



FEBRUARY 2024

## **PASSING THE BUCK**

Economics of Localizing Aid:  
A Case Study of a Pooled  
Fund in the Middle East

## Table of Contents

<b>Table of Contents</b>	<b>2</b>
<b>Executive Summary</b>	<b>3</b>
Key Findings	3
Recommendations	4
<b>1 Overview</b>	<b>5</b>
<b>2 Summary of Key Literature</b>	<b>6</b>
<b>3 Cost Efficiency Analysis</b>	<b>7</b>
3.1 Overview	7
3.2 Cost Efficiency Analysis	8
3.2.1 Analysis of Programme Costs	8
3.2.2 Cost Efficiency Analysis	11
3.2.3 Extrapolation to Wider Humanitarian System	12
<b>4 Key Recommendations</b>	<b>14</b>

## Executive Summary

Shifting power, process and funding to put local actors in the driver's seat on the design and implementation of programming is critical to ensure effective and efficient locally led development and a healthy civil society. A 2022 study - [“Passing the Buck: The Economics of Localizing Aid”](#) - 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 ODA funding flows allocated to UN/INGOs in 2018 (\$54bn), **this would equate to cost efficiencies of US\$4.3bn annually.**

Following this study, The Share Trust was asked by a bilateral donor to construct a similar analysis using country specific data for a \$60m bilateral-funded Alternative Pooled Fund (“APF”) model in the Middle East. All information is anonymized, as actual budgetary data that is proprietary was provided, and publication was subject to anonymity. The APF was developed specifically to balance the Country Based Pooled Fund (CBPF) approach with a more localized approach to delivering humanitarian assistance in a protracted crisis. The analysis used data from a \$4m INGO consortium budget, multiple budgets funded directly to local partners, as well as a range of additional funded project budgets for corroboration of data.

## Key Findings

- The INGO budget includes overheads at 7% charged on the full programmatic budget. **This equates to an *effective* support cost rate of 34.3% when applied only to the INGO's budget, compared with local partners who are receiving no passthrough.**
- The INGO is also **charging significantly more for their staff.** Average staff costs for the INGO are \$4,206 per month, whereas local partner salaries range between \$1,587 and \$3,326.
- Redeploying funds from an international partner to a local partner would result in **cost efficiencies of 13.6% on salaries and overheads alone, realizing \$545k in savings that can be used to deliver against unmet humanitarian needs.**

The APF has channelled \$60m, with 72% of funding going to LNGOs, and 25% to INGOs to date. By comparison, the CBPF distributed approximately \$100m, with LNGOs receiving approximately 50% of direct funding, and UN/INGOs receiving the other 50%.

- If the \$60 million channelled through the APF had remained with the CBPF, direct funding to LNGOs would be reduced by \$13.3m. Applying cost efficiency gains of 13.6% as a result of localized overhead and salary gains, this suggests that **the APF has already increased cost efficiency by \$1.8m on its spend to date.**
- If the CBPF were to shift its funding to a similar profile to the APF, i.e. increasing the percentage of funds that would go directly to LNGOs from 50% to 72%, this would equate to an increase in funding for local actors of \$24.3m, **realizing efficiency gains of**

**\$3.3m in a single year.** This number is likely to be conservative, as global data suggests that funding channelled through the UN would be 42% more cost efficient if channelled through local actors.

## Recommendations

- **Fund local actors directly wherever possible.** Where that is not possible, ensure that: (1) the rationale is very clearly laid out; (2) there is mandatory overhead pass through to local actors; (3) the lead agency can only charge overhead on their portion of the budget; and (4) scrutinize salaries and operating expenses to ensure that equitable rates are being used across partners.
- **Work with existing local actors to develop coalition structures,** to facilitate greater cross working, equitable governance structures, collaboration, as well as stimulate coordination and complementarity across local actor's activities.
- **Explicitly set aside a fund for capacity strengthening** to build a rich ecosystem of local partners.
- **Explicitly set aside a fund for micro-grants direct to communities.** A key message during consultation is that localization has to look beyond organized structures, such as NGOs, and also fund local actors directly, through community based structures. Self Help Groups and 'survivor and community led responses' can help to ensure that local communities receive funding directly alongside local organizations.

