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# PASSING THE BUCK

## The Economics of Localizing International Assistance

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## Acronyms

<b>ACF</b>	Action Contre la Faim / Action Against Hunger
<b>CRS</b>	Christian Relief Services
<b>DAC</b>	OECD Development Assistance Committee
<b>DFID</b>	Department for International Development; now replaced by FCDO
<b>DRC</b>	Danish Refugee Council
<b>FCDO</b>	Foreign, Commonwealth & Development Office; replaced DFID
<b>HQ</b>	Headquarters
<b>IFAD</b>	International Fund for Agricultural Development
<b>INGO</b>	International Non-Governmental Organization
<b>IRC</b>	International Rescue Committee
<b>ISC</b>	Indirect Support Costs
<b>JPAL</b>	Abdul Latif Jameel Poverty Action Lab
<b>LCA</b>	Local Coalition Accelerator
<b>LDC</b>	Less-Developed Country
<b>LNGOs</b>	Local and National NGOs
<b>LNOs</b>	Local and National Organizations
<b>NICRA</b>	Negotiated Indirect Cost Rate Agreement
<b>NGOs</b>	Non-Governmental Organizations
<b>O/H</b>	Overheads
<b>ODA</b>	Official Development Assistance
<b>OPT</b>	Occupied Palestinian Territories
<b>PEPFAR</b>	The U.S. President's Emergency Plan for AIDS Relief
<b>SMS</b>	Short Message Service

<b>TA</b>	Technical Assistance
<b>UN</b>	United Nations
<b>US</b>	United States
<b>UNAIDS</b>	Joint United Nations Programme on HIV/AIDS
<b>UNDEF</b>	United Nations Democracy Fund
<b>UNDP</b>	United Nations Development Programme
<b>UNFPA</b>	United Nations Population Fund
<b>UNHCR</b>	United Nations High Commissioner for Refugees
<b>UNICEF</b>	United Nations Children's Fund
<b>UNOPS</b>	United Nations Office for Project Services
<b>UNRWA</b>	United Nations Relief and Works Agency
<b>USAID</b>	United States Agency for International Development

## Executive Summary

### Context

Despite commitments to re-direct international assistance to local actors, including Grand Bargain and recent USAID commitments to shift 25% of funding, the localization agenda has seen slow progress. Less than 1% of the \$187 billion of total Official Development Assistance (ODA) in 2018 went directly to local development actors, and, in 2021 only 0.4% of all humanitarian aid went directly to Local and National Non-Governmental Organizations.

This study uses the best available data to assess the potential to leverage more resources directly to local actors, by shifting funding from international intermediary structures (e.g. United Nations (UN), International Non-Governmental Organizations (INGOs)), to local intermediary structures working through collaborations of local and national actors to deliver larger scale funding to proximate and community-based leaders. There is a clear ethical imperative to shift more funding and power directly to local actors; this study underpins these ethical arguments by providing quantitative estimates of tangible cost efficiencies, as well as potential benefits, by investing in more equitable local intermediary structures.

### Re-Conceptualizing Intermediary Structures

Leading bilateral funders (i.e. donor governments) - who provide 93% of total ODA - are unable to make significant direct investments into thousands of individual organizations (largely due to scale and risk appetite), and instead rely on intermediary “pass through” models that typically fund a lead recipient that may choose to sub-award funding to downstream partners. However, existing intermediary models do not address donor needs: international intermediaries continue to monopolize the system without ceding decision-making power, and funds lack flexibility to respond to changing needs. Meanwhile, many initiatives aimed at “localizing” international aid focus on individual sectors, are short term, and/or focus on supporting individual community leaders rather than focusing on holistic and multidimensional response. Such initiatives often struggle to meet the significant hurdles of bilateral donor compliance and due diligence, as well as requirements for absorbing and distributing large amounts of funding.

Several recent reviews of the literature on localization have indicated that there is a lack of strategic approaches to localization, and that collaborative models - such as coalitions, pooled funds, or other platforms of local actors - provide an opportunity to reconceptualize intermediaries. Large international donors can play a determining role in supporting localization, by reforming direct funding systems. Large multilateral intermediary organizations

have a key role to play in redefining effective partnership models, built on mutual trust, participatory decision making, and co-design of intersectional approaches to poverty reduction.

## Approach to the Analysis

This study uses current figures for ODA and evaluates the relative cost efficiency of shifting from an **International Intermediary Model**, where ODA funding flows via UN Agencies and larger INGOs based in the Global North, to a **Local Intermediary model**, where funding is channeled via local intermediary platforms (e.g. larger scale Local or National Organizations or coalitions of local agencies registered in the focal countries or regions where their services are delivered).

The analysis uses publicly available data on salaries and overheads, to estimate the relative cost of these two models, assuming a shift of 25% of ODA (reflecting USAID/Grand Bargain commitments). The model uses data on UN and INGO funding flows, due to data availability, to calculate orders of magnitude that can be applied to the wider range of funding flows across ALL intermediaries, and acknowledges that better data availability will allow for greater refinement of the findings in the future.

## Delivering Cost-Efficient Programming

The first part of the analysis evaluates the best available data on current funding flows to estimate the cost efficiencies that could be realized by shifting 25% of funding to local intermediaries. Importantly, the model reflects a more equitable system, in which local intermediaries are given the same level of overheads as INGOs, as well as competitive salaries, adjusted only to reflect cost of living differences and international employment costs, allowing them to not only absorb risk, but pursue opportunities and attract the best human resources.

### The analysis estimates that:

- **Local intermediaries could deliver programming that is 32% more cost efficient than international intermediaries, by stripping out inflated international overhead and salary costs.**
- **Applied to the \$54bn of ODA analyzed in this study, this would equate to a cost savings of US\$4.3bn annually, funding that would cover the entire UN humanitarian appeal for Ukraine 2022.**
- **Further, the model assumes that we move from current practices to a system where local actors are provided with equitable salaries and overheads, equating to an additional US\$680m invested in salaries and overheads at local organizations. This represents a total benefit (through cost savings combined with greater funding to local intermediaries) of \$4.9bn annually.**

## Modeling a Transition Fund

The above figures estimate the order of magnitude of efficiencies that could be realized from transitioning funding from international to local intermediaries. However, this funding will not shift overnight; significant investment is required to build and strengthen the infrastructure and capacity to absorb 25% of funding via local intermediaries. We therefore use the data presented above to create an eight year model to estimate the net cost of investing in a shift to local intermediaries, recognizing that this shift requires significant increases in investment in local ecosystems, in local intermediary structures, and within donor systems and processes.

We assume that a “Transition Fund” is established to build the systems, processes and capacities required to have a local intermediary ecosystem that can absorb and manage a 25% shift in funding to local actors, allocated at 20% of total funding that is redirected in the model (funded outside of the 25% shift). USAID’s 25% localization commitment aims to achieve this goal over four years. We therefore assume that the cost efficiencies and benefits from localization will accrue over four years, at a constant rate.

**The model finds that a gradual scale up to 25% of funding shifting to local intermediaries over four years, with a 20% “Transition Fund” to build the systems to facilitate this shift, will yield net savings of \$6.1bn over the 8 year model, leveraging additional funding that is critically required for unmet humanitarian and development needs.**

## Benefits of Locally Led Action

There is a wide range of benefits that can arise from providing more funding directly to local actors, including improved inclusion and equity, trust, access, speed of response, responsiveness to community needs, community advocacy and sustainability. Unfortunately, while there is significant anecdotal evidence to support these assumed benefits, very little empirical evidence exists. While the data is not sufficiently robust to estimate returns with the same degree of confidence as the cost efficiency gains, we use conservative estimates to give an indication of the potential magnitude of benefits. When indicative estimates of improved effectiveness of programming are incorporated into the 8-year model, net benefits increase to \$183bn. These indicative findings are important because they suggest that the magnitude of gains that could be realized by more effective programming delivered by local actors could far outstrip already impressive cost efficiency gains.

## Summary of Findings

**The findings clearly indicate that shifting more funding to local intermediary structures can deliver significant cost efficiencies, while also increasing investment to build a more equitable system, and that significant investment in a “Transition Fund” to support this shift could yield net gains, unlocking funds that are critically needed for growing humanitarian and development needs.** There is a clear ethical argument for shifting greater funding and decision-making power to local actors - they are closest to their communities, and the systemic racism and colonial mindset that has kept local actors in a sub-contracting model needs to urgently shift. This study adds weight to these arguments by demonstrating the potential for a significantly more cost effective international aid architecture that can allow greater investment in local actors and increase funding to humanitarian and development priorities.

