

# Humanitarian Outcomes

## Efficiency and Inefficiency in Humanitarian Financing

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Abby Stoddard, Lydia Poole, Glyn Taylor and Barnaby Willitts-King  
with Shoaib Jillani and Alan Potter



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## Acronyms

CBPFs	Country-Based Pooled Funds
CERF	Central Emergency Response Fund
DAC	Development Assistance Committee
DEC	Disaster Emergency Committee (UK)
DFID	Department for International Development (UK)
DRC	Democratic Republic of the Congo
DREF	Disaster Relief Emergency Fund
EC	European Commission
ECHO	European Commission Humanitarian Aid Office
ERC	Emergency Response Coordinator
EU	European Union
FAO	Food and Agriculture Organization
FTS	Financial Tracking Service
GHD	Good Humanitarian Donorship
HC	Humanitarian Coordinator
IASC	Inter-Agency Standing Committee on Humanitarian Affairs
ICRC	International Committee of the Red Cross
IFRC	International Federation of Red Cross/Red Crescent Societies
IRA	Immediate Response Account (WFP)
NGO	Non-governmental Organization
OCHA	UN Office for the Coordination of Humanitarian Affairs
OECD DAC	Organisation for Economic Cooperation and Development's Development Assistance Committee
OFDA	Office of U.S. Foreign Disaster Assistance
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WFP	World Food Program

## Executive Summary

The goal of this study was to define and measure efficiency in the context of international funding for humanitarian response. Commissioned by the Office of U.S. Foreign Disaster Assistance (OFDA), the research was conducted to help inform donor decision-making at a time of surging financial demand for humanitarian aid and new momentum for change in the humanitarian sector following the World Humanitarian Summit in May 2016.

Efficiency is just one narrow criterion by which to assess the humanitarian funding architecture and cannot be considered in isolation from funding *effectiveness* and broader goals of the humanitarian response.<sup>1</sup> However, in a resource-scarce and largely reactive environment, how efficiently money moves to enable response is a critically important component, and one which has received little in-depth attention at the system level.

How humanitarian actors define funding efficiency depends on where they sit in the sector. For the large international agencies, efficient funding is that which is the most flexible (i.e., least “earmarked” by the donor for specific purposes) and timely (either rapidly disbursed or reliably predictable) while requiring the fewest administrative inputs. Smaller and local organizations find it most efficient to receive funding directly from the donor rather than through an intermediary agency, which can be slow to disburse and restrictive with overhead allowances. And for donors, efficiency often means having fewer, larger channels through which to channel their humanitarian funding, preventing the administrative bottlenecks caused by the need to individually manage numerous grants. It is easy to see how these different vantage points can be at odds with each other, and none of them alone speak to what constitutes funding efficiency for the whole sector.

The study defines overall efficiency of the humanitarian financing system as a combined measure of both *technical efficiency* (the speed and smoothness of the pipelines from donor to affected people) and *allocative efficiency* (the appropriate allocation of resources to specific problems or objectives). Both measures are required for a holistic assessment of the various funding mechanisms that considers their different purposes and value added.

The research team made field visits to three humanitarian response settings—Ethiopia, Myanmar, and Iraq—to gather detailed information on the practical execution of different types of contributions. The analysis involved examining the transaction chains in a sample of contributions for each of the main humanitarian funding modalities: direct grants (both public and private) and pooled funding mechanisms at the global and country levels. Using the data provided by agencies, the study compared the different funding modalities in terms of their timeliness, sufficiency, transaction costs, and other indicators of technical and allocative efficiency. In addition to a

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<sup>1</sup> Effectiveness of funding would be a measure of whether and how well the funding achieved its intended results.

quantitative analysis of this data, the report incorporated qualitative evidence from 86 key informant interviews as well as a global literature and funding review.

The research yielded four key findings:

1. The primary modes of funding have not yet proved efficient for rapid response.
2. Disproportionate requirements and inflexibility hinder efficiency at all levels.
3. The added value of intermediary agencies in multi-link (pass-through) grants is inconsistent, and they often create net inefficiencies.
4. Allocative efficiency and the stated goals of localization are impeded by risk perception and capacity constraints on the part of donor governments.

Each is discussed below.

### **The primary modes of funding are still inefficient for rapid response purposes.**

In sudden onset crises, funding must be available to spend within days—not weeks or months—if it is to support timely response efforts. Because only a few humanitarian actors have standby funds that can be tapped in advance of donor funding, this means that a grant must be requested, approved, and disbursed within a very short timeframe for it to function as a rapid response resource. The study found that necessary speed in disbursements for rapid response was lacking in all three case examples and across the major modalities, including those designed specifically for the purpose. An array of transaction costs, including overly heavy bureaucratic structures, currently works against technical efficiency of funding flows.

In the case of bilateral grants, because the proposal-to-award period typically represents the longest time lag, donors should provide greater “pre-positioned” funding with individual agencies and/or multiagency consortia capable of putting the money to work immediately in the event of a sudden crisis. Strong UN-NGO partnerships in some chronic crisis settings, and the experience of the Start Fund, illustrate how this preparedness approach can reduce funding delays and support rapid response. Pooled fund grants were decided more quickly than grants from bilateral donors, but nevertheless faced delays on both the front and back ends of the approval process. This could be improved by waiving the requirement for joined-up proposals in cases where this process would hinder critical rapid action, and overly heavy cluster-level processes in general.

The biggest gain in timeliness, however, can only come through internal agency reforms to remediate the long delays from the initial award to the onward contracting of and disbursement to partners.

### **Disproportionate requirements and inflexibility hinder efficiency at all levels.**

The smallest and shortest-duration grants have the heaviest transaction costs, and the smallest NGOs typically bear the greatest administrative burden for the least reward. The allocative efficiencies gained by strategic coordination and ground-level decision-making (the logic behind the pooled funds) can be outstripped by these technical inefficiencies. Inordinately high transaction costs on small-sized grants are inefficient for donor and grantees alike. These should be addressed

by making the requirements commensurate with the size and timelines of the grants and by maximizing the flexibility to modify them to suit changing conditions, within the bounds of appropriate accountability controls and pragmatic risk management.

**The added value of intermediary agencies in multi-link grants is inconsistent and they often create net inefficiencies.**

The humanitarian funding system needs a mindset shift and a change in standard operating procedures that require a business case for using an intermediary agency, demonstrating how it would add value as opposed to automatically assuming it will. In addition to scalability and effectiveness justifications, part of the case for the intermediary would include demonstrated higher efficiency in funding, contracting, and flexible management of grants compared to direct funding.

**Allocative efficiency and the stated goals of localization are impeded by risk perception and capacity constraints on the part of donor governments.**

Donor governments, for a variety of domestic political and regulatory reasons, have not been willing to fund local actors directly, deeming it too great a risk. The Grand Bargain commitments in this area have so far focused mainly on increasing indirect funding to local actors through intermediary agencies (which may help build greater local capacity but does not foster a meaningful shift in responsibility) and direct funding to the actors through the country-based pooled funds (which represent only a tiny sliver of humanitarian funding at present). To the extent possible, donors (including pooled funds donors) should consider subsidiarity<sup>2</sup> in determining at what level to make grants. Unless the allocative efficiencies and value added of having an intermediary can be demonstrated, direct funding should be preferred. Targeted capacity investments in local organizations (i.e., core funding grants) can bolster and enhance the range of options available in future for donors seeking to maximize efficiency as well as effectiveness. Country-based pooled funds, where they are functioning well and allocating directly to local NGOs, may be a means for some donors to achieve subsidiarity and localization objectives while avoiding the tradeoff inefficiencies of managing numerous small grants to local entities.

\* \* \*

The report concludes with broad guiding principles for considering efficiency in making funding decisions:

**Maintain the widest possible range of options and tools to employ for different needs,** using a combination of modalities to achieve a reasonable balance of predictability, responsiveness and allocative efficiency both at the country and global levels, while retaining contingency funding at the global level in case of unforeseen needs.

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<sup>2</sup> The organizing principle that responsibility should be located with the most proximate (least centralized) competent entity.

**Starting from the specifics of the context and humanitarian needs, match goals with the funding instruments best suited to efficiently service them:**

- For rapid response, working through pre-arranged framework agreements or other mechanisms with proven speedy disbursement times will be more efficient than traditional bilateral grants.
- Large-scale, complex, and protracted emergencies causing similar needs among wide segments of the population may be best served by large umbrella granting to competent coordinating bodies (UN agencies, NGOs, or consortia) that add technical value and provide economies of scale.
- Specific gaps and underfunded needs can be addressed with either flexible bilateral granting, earlier contributions to pooled fund windows for that purpose, or both.
- Small pockets of need, and highly location-specific needs in individual areas, will often be more efficiently funded by eliminating the intermediary and giving to locally based organizations directly.

**Determine and consider other donors' plans as factors in efficiency decisions.**

To the extent that any donor has flexibility of choice in funding mechanisms, that choice should be used to help balance the needs of both technical and allocative efficiency, considering what counterparts are doing within the larger picture of strategic priorities.

**Agree on a common set of metrics for assessing efficiency**

The Good Humanitarian Donorship initiative could benefit from using a quantified efficiency framework to assess funding mechanisms and agencies seeking intermediary roles. Such a framework would encourage transparency and efficiency in funding decisions, and support the Grand Bargain commitments.

# 1. Introduction

## 1.1 Background and objectives

The “Grand Bargain” reforms announced at the World Humanitarian Summit in May 2016 commit the major humanitarian donor governments and agencies to work toward a series of goals, many of which are intended to improve efficiency in the funding relationship. They include commitments to reduce duplication and management costs, reduce donor earmarking (i.e., increase flexibility in funding), lighten and simplify reporting requirements, improve financial transparency, increase direct funding to national first responders, increase cash-based programming, and increase the use of multi-year funding.

Although the operationalization of these commitments is not yet fleshed out, it is an opportune moment for donors to survey the current mechanisms and channels they use for humanitarian funding to see how they serve—or hinder—the pursuit of these goals. For this reason, the Office of U.S. Foreign Disaster Assistance (OFDA) commissioned Humanitarian Outcomes to undertake a comparative analysis of the efficiency of humanitarian financing tools and instruments.

Official (i.e., government) humanitarian assistance funding flows through the following channels, in descending order of percentage:

- direct grants for specific projects or programs
- global pooled funding mechanisms (the CERF, Start)
- country-based pooled funds (CBPFs)
- un-earmarked core funding contributions or framework agreements
- government-to-government aid
- global-level rapid draw-down funds (ex-ante agreements for rapid response) (e.g., IFRC’s DREF)

A recent descriptive background paper on these instruments, also commissioned as part of this study, found that not only has the recent surge in humanitarian funding been overwhelmingly financed by a small group of large donor governments and the EU (just five donors represent 65 percent of official humanitarian flows), but also that it has gone through the direct, earmarked grant modality. The ever-increasing percentage channeled through direct grants to individual agencies has dwarfed other modalities such as pooled funds and core funding (Stoddard, 2017). Further, the report showed that donors’ decisions on humanitarian financing continue to be determined more by past experience and internal constraints than by evidence and coordinated strategy.

Very few donors or agencies have undertaken an in-depth comparative analysis of efficiencies in different modes of funding, and the criterion of efficiency tends to get short shrift in humanitarian evaluations generally (Palenberg, 2011; Stoddard et al., 2015). Excepting UK DFID’s extensive doctrinal work on “value for money,” most donors factor a loose working definition of efficiency into decision-making, for instance looking broadly at program support costs versus outputs. Other

humanitarian actors admit, in the words of one NGO representative, that “we are so time-constrained we don’t consider what would be maximally efficient.”

