International Humanitarian Financing: Review and Comparative Assessment of Instruments

Updated Edition

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Contents

Acronyms

CAR	Central African Republic
CBPF	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
ER	Early Recovery
ERC	Emergency Response Coordinator
FAO	Food and Agriculture Organization
FTS	Financial Tracking Service
GHD	Good Humanitarian Donorship
GHP	Global Humanitarian Platform
HC	Humanitarian Coordinator
HPG	Humanitarian Policy Group
HRF	Humanitarian Response Fund
HRP	Humanitarian Response Plan
IASC	Inter-Agency Standing Committee on Humanitarian Affairs
ICRC	International Committee of the Red Cross
IFRC	International Federation of Red Cross/Red Crescent Societies
INGO	International NGO
IRA	Immediate Response Account (WFP)
LOA	Letter of Agreement
M&E	Monitoring and Evaluation
MOU	Memorandum of Understanding
MPTF	Multi-Partner Trust Funds
NFIs	Non-food Items
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
OHA	Official Humanitarian Assistance
oPt	Occupied Palestinian Territories
PCA	Project Cooperation Agreement
RC	Resident Coordinator
TOR	Terms of Reference
UNCT	United Nations Country Team
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WFP	World Food Programme
WHO	World Health Organization

Executive summary

This review is an update of the 2008 report of the same name. In the eight years since the original was published, the level of humanitarian need across the world has dramatically increased, driven by new and intensifying civil conflicts and massive human displacement. The strain of burgeoning global needs has laid bare the limitations of the international humanitarian sector, whose resource base and capacities have not kept pace. Humanitarian funding flows rose sharply in response to increased need, reaching a historical high point of $23 billion in 2014, at the same time underscoring the current system's deficiencies in terms of overall volume, efficacy, and coverage.

The most concrete outcome of the 2016 World Humanitarian Summit was a series of commitments by donors and implementing agencies in the area of humanitarian financing. How these commitments, known collectively as the "Grand Bargain," will be reflected in the financial policies and practices of these actors will take a few years of focused political action to fully manifest, but now is an opportune time for an updated inventory and comparative review of humanitarian funding mechanisms. This review provides a comparison of those mechanisms, a review of trends in humanitarian aid flows, and a summary of the funding patterns of the major donors and Good Humanitarian Donorship (GHD) initiative members. Commissioned by the US government in its role as 2016 GHD co-chair, this paper was envisioned as a primer for humanitarian financing as well as an updated reference for policy makers and practitioners.

The original 2008 edition concluded that humanitarian response efforts had benefited, and could benefit still more, from greater diversity in both donorship and financial modalities employed. The intervening years, however, have seen a decrease in diversity as overall funding levels have risen. An analysis of humanitarian funding flows spanning the period from the time of the first review to the present revealed the following:

Humanitarian funding growth is overwhelmingly financed by a few large donor governments.
Growth in the donor base (new donor governments contributing to the formal system) has plateaued, while the largest donors represent an increasingly greater share of total contributions. The top five largest contributing donor governments together accounted for 65 percent of total official humanitarian flows during 2011–13, up from 62 percent in 2006–10, and 33 percent in 2000–05.

Direct, earmarked funding to individual agencies predominates over other modalities.
The very largest donors (the United States and European Commission) almost exclusively channel their contributions to individual agencies, and of the other top five donors only one government channels a significant share of its humanitarian contributions through pooled funding mechanisms (the United Kingdom, at 19 percent). Not surprisingly, therefore, as these donors' share of total funding increased, direct grant making to individual agencies further dwarfed that provided via other channels (such as pooled funds and core funding).

Pooled funding mechanisms are underused and have a diminished impact as a result.
The expanded Central Emergency Response Fund (CERF) and the country-based pooled funds (CBPFs) have now been in existence for ten years. These funds—in addition to a variety of smaller, thematic multi-donor trust funds—have enlarged and proliferated in the years since the first report, but even so they account for a smaller proportion of total humanitarian funding than in any year since their establishment. As a result, what seemed to be a trend toward greater multilateralization in funding at the country-level has reversed, leaving the pooled funds bordering on irrelevance in all but a few contexts. Taken together, the CERF, the CBPFs, and the numerous other multi-donor funds operating in humanitarian contexts accounted for just 5 percent of reported contributions in humanitarian emergencies, down from 8 percent in 2007. Experts in international aid financing have posited that pooled funds should represent roughly 15 percent of total funding if they are to be effective in underpinning strategic

coordination of humanitarian actors or to exercise any comparative advantage as a choice for donors. By not growing at a faster rate than bilateral funding, or even keeping pace with it, the pooled funds arguably have been marginalized and lost relevance in the humanitarian financing landscape.

Coverage of funding requirements (appeals) has declined and become more uneven across sectors. Overall coverage of stated requirements in humanitarian response plans has dropped from what in retrospect was a high point of 72 percent in 2007–08 to 55 percent in 2015. The original report found evidence that the new pooled funding mechanisms had contributed to more even funding across sectors (food, health, shelter, etc.), ameliorating some of the chronic imbalance between highly-funded and under-funded sectors. This was taken as an indicator of success in the pooled funds' objective to empower humanitarian coordinators to make allocation decisions that fill gaps. This too seems to have reversed, as a wider variance of coverage between sectors has appeared during the more recent period.

Direct funding is somewhat less concentrated in UN agencies than before.
Although UN humanitarian agencies continued to receive a greater share of direct funding than any other type of recipient, their share has dropped from around 60 percent in 2007–08 percent to 51 percent in 2013–15. The difference appeared to be regained by international NGO recipients, particularly driven by grants for the Syria and Ebola responses in 2014. Local NGOs' participation and access to direct funding have not made significant gains over the eight years since the first report and, in terms of a percentage of overall NGO contributions, their share has declined.

Donor funding decisions remain mostly uncoordinated and not strategic.
A review of the funding patterns of GHD donors, together with qualitative evidence from interviews and recent relevant research, seems to confirm that funding decisions are taken largely in isolation from other donors and the particularities of humanitarian contexts. Humanitarian donorship by governments is determined to a great degree by internal political dynamics and constraints; hence, decisions regarding funding channels tend not to be based on comparative advantage, and neither do they optimize complementarity with other funding streams. This finding leaves mostly unchanged the conclusion of the 2008 report: that while a multiplicity of mechanisms is desirable, to date little thought or action has been given toward using them together in complementary and strategic ways. And although a few donors have attempted new coordination initiatives at the Geneva level, coordination in the field is ad hoc and dependent on individual donor representatives rather than structured, standing arrangements.

The report concludes that meaningful improvement in humanitarian financing will require a rebalancing of funding channels to ensure that pooled funds have the critical mass needed to realize their added value and comparative advantage. It calls again for more deliberate and concerted efforts by the major donors, beyond what is currently called for within the Grand Bargain commitments, to improve their communication and strategically coordinate their decisions. Specifically, recommended actions (from Section 5) include:

- **Rebalance funding streams to achieve meaningful diversity in the use of instruments.**

Because they have different objectives, strengths, and weaknesses, no single funding modality should be used in exclusion, and all require more extensive donor coordination than currently takes place to be effectively complementary.

- Large donors who currently fund almost exclusively through bilateral grant mechanisms should strongly consider channeling relatively more through pooled funds in the interests of a diverse financing ecosystem, as well as reduced fragmentation.
- At the same time, even donors who fund large portions of their spend through the pooled funds should retain some level of funding to be used outside the pooled mechanisms for flexibility in the event of unforeseen needs or for programs that fall outside the common plan for temporal,

sectoral, or geographical reasons. (The ratio to be determined by each donor according to their management and monitoring capacities and program priorities.)

- **Optimize core funding.**

    - Continue donor efforts to reduce or eliminate earmarking of their core funding while at the same time consulting closely with recipient agencies to identify important missing capacities and underfunded activities to which these funds could be usefully applied.
    - Contingency funding is at the core of agency capacity and it behooves both agencies and donors alike to build advance reserves at the agency level. UN agencies could consider pooling their individual contingency funds for greater financial impact and coordination benefits.

- **Continue to support and improve multilateral mechanisms, with an emphasis on encouraging the participation of new donors and enabling national actors' access.**

    - Encourage all UN member states to participate in the CERF each year, even at token amounts.
    - Develop new mechanisms to capture and give visibility to non-DAC contributions.
    - CBPFs should dedicate some portion of their funding for local NGO capacity building and efforts to increase local participation.
    - Seek ways to increase funding for local NGOs through capacity building partnerships, as well as direct grants.

- **Improve donor coordination and strategy setting at the global and field levels.**

    - Strengthen and increase donor coordination mechanisms on a crisis-specific basis (including but not limited to the GHD Crisis Coordination Framework), which allow space for informal discussion of intentions and joint strategic planning, at both the field and global levels.
    - Renew efforts to submit written allocation plans to the GHD membership at the beginning of the year to rationalize planning between donors, and agree to revisit/resubmit plans mid-year or as needed to reflect course changes.
    - Continue the effort to harmonize administrative requirements for recipients of bilateral grants.

1. Introduction

1.1 Background

At its core a voluntary enterprise, the international humanitarian system has for decades struggled with the challenge of coordinating the various independent funders and operational actors engaged in crisis response. The literature from the 1990s and early 2000s repeatedly criticized humanitarian financing as inherently supply-driven and reactive (e.g., Macrae, 2002; Smillie & Minear, 2003). Critics lamented the funding inequities that resulted across countries and emergencies as relief aid dollars flowed according to the national interests of donors rather than needs alone, and the unhealthy and counterproductive competition for funding among humanitarian actors.

In response to these concerns, in 2003 the Good Humanitarian Donorship (GHD) initiative brought together 17[1] donor governments to codify a set of principles and good practices to guide their humanitarian funding, including that they "allocate humanitarian funding in proportion to needs . . . [and] ensure predictability and flexibility."[2] To this end, in addition to committing to make humanitarian contributions for predictable needs as early in the year as possible, many donors showed a willingness to forgo a measure of control and visibility by pooling a portion of their funding. The following years saw a period of humanitarian financing structural reforms centered mainly around the concept of multilateral pooled funding, in which donors provide un-earmarked contributions to a common source from which allocations are made according to commonly defined strategic priorities. The new international financing mechanisms, namely the expanded Central Emergency Response Fund (CERF) at the global level and the country-based pooled funds (CBPFs),[3] were designed according to this model, and were a centerpiece of the overall humanitarian reform agenda in the mid-2000s. A core group of Western humanitarian donors and GHD members, spearheaded by the UK, provided the impetus and the bulk of the funding for these mechanisms in the early years.

In 2008 when the first paper was written, the pooled funds at the country level were relatively few and were operating in just a handful of countries, and the total amount granted by the CERF was $299 million. Today 18 country-based pooled funds exist, and the CERF reached nearly $500 million in 2016. In addition, the donor community continues to fund humanitarian agencies directly, through bilateral grants and, in the case of UN agencies and the International Red Cross/Red Crescent movement, in the form of core budget support as well. Some donors have recently also been experimenting with multiyear funding to allow for more sustainable aid solutions in protracted crisis conditions.

The World Humanitarian Summit, held in Istanbul in May 2016, attempted to address a wide range of humanitarian action issues, but it was humanitarian financing that received the most focused attention and produced the most concrete outcome, in what has been labeled "the Grand Bargain" (2016). Based on the recommendations of the High-Level Panel on Humanitarian Financing (HLP, 2016), the Grand Bargain is comprised of 51 commitments from donors and implementers that aim to improve humanitarian effectiveness and reduce the inefficiencies of the current financing regime. The "bargain" essentially has donors agreeing to provide greater flexibility (by reducing earmarking and reporting requirements) in exchange for aid agencies improving their transparency (reporting and accountability) according to a common international standard and adopting other management efficiencies. The commitments also

[1] GHD membership now stands at 42 (http://www.ghdinitiative.org/ghd/gns/about-us/our-members.html).
[2] GHD Principles & Good Practice (www.ghdinitiative.org/ghd/gns/principles-good-practice-of-ghd/principles-good-practice-ghd.html).
[3] CBPF is a blanket term for country based humanitarian funds. In the past, such funds included Common Humanitarian Funds (CHFs) and Emergency Response Funds (ERFs). ERFs, where they were found, have since been merged with CHFs into a single funding entity

include the goal of increasing the percentage of funding that goes directly to local organizations by over fivefold, to 25 percent, in addition to numerous other coordination and harmonization goals. The Grand Bargain was signed by 18 of the largest humanitarian donors, all the UN and humanitarian agencies, the International Movement of the Red Cross and Red Crescent, and three NGO consortia. The target date for realizing these commitments is 2020; the course for humanitarian financing reform has been set for the remainder of the decade.