**There is a clear need to shift the international aid architecture to new ways of working and reconceptualize intermediary structures.** 93% of ODA sits with bilateral funders, who are unable to provide thousands of small grants to thousands of individual local actors. Shifting resources from international intermediary structures with expensive overheads and salaries, to local intermediary structures, who can represent the myriad of local actors operating on the ground, is therefore key to unlocking this funding. Rethinking partnerships between international and national/local organizations will also be critical.

**Identifying, strengthening, and building local intermediary structures, and creating an enabling environment for them to thrive, is key to realizing these gains, and investment in this area is critical.** Local intermediary structures need to democratically represent the voices of all member organizations and ensure inclusiveness, transparency and accountability, to avoid elite capture of power and funding at the national/regional level. They also need to be able to provide multi-disciplinary programming, and work in a coordinated structure to deliver this programming. A key next step will be to undertake a mapping exercise to: (1) **identify** existing local intermediaries who can fill this role; (2) **strengthen** existing intermediaries where necessary; and (3) **build** new intermediary structures through networks of local actors where these structures don't already exist.



# 1 Introduction

## 1.1 Context

Despite commitments to re-direct international assistance to local actors, the localization agenda has seen slow progress. Less than 1% of the \$187 billion in ODA in 2018 directly reached local development actors.<sup>1</sup> Grand Bargain signatories committed to targeting 25% of their humanitarian assistance to local organizations, and yet, in 2021, following an increase in 2020, direct funding was *reduced* by almost two thirds, to the lowest volume (US\$302 million) and proportion (1.2%) of total international humanitarian assistance seen in the previous five years. Total funding to Local and National NGOs (LNNGOs) is estimated at \$497m, 75% of this (\$368m) is indirect (at least one pass through). Therefore, direct funding flows to LNNGOs was \$129m in 2021. Out of a total humanitarian assistance budget of \$30.9 billion, this equates to 0.4%.<sup>2</sup>

In addition to the Grand Bargain commitments, USAID has made a number of recent commitments to localization. On November 4th, 2021, USAID Administrator Samantha Power pledged to provide at least 25% of all funds directly to local partners by 2025 and by 2030 to have 50% of programming “place local communities in the lead to either co-design a project, set priorities, drive implementation, or evaluate the impact of our programs.” Identifying the mechanisms that can allow for the realization of these commitments is a top priority.

## 1.2 Reconceptualizing the Role of the Intermediary

Leading funders (i.e. donor governments) are unable to make significant direct investments into individual Local and National Organizations (LNOs). The vast majority of donor funding is currently channeled through programs that are delivered through partnership models – coalitions or consortiums of international, national and local actors working together to deliver multi-dimensional program activities, with an intermediary that can provide a single entry point for funding, and coordinate a holistic response, at scale, that is grounded in the evidence base for impact. Existing intermediary organizations are largely based in the Global North and continue to monopolize the system without ceding power, and funds also lack the flexibility to respond to changing needs. Many local initiatives and programs focus on individual sectors, are short term (e.g., pooled funds), and/or focus on individual leaders rather than a multi-dimensional response. There is a clear need to invest in the local intermediary infrastructure that can channel donor funding streams to local actors.

Unfortunately, realizing localization commitments isn’t as simple as shifting the system from direct grants to very large multilateral organizations and INGOs, to direct grants to the many

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<sup>1</sup> OECD (2020). “[Aid for Civil Society Organizations](#)”, p. 7.

<sup>2</sup> Development Initiatives (2022). “[Global Humanitarian Assistance Report 2022.](#)”

thousands of LNOs working in their countries of origin. The costs of doing so, in terms of administration, compliance, and due diligence, would be significant.<sup>3</sup> Further, bilateral donors - who hold 93% of ODA<sup>4</sup> - are not able to do more than a handful of large grants per country, limited by a range of political and process constraints. As a result, direct funding to thousands of individual local organizations is not feasible for the vast majority of funding flowing to the sector, and local intermediaries, whether they are high capacity national organizations, coalitions of local actors, or other pooled mechanisms, are key.

Local actors are increasingly choosing to work through organically formed partnerships and collaborations, as a way to increase impact and scale, exchange and share knowledge, undertake joint fundraising, and strengthen collective action and voice. An initial review of the literature indicates that there is a lack of strategic approaches that prioritize local actors in bilateral program delivery, despite evidence that collaborative models, such as coalitions, can support local leadership on major funding streams.

A June 2021 paper by ODI<sup>5</sup> analyzed the evidence base on localization more broadly in humanitarian action (though the findings are equally relevant to localization for wider development programming). Key findings include:

- **There is a lack of strategic approaches to localization.**
- **Collective models built on partnership and complementarity can support a shift to localization.**
- **There is an opportunity to reconceptualize the role of the intermediary**, including through partnerships rather than as an implementer.
- **Localisation strategies will benefit greatly from a better articulation of the impact of working through local actors.** Measuring and demonstrating the impact of localization on the quality of programming for local people is critical.
- **While “risk” is used as an argument against localization, this is almost entirely based on perceptions and without empirical evidence**

A more recent study from Tufts (December 2021)<sup>6</sup> combined a review of the literature on localization with a series of stakeholder interviews, to establish a current landscape of issues and perspectives related to localization in humanitarian contexts:

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<sup>3</sup> A study by Palagashvili and Williamson (2021) estimates that the difference between low (7%) and high (66%) overheads is statistically correlated with the number of grants that an organization provides. Palagashvili, Liya and Claudia R. Williamson (2021). [“Grading foreign aid agencies: Best practices across traditional and emerging donors.”](#) *Review of Development Economics* 25.2

<sup>4</sup> OECD (2021). [“Private Philanthropy for Development - Second Edition: Data for Action.”](#)

<sup>5</sup> Barbelet, Veronique, Gemma Davies, Josie Flint and Eleanor Davey (2021). [“Interrogating the evidence base on humanitarian localization: A literature study.”](#) HPG Report. London: ODI.

<sup>6</sup> Robillard, Sabina, Teddy Atim, Daniel Maxwell (2021). [“Localization: A ‘Landscape’ Report.”](#) *Feinstein International Center*, Tufts University

- **Inclusion versus Transformation.** One of the central underlying tensions in discussions about localization is whether it is about better inclusion of local actors in the international system as it currently exists or about fundamentally transforming the humanitarian system so that it is better adapted to local actors and systems. The transformation perspective, in particular, asserts that international systems should adapt to local actors.
- **The role of the intermediary needs to be transformed.** The greatest consensus among key informants revolved around a system in which international organizations would play an auxiliary, technical, service provider, and/or advocacy role upon the invitation of local actors from the affected area.
- **The main operational issues in the localization discourse include funding, partnerships, coordination, capacity building, and leadership,** including significant shortfalls in funding, pervasive subcontracting models, and lack of access and voice.
- **Barriers to localization are interconnected and need to be addressed through a systems wide lens** – including underlying power dynamics; real and perceived capacity constraints; issues around how risk is perceived, managed and transferred; and contextual barriers related to governance, security and local power dynamics.
- **Large international donors have a critical role to play in supporting localization,** and can (1) reform their direct funding systems; (2) invest in key structures and services at the country level; and (3) support localization by intentional and sustained engagement with diverse local actors.
- **Fund collaboratives:** Given the recognition that it may take time to reform funding systems, several key respondents also cited the importance of working through collaborative models - specifically arranged to support more equitable arrangements with local actors including those who may be marginalized.

### 1.3 Aim of Study

Within this context, this study uses the best available data to assess the potential cost efficiency of shifting more resources directly from international intermediary structures to local intermediary structures.

The study builds on the evidence reviews presented above, and specifically looks at reconceptualizing the role of the intermediary by shifting from the current traditional practice of channeling funding and power via international intermediaries, to local intermediaries operating through coalition/collaborative models.

There is a clear ethical imperative to shift more funding and power directly to local actors who are proximate to the communities they serve. This study underpins these ethical arguments by providing quantitative estimates of tangible cost efficiencies, as well as potential benefits that

could be delivered by investing in more equitable local intermediary structures, and that could be realized by large international donors reforming funding systems.

## 2 Methodology

### 2.1 Overview

In this analysis, we assess the relative cost efficiency and benefits of shifting more resources from the United Nations (UN) and from International Non-Governmental Organization (INGO) intermediaries, to local intermediaries. The analysis centers on current ODA, the main global source of financing for development and humanitarian assistance in developing countries. While private and other sources of funding can be significant, they are not as well documented, but the orders of magnitude calculated here could equally apply to other sources of funding.

