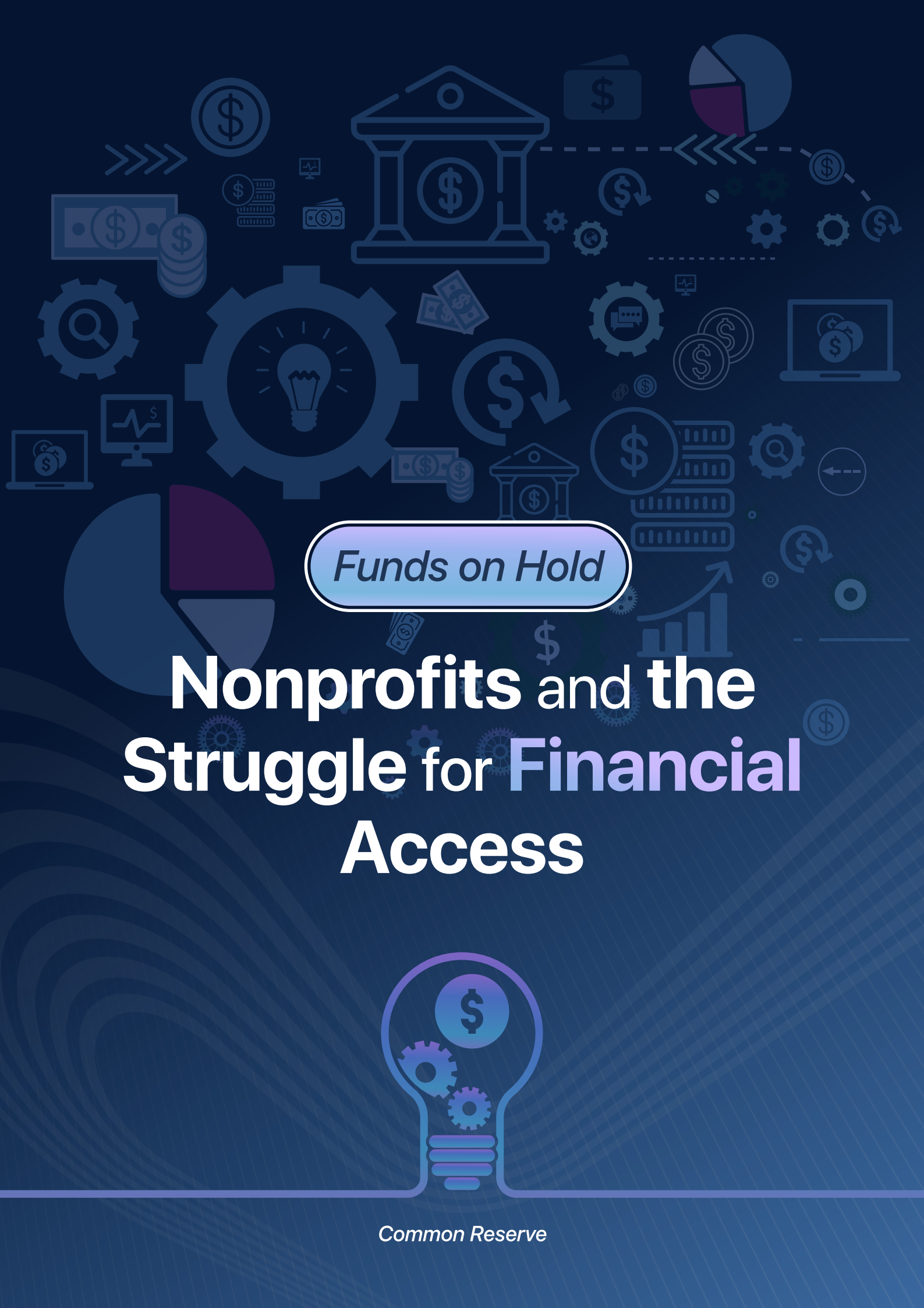


The background is a dark blue gradient with a complex pattern of financial and business icons. These include dollar signs, coins, banknotes, gears, a lightbulb, a pie chart, a bar chart, a laptop, a server rack, and a classical building. A dashed line with arrows connects various points across the top. A large gear in the center contains a lightbulb icon.

Funds on Hold

Nonprofits and the Struggle for Financial Access



Common Reserve

Nonprofit banking and financial services

survey report 2024

To understand the financial challenges that nonprofits face globally, Common Reserve conducted a comprehensive survey between April and June 2024. The survey gathered insights from nearly 300 nonprofit organizations of various sizes and regions, operating across diverse sectors.

These organizations shared their experiences with financial services, highlighting the barriers they encounter and the opportunities they see for improvement.

This report presents key findings from the survey, offering a detailed look into how financial barriers—such as high transaction costs, regulatory burdens, and banking restrictions—are impacting nonprofit operations and sustainability.

The insights from this survey provide a foundation for exploring innovative solutions that can better support the financial needs of nonprofits and enhance their capacity to deliver on their missions effectively.

About Common Reserve

Common Reserve is a financial services initiative focused on addressing the unique challenges faced by nonprofits and the wider aid system. Our mission is to create specialized financial infrastructure that improves accessibility, security, and efficiency, empowering organizations to operate seamlessly across diverse global environments. We are committed to transforming the financial landscape for NGOs, enabling them to maximize their impact while overcoming the barriers that hinder their mission.



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Executive summary

This report presents an analysis of the financial challenges facing nonprofit organizations, based on a survey conducted by Common Reserve. The survey identifies significant financial barriers that threaten NGO sustainability and effectiveness. Addressing these challenges is crucial for operational efficiency and systemic transformation, including empowering locally-led development and enhancing the aid system's ability to respond to growing global challenges.

Key findings

1. High transaction costs:

NGOs are burdened with high transaction fees that divert essential funds from their core activities, threatening their sustainability and effectiveness in delivering aid.

2. Regulatory burdens:

Increasing compliance costs and complexities force NGOs to allocate substantial resources to meet regulatory demands, detracting from their missions and weakening their impact.

3. Banking Restrictions and De- Risking:

De-risking practices by banks have led to account closures and restricted access to banking services, particularly in high-risk areas where humanitarian needs are most acute, stifling the ability of NGOs to respond effectively.

4. Missed opportunities for better exchange rates:

Despite the availability of more favourable options from alternative providers, 67.2% of nonprofits continue to rely on official bank quotes for foreign exchange rates. This results in higher costs and missed opportunities to allocate additional resources toward their missions.

5. Mismatch between financial needs and existing market solutions:

Available financial tools often fail to meet the specific needs of nonprofits, with 52% of respondents interested in new technologies that do not align with their operational realities, pointing to a gap in the financial services ecosystem

Recommendations

1. Develop tailored financial infrastructure:

Invest in creating of financial systems designed specifically for the nonprofit sector, including sector-specific banking services, payment platforms, and compliance tools. These systems should be agile enough to adapt to the unique operational contexts of NGOs and support the principles of locally-led development by enhancing local financial autonomy.



2. Streamline compliance processes:

Work with regulators to simplify and automate compliance processes, reducing the burden on NGOs and enabling them to redirect more resources to their core missions. This will require concerted efforts to harmonize regulatory requirements across jurisdictions and create a more enabling environment for local organizations.

3. Adopt alternative payment methods:

Embrace innovative financial solutions such as fintech, remittance networks, and digital payment systems to overcome the limitations of traditional banking. By providing more flexible and accessible financial tools, these solutions can empower local actors and facilitate the flow of resources to the frontlines of humanitarian response.

4. Move beyond advocacy

Foster proactive multistakeholder collaboration, co-creation and piloting of sustainable financial solutions with NGOs, donors, financial institutions, and regulators. This collaborative approach should focus on building an inclusive financial ecosystem that aligns with the goals of localization, ensuring that local organizations have the financial capabilities and autonomy to lead development efforts effectively.

Introduction

Nonprofit organizations are at the heart of addressing some of the world's most pressing challenges—whether it's providing humanitarian aid, fostering development, or driving social change. Yet, behind the scenes of their impactful work lies a persistent and often overlooked struggle:

Navigating complex financial systems that are not built with them in mind.

In response to these growing challenges, Common Reserve sought to highlight the financial realities facing nonprofits today. Between April and June 2024, we surveyed nearly 300 organizations across diverse sectors and regions, all grappling with financial barriers that threaten their existence. This report presents the key findings from our survey and paints a picture of a sector at a crossroads—where the right financial tools and innovations could unlock the potential for transformative change.

