STOPPING AS SUCCESS: TRANSITIONING TO LOCALLY LED DEVELOPMENT

ISSUE PAPER
FINANCIAL SUSTAINABILITY IN RESPONSIBLE TRANSITIONS

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USAID FROM THE AMERICAN PEOPLE

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This document is part of a collection of documents that should be considered initial and partial findings of the project. These documents are written to allow for the identification of cross-cutting issues and themes across 20 case studies. Each Issue Paper represents the views and perspectives of a variety of people at the time when it was written. These documents do not represent a final product of the project. While these documents may be cited, they remain working documents of a collaborative learning effort. Broad generalizations about the project's finding cannot be made from a single case study or Issue Paper.

ACRONYMS

CSO	Civil Society Organization
FFS	Facilitating Financial Sustainability
INGO	International Non-Governmental Organization
NGO	Non-Governmental Organization
SAS	Stopping as Success
USAID	United States Agency for International Development

INTRODUCTION

This issue paper was developed as part of Stopping As Success (SAS), implemented by a consortium consisting of Peace Direct, CDA Collaborative Learning Projects, and Search for Common Ground, with support and funding from the United States Agency for International Development (USAID). SAS is a collaborative learning project that aims to study the dynamics at play when ending a development program, and provide guidelines on how to ensure locally led development. In doing this, SAS looks beyond the technical aspects of an exit strategy to identify examples that demonstrate a transition toward locally led development. The case studies produced by the project highlight the past and present realities faced by international non-governmental organizations (INGOs), local civil society organizations (CSOs), and local NGOs, focusing in particular on how partnerships evolve during transitions or devolvement to local entities. Based on these case studies, as well as consultations with donor, INGO, and CSO staff, the Stopping As Success project team identified the topic of financial sustainability as critical to responsible INGO aid transitions.[1]

The term 'local' has different connotations in different contexts and is a contested term. In the context of SAS's research, 'local organization' is used to refer to CSOs or NGOs in the global South that are undergoing a process of transition in their partnership with an INGO. This encompasses organizations that work at the local and national level. The broader term 'local actors' recognizes the diversity of this group, which can include individuals, communities, newly created NGOs or CSOs, NGOs that have devolved from an international federation, or local and national governments.

Financial sustainability in this context refers to the ability of local organizations to remain operational after a transition of ownership and responsibility for governance from an INGO to local leadership. Twenty case studies, an online consultation, two regional workshops and dozens of formal and informal discussions with leaders and employees of local NGOs and CSOs have made clear that this topic is critical to any conversation about successful transitions and true locally led development. INGOs have access to a wide variety of funding mechanisms, whether through grants, subscriptions, private donations, or government contracts. After transition, however, designing a funding model and raising money as a new local entity can be difficult. Financial management, donor compliance, hiring business development staff, establishing a track record, making connections, and winning grants all pose significant challenges. Many organizations also feel pressure to follow the "INGO model" of winning grants from international donors, which means competing with large Northern NGOs and other local organizations with established processes and relationships. Our research suggests that decisions made before, during, and after a transition can have wide-ranging effects on a new organization's ability to meet these challenges.

This issue paper will begin with an examination of the role of the external aid context in shaping the financial sustainability ecosystem. The bulk of this paper is contained in the subsequent sections. The SAS theory of change divides our target groups into three categories of influence: INGOs, CSOs, and donors. Accordingly, we have approached the issue of financial sustainability by asking three questions.

1. How can INGOs support a transitioning organization to ensure its financial sustainability?
2. How can local NGOs and CSOs advocate for themselves to enable more financially sustainable transitions?
3. How can donors support more financially sustainable transitions through their policies and practices?

This issue paper is structured to answer these in turn. Each section will discuss the challenges we have seen each category of actors face, as well as the creative ways that we have seen organizations address them through our case research. The sections will conclude with a bulleted list of actionable good practices we have seen in our case studies.

AID CONTEXT CHALLENGES

This leads us to the challenges related to the broader aid context faced by transitioning local entities. INGO decisions to transition, phase over, devolve, or end program activities are frequently related to a lack of available money. Aid flows shrink, grant proposals are not funded, donors pull out, projects end. As a result, the INGO pulls out, leaving a new local organization which often faces the same problems as the INGO, but with a fraction of the resources. These organizations may face funding pressure to reduce activities or branch out into new program areas to follow development trends. In Timor-Leste, for example, the peacebuilding NGO Belun has faced challenges maintaining fidelity to its mission after its mid-2000s transition from Columbia University's Center for International Conflict Resolution. Despite deep societal divides following a twenty-five year guerilla war and a political crisis in 2006, aid flows to Timor-Leste have changed focus from peacebuilding to development, pressuring Belun to adapt its focus. While Belun was able to successfully branch out into related humanitarian and gender programming, others are not as lucky.

