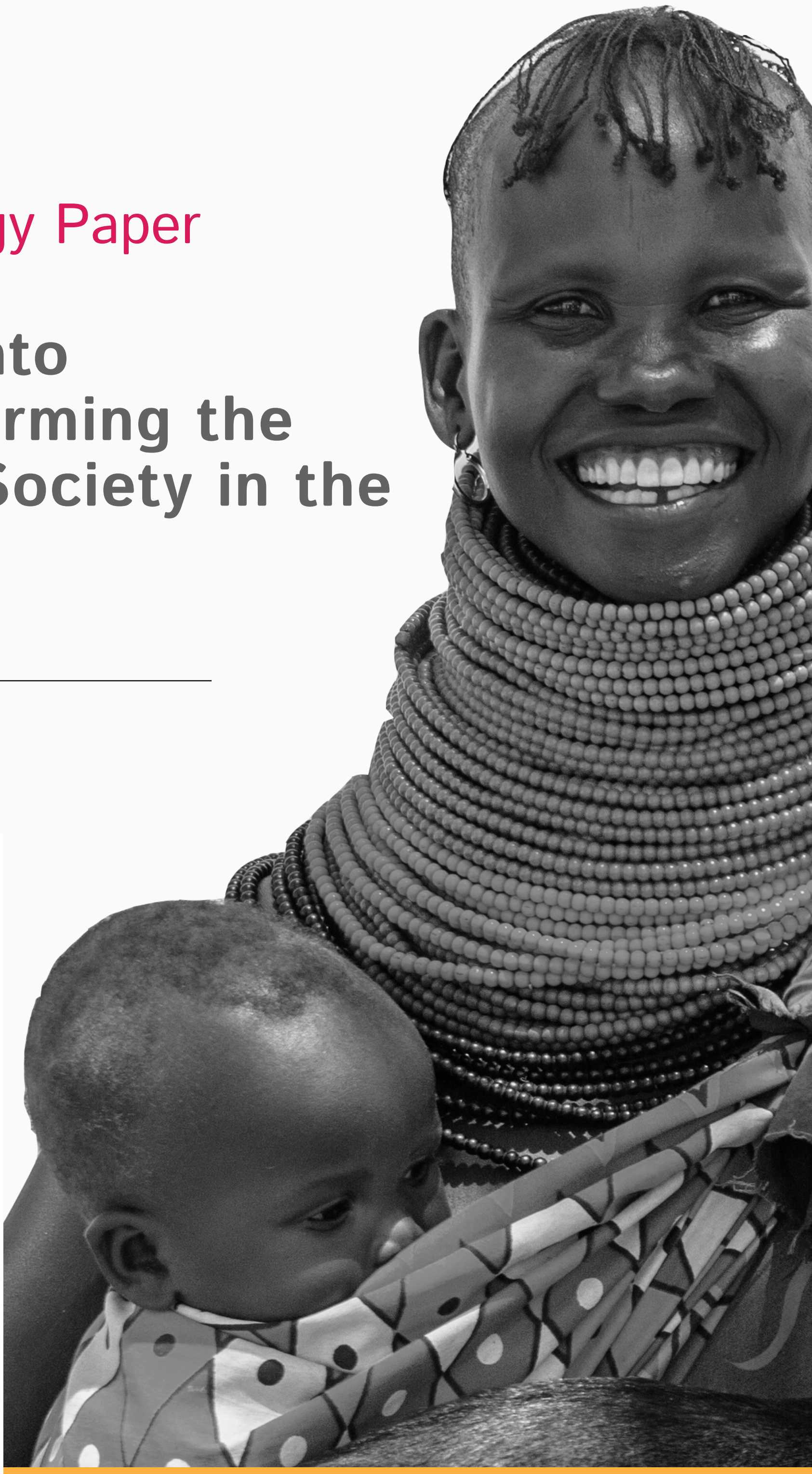
NEAR Network Strategy Paper

Turning Rhetoric into Resources: Transforming the Financing of Civil Society in the Global South



Report

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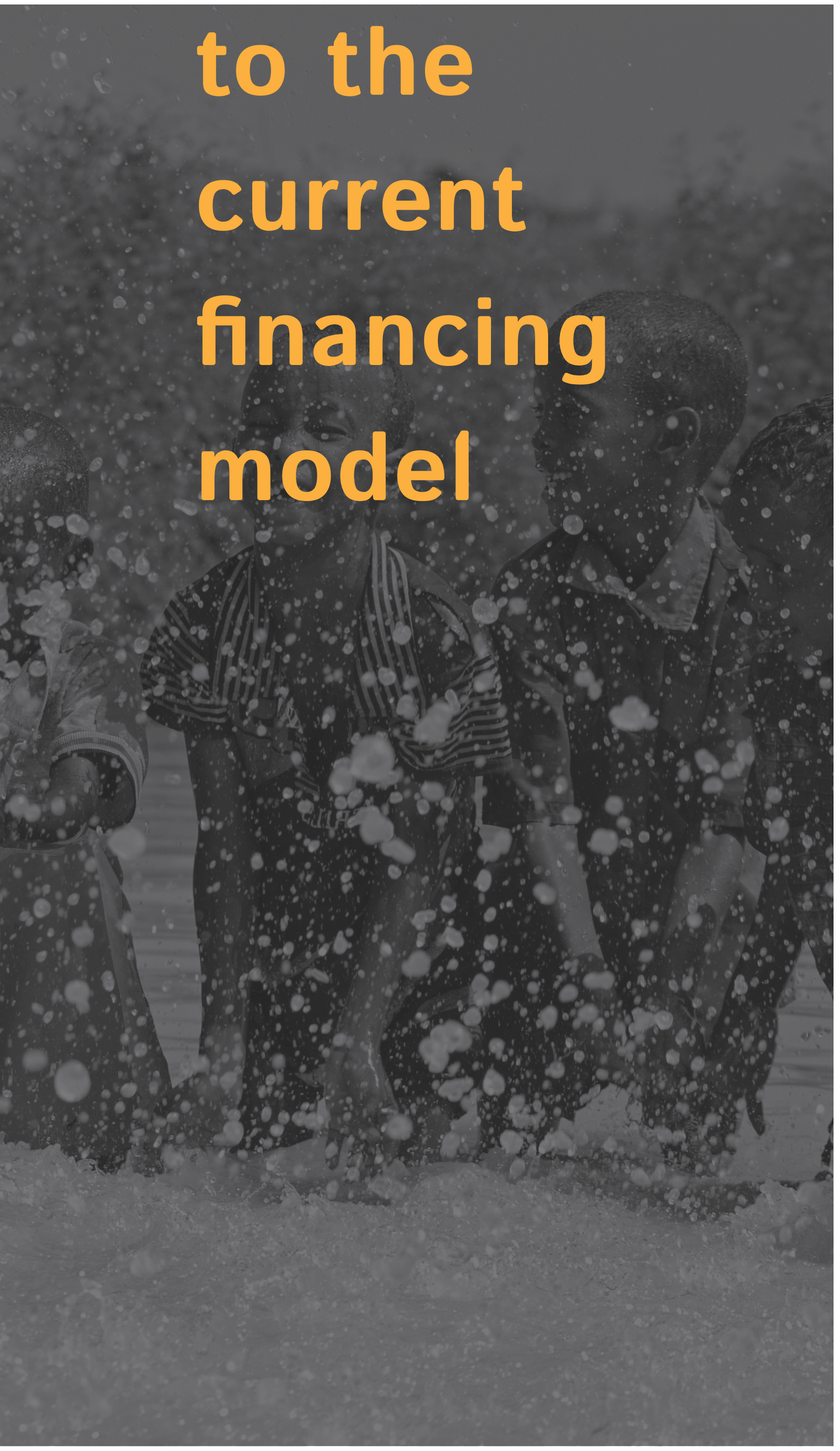
Executive Summary

Vision and agenda for change from local and national actors

The international humanitarian and development systems face multiple calls for reform and change, both from within and outside the system. Financing is the target of much of this criticism and it is clear that current humanitarian and development funding and partnership models are not working. Local and national voices are marginalised, organisations are treated unequally, and current approaches do little to invest in the responsive capacity and sustainability of civil society for the long term. Although an agenda and commitments to change have bubbled up to the global policy level, local and national actors themselves are often absent or timid in these discussions. The 'localisation agenda' is being driven by international actors, sometimes well-meaning, but often keen to preserve the status quo. What is missing is **a vision and agenda for change from local and national actors** themselves, the confidence and tools to assert themselves and to demand something different. Financing solutions can be designed to inspire and incentivise change models and alliances, which in turn may be catalytic in changing global financing practices, yet there is a dearth of ideas and **proposals for practical alternatives to the current financing model**.

In this context, the NEAR Network seeks to provide practical, progressive and authentic solutions, driven and designed by local and national actors. NEAR therefore undertook a programme of research during 2017, which has culminated in the proposals set out in this strategy document. The research was designed to explore alternative approaches to meeting the financing needs of civil society actors at the country level. The research included looking at both traditional and alternative domestic and international financing sources, alternative financing models and approaches, and a wealth of experience from outside the humanitarian and

proposals for practical alternatives to the current financing model



development sectors on approaches to investing in the resilience and sustainability of civil society.

NEAR's programme of research identifies the following priority areas in transforming the funding model:

(1) Elevating the level of ambition and amplifying the voice of civil society. Current discussions around localisation of aid are heavily focused on renegotiating the technical terms of financing. But financing is symptomatic of a structural power imbalance, and adjusting the dials alone will not alter the status quo much. The NEAR Network aspires to incubate and facilitate a clear vision and leadership for change from among local and national actors, to shift the balance of power, and to establish a different level of ambition for local and national actors in preparing for, responding to and building resilience against crises. Achieving this vision requires a better understanding of the reality of the challenges and barriers to be overcome and it requires a clear goal: a robust, responsive, confident, principled and sustainable civil society. The NEAR Network has a role to play in nurturing this movement for change, including using its convening power and networks to bring together actors from inside and outside of the sector to mobilise and inspire civil society actors, to elevate and crystallise their ambitions and to negotiate and create change.

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(2) **Shifting to an investment culture.** Changing the funding model begins with a change of mindset. Current approaches are primarily transactional. Organisations that rely heavily or exclusively on these transactional funding relationships have little scope to accrue the resources necessary to invest for the future. Investments in the standing responsive capacity of civil society actors, however, has the potential to deliver more efficient and effective crisis response in the short and medium-term and in the long-term, and could provide international actors with an 'exit strategy'. The humanitarian responders of today are likely to become the service provision, resilience, accountability and change agents of the future. From the perspective of international humanitarian and development funding actors therefore, there is a range of compelling 'returns' to be derived from investing in civil society and there is strong justification for investing in civil society as an end or good in itself. From the perspective of civil society actors, shifting to an investment culture is essential to ensure organisations and networks survive, thrive and adapt to the changing needs and priorities of their communities.

(3) **Up-ending approaches to dealing with risk**. Approaches to risk management are acting as a brake on the effective functioning of the humanitarian response enterprise, with local and national actors and ultimately, affected communities paying a disproportionately high price. A growing emphasis on risk avoidance and risk transfer has reached a point of diminishing returns and is undermining the ability of the system to direct resources to enable those best placed to respond. Low levels of risk tolerance seen among donors are not inevitable and alternatives are possible with the right motivation and approaches. It is possible to design and build coalitions

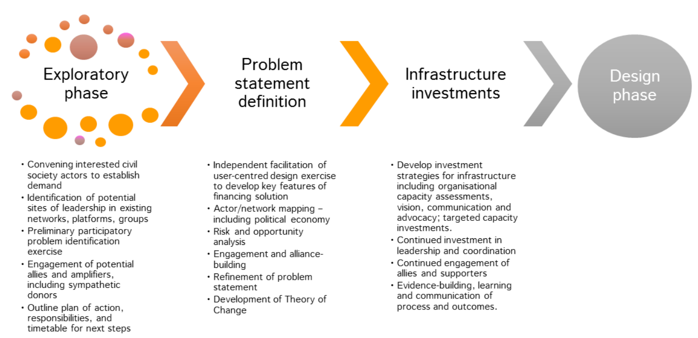
of support for alternative financing solutions which permit taking and sharing calculated risks, weighed against clearly defined objectives and expected outcomes. This requires a three-fold change: firstly, high-level corporate commitment to find alternative approaches to managing institutional risk in more enabling ways; secondly, a commitment to continued constructive dialogue between donors and partners to identify, understand and manage risks; and thirdly, a new set of practical tools to manage risk, notably alternative approaches to assessing partner capacity, investments in context analysis, relationship management, monitoring, and greater use of transparency to support accountability.

(4) **Designing user-centred and outcome-focused financing solutions.** The value of finance is not only in its monetary value and what it enables you to do, money has great influence, and the design of financing tools and instruments can be used strategically to empower and incentivise behaviours and priorities. Notably, the design of financing instruments has the potential to radically shift decision-making power and accountability towards communities and civil society. There is no technical financing prescription which fits all situations however, and financing solutions should be demand driven and adapted to the needs, stakeholders and circumstances of the context. NEAR's research recommends an approach to supporting the design of funding solutions with civil society actors at the country level, that are user centred and outcome focused. Such a process could be adapted and tailored to context, informing the design of technical financing solutions and investment packages, as well as building support and networks of allies, funders and technical actors critical to advancing solutions. Recommended actions and products are expected to vary considerably according to the needs, priorities and capacities of their users, beneficiaries and other stakeholders, and according to the risks and opportunities of the context.informing the design of technical financing solutions and investment packages, as well as building support and networks of allies, funders and technical actors critical to advancing solutions.

NEAR's proposed strategy to take forward its ambition to transform the financing landscape is summarised as follows:

The purpose of NEAR's work in this area is to inspire and ignite a global movement of local civil society actors to author, own and drive

Figure 1: Elements of the 'pre-design' phases of developing a user-centred, outcome-focused financing solution



the 'localisation agenda' to transform the crisis-response financing model for local and national responders. The **role of NEAR** in this process is to act as a facilitator, convenor, broker, incubator and amplifier of this movement. Four integrated thematic tracks for the NEAR Network to take forward this agenda are recommended:

(1) Invest in NEAR as a global change agent.
(2) Inspire, convene and connect global networks and movements for change.
(3) Support and incubate sustainable innovative financing solutions at the local level. This includes:

a. Fostering the **long-term vision**, investment strategies, ownership and sustainability of civil society at the country level across the humanitarian–development nexus.

b. Supporting civil society actors through processes to design alternative user-centred and outcome-focused **financing mechanisms and solutions.**

(4) Generate evidence and learn from change processes to drive adaptation and enable external communication and confidence building.

