CASE STUDY : NIGERIA

SEPTEMBER 2024

PASSING THE BUCK

The Economics of Localizing Aid in Nigeria

the sharetrust™

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Acronyms

CBPF	Country Based Pooled Fund
DAC	OECD Development Assistance Committee
DFID	Department for International Development; now replaced by FCDO
FCDO	Foreign, Commonwealth & Development Office; replaced DFID
HQ	Headquarters
IASC	Inter-Agency Standing Committee
INGO	International Non-Governmental Organization
IP	Implementing Partner
ISC	Indirect Support Costs
LNGO	Local Non-Governmental Organization
LNOs	Local and National Organizations
NICRA	Negotiated Indirect Cost Rate Agreement
NGOs	Non-Governmental Organizations
NHF	Nigeria Humanitarian Fund
O/H	Overheads
ODA	Official Development Assistance
PPP	Purchase Power Parity
PEPFAR	The U.S. President's Emergency Plan for AIDS Relief
PSC	Project Support Costs
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
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs

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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.

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 and found that **local intermediaries could deliver programming that is 32% more cost efficient than international intermediaries**, by stripping out inflated international overhead and salary costs, equivalent to savings of $4.3bn annually.

The aim of this study is to ground truth the global findings, using actual data for the Nigeria response. The Nigeria Humanitarian Fund (NHF) has made important strides in shifting resources and leadership toward Nigerian organizations. This analysis is based on a representative sample of actual budgets from the UNOCHA Country Based Pooled Fund (CBPF) for 2022/23, representing over 40% of total funding across UN, International Non-Governmental Organizations (INGOs) and Local Non-Governmental Organizations (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.

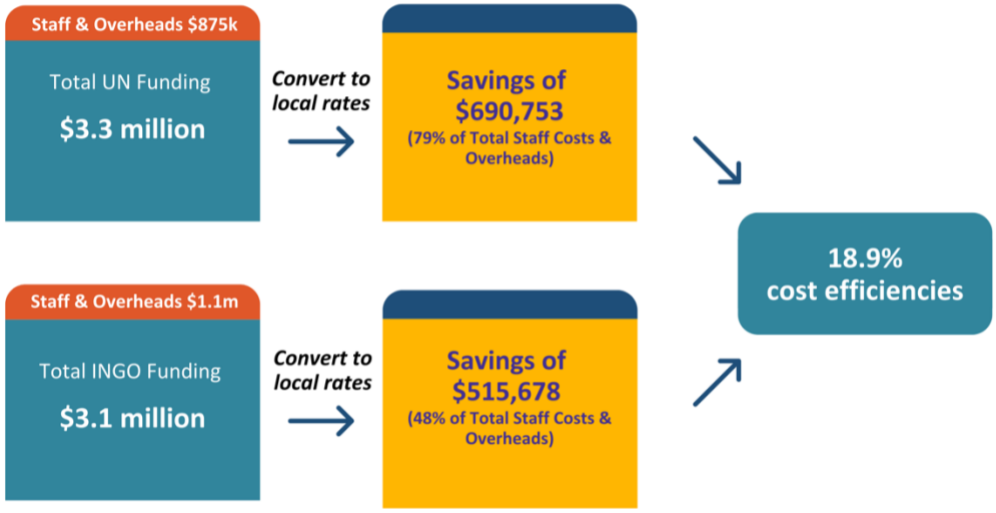
- The UN does not pass through any Project Support Costs (PSC, or overheads) to its sub-grantees, whereas all INGO and LNGO projects indicated that overheads would be passed through in full to sub-grantees. This shifted in late 2023, but only because the NHF introduced a requirement for full passthrough.

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

- While the average grant size for LNGOs is less than INGOs/UN, it is not significantly different, 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, and the NHF has intentionally prioritized higher grant amounts).
- 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 2.4x international staff costs at INGOs, and significantly higher than staff costs in all national posts (in all cases comparing similar job specifications for more senior positions).