When it comes to meeting urgent humanitarian needs in complex and highly varied contexts, efficiency in a narrow cost-per-output sense will never be the primary consideration. However, if efficiency is never deliberately examined as one criterion in an evidence-based decision-making process, then decisions will default to path-dependent patterns that are un-strategic and potentially suboptimal. In the words of one donor interviewed for this study, “We are all struggling with this question of why we are choosing one instrument over another. Sometimes we don’t necessarily know why we are funding particular [entities/partners], or what their comparative advantages are.”

It is hoped this study will contribute to the Grand Bargain follow-up by synthesizing current issues in efficiency and identifying system-wide trends and gaps.

## 1.2 Research approach and methods

The definitional framework of efficiency used for our analysis, detailed in Chapter 2, considers the different types of efficiency and perspectives of actors at different levels and combines them for a system-level assessment. The methodology inception note for the study incorporated the input of the humanitarian practitioners sitting on the Advisory Group and outlined an approach for assessing and comparing efficiency that proceeded from the below assumptions.

### 1.2.1 Assumptions

**Efficiency is only one criterion informing any judgment, and seldom the most important.** It is possible to do the wrong thing with ultimate efficiency. Therefore, the concept of efficiency cannot be divorced from effectiveness when examining financing mechanisms with different goals. The research will be clear on this point, ensuring that findings are nuanced with respect to broader objectives (see more below, in “caveats and limitations”) and modest about making prescriptive conclusions.

**Humanitarian financing is limited to the present modalities for the foreseeable future.** Despite proposals for new global financing platforms, and limited experimentation with vehicles such as humanitarian impact bonds, no wholly new humanitarian financing mechanisms are on the horizon yet. Therefore, the scope of the study was limited to what currently exists for donor governments to choose from in terms of funding modalities, as listed above.

**Optimal efficiency for the system will often mean suboptimal efficiency at the level of individual actors.** What is most efficient for one humanitarian actor may not be efficient for other actors or for the overall system. Trade-offs are inevitable and need be managed in a way that optimizes efficiency for humanitarian funding writ large. For this reason, and to account for the different objectives of the different pieces of the humanitarian financing architecture, the measure of efficiency for this inquiry is defined on two levels—system and component—as detailed below.

### 1.2.2 Global-level data gathering and analysis

The researchers analyzed humanitarian financing data for 2013–2016 downloaded from the UN Financial Tracking Service (FTS). FTS was the primary data source used for funding figures, augmented where appropriate by data from the CERF and Country-Based Pooled Funds (CBPF) data, UN agency/NGO annual financial reports, and information provided directly by donors and agencies. The findings from the global-level analysis informed and complemented the field research and key informant interviews. Although the voluntary basis on which humanitarian actors report to FTS means that it fails to capture the full extent of humanitarian financing, it is still the most comprehensive and timely source of this data and the best option for tracking global trends. Data from the International Aid Transparency Initiative (IATI) were reviewed, but determined to be still far too incomplete to contribute to any rigorous analysis (although in theory this database shows promise to help improve efficiency in the future by providing increased transparency of the transaction chain).

A global-level literature review encompassed reports, evaluations, and analyses of humanitarian financing as well as relevant agency and inter-agency policy statements. This served as background information and to indicate the current points of contention or consensus on financing issues.

The research team also conducted semi-structured interviews with selected individuals representing major and emerging donor governments, implementing agencies, and humanitarian coordination and funding bodies. Interview findings were used to confirm and query the data findings, as well as to glean perspectives on the key financial issues and trends in the sector. In all, 86 individuals were interviewed for the study (list attached as Annex 1).

### 1.2.2 Field research

After exploring options with the input of Advisory Group members, the team identified three case scenarios for field research: Ethiopia (2016), Iraq (2016), and Myanmar (2015 floods). The selection of these three cases aimed for regional diversity as well as a combination of slow- and sudden-onset emergencies, natural as well as conflict-related, and widely varying unique contextual challenges.

Field trips took place in February and March, 2017. The research combined detailed qualitative interviews with humanitarian organizations and donor representatives to capture a range of views, experiences, and contextual considerations in the assessment of funding efficiency. In addition, the field research gathered data on a sample of humanitarian contributions for quantitative analysis, described below.

### 1.2.3 Quantitative analysis

The researchers in each field location requested interview subjects to fill in information on a spreadsheet containing a sample of contributions received by their agencies through different funding channels, as reported to FTS. The worksheets included the following data questions for completion:

- the number of iterations that took place before the proposal was accepted,
- the number of days from proposal submission to award,
- the number of days from award to disbursement of funds,
- staff hours expended on administrative requirements, and
- the perceived administrative burden in terms of staff time and inputs required (ranked on a scale from 1 (light) to 5 (heavy)).

Out of 32 formal requests, the research team received 16 completed spreadsheets in total from 5 UN and 11 NGO offices comprising 209 observations (total contributions). Of those, 149 contributions were bilateral grants from donor governments, 49 were country-based pooled funds allocations, 9 were CERF allocations, and 2 were Start Fund allocations. The specific dependent variables for each mechanism (days elapsed, etc.) were averaged within and across countries, and the differences between them were found to be statistically significant by an independent samples t-test.<sup>3</sup> The quantitative findings against the various funding channels are presented in the relevant sections of the paper.

Because timeliness and transaction costs are just two indicators of one type of efficiency, the paper is careful not to overemphasize these quantitative findings, as they will always need to be balanced by other factors in any decision. Nevertheless, having concrete measures to consider alongside the qualitative information is useful.

### 1.3 Caveats and limitations

The study aimed to be as empirical and quantitative as possible, providing concrete measures for what has been purely anecdotal or assumed to date. However, because of the time and labor-intensive nature of gathering data points from field offices, we necessarily ended up with a small sample. While the findings of the quantitative analysis of the field data correspond to global figures (e.g., the proportions of funding through each mechanism are roughly equivalent to overall global proportions), we nevertheless must be modest in claiming that they are representative of efficiency performance in all emergencies everywhere.

Each humanitarian response context is unique in many aspects, and the ability to cover only three (Ethiopia, Iraq, and Myanmar) necessarily influenced the findings. As observed by an Advisory Group member, “A lot of the things that don’t work in Iraq, Ethiopia, or Myanmar, are things that actually work quite well in other places.” We hope we have struck a balance between pointing out the case-specific problems we observed and not over-generalizing from the results.

Finally, the team is cognizant of valid opinions, including among our Advisory Group, that lead to skepticism of a study on efficiency in isolation of other variables. Our framing of the efficiency definition in the following chapter specifically addresses this problem, and, we believe, offers a solution adequate to the goals of the study.

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<sup>3</sup> The independent samples t-test compares the means of two independent groups to determine if the associated population means are significantly different.

## 2. Defining efficiency

Practitioners interviewed for this study offered widely differing definitions of efficiency in humanitarian funding, from “least possible waste” to “flexible and responsive to needs” to “direct as possible, with fewest links in the chain.” Not surprisingly, opinions were colored by the interviewees’ vantage points in the humanitarian sector. Donor interviewees were consistent that efficiency from their perspective mostly meant minimizing their own administrative burden by limiting the number of contracts under their direct management. In other words, funneling larger amounts through fewer (known and trusted) recipient agencies. First-level recipient agencies (UN agencies and large international NGOs) saw efficient funding as that which was maximally flexible with minimal transaction costs. (The ideal instrument, described by UN agency representatives, was an un-earmarked global contribution with little proposal, reporting, or compliance requirements.) National NGOs stressed sufficiency in grants to enable execution and continuity of their operations (in other words, reasonable overhead allowances) and the need for less onerous transaction costs and barriers to entry. All agreed that speed was a critical element for efficient funding, but the need for speed could be offset by predictability if the recipient agency was large enough to have the capacity to advance the necessary funds for rapid response or in slow-onset emergencies or chronic-crisis environments.

When viewed through the lens of different actors’ interests at different levels in the system, efficiency can appear as a zero-sum game, in which efficiency gains for one party creates inefficiencies for another. For example, donors may maximize their efficiency by making larger umbrella grants, thereby shifting the administrative burden to agencies, and international agencies may reduce costs by restricting overhead allowances for their NGO partners, creating inefficiencies at the subcontractor level. For that reason, to arrive at an objective assessment of funding efficiency at the system level requires a definition that can balance competing interests of different actors along the transaction chain and which is centered on the broader funding efficiency of the collective response.

### 2.1 Types of efficiency

To begin with some basic definitions of efficiency in economic terms, in its simplest description, efficiency is measured by a ratio of outputs to inputs. The higher the useful output produced relative to input or cost (in money, fuel, staffing, time, energy, etc.), the higher the efficiency. If effectiveness is “getting things done,” i.e., achieving objectives, efficiency is “doing things well” by reducing waste, optimizing resources, and maximizing desired outputs.

For our purposes, it useful to unpack the concept further with the distinctions of technical (or operational) efficiency and allocative efficiency.

**Technical efficiency** in humanitarian funding can be viewed as a measure of how funding gets from donor to end user (the aid recipient) with a minimum of impediments, transaction costs, and delays. Examples of technical efficiency in a funding mechanism would therefore include *timeliness* (meaning either speed or predictable timing). To be technically efficient, moreover, requires a high ratio of *sufficiency* (the size of the contribution) to the *transaction costs* entailed (e.g., hours

required for proposal writing, negotiation, reporting, and other administrative and compliance tasks). *Economies of scale* is a type of technical efficiency achieved when costs are reduced as a function of enlarging the distributive channels or implementation mechanisms, thereby consolidating and streamlining inputs. An intermediary agency or umbrella grant manager can sometimes provide this type of efficiency, for instance by coordinating country wide efforts of numerous partners toward a common outcome objective and providing a single procurement pipeline or logistical platform, thus avoiding duplicative costs.

**Allocative efficiency** is concerned with directing funding to where it will have the largest benefit, and therefore relates to relevance/appropriateness and prioritizing the most urgent needs (Palenberg, 2011). Examples of allocative efficiency would be funding mechanisms that fill gaps or mitigate against duplication of resources. Similarly, funding mechanisms will have allocative efficiency if they have the *flexibility* to redirect or modify spending as warranted by changing humanitarian conditions and priorities. Some humanitarian actors have also suggested a temporal perspective of efficiency in settings of chronic vulnerability, namely the impact or return on investment of different funding strategies in the long term. *Subsidiarity* refers to the principle of locating responsibility or action at the level nearest to which it is required. The subsidiarity principle can often support an efficiency argument for “localization,” i.e., facilitating the assumption of larger roles by local actors in the provision of aid to their own populations (in addition to the effectiveness and sustainability arguments.) In cases where local actors are best placed to respond directly to specific situations and needs, channeling their funding through intermediaries is inefficient. However, subsidiarity and localization are not always synonymous. Situations will occur where a broader scope of action provides greater allocative efficiency and/or where international actors will represent *added value*, for instance by providing technical assistance, capacity inputs, centralized procurement, and coordination of multiple efforts for a common outcome. We have therefore included “added value” in the same category, as a corollary to subsidiarity.