1. Background and Rationale for the Research

This report represents the culmination of a wider programme of research commissioned by the NEAR Network and funded by DG ECHO. The purpose of the research was to identify progressive, locally and nationally-led financing solutions for local and national civil society organisations (CSOs), enabling them to drive real and lasting change in at-risk and crisis-affected settings.

The research takes place in the context of a historic moment of opportunity for change. The World Humanitarian Summit consultation process provided local and national actors a rare opportunity to express their issues and concerns on a global platform and calls for a fairer deal for local and national responders became increasingly difficult to ignore. Concerns around the fairness of the terms on which local and national actors receive funding from the international system was a prominent theme in these discussions and found recognition in the commitments agreed by the largest international donors and responding actors under the Grand Bargain, announced at the World Humanitarian Summit in 2015. Subsequently, the New Way of Working – which seeks to operationalise the 2016 vision of the UN Secretary-General's Agenda for Humanity to work collaboratively towards 'collective outcomes' targeting the reduction of need, risk and vulnerability across the 'humanitarian–development–peacebuilding nexus' – emphasises the need for contextualised responses, responding based on comparative advantage, and reinforcing rather than replacing local and national capacities (ICVA, 2017).

One year on from signing the Grand Bargain, progress in commitments on localisation are disappointing. Direct funding for local and national NGOs actually fell in 2016, to a meagre 0.3% of total international humanitarian financing (Development Initiatives, 2017), in sharp contrast with the bold Grand Bargain commitment to provide 25% of funding "as directly as possible". Efforts to establish definitions and criteria for tracking against the 25% commitment have been met with prevarication and back-pedalling from donors and international responders. Though there is overall agreement that national and local actors should benefit for a fairer deal, the policy debate and narrative continues to be dominated by international actors and specific practical solutions are few and far between.

It is against this background, of a unique political commitment to change, countered with institutional resistance and caution, that the NEAR Network seeks to provide practical, progressive and authentic solutions, driven and designed by local and national actors. The research set out to **(a) conduct participatory research to identify best practices in governance, management, service provision and accountability among existing pooled funds, and (b) develop a strategy paper identifying a range of possible fund models including the structure, rationale, pilot approach and funding strategy.** The research took a broad approach to investigate and explore alternative approaches and innovative models that could be applied to meeting humanitarian and development financing needs at the country level, while better meeting the needs and priorities of national responding actors. The research looked at traditional and alternative domestic and international financing sources, alternative financing models and approaches, and a wealth of experience from outside the humanitarian and development sector in approaches to investing in the resilience and sustainability of civil society.

The research was carried out by a team of experts with expertise in Islamic financing, community philanthropy and traditional humanitarian financing. An extensive literature review has been carried out and a wide range of stakeholders consulted during the research, including through country case studies considering India, Lebanon, Malaysia, Pakistan, Syria, Somalia, Sudan and Turkey. The research has produced a series of research products outlined in Box 1.

This report provides recommendations for strategic direction and prioritisation, investment vehicles, tools and approaches to build sustainable responsive capacities at the country level, drawing on all the above research streams. The report is structured as follows. Section 2 makes the theoretical case for investing in civil society. Section 3 describes a set of problems with how civil society is currently funded. Section 4 describes recommended areas for change, targeted to a general audience including donors, international organisational and local and national NGOs. Section 5 describes a set of recommendations for the NEAR Network to take forward.

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Hodgson, J. (2018) Community philanthropy as a strategy for shifting power in the development and humanitarian aid space.

Soyan, H. (2018) Primer on Islamic social financing for crisis response and development.

Malik-Miller, A. (2018a) Best practices and lessons learned in pooled funding for crisis response and development.

Malik-Miller, M. (2018b) NEAR Network: Lebanon scoping study.

Malik-Miller, M. (2018c) NEAR Network: Opportunities to advance the localisation agenda within the Syria crisis context.

Poole, L. (2018) NEAR Network: Somalia scoping study.

Singh, S. (2018) NEAR Network: NEAR Network: Civil society landscape and funding opportunities in India.

2. Why invest in civil society?

Civil society is under threat from many quarters, and needs more support than ever.

Local and national civil society actors already play a major role in crisis response, recovery, resilience-strengthening, human rights advocacy, peace-building, development and holding duty-bearers to account. The ways in which the international humanitarian system currently engages with civil society partners, however, is primarily instrumental, providing reimbursement for delivering an agreed package of goods and services. Investing in civil society as an objective is seldom considered, in contrast with international actors working to deliver community development and strengthen governance, democratic space and human rights. However, there are several compelling justifications for investing in civil society, as follows.

The humanitarian case is undeniable: in the most difficult and insecure places, often the only means of securing access to affected populations is through supporting local and national actors. Typically, operational humanitarian presence in highly insecure settings comprises a small sub-set of large international organisations and international NGOs (INGOs) working with an array of local and national partners who can negotiate and navigate access constraints, and are present in the most dangerous areas (Stoddard et al., 2016). Indeed in many of the world's most insecure places, where humanitarian needs are often both acute and chronic, operating predominantly at arms-length through local and national partners has become the new normal.

In Syria for example since the earliest stages of the conflict, violence, violations of International humanitarian law and bureaucratic impediments, have meant that access for international actors is extremely scarce and the international system has had to adapt to partnering with and working through an array of local actors – including medical associations, faith-based charities, diaspora networks, local governance structures and business people (Haddad and Svoboda, 2017). Similarly in Somalia, by 2010 there were reportedly no international staff left present (Bradbury, 2010) and while international actors have cautiously returned to limited presence in Mogadishu, most operational programming is delivered by local and national CSOs and the local staff of international organisations.

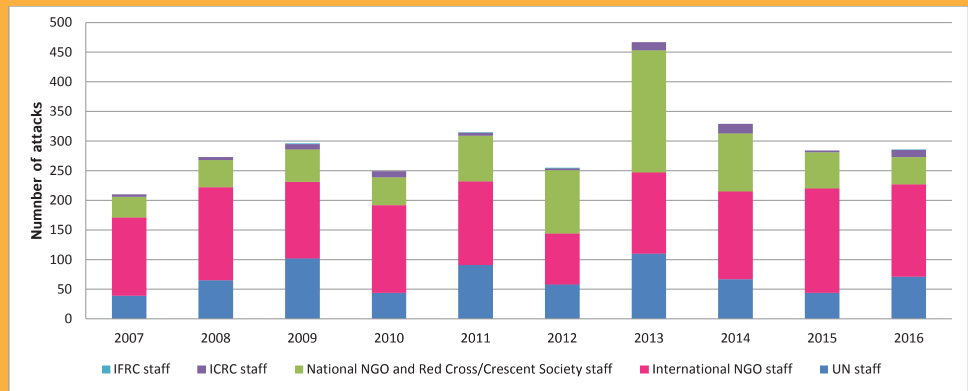
Operational presence in highly insecure environments is not only severely constrained it is also uneven – countries with the highest number of aid-worker attacks have the lowest number of aid organisations responding per USD 100 million in funding, and international actors often demonstrate 'access inertia', remaining in safer areas where they already have an established presence, rather than moving to where needs are greatest (Stoddard et al., 2016). Part of the solution to redressing the mismatch between the distribution of humanitarian needs and operational presence in insecure settings will require investing in the capacity of local and national actors to work – and work safely and effectively – where internationals cannot. Indeed, a three-year UK Aid funded research programme to identify solutions to providing effective and accountable humanitarian action in highly insecure settings affirms that: "national and local NGOs are an essential and under-tapped resource for reaching vulnerable people in need" (Haver and Carter, 2016).

The business case is compelling: investing in standing responsive capacity delivers a good return on investment. Early and timely response typically delivers the best humanitarian outcomes, with substantial operational cost savings, and more importantly, averted losses and suffering for crisis-affected people (Cabot Venton, 2016). Investments in preparedness have also been demonstrated to deliver significant returns on investment, with investments in training delivering notably high returns on modest investment costs (UNICEF and WFP, 2015). Early and timely response therefore is key to effective response, and this in turn is possible where there have been targeted and deliberate investments in the standing responsive capacity of humanitarian actors (Poole, 2018).

Investing in civil society is a strategic long-term investment in delivering sustainable development, and just and peaceful societies. Local and national actors delivering humanitarian response often do not exist only to respond to crises; in many cases they were already present before a humanitarian crisis, and often continue to meet recovery, resilience, social and economic development needs, naturally traversing the humanitarian–development–peacebuilding nexus. In Ghana for example, CSOs have undergone a progressive transition from delivering relief, to service provision, and more recently to a focus on advocacy and rights-based approaches to development, accompanied by a sector-wide shift from targeting individuals, to communities and now societal-level change (WACSI, 2015). Investing in the responsive capacity and organisational sustainability of civil society therefore is likely to continue reaping dividends.

Civil society is under threat from many quarters, and needs more support than ever. CIVICUS, the World Alliance for Citizen Participation, reported that in 2017, "civil society faces unprecedented levels of restriction", which it goes on to describe has having reached the point of a "global emergency" (CIVICUS, 2017). Threats include direct attacks from repressive states, extremist forces and criminals linked to big business on CSOs and activists defending human rights and freedoms. But also, bureaucratic impediments including restrictive regulation, de-registration and closure of CSOs, judicial harassment, and restrictive laws limiting freedom of association and freedom of speech. In places affected by violence and conflict, civil society actors are often direct targets of violence. Overall, local and national aid workers sustained 85% of major attacks recorded on aid workers in the 10-year period 2007-2016. The staff of national CSOs suffered 26% of total aid-worker attacks over this period, greater than the number of attacks sustained by UN staff,

Figure 1: Number of major attacks on aid workers 2007-2016



Source: aidworkersecurity.org

despite the far larger numbers of personnel employed by the UN in crisis response (see Figure 1).

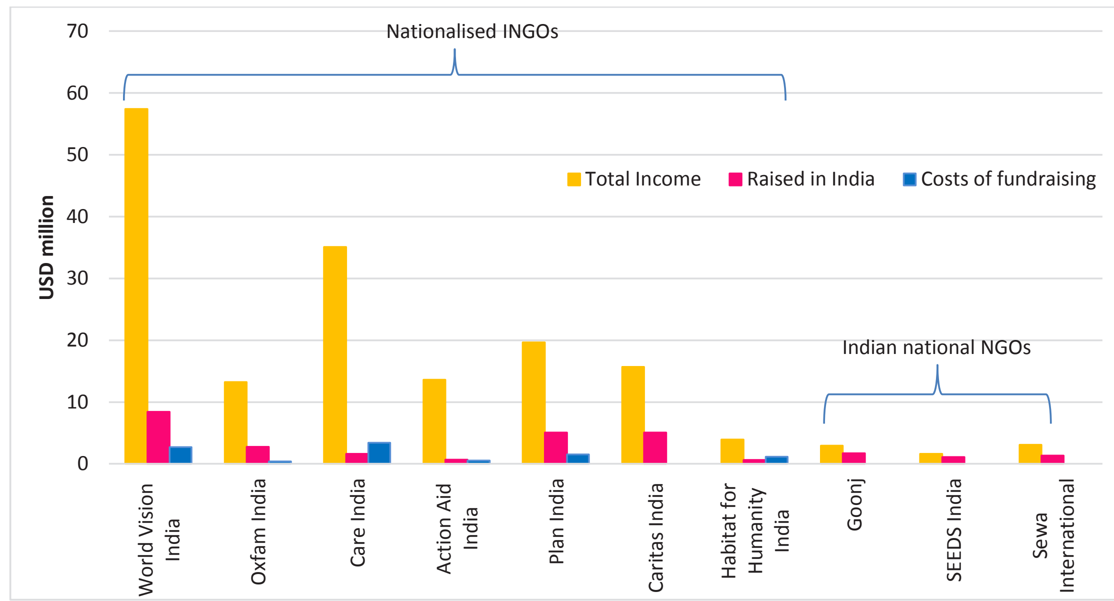
In many parts of the world, and particularly in Europe and North America, the rise of right-wing populism is driving a retreat from commitments to international norms and laws, and a loss of support for democratic freedoms and multilateral action. In this highly charged political context, donor policy has seen a shift towards a focus on more parochial interests, particularly the prioritisation of investments which support trade and investment, security and migration interests and policies of the donor nation. Raising funds for civil society in this political climate has become increasingly challenging. Funding challenges are also emerging from growing competition with international actors. Our research in India for example highlights the rising trend in the formation of nationally-registered affiliates of large international NGOs, who easily out-compete indigenous Indian CSOs in mobilising private funding support from within the increasingly lucrative Indian market (see Box 2).

Box 2: The growing phenomenon of the 'nationalised' international NGO in India

India has become an increasingly lucrative context for INGOs in the last 15 years for a variety of reasons. Firstly, in 2003, India's new aid policy established a minimum ceiling for bilateral aid contributions of USD 25 million, leading smaller donors to close their offices and to work increasingly through INGOs rather than directly with government. Secondly, rapid economic growth, a burgeoning middle class and a new Companies Act in 2013, requiring companies to engage in corporate

social responsibility, have dramatically expanded the potential for raising private funds in India. Consequently, many international NGOs have now registered and established substantial domestic fundraising capabilities.

Nationalised INGOs in India have proved very successful in mobilising funds within India, in addition to raising large volumes of international funding. The chart below illustrates that nationalised INGOs often have substantial fundraising budgets – World Vision India for example spent USD 2.7 million in 2016 and raised USD 8.4 domestically in India in 2016, while Plan India spent USD 1.5 million on fundraising, mobilising USD 5.1 million in India. In contrast, some of the largest Indian national NGOs involved in humanitarian response in India raised far less domestically, and raised very little from international sources, in stark contrast with large volumes of international funding raised by nationalised INGOs in addition to their domestically mobilised funds.



Source: Singh, 2018

3. What is wrong with how we fund local and national NGOs?

The World Humanitarian Summit consultation process propelled many of the problems of the ways in which the international humanitarian system engages with and funds local and national CSOs onto the global policy agenda. A range of these issues found expression in the Grand Bargain with major donors and UN agency signatories committing to actions aimed at reforming the financing deal. However, discussions on reform and potential solutions have been primarily led by international actors, which is an expression of the persistent power imbalance baked into the humanitarian system.