In some cases INGO transitions are related to a host country achieving middle income status. In our cases in Colombia, Thailand, and Georgia, among others, we heard INGOs and donors explain that middle income countries were less needy than lower income countries, and thus tend to reduce funding and programming activities when they "graduate." Middle income status is also seen as being accompanied by increased local capacity, which is critical for leadership transitions to local staff, as well as by increased sources of local funding, which is critical for financial sustainability.

Local organizations in these countries have sometimes taken issue with these arguments, seeing graduation as an excuse to cut needed development funding rather than a reflection of real progress. In Colombia, for example, "middle income status" papers over the far more complicated truth of radical regional variation in incomes, a deep rural-urban divide in development, and dynamic and unpredictable conflict dynamics. Similarly, in Bangladesh representatives of local organizations described middle income status as more of a "government branding exercise" than a decline in extreme poverty. The presumption of local funding sources existing is not always true either. In Thailand, CARE assumed that the transitioning Raks Thai would find ample financial backing from the booming Thai economy. The truth was far different in a cultural context where Buddhist temples are far more common donation beneficiaries than NGOs.

HOW CAN INGOS SUPPORT A TRANSITIONING ORGANIZATION TO ENSURE FINANCIAL SUSTAINABILITY?

SAS research suggests that the steps INGOs take before, during, and after transitions to ensure financial sustainability can have a make or break effect on the future success of the transitioning entity. Across our twenty case studies we have seen INGOs use a variety of methods to facilitate effective transitions.

One notable commonality across our cases is the existence of an ongoing relationship between INGOs and local entities beyond the transition. Although the level of support varied widely, often depending on context, in almost every one of SAS's cases INGOs and international staff continued to provide support in a variety of areas from English language assistance to proposal development. Continued assistance varied between a formal arrangement governed by an MOU, to informal ad-hoc assistance conducted on a pro-bono basis by international staff.

PLANNING FOR A TRANSITION

SAS has identified a number of successful approaches taken by INGOs as they transition to local entities. These are typically defined by an intentional, proactive, and collaborative process beginning with strategic planning. Transitioning local entities may not have a clear strategic goal, a vision of their ideal future state, or a complete understanding of the legal and governance requirements of different models of association in the country in question. INGOs can fund and facilitate processes to provide national staff with the tools and space to make these determinations. One important consideration here is that the goal is not to replicate the INGO model: the transitioning entity will likely look and feel much different, and may target different funding sources than the parent INGO. Long-term planning that included tailored capacity development in financial and operational processes, as well as support to initial fundraising and donor engagement was noted as particularly helpful.

This support can include a variety of activities aimed at making space for transitioning staff to think strategically about business models and organizational structures. For example, hiring an in-country lawyer to provide a complete analysis of the available models of association (e.g., NGO, community-based organization, attached consulting or for-profit wing, social enterprise) can help teams think about different paths forward. Strategic planning should also address issues of financial sustainability, whether through recruitment of board members, viability assessments, analysis of the aid context, or scenario planning to evaluate potential risks to the new entity. For example, Oxfam in Georgia paid for a consultant to conduct business model planning exercises with the staff of BRIDGE, the transitioning entity. In the Philippines and Burundi, World Vision and CARE facilitated resource mapping exercises to identify key individuals and institutions for business development. Throughout these exercises, staff reported that it was important for local staff to set the terms of the transition: INGOs may facilitate and fund the process, but true ownership is important for long-term sustainability.

Once the INGO and transitioning staff have determined the desired strategic direction of the organization, planning can establish a concrete path to financial sustainability. This can include value propositions, funding and donor analyses, capacity assessments, comparative advantages, financial projections, and the potential for asset transfer from the INGO. INGOs can help to organize this process as well, whether through staff time or funding consultants. CARE France, for example, pushed the transitioning CARE Morocco to create a detailed business plan to demonstrate their commitment to financial self-sufficiency, resulting in a diversified funding portfolio which includes partnerships with the private sector, face-to-face fundraising, government funding, and donor funding. These processes are often critical to future sustainability.

Our research also identified board development as important. Mercy Corps lent its prestige and reputation in order to recruit talented and capable board members for Partner in Bosnia and Herzegovina and Herzegovina. Prior to transition, Mercy Corps recruited Bosnians who represented all three main ethnic groups to serve on an Advisory Council with a view to them becoming Board members for the independent Bosnian entity later. The Partner Board was set up not for "decorative positions," but to be fully engaged in oversight, strategic advice and external representation, including with local and federal government. Stakeholders identified the Board as key to Partner's success.