# 1 Overview

Shifting power, process and funding to put local actors in the driver's seat on the design and implementation of programming is critical to ensure effective and efficient locally led development and a healthy civil society. However, despite commitments to re-direct international assistance to local actors, [less than 2% of the \\$168 billion](#) of total Official Development Assistance (ODA) in 2021 went directly to local development actors<sup>1</sup>, and, in 2022 [only 1.2% of all humanitarian aid](#) went directly to local and national actors<sup>2</sup>.

A study by [The Share Trust](#) and the [Warande Advisory Centre](#) – "[Passing the Buck: The Economics of Localizing Aid](#)" - estimates the economic implications of shifting 25% of ODA - aligned with Grand Bargain and USAID commitments - from international to local intermediary structures. 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 ODA funding flows allocated to UN/INGOs in 2018 (\$54bn), this would equate to US\$4.3bn annually. The shift in funding is modeled using equitable rates, rather than business-as-usual rates which currently impede local actors from meeting the needs of their communities, resulting in an additional redeployment of \$680m per year in salary and overhead costs to local actors.

Following this study, The Share Trust was asked by a bilateral donor to construct a similar analysis using country specific data for an Alternative Pooled Fund ("APF") model in the Middle East. The names of the partners, as well as the country, are anonymized, as actual budgetary data that is proprietary was provided to construct the analysis, and publication was subject to anonymity. The APF was developed specifically to balance the Country Based Pooled Fund (CBPF) approach with a more localized approach to delivering humanitarian assistance in a protracted crisis.

---

<sup>1</sup> OECD (2023). "[Aid for Civil Society Organizations](#)", p. 7

<sup>2</sup> Development Initiatives (2023). "[Global Humanitarian Assistance Report 2023](#)" (p.16). The DI report defines local and national actors as all local, national or local/national NGOs, Southern international NGOs, Red Cross Red Crescent (RCRC) national societies, and international funding to national governments when contributing to the domestic crisis response (p.73). If only local and national NGOs were included, then this number would be significantly lower with only 0.2% of funding being directly channelled (p.71).

## 2 Summary of Key Literature

Pooled funds primarily aim to address humanitarian needs by reshaping the humanitarian financing landscape. They offer timely, coordinated, and principled assistance, addressing gaps like gender-based violence and advancing issues such as anticipatory action. Importantly, they direct funds to frontline responders, fostering local decision-making. Despite representing a minor fraction of global humanitarian financing, the impact of pooled funds is notable.

Country-Based Pooled Funds (CBPFs) reached a significant \$950m disbursed in 2019<sup>3</sup>. From 2016 to 2022, CBPF funding to local actors surged from 18% to 36%<sup>4</sup>, although with variations across countries. This growth underscores their role as a vital conduit for channelling direct funding to Local and National Organisations (LNOs).

However, challenges persist. Many LNOs face limited accessibility to these funds. Larger entities like INGOs and UN agencies receive more substantial grants<sup>5</sup>, often passing on administrative burdens through sub-granting<sup>6</sup>. The absence of multi-year funding in pooled fund planning, coupled with bureaucratic delays and high transaction costs, particularly burdens smaller LNOs<sup>7</sup>. There's also a pressing need for continuous mentoring for LNOs<sup>8</sup>, concerns over their equal representation in decision-making, and their limited access to complementary funding<sup>9</sup>. The lack of exit strategies further exacerbates dependence on pooled funds.

### Challenges Facing Local Actors in the Study Country:

- A challenge for donors is limited data on local organizations' operational capabilities. While many donors assess local capacities, results aren't often public, leading to redundant efforts and survey fatigue. This scenario creates a feeling of "extraction" as these entities undergo repeated due diligence but rarely secure direct funding.
- Despite INGO efforts to enhance local capacities, they are frequently overlooked due to bureaucracy, perceived risks, and lack of coordinated investment. Agreements with local organizations often inadequately cover costs, jeopardizing their sustainability.
- Local humanitarian actors often struggle with overhead costs, and rarely recover full relief costs. The typical 7% overhead for international actors is infrequently granted to local actors. This, along with significant salary discrepancies between UN agencies, INGOs, and local groups, further weakens local capabilities as skilled staff are attracted to international organizations' higher wages.

---

<sup>3</sup> Els, C (2019). *“Country-Based Pooled Funds: The NGO Perspective.”* Norwegian Refugee Council, UNOCHA.