The following section outlines a range of financing challenges expressed from the perspectives of local and national CSOs themselves. Box 3 for example summarises the challenges described by Somali NGOs in a round-table discussion convened by the NEAR Network in June 2017. They describe a supply-driven system, dictating the terms of agreements, which are inevitably designed to favour the funding organisation; that seek to minimise and transfer risk, and to aggressively drive down costs. They describe funding which is project-based, unpredictable and insufficient to meet the real costs of delivering quality programming. Relationships are described as predominantly instrumental rather than genuine partnerships, where intermediary organisations control the narrative and dialogue with donors. And where opportunities to build technical capabilities and organisational sustainability are vanishingly small amid pressure to respond, deliver results and seek further funding to simply survive. In addition, they describe increasingly coming into direct competition with international NGOs for funding, who seek to dress themselves in the legitimacy of local and national actors.

But in addition to these immediate concerns of organisations, there are a range of other considerations around the longer-term viability and sustainability of civil society actors. Approaches to managing risk dominate current financing practices with the emphasis on limiting fiduciary and reputational risk for the funder, particularly in contexts where there is a risk of funds being diverted to proscribed terrorist groups. However, the widely held perception that local and national NGOs are more susceptible to corruption and diversion is not necessarily borne out by evidence. In Somalia and Syria for instance, affected people and aid actors at the local level do not report that national NGOs are more susceptible to corruption or bias (Haver and Carter, 2016). Also in Somalia, recent research indicates that the tendrils of corruption reach throughout the entire aid enterprise, with little distinction as to whether organisations are national or international (Transparency International, 2017). For local and national NGOs, unfortunately mud sticks, and they face a major reputational problem and a heavy burden of capacity assessments and risk management controls on any funding transaction. Somali NGOs taking part in NEAR's round-table discussion argued for the need to "think in a smart way about how we can un-tarnish our reputation".

Box 3: Financing challenges faced by Somali NGOs

The proliferation of capacity assessments, which are extremely burdensome, diverting already stretched organisations from their core functions, and which focus largely on fiduciary controls rather than considering operational capacity and legitimacy.

Draconian controls and disproportionate responses to risk, which do not provide local and national actors with opportunities to improve and manage problems.

The predominance of donor-driven project-based funding, which does not allow organisational development.

Unwillingness of donors to provide overhead costs, limiting the ability of organisations to invest in core functions and development.

The tendency of donors to drive down staff salary costs, which leaves local and national CSOs struggling to retain staff.

The prevalence of short-term unpredictable funding, which limits the ability of organisations to think and plan for the longer term and which imports unpredictability. This in turn impacts efficiency and staff retention.

The prevalence of transactional relationships rather than partnerships. Among the established and well respected Somali CSOs, there has often been a supportive long-term partnership with an international INGO. However, the majority of funding is provided in 'partnership' in name only, and from the perspective of local and national CSOs it is essentially subcontractual.

A lack of visibility of local and national actors. Dialogue with donors, reporting and promotional activities are controlled by international intermediaries who for the most part are not in fact present on the ground. Opportunities for local and national actors to directly represent and talk about their work are extremely scarce, limiting their ability to build relationships of trust with donors and potential wider supporters.

Competition with and instrumentalisation by INGOs. Local and national actors are facing increasing competition with INGOs who are 'localising', registering as national NGOs and competing for funding. INGOs are also reportedly co-opting local and national NGOs to demonstrate presence

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Box 4: Capacity 1.0 to Capacity 2.0

From the early 1990s, capacity strengthening of CSOs became popularly framed among development actors as a means of delivering services more efficiently and effectively and in practical terms focused on a standard package of training designed to strengthen internal management systems. This managerial approach to capacity strengthening has been described as 'Capacity 1.0'. Many would argue it has delivered disappointing results and has not set organisations up well to respond and adapt to change and curiously perhaps, capacity strengthening rarely focuses on the outcomes or impacts of an organisation's activities.

However, a new approach to capacity strengthening is emerging, which understands organisational capacity as an organisation's ability to achieve its mission and deliver impact and expects organisations to be prepared to respond and adapt to complex, novel challenges. Key attributes of capacity under the 'Capacity 2.0' concept include the ability to achieve impact through innovation, entrepreneurship, brokering, leveraging resources, partnering, advocacy and networking. Internal and external social capital resources and networks are considered key to this type of capacity. Organisational capacity assessments therefore take into account the position and influence of an organisation within a larger ecosystem of actors

Source: Adapted from Root Change, 2013.

Capacity-strengthening efforts primarily to benefit the funder. The international aid system labours under a narrow and biased concept of organisational capacity, which, responding to powerful incentives to minimise risk, conceives of capacity primarily in terms of managerial and fiduciary capacities to manage risk. Many of the CSOs consulted during this research expressed their frustrations that their many other organisational and individual capacities, which may be ultimately far more relevant to

ensuring access to crisis-affected populations and programming impact, are invisible or dismissed through this narrow lens. Capacity assessments typically measure the extent to which a partner deviates from what Root Change has called 'Capacity 1.0', that is a standard package of managerial and administrative procedures (see Box 4). And capacity strengthening logically then focuses on managing financial and operational risks (Haver and Carter, 2016).

Much of this 'capacity' investment is relatively superficial and does little to invest in the long-term capacity and sustainability of organisations. Almansa (2015) argues for instance that in the Somali context, "international actors' rhetoric of building local capacity are in many cases empty of real content and reduced to a set of trainings and instrumentalisation of local NGOs which are subcontracted as implementers particularly in the most risky areas". While organisations consulted during this research described some positive experiences of capacity strengthening, particularly instances where INGOs had provided long-term mentoring, flexible financial and organisational development support, these examples were often historic, and were related by organisations that are now among the most well established and robust. Anecdotally, the quality of partnerships and capacity-strengthening support appears to have deteriorated. Of particular concern, while international organisations are keen to outsource and transfer security risks to local and national partners, they are far less willing to invest in the capacity of their partners to manage security risks (Haver and Carter, 2016).

Funding and the terms on which it is provided may inadvertently 'do harm' to civil society. Local and national NGOs are often doubly disadvantaged compared with international organisations with respect to covering their core operating costs. Funds intermediated by international actors often provide low or in some cases no provision for organisational overheads. International actors meanwhile may negotiate favourable overhead rates with some major donors, and often supplement this funding with flexible core contributions from institutional donors, and private fundraising revenues (Scott, 2015). This enables them to invest in their organisational sustainability, advance funding for rapid start-up and scale-up of operations, and to bridge gaps and ups-and-downs in grant funding revenues. Providing inadequate overhead costs consigns local and national actors to a perpetual state of operating in survival mode, where organisations struggle to retain the best staff or invest in systems and management capabilities, and where there are limited opportunities to think strategically and invest for the long term.

Donor dependence and funding volatility can also distort the mission and accountability of civil society. When crises end, international funding often abruptly dries up, leaving CSOs struggling to adapt to new challenging financial realities. Investments in civil society may easily be lost in these moments of transition, without sufficient investment in developing organisational sustainability. In scrambling to adapt to dwindling funding and shifting priorities, CSOs may find themselves under pressure to 'mission-twist' to secure their financial survival (WACSI, 2015). In both Ghana and Kenya, for example, following their designation as middle-income countries, volumes of donor funds and the focus of their

attentions have shifted significantly with CSOs under pressure to “move along where the money is or die out” (Ibid.). This mission-twisting adversely affects legitimacy and credibility of organisations and may inhibit their ability to build in-house expertise and specialism (ibid).
In situations of urgent need, local and national organisations – particularly established and well-known organisations – may be placed under pressure by multiple funders to accept more funding than they can reasonably absorb. Many local and national and international actors have witnessed or directly experienced instances where channelling large volumes of funds through local partners and pressure to scale up has had very negative outcomes, including in some cases organisational collapse (Poole, 2015b).

Donors may also inadvertently distort the growth of accountable and capable civil society by ‘cherry-picking’ favoured organisations and causes. Barder (2015), for instance, cautions that privileging certain groups can inhibit the evolutionary dynamics of complex systems, which might otherwise deliver better adapted transformative change and notes that external financing to CSOs risks generating ‘AstroTurf’ organisations that are not accountable to their members. In Lebanon for example, many CSOs have been drawn into crisis response and service delivery because of the Syria crisis and the availability of related funding, moving away from their previous areas of expertise. The sudden glut of funding opportunities has also provided opportunities for the growth of organisations that primarily serve as a platform for political ambitions or business interests, which has damaged popular perceptions of civil society (Malik-Miller, 2018b).

In addition, current funding practices fuel competition between local and national CSOs, which undermines trust and reduces incentives to coordinate and to work collectively towards a shared vision or goals.

Box 5: Challenges facing Somali CSOs

Somali CSOs have often been donor-driven in their genesis, programming priorities and organisational ambitions. Short-term unpredictable funding and frequent humanitarian crises to respond to means that Somali CSOs have been stuck in survival mode for many years, with little opportunity to carve out time to develop longer-term strategic plans, investment and growth strategies. Donor accountability requirements and the focus of capacity strengthening also tends to promulgate a fixed model of an ideal typical CSO which organisations are encouraged to strive towards, but which leaves little scope for doing things differently. This means that organisations will almost always fall short of the international model, while other capabilities might not be considered. The ability of Somali CSOs to advocate, lead and put forward a different vision is limited and often falls to a handful of dynamic but overstretched CSO leaders. This is partly a direct function of being resource stressed and in constant survival and emergency response mode, but it is also a matter of confidence: Somali CSOs are encouraged by the international system to conform, not to push and shape the agenda.

ICVA’s 2012 study of aid partnerships in Somalia poses a fundamental question for Somali CSOs: “If changes in the external context rather than coherent approaches within the humanitarian sector have led to an increased role and progress in this direction for [Southern NGOs] SNGOs, the sustainability of this trajectory is in question.” (Tsitrinbaum, 2012). Somali CSOs face a choice: do they continue to respond to supply-driven agendas of internationals or do they try to author their own vision? Moreover, we might reasonably expect changes in the availability of funding and the priorities of the humanitarian and development project in Somali in the near future. Already, in the last five years, the global funding environment has become much more challenging. In Somalia, aid donors have shifted the emphasis of their investments increasingly towards longer-term development and support to strengthening the capacity and legitimacy of the government. In future therefore, Somali CSOs are likely to see reduced funding and increased competition for it with international NGOs. One of the scenarios CSOs should plan for is a major dropping-off of funding and the need to operate in very different ways.

Source: Poole, 2018.

4. How could we change the funding model?

The following discussion outlines the major areas of challenge civil society actors will need to navigate and overcome if they are to achieve real change in 'localising' aid.

4.1. Elevating the level of ambition and amplifying the voice of civil society

Dominated by international actors at the global policy level, the current 'localisation agenda' lacks a clear vision for its ultimate endpoint. Discussions are focused on renegotiating the technical terms of financing. But financing is symptomatic of a structural power imbalance, and adjusting the dials alone will not alter the status quo much. An agenda for change should be authored by local and national actors. The NEAR Network's current focus is to incubate and facilitate a clear vision and leadership from among local and national actors. This alternative vision seeks to shift the balance of power, and to establish a different level of ambition for local and national actors in preparing for, responding to and building resilience against crises. Achieving this vision requires a better understanding of the reality of the challenges and barriers to be overcome and it requires a clear goal: a robust, responsive, confident, principled and sustainable civil society.

There is a marked difference in the level of ambition and self-confidence among humanitarian CSOs and the CSOs consulted during this study, outside of the humanitarian sector. Undoubtedly, this was a carefully selected group of successful and inspiring organisations, but their message for organisations was clear: they should be the authors of their own destinies, they should work hard to break out of donor dependence, and in the words of one leader, they must "decolonise their minds". Donor dependence consigns CSOs to constantly shifting to accommodate donor priorities and to prioritising upwards accountability rather than accountability to communities, undermining the legitimacy and acceptance of CSOs within their own societies (see Box 5). And the harsh reality is that donor funding is fickle, it may drop off suddenly, leaving organisations without alternative financing strategies high and dry. Successful and sustainable organisations therefore require clarity of vision, commitment to invest in their long-term organisational sustainability, and the confidence to engage on their own terms.

Box 5: Challenges facing Somali CSOs

Somali CSOs have often been donor-driven in their genesis, programming priorities and organisational ambitions. Short-term unpredictable funding and frequent humanitarian crises to respond to means that Somali CSOs have been stuck in survival mode for many years, with little opportunity to carve out time to develop longer-term strategic plans, investment and growth strategies. Donor accountability requirements and the focus of capacity strengthening also tends to promulgate a fixed model of an ideal typical CSO which organisations are encouraged to strive towards, but which leaves little scope for doing things differently. This means that organisations will almost always fall short of the international model, while other capabilities might not be considered. The ability of Somali CSOs to advocate, lead and put forward a different vision is limited and often falls to a handful of dynamic but overstretched CSO leaders. This is partly a direct function of being resource stressed and in constant survival and emergency response mode, but it is also a matter of confidence: Somali CSOs are encouraged by the international system to conform, not to push and shape the agenda.

ICVA's 2012 study of aid partnerships in Somalia poses a fundamental question for Somali CSOs: "If changes in the external context rather than coherent approaches within the humanitarian sector have led to an increased role and progress in this direction for [Southern NGOs] SNGOs, the sustainability of this trajectory is in question." (Tsitrinbaum, 2012). Somali CSOs face a choice: do they continue to respond to supply-driven agendas of internationals or do they try to author their own vision? Moreover, we might reasonably expect changes in the availability of funding and the priorities of the humanitarian and development project in Somali in the near future. Already, in the last five years, the global funding environment has become much more challenging. In Somalia, aid donors have shifted the emphasis of their investments increasingly towards longer-term development and support to strengthening the capacity and legitimacy of the government. In future therefore, Somali CSOs are likely to see reduced funding and increased competition for it with international NGOs. One of the scenarios CSOs should plan for is a major dropping-off of funding and the need to operate in very different ways.

Source: Poole, 2018.