Based on an evaluation of actual project data representing over 40% of total funding via the CBPF, local intermediaries are delivering programming that is 18.9% 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 deployed 36% of its funds directly to local actors in 2022, realizing cost efficiencies of $1.6m. **If we apply this same cost efficiency to the $13.1m that was deployed to local actors in 2023, cost efficiencies amount to $2.2m.**
- If 25% of remaining international funds in the CBPF were shifted to local actors, **additional cost efficiencies would be $467k**.
- Total humanitarian funding to Nigeria in 2023 totaled $645m. **If 25% of this were deployed to local actors, cost efficiencies would total $30.4m, funding that could be used to respond to lifesaving needs.** 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.

Figure ES2: Cost Efficiencies across the Humanitarian Response (2023)

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. There is a clear imperative to understand the potential benefits and challenges of working more intentionally through local actors.

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 decreasing, delivering cost efficient and effective programming is critical. This study was able to compare budgets through the NHF – a very compelling start. However, budgets should be transparent across all components of the response.
- **Donors should stipulate/mandate that all UN agencies and international NGOs operating in Nigeria are required to pass through full overheads to their Nigerian 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.
- **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.**
- **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 Nigeria.

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. 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.[1] 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).[2]

1.2 The Economics of Localising 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 Official Development Assistance (ODA) funding flows via UN Agencies and larger International Non-Governmental Organizations (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 (LNOs) 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:

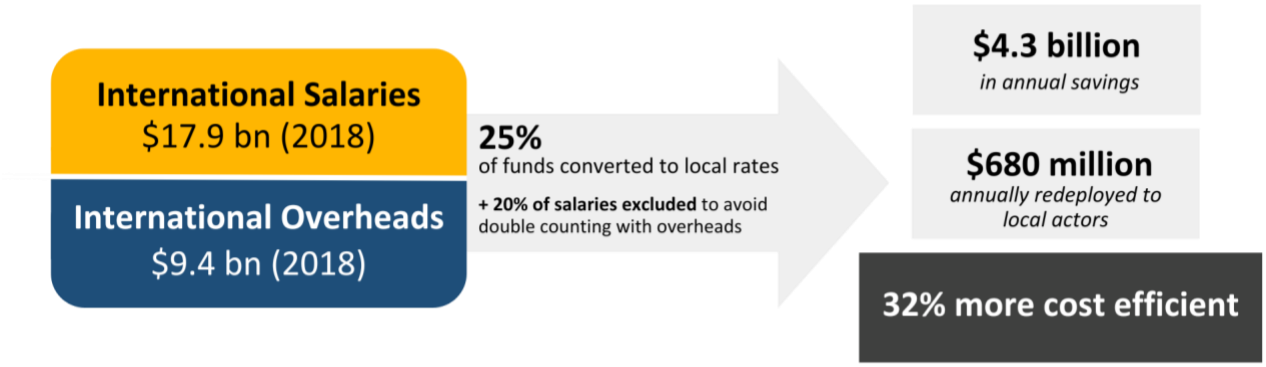
- **Local intermediaries could deliver programming that is 32% more cost efficient than international intermediaries**, by stripping out inflated international overhead and salary costs**.**
- Applied to the $54bn of ODA analyzed in this study, **this would equate to a cost savings of US$4.3bn annually, funding that would cover the entire 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

[1] Development Initiatives (2022). "Global Humanitarian Assistance Report 2022."

[2] Development Initiatives (2023). "Global Humanitarian Assistance Report 2023."

represents **a total benefit (through cost savings combined with greater funding to local intermediaries) of $4.9bn annually.**

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 Nigeria humanitarian response, based on budgetary data from the UNOCHA Country Based Pooled Fund (CBPF) chanelled via the Nigeria Humanitarian Fund (NHF).

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 NHF received $24m in 2023; 36% of this went to local and national actors. The NHF has made it policy to increase funding to National NGOs (NNGOs) by 5-7% per year for three years. Similarly, the UN will only be funded if the organization offers a specific added advantage that NNGOs cannot provide. Proportional PSC passthrough was introduced in the last two allocations – it is not yet formalized in policy but will likely be made so. If an organization cannot do this, they simply will not get the funding.

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 programmes through the Nigeria CBPF, and assesses the overall cost efficiency gains as a result of localization efforts.

2 Methodology

2.1 Overview

The methodology relied on a sample of project budgets from the CBPF — the majority are from 2023 with a few that cut across both 2022 and 2023 — spread across a mix of the three main Implementing Partners (IPs): 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 IP. 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[3]

For the purposes of the study, the Inter-Agency Standing Committee (IASC) definition of local is used. 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." However, in the Nigeria context, it is worth noting that some international organizations are setting up separate local registrations to allow them to be considered as local.