This paper is based on the best data that exists and was available to the author. The analysis relies on conservative assumptions throughout, to calculate a lower bound estimate of the order of magnitude of savings that could be realized by shifting more funding to local intermediaries. The results of the analysis should be taken as indicative of the significant amounts of donor funding that could make its way into local organizations, and serve as a starting point for further analysis as more data becomes available.

### 2.2 Aid Delivery Models

We frame the analysis around two potential models for aid funding chains. In reality, this is a simplified aid chain, as many large programmes typically have multiple levels of passthrough (and hence the findings here are likely to be conservative):

1. **International Intermediary model (traditional/current practice):**
  - ODA flows to the UN, which then sub-grants to INGO partners, who then sub-grant to local actors.
  - ODA flows to an INGO prime and then local actors.
2. **Local Intermediary model:** Funding flows are redirected to local intermediary organizations.

### 2.3 Components of the Analysis

The analysis is comprised of three main components:

1. **Delivering Cost Efficient Programming (Section 3):** First, we estimate current salary and overhead data for the UN and INGOs. We then estimate the cost efficiencies that could be realized by a shift of 25% of these funding flows to local intermediaries. Of note, we assume that these funds are shifted from the current system to one that provides more equitable salaries and overheads to local intermediaries.

2. **Modeling a Transition Fund (Section 4):** Recognizing that significant investment is required to build the local intermediary system, we model cost savings against the cost of a “Transition Fund” to facilitate achievement of the 25% commitment.
3. **Benefits of Locally Led Action (Section 5):** Finally, we use a very exploratory analysis to test the potential gains that could be realized when we account for the benefits of locally led action.

## 2.4 Definitions and Assumptions

A variety of definitions and assumptions underpin the analysis.

“Local” in this context, refers to an intermediary structure (e.g. an organization or association) that is based in the country where it works. But we also acknowledge that defining local is not straightforward, and means different things to different people, and can include national and subnational organizations, as well as community based structures and individuals. It is also critical that local intermediary structures democratically represent the voices of all member organizations and ensure inclusiveness, transparency and accountability, to avoid elite capture of power and funding at the national or sub-national level.

We estimate the costs and benefits of shifting 25% of total funding to local actors, aligning with the Grand Bargain commitment as well as the recent USAID commitments. We look specifically at ODA that is targeted to UN organizations and INGOs. We do not evaluate funding flows to World Bank, Regional Development Banks, private consultancies, international research organizations, or other types of organizations, primarily because we do not have the same specificity of data to construct the analysis that follows for these funding flows. The intention is not to suggest that *only* UN and INGOs need to shift more funding to local actors. Rather, the necessary data to construct a robust analysis was available for UN/INGOs, and these funding flows are used to construct orders of magnitude. ALL organizations channeling ODA need to shift more funding to local actors, and the orders of magnitude calculated here could be applied to the wider range of funding flows, acknowledging that better data availability may allow for greater refinement of the findings presented here.

It is also critical to note that the analysis recognises the importance that all actors play in this ecosystem, and our assumption is that the 75% of funding that remains with international actors can be used for multilaterals, INGOs and other organizations to continue to play a key role in delivering functions that complement and strengthen the sector’s shift towards a more equitable distribution of funds between international and national actors.

The cost efficiency analysis uses a range of robust empirical evidence and data that is publicly available. However, this data is still limited in scale and scope. Therefore, while this analysis

makes best estimates based on publicly available data, it is intended as a starting point to understand orders of magnitude of savings rather than absolute magnitudes. Conservative assumptions are used throughout, and reasonable assumptions are used in the absence of more specific data to construct the analysis (for example, the model assumes that costs and savings benefits are accrued at a constant rate, and that a 25% shift is achievable within four years), and the analysis can be updated and deepened as more transparency of data allows for more detailed analysis.

## 3 Delivering Cost Efficient Programming

### 3.1 Overview

This section presents a cost efficiency analysis for shifting more funding from international to local organizations. It is structured as follows:

- **International Intermediary Model, Current Funding Flows (Section 3.2).** We estimate total overheads and salaries in the current funding system, for UN and INGO funding flows, respectively.
- **Local Intermediary Model, 25% shift in funding (Section 3.3).** We estimate the equivalent costs from a 25% funding shift (representing USAID and Grand Bargain commitments), and estimate the cost efficiencies that would arise as a result of this shift from international to local intermediaries. Here, we model a more equitable system, in which local intermediaries are given the same level of overheads as INGOs, as well as provided with salary costs that are competitive with international salaries, adjusted only to reflect cost of living differences and international employment costs, allowing them to not only absorb risk, but pursue opportunities and attract the best human resources.
- **Total Cost Efficiency Gains (Section 3.4).** We estimate the total potential cost efficiency gains from shifting from 25% of funding from international and local funding flows, combining the results to account for potential double counting across the two.

### 3.2 Total Current Funding Flows - ODA, Salaries and Overheads

#### 3.2.1 Overview

The first step in the analysis is to calculate total overheads and salaries in the current funding system, for UN and INGO funding flows, respectively.

#### 3.2.2 Total ODA

The most recent data on ODA, disaggregated to the level needed for the analysis, is from the most recent ODA 2020 Multilateral Development Finance Report.<sup>7</sup> Total ODA in 2018 was \$187 billion. This funding is typically categorized into three funding streams - core funding to multilateral organizations (\$46.4bn), earmarked funding to multilateral organizations (often classed as bilateral because it's earmarked, \$25.5bn), and bilateral ODA (\$115.1bn).

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<sup>7</sup> OECD (2020). "[Multilateral Development Finance 2020](#)." Figure 1.3



The report goes on to break out core and earmarked multilateral ODA into several funding streams as follows:

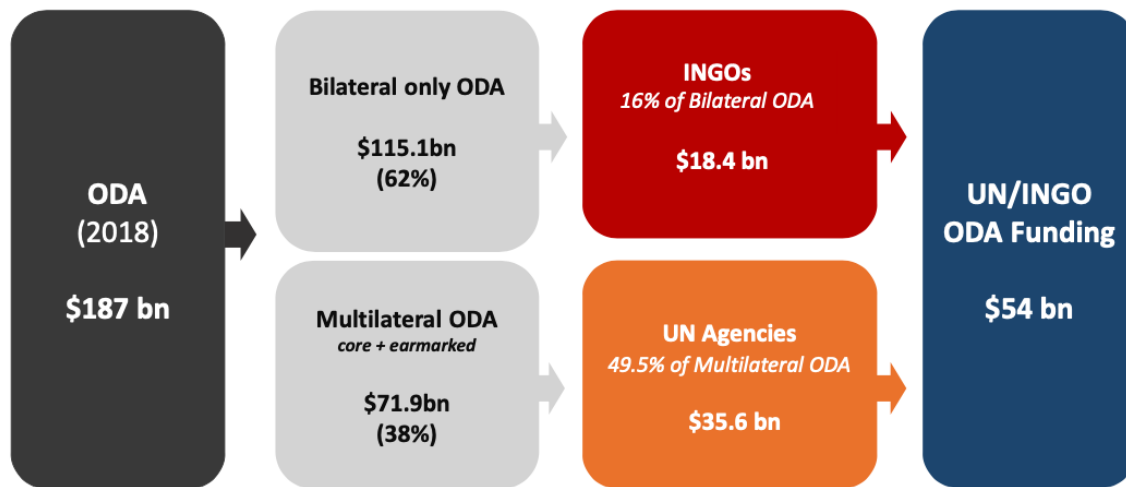
- UN, 49.5%, or \$35.6bn
- World Bank, 28.3%, or \$20.3bn
- Regional Development Banks, 12.2%, or \$8.8bn
- Remaining funding to ‘verticals’ - funds such as the Global Fund or Gavi - 10%, or \$7.2bn.

For the purposes of this study, the analysis uses ODA funding to the UN, totaling \$35.6bn. The World Bank and Regional Development Banks transfer large portions of their funds to country governments, and no data was available for these funding streams for the analysis that follows. As stated previously, this is not an indication that these funding streams do not need to shift resources to local actors, rather a limitation of data availability.

A similar breakdown of bilateral funding was not readily available. However, a Development Initiatives report indicates that INGOs account for 16% of bilateral funding<sup>8</sup> - or \$18.4bn.

Combining the two, the analysis presented here evaluates a total \$54bn in ODA (out of a total \$187bn), and estimates the cost savings from shifting 25% of that funding, or \$13.5bn, to local actors.