The demand and vision for change must come from civil society actors themselves, but there are also ways in which financing solutions can be designed that can support and enable greater civil society leadership, voice and influence. Notably, an unanticipated by-product of the UN Office for the Coordination of Humanitarian Affairs (OCHA)-managed country-based pooled funds (CBPFs) has been increasing access to funding for CSOs. But they have also provided opportunities for CSOs to achieve a seat at the decision-making table through participatory governance structures, which in many cases now include representation from CSOs. In addition, the competitive but transparent decision-making process of the

CBPFs allows CSOs to compete on a more level playing field, with proposals assessed based on merit and cost efficiency in sharp contrast to the closed-door negotiations which characterise most bilateral funding transactions. The structure of the decision-making process and the governance of the CBPFs in short highlights the potential for financing solutions to support local and national actors by design. A more radically transformative example is the FRIDA Fund which has consciously designed its decision-making process around the principle emerging from the disability rights movement 'nothing about us, without us' (Nepon and Hart, 2015). This includes funding applicants in the decision-making process through a participatory decision-making model, to ensure that those closest to the issues and solutions are driving the decision-making process (see Box 6).

Box 6: The FRIDA Fund

The FRIDA Fund, which stands for flexibility, resources, innovation, diversity, action and accountability, has successfully challenged the power balance between donor and receiving organisation by introducing a highly participatory decision-making model. The fund was jointly created by activists and key organisations (notably the Association of Women's Rights in Development (AWID) and Central American Women's Fund (FCAM)) from the global feminist movement. The fund was originally conceived as an idea in 2008 and has evolved through various iterations, with support and incubation from a variety of organisations, including financial custodianship and grant-making services provided by the Tides Foundation. In 2014, FRIDA began the process of graduating to become an independent organisation, legally registered in Panama and with an independent governance structure.

The Fund acts as a gap filler in the sense that it reaches out to small and emerging organisations and platforms, which do not otherwise have access to donor funding or support. Many of the organisations that receive support are yet to be formally registered, grants are typically small in volume, and are given as highly flexible project funding that can also be used to cover administrative overheads and organisational development. This enables organisations to set their own priorities and allocate funding to where it is most needed, and has been instrumental in some organisations' journey to access other donor funding. In addition to offering financial support, the FRIDA fund also offers opportunities and platforms for learning and partnerships.

The FRIDA funding model has been designed to proactively respond to rapidly changing conditions and challenges affecting CSOs and communities, with the ambition to shift traditional power dynamics in the global feminist movement as well as in donor and philanthropy communities. To achieve this, the fund uses a model of grant making which has evolved over time to be highly participatory, where applicant organisations and activists in each region vote on which organisation should receive funding. Notably, the FRIDA fund facilitates inclusion by accepting grant applications in seven different languages. Following a recent evaluation of the fund, the advisory board has been given some authority to decide on a set of grants to balance out any regional or discriminatory biases, which may impact on the ability of some organisations working on culturally controversial issues to receive support.

Source: Nepon and Hart, 2015, https://youngfeministfund.org/about

4.2. Shifting to an investment culture

Changing the funding model begins with a change of mindset. Current approaches are primarily transactional, with civil society providing a set of specified goods, services or activities for an agreed fee. Transactional relationships are not intrinsically bad – both transacting parties may benefit and a clear 'good' or outcome of the transaction may be achieved. However, in the private sector, transacting parties would be able to legitimately extract profit from the transaction, which they could then invest in organisational growth and sustainability. In the not-for-profit sector, extracting profits from service provision contracts is not considered acceptable and therefore organisations that rely heavily or exclusively on these transactional funding relationships have little scope to accrue the resources necessary to invest for the future.

The concept of investing, in simple terms, is targeting resources towards something which is expected to deliver a profitable return in the future. Investing in civil society has a number of possible 'profitable returns', in the form of social and economic goods. In the case of crisis response, investments in the standing responsive capacity of civil society actors have the potential to deliver more efficient and effective crisis response in the short, medium and long term, and could provide international actors with an 'exit strategy'. There is a range of other potential benefits of investing in sustainable civil society. As already noted, civil society actors often adapt to the changing needs of their constituencies and therefore investing in the humanitarian responders of today may also represent an investment in service provision, resilience, accountability and change agents of the future. From the perspective of international humanitarian and development funding actors therefore, there is a range of compelling 'returns' to be derived from investing in civil society and there is strong justification for investing in civil society as an end or good in itself.

Humanitarian financing actors can learn a great deal from donors, including in particular foundations, outside of the humanitarian sphere, who have long experience in effective approaches to investing in the sustainability of civil society. The Ford Foundation's Building Institutions and Networks (BUILD) programme for example, provides flexible, multi-year funding to organisations that it considers central to a wider network of organisations working towards social justice, to invest in their long-term sustainability. The BUILD programme marks a significant and explicit strategic shift for the foundation, from funding specific outputs towards investing in organisational sustainability – and the organisations it funds – with a sharpened focus on strengthening those it considers core to the social justice infrastructure. Notably, the ultimate purpose of BUILD is to fund in a way that delivers greater effectiveness and impact (see Box 7).

Box 7: The Ford Foundation BUILD programme

The BUILD programme was developed following an open call for feedback made by the incoming President, Darren Walker, in 2015, to inform the development of a new strategic plan – FordForward. According to Walker, "Time and again, the organisations we support … said that our prioritising project support, as opposed to general operating support, tends to stifle their work, forcing them to focus on incremental outputs rather than long-term organisational strategy and effectiveness". This resulted in a commitment to double the overheads rate of the foundation's grants to 20%, as well as doubling its financial commitment to supporting what it refers to as 'anchor' organisations to become stronger and more sustainable. This ultimately led to the launch of the BUILD programme in 2016.

The Ford Foundation has committed USD 1 billion to the BUILD programme to support up to 300 organisations over five years, between 2016 and 2020. Grantees receive five years of flexible, unrestricted funding for operating support, as well as intensive organisational and network strengthening support through assessment tools designed to help them identify their strengths, weaknesses and priorities. Additional funding is then provided to develop and implement a plan for long-term sustainability. The programme also involves peer-to-peer learning between BUILD grantees and ongoing external evaluation to inform lessons around effective practices, which are documented and shared across the philanthropic sector to encourage collaboration.

The Ford Foundation has developed a 'grant-making pyramid' – akin to a hierarchy of needs for non-profit organisations – to guide its work with BUILD programme grantees to build more resilient and effective organisations. The base of the pyramid is concerned with ensuring strategic clarity and coherence, and includes a clearly defined mission, strategic goals and a plan to achieve them. The second level focuses on effectiveness and efficiency, and suggests that organisations should invest both in the functions necessary to achieve their mission and in their essential capabilities, such as leadership and governance, financial management systems and legal support, as well as ensuring they have the necessary systems in place for day-to-day effectiveness. The third level is concerned with resilience, which covers financial resilience and the importance of reserve funds, as well as adaptability, represented by an ability to take risks and bounce back after a setback. The fourth level covers growth and sustainability, in which growth refers to growing its impact rather than necessarily its size. This final level refers most closely to the specific programmes an organisation delivers. The BUILD programme marks an attempt to move away from a tendency to focus on funding the top level of the pyramid, which it believes runs the risk of hollowing out the foundational infrastructure supporting a particular programme, inevitably leading to an inefficient and opaque 'trickling down' of funds to fill the foundational cracks.

Of the USD 232 million of BUILD grants made to 120 organisations in the financial year 2015/2016, those made to organisations operating outside of the United States (US) totalled USD 49.8 million (21% of total funding), and were made to 43 organisations (35% of grantees). Grants made outside of the US averaged USD 1.1 million, with examples including USD 2.5 million to AIDS Accountability International as both core support for institutional strengthening and support to "facilitate partnerships and promote accountability with respect to global, regional and national commitments"; USD 1 million to the Combine Resource Institution in Indonesia as both core support for institutional strengthening and support to "encourage citizen sovereignty in resource management by developing knowledge, analysis and information systems"; and USD 200,000 to Global Rights Advocates for Sustainable Justice operating in Nigeria as both core support for institutional strengthening and support to "promote natural resource governance, human rights and gender equity in Nigeria".

The BUILD programme can be seen as part of a more general move towards impact investment on the part of the Ford Foundation – that is, investment practices that target companies, organisations and projects that generate economic value as well as measurable social and environmental benefits. This move is representative of a broader shift in philanthropic practices among US foundations, catalysed by regulations brought into US legislation by the Obama administration in support of impact investment.

Sources: Ford Foundation, 2017; Walker, 2015a, b, c.

From the perspective of civil society actors, shifting to an investment culture is essential to ensure organisations survive, thrive and adapt to the changing needs of their communities. Some of the most successful CSOs have focused on building organisational sustainability and very deliberately prioritised investment and long-term financing strategies, which include strategic investments to shift organisations away from donor dependence and towards more sustainable sources of revenue. In Lebanon for example, organisations which have been able to secure their sustainability for the foreseeable future are to a large extent different types of social enterprises. As service delivery has been largely privatised in Lebanon since the civil war, there is an acceptance to pay for services among the public. As a consequence many CSOs provide services which are partly paid for by beneficiaries and sometimes also on a for-profit basis. Many CSOs have as such been able to secure their sustainability and sometimes also reinvest in communities. One example is Amel which has been successful in integrating its response to the Syrian refugee influx into its wider programming on social service delivery and rights-based advocacy, which is partly paid for by beneficiaries. Another example is Al Majmoua, which started out as a project on livelihoods within Save the Children, and has since developed into one of the largest micro-credit programmes in Lebanon (Malik-Miller, 2018b). The Kenya Community Development Foundation (KCDF) provides an inspiring example of early vision and commitment to investing for long-term sustainability (see Box 8).

Box 8: Building self-sustaining civil society in Kenya

Donor attitudes towards Kenya have shifted significantly in recent years. Since Kenya was declared a middle-income country, donors have felt less inclined to invest in poverty reduction and combined with shifting aid priorities in donor countries, have moved increasingly away from community-based development, towards investing in economic growth, particularly where it has mutual trade and investment benefits for the donor nation. Consequently the availability of international funds for Kenyan NGOs has fallen dramatically and they are struggling. Some have closed, others struggle on in straightened circumstances, others are finding ways to adapt and reinvent themselves and to chart a new vision and model for civil society. Kenyan NGOs also face growing challenges in an increasingly hostile political and policy environment and shrinking civil society space, including de-registering of NGOs and negative media coverage.

In response to financing challenges, some organisations have responded in the short-term by issuing short-term employment contracts, and chasing funding opportunities to pull together bundles of donor-driven projects, rather than pursuing coherent programmes. Naturally this leaves little time and resources to invest in longer-term organisational development and there has been limited interest or commitment from international donors and partners to invest in and endow their partners as part of an orderly exit strategy. There are, however, notable exceptions including the UN Development Programme (UNDP)-managed Amkenyi Wakenya fund created in 2008 which provides financial and technical support to CSOs working on democracy, human rights and governance reforms.

Lessons from organisations adapting to this changed environment include the need to commit to shift from donor dependence and aim for and invest in long-term financial sustainability from the outset; to shift the focus of accountability from upwards accountability to donors, towards downward accountability to communities; and to insist on active engagement and contributions from communities.

The Kenya Community Development Foundation (KCDF) is a notable deviation from the norm of donor dependence in Kenya and provides a wealth of lessons in how to elevate ambitions and work towards long-term sustainability from the outset. KCDF is a Kenyan grant-making foundation, which recently celebrated its 20th birthday in 2017. The founders of KCDF and many of its key staff over this period came from professional backgrounds with international development organisations. Disappointed and frustrated with models which bypassed or disregarded community assets and capabilities and donor dependence, and inspired by the Kenyan spirit and tradition of 'harambee' or pulling together, and the community foundations model, the founders of KCDF set out to build a new model for investing in sustainable and community-led development. In its grant-making work, KCDF supports local ownership and leadership of development organisations through supporting community groups in their development as well as funding their activities. KCDF's approach to its own financing also embodies a strong vision and commitment to independence and sustainability.

KCDF received long-term partnership support from the Aga Khan Foundation and Ford Foundation, which was vital in supporting the initial development and growth of the organisation. From 2000 however, KCDF decided to invest heavily in its capacity to develop its own assets and revenues to secure its independence and the long-term future of its work. This sustainability strategy involves a wide range of activities, including promoting a culture and practices of structured giving in Kenyan society; engaging companies to expand and support more effective corporate social responsibility work; creating an endowment for KCDF; developing a commercial office building on the site of an office building donated to KCDF, the rental income from which will provide regular and long-term income; and setting up an investment company, whose profits will also fund KCDF's grant-making and charitable activities. By the end of 2015, KCDF had accrued assets of around USD 7.8 million (KES 800 million).

KCDF is also a member of the growing community philanthropy movement, which in addition to emphasising financial sustainability, offers a variety of lessons in shifting power and accountability "closer to the ground, to give people greater control over their own destiny" (Hodgson, 2018). This is achieved in part by encouraging communities themselves to co-invest, contribute resources, and participate in decision-making and accountability (see Box 9). The community foundation model represents a far more radical and transformational move towards 'localisation', sustainable investment in civil society and shifting power, than perhaps CSOs and donors have yet encountered. Even without replicating the financing model, the concepts which underpin the community foundations model has the potential to begin to fundamentally challenge and disrupt understandings of what genuine and transformational 'localisation' within the humanitarian sector could look like.

Box 9: Lessons from the global community foundations movement

The first prototype community foundation emerged in the US over a hundred years ago and sought to provide a single mechanism which could pool multiple philanthropic funds, giving greater flexibility than the traditional foundation model – where the purpose is often fixed – to tailor funds to meet the changing needs of communities. Community foundations are explicit in their purpose to benefit communities and often include a focus on long-term asset development, including through creating endowments, allowing a longer-term planning horizon and greater flexibility to respond to changing needs and think and fund holistically. Community foundations vary widely in their form and size, but typically include commitments to (1) build local assets / philanthropy in the community, (2) strengthen local organisations and (3) build trust in the community. The unique character of the community philanthropy movement is encapsulated by the belief in building on community assets, capacities / agency and trust.

By 2014, more than 1,800 community foundations were recorded globally and the model continues to grow in popularity, with indications that growing global demand is being driven by 'grassroots activism' and a demand for a better model to engage communities than existing top-down models of philanthropy and development aid. Notably, many of the leaders of new community foundations are former staff of development institutions, who had become frustrated with the top-down nature of development financing, the exclusion of people from their own development, the inefficiency of financing models, and the tendency for funders to replicate models of civil society which resemble their own ideal typical notions rather than those which best serve their constituencies.

