

HPG REPORT

How underfunding local organisations' overheads undermines humanitarian action

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Cover photo: Rekik, Lulit, Hamdi, Kibur, Bethel and Faven meet at the Talent Youth Association office, a non-for-profit promoting the health and wellbeing of Ethiopia's youth. © Maheder Haileselassie Tadese/Getty Images/Images of Empowerment

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About this publication

In recent years, extensive research has been conducted regarding the provision of overheads to local and national actors. In 2022, an outcome document from the Grand Bargain caucus on the role of intermediaries included a commitment from signatories to allocate overhead costs to local and national actors. In the same year, Development Initiatives (DI) conducted a mapping of policies regarding overhead costs to local and national actors. DI updated the mapping in 2023 and 2024, documenting an increase in the provision of overhead policies.

DI was due to conduct the same mapping in 2025 – however, in October 2024, DI ceased operating. HPG worked with Oxfam and the Humanitarian System Transformation through Local Humanitarian Leadership (HST-LHL) consortium to ensure that the work on monitoring progress on overheads to local and national actors continued. This paper is a result of this collaboration. A special thanks to DI and to former-DI colleagues who committed their efforts and endeavours to elevate this issue and enhance understanding and accountability, without which this paper would not be possible.

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Acronyms and abbreviations

BRC	British Red Cross
CDP	Center for Disaster Philanthropy
DRA	Dutch Relief Alliance
ECHO	European Civil Protection and Humanitarian Aid Operations
FAO	Food and Agriculture Organization
IASC	Inter-Agency Standing Committee
ICR	indirect cost recovery (overheads)
INGO	international non-governmental organisation
LAG	Local Advisory Group [DRA]
LNA	local and national humanitarian actor
NEAR	Network for Empowered Aid Response
NGO	non-governmental organisation
NICRA	Negotiated Indirect Cost Rate Agreement [USAID]
Norad	Norwegian Agency for Development Cooperation
NRC	Norwegian Refugee Council
RLO	refugee-led organisation
Sida	Swedish International Development Cooperation Agency
UN	United Nations
UNHCR	UN Refugee Agency
UNFPA	UN Population Fund
US	United States of America
USAID	US Agency for International Development

Executive summary

Local and national humanitarian actors (LNAs) are often the first and last responders during a crisis, yet they continue to operate within a system that systematically underfunds their safety, organisational health and sustainability. In recognition of this chronic underfunding, international humanitarian actors came together in 2016 to collectively and publicly commit to ensuring LNAs are better resourced (IASC, 2016). Increasing the quantity and quality of funding for overheads (also known as indirect cost recovery (ICR)) for LNAs is central to this broader commitment.

Overheads are not peripheral administrative costs. They fund the essential infrastructure that enables principled humanitarian action: programme quality and continuity between grants, staff retention, duty of care, safety and security, compliance, coordination, and the organisational resilience required to respond rapidly and responsibly. As Maliha Fairooz from the Feminist Humanitarian Network notes, 'Overheads are part of the heartbeat of feminist humanitarian organising... This is not extra. This is the work.'

Interviews with LNAs reveal that a lack of access to flexible funds and the inability to build critical organisational reserves resulted in a consistent pattern of staff burnout, high turnover, heightened safety risks, and compliance gaps. This can also result in pressures on LNAs to accept more contracts that fail to respect their risk appetite, organisational values and financial needs. This erasure of organisational financial autonomy weakens negotiating power and produces structural dependency on donors and intermediaries within an extractive and exploitative system.

Despite nearly a decade of global commitments and a proliferation of research papers, guidance documents and working groups, practice continues to fall short. Access to adequate, flexible and unrestricted overheads for LNAs remains limited, inconsistent, and in some cases, entirely absent.

This sits within the broader context of a sector that is choosing where to prioritise scarce resources. The number of people with humanitarian needs has reached 239 million globally (OCHA, 2025a), while the sector faces 'the most devastating funding cuts that our sector has ever seen' (OCHA, 2025b). The effective withdrawal of the United States Agency for International Development (USAID)'s 10% minimum overhead rate for LNAs – one of the main consistent sources of protected overheads for LNAs – has created a 'double financial shock'. USAID previously accounted for 43% of global humanitarian funding (ALNAP, 2025), meaning its retreat has simultaneously reduced overall funding volumes and disproportionately eroded access to overheads for LNAs. Other major donors often provide for far lower rates (sometimes as little as 2%), have extensive restrictions on ICR use, or require overheads to be shared at the same time as imposing inadequate caps. Where scarce resources are protected – and where they are squeezed – is a clear indicator of whose work, risk and sustainability the system truly values.

This report tracks the evolution of ICR policies across donors and intermediaries, and reveals both progress and persistent gaps. While the number of organisations with ICR policies/guidance has increased, from eight in 2022 to 40 in 2025, policy proliferation has not consistently translated into

equitable practice.[1] Many policies retain outdated percentage caps – most commonly 7% – that bear little resemblance to the real indirect costs of operating in complex, high-risk environments. Furthermore, few policies or guidance documents allow for overhead funding that meets quality standards, such as those set out by the Inter-Agency Standing Committee and outlined in Develop Initiatives reports (Girling-Morris, 2022; 2023; Development Initiatives, 2024). Definitions of ICR vary widely, masking significant differences in how funding can actually be used (Development Initiatives and UNICEF, 2023; Development Initiatives and NRC, 2024). Crucially, most donors do not mandate pass-through to sub-grantees, nor do they systematically monitor whether LNAs receive what they should in accordance with donor and intermediary policies.

These gaps are not merely technical. They reflect deeper structural and political dynamics within the humanitarian system. Extractive funding models continue to externalise risk on to frontline actors while withholding the flexible resources required for organisational health. LNAs are positioned, by some, as delivery agents rather than autonomous actors, expected to absorb risk without access to the resources necessary to uphold duty of care. As one interviewee noted, 'How an organisation chooses to spend its money shows their values clearer than any mission statement. Words are empty without action.'

Despite these challenges, promising examples of change are emerging. Cases of LNA collective advocacy and refusal to accept underfunded contracts have been shown to influence change. Some donors and intermediaries are adopting higher default ICR rates, topping up donor contributions, piloting stacked models that protect overheads at each level of the delivery chain, or committing to funding the actual costs of an organisation.

Improvements can be seen in the monitoring and transparency of LNA overhead resourcing – though more is needed. Entrenched bureaucracies around ICR have resulted in some organisations' internal barriers to reform being perceived as insurmountable. This strengthens a case for some actors to consider reframing ICR/overheads fundamentally when it comes to LNAs. One way would be to shift to more 'core' support. Locally led pooled funds, feminist funds, philanthropies and participatory grant-making initiatives are increasingly moving to provide fully flexible, multi-year core funding – supporting the objectives of ICR resourcing but in more radical ways. They also provide examples of alternative funding cultures rooted in trust, solidarity and mutual accountability.

To build a fair and sustainable humanitarian financing ecosystem, equitable overhead funding must be understood as both a technical requirement and a political choice. Donors and intermediaries must adopt transparent, adequate, flexible and standardised approaches; mandate and monitor pass-through; and align practice with evidence and LNA lived experiences. They must also confront the deeper incentives and power structures that undervalue frontline organisations.

> We know what we need to do... the answers are there, but where is the action? (International organisation staff member)

1 See Chapter 2 for a breakdown of how this number was reached and the limitations of self-reporting on policies and guidance.

Fair overhead financing is essential to localisation and sustaining principled humanitarian action. It is essential to building a system grounded not in extraction, but in care, equity and accountability. Equitable overhead resourcing for frontline responders therefore represents a concrete opportunity to move towards relationships built on respect, solidarity, mutual accountability and sustainability. For a full list of recommendations, see Chapter 6.

1 Introduction

This report builds on the work of Development Initiatives by tracking the evolution of indirect cost recovery (ICR) policies and practices among Grand Bargain signatories since 2022. Three consecutive reports from Development Initiatives in 2022, 2023 and 2024 mapped organisational overhead policies of humanitarian actors and found an increase in organisations with policies/guidance on overhead provision (Girling-Morris, 2022; 2023; Development Initiatives, 2024). This report builds on this previous analysis, guided by three research questions:

- What has been the evolution of policies regarding the provision of overheads since 2022?
- What are the current policies and practices of humanitarian actors regarding the provision of overhead sharing with LNAs?
- What are the main barriers to LNAs accessing adequate overhead funding, and examples of good practices?

The methodology comprised:

- A literature review. A desk review of key publications, organisational policies and self-reporting tools.
- Semi-structured key informant interviews. 31 people were interviewed from a diverse range of humanitarian organisations. This included representatives from LNAs in Afghanistan, Bangladesh, Lebanon, Myanmar, Somalia and Syria; headquarter, in-country and surge staff from international non-governmental organisations (INGOs); institutional government donors; philanthropic donors, humanitarian networks, humanitarian research and advocacy groups; United Nations (UN) agencies; the Red Cross and Red Crescent Movement; and independent humanitarian fundraising consultants.
- Collaboration. The research was conducted in dialogue with the Grand Bargain Subgroup on Intermediaries, providing insights into ongoing sector-wide debates and initiatives.

1.1 Definitions and limitations

Local and national actors: LNAs in the context of this report are organisations that are led by, governed from and primarily accountable to the countries and communities where humanitarian responses take place. This paper focuses specifically on humanitarian action, but some of the actors involved in responses also engage in development and peacebuilding activities and may work in advocacy/activist spaces. While using 'LNA' is limited due to the wide-ranging actors that fall under such a term and the dramatically differing experiences of such actors (e.g. they may vary by size, mandate, registration status, proximity to authorities and power, and ethno-/socio-/cultural/political proximity to affected communities), the term is used for ease while acknowledging its limitations.

While LNAs can find themselves at different levels within the humanitarian chain – as sub-grantees, direct grantees, intermediaries and even donors – this paper primarily focuses on their experiences as **sub-grantees**, receiving funds via international intermediaries.

ICR/overheads: For this report, ICR (used interchangeably with 'overheads') refers to costs that are essential for an organisation's safe, effective and efficient operation, which fall outside activity and direct programme support costs. These include organisational running and development, safety and security measures, and the building of essential financial reserves (IASC, 2022a). ICR is used here as a shorthand to encompass the range of terminology currently applied by donors and intermediaries, including 'negotiated indirect cost rates', 'programme support costs', and 'non-programme attributable costs', amongst others.

A key challenge that remains is the absence of a sector-wide standardisation in how ICR is defined, calculated and permitted to be used.

