

THE FINANCE AND ECONOMICS OF LOCALISATION: Is the 25% target a key performance truth?

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I. Localisation: Reinforce rather than Replace

Many of the most important players in the international relief industry have endorsed the ten Grand Bargain commitments that resulted from the May 2016 World Humanitarian Summit. Finance is a central issue in the Grand Bargain: It is strongly inspired by the January 2016 report of the High-Level Panel on Humanitarian Financing. This highlighted the “*humanitarian financing gap*”, the increasing shortfall between global humanitarian needs and the financing available to meet them. The overall expectation is putting into practice the ten Grand Bargain commitments will make global humanitarian action more cost-effective.

The spirit of the commitment to localisation is stated clearly: “*We engage with local and national responders in a spirit of partnership and aim to reinforce rather than replace local and national capacities.*” International relief actors promise “*more support and funding tools for local and national responders.*”

One of the targets is to “*achieve, by 2020 a global, aggregated target of at least 25 per cent of humanitarian funding to local and national responders as directly as possible to improve outcomes for affected people and reduce transactional costs.*” Three years on, this has become the most prominent measure or ‘key performance indicator’ of localisation. Much effort is dedicated to attempts to monitor progress against this target.

This GMI Brief explores the question: *Is the 25% target, as framed in the Grand Bargain document, an effective strategy to reinforce local/national responders and to reduce the humanitarian financing gap?*

II. The Measure of Localisation: Does channelling 25% of humanitarian aid finance to L/NA amount to increased cost-efficiency?

Recent Local2Global research shows that of funding in 2018 by donors that signed up to the Grand Bargain, only about 14.2% flows to local/national actors, most of it via at least one intermediary. Direct funding to local/national actors remains a tiny proportion of all (registered) international humanitarian funding: 0.2%.ⁱ The equally recent independent progress report covering all Grand Bargain commitments, finds more momentum and progress on localisation in 2018 than in 2017.ⁱⁱ The available figures are not always clear or comparable, but there seems to be a slow trend towards an increased percentage of total funding being ‘*channelled to*’ local and national organisations. Many do not believe that the collective 25% target will be achieved by 2020.

However, neither international nor local/national organisations are comfortable with this target and the figures generated around it. International organisations point out that it doesn’t appreciate/valuate non-financial support provided to local/national actors.ⁱⁱⁱ For local/national organisations, a purely quantitative target conceals more than it reveals.

1. **Funding through or to local and national responders?** The framing of the target and of the reporting is in terms of the percentage of overall relief expenditure ‘*channelled to*’ local/national actors (L/NA). This doesn’t tell us much, other than that it has not been spent in direct implementation by an international relief agency. We don’t know on what terms that money was channelled through/to a local or national agency: in a spirit of partnership or as a subcontracting arrangement? Has it been largely ‘*channelled through*’ a L/NA with only its direct operational costs covered? Does that ‘*reinforce*’ a L/NA? And who is the L/NA: with the increase in cash-programming the use of local banks and mobile phone companies is also presented as ‘*localisation*’. Are they ‘*responders*’ in a meaningful sense of the word?
2. **Quality not only quantity of funding:** Since its 2017 report on localisation, commissioned by the Start Network, GMI has been drawing attention to the importance also of the quality of the funding. For

L/NAs, governmental or not, the quality of funding is as important as it is for all the international relief agencies. This goes beyond 'unearmarked'. Companies and aid-funded organisations need part of their funding to be predictable, timely, flexible and regular to avoid cash-flow mismatch between income and operating expenditure. This is essential for an organisation to sustain a core capacity without which it cannot maintain and improve its performance.

This takes us to the issue of the 'indirect costs' of programming, and how the 'management fee' of an aid grant is shared between international and local/national agencies. International agencies are understandably reluctant to do so, as they want to sustain their own organisations first. There are still many instances where the L/NA only gets direct project costs covered. When some indirect costs of the L/NA are included, this is often heavily earmarked, taking away the flexibility – rather in contrast with the unconditional cash we provide crisis-affected people to give them more choice.

We also don't know whether the financing practices smoothen the cash flow of the L/NAs or not? It happens regularly enough that L/NA are faced with cash flow problems, because the next instalment is awaiting the approval of the financial report for the previous one. Tightly managing cash disbursements to L/NA is part of risk-management of international agencies. It disregards the risk to the so-called 'partner': Without reserves or other cash flows the L/NA can draw on to maintain a flow of working capital, many L/NAs are vulnerable here.^{iv} Regular cash flow problems, even within the execution of a contracted budget, distract from more important issues and will invariably lead more qualified staff to seek greater job security elsewhere.