1.2 Objectives of the 2016 update

Against this backdrop, the Office of US Foreign Disaster Assistance has commissioned Humanitarian Outcomes to produce an update of the 2008 research paper entitled *International Humanitarian Financing: Review and Comparative Assessment of Instruments* (Stoddard, 2008), as part of a larger research study on humanitarian financing efficiency. Like the 2008 paper, this review was tasked with providing a descriptive mapping of the range of humanitarian financing mechanisms available to donors and aid agencies; to identify their criteria and preferences in determining which financing mechanism(s) to use; and to assess the relative advantages and drawbacks of the different financing mechanisms in achieving GHD objectives of flexibility, timeliness, results, efficiency, coordination, capacity-building, predictability, partnership-building, and strategy-setting.

The quantitative analysis comparing humanitarian flows by sources, channels, and recipients was redone with current figures, and, in addition, the review charts the Good Humanitarian Donorship members' preferred funding modalities (Figure 10). While much of the narrative content is new, to the extent that the analysis and findings of the 2008 version continue to hold true, they remain as they were in the original.

1.2 Methodology

The desk-based review took place between July and October 2016 and consisted of a financial analysis, a document review, and key-informant interviews.

Financial analysis

Humanitarian financing data from 2000–16 were compiled from OCHA's Financial Tracking Service (FTS) database (www.fts.unocha.org), with figures current as of September 9, 2016. In addition to looking at long-term trends, the analysis uses averages from 2000–05, 2006–10, and 2011–16 to compare funding patterns and developments from the periods before the first financial reforms in the mid-2000s, the reform period, and the most recent spike in needs and funding in response to new conflict-driven crises. The FTS data formed the core of the analysis and was supplemented by data on development assistance drawn from OECD DAC (www.oecd.org/dac/stats/data.htm), and global gross national income figures from the World Bank datasets (data.worldbank.org). Detailed data on CERF funding were extracted from reports made available by the CERF secretariat, and the study also made use of the Multi-Partner Trust Fund dataset (http://mptf.undp.org/tools/query/projects).

Document review

Documentary evidence included recent evaluations and assessments of humanitarian financing as well as donors' and agencies' policy documentation and secondary literature. In addition, the review draws directly from two relevant pieces of research conducted in 2016: the scoping paper on the international financing platform concept introduced at the World Humanitarian Summit (Stoddard, 2016) and a comparative analysis of donor reporting requirements commissioned by the GHD (Caccavale, Haver, & Stoddard, 2016).

Key informant interviews

The review also incorporated information gleaned from semi-structured interviews conducted by telephone or Skype with representatives of donor governments, UN humanitarian agencies, and some of the major operational NGOs and NGO consortia.

1.3 Caveats

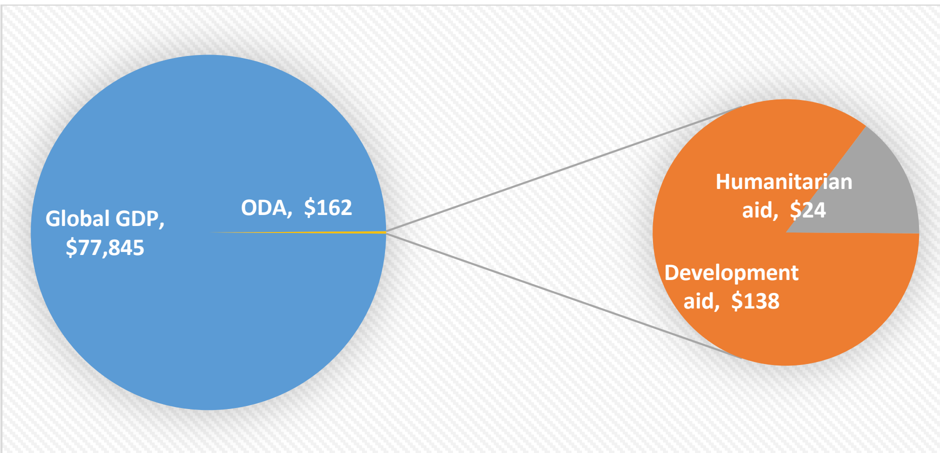
Funding analysis draws mainly from the UN's Financial Tracking Service (FTS) database, which represents the most current and comprehensive source of global figures on official humanitarian funding flows available. However, it does not capture the full picture of private and "informal" assistance that in some emergencies can be considerable. This may result in overstating the predominance and centrality of official, governmental humanitarian flows to emergencies, but likely not to a significant degree, as even the most generous estimates assess private funding to be less than a quarter of total humanitarian funding (GHA, 2016: 48).

As a desk-based study, this research can only provide an overview as opposed to an in-depth technical examination of the instruments and activities at field level. Moreover, because this is a study on humanitarian financing, it deals with only one element of humanitarian response. It proceeds on the assumption that effective and principled financing will contribute to better humanitarian outcomes for aid recipients, which of course is the ultimate aim of the humanitarian endeavor.

2. Trends in humanitarian funding

To put it in context, emergency humanitarian aid represents less than a fifth of the total foreign aid provided by governments (official development assistance or ODA), which is itself a tiny fraction of global wealth (0.2 percent) (Figure 1).

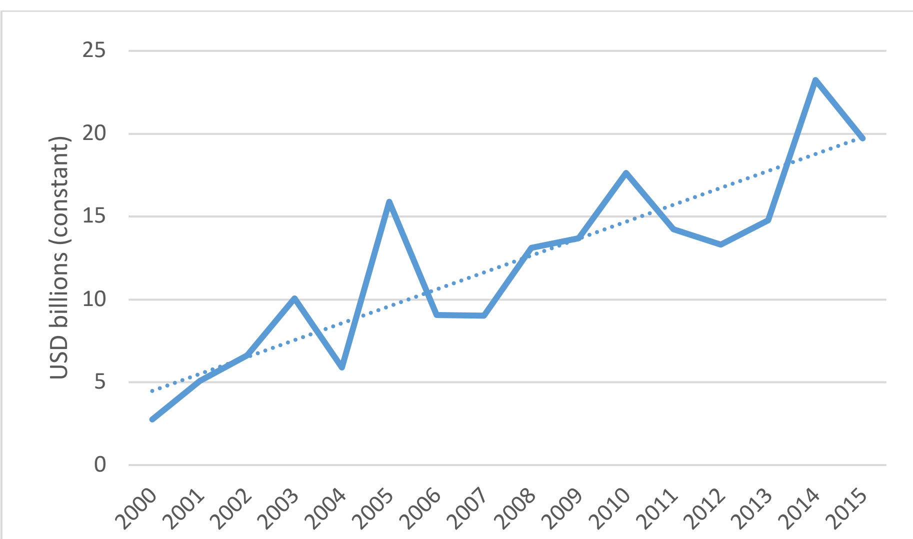
Figure 1: Humanitarian assistance as proportion of total aid spending, (USD billions)



Source: Stoddard, 2016 (2014 data sources: World Bank World Development Indicators, OECD DAC, FTS)

However, humanitarian contributions have been growing at a faster rate than both ODA and global GDP. Even when adjusted for inflation, humanitarian funding is seen to have risen steeply over the past 15 years (Figure 2), reflecting the increase in both global needs and expectations for humanitarian response. From 2000–15, the five-year annual average of humanitarian funding has more than tripled, in nominal terms, from $5 billion to $17 billion.

Figure 2: Growth in annual humanitarian contributions



Source: FTS (9/9/16)

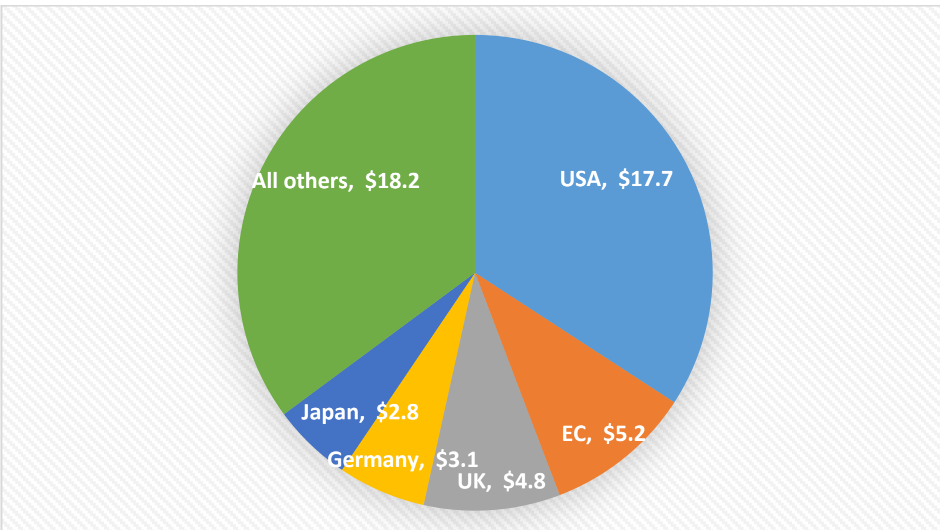
International humanitarian assistance is financed primarily by the voluntary contributions of governments, which provide the resources to fund the work of aid-providing organizations, including UN humanitarian agencies, the International Movement of the Red Cross/Red Crescent, and non-governmental organizations (NGOs).

While private donations from philanthropic foundations, corporations, and the public often swell in response to high-profile, sudden-onset disasters, they remain a minority share of the total, and for most emergencies in the humanitarian caseload—prolonged, conflict-driven crises such as Afghanistan, DRC, and South Sudan—are negligible.[4]

2.1 Donor share

Out of the roughly 80 governments and intergovernmental organizations that in recent years contributed to the formal humanitarian system, as measured by FTS, five accounted for more than half the total spending (Figure 3). A full third is provided by the United States alone.[5]

Figure 3: Top five government donors, 2013-2015 (USD billions)



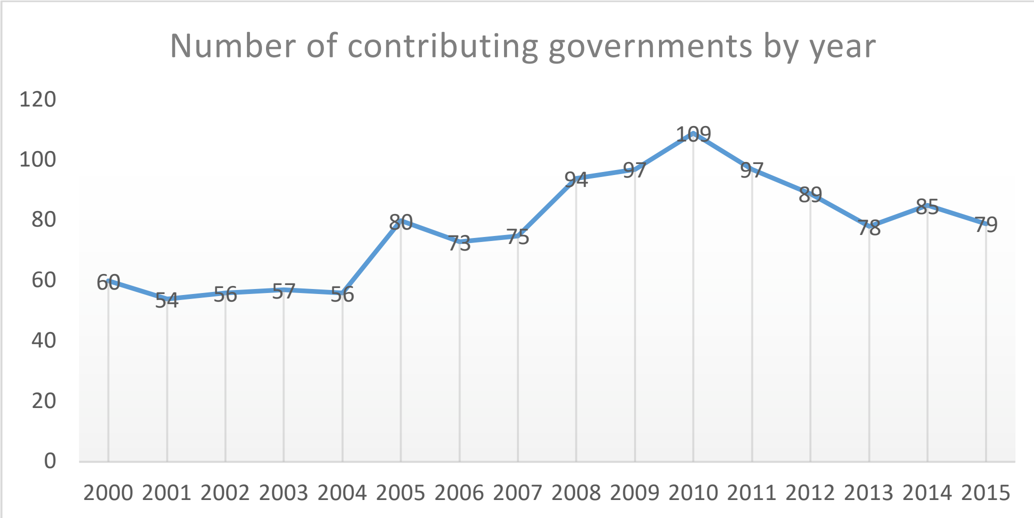
Source: FTS (9/9/16)

Around 2005, at the onset of new humanitarian financing reforms, the number of donor governments contributing to the formal humanitarian system jumped by 40 percent. Partly drawn in by the desire to contribute to the victims of the Indian Ocean tsunami, and made easier by the existence of the new pooled funds, the number of contributing donors continued to grow, before declining and plateauing back at 2005 levels (Figure 4).

