



Localization in Theory and Practice

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Abstract

The movement for localization in foreign aid presents philosophical and practical challenges for providers of foreign aid. In the past, some level of localization (to at least state actors) of both decision-making and spending could be achieved through general and sector budget support, a logistically simple (though politically difficult) approach. Current practices, with more aid disbursed in the form of discrete projects, make localization more difficult to achieve. For development agencies to make progress they must confront conceptual, practical and strategic challenges. This paper suggests practical definitions of different kinds of localization and what they seek to achieve, points out trade-offs between them and sets out how they challenge current conceptions of how and what foreign aid seeks to do, as well as suggest limits to the optimal extent and type of localization. It then considers practical difficulties in implementing these different conceptions of localization given existing donor practices and capacities, and the strategic challenges of realizing the desired outcomes—specifically principal-agent problems within the organization and with contractors. It concludes with key lessons and messages for donors and funding agencies.

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Introduction

Foreign aid¹ can be understood as a transfer of resources (broadly defined) from donor to recipient (Abbot 1970); as a governance arrangement which affects how decisions affecting people in the recipient country are made and accountability organized (Moss et al., 2006); and as a political relationship between donor and recipient organizations (Alesina and Dollar 2000). In recent years, both aid donors and aid recipients have promoted the idea of ‘localising’ foreign aid—an enterprise that complicates each of these ways of understanding what foreign aid is, and how it should be delivered, presenting both philosophical and practical difficulties to be navigated.

Localization is, broadly, giving greater control over foreign aid to local actors, but no shared definition of ‘localised’ aid has been agreed.² It is related to well-known agendas in aid effectiveness, such as the Paris Declaration on Aid Effectiveness (largely defunct), the Busan Agreement for Effective Development Co-operation and the Grand Bargain for humanitarian assistance. Despite the lack of agreement over what localization means there seems to be general agreement that there is too little of it, and more should be done. USAID has set a target for 25% of its funding to be channeled through local actors by 2025; and for half of its programmes to ‘promote space for local actors to exercise leadership over priority setting, activity design, implementation, and defining and measuring results.’ In the UK, both the new Labour government and the Conservative government it replaced have made local leadership and partnerships a priority, promising a strategy to set out the Foreign, Commonwealth and Development Office’s approach to it. Other donors have made similar pledges and commitments (though few have been as concrete as USAID have).

The experience so far, however, has been disappointing. Most donors found localization difficult to implement and by available measures, a very small share of aid is localized at all. Indeed, at least for European bilateral donors, it is very likely that far less aid is localized today than was the case 20 years ago, when General Budget Support and Sector Budget Support sometimes made up 50 per cent or more of donor country portfolios.

This disappointing performance arises from three sources. First, donors have been insufficiently precise about what localization actually means and to what ends they are localizing; this lack of precision has made it difficult to navigate the trade-offs and choices that different kinds of localization force upon them. Some of these trade-offs are between the aims of localization and the donors’ own aims in providing foreign aid. Others are between recipient objectives and localization, including between different kinds of localization. Secondly, the evolution of foreign aid over the last twenty to thirty years has made localization practically challenging for most donors, and so in order

1 And indeed development cooperation more broadly, though this is a more nebulous and difficult-to-define concept.

2 Increasingly, the term ‘locally-led development’ is being used instead of ‘localization’, to put the emphasis on development rather than procedural changes to how foreign aid specifically is managed. Since much of this paper concerns the specific practical difficulties donors and funders will experience in implementing this agenda, the term ‘localization’ is used, though in general ‘locally-led development’ is the more comprehensive and accurate overall term.

to achieve faster progress on localization, specific operational challenges need to be recognized and addressed in the first instance. And thirdly, donors face two sets of principal-agent problem that limit their ability to implement true localization, one internal to the donor organization and one with the implementing partners they work with.

This note sets out these issues and some ways to navigate them. It also suggests that there are desirable limits to localization (limits that will change over time and space), which donors should consider. It proceeds as follows. The next section sets a loose definition of some dimensions of localization, and discusses difficulties in identifying what exactly it means. Section 3 discusses the interaction between localization and what foreign aid does or is meant to do, suggesting that localization should be 'optimised' and not 'maximized'. Section 4 considers the practical problems of implementing each of these kinds of localization, and specifically how large donors can implement them while meeting their own internal objectives (including the ability to demonstrate impact, fiscal responsibility and responsibilities to their own sources of funding: their governments and citizens). Section 5 sets out organizational challenges in delivering localization that remain even once these practical concerns have been considered, specifically focusing on the principal-agent problems that donor agencies need to solve. The final section makes a series of recommendations, which should be considered guidelines for action rather than a roadmap for localization.

Defining localization in practice

Three kinds of localization are set out in Baguios et al. (2021): localization of resources (which follows the money), localization of agency (which follows the decision-making) and localization of 'ways of being' (that is, where practices, approaches and knowledge of local actors are adopted, even where unfamiliar to the donor). The first two are more concrete, easier to measure, and thus far, have attracted most of the attention. They are the primary subject of this note.

Definitional problems abound, however. First, and most glaringly, what constitutes 'local'? In some treatments of resource localization, 'local' and 'southern' are treated interchangeably: localization is achieved if any 'global south' organization receives funding or resources. But it's far from clear that this is a reasonable definition of 'local': it's hard to see how an international NGO based in Dhaka should be considered more 'local' to, say, Lilongwe, than an international NGO based in London. Such a definition works only if localization is defined in the negative (i.e. not donor-based or not rich country-based) rather than in the positive (for example, close to the local context and with leadership drawn from and with roots in the local context). Even positive definitions of local still need to define to whom an actor must be local: for some purposes, local might be extremely tightly defined: to a specific town or village; for others, it may be broad, such as a supra-national region

(e.g. 'Southern Africa', rather than 'Lilongwe').³ A precise positive definition is difficult to land on except in specific cases.

