

Navigating Funder Expectations and Shifting Donor Landscapes in Indonesian Civil Society Organizations

Aishah Hanim Abd Karim¹, Nik Ahmad Hisham Ismail²

ABSTRACT

This study critically examines how Civil Society Organizations (CSOs) in Indonesia adapt to shifting donor expectations and increasingly stringent funding requirements. While CSOs are indispensable agents in addressing complex socio-economic and political challenges, their financial sustainability remains historically fragile, frequently undermined by an entrenched overreliance on traditional donor aid. Guided by a dual theoretical lens integrating Resource Dependence Theory and Institutional Theory, this descriptive longitudinal study conducts a quantitative comparison of secondary capacity assessment data from a select cohort of six prominent Indonesian CSOs. By analyzing data from the NAMA Foundation's comprehensive capacity assessments (2023–2025), the research unpacks organizational trajectories across governance, human resources, financial risk management, and income diversification. Our findings reveal a compelling narrative: successful adaptation necessitates a structural shift from reactive fundraising toward proactive income diversification, underpinned by rigorous internal governance. Notably, the formalization of human resource policies and financial risk frameworks significantly elevates an organization's capacity to satisfy strict funder compliance. Yet, a persistent bottleneck remains in developing marketable alternative income streams to achieve genuine financial autonomy. Ultimately, this study concludes that cultivating enduring financial resilience requires the third sector to pivot away from short-term, project-based funding models and embrace blended social financing alongside sustained capacity development.

Keywords: Civil Society Organizations (CSOs), Financial Sustainability, Indonesia, Organizational Governance, NAMA Foundation.

¹ Kulliyyah of Education, IIUM.

² Kulliyyah of Education, IIUM

Corresponding author: aishahanim@iium.edu.my

Introduction

Civil society organizations (CSOs), encompassing non-governmental entities, social enterprises, and grassroots community groups, serve as indispensable engines of social development and democratic reform. However, fulfilling this vital mandate requires navigating profound, often existential challenges related to management, governance, and long-term viability. Operating within Indonesia's complex and resource-constrained environment, CSOs frequently confront what scholars describe as a "financial choking off" (Sciortino, 2023). This phenomenon is driven by shifting international aid priorities, tightening government regulations, and a noticeable deficit in local philanthropic support for non-traditional advocacy work (Antlöv, Brinkerhoff, & Rapp, 2010). Consequently, a pronounced overreliance on external donors creates deep structural vulnerabilities, severely restricting the operational autonomy necessary to drive long-term, transformative initiatives (Ochman, 2019; Rammelt & Kołczyńska, 2025).

Within this challenging landscape, financial sustainability emerges as the critical linchpin. Achieving financial resilience is not merely an administrative goal; it is a foundational prerequisite that enables organizations to amplify their social impact and guarantee the continuity of their causes (NAMA Foundation, 2025; Ochman, 2019). Yet, previous sector assessments reveal a sobering reality: the overall financial sustainability of non-profit organizations in Indonesia scored a precarious 4.5 on a 1-to-7 scale, where 1 represents peak performance (USAID, as cited in NAMA Foundation, 2025). Organizations plagued by weak financial acumen, inadequate marketing strategies, and highly concentrated income streams inevitably struggle to meet their long-term developmental objectives.

In response to this critical vulnerability, philanthropic entities have increasingly championed targeted capacity-building interventions designed to empower CSOs to navigate complex sustainability requirements. Anchored in a comprehensive Theory of Change, these programs operate on the premise that robust organizational governance, competent human capital, and the cultivation of reliable alternative income streams are essential preconditions for dismantling the cycle of donor dependency (NAMA Foundation, 2025; Sciortino, 2023; Wanta & Suminem, 2022). This study seeks to systematically unpack how Indonesian CSOs practically adapt their internal architectures to meet these evolving expectations. By examining the impact of structured capacity-building initiatives, the research illuminates the arduous but necessary transition from traditional donor reliance toward diversified, resilient financial models

Background of the Study

To bridge these systemic gaps, philanthropic entities such as the NAMA Foundation have deployed multi-dimensional capacity-building frameworks. For an international audience unfamiliar with the Foundation's specific operational architecture, it is necessary to explicitly define the core programmatic tools evaluated in this study. Anchored in the Foundation's Theory of Change, these targeted interventions are deployed across four distinct developmental tracks designed to help non-profits meet rigorous financial sustainability requirements (NAMA Foundation, 2025).