Figure 4: Slowed growth of the humanitarian donor base

[4] Note that the largest humanitarian NGO, Médecins sans Frontières, receives nearly all of its funding from private sources, but in emergencies that typically draw on the efforts of scores or hundreds of operational entities, it remains a small amount of the total.

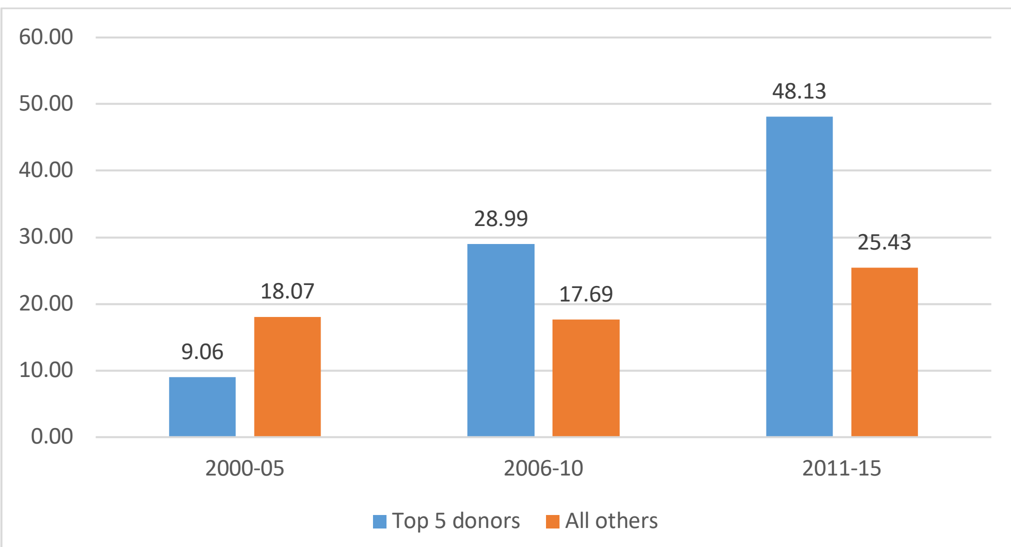
[5] A proportion somewhat greater than the percentage of global GDP represented by the US economy, which in 2015 was 24 percent (World Bank, 2016, http://data.worldbank.org/data-catalog/GDP-ranking-table).



Source: FTS (9/9/16)

Some rising donors—such as Saudi Arabia, Kuwait, Qatar, and South Korea—have significantly increased their humanitarian spend to the point that they are now among the top 25 contributors. Most of the growth in overall humanitarian funding levels, however, has come from the top five largest donors, which have seen their proportion of total funding rise along with the overall volume (Figure 5).

Figure 5: Growth in funding share of top five donors (USD billions)



Source: FTS (9/9/16)

The fact that these few governments account for such a large share of the total naturally means that the ways in which they channel and program their aid will also have a disproportionate impact on overall humanitarian assistance.

2.2 Main channels and recipients

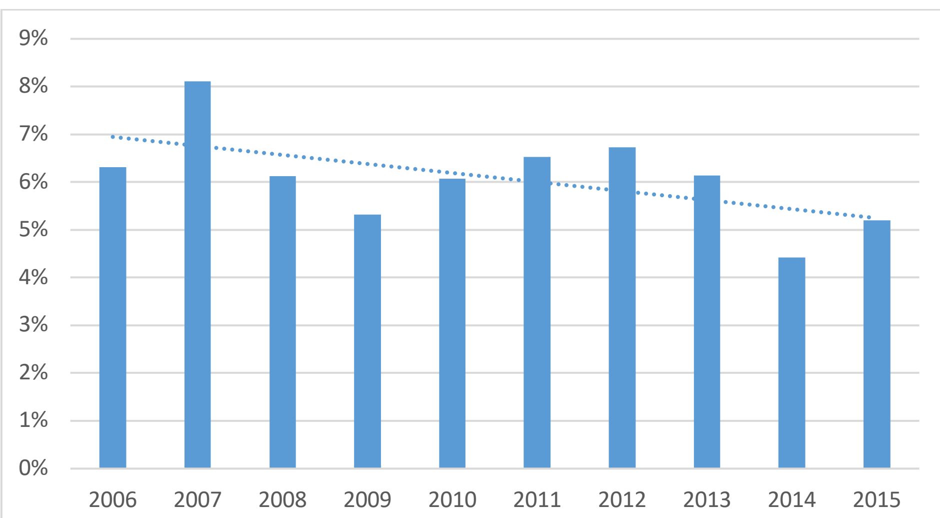
The financing tools used for humanitarian assistance are relatively few compared to those available to development donors, which run the gamut from grants to concessional loans, insurance mechanisms, and other financing vehicles (Stoddard, 2016). Formal humanitarian assistance from governments generally flows through the following channels only, listed in descending order of usage[6]:

1) restricted grants to individual agencies for specific programs or projects
2) unrestricted or loosely restricted core contributions to individual agencies to support their global or regional programs/budgets
3) global-level contributions to the CERF
4) country-level multilateral contributions to the CBPFs
5) government-to-government grants (or in-kind gifts) provided to affected countries

The clear majority of this donor government funding continues to be in the form of direct ("bilateral") grant making to individual organizations for responses to specific emergencies. Donor governments also make non-earmarked, or loosely earmarked, contributions to the core budgets of international agencies such as the International Committee for the Red Cross (ICRC), the UN High Commissioner for Refugees (UNHCR), and the World Food Programme (WFP). However, since the mid-2000s, this type of funding has declined dramatically as a percentage relative to earmarked bilateral grants. Smallest of all are donor government grants made directly to the governments of affected countries.

The establishment of CERF and CBPFs initially cut into this share, and together these pooled funding mechanisms had reached 8 percent of the total in 2007–08. In subsequent years, however, despite the growth in number and volume of pooled funding mechanisms, usage of them has not kept pace with overall humanitarian funding growth, and thus they now represent, at 5 percent, less of the total than when they were first introduced (Figure 6).

Figure 6: Pooled funding as a declining percentage of total humanitarian spend



Source: FTS (9/9/16)

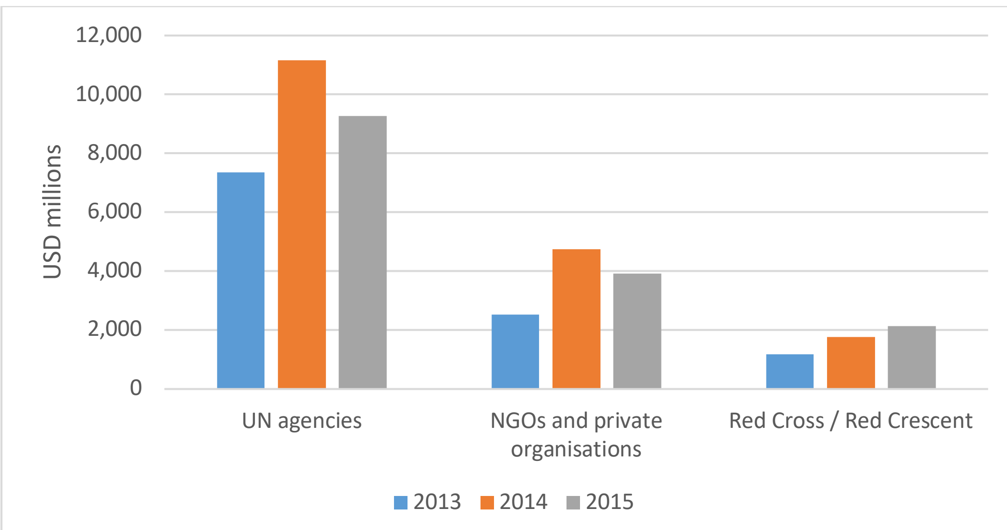
Another trend that seems to have reversed since the original review is the increasing consolidation of funding in the United Nations humanitarian agencies. The original review reported that UN agencies received, on average, 60 percent of government contributions to emergencies in 2006 and 2007, compared to an average of 58 percent in the previous years, and that the average NGO share of direct funding had dropped. This was seen as a side effect of pooled funding, which resulted in greater amounts being awarded

[6] According to FTS data, current as of September 2016.

to UN agencies acting as contractor-coordinators of NGOs working in their sectors. While it could be argued that a strategic and efficient approach to making allocations at the county level would naturally entail this sort of consolidation, the trend also raised legitimate concerns about increased transaction costs and the potential loss of rapidity, flexibility, and independence of humanitarian providers.

Recent years have seen a decline in the UN's share of direct funding to just over 50 percent, while NGOs and the Red Cross/Red Crescent movement entities have risen to 20 percent and 9 percent respectively. This also corresponds to the decline in share of funding going through the pooled mechanism. As greater amounts flowed bilaterally, individual NGOs received relatively more in direct grants from donors (as opposed to sub-grants from UN agencies). It should be noted that the spike in NGO direct funding in 2014 can be partly attributed to the Ebola emergency in West Africa, in which hundreds of millions went to entities such as the US Centers for Disease Control (coded as an NGO in the FTS database) and to NGOs' cross-border efforts for Syria. The number of contributions to NGOs rose at almost twice the rate of contributions to UN agencies that year.

Figure 7: Growth in direct funding to non-UN agencies, 2013-2015



Source: FTS (9/9/16)

The growth in the NGO share of direct bilateral funding, however, accrued almost entirely to international NGOs as opposed to their local and national counterparts. The Global Humanitarian Assistance Report notes that national organizations' share of total NGO direct funding was 0.4 percent in 2015 (the same as it was in 2012 after a dip to 0.2 percent in 2014) and their share of the overall contributions to NGOs, including sub-grants, stands at 2.1 percent—down from 2.3 percent in 2012 (GHA 2016: 70). Therefore, even as overall funding to national NGOs has increased in absolute terms, they are still not accessing those international funds directly, as international agencies and NGOs take on an ever larger "sub-donor" role.

2.3 Funding against sectoral requirements

Although it is still a far-from-perfect proxy, for the purposes of this analysis, humanitarian needs are represented by joint appeals, which come now in the form of Humanitarian Response Plans (HRPs), compiled by OCHA annually.[7]

The 2008 review found that, compared to previous years,

- funding relative to stated needs had risen slightly overall,
- individual sectors showed overall improved coverage of requirements, and
- humanitarian funding of early recovery activities in particular seemed to be increasing.

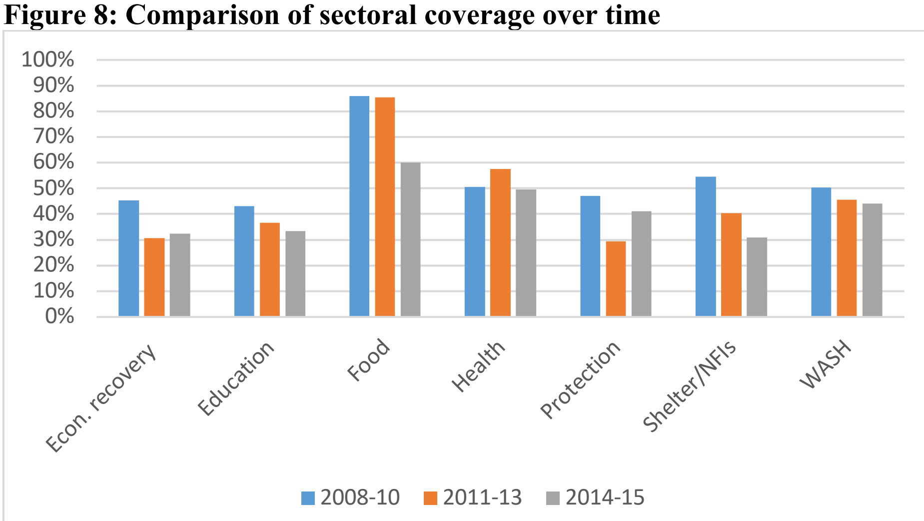
It concluded that the existence of the CERF and the country-based pooled funds had helped to enable better coverage of needs and lessen the inequities across sectors by allowing the humanitarian coordinators at the country level to make decisions based on locally determined and jointly assessed needs.