But the negative definition may still be useful: some considerations of localization already point to the fear that donor-based organizations may simply set up offices in developing countries and call these 'local'. On the one hand, this may be a clear attempt to game the movement to localize foreign aid and should be countered. On the other hand, at what point does such a 'local' office become as local as a home-grown organization? If it has locally recruited and trained staff and leadership, and delegated powers of decision-making and implementation, is it very much less local than a home-grown NGO with leadership educated (and perhaps born) abroad?

With respect to the localization of agency, no serious treatments of the problem (e.g. Mac Ginty 2015) would suggest that any southern NGO around the world should be classified as local for the purposes of making choices about how aid is managed or allocated in Lilongwe—though some argue that 'local' should not simply be conceived as a place-based concept. But different problems arise: decision-making, everywhere, is contested, and there are many local actors representing different interests and different communities. If decisions relating to local aid allocation are taken in the capital, by the Government, would this be considered 'local' by rural communities who may be affected by the project (indeed, even if the project is in the capital, rural communities may suggest they should be involved in decision-making, since the counterfactual project may be a rural irrigation scheme in a specific place). And if who counts as local is defined on an ad hoc basis, then even the process of setting this definition can be contested—is it 'localised' enough (and to whom?). While most treatments of localization acknowledge this problem, there is no widely accepted solution (Too Southern to Be Funded; Cabot Venton et al., 2022).

One way of thinking about this problem is that there are imperfectly overlapping kinds of 'local' and imperfectly overlapping kinds of decision-making. Rather than thinking in terms of a binary distinction between localized decision-making and donor-centric decision-making, we should think about a 'heat map' of where decision-making is more or less local. For example, you may have engagement in decision-making by national governments, local governments or national or local community-based organizations, or the intended beneficiaries of an intervention themselves. Not all development cooperation activities should involve all of these actors to the same extent, but each may be involved to some extent at different stages of the decision-making process. These stages may include problem identification and policy or intervention definition; procurement and project inception; implementation and monitoring (which involves a sequence of consequential decisions); and evaluation and project completion or extension decisions. Rather than thinking about 'more local' or 'local enough' decision-making, donors should be thinking about 'appropriately local'

³ This is particularly important because a number of development problems are inherently regional in nature, including where actions in one country have positive or negative spillovers in neighbouring countries.

decision-making, which will depend on the project context; but the presumption should be some level of local engagement in most of the decision-making levels.

Similar problems arise when defining ‘resources’ and ‘agency’ (and to an even greater extent, ‘ways of being’). Financial resources are obvious. You can say something about how localised finance is by looking at who handles the money, reports on it and is accountable for its legitimate use. Technical expertise and know-how are more complex. Localizing technical expertise support might mean using local experts, giving local actors full line management of foreign experts, or either. As we will see in the next section, depending on the definition taken, the implications for foreign aid may run further than it first appears. Similarly, agency and decision-making occur at different levels. Agency may mean sole decision-making power, or shared decision-making power or simply a seat at the table at which decisions are made (King 2024), though where the decisions governing aid management are made is itself not always obvious or explicitly defined. Different kinds of decisions—operational, tactical, or strategic—at different levels of the aid portfolio are amenable to different levels of local agency. A single, tractable and measurable definition of agency may not be possible.

The point here is not to abandon the attempt to localize in the face of competing poorly-delineated concepts, but to propose that a working definition of localization needs to be sufficiently broad to allow for these problems to be grappled with as the movement to localize within a donor agency progresses. It is unreasonable for any donor to try and define away these problems before the process begins. Instead, a flexible working definition that captures the spirit of the enterprise, but allows details to be addressed and pinned down as the policy of localization is pursued is preferable to the adoption of rigid rules that risk incentivizing or allowing absurd outcomes when sensible ones are available.

On this basis, it is possible to propose working definitions of localization—though, as we will see, no unified definition.⁴

1. Localization of resources is the process of transferring control of resources directly to local actors and institutions from the funding agency.

Most foreign aid projects involve the provision of goods or services. For grant aid, the donor or funder usually hires a third party organization to provide these goods or services. In some cases, these third parties then sub-contract delivery to another agent.⁵ Localization of resources involves increasing the share of directly-funded delivery undertaken by local actors; and increasing the share of intermediation and sub-contracting undertaken by local actors (that is, giving local actors the resources and decision-making power to sub-contract other agencies, local or not, to deliver goods and services). Where the resource

4 USAID has proposed its own definition, which is largely consistent with what is presented here, defining localization as the process by which development becomes more locally-led. See: https://usaidlearninglab.org/system/files/resource/files/what_is_locally_led_development_fact_sheet_1.pdf.

5 Loans are managed differently, and more often involve disbursement of resources directly to a local actor.

being transferred is expertise or knowledge, localization is advanced when management or control is exercised by local actors—including but not only when experts or information are provided by local institutions.

2. Localization of agency is the process of transferring the control of and voice in decision-making over foreign aid resources, policies and interventions to local actors and institutions.

The process of delivering foreign aid involves a series of decisions: about policy priorities, prioritisation across competing objectives, selection of specific activities and procurement. Localization of agency involves increasing the local voice in these decisions. At one extreme this would involve all of these decisions being taken by local actors, and none by the ultimate funders, but simply increasing local voice (including, for example, through shared decision-making) would represent a localization compared to extant practices that reserve virtually all decision-making for funders, donors and international (or ‘Northern’) implementers and intermediaries. Though, as noted, localizing agency may look different depending on who it is appropriate to localize to, and what parts of the decision-making process are appropriate to localize.

