focus

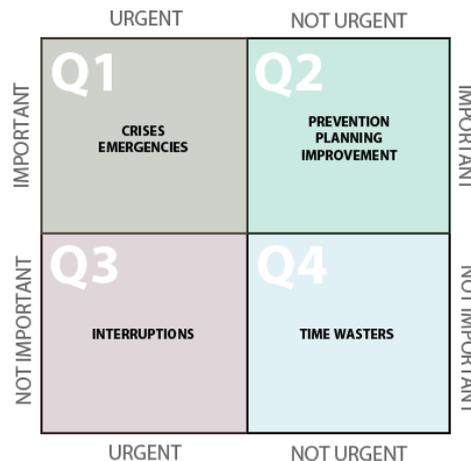
Focusing on the wrong things is possibly the greatest barrier to effective impact. In our view impact, and the effectiveness and efficiency of this, should be the primary focus for any INGO. Yet most are regularly seduced away from this focus and kept busy by a range of other often more mundane matters.

We are all really busy trying to make the machine go faster and more efficiently, when often we should be asking is the machine actually producing the best result? Or is it even the right machine?

When faced with a financial threat most organisations immediately look at what costs can be cut. This is logical and sensible (even advisable). However, we are yet to see an organisation that has cost cut their way to greatness. Eventually cost cutting will result in a point of diminishing returns where the resources are so restricted that effectiveness of the organisation is restricted.

We are not in any way suggesting that a critical look at cost effectiveness is not a sensible idea, especially when presented with a crisis. However, we suggest it should be secondary in importance to ensuring the bigger picture strategy questions remain appropriately addressed and are clear for all.

In this regard we are reminded of the classic time management quadrant (see below) where the quadrant of most power for any organisation is always Q2 the important but not urgent quadrant. It is the planning and focus and improvement space. If enough focus is applied to that area, then less time will generally be spent in Q1 dealing with crises and emergencies. In this context;



The final word on the barrier of focus is left to the following quote from one of our interviewees:

*This sector has drowned me more than others I've work in – I've never experienced so much admin detail. Gets in the way of delivering more.*

### Our ambition

Are we thinking big enough? Are we brave enough?

While we are never short of desire in the INGO sector, our observation is that our comfort levels, our history of iterative change, and our resource constrained thinking can hold us back.

*I'm not sure how many NGOs recognise that complacency is a real risk for them?*

We are also aware that many boards feel a heavy burden of stewardship responsibility for the previous donations that have resulted in their organisation having reserves. This presents a difficult question however we believe it is a question that must be asked in terms of how can those reserves be used for the greatest positive impact? The alternative is often their use to prop up a slow but steadily declining organisation in terms of its impact and sustainability.

### Brand & Legacy

The names, history, and kaupapa of our organisations are powerful assets. Especially as regards attraction and retention of key stakeholders and supporters. However, many organisations whether consciously or subconsciously exhibit behaviours of prioritising brand over mission, i.e. the actual purpose of the organisation.

*Most boards prioritise organisation over the mission. They confuse means with ends.*

We also note that one of the biggest barriers to effective collaboration, of which organisational merger would be at the extreme end of that particular spectrum, is

organisational ego and brand. The following 3 quotes from interviewees provide context to this:

*“We’d like to see more synergies in the sector.”*

*“There is a lack of broad collaboration thinking in the sector. That which does occur is at a very minor level.”*

*“We need to get over ourselves and our brands, and genuinely see ourselves as a broker between desire and the beneficiary.”*

### Donor promise

Related to brand is donor promise and how this can be a barrier to change.

*Many large INGOs are limited by their promises on how they raise money. This ties them to how they have to deliver. Means change is much harder to effect than for a small nimble INGO.*

To play devil’s advocate though; isn’t the donor promise really just about effective communication of need and solution delivery? If that is the case, then great communication should be the key to overcoming this barrier.

### Fear of failure

Also related to the concepts of brand and legacy and donor promise, many boards are often also constrained by fear of failure. A healthy concern is healthy for appropriate risk mitigation.

However too often we see this fear play out as paralysing some boards.

*We’ll change to a more risk adverse approach especially when it comes to exploring revenue generation. There’s an overlay of fear regarding economic uncertainty therefore we’ll be keeping a tight reign.*

### No playbook for change

We are not sure if this is a barrier or just a reality? However, the lack of a proven model of what to change to and how to achieve it successfully and without undue risk has been mentioned to us as an issue.

Our observation is that no worthwhile endeavours are without risk and real change and innovation by definition don’t have a playbook.

### Cost

Change costs money. Even cutting costs can often cost more in the short term.

Sometimes investing in positive change is a big call. But it may well be justified as better than a slow decline to irrelevancy and/or demise.

### Reluctance to learn from other sectors

As consultants and individuals that wear hats across all three sectors we are often struck by how commonly the NFP/charitable sector thinks it is unique. We agree that there are definitely factors that are unique. However, all too often the sector could benefit from a dose of looking and learning from others.

Tied to this we observe that many working in the sector have only ever been in this sector. Diversity of views commonly brings better results.

We also observe a prevalent perception that all business is bad. And we are certainly not the cheerleaders of business ourselves as we see some pretty concerning behaviours by many corporates. However, if all is labelled as bad then INGOs may be missing out by seeing business as the enemy rather than another possible leg to the stool

## Recommendations

Clear and intentional action is needed if the sector is to maintain relevance and sustainability in a changed and constantly changing operating environment. Hope is not, and cannot be a strategy.

