

Program Spin-offs as a Strategy of International Non-Governmental Organizations for Scaling up: Croatian Microfinance Sector Experience

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International non-governmental organizations (INGOs) localize their programs to free up time and resources to act in new areas. It is widely recognized that localizations are problematic processes, especially as they involve different organizations. The organizations concerned may have varied expectations for the future of programs being localized, ultimately complicating the shape of their successive interactions. Within that strategy it is expected that localizations of programs stemming from the programming portfolio of the founding INGOs are more likely to be successful due to the nature of the relationship between the founding and founded organizations. The analysis of cases of Demos, Noa and MikroPlus presented here suggest that difficulties experienced by new institutions stem from inadequate attention paid to partnership development between the founder and the local organization.

Introduction

The microfinance sector in Croatia started developing in the mid-1990s, when international non-governmental organizations (INGOs) began providing access to small loans to qualifying entrepreneurs. In line with the goal of developing programs and spinning them off into local organizations, microfinance programs in Croatia were envisioned to transform into local institutions from the outset. Under the guidance of an INGO acting as the initial recipient of donor resources and a technical service provider, such programs develop their missions and establish operations. At this stage they also begin preparing for transformation into autonomous institutions by building organizational skill level and a client base sufficient to support financially self-sufficient operation. Unlike in the event where INGO programs are localized through the portfolio transfer to an already existing independent local organization, this sequence of events leads to a belief among those involved that program localizations should proceed smoothly since the concerned organizations work together for an extended period of time, know each other and the institutional culture of the founding organization well, and have already formed a platform for future collaboration. Why is it then that some localizations do not produce these intuitively expected results and end up in torn relationships, broken trust, diverging missions, and, in the most extreme cases, the inability of institutions to continue working together? My analysis of Croatian microfinance sector localizations illustrates the variance in localization outcomes and provides insights into the deeper processes at work.

The objective of this paper is to show that program portfolio transfer between an INGO and a local institution is a necessary, but not sufficient condition for the creation of viable, sustainable local institutions and for the future successful cooperation of the two organizations. INGOs localize their operations to continue providing services to local clients and beneficiaries, and to create learning venues and lasting relationships between themselves and local institutions (Ashman, 2001; Johnson & Wilson,

2006). In this fashion INGOs maintain influence over the location serviced by the local organization and have a learning laboratory that generates new lessons to be used in their work in general. At the same time newly created local institutions need a link with their INGO partners to maintain access to donors and technical capacity that is more easily available to and within established international organizations. For these reasons I define successful localization as the creation of a mutually beneficial working relationship between the two organizations. This means that both have equally valid input in determining their future cooperation (there is no power imbalance), that they have similar or even identical goals for the future of their impact on the beneficiaries (mission and vision alignment), that they share joint responsibility for the success of localization (rather than have it rest only on the localized organization), and that they base their relationship on mutual trust and desire to learn from each other to enhance their ability to improve the work they are engaged in.

This paper looks at conditions under which localizations occurred from the perspective of local organizations originating from program transformations. It delves into the issues of the spin-offs' organizational independence, ability to affect the decisions shaping their future development, consequences for accountability, and possibilities for future learning of organizations in this type of association. Contrary to expectations that organizations become closely connected through the fact that one is developed and groomed by the other, the stage of institutional separation adds an additional element of complexity to their relationship.

To illustrate this point I analyze localization processes looking at the three institutions that make up the microfinance sector in Croatia to see what stood in the way of the creation of better relationships between local organizations and their INGO founders. My analysis identifies three common elements in each localization process that necessitated greater attention and/or different approaches. They are the mission and vision alignment

of partner organizations, attention to local regulatory requirements and the need to create a strong team of local champions. First, the condition of the legal and regulatory framework on how the programs are initially set up is reviewed for its influence on the success of program transformation. By addressing this question, I argue that INGOs have to be mindful of the environment in which the program operates, as it has direct consequences for its longevity, especially when spin-offs lose the perceived protection of the powerful international organization and/or donor. Second, the paper shows that creation and cultivation of teams of 'early champions' among the supporters of the intervention influences the ability of the new organization to deal with transformation issues with more confidence, thus overcoming the potential loss of institutional memory due to personnel changes. Getting to know the organization and its board helps establish meaningful partnership relationships between institutions, and helps move it well beyond the donor – recipient interaction. Third, the paper looks at the importance of mission and goal alignment between the INGO and local entity for the long-term viability of the new institution. The results of the analysis show that where missions are not fully aligned from the beginning or where mission drift occurs, organizations lose confidence in their ability to work together. That development can have detrimental consequences for the success of spin-offs. Through the analysis of these three points, the issue of partner equality and reciprocity is addressed as a crucial prerequisite for success.

