



PASSING THE BUCK

Economics of Localizing
International Assistance

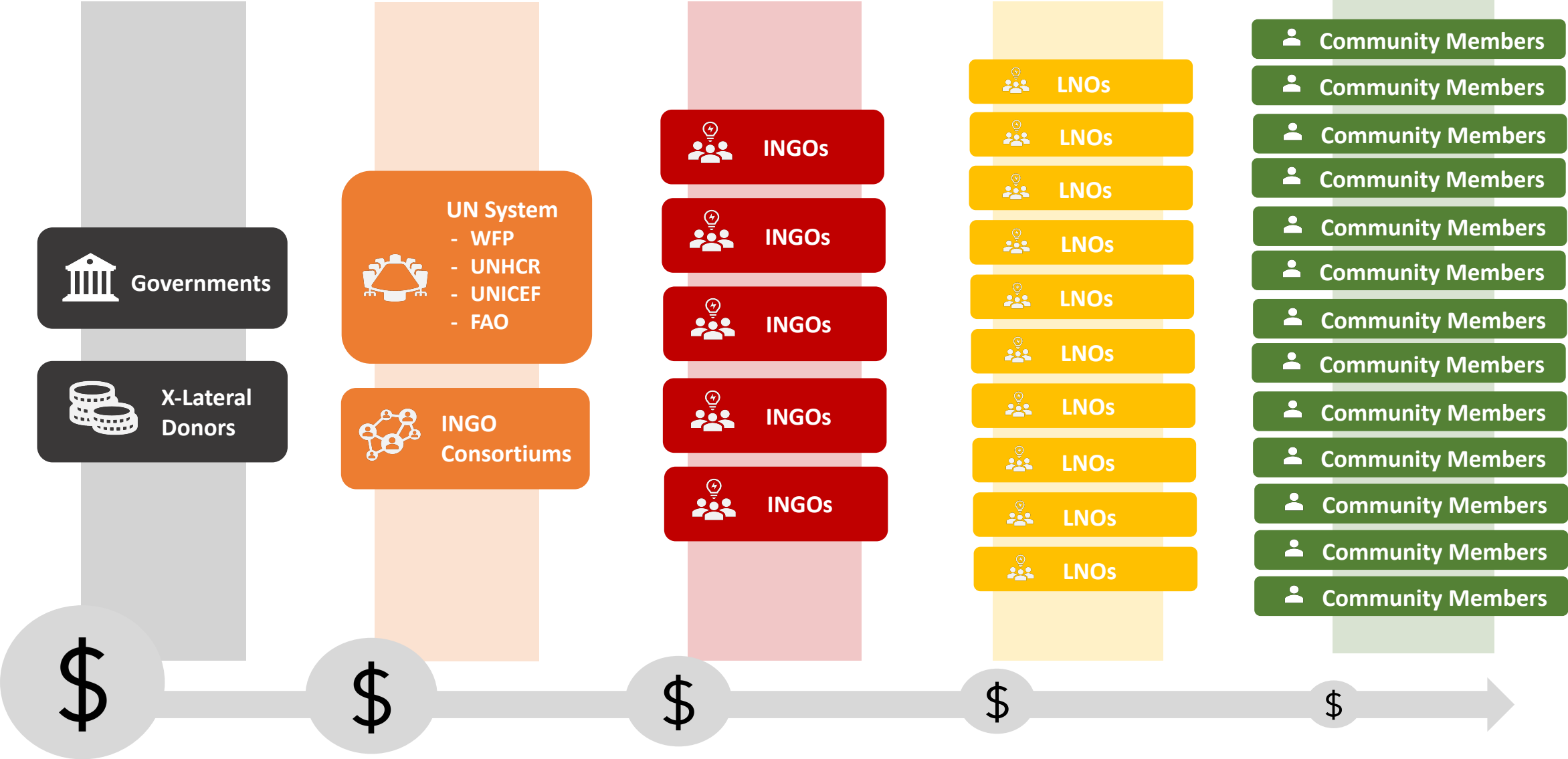
The Economics of Localizing International Assistance

What are the potential implications of large-scale localization on overall cost efficiency? We conducted an economic analysis of shifting more resources from multilateral/INGO funding streams to Local and National Organizations (LNOs).