The analysis reviewed 46 projects funded through the CBPF, either directly or as subgrantees. This sample included:

- 6 UN projects, with 5 LNGO subgrants;
- 6 INGO projects, with 8 LNGO subgrants; and
- 11 LNGO projects, with 10 LNGO subgrants.

Project budgets from the UN were almost entirely drawn from 2022, with one exception from the 2023 allocation. The majority of the INGO and the LNGO projects were drawn from 2023. This was intentional; we wanted to use the most recent budgetary data available, but the NHF has significantly decreased the amount of funding going to the UN between 2022 and 2023. Therefore, in order to get a more representative sample, we used UN project budgets from 2022.

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

These 46 projects represent $10.2m in total funding. The total value of the CBPF in 2022 was $24.7m, and in 2023 it was $24m. Therefore, the projects evaluated represent between 41% and 43% of total funding:

- The value of all projects evaluated for the UN is $3.3m, or 53% of total funding to the UN from the CBPF in 2022.
- The value of all projects evaluated for the INGOs is $3.1m, or 33% of total funding to INGOs in 2023.
- The value of all projects evaluated for the LNGOs is $3.8m, or 29% of total funding to LNGOs in 2023.

The methodology can be divided into two main components:

- **Current Funding Flows (Section 3.1)**. Using data from the 46 project budgets, we evaluate and compare the cost structure for each type of IP, 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.