It is important to consider all the above in our system-level efficiency assessment, as they relate to different aspects and objectives of humanitarian response. After all, the humanitarian sector is not a factory or free-market enterprise, but rather a unique hybrid of public goods provision and competitive interests engaged in complex and varied activities. So, for example, one funding modality may have superior technical efficiency but may not be scalable, while another may entail heavy transaction costs but nevertheless result in allocative efficiencies. The principle of humanity and the prioritization of the most vulnerable also often require more difficult and expensive interventions, for instance, reaching remote, hard-to-access populations. In sum, different funding mechanisms or arrangements can generate efficiencies in different ways, so should not be held to a reductive measure of inputs-to-outputs.<sup>4</sup>

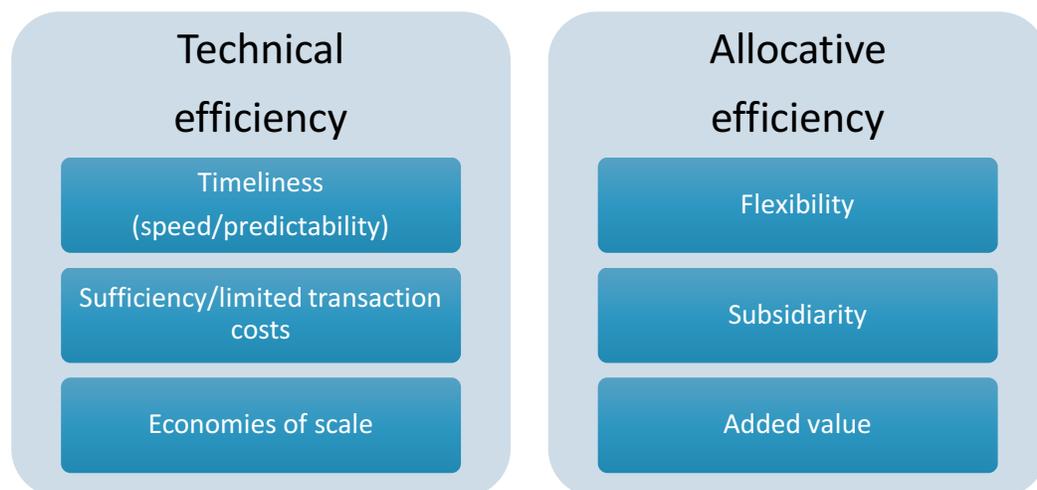
Many interviewees highlighted what they perceived as broader “structural inefficiencies” in the humanitarian system relating to mandates, architecture, and process such as cluster coordination.

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<sup>4</sup> A similar logic is found in UK DFID’s “value for money” formulation, in which efficiency is linked to effectiveness in pursuit of a desired outcome and dependent on the specific circumstances of the context.

This study has focused on technical and allocative efficiency as the level of analysis to make its scope manageable, while referencing such issues where relevant.

Figure 1: Efficiency in funding: Conceptual framework



## 2.2 Causes of inefficiency in humanitarian funding

The main impediments to efficiency in humanitarian funding, regardless of the modality, can be grouped under four areas: transaction costs, risk perception, information asymmetry (i.e., lack of transparency), and competing objectives.

**Transaction costs** in humanitarian funding are any required outlays or inputs that slow or reduce the funding flow between the original donor and end-use recipient. Organizational administrative processes required for the funding to flow are considered a type of transaction cost, sometimes more precisely termed “institutional costs” (Cheung, 1987). While some level of transaction costs is inevitable, minimizing them is central to technical efficiency. For our purposes, the definition of transaction costs is wide enough to include all the following:

- multiple links in the transaction chain, leading to accumulated overhead costs;
- bureaucratic procedures, process requirements, and administrative burdens requiring staff time and at times even additional staff positions; and
- procedural delays in final disbursement and activity start-up.

Technical inefficiency of this type can be built into funding structures and procedures, or caused by their poor implementation. In the context of rapid-onset emergencies, speed will be a primary casualty. Slowness in funding can also create allocative inefficiencies because often by the time the funds arrive—weeks or months after the initial shock—the response they were intended to fund will likely no longer be what is most needed.

Like timeliness, **insufficiency**, is linked to transaction costs, in that there is a point of diminishing returns after which the size of the grant is too small for the investment in transaction costs to be considered worth the effort.

Efforts by donors to reduce potential **risks**—including fraud, waste, or diversion—have driven the increasing compliance burden on agencies. These accountability controls can generate technical inefficiencies.<sup>5</sup> To the extent that risk considerations also drive where funding is directed, they can also negatively affect allocative efficiency (not to mention potentially compromising the humanitarian principle of impartiality). Risk concerns constrain the willingness of donors to pursue subsidiarity, thus create barriers to a more localized response. Government donors generally will not fund national actors directly for reasons of perceived fiduciary risk and, as one put it, the “need to be accountable to our tax-payers.” Like donors, the UN agencies and international NGOs that subcontract to smaller or local organizations can also create risk-driven inefficiencies. For instance, because common agreements or standards for vetting potential partners do not exist, often the same organization must be vetted by numerous agencies and in each new operating location, taking considerable time and effort.

**Information asymmetry**, or what many in the humanitarian sector label “lack of transparency,” is also a driver of inefficiency. The cluster system has arguably improved transparency among humanitarian actors, but according to interviewees for this study serious issues remain. One, in Myanmar, noted that the overall lack of transparency among humanitarian actors, and between the implementers and their donors, made it very difficult to get a holistic view of transaction chains. In such a situation, one can’t even identify where the inefficiencies are to address them. One donor representative lamented a “total lack of transparency—we really cannot tell what it is that agencies, particularly the UN, do with the money. There is no data, so it is very hard to know what is efficient.” (Agencies tend to frame the issue much differently, and speak of a “lack of trust” on the part of donors for their partners.) Other types of inefficiency, like delays, can be made worse by lack of information. One INGO representative reported being unable to mobilize in Borno, Nigeria, despite having a team on the ground, in the absence of reliable information from the donor that funding would ultimately come through.

Finally, **competing objectives** and incentives on the part of humanitarian actors can create allocative inefficiencies. Donors’ funding considerations go beyond just meeting humanitarian needs, and political variables have the potential to impact efficiency (Beck, 2006). OECD guidelines for donors suggest increasing the transparency of funding discussions as a tool to limit political incentives from overshadowing humanitarian priorities (OECD, 2012). Implementing agencies likewise have organizational interests for growth and competitive advantage over counterparts, and decisions driven by these interests are likely not to favor maximum efficiency.

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<sup>5</sup> An INGO interviewee gave the example of a Chad program in which 80% of all the INGO’s support costs were being used to address a donor’s requirements for financial reporting, monitoring, and compliance checks. The donor was nevertheless pressuring the INGO to significantly reduce their support costs from the budget (with no change in reporting requirements).

### 3. Efficiency findings for funding modalities

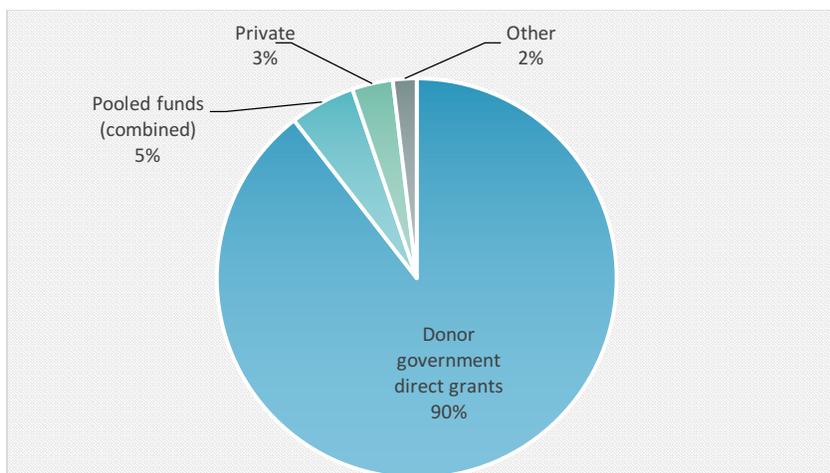
Using the above framing of efficiency types, this section presents the research on the different humanitarian funding modalities within specific humanitarian responses in Ethiopia, Iraq, and Myanmar. The findings for each modality are organized under the themes of timeliness, sufficiency/limited transaction costs, economies of scale, flexibility, subsidiarity, and added value.

Context plays an important role in assessing efficiency in all these cases. There are big differences, for instance, between what makes funding efficient in sudden-onset natural disasters or rapid population displacements versus ongoing protracted crises or static refugee situations. In the former, rapidity is of central importance, while the latter stands to benefit more from longer-term, predictable cycles, consolidated support structures, and economies of scale. In each of the three field cases examined for this study, sudden-onset emergencies or rapid new developments occurred amid long-running complex or conflict-driven emergencies, affording the opportunity to look at both scenarios.

#### 3.1 Direct grants

By far the largest percentage of humanitarian funds directed to emergencies across the world each year comes in the form of direct (“bilateral”) grants from donor governments (including the EU) to recipient agencies (Figure 2).

Figure 2: Global proportions of emergency contributions, 2015–2016



Source: OCHA FTS ([ftsarchive.unocha.org](https://ftsarchive.unocha.org))

When natural disasters are examined in isolation from complex (conflict-related or protracted) emergencies during the same period, the proportions change somewhat, with government direct grants still representing the majority but dropping to 63 percent of the total, private contributions at 22 percent, and pooled funds at 10 percent.

Funding patterns in Ethiopia, Iraq, and Myanmar (all complex emergencies) roughly followed the global norm, with direct grants representing 85 percent, 92 percent, and 90 percent of total humanitarian flows respectively.

### 3.1.1 Technical efficiency

Though it varies from donor to donor, overall the direct granting modality is seen as having higher technical efficiencies in terms of predictability and sufficiency (i.e., larger and relatively predictable contributions). And while the transaction costs could be high for some donors' grants, these donors tend to be the ones providing larger sums, so the sufficiency-to-transaction costs ratio can remain favorable.

Compared to the other funding modalities, however, direct grants are overall less efficient in terms of funding speed required for rapid response and lower still for subsidiarity efficiency—in that donor constraints often require that they funnel their contributions through larger channels, regardless of whether this is the most direct and efficient way for funding to reach the actor best placed to implement.

*Table 1: Averages from sampled contributions in Ethiopia, Iraq, and Myanmar (2015 and 2016)*

	<b>Size of contribution (USD millions)</b>	<b>Days: proposal to award</b>	<b>Days: award to disbursement</b>	<b>Number of iterations in proposal process</b>	<b>Perceived administrative burden: 1 (light) to 5 (heavy)</b>
<i>Bilateral (direct) grants</i>	6.10	47	18	3	2
<i>CERF</i>	1.70	10*	13*	5	4
<i>CBPFs</i>	0.70	46**	28**	5	3
<i>Start Fund</i>	0.16	2	0	0	1
<i>Private grants</i>	0.18	2	3	0	2

\*The CERF Secretariat notes in response that their database show 6 days from proposal to award rather than 10 and 2 days from award to disbursement rather than 13.

\*\* FCS data on CBPFs show 39 days from proposal to award and 12 days from award to disbursement

### *Timeliness (speed/predictability)*

One of the key drawbacks of direct granting in sudden onset emergencies is that most bilateral instruments are usually not capable of responding to signals and mobilizing within an acceptable timeframe to enable a timely response. In our sample the direct donor government grants took an average of 47 days from the time of proposal submission to award decision and a further 18 days from award decision to disbursement of funds.