Methodology:

- Total ODA in 2018: \$178.9bn
- \$35.6bn goes to UN agencies and \$18.4bn to INGOs, totaling \$54bn
- Collected data on salaries and overheads to estimate current funding flows
- We analyse shifting 25% of this funding directly to local actors, aligning with Grand Bargain/USAID commitments

Current Flow of Development Financing



Comparing Two Intermediary Models

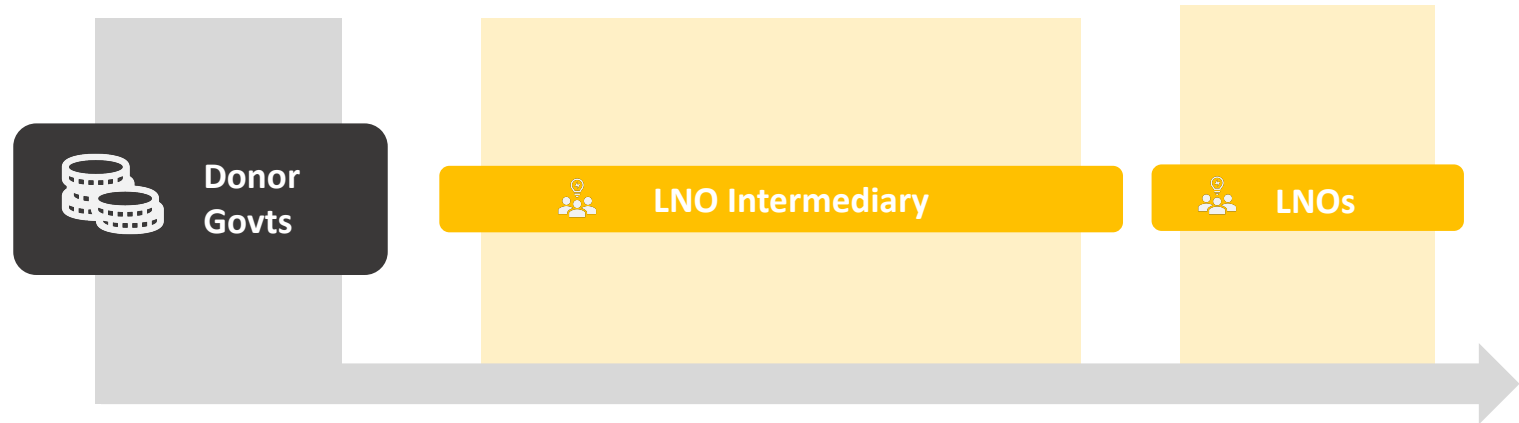
I. International Intermediary

UN and INGO funding flows through an international prime

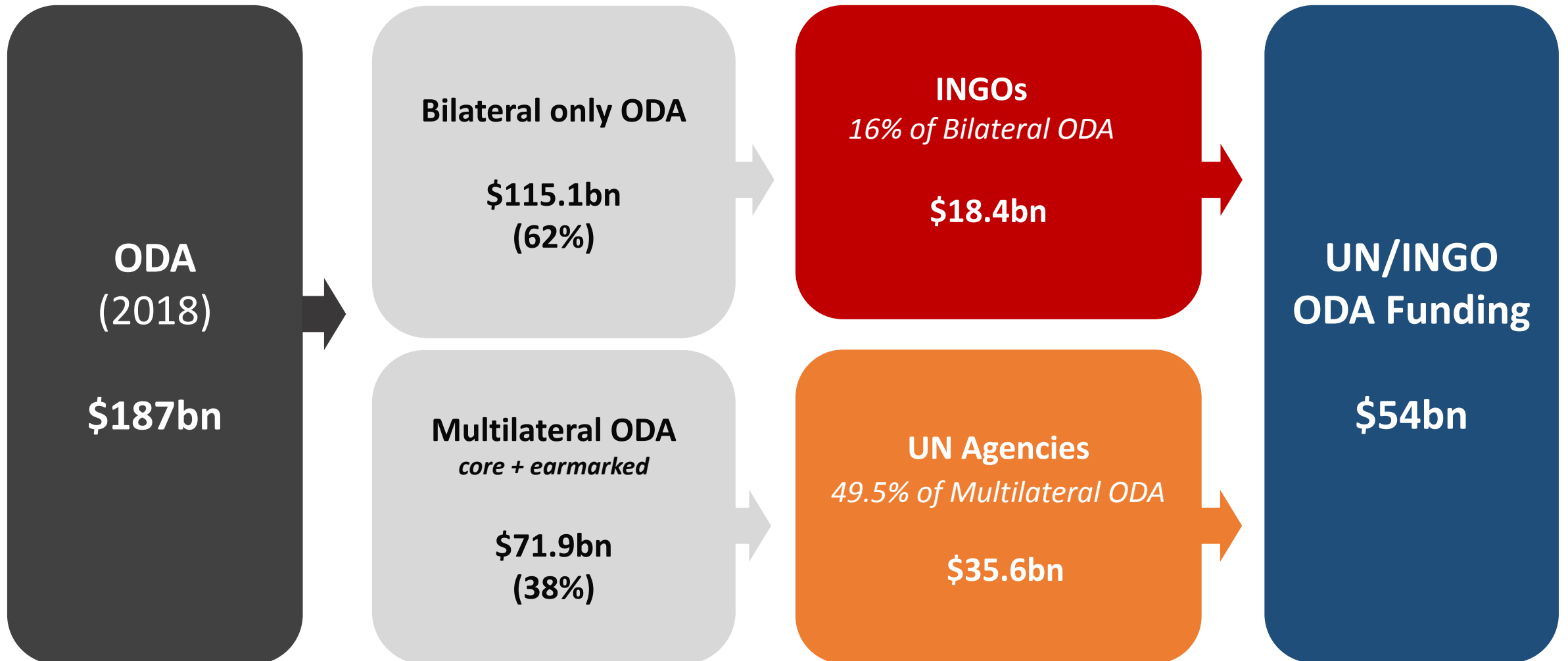


II. Local Intermediary

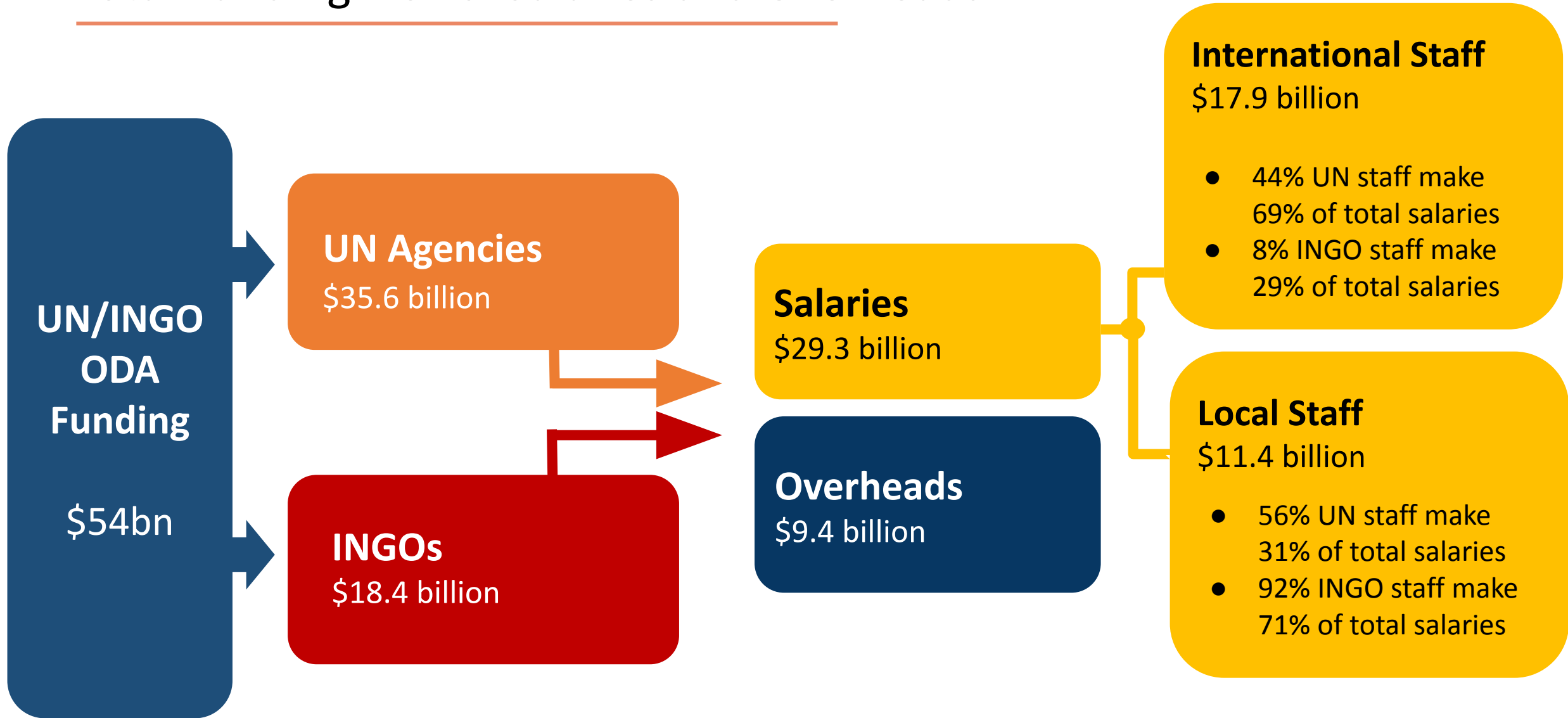
Funding redirected to local intermediary organizations