3 Delivering Cost Efficient Programming

3.1 Current Funding Flows – Analysis of Budgetary Data

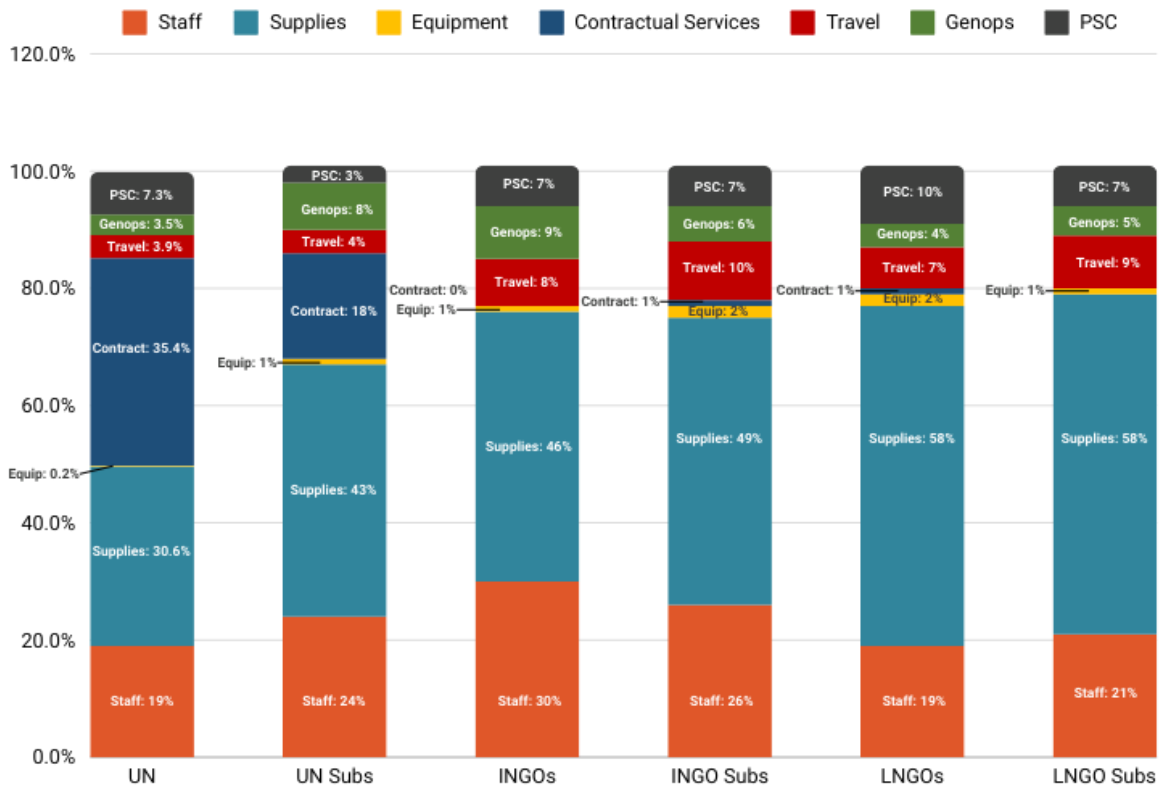
3.1.1 Analysis of Overall Budgets

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, tends to hold more budget for procurement (through contractual service and supplies), and tends to fund local partners for greater staff costs. Importantly, the UN does not pass through any PSC to its sub-grantees. Of the five UN budgets reviewed, the only passthrough of overheads was from the UN to a local partner for a budget that was approved in 2024 – coinciding with an allocation mandate from the pooled fund for full pass through.

Figure 2: Average Budget Breakdown by Implementing Partner

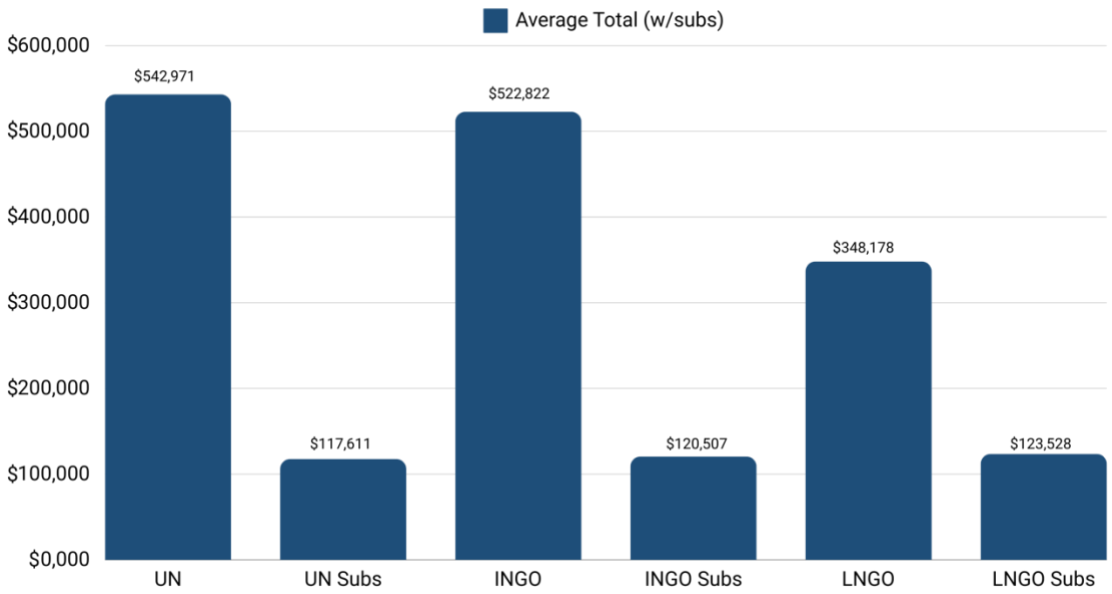


3.1.2 Analysis of Average Grant Size

Figure 3 compares the average project grant size for each category of IP.

Of note, the LNGO average grant size is not significantly smaller than the INGO/UN average grant size (UN budgets are on average 56% larger than an LNGO budget). This is important because it indicates that 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). This is also likely a direct result of the 2023 allocation allowing all implementing partners to access a smaller number of larger grants to limit the number of overall projects.

Figure 3: 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[4] 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 28x national staff at LNGO subs.[5]
- International staff costs at INGOs range between 5x national at INGOs, and are 12x national staff at an LNGO sub.

[4] 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.

[5] It is worth nothing that UN staff costs in Maiduguri are at the maximum allowable level for hazard/ danger/ hardship fees so that these findings will not be replicated in other duty stations.