Our goal is not just to highlight the problems but to explore the solutions. Through this report, we aim to show how rethinking financial services can empower nonprofits, streamline their operations, and ultimately allow them to focus on what matters most—making a lasting impact in the communities they serve.

Streamlining financial processes and providing tailored solutions are essential for systemic reform.

The financial challenges facing nonprofits are not just operational hurdles—they are systemic barriers that hinder the progress of a more equitable and efficient aid system. To realize the goals of initiatives like the Grand Bargain and locally-led development, these barriers must be addressed comprehensively.

By dismantling financial barriers, we're not just supporting nonprofits—we're unlocking the potential for a more just, equitable, and effective aid system. This is the foundation for lasting, locally-driven change.

Context and Background

The financial landscape for nonprofits has transformed significantly over the past two decades, influenced by global events and regulatory changes:



The 9/11 attacks led to stricter financial regulations, especially for nonprofits in conflict zones.



Stricter anti-money laundering (AML) and counter terrorist financing (CTF) measures have increased compliance burdens on nonprofits.



Financial institutions, wary of regulatory breaches, have withdrawn services from high-risk clients, including nonprofits.



Nonprofits, especially those working in conflict zones face account closures and limited access to financial services due to being perceived as high-risk.



With globalization of aid, nonprofits navigate complex cross-border financial transactions, often in regions with limited banking infrastructure.



While digital finance offers opportunities, it also presents challenges for nonprofits, especially those with limited technological infrastructure.



Grand Bargain commitment in 2016 to ensure at least 25% of resources are channelled directly to local actors by 2020.



Global economic crises have strained traditional funding sources while increasing the demand for aid and nonprofit operations.



UN Security Council Resolution 2664 which provides exemptions allowing NGOs to carry out their operations without violating sanctions.