Generally, approaches to overheads fall broadly into two categories:

1. Flexible, unrestricted ICR: ICR constitutes fully flexible, unaudited, non-timebound contributions that can be pooled and used to support organisational development needs and financial health and sustainability, including the building of organisational reserves. As noted by a leader at CARE International, 'if it's not unrestricted it's not ICR' (Mutune, 2022).
2. Restricted ICR: Funding labelled as ICR but subject to significant limitations that reduce its utility. Restrictions vary widely but may include prohibitions on pooling funds; narrow specifications on allowable expenditure (for example, excluding staff development, insurance, legal costs, building organisational reserves, or pilot initiatives); time limits on use; and audit or reporting requirements comparable to those applied to direct programme costs. In some cases, ICR has to be budgeted as itemised direct support lines.

These variations present an analytical challenge. A self-reported claim that an organisation or donor has 'a policy on ICR' does not necessarily translate into improved access to meaningful, flexible funding for LNAs. This can mask fundamentally different practices, undermining transparency and creating practical management challenges for organisations navigating multiple, sometimes contradictory, funding rules across myriad funding streams (Girling-Morris, 2022; 2023; IASC, 2022b).

Box 1 The self-reporting conundrum

For this research, all organisations that self-reported as having an ICR financing policy or guidance were counted. In reality, variations between different policy and guidance documents are so significant that surface-level comparisons become challenging. Some donors reported 'yes' to having guidance where LNAs are direct grantees, however no policy or guidance exists around downstream sharing of funds where they pass through an intermediary. Some guidance stipulates the maximum an intermediary can finance with no requirements for any ICR financing at all, while others have firm minimums with built-in incentives to financing more. Some donor guidance is so restrictive that it fails to meet criteria for quality ICR.[i] For example, a donor who requires LNA or sub-grantee overheads to be budgeted as direct programme lines, with all the restrictions that come with those, rather than as ICR. See Chapters 5 and 6 for analysis and recommendations on how to move away from inequitable practices towards a fairer and more robust funding system for LNAs.

i 'Quality' defined by IASC guidance (2022a) and as per the parameters outlined in the paper.

2 Why are overheads for local and national actors important?

Despite widespread institutional commitments to localisation and equitable partnership, interviews with LNAs reveal persistent inconsistencies in application and continued material harm from chronic under-resourcing of ICR, echoing findings from earlier research (Anwar, 2022; Development Initiatives and UNICEF, 2023; Theiler, 2024; CARE International and Fair Funding Solutions, 2025). Interviewees described a range of impacts, including increased safety and security risks due to underinvestment in protocols and community acceptance campaigns; staff burnout and high turnover driven by the inability to retain staff between grants or to honour labour rights; compliance gaps resulting from insufficient resources to maintain complex donor systems; and strategic paralysis caused by the absence of reserves and flexible funding.

A growing body of evidence, including the research by Development Initiatives, demonstrates that access to adequate, flexible and unrestricted ICR, especially the ability to build flexible organisational reserves, is fundamental to the financial resilience, institutional sustainability, and operational safety of LNAs (e.g. Longhurst and Boyes-Watson, 2016; Development Initiatives and NRC, 2024; Theiler, 2024; CARE International and Fair Funding Solutions, 2025).

Interviews conducted for this paper strongly emphasised that ICR forms a critical pillar of institutional infrastructure and financial health. It enables organisations to build:

- Human resources by investing in and retaining skilled staff between grants and upholding labour rights.
- Programme delivery, coordination and quality. Critical humanitarian services can be sustained during funding gaps or donor payment delays, whilst rapid response to crisis can be enabled by more flexible funding. LNAs are also better able to invest in improved technical oversight, programme quality, pilots, learning, and inter-agency coordination.
- Fundraising capacity. The resourcing of fundraising personnel, and improved monitoring capacity, enables organisations to better attract additional funding. Furthermore, with many donors requiring payment by results or phased/partial payments throughout a grant period, healthy organisational reserves – which can front programmatic costs – become a prerequisite to even consider applying for certain grants.
- Compliance and risk management. Financial management systems, compliance capacity, risk-management processes, internal controls and safeguarding frameworks can be established, maintained and kept up to date with ICR.[2]

2 This is due to the ability to invest in the adequate infrastructure required to uphold such systems, as well as the ability to retain vetted and trained staff who have completed all required background checks and are familiar with an organisation's compliance requirements. Rapid responses and the rapid recruitment of new personnel (with pressures to immediately deliver and delays in background checks, inductions and trainings) are shown to increase risks regarding safeguarding, sexual exploitation and abuse, safety and compliance. See UNHCR guidance on Protection from Sexual Exploitation and Abuse at https://emergency.unhcr.org/protection/protection-principles/protection-sexual-exploitation-and-abuse-psea.

- Safety and security, by investing in team physical and mental safety, including security equipment, training and practices, navigating complex in-country and cross-border legal systems, and through building community acceptance.

Inadequate reserves are reported to force organisations to operate in a state of near-constant financial precarity, focused on survival rather than organisational strengthening, unable to plan, invest or innovate (Boyes-Watson and Bortcosh, 2022). The impacts of insufficient ICR are explored in more depth in the rest of this chapter.

2.1 Impact on staff retention and turnover

LNA interviewees reported being unable to cover staff entitlements such as maternity leave, mental health support, or paid cover between grants, with some staff subsidising organisational operations through unpaid overtime or personal savings. Two LNA directors reported financing essential organisational costs from their own pockets. As one LNA humanitarian leader asked: 'How can we survive? I use my personal money, but this is not sustainable.'

Several LNAs reported critical staff needing to take on additional work and consultancies outside of their organisations to survive (echoing findings from ODI Global research on women-led organisations; see Mazzilli et al., 2025).

Multiple studies link chronic underfunding of indirect costs to staff burnout, high turnover, and weakened programme safety. Research on humanitarian workforces shows that insecure funding and the inability to cover basic employment costs contribute directly to exhaustion, loss of institutional knowledge, and compromised safety practices (Houldey, 2021; Njeri and Daigle, 2022; Asgary and Lawrence, 2020; Sturridge et al., 2025; Thompson, 2025).

High turnover is not only a workforce issue; it has direct implications for programme safety and effectiveness, particularly in high-risk contexts where trust, relationships and contextual knowledge are critical. One LNA finance director shared that staff turnover – resulting from the lack of organisational reserves and inability to retain talent between grants – was one of the biggest contributors towards internal compliance challenges. Repeated recruitment and retraining impose high costs on organisations already operating with limited resources, further eroding value for money over time (see Girling-Morris, 2022).

2.2 Programme quality, coordination and creativity

Quality ICR, and the ability to build organisational reserves, was highlighted in several interviews as central to supporting programme implementation and quality. Agencies that were able to secure adequate ICR and build healthy organisational reserves reported an ability to apply for donor grants that operate on a 'reimbursement' basis, and to function despite donor delays in payments (an option that is completely closed to many LNAs). They reported an ability to invest in staff technical

training, supervision and talent retention, necessary for quality programmes and building institutional knowledge, thus enabling the retention of staff that know the community well, and removing the need to start over with each new grant cycle.

Well-resourced organisations described being able to rapidly respond to spikes in humanitarian crises without having to wait for donors. Razia Sultana, Director of Arakan Rohingya National Organisation's women section and the founder of Rights for Women Welfare Society (RWWS), said that when there was more global attention on the Rohingya crisis, the organisation could access greater ICR and build organisational reserves. As a result, when fires broke out in the refugee camps in Cox's Bazar, RWWS could quickly respond without waiting for donors to act: 'We could be there for the women we support, with supplies they needed.'

Another well-resourced LNA in Myanmar described being able to employ sufficient staff capacity to participate in, and in some cases lead, inter-agency coordination mechanisms, clusters and working groups. This led to significant improvements in the organisation's profile within the wider humanitarian community, its fundraising abilities, the space for it to advocate more directly for the organisation's needs, and its ability to better coordinate its programmes within technical groups.

Under-resourced LNAs, with chronically underfunded and poor-quality ICR, described wishing they had the reserves to be able to run innovative pilots, invest in internal evaluations to record and evidence the good practices they had developed – to fundraise better, and to invest in programme technical oversight and safeguarding. Interviewees talked of a debilitating cycle of underfunding, which could be described as a 'starvation cycle' (Boyes-Watson and Bortcosh, 2022). LNAs noted how this directly limited their ability to find more creative solutions for the communities they serve: 'We are constantly chasing funding opportunities and don't have space for strategic thinking.'

2.3 Impact on safety and security

The importance of overheads is especially pronounced for LNAs operating in contexts where international actors face access, security or political constraints. As one LNA director stated, 'We go where INGOs cannot go.' Sustaining such access requires continuous engagement with community leaders, participation in coordination mechanisms, navigation of complex bureaucratic and security environments, and sustained relationship-building with local authorities. These are core operational requirements that are reported as being frequently under-resourced in LNA sub-grantee contracts.

Access to flexible funding through adequate ICR was reported to increase organisational autonomy, enabling LNAs to uphold principled positions, invest in essential safety/security training and equipment, and sustain services during funding gaps. LNAs with access to quality ICR and healthy reserves shared being able to successfully hibernate staff in Afghanistan and Myanmar through major political unrest

and the Covid-19 pandemic, as well as continue essential nexus programming.[3] LNAs that had built reserves through ICR also reported feeling empowered to push back on external pressures to engage in programming outside of their risk threshold (in reference to the 2021 coup and banking crises in Myanmar and the 2021 change in government and economic collapse in Afghanistan).

Conversely, underfunded LNAs flagged that inadequate reserves, and weak financial health, significantly undermines an organisation's bargaining power, pressures them to accept additional risk outside of their risk threshold, or to politicise (or depoliticise) their aid in ways that might not align with their values. Some LNA leaders noted that extreme financial dependency can create pressure to compromise organisational values or political positions in order to secure continued funding. Though this issue is long-standing, its effects are more acutely felt during the current global shrinking of civic space and funding for civil society actors (Sturridge et al., 2025; Moallin et al., 2025).

2.4 Impact on compliance and risk management

ICR is essential for ensuring that LNAs can build the safeguarding, risk management and internal compliance mechanisms necessary to operate responsibly in complex humanitarian contexts with vulnerable people. These funds help organisations prevent, detect, investigate and respond to malicious violations (such as intentional acts of fraud, bribery, corruption, or safeguarding abuses). An organisation's ability to build staff capacity and have functional accessible reporting mechanisms requires resourcing that often comes from ICR.

Adequate ICR also supports organisations to manage risk that is less intentional but a consequence of human error. Major variations in definitions and eligible costs within the sector create a labyrinthine system for LNAs. An LNA managing multiple awards from different donors, each with its own compliance requirements and cost definitions, requires sophisticated financial systems, precisely the systems that ICR is meant to fund. As Tim Boyes-Watson, Director and Co-Creator of Fair Funding Solutions, noted: 'INGOs often have entire dedicated compliance teams to guide this [funded with flexible funds and ICR], a luxury most LNAs cannot afford.'