**Figure 1: ODA Funding Channels<sup>9</sup>**



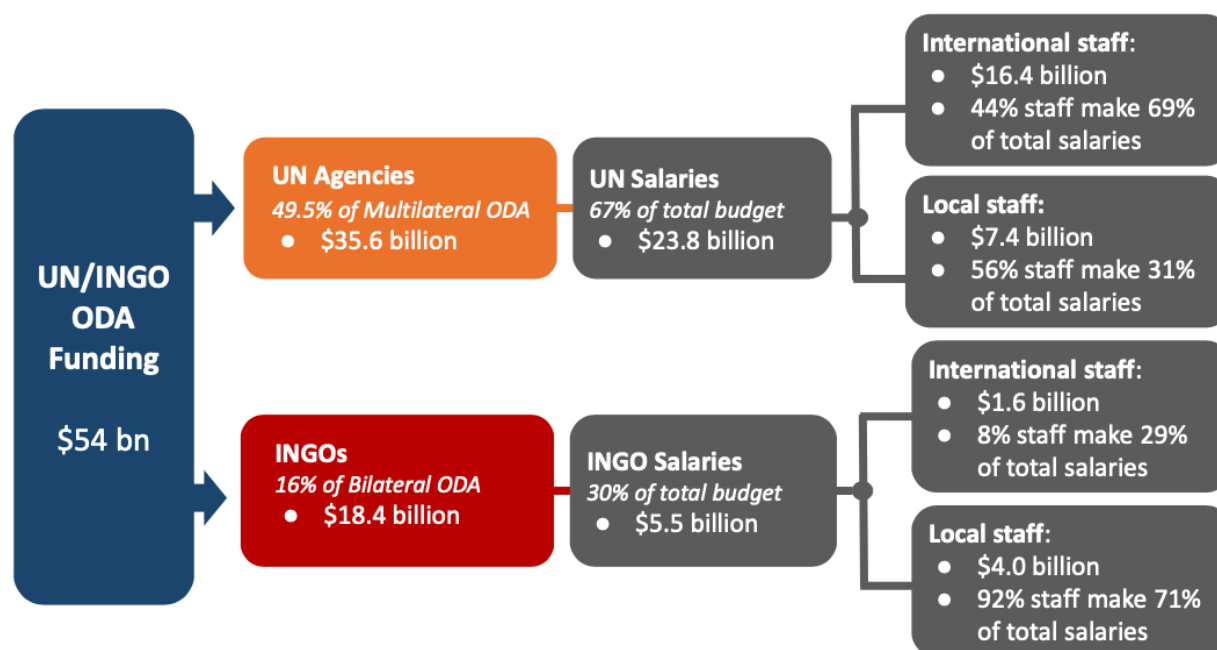
<sup>8</sup> Development Initiatives (2016). [“Private Development Assistance, Key Facts and Global Estimates.”](#)

<sup>9</sup> OECD (2020). [“Multilateral Development Finance 2020.”](#) Figure 1.3

### 3.2.3 Total ODA - Salaries

The next step is to estimate the amount of total ODA that is attributable to UN and INGOs that is spent on salaries. The data estimates presented in Figure 2 are explained in detail below.

**Figure 2: Total Funding Flows - Salaries**



- We apply salaries as a percentage of ODA to each funding flow, based on the following data:
  - o Salaries at UN organizations comprise 67% of total ODA on average.<sup>10</sup>
  - o We do not have data for a comparable figure for INGOs. The same study cited above calculates salaries as a percentage of ODA for the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) donors<sup>11</sup>, non-DAC donors, multilateral organizations, and UN organizations. The estimates are very different, ranging from 7% to 74%, with an average of 30%. In the absence of any data, this analysis uses the average 30% as

<sup>10</sup> Author's estimate. This data came from Palagashvili and Williamson (2021) where the authors estimated that 74% of UN budgets are salaries. However, there were several significant outliers in the raw data, and hence the data was used to calculate a trimmed mean to recalculate the figure. The dataset includes data points for IFAD, UNAIDS, UNDEF, UNDP, UNFPA, UNHCR, UNICEF, UNOPS, UNRWA. Palagashvili, Liya and Claudia R. Williamson (2021). "[Grading foreign aid agencies: Best practices across traditional and emerging donors.](#)" *Review of Development Economics* 25.2

<sup>11</sup> OECD DAC comprises ~30 of the largest international donor nations.

a proxy for INGOs. This is likely to be a conservative estimate given that the operational nature of INGOs is more closely aligned with the UN/multilaterals at the top end of the range.

- This equates to UN Organizations allocating \$23.8 bn of their annual funding to salaries, and INGOs allocating \$5.5bn to salaries.
- A 2018 evaluation of wage effects of foreign aid in developing countries undertook a detailed review of foreign aid funded agencies<sup>12</sup>, both UN and INGOs, and found that international staff<sup>13</sup> make up 44% of UN staff<sup>14</sup>, and 8% of INGO staff.<sup>15</sup>
- International staff typically make substantially more money than local staff, but systematic estimates comparing salaries of international and local staff are very limited. In order to estimate the amount of total salaries that goes to local staff, we undertook an analysis of allowable fee rates for a major bilateral donor, for over 120 positions, ranging from administrative roles to project lead, and based on different levels of expertise. We assume that local staff are more likely to be given project manager or administrative roles, and are less likely to have an internationally recognized degree to allow them to qualify for higher pay scales. This data was provided for both international and national team members, representing 240 comparable data points. Data analysis indicates that international team members typically make 6 times their local counterparts.
- Further to this, international staff that are relocated to a country outside of their home country are typically provided with numerous benefits including fringe, relocation allowance, dependency benefits, hardship allowance, danger pay, etc.<sup>16</sup> Confidential analysis provided by two large INGOs indicates that these additional costs, above and beyond salary differentials, typically cost 40-50% of total salary. We do not know what percentage of international staff in this analysis are based in home countries versus based in country programs, and therefore we do not apply this additional markup here, but it is clear that the salaries estimates here are conservative.

**Weighting the percentage of staff by their salary markup, salaries for international staff equate to \$16.4bn at UN agencies, comprising 69% of total salaries (and 44% of staff numbers), with local staff earning \$7.4bn (31% of total salaries, and 56% of staff numbers). Salaries for international staff at INGOs equate to \$1.6bn, comprising 29% of total salaries (and 8% of staff numbers), with local staff earning \$4.0bn (71% of total salaries, and 92% of staff numbers).**

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<sup>12</sup> Composed of UN agencies and peacekeeping missions, 7 donor agencies, and 26 INGOs.

<sup>13</sup> National staff are defined as “employees who are nationals of the respective countries being served.”

<sup>14</sup> National staff are defined as “employees who are nationals of the respective countries being served”

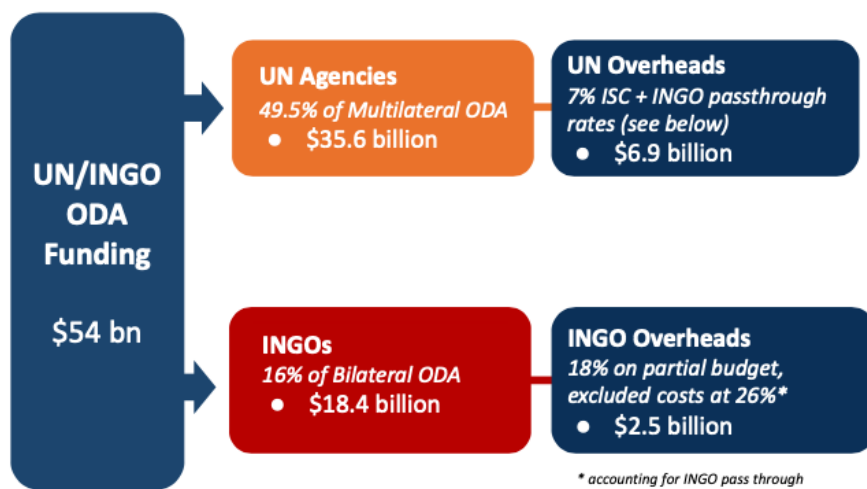
<sup>15</sup> Koch, Dirk-Jan, and Lau Schulpen (2018). “[An exploration of individual-level wage effects of foreign aid in developing countries.](#)” *Evaluation and Program Planning* 68

<sup>16</sup> For example, see UN costs of employment: <https://icsc.un.org/Resources/SAD/Booklets/sabeng.pdf?r=0704204>

### 3.2.4 Total ODA - Overheads

Similar to the analysis of salaries, we use publicly available data to estimate the amount of total ODA that is attributable to UN and INGOs that is spent on overheads. Figure 3 contains a summary of the more detailed explanation provided below.