The 2016 drought response in Ethiopia—large in scale and well-organized, with the government playing a key role in coordination and response—was considered to have been a success overall, having averted significant excess mortality. However, evaluations identified some serious weaknesses, particularly regarding timeliness of the response, including delayed arrival of funding (OCHA, 2017). Interviewees commented on the difficulties in convincing donor capitals that a deteriorating slow-onset situation would imminently require a rapid response. Donor decision-

makers understand very well the logic of early mitigating action, but in cases where they have a limited pot of funds to allocate to existing acute needs, prioritizing new needs which are likely but have not yet occurred is an extremely difficult case to make. In addition, these donors will have competing priorities and emergencies elsewhere in the world to consider.

The proposal process proved to be the greatest practical impediment to timeliness in direct granting in Ethiopia. A donor issues a call for proposals, and by the time proposals are submitted, reviewed, amended and contracted, it is common for three to four months to have elapsed, at a minimum. A crucial exception is in cases where donors can modify their existing grant agreements, or, similarly, where intermediaries (UN agencies or international NGOs) can modify agreements with local actors. In these scenarios, this time-lag may be almost eliminated. DFID, for example, was the first bilateral donor to respond to the crisis, in July 2015, and did so by topping up existing multi-year agreements with their aid-provider partners, obviating the need for additional grant procedures. The United States and Sweden managed to do the same and moved funding from their development budgets to their humanitarian budgets. This arrangement played a crucial role for the overall response and should be further explored.

Humanitarian actors in Myanmar also contended with delayed funding responses in the 2015 floods that affected large areas of the country, including those where humanitarians were engaged in ongoing assistance to conflict-displaced people. Delays in the approval and disbursement process meant the international humanitarian community took upwards of two months to properly begin the response to the flood emergency.

The slowness in bilateral funding need not be inevitable, as some rare examples show. DFID has given approval authority to some local offices for up to GBP 2 million, for instance, which can enable funds to be released very quickly—a model which would serve humanitarian action to be replicated.

Where direct grants do have a timeliness advantage over other modalities is in *predictability* of funding for long-term chronic emergency responses. For such funding, donors typically have set disbursement schedules according to their fiscal years, participate in pledging conferences to signal intentions, and have long-term working relationships with operational organizations. In Iraq, the funding arrangements deemed most efficient by operational actors were direct grants of long duration that tended to be tied to long-standing relationships that included an element of trust.

### *Sufficiency/transaction costs*

Direct granting scores higher in sufficiency than most other funding modalities. While individual grants run the gamut from very small to very large, on average they are seven times larger than allocations made through the pooled fund mechanisms. However, most efficiencies are realized when the size of the grant is large relative to the cost to the grantee in the time and administration burden to obtain and administer it. And the inflexibility of some of these grants can be considerable. Several humanitarian organization representatives spoke of the problems caused by being locked into narrow budget line items and staffing plans from proposals, hindering the making of any necessary adjustments that may arise later.

The proposal process entails an additional set of transaction costs, also repeatedly flagged by humanitarian actors as a time burden and inefficiency. The Grand Bargain and recent research initiatives (Roselli et al., 2016; Caccavale et al., 2016) have delved into the issue of reporting requirements and made the case for harmonized reporting formats across different donors.

OFDA and ECHO are largely considered to be efficient sources of direct grants, despite heavy administrative requirements (much of which is enshrined in law) and high barriers to entry for grantees. A funding relationship, once it is established and compliance systems are set up, becomes a predictable (if labor-intensive) proposition with a high benefit-to-cost ratio and thus worth the investment. However, direct funding relationships with high entry costs and low flexibility (even with acceptable reporting costs) were considered less efficient when the total amount of funding was relatively low.

The donors perceived as having low “entry costs,” relative flexibility, and light proposal and reporting requirements were clearly also perceived by humanitarian organizations as the most efficient sources of funding (Switzerland, Norway, Sweden, and Germany were noted as examples). (However, another, perhaps less visible, form of entry barrier is when donors preferentially grant to INGOs based in their own countries, which applies to some of the above.)

Funding volume is not always of primary importance, however, and humanitarian actors do not always view small grants as inefficient. As one INGO representative pointed out, though small grants are relatively costly, they can at times be very valuable for allocative efficiency “if they give you money for something you really want to do, and may open the door for other opportunities.” Something inefficient in the short term can thus pay off in the long run as well as add other value.

In Iraq, evidence shows that, even though they have efficiency problems stemming from the combination of multiple funding streams, operational actors prefer certain direct granting arrangements. Highly divergent administrative and reporting requirements by different donors were clearly and consistently cited as key issues for operational actors, and the notion of a system paralyzed by multiple layers of reporting requirements was raised in more than one interview. Gulf state donors were cited by agencies as particularly problematic, requiring extensive feedback and detailed reporting. The relationship between the donor and recipient agency, according to one senior agency interviewee “feels much more unequal, and we don’t understand what exactly they want.”

### *Economies of scale*

With very large bilateral grants, economies of scale can be created in the same way they are through pooled funding allocations to large organizations (UN agencies or major INGOs) and cluster leads to coordinate and manage large-scale responses with multiple partners. Because of the granular, fragmented nature of the humanitarian sector, this is often the only conceivable way to produce results at scale across a large area/population. For example, UNICEF’s \$1 million grant from OFDA for the 2015 response to the Rakhine crisis in Myanmar allowed it to work at scale through multiple partners. The INGO IRC has conducted efficiency analysis of latrine-construction programs in Ethiopia, finding that “the difference in cost per person-year of latrine access differed

more than twenty times between the smallest and the largest programs. This is routinely true across programming sectors which incur fixed costs,” such as water and sanitation, and less true for sectors like protection which are staff-intensive.<sup>6</sup>

### 3.1.2 Allocative efficiency

#### *Flexibility*

In Myanmar, many of the chief complaints about direct grant funding related to those grants that did not allow the flexibility to make necessary changes midstream. For the international Red Cross movement entities, earmarked grants at the subnational level meant a far more restrictive form of funding and one which left them with underfunded needs, such as logistics, that most donors felt were too “unsexy” to resource. An INGO respondent also questioned some donors’ insistence that they hire additional (much more costly) senior-level international staff “for ‘accountability’ purposes. You begin to question how efficient this is.”

The two largest humanitarian donors, the U.S. government and ECHO, are relatively restrictive according to their official guidance. However, with the help of donor field officers, partners can extract more flexibility from the official rules. For example, OFDA advises partners to use broader geographical delineations rather than highly specific locations and to include “trip-wires” or triggers and thresholds for response or adaptation without having to request a formal modification to the grant. ECHO requires a lot of detail in the proposal preparation stage and is relatively inflexible when it comes to adapting programs without undergoing a time-consuming modification. However, partners are allowed a variance across budget lines, providing spending flexibility. Constraints on purchase of drugs were felt to be one of the most restrictive donor conditions, which applies to both the U.S. and ECHO. The U.S. has extensive restrictions on drug procurement. ECHO meanwhile requires international procurement to meet its organizational quality standards, which can take up to six months, including shipping, customs clearance, and internal transport in some contexts. Most organizations consider this impossible for rapid response. Therefore, organizations may often have to seek alternative funding for procurement of drugs and medical supplies to work around the U.S.’s and ECHO’s restrictions.

#### *Subsidiarity (localization)*

Put simply, local NGOs can often operate at lower cost and closer to communities, which in many cases can be more efficient (as well as effective) for humanitarian response, but they lack direct access to financial resources of the sort international donors can provide, but for the most part do not. While the need for greater localization of humanitarian response, where possible, was a prominent theme at the World Humanitarian Summit and in the Grand Bargain, donor governments have to date offered up more rhetorical support for it than concrete action. Donors in Myanmar, for example, spoke of a general “consensus to fund as directly and as locally as possible,” with one

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<sup>6</sup> Comment provided to the study through the Advisory Group review process. Data available at <https://www.rescue.org/report/cost-efficiency-latrines-building-camps>.

donor representative saying there was “no reason why 10 years from now international organizations should still be still running the show,” but these sentiments have been slow to materialize. Fairly or unfairly, accountability risks (often cemented in donors’ operational regulations or even in domestic legislation) prevent many donor governments from funding national aid organizations directly. In the words of one donor interviewee, “Would it be more efficient to go direct to the bottom line (local providers)? Possibly—but we don’t have the counterfactual because we are not willing to take that risk.”

Some signs of incremental change in this area are visible, however. USAID/OFDA currently funds one national Burmese NGO directly—an organization called Metta, which had the institutional capacity to undergo and pass a rigorous organizational audit. Some initial practical difficulties of this novel arrangement stemming from regulations soon became evident, including problems making bank transfers to the NGO in-country. Interviewees also noted, as encapsulated by one respondent, the risk sometimes borne by high performers: “When donors find a strong local NGO, they tend to give them a lot of money, making it difficult for the NGO to handle large scale growth in a short period of time, which sometimes creates performance issues.”

It is noteworthy that OFDA is among the most operational of donors, with greater capacity for individual grant management in the field than many. For donors with significant resources to spend but limited staff to deploy in the field, the incentive is to write larger grants for fewer projects. For this they require partners with large capacity to either implement or manage sub-grantees. This of course militates against direct funding of smaller actors and hence against localization efforts and subsidiarity.

### *Added value*

The donors that were heaviest in terms of administrative requirements and transaction costs (OFDA and ECHO) were also noted by their grantees as having added some significant technical value. An INGO interviewee gave a recent example where the OFDA staff in Nigeria were well versed in both the context and technical aspects of programming, and so could meaningfully contribute to and improve program designs, and after the design phase were hands off in terms of the implementation, “which is a really good balance.”

Interviewees in Myanmar also spoke of government bilateral donors such as DFID and OFDA as adding value and arguably promoting allocative efficiency by taking a “portfolio approach” to their funding, where their different grantees provide different advantages and complement each other’s efforts in the aggregate. However, even with donors’ attempts to coordinate and ensure coverage or complementarity in terms of sectors, in practice both needs assessment and coordination are imperfect, efficiency metrics are limited, and funding is awarded primarily to known and trusted partners with capacity, access and track records.

### 3.2 Bilateral grant intermediaries

A subset of efficiency issues comes with the grants with more than one link in the transaction chain, i.e., that are sub-granted from the primary recipient agencies (UN or large INGOs) to smaller

operational actors. These tend to be slower and entail greater cumulative transaction costs. However, they can at times be justified by their allocative efficiency benefits and the technical or logistical value added by the primary recipient agency to the implementing partners. In other words, the right relationship with an intermediary can offset technical efficiency losses by adding allocative efficiency and ultimately enhancing effectiveness. Particularly for small local actors that undertake humanitarian interventions infrequently, the value added in sustained mentoring relationships with INGOs or UN agencies, when these are of high quality, can be significant.

For the three cases studied, interviewees criticized these arrangements as cumbersome and the value added as minimal. These arrangements were deemed particularly inefficient when they were used to deliver projects that invoked the concept of “provider of last resort.” For example, a UN agency was required to sub-contract a certain technical invention through a partner under circumstances where there was no established relationship with the partner and the partner was asked to work in an area (“thematic” or “geographical”) where it was not already established.

