

PRACTICAL GUIDELINES FOR FINANCIAL SUSTAINABILITY

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ACRONYMS

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

INTRODUCTION

This resource 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. The 20 positive deviance 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 donors, focusing in particular on how partnerships evolve during transitions or devolvement to local entities. Based on these case studies, as well as formal and informal consultations with INGO, CSO, and donor staff, Stopping As Success identified the topic of financial sustainability as critical to responsible INGO aid transitions.

Financial sustainability in this context refers to the financial sustainability of local organizations after their transition from an INGO. This topic is critical to any conversation about successful transitions and true locally led development. After transition, raising funds as a new local entity can be difficult. 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.

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.

The following sections, broken out by audience, list practical guidelines for facilitating the financial sustainability of transitioning entities. These guidelines are not intended as context-independent best practices. Rather, they are approaches and considerations that were highlighted by interviewees as important elements of their transitions and that are common across one or more of our 20 case studies. They have been validated through a series of discussions, conversations, and events, including two regional review workshops in Bangkok and Nairobi with a diverse set of participants representing our three target audiences.

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

STRATEGIC PLANNING

Successful approaches to transition 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. (Nuru Kenya, Oxfam Georgia, World Vision Philippines)

- Work with local entities to define their strategy for post-transition, whether through hiring a consultant or dedicating staff time to create an organizational strategy document. Transitioning staff should have space to determine what the transformation looks like.

- Provide funding for 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).
- While the INGO may have an interest in the local entity maintaining fidelity to the INGO's mission, the staff of the transitioning entity should decide its strategic vision. This may include a strategy or structure with significant differences from the INGO model, or a decision not to start up a new entity at all.

BUSINESS PLANNING

This should follow the strategic planning exercise and a decision on the model and mission of the new entity. Many transitioning local organizations lack value propositions, funding and donor analyses, capacity assessments, and other critical components of a business plan. (CARE Morocco, Nuru Kenya, Partner Bosnia)

- Provide dedicated staff time or hire a consultant to execute a collaborative business planning process which:
 - Defines the organizational management structure and skill sets available
 - Identifies skill gaps, especially operations and financial capacities relevant to the model identified during strategic planning, as well as capacity development activities the INGO can fund to address those gaps
 - Lays out the comparative advantage of the transitioning local entity
 - Describes the market, including potential donors and strategic partners
 - Describes the business model, including the marketing and engagement strategy for each potential funding source category
- Business plans should include sections on the potential for asset transfer (see below) and the related financial and legal ramifications

ASSET TRANSFER

A basic problem that has been highlighted through the SAS project is that transitioning local organizations often face a lack of assets: hard assets such as office space, money, or computers; and soft assets such as knowledge resources or operational processes. Many INGOs in SAS case studies proactively addressed this issue through asset transfer. (Oxfam Georgia, PADCO Burundi, World Vision Philippines).

- Seed funding, whether through loans, grants, or hard assets, can be important to sustainability when combined with other forms of institutional support. Assets such as cars or office space can be sold or rented out in lean funding periods.
- If there is a period of overlap between INGO staff and/or program exit and local entity registration, INGOs should consider sharing office space and allowing staff to spend a certain percentage of time on the new entity.
- 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.

CAPACITY DEVELOPMENT

SAS has documented INGOs who created capacity development programs to build up their transitioning partners in areas critical to financial sustainability. Training in strategic planning, fundraising, business development, proposal writing, and financial management was cited by all organizations in our case studies as either a need or a major asset that they received. For more information on SAS's documentation of approaches to capacity building, please see our issue paper. (Belun Timor-Leste, Nuru Kenya, Partner Bosnia)

- 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. Specific capacities will likely emerge from the strategy planning process and depend on the chosen funding model

- Setting co-developed milestones around specific financial sustainability capacities can create a shared objective for this process.

FORGING CONNECTIONS

Transitioning NGOs commonly lack personal connections with donor staff, key government stakeholders, potential partners, and other potential sources of funding or strategic collaboration important for financial sustainability. Across SAS case studies, INGO or former INGO staff continued to engage with the transitioning NGO in a variety of ways. (CEPAD Timor-Leste, PADCO Burundi, Partner Bosnia)

- Help transitioning staff recruit board members to support the new organization, especially members who can fill capacity gaps.
- Facilitate relationship development between

transitioning NGO staff and donors and potential strategic partners. This can be through formal introductions, informal meet-ups, or simply inviting local staff to donor meetings.

CONTINUING RELATIONSHIP

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 depending on context, in almost all of SAS's cases INGOs and international staff continued to provide support in a variety of areas from English language assistance to proposal development. (Belun Timor-Leste, Coffee for Peace Philippines, GLID Burundi)

- Keep the relationship alive after transition. If formal arrangements are unrealistic, informal channels of advice, donor introductions, capacity building, and business development support can make the difference.

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

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. (Coffee for Peace Philippines, Nuru Kenya, SOS Children's Colombia)

- Consider alternative funding models available in the country context. Consultations with local law firms and strategic planning exercises (ideally funded by the INGO) should give staff a good idea of the possibilities available.
- 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.