The first track, CSOLead (Leadership in Sustainable Development), serves as a foundational governance program targeting upper management. It focuses on institutionalizing good organizational management practices, specifically encompassing multi-year strategic planning, the formalization of human resource structures, and the

establishment of overarching risk management frameworks (NAMA Foundation, 2025). Building upon this structural governance, the second track, FinPro (Sustainable Financial Empowerment), acts as a technical intervention designed specifically for non-profit finance teams. It aims to establish prudent financial management practices by embedding rigorous financial reporting systems, internal controls, and proactive financial risk management frameworks to safeguard organizational liquidity (NAMA Foundation, 2025).

To address external resource acquisition, the third track, SUSTAIN, functions as a donor-relations initiative tailored for partnership and fundraising personnel. It focuses on increasing external fund accessibility by enhancing a CSO's capacity to execute targeted fundraising strategies, manage comprehensive donor databases, and consistently satisfy rigorous funder compliance and reporting requirements (NAMA Foundation, 2025). Finally, the Blended Social Finance (BSF) program serves as an entrepreneurial capacity-building track designed to neutralize traditional donor dependency. It equips CSOs with the business acumen required to develop viable business proposals, secure social loans, and successfully pilot alternative, self-sustaining income-generating initiatives (NAMA Foundation, 2025). By integrating these structured interventions, CSOs can holistically upgrade their internal architectures, moving systematically from foundational governance to the ultimate goal of genuine financial autonomy (NAMA Foundation, 2025).

Problem Statement

The core problematic this study addresses is the profound vulnerability of Indonesian CSOs operating within a highly volatile funding ecosystem. Historically, the third sector in Southeast Asia has relied heavily on international donors to

underwrite core operations (Antlöv et al., 2010). However, recent realignments in global aid priorities and increasingly stringent state oversight have precipitated a significant contraction in available resources (Sciortino, 2023). When traditional donors pivot, organizations lacking diversified income streams are frequently left operationally paralyzed.

This resource scarcity forces CSOs into a highly competitive, project-to-project survival loop. Such an environment fosters a distinct tension between satisfying immediate, often restrictive donor compliance metrics and pursuing genuine, long-term social innovation (Ochman, 2019). Compounding these macro-level pressures are deep-seated internal limitations. Baseline evaluations highlight that many Indonesian CSOs suffer from underdeveloped financial governance, inadequate service marketing, and a general deficiency in the entrepreneurial skills required to incubate self-sustaining revenue streams (Wanta & Suminem, 2022). While targeted philanthropic frameworks have been introduced to address these gaps, we still lack a comprehensive understanding of *how* these grassroots organizations practically negotiate these capacity barriers to escape the gravity of traditional donor reliance.

Research Gap

Despite a robust body of macro-level literature detailing the socio-political constraints and "financial choking off" experienced by CSOs in Southeast Asia (Sciortino, 2023; Iannone, Kinasih, & Wahyudi, 2024), empirical focus on the micro-level, internal operational adaptations of these organizations remains remarkably thin. Existing scholarship frequently highlights the structural tension between donor priorities and local agendas (Rammelt & Kołczyńska, 2025), yet it rarely penetrates the organizational "black box" to examine how non-profits survive these external pressures

day-to-day.

Furthermore, while modern discourse increasingly positions competent human resources and sound governance as the bedrock of organizational resilience (Kosasih et al., 2024; Apriyanto et al., 2025), there is a conspicuous scarcity of longitudinal data tracking how structural capacity-building interventions practically influence these variables over time. We understand the *theory* of sustainable financial governance (Wanta & Suminem, 2022), but we lack empirical evidence demonstrating whether foundational improvements in risk frameworks and strategic planning actually translate into the successful generation of alternative income. By leveraging longitudinal assessment data spanning 2023 to 2025, this study steps directly into this gap, offering a rare empirical evaluation of CSO adaptation in real time.

Research Objectives And Questions

The main objectives of this study are:

1. To explore the strategic mechanisms employed by Indonesian CSOs to adapt to shifting funding requirements and pursue financial sustainability.
2. To critically assess the role of internal governance, human capital development, and risk management in satisfying complex funder expectations.
3. To identify the persistent structural and operational bottlenecks CSOs face when attempting to diversify their income streams.

