

Delivering on Localisation: Why Overheads for Local Partners Must Be Additional, Not Split

KEY MESSAGES

- > Requiring agencies to split limited overheads underfunds effective response and puts projects and organisations at risk. Risk does not decrease — but the resources to manage it do and the viability of locally led response is undermined.
- > Both intermediaries and partners should receive their own overhead allocation, that is not drawn from another partner's share. This approach is known as additionality.
- > Overhead additionality can be implemented within existing donor legal and policy constraints. Donors can either a) add the LNA's overhead to the intermediary's overhead allocation or b) use a separate budget line that also applies flexible overhead conditions.
- > For additionality to work, all overheads must be unrestricted, not time-bound, subject to a simplified audit only, and additional to — not deducted from — direct project support costs.

BACKGROUND

Localisation is a central commitment of humanitarian reform, intended to make response more efficient, more effective, and more accountable to affected people. As few donors can directly fund a diverse array of local and national actors (LNAs), intermediary funding — through pooled funds, INGOs, and UN agencies — remains an essential channel for supporting this agenda.

The overhead costs that allow intermediaries and their partners to operate safely, accountably, and sustainably remain systematically underfunded across the delivery chain. The IASC's [Guidance on the Provision of Overheads to Local and National Partners](#) stresses the importance of full cost coverage for all actors in the delivery chain. However, a

recent [ODI report](#) documents that despite a proliferation in policy, practice has not caught up — donors continue to restrict overhead funding, and intermediaries are left to subsidise their partners' indirect costs from increasingly stretched budgets. Where subsidy is not affordable, the share of overheads reaching LNAs falls further still.

[ICVA's research](#) documents the consequences: intermediaries hold legal and financial liability for the funds they pass on, but with insufficient resources to fulfil the oversight, compliance, and capacity-strengthening responsibilities donors require — leaving both intermediaries and LNAs underfunded for the work they are expected to deliver.

PURPOSE OF THIS BRIEFING NOTE

This briefing sets out the rationale for why additional, separately budgeted overheads — rather than a split allocation between intermediaries and their local and national partners — are essential to make locally led response viable.

Drawing on existing good practice, it shows how donors can implement additionality, even within existing legal and policy constraints.

THE ROLE OF OVERHEADS

Overheads, also known as indirect costs, are the costs of running an organisation safely, effectively and accountably; managing it, overseeing it and implementing the policies, frameworks, and systems that allow it to deliver its mandate. Overheads are not attributable to a specific project, programme, or activity, nor are they necessarily incurred within a project period. They must therefore be treated differently from direct, programme-related and shared support costs.

Overheads are essential for all organisations in the delivery chain, whether UN agency, INGO or LNA. They cover essential institutional functions — risk management, internal

controls, and accountability mechanisms — and for many INGOs and LNAs, they are the sole source of flexible funding for organisational continuity and development, and the building of reserves. They are a critical component of an organisation's budget architecture and the overhead rates that organisations can accept and pass on are typically approved at governance level.

For intermediary organisations, overheads play an additional risk-management function for which there is rarely any other budget available: covering any ineligible costs or losses sustained by implementing partners.

THE IMPACT OF OVERHEAD SPLITTING

Most donors apply a fixed rate to overheads — typically around 7% — on each grant. This rate is [widely recognised](#) as inadequate to cover the true running costs of organisations operating in complex contexts.

Throughout the delivery chain, where funding flows from a back donor through an intermediary to one or more LNAs, this shortfall is compounded: most donors expect the intermediary to share an already inadequate overhead with its partners, leaving each organisation operating with a fraction of what is needed. Mandating the splitting of overheads can also run counter to an organisation's policy or legal framework, as is the case for most UN agencies. The impact on LNAs is particularly acute: despite a proliferation of overhead policies across the sector, the share actually reaching LNAs routinely falls short of what they rightly need and deserve.

The consequences extend beyond financial inadequacy and shape organisational sustainability, performance and behaviour:

- **LNAs often experience overhead-splitting as something done to them**, top-down and without recourse, with their legitimate costs left to the discretion of the intermediary rather than recognised as a right, undermining any genuine equality in the partnership.