Figure 4: Monthly Staff Costs, by IP, Average USD

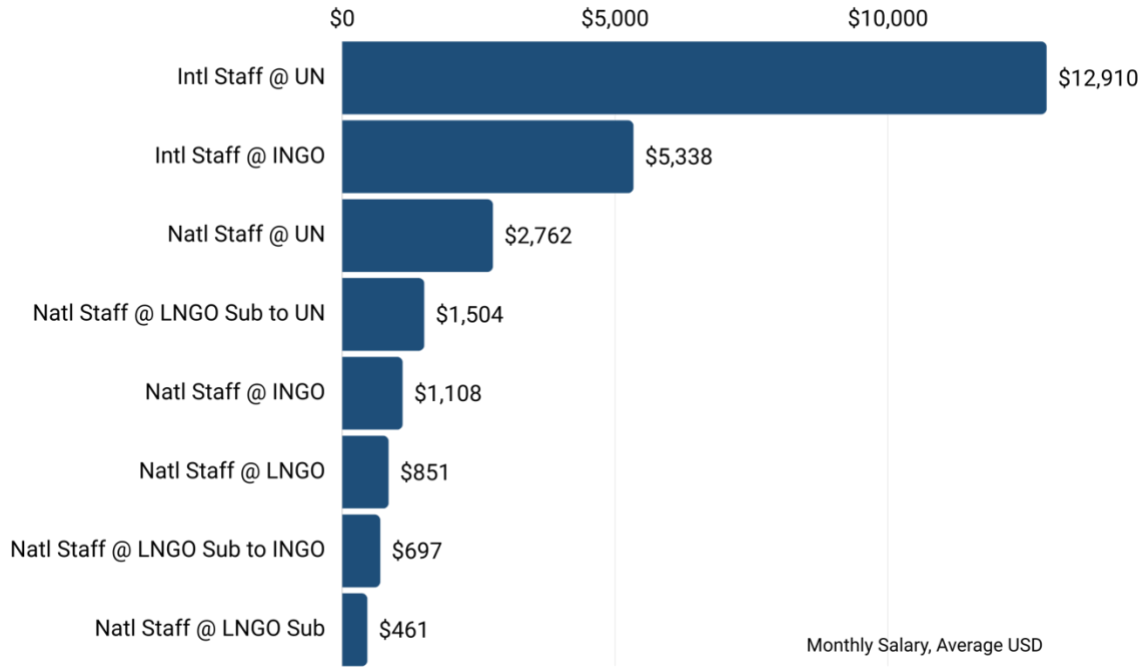


Table 1 presents an analysis of the average monthly staff costs, alongside its minimum and maximum values within the sample. This is useful because it can indicate how wide the spread or the differentiation is between specific agencies across their staff costs. Of note, the UN and the LNGOs tend to have 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	$12,910	$12,667	$13,154
Natl Staff @ UN	$2,762	$2,286	$3,500
National Staff @ NNGO sub to UN	$1,504	$371	$2,636
INGO			
Intl Staff @ INGO	$5,338	$1,648	$9,176
Natl Staff @ INGO	$1,108	$648	$1,656
National Staff @ NNGO sub to INGO	$697	$170	$2,208
LNGO			
Natl Staff @ LNGO	$851	$454	$2,000
National Staff @ LNGO sub to LNGO	$461	$120	$807

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 46 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 through the CBPF; 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 6 UN projects and 6 INGO projects, totaling $6.4m in funding (see Figure 5 for a visual breakdown of staff costs):

- UN budgets totaled $3.3m, with staff costs representing 15% of this total, or $504k. Of this, 56% of total staff costs go to international staff.
- INGO budgets totaled $3.1m, with staff costs representing 21% of the total, or $663k. Of this, 23% 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 $461/month at LNGO subs, to $2,762/month for national staff at the UN). We used the average national staff cost at an LNGO prime as our benchmark, equivalent to $851/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 15.2 times the national staff at an LNGO prime, and national staff costs at the UN are 3.2 times national staff at an LNGO.
    - International staff costs at INGOs are 6.3 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.

Figure 5: 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.

