CASE STUDY : UKRAINE

JULY 2024

PASSING THE BUCK

The Economics of Localizing Aid in Ukraine

the sharetrust™

CDP
Center for Disaster Philanthropy

Refugees International

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Acronyms

CBPF	Country Based Pooled Fund
DAC	OECD Development Assistance Committee
HQ	Headquarters
INGO	International Non-Governmental Organization
IASC	Inter-Agency Standing Committee
LNGOs	Local and National NGOs
NICRA	Negotiated Indirect Cost Rate Agreement
NGOs	Non-Governmental Organizations
O/H	Overheads
ODA	Official Development Assistance
PEPFAR	The U.S. President's Emergency Plan for AIDS Relief
TA	Technical Assistance
UN	United Nations
US	United States
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UHF	Ukraine Humanitarian Fund
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
USAID	United States Agency for International Development

Acknowledgements

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Passing The Buck Ukraine was made possible by a grant from the Center for Disaster Philanthropy (CDP). CDP supports medium- and long-term solutions that are locally led, prioritize the most marginalized and at-risk populations, address the root causes of vulnerability, and strengthen the ability of communities in Ukraine, and globally, to withstand the impacts of humanitarian crises and recover equitably when they occur. Initial findings as well as a final draft of the report were reviewed by The National Network for Local Philanthropy Development, the Catholic Agency for Overseas Development (CAFOD), Oxfam, the Humanitarian NGO Platform in Ukraine and several other Ukrainian and international NGOs. It should be noted that review and comment do not signify endorsement but that this report greatly benefited from the feedback of all of the organizations. Data from the UHF was provided by UNOCHA in Ukraine, under an agreement to present aggregate findings by implementing organizations, without naming specific organizations in relation to budgetary figures.

Executive Summary

Context

Despite commitments to re-direct international assistance to local actors, the localization agenda has seen slow progress globally, with 1.2% of humanitarian funding going directly to local and national actors in 2022. This trend has been echoed in the response to the Ukraine crisis, where 0.07% of funding has gone directly to local actors.

Deploying funding to local organizations has been shown to have a very high cost efficiency – allowing more funding to get to those most affected by crises. The global 'Passing the Buck' study published in November 2022 found that **local intermediaries could deliver programming that is 32% more cost efficient than international intermediaries**, by stripping out international overhead and salary costs, equivalent to cost efficiency gains of $4.3bn annually.

The aim of this study is to ground truth the global findings, using actual data for the Ukraine response. The Ukraine Humanitarian Fund (UHF) is the largest pooled fund in the world at $181.2m in 2023. It has made important strides in shifting resources and leadership toward Ukrainian responders over the past year and a half, and this analysis is based on a representative sample of actual budgets from the UNOCHA Country Based Pooled Fund (CBPF) for 2023, representing 30% of total funding across UN, INGOs and LNGOs.

Summary of Findings

A comparison of budgets shows that the average UN project uses a different cost structure and has significantly higher costs when compared with INGO and LNGO budgets.

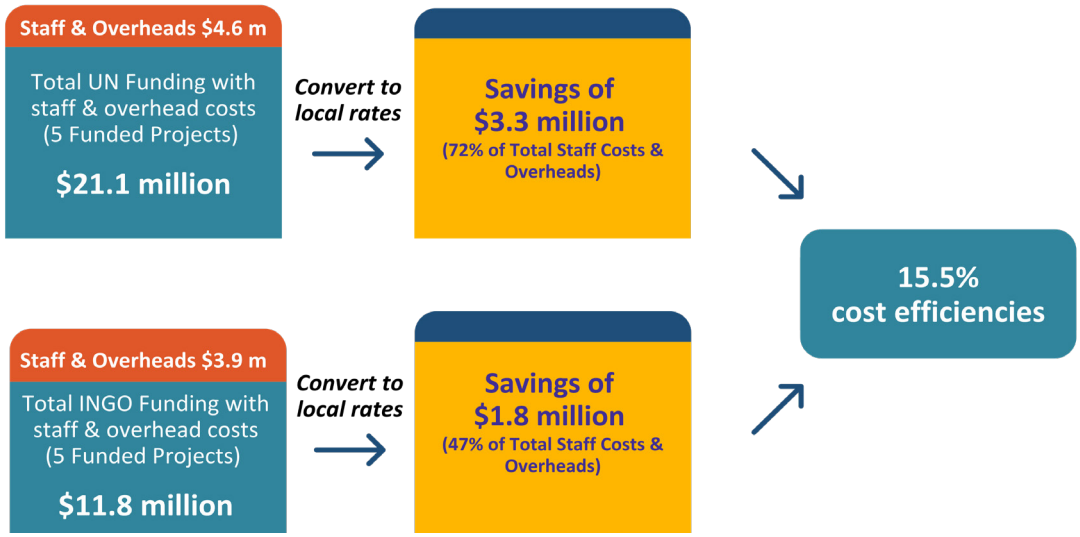
- The UN budgets indicate that Project Support Costs (PSC, or overheads) are not passed through to any of the UN's sub-grantees. The only exception was a UN project that passed through PSC to its INGO sub-grantee; all LNGO sub-grantees were not allocated passthrough in budgets. By contrast, all INGO and LNGO projects indicated that overheads would be passed through in full to sub-grantees.
- The UN maintains a large portion of its budget for procurement of supplies, and tends to sub-contract delivery to staff at LNGOs. However, LNGOs also do high levels of procurement for the UN for comparable content and cost, suggesting that greater procurement could shift locally.

Significant efficiencies are noted comparing both UN and INGO budgets to local budgets.

- The average grant size is larger for LNGOs than INGOs, suggesting that LNGOs have the capacity to take on larger grants (noting that the LNGOs that are eligible for direct funding from the CBPF are larger, well established organizations).
- International staff costs at both the UN and INGOs are significantly more than local staff costs. However, the UN is notable in that international staff costs are more than twice international staff costs at INGOs, 5x national staff at the UN, and 17x national staff at LNGO subs (in all cases comparing similar job specifications for more senior positions).

The analysis looked at the cost efficiencies that would be realized by funding local intermediary partners directly, calculating the change in cost structure as a result of shifting overheads and staff costs to local rates. **Based on an evaluation of actual project data representing 30% of total funding via the CBPF, local intermediaries are delivering programming that is 15.5% more cost efficient than international intermediaries, leveraging significant resources critically needed for ongoing humanitarian and development needs.** The analysis uses equitable metrics throughout.

Figure ES1: Cost Efficiency Analysis*

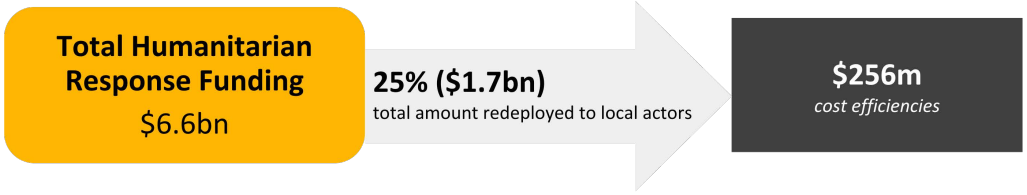


* Note that staff and overhead costs are significantly lower in proportion to the total budget at the UN as compared with the INGOs due to the significant amount of funding that the UN spends on procurement as opposed to program delivery. By contrast, the cost efficiencies that can be realized by shifting funding from the UN to local actors as assessed through total staff costs and overheads alone are significantly higher when compared with INGOs.