Though these definitions follow a common form—setting out a dimension of foreign aid practice on which greater local control means greater localization—a unified definition is not possible. It is possible to wholly localize resources, with all funding channeled through a local agent, while all meaningful decisions are taken by funding agencies. At the same time, it is possible to fully localize decision-making, with all decisions over prioritization, activity selection and procurement taken by the local Government (for example), who then chooses to procure all foreign aid goods and services from a foreign company. These are extreme examples; but there is a potential tension between these definitions (in practice, the two may often go hand-in-hand; local decision makers might localize more resources). The more decision-making is localized, the less control the funder has over localization of resources. And if the funder takes steps to guarantee localization of resources, it by definition closes off one dimension of localization of agency, since it limits the ability of local actors to choose which delivery partners to finance (since for any recipient of foreign aid, the subset of ‘local’ delivery agencies is a small part of the full universe of possible delivery agencies).

Navigating these inconsistencies requires thinking through what the optimal level of localization is on different dimensions and for different purposes. The next section sets out some questions about how.

Optimal localization

How to localize depends very much on why to localize. There are three broad reasons to localize development cooperation. The first is on principle, for the intrinsic importance of localizing. From this position, the process of development and development cooperation matters independently of its impact; localization is the right thing to do because it is ethically or morally superior to a form

of ‘cooperation’ that involves little participation from one side of the relationship. Some of the movement to localize implicitly takes this starting point, with a tone of disbelief that so little aid goes through local actors. The idea that local actors should have a greater stake in their own development, including that financed ultimately by foreign sources, implies greater localization. The second justification is on impact or cost effectiveness grounds. Many advocates for localization suggest that localizing foreign aid delivery will result in it being either cheaper, or more effective, or both (for example, Cabot Venton et al., 2022). The third is for political value: it makes for better or more valuable relationships between funding/donor countries and organizations and recipients. These objectives are not necessarily at odds with each other: from current low levels of localization it is likely that the pursuit of localization on principle or for political gain will usually be consistent with the pursuit of increased cost effectiveness, so long as it is done carefully and with impact in mind. In what follows, I consider when impact concerns place limits on the optimal level of localization, to try and identify how to pursue localization in a way that is consistent with all of its objectives.

Localization should, in theory, strengthen some aspects of foreign aid effectiveness but might also weaken others. Though it should be thought of as an outcome with positive value in itself, it also has implications for what foreign aid does and how well. Taking localization seriously requires that we consider whether and where it has limitations.

Optimal resource localization

Foreign aid can be understood in three broad ways. The first is to act as a resource transfer, as suggested by Abbot (1970). We can take a broad view of this. Foreign aid may involve providing resources in the form of financial aid, goods or services or expertise and knowledge, or some combination of these at once.⁶ Resource localization has obvious implications here. It is straightforwardly preferable that financial resources be transferred to and controlled by local institutions where the purpose of foreign aid is to provide financial support or flexibility. There is something faintly absurd about ‘foreign’ aid that is spent primarily in donor countries (see, for example, Sandefur 2022, or Hughes and Mitchell 2022, or Hughes and Mitchell 2024). More subtly, it’s striking that much social protection in the form of cash is transferred through donor-established and managed transfer systems even when locally-run alternatives are available. Even where the money winds up in local hands, there are degrees of localization.

This does not suggest no limits to the localization of financial resources: where it is known or suspected that the resources are misappropriated it may be legitimate to use alternative mechanisms or simply withhold support. We should be careful, however, to distinguish between the actual misappropriation of resources and the failure to meet donor standards of proof for resource use. The latter may be artificially restrictive, driven by reporting norms and burdens that

⁶ At the same time, foreign aid may also depend on the financial expenditures, services, expertise and knowledge provided by local actors, either by complementing them or by in its design and conception.

are a product of the donor system rather than the minimum requirements to demonstrate that resources are handled with fidelity. The former is a legitimate barrier to localization; the latter is not, though it may pose a practical challenge for donors (of which more below). Given the rarity of confirmed fraud (and indeed, even of failures to meet accounting standards in cases where fraud is nevertheless not suspected), misappropriation fears are likely to be valid in only a small minority of cases—cases which concern implementing partners from all parts of the world, not just ‘local’ ones (Barbelet et al., 2021; Kenny 2017). High funder risk-aversion to misappropriation should not necessarily indicate a barrier to localization.

A related, but distinct, concern arises when resource localization puts local organizations at risk. In many settings where development cooperation is important, receiving money from foreign governments or being seen as too close to foreign governments may put staff or operations at risk. In such settings the local organizations themselves may prefer ‘less-localized’ approaches, such as channeling resources through the UN, which may provide cover that bilateral relationships do not.

Foreign aid may also serve to purchase goods and services. Very often, this is not localized. Donors are much more likely to purchase goods and services (including project design services and knowledge services and research) from organizations based in their own countries, or in other donor countries, than from organizations based in the recipient country. Much of the localization movement aims to reform these practices, and it is almost certain that current practice is not optimal. Often, local delivery agents are the ultimate providers of goods and services in any case, sub-contracted by donor country institutions; in such cases it’s hard to see what is gained from current arrangements, except perhaps the development of expertise in meeting donor reporting requirements. Even when goods or services are wholly delivered by donor country organizations, this is unlikely to be the efficient approach as often as it is observed. In many cases, local organizations know the context better and may be better placed to deliver project objectives.