The paper first reviews current debates in the literature on NGO transformation and factors determining success in spinning off organizations, presents differences between two types of partnership development and emphasizes the features of partnerships stemming from program spin-offs. It presents the circumstances of microfinance service development in Croatia and the transformation of three programs into independent microfinance institutions (MFIs). Since lack of local organizations' influence over the localization process created various operational obstacles for local organizations, I conclude that partnerships developed between local and international NGOs through the localization of INGO programs are qualitatively different from those established between two independent entities. They seem to be burdened by a lack of attention paid to partnership foundation that produces undesired outcomes in the operational sphere.

Spin-offs as a scaling up strategy: Existing Literature

My investigation of literature indicates there are few scholarly sources covering the topic of INGO program transformation into local institutions.¹ This is partly because program localizations (in the form of an entirely new institution set up specifically for the purpose of taking over the INGO program) are a relatively new phenomenon, and also because the literature more often

looks at the challenges of new relationships so established through the prism of partnerships. At the same time, other forms of scaling up described by scholars of the nonprofit sector – working with or through the government, operational expansion, scaling up through lobbying and advocacy, and via supporting local level initiatives (Edwards & Hulme, 1992) emphasize the need for institution-building of both Northern and Southern NGOs for any success in sustainable development. Scaling up through new institution building in the South or East is one possible approach. The literature on organizational change efforts talks about partnership as a form of collaboration (Fowler 1997; Gray 1989; Lewis, 1998), where partnership is seen as collective action that evolves through a series of negotiated steps (Brown & Ashman 1986; Gray 1989).

In today's globalized world, INGOs seek to build global connections across the North-South divide to better respond to world problems (Lindenberg, Dobel, 1999). Establishment of a new institution for the purpose of continued program implementation² essentially establishes a partnership, usually between a Northern NGO and the host country institution in the developing world³. In the late 1980s, Northern NGOs grappled with the issues stemming from the adoption of partnership as a paradigm for international development cooperation (Ashman, 2001), and came up with policy guidelines for achieving partnership principles that include mutual respect, open communication, and the equity of partners (ICVA 1987, Interaction 1986). Challenges of effective partnership-building in this particular dynamic have been thoroughly debated in the literature through the coverage of issues of power sharing, review of the sources of influence in the partnership, setting of the terms of cooperation and related accountability issues (Ebrahim, 2003; Johnson & Wilson, 2006). Ashman reports in her work that collaboration theorists have identified several factors critical for the success of partnerships: trust development between partners, cooperative interpersonal relations, and behaviors such as active communication, mutual influence, reciprocity, and joint learning. Johnson and Wilson suggest that "partnerships conceived as learning models that build on mutuality and difference offer the potential to challenge the power relations," (2006, p. 71) drawing attention to the issue of power imbalance. Although some authors pay attention to legitimacy of local operations in terms of legality (compliance with local laws and regulations), this is not an area of focus in the partnership literature.

On one hand, while leaders of the Northern relief and development NGOs are seeking to develop ties with their partners in the South and East in order to achieve more effective work, practice still points to a large number of engagements in which Southern partners feel they have not been accepted as equals. The study of North-South partnerships on the African continent (Ashman, 2001) indicates that Southern NGOs feel they have no real leverage in negotiating formal

agreements, bear the full burden for the success of program implementation, are more exposed to the risks of operations, and have no meaningful say in how the termination of partnership is negotiated. This outcome is not a desirable result of partnership engagements, but points to the need to harmonize more than the visions of the two organizations for the effective partnership to take place. Essentially, Ashman suggests that, due to unique advantages related to their geographic position, Northern and Southern NGOs should alter the foundation for their partnership. Northern NGOs should revise their strategies to support southern NGOs with information and resources in such a way that they are not camouflaged contractors, but real partners. This qualitative change would enable the emergence of partnership chains to facilitate the relationships that extend from donors to communities (Ashman 2001), rather than between the Northern and Southern NGOs. Various other authors make similar claims by stating that the effectiveness of partnerships is secured through the recognition of the value of grassroots level empowerment (Edwards and Hulme, 1992, 1995; Fowler, 1997) that encompasses the local level institutions.

Thus, one of the crucial underlying prerequisites of successful localizations suggested by the cases analyzed below is the quality of partnership established between the two institutions. A review of the referenced partnership literature suggests that beneficial relationships between local and international NGOs can be created only in cases when the issues of resource control, power imbalance and determination of future modes of collaboration are consciously debated and addressed from the points of view of both organizations.

Partnership building and program localization

I argue in this paper that obstacles encountered by organizations created through program localizations stem from the lack of consideration given to partnership development between the players engaged in the spin off process. Policy guidelines for partnership building identified by International Council of Voluntary Agencies (ICVA) in 1987 place a premium at mutual respect, equity of partners, and mutual influence that lead to joint learning as the highest form of partnership interaction. The cases presented below suggest that key elements of effective partnership were missing in the interactions of organizations presented. This points to the qualitative difference between partnership building among independent institutions vs. partnerships developed between organizations where one is created through a spin-off process. Specifically, when looking at INGOs' strategy of in-house establishment of development programs, one has to consider how this approach differs from partnership building with an existing local organization, and what influence it has on the future interaction of organizations in such an association. To establish the understanding of what differences can be observed between the two modes of collaboration,

descriptions of both follow:

In the "pure" partnership, two already existing organizations look to enhance each other's ability to reach a certain goal by drawing on their comparative advantages in a given setting. Before beginning the joint engagement they assess the ability of the other organization to complement their goals or assist in improving their impact, they look at organizational compatibility of the potential partner with their own mission, vision and goals, and their capacity to bring into the relationship a certain value added. Additionally, each side presents themselves as a potential best choice for mutual engagement, as both care about the prospective improvement of the work they do that can be achieved by joining forces. Notionally, both partners are in the same position to make decisions and equally influence the development of their future interaction.