Total Funding Flows: ODA

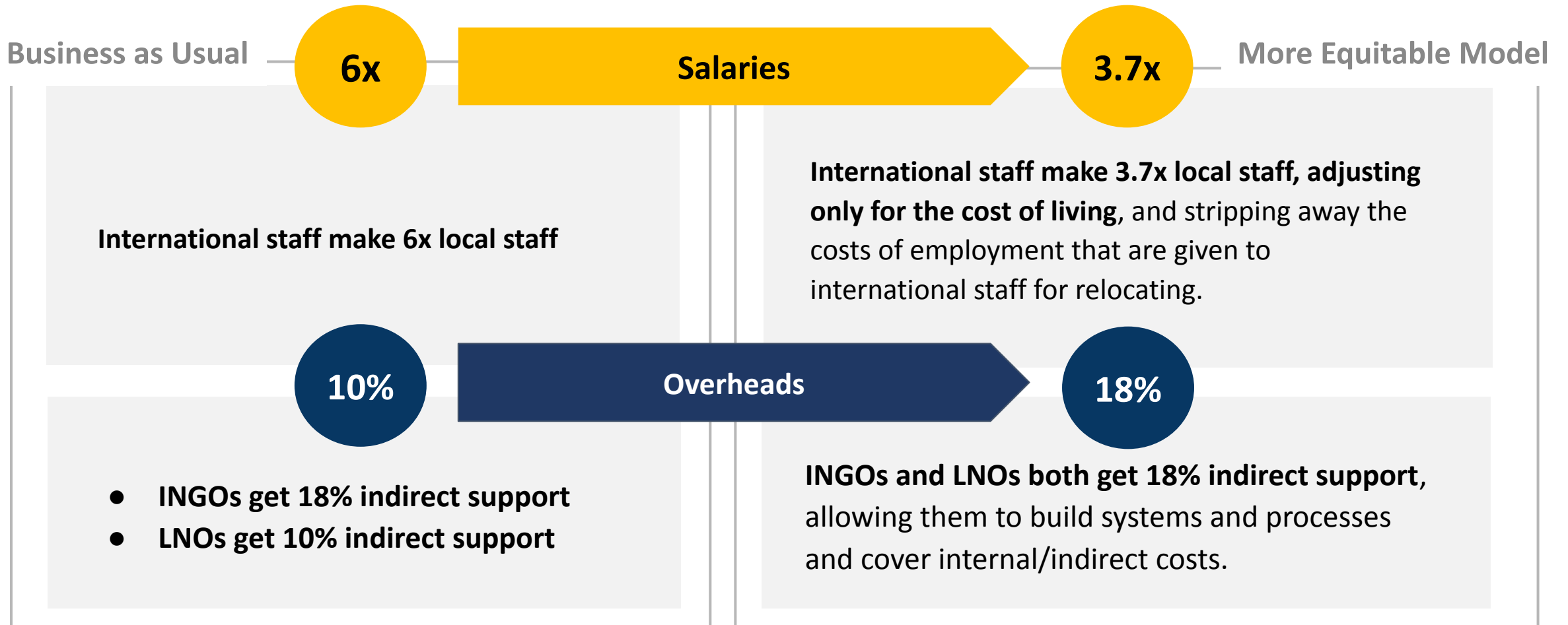


Total Funding Flows: Salaries and Overheads



Modeling an Equitable System

A shift in funding to local actors is modeled using equitable rates, rather than business-as-usual rates which currently impede local actors from meeting the needs of their communities.