**Figure 3: Total Funding Flows - Overheads (US\$ 2018)**



- Multilaterals typically charge 7% Indirect Support Costs (ISC) on total budget<sup>17</sup>.
- INGOs are estimated to charge on average 18% overheads, based on US NICRA (Negotiated Indirect Cost Rate Agreement) rates, where some budget exclusions apply.
  - o An analysis of PEPFAR funding found that NICRA rates ranged between 11.3% and 26.4% of total funding (after exclusions). The wage effect study was confidentially given NICRA rates that averaged 16.3% (ranging between 12.4% and 18.5%). We use the average of these three figures to arrive at an applied NICRA of 18%.
  - o For organizations that do not have a negotiated NICRA with the United States Government, they are allowed to apply a 10% indirect cost rate; this is what most local organizations would charge on their programs.
- NICRA cannot be charged on the full budget - certain items are considered 'excludable'. An analysis of PEPFAR funding flows found that 26% of budgets are excludable amounts

<sup>17</sup> Koch and Schulpen (2018); UNWFP (2021). "Indirect Support Costs: Definition and value proposition."; UNHCR (2020). "[Funding UHCR's Programmes](#)." UNHCR Global Report 2020

from NICRA. Of note, an 18% NICRA applied after excluding 26% of costs results in an effective overhead rate of 13% on total budget.<sup>18</sup>

For the UN aid chain, we assume that funding first passes through the UN and then an INGO. We assume that an overhead rate of 7% is applied to UN funding, followed by an overhead rate of 18% applied to INGO subgrantees after 26% of budget is excluded, accounting for INGO passthrough. This results in a total overhead amount of US\$6.9bn in 2018.

Another approach to this analysis would be to consider a model in which the UN goes directly to LNOs without any passthrough. We know that overhead costs for the UN are estimated to be as high as 57% (see discussion below), and that the difference between low and high overheads is statistically correlated with the number of grants that an organization provides.<sup>19</sup> If we used this approach, we would then have to apply a significantly higher overhead rate, and we have chosen throughout the report to use conservative assumptions.

For the INGO aid chain, an overhead rate of 18% applied to INGO funding (after 26% is excluded) results in a total overhead budget of US\$2.5bn in 2018. Combining the two results in a total overhead budget of \$9.4bn.

It is likely that these estimates are very conservative. For example, other publicly available estimates suggest much higher overheads:

- A global analysis of funding flows collects primary and published data on 29 DAC bilateral agencies, 18 non-DAC agencies, 23 multilateral donors, and 16 UN agencies, and analyzes and compares data across five areas: transparency, overhead costs, specialization, selectivity, and ineffective aid channels (tying of aid). The study finds that the UN average ratio of administrative budget to ODA is 66%. When outliers are excluded, the trimmed mean is 57%, far exceeding the estimates above. For multilateral organizations, by way of comparison, the same figure is estimated at 15%.<sup>20</sup>
- UNHCR's global budget in 2019 was US\$8.6bn. Of this, global programs accounted for US\$458m, while HQ and operational reserves (much of which was used for overhead

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<sup>18</sup> Honermann, Brian et al. (2018). "[Calculating indirect costs from international PEPFAR implementing partners.](#)" PLoS ONE 13.10. "Of the \$37.01 billion in total COP funding between 2007 and 2016, \$22.24 billion (60.08%) was identifiably allocated to IOs (\$17.95B) and universities (\$4.29B). After excluding funding for sub-awards (\$1.92B) and other expenses (\$3.89B) to which indirect rates cannot be applied [representing 26% of total spend], \$16.44B remained in combined direct and indirect costs. From this, we estimate that between \$1.85B [8.30% of total international partner funding, or 11.3% after exclusions] and \$4.34B [19.51%, or 26.4% after exclusions], has been spent on indirect costs from 2007–2016, including \$157–\$369 million in 2016."

<sup>19</sup> Palagashvili and Williamson (2021)

<sup>20</sup> Ibid.

costs) accounted for US\$226m and US\$620m respectively, totaling US\$1.3bn or 15% of total budget.<sup>21</sup>

- A DFID (now FCDO) family planning program in Uganda used a multilateral structure delivering the program via the UN as administrative agent (1% overhead cost), and then 7% for participating agencies, as well as additional overheads for all implementing partners of the UN, at variable overheads. The project completion review found that 9.7% of the budget was spent on fringe, 5.8% on indirect costs, with no data available on the additional overheads for implementing partners.<sup>22</sup>
- The Spotlight Program in Uganda is run through a consortium of 6 UN agencies, who then subgrant to international, national and local implementing agencies. Coordination and administrative functions, and related office costs, are 18% of the total program direct costs.<sup>23</sup>

### 3.3 Cost Efficiency: Shifting Funding to Local Intermediaries

#### 3.3.1 Overview

The second step in the analysis is to estimate the cost efficiencies that would arise from a shift of **25% of total funding directly to local intermediaries**.

The analysis looks specifically at the cost savings that would accrue through shifting overheads and salaries from international to local intermediaries. However, the cost savings are not additive – adding the two sums together would result in double counting, as some of the cost of salaries would also be counted as overheads. Therefore, after calculating the potential cost efficiencies for shifting both salaries, and overheads, we reduce the total savings from salaries to avoid double counting. We assume that salaries are allocated 80% to programmatic costs, and 20% to overheads. It is possible that a greater percentage of international salaries are allocated to overheads, as international staff often hold HQ jobs where most overheads occur. In the absence of any additional information however, we exclude 20% of savings from salaries.

Further, we intentionally estimate cost efficiencies arising from a more equitable model. In the previous section, we estimate current funding flows using data on existing rates, where international organizations have salaries 6x those of local salaries, and international organizations make almost twice the level of overheads as local organizations. Rather than

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<sup>21</sup> UNHCR (2020). “Executive Committee of the High Commissioner’s Programme, Standing Committee, 77th Meeting.”

<sup>22</sup> DFID Uganda (2017). “Project Completion Review: Accelerating the Rise in Contraceptive Prevalence in Uganda (ARC).” August 2017

<sup>23</sup> Spotlight Initiative (2021). “Country Programme Document: Uganda.”

comparing like with like, we assume that a shift of 25% of funding adjusts local salaries only for cost of living and cost of employment for relocation of international staff, and that overheads are offered at the same rate as international INGOs, and adjusted only for cost of living.

**Figure 4: Modeling a More Equitable Shift**



**3.3.2 Increasing Direct Funding to Local Intermediaries - Salaries**

We use the total salaries calculated in the previous section and model a shift of 25% in total salaries to local actors.

Figure 5: Summary of Salary Cost Efficiencies, Local Intermediary Model (US\$ 2018)



- We use an international salary markup of 3.7 to convert international salaries to local salaries. The international salary markup is based on the following:
  - o First, we use the World Bank’s Purchase Price Parity (an indicator that compares the cost of the same basket of goods in two different countries to estimate the cost of living), median for LDCs<sup>24</sup>, to adjust salary costs to represent local equivalent. We very deliberately do not use the current differential between international and local salaries calculated above, because we want the model to reflect a more equitable salary structure.
  - o We then further adjust this figure to reflect an international markup of 40% for the cost of employing international staff within countries where programming is taking place. This figure is based on personal communication with two very large INGOs, who have done detailed cost analysis on the cost of all additional benefits provided to international staff that are relocated (see detailed discussion above). In this instance, we apply this figure, because we are assuming that international roles are not re-allocated to local experts, where relocation, fringe, etc would not be applicable.

Based on these assumptions:

- A transfer of 25% of UN and INGO funding directly to local intermediaries, and hence local salaries (paid at equivalent cost of living), would reduce international salary costs from US\$4.5bn (at UN/INGO) to US\$1.2bn (at local intermediaries), resulting in cost efficiency savings of US\$3.3bn.

<sup>24</sup> The World Bank. “[PPP conversion factor, GDP.](#)” Data.