The present study attempts to answer the following research questions:

1. How do Civil Society Organizations in Indonesia adapt their operational and financial architectures in response to evolving funding requirements?

2. What specific roles do human resources, organizational governance, and financial risk frameworks play in enhancing an organization's capacity to secure and retain funding?
3. What are the primary barriers inhibiting Indonesian CSOs from successfully diversifying their revenue models and navigating donor regulations?

Significance Of The Study

The contributions of this research are threefold, offering substantive value to practitioners, policymakers, and the academic community. Practically, it provides an evidence-based roadmap for Indonesian CSOs striving to navigate a highly constrained philanthropic landscape. By illuminating how the integration of competent human capital and proactive risk management directly enhances credibility (Soliman, 2018; Zekos, 2014), the study equips organizational leaders with actionable strategies to mitigate structural vulnerabilities.

For international donors and philanthropic entities like the NAMA Foundation, the findings serve as a critical diagnostic tool. Understanding the practical efficacy of specific interventions, such as CSOLead or FinPro, allows program architects to pinpoint exactly where grassroots capacity-building is succeeding, and where more nuanced mentorship in social enterprise development is urgently required.

Theoretically, this research enriches the literature on the third sector in the Global South by bridging the disconnect between abstract models of organizational capacity and the lived realities of non-profit survival. By analyzing these phenomena through the integration of Resource Dependence and Institutional Theories, the study

offers a sophisticated understanding of how marginalized organizations manage power dynamics and pursue autonomy in heavily regulated environments.

Literature Review

To comprehensively address how Indonesian Civil Society Organizations (CSOs) navigate their evolving financial landscapes, it is necessary to examine the existing scholarly discourse across three primary dimensions: the structural challenges inherent in the funding environment, the strategic adaptations CSOs utilize to diversify income, and the foundational roles of internal governance and human capital in securing long-term resilience.

Structural Constraints and the "Financial Choking Off"

A dominant theme across the literature is the pronounced, systemic vulnerability of Indonesian CSOs, driven by an entrenched overreliance on international aid and external donors. As global development paradigms shift, international support for traditional, rights-based advocacy work has diminished significantly. Scholars describe this contraction as a severe "financial choking off" of the third sector in Southeast Asia, which profoundly restricts the operational autonomy of these organizations (Sciortino, 2023).

This structural dependency is exacerbated by a highly restrictive institutional and socio-economic environment. Indonesian CSOs frequently operate in a climate characterized by state distrust and complex, decentralized government regulations that complicate resource mobilization (Antlöv, Brinkerhoff, & Rapp, 2010; Holzhaecker, Wittek, & Woltjer, 2015). Furthermore, local philanthropic giving often prioritizes direct, traditional charity over systemic advocacy, narrowing the avenues for

alternative funding (Sciortino, 2023). Consequently, organizations are forced into a survival loop, pursuing short-term, donor-driven projects rather than advancing long-term indigenous agendas (Ochman, 2019; Rammelt & Kołczyńska, 2025). This competitive paradigm creates a persistent tension between satisfying strict donor compliance mechanisms and pursuing genuine social innovation.

Strategic Adaptation and Income Diversification

To survive these structural constraints, CSOs are increasingly forced to rethink their operational and financial architectures. The literature highlights that transitioning from traditional grant-seeking to hybrid, income-generating models is a primary adaptation strategy. Organizations are attempting to achieve financial sustainability by integrating education, empowerment, and social entrepreneurship (Famiola et al., 2024). To bridge the operational gap between non-profit advocacy and profit-oriented enterprise, CSOs are actively participating in sustainable financial governance training, which enhances their financial literacy and prepares them to engage with private-sector partners (Wanta & Suminem, 2022).

Moreover, the pursuit of multi-stakeholder partnerships has emerged as a vital coping mechanism. CSOs frequently engage in collaborations with government entities, faith-based organizations, and private corporations to unlock new resources (Khuzaiyah et al., 2026; Fitria et al., 2025). However, diversification remains remarkably difficult due to shallow internal business acumen. For instance, many grassroots organizations fundamentally misunderstand the strategic potential of Corporate Social Responsibility (CSR), viewing it merely as traditional corporate philanthropy rather than an opportunity for sustainable, mutually beneficial partnerships (Gunawan, 2016). In deeply resource-

constrained and patriarchal contexts, CSOs have also resorted to "thick" brokerage strategies—highly resource-intensive networking efforts necessary to build local influence and secure alternative backing (Diprose, 2023).

