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## International Humanitarian Financing: Review and comparative assessment of instruments

A study for the Good Humanitarian Donorship initiative  
commissioned by the  
Office of US Foreign Disaster Assistance

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Final report  
22 July 2008

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## Acronyms

CAP	Consolidated Appeals Process
CAR	Central African Republic
CBO	Community-based Organisation
CERF	Central Emergency Response Fund
CHAP	Common Humanitarian Action Plan
CHF	Common Humanitarian Funds
DAC	Development Assistance Committee
DEC	Disaster Emergency Committee (UK)
DFID	United Kingdom Department for International Development
DRC	Democratic Republic of the Congo
ECHO	European Commission Humanitarian Aid Office
ER	Early Recovery
ERC	Emergency Response Coordinator
ERF	Emergency Response Fund
FAO	Food and Agriculture Organization
FTS	Financial Tracking Service
GHD	Good Humanitarian Donorship initiative
GHP	Global Humanitarian Platform
HC	Humanitarian Coordinator
HPG	Humanitarian Policy Group
HRF	Humanitarian Response Fund
IASC	Inter-agency Standing Committee on humanitarian affairs
ICRC	International Committee of the Red Cross
ICVA	International Council of Voluntary Agencies
IFRC	International Federation of Red Cross/Red Crescent Societies
IRA	Immediate Response Account of WFP
LOA	Letter of Agreement
M&E	Monitoring and evaluation
MOU	Memorandum of Understanding
MSF	Médecins sans Frontières
NFIs	Non-food items
NGO	Non-governmental organization
OCHA	UN Office for the Coordination of Humanitarian Affairs
OHA	Official Humanitarian Assistance
PCA	Project Cooperation Agreement
RC	Resident Coordinator
RRF	Rapid Response Fund
TOR	Terms of reference
UNCT	United Nations Country Team
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WFP	World Food Programme
WHO	World Health Organization

## Executive Summary

The past five years have seen remarkable developments in humanitarian funding innovation, institutional evolution, and coordinated donor initiative for reform. The confluence of greater volumes of foreign aid and a program of humanitarian reform has created the opportunity and momentum to bring about significant change in the way international humanitarian response is financed.

The fast pace of the reforms has challenged efforts to rigorously evaluate the performance of the new mechanisms being established. The participants and stakeholders of the Good Humanitarian Donorship (GHD) initiative have chosen this moment to take stock of the progress to date in an overarching assessment of the humanitarian financing system, and highlight the areas in need of action or improvement. To this end, this study was commissioned by the US government as current GHD co-chair, and tasked with providing an overview of the humanitarian financing landscape, comparing the array of mechanisms currently available to donors, and identifying important considerations for donors and their partners as they develop their future funding strategies.

The new multilateral funding mechanisms - the expanded Central Emergency Response Fund (CERF) and the country-level pooled funding mechanisms (the CHFs, and ERFs) – represent additional tools now available to donors to support humanitarian action. Taken together, the CERF and the pooled funding mechanisms in 2007 accounted for 8% of reported contributions in humanitarian emergencies, of which bilateral grants still accounted for the vast majority (over 80%). Underpinned by GHD principles, they are designed to reduce donor earmarking and foster coordinated and strategic funding allocations driven by field-level decisions based on need. As such, they address many of the long-standing critiques of humanitarian funding; mainly that bilateral grant-making by donors has at times contributed to inequitable allocations, unhealthy competition, and uncoordinated aid responses.

A review of humanitarian funding data shows that the overall volume of official humanitarian funding for emergencies continues on an upward trend, with a faster rate of growth during the past three years during which the new mechanisms were instituted. Comparing annual percentage rises with and without the CERF and pooled funding mechanisms, the evidence suggests that these sources are associated with additionality of contributions in the system. The correlation does not necessarily indicate that these mechanisms have *prompted* the influx of new funding, but suggests at the least that they have *enabled* it in a way that may not have been possible in their absence. System-level additionality is mirrored at the country level in the DRC and Sudan, where the CHFs have been operational since 2006. The group of donors who have channeled the bulk of their contributions through the CHFs in those countries show a much higher rate of growth of contributions in the years 2006 and 2007, roughly double the average percent rise in donor funding in those countries, and more than double the growth in contributions from the world's two largest humanitarian donors (US and ECHO). As a

result, they have significantly increased their overall share of donor funding for those countries.

Funding coverage against stated needs across sectors has evidently improved in recent years, also correlating with to the onset of the new financing mechanisms (but likely attributable to more than one factor). The largest rises in funding coverage have been seen in the sectors of early/economic recovery, shelter, and protection, in that order. Additionally, institutional reform has not kept pace with acknowledged need for new funding architecture for early recovery needs, and the financial data suggest that humanitarian actors and mechanisms have increasingly taken up this role.

Perhaps the greatest source of concern arising from data findings relates to the altered composition of recipients. A greater percentage of humanitarian funding is now being channeled through the UN, and NGOs receive proportionately less direct funding (although their total funding has increased.) The decrease is steepest in 2006 and 2007, when these mechanisms first became operational. Local NGO participation and capacity building for indigenous humanitarian response continue to receive lip service, but have not been seen to benefit in any significant way by the new mechanisms to date, or show much promise of future benefits from the financing system as it is currently configured.

A comparative assessment of the full range of funding modalities indicates that different mechanisms are more amenable to different types of emergencies. ERFs work well to respond to sudden and small-scale emergencies, natural disasters and other unforeseen needs. The CHFs provide advance multilateral funding for a country-wide emergency response plan, while underpinning and incentivizing humanitarian coordination. The CERF provides the advance funding that, particularly when leveraged against agency reserves, enables a quicker response for major new emergencies (in addition to equalizing funding for chronic, underfunded crises.) In addition, CERF money can and has been used to provide additional support or advance funding to the CHFs. Continued bilateral grant funding remains critical to retain flexibility, promote innovation, and to ensure sufficient funding non-UN actors. Finally, core programming and capacity building support to humanitarian agencies continues to be needed for agency-level preparedness and the ability to take absorb the transaction costs and new coordination responsibilities brought by humanitarian reform.

While concerns and uncertainties about these new instruments persist, at the broadest level there is qualified agreement among most stakeholders that the new mechanisms have achieved positive results in humanitarian funding and strategic coordination. None of the stakeholders consulted, past evaluations undertaken, nor available evidence to date suggests that the instruments are fundamentally flawed in their conception or execution, or that humanitarian financing would be better served if they had not been established. At the same time, most agree that they do not represent the only, nor in all cases the best means to achieve GHD goals, and that for reasons of flexibility and full coverage it is important to maintain a diversity of funding modalities. Additionally, aid organizations have pointed to a number of significant unintended consequences, as well as unaddressed priorities, that merit serious attention and redress as the process continues. Finally, it has

been recognized that while a multiplicity of mechanisms is desirable, to date there has been little thought or action toward using them together in complementary and strategic ways. The lack of such coordination poses its own risks of inefficiencies and funding gaps.

### **Areas for Action (from Section 6)**

#### **Identify comparative advantages as a donor in relation to capacities**

In determining their humanitarian financing strategies, donors should consider the full array of financing instruments and their particular capacities in deciding when and where to emphasize a certain channel. Donors with greater field presence and the capacity to manage and monitor individual grants are well suited to focus on bilateral funding strategies (with the important caveat that they coordinate their allocations with the RC/HC and other multilateral and bilateral funding streams). Donors whose aid resources and humanitarian priorities are not matched by staff capacity and field presence will appropriately favor the multilateral mechanisms.

#### **Practice diversity in the use of funding tools**

As a rule, no single funding modality should be used in exclusion, and all require more extensive donor coordination, particularly at field level, than currently takes place in order to be effectively complementary. Unless lack of capacity precludes any funding save through a pooled mechanism, donors should refrain from "putting all their eggs in one basket" and should:

- Retain some level of funding to be used outside the pooled mechanisms reflecting the need to retain some flexibility for unforeseen funding initiatives or for programs that fall outside the common plan for temporal, sectoral, or geographical reasons. (The ratio to be determined by each donor according to their capacities and program priorities, and in coordination with the RC/HC)
- At the same time, ensure that bilateral funding does not undercut coordination goals, by actively consulting with the HC and by requiring the grant recipients to participate in coordination mechanisms and common planning exercises

#### **Make bilateral funding more flexible and predictable, with an emphasis on non-UN and local actors**

It is possible that multilateral funding may become increasingly the norm for UN humanitarian action as reform proceeds and coordination architecture evolves. This prospect underscores the need for bilateral funding to pay particular attention to the needs of non-UN actors, but in ways that enable greater flexibility, predictability and innovation than traditional short-term, reactive grant-making. To this end:

- Revisit and actively explore the possibilities for multiyear framework agreements and other longer-term grant vehicles for NGOs
- Consider the establishment of donor-country-based advance funds for pre-certified NGOs
- To enhance predictability and planning, make efforts to increase the upfront allocation for humanitarian response (as currently pursued by US and Netherlands donor bodies vis-à-vis their foreign aid budgets)

- Wherever possible, consolidate individual project grants to the same provider in the same country into overarching multisectoral or multi-activity programs, eliminating duplicative administration
- Seek ways to provide increased funding for local NGOs through capacity building partnerships, as well as direct grants. Encourage the development of assessment and accreditation programs (such as piloted by the NGO ACT) for local partners.

**Use core funding to mitigate transaction cost burdens, and to bolster agency-level preparedness**

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

**Continue to support and improve multilateral mechanisms**

In addition to strengthening humanitarian coordination, support for the new multilateral mechanisms represents an important gesture of humanitarian cooperation, and signals to emerging donors an effective way to participate in the international humanitarian system. GHD donors should engage proactively with the UN and other providers to address the remaining flaws and obstacles to their effective operation.

- All donors should be encouraged to participate in the CERF each year. Even if the donor chooses not to contribute large amounts, a token level of support is justified to signal support for multilateral humanitarian coordination and encouragement of wider donor participation
- Encourage and expand agency secondments to the technical advisory body of the CERF to help address lingering concerns regarding the transparency and appropriateness of allocation decisions
- Make greater use of the loan window of the CERF to ensure CHF's are fully funded against donor commitments at the beginning of the year, to avoid problems caused by any disbursement delays
- Make monitoring and evaluation the next area of intensive focus for improvement of CHF's. For both CERF and CHF's, OCHA should lead in the design of reporting systems that emphasize results against assessed needs, rather than inputs
- Dedicate some CHF funding for local NGO capacity building and efforts to increase local participation
- Expand ERFs, particularly in countries vulnerable to sudden onset natural disasters where the ERFs have a funding advantage for small scale emergency needs. Funds potentially can be advanced or replenished by CERF or CHF's

**Step up donor coordination and strategy setting at the global and field levels.**

Through the GHD initiative and increased consultations, the major international humanitarian donors are doing more to align their policies and strategies than at any time previously. It is still not enough. The newly expanded financing toolbox presents an important opportunity for donors to strategically complement each other's funding programs.

- Increase the level of informal donor exchange on an ad hoc, as-needed basis

- Renew efforts to commit allocation plans to writing in a common matrix at the beginning of the year to rationalize planning between donors.
- Request that in-country donor representatives actively communicate and coordinate with other donors and the country level IASC as part of their core business, even if most funding continues to be bilateral
- Continue the effort to harmonize administrative requirements for recipients of bilateral grants

**While acknowledging inevitable tensions in the reform process, take steps to minimize unnecessary administrative burdens placed on providers as a result**

Donors and agencies should work together to identify what can be addressed within the three main sources of difficulty related to "projectization": 1) the proposal process set by the HC or CERF Secretariat; 2) internal agency administrative procedures and regulations (such as procurement); and 3) the monitoring and reporting requirements. None of these obstacles should be viewed as insurmountable. Agencies already have systems to track and monitor project activities that merely need to be tapped into (with a focus on results as opposed to inputs) by system-wide reporting framework. In addition, the internal administrative rules are governed, and may presumably be changed, by the executive committees on which the same donor governments participate.

**A final note: consider what's missing**

**HCs** - The lion's share of attention and emphasis in the reform process has been centered on financial mechanisms and funding coordination. Repeatedly however, interviewees stressed that strong and capable Humanitarian Coordinators remain the lynchpin to the system and the necessary condition to success. An evaluation and recommendations on the state of the HC strengthening pillar of reform is overdue.

**HQ vs. field costs** - It has been suggested that overly high headquarters-to-field expense ratios of UN agencies have been an important hindrance to improved coordination and performance on the ground. Though it is outside the scope of this study, it would be worthwhile examine overheads and staffing allocations to inform the larger humanitarian reform effort.

**Organizational preparedness resources and reserve funds** – It does not seem credible that an organization with a mandate to respond to humanitarian emergencies would lack an advance funding reserve for operational contingencies and immediate response. Yet, in large part because of the historical reactive nature of humanitarian funding, none but the largest NGOs and UN agencies have such funds, and they are typically too small to provide more than a kick-start to operations. The individual agencies, as well as their donors, bear a responsibility to ensure preparedness at all operational levels.