DIVERSIFIED FUNDING

Nearly all of the local organizations studied by SAS researchers described a diversified funding stream (local government, international donors, public campaigns, private sector funding) 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. However, while diversified local funding provides clear advantages, it can often be difficult for new organizations to access. (GLID Burundi, PLAN India, SOS Children's Colombia)

- If a business plan was not included in the INGO's transition, local NGOs should conduct planning exercises themselves to identify diverse sources of funding across government, the private sector, the public, and other donors.

BOARD DEVELOPMENT

SAS research has found that investing in board development prior to transition can be a huge assistance to new local organizations. 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 fill key capacity gaps. Parent INGOs can assist with the recruitment process by virtue of their reputation, but local staff are often positioned to identify potential directors. (Belun Timor-Leste, Partner Bosnia, PLAN India)

- Local NGOs should put a priority on developing a strong board of directors to assist with fundraising, fill capacity gaps, and advocate for the new organization.
- Consider allocating board seats to representatives of the parent INGO to maintain an institutional connection.

VOLUNTEERS

Replacing international staff's technical expertise and relationships with donors and other international organizations can present a challenge to the survival of many local NGOs. International volunteer organizations and academic interns can provide several crucial services. Many international volunteers speak native or fluent English, which for organizations focused on grants from international donors is critical for drafting, reviewing, and copy-editing proposals and reports to INGOs and donors. They can also assist with interpreting proposal and reporting requirements, and may bring technology skills useful for database management, IT work, and computer skill development. (Belun Timor-Leste)

- During the transition, local organizations can ask the INGO if they would be willing to place interns with them, or to establish partnerships with relevant universities.
- Reach out to local branches of volunteer organizations such as the US Peace Corps, Australian Volunteers, and New Zealand Volunteers.

SELF ADVOCACY

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." (Coffee for Peace, GLID Burundi, Nuru Kenya)

- While donors and INGOs should work to implement more sustainable practices, local NGOs will often have to advocate for themselves before, during, and after transitions. Local NGOs should use this document, as well as the SAS Financial Sustainability issue paper, to work with donors and INGOs. Key areas of organizational advocacy will include requesting overhead rates, asking to accompany INGO staff to donor meetings, and insisting on capacity building before and after transitions.
- Organizations should request financial audits from donors or INGOs as part of transition planning or subgrant budgets.

How can donors change policies and practices to support more financially sustainable transitions?

TRANSITION-FRIENDLY CALLS FOR PROPOSALS

INGO staff transitioning to become staff of a local NGO often have expertise in technical and programmatic areas, but lack skills relevant to business development, fundraising, and other areas critical to financial sustainability. They may also lack connections or experience working with key stakeholders in the aid sector, including government officials, donors or staff of large INGOs. SAS has seen donors take proactive steps to help stand up transitioning local entities through capacity development. (Belun Timor-Leste)

- Include funding for capacity development in financial management, grants management, proposal development, and other key skills in calls for proposals

- Include requirements for offerors to define a sustainability planning process. This could be an inception report in the proposal followed by a detailed plan later in the program setting milestones towards financial sustainability of the local entity.
- Proactively work with INGOs and local organizations to ensure that property disposition planning prioritizes the needs of transitioning entities, and that titles to important assets (vehicles, computers, information technology) are retained.

Core Funding: Common transition costs include legal fees for the drafting of bylaws; registration fees paid to governments or nonprofit umbrella organizations; operational costs such as rent, utilities, and gasoline; consultant fees for strategic planning, business planning, and capacity development; fundraising and business development costs; and bridge funding for salaries. There is a clear opportunity for donors to provide general support grants to both INGOs and transitioning local entities. (Belun Timor-Leste, Oxfam Georgia, PLAN India)

- Provide general support grants to assist with the core costs of transition
- Provide outreach to local NGOs to inform them of the opportunities to request overhead rates, as well as capacity development to meet requirements
- Reporting Requirements: Financial and compliance requirements can be difficult for local NGOs to

meet, resulting in very little grant money going directly to local organizations from international donors. (Belun Timor-Leste, Coffee for Peace Philippines)

- Allow reporting in the local language or provide funding for translation
- Create special categories of assistance for local NGOs which include mentoring and/or capacity development in financial management and reporting
- Tailor financial reporting to host countries to allow for culturally sensitive standards (e.g., gift-giving to build trust or providing meals during events)

Regulatory Advocacy: Country regulatory architectures are often not prepared or permitted to register and regulate alternative models of association that can support local organizations' financial sustainability, such as NGOs with a consulting wing, social enterprises, community management organizations, or microcredit. Furthermore, civil society groups in some countries face pressure for accepting foreign sources of funding. (CREL Bangladesh, Partner Bosnia)

- Advocate for host country regulations covering alternative association models
- Consider waiving donor regulations on branding for organizations facing government pressure

ENDNOTES

1. For more detail, the SAS Financial Sustainability Issue Paper is available here.
2. Following each guideline is a parenthetical listing several key case studies which illustrate the approach. Please see these case studies for more detail at www.stoppingassuccess.org.
3. For more information please see the SAS resource "How To: Access Unrestricted Funding."
4. For more information on how to incorporate these lessons into procurement documents, please see the SAS tool "Procurement Language for USAID Missions and Operating Units."

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