These additionality and equalizing effects seem to have disappeared in subsequent years with the rise in need and relative decline in pooled funding as a percentage of the total. Overall coverage (as measured by an average of total coverage of appeals since 2000) declined slightly as stated requirements outstripped funding growth (Table 1), and the biggest drops were in the sectors of shelter, food, and early recovery (Figure 8).

Table 1: Humanitarian funding measured against requirements

Average 2000–05	63%
Average 2006–10	68%
Average 2011–15	61%

Figure 8: Comparison of sectoral coverage over time



Source: FTS (9/9/16)

[7] Using the combined requests of agencies to approximate humanitarian need is inherently problematic, as the figures represent not so much what beneficiaries need, but rather what providers can and hope to provide. Moreover, the quality of appeals varies. However, for this type of analysis they represent the best available proxy for need.

The financial analysis in the 2008 review found that the establishment of new multilateral funding mechanisms had enabled greater volumes of humanitarian aid to enter the system and that the new funding has been largely additional. The pooled funding model was not without its drawbacks, as the review discussed, but nevertheless appeared to have a salutary effect on the overall volume and proportionate distribution of humanitarian resources across emergencies and sectors. The following section will take this up in more detail as it examines the strengths and weaknesses of different humanitarian funding modalities.

3. Comparative assessment of funding instruments

The review does not attempt to describe in detail the functioning of various humanitarian financing mechanisms or to assess them by every effectiveness measure. Rather, it identifies their complementarities and comparative advantage and assesses broadly how each mechanism serves to advance GHD and World Humanitarian Summit objectives. Indeed, the main achievement of the Grand Bargain was not a codification of new norms or ideas in humanitarian finance, but rather a reaffirmation of long-standing rhetorical principles in the form of more concrete commitments (Table 2).

Table 2: Common objectives of GHD and the Grand Bargain

Objectives	GHD funding principles and good practices	Grand Bargain commitment areas
Needs-based funding	Allocate humanitarian funding in proportion to needs and based on needs assessments. (6) Request implementing humanitarian organizations to ensure, to the greatest possible extent, adequate involvement of beneficiaries in the design, implementation, monitoring and evaluation of humanitarian response. (7) Strive to ensure that funding of humanitarian action in new crises does not adversely affect the meeting of needs in ongoing crises. (11)	Improve joint and impartial needs assessments. (5) • Provide single, cross-sectoral assessment of needs for each crisis. • Coordinate and streamline data collection Include people receiving aid in making decisions that affect their lives. (6) • HCT and cluster/sector mechanisms to ensure engagement with and accountability to affected populations. • Common standards and a coordinated approach for community engagement and participation.
Predictability	Recognizing the necessity of dynamic and flexible responses to changing needs in humanitarian crises, strive to ensure predictability and flexibility in funding to United Nations agencies, funds and programs and to other key humanitarian organizations. (12)	Increase collaborative humanitarian multi-year planning and funding. (7) • Support, in at least five countries by the end of 2017, multi-year collaborative planning and response plans through multi-year funding, and monitor and evaluate the outcomes of these responses.
Flexibility	While stressing the importance of transparent and strategic priority-setting and financial planning by implementing organizations, explore the possibility of reducing, or enhancing the flexibility of, earmarking and of introducing longer-term funding arrangements. (13)	Reduce the earmarking of donor contributions. (8) • Double the Central Emergency Response Fund (CERF) to USD$1 billion. • Increase the portion of appeal funding to the UN Country-Based Pooled Funds (CBPF) to 15 percent. • By 2017, have a common reporting model for unearmarked and softly earmarked funding and initiate this

		reporting by the end of 2017. • Reduce the degree of earmarking of funds contributed by governments and regional groups who currently provide low levels of flexible finance.
Support for local capacities and resilience	Strengthen the capacity of affected countries and local communities to prevent, prepare for, mitigate and respond to humanitarian crises. (8) Provide humanitarian assistance in ways that are supportive of recovery and long-term development, [including the] maintenance and return of sustainable livelihoods and transitions from humanitarian relief to recovery and development activities. (9)	More support and funding tools for local and national responders. (2) • Increase and support multi-year investment in the institutional capacities of local and national responders, including preparedness, response and coordination capacities. • By 2020, channel at least 25 percent of humanitarian funding to local and national responders as directly as possible. Enhance engagement between humanitarian and development actors. (10)
Coordination and efficiency	Support and promote the central and unique role of the United Nations in providing leadership and co-ordination of international humanitarian action.(10) Contribute to joint appeals and support the formulation of common action plans for strategic planning, prioritisation and co-ordination in complex emergencies. (14)	Reduce duplication and management costs with periodic functional reviews. (4) Harmonize and simplify reporting requirements. (9)
Improved performance/ effectiveness	Request that implementing humanitarian organizations fully adhere to good practice and are committed to promoting accountability, efficiency, and effectiveness in implementing humanitarian action. (15)	Greater transparency. (1) • Publish timely, transparent, harmonized and open high-quality data on humanitarian funding by May 2018. • Make use of appropriate data analysis. • Improve the digital platform and engage with the open-data standard community. Increase the use and coordination of cash-based programming. (2)

Sources: GHD, 2003; The Grand Bargain: A Shared Commitment to Better Serve People in Need, 2016.

Before examining each mechanism, however, it is necessary to clarify what is being measured and make note of certain tensions.

Direct versus indirect objectives: The GHD financing principles (GHD, 2003), summarized below and attached as Annex 3, can be categorized as either direct objectives (pertaining to how the money flows) or indirect objectives (having a secondary, performance-enhancing purpose). This is because the donors’ responsibilities and interests lie in not only ensuring that money is timely and flexible, but also that operational agencies can deliver aid fast and well once they receive the funds.

- **Direct objectives**: flexibility, predictability, timeliness, efficiency
- **Indirect objectives:** strengthening coordination and strategic planning, building local response capacities, fostering resilience

GHD donors have recognized that direct and indirect objectives may sometimes conflict with each other.[8] For instance, strengthening coordination may impede timeliness, since when jointly responding the system can only move as fast as its slowest member. In addition, efficiency might seem to demand consolidating funding in larger actors, to avoid unnecessary duplication and to take advantage of economies of scale, but this conflicts with the goal of developing local organizational capacity.

Timeliness versus preparedness: When assessing the merits of humanitarian financing instruments, the issue of "timeliness" is often invoked as an important measure. Interestingly, the word appears in the GHD principles only once, in reference to donor reporting. The speed of grant disbursement or cash transfer is not included among the 23 GHD principles and good practice guidelines. What is at issue, ultimately, is not how fast donors can move money through their machinery to the waiting hands of aid organizations, but how fast operations can begin. Funding that has already been disbursed—i.e., advanced upfront funding—is more important, as this is what is mobilized in the first days of a response. The question that should be asked of each funding mechanism, therefore, is how it contributes to preparedness for response.

System-level versus agency-specific advantages and disadvantages: Finally, tension exists between system-level and individual-agency perspectives and definitions of each of these objectives. Mechanisms and modalities that may benefit the humanitarian system as a whole by providing more predictability and flexibility at the country or global level are often felt by individual agencies as a loss of predictability and flexibility in terms of their own individual programming and vice versa.

Keeping in mind these tensions, the major funding modalities are examined below against the direct and indirect objectives for financing set out in the GHD principles and concretized by the "Grand Bargain" commitments made at the World Humanitarian Summit.

3.1 Bilateral, project-based funding to agencies

Project-based funding from donor to agency is, as the above financial analysis made clear, the predominant means by which humanitarian funding is channeled. Its strengths lie in the control and precision it offers donors to address specific needs and ensure accountability, as well as its ability to support actors that may remain outside the coordinated system. Its main weakness is that it inherently reinforces the atomized, fragmented nature of the humanitarian system by setting up multiple lines of funding and reporting, potentially fostering unhealthy competition, and undermining coordination.

Bilateral grant making, for donors that have the capacity to do it in large volume, is the most flexible tool at a donor's disposal, as the donor can control more precisely where and how the funds are used, but by nature it limits the flexibility of the implementing agency. Paradoxically, the smaller the grant, the disproportionately larger the reporting and administrative burden placed on the organizational recipient (Caccavale, Haver, & Stoddard, 2016). By expanding this type of funding to encompass a larger geographic or thematic "program" that encompasses many different projects or activities, the aid organization is given the benefit of more flexibility, particularly when conditions change, and less of an

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[8] Good Humanitarian Donorship Initiative, "Chairs' summary of a meeting between the Good Humanitarian Donorship Initiative and Inter-agency Standing Committee," July 20, 2007, Geneva, 3.

administrative burden. (Such program-based funding is more often granted to UN agencies than NGOs, however, and the flexibility is typically not passed on to their sub-grantees, so the small-grant paradox applies again.)

In terms of predictability, when an agency and a donor have a long-standing working relationship, it can indeed be a predictable form of funding for that recipient. However, because this type of funding is based on donor preferences—and may ride on changing government priorities, special earmarks from legislative bodies, etc.—it is inherently the least predictable funding source for an aid agency. GHD donors report progress on making bilateral funding less reactive and more predictable by increasing their upfront budget allocations.

Coordination and system-level efficiency are weak points of this funding modality. Each bilateral grant or contract vehicle generates its own paperwork and staff-time requirements on the part of both donor and implementing agency. Depending on the organization's or donor's requirements, each project, no matter how small, may also require separate and distinct procurement procedures, even for items being used by the same organization elsewhere in the country. As with flexibility, efficiency gains can be made when projects are streamlined into programs, with various projects becoming "objectives" within a larger framework. As for underpinning coordination frameworks, a recognized collective good in a sector where no single actor can achieve the desired outcomes on its own, bilateral donors have limited effectiveness. Some have actively encouraged, or required, their recipient organizations to harmonize their proposed activities with what the rest of the aid community is doing in country, and to coordinate to avoid duplication, but this of course requires a conscious effort on the part of the donor organization.

Short-term, project-based funding to international agencies has limited scope for supporting meaningful local capacity building, as this generally requires a sustained commitment and flexibility to adapt to changing needs. However, it can be used to good effect toward some capacity building ends. Some donors have funding programs that require agencies and international NGOs to partner with or mentor local organizations and to engage in capacity building within project activities. Again, this would depend on how much emphasis the individual donor places on capacity building, and it's unlikely to be at the scale needed for significant progress in the country context. Similarly, this type of funding has no structural implications for partnership development, so if a bilateral donor held this as an important goal, it would have to specifically tailor its grant funding requirements—such as certain umbrella grant vehicles—to achieve this.

Because donors tend not to closely coordinate their country strategies, bilateral funding streams could potentially conflict with each other and with the coordination-strengthening goals of multilateral funding. Reviews of pooled funds have found that common funding provided a significant incentive for actors to participate in joint planning and prioritization of humanitarian interventions. Bilateral funding that is easily available outside the common planning/funding mechanism could only provide a disincentive to coordination (which can be time-consuming and burdensome for the individual agencies). Conversely, with good donor coordination, bilateral project-based funding can complement the pooled funds in at least two important ways: (1) by funding interventions by humanitarian actors such as ICRC, that for reasons of mandate and principle remain independent of humanitarian coordination structures, and (2) by supporting certain programs that are regionally based or multiyear in scope, or that for other reasons fall outside the parameters of the common humanitarian response plan.

3.2 Multilateral and core funding to international organizations/agencies

There is no common accounting definition of what constitutes "core funding" for humanitarian agencies. NGOs typically fund large portions of their core budgets through indirect cost percentages on grants, whereas UN humanitarian agencies such as UNHCR, UNICEF, and WFP receive large biannual grants from donor governments as unearmarked or loosely earmarked support for their core budget and activities, in addition to the funding they receive for specific emergency responses. While hard to generalize, core funding is most commonly used to cover headquarters, support and communications functions that indirectly support operations but are less attractive to donors and in some cases are seen as excessive.