One LNA financial director also highlighted that the inability to retain talent between grants was a significant contributor to compliance issues. High turnover, the need for retraining newly onboarded staff, as well as the human errors that can happen during staffing gaps, result in over-stretched,

3 Staff hibernation refers to a deliberate risk-management and workforce-care strategy in which organisations temporarily retain staff in paid or partially paid roles during periods when normal programme delivery is suspended or severely constrained due to crisis conditions (e.g. insecurity, access restrictions, political upheaval, or financial system collapse). Hibernation prioritises staff safety, duty of care, and the preservation of institutional knowledge and operational capacity, enabling rapid and responsible reactivation when conditions allow. It is not unpaid leave or inactivity, but a conscious investment in organisational resilience, typically dependent on flexible funding or access to overheads and reserves (see, for example, ALNAP and CHS guidance on duty of care and crisis preparedness: www.chsalliance.org/get-support/article/introduction-duty-care).

burnt-out teams. This can lead to avoidable mistakes, consequential disallowances, and negative perceptions around LNA financial management 'capacities'. These perceptions of 'low capacity' risk leading to further restrictions in future ICR and a downward spiral of under-resourcing.[4]

The flexible funding that ICR enables, including the ability to build organisational reserves, is therefore not an administrative luxury, but a structural requirement for safe, effective and sustainable humanitarian action by LNAs. Without adequate and flexible ICR, LNAs remain locked into short-term delivery roles, exposed to heightened risk, workforce instability and financial dependency. With it, they are better able to invest in people, systems, safety, coordination and innovation, and therefore deliver stronger outcomes for affected communities and better value for the humanitarian system as a whole.

2.5 Importance at this specific moment in time – current funding landscape

The need for improved ICR practices is especially acute at this current moment. In 2024, the United States (US) accounted for 43% of global humanitarian funding (ALNAP, 2025), making it the system's most influential donor. While the overhead policy of the US Agency for International Development (USAID) has not formally changed, the effective dissolution and severe curtailment of US humanitarian programming has resulted in a sudden withdrawal of funding at unprecedented scale. This is particularly significant as USAID was one of the few donors to support full cost recovery through Negotiated Indirect Cost Rate Agreements (NICRAs) – formal, audited agreements allowing organisations to recover *actual* indirect costs (sometimes reaching over 30%), and to provide a 10% minimum ICR rate for local partners without a NICRA, applied *in addition to* intermediary overheads.

The impact of this loss is magnified by the practices of other major donors. Germany, for example, the third-largest humanitarian donor in 2024 (ALNAP, 2025), typically maintains only around 2% ICR for LNAs, while encouraging intermediaries to absorb these costs within their own overhead allocations (generally capped at 9%). The effective removal of USAID therefore creates a double shock for LNAs: a sharp contraction in overall funding volumes combined with a disproportionate collapse in access to overhead financing. Unless other donors and intermediaries, particularly UN agencies (through which most humanitarian funding still flows) materially improve their ICR pass-through practices, LNAs face a serious erosion of organisational sustainability at precisely the moment they are expected to deliver more with less (see Box 2 for an example).

4 This was emphasised in a number of LNA interviews. For further reading on some of the challenges within discourses around LNA 'capacity', see Barbelet (2019).

Box 2 Example of the importance of overhead sharing for Palestinian youth organisation, Jafra

The Jafra Foundation for Relief and Youth Development is a Palestinian youth organisation that has been working to empower Palestinian refugees since 2002, working across both Lebanon and Syria to support young people in fragile border contexts.

CEO Wesam Sabaaneh noted that:

> International actors like to work with us to transfer the risk. We know the areas better, we work in areas they cannot work in, but the current ways of working are not sustainable.

Wesam explained how multi-location programming results in much higher overheads, estimating that Jafra's is between 15% and 20% of its total funding, depending on the size of the portfolio at the time. He said, 'If you're a multi-million-dollar organisation working in one location, 7% is maybe fine – but for us, a small organisation working multi-location, in high-risk complex contexts, it is inadequate.'

He emphasised the additional costs of working in war and emergencies – the need to support the team with their mental health as well as insurance, the cost of lawyers, and costs related to the safety and security of staff.

The chronic underfunding of ICR for Jafra has meant it has been unable to build any organisational reserves, as Wesam explained:

> Staff end up doing other jobs to survive and the safety and security of the team are not covered. Donors are still not fully covering project costs so the little ICR we do have often ends up diverted to plug programme gaps.

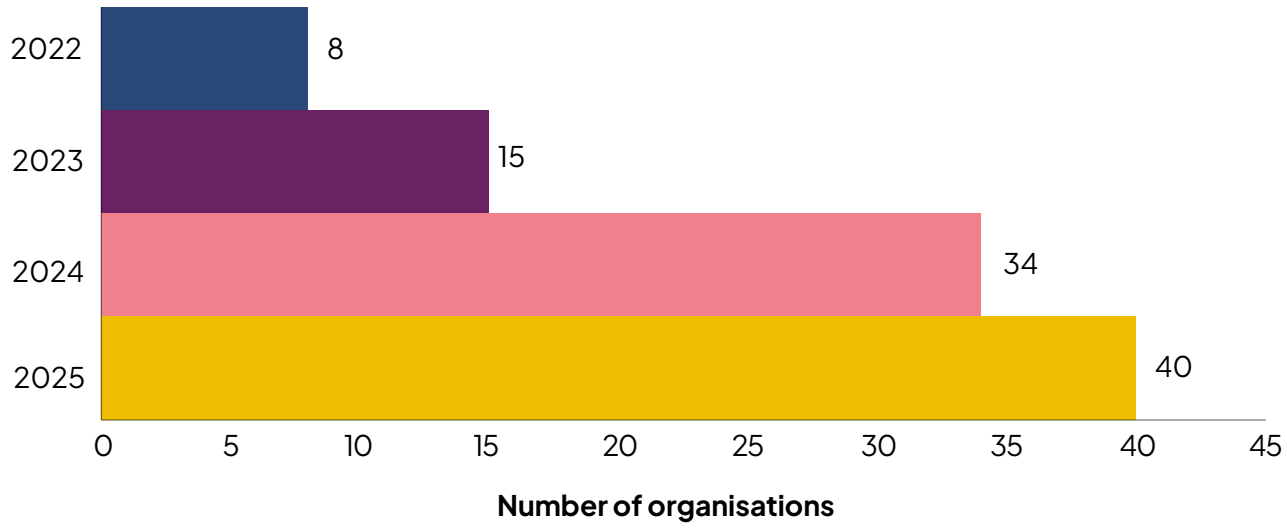
3 Trends in ICR policies

For the full mapping and details of overhead policies by organisation, refer to the Annex.

3.1 Policy evolution

Since 2022, there has been a noticeable increase in the number of organisations that self-report having policy or guidance documents that explicitly reference ICR for local and national humanitarian actors (8 in 2022 and 40 in 2025). Figure 1 reflects the most generous interpretation of progress on overheads financing – moving beyond formal policies to include organisations where at least a guidance note exists, and including organisations whose guidance on ICR sharing fails to meet Inter-Agency Standing Committee (IASC) standards for good overhead financing practice (IASC, 2022a).

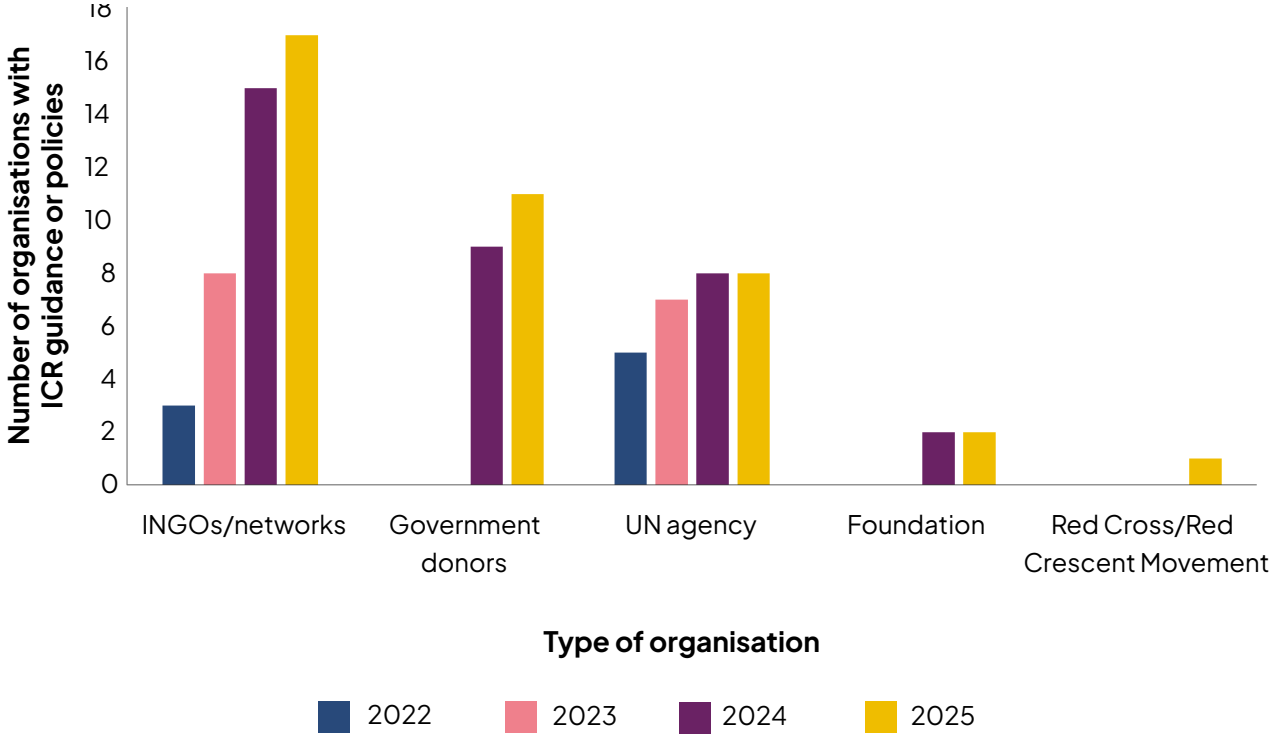
Figure 1 Number of organisations with guidance or policies on the provision of overheads to local and national actors



Sources: Humanitarian Policy Group (HPG) based on mapping of organisational policies, the Grand Bargain self-reports, and Development Initiatives reports (Girling-Morris, 2022; 2023; Development Initiatives, 2024).
Note: Includes both Grand Bargain signatories and non-signatories.