**Early Recovery** – Welcome attention from donors has recently been focused on the area of early recovery. As part of the ongoing discussion and research, a focused quantitative study on trends in early recovery funding over the past several years, one that takes into account the definitional/categorization difficulties surrounding ER activities, would be an important contribution.



# 1. Introduction

In mid-2003, the Good Humanitarian Donorship (GHD) initiative brought together the major aid contributing governments to codify a set of principles and good practice to guide their humanitarian funding. These included the goals of providing “adequate, predictable, and flexible”<sup>1</sup> contributions in an impartial and proportionate manner, according to needs above any other criterion. Over the following years humanitarian financing reform has centered around the concept of multilateral pooled funding, in which donors provide un-earmarked contributions to a common source from which allocations are made (by the Emergency Relief Coordinator at the global level and the Humanitarian Coordinators at country level) according to commonly defined strategic priorities. New international financing mechanisms, namely the expanded Central Emergency Response Fund (CERF) and common humanitarian funds at country level (CHF)<sup>2</sup>, were designed according to this model, and have been a centerpiece of the overall humanitarian reform agenda. A core group of humanitarian donors, spearheaded by the UK, has provided the impetus and the majority of funding to these mechanisms. These contributions represent, for some of donors, a significant departure from past modes of humanitarian funding.

To date the donors and the interagency community have carried out evaluations of the CERF and the other pooled funding mechanisms<sup>3</sup> independently of each other, but there has yet to be a comprehensive overview of the new tools in comparison with bilateral funding streams, examining how the various modalities might complement one another, and the implications for humanitarian financing and operations as a whole. Donors, a number of whom are engaged in their own reforms and strategic planning processes, wanted to know, among other things, whether one or another funding modality could be said to constitute best practice in humanitarian financing according to GHD principles. In July 2007, the GHD governments and the Inter-Agency Standing Committee (IASC) held a joint meeting aimed at strengthening the coordination of humanitarian financing decisions. At this meeting, participants agreed that the 2007-2008 GHD co-chair, the United States, would commission an external study to assess how the different financing mechanisms serve GHD principles and humanitarian goals, and whether and how these various modalities could be used to strategically complement each other.

## 1.1 Research objectives

This study aims to provide a meta-review of the recent research on new humanitarian financing arrangements, as well as an updated financial and qualitative analysis that

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<sup>1</sup> “Background to GHD,” GHD website, <http://www.goodhumanitarianandonorship.org/background.asp>

<sup>2</sup> Common funding for an overall country humanitarian action plan was first piloted in Sudan and DRC in 2006. Other, smaller examples predate these funds and include rapid emergency relief funds, multi-donor trust funds in post-conflict recovery scenarios, and thematic funds, for example HIV/AIDS and avian flu.

<sup>3</sup> Although the funds in DRC and Sudan are known by different names, this paper uses the term Common Humanitarian Fund (CHF) to refer to this specific type of mechanism in both countries. The term “pooled funding” refers to any type of common funding, including CERF, CHFs, ERFs, and other instruments.

attempts to measure the impact and costs and benefits of the various modalities. In particular, it was tasked to provide a descriptive mapping of the full range of humanitarian financing mechanisms available to donors and aid agencies; to identify their criteria and preferences in determining which financing mechanism(s) to use; and to assess the relative advantages and drawbacks of the different financing mechanisms in achieving GHD objectives of flexibility, timeliness, results, efficiency, coordination, capacity-building, predictability, building partnerships and strategy-setting. (The original Terms of Reference for the study are found in Annex 3.)

Because this is a study on humanitarian financing, it deals with only one narrow aspect of what goes into humanitarian performance and delivery on the ground. It proceeds on the assumption that effective and principled financing will contribute to better humanitarian outcomes for beneficiaries, which of course is the ultimate aim of the humanitarian endeavor.

## **1.2 Methodology**

The study consisted of key informant interviewing and a desk-based financial data and literature review. It employed both quantitative and qualitative approaches, with the research framework consisting of the following components:

### **Financial analysis**

Humanitarian financing data from 2002-2007 were compiled from OCHA's Financial Tracking Service database, augmented where necessary by OECD DAC figures, UN agency/NGO annual financial reports, and information provided directly by donors and agencies. As a baseline, the analysis used averages from the three-year period prior to humanitarian financing reform (2002-2004), against which to compare data from post-reform years, 2005-2007. It seeks to determine whether specific indicators have significantly changed in conjunction with the introduction of new financing mechanisms - i.e., whether their introduction corresponds to any positive progress (or negative developments) in humanitarian financing as per good donorship objectives.

### **Key informant interviews**

Interviews were conducted by telephone and in person in New York, Geneva, London and Brussels. Interviewees included representatives of GHD donors; the core UN humanitarian agencies as well as OCHA; the ICRC; and a selection of the major operational NGOs and NGO consortia. (A list of persons interviewed is appended as Annex 1.)

### **Document review**

Document research included reviewing findings from recent evaluations and assessments of humanitarian financing reform as well as donor and agency policy documentation and secondary literature. (Documents are listed in the References section, Annex 2.)

## **Consultation**

At key points in the process, the researcher shared progress and received feedback from GHD donors and IASC members as a group. An inception report, outlining the proposed methodology, assumptions, and some initial data findings was presented at the GHD-IASC conference in Montreux, February 2008, where participants approved the research plan and raised additional questions and issues to be explored. The working group of this body also received and discussed a subsequent progress report and research questions in meetings in April and June, 2008, and provided its combined feedback to the author. These contributions were incorporated into the research plan and final product.

## **1.3 Caveats**

This study was undertaken simultaneously with a major review of the CERF and a study of humanitarian overhead costs undertaken separately. Attempts were made by the three researchers to share findings during the course of their respective studies, but some overlap between them will be unavoidable. This study has attempted to address each mechanism broadly, as a component of an overall system, rather than provide a detailed performance assessment that would duplicate the other research. Finally, this is a headquarters-based study. While the author draws upon prior field research on the subject, some of this may be outdated, and most of the original interviewing was done with headquarters staff of donors and aid agencies as opposed to staff currently in the field. Views between the two tend to differ, with HQ personnel often more invested in organizational positions.

The FTS database relies on voluntary reporting from donors and organizations, which necessarily implies some limitations in the data. However, reporting has improved considerably in recent years, and FTS provides the most current and comprehensive set of compiled financing data from within the humanitarian system. Moreover, because the analysis uses aggregates and averages across years, donors, and countries in order to identify the broad trends, FTS was deemed sufficient for the purpose and the best available choice of sources. The data was augmented in the final analysis by a review of data from selected agencies.

## **2. The evolution of humanitarian financing: perennial challenges and new responses**

The bulk of the funding for international humanitarian assistance comes from the voluntary contributions of government donors, supporting the relief and recovery activities of international aid agencies<sup>4</sup> (including the agencies, funds and programs of the UN, the Red Cross/Red Crescent movement, and NGOs). Traditionally this funding

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<sup>4</sup> This financial analysis focuses on “official” humanitarian flows from governmental donors, as opposed to private sources, including remittances from diaspora populations. For rough estimates of these contributions see Development Initiatives, *Global Humanitarian Assistance: Update 2007/2008*, February 2008.

came mostly in the form of direct grants from the individual donors to individual agencies.

Often described as a patchwork operation, the international humanitarian system has for decades struggled with the challenge of coordinating the various independent funders and operational actors to achieve a more effective response to humanitarian crises. To sum up a considerable body of literature<sup>5</sup> and debate on the subject a single sentence, humanitarian response in the past has been hampered by financing modes that are inherently supply-driven and reactive. Critiques have underscored the funding inequities that resulted across countries and emergencies as relief aid dollars flowed according to the national interests of donors rather than on the basis of needs alone, and the coordination challenges caused when aid agencies competed for funding and donors competed for visibility of their contributions.

## **2.1 GHD and humanitarian reform**

In 2003, the Good Humanitarian Donorship (GHD) initiative established a set of principles to guide governments in their humanitarian funding and policy. The principles were endorsed at the first GHD Meeting in Stockholm in 2003 by 16 donor governments<sup>6</sup> and the European Commission. Together these donors account for the majority (over 90%) of international humanitarian funding. In consultation with the major humanitarian providers, the GHD donors agreed to jointly work toward the goals of timelier, more predictable, and more strictly needs-based financing for humanitarian response.

This donor initiative has been joined by a major program of reform on the provider side, centered in the United Nations humanitarian architecture. The humanitarian reform program was launched with the release of the Humanitarian Response Review in 2004, which highlighted weaknesses in coordination and in the performance of providers in specific sectors, leading to inadequate responses in Darfur and other recent humanitarian emergencies. The reform effort consists of four major components, including the “cluster approach” to coordination that seeks to ensure capacity and leadership responsibility in sectors, strengthening of the Humanitarian Coordinator role, and improving partnerships between UN and non-UN humanitarian actors. The fourth component, reform of humanitarian financing, is linked to the GHD initiative in addressing the need to provide “adequate, timely and flexible funding”<sup>7</sup> for humanitarian response.

GHD does not define best practice in terms of any particular financing modality or instrument, but rather in terms of the above goals. The humanitarian reform process has focused efforts on specific financing innovations that seek to achieve those goals. Led by the UN Emergency Relief Coordinator (ERC) and the UN Office for the Coordination of Humanitarian Assistance (OCHA), the innovations derive from the notion that the goals of fast, effective and flexible implementation of aid require sufficient volume and

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<sup>5</sup> For example Macrae, 2002; Smillie and Minear, 2003.

<sup>6</sup> The original government participants were Australia, Belgium, Canada, Denmark, France, Finland, Germany, Ireland, Japan, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, the UK and the US

<sup>7</sup> OCHA, “CERF and Humanitarian Reform” <[ochaonline.un.org](http://ochaonline.un.org)>

liquidity of funds - funds which can be allocated not on the basis of donor decisions, but rather through an identification of priority needs on the ground. The expanded CERF allows donors to contribute to a global pool of money that the ERC can allocate to sudden onset emergencies or to underfunded, chronic crises. The Common Humanitarian Funds (CHF) apply the same model at the country level. Donors funding aid efforts in the DRC and Sudan now have the added option of contributing to a pool from which the Humanitarian Coordinator (HC) makes allocation decisions. The CHFs, which like the CERF became operational in 2006, are planned to be duplicated in other countries, beginning with Ethiopia and the Central African Republic. At the micro-level, Emergency Response Funds, or ERFs, have been used in a handful of countries since 1996 and have attracted new attention within the reform process as effective means to provide pre-positioned supplies and funding for rapid response to small-scale, unforeseen needs within countries.

The design of the three mechanisms speaks to the fact that the critical deficit in humanitarian financing is not coordination or volume (although these are both major concerns), but rather its failure to establish adequate *preparedness* in the system. Preparedness is critical to timely and effective response, and advance, unrestricted funding is critical to preparedness.

By all appraisals, the new financing mechanisms have been implemented with remarkable speed. In just two years, for example, the CERF has raised and implemented over \$680 million in humanitarian funding (combined 2006 and 2007) and at \$117 million (2007), the CHF in the DRC has become the largest single source of humanitarian funding in that country. The Inter-agency Standing Committee on humanitarian affairs (IASC), donor governments, and individual humanitarian agencies have undertaken or commissioned various reviews and evaluations of the new mechanisms as they have been rolled out and begun operating.

## 2.2 The current landscape

Over the past several years humanitarian funding resources have increased, new donors have emerged, and the humanitarian footprint has expanded in the field.<sup>8</sup> Unfortunately, the numbers of humanitarian emergencies - particularly small-scale natural disasters related to climate change - continued to increase as well. The IFRC reports that in 2004-2008 floods accounted for a quarter of all emergencies requiring a humanitarian response, followed by cyclones and earthquakes, and most of these emergencies were small- to-medium in scale.<sup>9</sup> The number of CAPs and Flash Appeals in 2007 (30) was more than double the number in 2000.

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<sup>8</sup> The major humanitarian organizations have increased their staffs and program portfolios in past years. The number of aid workers in the field grew from roughly 136,000 in 1997 to over 242,000 in 2005. (Stoddard, Harmer, Haver, *Providing Aid in Secure Environments*, 2006)

<sup>9</sup> IFRC, "Red Cross/Red Crescent Emergency Responses in 2004-2008" (Unpublished data report provided to the study) 2008, 14.

Governmental donors seeking to support international humanitarian action may choose among the following primary established channels, listed below in descending order of current “market share”:<sup>10</sup>

- 1) Restricted grants to individual agencies for specific programs or projects
- 2) Unrestricted or loosely restricted grants to individual agencies to support their global or regional programs/ budgets
- 3) Global multilateral contributions to the CERF
- 4) Country-level multilateral contributions to the CHFs
- 5) Grants to support humanitarian action by the affected government

Some government donors have also contracted private sector actors for humanitarian activities, but this practice has for the most part been restricted to larger scale reconstruction efforts.