Equitably Shifting Funding to Local Intermediaries

International Salaries

- \$17.9 billion (2018)

25% =
\$4.5 billion

Convert to local salary rates:

3.7x
equitable rate

\$1.2bn

6x
business as usual

\$747m

Annual Savings:

- **\$3.3 billion**
- **\$470 million** redeployed for local salaries

International Overheads

- \$9.4 billion (2018)

25% =
\$2.3 billion

Adjust overhead rate and
convert to Global South costs*:

18%
equitable rate

683m

10%
business as usual

\$380m

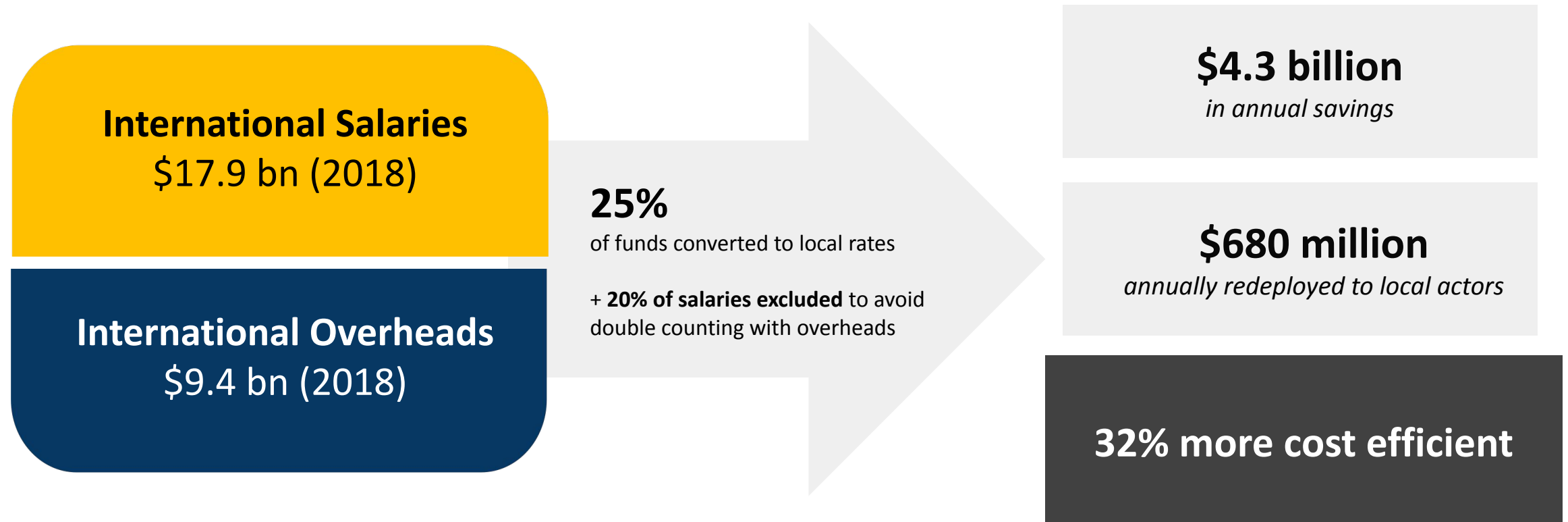
Annual Savings:

- **\$1.7 billion**
- **\$304 million** redeployed for local overheads

* Using median Purchase Price Parity (PPP) for Least Developed Countries (LDC) = 0.38

Headline Findings: Total Cost Efficiency

After excluding 20% of salaries to avoid double counting with overheads, **the analysis finds that local intermediaries could deliver programming that is 32% more cost efficient than international intermediaries.** Applied to the \$54bn of 2018 ODA channeled via UN/INGOs, this would equate to cost savings of US\$4.3bn, and a redeployment of \$680m in salary and overhead costs to local actors.