At a glance: The **current state** of nonprofit finance



The pervasive impact

- Face operation impacts
- High costs cause project delays

69.8%



Ripple effect on communities

- Reduced project funding.
- Threatens initiative sustainability

78.4%



Compliance conundrum

- Cite compliance strain
- Diverts focus from core activities

76.8%



Alternative financial network

- Use cash movements
- Use informal transfers

61.6%

43.2%



Currency tightrope

- Struggle with conversions
- Face exchange volatility

65.6%

38.7%



Innovation through necessity

- Seek new solutions
- Explore pilot programs

70.0%

22.0%



Power of peer networks

- Use alternative payments
- Knowledge-sharing drives solutions

75.2%



Growing role of technology

- Interested in digital finance
- Current options don't meet all needs

52.0%



Local organization burden

- Face sticker compliance
- limited funding access in high-risk areas

Survey findings

Survey topic

Graph no

Organizational characteristics

1 2 3 4 5 6 7

Financial and regulatory impact

8 9 11

Financial and regulatory challenges

10

Alternatives and limitations

12 13 14

Foreign exchange rates

15 16

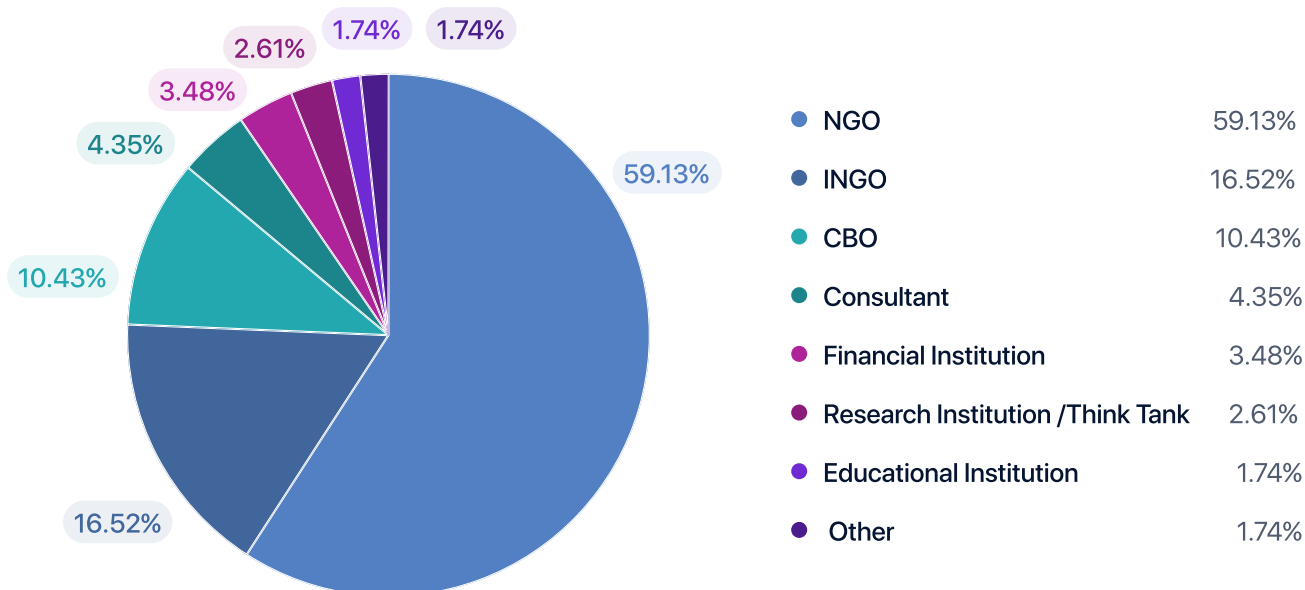
Financial landscape challenges

17

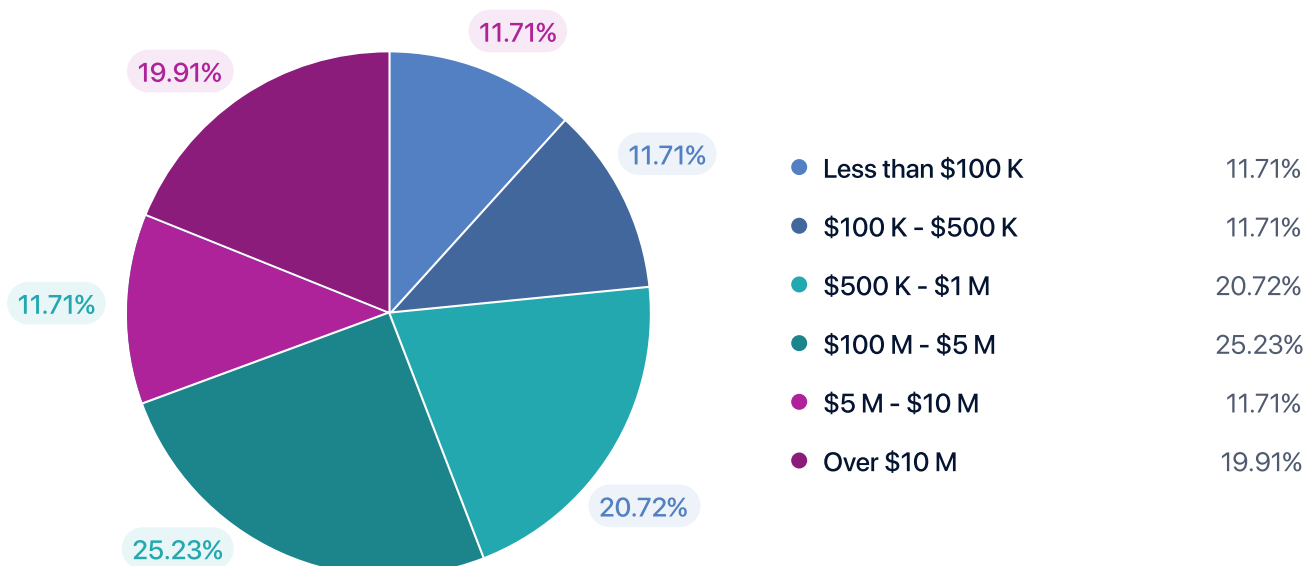
Financial solutions

18 19 20

I. Type of organization represented by respondents

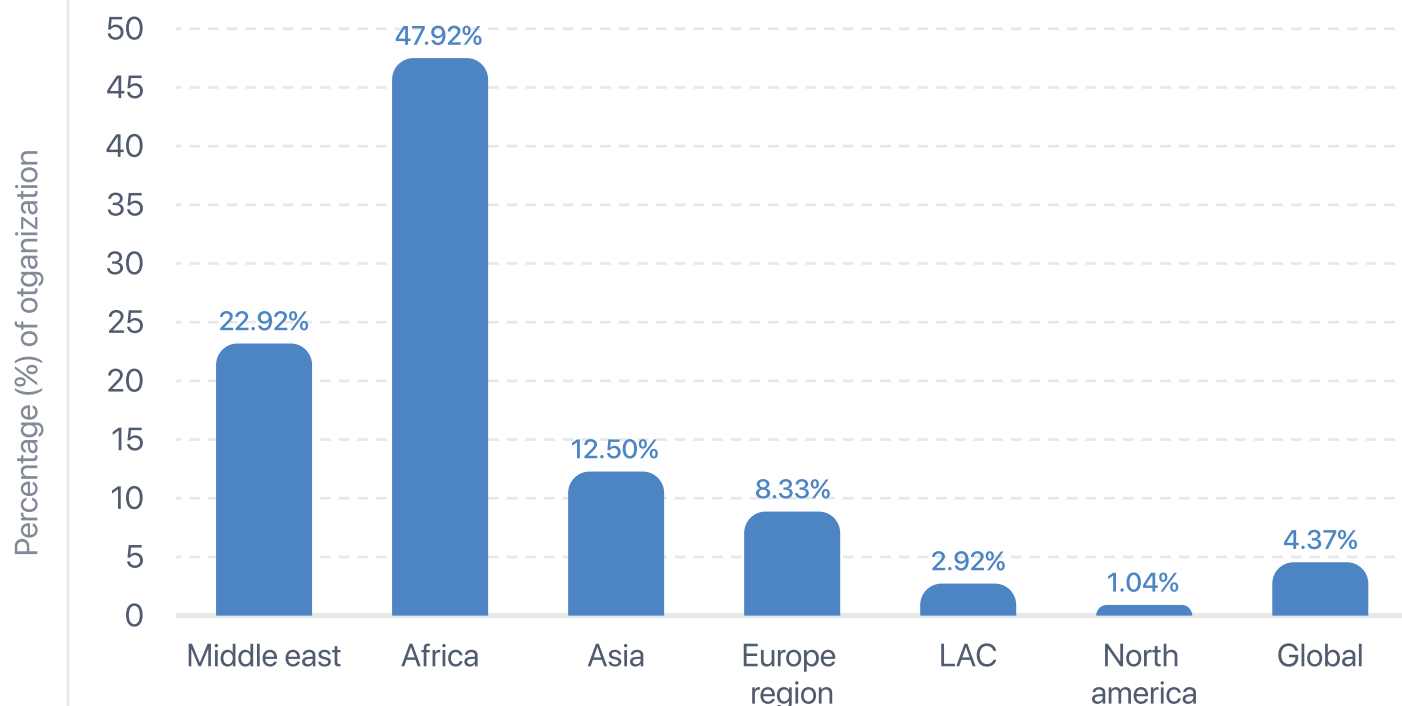


II. Annual operating budget

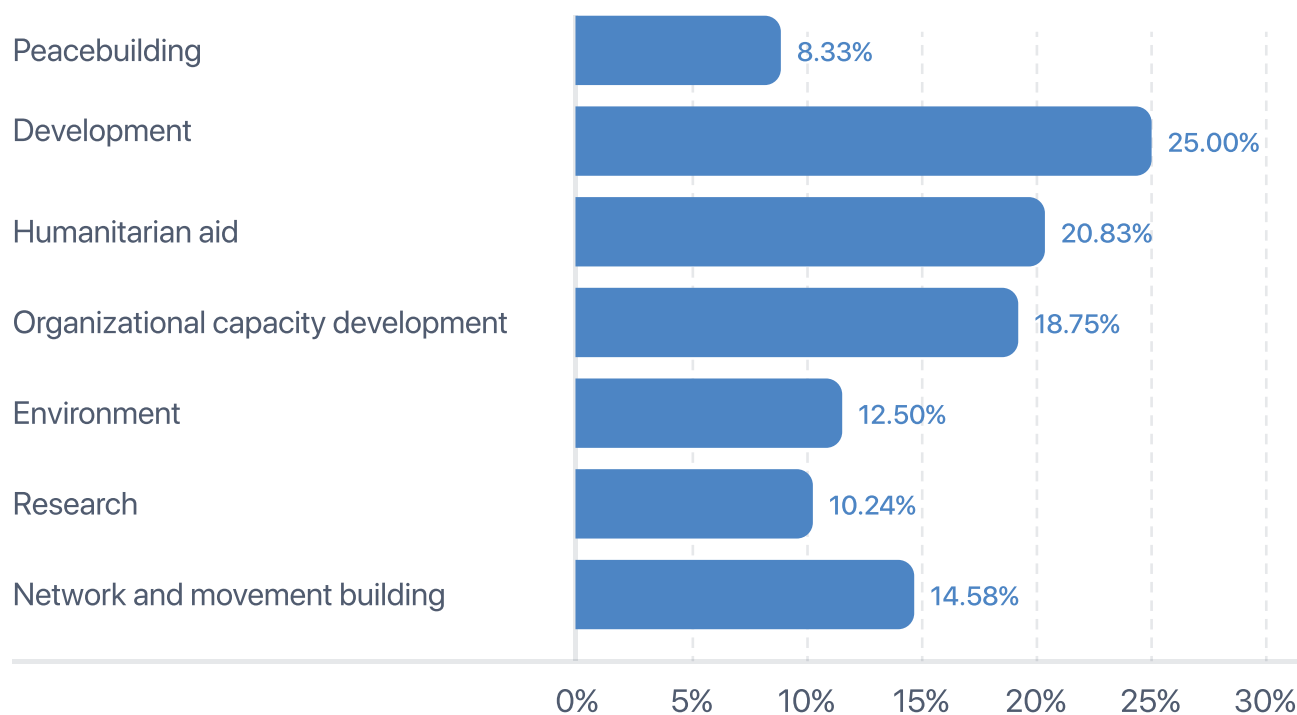


For the purposes of our analysis, we define a CBO as a grassroots organization focused on local community issues, often informal and run by community members while a Local NGO is defined as a registered entity with broader reach (often national), addressing wider issues with formal governance and funding. 'Other' refers to a combination of networks and coalitions.