In the past, core budget contributions were a reasonably predictable funding source for the major humanitarian agencies of the UN; however, OECD DAC data show the long-term trend has been a significant drop in unearmarked contributions as a share of total funding received by UN humanitarian agencies (Poole, 2016).

To date, core funding has been limited mainly to large UN agencies, although some NGOs have received smaller core funding or capacity building grants in the past. Core funding remains a less noticed but highly important modality, particularly when it comes to building preparedness and capacity at the agency level. A 2014 analysis of OECD DAC donor reporting showed that "core funding contributions to NGOs and Red Cross agencies increased in volume and as a proportion of funds since 2008, reaching a peak of 9 percent of total contributions in 2013, including USD302 million in core funds not earmarked to the country-level" (Poole 2016).

From the individual agencies' standpoint, unrestricted funding naturally offers the most flexibility for programming and is a key resource for institutional development and capacity building. Particularly when used to build up operational reserve funds, it can be a direct and important complement to the CERF in bolstering the ability of international humanitarian actors to respond rapidly to emergencies. Operational reserves tend to be inadequate for carrying out a sustained response to a major emergency, but they can give the necessary liquidity to begin operations in advance of project grant approvals and disbursements. Reserve funding can provide stopgap funding—necessary, even with the shortened disbursement time of CERF allocations.

Unless directed towards efforts such as cluster capacity building (and thereby by definition less flexible) core funding does not have any inherent coordination strengthening, strategy setting, or partnership development benefits. These would be achieved through such funding only by the conscious efforts of the agency in question

3.3 Pooled funding

The major humanitarian financing reform of the 2000s was the creation of the new pooled funding mechanisms, namely the expanded Central Emergency Response Fund (CERF) and the Country-Based Pooled Funds (CBPFs) (formerly known as Common Humanitarian Funds, or CHFs). Smaller pooled funds at the country level called Emergency Response Funds (ERFs) had already been in existence in a few countries, beginning with Angola in the mid-1990s, and more came into being in the 2000s. These country-level funds tended to focus on sudden onset emergencies that were too small for countrywide appeals, and they were notable for making relatively high direct disbursements to national and local NGOs. The ERFs and CHFs have since been consolidated into the single entities known as the CBPFs. In addition, other pooled funds are operating at the global level, such as the Start Network funded by three donor governments for 27 international NGOs and agency-specific instruments such as the IFRC's Disaster Relief Emergency Fund (DREF). Some humanitarian contexts also make use of the UNDP-administered Multi-Partner Trust Funds (MPTFs), which are also relatively small and focused around specific thematic goals.

The added value of pooled funds is seen to include providing additional liquidity and advance funding for unforeseen emergencies and contingencies, incentivizing and underpinning humanitarian planning and coordination frameworks, empowering humanitarian coordinators to make allocation decisions based on priority needs, providing more direct funding to national actor frontline responders (in the case of

CBPFs), and facilitating larger contributions (additionality) from donors by reducing their transaction costs while providing accountability.

The 2008 paper found that although some concerns about these multilateral instruments have persisted, at the broadest level stakeholders agree they have achieved positive results in humanitarian funding and strategic coordination. None of the stakeholders consulted, past evaluations undertaken, or available evidence to date suggest that the instruments are fundamentally flawed in their conception or execution or that humanitarian financing would be better served if they had not been established. At the same time, their failure to grow at a pace commensurate with direct, earmarked grants underscores the lingering discomfort that some donors have with the mechanisms. In any event, most agree that they do not represent the only, nor in all cases the best, means to achieve humanitarian objectives and goals of the GHD and Grand Bargain. Rather, for reasons of flexibility and full coverage, maintaining a diversity of funding modalities is important.

3.3.1 The CERF

Originally designed as a revolving loan facility, the Central Emergency Response Fund was expanded in 2006 as a global pooled fund for humanitarian emergency response with contributions of $299 million. Since its reboot, the CERF has grown to maintain funding levels of close to its $500 million target for the past few years and is poised to double in size as per the commitments made at the World Humanitarian Summit. Whether or not this next expansion is realized could be critical, since at its current level it is considered not large enough, within the total humanitarian resource base, to achieve the intended "smoothing" effects through funding to underfunded emergencies (Poole, 2015).

CERF grants tend to be short-term and relatively small—under $1 million each on average. The CERF's expansion target of $1 billion would, according to many stakeholders, make it a more effective complement to their existing contingency fund mechanisms, but it would not move the needle regarding the composition of funding without significantly larger growth (i.e., closer to $5 billion) and with larger sums allocated per grant.

The CERF exists to provide the necessary liquidity to enable rapid response, as well as to fill gaps within and between emergencies through its "underfunded emergencies" window. In this way, it directly addresses underserved needs and the attempts to smooth out coverage disparities in humanitarian response.

In terms of flexibility, the CERF highlights the tension between agency and overall system perspectives. On the one hand, it provides an unprecedented source of advance, flexible funds to be directed by the ERC to priority humanitarian needs worldwide irrespective of any donor's national interests. On the other hand, while UN humanitarian agencies have benefitted from increased funding because of the CERF, they complain about the loss in flexibility it represents to them as individual agencies. The parameters and reporting requirements for CERF grants are a good deal more rigid than UN agencies are used to with their government donors. NGOs, which are not eligible for direct funding from CERF, of course see even fewer agency-level benefits in terms of flexibility. They have seen their funding levels rise as UN agencies sub-grant CERF money through partnership agreements. In addition, while the CERF may be timely in its disbursement to first-level recipients, the recipient agencies often are not timely in their onward contracting to implementing partners. By reporting on disbursements, the CERF secretariat has applied pressure on agencies to improve timeliness, but their reports have shown that onward contracting has, in some instances, taken months.[9]

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[9] "The disbursement of nearly half of 2014 sub-grants took place within the first two month (317 out of 685 sub-grants). Another 18 per cent of sub-grants were disbursed in the third month and the remaining 36 per cent of sub-grants were disbursed within the fourth month and beyond," according to "Analysis of Data from 2014 RC/HC Reports on the Use of CERF Funds," .

Efficiency gains for donors funding through the CERF have come at some cost to agencies, who perceive a higher level of transaction costs entailed by CERF grants. In addition, both donors and NGOs (as end-chain implementers) have raised concerns about cascading overheads, beginning with the 3 percent that stays in the UN secretariat, followed by up to 7 percent taken by the UN agency receiving the allocation. It has not yet been determined how to gauge whether and how the UN agency adds value to the funded activity or if it acts as merely a pass-through. To date, in either scenario the initial 10 percent has been largely automatic. How much the implementing organization takes in overhead depends on its partnership agreement with the sub-allocating UN agency. These partnership agreements present another bottleneck, as the various UN agencies seem to negotiate partnership agreements with each NGO on a project-by-project basis. This means that no matter how fast CERF can move money, its end use can be held up by the internal procedural requirements of agencies. Agencies have begun to recognize this problem and take steps, as UNICEF is doing, to rationalize the partnership agreement. Evaluations of the CERF have also called for clearer definitions, criteria, and parameters for eligible projects, as well as more clarity on minimum and maximum allocation thresholds.

Another efficiency concern raised by UN agencies has been the artificial “projectization” of their programming under CERF. Whereas these agencies were accustomed to receiving program-based funding for multiple-objective or country-wide programs, CERF (and CHFs, to be discussed in the next subsection) requires that funding be tied to specific, defined projects. For some agencies this creates inefficiencies at the front end, in the proposal and procurement process. For instance, UNICEF internal systems require separate projects to maintain discrete budgets and procurement procedures, so situations arise where multiple projects in the same country require separate processing, procurement orders, and shipments—even if separate projects in the same country require the same commodity going to the same country. For other agencies (WFP and UNHCR), more problems arise at the back end of projects where CERF projectization demands new systems and procedures for reporting. Many informants from different agencies objected in principle to a system that has them reporting on inputs rather than results.

The CERF was not designed with a capacity-building mandate, and with access to funding for local organizations even further removed than from traditional aid channels, it is unlikely that it could have a direct impact on strengthening local NGO sectors. In fact, by centralizing its funds through the UN, funds like the CERF may have an adverse effect on capacity building that may have had a chance to take place under a different funding modality.

Finally, note that the CERF has attracted new, emerging donors, including some affected states and others who had never supported an appeal before. This development holds major potential not only in terms of new funding resources, but in wider participation of what up to now has been a too-small club of humanitarian donors. The challenge here is in attracting both volume and consistency/predictability in such contributions, which are still nominal in terms of their impact on the overall CERF pot.

As donor agency representatives have attested in interviews, the CERF allows donors to channel greater amounts to humanitarian priorities that they would not have had the capacity to manage as bilateral grants, for example in smaller emergencies, or where the donor has limited administrative capacity or little or no field presence. This makes it an important complement to bilateral granting and a means to bring more donors into the system.

In terms of timeliness, there is little question that the CERF can move money faster than most bilateral granting mechanisms, particularly in the early phases of rapid onset emergencies (Taylor, forthcoming), but because requests are based on coordinated appeals for multiple agency projects, it would be virtually impossible to reduce the request-approval-disbursement time for CERF allocations to less than a few days from the start of the process. To ensure liquidity and flexibility for rapid response, therefore, agency internal reserves remain critical, and these have increased considerably since the 2008 report.

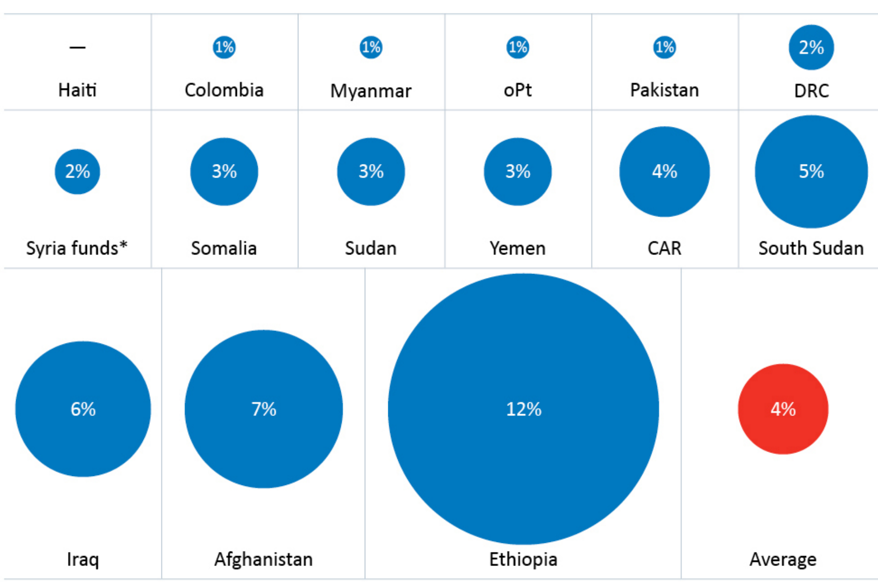
3.3.2 The CBPFs

Starting with two pilot mechanisms in Sudan and DRC, the CBPFs now operate in 18 countries[10] and in 2015 disbursed $505 million in funding (OCHA, 2016)—on a par with the CERF in terms of overall volume. As mentioned, in a restructuring of country-level pooled funding, the newly standardized CBPFs absorbed the smaller Emergency Response Funds (ERFs) in countries where they co-existed.

The logic of the CBPF, as with the CERF, is letting proximate actors decide priorities for better needs-based programming, allowing donors to contribute early for enhanced predictability, creating incentives for coordination around a common plan, and allocating funding to those best placed to implement, which in many cases have been local NGOs, thus benefitting the capacity- and resilience-building objective. Indeed, these mechanisms—more than any other funding modality—have been shown to increase the direct funding of national NGOs. In 2015, CBPFs channeled 60 percent of funding directly to NGOs. The percentage allocated to national NGOs alone was close to 20 percent (about $85 million), which is significant compared to the declining global average of 0.2–0.4 percent.

