

Report from examination of the financial affairs of Light's House Foundation, Nepal

Light's House Foundation Nepal (LHFN) was founded in 2009 by Mr. Raju Sundas in order to provide social care and education primarily for young girls from the untouchable Badi Community in Nepal. They are at great risk of becoming victims of sexual abuse and prostitution due to severe poverty of their families. Today 680 children are supported in ten hostels with eighty staff at three locations; Kathmandu, Heteuda and Surkhet area. The foundation has been financially supported by several international donors from, Sweden and elsewhere.

In March 2017, I was invited by Håkan Gabrielsson from Out of Ashes and Mr. Raju Sundas to examine the financial affairs of LHFN and assess the validity of the complaint launched against LHFN by the Swedish organization LoveNepal, LN (now LoveandHope). I have studied the annual report and audit report of 2016, which I requested from LHFN. I also studied other documents, media coverage, and government reports related to the complaints and malicious rumours, which had spread to backdonors and LHFN's partners and backdonors. In this report, I will show, however, that there appears to be little convincing evidence to support the serious accusations leveled against LHFN and its leadership.

Before continuing it should be noted that LHFN and the beneficiaries of the work in Nepal do express an appreciation for the substantial financial support and commitment LN has provided since 2010. Their funding has been of considerable help to the victims of poverty, sexual abuse, and exploitation in the Badi community. LN has been a major donor since the beginning, and in 2015-2016 LN's donations to LHFN amounted to 1,2 million USD (including a parcel of land worth 630,000 USD) out of a total of 1.5 million USD.

Overview of Conflict Between Lighthouse Foundation and LoveNepal

To better understand the conflict between LN and LHFN, I will begin with a brief history of their relationship. Raju Sundas founded LHFN in 2009, and partnered with Out of Ashes to raise the money for the first girls' home, which opened in December 2009. Having been introduced to the work, Mikael Alfvén started 2010 up his own fundraising organization, known then as LoveNepal (LN). Grahame Kerr and his Australian organization Transform the Nations (TTN) also began their support of LHFN in 2010. Later on, a number of other partners also began supporting the work.

In November 2016, LN filed a report against LHFN directing serious complaints at its management. Three months later TTN and another Australian organization also made complaints. According to LN's letter of complaint, LHFN has mismanaged funds, underpaid staff, misused money earmarked for specific purposes, hidden important financial documents, physically abused its girls, and more. The Social Welfare Council (SWC) immediately launched an investigation into the matter over a period of two months. However, LN discontinued further financial support without waiting for the results of the investigation, and LHFN was informed two months retroactively. As a result, LHFN has been facing a major financial shortfall in 2017.

The Social Welfare Council issued a 20-page probe report, which cleared LHFN of all accusations of misconduct. Instead of demonstrating that LHFN was in the wrong, the report indicated that LN violated several codes of conduct in their interaction with staff and girls at the hostels. According to hostel staff, representatives from LN invited some of the girls to their hotel rooms. LHFN does not allow males in the girls' hostel rooms, but the Alfvéns have disregarded these rules and have shown "morally wicked behavior". When the staff asked the Alfvéns to refrain from visiting the girls' rooms, one of the Alfvén family made offensive remarks, used threatening language, and stated the girls would "starve to death" without his donations. I cannot verify these accusations, but it must be noted that this is a serious and troubling denunciation of LN.

The report concludes that the SWC investigation team did not find any concrete evidence to justify the charges against LHFN and its founder and former president Raju Sundas: "That is why such accusations are false, misleading and fabricated with a malicious motive". Furthermore, the report confirmed that there has not been any misuse of funds amounting to 580,000 USD for a church building and 630,000 USD donated for the purchase and development of land. I have personally looked over the accounts, which have been certified by an independent auditor, and I can confirm their validity.

Personal Investigation - Visit to Nepal (27/4/2017 - 7/5/2017)

I traveled to Kathmandu to further my understanding of the conflict between LHFN and LN. I was accompanied by Håkan Gabrielsson (Director of Out of Ashes) and Stig-Åke Lindgren and Gunnar Rydin (Out of Ashes board members). Rydin has previous experience with LHFN. We visited most of the eight girls' hostels in Kathmandu. I conducted interviews with the board of directors for LHFN, its leadership, administrative staff, hostel staff, teachers, and the girls and young women currently in the hostels. Girls from vulnerable families have been offered education and a better future at LHFN in Kathmandu. This is a kind of preventive care to avoid prostitution. The girls assured us of very good care at the hostels where they live together with other girls.