When an organization that is to become a future partner stems from the program portfolio of a given INGO, the relationship building between them is very different. Although it seems counterintuitive to bring up questions of mutual trust, joint influence, reciprocity, and organizational independence, the new organization is in a weaker position to influence the development of partnership relations by virtue of having been groomed under the wing of one partner.⁴ The INGO has the ability to direct the formation of the new organization by requesting concessions related to the leadership and management of the new organization, by directly interfering with the local organization's decision-making, and by proposing the terms of future contractual relationship that may not be seen as favorable by the local institution. The control over resources enables the INGO to request accountability of the local organization for the usage of resources (Ebrahim, 2003) while neglecting the need for mutual accountability of partners to each other and their constituencies.

While it is certainly possible to create productive partnerships among the organizations undergoing the localization transformation, the appropriate attention given to the potential for skewed initial positioning of partners is vital for the development of mutually beneficial association. Therefore, the expectation that quality partnership will evolve on its own from the close relationship of the INGO and the program that was initially a part of that same INGO is false. The factors that emerge from the cases presented suggest that a crucial prerequisite for avoiding the pitfalls of localization is recognition of the organizational independence of spin-offs. Their organizational independence leads to the ability to contribute to partnership building and influence how relationships are established, how contracts are negotiated, how joint criteria for success evaluation are selected, and whether there is active and open communication between partners before and during the transformation process. For real commitment to be established, local organizations and their boards should have a prominent role in developing the terms

of partnership agreements, as they will implement the activity and oversee its further development. Withholding that possibility from the local organization leads to the creation of imbalanced power between partners and is not conducive to partnership success.

Methodology

The main proposition of this paper is that successful spin-offs result from mutual respect and value, as well as joint responsibility for their ongoing activities. This implies that the INGO and the local spin-off negotiate the terms of their transformation agreement as two independent entities, and that voices of both sides are taken into account to shape the final outcome of these negotiations. Successful spin-off microfinance organizations are not just those that are financially sustainable after the spin-off has been completed, but those that maintain a high level of commitment to the same mission, a high level of communication and trust between the organizations involved (Ring and Van de Ven, 1994), and are open to joint learning opportunities (Brown and Ashman, 1996; Lewis 1998; Johnson and Wilson, 2006). Joint learning as the highest level of partnership development will likely not occur if other elements of the partnership are not fulfilled.

The methodology employed for this paper includes case studies and cross-case analysis. Case studies of spin-off processes of all three MFIs in Croatia were created based on responses to the same set of questions⁵ and direct observations of the author. Questions were provided to those interviewed via e-mail, while answers were gathered through telephone interviews. Interviews were written up and presented to respondents for correction and additional information via e-mail and followed up by another telephone interview. Cross-case analysis helped build the analytical themes that are presented in this paper as necessary elements of successful partnerships for MFIs. Case studies of NOA and DEMOS were created based on the interviews with their respective CEOs, while the case of MikroPlus required a somewhat different approach. The author was the manager of the MikroPlus program and managed the transformation process for MikroPlus SLC. To overcome possible bias in the presentation of the MikroPlus MFI spin-off, the current MikroPlus manager and one board member were interviewed to provide their accounts of the spin-off process.

It should be noted that this research is exploratory and this paper is the first segment of a larger research project. This paper draws on the insights of managers of Croatian microfinance spin-offs. The next stage of this research project will gather data from the INGO counterparts of the three organizations presented here in order to balance the analysis and gain deeper insights to the phenomena studied.

Context

Croatia is a middle income European country that embarked on the road to independence and political and economic transition in the early 1990s. The break up of Yugoslavia was violent and created a need for assistance to refugees and displaced people. Short-term emergency relief and assistance programs of INGOs that responded to war-time needs evolved to address the need for rebuilding and economic revitalization. Microfinance service provisions followed as an attempt to create economic conditions for self-employment and small-scale business development in areas with limited employment opportunities in post-war and transition circumstances.

The organizations implementing microfinance programs in Croatia engaged in two different ways of microfinance institution-building – “fitting” the proposed intervention under the available institutional framework and creating new venues for program implementation that were outside of the existing framework, but better suited to reach needy populations. The second approach required engagement in the creation of the legal framework for the future institutions. As the work on legislative change for MFIs has not resulted in enacted legislation yet, all three Croatian MFIs are today registered as local savings and loan cooperatives.