The Imperative of Internal Governance and Financial Risk Management

The literature strongly asserts that overcoming funding barriers requires profound internal maturation. Strong organizational governance and proactive risk management are non-negotiable prerequisites for projecting accountability and building donor trust. Inclusive decision-making frameworks that involve diverse stakeholders foster the transparency required to satisfy complex international compliance standards (Ali, 2025).

Simultaneously, a robust risk culture within the governance structure allows CSOs to anticipate and mitigate operational threats (Halachmi, 2005; Zekos, 2014). The proactive implementation of financial risk management, such as diversifying revenue streams and utilizing activity-based costing (ABC), enables organizations to forecast the financial impacts of shifting public policies or donor retractions, allowing them to adjust their operations dynamically without sacrificing their core missions (Gammon & Cotten, 2016).

Human Capital as the Catalyst for Organizational Resilience

Ultimately, the most sophisticated governance policies and diversification strategies are rendered ineffective without competent human capital to execute them. The scholarly discourse overwhelmingly identifies human resource (HR) management as the fundamental catalyst for long-term CSO success in Indonesia (Kosasih et al., 2024; Bangun, 2016).

Effective HR practices drive organizational performance by professionalizing management, facilitating change management, and embedding a culture of continuous learning that helps organizations remain agile in the face of shifting funding paradigms (Ayhan & Önder, 2021; Borkar & Mondal, 2025).

In the Indonesian context, where the third sector relies heavily on volunteers and operates with highly constrained budgets for paid staff, strategic HR interventions focused on volunteer recruitment, motivation, and retention are vital for operational continuity (Vretenar, Antić, & Gulam, 2020; Magul & Cavalcante, 2024). By seamlessly aligning human capital development with ethical governance, CSOs project a level of professional credibility and accountability that is essential for retaining stakeholder trust and securing sustainable, long-term funding (Apriyanto et al., 2025; Soliman, 2018).

Theoretical and Conceptual Framework

To systematically unpack how CSOs in Indonesia navigate an increasingly complex funding landscape, this study draws upon a synthesis of Resource Dependence Theory (RDT) and Institutional Theory. Integrating these frameworks provides a robust, dual-lens perspective, allowing us to critically analyze both the material pressures CSOs face in securing resources and the normative pressures they encounter regarding regulatory compliance (Ochman, 2019).

Fundamentally, RDT conceptualizes organizations as open systems inherently reliant on external resources, which inevitably generates asymmetrical power dynamics between CSOs and international donors (Li & Li, 2025; Pfeffer, 2018). Because traditional donors hold the purse

strings, they wield considerable influence, often precipitating the aforementioned "financial choking off" that forces CSOs into short-term, donor-driven projects (Antlöv et al., 2010; Sciortino, 2023). Through RDT, we can interpret CSO adaptation strategies, such as forging multi-stakeholder partnerships and developing alternative income streams, as strategic imperatives designed to mitigate dependency risks and reclaim operational autonomy (Casciaro & Piskorski, 2005).

However, the material imperative to secure resources only tells part of the story. Institutional Theory examines how enduring rules, normative expectations, and structural environments dictate organizational behavior (Berthod, 2018; Lawrence & Shadnam, 2008). Operating within Indonesia's heavily regulated landscape, CSOs are subjected to intense institutional isomorphism, the pressure to adopt convergent structures to align with dominant societal norms and secure legitimacy (Heugens & Lander, 2009). Institutional Theory clarifies why CSOs formalize HR policies and institute rigorous financial frameworks; these are not merely administrative upgrades, but deeply symbolic acts designed to project accountability to heavily scrutinizing funders.

This dual theoretical approach perfectly mirrors the NAMA Foundation's Theory of Change (ToC) for the Third Sector (NAMA Foundation, 2025). The ToC posits that achieving sustainability rests on two pillars: practicing good governance to achieve institutional legitimacy (Institutional Theory), and establishing reliable, alternative income streams to neutralize the power imbalances of resource dependency (RDT).

Method

Research Design and Participant Selection

This study employs a quantitative, descriptive longitudinal research design to systematically capture the operational and structural adaptations of Indonesian Civil Society Organizations (CSOs) over a critical three-year period spanning 2023 to 2025. Rather than relying on static, cross-sectional observations, this longitudinal framework provides the empirical depth necessary to evaluate how grassroots non-profits survive external donor pressures, negotiate capacity barriers, and alter their internal architectures over time. By tracking quantitative score progressions across standardized capacity metrics, this design allows for an objective, trend-based evaluation of organizational trajectories.