There has also been progress across a range of organisations (see Figure 2). The number of INGOs with a policy or guidance has jumped from three in 2022 to 17 in 2025, whilst the number of government donors with a policy has increased to 12 in 2025 (although government donors were not widely included in previous mappings). UN agencies have also sustained the progress made with all but one UN agency mapped, reporting that they have some level of a policy or guidance document.

Figure 2 Evolution of policies or guidance on overhead provision between 2022 and 2025 by organisation type



Source: HPG based on mapping of organisational policies/ guidance, the Grand Bargain self-reports, and Development Initiatives reports (Girling-Morris, 2022; 2023; Development Initiatives, 2024).
Note: Includes organisations that are Grand Bargain signatories, as well as non-signatories.

As noted above, some other government donors have a similar approach of guidance to intermediaries in the absence of a concrete policy, and these are captured in Figure 2. As with the major variations in the quality of agency's policies, there are significant variations in quality and flexibility in agency guidance, ranging from Denmark, whose guidance outlines a maximum allowable ceiling of ICR that can be shared (7%), but includes no requirements for sub-grantee ICR to be financed at all, to Spain, whose guidance includes a firm minimum financing for local sub-grantees and actively provides higher scores for proposals that exceed this minimum. Guidance by the government of the Netherlands states that

> All of NL partners are strongly encouraged to provide or share overhead to or with local and national partners. The percentage of overhead provided is decided by the intermediaries which NL funds and range from between 6 – 15%. At the same time NL covers well explained additional program costs linked to reducing risks linked to operations, in a.o. fragile or conflict settings (through separate budget lines). (Grand Bargain Secretariat, 2025a)

3.1.1 Limitations in the numbers

While most of this increase is a result of more organisations developing policies and guidance documents, part of this is also due to more organisations participating in the mapping, with six more organisations being mapped in 2025 compared to the Development Initiatives mapping in 2024, and three of these reporting having a policy or guidance.

Some institutional donors have also strengthened guidance and oversight without formally changing their underlying policies, focusing instead on improving implementation. So equally there is more progress than is visible in these charts in some areas. European Civil Protection and Humanitarian Aid Operations (ECHO), for example, issued updated guidance in 2023 setting an expectation that partners share their 7% ICR rate with sub-grantees, and has worked to embed these expectations into funding allocation reviews. ECHO explained that its monitoring indicates that intermediaries typically pass on approximately 4–5% ICR to sub-grantees, calculated as a proportion of the sub-granted amount rather than the total grant value.

3.1.2 Grand Bargain signatories

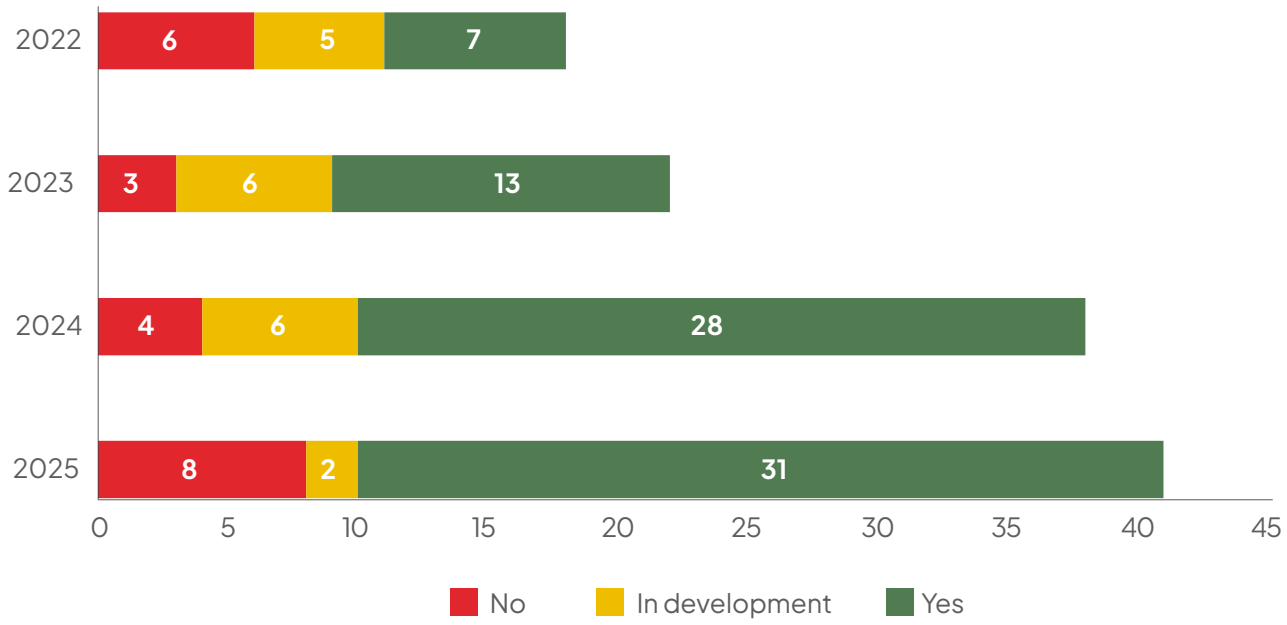
Figure 3 shows how the number of Grand Bargain signatories with ICR policies/guidance has evolved since 2022. The percentage of mapped signatories with a policy or guidance in 2025 was 80%, a large increase from 39% in 2022. And whilst the actual number of signatories that didn't have any policy/guidance between 2022 and 2025 was the same (six), this does not represent a stagnation in policy evolution. Four of six organisations that reported having no policy/guidance in 2022 now have something in place (the only exceptions being the Food and Agriculture Organization (FAO) and Save the Children). The additional organisations in the 2025 mapping that did not have a policy or guidance in previous years are those that are newly mapped.

Taken together, these developments suggest growing recognition of the necessity of including ICR within policy and guidance frameworks. Interviewees in intermediary organisations suggested that pressures to improve their approaches to ICR came from various sources, including from donors, and LNA advocacy – notably, this includes LNA refusal to accept exploitative financial arrangements in some contexts, as well as growing public pressure around institutionalised racism (following the Black Lives Matter movement, for example, in the Global North)[5] and reproduction of colonial dynamics. Initiatives like the Grand Bargain self-reports, and regular publications such as those conducted by Development

5 The terms 'Global North' and 'Global South' are used more and more to categorise many countries around the world. Often, 'Global South' is used as a substitute for referring to nations that have been historically exploited through colonisation. The authors would like to acknowledge current international debates on the usefulness of this term, which question whether another generalising and binary framework (Global North–Global South) is productive for reconstituting and challenging global power relations.

Initiatives and this report, were cited as being drivers of change, as they act as a form of public accountability. Organisations expressed that they wanted to be seen to be making progress, as well as helping to keep this issue on the agenda.

Figure 3 Number of Grand Bargain signatories that have guidance or policy on the provision of overheads to local and national actors



Source: HPG based on mapping of organisational policies, the Grand Bargain self-reports, and Development Initiatives reports (Girling-Morris, 2022; 2023; Development Initiatives, 2024).
Note: The number of Grand Bargain signatories mapped in each year differs (2022: n = 18 (27% of all signatories that year); 2023: n = 23 (34%); 2024: n = 40 (56%); 2025: n = 40 (58%)).

However, the existence of policy or guidance has not consistently translated into adequate, equitable or usable access to ICR in practice. Conversely, some improvements in practice have occurred in the absence of formal policy commitments.

3.2 Policy gaps

Despite an increase in the presence of policies and guidance, there remain several challenges related to their quality.

3.2.1 Inadequate percentages

Across the humanitarian system, a **7% cap on ICR**, to be shared between the lead granting agency and any sub-grantees, has become a widely applied default in policies, particularly among UN agencies, UN

pooled funds, and many European donors. Some donors and intermediaries offer less (such as the UN Refugee Agency (UNHCR)'s cap of 4% for LNAs). However, research has shown that 7% is a woefully inadequate and outdated allocation for most INGOs, let alone when shared further with an LNA.[6]

Research shows that this figure is not derived from evidence of actual organisational needs, but rather reflects **historical budgeting norms**, and is a relic from the 1990s when operational environments were less complex, and compliance, safeguarding and risk-management requirements were substantially lighter (Boyes-Watson and Bortcosh, 2022; CARE International and Fair Funding Solutions, 2025). These norms **have become entrenched over time**, often applied regardless of organisational size, needs, context, or risk profile (see Box 2 in the previous chapter for a current example), and do not reflect the realities of today's humanitarian operating environment or current localisation commitments (ibid.).

As well as being an inadequate percentage for INGOs, research also indicates that the **true indirect cost burden for LNAs can be substantially higher**, with some studies estimating overhead needs between 27% and 30% (Boyes-Watson and Bortcosh, 2022). Interviewees emphasised that ICR needs vary significantly depending on context, organisational profile, mandate, size, geographic reach, and risk profile. Smaller organisations often require proportionally higher ICR due to fixed costs, particularly those operating in high-risk contexts or across wide geographic or cross-border areas, or delivering programmes with high protection or safeguarding risks but relatively low direct expenditure, such as a roving protection programme versus a procurement/distribution programme.[7]