However, this is not always true. In some cases, the most efficient and effective delivery organizations will not be local. Expertise may be built precisely through the process of delivering the same kinds of interventions in many different contexts; in other cases, the relevant skills and know-how for effective delivery may be rare, and available in only a few institutions, who are then better placed to deliver projects in many places than local alternatives. In extremes, there may only be a handful of people in the world capable of performing some task—if, for example, a Government wants advice from a world-leading expert in auction-design. In such cases, resource localization may come into conflict with effectiveness and impact. This conflict may only be temporary: with investment and experience the gap between local and foreign providers may decline. In such cases, a temporary reduction in effectiveness may be judged to a worthwhile price to pay. In other cases, the conflict is more fundamental.⁷

7 We are some way off this conflict being a binding constraint to more localization, however.

Sometimes, international delivery or recruitment may be an integral part of the establishment of expertise—offering opportunities for learning or acquisition of expertise that come only with scale and diversity of experience. Here it is important to consider the difference between ‘local’ and ‘Southern’. A Southern institution may have international recruitment and delivery and every opportunity to develop such expertise. A strictly local one may not. Again, however, we should not be too quick to accept this as an excuse for limited localization. Interventions that genuinely require international delivery agencies to maximise effectiveness exist, but are unlikely to account for a very large share of foreign aid activities.

Tied aid rules, which mandate that winning bidders be from the donor country (or some curated list of countries) are another practical limit to localization, despite decades of agreement that they are sub-optimal. Tying is totally unrelated to the optimal level of localization, and should be eliminated as far as possible, as others have argued already (#Shiftthepower network 2024).

The foregoing suggests that the optimal level of resource localization is substantially higher than is currently achieved⁸, but nevertheless below 100 per cent.

Optimal localization of agency

Foreign aid can also be understood as a governance intervention: a change in the accountability relationship between state and citizen (sometimes by design and for good reason, as we discuss below). By providing resources, goods and services in a fashion that bypasses the state, foreign aid can reduce the pressure of citizen accountability on states, weakening its incentives to provide public goods or services that benefit citizens (at least for those citizens who receive support from donors and NGOs rather than the state). Instead, the recipient is beholden to the funder, without any direct mechanism to hold them to account or punish poor performance or non-delivery. Poor communities may be dependent on, say, a cash transfer disbursed by the UN, but have no ability to ‘vote the UN out’ of the community if it fails to improve administration or respond to recipient concerns (for a critique of foreign aid on these lines Moss et al., 2006 review a substantial political science literature).

Resource localization can improve matters, but does not automatically do so. If donors localize by transferring resources to the state, who then procure or deliver goods and services, the line of accountability between state and citizen is partly restored (but not fully, since the state is accountable to and dependent on donors, and depending on how much aid is received this line of accountability may be more important than that to citizens and businesses from whom tax revenues are raised)⁹. If, however, donors fund NGOs or non-state delivery actors, even local ones, little is done to attenuate the perverse governance effects of aid, with primary accountability running from NGO to donor,

⁸ The poor record here is noted by Hughes and Mitchell (2024).

⁹ What’s more, states can be more or less responsive to citizens depending on political conditions.

rather than to citizens. The form, as well as the level of resource localization matters in addressing the governance implications of foreign aid.

Localization of agency can help. Even where resources are controlled by the donors, if local state actors are making or involved in the key decisions about its allocation and use (and known to be so), then accountability for impact may be restored through democratic channels.¹⁰ This may be weaker with NGO involvement, though direct community engagement and involvement in decision-making restores an arguably more direct form of accountability.

In some cases, however, affecting governance arrangements may not be an unfortunate side-effect of aid, but the very point. Where there is no development bargain (Dercon 2022), or where the state is predatory upon citizens, donors may actively choose to bypass the state in favour of systems that function to deliver public goods and services to citizens, and to reduce dependency of citizens on an extractive state. Similarly, support to civil society may be provided with the explicit aim of increasing democratic accountability. Such justifications do not, though, rule out a substantial amount of localization. Very often in seeking to navigate difficult or predatory political contexts, working with deeply-embedded local organizations who benefit from flexibility in decision-making to take advantage of opportunities or reroute their work when avenues become closed off. The point is that the appropriate form of localization as well as the extent depends on the governance arrangements in place and which are desirable.

Optimal political localization

Finally, foreign aid is also a political exchange between the donor and the recipient (government or, ultimately, citizens). To the extent this is true, it constitutes what Oliver Williamson (1999) described as a ‘sovereign transaction’¹¹; one that is difficult to outsource or deliver through any other mechanism than the Government. Depending on the specific political objectives being pursued by the donor country, the development cooperation it provides may be more or less localized. Some political relationships and objectives are facilitated by the transfer of resources in bulk to recipient country governments—aid to Ukraine, even from the US, typically wary of government-to-government transfers has taken this form (Kenny 2024). In other cases, the political objective of aid may be more akin to ‘aid-washing’ the donor-country’s reputation in the aid-recipient country, or to support or target specific sub-populations within the recipient country for political reasons. Where such motivations are more dominant, they imply a smaller role for localization, or at least a form of localization that gives greater prominence to the donor country.¹² We might argue that this is a second-best use of foreign aid, which should be focused on impact on the intended recipients,

10 Pinnington et al. (2024) include a case study from Uganda which fits this description.

11 Williamson was following James Q. Wilson in identifying a category of sovereign transactions’ but his analysis of under what circumstances such transactions must be delivered solely through the government inspires this discussion.

12 It is possible, after all, to localize nearly all decision-making and resources, but nevertheless mandate that the donor country flag be emblazoned on all aid-funded physical goods or constructions.

selected on the basis of some estimate of welfare generated by the intervention, but it would be naïve to assume that this is what all foreign aid is provided for.¹³ Again, this consideration places some restriction on the upper limit and type of localization pursued, though in some cases ‘performative localization’ may be part of the political project of foreign aid, calculated to win friends and project values.