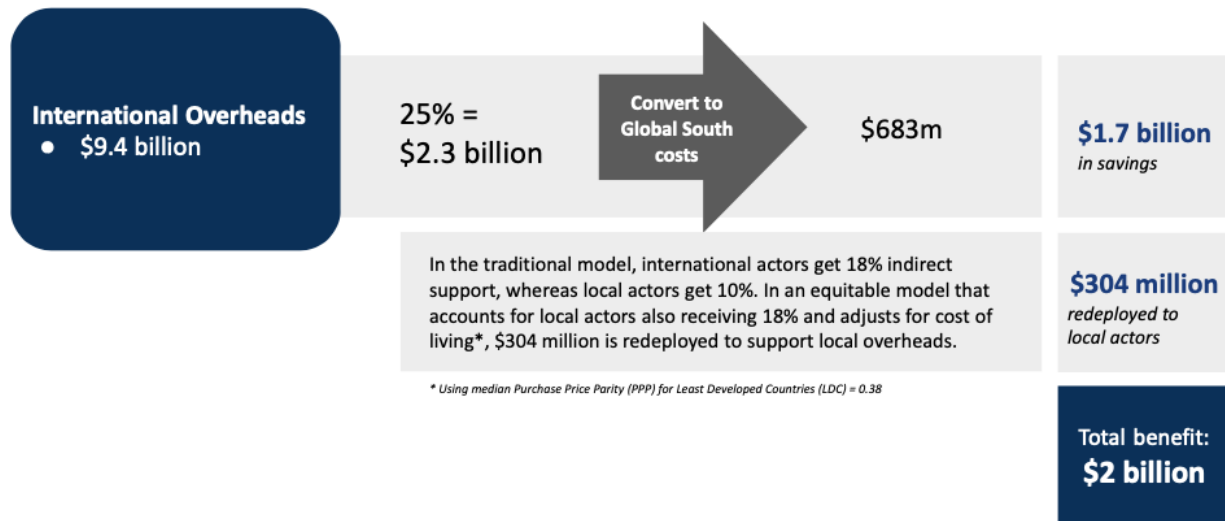


- Further, because the model implicitly assumes a more equitable system, the reweighting of salaries to local intermediaries results in an additional US\$470m channeled to support equitable salaries at local intermediaries.
- The combination of the two represents a total benefit (represented through cost savings combined with greater funding to local intermediaries) of \$3.7bn.

### 3.3.3 Increasing Direct Funding to Local Intermediaries - Overheads

We use the total ODA allocated to UN and INGOs, as above, and we assume that 25% of this funding is redirected to local actors.

Figure 5: Summary of Overhead (O/H) Cost Efficiency, Local Intermediary Model



- Rather than estimating the total cost of overheads at local organization rates, such as the NICRA 10% base rate, we assume that local intermediaries receive equivalent overhead rates to INGOs. Again, this is really important because it represents a shift to a more equitable system. We use the 18% overhead rate after excluded amounts, to estimate total local intermediary overheads.
- We then weight these costs to account for the significant discount that comes with running overheads in a developing versus a developed country, using the World Bank's Purchase Price Parity median for LDCs as described above, to adjust overhead costs to represent local equivalent.

Based on these assumptions:

- A transfer of 25% of UN and INGO funding to local intermediaries would result in a total local intermediary overhead cost of US\$683m, compared with a total overhead cost of

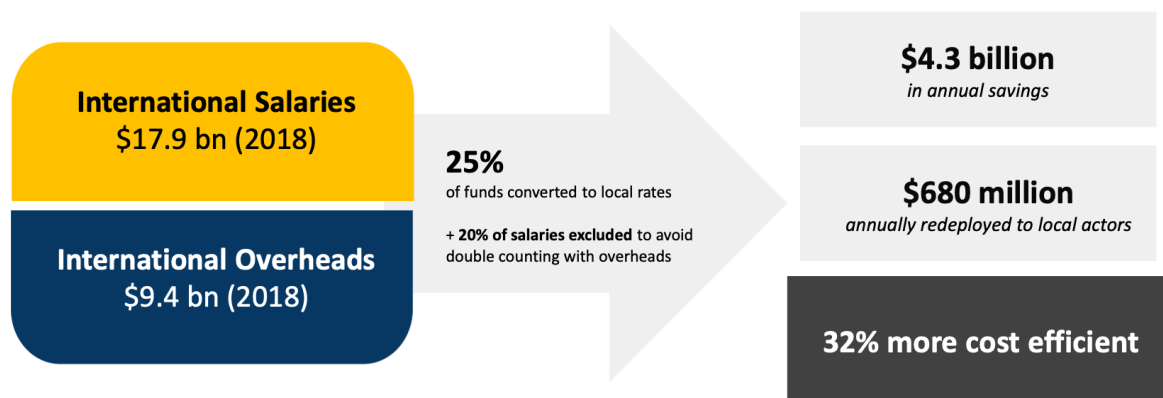
US\$2.3bn for the UN/INGO funding stream (25% of total overheads), representing a cost saving of US\$1.7bn.

- Further, because the model implicitly assumes a more equitable system, the application of international overhead rates to local intermediaries results in an additional US\$304m channeled to support equitable overheads at local intermediaries.
- The combination of the two represents a total benefit (represented through cost savings combined with greater funding to local intermediaries) of \$2.0bn.

### 3.4 Total Potential Cost Efficiency

As mentioned above, combining these two savings streams would result in some double counting, and therefore we exclude 20% of salaries.

**Figure 6: Total Potential Cost Efficiency, Local Intermediary Model**



- The analysis estimates that total cost savings as a result of shifting 25% of UN/INGO ODA directly to local intermediaries would result in cost efficiency savings of US\$4.3bn annually, funding that would cover the entire UN humanitarian appeal for Ukraine 2022<sup>25</sup>. This represents a 32% cost saving for every dollar reallocated to local intermediaries.
- Further, because the model implicitly assumes a more equitable system, redeployment of funds to local intermediaries for overheads and salaries totals US\$680m.
- The combination of the two represents a total benefit (represented through cost savings combined with greater funding to local intermediaries) of \$4.9bn annually.

In order to understand the total potential implications for the system as a whole, we estimate three additional scenarios:

<sup>25</sup> OCHA. "[Ukraine](#)".

- **Full ODA Scenario:** Our model only accounts for funding flows from UN and INGOs due to data availability. However, the 25% commitment applies to all funding sources. If we were to scale up the findings from this analysis, calculated for \$54bn of ODA, to the full \$187bn of ODA in 2018, **we would see total savings increase to \$14.8bn, with an additional US\$2.4bn redeployed to local intermediaries.**
- **USAID Scenario:** Given the 25% commitment for all US funding, we apply the ratios calculated here to USAID ODA, which totaled \$42.3bn in 2021.<sup>26</sup> **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, with an additional US\$528m redeployed to local intermediaries.**
- **Humanitarian Assistance/Grand Bargain Scenario:** Along the same lines, we apply the analysis to the Grand Bargain commitment of 25% of humanitarian assistance going directly to local actors. Global Humanitarian Assistance in 2021 totalled \$24.9bn<sup>27</sup>; **a 25% shift in funding to local actors in humanitarian crises could result in savings of \$2.1bn annually, with an additional US\$340m redeployed to local intermediaries.** Of note, private funding to humanitarian crises in 2021 was an additional \$6.4bn<sup>28</sup>, and this year's humanitarian appeal has increased to \$41bn.<sup>29</sup>

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<sup>26</sup> OECD (2022). "[ODA Levels in 2021 - Preliminary Data: Detailed Summary Note.](#)"

<sup>27</sup> Development Initiatives (2022).

<sup>28</sup> Ibid.

<sup>29</sup> OCHA (2022). "[Global Humanitarian Overview 2022.](#)"

## 4 Modeling a “Transition Fund”

The findings from the previous analysis indicate that significant efficiencies can be realized by channeling more funding to local actors - leveraging additional funds that are critical to support local ecosystems and address unmet development and humanitarian needs. However, we also know that these potential gains will not be realized overnight.

The current system is not structured to facilitate increases in funding to thousands of local actors. As discussed previously, local intermediary structures will play a key role in shifting funding to individual local actors, and these local intermediary structures need to be identified, where they exist, and investment needs to be made in strengthening and building local intermediary structures where they don't exist or lack capacity. It is also critical that investment ensures that local intermediary structures are democratic, representing the voices of all member organizations and ensuring inclusiveness, transparency and accountability, to avoid elite capture of power and funding at the national level. They also need to be able to provide multi-disciplinary programming, and work in a coordinated structure to deliver this programming. Further, significant investment is required to shift donor systems and processes to facilitate greater funding flows. Onerous donor procurement policies, contracting, risk assessments, etc all need to be redesigned to ensure that flexible and long term funding can be provided to local intermediaries without imposing undue burden.