### 3.2.1 Technical efficiency

Because more than one set of proposal review and revision procedures usually exist, as well as additional links in the chain that money moves along (entailing additional time on the parts of both the organizations and their financial institutions), the timeline will be longer for a multi-link contribution, even barring snags along the way. Different intermediary granters had varying reputations for being relatively fast or slow, with UNICEF coming in for the greatest amount of criticism in this area. To the agency’s credit, staff have recognized the problem with both speed and flexibility for their partners (more on this below) and are working to address it. Part of the problem may be an organizational mindset where agencies do not perceive themselves as “donors”—which in practice they increasingly are in these cases—and thus are not attuned to good donorship principles and how they should apply to their partnerships with sub-grantees.

In the case of Iraq, under certain circumstances, partnership arrangements between UN agencies and partners were seen as similar to efficient partnerships with efficient donors. Again, the key was the established nature of the relationship. In one case, the INGO partner had long since accepted that the rules of the relationship were relatively rigid, but having learned the rules and accepted them, a degree of flexibility was inherent in implementation. One local NGO referred to a flexible and efficient partnership with UNICEF, based on a long-standing relationship and a degree of trust. In other instances, however, partners had declined funding from UNICEF and UNHCR because of inefficiency (overly high entry and transaction costs). Indeed, more often than not, INGO partners saw little or no added value in UN sub-contracting for their individual organizations and programming, whereas donors felt that passing money via UN agencies had created economies of scale in procurement and coordination. A key issue for them appeared to be the UN’s special relationship with the Iraqi government.

An interviewee from one major NGO reported, “A lot of the time with UN grants it actually costs us to accept their sub-grants, because they don’t provide enough in overheads.” This was not the only organization representative interviewed that spoke of occasionally declining sub-grants for inefficiency reasons. The situation is more difficult for local NGOs, which are not afforded the

customary 7 percent overhead costs given to INGOs. In Myanmar, the justification given was that INGOs have global HQ costs which need to be contributed to whereas local NGOs do not. Often these local organizations are allowed to charge margins on their direct costs to pay for institutional expenses, but by no means always. This results in the end-chain implementer of the grant receiving the least in indirect cost recovery, while the intermediaries receive the most, in inverse proportion to their proximity to the actual program. The lack of sufficient overhead for smaller and local NGOs contributes to the stunting effect that the financing system—particularly the bilateral grant modality—imposes on them. Small organizations tend to get small grants, which not only have the proportionally largest transaction costs in terms of reporting (Caccavale, Haver, & Stoddard, 2016), but also make the least available to the organization to fund the capacity needed to meet those costs. Rather than using each successive grant to build the capacity to grow, the national NGOs at the end of the transaction chain remain small and operate hand to mouth.

Some representatives of intermediary agencies have said that they are required by their original donors to demand a certain level of compliance from their subcontractors, and until and unless they receive more flexibility from donors, their hands are tied. One UN agency representative that particularly when the subcontractor is a local organization, the demands become more stringent as the donors try to extend their risk mitigation efforts: “The more we talk about localization, the conditions are getting more and more granular in terms of what we must give back to our donors, so it is not efficient for us.”

Whether donor-driven or not, the higher transaction costs for subcontractors versus primary agency recipient is real and well-known. The “Less Paper More Aid” report found that “overall UN agencies require more frequent reports compared to institutional donors. On average the UN agencies examined required a minimum of six reports to a maximum of eight per year. The institutional donors examined, required on average, a minimum of two reports to a maximum of six per year” (Roselli, Fabbri, & Collingwood Esland, 2016). Similarly, a recent Humanitarian Outcomes analysis found that “reporting requirements are far less onerous for UN agencies. This difference is due to the fact that (1) donors do not play a role in the governance of NGOs and hence do not help shape their internal accountability mechanisms as happens with [UN agencies]; and (2) NGO funding is more frequently connected to specific projects (i.e., earmarked) and therefore is seen to require detailed, project-specific reporting to ensure accountability . . .” (Caccavale, Haver, & Stoddard, 2016).

The issue of agency overhead is one of the more complex examples of transaction costs to humanitarian funding and one of the most challenging to measure. A certain amount of indirect, institutional funding to support and sustain the organization and its activities is of course a necessity, particularly if said organization receives little or no core budget support from donors. This becomes harder to justify when long multi-level granting chains see percentages withdrawn at each level, leaving ultimately less money for the aid recipient. Previous studies tackling the issue of agency overhead have struggled with the fact that there is no single common definition or accounting formula for these indirect costs, and comparing different actors’ costs is like comparing apples to oranges. For this study, we took a deliberately simpler approach of using agency self-reported figures (i.e., the percentages taken in overhead, as defined by the agencies that took them)

on each contribution transaction chain studied. What this showed was that direct grants with no intermediaries lost 11 percent on average in overhead, compared to a cumulative 14 percent on average for two-link transaction chains. By themselves these figures are not instructive: It stands to reason that multiple links will amount to more overhead withdrawn from the principal amount remaining for programming activities. However, it becomes something to consider against the qualitative findings in the field on whether the intermediaries created economies of scale or added value to the programming.

### 3.2.2 Allocative efficiency

Intermediary funding organizations, whether a UN agency or large INGO, can theoretically create system-level efficiencies and add value in the “middle-man” role of a humanitarian response in a variety of ways, for example, by

- coordinating multiple, geographically dispersed efforts under a single program toward common outcomes;
- assisting advocacy efforts and access negotiations;
- providing technical expertise and guidance and overseeing standards in programming; or
- directly and indirectly helping to strengthen capacity of smaller partners through technical assistance, training, and being a conduit to international public and private funding otherwise inaccessible.

Of course, the extent to which intermediaries add value depends on how limited the capacity of sub-grantees are—and the intermediary’s own limitations. In Myanmar, for instance, WFP has robust supply chains and procurement pipelines which create economies of scale in Rakhine State, but currently cannot bring physical commodities into Kachin, so local organizations are taking on a larger independent role there.

In Ethiopia as well, UN agencies were able to realize economies of scale, which is a key consideration for donors in a crisis where large numbers of people are affected, where the response is commodity/logistics-heavy and where large geographical areas need to be covered. One donor commented that when they fund WFP, they know that they can move quickly and at scale, even before they have signed an agreement because they have “deep pockets” and established systems. That UN agencies also have established relationships with government, which helps to facilitate more timely response, was also noted as an advantage. In addition to the established role of UN agencies in cluster coordination, government liaison and their ability to coordinate responses at scale, it is important to remember that these agencies are mandated to be present in humanitarian emergencies, whereas NGO presence is voluntary and highly variable.

As mentioned above, the bulk of humanitarian funding goes through bilateral grants from large government donors. And most of these donors are unable or unwilling to grant to national organizations directly, leaving a very thin slice of the pie available for local actors to access without having to be subcontracted by an international organization (mainly CBPF allocations and grants from private organizations). While we saw above that allocative efficiencies resulting from economies of scale and value added can be brought to bear in certain situations (and generally are

far more appreciated by donors and large agencies than by the NGO community), unquestionably in some cases the value added is lacking or not commensurate with the transaction costs generated. A local NGO representative in Myanmar opined succinctly, “Efficiency is delivering in the shortest time where most needed. Bureaucratic mechanisms which ask for too much information are inefficient.”

Not all intermediary organizations came in for criticism. Caritas International is reportedly very light on reporting and quite flexible in terms of changing programming midstream as needed; Oxfam adds value through informal support to grantees applying to the Myanmar Humanitarian Fund. WFP, in contrast to other UN agency intermediaries, occasionally received some praise as “a straightforward contract, very familiar, good mechanism, negotiated locally.” This suggests that organizations that have been designed from the outset to work through partnerships have worked out some efficiencies that others may yet lack.

At present, the lack of clear and readily available information on sub-granting hinders thorough analysis. FTS has only begun to try to capture secondary and tertiary levels of granting in their database as of this year, and in many cases the original donors themselves are not aware of what percentage of their grants were sub-granted to local NGOs. As one donor said, “When we asked our partners, they struggled to tell us how much they were channeling to local organizations, and secondly, it wasn’t the partners we expected. ICRC ended up being our largest supporter of local partners!”

### 3.3 Global-level pooled funding (CERF and Start)

Since its expansion in 2006, the CERF has functioned to provide rapid-response funding to sudden onset emergencies and to fill gaps in “under-funded” emergencies. With funding levels close to its \$500 million target for the past few years, the CERF is now anticipated to double in size to \$1 billion, following commitments made at the World Humanitarian Summit and endorsed by the General Assembly. By design, the CERF exists to create both technical efficiencies (moving money rapidly) and allocative efficiencies (filling gaps). An estimated 50 percent of CERF funds are used to procure relief items.

#### 3.3.1 Technical efficiency

##### *Timeliness (speed/predictability)*

Regarding speed of response, the CERF has shown that it can make very rapid (even within 24 hours) decisions and disbursements. In Ethiopia for example, the CERF was noted to have provided a very timely injection of cash, with an allocation in November 2015, before other donors had mobilized. CERF also allows back-dating requests up to six weeks so that agencies can begin programming with their internal reserves as soon as they are confident that they will receive the CERF allocation.

Where problems arise, however, is on the front and back end of the transactions, with delays occurring in the pre-proposal submission process and following the initial disbursement. In the Myanmar 2015 flood response, CERF funds took an average of 30 days to reach the secondary

(implementing) agencies, which is lengthy when dealing with first-response needs in a sudden-onset emergency.

Many interviewees pinned part of the blame for this on CERF's preference for receiving joined up agency applications rather than considering separate proposals as they come in. While this is meant to promote strategic coordination of activities (an example of adding value and allocative efficiency), it means that the application process moves as fast as the slowest member, and observers note an element of "pie sharing" is clearly at play as well. Moreover, interviewees were not convinced that the extra time taken to combine proposals in fact enabled prioritization and planning. A UN representative in the field described it as "creating a chapeau document and inventing a strategic overlay after the fact." And since the CERF secretariat still needs to review all the separate proposals, it does not save time at the global level either.

Beyond the delays in the proposal process, in cases where the primary recipient agency moves slowly to contract partners and becomes a bottleneck for sub-grants—a frequent occurrence—months have been known to elapse before the money hits the ground for the start of project activities. Given that grants are typically small in volume and of short duration, the timeliness inefficiencies of such instances are clear. For one such allocation in Myanmar, after delays the NGO advanced other funds to start the project. But since many implementers lack large advance reserves, this is often not possible. This component of the delay is not the fault of the CERF mechanism, but rather lies with internal agency processes.

The Start Fund is the financing component of a "collectively owned" network of NGOs (41 international and 6 national), which was specifically designed to move funding faster to enable a rapid response on the ground. Start's own global data reports a call-to-disbursement time of three days. This bore out in our sample (albeit of only two Start contributions), where the disbursement time was two days. Significantly, however, the Start Fund is also a much smaller mechanism than the CERF and its grants are relatively small sums of money for small-to-medium emergencies that receive little international donor attention. While it is geared for rapid response, it is not looking to support major coordinated responses at scale, as the CERF is, and therefore cannot be measured by the same yardstick. Indeed, its relative efficiencies may be largely dependent on its limited size and remit.

### *Sufficiency/transaction costs*

Although the CERF is within the purview of the UN, they are admittedly unaccustomed to the relatively stringent earmarking and accountability requirements attached to CERF grants. Particularly when the grant amounts were relatively small (in our three-country survey they averaged \$1.7 million, but some were as small as \$300,000), recipient agencies found this a source of frustration. Indeed, many CERF allocations represented a fraction of what the agency originally proposed for the activities (10 percent in the case of one instance in Myanmar), and the balance had to be made up from other donors, creating more work and time delays.