What follows from this discussion is that the objectives and effects of foreign aid suggest limits to the extent and type of localization that should reasonably be pursued. These limits, though, are highly unlikely to be binding constraints on improvements to current practice: all bilateral donors do so poorly on localization (see Hughes and Mitchell 2024 on resource localization, and Sandefur 2022 on localization of agency) that none of these limits are practical considerations across the whole portfolio, though they may affect which parts are localized in which way, pointing to the need for a flexible localization strategy, to which I return later.

TABLE 1. Limits to localization

	Optimal Limits Set by	Should not be Limited by
Localization of resources	<ul style="list-style-type: none"> • <i>Concrete</i> fears of misappropriation/ misuse • Safeguarding/duty of care concerns where recipients may be at risk through donor association (affects form, not level) • Need to contract for highly specialized goods or services which cannot or would not be contracted for and/ or managed by local intermediaries or contracting agency • Activities where international learning by delivery partners is specifically valuable 	<ul style="list-style-type: none"> • Donor reporting and engagement requirements/ formats • Overly conservative donor risk tolerance • <i>Temporary</i> reductions in effectiveness when learning long term will equalize impact (or improve cost-effectiveness) • Tied aid rules (which should be phased out)
Localization of agency	<ul style="list-style-type: none"> • Absence of a ‘development bargain’ or local decision-making actors or bodies aligned with citizen interests 	<ul style="list-style-type: none"> • Existence of some actors/bodies misaligned with citizen interests does not rule out localizing agency to others, better aligned, to empower them
Political localization	<ul style="list-style-type: none"> • Political objectives determine the level and form of localization, subject to risk tolerance (itself endogenous to objectives) 	

13 And, to be clear, in many cases the donor’s own objectives will be served by effective, impactful aid, as when funding pandemic protection for example. But in such cases, at least some of the most consequential decision-making is reserved for the donor, which selects interventions and activities that support.

Practical challenges in localizing

Localization of both resources and agency can be, theoretically, simple. Many donors provided a large proportion of their bilateral foreign aid to recipient governments in the form of unrestricted or lightly-restricted general or sector budget support (both in grant and loan form) during the 2000s; between 2002 and 2005, GBS accounted for around one-third of all official development assistance received by 12 low- and lower-middle income African countries, reaching close to 70% for some countries in some years (Knoll 2008, page 4).

These forms of aid were effectively a direct resource transfer, with the spending of the resources fully controlled by the recipient government, which spent and accounted for the money through its usual processes of decision-making and accounting. This was fully-fledged resource localization, though it only ever covered a part of foreign aid. The remainder was reserved for project-based support, implemented by the donor, international NGOs or other local and non-local implementers. Since the recipient government had full control over spending decisions, it provided substantial localization of agency, too, though not as unfettered as might first appear: in every budget support recipient country some framework of performance indicators and monitoring was in place, in effect restricting the decision-making of recipients.¹⁴

Current practice is rather different. 2022 was a recent high-water mark for general budget support, receiving 5.2% of total ODA, mainly driven by support to Ukraine (Knox and Wozniak 2024). The vast majority of aid is now provided through discrete projects, each one with a separate procurement process, set of accounts, objectives, and monitoring and management arrangements. For many bilateral donors, shifting from disbursing a large share of bilateral aid as budget support to using project-based support for almost all aid has required a substantial reorganization of organizational structure and activities. These make localization logistically difficult. Specifically, localization will pose problems for existing accounting and reporting structures; procurement processes; and—potentially—the development and retention of the local knowledge and networks required to effectively localize agency, or alternatively, the development of a way of directly localizing decision-making and resources from the centre.¹⁵ These difficulties can be navigated, but will require confronting more trade-offs and implementing deeper organizational changes than is first apparent.

Localization will pose a challenge to organizations that have developed rigid and onerous accounting and reporting requirements in response to the perceived threat of misappropriation of foreign

14 How much it did so depends on how much you believe the overall portfolio of government spending was affected by the conditions imposed by donors.

15 The assumption is often that localization first requires decentralization to field offices, but there is at present insufficient data on how localization has actually worked to test this. On the one hand, there seems little barrier to localizing resources through procurement directly from the centre; on the other, where decision-making must be localized, and there are competing conception of who counts as local, and where different kinds of decision-making body may exist depending on civil and political conditions, it is difficult to imagine how the choice of how to localize decision-making can be made without some level of existing local knowledge. Whether this must come from a field office is open to question, however.

aid or corruption. The issue here is not that donors truly believe that providing resources to local organizations, whether governments, NGOs or think tanks, will inevitably lead to higher levels of theft or misuse; most of the systems put in place were never a response to high levels of confirmed fraud. Rather, since the late 2000s, amid increasing levels of hostile media and political scrutiny, donors re-gathered control of resources and implemented onerous reporting and accounting requirements as a defensive act against criticism of ‘waste’ in foreign aid. This happened at the same time that donors began redirecting budget support back into smaller project support, creating additional work for donor staff in two ways: replacing large transfers managed by a single local accounting and audit systems with smaller transfers managed by individual accounting, audit and impact reports. Short of doubling their administration capacity, most donors had no choice but to impose rigid standardization on reporting, driven primarily by the need to aggregate inputs into a single report on the donor side, and to quickly check and examine audits and accounts. This change created a competitive advantage for large, often donor-based, management and accountancy firms, which were able to meet these reporting requirements on time and to high standard.