<sup>4</sup> ICVA (2023) *“Pooled Funding at a Crossroads: A Comprehensive Review and Analysis”*

<sup>5</sup> IDS (2016). *“Country-based Pooled Funds for Humanitarian Financing.”*

<sup>6</sup> OCHA & NRC (2019.) *“Country-Based Pooled Funds: The NGO Perspective.”*

<sup>7</sup> NRC (2022). *“Pooled Funds: The New Humanitarian Silver Bullet.”*

<sup>8</sup> Carter, B (2018). *“Country-based pooled funds for humanitarian funding.”*

<sup>9</sup> Ibid

### 3 Cost Efficiency Analysis

#### 3.1 Overview

The Alternative Pooled Fund (“APF”) provided the research team with full budgets for many of its existing allocations, including direct grants to local actors as well as INGO consortia. The team used these budgets to undertake a cost efficiency analysis of shifting more funding to local actors, specifically looking at redeployment of funds from international to local intermediary structures.

Value for Money also considers the effectiveness of working through local actors. It was not within the scope of this work to investigate the range of potential effectiveness gains from working through local actors in the APF. However, Table 1 outlines some of the potential benefits and costs of localisation, which can be explored further.

It is also worth noting that local actors are the ones implementing regardless of whether they are subcontracted by an INGO, UN or receiving direct funding. Therefore, the benefits of working directly with local actors should be consistent across delivery models. The key difference with direct support relates to increased agency and decision making. Local actors that receive direct funding are typically able to design their own projects, and be more responsive to community needs. These hypotheses will need to be tested as part of further research.

**Table 1: Potential Benefits and Costs of Localisation**

Potential Benefits	Potential Costs
<ul style="list-style-type: none"><li>● Indirect support costs stay in country/region delivering multiplier effects to local economy</li><li>● Lower international staff costs</li><li>● Timeliness – faster response before negative coping strategies results in reduced humanitarian assistance costs and avoided losses</li><li>● Responsiveness – local actors more responsive to local needs</li><li>● Better access – local actors can access local populations during shifts in conflict</li><li>● Greater equity from better targeting</li></ul>	<ul style="list-style-type: none"><li>● Increased coordination costs</li><li>● Increased initial investments to build organizational and technical capacity</li><li>● Increased initial investment in compliance, communication and risk mitigation measures</li><li>● Increased MEAL investment</li></ul>

The analysis presented here focuses primarily on cost efficiency, using an INGO funded project, as an international intermediary, and comparing the cost structure with funding directly to local partners. The analysis pulls data from budgets related to:

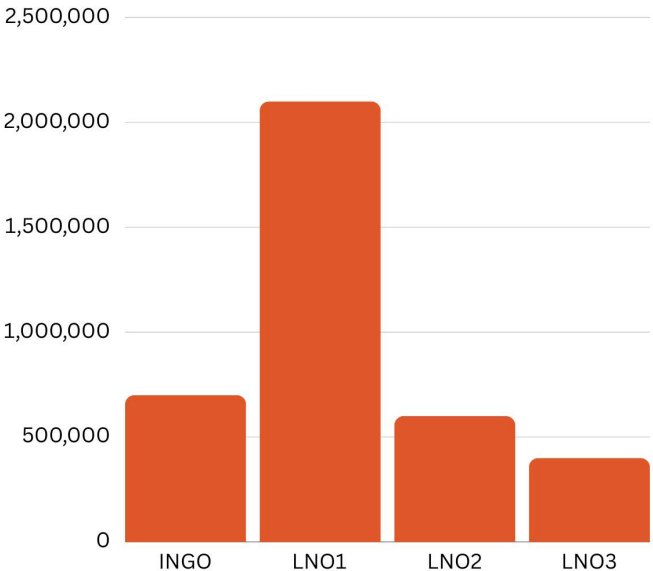
- 1. A \$4m INGO-funded consortium implemented by three downstream local partners. The program focuses on providing humanitarian cash assistance;
- 2. A review of a directly funded allocation to two of the downstream partners; and
- 3. A review of a number of other INGO and local budgets, for corroboration on key data points.

### 3.2 Cost Efficiency Analysis

#### 3.2.1 Analysis of Programme Costs

Out of the \$4m INGO-led programme, programme funding is dominated by LNO1, who holds the majority of the budget for direct implementation activities (see Figure 1), when compared to the other Implementing Partners (IPs).