TARGETED CAPACITY DEVELOPMENT FOR FINANCIAL SUSTAINABILITY

SAS has documented INGOs which created capacity development programs to build up their transitioning partners in areas critical to financial sustainability. These often flow directly from capacity assessments conducted during business planning exercises. Training in fundraising, business development, grants management, and proposal writing was cited by all organizations in our case studies as either a need or a major asset that they received. Specifics will depend on the chosen organizational and business model. In Bangladesh, for example, the USAID-funded CREL program provided capacity development in financial management and small grants to community organizations to build their grants management experience. In Bosnia and Herzegovina, Mercy Corps provided what staff members described as "extraordinary investment" into staff training and quality assurance of organizational finances of their transitioning organization, Partner. Similarly, in our Thailand case CARE's peer-to-peer collaboration and accompaniment model to build fundraising capacity has greatly improved Rak Thai's ability to find local sources of funding.

Interviewees reported that financial management is a critical capacity, especially in countries with limited local funding sources. In these cases it is typical that few local organizations are able to access funding from international donors due to strict reporting requirements. A common thread across our cases has been INGOs building up this key skill. In Burundi, for example, PADCO's single-minded focus on passing on its rigorous financial systems and zero tolerance for corruption to the Ikibiri Coalition has been a key factor in Ikibiri's continued success.

Belun in Timor-Leste is a particularly good example of this strategy of developing financial management capacity. International staff from the Columbia University Center for International Conflict Resolution, ACDI/VOCA, and CARE International conducted a capacity assessment of Belun staff, inclusive of project-related technical skills but also key financial and operational skills they identified as important to Belun's post-transition sustainability. Based on the results of this assessment, they then provided intensive training in financial management, business planning, proposal writing, and English language skills to Timorese staff of Belun over the course of a six-year project. This was crucial to Belun's later growth: one former Belun director told SAS, "[A] huge ticket to Belun's success was investing in local capacity." Indeed, much of Belun's subsequent success can be attributed to the fact that the INGOs were dedicated to improving the skills that would make connecting with donors easier—which included financial training and developing English skills.

FORGING CONNECTIONS

Transitioning NGOs commonly lack personal connections with donor staff, key government stakeholders, potential partners, and other potential sources of funding or collaboration. This can hurt a local NGO's ability to effectively build strategic relationships and fundraise: many organizations reported that a lack of social capital among key stakeholders in the aid community affected their ability to operate. SAS has found that INGOs can work during transitions to help create those connections to set a transitioning entity up for success.

One example is in Burundi, where the Ikibiri Coalition highlighted advocacy and references from PADCO to Belgian Cooperation, USAID, and other donors as important to their fundraising capacity. Similarly Interpeace in Timor-Leste assisted CEPAD in connecting and pursuing funding from other donors and philanthropy networks. This included creating a relationship with the Australian entrepreneur Steve Killelea, who went on to provide critical funding for peacebuilding work. In the Philippines, World Vision staff made important connections to government for the TB Federation, advocating for TB-related funding and legislation at the national and local levels.

As one former USAID employee told the SAS consortium, helping to forge connections between host country nationals and donors can be as simple as INGOs including local staff in donor meetings. These sorts of small steps can often bring outsized results to local NGOs, and go a long way towards correcting the sorts of power imbalances discussed in the introduction.

Continued engagement after transitions, especially in building fundraising capacity, was cited in almost every case it appeared as one of the most useful contributions by an INGO to sustainability. This could be through retaining board seats, which Mercy Corps in Bosnia and Herzegovina, Columbia in Timor-Leste, and CARE in Morocco all opted for. Also useful is informal advice on business development or technical areas of program implementation. Former Columbia University staffers have continued to support Belun in Timor-Leste with proposal preparation and technical advice, including for their signature Early Warning program.

ASSET TRANSFER

SAS has seen a wide variety of INGO actions that can fall under the umbrella of "asset transfer." These forms of support often go beyond what can be thought of as a "standard" model of cash transfusion through a grant. The usefulness of asset transfers was often tied in case studies to the difficulty of charging overhead: local organizations often have limited ability to pay for operational costs such as rent, business development, or strategy planning.

TRANSITION FUNDING

The provision of either seed funding or bridge funding by a transitioning INGO or donor was appreciated in the cases that it was available. This took a variety of forms, from a slow decrease in funding in the case of SOS in Colombia or CARE Morocco, to seed funding from the government of Finland with Plan India, to Oxfam allowing their Georgia staff to spend 10 percent of their time building up the transitioning BRIDGE. These actions allowed the local organizations to maintain core operations in situations where the funding environment was uncertain or relationships with donors were not yet mature. It is worth noting that while we have seen grants be successful in standing up local NGOs, the risk of creating dependency exists: GLID, a Burundian NGO, was still receiving 95 percent of its funding from CARE five years after transition, while MCC India told SAS researchers that "if external funding stops, [some local partners] won't exist."