In addition to a speedy disbursement mechanism, the Start fund also had the lightest perceived transactions costs and administrative burden (on a five-point scale with 1 being the lightest and 5

being heaviest, it scored a 1, as compared with a 4 for the CERF and a 3 for the CBPFs). At the same time of course, its disbursements are the smallest on average of any of the mechanisms sampled, including private contributions (which averaged \$157,000 in our sample).

### 3.3.2 Allocative efficiency

Through the “underfunded” window, the CERF fills gaps resulting from the fragmented nature of the bilateral granting system. However, the fact that UN agencies are the sole direct recipients of its allocations means that the CERF can come to be used as a safety net and shared resource rather than a strategic input. In Myanmar, CERF fund recipients spoke of being asked to put in only a certain percentage of their project requirements so that all appealing agencies could get a share.

#### *Subsidiarity*

Because it only funds UN agencies, the CERF cannot directly facilitate greater subsidiarity efficiency when local NGO capacities make this possible. Although a sizable percentage of the CERF allocations ends up in the hands of local NGOs, there is no evidence that this is any different from what happens with bilateral grants through intermediaries.

Although the Start Fund has recently added more national NGO members, it is only beginning to think about how to more strategically approach the questions of localization and subsidiarity. Arguably by making small grants directly to implementers on the ground, it is making some subsidiarity gains, but because it is a members-only proposition, there is no way to ensure that the right actor at the right level can have equal access to its resources.

#### *Added value*

Coordination as an added value is a principal objective of pooled funding and most interviewees did allow that this has been something that these mechanisms can and have achieved, by both incentivizing and helping to structure common planning processes. The Start Fund has also noted that its ability to leverage funding to catalyze responses to otherwise forgotten crises is a considerable added value as well.

### 3.4 Country-based pooled funds

Donors acknowledge that evaluations and anecdotal evidence strongly indicate that country-based pooled funds (CBPFs) are improving year by year and becoming reasonably efficient and effective funding mechanisms. As bilateral grants led the surge in funding over the past few years, however, pooled funds are becoming a smaller and smaller percentage of the total funding pool and arguably less relevant and less able to leverage comparative advantage and add value as part of a diverse “funding ecosystem” (Stoddard, 2017).

Unlike the global pooled funds, the CBPFs’ performance is tied to that of the coordinated humanitarian structures in each country where they operate. Poor humanitarian coordination in a country can hinder CBPFs, but conversely, well-run and well applied CBPF can help to strengthen coordination structures by incentivizing actors and underpinning a strategic plan. In Ethiopia, the

qualitative evidence supports the claim that the CBPF provides an efficiency benefit at the strategic, system level. This was not the case in Iraq, where difficulties are rooted in broader coordination failure—clusters not functioning well, disagreement on approach, and severe problems in human resources.

### 3.4.1 Technical efficiency

#### *Timeliness (speed/predictability)*

The CBPFs have shown variable performance in terms of rapidity of funding, though they typically improve over time. On average, pooled funds are twice as quick as bilateral grants from the proposal to decision stage, though timeliness efficiencies can be lost in the disbursement phase.

Efficiency is a key principle elaborated in the standardized CBPF guidance (as well as inclusiveness, transparency, accountability, and timeliness), and the stated goal is to enable a timely and strategic response to locally identified needs (UN OCHA, Funding Coordination Section, 2016) while minimizing transaction costs and maximizing transparency.

The CBPF in Ethiopia in the past pre-positioned small amounts of funding (around \$20,000) with agencies to allow them to respond immediately to rapid crises based on a phone call or email approval. Although interviewees reported this had a substantial impact in the first hours and days of a crisis for a relatively small amount of money, it was determined to be too high a corporate risk for OCHA to continue.

As discussed, timeliness is not just a function of speed; it is, more importantly, making sure that money is available at the right times, which in the case of Ethiopia are easy to predict. In many cases, funding cycles follow donor administrative years; however, this impacts directly on the ability of the CBPF (known as the Ethiopia Humanitarian Fund or EHF) to make allocations in sync with the seasonal calendar. The EHF typically receives a large volume of contributions in December, as donors look to allocate unspent funds. These funds are rolled into the EHF's following allocation year, whereupon the size of the EHF's end of year balance is questioned by donors.

The Myanmar CBPF (or MHF) has had a rocky inception and by many accounts is still not performing optimally, although it is reasonably well funded and donors generally support its role. Agency interviewees complained that it is slow to disburse and cumbersome in terms of its processes. The main complaints were that it is inflexible and not sufficiently accessible to local NGOs (an example cited was that applications must be made online in English—requiring both reliable internet, which is often not the case in Myanmar, and language skills). Most telling of its challenges, the MHF took between two and three months to disburse some grants for the 2015 flood response.

#### *Sufficiency/transaction costs*

CBPFs grants tend to be quite a bit smaller, on average, than either bilateral or global pooled fund grants. In part this is by design according to their funding objectives (addressing smaller, discrete crises and funding smaller, local organizations when they are best suited to respond). But, as

previously described, the smaller the grant, the larger the relative transaction costs, which are all the same in the CBPF system no matter the amount of the grant. In fact, in Myanmar several interviewees referred to the MHF as the heaviest of any funding they get in terms of administrative burden. (For this reason, some discussion has occurred in OCHA on setting a minimum grant size.) It is nonetheless a funding source which NGOs continue to apply to, often knowing that the process will be painful.

The financing system in Ethiopia is excessively complex given the relatively predictable nature of needs and the established presence of humanitarian actors, response mechanisms, coordination, and prioritization processes. Bilateral donors tend to create new mechanisms as work-arounds to bureaucratic impediments, which may shorten disbursement times while adding to transaction costs, and many responding actors complained of highly fragmented portfolios and high transaction costs associated with navigating complex networks of transactions, relationships, and instruments.

### 3.4.2 Allocative efficiency

#### *Flexibility*

According to interviewees, the procedures and grant management mechanisms for the CBPFs were not particularly flexible when it came to midstream modifications (in that formal changes must be made to the online system), but they were nonetheless able to be changed when needed.

A more extensive notion of flexibility efficiency, however, has to do with using a funding mechanism to respond to changing needs as and where they occur without being hamstrung by bureaucratic or procedural constraints. The CBPFs are typically too tightly circumscribed in their role to act nimbly and flexibly, despite their aspirations. However, they can fill gaps, for instance by providing funding for neglected emergencies (such as small-scale natural disasters) within larger crisis contexts.

#### *Subsidiarity*

The CBPFs started to preferentially fund NGOs, and particularly national NGOs when possible and efficient/effective to do so. Because some donors in Myanmar must go through the MHF to fund local actors because the regulations won't allow them to provide direct funding, one could argue that subsidiarity is promoted by the existence of the CBPF from which national organizations can apply for and win their own grants as opposed to working in partnership arrangements with international actors. It may be subsidiarity "once removed" but it is still a way to reduce the number of links in the chain when this is desirable.

The Iraq Humanitarian Fund (IHF) highlighted the challenges of earmarking for national NGOs within pooled funds. In line with donor commitments to localization in the Grand Bargain, donors have pressured the IHF to open a special window for national NGOs. This runs contrary to the global level understanding that contributions to pooled funds may not be earmarked. As a result, these contributions have been the subject of lengthy negotiations with OCHA and inefficient on the supply side of the IHF.

One national actor in Iraq noted that contributions from the pooled fund did not meet their own definition of efficiency; i.e., funds were of short duration, had high reporting costs, and allowed for only minimal support (overhead) costs. Moreover, the funding delivered by the IHF was not accompanied by a sustained relationship, with capacity building around financial management and reporting, that the partner acknowledged they needed

### *Added value*

An internal OCHA report on the CBPFs presents three broad ways in which they can add value:

1. CBPFs can provide funding to local NGOs that many donors are unable to do directly.
2. CBPFs support multi-year planning.
3. CBPFs funding can be “strategically and timely allocated in a way that promotes a high degree of coordination, quality, accountability and transparency” (UN OCHA, 2016).

In terms of the third point, not all actors express appreciation for the use of funding mechanisms as leverage for particular strategic or coordination ends. Agencies have complained of donors colluding with the managers of the pooled funds to incentivize actors to change tack and work in areas that they deem underserved—perceived as gainsaying the agencies’ judgement on where and how to program.

### 3.5 Consortia and framework agreements

In terms of speed and limited transaction costs, bilaterally funded instruments involving prearranged partners can be quite technically efficient. Large bilateral donors can establish these entities either at the country level or globally. An example is DFID’s Rapid Response Facility, where a group of UK-based NGOs are on standby agreements to provide rapid response to sudden-onset disasters. When they work well, these consortia and framework agreements are considered the second or third fastest way to mobilize money (after internal reserves and the Start Fund). Most donors and organizations involved in such bodies are generally happy with the arrangements, although the researchers did hear the occasional observation from NGO representatives that they don’t always decrease transaction costs, due to the amount of internal discussion required. In some cases, including a framework agreement in Myanmar, for NGOs they are simply “a marriage of convenience” and a way for donors to shift the administrative and management burden down the line.

At the global level, passing funds from affiliate offices to operational INGO entities at the country level is a common practice, and one not often discussed. Save the Children Sweden for example, will contract funds from Sida and pass these on to Save the Children International in Ethiopia to carry out child protection programming. The affiliate that receives the grant from its home donor will charge a pass-through fee, in some cases adding a budget-line for its “added value” activities. The efficiency of these practices is rarely questioned by donors or implementing organizations, despite the clear transaction costs that could have been avoided had the donor funded the implementing affiliate directly.

Most donors see consortia as a means for reducing their management overhead, and so the trend is towards managing fewer grants. But this militates against providing more direct funding for local NGOs—how the tension between these two objectives will be managed is unclear. Neither is how grant applications will be made more accessible to local NGOs while maintaining current standards of due diligence. Donors managing too many grants experience bottlenecks which slow down grants.

In Myanmar, the Humanitarian and Resilience Programme (HARP) is a unique framework funding instrument designed by DFID to funnel all its grants in the country (except those that go through the pooled funds) into a single contract managed by Crown Agents and combining both humanitarian and resilience programming. Two notable novelties are HARP's ability to fund local NGOs directly and on a multi-year basis. This decision was reportedly driven by efficiency concerns, in a context where the needs are diverse and far flung, requiring many different partners for many different types of work, with the variety of access challenges.

### 3.6 Core funding and internal instruments

Some of the most responsive and cost-efficient financing instruments are found in the internal financing infrastructure of large humanitarian organizations and as such are often not visible within officially reported financing data.

The major UN humanitarian agencies, and some of the largest INGOs, maintain either internal cash reserves or internal emergency funds, which can advance funding for activities until a donor grant comes online. In Ethiopia, for example, World Vision International received around 42 percent of its funding in 2016 from private sources, which it uses across a variety of instruments designed to support more efficient and timely response. World Vision allows 20 percent of its private funds to be linked to a crisis modifier, which can then be redeployed on the decision of national leadership without having to seek permission up the line. In addition, it has an internal draw-down mechanism and can put aside 5 percent of private funds each year as a reserve for preparedness and response activities.

WFP uses the working capital it holds at the global level to overcome the delays and cash-flow problems of bilateral donor funding and enable it to respond, procure, transport, and preposition food and scale up responses as needs occur rather than when a funding contract is signed. This advance funding is a big contributor to economies of scale in that much of the food cluster response depends on WFP to set up the logistics capacity for all partners (and emergency telecoms services for the wider humanitarian community).