In order to understand the potential implications of this cost efficiency, we apply these findings to the wider humanitarian response:

- The CBPF already deploys 20% of its funds directly to local actors, equivalent to $35.8m. Using the 15.5% cost efficiency calculated above, **the CBPF has already realized estimated cost efficiencies of $5.5 million on $35.8 million of funding in 2023**.
- If 25% of remaining international funds in the CBPF were shifted to local actors, **additional cost efficiencies would be $5.9 million**.
- Humanitarian funding to Ukraine tracked by the UN's Financial Tracking System (FTS) totaled $4.6 billion in 2022, $3.5 billion in 2023, and the UN Office for the Coordination of Humanitarian Affairs (UNOCHA) has called for $3.1 billion for 2024.[1] As of March 2024, only 0.07% of total funding has gone directly to Ukrainian organizations. If 25% of funds deployed in 2023 and anticipated for 2024, totaling $6.6 billion, were deployed to local actors, total cost efficiencies would be estimated **at $256 million over 2 years.** This finding is presented as indicative of the potential magnitude of cost efficiencies that could be realized; however, it is important to note that ongoing investment in the local ecosystem to absorb this level of funding will be required.

[1] https://www.unocha.org/news/remember-ukraine-un-relief-chief-urges-attention-country-faces-3rd-year-war-and-occupation



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.

Recommendations

While these recommendations are drawn from this analysis specific to Ukraine, they are highly relevant for better delivery of global humanitarian and development assistance.

- **Donors and international multilaterals such as the UN should establish full transparency on cost structures for delivering assistance.** In a global context where humanitarian needs are increasing year on year, and donor funding is failing to keep pace, delivering cost efficient and effective programming is critical. This study was able to compare budgets through the UHF – this is a very compelling start, but budgets should be transparent across all components of the response.
- **Donors should stipulate/mandate that all UN agencies and international NGOs operating in Ukraine are required to pass through full overheads to their Ukrainian partners.** Full pass through of overheads will provide critical resources so that local actors 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.
- **Donors should fund innovation and scale up pooled funds as a mechanism to shift more funding directly to local actors.** There is a significant opportunity to introduce innovation for a "Pooled Fund v2.0" that can help to provide more balance in humanitarian responses through local actors. Based on the analysis presented here, this could include migrating the CBPF to a Ukrainian host organization (noting that timing and choice of host will require careful thought), using mechanisms such as coalitions or anchor organizations to get more funding to smaller organizations that may not be eligible for pooled funds, offering multi-year grants for humanitarian response that also accounts for early recovery and building back, and offering pooled funds that include equitable terms on staff costs and overheads.
- **The analysis presented here should not be used to support arguments to defund the international aid architecture;** rather, a significant rebalance is required, bringing to bear the key strengths and trusted networks of local actors alongside the comparative advantages of international actors. **The whole response can be made significantly more efficient, effective and sustainable by engaging in a complementary response.**
- **Identifying, strengthening and building local intermediary structures is key to realizing these gains, and investment in this area is critical.** For example, there could be large local "anchor" organizations that impartially allocate funds based on capacity of the many local actors or coalitions that register to receive funding. The data is clear that distributing many individual local grants is very expensive – alternative intermediary structures are essential for realizing the cost efficiencies estimated in this study.
- **Further work to assess the *benefits* of local response is needed.** This study adds a very important contribution to the localization conversation by comparing the costs of different implementing partners; more work is required to understand the benefits realized through local action in Ukraine.

1 Introduction

1.1 Context

Despite commitments to re-direct international assistance to local actors, the localization agenda has seen slow progress. 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.[2] As of 2022, total funding to local and national actors was 1.2% of total funding (of $485m), and a further 0.9% went indirectly ($375m).[3]

Direct funding flows in Ukraine indicate a lack of progress toward achieving a truly locally led response. According to data from the UN's Financial Tracking Service (FTS), by May 20, 2022, i.e. three months after Russia's full-scale invasion, Ukrainian CSOs received only 0.003% in direct funding. As of March 3, 2024, the same figure had risen to only 0.07%. The cumulative response budget as of March 2024 amounted to $4 billion for UN agencies, $2.3bn for INGOs, $610 million to the national government, and $57m to national and local NGOs.[4]

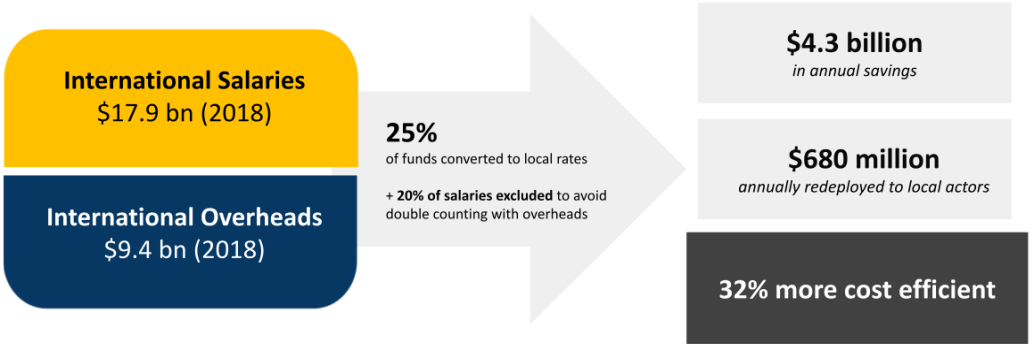
1.2 The Economics of Localizing Aid

Deploying funding to local organizations has been shown to have a very high cost efficiency – allowing more funding to get to those most affected by crises. The 'Passing the Buck' study used global data to evaluate 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 used publicly available data on salaries and overheads for global aid flows, to estimate the relative cost of these two models, assuming a shift of 25% of ODA (reflecting USAID/Grand Bargain commitments). The study's key findings include:

- **Local intermediaries could deliver programming that is 32% more cost efficient than international intermediaries**, by stripping out 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 annual UN humanitarian appeal for Ukraine.**
- 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.**

[2] Development Initiatives (2022). "Global Humanitarian Assistance Report 2022."
[3] Development Initiatives (2023). "Global Humanitarian Assistance Report 2023"
[4] https://fts.unocha.org/countries/234/summary/2024

Figure 1: Passing the Buck: Summary of Findings



1.3 Aim of the Study

The aim of this study is to ground truth the global findings from the Passing the Buck study, using actual data for the Ukraine response, based on budgetary data from the UNOCHA Country Based Pooled Fund (CBPF).

Pooled funds are multi-donor humanitarian financing mechanisms aiming to provide a flexible source of financing for emergencies. In 2023, UNOCHA supported pooled funds in 19 countries, with $1.1bn in funding.