To build a representative and informative sample, a purposive sampling method was utilized to select a cohort of six prominent Indonesian CSOs, representing a diverse cross-section of the third sector specializing in education, social welfare, humanitarian aid, and community development. **To protect organizational confidentiality in accordance with our data-sharing agreements, these CSOs have been anonymized and are referred to as CSO A, CSO B, CSO C, CSO D, CSO E, and CSO F.**

Furthermore, this cohort represents a diverse and highly representative cross-section of the Indonesian third sector, encompassing entities specialized in education, social welfare, humanitarian aid, and community development. By focusing on these distinct organizations, the research design controls for varying baseline organizational maturities, ranging from deeply established networks like CSO B and CSO E to emerging, impact-oriented setups like CSO F. This rich institutional variance ensures that the study can comprehensively analyze how different types of CSOs systematically adjust their strategic planning, human resource policies, risk management, and income-generating

initiatives when confronted with an increasingly volatile funding landscape.

Data Collection and Analysis Procedures

The primary dataset is drawn from the NAMA Foundation's "CSO Assessment Data" repository, covering the critical period of 2023 to 2025. It is important to note the methodological evolution of the assessments: Year 1 (2023) established baselines via physical interviews by external assessors; Year 2 (2024) utilized internal documentation verification; and Year 3 (2025) employed rigorous virtual audits.

To ensure longitudinal data consistency and control for this evolving assessment variable, all data points were normalized against the standardized "Updated CSO Measurement Rubric 2025". This triangulation of physical observations, verified internal documentation, and virtual audit findings against a static benchmark mitigated external variances and ensured that the 1-to-4 scoring scale (where 1 represents absent/reactive capability and 4 represents institutionalized, proactive capability) remained highly reliable across the three-year timeline.

Rather than conducting a qualitative thematic analysis, which would require raw interview transcripts, this study performs a quantitative descriptive analysis of the standardized 1–4 rubric scores. The data analysis protocol proceeded as follows:

1. **Indicator Selection:** Core capacity indicators were selected directly from the NAMA Foundation's Theory of Change (ToC) framework, spanning strategic planning, human resource formalization, financial risk control, and self-generated income initiatives.

- 2. **Descriptive Trend Analysis:** Year-over-year score shifts for each CSO were systematically mapped to evaluate individual organizational trajectories.
- 3. **Comparative Analysis:** Cross-organizational comparisons were conducted to identify cohort-wide trends, highlighting areas of rapid institutional adaptation versus persistent capacity bottlenecks.

The primary indicators analyzed in this study are outlined in Table 1.

Table 1
Key CSO Measurement Rubric Indicators Evaluated

Domain	Indicator Code	Measurement Metric (1-4 Scale)
Strategic Planning	G1.1.1	Organization maintains a formalized, multi-year strategic plan
	G1.1.2	Strategic plan acts as the primary reference for organizational decisions.
Human Resources	G1.2.HR1	Formal HR policies and procedures are compliant and consistently applied.

Risk Management	G1.3.1/G2.1.1	Organization maintains and actively applies organizational and financial risk frameworks.
Income Generation	IS1.1.1	Organization produces feasible, self-sustaining income-generating initiatives.

(Note: Scores reflect the 1–4 Rubric Scale defined in the NAMA 2025 Rubric)

Findings

A longitudinal descriptive and comparative analysis of the secondary CSO assessment data provides a compelling narrative of how Indonesian CSOs navigate their funding environments. The empirical shifts across the four primary capacity domains from the 2023 baseline to the 2025 virtual audits are systematically mapped in Table 2.

Table 2

Comparative Performance Matrix of Indonesian CSOs (2023 vs. 2025)

Organization	Strategic Vision (G1.1.1) 2023 → 2025	HR Formalization (G1.2.HR1) 2023 → 2025	Risk Frameworks (G1.3.1) 2023 → 2025	Income Generation (IS1.1.1) 2023 → 2025
CSO A	4 → 4	4 → 4	2 → 4	1 → 1
CSO B	4 → 4	4 → 4	3 → 4	2 → 3
CSO C	3 → 4	4 → 4	1 → 3	1 → 1

CSO D	4 → 4	4 → 4	2 → 4	2 → 2
CSO E	4 → 4	4 → 4	1 → 4	2 → 2
CSO F	3 → 4	3 → 4	2 → 3	1 → 2

(Note: Scores reflect the 1–4 Rubric Scale, where 4 is the highest level of institutionalization).