Without more insight into indirect costs in the delivery chain, we don't know whether the overall transaction costs are reduced, and L/NA reinforced.

3. **Cost and expense accounting:** Accounting for relief work is overwhelmingly in terms of direct income and direct expense flows against an approved budget. Are these budgets and accounts reliable? If we would do cost- rather than expense accounting, they typically are not:

- The time investment by L/NAs e.g. in answering repeat due diligence assessments, to shoulder the increasing compliance burden, or even to engage in conversations about 'localisation', is typically not seen as a cost for them – even though they are often understaffed and overstretched;
- L/NA compete with each other for contracts from international agencies. There is a real risk they will under-price themselves to get the competitive advantage. De facto, this means they may be implementing work at a loss – and in dangerous environments engage in unreasonably risky behaviour. L/NA may not even ask for a management fee because experience has taught them it will be denied anyway;
- Relevant indirect and sometimes direct costs are often enough excluded from budgets by the international agency. That may be part of the rent of the office or a warehouse, a few motorbikes to make the staff mobile, a few extra computers to handle the multiple, donor-specific, reporting requirements, or life insurance for staff that go into danger-zones.

This has several perverse effects:

- Simple income- and expenditure accounting around short-term projects, and the pressure on L/NA to keep their costs down, contribute to the continuation of a structural weakness and dependency of L/NA on international actors. The L/NA is not 'reinforced' because it operates at a loss or with razor-thin budget margins, in chronic financial fragility.^v
- Capacity-development investments in L/NA risk not offering any return, because the constant financial fragility makes the retention of competent staff more difficult, not in the least when international agencies offer higher salaries and better benefits;
- The overall transaction costs in the delivery chain are kept at a level considered 'reasonable', not because the costs of the intermediaries are reduced but because the L/NA operates as *cheap labour*, irrespective of the real value of its contribution;^{vi}
- The real cost and extra-budgetary contributions (in time, in kind, and financial) of L/NA volunteers and staff never enter the final accounts. Therefore, the overall cost-efficiency of a relief operation is underrepresented.

Case: An Asian woman led CSO introduced timesheets for its staff on request of its international partner. This made visible what was already known: The limited number of staff need to do a lot of overtime to accomplish the task. When they suggested this extra time be monetised, the international partner refused, telling them that only 8 h per working day could be counted. When they then suggested that the extra-time be entered into the financial reports as their contribution, they were told that was not possible.

Recommendation: L/NA can keep shadow accounts that reflect the true cost of the action and their real contribution to it and make that visible to the partners.

4. **Expense accounting and externalities:** Elsewhere, we are learning about the distorting effect of treating relevant costs as ‘externalities’. For decades, we have wrapped everything in cheap plastic and believed this to be more cost-efficient. Now we face the massive environmental costs of plastic in the oceans and the possible public health costs of plastic in our food chain and in the air we breathe. For decades, we believed that fast food and ready-made meals full of salt and sugar could save time and energy of individuals and households for more productive uses. Today we begin to count the public health costs of obesity, diabetes and cardiovascular diseases.

Emergency response accounting also treats several relevant value-flows as externalities. For example, international agencies benefit from positive externalities when they hire staff who gained significant experience in L/NA - like European countries benefit from e.g. Kenyan nurses whose training was paid for by Kenya. They gain benefits from drawing on L/NA staff proficiency in the local languages, or L/NA ability to access hard-to-reach populations or to navigate complex local politics and bureaucracies. These cost-savings and effectiveness benefits are not valued, not costed and don’t show up in the accounts.

L/NAs also get positive externalities from collaborating with international agencies e.g. free training, perhaps a measure of political protection, greater domestic appreciation for their increased scale of work and/or higher standards. But there are well known negative costs as well: e.g. loss of key staff to international agencies; a shift in motivation of staff from values and mission to financial benefit; loss of engagement by local key people as they can’t offer the transport costs, food and per diems for a meeting that international agencies can; inflationary costs of goods and services caused by the demand of multiple international agencies with bigger purchasing power, and a further weakening of the governance connection between local populations and the authorities, when public goods are primarily provided by external aid providers.