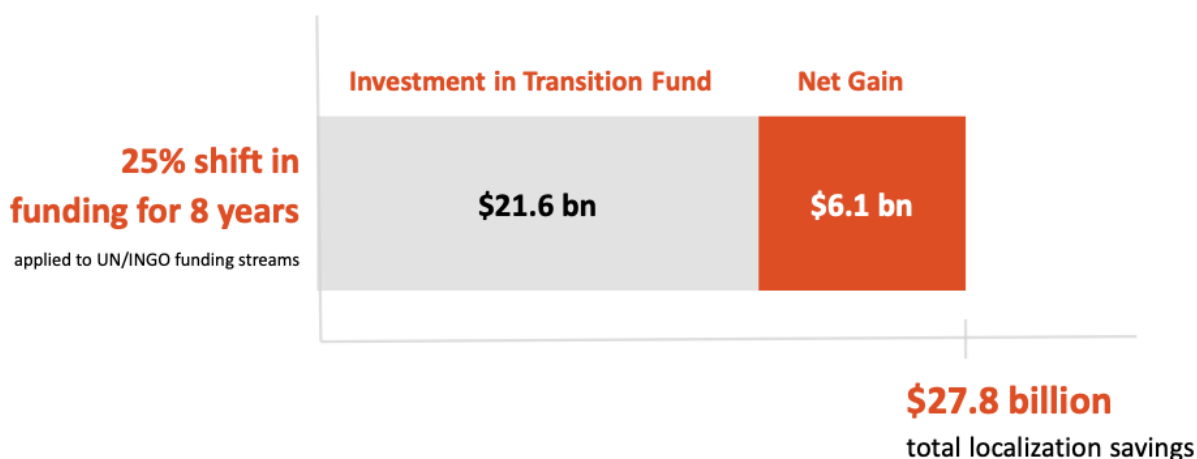
We use the data above to create an eight-year model to estimate the net cost of investing in a shift to local intermediaries. USAID's 25% localization commitment aims to achieve this goal over four years. We therefore assume that the cost savings and benefits from localization will accrue over four years, at a constant rate (in other words, the cost savings and benefits will be realized at 25% in year 1, 50% in year 2, etc until the full benefits of a 25% shift in funding are realized in Year 4). Modeling allows us to test scenarios - there is still a great deal of work required to know whether a 25% shift in funding is achievable in four years, and whether a constant rate of growth to achieve this target is sensible. But in the absence of other data, these assumptions allow us to begin to test different options for moving towards a 25% goal.

We further assume that a “Transition Fund” is established to build the systems, processes and capacities required to have a local intermediary ecosystem that can absorb and manage a 25% shift in funding to local actors. There are no estimates for how much this will cost. The [Local Coalition Accelerator](#), an initiative of [The Share Trust](#) and [the Warande Advisory Centre](#), works to strengthen and position local intermediary structures - in this case specifically working through a coalition model - to bridge directly with bi- and multi-lateral funding streams. The LCA works on a budget where 20% of funding is used for Technical Assistance and backend support, over a three-year period, with 80% of project funding directly channeled to local intermediaries

for programming. In the absence of other data points, we assume in the model that a budget equivalent to 20% of all funding channeled directly to local actors is dedicated to strengthening the ecosystem, across all eight years of the model. This funding does not come from the already very limited funding dedicated to local organizations, but would be funded separately. This budget could be used for both international and local actors to identify entry points, build systems, and strengthen capacity.

The findings indicate that, under even the most conservative estimates, the establishment of a Transition Fund that directly supports the global and local infrastructure required for shifting more funding to local actors, at a total cost of \$21.6bn over 8 years (\$2.7bn per year), will still realize a net positive gain of US\$6.1bn.

**Figure 7: Transition Model**



**Table 1. Modeling a Transition Fund**

MODEL: 25% Transfer by Year 4, all figures in USD\$ MM									
Year	0	1	2	3	4	5	6	7	Total
Savings/ Benefits Accrual	25%	50%	75%	100%	100%	100%	100%	100%	-
Savings from Localization	1,067	2,134	3,201	4,268	4,268	4,268	4,268	4,268	<b>27,743</b>
<b>TRANSITION FUND</b> 20% invested in systems building/TA	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	<b>21,602</b>
Net Cost	1,633	566	-500	-1,567	-1,567	-1,567	-1,567	-1,567	<b>-6,141</b>

## 5 Benefits Analysis

### 5.1 Benefits of Locally Led Action

There are a wide range of benefits that can arise from providing more funding directly to local actors. For example:

- **Inclusion/Equity:** Local actors are embedded in their communities and therefore are better able to ensure inclusive and equitable aid delivery, ensuring that the most vulnerable are reached.
- **Trusted:** Local actors are more trusted by their communities and hence are able to be more engaged with the primary issues facing communities. Where local actors can leverage this greater trust to provide sensitive services at a larger scale, they will benefit from economies of scale which increase their efficiency.
- **Access:** Local actors are able to access populations that international actors cannot, particularly in complex humanitarian settings.
- **Speed/timeliness:** Local actors are able to 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 are able to respond more flexibly to changing community needs.
- **Community voice/advocacy:** Local actors are able to engage directly with the communities that they are serving to design programming that is based on the community priorities.
- **Sustainability:** local actors remain in their communities, while international actors have to shift resources between high profile crises, and often have to pull international staff (for example as happened in COVID).

However, these benefits are also going to be highly context specific. Further, a broad assumption is that local actors in a prime partner role where they can lead on design and implementation will have a lot more freedom to adapt, can be more timely, etc. However, this will not necessarily hold true if programs/funding mechanisms are prescriptive. Conversely, where local actors are not in a prime partner role, but are part of more effective and equitable partnerships, some of these benefits may be realized.

### 5.2 The Evidence Base

It was not possible to do a full evidence review for this study. However, the evidence review presented at the start of this study is clear that while there is much anecdotal evidence to support the above hypotheses, very little empirical evidence exists to either refute or

substantiate these claims.<sup>30</sup> Further, there are contexts where local actors will have a clear case for offering better programming, whereas there are other contexts where the local ecosystem may not be as well developed and capacity remains low, or where local actors are unable to maintain impartiality in a crisis context. Therefore assigning benefits to greater investment in local actors remains largely qualitative, and is an area where substantial investment in the field is required.

Existing evidence does suggest that the quantitative gains from shifting to local actors could be very substantial. A snapshot of some of these proof points is provided here.

**More Timely/Responsive:** A recent 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 the country, while local actors, anecdotally, were the first to respond in many countries, often responding within weeks.<sup>31</sup> For example, the research note cites the following:

- GiveDirectly in Kenya cut their average time to pay beneficiaries by 50% and increase enrolment by 10 times by working through a large community of local organizations, and an automated SMS system.
- In Occupied Palestinian Territories (OPT), local Zakat networks fundraised and distributed approximately USD 17 million in mid-May 2020, to support over 40,000 Palestinian workers, as well as 30,000 families. World Bank funding was approved and disbursed to the Ministry of Finance by July end, months after local funds.

The paper also highlights how networks of local women’s groups, informal workers, community based volunteers, and Persons with Disabilities, were able to significantly enhance outcomes, for example by providing relief support, sensitizing local communities to entitlements, and ensuring that highly vulnerable and marginalized groups received assistance. A recent set of studies by Mercy Corps/USAID reinforce these findings: a series of studies from Yemen and South Sudan found that informal community support networks are better able to quickly coordinate disaster response and post-disaster recovery than formal aid actors, that they are able to help mitigate the deterioration of humanitarian conditions for households, and that these informal networks facilitate access to timely, accurate, and trusted information that is critical in a response.<sup>32</sup>

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<sup>30</sup> Barbelet et al. (2021).

<sup>31</sup> Cabot Venton, Courtenay (2021). “[Direct Support to Local Actors: Considerations for Donors](#)”. Social Protection Approaches to COVID 19 (SPACE), FCDO

<sup>32</sup> Kim, J., Elsamahi, M., Humphrey, A., Kadasi, A., and Maxwell, D. (2022). “[Informal social protection networks and resilience in conflict-affected contexts: Lessons from South Sudan and Yemen](#).” Mercy Corps. Resilience, Evaluation, Analysis and Learning (REAL) Associate Award

We also know that a more timely response is associated with significant benefits. A seminal study by USAID and DFID 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 between 2.3 and 3.3).<sup>33</sup> This analysis models the impact of more responsive programming for affected communities, over a 10 year timeframe, using detailed and comprehensive household economy data for different wealth and livelihood groups, to estimate both the avoided losses at a household level as a result of not engaging in negative coping strategies due to food insecurity, as well as the savings to international donors from providing more proactive assistance.