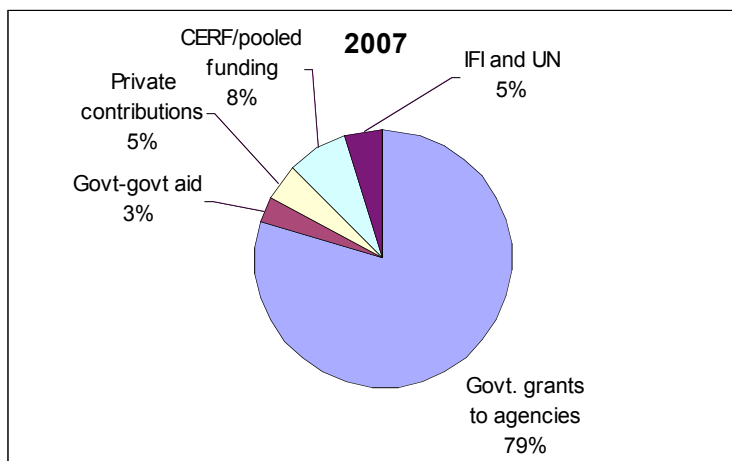
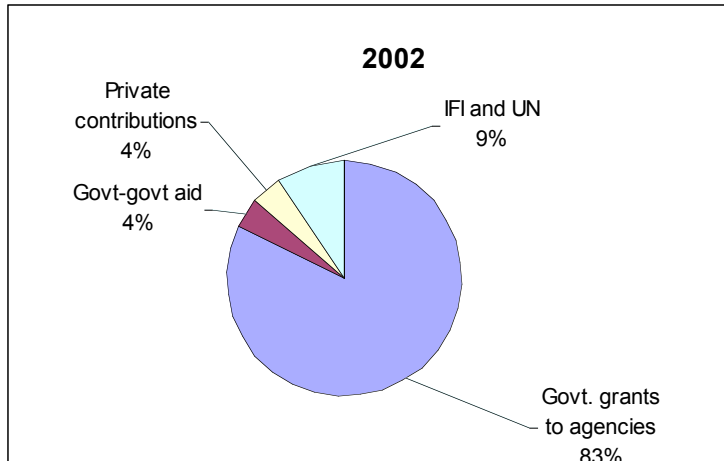
In terms of humanitarian funding for specific emergency response efforts, as the charts below illustrate, bilateral government funding to individual aid agencies for specific programs continues to represent by far the largest share (roughly 80 percent) of contributions. The establishment of the CERF and CHFs has cut into this slightly, and together these pooled funding mechanisms now represent eight percent of the total, while government-government aid<sup>11</sup> and private contributions have stayed fairly stable over the years, at around four percent of the total. Whether this eight percent now controlled by the new multilateral mechanisms can already be shown to have altered the profile of recipient agencies, or to have affected other financing trends, is the subject of the next section.

**Figure 1: The composition of humanitarian funding in 2002 and 2007**

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<sup>10</sup> According to FTS data, 2002-2007, current as of May 2008.

<sup>11</sup> However, non-DAC government donors tend to favor this channel above all others, and their contributions may not be fully captured by FTS (Harmer and Cotterrell, 2005).



### 3. Financial analysis of humanitarian funding before and after financing reforms

The study examined humanitarian funding data for the past seven years in order to identify any noteworthy trends that may have been affected - or caused by - reform of the international aid financing architecture. The new multilateral mechanisms have only been in existence since 2006,<sup>12</sup> making it difficult to draw firm conclusions from such a brief window of time. Nevertheless, any marked changes we can observe between the periods before and after the financial reforms, particularly those involving the recipient countries and donors most directly involved in the new mechanisms, can be reasonably considered as pertinent evidence in the assessment.

<sup>12</sup> However, CHF precursor models were initiated in Sudan and DRC in 2005, and the first ERF was established in 1996 (Angola)

What was of interest to the study was whether the introduction of the new multilateral funding mechanisms (the CERF and the CHF/ERFs) contributed to growth in humanitarian aid volume, overall and in the specific countries of operation, and what changes they have brought about in the market shares of donors and recipient agencies. Additionally, the study sought to determine whether the global financial data reveal any of the administrative/operational implications stemming from the different modalities.

The analysis took funding data for the years 2002-2007, compiled from OCHA's Financial Tracking Service (FTS), with figures current as of May 9, 2008, and given in nominal (non-deflated) dollars. A word about the source of data: despite some limitations of the FTS database, which relies on voluntary reporting by donor governments, this instrument has improved significantly in accuracy and coverage since its inception, and provides the most current and comprehensive set of humanitarian financing data available. Because the analysis uses aggregates and averages across years, donors, and countries in order to identify the broad trends, FTS was deemed sufficient for the purpose and the best available choice of sources. However, as noted above, government to government contributions by non-DAC donors are likely under-counted. In addition, because FTS tracks humanitarian contributions to specific emergencies, it fails to capture one important funding modality, which is government contributions to the multilaterally-funded core budgets of agencies such as UNHCR, ICRC, and WFP. This type of funding was therefore examined separately, using donor and agency budget information.

The study focused on the funding behavior of two main donor groups over this time period. One is the group of five "mid-level" humanitarian donors, which have been the most engaged in the new multilateral instruments and which comprise the top five donors to the CERF: the United Kingdom, the Netherlands, Sweden, Norway and Canada. Data from this group were compared with the top two largest bilateral humanitarian donors, the United States and the European Community Humanitarian Office (ECHO). Combined, these two donor groups accounted for 82% of official humanitarian contributions from 2000 to 2007. Other large and/or increasingly active humanitarian contributors such as Japan, Germany, Switzerland and Denmark, among others are noted in comparison. In addition to aggregate global funding of these groups, the analysis focused on funding patterns in the CHF pilot countries of the DRC and Sudan, comparing them to other emergency cases where multilateral funding mechanisms had not been employed.

What follows are the main findings from the global financing data and some conclusions regarding the changes evidenced since the new mechanisms were introduced. Annual funding levels were adjusted to control for the unusual spikes in aid totals resulting from Iraq crisis response in 2003, and the Indian Ocean earthquake/tsunami response in 2005, which would otherwise skew the findings.<sup>13</sup>

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<sup>13</sup> These two emergencies each garnered contribution totals in excess of three standard deviations from the mean for those years - significantly greater than any other emergency response during the total time period.



### 3.1 Global trends

- **Financial reform years show accelerated growth in government humanitarian contributions**

In general, the long-term trend of humanitarian giving continues upward. The research organization Development Initiatives, which tracks and analyzes aid financing data, has illustrated the continued long-term rise, noting further that current humanitarian aid levels are “significantly higher” than for any year (previous to 2005 which saw unusually high numbers due to the tsunami response.)<sup>14</sup> Humanitarian contributions naturally fluctuate from year to year with the number and scale of emergencies occurring, which is why it is crucial to look at trends over longer periods of time rather than annual totals. Even overall upward-downward trend analysis is limited in what it can tell us about the underlying dynamics in giving, however. For the purposes of comparing humanitarian contributions in the post-reform years to the prior period, it is perhaps more useful to look at changes in the average rates of growth between periods, as this can potentially tell us if the funding patterns constitute a *step change* in contribution amounts, irrespective of global conditions year-to-year.

As the below table shows, if one compares the past three years since financing reforms were enacted (2005-2007) to the previous three-year period (2002-2004), and controlling for the tsunami and Iraq effects in each period, the average annual growth rate (percent change) in total government humanitarian contributions is seen to have more than doubled, from 7% to 18%.

**Table 1: Growth rate of humanitarian contributions from governments (less Iraq and tsunami aid)**

Year	Total humanitarian contributions* (USD billions)	Percent change from previous year
2002	4.4	19%
2003	3.7	-16%
2004	4.4	19%
2005	6.2	41%
2006	6.6	6%
2007	7.0	6%
<i>Average 2002-2004</i>	<i>\$4.2 billion</i>	<i>7%</i>
<i>Average 2005-2007</i>	<i>\$6.6 billion</i>	<i>18%</i>

- **The increase in the growth rate of humanitarian funding is driven by the group of donors most engaged in the new financing mechanisms**

If one accepts the study's conclusion that the overall levels of humanitarian aid are rising in a significant way, the question then turns to the drivers of this aid growth: are there more donors contributing, or are some donors contributing more?

<sup>14</sup> Development Initiatives, *Global Humanitarian Assistance: Update 2007/2008*, February 2008.

In terms of donor participation, the reform years do show a jump in the number of individual government donors contributing to international humanitarian response efforts, from 71 in 2002, to 101 in 2007 (or a yearly average of 74 in the first period and 107 in the second). As welcome a development as this is, however, it cannot be credited with the rise in the overall level of humanitarian funding. The average contribution of the newest donors, mostly developing countries, was in the area of \$22,000. Rather, the uptick has been driven by increased funding from governments who are already among the largest humanitarian donors. While nearly all the major humanitarian donors show an upward trend in funding, the growth has been largest in the group of donors who participate most actively in the new funding mechanisms: the UK, Netherlands, Norway, Sweden, and Canada. This group comprises most of the second-tier of largest donors under the US and ECHO, and represents the top five donors to the CERF, as well as to the CHF's in Sudan and DRC. For the purposes of comparison in this analysis, this group will be referred to as the “top 5 CERF donors.”

The humanitarian contributions from the top five CERF donors have grown over three times as fast as that of the top two donors, the US and ECHO. Although US and ECHO contribute greater amounts overall, their combined average annual growth since 2002 was 9% compared to a 30% combined average annual increase from the top 5 CERF donors. Below, Table 2 shows how combined contributions from the Top 5 CERF donors more than doubled from the period prior to reforms.

**Table 2: Comparative growth in contributions from the major humanitarian donors**

	Avg. annual contribution 2002-2004	Avg. annual contribution 2005-2007	Percent change	Percent change from 02-05 to 06-07
US and ECHO	2,226,044,162	3,036,612,645	<b>36%</b>	22%
Top 5 CERF donors	827,354,647	1,694,378,405	<b>105%</b>	97%

In order to isolate the years when CERF and CHF's became fully operational, the far right column in the above table additionally shows the growth of those two years relative to the four years previous.

The top 5 CERF donor group, by significantly increasing humanitarian contributions relative to other donors in the system, has increased its overall share of government contributions, as shown in Figure 2, below.

## Figure 2: Changing shares of major donor groups

One will note from Tables 1 and 2 the rise in growth rate of the second time period is driven by a jump in contributions in 2005 (even controlling for tsunami contributions). In 2005 humanitarian reforms and financial innovations were underway, but CERF was not yet operational and the CHFs in Sudan and DRC had not begun in earnest. This shows that the greater volumes of humanitarian funds contributed by this group of donors had begun in advance of the mechanisms, most likely driven by their own humanitarian strategies and ODA targets. Four of the OECD DAC members that have committed to increasing their official foreign aid to .7% by 2015, have already met or exceeded this target. Humanitarian aid is keeping pace with the overall growth in foreign aid, holding steady at approximately 10%. It can therefore be concluded that the pooled funding mechanisms were at least as much an enabling factor as an impetus to the increased generosity.

- **Overall, donors have decreased the share of their contributions going directly to NGOs and Red Cross societies**

As humanitarian contributions have increased, all major categories of recipient agencies (UN, NGO and IFRC/Red Cross societies, and the ICRC) have seen their funding rise. However, the new multilateral funding mechanisms have increased the share commanded by the UN agencies, since all CERF allocations, and the bulk of CHF allocations are directed to UN agencies, to then be sub-granted to NGOs and other partners. UN agencies received, on average, 60% of direct government funding to emergencies in 2006 and 2007, compared to an average of 58% in the previous years. The average NGO share dropped from 31% to 29%. ICRC, however, which does not partake of pooled funding allocations, saw an increase in its share of direct government contributions.

**Table 3: Provider shares of total government contributions for emergencies**

	Govt funding	UN	%	NGO & IFRC	%	ICRC	%
2002	4,442,493,779	2,628,218,206	59%	1,242,216,133	28%	235,299,373	5%
2003	3,680,949,554	2,290,935,103	62%	977,653,044	27%	137,195,537	4%
2004	4,376,618,259	2,487,634,165	57%	1,460,650,173	33%	176,861,593	4%
2005	6,183,946,878	3,434,278,502	56%	2,027,146,364	33%	333,268,248	5%
2006	6,599,407,615	3,862,114,991	59%	1,944,460,473	29%	396,746,651	6%
2007	7,004,066,354	4,279,502,671	61%	1,971,289,549	28%	375,887,627	5%
Avg 2002-2005	4,671,002,118	2,710,266,494	58%	1,426,916,429	31%	220,656,188	5%
Avg 2006-2007	6,801,736,985	4,070,808,831	60%	1,957,875,011	29%	386,317,139	6%

The changes in composition of recipients are more marked when viewed at the level of individual donors. For example, the UK and Sweden decreased the average shares of their funding going directly to humanitarian NGOs by 43% and 23% respectively in the years since the new mechanisms became operational. This trend was partially mitigated by other donors in the top five CERF donor group, who increased their share of funding to non-UN providers such as Norway and the Netherlands.