The Ukraine Humanitarian Fund (UHF) is the largest pooled fund in the world at $181.2m in 2023. It has made important strides in shifting resources and leadership toward Ukrainian responders over the past year and a half. The Humanitarian Financing Unit worked with Clusters to develop a scorecard with criteria that recognized the added value of local partners. Using this tool, the UHF was able to prioritize submissions from national and local NGOs and those from international partners fostering meaningful partnerships with local and national NGOs with fair cost-sharing. The UHF has now provided more than $140 million in "net funding[5]" to Ukrainian CSOs since the beginning of 2022, $90 million of which was provided directly, reducing the overall percentage allocated to UN agencies from 30% in 2022 to 18% in 2023. In 2023, national NGOs received 31% of net funding and 20% of direct funding, but for the UHF's first allocation in 2024 ($75 million), national partners received 46% of direct funding.[6]

This study provides a comparative assessment of the cost structures and cost efficiency of funds channeled via a sample of UN, INGO, and local actor programs through the Ukraine CBPF, and assesses the overall cost efficiency gains as a result of localization efforts.

[5] Net Funding includes funds provided to humanitarian organizations either as a primary recipient or as a sub-grantee
[6]https://reliefweb.int/attachments/0e146c5c-e242-4a41-a285-4ecaf2f7fdf4/UHF%202024%20SA1%20Allocation%20Dashboard_20240710%20v4.pdf

2 Methodology

2.1 Overview

The methodology relied on a sample of project budgets from the CBPF for 2023, spread across a mix of the three main implementing partners – UN, INGOs, and LNGOs. The analysis looked at full project budgets and narratives across these projects, and aggregated results to assess the average cost structures of implementation via the three types of implementing partners. The sample of budgets was then used to calculate the relative cost efficiency of shifting funding from international to local intermediaries.

Box 1: Definition of Local[7]

> The UHF uses the IASC as its main reference for categorizing an organization as Ukrainian. Under this definition, local and national non-state actors are "organizations engaged in relief and that are headquartered and operating in their own aid recipient country and which are not affiliated to an international NGO," although a "local actor is not considered to be affiliated merely because it is part of a network, confederation or alliance wherein it maintains independent fundraising and governance systems."

The analysis reviewed 51 projects funded through the CBPF, either directly or as subgrantees. This sample included:

- 5 UN projects, with 9 LNGO subgrants (one of these UN projects had an INGO subgrant –this was flagged as an exceptional project and the INGO subgrant data was not included in the analysis, but used for a comparison point);
- 5 INGO projects, with 15 LNGO subgrants; and
- 8 LNGO projects, with 9 LNGO subgrants.

These 51 projects represent $55m in total funding. The total value of the CBPF in 2023 was $181.2. Therefore the projects evaluated represent 30% of total funding:

- The value of all projects evaluated for the UN is $21.1m, or 51.0% of total CBPF funding to the UN in 2023.
- The value of all projects evaluated for the INGOs is $11.8m, or 11.4% of total CBPF funding to INGOs in 2023.
- The value of all projects evaluated for the LNGOs is $22.1m, or 61.6% of total CBPF funding to LNGOs in 2023.

The methodology can be divided into two main components:

- **Current Funding Flows (Section 3.1)**. Using data from the 51 project budgets, we evaluate and compare the cost structure for each type of Implementing Partner, including overall allocation of costs within project budgets, as compared with sub-grantees, average budget size, and a comparison of staff costs.
- **Cost Efficiency Analysis (Section 3.2)**. We then use this data to estimate the cost efficiencies that have already been realized through the pooled fund by shifting funding to local actors, through staff costs and overhead savings, as well as estimate the additional efficiencies that could be realized by transferring another 25% of funding to local actors.

[7] https://interagencystandingcommittee.org/system/files/hftt_localisation_marker_definitions_paper_24_january_2018.pdf

3 Delivering Cost Efficient Programming

3.1 Current Funding Flows – Analysis of Budgetary Data

3.1.1 Analysis of overall budgets

Figure 2 shows the average budget breakdown for UN agencies and their sub-grantees, INGOs and their sub-grantees, and LNGOs and their sub-grantees. Budgetary data is reported systematically through the CBPF budget pro forma for the following cost categories: staff and other personnel costs; supplies, commodities and materials; equipment; contractual services; travel; transfers and grants to counterparts; general operating and other direct costs; and project support costs (PSC, or indirect/overhead costs). Of note:

- INGOs and their subs, and LNGOs and their subs, have roughly similar breakouts of costs.
- The UN, however, has a very different cost structure for its budget as compared with its sub-grantees:
    - The UN indicates that it does not pass through any PSC to its sub-grantees in its CBPF-financed budgets. Of the five UN budgets reviewed, the only indication of intention to pass through overheads was to an INGO partner.
    - The UN has a much higher budget for supplies (69% as compared with 20% as their LNGO sub-grantees), while sub-grantees have a much higher budget on staff (50% as compared to 18% at UN). This suggests that the UN is maintaining a large portion of its budget for procurement, and subcontracting delivery activities via its local partners.