In other words, there is a fuller balance sheet that simple income and expenditure accounting doesn’t capture. Unless we are confident about the *true cost* of a relief action, who incurs it and whether it is covered or not, we cannot assume too much about the cost-efficiency.

III. Reinforce Local and National Capacities: *Is channelling 25% of humanitarian aid finance to L/NA a useful measure of L/NA reinforcement?*

There is another localisation indicator from the Grand Bargain that has received much less attention: “*increase and support multi-year investment in the institutional capacities of local and national responders, including preparedness, response and coordination capacities, especially in fragile contexts.*” (underlining added).

At the ECOSOC meetings in Geneva this week, several donors, Denmark one of them, signalled they were making more multi-year grants now. The Hewlett Foundation has also adopted a policy of providing 5-year grants to INGOs “*on the condition that they will then establish at least five-year relationships with their in-country civil society partners and that there will be greater transparency about budgets, less onerous reporting, and a few other changes that we hope will partially make things a little bit better, and foster more success among those CSOs.*”^{vii} What needs monitoring is whether the first, international, recipients, carry this over into multi-year agreements with L/NA without adding restrictions?

Unrecognised in the localisation conversation is how different crisis-responders build capable institutions in different markets. What happens at country level is the encounter between one among many

operational/programmatic actions of an international organisation, with a much fuller institutional reality of the L/NA. Understandably, international agencies *in their operations* prefer to avoid asset accumulation, so will e.g. rent offices and vehicles rather than purchase them. International agencies raise the capital to cover the costs of institutional continuation and -development mostly in other markets, where capital can be obtained from different sources. Many L/NA agencies on the other hand need to institutionally sustain themselves in markets where capital is scarcer, harder to access and more costly. In this already tough context, undervaluing and under-pricing their work and contribution, and keeping their margins very small, does not ‘reinforce’ their institutional capacities.

A honest question to ask is: Are the international agencies doing a ‘*fair trade*’ with their local ‘partners’ and ‘vendors’, do they pay them a *fair wage*? Or do we get (short-term) value for our money by using cheap local labour?

IV. Foreign Recurrent Expenditure and Investment. A possible outcome measurement

Can the recurrent humanitarian financing gap be sustainably reduced by short-term cost-efficiencies, or does it need a longer-term, more structural, approach? What would ‘value-for-money’ look like if we took a longer-term and broader economic perspective on humanitarian action in defined contexts?

The above reflections have raised some seldom heard questions about L/NA capacities:

- Capacity-support is a frequent travel companion of localisation. What does ‘value-for-money’ from ‘capacity-support’ look like, if we see that even after years of sustained ‘partnership’, the L/NA still remains the ‘junior partner’, in need of close oversight and more ‘capacity-building’ from the international one? If ‘capacity-development’ does not result in increasingly significant changes in roles and responsibilities between the L/NA and the international one, how can it be called ‘effective’?
- Is that apparently very low return-on-investment only a failing of the L/NA? Or are we planting capacity seeds that cannot grow into mature trees, because simultaneously we deny the organisational soil the essential water and nutrients?

The argument is made that capable L/NA are a means-to-an-end, not an end in itself. That makes sense in the short run; but does it in the long run, in locations affected by chronic or recurrent crisis?

We can zoom out from individual organisations to collective local/national capacities to handle crises. Take Haiti, Ethiopia, Mozambique, Indonesia, Bangladesh, India and the Philippines as one group of countries that suffer recurrent natural disasters. Over the past 40 years, international relief actors have mobilised repeatedly, en masse, to respond to major crises in each. In some countries, such as India, Indonesia, Bangladesh and the Philippines, we see increased capacity and leadership of L/NA (i.e. increased localisation) in managing these crises. In others that is much less the case. Why? Governance certainly is one important factor – which then suggests that international ‘assistance’ actors should be careful not to weaken the governance relationship when intervening! But it also raises question about the relief sector’s interest and ability to invest strategically and structurally in stronger national capacities, with approaches tailored to different contextual conditions, to reduce over time its recurrent expenditure. The longer-term cost of not achieving localisation is that, time and again, expensive, international surge resources need to be flown in to take over, who then stay in charge well beyond the crisis peak.