III. Primary operational region

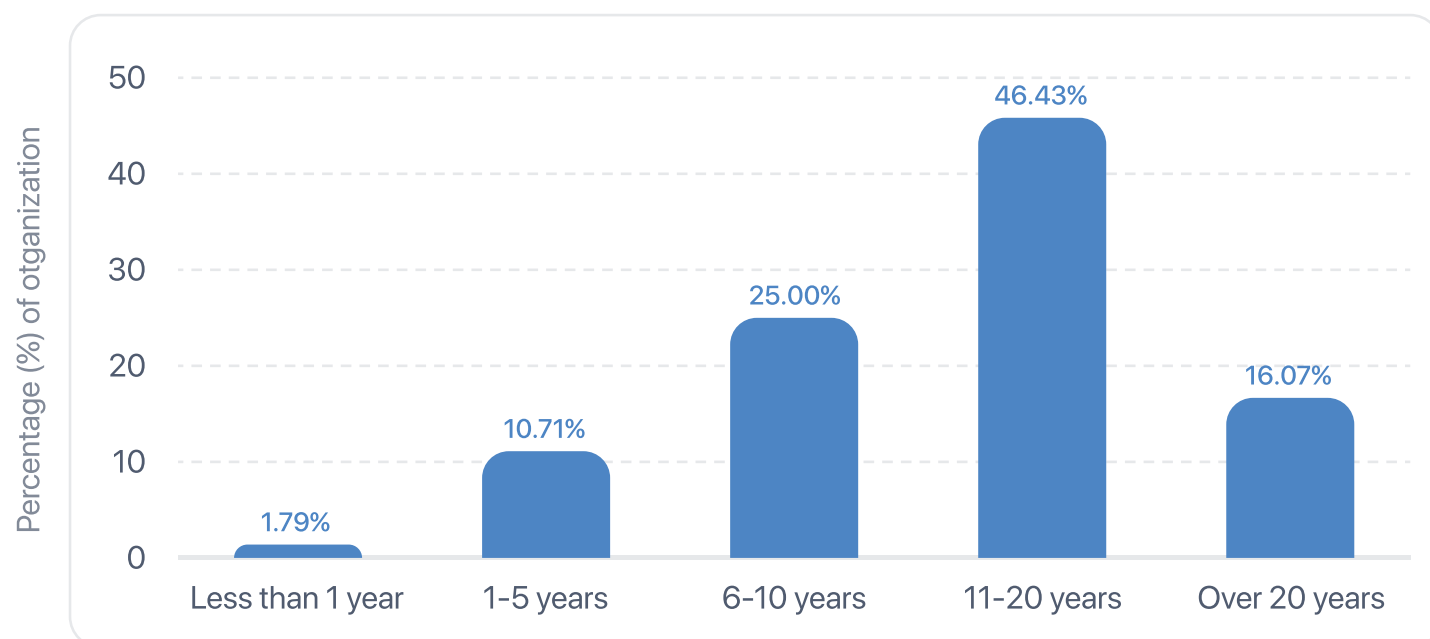


IV. Field of work

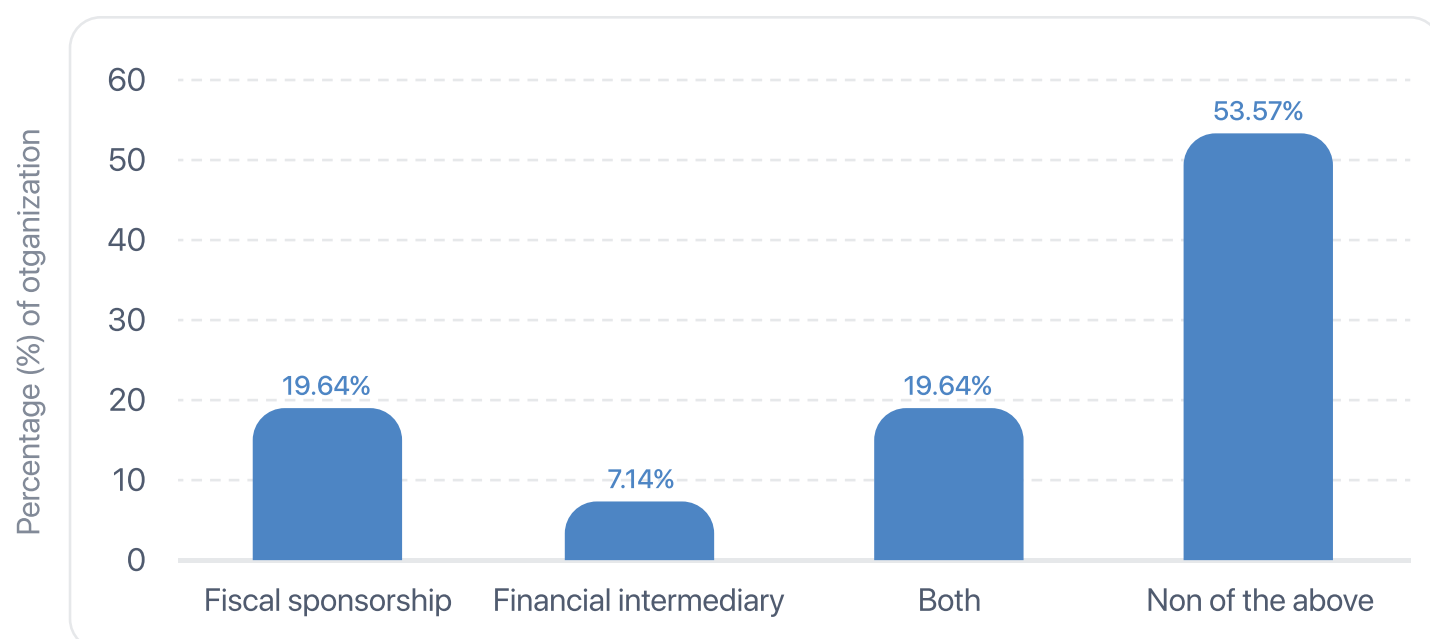


LAC is used here to refer to the Latin America and Caribbean regions

V. Years of operation

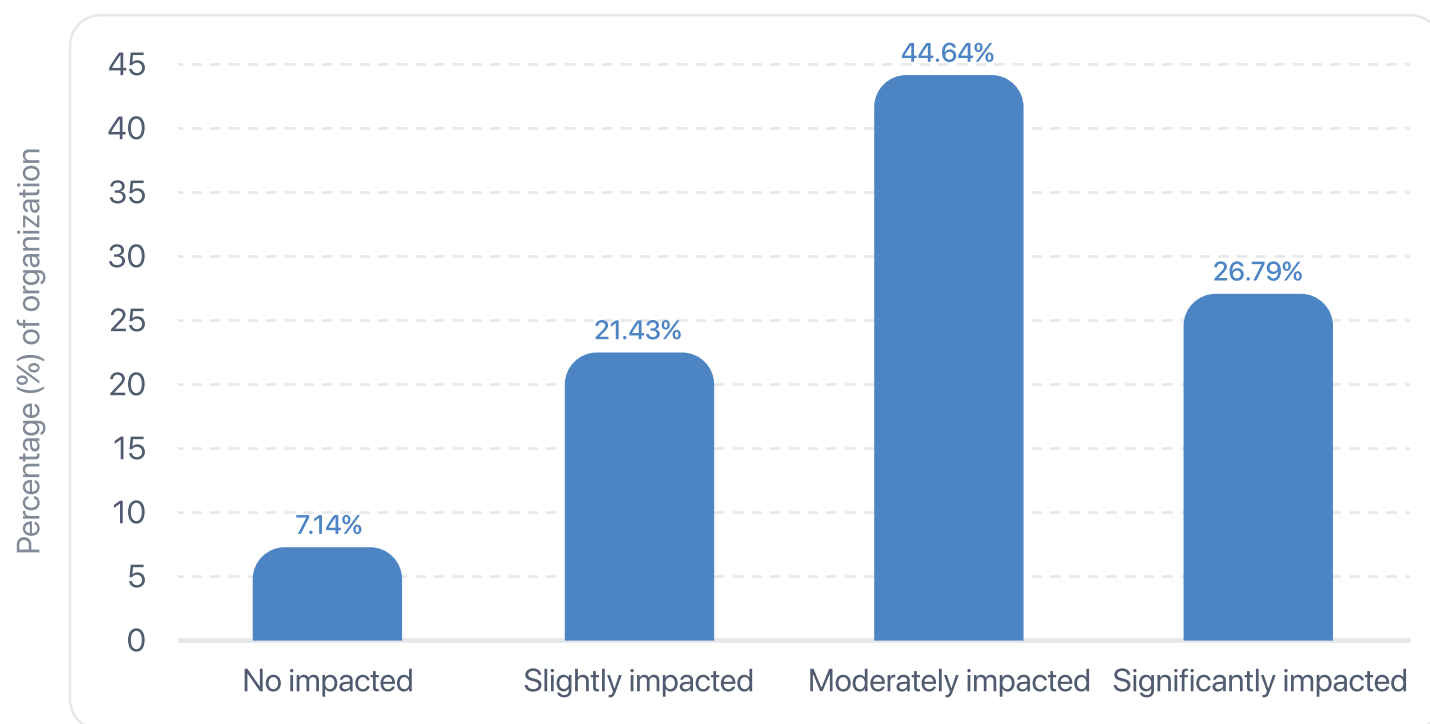


VI. Role in financial operations



We added this question to assess the levels of intermediation, a common but problematic approach in funding transfers, particularly to smaller, local organizations. Financial intermediation often arises due to disparities in access to well developed financial infrastructure, where organizations closer to these resources become de facto intermediaries. While this may facilitate funding transfers, it introduces additional layers of cost, delays, and complexity. This dynamic reflects a broader political economy issue, where proximity to financial power structures can reinforce existing inequalities, making funding less direct and efficient.