Figure 2: Average Budget Breakdown by Implementing Partner

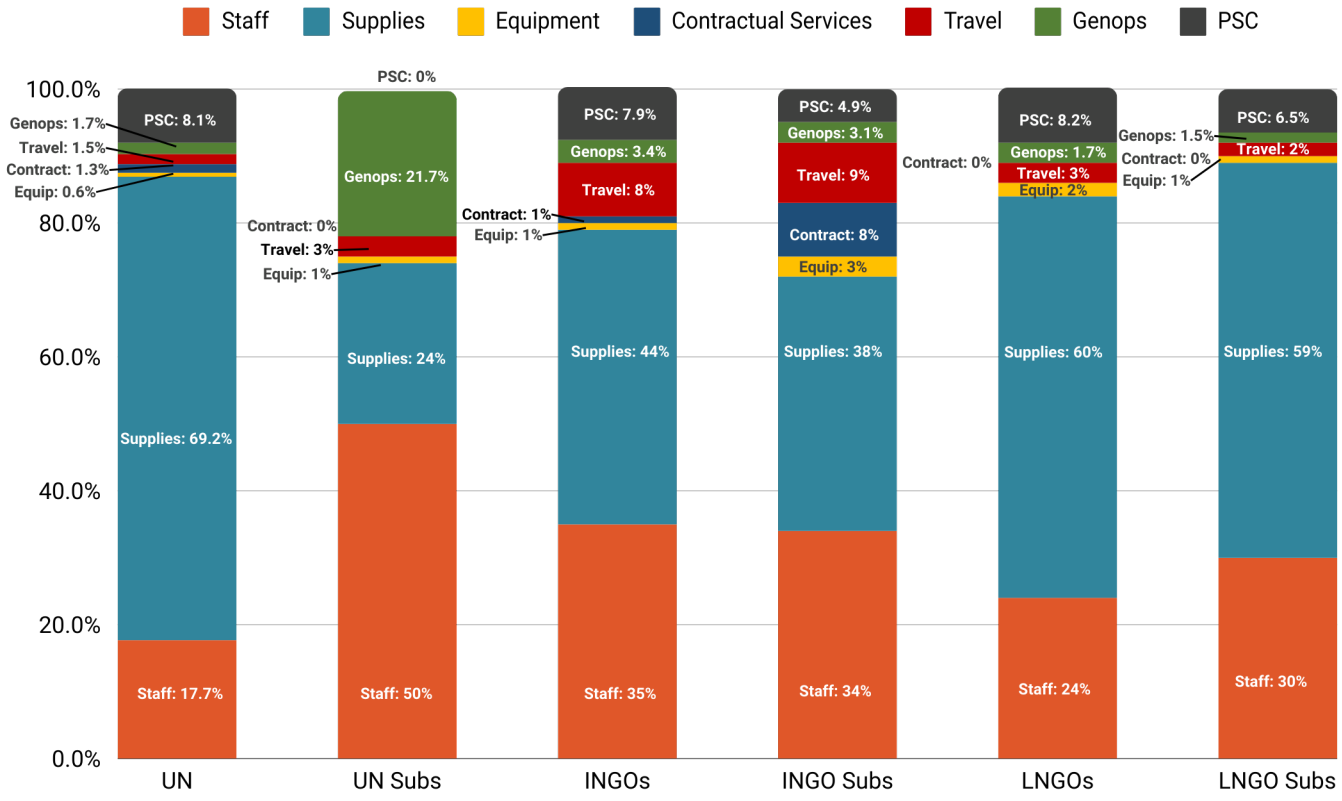
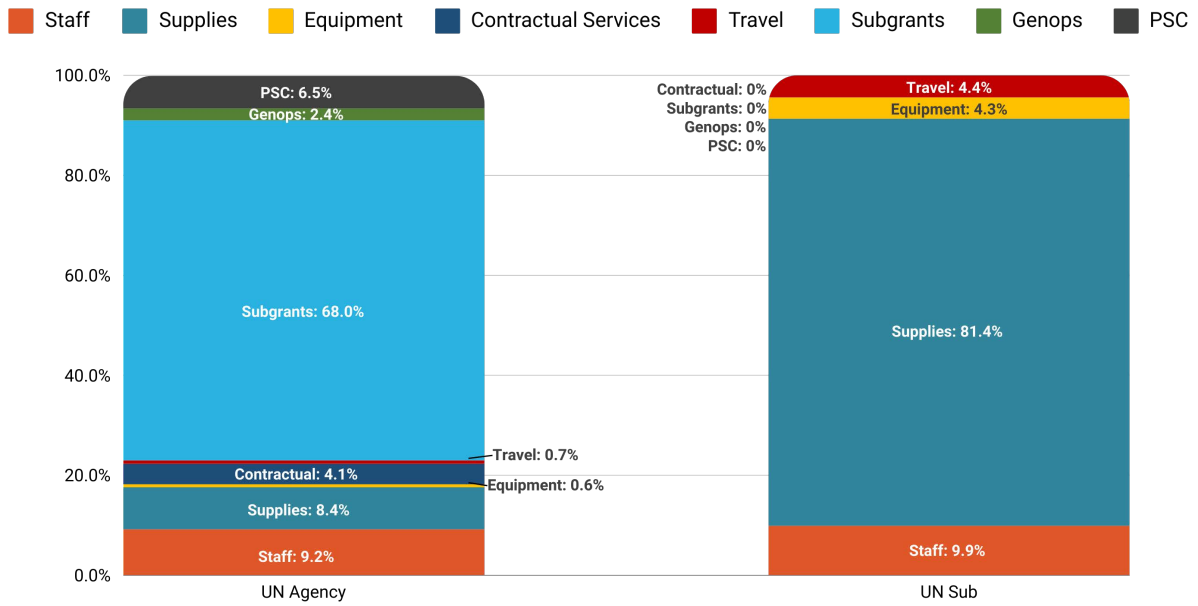


Figure 3 shows a comparison of a UN prime and its sub-grantee. In this particular project example, the UN prime is procuring a significant number of kits (captured under supplies, representing approximately 8% of their budget) and using the majority of their budget for subgrants (68%) to local partners, who are providing a range of services and staff to deliver the kits. Of note, the budget for one of the sub-grantees, shown on the right-hand side of the graph, is also largely comprised of procurement of a significant number of kits (more than double the number of kits as the UN prime), at a very similar cost, representing 81% of the sub-primes total budget. The UN agency is charging overheads on the full project budget, without passthrough to local partners, despite the fact that it seems that the local partner could run more of the direct procurement. If the UN's overhead rate of 7% is applied only to the portions of the budget that sit with the UN, excluding the subgrants and the procurement (which could be undertaken directly by the local partner), the UN's effective overhead rate works out at 28%.

Figure 3: UN Prime and UN Sub-Grant Comparison

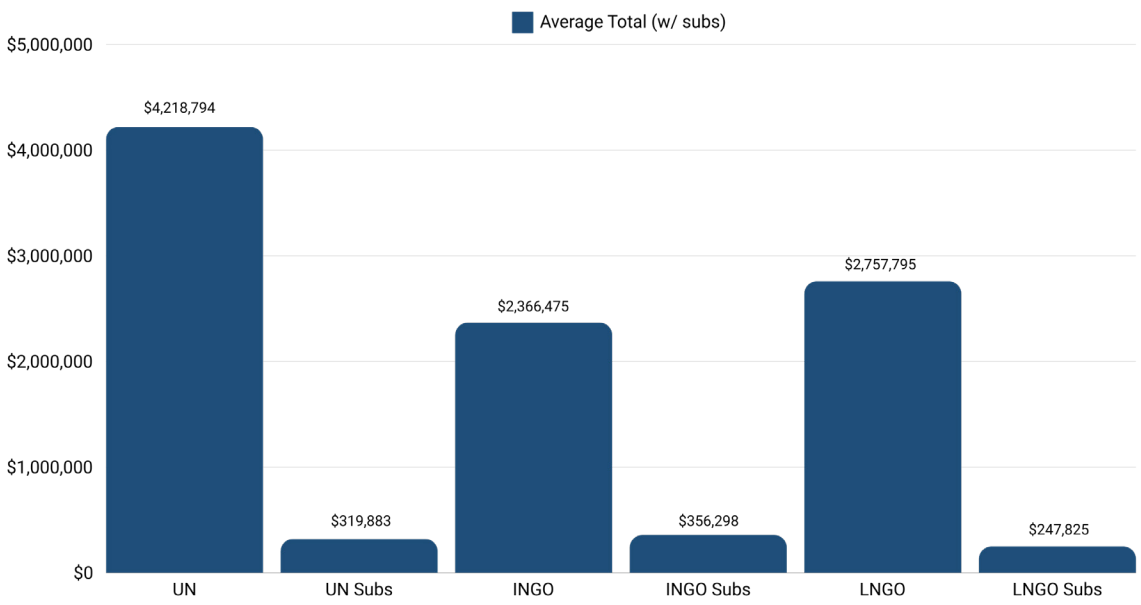


3.1.2 Analysis of average grant size

Figure 4 compares the average project budget size for each category of Implementing Partner. The blue bar represents the total average budget, the orange bar represents the total average budget excluding the budget for sub-grants.

