GOING LOCAL: THE PROMISE & CHALLENGE OF AID LOCALIZATION

Global Finance Strategies

“LOCALIZATION COMES WITH RISKS BUT WILL ULTIMATELY LEAD TO CAPACITY AND SUSTAINABILITY. CHANGE AND GROWTH COME WITH RISKS AND THE NEED FOR RISK ACCEPTANCE AND MANAGEMENT.”

— Executive Director of a local developing country NGO

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GFS and GHS senior leadership, who advised the team throughout development of this report, includes **Linn Dorin**, **Anjali Nayyar**, **David Gold**, **Victor Zonana** and **Chris Adasiewicz**.

Linn Dorin led the development of the report, engaged and identified key stakeholders and conducted in-depth interviews. Research and editorial was led by Abbie VanSickle, Jonathan Baum and Niamh Fitzgerald, and included support from Isabel Beshar, Samantha Dorin, Catherine Lecesse, Matt Matassa, Christine McKenna, Sagar Raju, Rachel Sam and Ted Schenkelberg.

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LIST OF ACRONYMS

AusAID	Australian Agency for International Development
BRICS	Brazil, Russia, India, China and South Africa
CRMs	Customer Relationship Management Systems
CSR	Corporate Social Responsibility
CPA	Country Programmable Aid
DAC	Development Assistance Committee
DfID	UK Department for International Development
EuropeAID	European Commission's Directorate-General for Development and Cooperation
ERPs	Enterprise Resource Planning Systems
FHI	Family Health International
GFS	Global Finance Strategies
GHS	Global Health Strategies
IMF	International Monetary Fund
INGO	International Non-Governmental Organization
MDGs	Millennium Development Goals
NGO	Non-Governmental Organization
ODA	Official Development Assistance
ODI	Overseas Development Institute (UK)
OECD	Organization for Economic Cooperation and Development
PEPFAR	President's Emergency Plan for AIDS Relief
PHIL	Public Health Initiative Liberia
VfM	Value for Money
USAID	U.S. Agency for International Development

EXECUTIVE SUMMARY

AN UNTOLD STORY

In recent years, the international development world has emphasized the issue of localization of aid—the trend of giving money directly to a developing country's government or to local NGOs, rather than giving indirectly through large international organizations. This trend came to prominence during the Millennium Development Goals meetings in 2000, and localization remains a key topic of discussion as the world works toward the development of a post-2015 agenda.

This report is not about the localization trend per se, but about a different, related story: the increasing operational burden that localization has sparked. This story of growing operational challenges has gone largely untold, despite its direct impact on the overall effectiveness of aid and the ability of countries to reach development goals.

This report examines these operational burdens, as well as the creative solutions being implemented by the operations professionals confronting these challenges. The logistical issues associated with localization impact both donors and recipients. The development community's responses to these challenges will do a great deal to shape the field in the years to come.

A CHANGING LANDSCAPE

The global development landscape is changing fast. Developing countries are playing an increasingly important role in setting their own policies and practices. The BRICS countries and other major emerging economies increasingly engage directly through South-South collaboration, bypassing traditional development institutions altogether. New forces and players—from the High Level Fora on Aid Effectiveness to increasingly dynamic private foundations and corporations to individual philanthropists—are upending traditional notions about how to give aid and how to measure success. The global financial crisis has also had a measurable impact on development aid. As budgets are slashed, focus has shifted to measuring value for money and generating quantitative data to assess the effectiveness of aid.

These trends have magnified the challenges presented by localization. An increase in monetary flows to local organizations in developing countries demands more of these recipients, yet there is a growing shortage of trained operations professionals qualified to meet this demand.

KEY FINDINGS

This report is based on more than 50 in-depth interviews with key stakeholders in the international development community, including representatives from NGOs in developing countries, international NGOs, foundations, government donor agencies and public-private partnerships. In addition to this qualitative research, GFS conducted a key informant survey (referred to as the "GFS survey") of 52 leaders in the international development field, including 19 donor representatives and 33 representatives of aid recipients.

Key findings include the following:

— **Aid localization is a significant and growing trend.** In the GFS survey, 74 percent of donors and 94 percent of aid recipients agreed that there is a trend of donors shifting more funding to local organizations. Large donor agencies such as USAID are driving this trend.

— **Localization and related trends are creating significant burdens for both donors and recipients and highlighting the need for strong operational and financial systems.** In the GFS survey, 94 percent of aid recipients said that meeting donor reporting and compliance requirements is a significant challenge for their organizations. Two-thirds of aid recipients said that the burden of meeting these requirements has increased for their organizations in the past year. These growing challenges are falling on an increasingly overworked local operations staff. Donors recognize these growing operational challenges. In the GFS survey, 84 percent of donors expressed concern about the operational and systems capacity of their local grantees, and more than one-third said they are "very concerned" about grantee capacity.

— **Both recipients and donors of aid are pioneering innovative ways to address these challenges.** Recipients are employing innovative methods—such as pooling donor funds, outsourcing operations tasks, employing local fiscal agents and facilitating partnerships between private firms and NGOs—to support local capacity. Many donors are also actively taking steps to build operations capacity: 95 percent of donors said they have invested in the operations and systems capacity of their local grantees.

CONCLUSIONS

As localization continues, many aid recipients in developing countries are struggling with burdensome reporting and compliance requirements. Increasingly, retention of operations staff has become a serious challenge: high turnover is common because once operations staff members are trained, private sector employers seek them out and offer them higher salaries. Meanwhile, other trends, such as the growing role of emerging economies and the increasing prominence of private donors, are forcing further changes to the traditional relationship between aid donors and recipients.

Donors are also struggling in their response to the changing landscape. Many donors agreed that harmonizing reporting requirements would be very helpful, but most said that is unlikely in the near term given difficulties of coordination. Lack of donor harmonization of both the grant application process and reporting and compliance requirements presents a significant challenge, particularly for smaller aid recipients. Donors are also experimenting with new ways of supporting grantee operations work, including pooled resources, outsourcing operations and employing fiscal agents.

Both donors and recipients agreed that the long-term impacts of localization are still largely unknown, and responses to these challenges are still being worked out. These questions—and the responses they provoke—are only growing in importance. The recent Ebola crisis in West Africa has highlighted weaknesses in local capacity. The world has seen the limits of what can be done without adequate local healthcare infrastructure. As the world responds to the Ebola crisis, it is clear that the development landscape is continuing to shift toward the goal of building local capacity.

INTRODUCTION

Localization of aid is not a new concept, but its impact grows each year. Localization affects development organizations at every level, from small grassroots organizations to large government aid agencies. In recent years, the localization trend has been spearheaded by some of the world's largest donors, including the UK Department for International Development (DfID), the Australian Agency for International Development (AusAID), the European Commission's Directorate-General for Development and Cooperation (EuropeAid) and the U.S. Agency for International Development (USAID).

These changes did not happen by coincidence. They emerged as part of a coordinated global effort, beginning with the high-level discussions between donors and recipients in 2000 to develop the United Nations Millennium Development Goals (MDGs).[1] In later years, the development community refined these goals through High Level Fora on Aid Effectiveness in Rome (2003), Paris (2005), Accra (2008) and Busan (2011).[2]

These gatherings established consensus on a number of topics, including the importance of encouraging developing countries to set their own strategies, the need to focus on measuring development results and the benefits of harmonizing aid practices to cut transaction costs. The products of these meetings—the Rome Declaration, the Paris Declaration, the Accra Agenda for Action and the Busan Partnership Agreement—have been endorsed by more than 100 countries and guided ongoing efforts to modernize international aid.[3]

The forces of localization gained momentum. The First High Level Forum held in Rome in 2003 called for support to "strengthen the leadership that recipient countries can take in determining their development path."[4] The Second High Level Forum in Paris in 2005 enforced this principal of developing country ownership, in addition to emphasizing the mutual accountability of donors and local partners for development results.[5] Later meetings in Accra and Busan advocated for capacity development "to build the ability of countries to manage their own future"[6] and recognized the importance of encouraging local ownership through South-South collaboration, the leadership of the BRICS (Brazil, Russia, India, China and South Africa) and local civil society organizations.[7]

Beyond these formal discussions, other new developments have transformed the international aid landscape. Private foundations—such as the Bill & Melinda Gates Foundation, the Rockefeller Foundation, the Aga Khan Foundation, the Wellcome Trust and the Ford Foundation—have emerged as important players, sometimes even surpassing the importance of government donors. New international initiatives, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria and Gavi, have emerged as new models to address discrete challenges.

Global economic trends have also had an unmistakable impact on the development community. The global financial crisis pressured both developing and donor countries to show value for aid money.[8] At the same time, the rise of the BRICS countries and the increasing role of middle-income donor nations, such as Indonesia and Turkey, have blurred the traditional lines between aid recipients and donors.[9]

THE GLOBAL FINANCE STRATEGIES REPORT

Global Finance Strategies (GFS) was founded in 2012 with the belief that operations professionals play an important role in improving the effectiveness of aid. This report aims to shed light on some of the challenges resulting from major shifts in the development world for the operations professionals working on the ground to administer aid programs. The scope of this report is broad and expansive, including perspectives from government donors, public-private partnerships, international NGOs, civil society organizations and local NGOs based in developing countries.

METHODOLOGY

The report's methodology included a literature review, qualitative interviews with key stakeholders and a quantitative key informant survey. The bulk of the findings come from more than 50 in-depth, qualitative interviews conducted with key stakeholders, including representatives from local NGOs in developing countries, international NGOs, foundations, government donor agencies and public-private partnerships. GFS interviewed these representatives on a range of topics, including trends in the development field, impact felt by donors/recipients, challenges associated with localization and new approaches to aid financing. Quotations from these interviews are used in the report and are identified as coming from donors or recipients. Under the conditions of the interviews, quotes are not attributed to individual interviewees.

For information on statistics and major trends, the report relies on information from the Organization for Economic Cooperation and Development (OECD), the main agency that compiles aid statistics. The OECD captures statistics on foreign aid through the Development Assistance Committee (DAC), which is made up of a wide range of government donors and multilateral institutions. Official Development Assistance (ODA) is the most well tracked aid measure and includes grants or loans provided by official government agencies for the promotion of economic development and welfare, excluding such things as military aid, peacekeeping and antiterrorism.

New quantitative information in this report comes from a key informant survey that GFS conducted with 52 leaders in the development field. This survey included 19 donor representatives and 33 representatives from aid recipients. This sample size is small and the survey data presented in this report is not intended as a definitive overview of expert perspectives. Rather, the survey data provides a snapshot of trends impacting operations professionals and highlights the impact of these trends. The findings of the survey (referred to as "the GFS survey") are discussed throughout this report.

LIMITATIONS

The report is limited by the lack of publically available, detailed, quantitative data, as well as by the lack of an established framework for reporting from the various donors. The range in financial mechanisms that could be classified as aid—from grants, to loans, to investments, to debt forgiveness—adds complexity. The scope of the report is limited to include aid and philanthropy aimed at solving long-term health and development problems. The definition of aid used in the report is drawn from a subset of foreign aid statistics called Country Programmable Aid (CPA), which the OECD and many aid advocacy groups consider the most accurate measurement of aid entering countries, as defined by the international agreements on aid effectiveness.[10] This report is not intended to be an all-encompassing study or to provide a complete set of recommendations for organizations affected by the trend. Rather, it seeks to raise awareness and foster a dialogue about the changing environment of aid and some of the issues and responses from the international community.

REPORT STRUCTURE

The body of the report is divided into three sections:

— The first section addresses the general trends in aid that followed the MDG meetings and the High Level Fora on Aid Effectiveness, as well as the growing influence of the emerging economies as donors.

— The second section discusses the impact of the shift in aid-giving on donors, international NGOs and local NGOs. This section focuses specifically on the impact of this shift on the operations and finance departments of NGOs, which face the brunt of the challenges associated with localization but receive little of the funding or attention.

— The third section lays out several responses to this trend and evaluates the relative strengths and weaknesses of such responses.

The bulk of our findings come from more than 50 in-depth, qualitative interviews conducted with key stakeholders, including representatives from local NGOs in developing countries.

THE GFS SURVEY

Data from the GFS survey is summarized below. Statistics are further explained and contextualized throughout the report.

Donors
Recipients

IS LOCALIZATION OCCURRING?