VII. Impact of financial challenges on operations



Impact of Financial Challenges on Operations

69.6%

of respondents experience moderate to significant financial challenge



Transaction Costs



Compliance Burdens

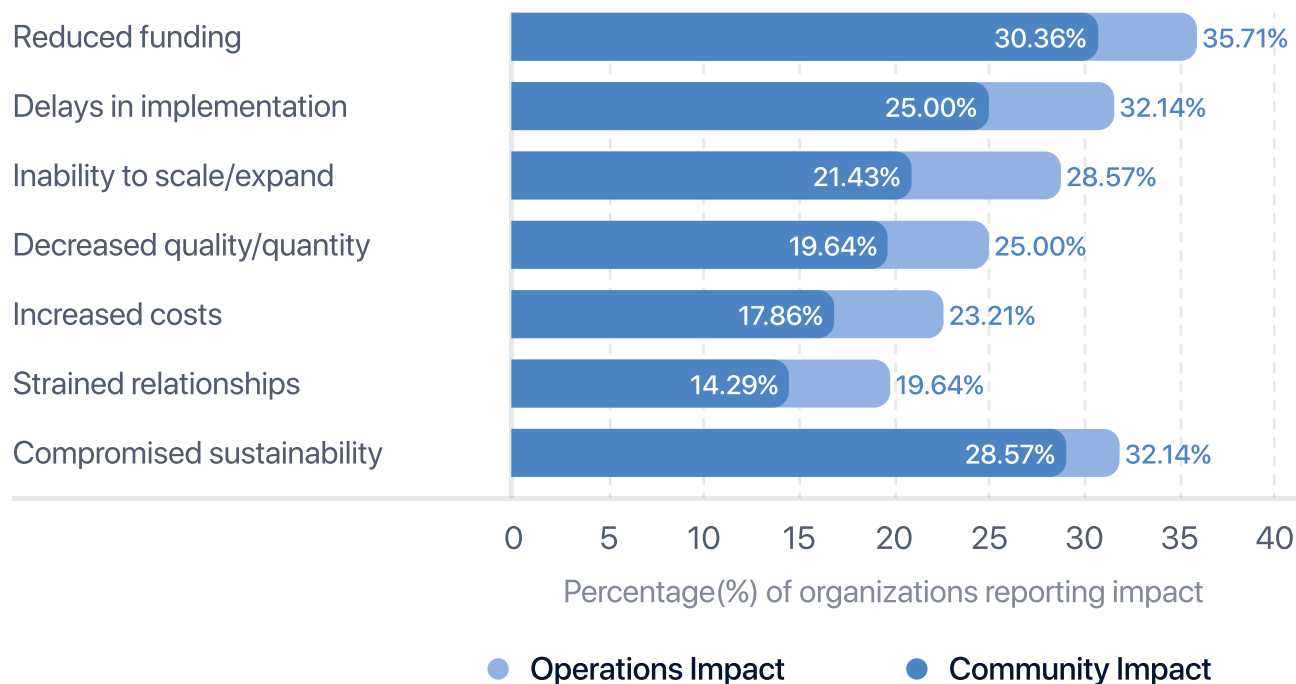


Banking Restrictions

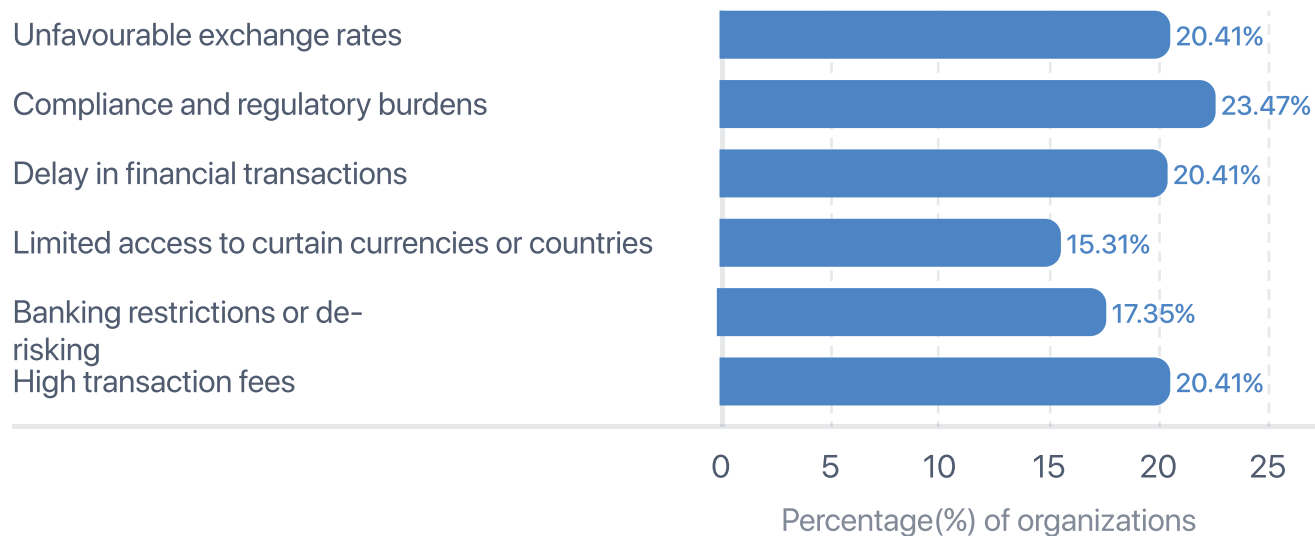
These challenges impede mission delivery and operational efficiency

Organizations that reported being "slightly impacted" experienced minor disruptions, such as delays of up to a few days and minimal cost increases that didn't require budget changes. Those "moderately impacted" faced noticeable disruptions, including delays of weeks and moderate cost increases that necessitated budget adjustments. "Significantly impacted" organizations encountered severe disruptions, with delays of months and substantial cost spikes that threatened project completion and overall mission delivery.