Of note, the LNGO average grant size is actually larger than the INGO average grant size, and not that dissimilar to the UN average grants size (UN budgets are on average 50% larger than an LNGO budget). This is important because it indicates that some LNGOs are able to receive similar grant amounts to other IPs. LNGO subs typically get very small grants compared to the total grant, regardless of who the prime is (UN, INGO, or LNGO). The LNGOs that are eligible for direct funding from the CBPF are larger, well-established organizations, and it was not possible to disaggregate by size of organization, nor the degree to which funds were being directed to organizations led by women or other marginalized groups. It will be important to continue to find ways to channel funds to smaller organizations through intermediary or coalition models within the CBPF.

Figure 4: Average Grant Size, by Implementing Partner



3.1.3 Comparison of Average Monthly Staff Costs

The budget analysis also investigated staff costs at the different types of implementing partners. In each of the international partner budgets, international and national staff costs were tagged accordingly. In order to make a fair comparison with LNGO staff costs, the LNGO budgets were reviewed in detail and only staff descriptions that had the same keywords[8] in job titles as international partners were tagged for inclusion in the analysis. LNGO budgets include many more junior staff – security guards, drivers, assistants, etc, and it was important to exclude these from the staff analysis to ensure that they were not lowering the average scale. Of note:

- Whilst not specified in project budgets, staff costs are assumed to account for all costs –salaries, fringe, relocation allowances, etc.
- International staff costs at the UN range between 5x national staff at the UN, and 17x national staff at LNGO subs.
- International staff costs at INGOs range between 2x national at INGOs, and are 8x national staff at an LNGO sub.

[8] A review of international IP budgets revealed that international job titles most often contain the following keywords: director, officer, manager, coordinator, head, advisor, specialist, senior.

Figure 5: Monthly Staff Costs, by Implementing Partner, Average USD

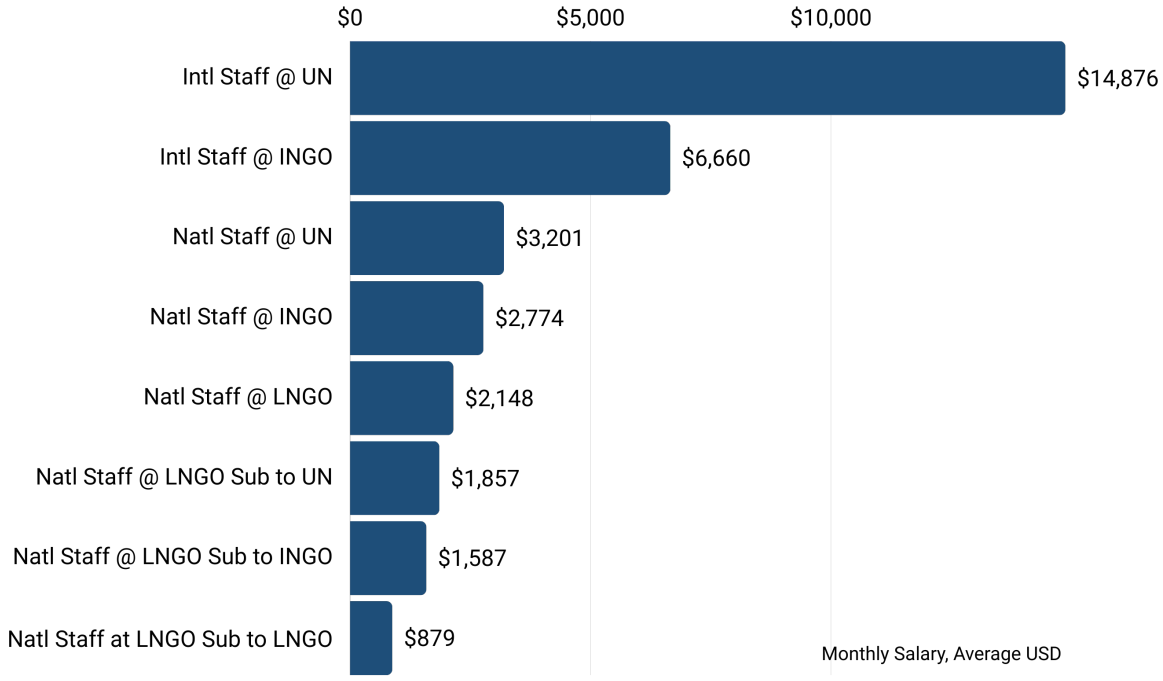


Table 1 presents an analysis of the average, alongside its minimum and maximum values within the sample. This is useful because it can indicate how wide the spread or the differentiation is between specific agencies across their staff costs. Of note, the UN and the LNGOs tend to have minimum and maximum costs that are relatively close to the mean, whereas the INGOs tend to have a much wider spread – indicating that some INGOs average significantly higher, and hence cost more, than others.

Table 1: Monthly Staff Costs: Minimum and Maximum Values

	Average	Min	Max
UN			
Intl Staff @ UN	$14,876	$13,785	$16,093
Natl Staff @ UN	$3,201	$3,000	$3,336
National Staff @ LNGO sub to UN	$1,857	$1,764	$1,933
INGO			
Intl Staff @ INGO	$6,660	$4,540	$10,767
Natl Staff @ INGO	$2,774	$2,309	$3,590
National Staff @ LNGO sub to INGO	$1,587	$300	$3,034
LNGO			
Natl Staff @ LNGO	$2,148	$1,021	$3,378
National Staff @ LNGO sub to LNGO	$879	$441	$1,317

3.2 Cost Efficiency: Shifting Funding to LNGOs

3.2.1 Overview

The analysis first assesses the cost savings that would accrue through shifting staff costs and overheads from international to local intermediaries, using the actual budgetary data provided across the 51 projects. The percentage cost efficiency is then used to estimate the total savings that: (1) have already been realized through the CBPF shifting its funds to local actors; (2) could be realized through increased funding to local actors; and (3) could be realized across the whole humanitarian response.

3.2.2 Increasing Direct Funding to Local Intermediaries – Staff Costs

The analysis compiled data from 5 UN projects and 5 INGO projects, totaling $33m in funding (see Figure 6 for a visual breakdown of staff costs):

- UN budgets totaled $21.1m, with staff costs representing 10% of this total, or $2.2m. Of this, 61% of total staff costs go to international staff.
- INGO budgets totaled $11.8m, with staff costs representing 20% of the total, or $11.8m. Of this, 18% of total staff costs go to international staff.
- While most budgets clearly tagged staff costs for international and national roles, this was not consistent across the sample. Where budgets were not clear, roles were allocated in the same proportion as the budgets where this data was indicated.
- In order to estimate the cost efficiencies that would arise by shifting funding from international to national partners, we needed to estimate an equitable staff cost for national staff across the range of national staff costs provided (averaging $879/month at LNGO subs, to $3,201/month for national staff at the UN). We used the average national staff cost at an LNGO prime as our benchmark, equivalent to $2,148/month. The weightings are used to estimate the cost efficiencies that would be realized from shifting staff from international to local actors, using equitable salaries (rather than paying local staff very low rates).
    - On this basis, international staff costs at the UN are 6.9 times the national staff at an LNGO prime, and national staff costs at the UN are 1.5 times national staff at an LNGO.
    - International staff costs at INGOs are 3.1 times the staff costs of national staff at an LNGO prime, and national staff costs at the INGOs are 1.3 times the staff costs of national staff at an LNGO prime.
- As described previously, staff cost data only includes a selection of job titles that are comparable across the sample. Further, several project budgets had the exact same job given to both an international and national staff member, and showed equivalent differences to the ones cited above, underscoring that this data is an accurate representation of differences in staff costs for the same jobs.