74% OF DONORS

94% OF RECIPIENTS

said that development aid localization is a trend.

68% OF DONORS

94% OF RECIPIENTS

said the localization trend is significant.

ARE AID RECIPIENTS PREPARED?

84% of donors are concerned about the operational and systems capacity of local grantees.

95% of donors have taken steps to invest in the operational capacity of local grantees.

73% of recipients feel prepared to manage the shift toward localization of aid.

79% of recipients struggle to retain qualified finance and administrative field staff.

60% of recipients said limited technology to support the NGO sector is a significant challenge.

ARE DONOR OPERATIONAL REQUIREMENTS TOO BURDENSOME?

97% of recipients said grant application processes are a significant challenge.

94% of recipients said donor reporting and compliance requirements are a significant challenge.

97% of recipients said value for money data generation is a significant challenge.

WHAT IS THE IMPACT OF OVERHEAD REQUIREMENTS?

31%

of donors are concerned that overhead costs are too high for local grantees.

79%

of donors perceive their local grantee's overhead spending as average or below average.

76%

of recipients said they find it difficult to maintain low overhead costs.

64%

of recipients said organizations must often under-report overhead costs to comply with donor requirements.

HOW ARE DONORS RESPONDING TO OPERATIONS CHALLENGES?

47%

of donors are actively pooling and coordinating NGOs' work to support local grantees.

26%

of donors are actively outsourcing NGOs' operations tasks to support local grantees.

47%

of donors are actively employing local fiscal agents to support local grantees.

ARE OTHER DONORS INTERESTED IN THESE APPROACHES?

47%

of donors said they would consider pooling and coordinating NGOs' work to support local grantees.

47%

of donors said they would consider outsourcing NGOs' operations tasks to support local grantees.

32%

of donors said they would consider employing local fiscal agents to support local grantees.

1

A CHANGING AID WORLD: DRIVERS OF LOCALIZATION

The conversation of international development priorities, long dominated by wealthy donor countries, transformed in 2000 with the Millennium Development Goals (MDGs). These goals—and the High Level Fora on Aid Effectiveness that followed—brought new voices to the discussion of international aid and focused attention on some of the major trends that were reshaping the development landscape.[11] This chapter explores the emergence of the trend toward localization and the impact of other major trends on international development, such as the growing role of middle-income countries and increased private investment in developing countries.

SECTION 1

1.1 LOCALIZATION OF AID

Localization of aid—the trend in development of giving money directly to a developing country's government or to local NGOs—came to prominence during the MDG meetings in 2000.[12] Scholars point to a strong link between direct investment in local governments and progress that has been made toward the MDGs.[13] Localization remains a prominent trend as the world approaches the end of 2015, the target date for reaching the MDGs, and as discussions continue on a post-2015 development agenda.[14]

WHAT IS LOCALIZATION?

Localization occurs when donors work directly with local governments, companies, NGOs, universities and other local entities and contribute funds to specific projects and programs or directly to the entities themselves.[15] This report explores aid localization primarily as it applies to money or resources transferred from donors to local, in-country NGOs. Although the report also examines aid distribution through certain private sector initiatives, such as corporate social responsibility, an in-depth examination of aid localization as it pertains to the public and private sectors is beyond the scope of this report.

A GROWING TREND

There is broad recognition that localization is occurring. In the GFS survey, 74 percent of donors and 94 percent of aid recipients agreed that there is a trend of donors shifting more funding to local organizations (Tables 1, 2).[16] Moreover, the majority of both donors and aid recipients said they believe this trend of aid localization is a significant force in the field of international development.[17]

The shift stems in part from concerns that aid money never reaches its intended recipients in the developing world. For example, research from Development Initiatives, a UK-based organization, suggested that at least 20 percent of OECD aid never leaves the donor country.[18] Different countries have different track records. Denmark, for example, had a record of transferring more than 90 percent of its bilateral aid to developing countries through cash grants, loans, project support or technical advice in 2011.[19] In contrast, only 62 percent of French bilateral aid and less than 40 percent of Austrian aid was transferred to developing countries in 2012.[20] According to rules set by the OECD DAC, donors can count certain types of in-country spending as ODA, as long as the development and welfare of developing countries is the primary objective. This includes administrative costs, spending on students and refugees within the donor country, development awareness within the donor country, and debt relief — all of which can account for significant amounts of non-transferred aid.[21]

Although the channeling of funds to local actors can be identified at the turn of the millennium, the 2005 Paris Declaration from the Second High Level Forum on Aid Effectiveness, formally recognized the phenomenon for the first time. As the UK-based Overseas Development Institute (ODI) wrote, "The Paris Declaration did not originate the focus on country systems, rather it crystalised a

TABLE 1
Donor Response — Funds Going Local

Do you agree or disagree that there is a trend of donors shifting more funds to local organizations?

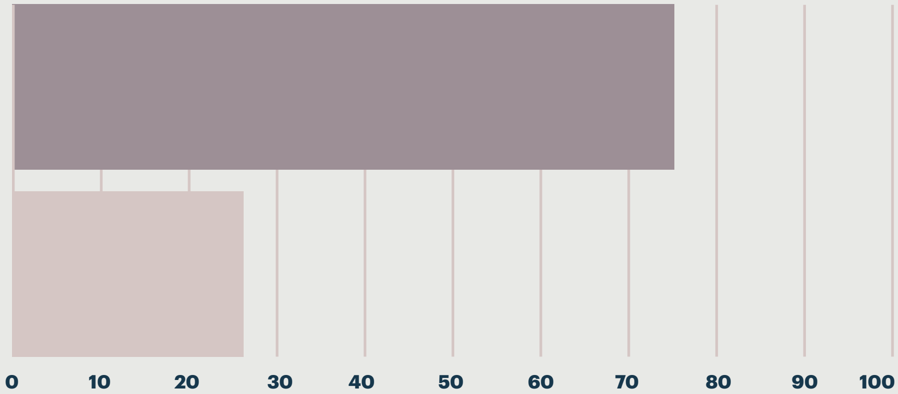
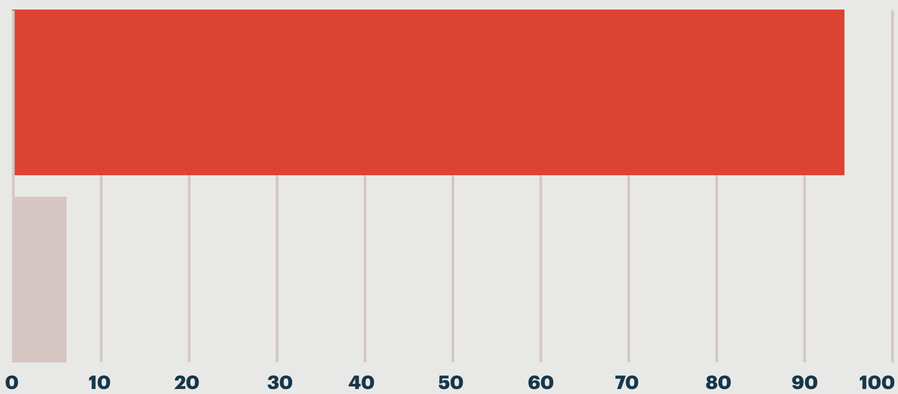


TABLE 2
Recipient Response — Funds Going Local

Do you agree or disagree that there is a trend of donors shifting more funds to local organizations?



Localization remains a prominent trend as the world approaches the end of 2015.

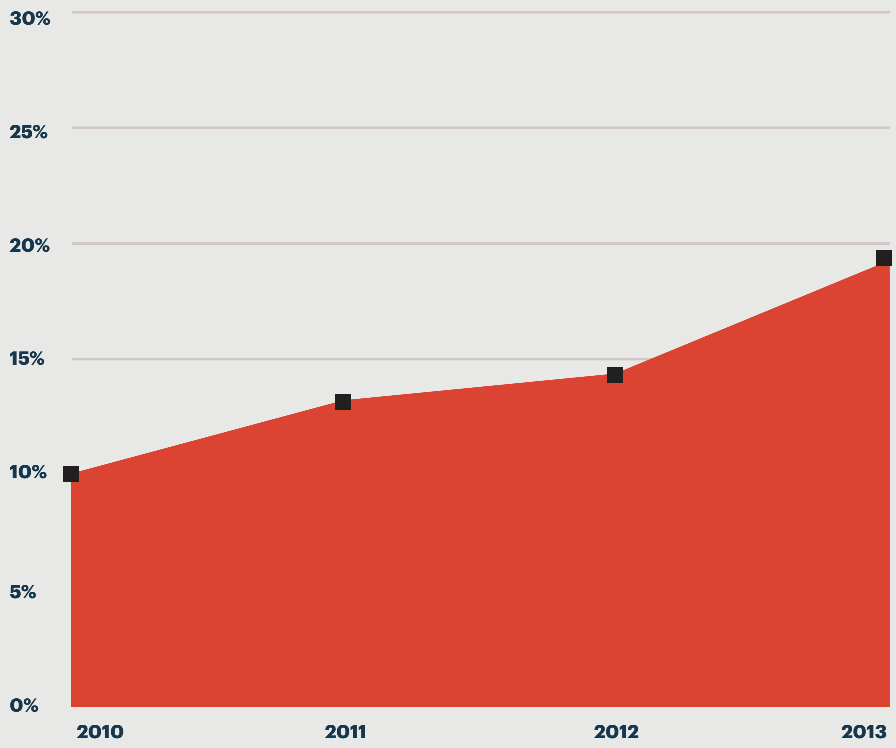
formal, high-level coalition around an idea that had been building for 10 years and was already being practised by some agencies as project aid began to be further criticised and sectoral approaches gained traction."[22]

Localization gained traction in the following years. The Accra Agenda for Action, agreed upon in September 2008, called for donor countries to focus on building the capacity of local civil society organizations either by donating to specific projects or directly to the organizations themselves.[23] Participants in Accra touted civil society organizations as able to better understand local communities and conduct grassroots outreach, than the expatriates who largely staffed traditional international NGOs.

MANY CHALLENGES INHIBIT THE GROWTH OF LOCALIZATION, ESPECIALLY ISSUES RELATED TO LACK OF OPERATIONAL INFRASTRUCTURE AND MANAGEMENT CAPACITY.

TABLE 3
USAID Funding to Local Organizations as a Percentage of Total Aid, 2010-2013

USAID Percentage of Aid Going Local



EUROPEAN LEADERSHIP IN LOCALIZATION

Several European donors have led the way in promoting the localization of aid. Ireland, for example, is a leader in supporting civil society organizations and regularly gives the largest percentage of support among all industrialized country donors to core funding for civil society organizations—30 percent in 2012.[24] Luxembourg has also taken steps to build better relationships with civil society organizations, holding exchanges every two months between its Ministry of Sustainable Development and Infrastructure and civil society organizations in developing countries.[25] Both the United Kingdom and Germany also have strong reputations for using budget support to directly aid civil society organizations in developing countries.[26]

The European Commission has also played an important role in driving the trend toward localization.[27] In 2010, the European Commission created a consensus-building mechanism that involved civil society organizations and local authorities.[28] The process focuses on meeting the needs of local authorities and civil society organizations receiving aid from the EU and identifies the best ways to change delivery mechanisms to support civil society organizations.[29]

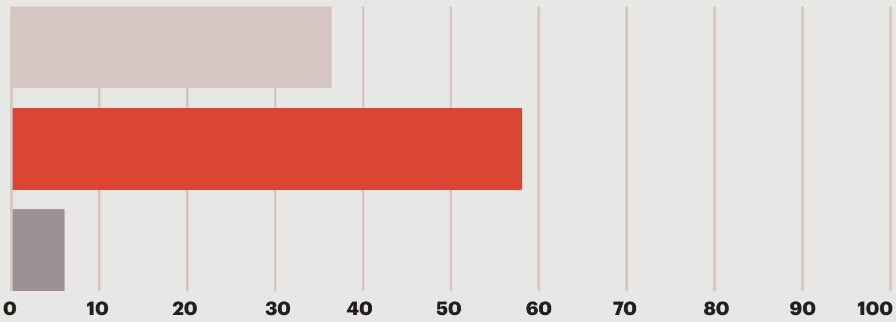
USAID FORWARD: A RENEWED FOCUS ON LOCAL STAKEHOLDERS

Under former Administrator Rajiv Shah, USAID has emerged as perhaps the largest single driver of the trend toward localization. In 2013, the agency announced that it would significantly increase the percentage of aid given directly to local organizations, aiming for 30 percent by 2015. In 2011, the agency gave just 11 percent.[30]