IFRC operates its own Disaster Relief Emergency Fund (DREF) to provide quick resources to the its National Societies in the event of emergency. Similarly, UNICEF in Myanmar receives roughly a third of its funding from private sources through its national committees, which can be invaluable for emergency advance funding.

UNHCR receives donor contributions in three different loci: country-level funds, regional funds (e.g., the Africa bureau), or un-earmarked core funding. This core funding is recycled through the

year and is directed from the global level to where it is needed. In some cases, it is directed to the protection and normative work that is part of the organization's official mandate but which has been difficult to get donors to fund. UNHCR has improved predictability for country offices through a system of guaranteed minimum operating budgets so that country-level resources can be maintained and cushioned from fluctuations in donor contributions to specific crises.

New tools to harness social impact investing are starting to be used by humanitarian organizations in ways that boost core funding for emergencies. For example, UNICEF's USA chapter has a Bridge Fund that leverages permanent grants to attract private investments, and is used as a rotating lending tool to bridge the gap between emergency onset and receipt of grant funding for response.

On an individual agency level this is the fastest, most efficient way of financing rapid response, but it is limited in volume and duration of lead time and is beyond the scope of most humanitarian actors, hence un-scalable. Because these organizations do not function on a business cycle of reinvestment and growth, but rather on limited cost recovery, establishing this type of resource is out of reach without some significant infusion of flexible core funding from either public or private sources.

## 4. Other issues: Multiyear timeframes and earmarking

### 4.1 Multiyear funding

The subject of multi-year funding and how it may affect efficiency is relevant to all the current funding modalities, since in theory all of them could be adapted to longer timeframes. Both humanitarian and development actors have expressed growing recognition that in chronic crisis settings, repeated large-scale humanitarian responses to predictable disasters are profoundly inefficient. As a result, donors are now experimenting with extending the humanitarian funding and programming cycles beyond the standard 12-month grant. Both Myanmar and Ethiopia are examples of how “resilience” programming is gaining ground in contexts previously limited to traditional humanitarian programming.

Ethiopia has served as a laboratory for resilience programming in the wake of the 2011 Horn of Africa food security crisis. Here, resilience programming followed the logic of addressing underlying vulnerabilities in order to graduate from the cycle of crisis and response to predictable risk and mitigation. The new HARP funding framework, initiated by DFID in Myanmar, aims at similar objectives, intending to gain both technical efficiencies and broader strategic efficiencies for addressing the country’s needs.

The existence of multiyear funding (or at least “predictable funding for multiyear programs”—donors are not able to allocate more than one year’s worth of funding in advance) could have clear benefits to funding efficiency in both technical and allocative aspects.

### 4.2 Earmarking

The issue of “earmarking” contributions, that is donors directing where and how humanitarian funding should be spent (typically on a project basis), has been the subject of contention for as long as the modern humanitarian system has existed. NGOs largely accept it as the norm when dealing with donor governments. Those NGOs lucky enough to have fully or mostly flexible (un-earmarked) resources have achieved this by generating large private sums from private and individual donations. UN agencies, on the other hand, see earmarking as a bane to efficiency and strategic effectiveness in undertaking their mandates. UN agency and ICRC/IFRC representatives interviewed for this study were unanimous in their assertion that funding efficiency is synonymous with flexibility, and earmarking is the antithesis of it. They also unanimously expressed concern that earmarking has grown tighter in recent years while the proportion of their funding that is un-earmarked has declined.

The Grand Bargain has taken up this issue with “an initial target for donors to remove earmarks for 30 percent of their funds provided to humanitarian agencies by 2020” (High Level Panel on Humanitarian Financing, 2016). It is difficult to foresee how donors will approach this target in practice and whether their reciprocal demands for greater transparency from the agencies will ultimately amount to any greater flexibility or net efficiencies. Some agency representatives have accused donors of being disingenuous on this score, saying the underlying problem is really about the donors’ “distrust” of their implementing partners.

## 5. Conclusions and suggested guidance for considering efficiency in funding decisions

The following summarizes the main takeaways from our findings on efficiency in humanitarian funding. The study was not tasked to produce explicit policy recommendations, but where conclusions from the findings logically suggest potential actions for improvement, we note them here. In addition, this section contains a set of guiding principles for considering efficiency alongside the other factors in decision making around humanitarian funding, and a proposal for more far reaching strategic coordination among donors.

### 5.1 Areas for action

As shown in the preceding pages, the different funding modalities promote different types of efficiency according to their objectives. This supports the argument for maintaining a diversity of instruments to employ for different purposes and the notion of the utility of a financing ecosystem, as opposed to a single favored channel. However, each modality has much room for improvement, and some rebalancing between them would improve efficiency for humanitarian response overall.

To begin with what needs improving, each funding instrument was also found to incur certain inefficiencies. It is important here to separate inefficiencies that are unavoidable by design—that is, the inevitable trade-off of one type of efficiency in the pursuit of other goals—and those that are due to poor execution or management or are needless bureaucratic artifacts that can be eliminated.

#### **The primary modes of funding are still inefficient for rapid response purposes.**

The most efficient mechanisms for moving money quickly to enable rapid response are also the least used in the humanitarian system, as a proportion of total funding. These are (1) pre-arranged agreements, including multi-year agreements, between donors and agency partners at the country level and (2) the emergency reserves of operational organizations established and maintained through core funding.

The CERF has a proven methodology for rapidly approving project proposals and releasing initial disbursements, but this efficiency is hindered by delays on the front end, when the process to prioritize funds is prolonged and delays disbursements, and on the back-end when agencies are slow to contract and disburse to partners for the actual implementation of activities. As a global rapid response mechanism, the much smaller Start Fund has worked better in terms of speed efficiency, but is limited in scope of countries and is focused on smaller emergencies—whether it can scale to the level necessary to meet needs in a large crisis is not clear. The speed of the CBPFs vary from one country to the next, but in the sample looked at for this study, were similarly disappointing in terms of days elapsed between initial proposal and final disbursement.

Slowest of all is the traditional (and predominant) bilateral grant modality, which in our sample took an average of 65 days to get from the proposal submission to the start of project activities. As a result, it can only support rapid response if the recipient agency has both the capacity to advance

funding for the initial outlays *and* a high degree of confidence that the donor will follow through on stated intentions.

Technical efficiency can be improved across all modalities for better rapid response funding:

- In sudden onset or rapidly evolving humanitarian crises funded through the rapid response window, **CERF** proposal vetting and allocation decisions should not wait for a consolidated submission of proposals. The strength of the proposal and the advice of the Humanitarian Coordinator should suffice to indicate if the proposed intervention represents a necessary and appropriate response to current conditions. This will also help work against the perverse incentives to give each agency its “fair share.” However, the biggest timeliness gain can only come through internal agency reforms that prevent long delays between disbursement and onward granting. Agencies identified as having problems in this regard have a responsibility to undertake a thorough operational review (as UNICEF and UNFPA are currently doing) and enact system improvements to address them.
- **CBPFs** could improve their technical efficiency by making aggressive efforts to make the process as light and “user friendly” as possible, and/or by having minimum grant thresholds so that the award is worth the transaction costs.
- In their **bilateral granting**, donors should increase the “pre-positioning” of advance funds with individual agencies and/or multiagency consortia capable of putting the money to work immediately in the event of the rapid onset crisis. As capacity investments in well-placed organizations, donors could consider increasing both the amounts of prepositioned advance funds and core funding.
- Increasing the practice of **multi-year funding**, with built-in modifier systems to allow partners to adapt to changing circumstances without undergoing time-consuming formal modifications, could similarly bolster flexibility and speed.

### **Disproportionate requirements and inflexibility hinder efficiency at all levels.**

As evidenced in this study as well as other recent research, the smallest and shortest-duration grants tend to have the highest transaction costs in terms of the relative amount of administrative work required, and consequently the smallest NGOs typically bear the greatest administrative burden for the least reward. Even large organizations, while they have accepted and adapted to the requirements of their donors, said that for many the burden of reporting and compliance was excessive, disproportionate to the actual risks (and in fact not an effective means of reducing fiduciary risk), and had negative impacts on their ability to carry out the real business of humanitarian response.

Inordinately high transaction costs on small-sized grants is inefficient for donor and grantees alike, as ostensibly every additional piece of reporting or extra work needed for contract modification required of the agency in turn must be processed by the donor. The preliminary proposals for harmonized reporting are a step in the right direction, but a more rational approach will also require donors (including both donor governments and agencies that are sub-granting to implementing partners) to reevaluate their granting procedures along the following lines:

- Reporting requirements, both progress and financial, should be made commensurate with timelines and overall size of grants, rather than being applied through a one-size-fits-all template. In addition, once an organization has been through initial competency vetting, it should not be made to face similar hurdles in subsequent project contracts (or in different locations).
- Procedures regarding modifications to projects should be established with an eye to allowing maximum flexibility while maintaining appropriate accountability controls. This could include broader budget categories and explicit permission to move between lines without requiring a midstream modification if it does not substantially alter any of the project objectives.

**The added value of the intermediary role in multi-link grants is inconsistent and often creates net inefficiencies.**

In some cases, economies of scale can be created through multi-link grants, and an effective intermediary can add value in terms of technical assistance and coordination. In other cases, however, the allocative efficiencies gained by intermediaries can be easily outstripped by technical inefficiencies such as delays related to onward contracting. To guard against this, an agency's potential effectiveness in this role and for a given set of circumstances should therefore be demonstrated and not assumed:

- A business case for value added by an intermediary agency should be required in their proposals, which answers not only the question of why funding through an intermediary is necessary or preferable to direct funding of implementers in the particular situation, but also how this agency, as opposed to another, is best situated to play the intermediary role. Part of the case for potential value added by the prospective intermediary agency must include proven efficiency in funding, contracting, and flexible management of grants.

**Allocative efficiency and the stated goals of localization are impeded by risk perception and capacity constraints on the part of donor governments.**

Current localization efforts appear to aim at increasing end-chain funding to local actors, not meaningfully increasing their *direct* access to international resources. The overwhelming majority of humanitarian contributions goes through bilateral government grants, which rarely accrue directly to local organizations. Therefore, for localization goals to be met, one of two things needs to happen: (1) Donor governments find ways to begin granting directly to local actors far more than they currently do (which in most cases is not at all) or (2) the country-based pooled funds increase in size to allow for a step up in the numbers and sizes of grants provided to local actors.

Donor governments, for a variety of domestic political and regulatory reasons, have not been willing to directly fund local actors, as it represents too great a perceived risk. Signs that this may be changing can be found, but they are vanishingly few and far between. In addition, some major donors simply do not have the capacity on the ground to manage more than a small number of grants, meaning they must disburse money in allotments too large for a small organization to

absorb and put to use. In the meantime, while in some cases funding a local organization directly might be more efficient, it will not be done. In other words, cases will remain where the principle of subsidiarity cannot be realized and where the inefficiencies of multi-link funding chains are unavoidable:

- To the extent possible, donors (including donors of pooled funds) should consider subsidiarity in determining at what level to make grants. Unless the allocative efficiencies and added value of having an intermediary can be demonstrated, direct funding should be preferred.
- Targeted capacity investments in local organizations (core funding grants) can bolster and enhance the range of options available for donors seeking to maximize efficiency as well as effectiveness.
- CBPFs, where they are functioning well and allocating directly to local NGOs, should be considered as a tool for promoting subsidiarity efficiency by donors that remain unable to fund these organizations directly. If their rapid response performance and administrative procedures can continue to improve, the CBPFs may ultimately be the key to reconciling the tension between donors' support for localization on the one hand and the inefficiency (and perceived risk) of providing numerous small grants to local entities on the other.