Conscious of this risk, some INGOs provided loans instead of grants. Mercy Corps, for example, provided Partner in Bosnia and Herzegovina initial credit through a loan with conditions related to organizational governance, accountability, and mission to jump-start their microlending business. Mercy Corps later wrote off this loan as a donation to Partner's equity once they had met the conditions. These loans can also be situational: as mentioned above, during instances where USAID was unable to advance funds due to internal restrictions, Interpeace has lent CEPAD the necessary funds to bridge the gap.

FIXED ASSETS

Asset transfer can also be through fixed assets, which in certain contexts can be even more useful in the long-term than money. In Georgia, Oxfam bought office space for BRIDGE, part of which could be rented out, giving the local organization a huge head start in the expensive Tbilisi real estate market since they wouldn't have to find unrestricted funding to pay for rent. Along the same lines, World Vision Philippines brokered a free rent and utilities deal with a large local NGO so that the TB Federation could have a place to work. Smaller donations were also seen as welcome. Staff from the Ikibiri Coalition in Burundi and Belun in Timor-Leste pointed to transfers of computers, furniture, and automobiles from their parent organizations as critical to financial sustainability: besides their obvious functionality, the ability to rent out part of an organization's office or sell a car during ebb funding periods can sometimes mean the difference between staying open or closing up shop.

KNOWLEDGE ASSETS

Finally, in a number of cases staff pointed to different methods of non-financial support as important to their transitions. This can include transfers of key financial management and business development resources. PADCO's financial management processes and advance-planning systems, for example, were key to building the Ikibiri Coalition's reputation as a reliable grantee. Similarly, Interpeace's purchase of Quickbooks software has been important for CEPAD's financial management. To address a key gap in business development capacity, Oxfam gave BRIDGE access to their proposal databases, saying that since the learning embedded in those proposals was originally collected from the Global South, it was only fair to give it back.

LESSONS LEARNED

- **It can be beneficial for INGOs to invest in capacity development for local NGO staff in areas identified as important for financial sustainability, including fundraising, proposal development, grants management, and financial management.**
- **Seed funding, whether through loans, grants, or hard assets, can be important to sustainability when combined with other forms of institutional support.**
- **Transferring knowledge resources such as proposal databases, HR and finance systems, and financial management processes are low-cost ways to set local organizations up for success.**
- **INGOs should consider working with local NGOs to define their strategy after transitioning, whether through hiring a consultant or dedicating staff time to create a business plan or organizational strategy document.**
- **INGOs can play an important role by helping transitioning staff to recruit board members to support the new organization, especially members who can fill capacity gaps.**
- **Facilitating relationship development between transitioning NGO staff and donors and potential partners is important to build strategic relationships for new NGOs. This can be through formal introductions, informal meet-ups, or simply having national staff accompany international staff to donor meetings.**
- **Many of our cases show the importance of keeping the relationship alive after transition. If formal arrangements are unrealistic, informal informal channels of advice, donor introductions, capacity development, and business development support can make the difference.**

HOW CAN LOCAL NGOS AND CSOS ADVOCATE FOR THEMSELVES TO SUPPORT MORE FINANCIALLY SUSTAINABLE TRANSITIONS?

Of the three groups discussed in this issue paper, local organizations have the hardest challenge in contributing to their own financial sustainability before, during, and after transitions. Transition often means a struggle for financial resources, especially unrestricted funding. This reflects a relative lack of agency more broadly: within the broader global aid system, local organizations have little individual power to advocate for sustainable locally led development. However, across our case studies SAS has seen NGOs and CSOs use creative methods to challenge that system and advocate for themselves, both within and outside of the formal structures of Global North-led international development.

TRANSFORMATION, NOT TRANSITION

One significant commonality across SAS case studies is a willingness to buck the traditional model of grant-funded NGO development. Transition from an INGO can be an opportunity to pause, reflect, and plan strategically for the funding model most appropriate for the staff involved and the local context. Alternative funding models such as social enterprises, for-profit consulting wings, and microcredit lending arms, can be effectively leveraged to achieve the missions of local NGOs, in some cases supplementing more traditional grant-funded activities by providing unrestricted funding. Consultations with local law firms and strategic planning exercises (ideally funded by the INGO) can give staff a good idea of the possibilities available. (Coffee for Peace Philippines, Nuru Kenya, SOS Children's Colombia)

BOARD OF DIRECTORS

Recruiting a dynamic and capable board of directors can be an excellent way for a transitioning local organization to bring in technical knowledge, forge relationships with key stakeholders, and maintain a connection with their parent INGO. Board members can also fill key capacity gaps in areas such as financial management or business development. Partner in Bosnia and Herzegovina, Plan India, Belun in Timor-Leste, and CARE Morocco, among other cases, all listed strong boards as important factors in their transition. As discussed above, INGOs can assist with the recruitment process by virtue of their reputation, but local staff are often positioned to identify potential directors.

