



GOING LOCAL: THE PROMISE & CHALLENGE OF AID LOCALIZATION

AN UNTOLD STORY

In recent years, the international development world has emphasized the issue of localization of aid—the trend of giving money directly to a developing country’s government or to local NGOs, rather than giving indirectly through large international organizations. This trend came to prominence during the Millennium Development Goals meetings in 2000, and localization remains a key topic of discussion as the world works toward the development of a post-2015 agenda.

This report is not about the localization trend per se, but about a different, related story: the increasing operational burden that localization has sparked. This story of growing operational challenges has gone largely untold, despite its direct impact on the overall effectiveness of aid and the ability of countries to reach development goals.

This report examines these operational burdens, as well as the creative solutions being implemented by the operations professionals confronting these challenges. The logistical issues associated with localization impact both donors and recipients. The development community’s responses to these challenges will do a great deal to shape the field in the years to come.

A CHANGING LANDSCAPE

The global development landscape is changing fast. Developing countries are playing an increasingly important role in setting their own policies and practices. The BRICS countries and other major emerging economies increasingly engage directly through South-South collaboration, bypassing traditional development institutions altogether.



New forces and players—from the High Level Fora on Aid Effectiveness to increasingly dynamic private foundations and corporations to individual philanthropists—are upending traditional notions about how to give aid and how to measure success. The global financial crisis has also had a measurable impact on development aid. As budgets are slashed, focus has shifted to measuring value for money and generating quantitative data to assess the effectiveness of aid.

These trends have magnified the challenges presented by localization. An increase in monetary flows to local organizations in developing countries demands more of these recipients, yet there is a growing shortage of trained operations professionals qualified to meet this demand.

KEY FINDINGS

This report is based on more than 50 in-depth interviews with key stakeholders in the international development community, including representatives from NGOs in developing countries, international NGOs, foundations, government donor agencies and public-private partnerships. In addition to this qualitative research, GFS conducted a key informant survey (referred to as the “GFS survey”) of 52 leaders in the international development field, including 19 donor representatives and 33 representatives of aid recipients.

Key findings include the following:

— **Aid localization is a significant and growing trend.** In the GFS survey, 74 percent of donors and 94 percent of aid recipients agreed that there is a trend of donors shifting more funding to local organizations. Large donor agencies such as USAID are driving this trend.

— **Localization and related trends are creating significant burdens for both donors and recipients and highlighting the need for strong operational and financial systems.**

In the GFS survey, 94 percent of aid recipients said that meeting donor reporting and compliance requirements is a significant challenge for their organizations. Two-thirds of aid recipients said that the burden of meeting these requirements has increased for their organizations in the past year. These growing challenges are falling on an increasingly overworked local operations staff. Donors recognize these growing operational challenges. In the GFS survey, 84 percent of donors expressed concern about the operational and systems capacity of their local grantees, and more than one-third said they are “very concerned” about grantee capacity.

— **Both recipients and donors of aid are pioneering innovative ways to address these challenges.**

Recipients are employing innovative methods—such as pooling donor funds, outsourcing operations tasks, employing local fiscal agents and facilitating partnerships between private firms and NGOs—to support local capacity. Many donors are also actively taking steps to build operations capacity: 95 percent of donors said they have invested in the operations and systems capacity of their local grantees.

private sector employers seek them out and offer them higher salaries. Meanwhile, other trends, such as the growing role of emerging economies and the increasing prominence of private donors, are forcing further changes to the traditional relationship between aid donors and recipients.

Donors are also struggling in their response to the changing landscape. Many donors agreed that harmonizing reporting requirements would be very helpful, but most said that is unlikely in the near term given difficulties of coordination. Lack of donor harmonization of both the grant application process and reporting and compliance requirements presents a significant challenge, particularly for smaller aid recipients. Donors are also experimenting with new ways of supporting grantee operations work, including pooled resources, outsourcing operations and employing fiscal agents.

Both donors and recipients agreed that the long-term impacts of localization are still largely unknown, and responses to these challenges are still being worked out. These questions—and the responses they provoke—are only growing in importance. The recent Ebola crisis in West Africa has highlighted weaknesses in local capacity. The world has seen the limits of what can be done without adequate local healthcare infrastructure. As the world responds to the Ebola crisis, it is clear that the development landscape is continuing to shift toward the goal of building local capacity.

CONCLUSIONS

As localization continues, many aid recipients in developing countries are struggling with burdensome reporting and compliance requirements. Increasingly, retention of operations staff has become a serious challenge: high turnover is common because once operations staff members are trained,

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