If local actors are indeed able to provide more timely and responsive programming that addresses changing needs in communities, as compared with the international system, then the evidence suggests that benefits upwards of \$2.3 for every \$1 spent could be realized based solely on an earlier response (using the analysis from the DFID/USAID study). This figure is indicative only, but is likely to be conservative. It is also very generalized, as the ability of local actors to deliver programming that improves community outcomes compared with international actors will depend very much on the local context, the strength of the local actors, and the role that they play (for example some services and programming may be better implemented by international organizations, while many services and programming will very squarely sit with local actors), as well as the speed and nature of funding provided to them. The \$2.3 of benefit only accounts for avoided losses due to early mitigation of negative coping strategies - it does not account for the myriad of benefits that could come about through wider programming being delivered by local actors.

**Inclusion/Equity/Community Voice:** 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 had the second highest benefit to cost ratio (featured in the Economist).<sup>34</sup> These groups drive benefits across a range of outcomes - health, education, livelihoods, etc - because they work through groups of local women (and men) facilitated to lead change for themselves and their communities, through community led processes, supported by local and national organizations. Estimates have indicated that locally led development via these groups can drive benefits upwards of \$58 for every \$1 spent.<sup>35</sup> These returns are indicative of the scale of benefits that can be achieved when local actors are able to drive their own development priorities. However, for the purposes of this study, these findings are indicative only and are not used in the analysis that follows.

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<sup>33</sup> USAID, 2018. “[Economics of Resilience to Drought in Ethiopia, Kenya and Somalia.](#)”

<sup>34</sup> The Economist (2019) “[Do-Gooders and Do-Besters](#)”. November 16 2019.

<sup>35</sup> Tearfund (2013). “[Partnerships for Change: A cost benefit analysis of Self Help Groups in Ethiopia.](#)”



**Trust:** The International Rescue Committee (IRC) has developed a tool – Dioptra – that helps program staff at humanitarian and development agencies to estimate the cost-efficiency of their programs, compare to benchmarks, and identify improvements (the tool has now been adopted by Mercy Corps, DRC, CRS, Save the Children, CARE and ACF). Through a series of case studies they have started to identify trends around programming via international and local actors, analyzing how cost-per-output is driven by differences in activity design or program context. While the research is early but growing, initial findings indicate that scale is key to realizing cost efficiency, but local actors are rarely given the opportunity to operate at scale, hence arguing for greater funding to local actors. One specific study in Nigeria finds that National NGOs were able to achieve high value for money when they were funded at the same scale as international NGOs.<sup>36</sup> A second study in Nigeria looking at micro-enterprise training and treatment of malnutrition found that cost-efficiency was not consistently different between national and international NGOs, but national NGOs had strong community relationships, and could reach the hardest to reach places, allowing them to deliver significant additional value to the outcomes of the programming. Funding these NGOs at scale was critical to realize program benefits.<sup>37</sup>

### 5.3 Modeling Benefits

While the data is not sufficiently robust to estimate returns with the same degree of confidence as the cost efficiency gains, we use conservative estimates to give an indication of the potential magnitude of benefits. When indicative estimates of improved effectiveness of programming are incorporated into the 8-year model, at \$2.3 of benefit for every \$1 invested, net benefits increase to \$183bn. While benefits estimates are exploratory only, these indicative findings are important because they suggest that the magnitude of gains that could be realized by more effective programming delivered by local actors could far outstrip already impressive cost efficiency gains.

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<sup>36</sup> Christian Rural and Urban Development Association of Nigeria (CRUDAN) (2022). "[Multi-Purpose Cash Assistance, 2022.](#)" Cost-Efficiency Analysis, June 2022

<sup>37</sup> Systematic Cost Analysis Consortium (2021). "[Nigeria Joint Response Case Study: Micro-Enterprise Management Training & Treatment of Malnutrition.](#)"

## 6 Discussion of Findings

**The findings clearly indicate that shifting more funding to local intermediary structures could deliver significant cost efficiencies while also increasing investment to local intermediaries to build a more equitable system. At the most conservative end, local intermediaries could deliver programming that is 32% more cost efficient than international intermediaries, leveraging significant resources critically needed for unmet humanitarian and development needs.** Our model only accounts for funding flows from UN and INGOs due to data availability. However, the 25% commitment applies to all funding sources. If we were to scale up the findings from this analysis, calculated for \$54bn of ODA, to the full \$187bn of ODA in 2018, **we could see cost efficiencies increase to \$14.8bn annually.** Applied to USAID funding only, the savings would equate to \$3.3bn annually.

**There is a clear moral argument for shifting greater funding and decision-making power to local actors - this study adds weight to these arguments by demonstrating that shifting more funding to local intermediaries will also result in substantial cost efficiencies in international development assistance.** Local actors are closest to their communities, and the systemic racism and colonial mindset that has kept local actors in a sub-contracting model needs to urgently shift. If the goal of international development is to be centered on supporting other "developing" countries to have the autonomy and capacity to successfully take responsibility for the education, health, livelihoods, and safety of their communities, and to help them to build resilient civil society, then why do western governments and philanthropy continue to invest nearly all funds through non-local actors? The evidence presented here clearly indicates that a significant shift in funding to local actors is not only good practice - it makes sound economic sense in a system that constantly struggles to raise sufficient funds to meet ever-growing needs.

**The model deliberately provides local intermediaries more equitable salaries, as well as the same proportion of overheads as international intermediaries, allowing them to build systems that can absorb risk, pursue opportunities, and attract the best human resources.** An often-cited concern on the part of international donors' centers around risk - reputational, operational, fiduciary, etc. Local organizations often do not have the systems and capacities to address risk and compliance at the level required by international donors. But they also have not been given overheads at a level to allow them to build these systems. The models presented in this study assume that local intermediaries are provided with the same level of overheads as INGOs, specifically so that they have sufficient funding to build the systems and capacities to address systemic issues around risk and operate on a level playing field with international actors. The model assumes that local intermediaries are funded at the same salary level, adjusted for cost of living, as international staff. Higher levels of overheads may be necessary for smaller downstream partners. For example, a recent study by Humentum found that local

organizations typically need on average 23% overheads to cover costs and build systems, largely because they are smaller and do not have the same level of economies of scale.<sup>38</sup>

**There is a clear need to shift the system to new ways of working and reconceptualize the role of the intermediary.**

- 93% of ODA sits with bilateral funders, who are unable to fund thousands of small grants to thousands of individual local actors. Shifting resources from international intermediary structures with expensive overheads and salaries, to local intermediary structures, who can represent the myriad of local actors operating on the ground in more democratic systems, is therefore key to unlocking this funding.
- While the international aid system has long relied on international actors from western countries to channel funding flows, the inefficiencies of these systems have been documented for decades. For example, FCDO's 2011 multilateral aid review assessed forty-three organizations, from multilateral development banks to UN agencies. While the review found that the multilateral system is critical to mobilizing large scale funding, it also found that the system is fragmented, with overlapping mandates, inconsistent evidence of delivering results on the ground, and insufficient attention to driving down costs and delivering value for money.<sup>39</sup> The more recent 2020 study, cited above, that evaluated non-DAC donors, DAC donors, multilateral organizations and UN agencies against a range of criteria for best practices in aid, found that "aid agencies are continuing to fail to meet their own effective aid standards, a common theme in the literature." There is a clear and longstanding need to find ways to reform the system.
- As highlighted in the literature summarized at the start of this report, key findings include a need for more strategic approaches to localization that invest in collective models built on partnership, and that reconceptualize the role of the traditional international intermediary as a partner who can provide technical and other support, rather than implementer.

**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.*** This data is indicative, based on an eight-year model that assumes a transition of UN and INGO funds to 25% local by year 4, with a transition fund equivalent to 20% of the value of funds transferred to local actors. If these findings were translated to the full ODA portfolio, the net savings would be substantial.

**The benefits of investing through local actors could be substantial, realizing net gains upwards of \$183 billion.** While these estimates are based on robust data from the wider literature on the

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<sup>38</sup> Humentum (2022). "[Breaking the Starvation Cycle](#)."

<sup>39</sup> DFID (2011). "Multilateral Aid Review: Ensuring maximum value for money"

potential gains of locally led development and response, they are indicative at best. **There is a very urgent need to build the field of evidence in relation to the benefits of direct programming.**

**Identifying, strengthening and building local intermediary structures is key to realizing these gains, and investment in this area is critical.** Local intermediary structures need to democratically represent the voices of all member organizations, to avoid elite capture of power and funding at the national/regional level. They also need to be able to provide multi-disciplinary programming, and work in a coordinated structure to deliver this programming. A key next step will be to undertake a mapping exercise to: (1) **identify** already existing local intermediaries who can fill this role; (2) **strengthen** existing intermediaries where necessary; and (3) **build** new intermediary structures through networks of local actors where these structures don't already exist. Critically, this work needs to be endogenous to the current local ecosystem and not imposed exogenously by international actors.

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