What if, next to saving lives and aiding recovery, we accepted a second major strategic objective of all international assistance deployments: leave a measurable legacy of increased local/national capacities to manage crises? In areas vulnerable to natural disasters, this would mean that emergency response approaches get strategically and tactically linked to disaster preparedness and disaster risk reduction work, and possibly climate change adaptation programming.^{viii}

The percentage of available funding channelled to L/NA is an input not an outcome indicator. What would localisation success look like? For example: By 2030, in X countries with recurrent or chronic crises, the response is led by a complementary combination of governmental and home-grown non-governmental actors, with a growing share of the funding from domestic and regional resources. International assistance and expertise remain necessary and welcomed, but are guided by more fine-tuned demand of L/NA.

That leaves us with protracted crises resulting from internal or international conflict e.g. Somalia, Iraq, Syria (and Lebanon and Jordan), Libya, Afghanistan, DRC, CAR. Yes, there are problems of politicisation, impartiality etc. Which can also exist for international organisations that are heavily dependent on bilateral donor funding. And they require close attention. But we cannot simply assume that no L/NA can rise to the challenge. Several Afghan, Somali, Iraqi, South Sudanese, Syrian civic initiatives have provided assistance in complex political dynamics for years and even decades. There is local/national experience and expertise on child protection and inclusion. Women's organisations may not have the latest gender models at hand but have been part of the women's movement in their country often for a long time. They may not intervene the way international actors would, but perhaps their interventions are more contextually grounded and appropriate – and inspired by a longer-term vision?

Admitting there is little time to get to know L/NA in an emergency response, that excuse cannot be used several years later. There is growing evidence that the mindset of international actors is part of the problem:

“The mindset of most international actors in DRC remains one where humanitarian actions is as international as possible, and where local capacity is only considered when internationals’ limits are reached. (...) between preconceived ideas about local organisations’ capacity, risk-based understanding of capacity (the focus of international actors on fiduciary risk as opposed to the capacity to alleviate suffering) and a general lack of trust, there is little objective assessment of the capacity among local organisations in South Kivu and Kasai Central. (...) It is time for a truly large-scale investment in local humanitarian response that is sustainable in places like DRC, where humanitarian situations will likely continue through the next decade.” ix

The pre-occupation with expenditure (and the pressure to spend!), to the detriment of an investment perspective, also shows reduced value-for-money for crisis-affected people. The results of OECD research in seven crisis countries are sobering: People affected by crisis want autonomy and greater self-reliance, not prolonged assistance. Unconditional cash gives them temporarily more choice but doesn't increase their self-reliance if it doesn't allow them to also invest.^x In the actual survival strategies of people living in chronic crises, the receipt of aid plays a smaller role than it does in the narratives of the aid providers. More 'humanitarian ethnography' would be most helpful here.^{xi} That invites a shift in our attention from situational to structural vulnerability. We then look more at household economies (and HH debt), markets and social support networks, and means of production and who controls them. This takes us to the nexus of emergency response, 'development' and 'peace' – not through the lens of separate aid budgets, but through the lens of local, national and international political economies of persistent violence and structural vulnerability. Just as we now understand the production and reproduction of poverty as the result of multiple, structural, factors.

Multi-year funding can be one step towards a somewhat longer and more strategic perspective. But we are still a long way off from researching the business case of international emergency assistance with proper cost accounting and the fuller balance sheet, and through the lens of return-on-investment. This would be a welcome form of *innovation*, for once not focused on technology.

V. **Leave no Factor Behind.**

Fraud, corruption and wastage: Reservations about providing more and particularly direct funding to L/NA turn mostly around the perceived risk of fraud and corruption. This is said to be higher for L/NA than for international agencies, so that tight compliance requirements and close oversight of the latter over the former remain required. The fear is not unfounded, though fraud and corruption take place also in international organisations – only less publicised.

But if we are concerned about greater cost-effectiveness, then we also need to bring into the picture what L/NA observe as the other side of the coin: 'wastage' in international agency actions. For example, repeat conferences on the same topic; more research that doesn't build on what has already been researched; hiring expensive branding and marketing consultants to promote the international agency; glossy brochures and publications; flying international staff in and out for short periods of work; continued supply-driven trainings that are not tailored to be conditions of the trainees etc. There is nothing fraudulent about this because all expenses are supported by receipts. But if we are faced with a genuine humanitarian financing gap, is this always an optimal use of available funding?