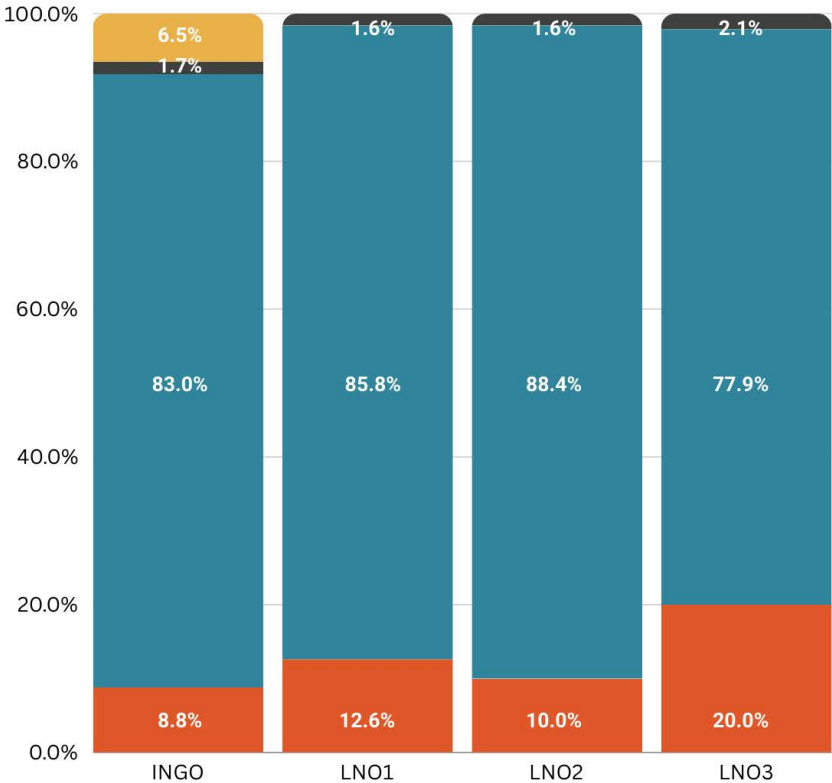
**Figure 1: Total Funding by Implementing Partner**



The budget was further evaluated by spending category (staff, activities, general operating expenses and support costs) for each IP (see Figure 2). At first glance, the project budget seems to follow a relatively similar pattern across each of the IPs, with the notable difference that local partners are not receiving any budget for support costs, and only marginal budgets for General Operating Support (GenOps). This is distinctly different when compared with the direct funding grants to local partners, where they are able to realize 7% support costs, on par with international partners.



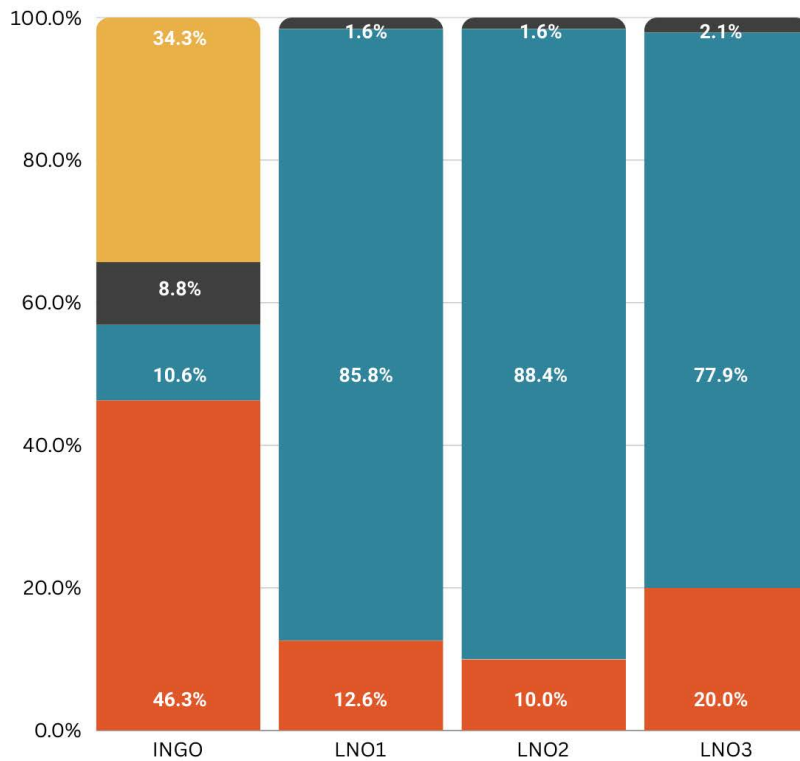
**Figure 2: Comparison of Budget Breakdown by IP**