On an individual agency level this means that NGOs and national Red Cross societies are receiving a greater portion of their official funding through UN channels, which has administrative and operational implications. At the systems level it sounds a note of caution: if changes in the composition of funding can be evidenced from two years of operation of the CERF and CHF and only two countries, as these mechanisms are enlarged and expanded, it may signal a consolidation of funding through the UN channel that, some would argue, detracts from flexibility and independence of humanitarian providers.

▪ **Overall, pooled funding has not detracted from the core UN humanitarian agencies' direct bilateral support or core contributions**

Evidently, allocations from the CERF and pooled funds have not cut into UN agencies' direct bilateral support from governments, as some had feared. According to FTS data, bilateral grants to WFP, UNHCR, and UNICEF for humanitarian response increased in parallel with the introduction of the CERF and CHFs. In addition, according to donor and agency financial reports and interviews, their core budget support from governments (meaning unrestricted or loosely restricted contributions to their global program budgets) has, for now, remained mostly stable.

**Table 4: Funding from direct government grants only (excluding Iraq and tsunami contributions) in USD millions**

Average for years:	WFP	UNHCR	UNICEF
2002-05	1,544	413	318
2006-07	1,817	536	367
% change	18%	30%	16%

Although they do not claim that their direct operational funding has decreased overall, agencies point out that *some* donors (among the top 5 CERF donor group) have reduced their direct contributions, and this poses a problem because these donors happen to be among the “best” donors in terms of their flexibility of funding.

- **Funding relative to stated needs has risen slightly, and global sectors have show improved coverage of requirements, and**
- **Humanitarian funding of early recovery activities in particular seems to be increasing**

The level of global contributions relative to global estimated needs has remained fairly stable over the six-year period examined. For the purposes of this analysis, humanitarian needs are represented by joint funding requests in CAPs, Flash Appeals, and Common Plans, which are compiled by OCHA annually.<sup>15</sup>

At the global level, the question of how contributions have kept pace with needs was approached in two ways. First, as a ratio of total contributions (both inside and outside of appeals) to total emergency requirements; as this can broadly signify how donor funding levels have correlated with rise and fall of the level of emergency needs over time. Second, the analysis looked at contributions directed to the appeals themselves: the average rate of coverage of combined appeals from year to year.

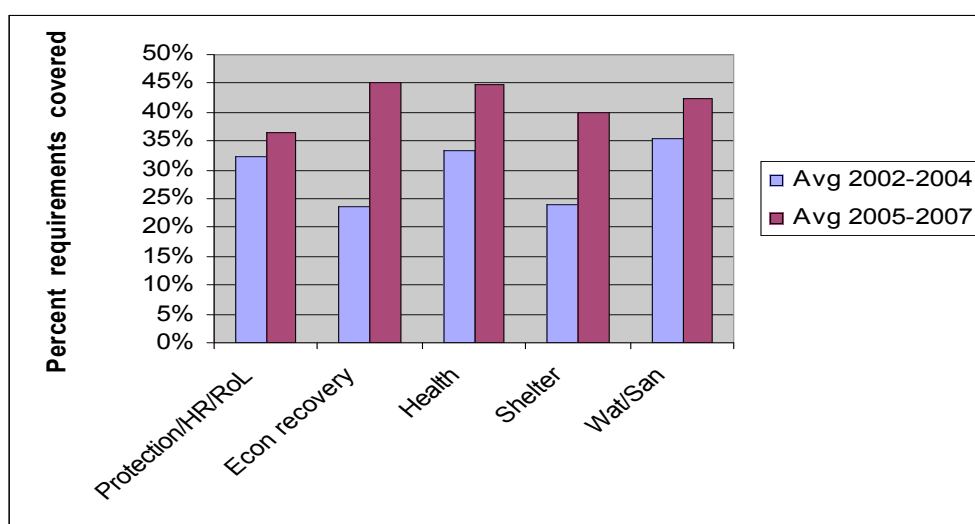
In the first instance, overall contributions have grown just slightly faster than requirements (appeal numbers) have, with an average annual ratio - contributions to requirements - of 1.3 in 2002-2004, and 1.4 in 2005-2007. On the other hand, combined coverage inside of appeals and common plans has gone down slightly: from a 69% annual average in the first period to 66% in the second.

<sup>15</sup> Using the combined requests of agencies to approximate humanitarian need is inherently problematic, as the figures represent not so much what beneficiaries actually need, but rather what providers can and hope to provide. Moreover, the quality of appeals varies: at their worst they have been criticized as multiple wish lists, stapled together. The better ones derive from joint assessments and planning processes and possess a strategic coherence. The fact remains that for this type of analysis they represent the best available proxy for need.

**Table 5: Humanitarian funding measured against requirements**

Year	Ratio of total humanitarian contributions to total requirements	Percent funding coverage of combined appeals
2002	1.11	67%
2003	1.39	76%
2004	1.33	64%
2005	1.37	61%
2006	1.45	66%
2007	1.39	72%
<i>Average 2002-2004</i>	<i>1.28</i>	<i>69%</i>
<i>Average 2005-2007</i>	<i>1.40</i>	<i>66%</i>

**Figure 5: Funding of five sample sectors against requirements, globally**



The largest rise in funding against needs has been seen in the area of the early/economic recovery sector, reflecting the use of the CHF mechanisms to broaden the definition of humanitarian response in order to address transitional and early recovery needs. (The CERF has been more restrictive than the CHFs in funding non-lifesaving or non-core humanitarian activities.) However, because the common definition of what constitutes “early recovery” is still evolving, this apparent jump in ER funding may be due in some part also to the re-categorizing of early activities that formerly were counted under other sectors.<sup>16</sup> Without an in-depth financial study on the entirety funding needs and specific

<sup>16</sup> FTS has used the label “Economic Recovery” in the past to count a more restricted definition of activities to do with infrastructure and economic assistance rather than livelihoods and governance that are now seen to constitute an important part of early recovery.

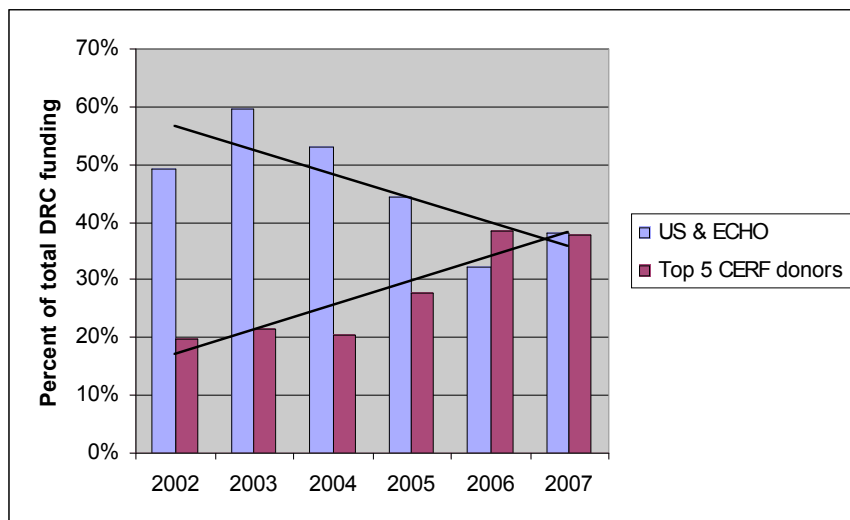
activities counted toward early recovery, it has not been possible to quantify the “early recovery gap” with hard numbers. Consequently, it would be premature to conclude that funding coverage has greatly improved. Rather, what the data suggest is that humanitarian donors and providers are increasingly conceiving and expanding their role in this sphere of action.

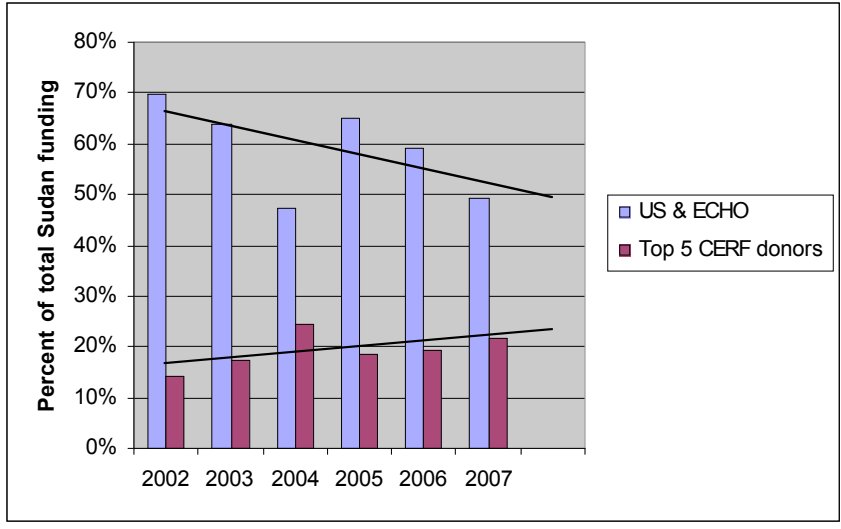
### 3.2 Country-level trends

- **Additionality from core reform donors seen also in DRC and Sudan**

Similar to the CERF, the CHF in DRC and Sudan have enabled certain donors to channel significantly greater volumes of humanitarian aid. CHF participating donors (who are also the top 5 CERF donors) have increased their funding to the DRC fourfold after the CHF was established - more than twice the increase seen from the rest of the donor community. When combined with their percentage of CERF allocations to those countries, it becomes clear how this group of donors has not only increased their overall volumes, but also their share of total funding relative to the two largest donors. This dynamic is more pronounced in DRC where the CHF is a much more important source of total funding (and in fact represents the largest single source). Yet even in Sudan, where the overall amounts are much larger, and the CHF represents only 8% of total humanitarian funding going into the country, one can see an upward trend in the proportion of funding contributed by the CHF participating donors. In contrast, the same dynamic was not seen in humanitarian responses in countries without CHFs, such as Chad, Ethiopia, and Afghanistan. Although the same donors were also contributing in those cases as well, their combined share of aid flows went down relative to the total in all three cases.

**Figure 6: Humanitarian flows to DRC and Sudan**

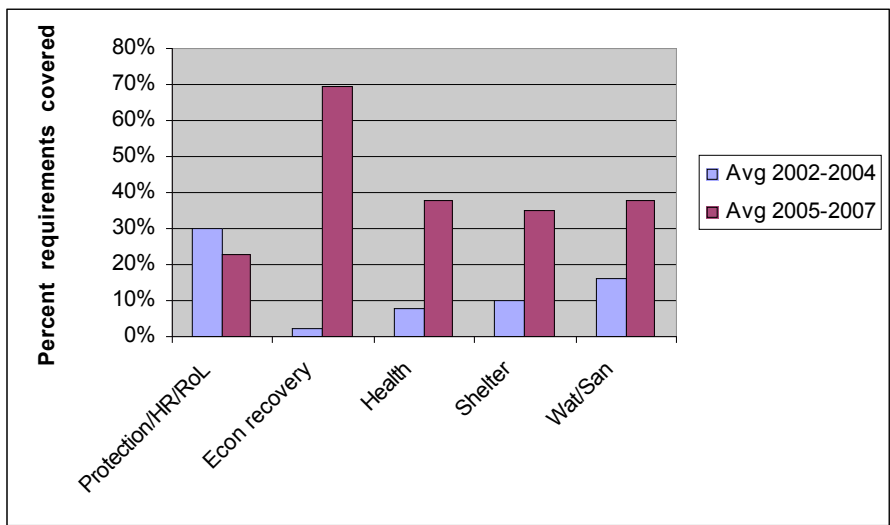




▪ **Improved sectoral coverage apparent in DRC, but not Sudan**

Whereas the inception of the CERF was seen to correlate with some improvements in global coverage of needs across sectors, at the country level this phenomenon was mirrored only in DRC, not Sudan. Since in DRC the CHF is the largest single funding source, this finding would indicate that a greater proportion of multilateral funding and field-based allocations results in equalizing effects across sectors in terms of coverage of needs. In Sudan, in contrast, where the CHF represents only a small percentage of the total humanitarian aid flows, coverage of sectors is more in keeping with other typical emergency funding profiles: e.g. food needs are funded at around 80%, while the protection sector has been funded at a third or less of stated requirements.