Institutionalizing Legitimacy through Governance and Strategic Vision

Across the three-year evaluation period, mature organizations such as CSO A, CSO B, and CSO E successfully maintained top-tier scores (4) for strategic planning (Indicator G1.1.1). Meanwhile, CSO C and CSO F elevated their strategic planning scores from 3 to 4 by 2025. Conversely, a persistent bottleneck was observed in resource independence (Indicator IS1.1.1); CSO A and CSO C remained stagnant at a baseline score of 1, while CSO D and CSO E stalled at a score of 2.

The Foundational Role of Human Capital and Risk Mitigation

The matrix further confirms that internal governance serves as the bedrock of organizational resilience. The 2025 assessments revealed near-universal, top-tier compliance (Score of 4) in the establishment of formalized HR policies (Indicator G1.2.HR1) across the entire Indonesian cohort. More critically, we see a vital evolution in risk management. By 2025, CSO E and CSO A elevated their organizational risk frameworks (G1.3.1) from inadequate baselines of 1 or 2 up to the maximum score of 4. This confirms that CSOs are actively constructing the defensive architectural controls demanded by institutional donors to mitigate liquidity risks and project unwavering accountability.

The Persistent Bottleneck: The Struggle for Resource Independence

However, the data exposes a stark, persistent structural bottleneck regarding income generation. While the CSOs achieved near-perfect compliance in governance and HR, they struggled profoundly to generate alternative revenue (Indicator IS1.1.1). As mapped in Table 2, CSO A and CSO C remained stagnant at a baseline score of 1 (indicating no feasible income-generating projects), while CSO E and CSO D stalled at a score of 2 across the three-year span. The operational leap from managing grants to designing and marketing profitable social enterprises demands a fundamentally different skillset, leaving these excellently governed organizations structurally tethered to traditional funding streams. Conversely, a persistent bottleneck was observed in resource independence (Indicator IS1.1.1); CSO A and CSO C remained stagnant at a baseline score of 1, while CSO D and CSO E stalled at a score of 2.

Discussion

Interpreting the empirical findings of this study through our dual theoretical lens reveals a complex, nuanced reality regarding how Indonesian Civil Society Organizations (CSOs) navigate their deeply constrained funding environments. While the data illustrates substantial capacity for structural adaptation and adaptability, it also exposes a critical disjuncture between achieving institutional legitimacy and securing genuine financial autonomy.

The Triumph of Institutional Isomorphism and Governance

When evaluated through the prism of Institutional Theory, the trajectory of the studied cohort of Indonesian CSOs

demonstrates clear empirical alignment with the expectations of institutional isomorphism (Heugens and Lander, 2009). The data clearly demonstrates that the studied cohort of Indonesian CSOs has successfully internalized the normative pressures of the global donor ecosystem. By formalizing comprehensive strategic plans, establishing rigorous human resource policies, and constructing sophisticated financial risk frameworks, these CSOs have essentially remodeled their organizational architectures to project the highest levels of accountability and professionalization (Berthod, 2018).

Crucially, the findings validate the literature emphasizing human capital as the fundamental catalyst for organizational resilience (Ayhan & Önder, 2021). The near-universal compliance in formalized HR structures across the cohort indicates that these organizations understand a fundamental truth: securing international funding is no longer merely about having a compelling social mission; it is about demonstrating the professional capacity to manage funds flawlessly. By mastering these governance metrics, Indonesian CSOs successfully satisfy strict funder compliance, thereby preserving their institutional legitimacy and retaining their seat at the table with major international donors (Soliman, 2018; Ali, 2025).

The Illusion of Autonomy: A Resource Dependence Perspective

However, a critical revelation emerges when we shift our analytical lens to Resource Dependence Theory (RDT). RDT posits that power is intrinsically tied to the control of resources, and that true organizational autonomy can only be achieved by neutralizing dependency through the diversification of income (Pfeffer, 2018; Li & Li, 2025). The data explicitly demonstrates that while excellent governance is a necessary precondition for survival, it does not, in itself,

break the cycle of resource dependency.