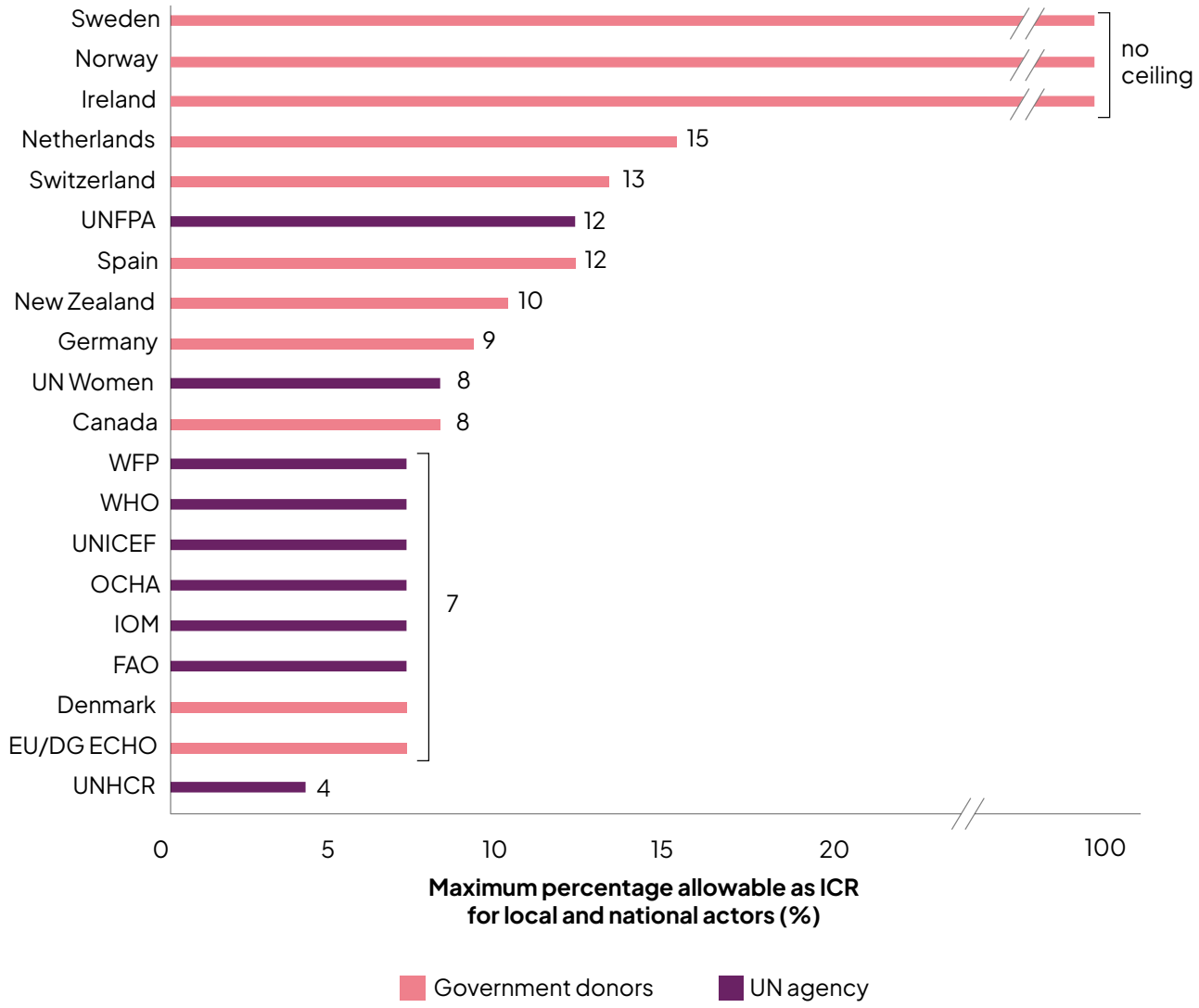
With growing recognition of the inadequacy of overheads at just 7%, some Grand Bargain signatories have started to move beyond this. Figure 4 shows the maximum percentage allowed by select organisations. Not all the actors listed in this table have a policy or guidance document (FAO, for example, does not have anything official on ICR but has self-reported that, in general, it shared between 3% and 7%).

It is important to highlight that the percentages listed therefore do not reflect the realities of what most organisations actually receive in practice, and instead reflect the maximum an LNA *might* be able to negotiate. The UN Population Fund (UNFPA), for example, allows a maximum of 12% in its policy but its actual average paid to LNAs in 2024 was 6.3% (Grand Bargain Secretariat, 2025b). This is still significantly higher than Germany, for example, which allows a potential maximum of 9% but safeguards only 2% for LNAs.

6 INGO interviews noted that some require 22–30% ICR. The inadequacy of 7% for intermediaries is well documented in the report *ICR for all* (Care International and Fair Funding Solutions, 2025).

7 Distribution programmes have relatively higher budgets, due to the costs of procurements and logistical arrangements, than protection programmes, which tend to have relatively low overall budgets, as their primary costs are personnel. However, the overheads needed for the necessary oversight in a protection programme could be proportionately significantly higher due to the nature of fixed costs and heightened safeguarding risks that can accompany this type of work.

Figure 4 Maximum percentages allowable as ICR for LNAs for selected government donors and UN agencies



Source: HPG based on mapping of organisational policies.

3.2.2 Flexibilities and eligibilities

Another limitation within existing policies is the major discrepancies in how different actors define eligible and ineligible indirect costs. These inconsistencies create avoidable burdens for LNAs during negotiations, budgeting, implementation, tracking and reporting, as well as major barriers to how effectively the funds can be used.

In some cases, ICR is subject to such tight restrictions that it ceases to function as a genuinely flexible resource. Requirements to treat ICR as a direct budget line, to spend it strictly within the grant period, or to prohibit its use for building organisational reserves or investing in organisational resilience,

significantly reduce its value. Interviewees reported that these constraints sometimes discouraged organisations from requesting the full ICR available, or led to them underspending and needing to return much-needed ICR, as the administrative burden or restrictions outweighed the benefit.

Due to discrepancies in eligibilities and flexibilities within different policies, it is not possible to only look at percentages to conclude who has more preferential ICR financing approaches.

Norway, for example, looks significantly better on paper than the Network for Empowered Aid Response (NEAR), as the Norwegian Agency for Development Cooperation (Norad) offers an unlimited ICR ceiling whilst NEAR has a cap of 15%. Theoretically, an organisation's full 30% of costs could be budgeted to a Norwegian grant, making it appear preferable (from an ICR perspective) to a grant from NEAR, which offers a flat rate of 15%. However, NEAR's ICR is fully flexible, aligns with IASC standards and can be used to build organisational reserves. While there is no ceiling for how much ICR an LNA sub-grantee could budget for under a Norad-funded programme, what is included must align with Norad's list of restrictions and eligibilities (see the Annex), must be spent within the project period, is auditable and cannot be used to build organisational reserves.

This challenge has been repeatedly documented in sector analyses (IASC, 2022a; NRC, 2017; CARE International and Fair Funding Solutions, 2025). As noted earlier, identical terminology can therefore conceal very different expectations and restrictions, undermining transparency, making it difficult for LNAs to assess the real value of funding offers, and increasing administrative complexity.

3.2.3 Non-mandatory pass-through

Most donors do not explicitly mandate that intermediaries provide ICR to sub-grantees, nor do they set minimum pass-through rates. Guidance often uses language such as 'encouraging' or 'recommending' fair financing. While this demonstrates trust in intermediaries and, theoretically, allows space for intermediaries to budget LNAs' actual ICR needs that are adjusted for the context, it also creates space for uneven and inequitable practice. LNAs reported receiving less ICR from intermediaries than was permitted by the original donor agreement, or facing additional internal caps and restrictions imposed by intermediaries for their own compliance requirements or financing needs – a practice confirmed by the intermediaries interviewed. This can also be seen in self-reported data with agencies such as OCHA that allow for 7% ICR sharing with LNAs but found 5.2% was shared in 2024. The majority of INGO intermediaries self-reported allowing LNAs to access the maximum allowed by donors (which tended to be either uncapped, or at a percentage cap equal to or greater than 7%). Nevertheless, several NGOs reported actual pass-through rates of closer to 4% – a rate that aligns with a number of LNA interviewee experiences. In the absence of clear requirements or transparency, this discretionary approach weakens LNA bargaining power and fails to safeguard against exploitative financial arrangements.

3.3 Practice

Where policies do exist, fairer financing outcomes do not always follow. Equally, where written policies are sometimes lacking, progressive practice can sometimes be found. LNA interviews reveal persistent inconsistencies in application and continued material harm from chronic under-resourcing, echoing findings from earlier research. This implementation gap persists despite available guidance. Interviewees speculated that this stems from a lack of internal awareness of policies and a failure to systematically monitor and track compliance.

3.3.1 Positive trends: the power of transparency

An increasing number of donors are including a requirement for INGO intermediaries to share LNA ICR financing intentions at the proposal stage.[8] While donors like ECHO do not mandate ICR sharing, the act of asking for transparency, and tying funding decisions to this, does appear to have increased sharing practices. For example, Spanish NGOs' applications to the government's annual call for humanitarian action receive higher scoring if the proposal increases the shared indirect costs with LNAs from the minimum threshold of 25%.

Interviewees, including INGO headquarters (HQ) staff and international humanitarian fundraising consultants, highlighted that the requirement to demonstrate 'fair sharing' at the proposal stage, and knowing that this would influence whether a proposal was selected for financing, has acted as a significant motivator to improve sharing practices and include more ICR for LNAs than might have otherwise been included if transparency were not a requirement. These accounts appear to be supported by data collected by OCHA on sharing Programme Support Costs (PSC; OCHA's term for overheads). It assessed PSC sharing trends over time since it began requiring grantees to declare PSC-sharing intentions at the proposal stage for Country and Regional Funds (previously Country-Based Pooled Funds). OCHA reported to us that it has subsequently found an increase in sharing from 87% (2024) to 93% (2025), showing a potential correlation between increased transparency and improvements in practice. The benefits of tying financing decisions to transparency around improved LNA ICR resourcing are also outlined in several previous studies, along with the correlation of improved monitoring/transparency and improved financing practice (Anwar, 2022; Girling-Morris, 2023).

3.3.2 Persistent implementation barriers

In addition to the policy barriers noted above, there are several barriers to implementation at the practical level:

LNAs continue to be kept in the dark around rights and entitlements. Improved policies are not always publicly accessible or available in relevant languages, leaving LNAs sometimes unaware of their

8 This requirement unfortunately hasn't systematically extended to UN actors, partially due to donor interviewee perceptions of lack of ability to influence the UN system.

entitlements and entering negotiations with in-country actors at a disadvantage. One interviewee shared early experiences of being told by an intermediary that LNAs couldn't receive any ICR as it was exclusively to cover the costs of international HQs, later finding out that the back donor would have permitted ICR sharing. Greater transparency in policies would have supported the interviewee in those negotiations to claim fair entitlements for his organisation.

Overheads rates ad hoc and unsystematic implementation. Intermediaries report that ICR rates and conditions are often negotiated country-by-country, organisation-by-organisation, project-by-project. In theory, this has the potential to result in positive contextually appropriate practices, accommodating a wider range of complex, organisational realities. In reality, this flexibility sits within imbalanced power dynamics, and without follow-up checks can instead lead to unfair outcomes (see, for example, Boyes-Watson and Bortcosh, 2022). Understanding the power dynamics highlights the importance of practices of transparency, monitoring and building meaningful in-country relationships.

An in-country INGO consortium lead reported examples of where donor guidelines allowed for 12% ICR but LNAs were contracted with 4% or nothing at all. Explanations provided for this discrepancy included the financial needs of intermediary HQs taking precedence over LNA financial needs, and intermediary distrust in financial management capacity of the LNA and therefore reductions in flexible fund allocations to manage risk (a challenge highlighted above).