More traditional foundations, such as the Ford and Mott Foundations, and institutional donors, such as USAID and the World Bank, have played a role in supporting the creation and development of community foundations, recognising the importance of harnessing local resources, targeting small grants to local groups and organisations and promoting active citizenship as key elements of a healthy civil society. However, these are more typically one-off engagements and often framed as part of an exit strategy for a donor. And overall, the movement has grown independently, with very little support or engagement from the formal development financing sector. It is also worth noting that even with external financial support, community foundations tend to fail if that support is prematurely withdrawn, and perhaps more critically, if there is an absence of local leadership and buy-in. There is a critical role for local leaders to play in adapting community philanthropy practices to local contexts: an overemphasis on donor-directed approaches and blue-prints has generally resulted in failure. Shifting from the current aid system to one that emphasises local resources and local ownership requires a complete mindset shift and strong and convincing believers on the ground. Planning and feasibility processes that tap into, explore, map and seek to understand existing traditions and practices of giving and solidarity (and the trust that underpins them) are essential if the core concepts of local asset mobilisation, trust-building, local accountability and local agency are to be embedded from the start.

Drawing on 10 years' experience observing and supporting community philanthropy development, the Global Community Development Foundation summarises the following lessons:

Community philanthropy is an overlooked piece of the development jigsaw

- Reaching grassroots / those most in need
- Offering local leadership, ownership and accountability
- Independent local funders – community bridge-builders
- Local insights, institutional memory
- Horizontal relationships within the community

Community philanthropy organisations develop 'trust' as a leading concern

- Attitudes and behaviour are vital in addressing poverty – 'community outlook'
- Active communities – overcoming apathy and civic disengagement

- Restoring faith in institutions where trust is low
- Important in building social cohesion and promoting an inclusive notion of 'community'

There is particular value in local money in changing the development dynamic in a community

- Even if the amounts are small: people are contributing to the solution of their problems
- Important way of challenging mindsets over 'donor' / 'recipient'
- By making small grants and building relationships with grassroots organisations, community philanthropy organisations can play a role in enabling the voices of local people to be heard

Local leadership is essential

- CPOs cannot be designed from outside: local leaders who understand that this is about fundamental mindset shift and transformation are critical
- CPO leaders frequently find themselves swimming against the tide of conventional development wisdom (and the existing system) and so peer-to-peer networks are critical in maintaining energy and as a source of support

Governance is critical

- Role and diversity of board are key
- Need a fully committed board that is prepared to protect the space in which these kinds of new organisations can emerge and to put aside preconceived ideas of what NGO / civil society governance looks like
- In the institutional design, CPOs can offer multiple spaces for participation and decision-making (strategies such as participatory grant making, community giving), i.e. participation is embedded in the DNA of the institution (and decision-making not simply a function of board – and back donors)
- Mentoring, peer learning and professional training are crucial

Other lessons

- Need to ensure that structures and methodologies are rooted in local context – not just adopted
- It takes time… changing mindsets, building faith in a local institution, gaining public trust
- 'Blueprint' approach doesn't work – context is everything
- Needs local buy-in, leadership, vision, inspiration, building on what already exists

- External donors / actors must work carefully so as not to destroy – but can play key role in supporting institutional development (core support, matching funds, programmatic work that includes local constituency building, supporting grant making)
- Not a silver bullet: reflection and self-evaluation among individual organisations essential. Dealing with complex issues of power, inclusion, valuing local assets etc.
- Virtue of building long-term institutions rather than project to project

Source: Adapted from Hodgson, 2018.

4.3. Up-ending approaches to managing risk

Approaches to risk management are acting as a brake on the effective functioning of the international humanitarian response enterprise, with local and national actors and, ultimately, affected communities paying a disproportionately high price. While acknowledging the responsibility of public institutions to ensure tax-payer funds are spent effectively and accountably, there is a point at which efforts to control fiduciary risk reach a point of diminishing returns and begin to undermine the very purpose of the exercise. The humanitarian system urgently needs to find better ways of managing risk that enable the actors best placed to respond to get on with their jobs. This requires a three-fold change: firstly, high-level corporate commitment to find alternative approaches to managing institutional risk in more enabling ways; secondly, a commitment to continued constructive dialogue between donors and partners to identify, understand and manage risks; and thirdly, a new set of practical tools to manage risk, notably alternative approaches to assessing partner capacity, investments in context analysis, relationship management, monitoring, and greater use of transparency to support accountability.

Changing the current low levels of risk tolerance seen among donors must start with a commitment from the highest levels of leadership. Current institutional incentives for donors weigh heavily in favour of minimising fiduciary and institutional reputational risk above all other risks (Malik-Miller, 2018a), notably above the risk that programming is ineffective (Manuel, 2015). There is no simple technical solution to managing risk and in fact, technical approaches have often tended to increase the burden of controls, rather than simplifying and creating a more risk-aware and enabling approach to risk. Political commitment from the highest institutional levels, authorising teams to find solutions, and providing assurances of institutional backing are needed. Indeed, the OECD argues that for donors seeking to scale up and deliver effective aid in fragile and at-risk settings: "Political leadership and explicit and predictable backing from the highest institutional levels are required if donors are to negotiate and overcome powerful institutional disincentives to 'doing things differently' and to manage external pressures to demonstrate results and avoid reputational risk." (OECD, 2016).

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With the right motivation and commitment, it is possible to find solutions. The European Endowment for Democracy (EDD) for example, illustrates a precedent where European donor governments have found a means of pooling and managing risk, increasing their overall risk tolerance to enable them to provide small-scale catalytic financing for civil society (see Box 10). The EDD is an independent entity providing management and accountability functions and effectively functions a risk-firewall for donors motivated to invest in supporting civil society actors who in many cases would not pass conventional due diligence criteria. Some for example are not formally registered and constituted NGOs and many do not have a prior track record including audited accounts. In contrast with humanitarian donorship, in the field of supporting democratic change, conceptually donors are already convinced of the value of supporting and investing in civil society as an end in itself and where it is reasonable to expect some investments to prosper and others to fail.

Box 10: The European Endowment for Democracy

The EDD was created in 2013 following a 2011 Council of the European Union (EU) Declaration drafted in the context of the political upheaval associated with the Arab Spring uprisings and a recognition that within the EU and its member states, existing financing instruments and approaches were not sufficiently flexible and risk tolerant to enable them to support emerging actors supporting democratic change.

The Declaration calls for the establishment of "an autonomous International Trust Fund" functioning as a grant-making entity, supporting a diverse range of actors, many of whom do not conform to typical grant recipient organisational criteria, including "pro-democratic movements and other pro-democratic actors in favour of a pluralistic multiparty system on democratic ground; social movements and actors; civil society organisations; young leaders (including through a European invitation programme for young people who have shown interest in democratisation), independent media and journalists (including bloggers, social media activists), non-governmental institutions, including foundations and educational institutions functioning also in exile; provided that all the beneficiaries adhere to core democratic values, and human rights as well as subscribe to principles of non-violence." In addition, the EDD funds actors in high-risk, politically unstable contexts, where actors are often operating in opposition to the government. The overall political and fiduciary risk profile of the partner portfolio therefore is considerably higher than many bilateral donors would typically tolerate.

The EDD is an independent legal entity registered in Belgium. All EU member states are members of EDD's Board of Governors, together with Members of the European Parliament and civil society experts. The EDD receives core financing support covering operational running costs from the EU and voluntary contributions to the fund from 21 EU member states and other interested non-EU donors, currently including Canada.

The EDD is designed to complement EU and EU member state funding and provides a range of financing support types, which include earmarked project funding, but also start-up, bridge and core funding. Grants are typically around EUR 60,000 for a duration of 6-12 months. The EDD describes its approach as both flexible and demand driven – notably EDD "does not have a fixed vision of how to support democracy but rather seeks to listen and respond in a dynamic and innovative way to requests for support from citizens fighting for democracy".

EDD operates in many countries affected by conflict and humanitarian crises and is able to support civil society-led responses which are closely aligned with the communities, issues and activities targeted by traditional humanitarian and recovery programming. For example, EDD provided a grant to a Syrian civil society activist to establish the NGO Basamat for Development, supporting refugee women in Lebanon's Bekaa Valley, providing cultural and social events and psychological counselling.

Source: Interviews with EDD staff; Council of the European Union, 2011; EDD, 2017.

A commitment to constructive and regular dialogue in identifying and managing risks between donor and partners is required to find workable and enabling solutions. Conservative approaches to managing risk often stem from knowledge and understanding gaps around the nature and impact of risks, as well as the risk appetites of partners and within institutions. Investing in risk analysis, information sharing and dialogue can help to manage some of these incentives towards conservativism and restrictive practices. The UK's Department for International Development (DFID), for example, conducted an internal review of its business processes and identified measures to better manage internal institutional expectations and incentives, including clarifying expectations around risk tolerance and acceptable strategies to manage risk across different institutional levels (OECD, 2016). The moment of establishing a new financing tool or mechanism is a good opportunity to undertake a dialogue and expectation-setting process and there is much that can be learned from the experience of CBPFs in this regard.

A pooled-fund risk management framework helps the steering committee and fund manager to make strategic decisions that maximises the fund's ability to meet its objectives, considering contextual, programmatic and institutional risks (Malik-Miller, 2018a). The process of developing a pooled-fund risk management framework can provide an opportunity to identify different types of risks, including contextual, programmatic and institutional risks, how they will be monitored, and measures to mitigate them; to establish risk appetites, trade-offs and red-lines; and clarify among stakeholders their responsibilities, how they will be held to account, and what forums and processes for dialogue and management need to be in place to actively manage risk. The OCHA CBPF risk management process (see Figure 2) provides a good illustration of an active and continual process of risk identification, analysis, dialogue and management.

Figure 2: Example of a risk management process from the OCHA CBPF Operational Handbook

STEP 1: Establish context	Establishing the context focuses on developing a structure for the risk identification tasks to follow. This includes reviewing the context in which the fund operates, including OCHA priorities, security, coordination mechanisms, programmatic priorities, etc.
STEP 2: Risk identification	Identifying risks associated with the fund in the country of operation (what incidents can occur and why the incident could occur).
STEP 3: Risk Analysis	The likelihood and magnitude of the risks - categorization of risk in terms of their likelihood and consequence (this is typically done in a heat-map).
STEP 4: Risk Evaluation	Strategies for pre-empting and treating the occurrence of a risk (options to reduce likelihood or alternatives to treat risk if it occurs).
STEP 5: Risk Treatment[21]	This should detail responsibility for managing a risk (what specific stakeholder should take action to avoid or treat risk).
STEP 6: Monitor and Review	Continuous review of risks identified and identification of new risks as they emerge.

Source: OCHA, 2015.

New organisational capacity assessment and risk management tools are needed. The solutions to more enabling approaches to managing risk are ultimately not technical ones. However, adjustments to existing tools and approaches, often adapted from tools designed for international partners, could deliver significant benefits for local and national organisations. New tools and approaches to assessing the capacities of organisations, which realistically assess fiduciary risk, enable funders to take calibrated measures to manage and mitigate risk, and recognise, value and assess capacity (rather than simply identifying a lack of), could significantly improve the prospects of local and national actors accessing funding. WACSI, for example, has recently developed a civil society index that assesses organisational sustainability along a range of dimensions including financial soundness, functionality of operations, institutional health, and sustainability of impact from interventions, which could provide a more holistic assessment of organisational capabilities which look far beyond financial management capabilities (WACSI, 2015). Positive capacity assessments can be used not only for immediate risk management purposes, but to provide a blueprint for further targeted investment and support.

In addition, a number of organisations already take a calibrated approach which allows organisations that might not meet the full set of desirable capacities to nevertheless access funding by applying a sliding scale of controls depending on risk ratings. UNICEF for example, redesigned its partnership model to enable it to work more flexibly with partners to respond to emergencies based on its ability to deliver results rather than on its management systems and fiduciary controls, by calibrating fund disbursement schedules and monitoring activities against partner capacity assessments (Poole, 2015b). However, shifting from a 'high barrier to entry' approach to managing risk towards an enabling approach relies heavily on the ability to engage in regular dialogue, information sharing and monitoring to detect and manage problems early. Enabling approaches to managing risk require therefore investments in relationships, institutional capacities to understand contextual risk and actors, and creative approaches to monitoring and transparency.

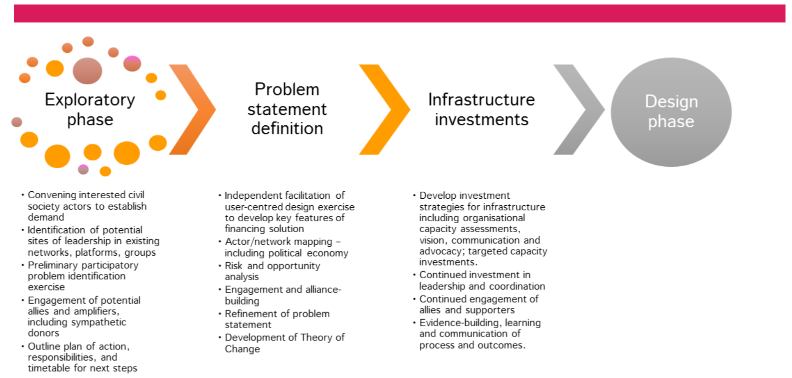
4.4. Designing user-centred and outcome-focused financing solutions

The value of finance is not only in its monetary value and what it enables you to do; money has great influence, and the design of financing tools and instruments can be used strategically to empower and incentivise behaviours and priorities. Increasingly, development financing actors recognise the potential to design national-level financing architecture to support the delivery of specific desired outcomes and to empower national actors. In the Central African Republic for example, the financing architecture was explicitly designed to incentivise financial support to a limited set of priorities identified as having the greatest potential to support peace, stability and meeting urgent crisis needs, to reduce competition, incoherence and transaction costs among donors, and to build confidence in the leadership of the government (OECD, 2018 forthcoming). And as the example of the community foundations movement described earlier (see Box 9) shows, the design of financing instruments has the potential to radically shift decision-making power and accountability towards communities and civil society. The CBPFs meanwhile, have used the convening power of funding to incentivise coordination, align with collective priorities and support the leadership function of the Humanitarian Coordinator. The design feature of transparent CBPF decision-making processes has also worked in favour of national NGOs, disrupting anti-competitive collusion between donors and their favoured bilateral partners, and allowing national NGOs to compete based on merit.