- **Intermediaries experience overhead-splitting as fundamentally misaligned with donor expectations**, including on risk management, fiduciary oversight, and capacity strengthening, and mentoring. The 'splitting' model expects these functions to be delivered for free, while simultaneously requiring intermediaries to share an already insufficient overhead rate with partners.
- **Compliance and risk-management costs often remain with the intermediary regardless of the split.** As [ICVA's Risk-Sharing in Pooled Funds \(2025\)](#) documents, refusing to fund LNA overheads adequately does not eliminate these costs — it transfers them. As ICVA's report documents, sub-grantors hold full contractual liability for the funds they pass on but receive insufficient resources to discharge the oversight, compliance, and capacity-strengthening functions donors require. The result is predictable: intermediaries adopt defensive behaviours — stricter compliance requirements, avoidance of smaller partners, preference for lower-risk programming — that undermine the very localisation outcomes donors say they support. These are not failures of organisational will; they are rational responses to an irrational allocation of risk.

There is a further systemic consequence. Chronic underfunding of LNA overheads selects against smaller local organisations, those that cannot sustainably operate at a loss, in favour of large organisations able to subsidise these costs with other funding. For donors committed to supporting a strong, diverse, and accountable local civil society and localised response, requiring a splitting of overheads is a direct contradiction of stated policy.

WHAT WE WANT TO SEE: ADDITIONALITY

Donors should ensure that every actor across the delivery chain, including direct partners, intermediaries, and LNAs alike, can recover the real costs of delivering its part of the response.

This approach is known as **additionality**: each organisation in the delivery chain is supported with its own overhead, and that is not drawn from another partner's allocation.

In practice, this means donors should provide additional funds or add an additional budget line for the intermediary to pass onward to the LNA.

The additional overhead should be calculated on the LNA's portion of the project budget at the same percentage applied to the intermediary.

Furthermore, the additional overheads must be:

- Unrestricted in their use.
- Not time-bound.
- Subject to a simplified audit only.
- Additional to, rather than deducted from, direct project support costs.

THE CASE FOR ADDITIONALITY

Additionality is not simply a technical budget adjustment, it is a structural commitment to equitable resourcing and is one meaningful step toward risk sharing across the delivery chain. For donors focused on value for money and risk management, the case is straightforward:

1 IT IS THE PRECONDITION FOR THE EFFICIENCY GAINS DONORS SAY THEY WANT

The locally led agenda is premised on the idea that local actors deliver more, at lower cost, with greater community accountability. Those gains do not materialise if LNAs are structurally underfunded. Additionality is not an additional cost on top of localisation — it is one of the costs of localisation working. Predictable, adequate overhead funding allows local organisations to invest in governance, systems, and staff retention — the foundations of long-term institutional resilience. Without it, the sector that donors rely on to deliver locally led response is progressively hollowed out.

2 IT REDUCES RISK ACROSS THE DELIVERY CHAIN

Well-funded overheads support the internal controls, compliance systems, and risk management functions that protect donor investments. Underfunding these functions does not reduce donor exposure, it increases it. Additionality makes this real and recurring cost visible and manageable rather than leaving it hidden and unpredictable. A dedicated overhead line of 7–10% is a modest and overdue correction, and one already demonstrated as workable by Canada, Denmark, and the UK.

3 IT SIGNALS GENUINE COMMITMENT TO EQUITABLE PARTNERSHIP

Supporting intermediaries and LNA partners with dedicated overhead is a visible, quantitative expression of donors' localisation and risk-sharing commitments.

HOW TO IMPLEMENT ADDITIONALITY

Some donors have successfully implemented additionality, pursuing two distinct pathways suited to their different policy and legal contexts. Both approaches are auditable: auditors can verify that the cost line in the intermediary's budget corresponds to what is transferred to the local partner.