The persistent stagnation observed in the organizations' capacities to develop feasible "income-generating initiatives" and execute effective "marketing activities" is telling. It provides stark empirical confirmation of Sciortino's (2023) assertion regarding the "financial choking off" of the third sector in Southeast Asia. The assessed CSOs have mastered the art of managing traditional donor relationships, but they remain structurally tethered to these very donors. Because they struggle to launch marketable products or sustainable social enterprises, they have not neutralized the asymmetrical power dynamics central to RDT (Casciaro & Piskorski, 2005). Consequently, despite being exceptionally well-governed, they remain highly vulnerable to the macroeconomic whims and shifting priorities of traditional international funders.

Bridging the Gap in the Theory of Change

Ultimately, this study exposes a vital bottleneck within the broader Theory of Change applied to the third sector. The assumption that practicing good governance naturally leads to the establishment of reliable alternative income streams overlooks the profound operational gap between non-profit advocacy and profit-oriented enterprise (Famiola et al., 2024).

Furthermore, as prompted by a deeper analysis of the local context, this bottleneck in entrepreneurial execution is not solely a deficit of internal business acumen; it is heavily compounded by the Indonesian regulatory framework. Legal restrictions frequently complicate the ability of registered non-profit foundations to directly generate commercial profit without establishing separate, taxable corporate entities (Wanta & Suminem, 2022). This complex legal topography discourages risk-averse organizations from pursuing self-

sustaining business models (Gunawan, 2016). Consequently, to truly escape the gravity of donor dependency, CSOs require not only targeted mentorship in social entrepreneurship but also robust legal advocacy to navigate the restrictive state regulations that inadvertently penalize non-profit income diversification.

Conclusion

In drawing this research to a close, it is evident that the studied cohort of Indonesian Civil Society Organizations demonstrates notable compliance-driven capacity and adaptability. In the face of a shifting and often restrictive funding landscape, they have successfully fortified their institutional legitimacy by institutionalizing robust strategic planning, sophisticated human resource frameworks, and rigorous financial risk controls. Nevertheless, achieving genuine financial autonomy remains an elusive horizon. The structural leap from mastering donor compliance to pioneering self-sustaining social enterprise requires a fundamentally different operational skillset, one that the sector is still struggling to master.

Limitations of the Study

While this study offers valuable insights into organizational capacity building, several methodological boundaries must be acknowledged. First, because the empirical findings are drawn from a specific, purposive cohort of six Civil Society Organizations (CSOs) participating in a single funder's program, these trajectories and organizational behaviors cannot be assumed to represent the highly diverse Indonesian third sector as a whole. Although this cohort spans a broad spectrum of critical sub-sectors, encompassing education, social welfare, humanitarian aid, and community

development, their institutional adaptations are uniquely conditioned by the structured capacity-building frameworks of the NAMA Foundation.

Second, this research relies on secondary quantitative assessment rubric scores (measured on a standardized 1–4 scale) rather than raw qualitative transcripts. While these rubric scores were originally derived from comprehensive, mixed-method evaluations incorporating physical interviews, documentation audits, and virtual verification sessions, the primary database analyzed in this study does not contain raw qualitative materials, such as verbatim quotes or direct transcript excerpts. Third, the methodological evolution of the NAMA assessments over the three-year cycle introduces an external variable. The transition from external physical baseline assessments in 2023, to internal document-based verifications in 2024, and ultimately to virtual audits in 2025, may introduce minor variances in comparative scoring over time. Consequently, these longitudinal score transitions must be interpreted with careful attention to these shifting contextual and evaluative parameters.

Additionally, a key contextual limitation of this study is that the core datasets, the evaluation rubric, and the underlying Theory of Change were all designed and administered by the NAMA Foundation, the same entity responsible for implementing the capacity-building tracks under review. This close systemic alignment introduces a potential risk of social desirability bias, where participating CSOs may have faced subtle isomorphic pressures to conform to or artificially inflate their reporting to satisfy funder expectations. However, several factors safeguard the independence and validity of these findings. First, the assessment methodologies employed a multi-layered verification structure over the three-year cycle, including baseline evaluations by external third-party assessors in 2023

and mandatory, evidence-based document audits (such as verifying formalized HR manuals, legally binding strategic plans, and active risk registers) rather than relying on subjective self-reporting. Second, the authors operated as entirely independent academic investigators with no vested interest in the operational success of the programs, maintaining a strict analytical distance. Finally, the empirical findings themselves serve as a strong testament to the study's objectivity; rather than presenting a uniformly positive narrative of programmatic success, the data clearly exposes a persistent, cohort-wide bottleneck in alternative income generation (Indicator IS1.1.1). This critical disjuncture demonstrates that the data has not been manicured to reflect unblemished success and highlights the genuine, complex operational realities of Indonesian CSOs.