One goal behind USAID's localization strategy is sustainability. The agency announced in 2011 that "Successful development depends in large part on the efficiency, integrity and effectiveness with which a country raises, manages and expends public

TABLE 4
Donor Response — Current Trends

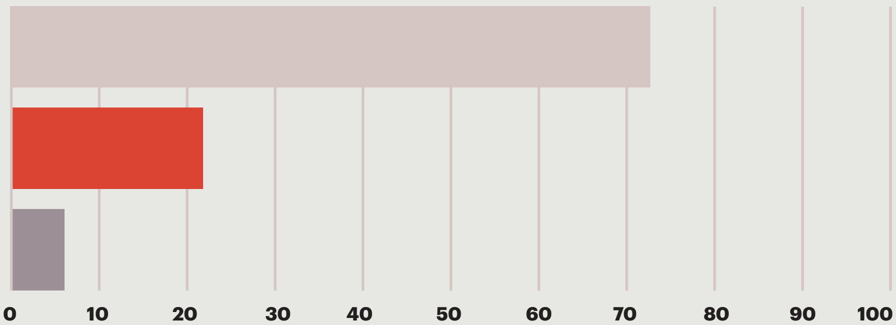
Thinking about your own organization, over the past 2 years, has the percentage of your total development aid given to local, in-country organizations:



Increased
Stayed About The Same
Decreased

TABLE 5
Donor Response — Future Trends

Again thinking about your organization, over the next 2 years, do you expect that the percentage of your total development aid to local, in-country organizations will:



Increase
Stay About The Same
Decrease

In practice, it can be hard to find local partners with the structures in place to handle the sometimes onerous bidding rules and reporting requirements.

resources. Therefore, improving the formal and informal rules and institutions that govern these activities, and strengthening the related human and technological capacities, should be a major component of any development approach."[31]

The agency's reforms are focused largely on promoting "sustainable development through high-impact partnerships and local solutions."[32] The change has attracted a lot of attention, in part because the agency has long channeled funding largely through non-state, nonlocalized actors, such as international development contractors.[33] It appears that USAID is on track: data released in April 2014 indicated that USAID directed 17.9 percent of overall funding directly to local organizations in 2013, more than halfway toward the agency's goal of 30 percent. Yet, it is unclear whether this trend is sustainable (Table 3).[34] According to the U.S. Government Accountability Office, 79 percent of all localized funding in 2012 went to only five out of 77 USAID missions (Afghanistan, Pakistan, Jordan, South Africa and Uganda).[35] As USAID priorities shift in coming years, especially as the U.S. military withdraws from Afghanistan, it remains to be seen whether the localization trend will continue.

SIGNIFICANT CHALLENGES TO LOCALIZATION: INFRASTRUCTURE AND CAPACITY

The story of aid localization is not a simple narrative. In theory, localization channels more money directly to recipients, cutting out expenses

> "Despite agreements on aid effectiveness reached in Rome, Paris, Accra, and Busan over the last decade, 80 percent of aid from major bilateral and multilateral donors to fragile countries still bypasses the systems of local public institutions."
>
> — Paul Farmer, writing in *Foreign Affairs*

that do not directly benefit aid recipients. In practice, though, it can be hard to find local partners with the structures in place to handle the sometimes onerous bidding rules and reporting requirements imposed by donors, according to many stakeholders.[36]

While localization is intended to empower in-country aid recipients, the trend can often have unintended consequences. As one stakeholder explained, "The shift to providing aid to local organizations is a slow process as many local organizations are not ready for it from an infrastructure and capacity standpoint."[37] Indeed, more than 50 percent of donors who participated in the GFS survey said funding directed to local organizations has stayed the same over the past two years (Table 4).[38] Still, a growing number of donors said they are focusing more on local organizations. One-third of donors surveyed said their organization had increased localized aid in the past two years (Table 4) and three-quarters of donors surveyed predicted that their local aid will increase over the next two years (Table 5).[39]

Many challenges inhibit the growth of localization, especially issues related to lack of infrastructure and management capacity. As a result, many donor countries still direct aid through international NGOs rather than through local partners.[40] As Partners in Health founder Dr. Paul Farmer wrote in December 2013 in *Foreign Affairs*, "Despite agreements on aid effectiveness reached in Rome, Paris, Accra, and Busan over the last decade, 80 percent of aid from major bilateral and multilateral donors to fragile countries still bypasses the systems of local public institutions."[41] Although aid localization is a significant and growing trend in the field of international development, inadequate infrastructure and operational capacity can deter donor countries from giving locally and limit recipient countries and institutions from directly absorbing aid funding.

1.2 INCREASED DEMAND FOR ACCOUNTABILITY

Along with growing momentum toward localization, donors have placed increasing emphasis on transparency and accountability. International aid represents a staggering amount of money per year: according to the OECD, in 2013, net ODA was $134.8 billion, up 6 percent from 2012.[42] OECD predictions expected aid to rise again in 2014 and subsequently stabilize, after the downturn following the global financial crisis.[43]

VALUE FOR MONEY: MAXIMIZING IMPACT

As many donor nations continue a slow recovery from the global financial crisis, public demand has grown for governments to justify spending on foreign aid.[44] Buzzwords like "value for money" are common in international development discussions. The UK DfID puts it this way: "Value for Money (VfM) in our programme is about maximising the impact of each pound spent to improve poor people's lives... VfM doesn't mean we only do the cheapest things, but we need to get better at understanding what is driving our costs and make sure that we are getting the desired quality at the lowest price."[45]

How does the drive for "value for money" fit with localization of aid? Many international donors see localization as a way to cut waste.[46] As ODI determined through its

97% of the aid recipients sampled in the gfs survey said that value for money data generation is a significant challenge for their organization.

localizing aid research program,[47] localizing aid is not a panacea.[48] Rather, it is part of the equation in the overall quest for successful development strategies that give both donors and recipients "value for money."

However, stakeholders worry that donors remain overly focused on finding the cheapest option rather than balancing cost with impact. In the past, as the OECD explains, the rubric for development aid success has differed from the rubric of success for other forms of public spending.[49] The common wisdom was that it was difficult to measure the success of international development efforts with data. Now, stakeholders say, aid agencies are looking for ways to measure the effectiveness of aid, requiring quantitative data to prove the aid money is worth it. The increasing drive to show value for money is complicated, and there is no universal consensus on how to measure it. A common argument against this increasing focus on value for money is that it neglects long-term benefits, and reliable data can be hard to find.[50] Some stakeholders say the focus on value for money may endanger NGOs, both international and local, as time is wasted complying with bureaucratic requirements rather than fulfilling core missions.[51] Indeed, 97 percent of the aid recipients sampled in the GFS survey said that value for money data generation is a significant challenge for their organization.[52]

VALUE FOR WHOM? THE PUSH FOR TRANSPARENCY

The drive for money also elicits questions of responsibility, or "value for whom?" In domestic politics, value for money refers to value for taxpayers.[53] But international aid is different, as taxpayers are not the recipients of aid money. Few, if any, taxpayers have ever met the people who benefit from international aid.[54] That disconnect can create an imbalance where donor country taxpayers are heard but aid recipients in developing countries are not.

One solution may require donor governments to inform their taxpayers on the impact of aid money.[55] In the United States, the Obama Administration has taken steps to increase transparency, providing the public with more detailed information about how aid is spent. The development of the Foreign Assistance Dashboard, an online platform allowing users to sort through data on development spending, reflects this initiative.[56]

The drive for transparency and value for money also joins together a diverse range of donors in international groups, such as the International Aid Transparency Initiative, which sprang from the Accra forum in 2008.[57] The initiative aims to help donors meet their Accra commitments to transparency.[58] Private foundations like the Bill & Melinda Gates Foundation[59] and the William and Flora Hewlett Foundation,[60] international NGOs like CARE International UK and the International Planned Parenthood Federation, and government entities like the UK Home Office have all joined the initiative.[61] The partnership has created a central registry online where organizations, including NGOs, governments and public-private partnerships, can publish raw data about development expenditures.[62]

Transparency, accountability and qualitative data generation are critically important to many international donors, yet local organizations often do not have the operational capacity to fulfill monitoring and compliance requirements imposed by donors. Bain & Company's *India Philanthropy Report 2013* highlighted a lack of transparency and accountability on the part of aid recipients, which inhibited the growth of grants and charitable contributions to Indian NGOs. The report also identified different standards of successful outcomes across countries, making "accountability" difficult to measure.

Donors have responded to these challenges in a number of ways. Many NGOs are working to streamline the data for their global operations. Oxfam created a "single management structure" between its affiliates and its local partners.[63] An increased focus on quantitative data means a more business-like approach to aid. As the CEO of Mercy Corps told *Devex*, "I think you're going to see more experimentation around blurring for-profit and not-for-profit business models."[64]

The focus on value for money and quantitative data has had mixed success, because donors each require different quantitative measurements. Despite these challenges, demand for data appears to be steadily increasing, as both donors and recipients strive to achieve a culture of transparency and accountability.

1.3 NEW PLAYERS: EMERGING ECONOMIES AND A CHANGING AID WORLD

Since 2000, levels of development assistance have increased dramatically, with much of this increase stemming from non-traditional sources of aid.[65] These new donors include rising middle-income countries, high-net-worth individuals and social impact investors, as well as private philanthropists, such as company corporate social responsibility initiatives.

New donor relationships are upending the traditional view of aid as a "donor-to-recipient" model and forcing development professionals to rethink the ways they measure success. The emergence of new types of donors has also coincided with an increase in localization, as donors and businesses seek to invest directly in local or national entities in recipient countries. Emerging economies, in particular, have been instrumental in driving the aid localization trend, as their foreign assistance often takes the form of South-South collaborations, funding local partners in an effort to foster self-reliance.[66]

THE BRICS AND OTHER MIDDLE-INCOME COUNTRIES: TRANSITIONING FROM AID RECIPIENTS TO DONORS

One well documented change in the aid landscape stems from the rise of new donor countries—countries that previously did not give much aid or were once typically recipients of aid. The BRICS and many other middle-income countries are dramatically increasing aid contributions.[67] For example, in 2010, South Korea became the first non-European country to join the OECD Development Assistance Committee (DAC), with much of its aid going to African and South American countries.[68] Turkey is playing an increasingly prominent role in aid-giving: in 2013, Turkey was the world's third-largest donor of humanitarian assistance, with much of its aid going to support Syrian refugees.[69] Gulf States, such as Saudi Arabia, the United Arab Emirates, and Qatar, have also emerged as major donors.[70]

The BRICS countries, in particular, have received growing international attention. Although vastly different in terms of population and political history, the BRICS are united by their regional economic prominence, strong growth and increasing political voice.[71] In the last decade, these countries have increased both their financial and technical support to other countries.[72] For example, Brazil's total foreign assistance grew from $400 million in 2010 to $856 million in 2013.[73] A recent Global Humanitarian Assistance report citing UN and OECD data estimated that Brazil, China, India, and South Africa collectively contributed $8.8 billion in foreign aid in 2013.[74]

The increasing importance of the BRICS and other middle-income countries is changing international aid. The ODI estimates that by 2025, the world's "consumption center of gravity" will have shifted east to India, China and Southeast Asia.[75] India's economic growth is currently surging. Prime Minister Narendra Modi's new business-friendly policies are driving expansion and increasing foreign investment, although challenges such as poverty and corruption persist.[76] Interestingly, the OECD predicts that aid to middle-income countries like Indonesia and Vietnam will continue to rise, even as aid levels remain flat in countries with the largest MDG gaps and poverty levels.[77]

Middle-income countries are playing an ever-larger role in foreign development aid.[78] These countries are taking novel approaches, often blending aid with commerce.[79] Indian foreign assistance, for example, has a strong focus on the healthcare sector, allowing its

THE INCREASING IMPORTANCE OF THE BRICS AND OTHER MIDDLE-INCOME COUNTRIES IS CHANGING INTERNATIONAL AID.