Figure 6: Breakdown of Staff Costs for UN/INGO Project Budgets

The analysis assesses the percentage cost efficiency that could be realized for every $1 shifted from international staff to LNGO staff for international staff costs, as well as for every $1 shifted from national staff at the UN/INGOs, to national staff at LNGO prime staff costs.

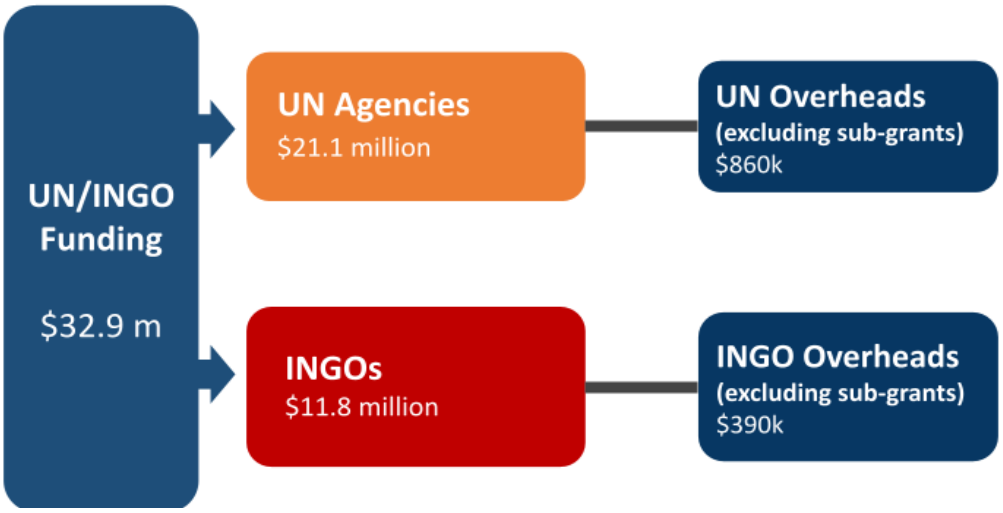
Table 2: Data Analysis: Staff Costs

	UN	INGO	Total
Intl Staff Costs			
Intl Staff Costs	$1,316,813	$421,785	$1,738,597
Staff Weighting: Intl staff to Natl staff @ LNGO	6.9	3.1	
Staff Costs Adjusted	$190,137	$136,025	$326,162
Natl Staff Costs			
Natl Staff Costs	$857,400	$1,953,516	$2,810,916
Staff Weighting: Natl Staff at Intl to Natl Staff @ LNGO	1.5	1.3	
Staff Costs Adjusted	$575,261	$1,512,479	$2,087,740
Total Adjusted Staff Costs	**$765,398**	**$1,648,504**	**$2,413,902**
Total Savings	**$1,408,815**	**$726,796**	**$2,135,612**

3.2.3 Increasing Direct Funding to Local Intermediaries - Overheads

Overheads (PSC) are charged at 7% on total costs for both UN and INGOs. Only one of the assessed UN projects passed on PSC to a sub-grantee – and this was where the sub-grantee was an INGO, whereas the entire sample of both INGOs and LNGOs indicate that they will pass through PSC in full to their sub-grantees, with the exception of only one INGO.

Figure 7: Total Funding Flows - Overheads (US$ 2023)



For this analysis, we assume that the UN shifts to full passthrough of its PSC to downstream partners. This does not affect the cost efficiency analysis, as the cost of this PSC is the same whether it's held by the UN, or passed through to partners in proportion to their budget. However, it is a critical step towards greater equity and to ensure that LNGO sub-grantees have overhead costs to be able to build systems and strengthen capacities as they take on more direct project funding. **A key finding from the analysis is the recommendation that all UN agencies are required to pass through PSC in full to sub-grantees.**

In order to calculate the efficiencies that could be realized by shifting PSC from international to local intermediaries, we first calculate the PSC that would be realized on UN/INGO budgets, excluding the PSC that should/is passed through to local partners. We then weight this PSC using World Bank data on Purchase Power Parity for Ukraine (2022 is the latest data available) to estimate PSC if it were attributed to LNGOs.

Table 3: Data Analysis: PSC (Overheads)

	UN	INGO	Total
PSC adjusted to remove passthrough	$859,885	$389,788	$1,249,674
PPP	0.28	0.28	
PSC adjusted to Local Costs	$240,768	$109,141	$349,909
Total Savings	**$619,117**	**$280,648**	**$899,765**

3.2.4 HQ Overheads

Global data indicates that overheads and staff costs as a percentage of total budget are much higher when international headquarters are taken into account. These headquarters are often funded through separate sources of core funding, they are part of the overall cost of running large organizations that support direct programming, but are not reflected in the 7% overhead costs that are allocated to program specific budgets. We therefore use global data on overhead and staff costs including head offices to calculate the total cost savings that would be realized from a shift in funding to local actors.

- We know that overhead costs for the UN are estimated to be as high as 57%[9], and that the difference between low and high overheads is statistically correlated with the number of grants that an organization provides.[10] A sample of true overhead rates at five UN agencies indicates an average of 11.35% (ranging between 6.5% and 18%); this figure is used in this study in order to remain conservative in all calculations.[11]
- An analysis of PEPFAR funding flows found that INGOs charge on average 18% overheads based on US NICRA (Negotiated Indirect Cost Rate Agreement) rates, and that 26% of budgets are excludable amounts from NICRA, resulting in an effective overhead rate of 13% on total budget.[12]

The additional overheads are assumed to cover a mixture of staff and head office costs. The Passing the Buck global study used global research to estimate the percentage of total budgets dedicated to staff costs, and these figures are used here to estimate the portion of budgets dedicated to staff and overheads respectively. The study found that salaries comprise 67% of total budgets at the UN,[13] and 30% of total budgets at INGOs.[14] We assume that the remaining percentage of overhead costs are used for PSC at the head office, and we apply the same cost efficiencies based on actual project data above in terms of salary differentials and purchase power parity.

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[9] Palagashvili, Liya and Claudia R. Williamson (2021). "Grading foreign aid agencies: Best practices across traditional and emerging donors." Review of Development Economics 25.2. 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.

[10] Ibid.

[11] WFP Management Plan 2024-2026; UNHCR Global Report 2022; Administration and Management Cost Study, World Health Organization; 31st Session of the Standing Committee on Programmes and Finance, Programme and Budget for 2023".

[12] 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." The Passing the Buck study calculates an average applied NICRA of 18% with exclusions of 26%.

[13] 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.

[14] The same study calculates salaries as a percentage of ODA for the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) donors, 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 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.