Staff see Plan India's board of directors as an important factor in its successful transition. The organization included development of a strong local independent board as part of its transition plan. Plan India's identified capacity gaps in governance, financial accountability, marketing and communication, and program implementation, and headhunted leaders in the media, finance, government, and corporate sectors in India with those specific skill sets to join its board. Once established, the Plan India management team involved this diverse board in key decisions and actively sought their mentorship.

DIVERSIFIED LOCAL FUNDING

Nearly all of the local organizations studied by SAS researchers described a diversified funding stream as important to their success. Avoiding reliance on a single donor provides some security from funding shocks, as well as allowing local NGOs a degree of independence from donor and INGO priorities. Difference in the type of donor matters as well. A number of transitions we documented, especially those in middle-income countries, found that localization meant easier access to a wide array of local funding sources. Domestic funds offer a number of benefits to transitioning NGOs. For one, local fundraising streams such as local or national government money or corporate social responsibility funds are often more sustainable and offer more opportunities for longer-term partnerships than donor funds tied to specific projects.

Another benefit of domestic funds is that locally-driven agendas can be more responsive to beneficiary needs. Plan India's devolution meant the new local entity was able to reach areas outside of the specific sponsorship areas to which, as an international organization, it had been previously restricted under Indian law. The transition allowed a focus on more locally appropriate programming (such as underprivileged youth in urban areas) as well as a new advocacy wing to promote policies with the Indian government. Similarly, after its transition from SOS International, SOS Colombia pivoted away from the parent organization's "children's villages" model, finding that maintaining the institutions of SOS villages were becoming both financially unsustainable as well as unpopular amongst Colombian civil society and private funders.

While diversified local funding provides clear advantages, if can often be difficult for new organizations to access. In cases such as CARE Morocco, SOS Colombia, Plan India, and GLID in Burundi, local staff found that proactively developing clear outreach and fundraising strategies to target diverse donors can be effective, even in the absence of specific assistance from their parent INGO. CARE Morocco, for example, considered this question in depth during their transition, conducted an intensive business planning exercise, and now boasts a diversified portfolio including partnerships with the private sector, face-to-face fundraising, and government funding in addition to traditional donor grants. The former CARE local staff leading GLID, for example, were talented but did not have strong networks and social capital among the aid community, other organizations, donors, and government. In response, GLID recruited an external representative and an external coordinator with fundraising and proposal writing experience, and created staff development plans to build some of the competencies it requires.

LOCAL AND NATIONAL GOVERNMENT FUNDING

Longer-term partnerships with local and national governments were important across cases, including with the TB Federation and Coffee for Peace in the Philippines, CARE Morocco, CRS Guatemala, the

Participants at the SAS Nairobi Regional Review Meeting, September 2019.

Ikibiri Coalition in Burundi, and SOS in Colombia. Governments can offer stable, long-term partnerships to local NGOs, fostering sustainable growth and critical core funding. This can be a particularly effective strategy in an environment where aid agencies are decreasing funding. SOS Colombia, for example, started to look at domestic sources of funding as international aid shrank. This led them to form a stronger relationship with national and local government bodies. Currently, 60 percent of programs implemented by SOS Colombia have some sort of government involvement.

PRIVATE SECTOR FUNDRAISING AND PUBLIC CAMPAIGNS

Raising money from national corporations and members of the public can provide similar long-term, stable funding, though the opportunities are generally more substantial in middle income countries. Plan India, CARE Morocco, and SOS Colombia, for example, have sought corporate social responsibility money through partnerships with national companies. In India, the 2013 Corporate Social Responsibility Act requires Indian companies to spend at least 2 percent of their average net profit on social causes, bringing a huge wave of investment to Plan India and other NGOs. These relationships have the potential to be very responsive to local needs: when Colombia experienced large-scale floods, one private firm supported SOS Colombia when it proposed a program that would deliver counselling services to children who were traumatised by the floods. However, it is important to note that private sector money is generally still required to be spent on areas of the business's choosing. In these cases, one outside agenda may just be replaced by another. "Local" corporations are not necessarily better stewards of development funding than "foreign" NGOs or aid agencies.