LNA interviews reported varying ICR arrangements, with intermediaries with the same back donor, as well as variations within the same intermediary organisation. Interviewee perception was that rates are rarely adjusted for organisational size, context, or risk exposure but seemed to be more correlated to the negotiation capacity of the LNA (including level of awareness around entitlements) and the strength of the relationships they build with one another.

Whether or not these perceptions are accurate explanations for the discrepancies in treatment, they point towards a wider trust issue that is created when agencies operate in environments without transparent criteria and transparency around decision-making.

There is insufficient monitoring and reporting of policy/guidance implementation. Interviewees shared that, despite donor guidelines sometimes outlining a minimum percentage that should be shared with LNA partners, there are still examples of intermediaries sharing considerably less or nothing at all when monitoring and reporting are not required and where there is no in-country follow-up. One country consortium lead noted that 'guidelines can be there but if there is no checking, practice varies considerably'.

One interviewee shared that this practice has reduced significantly since better in-country relationships were built and LNAs had pathways to informally flag and work to resolve unfair practices without having to resort to formal escalations. Transparency around ICR sharing has seen some progress, with an increasing number of INGOs, donors and UN agencies starting to track if ICR is cascaded or

not (Girling-Morris, 2023). Aligned with the impact that transparency around intention can have on motivating improved behaviour, there is also evidence to suggest that transparency around action also acts as an incentive to move towards fairer financing.

However, progress in this area is still lacking. Some donors and INGOs still have no mechanism to monitor whether LNAs receive what is intended (even where positive ICR financing policies exist). Without monitoring, harmful practices are masked, and a better understanding is prevented of where practices differ and why.

4 Barriers to equitable ICR sharing

In addition to the specific barriers to implementing existing policies outlined in Chapter 3, this chapter takes a wider perspective and examines broader blockages to the sector adopting a fairer approach to funding overheads.

There are differing perceptions of what 'fair' financing looks like, with the question of 'Fair for whom?' applicable to various ICR financing models. Table 1 gives brief definitions of the two main models and some of the perceived pros and cons associated with each.

Table 1 Pros and cons of different ICR models

Model	Features	Example	Pros	Cons
ICR sharing	A fixed ICR percentage for the entire grant that is shared between partners within that grant. Donors rarely dictate how this percentage should be shared or monitor if it is shared at all. Sub-grantees will often get a proportion of the fixed percentage in line with the sub-grant value they are awarded. This percentage may or may not align with the percentage received from the back donor.	ECHO allows up to 7% ICR to be shared between partners.	Limits the total overhead spend, ensuring more of the budget is available for people in need and humanitarian programming.	Creates 'zero-sum' competition between partners for limited resources. Financially disincentivises collaboration. Percentages allocated are often inadequate for the needs of all organisations involved.
ICR stacking	Each organisation in a delivery chain is permitted to recover its own ICR separately and *in addition* to other organisations, rather than sharing a single overhead cap. This may or may not include fixed percentages per organisation.	Canada's overhead rate for INGOs is 7.5%. A dedicated budget line for the overheads of local partners can be added – which can be up to 7.5% of direct project costs, rather than a share of the INGO's own overheads. These rates are applied independently, meaning the LNA's ICR is stacked *on top of*, rather than absorbed within, the intermediary's overhead allocation.	Potentially ensures all actors are better financed. Decreases competition between grantees and sub-grantees and so potentially encourages collaboration.	Allows a significantly higher proportion of funding to go into various levels of overheads within a chain rather than to crisis-affected communities.

As well as differing perceptions on what a 'fair' model might look like, there are also actor-specific barriers at various levels of the humanitarian system.

4.1 Donor-level barriers

Administrative barriers. Several donors cited bureaucratic and regulatory barriers to change. 'Big institutions move slowly,' one interviewee said. This area presents a great opportunity for peer-learning between donors to understand how some were able to make significant change, and the creative workarounds others made where change was prohibited by institutional hurdles (see examples in section 5.2).

Political pressures and the need to demonstrate 'value for money'. Pressure to minimise 'waste' and demonstrate maximised programme-participant reach leads to a narrow interpretation of what 'value for money' could mean. It often results in LNA overheads being viewed as diverting funds away from communities, ignoring evidence that underfunded operational actors might increase the risk of delivering poorer quality outcomes. There is also an opportunity to reframe ICR for LNAs as core support essential to locally led humanitarian action, rather than an administrative 'cut' or profit taken from affected communities. Where concerns around profiteering might be present, mitigations can be found, such as the use of monitoring mechanisms.

Over-reporting burdens. When asked about the lack of monitoring around ICR pass-through practices, donors shared a wariness of placing additional reporting requirements on UN agencies and intermediaries. This is, in part, as a result of a desire to avoid 'top-down' administrative reporting burdens, a perspective supported by research highlighting burdensome and often unnecessary reporting requests in the humanitarian sector, and in part due to a feeling of 'powerlessness', particularly in relation to UN actors that donors perceived would refuse to share information even if requested (Fast, 2022). There is also the challenge of the administrative workload that increased reporting places on donors themselves, as highlighted in previous research showing donor preferences for funding fewer organisations with higher sums, rather than distributing many small grants (Maung et al., 2025).

4.2 Intermediary-level barriers

Proposal turn-around times. Some intermediaries interviewed talked about the challenges of high donor requirements and extremely tight proposal turn-around times. They shared that this did not allow for meaningful proposal development, especially not meaningful budget-development discussions with partners. This often leads to a 'copy-paste' approach that means old ways of doing things are sometimes unintentionally replicated and space for fairer negotiations shrinks.

Risk aversion and self-preservation. Unlike direct implementation, where there is line-management control over the staff and policies used, a partnership involves trust and therefore potentially more legal and financial risk. The fear of partner non-compliance and disallowed costs makes some

intermediary organisations cautious about providing large amounts of unrestricted ICR.[9] This leads, in some cases, to restrictive ICR caps, and harmful risk-transfer (rather than risk-sharing) clauses being written into sub-agreements, regardless of back-donor allowances and flexibilities.

Financial pressure. Humanitarian resourcing is on the decline, with a potential 45% decline in humanitarian funding in 2025 compared to 2023 (ALNAP, 2025). Prior to this, INGO ICR was already underfunded in many donor grants resulting in several struggling to cover their core costs (CARE International and Fair Funding Solutions, 2025). Research also shows that NGOs use ICR to subsidise projects (Longhurst and Boyes-Watson, 2016). Sharing this already inadequate pot of funds, within a wider environment of shrinking resources, creates disincentives for some INGOs to partner at all and incentivises unequal sharing practices; one INGO interviewee said that 'partnering more has more risk than direct implementation [...] more risk and less resources doesn't make financial sense'.

Administrative pressure. Linked to the financial pressures and risk-management pressures listed above, intermediaries highlighted that one reason donors go through them rather than funding LNAs directly was to avoid the administrative burden of handling several small contracts and the additional work of supporting an LNA directly. They claimed that donors prefer the ease of having fewer, bigger contracts with established intermediary organisations – but this administrative work, which is passed down to the intermediary, has associated costs that are inadequately factored into many donor ICR caps. This perspective is echoed in the findings of recent research into the financing of women-led organisations (Mazzilli et al., 2025).

4.3 Systemic barriers

Beyond technicalities, many critical voices in the humanitarian field believe a deeper barrier to faster improvements in fair financing is the legacies of colonialism and systems of extractive capitalism. The Feminist Humanitarian Network (FHN) has argued that this blockage is 'rooted in the capitalist model that is focused on holding power instead of sharing it', that values competition over collaboration and extraction over sharing. Though the 'not-for-profit' humanitarian sector positions itself as being outside the profit-driven capitalist sector, critical voices from the decolonial and feminist corners of the sector argue it is not immune to unconsciously internalising some of logic of patriarchal, extractive capitalism, and replicating its harm. The push for corporate-style efficiencies and growth over sustainability has contributed towards creating 'boards that prioritise the organisation's financial sustainability over mission', and to self-preservation tendencies in times of financial scarcity, as shared by an INGO interviewee.

Anusanthee Pillay, co-lead of the FHM, highlighted that corporate understandings of 'success' pushed organisations to use 'growth/ scale' as a proxy for impact and 'low cost' as a proxy for efficiency. Pillay highlights that this naturally resulted in the squeezing of overheads and the devaluation of care and

9 This came out strongly in interviews with intermediaries, and is echoed in other research such as Barbelet (2019).

sustainability (for example, on labour rights, staff wellbeing and programme quality). Many organisations have also highlighted that the sector still struggles with the legacy of colonial models: LNAs are expected to 'implement' programmes, while dealing with unpaid labour and absorbing risks, while Global North actors hold on to resources and decision-making power. Equitable financing for LNAs, including in the form of sufficient overheads, helps rebalance the power dynamics between donors and intermediaries often found in the Global North, and their typically Global South-based LNA partners.

5 Ways forward: toward a fairer and more sustainable financing ecosystem

This time of financial crises and sector-wide recalibration offers an opportunity to reshape the humanitarian sector towards a more effective, ethical and sustainable ecosystem. Amidst the challenges, inspiring change and improvements are possible and happening. Several humanitarian actors are stepping up, trialling creative solutions that strive towards a more equitable future. They are making concrete material changes to improve the integrity between their mission and their actions. Increasing research is going into what a viable, values-based alternative funding mechanism might look like (see, for example, Mutune, 2022; A4EP, 2024; Development Initiatives and NRC, 2024; ICVA, 2024; Mazzilli et al., 2025). Organisations are collectivising to ensure LNA bargaining power is strengthened, and investing in funding models that move beyond traditional structures – that decentre Global North hierarchical control over the Global South, and move towards greater mutual accountability. Examples are emerging of funds that include local voices directly in high-level policy decisions, fully participatory grant-making models, and LNAs joining forces to refuse funds that aren't fair and thereby forcing change.

5.1 Self-reporting for positive change

When donor and intermediary interviewees were asked what contributed towards and helped motivate positive changes within their organisations in relation to ICR policies, the following themes emerged.

LNA advocacy works. Several intermediary interviewees referenced the collective advocacy and direct action of LNAs refusing to partner with them unless ICR was shared, as an influencing factor when changing their approach to ICR resourcing (either within individual partner contracts, or more systematically at a policy level). These clear demands for fairness, which meant they could not find LNA partners unless they strove to become a 'partner of choice', led to concrete changes within some organisations' contractual arrangements.

While some LNAs interviewed were able to turn down funds that inadequately financed their ICR, many did not have the financial resilience to take such a stand alone. Research published by Development Initiatives clearly documents organisations that act together through consortium arrangements are better positioned to negotiate equitable sharing of overheads with international partners (Girling-Morris, 2022).