But it is increasingly observed, in evaluations and interviews, that a CBPF can only fulfill these roles if it has "critical mass" (Stoddard, 2016). CBPF funding needs to be large enough that it can be reliably counted on to deliver and in disbursements large enough to make it worth the effort. Although it is not based on any formal economic principle, conventional wisdom among humanitarian finance experts has it that for pooled funds to be effective and exercise comparative advantage, they should amount to roughly 15 percent of total funding.[11] However, they have represented only 4 percent of total flows on average since 2006 and only 4 percent of the stated funding requirements of the 2015 HRPs. In only two protracted crisis settings have the CBPFs approached the 15 percent level of humanitarian flows coming in: DRC (15.9 percent average, 2006–15) and South Sudan (10.4 percent average, 2006–15).

Figure 9: Size of CBPFs as percentage of the HRP funding requirements in 2015



* Syria, Turkey, Lebanon and Jordan CBPFs

From Stoddard, 2016 (Data source: OCHA FCS, 2016)

[10] The countries are Afghanistan, CAR, Colombia, DRC, Ethiopia, Haiti, Iraq, Jordan, Lebanon, Myanmar, oPt, Pakistan, Somalia, South Sudan, Sudan, Syria, Turkey, and Yemen.
[11] Interviews with UN and World Bank representatives, 2016

Another limitation, particularly in protracted emergencies, is the incapacity of the CBPF allocation system (as well as that of the CERF) to fund multiyear activities. In protracted emergencies such as Somalia, where humanitarian actors are increasingly experimenting with multiyear projects and funding, it is feared this could result in the pooled funds withering and donors directing more and more funding to resilience work outside of humanitarian response plans (Stoddard, 2016).

Since their establishment a decade ago, the country-level pooled funds have weathered criticism about increased transaction costs for recipient agencies (with no guarantee of funding at the end) and an allocation system that has seemed to favor UN agencies over NGOs. Despite complaints, however, pooled funds have generally been found to prove their worth.[12] However, when the common humanitarian response plans are underfunded and the overall volume of the funds are relatively low, the downsides become more apparent, participants eschew the mechanisms, and they no longer have their intended effects.

Evaluations of the CBPFs[13] have given them an overall favorable assessment for improving prioritization in strategic planning and bolstering coordination at the country level. The weaknesses identified had to do with cases of inept or cumbersome fund administration, hindrances to direct NGO funding, weak monitoring and evaluation, and perceived conflicts of interest that derived from agencies being placed in a position where they were both “judge and party” to allocation decisions. In addition, it has recently been recognized that these funds cease to add value when overall funding and participation is low (Taylor, 2014).

Like the CERF, it was demonstrated that on average the CBPFs dispersed money quicker than traditional bilateral grant making did, which suggests advantages in one measure of efficiency. However, questions remain as to whether it is the most efficient and effective way of getting money into the hands of the final implementers. (See section 4 for more discussion of the efficiency question.)

As the original review concluded, more deliberate effort is required to make the CBPFs and bilateral funding streams complementary. Country-level donor communication and coordination of strategies is essential, particularly in DRC where the major bilateral funders have been put in the position of the smaller donors next to the fund. There are disagreements as to how large the CBPFs can usefully grow. But the flexibility of bilateral funding can be used to good effect to fill gaps in funding the cross-sectoral, longer-term, and regional programming that the CBPFs cannot. Donors will need to work more collaboratively than they may be accustomed to in order to make this happen.

3.3.3 Other pooled funds: MPTFs, DREF, and the Start Fund

In addition to the CERF and CBPFs, 32 Multi-Partner Trust Funds (MPTFs) operate in protracted humanitarian crisis settings (out of 133 MPTFs globally). Like the other pooled funds, these provide short-term grant- and project-based funding allocated against a specific programmatic framework. Unlike the humanitarian funds, however, the MPTFs can range from those that are quite small and narrow in thematic focus to those with a large number of donors and broad objectives.

These funds are considerably smaller than the CBPFs (in 2015 their average expenditure was $1.4 million) and they are not present in most major crisis countries. Because they are so small and discrete, their contribution to overall strategies is limited, but they can potentially provide useful complements to the larger funding channels to fill specific gaps. The senior management of these funds in UNDP sees the funds as serving as a “centre of gravity” that fosters coherence among country strategies and fills gaps

[12] A summary of recent evaluations and studies can be found here: https://docs.unocha.org/sites/dms/CERF/CERF%20and%20Country-Based%20Pooled%20Funds.pdf.
[13] Stoddard, Salamons, Haver, Harmer (2006); Willits-King, Mowjee, Barham (2007); Goyder (2011); Taylor (2014).

(MPTF Office, 2015). According to this vision, new funds can be set up and tailored to provide bespoke solutions to unforeseen problems, such as paying for unbudgeted logistical needs of the UN Mission for Ebola Emergency Response.

The International Federation of the Red Cross/Red Crescent (IFRC) maintains its own multilaterally funded rapid response mechanism, the Disaster Relief Emergency Fund (DREF), totaling roughly $28.6 million. In IFRC's view, the CERF and other mechanisms do not address one of the most pressing humanitarian challenges—the increase in small- to medium-scale natural disasters brought about by climate change. CERF allocations are made per country (though for individually vetted and approved projects) and they tend to be in the millions (under $1 million is widely viewed as not worth the effort involved in putting together a CERF appeal). The average DREF country allocation, in contrast, is in the low hundreds of thousands. The DREF can also release funds in hours rather than days.

UN agencies such as WFP, UNICEF, and UNHCR also maintain contingency funds for preparedness purposes, which can be used in combination with CERF and/or CBPF funding for rapid response. At roughly $300 million, WFP has the largest of these. This can be used for underfunded emergency needs, particularly the small- and medium-scale disasters that are proliferating with climate change but which lose out to larger emergencies for donor attention and funding. Some of the larger INGOs also maintain contingency funds for rapid response purposes or unforeseen exigencies.

In addition, 27 INGOs are now part of the global Start Network, which collectively manages a global grant-making mechanism—the Start Fund—supported by three donor governments,[14] which serves a similar function. In 2015, Start made roughly $4.7 million worth of small start-up grants (average size $195,000) and has been proven successful at disbursing within 72 hours.

[14] UK, Ireland, and the Netherlands.

4. Donor funding patterns and preferences

This section focuses on the donor government members of the Good Humanitarian Donorship initiative, who together provide the overwhelming majority of funding for the formal humanitarian system; it was on their behalf that this report was commissioned. As stated previously, and illustrated in Figure 10, all donor governments favor the bilateral grant-making modality among the channels available to them, with the two largest, the US and European Commission (EC), effectively eschewing pooled funding altogether (except for small US contributions—relative to its overall humanitarian funding—to the CERF, amounting to $39 million since 2010).

The UK government has been a particular champion of the pooled funding concept since its inception. The UK is the largest contributor in absolute terms to the CERF and CBPFs every year and the only one of the top five largest donors to channel a significant portion (19 percent) of its humanitarian funding through these multilateral mechanisms. The UK and the other major donors supporting pooled funds—such as Sweden (which also contributes 19 percent of its total funding through the CERF and CBPFs), Norway (at 15 percent), Denmark (12 percent) and the Netherlands (30 percent)—have some commonalities as donors that contrast with the US and EC. In addition to valuing the strategic coordination incentives involved in pooled funding, these donors see the funds as one means to maximize efficiency gains. With much smaller staffs and limited field presence with which to manage their relatively large humanitarian spend, these second-tier major donors have increasingly sought to limit the number of individual funding streams by using the pooled funding mechanisms (as well as by decreasing opportunities for unsolicited proposals and employing more consolidated "strategic partnership" funding agreements with select groups of partners). In addition, the short-term grant orientation of the pooled funds does not allow for multiyear funding, which some donors, especially the UK, are interested in using in protracted emergency settings.

As highly "operational" donors, the funding activities of the US government as well as the EC Humanitarian Office (ECHO) are predicated on their personnel being in the field, or at least based regionally (in most of these contexts) conducting their own assessments, and developing their own priorities for humanitarian response. Additionally, as EC officials will often point out, ECHO is itself already a "pooled fund" made up of EC member contributions. As a result, the funding from these two tends to be much more hands-on, iterative in its design, and closely monitored. Not having the same sort of operational mandates, other major donors often must grapple with how to program their relatively high levels of humanitarian spending while having comparatively limited staff power and monitoring capacity in the field. For them the critical challenge is how to do more, more effectively, with less. If they are confident in their viability, effectiveness, and internal efficiency, pooled funds offer a solution for donors able to adequately manage and monitor multiple funding streams to multiple implementers. For its part, the UK government, in addition to being a major funder of the pooled funds, has invested in rigorous evaluative reviews of the multilateral agencies, as another means of informing its decision making in funding allocations when it is not possible to have eyes everywhere in the field.

What is more striking about donor funding patterns and preferences, however, is the impression that they remain relatively unmoored from both the position of the donor within the broader community[15] and the positions and activities of others in the environment or conditions of a particular response context. In other words, donor behavior is less strategically determined than it is path-dependent upon past patterns and bureaucratic constraints.

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[15] For example, although it is arguably more logical for smaller donors with little capacity to contribute more to pooled funding mechanisms, statistical regression analysis showed no significant correlations between relative or absolute size of funding and the choices of funding vehicles.

Figure 10: GHD members

Figure 10: Humanitarian flows from GHD donors, 2013-15 (USD M)

2013-15 USD millions

			BILATERAL GRANTS				
GHD donors	Total disbursed	# grants	UN agencies	NGOs	Red Cross / Red Crescent	Govts/ IGOs	Pooled funds
United States of America	17,719.6	4069	61%	24%	5%	0.1%	0.1%
European Commission	5,949.8	3463	43%	41%	10%	0.2%	0%
United Kingdom	4,762.8	1281	46%	15%	6%	5%	19%
Germany	3,069.6	1403	57%	25%	9%	3%	5%
Japan	2,757.5	1301	84%	4%	7%	3%	1%
Sweden	2,382.2	1922	45%	19%	13%	4%	19%
Canada	1,919.6	1275	62%	22%	9%	0%	5%
Norway	1,812.3	1475	30%	35%	17%	1%	15%
Switzerland	1,417.7	1545	38%	11%	28%	1%	5%
Denmark	1,150.2	1146	46%	29%	10%	2%	12%
Netherlands	1,121.9	303	30%	21%	17%	2%	30%
Australia	694.1	395	51%	11%	17%	2%	14%
Belgium	526.3	304	50%	12%	15%	0.1%	22%
France	465.9	607	44%	15%	11%	21%	0.3%
Finland	446.4	389	65%	9%	15%	0%	9%
Ireland	340.2	503	20%	35%	13%	0.3%	31%
Italy	267.7	436	48%	11%	9%	18%	2%
Spain	178.6	502	41%	17%	24%	2%	11%
Luxembourg	165.3	526	43%	20%	20%	1%	11%
Korea, Republic of	122.8	185	72%	0%	1%	4%	20%
New Zealand	56.5	114	58%	8%	8%	6%	14%
Austria	55.0	118	53%	18%	22%	4%	0.5%
Brazil	26.9	31	68%	0%	0%	0%	13%
Czech Republic	21.1	123	27%	32%	6%	33%	2%
Poland	15.4	65	46%	22%	10%	1%	4%
Estonia	11.0	128	65%	14%	6%	9%	4%
Liechtenstein	8.0	76	18%	15%	35%	21%	10%
Mexico	7.5	14	55%	0%	27%	0%	18%
Hungary	4.0	82	38%	26%	11%	22%	2%
Portugal	3.6	32	47%	20%	0%	0%	6%
Iceland	3.5	30	60%	0%	0%	0%	40%
Greece	2.2	19	76%	0%	0%	3%	2%
Romania	1.9	27	26%	0%	0%	38%	7%
Lithuania	1.1	39	46%	2%	10%	13%	2%
Croatia	1.1	18	23%	16%	31%	10%	0%
Malta	0.8	23	84%	0%	7%	0%	9%
Slovenia	0.8	22	78%	0%	13%	0%	9%
Latvia	0.8	17	50%	0%	30%	8%	12%
Slovakia	0.7	14	81%	8%	0%	0%	0%
Bulgaria	0.7	8	100%	0%	0%	0%	0%
Cyprus	0.1	8	84%	0%	0%	0%	16%

The GHD initiative, which predates pooled funding by a few years, does not explicitly mention multilateral or pooled funding in its basic principles and good practices, much less recommend a target share of funding to be directed by this means to optimize its added value and comparative advantage within the “financial ecosystem” of a given emergency context. Overall, the generally nonspecific and aspirational nature of the GHD commitments, while providing a useful convening platform and normative basis, have not led to major changes in donor policy or practice. Admittedly, such changes would require new domestic legislation in many donor countries. When humanitarian agencies level criticism at their donors, it usually revolves around inconsistent (or disingenuous) behavior in funding. One complaint is that donors insist on efficiencies on their terms, adopting delivery methods that are as much self-serving as “system serving,” and that all the negative externalities—transaction costs, administrative burden, and fiduciary and political risks—are pushed onto the implementing agencies.