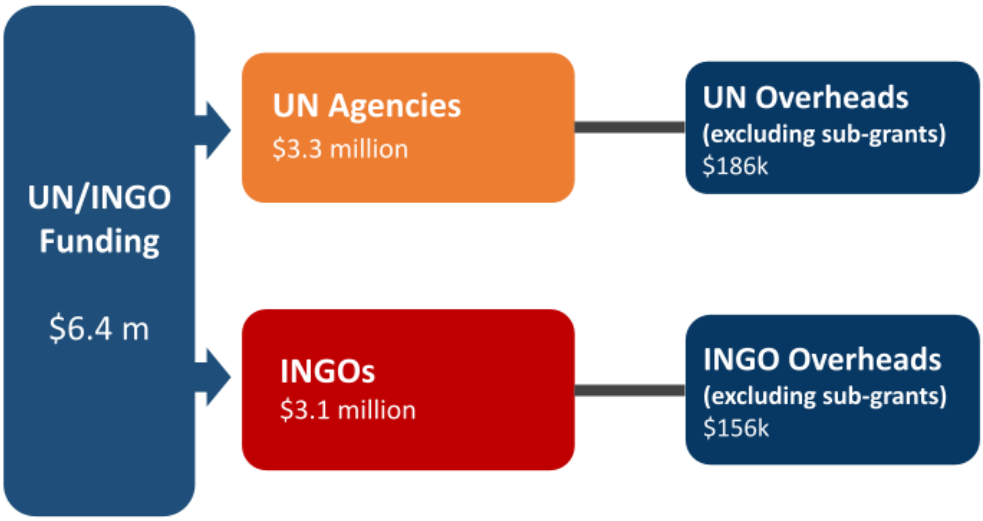
Table 2: Data Analysis: Staff Costs

	UN	INGO	Total
Intl Staff Costs			
Intl Staff Costs	$280,280	$149,125	$429,405
Staff Weighting: Intl staff to Natl staff @ LNGO	15.2	6.3	
Staff Costs Adjusted	$18,467	$23,765	$42,232
Natl Staff Costs			
Natl Staff Costs	$223,531	$491.250	$714,781
Staff Weighting: Natl Staff at Intl to Natl Staff @ LNGO	3.2	1.3	
Staff Costs Adjusted	$68,844	$377,093	$445,937
Total Adjusted Staff Costs	**$87,311**	**$400,858**	**$488,169**
Total Savings	**$416,500**	**$239,517**	**$656,017**

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 for a project approved in 2024 when the CBPF began to require full passthrough for project funding.

Figure 6: 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 (PPP) for Nigeria (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	$185,849	$155,782	$341,631
PPP	0.36	0.36	
PSC adjusted to Local Costs	$66,906	$56,082	$122,987
Total Savings	**$118,944**	**$99,701**	**$218,644**

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%[6], and that the difference between low and high overheads is statistically correlated with the number of grants that an organization provides.[7] 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.[8]
- 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.[9]

[6] 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.

[7] *Ibid.*

[8] 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".

[9] 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

The Passing the Buck study used global research to estimate the percentage of total budgets dedicated to staff costs. The study found that salaries comprise 67% of total budgets at the UN[10], and 30% of total budgets at INGOs[11]. We assume that the balance is dedicated to general operating costs at the head office, and we apply the same cost efficiencies based on actual project data above in terms of salary differentials and PPP.

Table 4: Data Analysis: Head Office Costs

	UN	INGO	Total
HQ PSC	11.4%	13%	
Additional PSC (beyond the 7% calculated above)	$185,542	$252,019	$437,561
Additional Savings	**$39,187**	**$112,904**	**$152,091**

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 $1.2m in savings could be realized on a total budget of $6.4m, **realizing a 18.9% cost efficiency**:

- When this data is evaluated for individual UN budgets, cost efficiencies range between 10.8% and 30.7%.
- When this data is evaluated for individual INGO budgets, cost efficiencies range between 7.5% and 22.5%.

Table 5: Summary of Cost Savings

	UN	INGO	Total
Staff Cost Savings	$416,500	$239,517	$656,017
PSC Cost Savings	$118,944	$99,701	$218,644
Head Office Cost Savings	$39,187	$112,904	$152,091
Total Savings	**$690,753**	**$515,678**	**$1,206,432**

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%.

[10] 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.

[11] 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[11], 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.