There is no technical financing prescription which fits all situations however, and financing solutions should be demand-driven and adapted to the needs, stakeholders and circumstances of the context. As already noted, the community foundations experience cautions against the temptation to apply 'blueprint' financing models, noting that where technical solutions have been applied, with inadequate leadership and buy-in, these experiments have tended to fail. Humanitarian organisations are familiar with pooled funding mechanisms and therefore tend to recommend pooled funds as a ready solution to almost any financing problem. However, while pooled funds may help to alleviate some of the existing funding inequality in the aid financing system, they typically do little to address the funding quality and sustainability issues which civil society actors routinely describe as being their most pressing challenges. Pooled funds are also a costly and time-consuming undertaking; they can also increase competition, and often provide funding which is short-term and unpredictable. One should not jump quickly to a technical financing solution therefore; rather the instrument or solution should flow from the demands, problem definition and opportunities of the context. In some circumstances, the solution to financing problems may not necessarily be a funding tool or instrument at all.

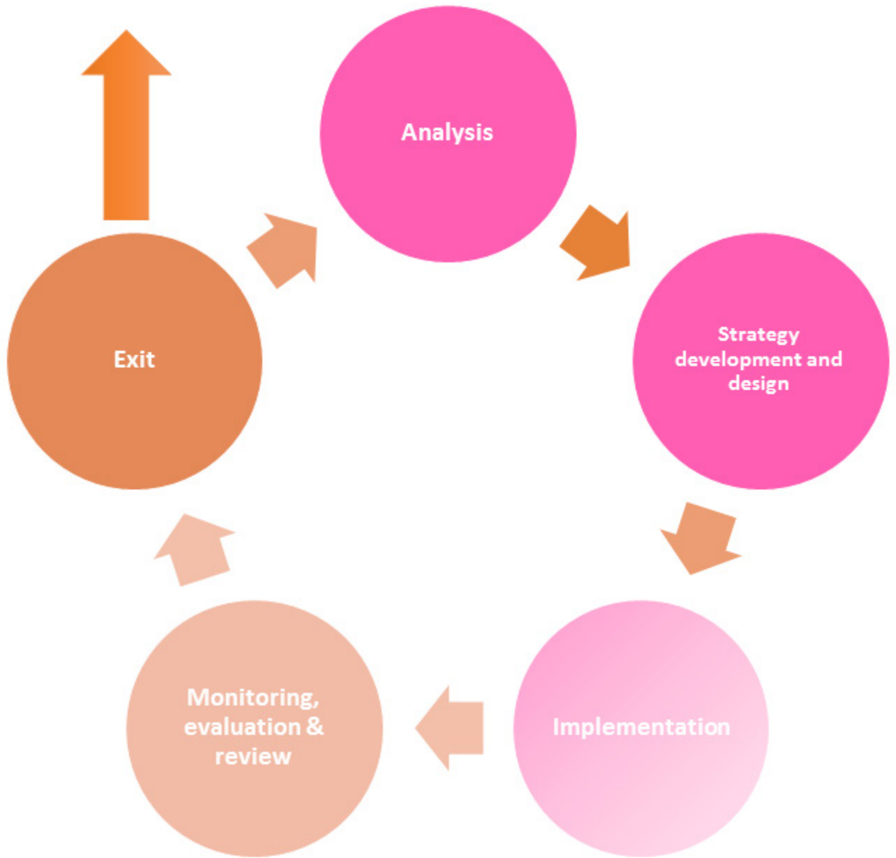
A rigorous analysis and definition of financing problems is necessary therefore as the first step towards determining what the form of any subsequent financing solution or solutions is likely to be. Indeed, the process of analysis, relationship building, understanding power dynamics and embedding and nurturing demand and leadership is probably more important than the technical work of designing financing solutions. In addition, a range of other recommendations and investment areas are likely to emerge from this process, including targeted capacity investments, adjustments to the terms of existing partnerships and funding agreements, and investments in the collective capacity to develop and implement the vision of civil society actors. The key elements of these 'pre-design' phases are outlined in Figure 3.

Figure 3: Key features of the 'pre-design' phases of user-centred and outcome-focused financing solutions process



Once demand, leadership, momentum, and a clear problem identification have been established through a pre-design phase, and where recommended solutions include the design of new financing instruments, these should be developed on a bespoke basis, drawing on lessons learned and accumulated experiences, but adapting the structure and functioning of the instruments according to the objectives, actors and context. Key features in the design of a user-centred and outcome-focused financing solution, drawn from NEAR's research into lessons learned and best practices from pooled financing mechanisms, are described in Box 11.

Box 11: Key features of the 'design phase' in developing user-centred, outcome-focused financing mechanisms



1. Analysis

• Ensure that context analysis and stakeholder engagement guide decisions around whether to design a new financing solution.

• Invest sufficient time and resources in the initial context analysis and revisit findings regularly.

• Ensure that context analysis forms an integral part of management processes.

• Ensure that the context analysis is conducted in a transparent and inclusive manner.

2. Strategy development

• Develop a strategic plan which firmly draws on the context analysis, and is based on a theory of change which clearly sets out overall objectives and priorities, as well as its approach for achieving the objectives.

• Ensure that objectives are realistic and as specific as possible, and consider dividing them into short-, medium-, and long-term objectives and/or impact, outcome and output-expected results, linked to specific indicators for each.

• Consider developing a financing strategy, which links funding mobilisation to objectives and timelines.

3. Financing solution design

• Ensure that design sufficiently draws on the context analysis.

• Ensure that design enables an adaptable approach, enabling the model to be agile enough to respond to contextual changes, needs and opportunities.

• Factor in non-negotiable donor requirements on management, accountability and transparency to the design.

• Ensure a transparent and inclusive design process, and encourage open discussions on potential trade-offs.

• Consider and articulate comparative advantage in a particular context, also including factors which may lie outside financing transactions.

• Communicate clearly around expectations and needs for donor engagement and encourage dialogue and coordination between various contributing donors.

• Revisit and adjust initial design and process structures periodically.

• Encourage donors to avoid earmarking of contributions and offer predictability.

• Consider developing short- and long-term priorities and milestones, which help to communicate achievements and manage expectations.

Governance

• Ensure that the governance structure is based on clear systems of authority, accountability and transparency, with a clear division of labour between the different governance entities.

• Ensure that the governance structure is adapted to fit the context, is inclusive and draws on the competencies and interest of major stakeholders.

• Consider outsourcing key functions, such as fund management and/or specialised support functions to organisations or private sector providers, who have experience, competence and contextual knowledge to perform specific tasks and services.

• Consider separating custodian and management functions, so as to further increase transparency, impartiality and trust.

Accountability

• Promote a culture of risk management, rather than risk avoidance, and emphasise the need to understand how contextual, institutional and programmatic risks are connected.

•Ensure transparent decision-making and acknowledge trade-offs.

•Consider drawing on good practice and information about partner capacity assessments (PCA) from organisations and other financing instruments in the context, to limit the pressure on applying organisations.

•Ensure transparent processes and procedures around PCAs.

•Consider outsourcing the PCA process to a third party.

•Invest in designing and setting up a robust monitoring framework from the start, and consider outsourcing monitoring to a third-party provider.

4. Implementation

• Develop a clear, user-friendly and comprehensive operational manual, which outlines the governance structure, decision-making procedures, as well as allocation windows and how these are managed and monitored.

• Develop allocation strategies/papers for each allocation window, to translate overall objectives and priorities.

• Consider whether a separate allocation window or focus on capacity building of CSOs is a needed and viable option.

• Consider a phased approach, with an initial narrow operational focus, to let the mechanism and partnerships mature.

5. Monitoring, evaluation and review

•Ensure that cyclical monitoring and feedback processes are integrated into management processes.

•Consider contracting an independent evaluator to conduct an evaluation to inform the strategic review processes.

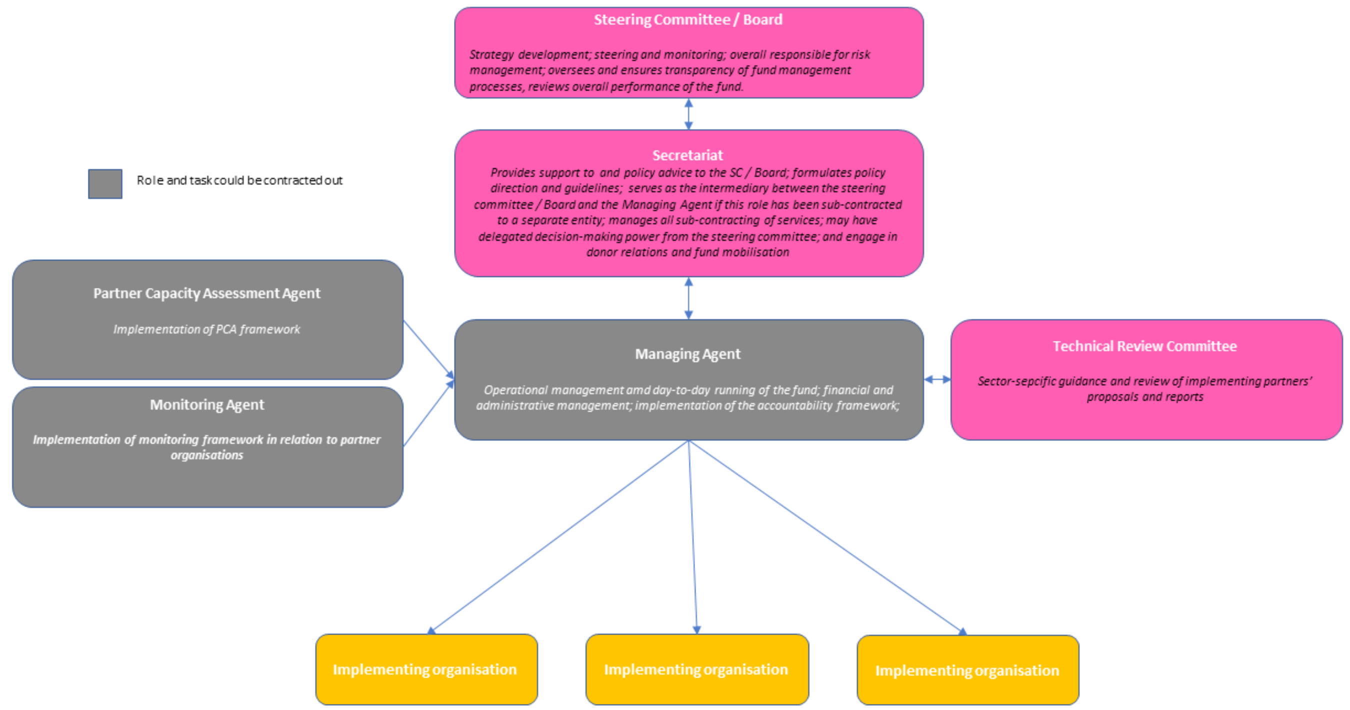
6. Exit phase

• Formulate an exit or sustainability strategy as part of the design process, which informs the steering committee's work around strategic direction and/or closure of a financing mechanism.

Source: Based on Malik-Miller, 2018a.

Where demand and support for the design of a new financing mechanism is sufficient, existing structures and accumulated experiences will offer lessons and examples which can be replicated. NEAR's research into lessons learned from pooled funds, for example, outlines common structural features and functions which can serve as a reference point for adaptation and tailoring to the actors, requirements and priorities of a given setting (see Figure 4).

Figure 4: Core common structural features of country-based multi-stakeholder financing mechanisms



Sources and types of funding will also influence the design and governance of financing mechanisms. NEAR's research has explored for example the potential of Islamic social financing to fund civil society-led humanitarian and development activities. The Shari'ah compliance requirements of Islamic financing, and the type of Islamic giving will influence both the governance and technical features of a financing facility. For example, waqf is essentially an endowment of property, assets of funds to be managed in perpetuity for specific charitable purposes, while zakat funds are expended on goods and services with no expectation of a return on the investment. The structures designed to manage waqf and zakat therefore are quite different. And in both cases, a separate entity ensuring Shari'ah compliance may be required (see Box 12).

Box 12: Islamic social financing

Islam enjoys a strong and long-established tradition of charitable giving and ethical investment models, collectively known as Islamic social financing, which play an important role in religious and moral, social and economic life. The models, practices and approaches found in Islamic social financing are relatively unique in their specificity and sophistication. One of the key features of Islamic giving is the requirement for Shari'ah compliance, that is, ensuring funds are managed and expended in ways that are free from any negative element of injustice [al-Quran, 4:29] such as Riba (including interest), Gharar (unnecessary risk) and Maysir (speculation and gambling).

Some of the main forms of Islamic giving which are relevant for humanitarian and development financing include zakat, waqf, sukuk and Islamic microfinance.

Zakat is one of the five pillars of Islam and is a compulsory levy on the excess wealth of an adult and sane Muslim individual, where that wealth remains in the ownership of the individual for one Hijri calendar year (hawl) and exceeds the minimum threshold (nisāb). Zakat can be paid in a variety of different ways, depending on country or community, sect of Islam or simply personal preference. In many Islamic and Muslim-majority countries, zakat collection is overseen and administered by the state, either directly through a mandated government agency, or through the official licensing of independent agencies and quasi-governmental entities. Local mosques also collect large amounts of zakat, as do charities and other CSOs, and a significant number of Muslims are believed to pay their zakat directly to their chosen beneficiary, through personal or community connections.

Waqf is generally defined as "a type of Islamic endowment that can take the form of cash, property or any form of private wealth which is donated in perpetuity for a charitable purpose set and directed by the endower" (Ahmed, 2007). Modern waqf investments are often used to finance education, health and social welfare provision to promote social development. In Malaysia, for instance, waqf funds are being used to establish cooperative housing, industrial companies, libraries, laboratories and research centres.

Waqf certificates are a growing field where a Waqf Administration Body (WAB) prepares project profiles and invites voluntary cash waqf contributions to finance the planned projects. The projects are classified into primary and secondary projects. Primary projects directly benefit poor people, while secondary projects generate revenues to feed funds back into the operations of the WAB. Secondary projects could include the construction of shopping complexes, hotels and office buildings where revenues cover the running costs of the primary project. This model has been used in many Muslim countries such as Indonesia, Kuwait, Malaysia and Sudan.