Applying the Findings to Other Funding Scenarios

Full ODA Scenario

If we go beyond UN/INGO funding flows and scale findings to the full \$187bn of ODA in 2018, we would see total **savings increase to \$14.8bn per year + \$2.4bn redeployed** to local intermediaries.

USAID Scenario

If we apply the findings from this analysis to 25% of all US funding going to local actors, the savings would equate to **\$3.3bn annually + \$528m redeployed** to local intermediaries.

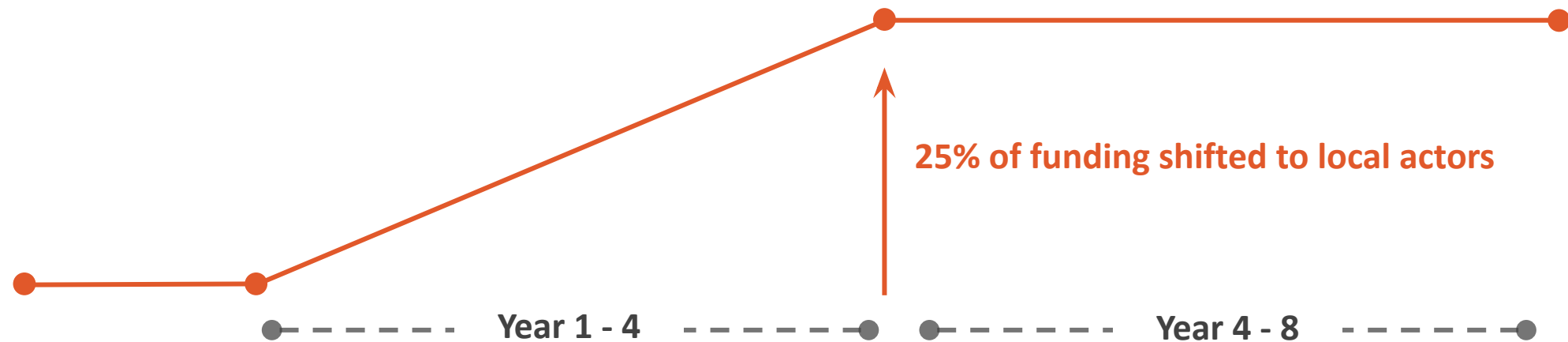
Humanitarian/Grand Bargain Scenario

A 25% shift in funding to local intermediaries in humanitarian crises could result in savings of **\$2.1bn annually + \$340m redeployed** to local intermediaries.