Trawling in our fishing grounds: You will remember the fishing metaphor for international cooperation: *When we were hungry, you gave us fish, repeatedly. Now that you have given us the equipment to fish, we can feed ourselves.* In other sectors of international cooperation, we recognise the importance of local and national institutions.^{xiii} Far less so in humanitarian work, where we keep tight control.

That doesn't reinforce them into sustained greater performance. What is sustained is their dependency. L/NA need to reduce that dependency on foreign funding by increased domestic resource mobilisation. This is already urgent for many civil societies in aid-recipient countries, as development funding drops when their countries reach 'middle-income' status and with shifts to private sector investment. Civil societies in emerging economies, with a growing middle class and private sector, have the best opportunity for domestic financing. But they are now faced with corporate INGOs actively going after this new resource too. Those who once gave them the equipment to fish, are now *sending their own trawlers into these national fishing grounds, directly or through a local franchise.* This is still a largely hidden part of the international aid economics. It needs to become part of the localisation conversation.

When we were hungry, you gave us fish, repeatedly. When you have given us the equipment to fish, we could feed ourselves. Now however, you are sending your fishing trawlers into our fishing grounds and catching the fish on which we need to live.

VI. CONCLUDING OBSERVATIONS

Considering the above, the 25% target, without further detail and nuance, may not contribute much to the short-term objective (reinforcing local/national actors in a spirit of partnership) or the broader goal (reduce the humanitarian financing gap).

The question of '*reinforce rather than replace*' also goes deeper than financial flows. Some will dismiss the above reasoning with a shrug of the shoulders and the argument that '*the relief business is a market*', and in markets the stronger ones win over the weaker ones. If humanitarian work is driven by calculation^{xiii}, then 'replacing L/NA' doesn't raise any questions. If humanitarian work is inspired by compassion, where we seek to assist people- and societies in need, then 'reinforcement' is the default purpose. Be honest where you stand.

ⁱ <https://www.local2global.info/research/the-humanitarian-economy/gb19>

ⁱⁱ Metcalfe-Hough, V., W. Fenton & L. Poole 2019: **Grand Bargain Annual Independent Report 2019**. ODI, Humanitarian Policy Group

ⁱⁱⁱ idem 2019:35

^{iv} A point also made in Interaction & Humanitarian Outcomes 2019: **NGOs and Risk: Managing uncertainty in local-international relationships**: 5. L/NA have "*no margin on their budgets to meet unforeseen costs or delays.*"

^v Several of these observations are made also in Interaction & Humanitarian Outcomes 2019: Idem p. 21, 22, 25

^{vi} We can repeat the title question of Smillie, I. (ed.) 2001: **Patronage of Partnership? Local capacity building in humanitarian crises**. Kumarian Press

^{vii} Interview with Ruth Levine on '*How donors can stop undercutting chances of success*'. <https://www.devex.com/news/q-a-hewlett-foundation-s-ruth-levine-on-how-donors-can-stop-undercutting-chances-of-success-94603?>

^{viii} This point is also made in IRMA 2019: **Accelerating Localisation through Partnerships** p. 16. Other points of this brief also appear there e.g. on too tight budgets for L/NA (p.14); their need for a more sustainable financial basis (p. 17), the sharing of unrestricted budget lines/management fee (p. 19) and the incursion of international agencies in the domestic funding market via "INGO-nationalisation" (p. 20). The study is a good piece of work but doesn't offer any new insights. It underscores that what we need now is not more research but significant changes in prevailing practices.

^{ix} Barbelet V. et alii 2019: **Local Humanitarian Action in the Democratic Republic of Congo. Capacity and complementarity**. ODI p. viii/28

^x OECD 2019: **Lives in Crises: What do people tell us about the humanitarian aid they receive?** OECD Publishing. Interestingly, both host populations and Rohingya refugees in Cox's Bazar district state a preference for some investment capital to start up a business or income-generating activity.

^{xi} Credit to Hugo Slim for the term. No international aid worker should go to the field without having studied some humanitarian ethnographies, like Harrell-Bond 1986: **Imposing Aid. Emergency Assistance to Refugees**, Oxford Univ. Press and recently Seymour, C. 2019: **The Myth of International Protection. War and survival in Congo**. Univ. of California Press

^{xii} Development, disaster risk reduction, human rights, peacebuilding work etc.

^{xiii} A reference to Sogge, D. (ed.) 1996: **Compassion and Calculation. The business of private foreign aid**. Transnational Institute with Pluto Press