Sukuk commonly refers to the Islamic equivalent of bonds. However, whereas conventional bonds merely confer ownership of a debt, sukuk grants the investor a share of an asset, along with the commensurate cash flows and risk. Sukuk securities therefore adhere to Shari'ah principles, which prohibit the charging or payment of interest.

The emergence of sukuk has been one of the most significant developments in Islamic capital markets in recent years. Sukuk instruments link their issuers – primarily sovereigns and corporations in the Middle East and Southeast Asia – with a wide pool of global investors, many of whom are seeking to diversify their holdings beyond traditional asset classes.

In November 2014, the International Finance Facility for Immunisation (IFFIm), which raises funds in the international capital markets to accelerate the availability of funds for immunisation programmes run by Gavi, the Vaccine Alliance, issued its inaugural sukuk. The 3-year sukuk was over-subscribed, and raised USD 500 million for children's immunisation in the world's poorest countries and provided institutional investors with a socially responsible investment. IFFIm achieved strong diversification in its investor base, with 85% of the order book coming from new and primarily Islamic investors. The sukuk was coordinated by Standard Chartered Bank, working with joint lead managers Barwa Bank, CIMB, National Bank of Abu Dhabi and NCB Capital Company.

Islamic microfinance. Conventional microfinance institutions, which operate on a for-profit basis, often have high operating costs that are passed on to the borrower; their capital pools often depend on foreign aid contributions; and the profit incentive may drive high levels of interest, as well as the selling of inappropriate products to poor people, thus driving unsustainable levels of household debt. Microfinance institutions in some countries have contributed to chronic indebtedness and consequent social problems. In principle, Islamic microfinance does not have an in-built business incentive to seek high interest rates, and there are growing numbers of large and established Islamic microfinance providers.

Islamic financing has a number of characteristics which require careful management, notably with respect to financing mechanism design:

- **Governance and regulation.** Many existing examples of zakat and waqf funding instruments are under government authority, which provides organisational structure, audit, control and reporting functions. In some cases an apex religious body or ministry ensures compliance with Shari'ah law and local rules and regulations.

• **Maintaining Shari'ah compliance when blending funds.** Mixing Islamic funding that has religious and legal restrictions with non-Islamic money, can give rise to concerns that Shari'ah compliance may be weakened. However, precedents are emerging where blending of Islamic social financing and non-Islamic funding sources have been successfully achieved, notably the high-profile example the Lives and Livelihoods Fund.

Source: Soyan, 2018.

A range of practical management and administrative functions may be contracted out to independent third parties on a for-profit or not-for-profit basis. Identifying technical partners, supporters and allies therefore is an important part of the analysis and design stages. For example, NEAR Network member Humanitarian Aid International (HAI) is in the process of establishing an emergency response fund accessible to Indian CSOs and is partnering with the Charities Aid Foundation, a self-described "civil society infrastructure organisation", which provides technical support in market research, design and management of the fund. The HAI experience to date also provides a good indication of the practical challenges and timescales required to reach critical mass (see Box 13).

Box 13: Emerging lessons in establishing a country-based emergency response fund for Indian CSOs

HAI is trying to bring about changes in the humanitarian architecture in India, which empowers local and national actors, particularly first responders. The difficulties are myriad, especially in establishing a mechanism which aims to challenge the current ecosystem of the most powerful and resourceful institutions.

The HAI Emergency Response Fund (ERF) is designed to be 100% accessible to local and national actors, with aspirations to function at the national level. HAI is already in discussion with the Charities Aid Foundation and National Disaster Management Authority to upgrade the HAI ERF to a national-level pooled fund. The Centre for Promoting Accountability, which is a consultancy arm of the Financial Management Service Foundation, has been appointed as independent fund manager to monitor performance of the fund and currently provides pro-bono services to HAI. Some of the practical challenges encountered by HAI to date include:

Finding members for the HAI platform: HAI has 17 members currently, but it was not easy to secure their participation. For practical reasons, organisations expect some tangible benefit for joining a platform. Only a few want to join a movement which would yield results in future.

Mobilising resources: Fundraising has become extremely expensive. HAI neither has such resources nor willingness to spend heavily on fundraising. HAI's principle is to channel maximum humanitarian funding for the affected population. That makes fundraising extremely challenging, particularly for

an understaffed organisation like HAI.

Disaster response is still an emotive issue. Most people feel inclined to donate when they see suffering of disaster-affected people in the media. It is hard to convince people to contribute to a disaster which is yet to happen.

Establishing credibility and brand recognition: HAI is only 18 months old. It has yet to establish its credibility and currently, individual donors prefer to contribute to nationalised INGOs than little-known local NGOs.

Source: Singh, 2018.

From the outset, the long-term future of a financing mechanism should be a design consideration. Funds may be designed with in-built flexibility to respond to changing circumstances. As noted earlier, for example, the community foundation model was developed to provide greater flexibility than the existing foundation model to adapt to the changing needs and priorities of communities over time. Mechanisms may choose to shift focus and create thematic windows to respond to changing circumstances, including windows to invest in capacity strengthening. Regular review of a funding mechanism's relevance and ability to meet its strategic objectives can also be built into its governance, with trigger-points identified and dialogue processes which would initiate a change in strategy. The STAR-Ghana fund for example has recently undertaken a dialogue exercise with civil society stakeholders to inform the focus and design of the next phase of the fund, which will be to graduate to an independent nationally-managed fund.

5. Charting a way forward

The purpose of NEAR's work in this area is to inspire and ignite a global movement of local civil society actors to author, own and drive the 'localisation agenda', to transform the crisis-response financing model for local and national responders. The role of NEAR in this process is to act as a facilitator, convenor, broker, incubator and amplifier of this movement.

A number of assumptions underpin the strategy put forward here:

• **Civil society is an asset:** Civil society actors have capacity, agency, strengths and comparative advantages. We should identify, nurture and invest in these capacities, not simply use them in instrumental ways.

• **Solutions have to be civil society-led and owned:** Investing in civil society is first and foremost the responsibility and prerogative of civil society actors themselves. Civil society actors should lead the identification of problems and the design of solutions.

• **Donors will need to shift their culture and expectations from funding to investing:** The international community needs to rethink approaches to financing to move away from funding and towards investing. Investing to ensure that crisis-response capacity is primed and in situ in advance of a crisis occurring will lead to more timely, effective, cost-efficient response and will ease pressure on the overstretched international response system. Investing in the ability of civil society to contribute to the long-term future of their communities and nations will contribute to sustainable development and peace- and state-building. Investing in civil society will deliver returns, but it is a long-term strategy which requires patience and commitment.

Four integrated thematic tracks for the NEAR Network to take forward this agenda are recommended and include:

(1) Invest in NEAR as a global change agent.

(2) Inspire, convene and connect global networks and movements for change.

(3) Support and incubate sustainable innovative financing solutions at the local level. This includes:

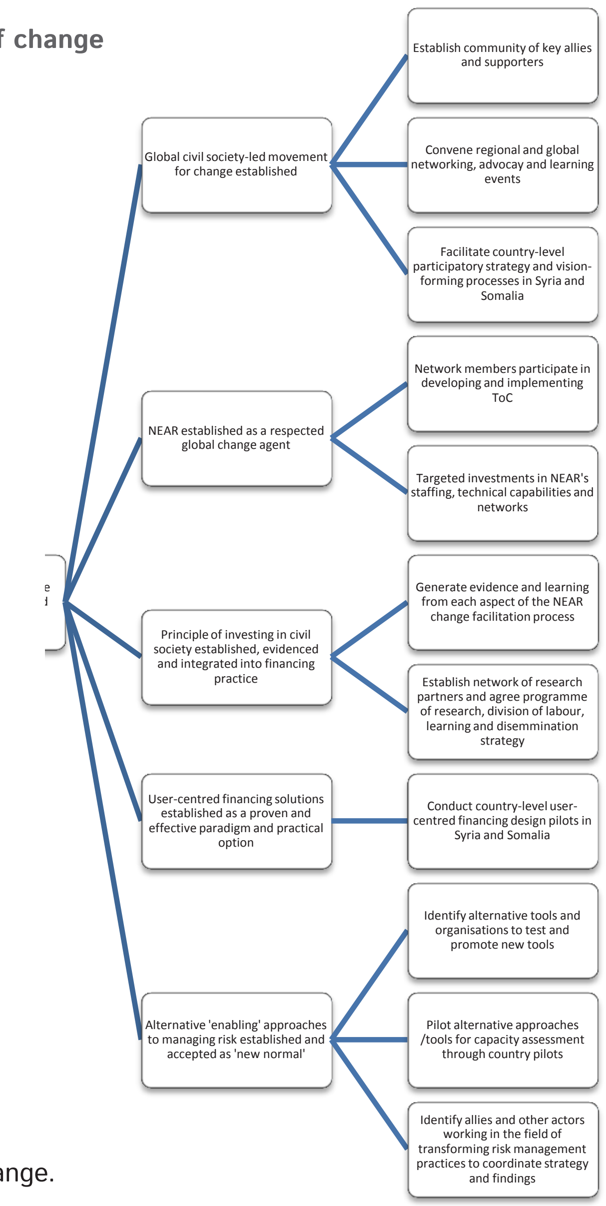
a. Fostering the **long-term vision**, investment strategies, ownership and sustainability of civil society at the country level across the humanitarian–development nexus.

b. Supporting civil society actors through processes to design alternative user-centred and outcome-**focused financing mechanisms and solutions**.

(4) Generate evidence and learn from change processes to drive adaptation and enable external communication and confidence building.

These are roughly organised into a theory of change (see Figure 5), but it is strongly suggested that NEAR engages network members and key allies to help develop the theory of change through a participatory process in order to refine thinking and build buy-in and support. Linkages between local, national and global levels will also need to be considered in this process.

Figure 5: Draft theory of change



Notes: ToC: theory of change.

5.1. Invest in NEAR as a global change agent

NEAR already has a respected global voice in advocating for CSOs on aid financing issues. Advancing NEAR's aspirations to provide a viable alternative to the current financing situation is also a test case for NEAR to demonstrate its potential to deliver change, not just to advocate for it. But it is also an opportunity to invest in the network. NEAR will need to significantly increase its staffing capacities to ensure adequate support to country-level pilots as well as to the substantial networking and convening demands that will accompany aspirations to build a global network and movement for change. As the strategy and activities are refined, a realistic budget will of course need to be developed, which will include staffing requirements and the creation of an organisational unit to support the wider programme of work.

NEAR Network members should be engaged with the process from the earliest opportunity and this will provide members with a point of focus to enable them to explore how they can work together effectively as a network. Network members should at the minimum be engaged in commenting on and shaping the strategy and next steps put forward in this document. They should also be involved in shaping the agenda and participation in global and regional convenings and in delivering key conceptual elements of the process. For example, network members could be engaged in developing a set of funding principles, which could serve as a reference point for NEAR's support to locally tailored financing solutions and to NEAR's wider advocacy work. Network members could also be invited to contribute a steering group to guide the strategic focus of the work programme set out below. Members would also act as champions and advocates within their own spheres of influence. These NEAR members could also potentially second staff to support the delivery of key activities (on a reimbursable basis, with donor support).

5.2. Inspire, convene and connect global networks and movements for change

The humanitarian community is extremely insular and has been isolated from alternative approaches, technologies and tools which exist just beyond the humanitarian sphere. One of NEAR's greatest opportunities is to play the role of connector and convenor in building networks, which will inspire and facilitate change through exposure to new ideas, technology, allies and supporters.

Firstly, NEAR should build a network of allies and supporters, including from within the community philanthropy movement and Islamic social financing, as well as CSO networks and platforms inside and beyond the aid community, and including key global-level institutional donors and foundations.

Secondly, leveraging the support and networks of NEAR's allies, NEAR should convene a series of global and regional events in 2018, with carefully curated lists of invitees designed to inspire and connect. These could include convening around the themes of Islamic social financing; learning from the community foundation movement; developing alternative approaches to managing risk; investing in local and national responsive capacity; and building organisational sustainability. These events will also provide NEAR with an opportunity to engage actors to refine and develop the theory of change, to marshal evidence, and to test and promote emerging evidence and experiences from the country pilots.

5.3. Support and incubate sustainable innovative financing solutions at the local level

A series of country pilots is recommended to advance NEAR's agenda to transform the financing system. This would be context and local-actor driven, with NEAR and a network of allies and technical actors supporting the process. The purpose of these pilots would be to support local and national civil society actors through a process to:

(1) Identify areas for investment in building their organisational sustainability and responsive capabilities.

(2) Identify areas of investment in building a shared vision and the collective voice of civil society actors.

(3) Identify tailored financing solutions to increase access to quality, enabling funding for local and national civil society actors.

(4) Identify and trial alternative approaches to risk management.

The outcomes of these strands will inform the design of technical financing solutions and investment packages. The process itself will also help to build support and build networks of allies, funders and technical actors who will be critical to advancing solutions. We expect the process to produce a series of recommended actions, products and processes. It is important to stress, however, that these outcomes are expected to vary considerably according to context and there is unlikely to be a ready-to-wear funding model: the financing vehicle will depend on the needs, priorities, appetite, funding context and actors present.

Selecting pilot countries would benefit from a systematic and transparent selection process. Criteria and a process for selecting pilots is suggested in Box 14 and it is recommended that this be proposed to NEAR Network members as a starting point to engage discussion and interest in developing pilots.

Box 14: Pilot selection criteria and process

The selection process should seek to establish as a minimum, an assessment of demand, leadership and capacity to deliver a pilot, and analysis of the risks and opportunities in that particular context, which should be provided by motivated civil society actors and supplemented with NEAR's own enquiries and research. Key areas of enquiry include:

1. **Establishing demand:** The necessity for financing solutions to be demand driven is key. Therefore a request for support must come from the prospective pilot country with a convincing rationale, including a description of as well as evidence demonstrating the level of commitment from a list of named committed actors.

2. **Leadership and capacity:** Working through a pilot process and beyond requires consistent and committed leadership and capacity to engage fully in what may be a time- and labour-intensive process. The request for support must include a description of the entity or convening of actors which will provide leadership of the process, and description of the collective operational capacity the group represents.