In an attempt to understand the features that determine long-term viability of institutions created by INGO programs being spun off, I approached all three micro finance institutions in Croatia so created⁶. Their individual experiences are different, but allowed for drawing of lessons equally important for all. The operating obstacles they encountered on the way to independence are illustrative of local organizations’ inability to influence how localizations were prepared and implemented. The consequence for the relationships with the founding INGOs are in some cases more damaging than in the other, but all indicate that a partnership building aspect of localization strategy has not received sufficient attention.

Case Presentations

*Noa*⁷

Microfinance services were first offered in Croatia in 1996 in the region of Eastern Slavonia as a vehicle for peaceful reintegration of an area that was outside the Croatian government’s control during the Homeland War. Eastern Slavonia came under the administration of the United Nations Transitional Authority, and the United States Agency for International Development (USAID) provided funding for the first MFI to begin operations. The technical assistance provider was Opportunity International⁸ (OI). It was believed that provision of access to finance to re-establish the pre-war economy in a highly agricultural area, at the time of extreme liquidity crisis in the Croatian financial system would help rebuild ties among the local population that had found itself on opposing sides during the war.

The strategic plan for the creation of the first Croatian MFI called for the establishment of a legal entity that would receive technical assistance and funding to implement a long-term microfinance program in Croatia. OI embarked on founding a local institution in the form of a savings and loan cooperative (SLC). The SLC Act (in power at that time did not allow for the formation of SLCs with donor funding⁹. To circumvent the inability to fit the intervention in the available institutional format, OI asked USAID to assist by engaging Croatian high-level officials in creating leeway for the formation of this institution. Although the approval for the creation of this institution was obtained and the SLC was registered, OI failed to accompany this arrangement with the written document indicating the details surrounding its formation and specifying that funding for this program was channeled to NOA under the provisions of the bilateral agreement between the US and the Croatian Government.¹⁰ Since the intention of USAID as a donor was to create a local institution in Croatia, the lax treatment of the legal standards guiding the establishment of SLCs significantly influenced the position of Noa in the eyes of regulators.

The SLC Noa was founded with the participation of volunteers from the Center for Peace, a local NGO, who acted as founding members, and some of them became the first board members. Capital provided by USAID was channeled through OI to Noa as a deposit. OI provided technical assistance to Noa for a period of two and a half years and directed its daily operations. After that, for an additional five years, Noa was responsible for maintaining the OI-required standard of operation and meeting the agreed upon goals and targets. Strict adherence to the operational requirements of OI resulted in the executive director of Noa being fined by the financial police¹¹ and banned from performing any kind of managerial role for a period of two years.¹² Upon meeting every milestone, as defined in the assets transfer documents, portions of the deposit were converted into a grant to Noa, thus effectively removing OI from ownership of any sort in Noa.¹³ Having met all targets, Noa withdrew from actively participating in the OI network. Several years after full funding for the program became equity of Noa it was required to pay taxes amounting to 20% of the total donation. Following this development, the Noa assembly voted to remove all OI members from its board, as they felt OI was responsible for the loss of funding to taxes that would not have to be paid in case all legal requirements in setting up Noa were respected.

Noa management considers this transformation largely unsuccessful for the following reasons: The lax treatment of legal requirements for the formation of microcredit providers in Croatia by OI resulted in the ambiguous legal interpretation of Noa's status and subsequent tax obligations. OI implemented their standard approach to provision of microfinance methodologies that has proven not to be the best solution for the Croatian MF market in Noa's view. Education of Noa's local staff and management revolved

around what OI perceived as the best approach to credit provision, rather than to what is seen by Noa as the more appropriate response for the Croatian market. Further, OI and Noa do not share the vision of serving the same target clientele. While OI insists on market penetration to reach more poor populations, Noa sees the small and medium enterprises they started to serve at the beginning of their formation as its target group. As these clients have grown their businesses over time, their business finance needs have evolved as well. While Noa fulfilled all its contractual obligations, it feels that OI took advantage of their position. OI had the ability to use 25% of the initial USAID grant to cover their operating expenses, but then failed to deliver on the obligation to help Noa locate additional sources of funding for the credit operation. Another 20% of the grant went for the payment of taxes, so almost one half of the total assets designated for development of micro credit in Croatia were wasted. The point of contention between the two organizations remains the contractual provision that enables OI to request the return of funding in case they determine that Noa is not providing services to the more difficult to serve clients. The difference in view is obvious when average loan size is considered. Noa's average loan size presently stands at 6,600 USD, while OI requires that average loan size of any of its network member institutions does not exceed 3,500 USD. In Noa's view, this does not take into account the specificities of the local market.

As NOA was recently reassigned from the 'supporting' to the 'reporting' member category in the OI network, this contractual provision not only poses a credible threat to this organization's future, but also points to NOA's inability to negotiate the terms of the contract and provide input for the partnership agreement. The lack of downward accountability of the founding organization in this relationship has a significant impact on its quality and potentially threatens the future of this "independent" local MFI.