Locally-based fundraising models such as public campaigns can offer organizations the flexibility to allocate funds as they choose. For example, the TB Federation in the Philippines spearheads income-generating activities such as Fun Runs, raffles, community bingo and sports tournaments. SOS Colombia regularly launches public campaigns with fundraising and advocacy strands. These campaigns aim to bring attention to children impacted by conflict, child abuse, and poverty, and at the same time collect donations from the public via digital platforms and volunteers in public spaces like supermarkets. These campaigns are now SOS Colombia's primary source of unrestricted funding and form an invaluable component of their fundraising model. However, public campaign funding is not a viable option everywhere: in many lower income countries people lack the disposable wealth to donate, while in some middle income countries such as Thailand organizations reported that individual philanthropic giving remains small due to a variety of social and cultural factors.

ALTERNATIVE INCOME-GENERATING ACTIVITIES

SAS has seen post-transition local entities employ a variety of operational models and financial innovations. Developing funding streams outside of traditional NGO fundraising and projects was important for many financially self-sufficient organizations in SAS case studies. Since INGO decisions to transition out of a country are often driven by a lack of available financing, looking to alternative funding models is especially important for transitioning entities. Another advantage of these models is that they can generate unrestricted funding crucial for internal operations, business development, and recruitment. Three examples include microcredit in Bosnia and Herzegovina, a social enterprise in the Philippines, and consulting services in Georgia.

In Bosnia and Herzegovina, the Mercy Corps phase-over Partner (registered as a nonprofit) generates revenue through the provision of a range of personal, business, agriculture and housing microloans to predominantly female entrepreneurs. Coffee for Peace in the Philippines, which transitioned from the Mennonite Central Committee, earns 50 percent of its operating funds through an innovative social enterprise model which combines peacebuilding activities with coffee production and sales. Finally, the Georgian NGO BRIDGE transitioned from Oxfam in an aid environment characterized by shrinking international funding. The consultant hired by Oxfam to work with BRIDGE on a business model determined that to ensure sustainability, BRIDGE would need an advisory unit which would raise revenue through trainings and consultancy projects.

MAKE REQUESTS FOR CORE FINANCIAL NEEDS

SAS research has determined that one key opportunity for local organizations has been understanding the ways they can advocate for themselves with INGOs and donors. This often results from asymmetric information between locals and foreign organizations about available options: in other words, "knowing what you don't know." For instance, many local organizations in Timor-Leste told SAS that they were not aware they could request overhead funding. Local organizations have the ability to lobby their INGO partners to request access to key donor meetings, or to advocate for capacity development in key areas related to financial sustainability.

One of these key areas is financial management. Some of the biggest barriers to financial sustainability are the complex array of financial rules and regulations created by large international donors. Reporting requirements are stringent, but local organizations such as Plan India or Partner in Bosnia and Herzegovina that find ways to meet them can open the door to significant funding streams for their work. This often involves planning during the transition, with the local NGO requesting capacity development, financial software, and coaching and mentoring from the parent NGO. In some cases, requesting funding for financial audits was useful--donors cited the ability to show clean audits as essential to building confidence in an organization.

NGOs in Burundi have taken this message to heart. GLID, which transitioned from CARE Burundi, is among the many local NGOs in Burundi which insist on capacity development for mobilizing resources, such as training on proposal writing, fundraising, and financial management. These are skills which are absolutely necessary for winning new funding from large donors but are often ignored in traditional project-based capacity development. GLID also advocates for audits, which allow them to make the case for recovering overhead costs when preparing budgets for donor approval.

LESSONS LEARNED

- **As part of the transition, local NGOs should consider instituting rigorous financial management policies to win grants from international donors and INGOs.**
- **Audits are important to establish a good financial track record. Organizations should consider requesting financial audits from INGOs as part of transition planning or subgrant budgets or using core funds to hire third party accounting firms.**
- **A strong board of directors can assist with fundraising, fill capacity gaps, and advocate for the new organization. NGOS can also consider allocating board seats to representatives of the parent INGO to maintain an institutional connection.**
- **If a business plan was not included in the INGO's transition, local NGOs can conduct planning exercises themselves to identify diverse sources of funding across government, the private sector, and other donors.**
- **Alternative funding models can be effectively leveraged to achieve the missions of local NGOs. Organizations should consider the models referenced above.**
- **While donors and INGOs should implement more sustainable practices, local NGOs will often have to advocate for themselves before, during, and after transitions. Requesting overhead rates, asking to accompany INGO staff to donor meetings, and insisting on capacity development have all been documented as important.**

HOW CAN DONORS SUPPORT MORE FINANCIALLY SUSTAINABLE TRANSITIONS THROUGH THEIR POLICIES AND PRACTICES?

Donors are crucial to facilitating transitions which result in financially sustainable local organizations. Key opportunities identified include adding language to calls for proposals; providing core funding; trimming rigorous reporting, compliance, and proposal requirements; and assisting with regulatory infrastructure in host countries.