In contexts like Bangladesh, Lebanon, Myanmar and Somalia, LNAs have formed consortia or coalitions or participated in the governance of pooled funds to engage in collective bargaining with international partners – resulting in direct material improvements to ICR allocations (see Box 3).

Box 3 Bangladesh collective bargaining for improved ICR-sharing practice

Since its inception in 2017, Start Fund Bangladesh has advocated for change to deep-rooted partnership practices that hinder localisation commitments, one of which is the equitable sharing of overheads. LNAs came together to collectively advocate for and negotiate improved financial arrangements with international partners. International partners then led internal advocacy with their head offices and donors, thus resulting in more ICR being passed through to national implementers and not absorbed at higher levels – successfully shifting ICR sharing with LNAs from 0% in 2018 to 27% by 2020, the remaining 73% of ICR being retained by intermediaries (Start Network, 2020; 2021).

Leadership matters. Individual commitment within organisations, especially within leadership roles, is impactful. Several intermediary organisations spoke of individual operational staff or senior leaders driving changes within the organisation thanks to their strong personal commitments to, and belief in, localisation.

Donor influence is pivotal. Donors enable innovation, through funding pilots and being open to trialling new ideas. They also have significant influence in setting agendas and shaping behavioural norms. Shifting donor expectations around LNA financing was cited as a direct reason for change by some intermediaries.

Advocacy towards and amongst donors is important. Intermediaries and progressive donors can leverage proximity to power and donor relationships to push for flexible and more equitable regulations. Both donors and intermediaries shared examples of the impact that closer evidence-based advocacy with donors can have on shifting policy and practice (e.g. the Swedish government and Oxfam pilots; see sub-section 5.2.2).

Initiatives like the Grand Bargain help. Some intermediary organisations cited the Grand Bargain commitments towards ICR financing as an important factor in pushing their organisation to shift practice towards localisation in general, and improve overhead resourcing specifically.

Transparency and public accountability is essential. The acts of improving transparency around ICR financing intentions, monitoring practice, and publicly reporting findings have been shown to materially improve ICR resourcing. A number of interviewees cited the Grand Bargain self-reports, historical Development Initiative reports (Girling-Morris, 2022; 2023; Development Initiatives, 2024), and taking part in research such as for this report as tools that keep the discussion alive within their organisations and as support to maintain the pressure to publicly demonstrate progress.

Critical self-reflection can support deeper change. Uncovering the ways in which donors and intermediaries might unintentionally be perpetuating harm and internalising oppressive systems is an essential step towards moving forward in better alignment with our values. Some interviewees shared that movements such as Black Lives Matter, which sparked revived internal conversations around continued racist practices, supported critical reassessment of fair-funding practices and revived commitment to improved practices. Advocacy conducted by the FHN, and initiatives like Oxfam GB's anti-racism/decolonial work, are examples of attempts to begin to move with greater integrity (see, for example, Oxfam GB, 2023).

5.2 Examples of emerging practice

As agencies strive to do better, trends and practices are emerging on the ways these are approached. By exploring a selection of these examples, some key learnings can be drawn, both on the technical adjustments that could help improve ICR policies, and on the core underlying principles that agencies can centre to guide change in the sector.

5.2.1 Including LNA voices in senior management discussions

The Dutch Relief Alliance (DRA) has embedded LNA representative voices into its management structure through its Local Advisory Groups (LAGs) model. LAGs are part of in-country joint response coordination structures as well as HQ senior governance. The LAG embedded at HQ level is led by LNAs, includes representatives from the different regions that DRA supports, and is mandated to give advice related to localisation to the DRA Board, whether prompted or not.

During discussion with Shahida Suleiman from the Somali Humanitarian Hub (and previous participant in DRA's LAG), she shared how initiatives like this support local actors to 'have an active voice in shaping the policies of INGOs surrounding Grand Bargain commitments'. She shared the importance of being able to speak directly to senior policymakers so that decisions around ICR financing and other critical localisation matters are better informed by ground realities. She shared that this model also significantly strengthened LNA capacity to hold agencies accountable during discrepancies in policy and practice – as they could track in-country actions and raise concerns at the highest levels if needed.

At the country level, LNA presence in DRA's joint response coordination structure in Somalia is reported to have resulted in LNAs collectively and successfully advocating for improvements in ICR-sharing practices, risk-sharing practices, shared approaches to avoiding aid diversion and improvements in lengths of contracts, enabling space for better planning and strategising beyond ICR financing.

5.2.2 Several pilots are exploring different ICR-financing models

Several networks, intermediaries and donors are piloting, or plan to pilot, varying ICR financing models. Some of these pilots have already resulted in changes to ICR-sharing practice, such as an Oxfam and Swedish International Development Cooperation Agency (Sida) pilot that started in 2023 and trialled

100% of the overhead cost (7% ICR) generated under the Oxfam–Sida Humanitarian Partnership Agreement (HPA) going directly to the implementing country programmes and local partners. The terms of the pilot were:

- In the cases of joint implementation, Oxfam and the local partner would divide the overhead cost proportional to their share of the programme budget.
- The overhead cost in the budgets of Oxfam and local partner organisations were to be allocated as a budget line called 'Indirect Cost'. Oxfam and its local humanitarian partners could allocate to the Indirect Cost line additional eligible expenditure pertaining to any of the pre-approved project budget lines, including the pre-approved Human Resources lines (i.e. the Indirect Cost could be used for additional staff costs, operations, procurement or other forms of expenditure linked to the outcome of the approved intervention).
- Indirect Cost was timebound and had to be incurred within the project duration and it was considered auditable as part of the annual Sida HPA external audit under the terms set out above.

After the first round of piloting, evaluators found that some LNAs struggled to spend the ICR during the grant period and that this reduced the utility of such a flexible fund. As a result of the learning, SIDA agreed that ICR spend could instead be extended to within the financial year, rather than the specific project cycle. Considering many humanitarian grants can be three months long, such an extension should prove impactful for LNAs.

Other donors described ongoing plans for pilots that would be far less ambitious and less aligned with existing guidance on best practice. While investing in research/testing and creativity is essential, peer-learning could be strengthened to help avoid duplication and support collective advancements.

5.2.3 Beyond sharing 7%

More intermediaries are committing to giving LNAs 10% ICR or more. Aligning with research on the inadequacy of 7% ICR – CARE International published a paper, with Fair Funding Solutions (2025), validated by several INGOs, calling on donors to increase ICR to 10% – several intermediaries are committing to give more. NEAR gives a flat allocation of 15%. Christian Aid has been using unrestricted funds to top up partner ICR where donor support falls short, to ensure partners consistently receive 10%. They do, however, emphasise that such an approach is unsustainable and call on donors to enact systemic change towards fairer funding. The British Red Cross (BRC) committed in April 2025 to apply a default 10% ICR for all host National Society partners on funds provided by BRC. Whilst 10% is the default rate, if a partner has an evidence-based ICR rate, BRC pays that rate, whether it is higher or lower. If, following negotiation, a donor cannot meet the National Society's ICR policy of minimum 10%, then BRC and the National Society partner will jointly evaluate on a case-by-case basis whether BRC and the partner can make up the difference from other funding sources. An exception can be agreed to accept a lower ICR or not to pursue the funding opportunity.

Some philanthropies are allowing for significantly higher percentages. Several philanthropic organisations have adopted policies with significantly higher ICR percentages. Examples include the MacArthur Foundation which, according to its website, in 2020 adopted a flat rate of 29% ICR (fully flexible, meeting IASC standards, able to be used to build organisational reserves), following a study it conducted to better understand what ICR rate was necessary in order to 'do no harm' to grantees (Summers and Gorra, 2022; MacArthur Foundation, n.d.a; n.d.b). Though no specific protections for LNA ICR seem to be outlined, the higher overall rate could support greater sharing.

Some philanthropies are paying the 'true costs' of overheads. Private sector philanthropic funds, such as the IKEA Foundation and Hewlett Foundation, have shifted away from fixed overhead percentages, and have stated commitments to funding organisations' 'true costs' (Development Initiatives and UNICEF, 2023). That means partners can propose their own actual indirect cost rate based on their cost structures, avoiding unfair disadvantages for local actors with higher overhead needs. Under this model, overhead rates in partner budgets can range widely (5–30%) depending on the partner's accounting systems and capacity.

Donors are increasingly allowing for ICR stacking and protecting LNA ICR allocations. The Center for Disaster Philanthropy (CDP) uses a tiered ICR stacking model that adjusts for the varying levels of support provided by intermediaries in different contexts. It allows 15% ICR for direct implementers, 10% for supporting intermediaries, and 5% for pass-through actors, as well as additional support for capacity-building if needed – offering a potentially more sustainable solution for all layers in the chain and protecting LNA allocations. Additionally, the DRA allows intermediaries to provide a minimum of 6% ICR to LNAs (and LNA partners are provided an extra 5% of the project budget for capacity-strengthening initiatives). DRA members who partner with local and national NGOs can include up to 4% of the partner budget as an additional budget line to support costs associated with being the grant holder/intermediary. This stacked approach safeguards different actors' allocations and reduces some of the zero-sum competition between LNAs and intermediaries for a fixed percentage.

Supporting the boosting of ICR literacy amongst LNAs. The BRC is working on supporting National Societies to calculate their 'true' ICR needs to support stronger 'bottom-up' advocacy. The Hewlett Foundation also established the True Cost Coaching initiative, following successful pilots in 2020, to help partners calculate their real ICR needs more accurately (Funding for Real Change, 2023).[10] Fair Funding Solutions is working on a tool to standardise accounting.

10 The pilot was designed to address systematic underfunding of ICR. While the Hewlett Foundation had moved to offering full cost grants (covering a fair share of indirect costs like rent, human resources, and technology requirements), it recognised that simply providing more unrestricted funds might not be enough, with several organisations having adapted to systematically underfinancing themselves. Many organisations, after years of operating in scarcity, needed support to: understand and accurately calculate their true operational costs, and build the internal systems, skills and confidence to advocate for and strategically deploy full funding. See report on this and other philanthropic pilots to improve ICR allocations (Funding for Real Change, 2023).

5.2.4 Beyond ICR: moving towards fully flexible funds

There are some initiatives that have decentred current funding models, and which provide lessons worth learning. As many interviewees highlighted, fair financing goes well beyond ICR sharing and a distinct ICR allocation is not the only way to support agencies to reach financial health. ICR is ultimately a means to an end – that end being organisations' access to flexible funding that they can use for safe and sustainable humanitarian action, organisational health and development.

Some actors have taken steps to support organisations to achieve this ultimate goal through more progressive means than restricted ICR allocations. These include a shift away from project-based granting and towards flexible, multi-year financial support.