We began our visit in Hosanna Church Ministries in Kathmandu (HCM), where Raju Sundas serves as pastor on a voluntary basis. HCM has approximately 2,000 members, many of whom financially support LHFN. Raju Sundas stepped down from his work with LHFN in 2014, and Mr. Vijay Lama now serves as president on a voluntary basis on part-time. I was warmly received at HCM, and I had very open and honest conversations with many of the staff members there. I had heard many rumours regarding their corruption, duplicity, and abuse of power, and I was surprised to find them so welcoming of transparency.

During our stay, we also made several visits to the local government ministries responsible for the social welfare of women and children in Nepal. We discussed the results of the probe report conducted by the Social Welfare Council (SWC) regarding the accusations against LHFN, and the government plans to assist and uplift the poor and deprived Badi community in Western Nepal. Everyone, including the Vice President and Prime Minister of Nepal, very much appreciated LHFN's ambitious social work and engagement with the Badi people.

Personal Observations on LoveNepal's Letter of Complaint

LN's main grievance with LHFN seems to be the misuse of donated funds. In the letter of complaint, LN claimed that 580,000 USD, set aside for a hostel for 150 girls, had been used to construct a building that was going to be used for church oriented purposes. LN and TTN also claimed they had received no receipts for several minor donations. I have checked the accounting records of LHFN with the auditor, and I can verify that all donations have been properly accounted for. No real church had been built, but rather a building including three floors to be used for hostels, and a hall for congregational services at the top. LHFN had also sent copies of the receipts of the transfers. In an interesting turn of events, LN later admitted that its accountant had found no issues with LHFN's accounting records. LN founder Mikael Alfvén has however stood by his remarks, claiming the reality of the situation is different from what is written on papers, and therefore the accusations remain valid.

After my visit to Nepal, I met with Mikael Alfvén to hear his side of the story. He reported extensively of LN's relationship with LHFN since 2010. He was very critical of LHFN's leadership and has suggested that Raju Sundas and Vijay Lama be removed. Alfvén was also critical of different donations being "double paid", or in other words, different donated funds could be designated for the same purpose. TTN also had the same complaint. I have received verification from the LHFN accountant that the donations were not usually double paid for the same purposes. However, I did find that earmarked money could sometimes go to other similar or more necessary purposes. LHFN's expenses far exceed the donated money, and it was sometimes necessary to use the allocated funds for a different purpose. This problem of reallocating funds is noted in the SWC's probe report too, and I recommend in future the reallocation of earmarked funds must be accepted in writing by the donor ahead of time.

TTN was also concerned about a rumour about LHFN's misuse of funds for private purchases, particularly a private car and a house. However, it was reported to me that these purchases were paid for by loans from relatives and private earnings from a privately-owned business. TTN and Grahame Kerr could not give any concrete evidence as to the source of the information.

Since their break with LHFN, LN offered to take over the management of the hostels for "their" girls if the families agreed to this exchange. LHFN rejected this offer, as they are accountable to the parents and Nepalese government for the health and well-being of the girls. LN had planned to set up an International NGO in Kathmandu for this purpose, but all INGOs must work through a local NGO. Therefore, this proposal is not realistic.

It should be noted that LN and TTN seem to have based many of their accusations on rumours and hearsay. I found some of the rumours to be gross exaggerations of actual events. During my very short time in Nepal, I even heard a rumour that LHFN had sent all its girls home from the hostels, which simply was not true.

I have also been informed that it is common cultural practices to be submissive to foreigners and superiors and tell them what they want to hear, therefore it can be very difficult to find out the exact truth.

Financial Management and Control

In cooperation with the Children's Welfare Council and LHFN's auditors, Raju Sundas had developed a Financial Policy and a Regulation for Employees for LHFN. According to the auditor and treasurer of LHFN, this financial policy sets good guidelines for financial management. I must, however, raise some concerns about the fragmented system of funding, which can be very burdensome. The policy stipulates that designated funds for particular projects should be booked on a separate fund account, but this has not been done accordingly. Therefore, it becomes a very time-consuming work to do the reporting as there are several earmarked funds for many different purposes, which should be reserved for future use. I will explain this problem below, as I believe that the fragmentation and earmarking can cause a lot of distrust and paranoia regarding the use of funds.

As previously mentioned, I examined the financial records with the LHFN accountant and treasurer, and I was informed that the immediate financial consequences of LN withdrawing its support in November 2016 was a loss of 45,000 USD per month. LHFN has therefore been forced to take drastic action, cutting down on operating expenses and selling off some assets. Despite the shortfall in funding, LHFN has continued to pay its employees monthly, which had been facilitated by taking loans from bank as well as suppliers who were much interested in the work of LHFN. (This was confirmed in the SWC probe report.) Due to the lack of funds (approximately 65,000 USD), the construction of a building in Gothatar, which would have included additional housing for girls and a church hall, has been halted. The construction for the proposed "Children's Village" in Sankhu has also been brought to a standstill, though the land was already purchased by LHFN in November 2015, which was funded by LN.