advanced pharmaceutical industry to benefit from many of its foreign aid programs.[80] China provides loans for natural resource development, ensuring that poorer countries receive loan terms that are much more generous than market rates.[81] However, this approach has been criticized for being one-sided, with aid policies often seeming to favor the Chinese private sector (especially state-owned companies) with loans often backed by the recipients' natural resources.[82]

The BRICS countries are still in transition. During the Paris and Accra high-level conferences, Brazil, India, China, and South Africa attended as both donor and recipient countries.[83] BRICS countries still spend a relatively small amount on foreign aid in comparison to the U.S. and European countries, but their spending is rapidly increasing. For example, from 2005 to 2010, Brazil's assistance spending grew each year by about 20.4 percent.[84]

Some stakeholders question whether the impact of middle-income countries on the development world has been overstated. Many economists question whether these emerging economies can continue their meteoric rise.[85] Turkey and Indonesia have struggled in recent months.[86] South Africa's economy stalled in the wake of troubles in its mining industry in 2013.[87] The U.S. and the European Union imposed economic sanctions on Russia in March 2014 after Russia annexed the Crimean Peninsula and have since expanded these sanctions a number of times to include financial and travel restrictions on specific individuals, as well as the suspension of financing for economic development projects in Russia, export of goods and services, and technology in support of the Russian oil sector.[88] These sanctions have contributed to a financial crisis in Russia in 2014 and 2015.[89]

However, despite some uncertainty, it appears that middle-income countries are destined to play an ever-larger role in the global development world. In July 2014, the BRICS announced the establishment of the New Development Bank (NDB), a multilateral development bank that aims to foster greater economic and developmental cooperation among emerging economies and "hopes to rival the strength and influence of the World Bank."[90] Although still in its nascent stages, the formation of the NDB is indicative of the BRICS countries continuing role in shaping the new direction of international development aid.[91]

PRIVATE PHILANTHROPY AND SOCIAL IMPACT INVESTING

New models of philanthropy and corporate social responsibility are also reshaping the international development landscape. Although data on private philanthropy is notoriously variable, experts stimate that private donations add up to between $56 billion and $75 billion per year.[92] Private philanthropy includes a wide range of giving, from donations by high-net-worth individuals, like Warren Buffett's contribution to the Bill & Melinda Gates Foundation,[93] to individual donations facilitated through social impact investing websites such as kiva.org, globalgiving.org and givedirectly.org.

Social impact investors have taken advantage of changing technology to link the general public to individual recipients. For example, kiva.org allows individual donors to click on photos of people seeking small loans to start businesses in developing countries. A donor can easily send money to help a woman start a snack-shop business in East Timor, a woman in Colombia open a restaurant, or a man in Azerbaijan buy cattle to support his family. The website for givedirectly.org takes advantage of mobile phone technology in Kenya and Uganda, allowing donors to give cash directly to people living in the poorest villages.[94]

Individual-oriented philanthropy platforms exist in the Global South as well. Organizations such as GiveIndia and the India Giving Network link individual donors with credible local NGOs, making philanthropy both accessible and transparent for people looking to give directly to local organizations serving communities across India.

Impact investing is having an influence far beyond online donation platforms. According to a recent study conducted by JP Morgan and the Global Impact Investing Network, international investors were expected to allocate 19 percent more capital to impact investments in 2014 than they did the previous year.[95] A significant percentage of this capital was expected to go to investments in sub-Saharan Africa and Asia.[96]

Impact investing in India, for example, has increased significantly in recent years. Social enterprise and impact investments have grown from $1.17 million in 2000 to approximately $250 million per year since 2011.[97] The Indian advisory firm Intellecap estimates that $1.6 billion has been invested in more than 220 social enterprises in India, more than half of which were made in microfinance.[98] Moreover, impact investing in India is expected to increase by 30 percent in 2014, particularly in the microfinance, agriculture, healthcare, clean energy and education sectors.[99]

Other ventures are revamping traditional funding models by focusing on impact investments. Organizations such as Acumen use entrepreneurial and investment-based approaches to tackle development problems, as opposed to giving out grants. Acumen raises charitable donations to invest in companies, leaders and ideas in the developing world—specifically in India, Pakistan, West Africa and East Africa—with the aim of yielding both financial and social returns from its investments. In India, for example, Acumen has invested $31.9 million since 2001 in innovations and projects ranging from low-cost maternity care, to skills training and education, to water filtration enterprises.[100] In December 2004, Google launched Google.org, creating significant controversy by deciding to structure the organization as a for-profit entity, allowing it to fund start-up companies, form partnerships with venture capitalists and even lobby the U.S. Congress.[101]

DONOR-ADVISED FUNDS: DRIVING OR STALLING PHILANTHROPY?

Another new model of philanthropy affecting the distribution of aid is donor-advised funds — public charity funds that manage philanthropic donations on behalf of companies, individuals and organizations.[102] Donors make a contribution to the fund and make recommendations on how to disperse it to their chosen organizations according to their own timelines.[103] Part of the appeal for donors is the immediate tax deduction, but critics argue that organizations don't receive the funds as quickly, if at all. Some reviewers point out divergent interests of donors and fund managers, citing the lack of requirements ensuring that fund managers distribute the money immediately, or ever. Legally, donor-advised funds have no obligation to spend all of their money, and while contributions to these funds are increasing, their pay-outs are decreasing.[104] Some assert that donor-advised funds are being used primarily for tax breaks, and not to actually increase charitable giving. Even more perplexing is the lack of transparency: donor-advised funds do not disclose how and when they actually distribute the funds.[105]

In spite of these criticisms, billions of dollars have been donated to organizations and foundations via donor-advised funds.[106] For example, Facebook CEO Mark Zuckerberg donated $1 billion to a donor-advised fund housed at the Silicon Valley Community Foundation in 2013. In October of 2014, Zuckerberg directed $25 million of this contribution to the Centers for Disease Control Foundation, in support of Ebola research.[107]

Still, the influence of donor-advised funds on localization remains to be seen. While some donors may wish to direct their funds to local organizations, there is no guarantee that a donor-advised fund will follow the donor-recommended timeline for distributing the money. It is thus the fund managers, rather than the primary donors themselves, who ultimately determine if and when the donations reach the desired recipients.[108]

India passed legislation in 2013 that mandates that large companies spend at least 2 percent of average net profits on CSR initiatives.

CASE STUDY: CORPORATE SOCIAL RESPONSIBILITY IN INDIA

Corporate social responsibility also plays a major role in driving the changing landscape of international development. India passed legislation in 2013 that mandates companies spend on social welfare.[109] Under the legislation, an overhaul of the Companies Bill, the national government requires corporations to allocate part of their profits to corporate social responsibility programs.[110] Specifically, the legislation mandates that companies with a minimum net worth of Rs. 5 billion (approximately US$82 million) or companies that meet net profit requirements, spend at least 2 percent of their average net profit earned during the three previous financial years on corporate social responsibility measures.[111]

In India, concerns abound as to how smaller organizations will organize corporate social responsibility programs, as well as how NGOs will absorb this funding. One nonprofit professional commented, “the new amendment to Companies Act will expectedly bring more money through CSR route. However, the preparedness of NGOs to access money through CSR route is currently weak.”[112]

At a discussion about the Corporate Social Responsibility Bill in March 2014, stakeholders told GFS that the majority of companies that fall under the law will be required to invest only small amounts of money. Of the roughly 16,000 companies required to contribute to a CSR initiative, about 14,000 will only need to give approximately $25,000 a year, experts said. Questions remain about whether these companies will be able to manage these CSR programs and whether the local NGOs that receive the money will have operations staff to absorb it. As one expert said, “In CSR, the challenge is to make corporates understand the larger development goals.”[113]

TRADITIONAL DONORS AND NON-TRADITIONAL AID

Traditional donors, such as government aid agencies, are also changing their patterns of aid-giving. For example, experts said USAID has given fewer grants recently, but at increased funding levels.[114] Grants can go from millions of dollars to nothing in a “winner takes all” approach, one stakeholder said.[115] This uncertainty is raising concerns about long-term stability and may be causing aid recipient organizations to take a more cautious approach.

What do these changes mean for traditional government donors, major international NGOs and recipient countries? Much remains to be seen. While traditional donors continue to give, we will likely see more and more development aid originating from middle-income countries, especially countries rich with natural resources.[116] Experts predict that the increase in total levels of aid available will be a boon for recipient countries with high capacity levels. But increasing complexity—both in the number of donors and in the types of aid available—may leave some aid recipients struggling to cope with increasing operational burdens.[117]

2

WHY THIS MATTERS: THE IMPACT

GFS spent nearly a year in conversations with development leaders, hearing firsthand about the challenges they face. As these trends continue, many of the issues these leaders raised, such as arduous reporting requirements and inadequate capacity for managing operations, are likely to grow. This chapter discusses the impact that the shifting environment is having on local NGOs, international NGOs and donors.

SECTION 2

2.1 LOCAL NGOS: THE STRUGGLE ON THE GROUND

Local NGOs are struggling with many of the implications of the localization of aid, including the lack of operational capacity to meet increasing donor requirements. In the GFS survey, 94 percent of aid recipients said that localization of aid was a significant trend.[118] Several themes emerged from conversations with donors and recipients about the ways local NGOs are responding to the challenges presented by localization (Table 6):

- **97% of recipients** said grant application processes are a significant challenge.
- **94% of recipients** said donor reporting and compliance requirements are a significant challenge.
- **97% of recipients** said value for money data generation is a significant challenge.
- **79% of recipients** said they struggle to retain qualified finance and administrative field staff.
- **60% of recipients** said limited technology to support the NGO sector is a significant challenge.

TABLE 6
Recipient Response — Operational and Financial Challenges

Please indicate the significance of each challenge to your organization

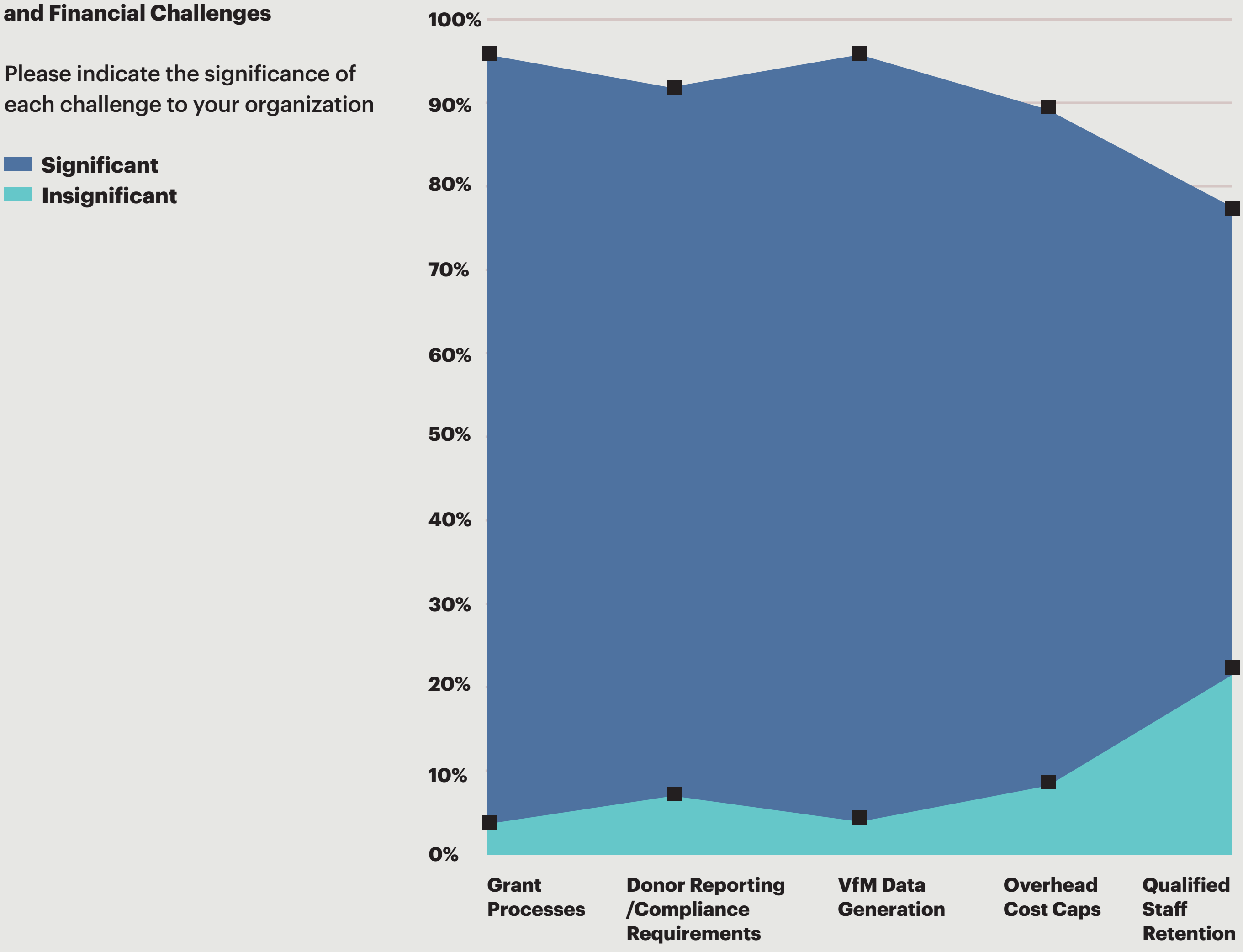
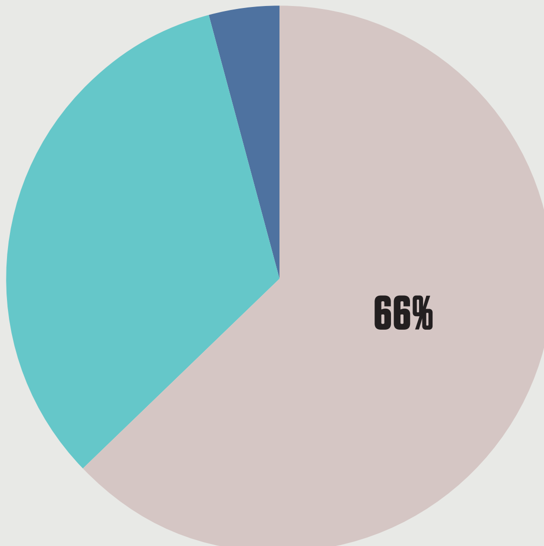