VIII. Impact of financial challenges on operations and communities

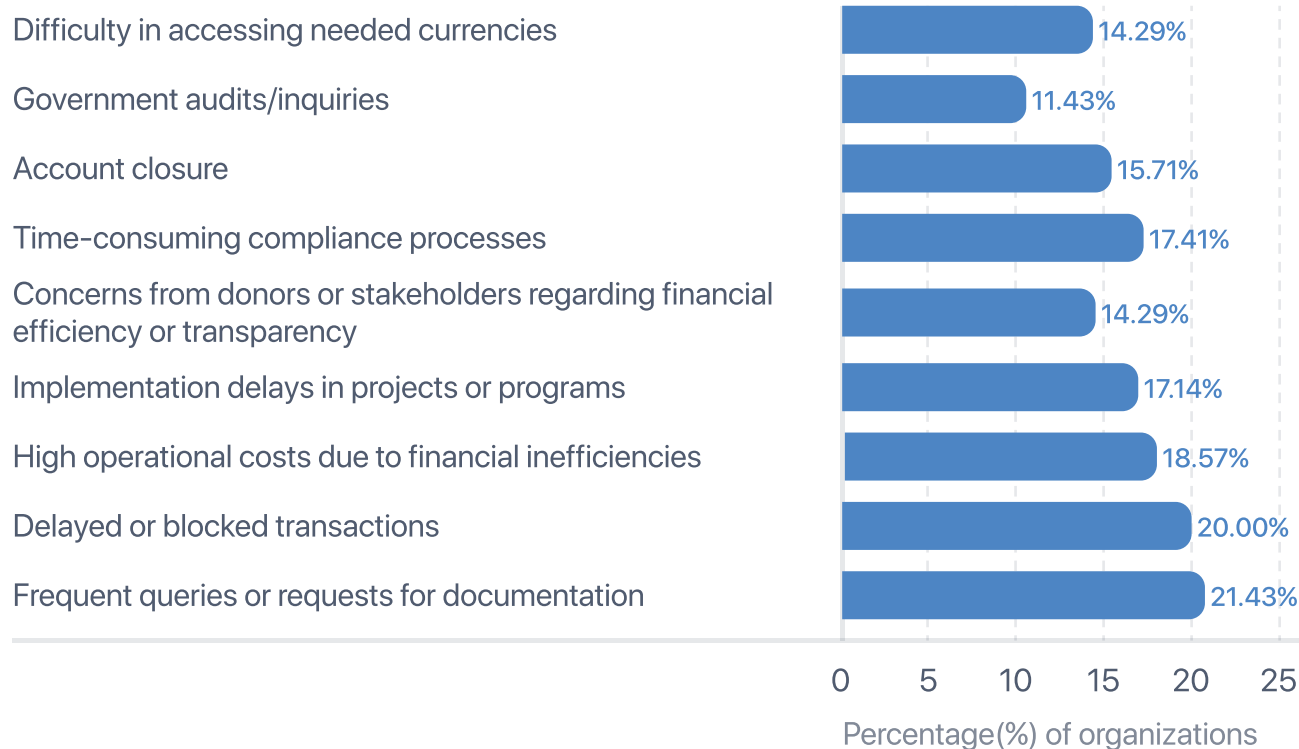


IX. Most Pressing Financial Issues

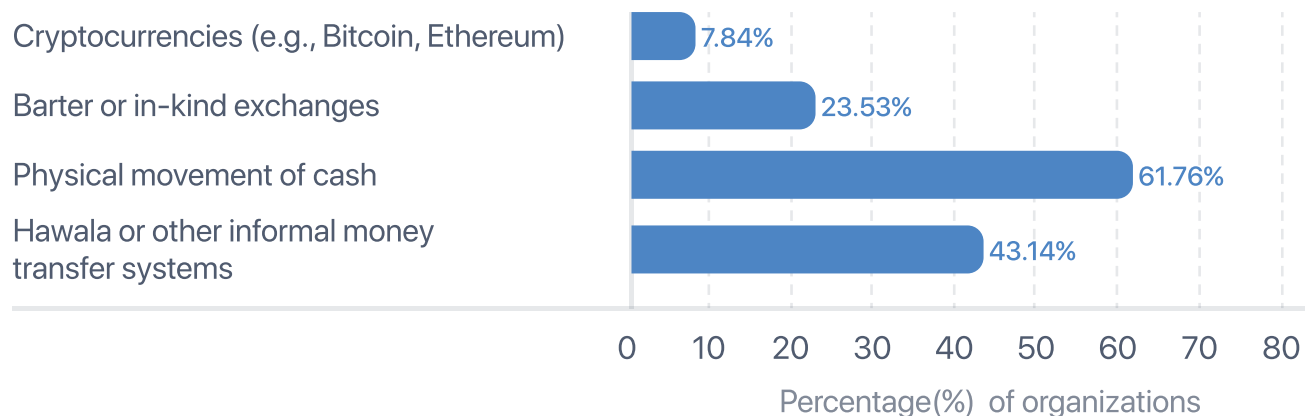


The data highlights the predominant financial challenges that nonprofits face, with compliance and regulatory burdens (76.8%), unfavourable exchange rates (65.6%), and high transaction fees (63.2%) topping the list. The survey data confirms that these challenges are widespread and systemic, affecting the overall capacity of organizations to deliver on their missions effectively.

X. Day-to-day manifestation of financial challenges



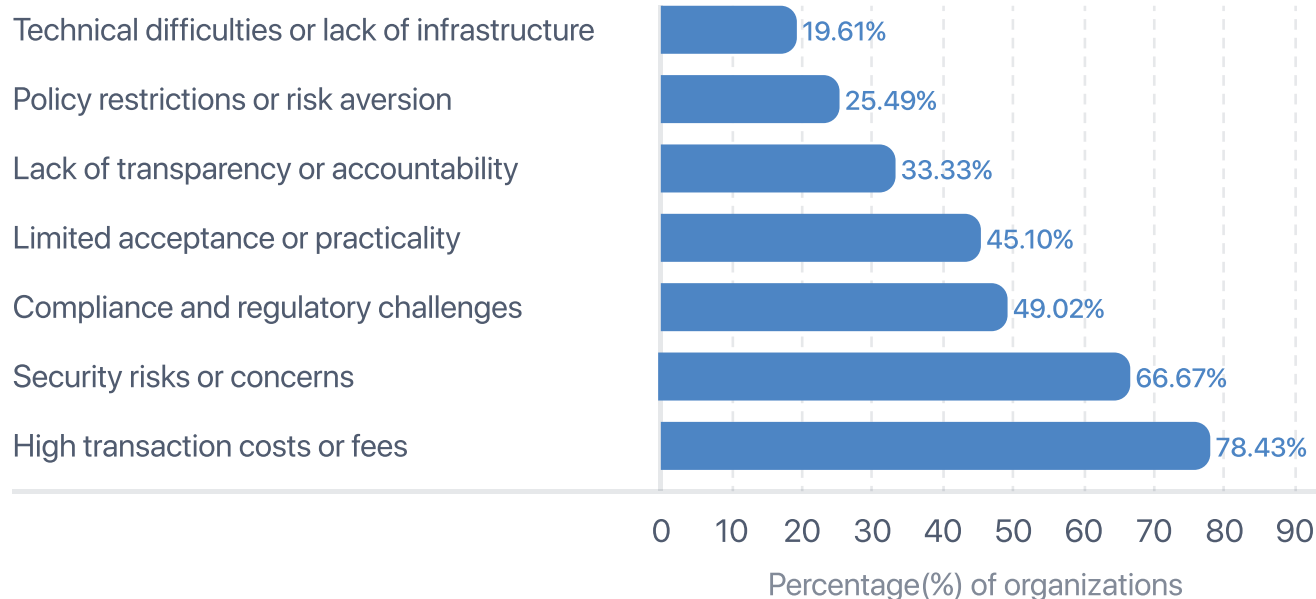
XI. Use of alternative solutions



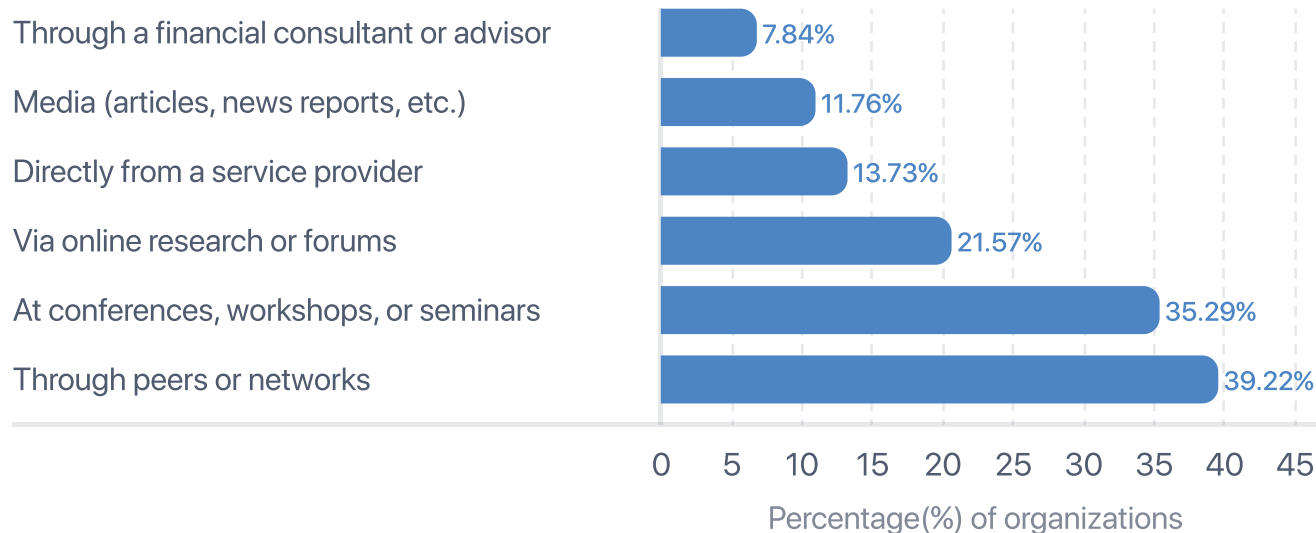
The reliance on cash movement (61.6%) and informal systems like Hawala (43.2%) shows the pervasive financial barriers. However, these methods are often ad-hoc and expensive, highlighting the need for integrated, cost-effective solutions that maintain flexibility and accessibility.

Hawala is a traditional and informal system of transferring money without the actual movement of currency. It operates based on a network of trusted brokers or agents, often used in regions where banking systems are underdeveloped or unreliable. Transactions are carried out via a system of honour and trust, and money is typically moved across borders without the use of formal banking channels.