DEMOS¹⁴

The International Catholic Migration Commission¹⁵ (ICMC), an international NGO, founded DEMOS savings and loan cooperative in 2000. ICMC is an organization with core competency in refugee resettlement. Microfinance is only one of the services aimed at improving the integration of refugees into new communities.

In Croatia, a microfinance technical assistant was hired and proposed to ICMC to start the program through the venue of available institutional structure of SLC. In 2000, a new law on SLCs was in power, as opposed to the law under which NOA was founded. The legislation was changed in 1997, effective as of January 1998, and it introduced a requirement for higher number of founding members, more seed capital, but also and the ability of SLCs to now legally accept donations from international organizations. This recognition of the capability to legally take in funding from other sources than SLC members created the conditions for establishment of DEMOS

that were qualitatively different than in the time when NOA was created. ICMC's international employees were DEMOS' founding members, and the first board of the institution was made up of solely foreign nationals. This same board developed a strategic plan for localization of the program in 2003, and the plan was later executed largely in the manner outlined by that document.

The localization of DEMOS involved a simple handover of the program and its assets to local management and clients of the institution.¹⁶ A local team of managers¹⁷ and the new executive director were selected and a new international board member¹⁸ was brought on board in preparation for the independent existence of DEMOS. Prior to finalizing localization, all but one foreign national on the board were replaced by program clients and outside supporters who were selected and approved by ICMC. DEMOS clients and staff were informed of the new institutional arrangement between DEMOS and ICMC when the transformation to full local ownership was to take place, but they had no influence over its direction or flavor. The program transfer process was smooth as it involved solely the replacement of management by the local team members. As they have not had the opportunity to participate in devising the localization plan, it is likely that it has not been thought through from the local context perspective. ICMC divested DEMOS from its portfolio and closed shop in Croatia during this process, but it retained the option to control the organization's operation through the presence of that one international board member in the institution.

Reportedly, during the localization process there were instances of disagreement between the two organizations, when ICMC tried to halt the process or not release the full program funding to DEMOS, but they were quickly resolved and did not largely influence the course of program transformation. According to the executive director of DEMOS, ICMC attempted to maintain a tight grip over the new institution by requesting to approve its expansion plans, determine geographic areas in which the institution will be allowed to work, and to reserve the right to approve the changes in methodology in the future, but was not successful in pursuing these requests. DEMOS insisted on involvement of donors in dispute resolution, which effectively ended the disagreements and full funding was released to DEMOS.

Management of DEMOS sees the spin-off process as largely successful. ICMC secured donor funding for the establishment of the program, it then provided an international employee to train the program's staff on microfinance best practices and expectations of the founding organization on how to run operations long term. The link to ICMC today represents a venue for DEMOS to access additional donor funding and to obtain information it needs, and ICMC is regarded as a friendly supporter. Although the international employees of ICMC developed the strategic plan for localization of DEMOS, it seems to have produced the results both

organizations desired. The SLC employees had no say in how the transformation plan will be devised or executed, although they are fully aware of the organization's responsibility to the donor/founder to maintain the same orientation in terms of target clients and services. In the words of DEMOS executive director the "staff knows what is expected of us, although we are 100% independent now." Today, the relationship of the two organizations is informal and irregular.

The study of DEMOS SLC transformation shows a very different localization scenario. ICMC's approach to microfinance program development with empowerment of local employees at a much later stage suggests the desire to direct and control the development of the program and the future independent institution. Although unproblematic from the localization process perspective, this approach resulted in the creation of an entity that simply inherited the whole program package without any influence on how it was established, how target client group was selected, whether the methodology employed appropriately reflects DEMOS' role in Croatia, or how the organization is run, and it certainly shaped the localization process. This type of program development can pose a challenge in terms of maintaining the mission, as it is not entirely clear how deeply rooted DEMOS is in its operating environment. It is equally ambiguous how much interest in this organization and further relationship building there is on the ICMC side when it maintains only irregular and informal communication with DEMOS.

*MikroPlus*¹⁹

The most challenging program spin-off among Croatian MFIs in terms of institutional transformation occurred in MikroPlus, as the program began under a different organizational structure and did not expect it would have to accommodate comprehensive change of the operation in the future. Catholic Relief Services (CRS) looked at options for microfinance service provision to determine the venues best suited for its own priority – fast delivery of loans to poor entrepreneurs. Accommodating the local legal regulations, the microfinance program was structured so that lending was performed by a commercial bank, while all client-related business was conducted by CRS' MikroPlus program. Upon commencement of MikroPlus program implementation, CRS also started working on addressing the legal constraints faced by the future Croatian MFI. With help of financial sector experts, MFI legislation was developed, but despite several attempts to ensure its implementation, it never reached the stage of enactment in the Parliament. CRS addressed the issue of inadequate legislation for its future spin-off early on, but it could not ensure the legislation enactment within the timeframe of its strategic plan.