TARGETED CAPACITY DEVELOPMENT IN SOLICITATIONS

SAS research suggests there is an opportunity for donors to think creatively about their calls for proposals to encourage INGO grantees to think sustainably about post-project transitions to local NGOs. One effective method can be for donors to mandate that INGO grantees provide capacity development training in areas important to financial sustainability to transitioning local organizations. INGO staff transitioning to staff of a local NGO are typically program staff-- their expertise often lies in technical, programmatic, and operational areas, and does not include skills relevant to business development or fundraising. Furthermore, capacity development over the course of a project or grant is often aimed at improving capacities useful to the project, which tend to be in specific management or technical areas. The end result can be a local NGO without the effective ability to analyze a funding ecosystem, compete for grants, identify potential partners, or raise money; In short, the result can be financially unsustainable organizations, run by dedicated, competent staff, who are unable to find ways to continue their missions.

Participants at the SAS Nairobi Regional Review Meeting, September 2019.

One example comes from Timor-Leste. The USAID-funded NGO Sector Strengthening Program (2003-2008) had two objectives. The first was to strengthen the operational, technical, and financial capacities of Timorese NGOs. The second was to implement this work through a new local NGO (soon to be named Belun), and to build the NGO's capacity so that it could sustain its work beyond the life of the project. USAID funded training in financial management and business development, successfully setting up Belun for financial sustainability after project close.

PROVIDE CORE FUNDING

There is a clear need for grant funding to support the significant core costs-- human resources, financial management and reporting, accounting, operations, and more-- involved in transitions. Some donors in our case studies have responded to this need by offering grants: Plan India, for instance, received a seed funding grant from the Finnish government. However, donors can do more to encourage locally led development by offering short- or long-term support grants to finance transitions.

A similar challenge exists for overhead costs, both during and after transitions. Case study participants cited donor restrictions preventing local NGOs from recovering their overhead costs as a key barrier to financial sustainability. These restrictions make it difficult for organizations to establish strong business development teams and secure diversified revenue streams. Indeed, by removing the ability to charge overhead and the associated fundraising independence, donors often lock local NGOs in cycles of dependency with INGOs.

Overhead restrictions can be either de facto, such as excessive reporting requirements associated with establishing indirect rates, or de jure, including outright restrictions on overhead costs for local organizations. In Burundi, for example, the CARE phase-over organization GLID told SAS researchers that the practical difficulty in establishing a documented overhead cost structure amenable to international donors made requesting overhead extremely difficult. Proactive support and capacity development in these areas from donors interested in supporting locally led development would be a tremendous help for local organizations. Participants in SAS workshops also recommended that donors tie operating cost recovery to clear outcomes: e.g., the local organization diversifying its funding base or winning new grants.

REPORTING & COMPLIANCE REQUIREMENTS

Donors often maintain rigorous reporting and financial management requirements that present overly onerous management burdens for local organizations. This results in organizations struggling to maintain compliance, as with Belun in Timor-Leste or BRIDGE in Georgia, or choosing to eschew international donor funds entirely, as with Coffee for Peace in the Philippines. To quote one NGO worker, "That's all we do. It's been so hard to keep up with M&E, constant emails, changes, we're not set up for that. We're a small organization. If we ever did take on another bunch of money from [USAID], we would have to employ one person whose job it was to do reporting and just sort out that piece… [USAID gives us] 30 percent of our funding, but 80 percent of our headaches. I think gradually you'll see it going to bigger organizations, smaller ones will opt out--it's so hard."[2]

Many national staff believe that donors do not trust them with money, or that they intentionally favor Northern NGOs. SAS researchers frequently heard civil society representatives explain that international donors prefer to fund large INGOs because they have established financial management systems and can absorb grants and financial risk, but that this process leaves out more "authentic" organizations, perpetuates power differentials, and hinders the emergence of strong local NGOs.

Strict reporting requirements present a particularly difficult challenge for NGOs in countries with limited access to financial software, computer literacy training, or English language education. As one former USAID/Timor-Leste staffer told SAS, ""[In recent years] USAID just could not reduce its financial reporting requirements or allow it to be in local language, even though they have Timorese staff, but because they just can't drop their standards." The net effect is to exclude NGOs from international funding: only two Timorese NGOs have financial management systems acceptable enough to receive direct funding from USAID.[3]

These requirements can also be difficult for people raised in non-Western cultures to understand. In the Coffee for Peace case in the Philippines, a local NGO worker told SAS that "the way [internationals] do reporting is not culturally appropriate. In our culture when we go to a house we bring food. By bringing food we are saying we want to relate with you. But Western financial management systems require that pastors and households sign your vouchers," forcing NGOs to choose between perceived rudeness and donor reimbursement. This sentiment was echoed across cases. Similarly, in Timor-Leste it is common to purchase small gifts for local leaders to build trust when beginning work in a community. The inability to expense these gifts with international donors means that NGO workers either pay out of pocket or risk incurring severe penalties.