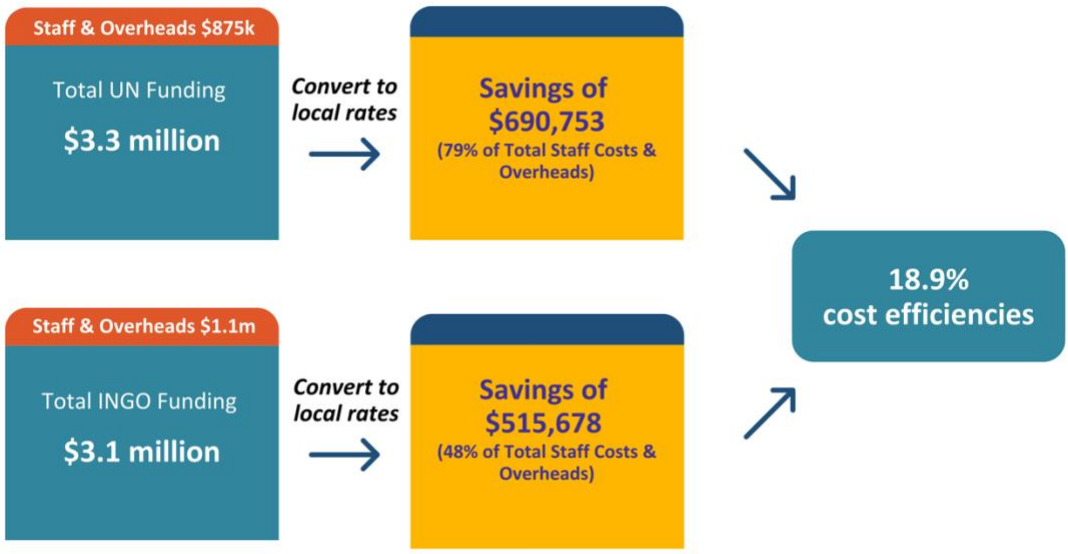
The Passing the Buck Global Study found a cost efficiency of 32%. An analysis of the differences between the two studies provides the following insights that drive these differences:

- The Global study assumes that UN funding passes through the UN to INGOs and then to local organizations – incurring indirect costs at multiple stages. Because CBPF grants are much smaller than centralized funding, they typically do not involve the same numbers of layers of passthrough. An analysis of UN and INGO large humanitarian and development grants 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 Nigeria 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	$3,257,823	$3,136,931	$6,394,754
Total Staff Costs + Overheads	$875,203	$1,071,281	$1,946,484
Total Savings	$690,753	$ 515,678	$1,206,432
Savings as % of total Staff Costs + Overheads	78.9%	48.1%	
Savings as % of Total Funding			**18.9%**

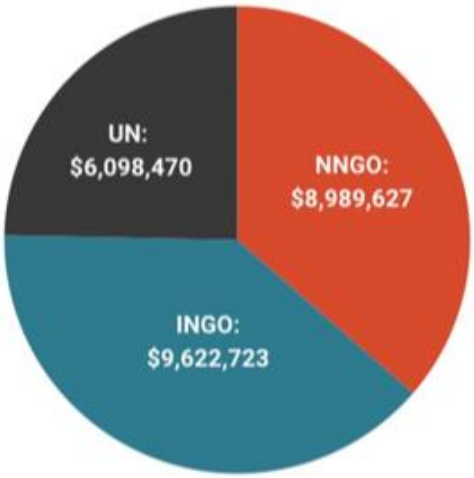
Figure 7: Cost Efficiency Analysis



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; (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 Nigeria.

Figure 8: CBPF Funding Distribution by IP in 2022



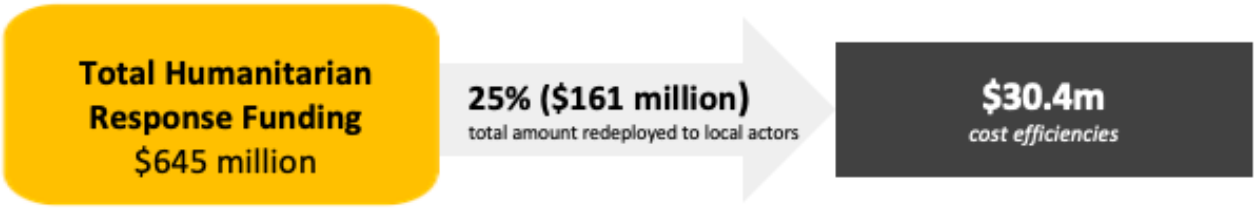
3.3.1 CBPF Cost Efficiencies 2022/23

The CBPF already deployed 36% of its funds to local actors in 2022. Using the 18.9% cost efficiency calculated above, **the CBPF has already realized estimated cost efficiencies of $1.6m on $9.0m of funding in 2022**. **If we apply this same cost efficiency to the $13.1m that was deployed to local actors in 2023, cost efficiencies amount to $2.2m.**

If 25% of remaining international funds in the CBPF **in 2023** were shifted to local actors, additional cost efficiencies would be $467k.