Table 4: Data Analysis: Head Office Costs

	UN	INGO	Total
Head Office PSC	11.4%	13%	
Additional PSC (beyond the 7% calculated above)	$1,534,280	$1,148,421	$2,682,701
Additional savings	**$1,244,083**	**$812,221**	**$2,056,303**

3.2.5 Cost Efficiency Analysis

When the staff and overhead costs are evaluated for a shift from international to local cost structures, the analysis shows that $5.1m in savings could be realized on a total budget of $32.9m, **realizing a 15.5% cost efficiency**:

- When this data is evaluated for individual UN budgets, cost efficiencies range between 8.7% and 18.5%.
- When this data is evaluated for individual INGO budget, cost efficiencies range between 11.5% and 20.7%.

Table 5: Summary of Cost Savings

	UN	INGO	Total
Staff Cost Savings	$1,408,815	$726,796	$2,135,612
PSC Cost Savings	$619,117	$280,648	$899,765
Head Office Cost Savings	$1,244,083	$812,221	$2,056,303
Total Savings	**$3,272,016**	**$1,819,664**	**$5,091,680**

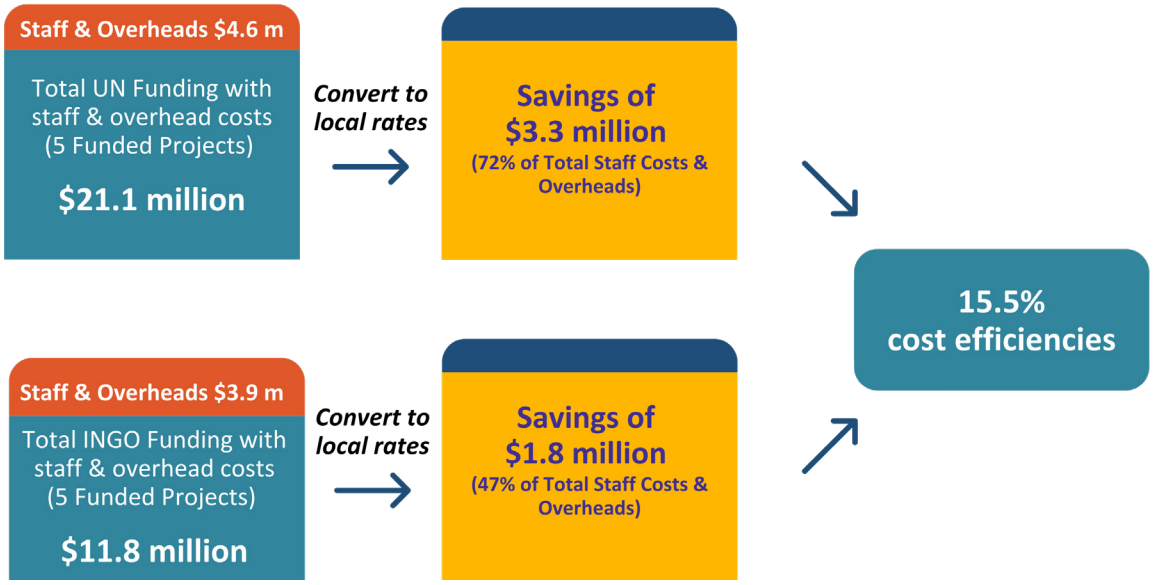
The Passing the Buck Global Study found a cost efficiency of 32%. An analysis of the differences between the two studies provides the following insights that drive these differences:

- The Global study assumes that UN funding passes through the UN to INGOs and then to local organizations – incurring indirect costs and multiple stages. Because CBPF grants are much smaller than centralized funding, they typically do not involve the same numbers of layers of pass through. An analysis of UN and INGO large humanitarian and development grants outside of the CBPF would be necessary to evaluate this data point further.
- The analysis does not reflect cost efficiencies from passthrough of overhead costs for the initial 7%, as we assume that the UN shifts to full passthrough of its PSC to downstream partners. This does not affect the cost efficiency analysis, as the cost of this PSC is the same whether it's held by the UN, or passed through to partners in proportion to their budget.
- The Global Study uses data points that suggest that the UN has a much higher international staff salary cost as compared with the profile of the Ukraine funding. This is likely because the Global Study is based on all UN funding across development and humanitarian spend where staff costs will vary.

Table 6: Total Cost Efficiency

	UN	INGO	Total
Total Funding	$21,093,971	$11,832,375	$32,926,346
Total Staff Costs + Overheads	$4,568,379	$3,913,510	$8,481,888
Total Savings	$3,272,016	$1,819,664	$5,091,680
Savings as % of total Staff Costs + Overheads	71.6%	46.5%	
Savings as % of Total Funding			**15.5%**

Figure 8: Cost Efficiency Analysis*

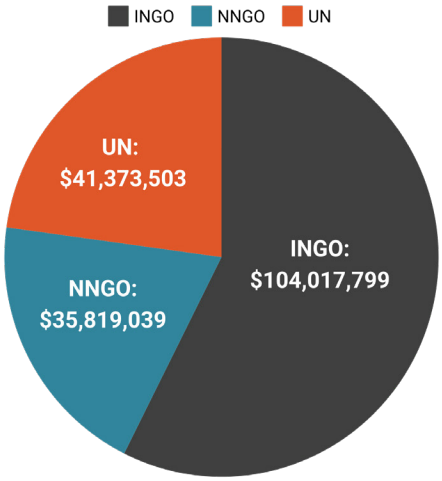


*Note that staff and overhead costs are significantly lower in proportion to the total budget at the UN as compared with the INGOs due to the significant amount of funding that the UN spends on procurement as opposed to program delivery. By contrast, the cost efficiencies that can be realized by shifting funding from the UN to local actors as assessed through total staff costs and overheads alone are significantly higher when compared with INGOs.

3.3 Total Potential Cost Efficiency

In order to understand the potential implications of this cost efficiency, we apply these findings to: (1) gains made to date through localization of the CBPF in 2023; (2) potential additional gains that could be realized through increased transfer of funds through the CBPF; and (3) the implications for the full humanitarian response in Ukraine.

Figure 9: CBPF Funding Distribution by IP in 2023



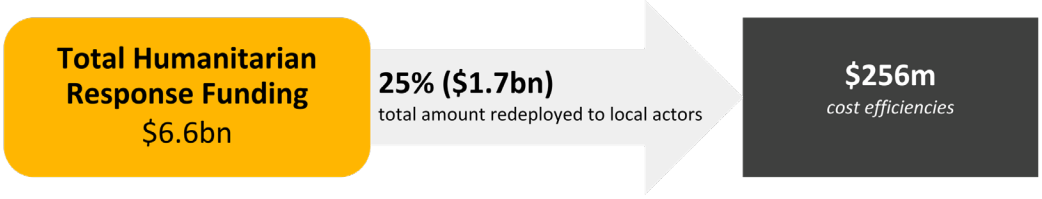
3.3.1 CBPF Cost Efficiencies 2023

The CBPF already deploys 20% of its funds directly to local actors, equivalent to $35.8m. Using the 15.5% cost efficiency calculated above, **the CBPF has already realized estimated cost efficiencies of $5.5m on $35.8m of funding in 2023**.

If 25% of remaining international funds in the CBPF – namely the $41m that was allocated to the UN and the $104m that was allocated to INGOs – were shifted to local actors, additional cost efficiencies would be $5.9m.