TABLE 7
Recipient Response – Donor Compliance Requirements

How has the experience of meeting complex and varied donor requirements (e.g. reporting, compliance) changed for your organization over the past year?

More Challenging
No Change
Less Challenging



Donor requirements exact a huge cost in time, effort and money by local organizations because each donor requires something different.

DONOR REQUIREMENTS: AN ONEROUS (AND GROWING) BURDEN

As donors shift more of their aid money from international NGOs to local, in-country NGOs, they have maintained strict requirements far beyond the capacity of many aid recipients in developing countries. Local NGOs face strict requirements to demonstrate the impact of their work.

Even when individual donor reporting requirements are not overly burdensome, the cumulative burden of having to write different reports for several different donors presents a significant challenge.[119] Experts described how these requirements exact a significant cost in time, effort and money by local organizations, as each donor usually requires something different.[120] In the GFS survey, 94 percent of aid recipients said that meeting donor reporting and compliance requirements is a significant challenge for their organization.[121] Two-thirds of aid recipients also said that the challenge of meeting reporting requirements has increased for their organization in the past year (Table 7).[122]

According to Bain's India Philanthropy Report 2013, "sophisticated NGOs are aware of donors' needs [whereas] conventional NGOs, which constitute the majority of the universe, are more unstructured in their impact measurement and communication plans."[123] Local NGOs in developing countries must comply with the same reporting and compliance requirements as large international NGOs, but with only a fraction of the budget and operational capacity.

Many local NGOs also do not have operations systems designed to manage sophisticated grants. Additionally, some local NGOs have grown very fast in recent years, taking on complicated projects from several donors, without ensuring they have the human resource and administrative capacity to do so.[124] "While aid decentralization is a reality, many transparent and accountable NGOs lack the capacity to

"Localization comes with risks but will ultimately lead to capacity and sustainability. Change and growth come with risks and the need for risk acceptance and management."

— Executive Director of a local developing country NGO

write good, competitive proposals," one stakeholder said. "Every donor requires a separate, complicated report with which it is hard for organizations to comply," said another stakeholder.[125] Other trends in the development field are exacerbating these burdens. Many local NGOs are forced to rely on multiple small grants, each with their own reporting and evaluation requirements. In the past, many international NGOs assisted local NGOs with operational support, but as funding increasingly bypasses them, it is unclear whether this support will continue.[126] Auditors are only part of the solution: even if donors hire auditors to uncover issues in accounting, outside auditors cannot provide the ongoing capacity to effectively manage the growing operational burden.[127]

From the local perspective, the benefits of building capacity are irrefutable, and many aid recipients argue that donors' risk-aversion can inhibit local ownership and innovation for development. As one local stakeholder explained, "The trend towards localization comes with risks but will ultimately lead to capacity and sustainability. Change and growth come with risks and the need for risk acceptance and management. The current trend is towards absolute risk minimization with 'defensive development' that does not use innovation."[128] However, for many donors, stability and certainty trump innovation, and those local recipients who do not have strong financial systems in place find it difficult to elicit donor funds.[129]

2.2 GRANT PROPOSALS AND REPORTING

The process of obtaining and reporting grants requires an enormous amount of paperwork. In the GFS survey, 97 percent of aid recipients said that long and complex grant processes present a significant challenge to their organization.[130] For example, NGO applications for USAID funding require proof of past performance (not necessarily USAID past performance), competitive costs, and budget preparations including cost categories, indirect costs and cost share. The applicant must also document the NGO's financial soundness and organization. USAID then examines whether an organization is a local partner or whether it is partnering with local businesses and organizations for the project. Only when a project surpasses these initial steps do procurement negotiations begin. If an award is made, the organization must attend a post-award conference to discuss implementation of the project.[131]

Unsurprisingly, the majority of local organizations that apply for large donor grants are unsuccessful, although they invest considerable resources into the grant application process. One stakeholder explained that "responding to RFAs [Request for Applications] can drain the capacity of an organization for months and yet success rates are about 30 percent, with international contractors often winning [over local entities] and no protection for local organizations."[132] Although local organizations are reliant on donor funding, the system favors larger international organizations with a greater capacity to invest in the grant application process, with their more robust finance and operations departments.[133]

Table 8 lists typical requirements that a local NGO must meet in the process of engaging with a major government donor.

TABLE 8
Typical Donor Requirements for Grantees

Chart compiled from a variety of donors, including aid agencies from donor countries, as well as private foundations.

01	**Letter of Inquiry**	Applicants must submit a letter explaining specific ideas or a project.
02	**Request for Proposal**	Applicants must submit an application for a grant, which differs for each organization and project.
03	**Proposal Development and Negotiation**	Applicants must develop a proposal, which often includes a budget and a results framework for monitoring and evaluation.
04	**Specific Deliverables**	Applicants must list specific activities and outputs that will be accomplished using the grant funding.
05	**Data Collection and Project-Level Output Monitoring**	Grantees must provide reports that typically include baseline, milestone and target data.
06	**Periodic Reports**	Grantees must submit regular progress reports that provide updates on grant spending and project development.
07	**Financial Progress Reports**	Grantees must submit costs for supplies, equipment, transport, personnel, contracts and indirect costs.
08	**Annual Narrative Report**	Grantees must provide reports explaining progress on goals, number of people served, stories about the projects, activities engaged in, other funders assisting the project and other issues.
09	**Final Narrative Report**	At the close of a grant, grantees must submit a report explaining all activities and accomplishments, and reflections on the grant and its outcomes.
10	**Bibliography**	Grantees must provide a bibliography including all meetings associated with the grant, as well as published articles and website page views. These often include detailed formatting requirements.

"It is difficult to get qualified staff in-country because the most talented individuals go into the corporate sector."

— CFO of a major philanthropic foundation

"Three layers of overhead are deducted—international, international's local affiliate and local recipient—leaving less than 50% for actual direct aid."

— Executive Director of a local, developing country NGO

2.3 THE CHALLENGE OF RETAINING QUALIFIED OPERATIONS STAFF

Local NGOs throughout the world—from India to Uganda to South Africa—struggle to retain skilled finance professionals.[134] The development world desires local talent, rather than expats, for both programmatic and administrative jobs.[135] "The expat is becoming extinct," one interviewee said. "Yet this has the effect of driving up the demand for a limited number of individuals who have the skills, the knowledge of aid systems, and the language skills."[136]

One finance expert interviewed reported that his organization had a 50 percent turnover in finance managers over the past year. High turnover is common, the expert said, because once operations staff members are trained, private sector employers seek them out. "It is difficult to get qualified staff in-country because the most talented individuals go into the corporate sector," another said.[137] In the GFS survey, almost 80 percent of aid recipients reported that retaining qualified finance and administrative field staff is challenging, with several experts emphasizing the "need for more specialized back-end support in finance and grants management."[138]

Finance employee retention is especially difficult in developing countries with a large foreign corporate presence, such as oil companies in African countries, experts said.[139] Other studies echo these concerns. A 2012 report by Health Research Policy and Systems on several African and Asian organizations found that the retention of skilled staff was key to success, but that staff frequently left to take higher paying positions once they had skills and experience, leaving co-workers with heavy workloads.[140]

This lack of trained financial professionals creates difficulties for organizations as they navigate complicated tax systems, statutory regimes and other financial reporting requirements.[141] Outside accounting firms are often too expensive for local NGOs, leaving them vulnerable to major financial risks. Due diligence evaluations that private companies routinely undergo are too costly for most nonprofits, experts said.[142] Additionally, grants and compliance management for nonprofit organizations are not areas of expertise for many outside accounting firms, whose personnel often do not understand the complexities and challenges of the international development field.[143]

2.4 THE UNTOLD CONSEQUENCES OF OVERHEAD LIMITATIONS

Many local NGOs struggle with investing in operations departments due to limitations on indirect costs. In the GFS survey, 76 percent of aid recipients said that they found it difficult to maintain low overhead costs (Table 9).[144] Almost two-thirds of aid recipients also said that many organizations are forced to under-report overhead costs in order to comply with donor funding requirements.[145]

Interestingly, the majority of donors sampled in the GFS survey were unconcerned with the cost of overhead for their local grantees and perceived their local grantees' overhead as being average or below average.[146] This indicates that donors may have unrealistic expectations about the actual costs of running a nonprofit. Donor indirect cost policies also vary widely,

TABLE 9
Recipient Response — Overhead Costs

How difficult is it for organizations like yours to maintain low overhead costs?