Our recommendations focus on three underpinning concepts that will shape the future environment:

1. Ongoing uncertainty – the increasingly uncertain environment that organisations are working in will be the new normal. Change will be faster and adapting to this will be crucial.
2. Value – as with any service provider it will be increasingly expected that INGO's will be able to articulate and demonstrate the unique value they bring to any project for both the funder and the community it is implemented in.
3. Impact – rather than focusing on budgets and fixed plans, the projects and organisations of the future will need to be able to validate and communicate the impact they are having in the communities they are working in.

Organisations will need to act to shape their **culture** and **operating model** for this new environment.

*The winners of the future will be those organisations who while nimble, have a laser-like focus on their unique value, and who are able to identify, measure, and communicate their impact clearly and succinctly.*

### **Recommendation One: Identify and articulate your organisation's unique value.**

- Establish what it is your organisation adds that would be missed if you were not there.
- Focus resources, human and financial, on where you add the most value and create the most impact.
- If it is hard to clearly define the value, then question the need for your organisation or that activity.

### **Recommendation Two: Partner to deliver greater impact.**

- Identify other organisations with expertise to deliver your organisation's non-core functions, freeing your team to focus on their most impactful activity.
- Think beyond your core focus and look at how partnering can leverage greater value and impact.

### **Recommendation Three: Make impact the core focus.**

- Work as a sector and engage stakeholders to define a shared basis for measuring and communicating impact that is simple, easy to administer and understandable for all stakeholders.
- Define success as an organisation and sector based on this impact focus rather than budgets, overheads, brand or presence.

How each organisation develops their response to these recommendations will be very different. We would expect no two organisations to have the same response, however there will be areas of shared value that will be similar. These should be harnessed to consolidate opportunities for increased impact.

Based on the discussions we have had in completing this report we believe there is opportunity for the sector to investigate:

- Shared services across administrative functions that could include HR, finance, IT, fundraising, etc.
- A joint fundraising and awareness campaign to increase the public acceptance and appetite for increased funding, both private and public, for international development.

These opportunities also point to the role CID could play in the future with a refreshed mandate to coordinate collaboration, lead development of an impact model and possibly implement a shared service model. Exactly what this could look like will be up to the sector, but leveraging the skills and networks that exist has the potential to create real change and deliver a relevant and sustainable sector into the future.

**Our final recommendation** is that the sector leaders come together to discuss and act on this report, its findings, and these recommendations. This should be an outcome-oriented session where there is a clear expectation of agreed actions being taken at an organisational and sector level. It must lead to ongoing activity that delivers change.

Sectoral change has been identified as needed for some time, but the COVID-19 crisis has had a blowtorch effect on the scale and pace that this change is taking. It will be up to sector leaders how they respond and how relevant and sustainable their organisations and INGO's are in the future.

With demand for humanitarian and development work expected to grow significantly over the next few years the imperative for change is high.

We wish New Zealand's INGO's well in their efforts to meet this demand and hope this report will assist in shaping them and the sector to respond in the best possible way.

## Authors

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Craig is a Consultant with RSM specialising in governance, audit and assurance advice, and assisting with restructuring, growing, and developing organisations. He is a Fellow Chartered Accountant with over 28 years of public accountancy experience and up until December 2018 he was one of six Audit Partners and the former Chairman of the RSM New Zealand group.



Accordingly, he has a wealth of audit and assurance experience and skills at being able to look critically and objectively at organisations and identifying risks and opportunities.

Craig is a recognised specialist in the not-for-profit and charitable sector and has a strong interest in good governance and holds a range of governance roles. As well as chairing the accounting firms he has been a part of for the past 18 years, these currently include being Chairman of the External Reporting Board's External Reporting Advisory Panel (XRAP), Chairman of the Fred Hollows Foundation NZ, a trustee of Sustainable Coastlines Charitable Trust, an independent Councillor of the Auckland District Law Society, the independent risk and assurance committee chairman of Ngati Whatua Orakei, serving on the committee of the NZICA Auckland NFP Special Interest Group, a Chartered Accountants Australia and New Zealand Charities and NFP Advisory Group member, a Massey University School of Accountancy Advisory Board member, and a Be Accessible Fab 50 member. He is also a member of DIA Charities Services' Sector User Group providing input into the review of the Charities Act 2005.

His driving passions and North Star in his governance roles are to ensure the organisations he is involved with have valuable purposes, effective impact, and are resilient and sustainable.

### **Darren Ward**

Darren has over 20 years' experience in senior leadership roles, including 7 years leading an international NGO. He also has over 17 years' experience in NGO governance.



His consulting focuses on shaping organisations for the future, facilitating partnerships to scale impact and accelerating impact through innovation and design.

Having served in a wide range of roles in both corporate and for purpose organisations he has been part of significant change initiatives and organisational re-prioritisation. He has delivered significant performance improvements across organisations of all sizes and stages of development. Darren is a regular contributor to international NGO conferences and has presented globally on trends in the operating environment that will affect NGO's success.

In addition to his consulting experience, he offers business coaching and provides strategic leadership to the Direct Impact Group in his role as Managing Partner. Darren chairs the board of The Lucy Foundation, a social enterprise working in Aotearoa New Zealand and Mexico, has served on various NGO Boards and as a strategic advisor to Boards and management.

Darren is passionate about maximising the social impact individuals, organisations and sectors can have. Since founding the Direct Impact Group, they have worked with over 50 clients in 22 countries to build their impact.