During our visit to the hostels and the LHFN headquarters, staff members and leadership expressed how they had felt humiliated by LN's representatives, who often demanded that LHFN staff follow detailed instructions on the use of earmarked funds. LN felt they were entitled to such control because they provided a large portion of LHFN's funding. However, LHFN Board and Raju Sundas have argued that the hostels belong to LHFN, not LN, and they have the primary responsibility. Therefore, LN cannot claim ownership of the work and treat LHFN as if it were merely a subunit to LN. LHFN would therefore prefer an 'open' fund for their various programs in order to be able to allocate funds according to actual needs, which change from time to time and place to place. Still it must be underlined that it is imperative to seek confirmation from the donor on any reallocation of funds, and therefore the funds must be properly recorded on the right fund account.

My Conclusion

I believe that the problems regarding power and control of funds are commonly induced by the fragmented system of funding and earmarking. This is probably what has caused so much distrust and ill will between LN and LHFN. LN has

raised a significant amount of money for LHFN, which is why LN felt entitled to exercise control over LHFN's work. LHFN's management, on the other hand, has found it necessary to reallocate some of those funds to different needs, and LN felt their requests had been slighted. It is important to be transparent and inform the donors about the necessity of reallocation, as well as receive the donor's confirmation in advance. These problems are best avoided through a principle of stewardship with mutual responsibility and accountability.

In my many years of experience, I have come across similar cases in India and Africa, where the fragmented control from a variety of donors and outside interests have made it extremely difficult for the local partner to operate with a strategic and comprehensive plan. It becomes also difficult for all the staff to coordinate the work within its own identity and vision, as well as through a democratic and participatory system of planning where the staff is involved. This problem was also apparent in LHFN's response to LN's abrupt decision to withdraw its support, saying it could not "grant exclusivity to LN of our ministry". LN's plan in 2014 to build "Love Nepal Children Village" also demonstrates this problem of ownership. Is it LN's or LHFN's village?

Concluding Recommendations

Taking into consideration the probe report issued by the SWC; the general consensus of the international supporters Out of Ashes, Bethany Assemblies Japan and Venture USA (all who do not support LN's remarks); and my own investigation into LHFN, I recommend that LN and TTN withdraw some of their complaints. I further recommend that LN reconsider the possibility of allocating the 12 million SEK for LHFN's Children's Village in Sankhu. After all, this money has already been raised and set aside for this purpose in LN's 2016 annual report. The investigation of other rumors about inappropriate behavior by Mr. Raju, shows that there may be certain elements of truth, but that it had been exaggerated out of proportion. On the other hand, the probe report by SWC, indicates also a lot of inappropriate behavior by representatives of LN.

Let me be clear: the complaints raised against LHFN regarding the mismanagement and misuse of funds are not really valid, at least not at all to the extent that it can give reason for LN to suddenly discontinue all support without proper notification ahead of time.

This being the case, I strongly recommend an overhaul of some of LHFN's financial management routines, particularly in relation to the fragmented system of funding and reporting. This fragmented system as it stands now can create distrust on both sides. The lack of Memoranda of Agreement (MoA) in regards to funding makes it sometimes difficult to verify whether the donations have been wrongly allocated.

I do therefore also agree with the probe report by the SWC that there is a need for an agreement of cooperation between LHFN and its supporting partners in order to develop an improved long-term planning and funding. The lack of such an agreement has hitherto caused a lot of distrust and misunderstanding, and an agreement of cooperation would prevent such things from happening again. I also advise LHFN to more effectively coordinate and implement their overall plans. Many of

the problems and doubts have, as I have seen, stemmed from short-term, fragmented funding, and a diversity of projects and categories, which have caused a lot of paperwork, conflicts, and delays. This is something the local auditor must review, and there is a need to arrange training with the staff about this matter.

I would also recommend that most of the small programs should be funded through 'open' or 'general' donations in order to facilitate an integrated planning. Overall, regular and informative reports and stories about the work should be sent to donors as a matter of course. Such a system would raise interest for long-term goals and visions, instead of focusing on narrow details on projects.

However, for well-defined projects such as capital investments in buildings, a separate fund account must be set up where grants are credited, and related project expenses are debited according to the Financial Policy of LHFN. The balance not utilized at the end of the year must be transferred to next year as opening balance. Such projects also require a written project agreement, which defines the responsibilities of donor and receiver for funding and implementation.