The Grand Bargain commitments, while not promising radical transformation, nevertheless provide an opportunity and a starting point for more seriously implementing the commonly agreed principles of good donorship and some of the objectives set out at the World Humanitarian Summit. For instance, if the US government decided to increase its contributions to the pooled funds from its current level of 0.1 percent to 5 percent or higher, it would singlehandedly increase the percentage of funds to the purported optimal 15 percent of the total—and provide an opportunity to observe in real time if it does in fact improve funding coverage and liquidity.

5. Conclusions and areas for action and further study

As with its previous iteration, this review did not set out to make recommendations on the specifics of different funding mechanisms, but rather to identify broad areas for improvement of the humanitarian financing system so that it may better function as an integrated whole. The research proceeded from the consensus position of GHD donors, further confirmed by findings, that diversity in donor mechanisms is beneficial to international humanitarian response. It further concluded that different mechanisms are more amenable to different conditions and objectives and recommended that donors practice diversity in their funding modalities in line with their own comparative advantages as different types of donors. The assumption and the conclusion hold true today.

The major finding of this updated version of the review was that in the past five years, as humanitarian funding increased to meet unprecedented levels of need, this diversity was lost as the additionality came from fewer donors and was focused on a single modality—bilateral grant making.

As the 2008 review stated, the CBPFs provide advance multilateral funding for country-wide emergency response plans, while facilitating humanitarian coordination. The CERF provides advance funding that, particularly when leveraged against agencies' reserves, enables a quicker response for major new emergencies (in addition to equalizing funding for chronic, underfunded crises.) In addition, CERF money can and has been used to provide additional support or advance funding to the CBPFs. Bilateral grant funding remains critical to retain flexibility, promote innovation, and ensure sufficient funding for non-UN actors. Finally, humanitarian agencies continue to need core programming and capacity building support for preparedness and for absorbing the transaction costs and responsibilities involved in coordination. The eight years since the original review have seen expansion, growth, and technical improvements in the mechanisms (while issues unquestionably remain), but at the same time they have been marginalized almost to the point of irrelevance by the major spike in government bilateral funding after 2012.

In light of these findings, and with a period of change on the horizon with the follow-up to the Grand Bargain, five areas of action are proposed.

Rebalance funding streams to achieve meaningful diversity in the use of instruments.
As a rule, no single funding modality should be used in exclusion and all require more extensive donor coordination than currently takes place to be effectively complementary. At the time the 2008 report was written, concerns were that pooled funding would take up inordinate funding space and threaten the recipients and particular advantages of bilateral funding. What has happened in the humanitarian funding landscape over the past few years has prompted the opposite concern—that the relative decline in the pooled funds' share of the total undercuts their added value and comparative advantage, threatening their relevance in the larger system.

- Large donors who currently fund almost exclusively through bilateral grant mechanisms should strongly consider channeling relatively more through pooled mechanisms in the interests of a diverse financing ecosystem, as well as reduced fragmentation.
- At the same time, even donors who fund large portions of their total spend through the pooled funds should preserve bilateral funding capacity, i.e., retain some level of funding to be used outside the pooled mechanisms for flexibility in the event of unforeseen needs or for programs that fall outside the common plan for temporal, sectoral, or geographical reasons (the ratio to be determined by each donor according to their management and monitoring capacities and program priorities).

Optimize core funding.

- Continue donor efforts to reduce or eliminate earmarking of their core budget funding while at the same time consulting closely with recipient agencies to identify important missing capacities and underfunded activities to which these funds could be usefully applied.

Continue to support and improve multilateral mechanisms, with an emphasis on cultivating new donors and national actors' access.

- Encourage all member states to participate in the CERF each year, even at token amounts.
- Develop new mechanisms to capture and give visibility to non-DAC contributions.
- CBPFs should dedicate some portion of CBPF funding for local NGO capacity building and efforts to increase local participation.
- Seek ways to increase funding for local NGOs through capacity building partnerships, as well as direct grants.

Improve donor coordination and strategy setting at the global and field levels.

- Strengthen donor coordination mechanisms on a crisis-specific basis, which allow for sharing and discussion at the global level of intentions and priorities at the global level. The GHD Crisis Response calls, spearheaded by the US government, are a promising starting point.
- Renew efforts to share written allocation plans internally among the GHD membership at the beginning of the year to rationalize planning between donors.
- Continue the effort to harmonize administrative requirements for recipients of bilateral grants.

A final recommended area of action could be to build a better evidence base on what constitutes and enhances optimal efficiency in humanitarian financing**.** This pertains to an ongoing study on humanitarian financing efficiency, of which this updated review is a part.

The High-Level Panel report on humanitarian assistance astutely framed the problem as not just one of sufficiency (the need for widening and deepening the resource pool)[16] but also efficiency (using resources better). The Grand Bargain commitments are thus mostly addressed to the latter. Efficiency is a thorny problem in humanitarian assistance, as it is essentially built-in to a voluntary system that requires a great deal of work to coordinate its independent moving parts.

Correcting inefficiencies on one level can create others. For instance, the phenomenon of multiple layers of overhead costs in multi-link funding chains is inefficient—such as when UNICEF gets a grant that it farms out to INGOs, and some INGOs to local/national NGOs. But doing away with umbrella grants and sub-contractors requires multiple direct grants, which end up creating duplication in systems and extra costs. Most would agree that in some situations economies of scale—and benefits for coordination and technical standards—are created by consolidation under a large umbrella agency that oversees a program comprising several projects of different implementers toward specific broad goals. Some are unconvinced, however, that any value has been added by running the funding through a single channel. This has led to calls for an assessment of the "value chain" of funding to provide guidelines for when it is appropriate and when not. Studies to date on these issues have focused on transaction costs on overheads but have not tackled an overall comparative efficiency assessment.

The planned research program, to be completed in mid-2017, will undertake desk and field research to track the donor-to-end-user chain of specific funding contributions made through the various funding channels in order to assess their relative efficiency. It will take as its focus the three efficiency measures that that pertain to humanitarian financing specifically: *productive efficiency, technical efficiency,* and

[16] As the report observed "almost everyone with whom we spoke said that finding more money will not solve all the problems, and may even entrench some of the current dysfunctions" (HLP, 2016: 6).

economies of scale. It is hoped this exercise will result in a firmer basis for strategic planning and donor allocation decisions.

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Annex 1: Interviews

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Annex 3: Principles and Good Practice of Humanitarian Donorship

(www.ghdinitiative.org)

23 Principles and Good Practice of Humanitarian Donorship

In 2003 the Government of Sweden convened a meeting to discuss good humanitarian donorship, during which a set of Principles-and-Good-Practice-of-Humanitarian-Donorship was agreed. The meeting was attended by representatives from 16 donor governments as well as the European Commission, the OECD, the International Red Cross and Red Crescent Movement, NGOs, and academics.

The 23 Principles and Good Practice defined by the group provide both a framework to guide official humanitarian aid and a mechanism for encouraging greater donor accountability. These were drawn up to enhance the coherence and effectiveness of donor action, as well as their accountability to beneficiaries, implementing organisations and domestic constituencies, with regard to the funding, co-ordination, follow-up and evaluation of such actions.

Objectives and Definition of Humanitarian Action

1. The objectives of humanitarian action are to save lives, alleviate suffering and maintain human dignity during and in the aftermath of man-made crises and natural disasters, as well as to prevent and strengthen preparedness for the occurrence of such situations.
2. Humanitarian action should be guided by the humanitarian principles of humanity, meaning the centrality of saving human lives and alleviating suffering wherever it is found; impartiality, meaning the implementation of actions solely on the basis of need, without discrimination between or within affected populations; neutrality, meaning that humanitarian action must not favour any side in an armed conflict or other dispute where such action is carried out; and independence, meaning the autonomy of humanitarian objectives from the political, economic, military or other objectives that any actor may hold with regard to areas where humanitarian action is being implemented.
3. Humanitarian action includes the protection of civilians and those no longer taking part in hostilities, and the provision of food, water and sanitation, shelter, health services and other items of assistance, undertaken for the benefit of affected people and to facilitate the return to normal lives and livelihoods.

General Principles

4. Respect and promote the implementation of international humanitarian law, refugee law and human rights.
5. While reaffirming the primary responsibility of states for the victims of humanitarian emergencies within their own borders, strive to ensure flexible and timely funding, on the basis of the collective obligation of striving to meet humanitarian needs.
6. Allocate humanitarian funding in proportion to needs and on the basis of needs assessments.

7. Request implementing humanitarian organisations to ensure, to the greatest possible extent, adequate involvement of beneficiaries in the design, implementation, monitoring and evaluation of humanitarian response.
8. Strengthen the capacity of affected countries and local communities to prevent, prepare for, mitigate and respond to humanitarian crises, with the goal of ensuring that governments and local communities are better able to meet their responsibilities and co-ordinate effectively with humanitarian partners.
9. Provide humanitarian assistance in ways that are supportive of recovery and long-term development, striving to ensure support, where appropriate, to the maintenance and return of sustainable livelihoods and transitions from humanitarian relief to recovery and development activities.
10. Support and promote the central and unique role of the United Nations in providing leadership and co-ordination of international humanitarian action, the special role of the International Committee of the Red Cross, and the vital role of the United Nations, the International Red Cross and Red Crescent Movement and non-governmental organisations in implementing humanitarian action.

Good Practices in Donor Financing, Management and Accountability

Funding

11. Strive to ensure that funding of humanitarian action in new crises does not adversely affect the meeting of needs in ongoing crises.
12. Recognising the necessity of dynamic and flexible response to changing needs in humanitarian crises, strive to ensure predictability and flexibility in funding to United Nations agencies, funds and programmes and to other key humanitarian organisations.
13. While stressing the importance of transparent and strategic priority-setting and financial planning by implementing organisations, explore the possibility of reducing, or enhancing the flexibility of, earmarking, and of introducing longer-term funding arrangements.
14. Contribute responsibly, and on the basis of burden-sharing, to United Nations Consolidated Inter-Agency Appeals and to International Red Cross and Red Crescent Movement appeals, and actively support the formulation of Common Humanitarian Action Plans (CHAP) as the primary instrument for strategic planning, prioritisation and co-ordination in complex emergencies.

Promoting Standards and Enhancing Implementation

15. Request that implementing humanitarian organisations fully adhere to good practice and are committed to promoting accountability, efficiency and effectiveness in implementing humanitarian action.
16. Promote the use of Inter-Agency Standing Committee guidelines and principles on humanitarian activities, the Guiding Principles on Internal Displacement and the 1994 Code of Conduct for the International Red Cross and Red Crescent Movement and Non-Governmental Organisations (NGOs) in Disaster Relief.
17. Maintain readiness to offer support to the implementation of humanitarian action, including the facilitation of safe humanitarian access.