XII. Challenges of alternative solutions

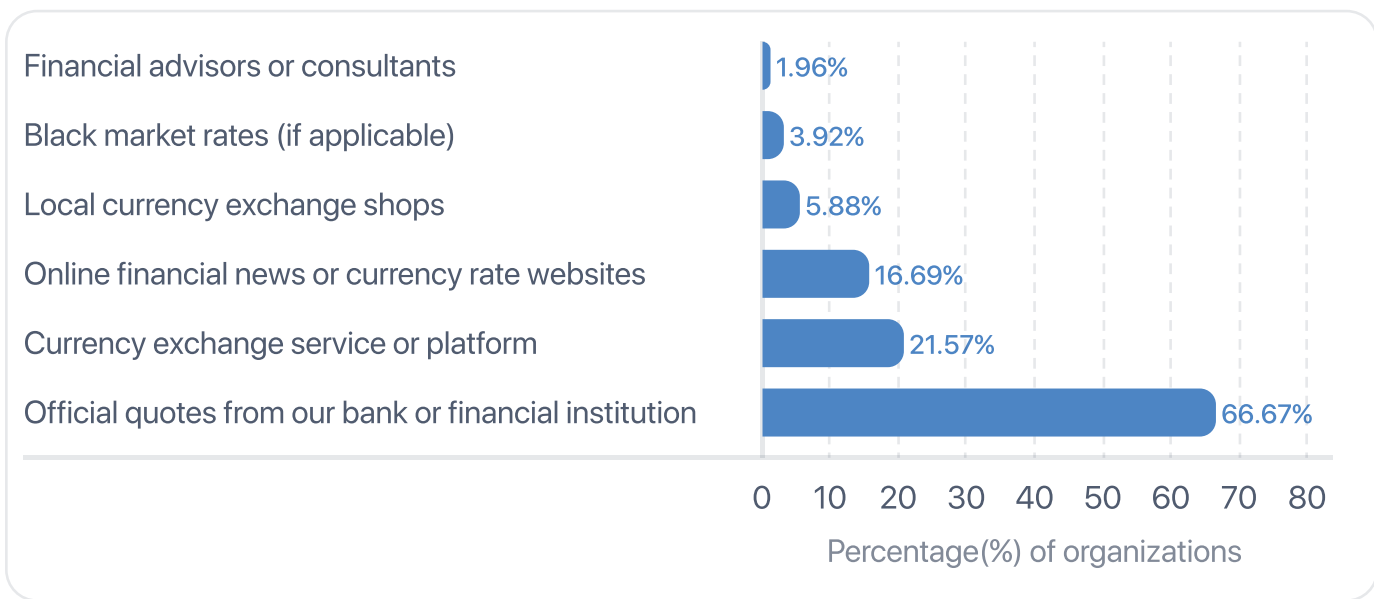


XIII. Discover of alternative solutions



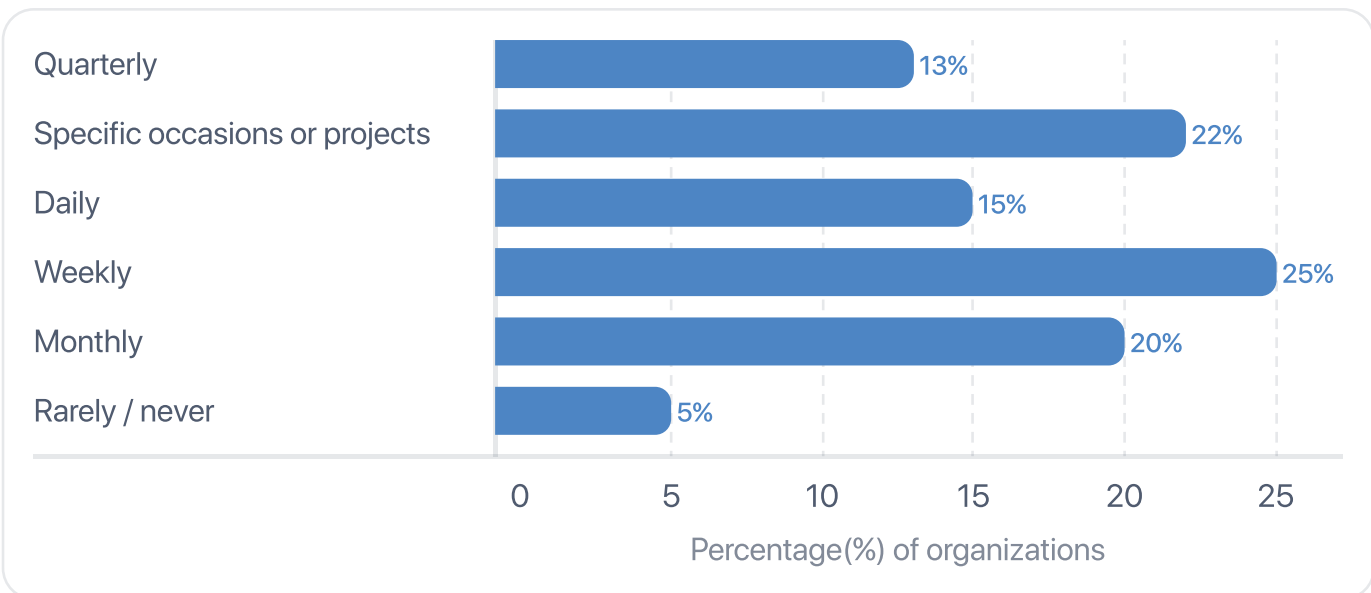
The majority of organizations (75.2%) first hear about alternative payment solutions through industry peers or networks. Conferences, workshops, or seminars (35.2%) and online research or forums (21.6%) are also significant sources of information. This indicates a strong reliance on peer networks and industry events for discovering new financial solutions.

XIV. Method for checking foreign exchange (FX) rates

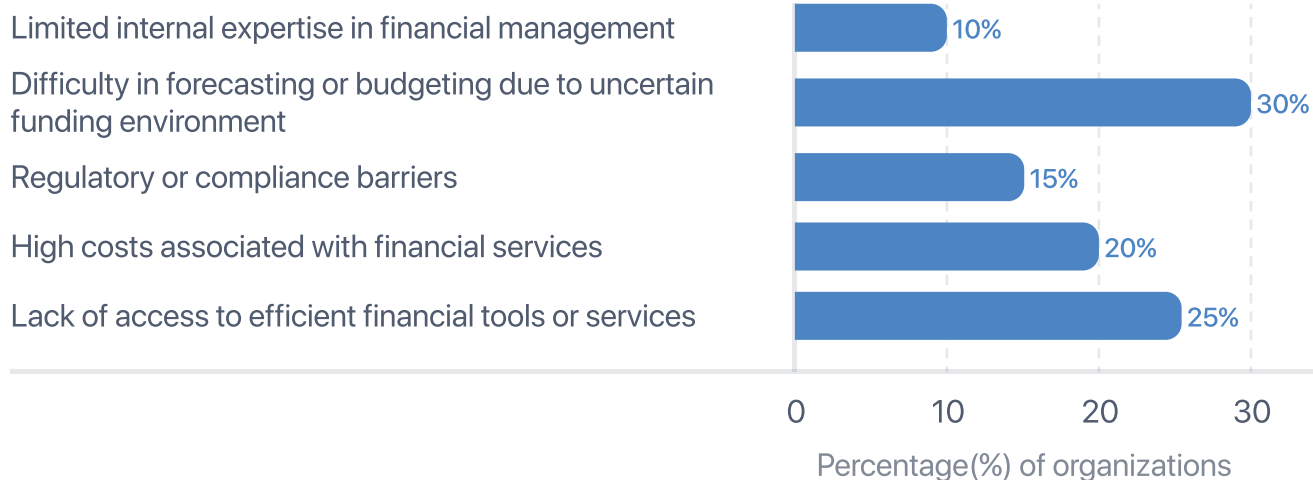


Most organizations (67.2%) rely on official bank quotes for foreign exchange rates, indicating a strong trust in traditional financial institutions. However, this reliance often results in suboptimal rates due to hidden markups, leading to increased costs.