**Figure 7: Coverage of five sample sectors in DRC**





In conclusion, the financial analysis found that the establishment of the new multilateral funding mechanisms has enabled greater volumes of humanitarian aid to enter the system; and that from the donor and system perspective, the new funding has been largely additional. UN agencies have not seen a drop in their bilateral funding globally, nor in the CHF countries (except from specific donors - overall their bilateral has increased as well). NGOs have seen greater funding overall, but with the onset of the new multilateral mechanisms an observably smaller percentage of it is coming from direct bilateral grants, as more is being channeled through the UN. Funding as a percentage of needs has increased across sectors, particularly in early recovery. On the basis of the financing data alone it would be reasonable to conclude that the new mechanisms have had a salutary effect on the overall volume and sectoral distribution of humanitarian resources. The global and country dollar figures do not provide the whole picture, of course, and may in fact obscure the drawbacks and difficulties related to the disbursement and end-use of the contributions at the field level. The next section will address some of these issues as it examines qualitative evidence regarding the comparative advantages and disadvantages of the various funding channels.

#### **4. Comparative assessment of funding instruments**

As a headquarters-based global review, this report does not attempt to describe in detail the functioning of the various humanitarian financing mechanisms, or to assess them by every effectiveness measure. Rather, it assesses broadly how each mechanism serves to advance GHD objectives or not, and identifies the ways in which they may complement or conflict with each other. Before examining each mechanism, however, it is necessary to clarify what is being measured and make note of certain tensions:

##### **Direct vs. indirect objectives**

The GHD financing principles, summarized below, can be categorized as either direct objectives (pertaining to how the money flows) or indirect objectives (having a secondary, performance enhancing purpose). This is because the donors' responsibilities and interests lie not only in ensuring that money is timely and flexible, but also that the operational agencies are capable of delivering aid fast and well once they receive the funds.

- **Direct objectives:** flexibility, predictability, timeliness, efficiency
- **Indirect objectives:** coordination-strengthening and strategy setting, capacity-building, partnership-development,

GHD donors have recognized that at times the direct and indirect objectives may be in conflict with each other.<sup>17</sup> For instance, strengthening coordination may impede

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<sup>17</sup> Good Humanitarian Donorship Initiative, "Chairs' summary of a meeting between the Good Humanitarian Donorship Initiative and Inter-agency Standing Committee," 20th July 2007, Geneva, 3.

timeliness – as when agencies coordinate their emergency requests to donors in a Flash Appeal, that appeal will be only as fast as the slowest agency to put their plans on paper.

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

**Birth pains versus birth defects:** Do the unintended consequences and perceived negative effects on operational agencies reflect short-term, start-up difficulties of the new financing mechanisms, or do they signify more fundamental problems?

**System-level vs. agency-specific advantages and disadvantages:** Finally, a tension exists between system level and individual agency perspectives and definitions of each of these objectives. While the new multilateral financing mechanisms may create additional predictability and flexibility for the humanitarian system as a whole, individual agencies have pointed to a loss of predictability and flexibility in terms of their own programming as a result of the altered funding modalities.

Keeping in mind these tensions, the major funding modalities are examined below against the direct and indirect objectives for financing set out in the GHD principles.

## **4.1 Bilateral, project-based funding to agencies**

### **Assessment against GHD objectives**

Project-based funding from donor to agency may be the most flexible tool at a donor’s disposal, as it can control more precisely where and how its funding is used, but by nature it limits the flexibility of the implementing agency. Typically the grant has been awarded based on a negotiated proposal, detailing the timeframe and location within the country where it will be undertaken. By expanding this type of funding to encompass a larger geographic or thematic “program,” encompassing many different projects or activities, gives the aid organization the benefit of more flexibility, particularly for when conditions change, and less of an administrative burden. Such program-based funding is more often granted to UN agencies with country programs, however, as opposed to NGOs.

In bilateral grant funding, agencies and NGOs describe “predictability” as based on relationships with donors and expectations deriving from past experience, more than

anything concrete. When an agency and a donor have a long-standing working relationship, it can indeed be a predictable form of funding for that recipient. However, because this type of funding is based on donor preferences, and may ride on changing government priorities, special earmarks from legislative bodies, etc., it is inherently the *least* predictable funding source for an aid agency,

Some donors are trying to make their bilateral funding less reactive and more predictable by increasing their upfront budget allocations. Both the US (Office of Foreign Disaster Assistance) and the Netherlands, for instance, are pushing for increased budget allocations at the beginning of the year so that additional needs will not have to be funded through supplementals, and more planning can take place earlier on. Most government donor agencies can reasonably estimate their budget needs for a year of humanitarian response requirements, and the more they can secure upfront, the more predictability and timeliness benefit. It can also decrease the politicization of humanitarian funding if it is the donor agency (and not members of Congress or Parliament) who are making the funding decisions when the emergencies occur.

Efficiency is not the strong suit of this funding modality. Each bilateral grant or contract vehicle generates its own paperwork and staff-time requirements on the part of both donor and implementing agency. Depending on the organization's or donor's requirements, each project, no matter how small, may also need to implement separate and distinct procurement procedures, even for items being used by the same organization elsewhere in the country. This adds to monetary and human resources costs. As with flexibility, efficiency gains are made when projects are streamlined into programs, with various projects becoming "objectives" within a larger framework.

Bilateral project funding also does not have any inherent coordination strengthening attributes. Rather, many have blamed the competition over direct government grants for past coordination difficulties. However, bilateral donors can and have effectively exercised their will to enhance coordination by making it a requirement for recipient organizations to rationalize their proposed activities with what the rest of the aid community is doing in-country, and coordinate with other actors to ensure no duplication. This requires a conscious effort on the part of the donor organization.

Bilateral funding can be used to good effect in capacity building efforts. Some donors have funding programs that require agencies and international NGOs to partner with or mentor local organizations and to engage in capacity building within project activities. Such partnerships can be used to circumvent financial regulations and other obstacles to funding local NGOs directly, or as a stepping stone to enabling the local NGO to apply directly for international funds. Again, this would depend on how much emphasis the individual donor places on capacity building. Similarly, this type of funding has no structural implications for partnership development, so if a bilateral donor held this as an important goal, it would have to specifically tailor its grant funding requirements - such as certain grant umbrella grant vehicles - to achieve this.

### **Complementarities/conflicts**

If donors have not coordinated their strategies, bilateral funding may conflict with the coordination strengthening goals of multilateral funding. Reviews of the CHF found that common funding provided a significant incentive for actors to participate in joint planning and prioritization of humanitarian interventions. Bilateral funding that is easily available outside the common planning/funding mechanism could only provide a disincentive to coordination. Conversely, with good donor coordination, bilateral project-based funding can complement the CHF in at least two important ways: 1) by funding interventions by humanitarian actors such as ICRC and MSF, who for reasons of mandate and principle remain independent of humanitarian coordination structures, and 2) by supporting certain programs that are regionally based or multiyear in scope, or for other reasons fall outside the parameters of the common humanitarian action plan.

## **4.2 Core funding to international organizations/agencies**

There is no common accounting definition of what constitutes “core funding” for humanitarian agencies. NGOs typically fund large portions of their core budgets through indirect cost percentages on grants. UNHCR receives annual contributions from governments to fund its global programme budget (e.g. over \$300 million annually from its largest donor, the US Department of State's Bureau for Population Refugees and Migration), and tracks what percentages of these funds are completely unrestricted or have been directed by the donor to a region or thematic purpose. One agency, WFP, maintains a budget structure that does not differentiate restricted from unrestricted contributions. For the purposes of this study, core funding is considered as the annual contributions to humanitarian agencies that are unrestricted or loosely restricted by donors (though often reflecting a budget approved by the agency's Executive Board). To date, this funding has been confined mainly to the large UN agencies, although some NGOs have received smaller core funding or capacity building grants in the past. Because the FTS tracks funding to particular emergencies, a good portion of core funding is not captured and so remains a somewhat unsung but highly important modality, particularly when it comes to building preparedness at the agency level.

### **Assessment against GHD objectives**

From the individual agencies' standpoint, unrestricted funding offers by definition the most flexibility for programming, and is a key resource for and institutional development and capacity building.

Judging from annual contribution totals since 2002, core contributions have been a reasonably predictable funding source for the major humanitarian agencies of the UN (and as shown in the previous section, do not seem to have been affected by donors diverting funding to multilateral mechanisms). Less contingent on the vagaries of legislatures than bilateral project grant funding, core contributions can nevertheless be affected by downward pressures on foreign aid budgets. In at least one case, the donor

agency has kept its core funding stable through supplemental allocations, admitting this is not an ideal situation.

This funding modality has the most direct and important benefit in terms of building preparedness and operational capacity for individual agencies, both essential for more timely responses. A percentage of US PRM funding goes specifically to these emergency operational reserves, and ECHO's thematic financing has been used by this donor in efforts to kick-start capacity building for agencies (in 2007 it was directed to support the cluster system. Although it is not unrestricted core funding per se, other types of capacity building grants can be used as seed funding for innovations and new capacities that are later mainstreamed (for instance the funding that supported the development of ReliefWeb and Irin).

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

#### **Complementarities/conflicts**

Core funding, in particular when used to build up operational reserve funds, is a direct and important complement to the CERF in bolstering the ability of international humanitarian actors to respond rapidly to emergencies. Operational reserves tend to be inadequate to carry out a sustained response to a major emergency, but they can give the necessary liquidity to begin operations in advance of project grants approval and disbursements. Reserve funding can provide stopgap funding - necessary, even the with shortened disbursement time of the CERF allocations. Duplication may occur, however, if capacity building initiatives are not coordinated with partner agencies.

### **4.3 Global pooled funding: the expanded CERF**

In 2006, its first year of operation, the CERF received \$299 million in contributions and made \$257 million in allocations. In 2007 it received \$386 million and allocated \$355 million, reaching 5% of total humanitarian flows to emergencies. At the time of this writing, midway through 2008, the CERF had reached \$430 million, nearing the original target of \$500 million in humanitarian funding to be allocated at the discretion of the Emergency Relief Coordinator, and some were speculating that it could reach as high as \$1 billion if the target were set higher.

#### **Assessment against GHD objectives**

In terms of flexibility, the CERF highlights the split between agency and overall system perspectives. On the one hand it provides an unprecedented source of advance, flexible funds to be directed by the ERC to priority humanitarian needs worldwide irrespective of any donor's national interests. And through allocations to chronic, underfunded crises it provides redress for "forgotten emergencies." For the system, therefore, it has not only lent major additional funding flexibility, but also provided a powerful tool to strengthen coordination and joint strategic planning. On the other hand, while the UN humanitarian

agencies have benefitted from increased funding due to the CERF, they take quite a different view of the flexibility benefits. They have found the CERF funding parameters less than flexible in terms of addressing some of their own programming priorities, and have not been able to use it to address certain areas that in their view already receive too little donor attention (in the case of UNICEF, these are education and child protection.)

NGOs, which are not eligible for direct funding from CERF, of course see even fewer agency-level benefits in terms of flexibility. They have seen their funding levels rise as UN agencies have sub-granted CERF money through partnership agreements, but projects tend to be smaller and more circumscribed than projects that are independently designed and funded through bilateral grants. One or two NGOs have spoken out strongly against the CERF, seeing their traditional bilateral funding relationships weaken as certain donors direct more through this channel.<sup>18</sup> Other large NGOs have concluded that CERF, while an effective tool for UN funding and coordination is simply not in their interests, and the sub-granting has often been more trouble (with delays and administrative burden) than it is worth.<sup>19</sup>

The IFRC also does not receive allocations from CERF, but maintains its own multilaterally funded rapid response mechanism, the Disaster Relief Emergency Fund (DREF). In IFRC's view, the CERF (and the other humanitarian reforms) does not address one of the most serious humanitarian challenges, which is the increase in small-to-medium scale natural disasters brought about by climate change. CERF allocations are made per country (though for individually vetted and approved projects) and they tend to be in the millions (under \$1 million is widely viewed as not worth the effort involved in putting together a CERF appeal). The average DREF allocation, in contrast, is in the low hundreds of thousands. The DREF can also release funds in hours rather than days. In terms of timeliness, there is little question that the CERF can move money faster than most bilateral granting mechanisms, and it is currently making some administrative changes that will speed up the approval process further (e.g. a standardized, umbrella Letter of Agreement for all the UN agencies). However, because requests are based on coordinated appeals for multiple agency projects (the Flash Appeals), it would be virtually impossible to reduce the request-approval-disbursement time for CERF allocations below a few days from the start of the process, let alone from the onset of the emergency. This has led some to conclude that CERF works better for conflict-related emergencies, where needs are higher, longer-lasting and funding allocations can be slower and larger. In any event it would seem to put to rest any suggestion that the presence of the CERF obviates the need for agency internal reserves - these are still critical to support immediate lifesaving activities in the interim.