3. **Risks and opportunities:** The request for support should provide a description of the context. This should include analysis crisis needs and likely evolution of the crisis context; moments of political opportunity, donor interest/support; analysis of longer-term prospects for mobilising funding; and any notable risks or threats including threats to civic space, donor funding volatility and possible conflict with other actors competing for funding.

Key questions to be addressed by potential applicants for inclusion in the pilot process include:

Why here?

- Description of the current role and capacity of local and national civil society in crisis response.

- Description of current funding challenges faced and the consequences of these for civil society actors.

- Statement of aspiration for the role and capacities of civil society actors.

- Explanation of how the applicants think an alternative financing solution could help.

- Description of notable challenges to the civil society operating space.

Why now?

- Description of short- and longer-term opportunities for fundraising from both traditional and non-traditional sources.

- Description of any notable historic/political windows of opportunity for mobilising support.

Why you?

- Description of the entity proposing to lead and steer the pilot and who they represent.

- Evidence of collective action undertaken by this entity on behalf of civil society actors.

- List of supporters, allies and advocates who could be relied upon to support the pilot process.

- Statement of potential conflicts of interests among group members and leadership.

- Description of potential sources of conflict with other actors and how these would be managed.

NEAR would then need to assess the strength of the application, triangulated against independent analysis of the context and actors, to provide an analysis of:

1. Strength of the rationale put forward.

2. Likelihood of civil society actors providing adequate leadership and support to the process.

3. Evidence of support for the process from influential allies, funders, partners and advocates.

4. Preliminary assessment of the likelihood of securing short- and medium-term financial support.

5. Identification of possible risks and strategies to mitigate these.

6. Strategic considerations for NEAR including overall likelihood of success and potential for strengthening network influence.

7. Description of the role and level of support required by NEAR and anticipated timeline for support.

It is recommended that NEAR's assessment and conclusions be shared and published transparently.

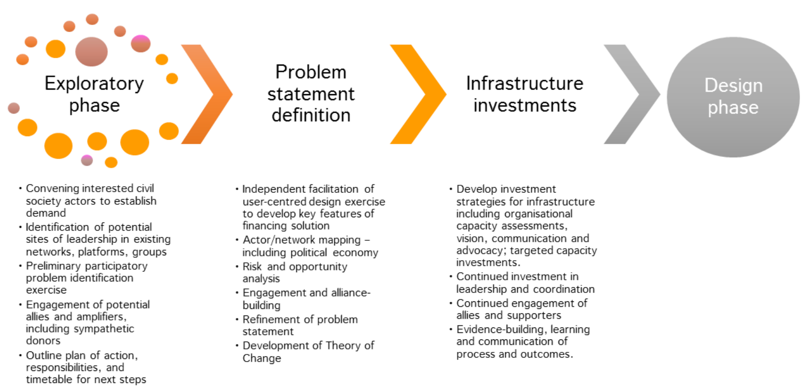
During research for this study, the potential for country pilots in Somalia and addressing the Syria regional response were explored. The findings and recommended approaches for these settings are outlined in summary in sections 5.3.1. and 5.3.2. and in detail in supporting case study reports. However, these should not be read as firm recommendations for pilots, rather they provide an illustration of what different pilot processes might look like in different contexts.

5.3.1. Somalia

Somalia is considered a good candidate for a country pilot on the basis that (1) local and national civil society actors are established as critical to the response, (2) there is a growing appetite among civil society actors to take a leading role in response, to renegotiate the current financing model and to alter the current 'risk' narrative, (3) capacity-strengthening investments have been sub-optimal and civil society actors recognise the need for a different approach, (4) NEAR has strong established relationships with civil society actors and other key stakeholders including the Federal Government of Somalia and other potential allies and supporters and (5) funding for humanitarian response is historically volatile and is likely to continue to shift in emphasis towards recovery and development. Civil society actors therefore should be positioned to adapt to a changing funding landscape.

Activities proposed under the Somalia pilot support the overall objective of transforming the crisis-response financing model for local and national responders and are clustered under the 'exploratory phase', 'problem statement definition', 'infrastructure investments', and to a certain extent, 'design' phases (see Box 15). For practical purposes, activities are grouped under two different tracks. The first track focuses on the pre-design phases, through a bottom-up process working with motivated civil society actors to identify solutions and build support to invest in the responsive capacity, organisational resilience and financial sustainability of civil society. The second track focuses the beginnings of the 'design, build and implement' phase, exploring the potential of the existing culture of Islamic giving, and financial networks for social solidarity, to support a new financing instrument for civil society in Somalia. Further discussion on a potential Somalia pilot is found in the accompanying paper: Poole, 2018.

Box 15: Phases of a proposed Somalia pilot



Exploratory phase

- Identification of potential sites of leadership in existing networks, platforms, groups
- Further development of participatory problem identification exercise
- Building a vision and momentum for change

- Engagement of potential allies and amplifiers, including sympathetic donors
- Outline plan of action, responsibilities and timetable for next steps

Problem statement definition

- Using design-thinking process to inform user-centred and outcome-focused financing solutions
- Actor/network mapping – including political economy analysis
- Risk and opportunity analysis
- Engagement and alliance building
- Refinement of problem statement
- Development of a theory of change

Infrastructure investments

- Delivering a menu of investment options to build civil society sustainability and responsive capacity
- Continued investment in leadership and coordination
- Continued engagement of allies and supporters
- Evidence building, learning and communication of process and outcomes

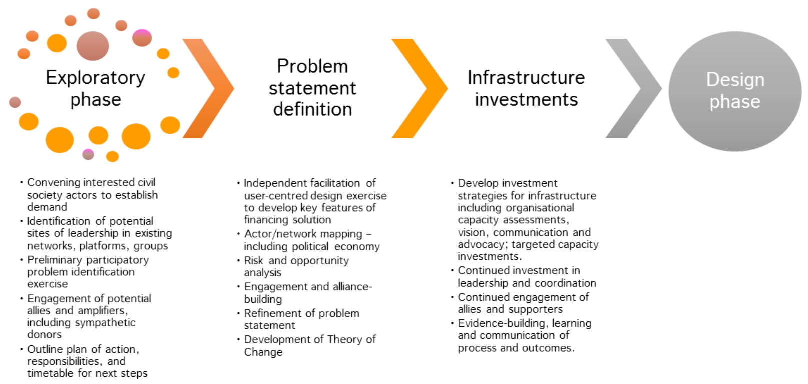
Design phase

- Development of a fundraising strategy for the design and build pilot phases
- Consultations with key stakeholders to inform Islamic financing fund design and build support
- Technical work to develop key design elements including governance, decision-making and accountability to pilot stage

5.3.2. Syria

Somalia is considered a good candidate for a country pilot on the basis that (1) local and national civil society actors are established as critical to the response, (2) there is a growing appetite among civil society actors to take a leading role in response, to renegotiate the current financing model and to alter the current 'risk' narrative, (3) capacity-strengthening investments have been sub-optimal and civil society actors recognise the need for a different approach, (4) NEAR has strong established relationships with civil society actors and other key stakeholders including the Federal Government of Somalia and other potential allies and supporters and (5) funding for humanitarian response is historically volatile and is likely to continue to shift in emphasis towards recovery and development. Civil society actors therefore should be positioned to adapt to a changing funding landscape.

Activities proposed under the Somalia pilot support the overall objective of transforming the crisis-response financing model for local and national responders and are clustered under the 'exploratory phase', 'problem statement definition', 'infrastructure investments', and to a certain extent, 'design' phases (see Box 15). For practical purposes, activities are grouped under two different tracks. The first track focuses on the pre-design phases, through a bottom-up process working with motivated civil society actors to identify solutions and build support to invest in the responsive capacity, organisational resilience and financial sustainability of civil society. The second track focuses the beginnings of the 'design, build and implement' phase, exploring the potential of the existing culture of Islamic giving, and financial networks for social solidarity, to support a new financing instrument for civil society in Somalia. Further discussion on a potential Somalia pilot is found in the accompanying paper: Poole, 2018.



Exploratory phase

• Convening of interested civil society actors to establish demand

• Identification of key stakeholders; dialogue- and confidence-building process.

• Preliminary participatory problem identification exercise

• Engagement of potential allies and amplifiers, including sympathetic donors

• Outline plan of action, responsibilities and timetable for next steps

Problem statement definition

•Actor/network mapping – including political economy

• Risk and opportunity analysis

• Engagement and alliance building

• Refinement of problem statement

• Development of theory of change

• Development of vision and strategy for network members

Infrastructure investments

• Organisational capacity assessments and investment plans

• Delivering a menu of investment options to build civil society sustainability and responsive capacity

• Investment in leadership, communication and advocacy skills

• Continued investment in leadership and coordination

• Continued engagement of allies and supporters

5.4. Generate evidence and learn from change processes

Somalia is considered a good candidate for a country pilot on the basis that (1) local and national civil society actors are established as critical to the response, (2) there is a growing appetite among civil society actors to take a leading role in response, to renegotiate the current financing model and to alter the current 'risk' narrative, (3) capacity-strengthening investments have been sub-optimal and civil society actors recognise the need for a different approach, (4) NEAR has strong established relationships with civil society actors and other key stakeholders including the Federal Government of Somalia and other potential allies and supporters and (5) funding for humanitarian response is historically volatile and is likely to continue to shift in emphasis towards recovery and development. Civil society actors therefore should be positioned to adapt to a changing funding landscape.

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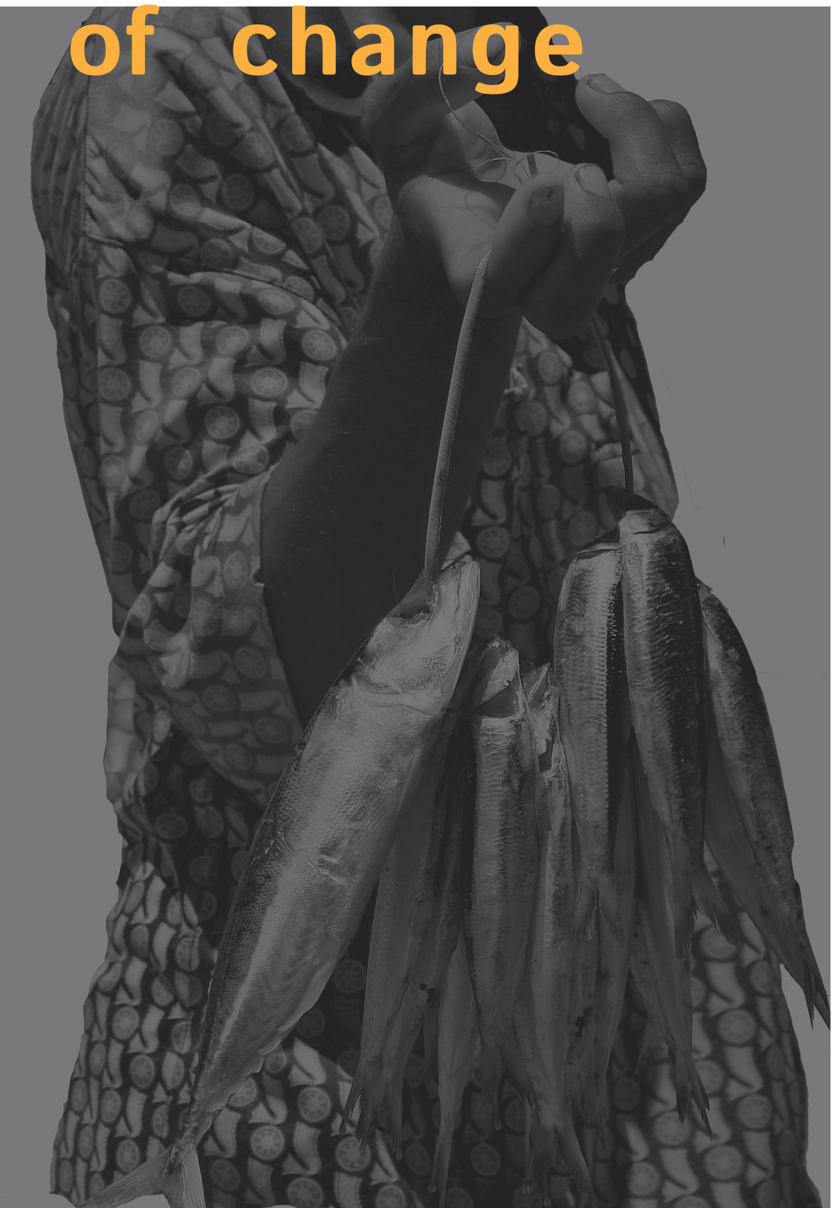
Conclusions

develop the theory of change



NEAR stands on the cusp of a major opportunity to take a leading role in what is a vacant policy space, which currently includes few actors with the authenticity to speak on behalf of civil society actors, and in which the few transformative ideas and proposals being proposed are owned by international NGOs. This space will likely close as international actors find ways of meeting their targets, while missing the point of the original commitments. This is therefore a critical moment. There is no simple fix, however. The strategy outlined here contains many elements: it represents a large programme of work and it will require significant additional work to develop the theory of change, feasibility of pilots and approaches, and marketable fundable concepts. This process needs to be internalised and owned by the NEAR Network, however, before significant additional refinements can be advanced. The upcoming Leadership Forum provides a critical opportunity for NEAR to build support for and refine the strategy put forward in this paper, and to begin to convene key allies and supporters.

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Society for International Development, Kenya

START Network

West Africa Civil Society Institute (WACSI)

Lebanon and Syria

ABAAD

ALEF

AMEL

American University of Beirut Medical Center

Arab NGO Network for Development (ANND)

Dawlaty

Development for People and Nature Association (DPNA)

Delegation of the European Union - Lebanon

DFID Syria

Lebanese Center for Human Rights (CLDH)

Lebanon Support

The Lebanese Association for Development "Al Majmoua"

Mobaderoon

Norwegian Embassy in Beirut

Oxfam International Lebanon

SAWA for Development and Aid

SIDA

SYNAPS Network

UNDP Lebanon

Somalia

Concern / Daryeel Bulsho Guud – DBG (Community Care for all)

DFID Somalia

ECHO Somalia

HAVOYOCO

HIRJA

Nagaad Network

Save Somali Women and Children(SSWC)

Sorac Consortium

Somalia NGO Forum

SWADECA

Taakulo Somali Community (TASCO)

UN World Bank Trust Fund, Somalia

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UNICEF

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