Resource localization overlaid onto this structure will put it under strain. The political challenges to foreign aid have not relaxed, nor has the requirement of donor agencies to report back to their parliaments and supreme auditing bodies. In order to increase the extent of resource localization, donors will have to do one of three things. They can invest heavily in supporting the reporting capability of local partners. They can invest in their internal capabilities to quality assure, standardize and aggregate reporting from a wider range of partners than they currently engage with. Or they can establish some structure that takes reports in various forms or quality and standardizes and queries them, allowing them to contract local actors (or locally-embedded intermediaries) without changing reporting requirements and structures—effectively a platform that allows smaller partners to focus on implementation, and takes on the work of financial and activity reporting for onward presentation to donors.¹⁶ Since most local implementers will be making reports to multiple donors, a system that allows them flexibility of reporting will make localization considerably easier, since it makes it easier for local actors to bid for contracts.

A similar practical problem must be addressed for procurement processes to accelerate resource localization. At present, for almost all donors, donor-country organizations win most procurements; this is true even where aid is legally and formally untied. It happens because procurement calls are complex and difficult to navigate, and so reward experience: organizations which repeatedly bid for contracts from the same source develop expertise in filling out forms and answering questions in the right ways. At the same time, donors get to know certain providers (even if they primarily subcontract actual delivery to local organizations) and—whether knowingly or not—craft procurements to make sure they can be filled by the market donors are familiar with, often based on an incomplete knowledge of the market.

¹⁶ Alongside this, donors should engage much more extensively with domestic stakeholders about the true risk of misappropriation and their appropriate level of risk tolerance.

Simply announcing that the donor wishes to localize more aid and then continuing existing practice is therefore likely to be insufficient. Because there are constraints to localization under the current structures on both sides of the market, donors will need to *actively* localize. That requires changing processes to make them less onerous or more open to smaller or less familiar organizations (including by using fewer massive, multi-country contracts, as is common in USAID and FCDO), and actively learning about those parts of the market they have yet to directly engage with extensively, to learn how to design procurements that are amenable to localization and take advantage of the skills and expertise of different local partners. Alternatively, they will need to create entirely different funding relationships, with creation and design much more open and bottom-up (for example, through open funding calls).

This will be difficult and require time. Procurement processes have not been adopted ad hoc. They solve specific capacity and logistical problems. Overhauling them will not be easy. At the same time the size of the local delivery market is vast, and widely differentiated (since the same international organization may bid for contracts in 20 different locations, 'local' organizations will be local to a specific place). International donor staff in country offices rotate rather quickly: in the FCDO, for example, the norm is around three years. Knowledge built up about the local delivery ecosystem, and delivery agencies can easily be lost under such circumstances, without greater responsibility and power delegated to locally-appointed staff. This is true, too, of localization of agency, which depends to an even greater extent on local knowledge and an understanding of how different groups relate to each other.¹⁷ To localize effectively, donors may need to rethink how long their staff can serve in country posts, or at least establish structures to ensure that the kind of information required to localize agency (and understanding the universe of delivery agencies available) are captured and shared effectively, creating long-lasting institutional knowledge. For this reason, steps to empower and elevate the status of locally-appointed staff are also useful.

This assumes that the knowledge required to localize agency currently exists within donor institutions at all. This may not be the case. Unless localization occurs through the transfer of resources and agency to central governments (to which most donors have strong connections), it requires much more information. To localize agency effectively, donors need information about formal and informal decision-making structures and organizations at central, regional and district or even village levels, and about how they interact with each other. Many bilateral donors have neglected this kind of local knowledge in recent years. As a greater proportion of aid is delivered through projects and through international and donor-country organizations, the need to develop dense networks in-country has declined. And while good guides on how to think about decision-making and the feasibility of different forms of localization in development programming exist, applying them still requires a great deal of local information. To some extent these informational

¹⁷ As noted above, this view can be contested: it may possible to localize directly from the centre, even without a good knowledge of local political and civil context, for example, by using very open and flexible decision-making processes. As localization proceeds, more data and experience will resolve this issue.

requirements can be reduced by using local partners themselves to inform the localization process, but this can also be complicated, as noted earlier.

Incentive problems

These practical problems will slow or undermine efforts to localize that come with full commitment and effort towards that end. However, even donors with strong commitment to localization from leadership (political and bureaucratic) will face problems in cascading this commitment through to implementation. They will face two sets of principal-agent problems that are difficult to navigate, and for which the solutions may be in tension. A principal-agent problem occurs when one actor (the principal) wants another (the agent) to act on its behalf, to achieve some specified objective, but cannot perfectly observe the agent's actions or efforts, and cannot write a contract that fully captures all possible contingencies that may arise in delivery. Principal-agent problems are ubiquitous in government and foreign aid, and can rarely be solved perfectly. They are likely to arise in respect of localization too.

The first principal-agent problem donors will face in the effort to localize aid is internal to their own organizations. As the previous section made clear, localization is difficult: it will require a great deal of effort and in many cases cause substantial new work and disruption to the activities of donor offices and teams designing and managing projects. The goal of localization itself may also be resisted: teams managing procurements and projects may believe that the move to localize aid will compromise quality (if they believe their existing procurement practices choose the best possible implementers) or increase risks unnecessarily. Since central managers cannot perfectly monitor the activities or efforts of their agents in project-managing teams and offices, and since (as we showed in section 2) there are legitimate upper limits to localization, that will vary by context, it is difficult to distinguish between low levels of localization driven by real limits to feasibility and desirability in a given context and low levels which reflect limited effort and appetite for it.