It is noted that the INGO lead is charging support costs on the entire budget, including passthrough amounts. Given that \$3.2m, or 81% of the budget, is passthrough to local partners, the budget was recalculated to estimate the budget allocated to support costs as a percentage of the INGO’s actual budget (not passthrough amounts) (see Figure 3). The findings indicate that:

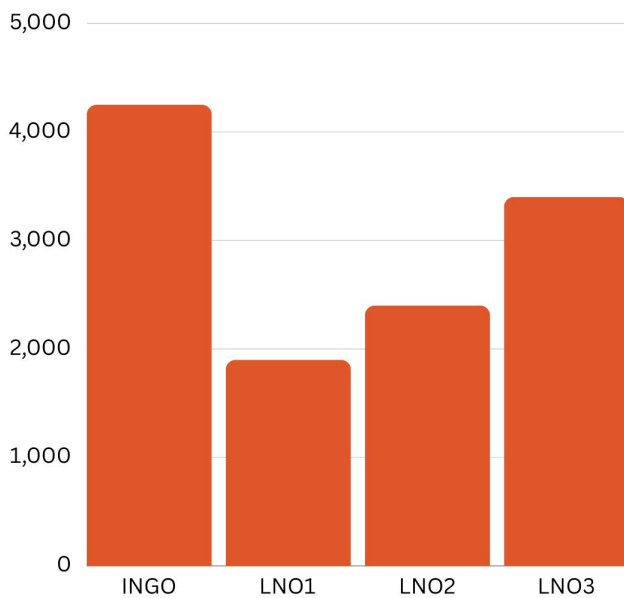
- **The INGO is realizing an *effective* support cost rate of 34.3%, compared with local partners who are receiving nothing.**
- The INGO has GenOps costs that are 9% of their total budget, while downstream partners range between 1.6 and 2.1%.
- The INGO’s staff costs represent 46% of their total budget, compared with between 10 and 20% for downstream partners.

**Figure 3: Recalculation of Support Costs on Actual Budget**



The INGOs higher staff costs may be logical - if the INGO prime is providing less of an implementation role, and more of a coordination role, staff costs may necessarily be a higher percentage of overall budget. However, an analysis of salaries indicates that the INGO is also charging significantly more for their staff. Average staff costs for the INGO are \$4,206 per month, whereas local partner salaries range between \$1,587 and \$3,326 (see Figure 4).

**Figure 4: Average Salary by IP**



### 3.2.2 Cost Efficiency Analysis

Given that each of the downstream partners that are part of the funded programme are also receiving funds from the pooled fund in their own right, we evaluated the cost efficiencies that could be realized by shifting funding from the INGO as an international intermediary, to one of the local partners as a local intermediary. We specifically assess cost efficiencies for salaries and overheads.

#### Salaries

**Table 2: Current Funding - Salaries**

USD	INGO	LNO1	LNO2	LNO3
<b>Total Budget</b>	\$762,500	\$2,097,500	\$720,000	\$420,000
<b>% Salaries</b>	46.35%	12.57%	9.96%	20.04%
<b>Amt Salaries</b>	\$353,404	\$263,676	\$71,719	\$84,179

A comparison of salaries across partners in the budget data indicates that INGO salaries range between 1.2 and 2.1 times those of the downstream partners. An investigation of several other budgets finds very similar amounts/ratios.

Reallocation of salaries from the INGO to a local partner, using weighted averages, would result in cost savings of \$247k, or 6.2% of the total budget.

#### Overheads

Overheads include support costs and GenOps. Support costs are overhead costs that can be allocated to the head office of an INGO. Purchase Power Parity (PPP) is an international metric used to compare the cost of living across countries. We use World Bank PPP data to estimate the equivalent cost of locating overheads in the country of operations, at 0.32 (in other words, the cost of living in the US is 3.1x that of the country of operations). For GenOps, the budget indicates that the INGO is receiving 5x the amount of GenOps per dollar spent compared to the local partners. We therefore weight the GenOps to represent the same amount if run by a local partner.