Like the CHF's the CERF has proven an attractive funding channel for donors seeking to streamline and/or raise the volume of their funding. A common refrain heard among many of the mid-level donors was the dilemma of becoming "richer but leaner" meaning they had more funding to allocate for humanitarian purposes but the same or fewer

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<sup>18</sup> Save the Children UK, "Exclusion of the NGOs: The Fundamental Flaw of the CERF," Save the Children Position Paper, 29 January 2007

<sup>19</sup> CARE International, CARE's Experiences with UN Humanitarian Financing,,," Internal report, July 2007

institutional resources to manage the grants. Some government donor agencies reported being under pressure to reduce their already overstretched staff (whose salaries tend to be paid from other public sector budgets, not the foreign aid pot) while at the same time having increasing volumes of aid to channel.

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

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

Importantly, while donors acknowledged that multilateral funding reduced their transaction costs, they indicated that they were aware of increased transaction costs to agencies that have been forced to adjust to new ways of receiving and programming funding from the multilateral mechanisms, and were not unwilling in principle to address this with increased support. One donor indicated that this was in fact another secondary benefit of the new mechanism – bringing internal procedural difficulties in such things as partnership agreements and procurement practices to light, so they may be streamlined or improved.

The CERF was not designed with a capacity building mandate, and with access to funding for local organizations made even further removed than traditional aid channels it is unlikely that it could have a direct impact capacity building. In fact, by centralizing its funds through the UN, it could be argued that it may have an adverse effect on capacity building that may have had a chance to take place under a different funding modality. Although capacity-building and partnership-strengthening in terms of humanitarian actors may not have benefited through the CERF, it should not go unnoted that the CERF has attracted new, emerging donors, including some affected states and others who had never supported any appeal before. This development holds major potential not only in terms of new funding resources, but in wider participation of what up to now has been a too-small club of humanitarian donors.

### **Complementarities/conflicts**

The CERF allows donors to channel greater amounts to humanitarian priorities that they would not have the capacity to manage as bilateral grants. This makes it an important complement to bilateral granting and a means to bring more donors into the system.

Moreover, in addition to providing a measure of system level preparedness (though it will never achieve the rapidity of an individual agency reserve or the DREF), it is also highly advantageous as a complement to agency-level preparedness. As the 2008 evaluation of the CERF (unpublished at the time of this writing) attests, the CERF can contribute significantly to humanitarian preparedness when used as a guarantee against an agency's own internal reserves. This is an important advance from past reactive funding modes when start-up delays caused by late disbursement of bilateral donor funding were common.

Some promising ideas have been floated regarding the under-utilized loan window of the CERF. For example, it could be used to advance funds to the CHF's when donor disbursements against commitments to those mechanisms are delayed. Another idea is to link the loan window to the World Bank for funding of recovery and transitional activities not currently covered by the humanitarian grant parameters. While talk continues on setting up a recovery fund, for some this holds promise for reliable funding for the transitional activities that so many humanitarian actors have increasingly taken on in post-acute crisis settings as it is.

## **4.4 Country-level pooled funding: CHF's and ERF's**

Two evaluations of the Common Humanitarian Funds<sup>20</sup> have made an overall favorable assessment of the CHF's' performance against its primary objectives, improving prioritization strategic planning and bolstering coordination at the country level. The negative assessments had to do with fund administration, hindrances to direct NGO funding, weak monitoring and evaluation, administrative difficulties shown coordination

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<sup>20</sup> Stoddard, Salmons, Haver, Harmer (2006); Willits-King, Mowjee, Barham (2007)



and strategic planning benefits, and perceived conflict of interest problems that derived from agencies being placed in a position where they were both “judge and party” to allocation decisions. They disagreed on whether the existence of the CHFs had resulted in additionality and contributions (with the earlier assessment agreeing with the analysis contained in this study that the funds had indeed enabled a measure of additionality.) With each allocation round, the CHFs made administrative changes and adjustments, and the learning curve has been steeped. But most agree that a number of the teething problems have been worked through, and the funds have made significant improvements.

It was found that the CHFs dispersed money on average quicker than traditional bilateral funding mechanisms. However, questions still remain as to whether it is the most efficient and effective way of getting money into the hands of the final implementers. Most agree that there are some situations where economies of scale - and benefits for coordination and technical standards - are created through umbrella grants where UN agency can oversee a program comprising several projects of different implementers toward specific country- or province-wide goals. In many cases the NGOs are unconvinced, however, that any value has been added by running the funding through the UN agency. This has led to calls for an assessment of the “value chain” of funding to provide guidelines for when it is appropriate and when not. (These studies commissioned to date - one on transaction costs, focusing on the UN agencies, and one on overheads - do not seem to address this question directly).

One of the evaluations also saw potential for increased access and participation for local NGOs in the strategy setting and funding procedures compared to other modalities (though at only 2% funding allocations going to local NGOs<sup>21</sup> it is not nearly enough), and NGOs in general have received better funding access and reported more satisfaction with the CHFs than with the CERF. The allocation process is credited with being more ground-up and participatory, leading to improved identification and prioritization of needs; the trade-off being a continued administration burden and meeting-heavy process that still has much room for improvement. Many have accepted this trade-off as at least partly unavoidable. Some serious early concerns have abated somewhat regarding fund administration. Some two years in, the procedures have become more streamlined and efficient, and the draft CHFs standardization guidelines are almost widely welcomed as a potentially very helpful tool to prevent the reinvention of the wheel with each new fund (and even with each allocation round for an existing fund). After initial quite negative assessments of its role administering the CHFs, UNDP is widely perceived to have improved both in partnering procedures and in its monitoring and evaluation of projects - and is frankly assessing where it still needs to make improvements.

The Emergency Response Funds (ERFs)<sup>22</sup> operate on a smaller scale, and past reviews have found them to be effective and welcome tools for responding to unforeseen needs and small program gaps. Unlike the larger multilateral pooled funds, the ERFs are well placed to address the sudden onset, small-scale natural disasters that have proliferated in recent years and which are less amenable to effective funding through CERF and CHFs

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<sup>21</sup> Unpublished, internal NGO report provided to the study

<sup>22</sup> ERFs have operated in Angola, DRC, Ethiopia, Indonesia, Liberia, and Somalia.

which operate on a country-wide, multi-sectoral basis and channel larger amounts. However, ERFs need to be operational in countries in order to respond, and they are still few worldwide. Their numbers would have to be increased dramatically, particularly for countries highly prone or highly vulnerable to natural disasters.

Projectization of programming, mentioned above regarding the CERF, is also an issue for the UN agencies under the CHF. Some agencies, as well as NGOs, have complained that projects that fall across sectors or localities or that otherwise don't fit in well in the cluster based allocation system do not receive funding from CHF. Other concerns have been raised regarding a growing rigidity of the procedures, and the “decision by committee” phenomenon which may stifle innovation and effectiveness in programming.

For the most part, the participating donors have been satisfied with the performance of the CHF. However certain concerns have been raised by one or two donors regarding reporting and accountability. The major bilateral donors, the US and ECHO, are generally more negative about the CHF's performance, particularly in the DRC, where it has become so large it has overshadowed their own large contributions and put them in the unfamiliar position of gap-filler. Donors are unanimous in their concern that the CHF to function effectively rely on a strong and capable HC, which is not always a given in many countries experiencing or that could potentially experience a major humanitarian emergency. The strengthening of the HC system was not within the scope of this evaluation, but several interviews suggested that it has not received the appropriate emphasis in terms of staffing resources and attention at UN headquarters that it needs and deserves. Many donors indicated that their confidence in the CHF as a funding channel would disappear without a strong HC at the helm. It is largely for this reason that donors as well as humanitarian providers expressed caution at expanding the CHF to additional countries, beyond the two planned for Ethiopia and the Central African Republic. The CHF standardization guidelines are welcome attempt to create the institutional framework needed to reduce dependence on a single individual. But this does not obviate the need for more and more capable HCs in the current pool.

### **Complementarities/conflicts**

Where they exist in tandem, ERFs have provided natural complements to the CHF, providing another tool in the box for the HC to meet needs. More conscious effort is required to make the CHF complementary with bilateral funding and vice versa. In country, donor communication and coordination of strategies is essential, particularly in DRC with the major bilateral funders have been put in the position of the smaller donors. There are disagreements as to how large the CHF can usefully be. But the flexibility of bilateral funding can be used to good effect and filling gaps in funding the cross sectoral, longer-term, and regional programming that the CHF cannot. In country donors will need to work more collaboratively than they may be accustomed to in order to make this happen.

## **5. Making the shift: the interests and new challenges of humanitarian providers and donors**

Although many of the issues were also addressed in the comparative assessment, this section will briefly highlight some of the major interests, objectives, and hindrances of the agencies and NGOs undertaking humanitarian response. Specifically, it will look at the ways of working relationships between providers and donors are changing, and the programming preferences and constraints of each of these actors vis-à-vis the new mechanisms.

### **5.1 The providers: operational and management issues of the NGOs, the Red Cross Movement, and UN agencies**

The large and diverse community of NGOs, whose members provide the bulk of humanitarian service delivery, does not possess a unified consensus position on what in their view constitutes best practice in humanitarian financing. While some continue to participate in the CERF through partnerships with UN agencies, others have decided it is not worth the time and effort. Still others have called for the establishment of parallel mechanisms to provide advanced flexible funding for expressly for NGOs. Only a small number have been vocal in their concerns that greater use of multilateral instruments will reduce the proportion of bilateral funding they receive, although the funding data indicates that this has in fact been happening. There is however, unanimity in the recognition that NGOs face a deficit in preparedness, both because they lack the resources to sustain large operational reserves, and because they do not have direct access to advanced flexible funding such as the CERF. This is a problem that predates humanitarian reform<sup>23</sup> and has not been addressed by the new mechanisms. A few possible solutions have been suggested, including:

- A parallel global pooled fund, accessible to NGOs, outside of the UN system
- At donor country level, an advance funding source for rapid and flexible NGO response (similar to UK's DEC, but with government funding) – available to a consortium of pre-selected NGO partners
- At recipient country level, a parallel pooled fund for NGOs
- Framework agreements between donors and small groups of pre-selected NGO partners (similar to ECHO's "pre-qualified" NGOs and USAID/OFDA's 1996 Indefinite Quantities Contract with CARE, IMC, and IRC)

While many of these ideas have been floated either in internal reports or as items for discussion in multilateral fora, there is no strong NGO movement to advance any one

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<sup>23</sup> Center of International Cooperation with Lester Salomon and Associates, "The Preparedness Challenge in Humanitarian Assistance" CIC, 1998.

option. When the question was put to interviewees, an informal consensus of opinion seemed to emerge that a global “NGO CERF” or parallel CHF’s would be neither feasible nor desirable, but that the concept of donor-country-level pre-positioned funds and framework agreements between governments and NGOs hold serious promise. Donors have expressed willingness to consider a variety of options in this area, and may ultimately need to organize an initiative to bring together NGOs to think through the options and craft specific recommendations on the issue. At the same time, the larger international NGOs bear a certain responsibility for increasing their own preparedness resources. For instance, in 2006 Save the Children UK, created their own children’s emergency revolving funds as an operational reserve. That will allow them to begin funding operations, their own or partner organizations’, in the immediate onset of an emergency in advance of bilateral or multilateral disbursements.

At the country level, NGOs have been pushing hard for improvements in partnership agreements with the UN and rationalization of overheads. As of this writing, it appears that they, slowly, are making some headway. A donor initiative launched by the UK in DRC to involve NGOs in recommending ways to improve participation in the CHF is anticipated to be a useful exercise. Such initiatives, however, will also need to include a serious examination of local NGO participation. The level of commitment on the part of international NGOs to increase the participation in excess of their local counterparts is not clear. While there have been serious efforts made by some, others have merely provided rhetoric, and still others have been blunt about not wanting to increase their competition. Local NGOs on the whole have seen the potential but not yet the benefit of new financial reforms, and many see the process as one which is designed to assist donors and large agencies, not beneficiaries or local response capacity.

IFRC is making efforts to rationalize the DREF, which continues to be a necessary and useful funding channel with the CHF’s to ensure that local Red Cross societies do not create funding overlaps between the two mechanisms. To date it seems to be an effective and complementary division of labor. It is important that donors see the DREF as a complement to these other mechanisms for its ability to fund the small-scale rapid onset natural disasters, and do not divert their contributions away from this channel.

Similarly, the ICRC needs to retain its separate funding for its unique mandate, and earlier fears that donors would decrease their budget lines for the ICRC have fortunately proved unfounded. On the contrary, the financial data show that ICRC’s overall share of humanitarian flows has increased along with total volumes, and they have benefited by donors’ efforts to make predictable funding available earlier in the year, avoiding cash flow problems.