In the fourth year of MikroPlus program CRS in Croatia needed to spin it off given the uncertain future of the MFI legislation and the change of CRS programming focus in Europe. It was required that MikroPlus become an independent entity a year ahead of the original plan.

The alternative plan to transform a microcredit program into a domestic SLC was associated with difficulties that could not have been avoided. There was a legal requirement for SLCs (to gather 30 founding members and 100,000 Kuna²⁰ of seed capital). The bylaws of the new entity were developed and approved by CRS, together with the transformation plan. The plan called for transfer of the entire program to the new institution through two mechanisms – immediate donation of the entire loan portfolio and physical assets, and a conditional transfer of the remaining funding, that was to be granted to the local institution based on agreed upon criteria for SLC's performance.

The founding assembly of the new institution was held in October 2003 with participation of some staff and microfinance supporters, and the MikroPlus SLC was registered in May 2004. CRS forced the SLC to start functioning independently and separately from CRS as of the following month, although the previously approved contract on assets transfer was suddenly abandoned by CRS. The lack of proper documentation led to a number of instances of regulatory incompliance of the new institution and exposed it to unnecessary risk towards supervisory authorities²¹.

The effects of that change and the related uncertainty quickly spread through the organization – the staff started questioning the intentions of CRS in relation to the future institution, fearing foremost the future and security of their employment. Staff required explanations for the lack of loan capital funding for disbursement²² as it was affecting their credibility in the field while working with clients. MikroPlus's lack of funds in turn undermined clients' confidence in the new institution's viability.

The final transfer of assets agreement was signed in a changed version in April 2005; eleven full months after the SLC started operating as an independent institution, and just a few days before falling short of the legal requirement to turn in financial statements to the tax authorities.²³

MikroPlus SLC management believes that localization process was largely unsuccessful, especially when viewed from the partnership perspective. Although mission alignment or localization contract provisions were never disputed by the local organization early in the process, local MFI's lack of control over the execution of the spin-off process produced unwanted outcomes. MikroPlus sees the transformation as a phase that set it back in a sense of team development, client numbers, portfolio at risk, and overall growth, and it fears that deterioration of program quality will have an impact on MikroPlus's ability to further influence the legal framework development in Croatia. The localization was executed in a manner that took into account only the interests of CRS and it was not completed in full at the time of writing.

MikroPlus localization was more complex than the other two organizations as it began at a time that required continuation of work on legal frameworks and it entailed the change of organizational structure

through which the program was made available to clients in the past. Although future independent MFI was not only fully rooted in the local context (local professionals were engaged to manage the program, develop program methodology for Croatia environment, and initiate the work on microfinance legal reform), but also embraced CRS' microfinance philosophy. The spin-off process was not smooth. The obstacles were introduced to this case at a time when the assets transfer was to be completed. Instead of continuing to have faith that partnership efforts of the two organizations would bear fruit, CRS abandoned the partnership discourse and moved to pursue its own organizational restructuring in the CRS Europe region. Effective partnership building was replaced by accountability concerns as the new institution was beginning to operate in legal form not best suited for its operating manner. Only accountability of the new institution to its founder was considered an appropriate measure of localization advancement. The lack of downward accountability of CRS created problems for the local MFI: in daily operations it translated into overwhelming obstacles for the new organization as it was constantly on the verge of not meeting the legal requirements for its existence and inadvertently breaking laws while proceeding with the spin-off per INGO's strategy.

Lessons Learned

On the basis of the cases presented in the previous section it is possible to conclude with a brief summary of issues that had a negative effect on localization of each institution. If localizations are a strategy employed to ensure continued impact of an intervention and delivery of services through establishment of an independent institution, why is it that after years of working together within the INGO, institutional separation through localization can produce so many problems that it ends up in shattered trust and torn relationships (MikroPlus) or mission drifts and a loss of possibility to productively work together (as in NOA's case)?

The analysis indicates several areas that need to receive specific attention in preparation for localization, as lack of consideration to these specific points can create unintended consequences for the establishment of new organization and thus affect future collaboration of the partners. Lessons drawn confirm the importance of shared vision and mission, teams of champions that carry the cause for engagement to the new institution, and the observance of limitations in the local legal environment for successful establishment of the spin-off organization.

Due to the nature of microfinance and its likeness to a business in terms of profitability measures and financial indicators, it is relatively simple to determine when the program reached the stage of technical capability to operate independently. All cases presented satisfy that request, but now it is evident that the observance of solely technical criteria (number of clients, size of

portfolio, repayment rate, etc.), although one of the prerequisites for localization, does not by itself lead to satisfactory outcomes.

Based on the origin of all Croatian MFIs it could have been reasonably expected that missions of the founders and local MFIs would be fully aligned and their goals for the future integrated. However, our cases indicate that this was not the case with all MFIs, although shared mission and vision are one of the key criteria for collaboration. The case of Noa suggests that a lack of joint vision creates insurmountable obstacles for continued collaboration. The question it raises relates to the conditions for diverging missions development under “one roof”. Do such developments result from the inability of organizations to achieve the joint mission or to the different view of their respective roles in development? Given the origin of the program and the new institution, what are the factors that contribute to it?