## 5.2 Guiding principles for donor decision-making regarding efficiency

To reiterate, when making humanitarian funding decisions, the efficiency criterion is clearly superseded by other considerations, above all being how the funding will best enable an effective response to people's needs. But donors must be cognizant that efficiency factors into effectiveness, and that cumulative inefficiencies can detract from desired outcomes.

When deciding how to allocate their annual envelopes, donors need to employ different modalities to achieve a reasonable balance of predictability and responsiveness, and allocative efficiency both at the country and global levels, while retaining contingency funding at the global level in case of unforeseen needs. On top of that, they need to manage their own policy commitments, accountability requirements, and capacity constraints. Each instrument has a mix of comparative advantages that respond to elements of these different priorities. Currently, donors admit that knowing if they have the balance right is very difficult. The issue is more complex than the Grand Bargain commitments would appear to suggest, because each decision entails opportunity costs. For example, dedicating large amounts to multi-year funding agreements provides increased predictability but reduced flexibility if circumstances change.

### **Maintain the widest possible range of options and tools to employ for different needs.**

Donors should seek to expand their range of options beyond one or two instruments for funding, know that different situations will be more amenable to different instruments or combinations of instruments. A blanket rejection of pooled funding (or conversely, an inability to make direct grants to implementers), for example, reduces the scope for effectiveness in donorship.

To this end, donors should undergo an internal of their capacity to support efficient financing. This could be as simple as a questionnaire containing the following:

- What proportion of our funding is spent in protracted crises?
- How often do we modify and extend grants?
- Are we able to work flexibly across humanitarian and development funding streams?
- How well set up are they to respond to rapid response?
- Do we have a good range of global and national responsive mechanisms (Including support to internal funding facilities and instruments)?
- What additional evidence do we need from grantees to improve future decision-making?

The answers to the above may provide a useful steer for donors seeking to maximize the efficiency and effectiveness of their contributions. For example, if a large percentage goes to protracted conflicts where no-cost extensions are continually required, this may be an efficiency argument for a shift to more multi-year funding.

**Starting from the specifics of the context and humanitarian needs, match goals with the funding instruments best suited to efficiently service them.**

If the need is for rapid response (as may be predictable in countries with fluid conflict conditions or frequent sudden-onset emergencies), applying for bilateral grants will be less efficient than working through pre-arranged framework agreements or applying for pooled funds that have proven speedy disbursement times.

Large-scale, chronic emergencies causing similar needs among large segments of the population could be more efficiently funded through large umbrella grants to competent coordinating agencies that add technical value and provide economies of scale with logistical and procurement infrastructures.

Specific gaps and underfunded needs can be addressed with either flexible bilateral granting or earlier contributions to pooled fund windows designed for that purpose, or both.

Small pockets of need and highly location-specific needs in individual areas will often be more efficiently funded by eliminating the intermediary and funding locally based organizations directly.

Finally, many country contexts will at different times or simultaneously experience all four of the scenarios described above. The balance of different funding needs and objectives should be reflected within or between donor portfolios to the extent possible.

**Determine and consider other donors' plans as factors in efficiency decisions.**

Finally, because in most major humanitarian crises, no donor can singlehandedly provide the full complement of resources needed to meet needs, ideally funding decisions will be made in concert

with other donors. At the least, they will not be made in isolation. Donor choice between funding mechanisms should be used to help balance the needs of both technical and allocative efficiency in light of what counterparts are doing, within the larger picture of strategic priorities.

Strategic coordination of funding decisions between donors is something that goes on to varying degrees, but in an ad hoc and inconsistent way. Building this step into a framework for efficiency calculation could potentially bring about more robust coordination and rigorous decision making, creating a virtuous circle.

### 5.3 Enhancing efficiency through a more coordinated, evidence-based approach

The above areas for action pre-suppose the current level of donor coordination. What follows is a proposal for consideration of additional common tools that would help strengthen a more strategically coordinated approach to funding decisions.

#### **Agree on a common set of metrics for assessing efficiency**

Donors require better evidence on which to make decisions about who and how they fund. Efficiency would only be one consideration in these decisions, but an important one. To do that would require greater transparency (open data) on budgets and transaction times of the different channels, including umbrella grantees as well as pooled fund mechanisms.

The members of the Good Humanitarian Donorship initiative should therefore consider commissioning a neutral entity, e.g. an auditing body, to develop an **efficiency framework** with explicit standards that could compare the efficiencies and value added of different types of pooled funds and potential intermediaries. This would have the benefit of incentivizing all actors to improve the areas of weakness that are currently causing unnecessary inefficiencies and, in the process, would facilitate the fulfillment of the Grand Bargain commitments.

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## Annex 1: List of people interviewed

### Global

Helen	Alderson	Director of Financial Resources and Logistics	ICRC
Marc	Cohen	Senior Researcher	Oxfam/CfC
Paul	Currion	Independent Consultant	Independent
Andrea	De Domenico	Chief, Funding Coordination Section (FCS)	OCHA
Lisa	Doughten	Chief, CERF Secretariat	OCHA
Jessica	Eliasson	Humanitarian Policy Specialist	Sida
Michael	Jensen	Chief of section	OCHA CERF Secretariat
Chris	Kaye	Director of Government Partnerships	WFP
Christopher	Lockyear	Director of Operations	ACF
Jemilah	Mahmood	Under Secretary General, Partnerships	IFRC
David	Matern	Head of Donor Relations and Reports Unit	UNICEF
Michael	Mosselmans	Head of Humanitarian programme practice, policy and advocacy	Christian Aid
James	Munn	Director	NRC
Lamade	Nicolas	Senior Manager, Security, Recovery and Peace	GIZ
Melissa	Pitotti	Head of Policy	ICVA
Mark	Pryce	HPC Information Services Unit	OCHA FTS
Sanjana	Quazi	Senior Adviser	UNICEF
Deepti	Sastri	Head of Evidence	Start Network
Rachel	Scott	Team Leader: Conflict, Fragility and Resilience	OECD/DAC
Dhananjayan	Sriskandarajah	Secretary General	CIVICUS/HLP
Julian	Srodecki	Technical Director for Humanitarian Grants	World Vision
Anne	Street	Head of Humanitarian Policy	CAFOD/CfC
Hans	van der Hoogen	Humanitarian Advisor	Ministry of Foreign Affairs, The Netherlands
James	Weatherill	Coordination and Response Division (CRD)	OCHA
Hesham	Youssef	Assistant Secretary-General for Humanitarian Affairs	Organisation of Islamic Cooperation (OIC)

### Ethiopia

Youcef	Ait Chellouche	Head of Delegation	IFRC Ethiopia
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John	Aylieff		WFP
Kati	Csaba	Minister-Counsellor and Senior Director (Development), Ethiopia	Government of Canada
Anna	Ekman	Donor Relations	UNICEF
Aurelie	Ferial	Deputy Regional Operations Director	ACF
Daniel	Holmberg	Senior Humanitarian Advisor	OFDA
Abera	Lulesa	Director of Finance	Ethiopian Red Cross
Tim	Mander	Ethiopia Humanitarian Fund Manager	OCHA
Richard	Markowski	Deputy Country Director	CRS Ethiopia Save the Children
Charlie	Mason	Country Director	Ethiopia
Phinias	Muziva	Programme Manager	NRC Ethiopia
James	Reynolds	Head of Delegation	ICRC
Esther	Salazar	Country Director	Mercy Corps Ethiopia
Hanspeter	Schwaar	Head of Development Cooperation	BMZ
Marijana	Simic	Country Director	IRC Ethiopia
Alex	Whitney	Country Director	World Vision Ethiopia

## Iraq

Andrew	Barash	Senior Inter-Agency Coordination Advisor	UNHCR
Alex	Beattie	Humanitarian Affairs Officer (CHASE OT)	DFID
Mike	Bonke	Country Director	Welthungerhilfe
Julie	Davidson		NRC
Lotti	Douglas	Director	Iraq Cash Consortium
Ivo	Freijisen	Head of Office	OCHA
Sally	Haydock	Country Director	WFP European Commission
Nicholas	Hutchings	Technical Assistant	
Jason	Kajer	Acting Country Director	IRC
Daniel	Munoz- Rojas	Head of Sub-Delegation - Erbil	ICRC
Peggitty	Pollard- Davey	Reports Specialist	UNICEF
Michael	Prendergast	Associate External Relations and Reporting Officer, UNHCR	
Olga	Prorovskaya	Iraq Humanitarian Fund	OCHA
Andres Gonzalez	Rodriguez	Country Director Iraq	Oxfam
Aneta	Sama	Country Director	ACF - Iraq

Diana	Tonea		NRC
Basil	Yousif	Food Security Programme Manager	RNVDO

## Myanmar

Suresh	Bartlett	National Director	World Vision Myanmar
Kim	Bawi	Executive Committee Member	Myanmar Red Cross Society
Edward	Benson	Shelter/NFI/CCCM Cluster Coordinator	UNHCR
Sophie	Ford	Humanitarian Programme Advise	Oxfam in Myanmar
Brian	Heidel	Regional Advisor for East Asia and the Pacific	USAID/OFDA
Michael	Hemling	Head of Finance and Administration	WFP
Chris	Hyslop	Deputy Head of Office	OCHA
Gwenolenn	Le Couster	Senior Program Officer	UNHCR
Laura	Marshall	Head of Program	NRC
Leslie	McCracken	Senior Humanitarian Assistance Advisor	USAID
Esther	Perry	First Secretary	Australian Embassy
Narciso	Rosa-Berlanga	Senior HAO	OCHA
Dom	ScalPELLI	WFP Resident Representative and Country Director	WFP
Gum	Shah		Metta
Masae	Shimimura	Emergency Preparedness and Response Officer	WFP
Mark	Silverman	Delegate	ICRC
Kelland	Stevenson	Country Director	Plan International
Jane	Strachan	Emergency Specialist	UNICEF
Moe	Thu	Associate Director - HEA	World Vision Myanmar

## Annex 2: Quantitative analysis details

An independent-samples t-test was conducted to compare admin burden for bilateral grants and pooled fund grants. There was a significant difference in the scores across the pooled funds ( $M=4.42$ ,  $SD=0.36$ ) and bilateral grant ( $M=2.26$ ,  $SD=0.13$ ) conditions,  $t(14.2)=-5.64$   $p=0.00$ . These results suggest that the processing of pooled funds poses a greater administrative burden to organizations than the processing of bilateral grants.

An independent-samples t-test was used to compare time lags (days between proposal and award) for bilateral grants and pooled funds grants. Once again, there was a statistically significant difference between the scores for pooled funds ( $M=27.25$ ,  $SD=6.80$ ) and bilateral grants ( $M=46.53$ ,  $SD=8.14$ ),  $t(46.6)=1.82$   $p=0.08$ .

Comparing time delays between awards and disbursement, we once again note significant differences between the scores for pooled funds ( $M=32.42$ ,  $SD=3.48$ ) and bilateral grants ( $M=18.3$ ,  $SD=1.88$ ),  $t(18.1)=-3.56$   $p=0.002$ . However, in this case, pooled funds appear to be slower.