Although NGOs can point to potentially greater funding problems in light of the fact that they are receiving a smaller percentage of direct funding from governments, it has been the UN agencies that have raised the most serious concerns regarding the new funding mechanisms. An inherent tension remains between the goals of the system as a whole and the interests of its individual components. The conflict is one of perspective: for instance, the GHD objectives of flexibility may be well served by the CERF, since the ERC and not donors decides how and where allocations are made. However, individual

agencies will find that CERF funding for their programs is in fact *less* flexible than direct bilateral grants from their perspective, because the ERC in the HC have determined that it should go to a particular country and particular project. Some loss of flexibility is unavoidable in the shift to a more coordinated system and may need to be endured. However, agencies have raised very valid points about the inefficiencies created by "projectization" of their work dictated by CERF and CHF allocations. As the reforms proceed, however the resistance seems more muted. By all evidence they are not down on funding - overall or direct bilateral - and are not claiming to be. In the meantime, they are making the admittedly difficult adjustment to the coordinated funding allocation mechanisms; working to correct procedural problems and bottlenecks. One donor noted that while at first the agencies were questioning the whole concept of multilateral funding, they are now focusing on fixing the unintended negative consequences, and engaging constructively with OCHA and the CHD donors. As expressed by a representative of one of the UN agencies most actively engaged in the discussions around the unintended consequences of the new mechanisms, "We are emphasizing the challenges, but they are things we can work with. We need to find practical solutions."

A recently launched study to define and measure transaction costs created by multilateral funding - to the extent that it includes the concerns raised by NGOs and the value chain of sub granting - stands to be a very useful contribution to the overall learning process. For their part, donors are open to exposing and correcting the negative consequences. At the same time, they are firm in their understanding that UN-centered coordination, as embodied in the spirit of resolution 46/182, is advanced by the planning and allocation systems attached to the CERF and the CHFs, and they are asking the agencies to adjust themselves to these new realities

### **5.3 The donors: drivers and constraints**

Although no donor faces an exactly comparable set of issues and circumstances, this paper has found it useful to compare two main groups where interests broadly coincided: First, the two largest funders - the US and ECHO - both of which have significant field presence relative to other donors and emphasize bilateral funding. Second, the group of mid-level, reform-minded European donors who have contributed the largest amounts to the CERF and the CHFs - the UK, the Netherlands, Norway, Sweden and Canada.

While the first group continues to provide the largest share of humanitarian funding, both donors show and report a leveling off of humanitarian funding growth as they face pressures to flatline their budgets. In contrast, the second group faces upward pressures for humanitarian funding as a result of national economic growth and higher foreign assistance targets. These donors vary in their staff capacities and field presence, but overall have a far smaller footprint and oversight capacities for direct granting than the US and ECHO. In addition to the top-5 CERF donors other European governments are facing similar circumstances. Denmark and Ireland, for instance, have both significantly increased their in humanitarian funding in recent years and are among the top participants in the multilateral mechanisms.

In light of the common features of the two groups, it stands to reason and comparative advantage that the US and ECHO would continue to emphasize bilateral funding while the second group would invest heavily in the new multilateral mechanisms. It would be far too simplistic, however, to attribute the funding behaviors of the each group to narrow interests alone. The US in particular continues to provide a significant portion of unrestricted funding to major UN humanitarian agencies through annual contributions by State/PRM. However it is the USAID/OFDA field capacity that drives and shapes the US emphasis on bilateral funding. This donor agency assesses the capacity to conduct its own assessments and the technical expertise to input into project designs and strategic planning. ECHO has also built up a strong field presence in programming expertise. For these "operational donors" not to use this capacity, in their view, would not be responsible donorship. They continue to have concerns regarding accountability and transparency in decision-making and management of the funds, and are loath to cede control over strategy setting. In terms of the other group, the investment in the new multilateral mechanisms is driven by more than simply the need for a wider pipeline and reduced administrative burden. To take for example the spearhead of this group, the UK, through its donor agency DFID, has been explicit in its use of the new multilateral instruments to drive and reinforce humanitarian reform, and to improve UN systems along the way. Not all the donors in the reform minded group have managed to keep hundred percent of their contributions additional, but neither have they drastically reduced their bilateral funding amounts.

Multilateral funding has clearly demonstrated benefits in enabling greater funding volumes and strengthening UN centered coordination. At the same time, however, experience in the field strongly indicates that this should not be the only modality used. It cannot cover all activities or actors in those donors who maintain some capacity to do so donors should continue to keep a portion of their funding outside of the mechanism for direct granting purposes. Donors and providers who have given this some thought insist that there is no "magic ratio," but rather this is a decision that should be made by donors in consultation with each other and the country teams and according to their capacities into the needs on the ground. When the advantages and disadvantages of various funding modalities are compared against each other, it becomes clear that they have the potential either to complement or to conflict with each other, but this requires a level of coordination between donors - both those that participate the most actively in the multilateral mechanisms, and those who continue to fund mostly bilaterally - that does not yet take place. The GHD platform has improved global level coordination, but not yet to the point where donors are able to lay out their allocation strategies at the beginning of the year and identify gaps to be filled. The Government of Canada provided a useful template for this purpose, but this has not yet achieved full buy-in or participation, despite widespread support for the concept in principle. Donors expressed hopes that the exercise would be attempted again to more success, and noted that it would seem to be the appropriate role of OCHA to coordinate.

It is at the field level where the most work remains to be done in terms of donor coordination. In field settings donor presence is often small, and where multiple donors have representation there are wide differences in staff profile and outlook between them.

Donors with significant field presence tend to favor a "go it alone" approach that can undercut coordination gains made by the reforms, if for instance by a bilateral grants made without reference to the common humanitarian plan and the allocation strategy of the CHF, and the grantee finds it easier to pursue this funding channel rather than participate in the coordination structures.

#### **5.4 Other issues: early recovery and local capacity building in humanitarian response**

It continues to be an issue of debate around the CERF and the CHF as to what extent these resources should be used to fund early recovery and transitional programming. There are strong arguments for keeping a bright line around the sphere of action defined as "life-saving" or "core humanitarian activities." On the other hand, any new fund established will be forced to go through its own startup and teething pains, and poses some risk of duplication of the existing humanitarian funding mechanisms. Ultimately, while more than one initiative has been floated since the "relief to development gap" was first identified as a problem in the mid-1990s, the fact remains that as of now there is no other major operational fund for the purpose. In the meantime, the funding data show that humanitarian actors and mechanisms have taken on an increasing share of this burden de facto, with more humanitarian funding directed to this area since the inception of funding reforms than in any previous years.

It is often repeated that in the first few days of acute emergencies local actors, not internationals, are the ones providing critical service delivery. This will continue to be the case, regardless of how well the CERF CHFs and ERFs perform. Humanitarian preparedness stands to gain most from improved localized response capacities. However, as one local NGO representative put it, the system remains stacked against preparedness and local participation.

The GHD principles and good practice for humanitarian donorship articulate the need for capacity building:

7. Strengthen the capacity of affected countries and local communities to prevent, prepare for, mitigate and respond to humanitarian crises, with the goal of ensuring that governments and local communities are better able to meet their responsibilities and co-ordinate effectively with humanitarian partners.

The failure of donors in the organizations to take concrete steps toward these goals risks reducing these important GHD principles to rhetorical window dressing in an otherwise dynamic and practical initiative.

## **6. Conclusions and areas for action: Fitting the pieces together**

This study did not set out to make recommendations on the specifics of the different funding mechanisms, which have been evaluated separately, but rather to point to broad

areas for improvement of the humanitarian financing system so that it may better function as an integrated whole. The research proceeded from the consensus position of the GHD donors, which was further confirmed by findings, that diversity in donor mechanisms is beneficial to international humanitarian response.

As the report has tried to show, the various funding modalities and mechanisms are differently suited for funding particular types of emergencies. The ERFs (in conjunction with the IFRC's DREF) seem best placed to respond to sudden and small-scale emergencies, natural disasters and other unforeseen needs. Where they exist in tandem, the ERFs can be funded in whole or in part by through CHF, The CHF provide multilateral funding for a country-wide emergency response plan, while underpinning and incentivizing humanitarian coordination and bolstering the UN's central role in that effort. The CERF has already proven to be an effective tool to provide the advance funding or underwriting against agency reserves in order for humanitarian actors to begin response operations for major new emergencies, and to equalize funding for chronic, underfunded crises. In addition, CERF money can and has been used to provide additional support or advance funding to the CHF. Continued bilateral grant funding remains critical to retain flexibility, promote innovation, and to ensure sufficient funding non-UN actors. Finally, core programming and capacity building support to humanitarian agencies is needed for agency-level preparedness and the ability to take absorb the transaction costs and new coordination responsibilities brought by humanitarian reform.

Depending on their level of managerial capacity relative to the amounts of aid they seek to provide, different donors will have different comparative advantages that argue for emphasizing one or the other modality. It does not follow, however, that all current donorship practices are equally advantageous or have no room for improvement. Rather, each modality has drawbacks to address and advantages that can be maximized with conscious and concerted effort on the part of donors. The following are submitted to the GHD donors as considerations for future collaborative action.

#### **Identify comparative advantages as a donor in relation to capacities**

In determining their humanitarian financing strategies, donors should consider the full array of financing instruments and their particular capacities in deciding when and where to emphasize a certain channel. Donors with greater field presence and the capacity to manage and monitor individual grants are well suited to focus on bilateral funding strategies. Donors whose aid resources and humanitarian priorities are not matched by staff capacity and field presence will appropriately favor the multilateral mechanisms.

#### **Practice diversity in the use of funding tools**

As a rule, no single funding modality should be used in exclusion, and all require more extensive donor coordination than currently takes place in order to be effectively complementary. Unless lack of capacity precludes any funding save through a pooled mechanism, donors should refrain from "putting all their eggs in one basket" and should:

- Retain some level of funding to be used outside the pooled mechanisms reflecting the need to retain some flexibility for unforeseen funding initiatives or for



- programs that fall outside the common plan for temporal, sectoral, or geographical reasons. (The ratio to be determined by each donor according to their capacities and program priorities.)
- At the same time, ensure that bilateral funding does not undercut coordination goals, by actively consulting with the HC and by requiring the grant recipients to participate in coordination mechanisms and common planning exercises.

### **Make bilateral funding more flexible and predictable, with an emphasis on non-UN and local actors**

It is possible that multilateral funding may become increasingly the norm for UN humanitarian action as reform proceeds and coordination architecture evolves. This prospect underscores the need for bilateral funding to pay particular attention to enabling the critical role of non-UN actors, but in ways that provide enable greater flexibility, predictability and innovation than traditional short-term, reactive grant-making. To this end:

- Revisit and actively explore the possibilities for multiyear framework agreements and other longer-term grant vehicles for NGOs
- Consider the establishment of donor-country-based advance funds for pre-certified NGOs (akin to Britain's DEC, but with public funds)
- To enhance predictability and planning, make efforts to increase the upfront allocation for humanitarian response (as currently pursued by US and Netherlands donor bodies vis-à-vis their foreign aid budgets).
- Wherever possible, consolidate individual project grants to the same provider in the same country into overarching multisectoral or multi-activity programs, eliminating duplicative administration
- Seek ways to provide increased funding for local NGOs through capacity building partnerships, as well as direct grants. Encourage the development of assessment and accreditation programs (such as piloted by the NGO ACT) for local partners.

### **Use core funding to mitigate transaction cost burdens, and to bolster agency-level preparedness**

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

### **Continue to support and improve multilateral mechanisms**

In addition to strengthening humanitarian coordination, support for the new multilateral mechanisms represents an important gesture of humanitarian cooperation, and signals to emerging donors an effective way to participate in the international humanitarian system. GHD donors should engage proactively with the UN and other providers to address the remaining flaws and obstacles to their effective operation.

- All donors should be encouraged to participate in the CERF each year. Even if the donor chooses not to contribute large amounts, a token level of support is justified to signal support for multilateral humanitarian coordination and encouragement of wider donor participation

- Encourage and expand agency secondments to the technical advisory body of the CERF to help address lingering concerns regarding the transparency and appropriateness of allocation decisions
- Make greater use of the loan window of the CERF to ensure CHF are fully funded against donor commitments at the beginning of the year, to avoid problems caused by any disbursement delays
- Make monitoring and evaluation the next area of intensive focus for improvement of CHFs. For both CERF and CHFs, OCHA should lead in the design of reporting systems that emphasize results against assessed needs, rather than inputs
- Dedicate some CHF funding for local NGO capacity building and efforts to increase local participation
- Expand ERFs, particularly in countries vulnerable to sudden onset natural disasters where the ERFs have a funding advantage. Funds potentially can be advanced or replenished by CERF or CHFs

**Step up donor coordination and strategy setting at the global and field levels.**

Through the GHD initiative and increased consultations, the major international humanitarian donors are doing more to align their policies and strategies than at any time previously. It is still not enough. The newly expanded financing toolbox presents an important opportunity for donors to strategically complement each other's funding programs.