**Table 3: Current Funding - Overheads**

USD	INGO	LNO1	LNO2	LNO3
<b>Total Budget</b>	\$762,500	\$2,097,500	\$720,000	\$420,000
<b>% Support Costs</b>	34.3%	0%	0%	0%
<b>Amt Support Costs</b>	\$261,682	\$0	\$0	\$0
<b>% GenOps</b>	8.8%	1.6%	1.6%	2.1%
<b>Amt GenOps</b>	\$66,748	\$34,123	\$11,449	\$8,769

Reallocation of support costs from the INGO to a local partner, adjusted for PPP, would result in cost savings of \$245k, or 6.1% of the total budget. Reallocation of GenOps to local partner rates as reflected in the budget would result in cost savings of \$53k, or 1.3% of the total budget.

**Overall, this adds up \$545k in savings, with a local actor delivering the same program at a 13.6% cost efficiency.**

### 3.2.3 Extrapolation to Wider Humanitarian System

To date, the APF has channelled \$60m, with 72% of funding going to LNGOs, and 25% to INGOs. If we assume a similar cost structure to the above, with a 13.6% cost efficiency applied to the portion of APF funding that currently goes through INGOs, cost efficiencies of transferring INGO funding direct to local actors would equate to \$2.1m of funding to date.

By comparison, the CBPF distributed approximately \$100m, with LNGOs receiving approximately 50% of direct funding, and UN/INGOs receiving the other 50%.

In order to estimate the cost efficiency gains that the APF has likely realized to date through an increased focus on funding local actors, as compared with the CBPF, we evaluate what would have happened if the APF funding to date had been pushed through the CBPF with a similar spend profile to the CBPF. In other words, the analysis assumes that if the \$60 million channelled through the APF had remained with the CBPF, 50% of this funding (rather than 72%) would have been channelled directly to LNGOs. This would be equivalent to \$27.8m going directly to LNGOs, instead of the \$41.2m actually channelled, for a difference of \$13.3m. If we assume that this \$13.3m has realized cost efficiency gains of 13.6% as a result of localized

overhead and salary gains, this suggests that **the APF has already increased cost efficiency by \$1.8m on its spend to date, as compared with those same funds channelled through the CBPF.**

If the CBPF were to shift its funding to a similar profile to the APF, i.e. increasing the percentage of funds that would go directly to LNGOs from 50% to 72%, this would equate to an increase in funding for local actors of \$24.3m, realizing efficiency gains of \$3.3m in a single year. This number is likely to be conservative, as global data suggests that funding channelled through the UN would be 42% more cost efficient if channelled through local actors.

## 4 Key Recommendations

**Fund local actors directly wherever possible.** The cost efficiency analysis unequivocally demonstrates significant cost savings that can be realized through salaries and overheads alone by working through local partners directly. Where that is not possible, ensure that: (1) the rationale is very clearly laid out; (2) there is mandatory overhead passthrough to locals; (3) the lead agency can only charge overhead on their portion of the budget, not the entire budget (other than where that budget is being passed through in full); and (4) scrutinize salaries and operating expenses to ensure that equitable rates are being used across partners.

**Work with existing local actors to develop coalition structures.** A recurring finding from pooled funds globally is that local actors want opportunities to collaborate and coordinate their activities, with multi-year planning, and more holistic implementation activities. A local coalition structure can facilitate greater cross working, facilitate governance structures that spread power and ensure that the voice of the community is the grounding principle for all activities, foster collaboration (and break down competition), as well as stimulate coordination and complementarity across local actor's activities.

**Explicitly set aside a fund for capacity strengthening.** It will be critical to build the ecosystem of local actors, and move beyond the small handful of local actors that are currently able to clear bilateral due diligence/compliance, to create a rich ecosystem of local actors.

**Explicitly set aside a fund for micro-grants direct to communities.** A key message during consultation is that localisation has to look beyond organized structures, such as NGOs, and also fund local actors directly, through community based structures. [Survivor and Community-Led Response \(sclr\)](#) acknowledges the crucial role of affected individuals as the primary responders in any crisis situation. This method emphasizes the empowerment and autonomy of communities in disaster response, ensuring their active participation in identifying and implementing Self Help initiatives. Combining problem solving, capacity building, appraisals and needs assessment and micro-grants, sclr is designed to work alongside a traditional humanitarian response, supporting communities to meet their own priorities. sclr could provide the humanitarian response with an opportunity to create stronger linkages with communities, while also providing a new avenue for providing services.