Fully flexible funding generally refers to funds that are:

- **Unearmarked or core** – the recipient organisation can decide the use, rather than it being tied to specific projects.
- **Multi-year** – the commitment spans multiple years, allowing strategic planning and sustainability.

Multi-year core funding is also practised amongst some institutional donors, such as Belgium, Canada and Sweden, who support UN actors with fully flexible, multi-year funding – demonstrating trust in these organisations to take their own decisions around the use of resources (whether for programmes or overheads) (Development Initiatives and NRC, 2024). However, such support and flexibilities are rarely passed down to LNA sub-grantees.

One example of supporting local actors with multi-year core flexible funding is the Resourcing Refugee Leadership Initiative (RRLI)'s offering of multi-year core grants specifically designed to build the long-term financial resilience and operational capacity of refugee-led organisations (Development Initiatives and NRC, 2024; Sturridge et al., 2025).[11] The Australian Red Cross also underwent a substantial organisational restructure to fully reorient towards National Society support and significantly increase unrestricted funding to national societies. This was done in partnership with Australia's Department of Foreign Affairs and Trade, which supported the championing of flexible funding to National Societies.

5.2.5 Shifting power: learning from alternative funding cultures

Alternative funding models that explicitly centre solidarity, trust, flexibility and mutual accountability in funding locally led action are also on the rise.

11 RRLI has disbursed $12.7 million to 21 refugee-led organisations (RLOs) since 2021, with $2.8 million disbursed in 2024 and grant sizes between $25,000 and $200,000 (Sturridge et al., 2025). RRLI provides funding through two grant types: boost grants (providing up to $25,000 for smaller, newer RLOs), and advance grants, which provide between $100,000 and $200,000 for more established RLOs that can manage larger grants (RRLI, n.d.).

Development Initiatives and the Norwegian Refugee Council (NRC) published a catalogue of 'quality funding practices' that outlines several initiatives that move towards better funding models – including inspiring examples of locally governed pooled funds, such as the Concertación Regional para la Gestión de Riesgos (CRGR),[12] the Community Resilience Fund (CORE) in Nepal,[13] the NEAR Change Fund,[14] and the START Network. Outside of traditional humanitarian space, interesting initiatives can be learnt from within the participatory grant-making space (e.g. Gorilla Foundation, Participatory Grantmaking Community, Karibu Foundation, Grassroots International), and feminist collectives and funds (e.g. FHN, Equality Fund and Mama Cash).

These networks, collectives and pooled funds work to advance principles of:

- **Collectivism** – LNAs collectively decide priorities, often rotating governance responsibilities among member groups rather than having decisions made externally.
- **Flexible, multi-year core support** is often provided, rather than short-term project funding. This reduces the administrative burden and allows organisations to direct funding where they see most value including supporting greater ICR coverage.
- **Trust and mutual accountability** are structural features – governance committees are composed of local members, and accountability mechanisms are built through peer oversight rather than unilateral donor control. Governance by peer organisations requires trust, mutual respect and collaboration.

12 CRGR is a regional network with member organisations from Costa Rica, Guatemala, El Salvador, Honduras and Nicaragua, who collectively govern the fund. Every two years governance rotates among members, meaning Central American actors share power and accountability for how resources are distributed.

13 Often referred to as Nepal's Fund for Resilience, CORE is a locally led pooled funding initiative established in 2023 as part of an effort to strengthen disaster risk reduction and resilience. The fund emphasises local leadership, shared governance and community-driven resilience solutions that respond to lived local realities, blending both immediate relief and sustained resilience investments. CORE is governed by a consortium of Nepali NGOs, leveraging local institutions and networks to allocate financing. See NEAR (2025) for more.

14 The NEAR Change Fund allows local and national humanitarian organisations to access funding with governance and oversight rooted in local networks rather than distant donor headquarters.

6 Recommendations

There are some immediate practical steps that can be taken to rebalance allocations of flexible ICR and support a move from extractive to equitable funding. How ICR is allowed to flow, and where it accumulates, can be one of the indicators of where priorities and values lie, and therefore offers an opportunity to move forward with more integrity.

6.1 Consider ICR stacking for equity across the chain

For cases where direct funding to LNAs genuinely isn't possible and partnership through an intermediary is necessary, ICR stacking – with safeguards in place for LNA ICR minimum allocations – offers a promising alternative to ICR sharing. ICR stacking eliminates some of the zero-sum competition between an intermediary and the LNA. However, it does risk cumulative costs growing out of proportion, depriving affected communities from the resources they need. Proportional ceilings (as seen with the CDP – see sub-section 5.2.3) could offer a way for total overheads to be managed while ensuring cost coverage. Any change must be coupled with sector-wide significant improvements in transparency and monitoring to ensure adequate lifesaving allocations continue to reach affected communities, fair proportions are resourcing frontline actors, and to appropriately identify the links in the chain where disproportionate concentrations of wealth might be accumulating.

6.2 Develop and implement 'equitable' policies

Moving beyond whether a policy exists, it is important to also assess the quality of the policies. This paper does not propose a fixed percentage, or a formula for ICR calculations. Instead, the recommendations are around the necessary components and principles that should govern 'quality' ICR policy development and implementation, in order for it to ensure LNAs are better resourced.

Situated within the definitions put forward by Development Initiatives, the standards advocated by the IASC (2022a) and consultations conducted with humanitarian actors, below are some practical components to support improving the quality of an organisational ICR policy:

1. **Accessibility and transparency.**
   A clear and publicly available policy on ICR sharing or stacking that is easily accessible to potential partners and LNA sub-grantees (for example, in local languages and publicly available online). This recommendation has been part of several earlier guidance documents and repeated in interviews.
2. **Coverage and adequacy.**
   A good ICR policy should have built-in adaptabilities to accommodate differing organisational needs based on context, organisational size and mandate.
   It should ensure adequate percentage allocation (this could be achieved through a higher percentage

cap (like the 15% adopted by NEAR or 25% seen in some philanthropic actors), a tiered ICR approach (like that adopted by the CDP), or a model based on actual costs (like those employed by the IKEA Foundation and Hewlett Foundation).
Direct project costs and direct programme support costs must be fully funded to prevent ICR from being diverted to cover gaps in these essential programme expenses.

3. **Flexibility.**
ICR should be provided as genuinely unrestricted and non-timebound, as per IASC standards. By doing so, organisations are enabled to build essential reserves, invest in organisational development and strategise more creatively. Where the building of reserves is genuinely impossible, a shift to multi-year funding is critical to ensure that ICR can be meaningfully invested in longer-term needs.
4. **Simplicity.**
Reduce bureaucracies and complexities. Harmonising definitions, categories and eligibilities across donors and agencies would dramatically reduce the administrative burden on LNAs and intermediaries alike, freeing up resources for programming. Initiatives like the NRC's 'Money where it counts: harmonise, simplify and save costs' (IASC, 2022b) campaign and Fair Funding Solutions' accounting standardisation initiative are crucial in this regard.
5. **Tracking and accountability.**
With proper monitoring, it is possible to better understand reasons behind deviations between policy and practice as well as any unintended harms and unnecessary complications that might arise, to make necessary adaptations. This involves tracking financial flows as well as collecting systematic feedback from LNAs to influence future policy and practice.

6.3 Specific recommendations for humanitarian actors

6.3.1 For donors

Adopt equitable policies. Guarantee **ICR of adequate quantity and quality** reaches frontline organisations, by financing equitable ICR stacking or sharing modalities, which appropriately resource the different actors involved. Ensure policies balance flexibilities to allow for adaptations to complex/context-specific needs, with **concrete safeguards** that ensure that LNAs are able to access adequate ICR.

Work towards a minimum 10% rate for LNAs or their own stated needs and in line with IASC quality guidance (IASC, 2022a; CARE International and Fair Funding Solutions, 2025). Where policy caps (e.g. 7%, or timebound financing) genuinely cannot be shifted, explore progressive alternatives, such as **multi-year flexible funding** and the example of DRA's organisational capacity-strengthening allocations.

Enforce equitable practice. Hold intermediaries, including UN agencies, accountable for providing ICR to LNAs. Mandate that proposals demonstrate fair financing in order to receive funds, and build fair-financing clauses into contracts.

Standardise and simplify definitions and tracking. Lead cross-donor initiatives to harmonise definitions, with LNA input. This would significantly reduce the unnecessary complexity added to LNA financial tracking systems, lowering the risk of errors and avoidable disallowances. Reducing the complexity involved in tracking and monitoring multi-donor portfolios could, in itself, also reduce the level of overhead required by agencies.

Monitor and adapt. Mandate and fund tracking of ICR pass-through with transparent reporting and monitoring of disaggregated and cumulative overheads across the whole chain. Consult LNAs and networks on policy impacts and commit to continuous improvements, based on feedback and monitoring about what works and unintended harms.

6.3.2 For intermediaries

Practise solidarity-based partnerships. Build long-term, equitable relationships with LNAs that go beyond sub-contracting, project financing and risk transfers.

Use proximity to power. Elevate LNA needs and advocate to donors for fairer ICR resourcing policies.

Conduct critical self-assessment. Honestly assess internal overhead structures and power distribution, asking whether they are genuinely adding value and working towards a decolonised, less exploitative system.

Track and be transparent. Monitor ICR sharing and be transparent about own rates and practices. Implement LNA feedback mechanisms on financing quality. The role of UN agencies is particularly significant in this context. As the primary channel through which a large proportion of humanitarian funding flows (multilateral organisations received 61% of public funding in 2024 (ALNAP, 2025)), UN agencies play a system-shaping role in determining whether ICR reaches local and national partners in meaningful and usable forms. Even modest improvements to UN ICR pass-through policies and practices therefore have the potential to generate disproportionate positive effects across the humanitarian system.

6.3.3 For local/national humanitarian actors

Strengthen collective action. Form or join coalitions for collective bargaining and collectively reject exploitative financial terms.

Enhance financial literacy. Invest in calculating the cost of operations, including costs to care for, develop and retain staff, and to develop the organisation. Formulate ICR policies to use in negotiation.

Where LNAs act as intermediaries – model good practice. Show that localisation means not replicating existing, exploitative systems, and that things can be done differently.

6.3.4 For the Grand Bargain/IASC/sector bodies

Champion simplification. Support the standardisation of definitions, accounting and reporting.

Embed fair financing in monitoring. Include ICR policy quality and practice metrics in signatory assessments. Continue to hold signatories to account through regular, publicly available progress checks.

Foster cross-sectoral learning. Launch peer-learning on alternative funding models that includes donors, INGOs, LNAs, think tanks and representatives from feminist and decolonial ecosystems.

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