Funding to Ukraine totaled $4.6 billion in 2022, $3.5 billion in 2023, and UNOCHA has called for $3.1 billion in aid for Ukraine for 2024. Of this, 0.003% went to local actors in the first three months of the response in 2022; by March 2024, a total of only 0.07% had gone directly to local actors.[15] In the early stages of the war, mobilizing local actors for delivery was challenging, and the international system was not set up to fund them. However, by the second year of the response and certainly the 3rd year of the response (i.e. 2024), investments should have been made in the capacity of Ukrainian organizations and the achievement of a shift of 25% of overall funding is a reasonable proposition.

If 25% of funds deployed in 2023 and anticipated for 2024, totaling $6.6 billion, were deployed to local actors, total cost efficiencies would be estimated **at $256m over 2 years.**



[15] https://d3jwam0i5codb7.cloudfront.net/wp-content/uploads/2024/03/Post-Conference-Update-ENG-1.pdf

4 Summary of Findings and Recommendations

4.1 Summary of Findings

Based on an evaluation of actual project data representing 30% of total funding via the CBPF, local intermediaries are delivering programming that is 15.5% more cost efficient than international intermediaries, leveraging significant resources critically needed for ongoing humanitarian and development needs. Comparatively high staff costs at both UN and INGOs are driving inefficiencies, alongside high levels of procurement with lack of passthrough of overheads at the UN.

Based on this data analysis, **we can estimate that if 25% of total funding to the Ukraine response for the years 2023/2024 were deployed to local intermediaries, we would realize cost efficiencies of $256m.** Both the UN and INGOs are critical actors in this response. However, the international aid system in Ukraine is currently very disproportionately weighted to international intermediary organizations, with 0.07% of funding going directly to local actors. The findings from this study show that local actors are often being subcontracted by international organizations to undertake direct procurement as well as providing operational staff on the ground to deliver services – a clear indication that local actors are already delivering much of this response directly, and a shift to direct funding could be realizing significant cost efficiencies.

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.

4.2 Recommendations

Donors and international multilaterals such as the UN should establish full transparency on cost structures for delivering assistance. In a global context where humanitarian needs are increasing year on year, and donor funding is failing to keep pace, delivering cost efficient and effective programming is critical to ensure that populations in need receive support. International intermediary organizations such as the UN and INGOs rarely share data on the cost structures required to deliver aid. Without this data, it is very difficult to deliver assistance in the most cost-efficient way possible, and efforts to introduce healthy competition (and avoid monopoly by certain agencies) are thwarted. This study was able to compare UN, INGO, and LNGO budgets through the pooled fund – this is a very compelling start, but budgets should be transparent across all components of the response. In Ukraine, all UN agencies and members of the humanitarian country team, as well as INGOs should publish/make publicly available

detailed budget data including passthrough of overheads, staff costs (both international and local) and procurement costs for different types of supplies. This data on relative cost structures and efficiencies should be factored into selection criteria for the UHF to ensure that funded partners deliver value for money.

Donors should stipulate/mandate that all UN agencies and international NGOs operating in Ukraine are required to pass through full overheads to their Ukrainian partners. The model presented here to estimate cost efficiencies for the UHF deliberately provides local intermediaries more equitable salaries, as well as passthrough of overheads. This funding is critical to allow local actors 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. Full pass through of overheads will provide critical resources so that local actors 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. 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.[16]

Introduce innovation and scale up pooled funds as a mechanism to shift more funding directly to local actors. Pooled funds have provided an important pathway to provide more funding to local actors; however, recent reviews highlight several key barriers limiting their efficacy as a vehicle for advancing localization in humanitarian response globally, including limited accessibility for local organizations,[17] small grant sizes,[18] lack of multi-year funding,[19] and a lack of complementary funding for small organizations.[20] There is a significant opportunity to introduce innovation for a "Pooled Fund v2.0" that can help to provide more balance in humanitarian responses through local actors. Based on the analysis presented here, this could include migrating the CBPF to a Ukrainian host organization, using mechanisms such as coalitions or anchor organizations to get more funding to smaller organizations that may not be eligible for pooled funds, offer multi-year humanitarian funding that also accounts for early recovery, and offering pooled funds that include equitable terms on staff costs and overheads.

Donors should shift more funding to local actors across the whole Ukrainian humanitarian response, bringing to bear the key strengths of each type of implementing partner, for example by assessing the complementary roles that different types of actors can play. This analysis was able to evaluate budgets for implementing partners through the pooled fund. However, the majority of funding for the response sits outside of the pooled fund, and it is likely that cost efficiencies in these funding structures will be significantly higher than the cost efficiencies calculated here, based on global evidence.

[16] Humentum (2022). "Breaking the Starvation Cycle."
[17] IDS (2016).. "Country-based Pooled Funds for Humanitarian Financing."
[18] OCHA & NRC (2019.). "Country-Based Pooled Funds: The NGO Perspective."
[19] Ibid
[20] Carter, B (2018). "Country-based pooled funds for humanitarian funding."

The analysis presented here should not be used to support arguments to de-fund the international aid architecture; rather a significant re-balance is required, bringing to bear the key strengths and trusted networks of local actors. The whole response can be made significantly more efficient, effective and sustainable by engaging in a complementary response.

Donors and multilateral aid agencies such as the UN should identify, strengthen and build local intermediary structures to realize these potential efficiency gains around localization. Investment in this area is critical**.** The data presented in this report is clear that distributing funds to many individual local grants is very expensive – alternative intermediary structures are essential for realizing the cost efficiencies estimated in this study. There is a significant opportunity to localize the pooled fund and have it sit with a local organization instead of UNOCHA. For example, the UK Disasters Emergency Committee (DEC) recently committed funds to support the establishment of a new fund[21] available only to local and national actors in Ukraine. The fund, which is expected to launch this summer, is to be co-hosted by an international and a Ukrainian entity – Start Network and National Network for Local Philanthropy Development – with aims to transition to full Ukrainian management and a pooled fund mechanism in the next phase. This fund aims to provide grant sizes below the UHF minimum grant amount and to use a simplified and tiered due diligence process.

Donors and the UN should establish intermediary structures within the UHF, working through coalitions or anchor organizations who pass due diligence and compliance requirements, and who can on-grant to smaller local organizations. Local intermediary structures need to equitably 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 do not already exist. Critically, this work needs to be endogenous to the current local ecosystem and not imposed exogenously by international actors.

Further work to assess the *benefits* of local response is needed. This study adds a very important contribution to the localization conversation by comparing the costs of different implementing partners in the humanitarian response. However, we also know that there are a wide range of benefits that can arise from providing more funding directly to local actors, such as: inclusion of marginalized groups, trusted local networks that facilitate greater uptake of services, access to hard-to-reach populations, speed of response, responsiveness to the changing needs of local populations, and sustainability. However, these benefits are not only going to be highly context specific. 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 timelier, etc. This will not necessarily hold true if programs/funding mechanisms are prescriptive. Greater work is required to understand the benefits realized through local action in Ukraine.

[21] https://drive.google.com/file/d/1aTU24K0fGj-UM-YE76bZxqKps6OxcBra/view