Teams of champions are one of the most important aspects of joint institution building. Local team members were carefully cultivated in the INGOs during the program development stage to create teams that share the same values and goals to benefit the future collaboration of these institutions. However, local organization's management is only one part of that new institution. Board members too need to believe in what organizations set out to jointly accomplish. Our cases do not indicate any effort to engage the boards of local institutions at any phase of the localization process. It is then legitimate to question whether failure to involve boards points to more fundamental deficiencies in localization preparation.

Adherence to local legal regulations and requirements is one of the obvious prerequisites for long-term existence of any institution. It seems therefore appropriate to ask not why the failure to comply with these types of rules occurred in some of the cases, but what created the situation in which noncompliance in such a key area was possible in the first place.

Lessons drawn from these cases indicate that spin-offs themselves had little influence over the establishment of new organization, and questions whether partnership aspects of the localization process were recognized as an important part of spin-off preparation. It brings us to inquire whether the program localization processes conceals the need to address the partnership building aspect of the new relationship? My cases reveal the complexity of relations and lack of reciprocity between partners among which one is effectively the founder of the other.

Croatian MFIs have contracts with their founding organizations through which INGOs reserve the right to ultimate ownership of the program assets, while simultaneously shifting all the risks of operation to the local partner only. Such inequitable treatment of partners confirms the inequality of influence on the terms of relationship building.

Conclusions

INGOs increasingly resort to spinning off the programs they create in a particular setting to be able to move to another area of need. This strategy for scaling up of INGO operations and geographic coverage entails some specific features and calls for recognition of the type of relationship being established between the partner organizations for its success. Equality of partners seems to be a crucial and underlying condition for meaningful collaboration, although further research is needed to establish this.. While INGOs come to the table with technical expertise, funding, and donor relations, domestic organizations contribute their knowledge of the local context, linkages to the community, and commitment. Local partners continue to carry the joint mission further in the domestic context and for their autonomy in management it is crucial that INGO fully recognizes local partner's role. Both partners stand to learn and benefit from the joint engagement, if the terms of collaboration are established with the needs of both organizations in mind. As this paper demonstrates, when partnership foundation is not jointly determined, the potential for unintended outcomes is much greater. Cases presented in this paper indicate that failure to address the partnership building appropriately may lead to inadequate attention to operational details that shape the future position of the local organization. In the case of Croatia mindfulness of the legal environment, attention to mission, vision and goal alignment, recognition of local leadership, and ability of local MFIs to influence contract conditionality setting emerged as key areas for attention. All of them indicate that insufficient consideration was given to the establishment of relationship between partners that would enable them to have equal participation in the localization agenda setting and the creation of the mutual accountability foundations. Had the reciprocity of partners been achieved early on, and had they both had the opportunity to influence the development of their association, it is very likely that the operational obstacles of this nature would not have been encountered during the localization process. However, it is equally important to recognize that INGOs are working with organizations being formed, not existing, fully formed and independent entities, which in itself requires a lot of creativity on the part of INGOs to overcome the bottlenecks of localization as presented in this paper.

In this context the topic of accountability deserves special attention. Discussion of whether local organizations are accountable to their founders or to their beneficiaries is necessary, as well as the discussion of the concept of partners held jointly accountable to their donors and clients. Conscious debate and answers to these questions should direct partnership negotiations. Lessons that emerge from the study are important as program transfer is only the beginning of a long-term relationship of the institutions involved and as such influences heavily how that future collaboration evolves. Setting the stage jointly for program spin-off by clarifying

roles of both organizations, the comparative advantages they bring to the association and their goals for the future partnership positions both sides to benefit from joining forces. This approach necessitates the recognition of the organizational independence of both organizations as a prerequisite for appropriate “stage setting”. INGO roles in this stage are vital, as the INGO has the ability to request the engagement of spin-off organization’s board and management early in the process.

Future Avenues for Research

Since this paper looks at program localizations solely from the aspect of newly created organizations, it is necessary to qualify that incorporating the views of INGOs that were directly involved in this process is essential in the interest of arriving at general lessons. I plan to interview INGO representatives that participated in these same localizations to further investigate this topic. Additionally, I plan to survey other INGOs with experience in localizing microfinance programs along with their local partner organizations.

The strategy of program spin offs reveals that some fundamental questions of collaboration are not particularly well handled within that approach of scaling up: organizations involved seem to agree on ‘why’ and ‘what’ they will join hands in, but the discussion of ‘how’ is absent in the spin off preparation. This, together with INGO decision-making power, may lead to problematic outcomes for future collaboration. Further research may serve as a foundation for more effective localization model building.