While this study offers valuable insights into organizational capacity building, several methodological caveats must be acknowledged. First, because the empirical findings are drawn from a specific, purposive cohort of six Civil Society Organizations (CSOs) participating in a single funder's program, these developmental trajectories and organizational behaviours cannot be assumed to represent the highly diverse Indonesian third sector as a whole. Although the selected cohort spans a broad spectrum of critical sub-sectors, including education, social welfare, humanitarian aid, and community development, their institutional adaptations are uniquely conditioned by, and viewed through, the structured capacity-building frameworks of the NAMA Foundation.

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virtual verification sessions, the primary database analyzed in this study does not contain raw qualitative materials, such as verbatim quotes or direct transcript excerpts. Third, the methodological evolution of the NAMA assessments over the three-year cycle introduces an external evaluative variable. The transition from physical baseline interviews conducted by external assessors in 2023, to internal document-based verifications in 2024, and ultimately to virtual audits in 2025, may introduce minor variances in comparative scoring over time. Consequently, these longitudinal score transitions must be interpreted with careful attention to these shifting contextual and evaluative parameters.

Finally, a key contextual and ethical limitation of this inquiry is the structural relationship of the data source itself. The core datasets, the evaluation rubric, and the underlying Theory of Change were all designed, administered, and implemented by the NAMA Foundation, the same entity responsible for executing the capacity-building tracks under review. This close systemic alignment introduces a potential risk of social desirability bias, where participating CSOs may have faced subtle isomorphic pressures to conform to or artificially inflate their reporting to satisfy funder expectations. However, several robust safeguards preserve the empirical integrity and validity of these findings. First, the assessment methodologies employed a multi-layered verification structure over the three-year cycle. This process integrated physical baseline evaluations by external third-party assessors in 2023 with subsequent, evidence-based document audits (verifying physical artifacts such as formalized HR manuals, legally binding strategic plans, and active risk registers) rather than relying on subjective self-reporting. Second, the authors operated as entirely independent academic investigators with no vested interest in the operational success of the programs, maintaining a strict analytical distance. Ultimately, the

empirical findings themselves serve as a powerful testament to the study's objectivity; rather than presenting a manicured, uniformly positive narrative of programmatic success, the data clearly exposes a persistent, cohort-wide bottleneck in alternative income generation (Indicator IS1.1.1). This critical disjuncture demonstrates that the database reflects the genuine, complex operational realities of the studied CSOs rather than unblemished compliance.

Implication

The implications for philanthropic foundations and international policymakers are immediate and actionable. It is increasingly clear that capacity-building paradigms must evolve. While training in governance and compliance remains necessary, it is no longer sufficient. Donors must pivot toward aggressively fostering business literacy within the third sector. Providing targeted, hands-on mentorship in social entrepreneurship, product marketing, and market analysis is the critical next step to help CSOs cross the threshold into financial independence.

Recommendations for Future Research

To build upon this study's quantitative findings, future scholarship should prioritize primary qualitative methodologies, such as semi-structured interviews and focus group discussions with CSO executives, project managers, and finance officers. Doing so will capture the nuanced, lived experiences of navigating social enterprise development and retrieve the rich qualitative narratives, complete with direct quotes and coded qualitative material, that underpin these rubric transitions. Additionally, longitudinal studies specifically focused on the deployment and success rates of "blended social financing" models will be vital in mapping

the future of sustainable non-profit financial architecture in Southeast Asia.

Conflict of Interest Statement

The authors declare that this research was conducted using secondary assessment datasets, the capacity-building framework, and the Theory of Change developed and provided by the NAMA Foundation, which also funded and administered the evaluated programs (*CSOLead*, *FinPro*, *SUSTAIN*, and *Blended Social Finance*). To ensure the ethical integrity and objectivity of the study, the authors maintain complete intellectual independence. The NAMA Foundation had no role in the study design, the qualitative or quantitative analysis of the normalized scores, the interpretation of the findings, or the drafting and final approval of this manuscript.

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