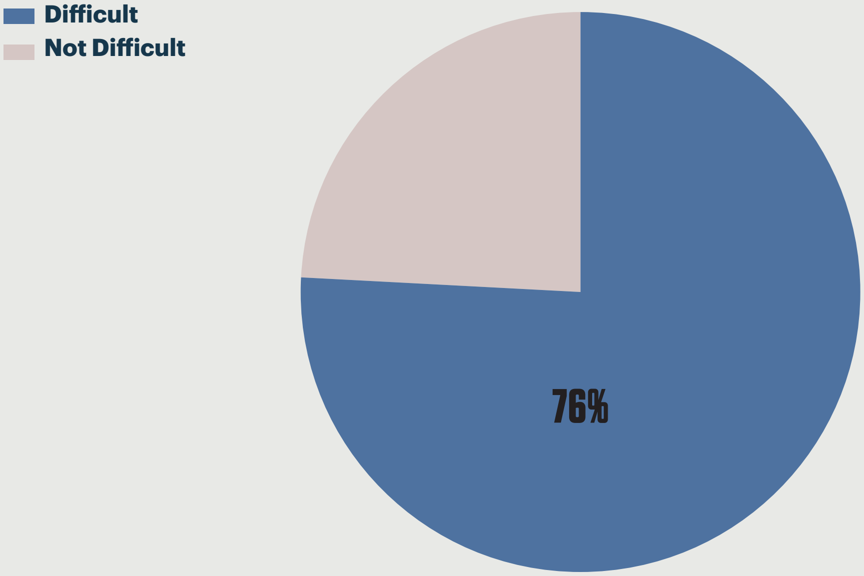
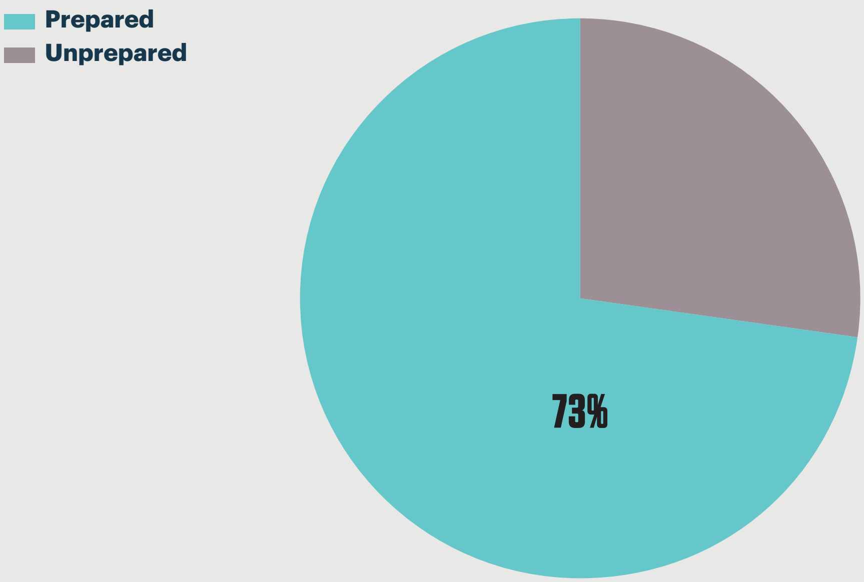


TABLE 10
Recipient Response — Preparedness

How prepared is your organization for the shift in funding to local, in-country organizations?



which makes adherence even more complex for recipients. The Global Fund for AIDS, Tuberculosis and Malaria, for example, caps these costs at 5 to 7 percent, while the U.S. government negotiates such rates, restricting certain costs. Without money for back-office functions, it is difficult for local NGOs to comply with grant reporting requirements, let alone seek out new funding opportunities.[147] NGOs often settle into a "low pay, make do, and do without" culture.[148]

Although limits on indirect costs are nothing new, requirements have become stricter since the global financial crisis. "While donors are trying to shift to in-country organizations, their low capacities and weak systems will make the shift pretty slow," one stakeholder said. "Donors willing to invest in capacity-building and good overheads will make more progress towards this shift."[149] However, donors, including government donors and private foundations, often do not want to spend on core funding when they could fund specific projects.[150]

Yet, because donor funds are often filtered through large international organizations before reaching local recipients, overhead costs at every stage of the aid transfer mean that only a fraction of the funds reach the local level where projects are actually implemented. One local stakeholder reported that "funds go through three layers of organizations – international, international's local affiliate and local recipient. [Consequently,] three layers of overheads are deducted, leaving less than 50 percent for actual direct aid."[151]

The lack of funding for overhead can have disastrous effects, as explained by a study titled "The Nonprofit Starvation Cycle," published in the

"THE GRANT APPLICATION PROCESS CAN TAKE ONE TO TWO YEARS, SOMETIMES FORCING NGOS TO FIRE STAFF AND CLOSE PROGRAMS WHILE THEY WAIT FOR NEW GRANTS."

— Executive of a major aid recipient organization

Stanford Social Innovation Review. Once donors underestimate the cost of running a nonprofit, nonprofits then feel they must conform to these lowered expectations to secure grants. When nonprofits spend too little on overhead and then underreport what they spend, they only fuel donors' unrealistic expectations.[152] For example, overhead rates for for-profit organizations hover around 25 percent, such as in service industries, where none report less than 20 percent.[153] In the nonprofit organizations examined in that study, however, none of the contracts allowed more than 15 percent of a grant to go toward indirect costs, such as operations, finances, human resources, and fundraising.[154] An examination of more than 220,000 nonprofits found that more than a third reported they had no costs associated with fundraising, and one in eight said they had no costs associated with management and general expenses.[155]

Without core funding to keep organizations afloat, local NGOs go from grant to grant, struggling during the lengthy grant approval processes.[156] One stakeholder explained that the grant application processes can take one to two years, sometimes forcing NGOs to fire staff and close programs while they wait for new grants. Academic reports agree, finding that strategic planning and longer-term flexible funding are needed to bolster local institutions.[157] Another stakeholder stressed the importance of indirect-cost reform, bringing together foundations, international NGOs and business people to address the underlying problems.[158]

In spite of these diverse and often overwhelming challenges, local organizations are eager for the opportunities presented by new and increasing sources of funding. In the GFS survey, 73 percent of aid recipients said that they felt prepared for the shift in funding to local organizations (Table 10).[159] Some local nonprofit professionals implore donors to trust local organizations and bypass the INGO middlemen.[160] However, this perspective ignores the significant logistical challenges presented by donor funding requirements. As one stakeholder explained, “individual local NGOs that have capacity and good people will see significant increases” in funding.[161] Those that do not will continue to face obstacles, even as the movement to “go local” continues to drive change in the field.

2.5 THE CASE FOR OVERHEAD

Stakeholders frequently identified lack of funding for overhead costs as a major challenge to localization of aid. On one hand, donors increasingly want quantifiable proof that their aid is working, whether it be through reports, charts or data sets. On the other, they want their money to go directly to aid and avoid the administrative costs needed to actually compile this quantitative information.

Everyone in international development is frustrated by this tension, stakeholders said. Local NGOs often use programming staff time to write reports and measure results—tasks as mundane as counting the amount of paper used in a project—rather than focusing on creating successful programming. One stakeholder explained, “With more donors—especially foundations and corporate donors—capping indirect costs at 10-15 percent, it becomes harder to build needed infrastructure. This sets an unhealthy tone for NGOs who must resort to unrestricted funding and/or private funding to support the infrastructure side.”[162]

Donors want assurance that projects are effective and result in positive change, with limited funds wasted. However, stakeholders interviewed say the effectiveness of projects is restricted when staff members shift from implementing projects to focusing much of their time on reporting requirements.

In interviews for this report, stakeholders urged donors to educate themselves on the actual indirect costs of programs and to acknowledge that localization of aid requires local NGOs to apply for grants, produce strong budgetary processes to manage grants, and have staff and resources to properly report on the outcomes of their programs. The growing focus on quantitative measurements only makes overhead more essential. It may sound counterintuitive, but in order for donors to ensure value for money for aid, overhead costs are essential and money must be spent in a smart, strategic way.

2.6 INTERNATIONAL NGOS: REINVENTING THEIR ROLE

As local NGOs struggle to meet donor requirements, large international NGOs are evolving to meet the requirements of localization and demonstrate value for money.[163]

THE SHIFT FROM DIRECT SERVICE TO CAPACITY-BUILDING ORGANIZATIONS

As one stakeholder explained, "there is—or will be—a shift or struggle to find the right balance and role for the large NGO." [164] Many international NGOs are focusing less on direct services and more on capacity-building. As stakeholders explained, many international NGOs are opening local offices and affiliates in developing countries, while others are rebranding themselves as coalition builders, uniting local NGOs in recipient countries.

LOCAL PARTNERS, GLOBAL REACH

Many international NGOs are moving into a more collaborative, supporting role with local stakeholders.[165] For example, Planned Parenthood Global has responded to the changing aid landscape by focusing on building worldwide coalitions. Instead of funding Planned Parenthood Global offices in specific countries, Planned Parenthood Global works closely with a local NGO, providing funding and technical support. This partnership focuses on building financial, institutional and programmatic capacity.[166] The expressed goal is to support a local NGO until that local NGO can be an independent organization, part of a global coalition rather than a Planned Parenthood branch office. Other large NGOs have taken similar steps. Mercy Corps recently completed a study where it recommends that international NGOs be used to help connect and facilitate local development, using their technical expertise to support local organizations.[167]

INGOs are responding to these developments in several noteworthy ways. The Elizabeth Glaser Pediatric Aids Foundation recently announced it would launch affiliates to be supported by the Foundation but operated as separate local partner entities.[168] Other organizations have responded by relocating their headquarters to the developing world, such as ActionAid, which moved its head office to South Africa.[169] Similarly, Oxfam International announced in April 2014 that it will be relocating its headquarters to either Bangkok or Nairobi, in order to "devolve responsibility to the global south."[170] In an extensive multi-part study on the issues raised by localization of aid, ODI studied current trends, including the changing role of international NGOs.[171] ODI researcher Gideon Rabinowitz concluded that "overly strict financial management and reporting requirements from donors poorly adapted to local contexts may to some degree help sustain and justify the role of international actors."[172]

2.7 DONORS: TRADEOFFS IN THE SEARCH FOR BETTER AID

Donors have responded in different ways to these changes. Many donors report difficulty in bringing local organizations up to speed on the bureaucratic accountability requirements.[173] "The key question, though, is whether down the road there are some benefits to building capacity today or not," said one interviewee.[174]

While many European countries, such as Ireland, Germany, and the United Kingdom, have emerged as leaders in localization, each country has taken its own approach to the issue. Some European donors, particularly some of the Scandinavian countries, have a long-term focus on funding "umbrella organizations," rather than local organizations. In some interviews, European donors explained that umbrella organizations provided operations support for local organizations.[175] This stems from difficulty in supporting community-based organizations directly, as many do not have systems in place to manage funding.[176]

In contrast, USAID's localization strategy, USAID Forward, aims to decrease reliance on such umbrella organizations by building capacity of their local partners.[177] Former USAID Administrator Rajiv Shah explained, "This agency is no longer satisfied with writing big checks to big contractors and calling it development."[178] Instead, USAID Forward works directly with local governments, the private sector, civil society and academia to allow countries to take leadership of their own development.[179] For example, USAID's Country Development Cooperation Strategy 2012-2016 for India states that it will "spend more time building networks with local partners" and that the mission will "build the capacity of local NGOs and other relevant institutions to support [development] programs."[180]

There is little consensus among donors with regards to the right balance on working with local and international partners. Often, the balance for each donor seems to stem from the political climate in the home country or, in the case of private foundations, the specific priorities and vision of the people in charge of the foundation. At USAID, for example, Rajiv Shah was instrumental in driving the agency's localization policies. Without his influence, it is questionable if the agency would have pursued such a rigorous approach to aid localization.

At USAID, Rajiv Shah has been instrumental in driving the agency's localization policies.

2.8 SKEPTICISM ABOUT LOCALIZATION

Although the majority of both donors and aid recipients acknowledge the localization trend, not all view it in a favorable light. Some international development actors are more critical, pointing out that localization challenges the relevance and the role of international NGOs, exacerbates existing challenges for local NGOs and shifts funds to potentially unprepared local recipients.

As one stakeholder explained, "Increasing local control of development activities is natural and good, but doing it is fraught with obstacles. Perhaps the biggest obstacle is that almost nobody in any developing country really wants to be 'cut loose' as an independent actor with no ties to international organizations, and almost no donor really wants to give their money to a truly local organization, due to the lack of back-office capability [to manage the funds]. So everyone dances around the truth: we are all interdependent, making independence an undesirable goal."[181]

Some opposition to localization results in aversion to new strategies. For example, some U.S. senators have voted against the USAID Forward reforms because of "concerns over corruption and the misuse of U.S. taxpayer dollars by non-U.S. organizations."[182] However, despite this, there is no indication that the trend toward localization is slowing.

2.9 CASE STUDY: GLOBAL RESPONSE TO THE EBOLA CRISIS

The recent Ebola crisis in West Africa highlights the challenges associated with localization. The countries worst affected by the crisis—Liberia, Sierra Leone and Guinea—have the unfortunate distinction of ranking near the bottom in their capacity to manage the virus. Liberia, Sierra Leone and Guinea rank 174th, 177th and 178th, respectively, out of 186 countries in UNDP's Human Development Index.[183] Annual health expenditure per capita is $65 in Liberia, $96 in Sierra Leone and $32 in Guinea, compared to $8,745 in the United States and an OECD average of $3,484.[184] As Lisa Denney wrote for *The Guardian*, "One of the world's most deadly viruses is plaguing three of the countries least equipped to cope with it."[185]

The lack of capacity extends beyond healthcare capacity, limiting the operational capacity of local aid recipients in more general responses. Sean Casey, Ebola emergency response director of the International Medical Corps, told Canada's *Globe and Mail*, "There are lots of financial resources but there's nobody to give it to."[186] In *Devex*, Jacques Jimeno wrote, "The Ebola crisis in West Africa has highlighted how crucial it is not just to have enough health professionals, but also how important it is to have an efficient logistics and health delivery system."[187]

This crisis demonstrates the catastrophic impact of brain drain, defined as "a gap in expertise caused by the emigration of talented, educated Africans to more developed nations."[188] Edmund Zar-Zar Bargblor, vice president of the Liberian Community Association of Rhode Island, explains that "most of Liberia's best minds are in the Diaspora."[189] In 2013, the mean years of schooling was 3.9 in Liberia's education system,[190] compared with 12.9 in the United States.[191] With the majority of the Liberian population receiving such a brief education, the number of trained local professionals to manage the operations of health and development organizations is very limited.