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Annex 1

Questions for Croatian MFIs on the spin-off process

1. Describe how your MFI was established. Who prepared the spin-off plan? Was it in accordance with the local legal requirements? Were there significant deviations from the plan in the course of the spin-off process?
2. Who elected the Board members of your MFI? Has the founding organization (INGO) placed any conditions on who could become a Board member?
3. Have employees of your MFI been aware of the localization plan? If so, who presented it to them – did the two organizations do the joint introduction of the spin-off process to employees? How were clients of your MFI been made aware of the transformation and localization process?
4. Have the two organizations experienced any problems during the spin-off process over which it was difficult to reach agreement? How was the joint agreement reached?
5. Overall, was the localization process conducted in the most efficient way for your MFI and the new partnership relationship?
6. What kind of a relationship exists today between your

End Notes

¹ My attempts to study internal organizational documents of INGOs such as Save the Children, Catholic Relief Services, CARE and Mercy Corps, dealing with issues encountered during spin-off processes were fruitless. Two INGOs that responded to the request for information apparently never looked at spin-offs as a different strategy in widening their scope of influence and work. None have anything already written up on their respective experiences in program spin-offs, although all engage in this practice.

² In the field of microfinance program spin-offs in the form of a local institution are a natural recourse, as MFIs that are financially sustainable at the time of separation from the parent organization had to achieve at least two benchmarks – the position on the market and income levels that are supporting their independent operation, and sufficient level of resources to enable them to operate the lending programs.

³ Although today there are examples of Southern NGOs establishing operations in the North, such as Grameen Bank, there are yet no examples of such programs being localized.

⁴ See Pfeffer and Salancik (1978) on theories of resource dependence and Emerson (1964) on power and related dependence issues.

⁵ See Annex 1 for details.

⁶ As indicated earlier, all three local MFIs began as development interventions of INGOs in Croatia. For the simplicity of presentation, all three will be described as both programs and institutions throughout the text. This terminology does not coincide with the stage when these organizations were established as distinct legal entities, as two were immediately formed as savings and loan cooperatives. The term 'program' is used to indicate the stage in which the institution was under management of INGO, and 'institution' or 'organization' is used for the stage when it became independent.

⁷ Information obtained from NOA's executive director in a telephone interview on February 22, 2006, e-mail response on March 1, 2006, and an additional interview on March 15, 2006.

⁸ Opportunity International is an organization delivering micro enterprise development programs since 1971. It is US-based, but has programs in Africa, Asia, Eastern Europe, and Latin America.

⁹ Legal requirement was to have at least 10 founding members, 30,000 Kuna of seed capital, and had no provisions allowing the intake of a donation for any SLC business. The Act was in power between 1989 and 1998.

¹⁰ One of the key aspects of the bilateral agreement for this case is the waiver of taxes on aid funding provided from the US government sources.

¹¹ At the time this was the Croatian tax and regulation compliance arm of the Ministry of Finance.

¹² The executive director is legally responsible for all activities of the SLC and its compliance with existing laws and regulations. Adherence to OI requirements rather than legislation created the situation in which only the person legally responsible for the activities of the institution was fined.

¹³ The contract governing the program transfer between OI and NOA contains the provision that OI still has the ability to withdraw all program funds from NOA if it estimates that NOA is not fulfilling the terms of the contract.

¹⁴ Information obtained in a telephone interview with DEMOS executive director on February 22, 2006.

¹⁵ The International Catholic Migration Commission (ICMC) works with refugees, internally displaced people and forced migrants, by responding to their immediate needs, but its focus is on return to and re-integration in home countries, local integration in places to which uprooted people have fled, resettlement in a third country.

¹⁶ All program assets became the equity of DEMOS as the institution, and it is not possible for any member to claim their individual "portion" of it.

¹⁷ Lower level management and staff were always local, but had no influence over how DEMOS is shaping up. The need to hire an outside executive director indicates their modest level of influence.

¹⁸ The person comes from the ranks of another INGO that donated its Croatia program funding to DEMOS when closing its operation in Croatia.

¹⁹ Information obtained in a telephone interview with MikroPlus executive director on February 28, 2006 and a Board member on March 15, 2006. Both were confirmed by the e-mail communications on March 16, and a phone interview with the executive director on March 20, 2006.

²⁰ This is approximately \$16,000 U.S. dollars at an exchange rate of roughly 6 Kuna to \$1 U.S. dollar.

²¹ During the time before final document signing SLC was exposed to an inordinate amount of risk vis-à-vis regulators, as it was operating without a full time manager for three months, it was receiving repayments of loans of clients that were not transferred to the new institution (there was no legal basis for receiving these repayments), it ended up issuing loans to people whose cash collateral was still tied in the CRS account, instead of being paid in as the share capital, it recorded transfers of cash as organizations equity without having the final document to prove its truthfulness, etc.

²² In October-December 2004 period CRS banned the SLC from making any loans until the final mode of assets transfer is determined.

²³ The lack of appropriate documentation would seriously undermine the validity of the statements prepared and the legality of the entire operation.