Option 1: Add the LNA Overhead to the Intermediary Overhead Budget Line

Where donor rules and legal frameworks permit, the additional funds for LNA overheads should be added to the intermediary's overhead calculation for onward transfer to the LNA. The additional overhead should be calculated on the LNA's portion of the project budget at the same overhead percentage applied to the intermediary. This is the principle of additionality applied in the purest form: each actor in the delivery chain has its own overhead, classified as overhead, and all of it with the same flexibility. Canada and Denmark have achieved this through expanded overhead allocations with dedicated lines for LNA partners:

Danida (Denmark)

[New partnership guidelines](#) allow Danish CSO partners to budget up to 7% in overheads for their own operations and explicitly expect them to budget an additional 7% to pass on to local implementing partners. This funding must be included in local partner budgets and stipulated in partnership agreements; local partners are not required to specify or document its use, preserving the full flexibility that makes overheads meaningful.

Global Affairs Canada

Canada supports its partners to budget up to 7.5% in overheads for their own operations, and to include a dedicated budget line for up to 7.5% of the local implementing partner's direct project costs.

Former USAID

The US previously allowed all partners to recover overhead either through an individually negotiated rate that reflected their actual costs, or through a standard minimum rate of 10% of direct project costs. Crucially, this rate applied to both the intermediary and the local partner independently, meaning each organisation could claim overhead, rather than the local partner having to draw from the overhead allocated to the intermediary. While not designed explicitly as an additionality mechanism, the effect was the same: local partners were entitled to their own overhead without requiring detailed documentation of how those funds were spent, providing a degree of flexibility comparable to the approaches used by Canada and Denmark.

Option 2: Use a separate budget line

Some donor rules or legal frameworks cap overhead provisions at a fixed percentage on the entire value of the grant (e.g. 7-10%). Where this is the case, the LNA's overheads could be transferred to the intermediary as a direct cost that the intermediary passes on to the partner with overhead-like flexibilities explicitly applied (i.e., unrestricted, not time-bound, simplified audit only). Framing the budget heading as "Localisation Support and Administration Costs" rather than "overheads" may be acceptable to donors with hard-set legal ceilings on formal overheads as it reframes the funding in language that does not trigger overhead caps.

FCDO (UK)

The strongest example of the use of a separate budget line is the [FCDO's "Localisation Support and Administration Costs" \(LSAC\)](#), a distinct cost category that sits alongside direct and overhead budget lines, with mandatory pass-through. The FCDO guidelines stipulate that lead partners must pass on either their own overhead rate or 10% of the LNA's project costs, whichever is higher. LSAC is mandatory for FCDO's Rapid Response Facility (RRF) and applies as best practice across other FCDO mechanisms. The [guidelines](#) are explicit on the rationale: "In order for downstream partners to be able to manage project-related risks effectively, and to strengthen their ability to provide essential services to the communities they support, it is essential that they have access to indirect costs."

RECOMMENDED RESOURCES

- > ODI, [How underfunding local organisations' overheads undermines humanitarian action](#), March 2026
- > ICVA, [Risk sharing in pooled funds](#), July 2025
- > Alnap, [Intermediary Models to Advance Locally Led Humanitarian Action](#), March 2025
- > The New Humanitarian, [How overhead funding rules starve grassroots NGOs](#), May 2024
- > IASC, [Promoting inclusive and locally-led action through humanitarian pooled funds](#), February 2024
- > Development Initiatives, [Indirect costs for local and national partners: UN agencies and INGOs policy and practice mapping](#), June 2023
- > Development Initiatives & UNICEF, [Donor approaches to overheads for local and national partners](#), February 2023
- > Grand Bargain Caucus on the Role of Intermediaries, [Towards Co-Ownership: The Role of Intermediaries in Supporting Locally-Led Humanitarian Action](#), August 2022
- > IASC, [Guidance on the Provision of Overheads to Local and National Partners](#), November 2022
- > IASC, [Overhead cost allocation in the humanitarian sector](#), November 2022
- > IASC, [Canada shows it's possible: Systematically providing overhead costs to partners](#), June 2023

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