In these circumstances, donors are directing funds through international entities that have greater capacity and resources, even if they lack a regional presence. On USAID's website, visitors wishing to donate money to help fight Ebola are encouraged to "give to one of the Non-Governmental Organizations Responding to Ebola"[192] and directed to a list of organizations that are involved in Ebola response work, all of which are INGOs.[193] Some local organizations, such as the Liberian NGO Public Health Initiative Liberia (PHIL), are carrying out education and awareness-raising campaigns on Ebola prevention and control in hard-to-reach communities, but they are doing so in cooperation with INGOs.[194] The lack of operations capacity among local organizations has limited the ability of local NGOs to accept donor money and lead the response to this crisis.

MANY INTERNATIONAL NGOS ARE OPENING LOCAL OFFICES AND AFFILIATES IN DEVELOPING COUNTRIES.

3

INNOVATIVE MECHANISMS TO STRENGTHEN LOCALIZATION: RESPONSES BY THE INTERNATIONAL COMMUNITY

The international community is responding to the localization trend in a number of ways. Three common themes have emerged:

1 The creation—or rebirth—of international NGOs as capacity-building organizations

2 New organizational models, such as outsourcing of technical assistance, shared operations offices and partnerships based on sharing infrastructure and technical knowledge

3 Efforts by donors to harmonize reporting requirements and streamline the reporting process

SECTION 3

3.1 RESPONSE 1: BUILDING IN-COUNTRY CAPACITY

The most apparent shift in international NGOs is a movement from direct services to capacity-building. Many stakeholders discussed the importance of capacity-building: around 84 percent of donors who participated in the GFS survey expressed concern about the operational and systems capacity of their local grantees, with more than one third describing themselves as "very concerned."[195] Many donors are also actively taking steps to build this capacity, as 95 percent of donors said they have invested in the operations and systems capacity of their local grantees.[196] So how are donors, international NGOs and in-country aid recipients responding to this change?

1 Established NGOs are creating local affiliates
2 Some donors are giving money to support recipients' operations departments
3 Some organizations have created regional technical support hubs to serve local offices

CREATING LOCAL AFFILIATES OF INTERNATIONAL NGOS

In conversations with stakeholders, the phrase "capacity-building" surfaces frequently as a donor priority. For example, the U.S. President's Emergency Plan for AIDS Relief (PEPFAR) shifted its funding to local groups, leaving international NGOs to serve a capacity-building role.[197] As one stakeholder described, "There is a shift that is occurring from service delivery to capacity-building. This will have a staffing and resource impact on the INGO in the long run. Donors and local governments are pushing to use local capacity."[198]

Several high-profile international NGOs have responded to the focus on capacity-building by creating and supporting local affiliate offices. The Elizabeth Glaser Pediatric AIDS Foundation works with local affiliate offices in Cote d'Ivoire, Tanzania and Mozambique.[199] Each affiliate is owned and operated by people from the host developing country and has its own name, website and separate identity.[200]

The Elizabeth Glaser Pediatric AIDS Foundation has set out specific guidelines for its affiliates, including extensive accounting and technical requirements. It describes its relationship with its affiliates as "providing technical assistance and guidance, and working collaboratively with each to ensure HIV prevention, care, and treatment services reach those most in need."[201] The organization requires affiliates to go through an accreditation review, which is used, in part, to determine what technical assistance an affiliate needs, and to retain some control over each affiliate office's leadership.[202] For example, the organization's president and CEO must agree on the appointment, maintenance and removal of any affiliate's senior operating officer.[203] The local affiliate is responsible for ensuring compliance with donor grants, sustaining a system to handle money coming into the affiliate and maintaining an adequate procurement system.[204]

Establishing local affiliates promotes ownership by people in the host country, but stakeholders say that there also are drawbacks. For example, affiliate models may limit significant funding opportunities from INGOs, reducing available revenue for indirect costs for the organization and its affiliates.[205] Tensions may also emerge between

"Foundations should give organizations grants to hire consultants to build their financial capacity instead of personally going in and meddling with the organizations' operations."

— CFO of a major global aid donor

the international organization and local affiliates. The local group may want to stand on its own, independently deciding whether it would rather spend funds on programming than on capacity-building.[206] In some cases, the difference between affiliate and parent NGO are entirely cosmetic, with staff members transplanted from the parent NGO to the local affiliate.[207]

ActionAid International also follows this federation model.[208] ActionAid relocated its headquarters from the United Kingdom to South Africa in 2003, a move that was considered radical at the time, yet now seems prescient, given the changing context of development finance.[209]

DIRECT SUPPORT FOR OPERATIONS

Donors rarely provide funding to support the operations departments of local NGOs, stakeholders said. One notable exception is the Hewlett Foundation, which provides General Operating Support Grants of largely unrestricted funding to organizations.[210] The Hewlett Foundation's website explains two reasons for this funding: (1) it gives the organization the ability to carry out its mission in the way it wants and (2) it gives the organization flexibility to adapt to change.[211]

Stakeholders interviewed agreed that it was difficult to find donor funds to support an operations department. Many stakeholders said few donors provided adequate funds, forcing local NGOs to underestimate the amount of money needed to run an operations department. One stakeholder suggested donors give grants specifically for building operations capacity: "Foundations should give organizations grants to hire consultants to build their financial capacity instead of personally going in and meddling with the organizations' operations."[212] The OECD echoed that sentiment in a 2012 report, "Partnering with Civil Society: 12 Lessons from DAC Peer Reviews."[213] The report concluded that core funding was useful for civil society organizations that had the organizational and professional capacity to manage the funds, because the funding gave the organizations flexibility to set their own priorities and also eased the amount of time spent on donors' administrative requirements.[214]

CREATING REGIONAL TECHNICAL SUPPORT HUBS

Some large donor agencies have responded to growing administrative burdens by creating regional technical assistance centers and support facilities, employing specialists to assist their regional grantees and partners with operational tasks such as hiring, reporting, budgeting and general operational management.[215] These technical assistance centers are often established and managed in collaboration with other bilateral or multilateral donors.

The International Monetary Fund (IMF), for example, has nine regional technical assistance centers in the developing world, with the aim of strengthening "human and institutional capacity."[216] These centers are co-financed by a number of other donors and multilateral institutions, which vary according to region. Collectively, these centers reach almost 100 countries and territories. The IMF's approach to building capacity in developing countries relies heavily on technical assistance and training, and their support centers aim to provide technical advice on financial management and macroeconomic issues to recipients in the specific regions in which they operate.[217]

UNAIDS has also established technical support facilities in sub-Saharan Africa, Asia and the Pacific to build the capacity of their recipients to "fund, plan, manage and coordinate an effective AIDS response."[218] These centers help recipients manage technical gaps and offer support in areas such as strategic and operational planning, grant implementation and management, costing and budgeting, financial management, monitoring and evaluation, and organizational development, among other needs. The services of these UNAIDS centers are available to stakeholders across all sectors in the region, as long as they are engaged in HIV and AIDS programs.[219]

Likewise, the International HIV/AIDS Alliance has several technical support hubs, which provide services to a variety of other organizations, including community-based groups, umbrella organizations, coordinating bodies, governmental organizations, Country Coordinating Mechanisms, United Nations agencies and private sector organizations.[220] The hubs—located in Ukraine, Kenya, Burkina Faso, India, Cambodia, Peru and Jamaica—provide organizational development through strategic planning, program design and financial management, as well as technical support specifically tailored to Global Fund-related grant implementation.[221]

By offering technical assistance to recipients through these decentralized facilities, donors can address operational and financial challenges that are particular to a region. This approach also supports local ownership and accountability and offers more focused technical training and development for local recipients.

3.2 RESPONSE 2: NEW PARTNERSHIPS AND INNOVATIVE MODELS

New trends in international development are also leading NGOs to develop innovative ways of handling operations. Interviewees provided several examples of these new models including:

1. Partnerships between large private accounting firms and NGOs
2. Software tailored for operations departments at local NGOs
3. Outsourcing of operations tasks to other vendors and organizations and shared services
4. Pooling of NGOs to coordinate operations work
5. Employing local fiscal agents to manage grantee finances

PARTNERSHIPS BETWEEN LARGE ACCOUNTING FIRMS AND NGOS

Large accounting firms are partnering with NGOs on large-scale projects. For example, Big Four accounting firm Deloitte partnered with the NGO Family Health International (FHI) on a project in Tanzania.[222] Deloitte Tanzania and FHI won two bids for the TUNAJALI program, which ran from 2006-2011 and was funded by PEPFAR through USAID.[223]

The TUNAJALI program focused on tracking patients who failed to attend clinic appointments for HIV care.[224] For the project, home-based care volunteers and support group members received training from community-based HIV service organizations. The participants received home-based care first aid essentials, such as water purification materials, condoms, medicated soaps and insecticide-treated mosquito nets.[225] For the project, Deloitte was the primary grant recipient, FHI provided technical assistance and sub-grantees provided the direct services.[226] Stakeholders appreciated the partnership's use of Deloitte's technical expertise in systems, but they questioned whether the partnership provided a sustainable way to handle the varying donor funds coming into an organization.[227]

Some local stakeholders also question whether large accounting firms are appropriate partners for local organizations in developing countries, where the challenges

STAKEHOLDERS SAID THERE WAS A NEED FOR BETTER SOFTWARE, PARTICULARLY PRODUCTS TAILORED TO THE UNIQUE ISSUES OF INTERNATIONAL NONPROFITS.

> **"POOLING OR OUTSOURCING MAKES SENSE—ORGANIZATIONS ARE COMPETING ON PROGRAMS, NOT ON ADMINISTRATIVE CAPACITY."**
>
> — VP and CFO of a major philanthropic foundation

of the development industry differ vastly from those of the private sector. As one local stakeholder put it, "While there seems a tendency to shift to audit firms, these firms are very expensive and often naïve in understanding global health and development, so they just offer pseudo-assurances that the money was spent according to the rules."[228] While these firms have enormous financial resources at their disposal, they often lack the on-the-ground experience and networks essential to effectively navigate the international development landscape.

OPERATIONAL SOFTWARE FOR LOCAL NGOS

Another response is the development of software tailored specifically to help grant recipients manage accounting processes. Interviewees said despite considerable talk about software, there has not been much progress.