There is a need for a strategic framework, which clearly presents how the overall vision, goals, and policies of the organization can be implemented through various programs and investments. For example, a three-year budget can give stability and serve as a kind of map for future control and planning. In the long run, it is also important to raise more local support and resources to avoid dependency on external funding.

In order to cover the shortfall in their budget, LHFN has reported that it will try to find new sponsors among other international donors, local government and local business people. If necessary, LHFN is willing to sell off some of its property. Here I should also mention that LN in their annual report of Annual Report 2015-2016 has set aside 12 million SEK collected from individual givers for the Children Village in Sankhu, which, however, according to the annual report of LN now may be used for other purposes. This reallocation of funds would need further investigation whether it is accepted in accordance with regulations set by Svensk Insamlingskontroll (90-konto). It could also fall into the same category of misuse as that leveled against LHFN.

I would finally recommend that an annual partner meeting is held where LHFN senior staff, board members, and representatives of international partners share overall information and create a spirit of mutual Christian responsibility and trust about strategic planning and funding, as well as overall reporting and auditing.

Compliments

Furthermore, when I had discussions with LHFN's registered auditor Jagadish Raj Kafle, he complimented LHFN on their high-quality accounting. He informed me that he audits approximately 100 NGOs and LHFN is ranked as number one.

During my visit to the Social Welfare Council, I was also informed that among 3000 NGOs, LHFN is ranked among the top ten in terms of quality of work for its beneficiaries.

The Annual Report of 2015/2016 excellently presents the programs, accounts, and inventory of all LHFN assets, including personal stories from the students as well as endorsements and compliments from government representatives. I would therefore strongly recommend that the annual report serve as the basic reporting document in the future.

Lastly, I would recommend continued support of LHFN, on the condition that it seeks to improve its system for strategic planning and funding. On behalf of the whole team, I would also like to express our sincere thanks and appreciation to all the staff of LHFN, who have been very open and transparent and have served us well during the whole visit.

Uppsala Sweden, 16 June 2017

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Attached - 'Strategic Framework and Budget'

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The Cuckoo's Nest

Unfortunately, the breakdown in communications, and the feelings of suspicion, control and mistrust from the donor against the receiver, is not a rare occurrence. Western donors can perhaps best be likened to European cuckoos who lay their eggs in the nests of other species of birds, known as brood parasitism.

A Western NGO begins to raise funds for a local NGO in a developing country in Africa or Asia. "We are doing a project down there" can be a typical statement by an international NGO. The director wrongly assumes that his organization has ownership of the project and the local NGO is treated as a kind of 'cuckoo's nest' in order to incubate and grow the project. However, the local NGO is registered as the owner and bears the overall responsibility to plan, coordinate, implement, and report their work to not only their own members but also the funding agencies. Yes, there are usually several funding agencies involved, who earmark their money for their own projects and goals. In this sea of foreign aid agencies, donations, projects, and goals, it can be almost impossible for the local NGO to navigate a way through them while still keeping true to their own identity, visions, goals, and guidelines. The demands differ from donor to donor, and just asking for a receipt for a particular project can quickly become a major administrative duty for the local management.

As long-term financial director, advisor, and consultant with local NGOs in Africa and India, I have found this to be one of the most common problems for local NGO administration. The accusations of mistrust, power, and control often come from the fact that the staff of the local NGO do not appreciate being treated in this almost colonialist fashion. The foreign benefactors enjoy higher salaries and better lodging than the local staff, who take on the burden of developing the project under difficult conditions.

I have also spent several years of academic research on cases like this one. The supporters will often argue that this kind of pedantic system is necessary in order to control funds, avoid mismanagement, and raise funds from backdonors. However, I would say that this fragmented system of funding and control makes it very difficult for the local NGO to take responsibility for its work and make the best possible use of the total amount received from various donors. It becomes more difficult to audit all the different projects, and coordinating the work with government regulations and policies for national development can become frustrating for the leadership. Both the government and the local NGO have to balance local policies and goals with the need for external funds.

On top of all this, the INGO director may be tempted to present a more dramatic version of the work in order to get media coverage and raise more money. Along these lines, it should be noted that I find it very common that rather sensational language to raise as much money as possible is often used. LN has also positioned itself in Swedish media as an organization that “rescues people out of the sex trade, sexual abuse, and trafficking.” I find this focus rather narrow, as most of the 680 children cared for by LHFN are not and never have been prostitutes. However, they come from very poor families and could be at risk for prostitution.

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