XV. Frequency of currency conversions and impact of FX Fluctuations

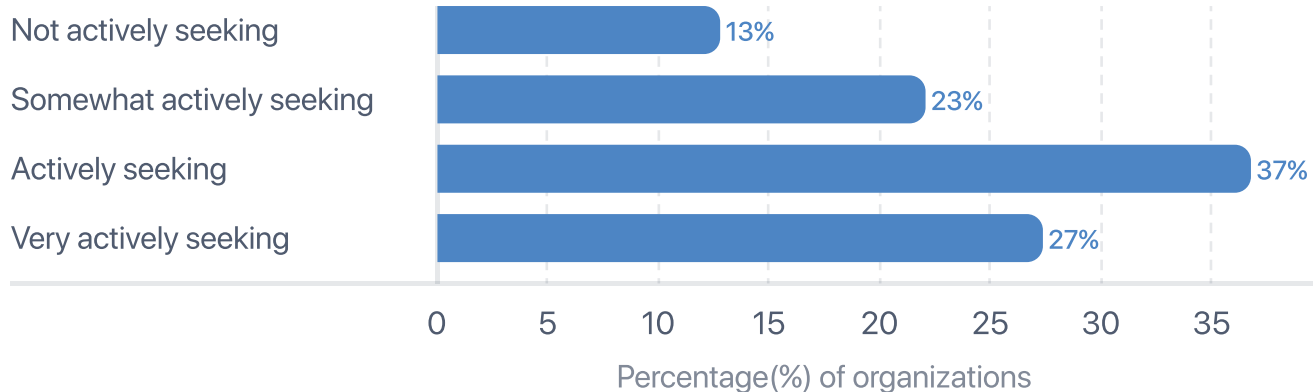


XVI. Challenge in financial resource optimization

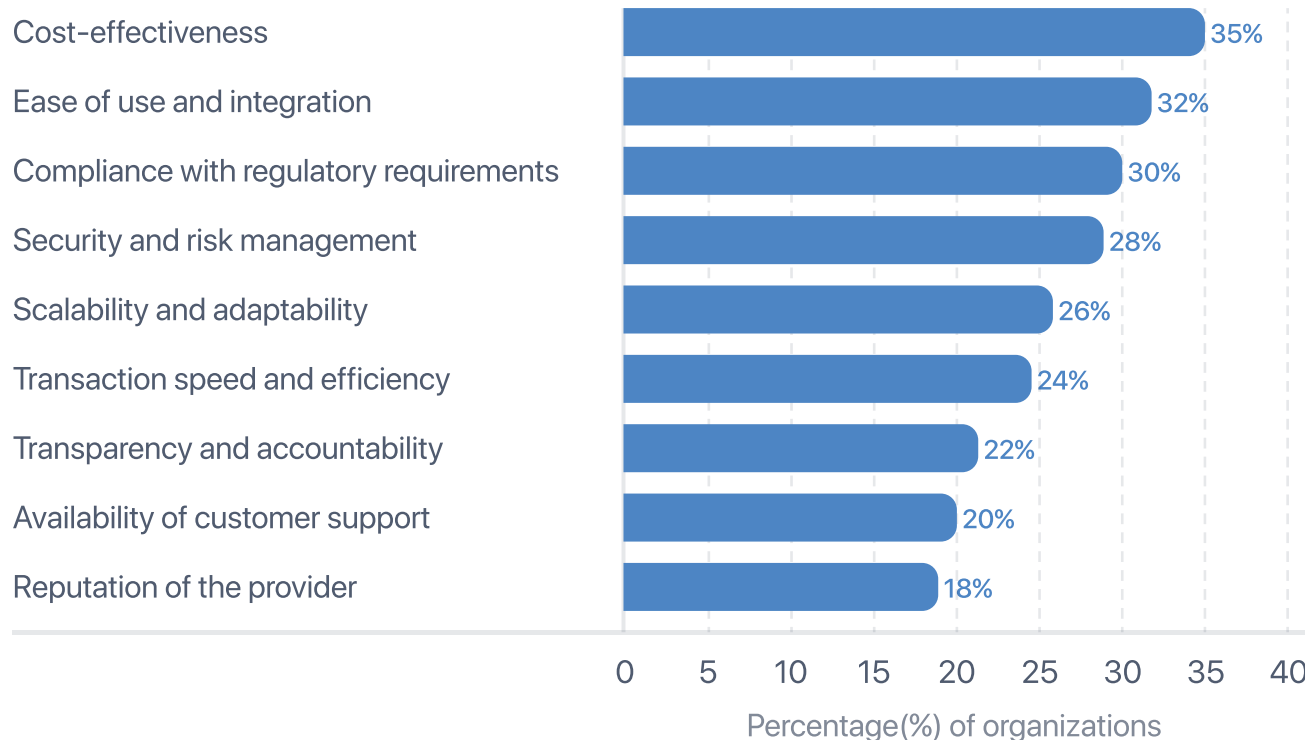


Organizations predominantly struggle with forecasting and budgeting due to unstable financial environments, followed by high costs and regulatory barriers. Limited internal expertise and lack of access to efficient financial tools also present significant obstacles.

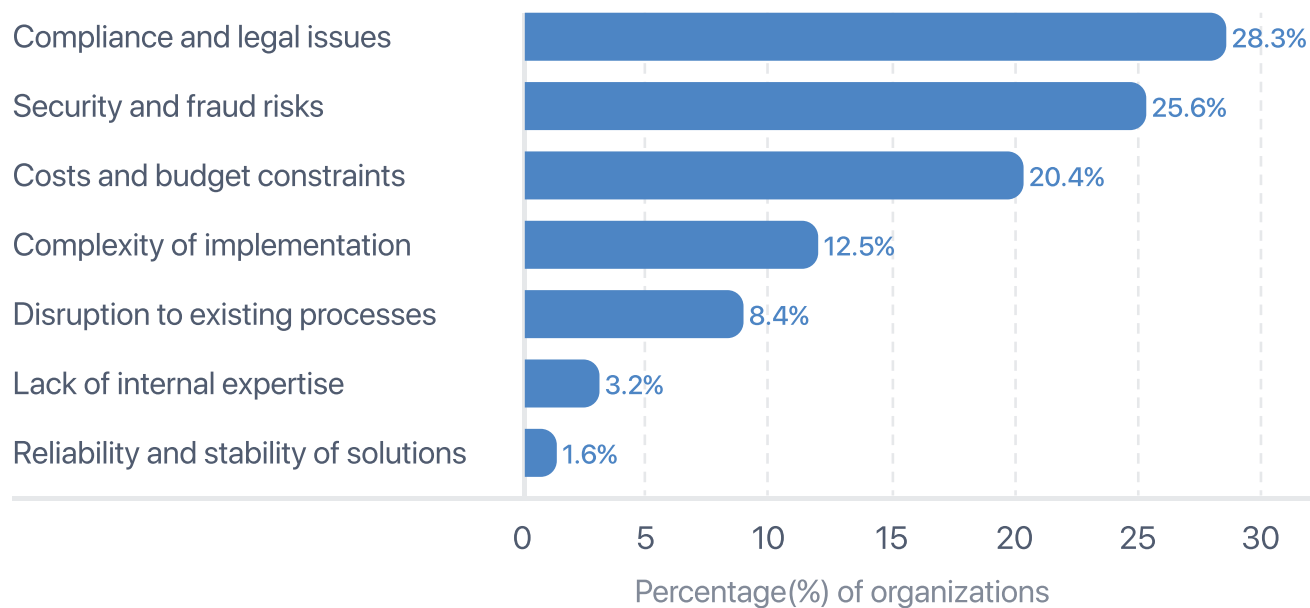
XVII. Level of activity in seeking solutions



XVIII. Key factor when considering financial solutions



XIX. Primary concerns when considering adopting new solutions



What does this mean? A high-level analysis

Key Findings

The survey provides a comprehensive picture of the financial challenges facing non-profits today. Non-profits are grappling with complex, systemic issues that impede their operational efficiency, mission delivery, and impact. The over-reliance on traditional financial solutions underscores a critical gap in tailored financial tools.

1. Systematic Financial Barriers

The pervasive impact of compliance burdens, high transaction costs, and unfavourable exchange rates highlights systemic barriers that non-profits are unable to overcome with existing financial solutions.

2. Reliance on Suboptimal Solutions

Heavy reliance on official bank quotes for currency conversions and informal payment systems like Hawala indicate trust in familiar channels. However, this often results in hidden costs and increased operational risks.

3. Fragmented Financial Practices

Varied frequency of currency conversions and the impact of FX fluctuations on budgeting reveal fragmented financial practices. Non-profits are forced to react to external financial pressures rather than proactively manage resources.

4. Innovation and Proactive Engagement

Despite challenges, the majority of organizations are actively seeking new financial solutions, signaling a strong desire for innovation. However, the current ecosystem lacks comprehensive, scalable tools to meet this demand.

The way forward

A Call for Integrated Solutions

Exploring the future of the aid sector through reform and innovation, focusing on empowering local actors and transforming financial ecosystems.

Driving Systemic Change

The ambitions of aid sector reform are inherently tied to fixing these financial challenges because they are catalytic. By resolving these systemic financial barriers, the sector can unlock a greater capacity for innovation, efficiency, and local ownership. This, in turn, will enable community impact localization, locally led development and innovation.

A Call for Integrated Solutions

For these reforms to succeed, the financial ecosystem that supports non-profits must be transformed. This means developing integrated, scalable solutions that not only address current financial pain points but also align with the broader goals of aid reform. By doing so, the sector can create a more equitable and effective financial landscape that truly supports the ambitions of the aid reform agenda.

Enabling Locally Led Development

The Grand Bargain commitment, drive toward locally led development and localization hinges on the ability of organizations to manage resources effectively. However, the financial constraints they face-high transaction costs, limited access to favorable exchange rates, and the reliance on ad-hoc payment systems-undermine their ability to operate autonomously and sustainably. Addressing these financial issues is crucial for empowering local actors and ensuring they can lead development initiatives with confidence.

Conclusion: Addressing the financial challenges faced by non-profits is critical for the sustainability of both organizations and the communities they serve. Transforming the financial landscape with tailored solutions and collaborative efforts will empower local actors, strengthen community resilience, and ensure resources reach those who need them most. The recommendations in this report provide a clear path to building a more equitable and effective aid system that supports sustainable development and real, lasting impact for communities worldwide. Now is the time for bold action to make this vision a reality.



**Common
Reserve**



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