18. Support mechanisms for contingency planning by humanitarian organisations, including, as appropriate, allocation of funding, to strengthen capacities for response.
19. Affirm the primary position of civilian organisations in implementing humanitarian action, particularly in areas affected by armed conflict. In situations where military capacity and assets are used to support the implementation of humanitarian action, ensure that such use is in conformity with international humanitarian law and humanitarian principles, and recognises the leading role of humanitarian organisations.
20. Support the implementation of the 1994 Guidelines on the Use of Military and Civil Defence Assets in Disaster Relief and the 2003 Guidelines on the Use of Military and Civil Defence Assets to Support United Nations Humanitarian Activities in Complex Emergencies.

Learning and Accountability

21. Support learning and accountability initiatives for the effective and efficient implementation of humanitarian action.
22. Encourage regular evaluations of international responses to humanitarian crises, including assessments of donor performance.
23. Ensure a high degree of accuracy, timeliness, and transparency in donor reporting on official humanitarian assistance spending, and encourage the development of standardised formats for such reporting.

Annex 4: The Grand Bargain

(http://www.agendaforhumanity.org/)

The signatories commit to:

1. Greater transparency
2. More support and funding tools for local and national responders
3. Increase the use and coordination of cash-based programming
4. Reduce duplication and management costs with periodic functional reviews
5. Improve joint and impartial needs assessments
6. A participation revolution: include people receiving aid in making the decisions which affect their lives
7. Increase collaborative humanitarian multi-year planning and funding
8. Reduce the earmarking of donor contributions
9. Harmonise and simplify reporting requirements
10. Enhance engagement between humanitarian and development actors

The following donors and aid organisations endorse the Grand Bargain:

Donors
1. Australia
2. Belgium
3. Bulgaria
4. Canada
5. Czech Republic
6. Denmark
7. European Commission
8. Germany
9. Italy
10. Japan
11. Luxembourg
12. The Netherlands
13. Norway
14. Estonia
15. Sweden
16. Switzerland
17. United Kingdom
18. United States of America
19. Spain
20. Slovenia
21. Finland

22. Ireland

Organisations

1. Food and Agriculture Organization of the United Nations (FAO)
2. InterAction
3. International Committee of the Red Cross (ICRC)
4. International Council of Voluntary Agencies (ICVA)
5. International Federation of Red Cross and Red Crescent Societies (IFRC)
6. International Organization for Migration (IOM)
7. Steering Committee for Humanitarian Response (SCHR)
8. United Nations Children’s Fund (UNICEF)
9. United Nations Development Programme (UNDP)
10. United Nations Entity for Gender Equality and the Empowerment of Women (UN Women)
11. United Nations High Commissioner for Refugees (UNHCR)
12. United Nations Population Fund (UNFPA)
13. United Nations Office for the Coordination of Humanitarian Affairs (OCHA)
14. United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)
15. World Bank
16. World Food Programme (WFP)
17. CARE International
18. Syria Relief Turkey
19. IRC
20. Relief International
21. Mercy Corps
22. World Vision
23. Global Communities
24. CRS
25. NRC
26. Christian Aid
27. ILO
28. CAFOD

Annex 5: In brief—comparative assessment of funding instruments

The below synthesizes findings for each major funding modality in terms of its advantages and drawbacks, its importance to the system, when it is best used, how it relates to other parts of the financing system, and potential areas for improvement.

<u>Bilateral programmatic funding (direct grants to agencies for specific emergencies or activities)</u>

Advantages

- Allows for donor input and oversight, and provider[17] accountability for results
- Funding decisions and commitments can be made quickly in response to emergent crises
- Collaborative and iterative partnership between donor and provider agency can promote flexibility and help foster innovative programming
- Targeted funding seen as cost savings rather than tying money up in the system
- Cost savings with administrative costs

Drawbacks

- Has been seen in the past to foster unhealthy competition between agencies (for funding) and donors (for visibility), and thus conflict with coordination goals
- Donors' political and other preferences have been seen to lead to inequitable distribution of funds against needs
- 'Projectized' funding entails multiple sets of requirements and an increased administrative burden for both donor and implementer
- Reactive by design, this funding modality can lead to disbursement and start-up delays unless used in concert with an upfront funding source. Further, when reliant on large amounts of supplemental funding allocated by legislatures in response to emergencies, predictability suffers

Why it is an important tool

- From the donor perspective, bilateral program funding is the most flexible tool in the box. Particularly when a donor is present on the ground and able to perform its own assessments and set its own strategies, bilateral funding is the most direct way of achieving specific and rapidly changing humanitarian goals
- It can and should be used to fund activities of important providers such as ICRC and MSF who for reasons of programming principle remain outside the pooled funding mechanisms, and other UN or NGO programs that fall outside the temp geographical parameters of the pooled funds /common action plans
- For those providers with established track records, a good relationship with a bilateral donor can offer a measure of predictability in funding

[17] The terms provider and agency used here refers to UN agencies, international organizations, and NGOs engaged in humanitarian response.

When it is most effective to use

- In cases where the donor is present in country with the capacity to work effectively with providers and assess potential gaps and needs not addressed by the pooled funding mechanisms
- In the (majority of) countries with no country-level pooled fund and limited CERF resources

How it relates to other parts of the financing system

- If allocation decisions are made quickly, bilateral grants can be used to underwrite draw-downs from agencies' reserve funds, enabling them to launch a rapid response in the interim before the disbursement is completed
- In the case of DRC, where the CHF has become the largest single donor, bilateral funding may serve as a gap-filler. The reverse is true in a case such as Sudan, where the CHF and CERF provides only a small portion of the contributions

Areas for improvement

- Ensure that bilateral funding does not undercut coordination, by encouraging the grant recipients to participate in coordination mechanisms and common planning exercises.
- Wherever possible, consolidate individual project grants me to the same provider in the same country into overarching multisectoral or multi-activity programs, eliminating duplicative administration
- Revisit and actively explore possibilities for multiyear framework agreements and other longer-term grant vehicles for NGOs
- Seek ways to provide increased funding for local NGOs through capacity building partnerships, as well as direct grants
- To enhance predictability and planning, make efforts to increase the upfront allocation for humanitarian response (as the US and Netherlands are presently attempting)
- Greater efforts are needed by in-country donor representatives to communicate and coordinate with other donors and the country level IASCs
- Bilateral donors should continue the effort to harmonize administrative requirements for their recipients

<u>Bilateral core funding (un-earmarked or loosely earmarked funding to agencies' core budgets)</u>

Advantages

- Allows agencies to build and improve institutional capacities
- Can fill budget gaps and fund under-resourced priorities such as assessments, human resources development, applied research and M&E, and local capacity building
- Can be used toward interagency coordination initiatives and responsibilities, such as Cluster coordination, as well as seed funding for innovative approaches that become mainstreamed as capacity building inputs

Drawbacks

- If this funding fluctuates year-to-year, it can foster unpredictability and disrupt planning and budgets
- Capacity building benefits are focused on just a handful of international agencies.
- The strategies and uses for this funding (e.g. how reserve funding will be used in complement to other funding sources) are not always transparent

Why it is an important tool

- Allows for planning flexibility, and enables regional and global programming approaches
- Critical to agency-level preparedness (CERF can be an important complement to what no replacement for individual reserves of upfront funding)

When it is most effective to use

- Such funding should ideally be ongoing, at a predictably stable level year-by-year. Additional capacity building grants should be encouraged for one-off sustainable improvements.

How it relates to other parts of the financing system

- In that it represents a major source of support for agencies' internal rapid response reserves, core funding comprises a crucial complement to the CERF, and is thus an integral component of system-wide preparedness and rapid response capacity. Individual agency reserves, far from being made obsolete by the CERF and other pooled fund mechanisms, must be seen as a critical link in the chain enabling rapid response. The timeliest resources are those which are already in the providers' bank accounts, ready to be spent.

Areas for improvement

- Donors who provide high levels of core funding to agencies possess a degree of influence that can be used to push for improvements in the agency's accountability. However, there is a tension between the desire for accountability on the one hand and the flexibility that this type of funding is meant to engender on the other. Donors should strive to reduce or eliminate earmarking of their core funding while at the same time consulting closely with the agency to identify important missing capacities and underfunded activities to which these funds could be usefully applied.

CERF (global pooled funding)

Advantages

- Allows for global prioritization of needs-based allocations by the ERC. Creates a source of upfront funding, un-earmarked by donors, for disbursement to new emergencies
- Can be used to redress inequities in funding across emergencies and meet unmet needs

Drawbacks

- Does not allow for direct funding for NGOs - often the actors best placed to launch a rapid response. Lack of direct NGO access has been a source of tension and a widespread perception of a critical missed opportunity
- Funds channeled through UN agencies, as pass-through mechanisms or umbrella grantors, incur cascading overheads and potential time lags. Serious questions are still pending as to whether the "value chain" justifies the layers, or if it is not more expedient and cost-effective to fund certain activities directly

Why it is an important tool

- Has in its brief existence proven itself effective at raising and disbursing major amounts of funding for humanitarian action (over half a billion dollars)
- Has led to additional donors, including developing countries to joining in coordinated efforts to support international humanitarian response, widening and diversifying the donor base
- While funding mechanisms for post-conflict recovery and other transitional activities are still in the discussion stages, CERF (and the CHFs) have been able to resource some of the critical early recovery inputs undertaken by multi-mandated agencies, whose programs straddle relief and development

When it is most effective to use

- The CERF guidelines spell out how and when the mechanism is to be accessed by RC/HCs and country teams for sudden onset, chronic, and neglected emergencies. From the donor perspective, it makes sense to contribute to the CERF in service of global coordination goals, or if humanitarian resources and donor government capacities are limited in terms of grantmaking and management
- The presence of a strong HC has been cited as a necessary condition for the use of both the CERF in the CHFs
- The process has been seen to work best in contexts of protracted emergencies, or sudden onsets within protracted contexts where humanitarian actors are already present and programming

How it relates to other parts of the financing system

- Because of the relatively quick disbursement process, approved grants from the CERF funds can provide agencies with the necessary confidence for immediate drawdowns from their emergency reserves for rapid response
- Although its disbursements are relatively advanced in terms of timeliness, in true sudden onset emergencies where life-saving activities must take place in the first few days, CERF money will still arrive too late to be relied upon as the first or only funding source. Rather, the CERF is more sensibly seen as a complement to internal reserve funds, and small-scale rapid response funds at the country level
- Has the potential to be used to advance funds CHFs in advance of donor disbursements

Areas for improvement

- Some improvements are already underway in terms of administrative burdens related to cash transfer. Evaluations of the CERF have also called for clearer definitions, criteria, and parameters for eligible projects, as well as more clarity on minimum and maximum allocation thresholds.

- All GHD donors should be encouraged to participate each year. Even if the donor chooses not to contribute large amounts to the CERF, a token level of support is justified to signal support for humanitarian coordination and encouragement of wider donor participation.
- Questions of transparency and fairness of allocation decisions have been addressed by encouraging the secondments of technical staff from humanitarian agencies to sit on the advisory committee and assist in vetting projects. Such secondments should be encouraged and expanded

<u>CBPFs (country-level pooled funding)</u>

Advantages

- Strengthens and incentivizes field level coordination and strategic planning
- Can create opportunities for more direct participation and potential funding streams for local NGOs
- Can be effective in smaller scale humanitarian crisis contexts, where there is no new international appeal launched
- Can potentially be used to aid in local capacity building

Drawbacks

- In the absence of a strong and capable HC, may lead to allocations based on interagency politics, as opposed to merit/appropriateness. Some donors have expressed serious confidence concerns related to these conflict of interest questions
- NGOs continue to cite problems in access to funding versus time spent servicing these mechanisms

Why it is an important tool

- The CBPF mechanism allows donors who have the resources to contribute but lack the in country capacities to administer individual grants, to provide significant levels of funding to emergency countries

When it is most effective to use

- As above, when the donor has limited or no presence in country, or as one channel to a diversified funding strategy that also includes bilateral contributions outside the CBPF mechanism
- When it is overseen by an experienced and capable HC

How it relates to other parts of the financing system

- As a complement to bilateral funding, the CBPF can be used as either a gap filler at the discretion of the HC (if it represents a small percentage of overall contributions) or if it is large, as the primary funding framework for the countrywide humanitarian action plan
- Can potentially draw from the CERF to advance un-disbursed donor commitments at the beginning of the year