Funding to Nigeria in 2023 totaled $645 million. If 25% of these funds were deployed to local actors, total cost efficiencies would be estimated **at $30.4m**

Figure 9: Cost Efficiencies across the Humanitarian Response (2023)



4 Benefits Analysis

4.1 Benefits of Locally Led Action

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

- **Inclusion/Equity**: Local actors are embedded in their communities and therefore are better able to ensure inclusive and equitable aid delivery, ensuring that the most vulnerable are reached.
- **Trusted**: Local actors are more trusted by their communities and hence are able to be more engaged with the primary issues facing communities. Where local actors can leverage this greater trust to provide sensitive services at a larger scale, they will benefit from economies of scale which increase their efficiency.
- **Access**: Local actors are able to access populations that international actors cannot, particularly in complex humanitarian settings.
- **Speed/timeliness**: Local actors are able to deliver more quickly, either after the onset of a crisis, or through pivoting activities based on changing needs in communities.
- **Responsiveness**: Local actors are able to respond more flexibly to community needs.
- **Community voice/advocacy**: Local actors are able to engage directly with the communities that they are serving to design programming that is based on the community priorities.
- **Sustainability**: local actors remain in their communities, while international actors have to shift resources between high profile crises, and often have to pull international staff (for example, as happened during the COVID-19 global pandemic).
- **Improved accountability to affected populations**: Local actors are close to the communities they serve, which often leads to greater accountability and more effective feedback mechanisms. They are more likely to ensure that aid is delivered in a way that meets their needs.
- **Improved contextual knowledge and adapted solutions:** Local actors have a deeper understanding of the cultural, social, and political dynamics of their communities. Direct funding allows them to create solutions that are better aligned with the specific needs and priorities of the affected population.

However, these benefits need to be tested and verified depending on the specific context, and may not all hold true for Nigeria. For example, many local actors come from other parts of Nigeria and do not have the added advantage of being embedded in the communities in North East Nigeria. Risk can also play a significant role, for example, local actors may be more influenced by local politics. Capacity strengthening is critical to ensure that all actors have an equal playing field.

5 Summary of Findings and Recommendations

5.1 Summary of Findings

Based on an evaluation of actual project data representing over 40% of total funding via the CBPF, local intermediaries are delivering programming that is 18.9% more cost efficient than international intermediaries, leveraging significant resources critically needed for ongoing humanitarian and development needs. Excessively 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 humanitarian funding to the Nigeria response had been deployed to local intermediaries, we could have realized cost efficiencies of $30.4m.** Both the UN and INGOs are critical actors in this response. However, the international aid system is currently very disproportionately weighted to international intermediary organizations.

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.

5.2 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 decreasing, 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 Nigeria, 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 NHF to ensure that funded partners deliver Value for Money.

Donors should stipulate/mandate that all UN agencies and international NGOs operating in Nigeria are required to pass through full overheads to their Nigerian partners. The model 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.[12]

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 globally, including limited accessibility for local organizations[13], small grant sizes[14], lack of multi-year funding[15], and a lack of complementary funding for small organizations[16]. 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

[12] Humentum (2022). "Breaking the Starvation Cycle."

[13] IDS (2016). "*Country-based Pooled Funds for Humanitarian Financing."*

[14] OCHA & NRC (2019.) "*Country-Based Pooled Funds: The NGO Perspective."*

[15] Ibid

[16] Carter, B (2018). *"Country-based pooled funds for humanitarian funding."*

local actors. Based on the analysis presented here, this could include migrating the CBPF to a Nigerian 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 Nigerian 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. **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.

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

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 more timely, 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 Nigeria.