"The NGO market has until lately not been big or interesting enough for product and software development," one stakeholder said. "Many of the systems are patchwork, and much energy is spent on patching non-ideal solutions together to function in the non-profit area."[229] Stakeholders said many of the Customer Relationship Management Systems (CRMs)—software that manages an organization's relationship with customers—and the Enterprise Resource Planning Systems (ERPs)—software that integrates back-office functions, including planning, development, marketing and sales information—were not tailored to NGOs, but simply repurposed.[230]

Stakeholders said there remains a need for better software, particularly products tailored to the unique issues of international nonprofits. For example, spotty Internet service in many developing countries adds an additional layer of difficulty for such corporate systems, which often depend on reliable Internet connectivity.[231] In the GFS survey, 60 percent of aid recipients said that limited technology to support the NGO sector was a significant challenge for their organization.[232]

OUTSOURCING OPERATIONS

Outsourcing operations tasks is another option for NGOs to handle operations matters. Experts interviewed said that a number of larger international NGOs have talked about creating service centers to handle operations for the organizations.[233] Outsourcing back-office tasks would allow NGOs to focus more on programming work and on their core missions, while organizational accounting could be done at a service center or through platforms such as PeopleSoft.[234]

Outsourcing is a viable option, but it is still in its infancy, stakeholders said. These centers and outsourcing organizations would need to sustain themselves, which would require that NGOs receive indirect costs for operations.[235] Another potential barrier to outsourcing is the view by NGOs that data is proprietary. In addition, NGOs may be reluctant to embrace outsourcing because of concerns about its impact on current operations staff. One stakeholder also cautioned that "these centers need to have some programming experience, as there may otherwise be a challenge in understanding how and what a local NGO may spend their funds on, and how to report on them."[236] Nonetheless, this model is gradually gaining popularity. Although the sample size was small, one quarter of donors from the GFS survey said they are actively pursuing outsourcing of grantees' operations tasks, and almost half said they would consider employing this tactic in the future to support their local grantees (Table 11).[237]

POOLING OPERATIONS BY NGOS

Many NGOs are also pooling resources. Some pool back-office resources, for example, by sharing accounting staff or other financial workers. Others pool donor funds, often at the request of the donor organizations, allowing one organization to manage the funds. "Pooling or outsourcing makes sense," one expert said. "Organizations are competing on programs, not on administrative capacity. We don't need to compete on infrastructure."[238]

Pooling differs from outsourcing because it involves sharing an administrative office donor among several organizations. Pooling helps bring together the NGOs capable of complying with regulations of a donor organization's grant. Experts say that pooling has been successful in some countries because donors can minimize the transactional costs involved.[239] For example, the Consortium of British Humanitarian Agencies has created "The Start Fund," an effort aimed at creating a pooled humanitarian fund.[240] The Fund's website says that money will go directly to recipients and that the "multi-donor pooled fund is managed by NGOs, for NGOs," making the fund efficient at reducing transaction costs.[241]

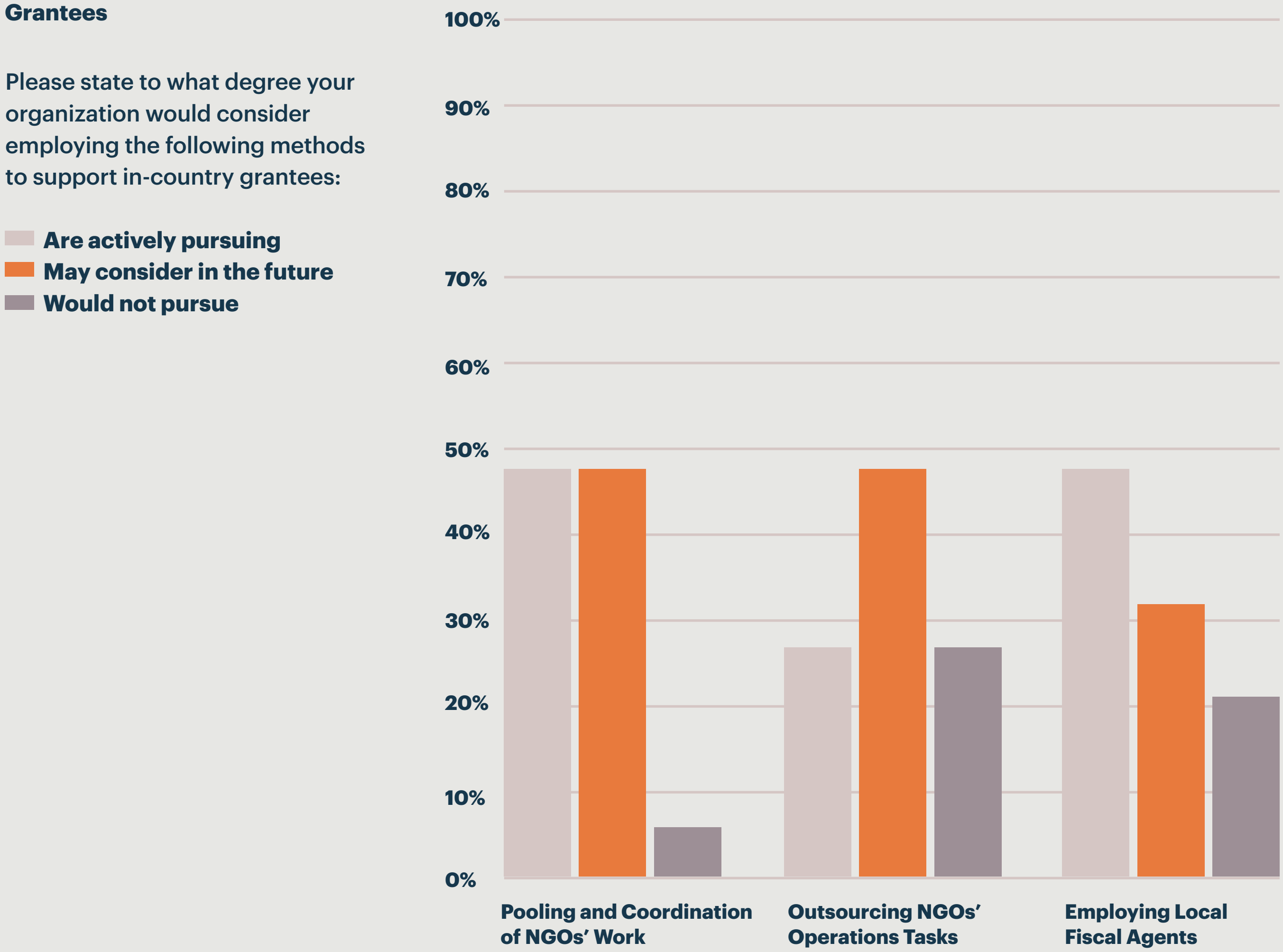
The Civil Society Fund in Uganda is another example of pooling that aims to streamline donor funds at the local level. Several Ugandan civil society organizations and government ministries collectively established the Fund in 2007 to coordinate donor support, particularly for HIV and AIDS service organizations.[242] The Fund seeks to coordinate donor funding, provide grants to local NGOs, and support activities to scale up their work and build institutional capacity. Several large donors, including USAID, DfID, Irish Aid, the Danish International Development Agency and the Swedish International Development Cooperation Agency support the Fund.[243] As of March 2013, the Civil Society Fund had given grants to 180 local organizations, and continues to disburse grants that are aligned with Ugandan national development plans and the interests of civil society.[244]

According to the 2012 Global Humanitarian Assistance Report, pooled funds are growing—from $583 million in 2006 to more than $1 billion in 2013.[245] The growth in compiled funds is attributed to the need for closer coordination between donors and implementing agencies.[246] The UN's Central Emergency Response Fund, for example, allows donors to "pool their financing on a global level to enable more timely and reliable humanitarian assistance to people affected by humanitarian crises."[247]

Other donors consolidate resources to coordinate particular grants for their recipients. In July 2014, seven foundations—the Hewlett Foundation, the Ford Foundation, the Packard Foundation, the Rita Allen Foundation, the JPB Foundation, the Kellogg Foundation and Liquidnet—came together to create the Fund for Shared Insight, a pooled fund that is intended to support collaboration, innovation and improvement in philanthropy.[248] The fund awards grants to NGOs to help them "encourage and incorporate feedback from the people

TABLE 11
Donor Response — Innovative Models to Support Local Grantees

Please state to what degree your organization would consider employing the following methods to support in-country grantees:



they serve; more effectively link that feedback to better results; foster more openness between and among foundations and their grantees; and share lessons learned."[249]

Stakeholders said such collaborative models are on the rise from both donors and recipients. In the GFS survey, 47 percent of donors sampled said they are actively pursuing this strategy to support their local grantees, and another 47 percent of donors said they would consider pooling and coordinating work in the future (Table 11).[250]

However, one stakeholder cautioned: "when donors are willing to pool resources, it is about sharing the risk, so as an aid recipient, one has to be sure that one can manage a larger pooled fund and have many more donors to respond to in case there are challenges arising."[251] Nonetheless, pooling is an appealing option for many aid recipients due to the central management structure, shared resources, and streamlined processes that such a system produces.

EMPLOYING LOCAL FISCAL AGENTS

Several NGOs are also employing external fiscal agents to manage financial matters on behalf of local grantees. A group of donors are funding fiscal agents and consultants to support the local NGOs in management and capacity-building. This strategy is particularly useful for those who wish to fund organizations in the Global South with the programmatic capacity to implement their projects but lack the training and experience to deal with the financial functions of accounting, auditing, taxation and legal compliances.

Employing local fiscal agents allows donors to ensure that grantees can deliver programmatic output without onerous financial management burdens. The Global Fund is one example of a large donor agency that employs fiscal agents to manage its grantees' financial matters. To protect against misuse of funds, the Global Fund directly contracts fiscal agents to work with recipients that have "weak financial management and internal controls, as well as poor financial reporting."[252] Fiscal Agents provide assurance that funds will be properly managed and that complex financial functions will be dealt with correctly. In the GFS survey, several donors said they are currently employing local fiscal agents to manage their grantees' operations and finance work, and others stated that they would consider using this model in the future (Table 11).[253]

3.3 RESPONSE 3: DONOR HARMONIZATION EFFORTS

Although donors committed to harmonizing grant-reporting requirements at the High Level Forum on Harmonization in Rome in 2003, progress has been minimal.[254] In an OECD report in 2011, evaluators noted that of the thirteen Paris Declaration targets set for 2010, only one has been met.[255] At the High Level Forum, participants emphasized the importance of streamlining the grant process, but noted little progress on harmonizing donor requirements.[256] The Declaration also described how the wide range of policies and procedures required by donors could unnecessarily burden recipient countries and organizations.[257] According to one stakeholder, "donors in global fora commit to harmonizing their donor requirements, but in practice they don't change, but rather add more stringent processes on the operational requirements for aid recipients."[258] Both donors and recipients have acknowledged this paradox, but efforts to change it have yet to yield results.

Although developing countries have made progress in building better processes to receive aid, experts assert that most donor countries continue to use their own systems. The OECD found that, by 2010, more than a third of developing countries had made large improvements in their public institutions and processes. However, researchers also noted that many donors did not use the improved systems to deliver their aid, because of concerns about financial misuse and a lack of trust in the partner country systems.[259]

The OECD, among others, has researched best practices for harmonization efforts, but there remains a long way to go.[260] Several initiatives have developed, including the International Aid Transparency Initiative[261] and a DfID-driven attempt to improve standardization,[262] but, in reality, donors have not harmonized aid.[263] "There is no harmonization, and there is no process done to understand what is reasonable [for grantee compliance]," one stakeholder said.[264] In its 2011 report, the OECD found that efforts by donors to coordinate—reducing the strain on recipient countries—"have not had significant impact to date."[265]

CONCLUSIONS

Many trends are converging to reshape the international development field. These factors include increased ownership of the aid process by developing countries, increased demand for transparency and value for money in the aftermath of the global recession, and the rise of the BRICS countries and emerging economies. Together, these components challenge the conventional models of aid-giving through South-South collaborations and investments.

Each of these changes has contributed to, and continues to drive, the broader trend of aid localization. Localization, in turn, impacts donors, aid recipients and other international development actors. The operational burden on aid recipients is an especially difficult challenge that has arisen from the shift toward localization, but is rarely given the attention it deserves. More than fifty interviews with development experts and the feedback from the GFS key informant survey stressed how the development world is responding to these shifts and the operational challenges that they produce. We do not intend to prescribe a way forward from the perspective of any party affected by the shift toward localization but simply to capture the status of the trend on the ground.

Onerous donor requirements, multiple funding streams, strict donor caps on overhead spending and staff retention challenges are just a few of the issues facing local aid recipients. As INGOs' missions shift from service providers to technical experts they are also facing a growing challenge to retain relevance and influence in an increasingly localized aid world.

Donor agencies and other givers of aid are responding to localization and its challenges in a number of ways. Experts described innovative solutions, such as outsourcing operations tasks to technical experts, employing local fiscal agents and the creation of local affiliate offices for international organizations. These methods are relatively new ventures, but they appear to be growing in popularity.

As the shift toward localization grows, operational challenges at the local level threaten to limit the extent to which localization can be achieved. If local entities are not properly equipped to manage efficient operations departments and navigate complex financial systems, they will be incapable of managing funds from donors looking to give locally. Although aid localization is fraught with complexities, local organizations should be given the opportunity to develop the financial capacity and operational infrastructure to manage their own affairs. The shift toward localization requires that organizations remain nimble, financially efficient and staffed with highly qualified people to survive in the rapidly changing aid world.

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