Transition Model: Assumptions

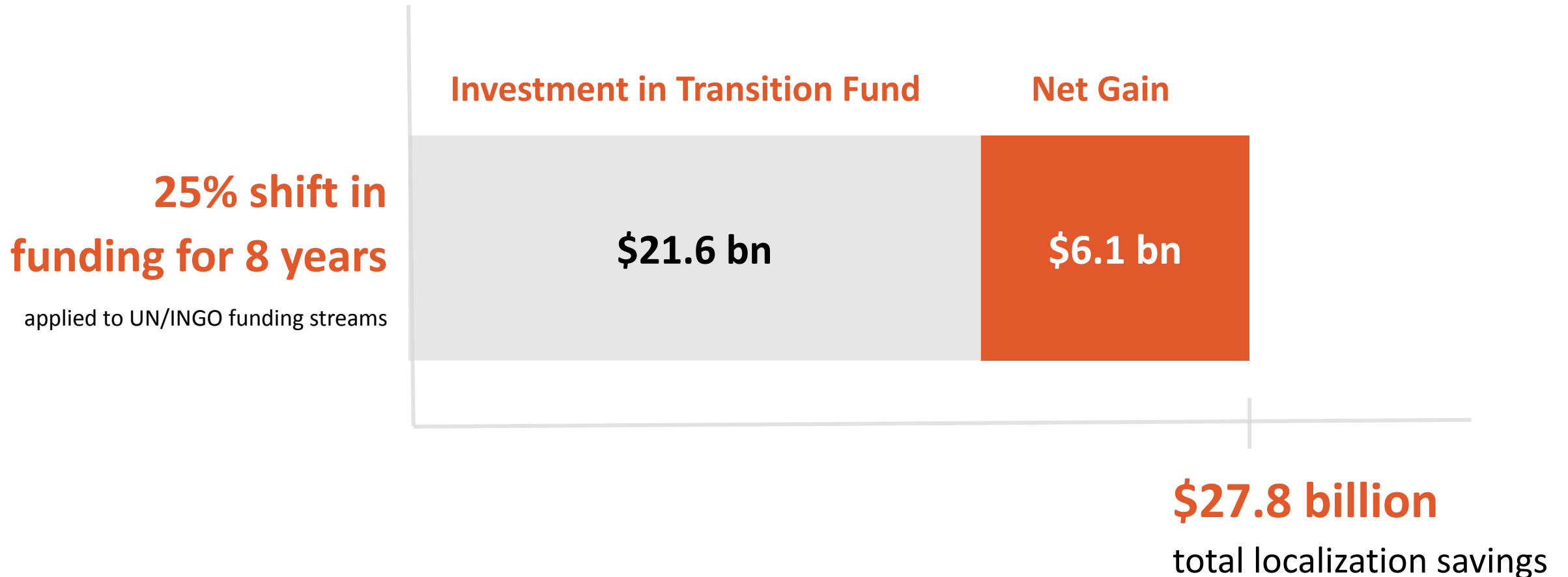
A transition of 25% of funding will not happen overnight, therefore we model costs and savings/benefits over 8 years. We assume the establishment of a fund equivalent to 20% of total funding redirected to local actors to build the systems and infrastructure required to shift, equivalent to a **“Transition Fund”, worth \$2.7bn per year.**

We estimate cost savings and assume that we plateau at a 25% shift in funding to local intermediaries in year 4.



Investing in a Vehicle for Shifting Funding

Shifting the system to new ways of working will require investment. A “Transition Fund” investment of \$2.7bn per year over eight years could result in a *net benefit upwards* of \$6.1 billion, for UN and INGO portions of ODA alone.



Benefits



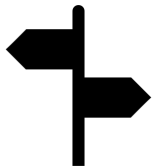
Inclusion/Equity. Local actors are embedded in their communities and therefore are better able to provide inclusive and equitable aid delivery, ensuring that the most vulnerable are reached.



Trusted. Local actors are more trusted by their communities and hence can be more engaged with the primary issues facing communities.



Speed and Timeliness. Local actors can deliver much more quickly, either after the onset of a crisis or through pivoting activities based on changing needs in individual communities.



Responsiveness. Local actors can respond more flexibly to changing community needs.

Benefits (cont.)



Access. Local actors can access populations that international actors cannot, particularly in complex humanitarian settings.



Community Voice and Advocacy. Local actors can engage directly with the communities that they are serving to design programming that is based on community priorities.



Sustainability. Local actors remain in their communities, while international actors must shift resources between high profile crises, and often have to pull international staff (for example, as happened during the COVID-19 pandemic).

Additional Research on Benefits of Local Investment

More Timely/Responsive:

- An FCDO analysis reviewed social protection responses to economic lockdown due to COVID-19 in 53 countries and found that **donor financed programs took on average 123 days to provide assistance after the first case was announced in country, while local actors, anecdotally, were the first to respond**, often within weeks.
- A seminal study by USAID and FCDO found that a more proactive response to shocks and stresses in communities in East Africa would yield **\$3 of benefit for every \$1 invested** (ranging \$2.3 - \$3.3).
- In Occupied Palestinian Territories, local Zakat networks fundraised and distributed ~ \$17 million USD in May 2020, to support over 40,000 Palestinian workers and 30,000 families. World Bank funding was approved and disbursed to the Ministry of Finance by August, months after local funds.

More Inclusive: GiveDirectly in Kenya cut their average time to pay beneficiaries by 50% and increased enrolment x10 by working through a large community of local organizations and an automated SMS system.

More Trusted: A JPAL/Gates Foundation study reviewed quantitative analysis for 27 diverse policy interventions for Africa, ranging from mosquito nets, to trade facilitation, pre-school education and family planning, and found that women's Self Help Groups were the second most cost effective intervention, driving benefits upwards of \$58 for every \$1 spent.



Thank you!