There are two broad approaches to solving this principal-agent problem, which are not mutually exclusive. The first is to, effectively, institute a performance-based contract for localization, by mandating minimum levels of localization for each office or for the organization as a whole to achieve. This is the approach that USAID has taken by setting a target of localizing 25 percent of their aid by 2025. This has the advantage of setting a clear expectation across the organization of what is to be achieved, but comes at the cost of efficiency in two ways. First, it incentivizes offices to find the easiest way of meeting the target, regardless of whether it represents an efficient use of aid or adheres to the true spirit of the localization agenda. And second, the incentive to localize

declines sharply once the organization-wide target is met. Teams may exert little effort to *optimize* localization rather than simply meet the target.¹⁸

The other approach is to try and align the interests of the principal and agent, so even without monitoring, they pursue the same ends. In this context, that means working very hard to impart enthusiasm for localization throughout the organization: to communicate the benefits of localized aid, how it helps teams achieve their goals and to make the value of the approach clear. If a sense of mission can be inculcated around the localization agenda, agents will look for creative ways to localize even when practical difficulties emerge, and will pursue it to its logical or efficient level. Doing so is easier said than done. Many aid agencies and funders are large; communicating a new mission, and creating a strong sense of drive behind may be difficult and itself a highly resource intensive enterprise, large though the payoffs may be (Honig 2024). In DFID, a sense of mission was created around the idea of eliminating global poverty, but this took a great deal of effort and sustained leadership from the very top of the organization; once created however, it was sustained for many years (Lowcock and Dissanayake 2024). In USAID's case, the leadership of Administrator Samantha Power on localization may play a similar role. Specific approaches are suggested in the recommendations section.

The other principal-agent problem that donors need to solve is between the teams managing projects (the principals) and the contractors they hire to deliver them (the agent). Contractors want to maximise their profits from contracts gained at minimal effort and outlay; funders seek to achieve their (mix of) objectives as efficiently as possible. If this mix of objectives includes localization it can reasonably be expected that at least some potential contractors will seek to game the system in pursuit of contracts. The potential to do so is large: the difficulties in defining localization in the abstract will translate into difficulties in defining localization in contracts, and ultimately it is how localization manifests in contracts and policy that will determine its success (certainly for resource localization; localization of agency may be somewhat more robust to definitional issues).

Specifically, two main risks arise. First, international contractors may begin to invest in appearing 'local' in order to win contracts. This may undermine the spirit of localization: changing a country office on paper to a locally-incorporated subsidiary without changing anything about its reporting structures, staffing or relationship with the central office is not within the spirit of localization. The incentive for contractors to engage in such behaviour is larger the more explicitly the donor sets a target for the percentage of programmes or resources that must be localized by a given date. However, if the contractually-defined bar for being local is sufficiently high (for example, specifying not just the existence of a legal entity based in the recipient country, but ownership and leadership being citizens of that country), then the effort to win local contracts will itself create localization by

¹⁸ Again, how this plays out will vary in practice. In some cases, teams localizing particularly effectively may go well beyond the target out of intrinsic motivation for the mission or to demonstrate exceptional capability.

forcing international contractors to localize themselves. How localization is implemented through contracts is thus critically important.

The second risk comes from truly local organizations being created in order to take advantage of the increase in funding associated with the drive to localize, despite lacking capacity or expertise to meet contract requirements effectively. This is quite likely: if the size of the market increases, new providers will spring up to take advantage of it, and not all of them will be high-quality.¹⁹ Again, contracting and procurement processes must be robust to these risks. While requiring a strong track record of delivery for contract awards may not be appropriate (since this will privilege international and donor-country providers, who have historically won a disproportionate share of contracts), including break clauses and performance monitoring may help. Since donor objectives include both localization and effectiveness, contracting and procurement processes need to balance them.

Five recommendations

Implementing localization plans will be difficult and carries risks. Nevertheless, donors will (and should) take steps to localize. The foregoing analysis suggests ways to do so more effectively, set out below.

Define the terms of localization broadly in strategy but precisely in contracting

There are competing pressures in deciding what ‘localization’ means. On the one hand, broad definitions allow the navigation of the many grey areas where clear, universal definitions are not possible. It gives space for local decision-makers (both donor field offices and local organizations) to decide who to localize to, and how, and to make choices that adhere to the spirit of the enterprise. On the other hand, unclear definitions make it easier for potential contractors to game the system and undermine efforts to localize, and may make monitoring progress more difficult.

One solution is that for internal policy and strategy purposes, a vague definition of localization should be adopted, to allow maximum flexibility to select the most appropriate forms of localization in different contexts and for different problems; the working definitions proposed in section 2 are a starting point. In contracting, however, specific definitions will need to be adopted to minimize gaming. To the greatest extent possible, such definitions should be set for a specific transaction or context, though legal requirements for fair treatment of contractors may be limiting. If, for legal reasons, some definitions must be set universally (for example, defining what constitutes a ‘local’ organization) definitions should be actively red teamed and stress-tested before adoption. It is

¹⁹ A related, but distinct, concern is that because international contracts can be so lucrative, local organizations reorganize and reallocate their resources and efforts to win them, even when the social benefits of doing so may sometimes be smaller than continuing to focus on domestic-facing objectives and financing.

likely that no definition will be perfect, but deciding which imperfections are acceptable and what compromises can be made without undermining the spirit of localization is necessary, and depends on each donor's specific objectives.

In some fragile and conflict-affected settings, alternative arrangements will be necessary. De facto localization may not be contractually defined if that puts partners at risk. In such cases 'localization clauses' may not be appropriate in contracting, but offices can, at aggregate level, report what proportion of their portfolio is localized using the more flexible strategic definition.