SAS has seen a few donors change policies in response. In the Coffee for Peace case, the "donor" (in this case also the INGO, Mennonite Central Committee) allocated a budget for "social contributions" for which receipts could not always be produced. Some donor country offices in our case studies have created special categories of assistance for local NGOs in an attempt to maintain accountability standards while offering support in navigating complex financial requirements. These categories generally involve intensive financial oversight and creative funding arrangements such as payment after performance. While a step in the right direction, these standards can still be difficult for local organizations to meet. Delayed payment in particular can mean financial ruin for the many local NGOs run on a tight budget-- CEPAD in Timor-Leste was forced to request loans from its parent INGO to bridge the gaps between payments. For donors with extremely strict accountability requirements and little risk appetite, these arrangements may be successful if combined with some form of formal or informal mentoring or capacity development in financial management for the local NGO.

REGULATORY DEVELOPMENT IN THE NGO SECTOR

Regulations in many developing countries divide corporate structures into traditional for-profits and nonprofits, without accounting for social enterprises, community management organizations, microcredit firms, nonprofit entities with for-profit consulting businesses, or other innovative models seen across SAS case studies. In these situations, donors can provide host country governments the technical assistance, advice, and peer-to-peer learning necessary to implement new standards and regulations to support other forms of INGO-local entity transition.

Partner, the microfinance phase-over from Mercy Corps profiled in our Bosnia and Herzegovina case study, faced this exact issue. From the early days of establishing Partner as a Bosnian entity, experienced Partner staff advocated with the government for the need to regulate the microfinance sector. This struggle was more or less existential: they were pushing for the creation of a new regulatory architecture. Their advocacy received an invaluable boost from the World Bank's Local Initiatives Department as well as USAID, which provided critical technical assistance to the Bosnian government through the Banking Supervision Project to establish the necessary standards and laws.

LESSONS LEARNED

- **Successful approaches we have documented include writing in funding for local NGO capacity development in financial management, report writing, grants management, proposal development, and other key skills in calls for proposals**
- **Providing general support grants to assist with the core costs of transition can help to get local organizations on their feet**
- **Donors have the opportunity to conduct outreach to local NGOs to inform them of the opportunities to request overhead rates, as well as capacity development to meet the necessary requirements**
- **Allowing reporting in the local language means that local NGOs have a much easier time meeting reporting requirements**
- **Creating special categories of assistance which include mentoring and/or capacity development in financial management and reporting can help develop local NGOs**
- **Tailoring financial reporting regulations to individual host countries allows for culturally sensitive standards**
- **Donors can help to design and implement new host country regulations covering alternative association models such as microcredit lending and social enterprises**

CONCLUSION AND FURTHER CONSIDERATIONS

Ensuring the financial sustainability of local entities is a critical part of making transitions-- and ultimately locally led development-- a success. This paper has discussed considerations for donors, INGOs, and local organizations that emerged from SAS's research and engagement. However, there is much work left to do to analyze both the challenges faced and solutions available for more sustainable transitions. The following questions were not covered in depth in this Issue Paper and may be areas for further research.

1. **This issue paper assumes that financial sustainability of local entities will lead to more locally led development. However, it is possible and perhaps probable that donors will continue to almost single-handedly lead in setting development agendas. To what degree can stronger local entities influence the aid system if the ultimate source of the funding remains large Northern donors?**

2. **Despite the clear benefit of allowing local organizations to charge for overhead, many large donors are resistant to the idea due to accountability concerns. What strategies can key stakeholders within donors, INGOs, and local organizations use to lobby for easier overhead recovery? What accountability mechanisms would make the idea palatable?**

3. **Many of the INGO interventions listed above cost money. How can INGOs with limited financial resources support effective and sustainable transitions? What are the most cost-effective ways to set local organizations up for success?**

4. **This paper outlined a number of ways in which the experiences of local NGOs diverged in countries of different income levels. Further research may wish to dig deeper into this question. Does middle-income status mean an easier path to financial sustainability?**

END NOTES

1. The majority of these findings are further reinforced by research conducted through the Facilitating Financial Sustainability (FFS) project, another USAID co-created research initiative. While this Stopping As Success resource focuses on financial sustainability specifically during transitions, the FFS research provides insight into the overall underlying factors which impact financial sustainability during a local organization's life cycle.
2. The quoted staff member was not involved in a SAS case study but is employed by a Cambodian NGO.
3. Perhaps not coincidentally, both actors were profiled in SAS case studies.

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