Create a sense of mission around localization

Hard targets are useful for stimulating quick progress and solving internal principal-agent problems that may otherwise undermine localization plans. But they have drawbacks: they sharpen the incentive for potential contractors to game the system, and they may lead to 'target-chasing' behaviour rather than true optimization within the donor.

Though requiring much more investment in communication and much stronger senior leadership, attempting to align the organization behind the goal of localizing to the greatest extent sensibly possible is preferable. Clearly communicating why the organization is committed to localizing aid, and having an open discussion about how, when and how much to localize allows country offices and policy and spending teams to make decisions based on the balance of impact and localisation, and to take sensible decisions about what kinds of localization to pursue (and indeed how to define it) in ways that are context-driven and in the spirit of the objective. This does require, though, a clear and compelling vision for why and for what localization is being pursued, as discussed above. Without this, a mission cannot be fostered, and the flexibility to act will not be directed to a well-defined (and welfare-improving) purpose. If successful, it allows the donor to pursue the strategy set out above of using a loose overarching set of definitions of localization, and allowing specifics to be determined closer to the point of delivery without running an undue risk of gaming or undermining the localization agenda.

Creating a sense of mission is difficult. It requires repeated messaging from leadership, consistent and sustained outreach from the localization leads, in small enough groups that challenges can be responded to and questions answered, and some form of monitoring and information sharing (of which more below).

Streamline and invest in project management and reporting

One of the biggest constraints to greatly widening the range of contractors and delivery agencies donors use and reducing the use of middlemen from donor countries that then subcontract to local delivery agencies, is the exacting project management and reporting requirements required of contractors. These requirements are exacting not just because of the number of forms or returns that

must be made, but for other, harder-to-resolve reasons: familiarity with donor-country languages, legal requirements, registration requirements and accounting rules. These constrain localization on both the supply side, discouraging smaller or less-experienced organizations, and on the demand side, with donors more inclined to contract to larger organizations, with more established (and proven) accounting, reporting and similar requirements.

The extent to which these issues apply will vary by donor and funder; but to quickly increase the level of localization some form of investment in lessening these burdens will likely be necessary (and will also have the side benefit of making all smaller contractors and delivery agencies better placed to win and deliver contracts). Assuming donor practices are already as simple as legally and institutionally feasible, three broad options exist: invest in capacity in local firms; invest in in-house capacity; or invest in a separate project management platform that provides services to all successful bidders.²⁰ They are not mutually exclusive. The first approach has the benefit of directly investing in the capabilities of local organizations, but requires that the funder already know the universe of potential bidders, and can quickly identify new organizations that need support. Given diverse requirements across funders, it would likely quickly overwhelm most local organizations with capacity building offers. The second takes the burden off local contractors, but in-sources it, and would require a reallocation of effort from policy and idea generation towards administration. For some donors and funders this may be sensible, but for many—especially those for which the ‘sovereign transaction’ elements of foreign aid are important—this will not be attractive. The third option is most costly in the short-term but potentially the best long-term solution. By financing a platform that works with all implementing partners it shortens the chain from donor to delivery, but also unburdens both the implementers and the donors to allow them to focus on the generation of policy, project design, and delivery.²¹ More detail on such an approach is set out in Dissanayake (2024).

Re-engage local decision-makers

Since localization looks different in different places and for different kinds of cooperation, a wide range of local decision-makers will sometimes be important partners. Decision-makers include central and local government officials, CSOs and NGOs as well as implementers and delivery partners (including in the private sector); and engagement at varying levels of seniority may be appropriate. One consequence of the end of general budget support has been that the depth of engagement with local decision-makers and organizations in developing countries has declined among most donors. While the most senior officials continue to have strong connections with the

20 An alternative version of the third option is to use local intermediaries, which becomes a hybrid of option 1 and 3, since local intermediaries will need to be able to meet donor reporting requirements; it also has the downside that those intermediaries will need to be fluent in the processes of multiple funders.

21 In private interviews, local implementers and their funders have repeatedly pointed out that local agencies often do not need any capacity building in terms of implementation and delivery: they know how to operate in their local environment. What passes for ‘capacity building’ is often the capacity to meet donor-imposed reporting or accounting requirements. This may incorporate important elements, such as safeguarding practices, however.

most senior Government and civil society figures, for some donors at least, mid-level connections have hollowed out compared to the mid-2000s, when unrestricted budget support meant much more time was spent working with mid-level officials and organizations funded by governments, to engage on policy, account for resource use and the like. One consequence of this is that localization of agency will be more difficult now. Donors have weaker links with the full range of local decision-makers and officials at various levels of seniority, which makes the process of transferring decision-making power to a variety of local actors more challenging. For localization of agency to be effective, these links need to be rebuilt. This may be easier where donors integrate foreign affairs and development functions, but can be achieved under any institutional arrangements with some effort.

End-to-end monitoring

Though setting concrete targets may have unintended negative effects, monitoring is extremely valuable. Notwithstanding its deep antecedents, localization is a new agenda, applied at a time when donors operate very differently to how they did in the mid-2000s when similar ideas were common currency. How contractors (both donor-country and southern) will respond to localization efforts is not yet known. A slow pace of localization may reflect supply or demand side problems; a fast pace of localization may reflect real progress or successful gaming by contractor organizations. The impact of localization on the different functions and effects of foreign aid are not yet known. Impact on the ultimate recipients and the strength and effectiveness of local systems needs to be monitored. In theory, it should support stronger impact, but this may not be true at all levels of localization, and benefits may take time to manifest. A focus on evaluation, including evaluation led by or involving local actors, is important.

In short, there is much we don't know, and any sensible approach to localization needs to build in information gathering to both course-correct and maximise the positive impact of localization.

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