- Increase the level of informal donor exchange on an ad hoc, as-needed basis
- Renew efforts to commit allocation plans to writing in a common matrix at the beginning of the year to rationalize planning between donors
- Request that in-country donor representatives actively communicate and coordinate with other donors and the country level IASC as part of their core business, even if most funding continues to be bilateral
- Continue the effort to harmonize administrative requirements for recipients of bilateral grants

**While acknowledging inevitable tensions in the reform process, take steps to minimize unnecessary administrative burdens placed on providers as a result**

Donors and agencies should work together to identify what can be addressed within the three main sources of difficulty related to projectization: 1) the proposal process set by the HC or CERF Secretariat; 2) internal agency administrative procedures and regulations (such as procurement); and 3) the monitoring and reporting requirements. None of these obstacles should be viewed as insurmountable. Agencies already have systems to track and monitor project activities that merely need to be tapped into (with a focus on results as opposed to inputs) by system-wide reporting framework. In addition to internal administrative rules are governed and may be changed by the executive committees on which the same donor governments participate.

**A final note: consider what's missing**

**HCs** - It is fair to say that in the humanitarian reform process the lion's share of attention and emphasis has been centered on financial mechanisms and funding coordination. Repeatedly however, interviewees stressed that strong and capable Humanitarian Coordinators remain the lynchpin to the system and the necessary condition to success. An evaluation and recommendations on the state of the HC strengthening pillar of reform is overdue.

**HQ vs. field costs** - It has been suggested that overly high headquarters-to-field expense ratios of UN agencies have been an important hindrance to improved coordination and performance on the ground. Though it is outside the scope of this study, it would be worthwhile examine overheads and staffing allocations to inform the larger humanitarian reform effort.

**Organizational preparedness resources and reserve funds** – It does not seem credible that an organization with a mandate to respond to humanitarian emergencies would lack an advance funding reserve for operational contingencies and immediate response. Yet, in large part because of the historical reactive nature of humanitarian funding, none but the largest NGOs and UN agencies have such funds, and they are typically too small to provide more than a kick-start to operations. The individual agencies, as well as their donors, bear a responsibility to ensure preparedness at all operational levels.

**Early Recovery** – Welcome attention from donors has recently been focused on the area of early recovery. As part of the ongoing discussion and research, a focused quantitative study on trends in early recovery funding over the past several years, one that takes into account the definitional/categorization difficulties surrounding ER activities, would be an important contribution.

## **Annex 1: Interviews**

### Donor governments and organizations

#### **Canada**

Stephen Salewicz, Manager, Strategic Planning and Policy Unit, Humanitarian Assistance, Peace and Security Division, CIDA

#### **Denmark**

Jette Lund, Deputy Head of Department, Humanitarian Assistance and NGO Cooperation  
Jette Michelsen, Counsellor, Permanent Mission of Denmark

#### **ECHO**

Julia Stewart-David, Directorate-General for Humanitarian Aid

#### **France**

Nicholas Baudoin, Correspondant humanitaire multilatéral  
Délégation à l'Action Humanitaire, Ministère des Affaires étrangères et européennes

#### **Germany (written responses)**

Sigrid Sommer, Task Force on Humanitarian Aid

#### **Ireland**

Donal Kenneally, First Secretary, Department of Foreign Affairs

#### **Netherlands**

Marielle van Kesteren, Political Section / Humanitarian Affairs, Permanent Mission of the Netherlands to the UN, Geneva

Maaïke van Koldam, Deputy Head Humanitarian Aid Division, Ministry of Foreign Affairs

Tim Kos, Policy Officer, Humanitarian Aid Division, MFA

#### **Norway**

Susan Eckey, Head of Section, Humanitarian Affairs, Ministry of Foreign Affairs

#### **Romania (written responses)**

Nicoleta Birladianu, Second Secretary, Permanent Mission of Romania to the UN

#### **Sweden**

Jakob Hallgren, Counsellor, Permanent Mission of Sweden

Per Byman, Head of Division for Humanitarian Assistance, SIDA

#### **Switzerland**

Franklin Thévenaz, Deputy Head Department for Humanitarian Aid + SHA

## **UK**

Jack Jones, Conflict Humanitarian and Security Department, DFID

Richard Martini, Deputy Head (Humanitarian), Conflict Humanitarian and Security Department, DFID

Glyn Taylor, Advisory Group Head, Operations Team, Conflict Humanitarian and Security Department, DFID

## **USA**

Nicole W. Green, Policy Team Leader, Office of Policy and Resource Planning, Bureau of Population, Refugees, and Migration (PRM), U.S. Department of State

Shannon Green, Policy Officer PRM Office of Policy & Resource Planning

Nancy Izzo Jackson, Deputy Director, PRM Office of Policy & Resource Planning

Deborah Kingsland, Deputy Director, Office of Multilateral Cooperation and External Relations, Bureau of Population Refugees and Migration

Nance Kyloh, USAID Representative, US Mission

Nancy Lees-Thompson, Senior Budget Officer, PRM

Miriam Lutz, NGO/IO Coordinator, Office of U.S. Foreign Disaster Assistance, USAID

Ky Luu, Director, Office of US Foreign Disaster Assistance, USAID

Anita Menghetti, Humanitarian and DAC Adviser, USAID

## UN agencies and offices

### **OCHA**

Rashid Khalikov, Director, OCHA New York

Rudolph Muller, Chief, CERF Secretariat

Janet Puhlovic, Programme Officer, CERF Secretariat

Sharon Rusu, Chief, External Relations and Support Mobilisation Branch

### **UNDP**

Tullio Santini, Senior Advisor, Interagency and Donor Liaison, BCPR

Barbara Goedde, Programme Analyst, BCPR

### **UNHCR**

Joanna Langenkamp Head of Service, Donor Relations and Resource Mobilisation

Shoko Shimozawa, Deputy Head of Service, Donor Relations and Resource Mobilisation

### **UNICEF**

Lisa Doughten, Senior Adviser, ODA Policy & Strategic Planning, Public Senior Alliances and Resource Mobilization Office (PARMO)

Gary Stahl, Deputy Director, PARMO

Monette Van Lith, Public Alliances & Resource Mobilization Office-PARMO

Pooled Funding

**WFP**

Daly Begasmi, Director, WFP Geneva  
Allan Jury, Director, Division of External Relations  
Patricia Kennedy, Deputy Director, WFP Geneva

**NGOs and International Red Cross/Red Crescent Movement****CARE International**

Jonathan Mitchell, Emergency Response Director

**ICRC**

Feena May, Deputy Head, External Resources Division  
Mary Perkins, Head of Unit, External Resources Division

**ICVA**

Manisha Thomas, Policy Officer

**IFRC**

Peter Rees, Head of Operations Support

**MSF International**

Emmanuel Tronc, Policy and Advocacy Coordinator

**OFADEC**

Mamadou Ndiaye, General Director

**OXFAM GB**

Suzi Faye, Humanitarian Funding Manager  
Katherine Haver, Humanitarian Assistance Policy Adviser, Oxfam GB in DR Congo

**Save the Children UK**

Toby Porter, Director of Emergencies

**SCHR**

Eva von Olreich, Executive Secretary

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Stoddard, Abby, Dirk Solomons, Katherine Haver, and Adele Harmer, *Common Funds for Humanitarian Action in Sudan and the Democratic Republic of Congo: Monitoring and Evaluation Study*, OCHA, December 2006

Walker, Peter and Kevin Pepper, "Follow the Money: A Review and Analysis of the State of Humanitarian Funding," A background paper for the meeting of the Good Humanitarian Donorship and Inter-Agency Standing Committee, 20th July 2007

Willits-King, Barnaby, Tasneem Mowjee, and Jane Barham, *Evaluation of Common/Pooled Humanitarian Funds in DRC and Sudan*, OCHA, December 2007



## **Annex 3: Terms of Reference**

### **Scope of Work**

Dec 5, 2007

Title: Assessment of Humanitarian Financing Mechanisms

#### **1. Background**

The Good Humanitarian Donorship (GHD) is a donor initiative which began in 2003 to improve the impact of humanitarian aid through agreement on 23 key principles based on humanitarian principles of humanity, impartiality, neutrality and independence. The GHD operates through an association of donors who meet several times each year and address key issues to improve the impact of humanitarian aid. The GHD workplan for 2007-08 is organized around 4 key questions, including how donors make decisions on humanitarian aid, the mechanisms that are used to provide humanitarian aid, how performance is measured and how good humanitarian donorship principles are communicated.

This study is timely as the process of humanitarian aid reform has resulted in a number of new humanitarian aid funding mechanisms, in particular the expanded Central Emergency Response Fund (CERF) and the Common Funds at country level. These new funds represent a significant departure from traditional, bilateral funding mechanisms. In July 2007, the GHD and Inter-Agency Standing Committee (IASC) held a joint meeting to strengthen coordination of financing decisions. At this meeting, it was agreed to undertake a study to map how different financing mechanisms deliver against GHD principles and how different instruments fit together.

The study will identify comparative advantages of different modalities among the funding approaches and mechanisms. In addition, the characteristics of humanitarian financing reflect the various goals that donors wish to achieve through their funding. The study will also be an effective tool in providing new, emerging donors with guidance on humanitarian financing.

#### **II. Contractor Tasks under this Statement of Work**

The contractor will conduct a desk top study of available literature, a thorough analysis of funding data available through the UN financial tracking service as well as through UN agency/NGO annual financial reports. In addition, the contractor will conduct field interviews with leading GHD donors and operating agencies, including UN, NGO and other international organizations including at a minimum UN High Commissioner for Refugees,, International Committee of the Red Cross and World Food Programme, as well as other implementing humanitarian aid programs. In addition, consultations will include the Department for International Development (London), European Community

Humanitarian Aid Department (Brussels), Office for the Coordinator of Humanitarian Affairs, and GHD donors, as well as USG operating agencies (USAID/Office of U.S. Foreign Disaster Assistance (OFDA) and Food For Peace (FFP), and Department of State/Bureau of Population, Refugees and Migration (PRM) in Washington, DC. The contractor will regularly update USG/OFDA on progress during the consultancy as agreed by the consultant and CTO.

The contractor will travel to Montreux, Switzerland on February 21-22, 2008 to make a presentation of approximately 30 minutes at the GHD/IASC meeting, and present the final paper at the GHD meeting in July 2008 which will likely take place in Geneva.

At a minimum, the final paper will address the following key questions:

1. What comprises the full range of humanitarian financing mechanisms available to donors and agencies?
2. What are the criteria that donors and agencies use in determining which financing mechanism(s) to use? What are the relative advantages and drawbacks of different financing mechanisms in achieving GHD objectives of flexibility, timeliness, results, efficiency, coordination, capacity-building, predictability, building partnerships and strategy-setting?
3. What are the preferred financing mechanisms of donors? And of operating agencies/NGOs and why?
4. What is the impact that the selection of mechanisms has on an operating agency's ability to demonstrate good humanitarian donorship principles?
5. In what ways are the various instruments complementary and in what way are they not?
6. Analyze the current trends in how instruments are being used and the impact on impact, operations and coordination in providing humanitarian aid by an operating agency throughout the funding cycle of a relief operation?
7. Are there specific cases which demonstrate the relative benefits/drawbacks of different financing mechanisms?

The paper will be approximately 25 pages in length, and include an executive summary, key findings, recommendations, conclusions and references.

### III. USAID Involvement

All actions will be coordinated with the Cognizant Technical Officer (CTO), Dr. Andrew Levin. The CTO will arrange meetings with USG colleagues, including FFP, PRM and OFDA in Washington, D.C. and provide approval of the key deliverables. The contractor will keep the CTO informed of progress and in turn, the CTO will assist with obtaining clearances and scheduling meetings.

### IV. Deliverables and Period of Performance

Payment of the Contractor will be contingent on Cognizant Technical Officer (CTO) approval of the Deliverables, which follows.

## V. Deliverables Schedule

This Schedule of Deliverables shall be finalized in consultation with the CTO and confirmed in the Contractor's Management Letter (s), to include the following:

- Develop a Research Protocol Report of approximately 3 pages to include a detailed approach; additional questions, issues and case studies to consider; notional travel schedule; and selected reference materials within 15 days after this award. After receipt of the report the CTO will review and provide comments within 15 days of submission;
- Submission of the revised Final Research Protocol Report incorporated edits and changes provided by CTO within 15 days of submission.
- Report of Initial findings of approximately 5-10 pages based on the approved research protocol, and slide presentation of approximately 20 slides for the Montreux, Switzerland meeting by February 8, 2008, which the CTO will review and provide comments within 5 working days of submission;
- Submission of the final draft paper is due by June 15, 2008;
- Presentation of the draft final paper to the July 2008 GHD meeting, which the CTO and donors will provide review and provide comments on during and up to 15 days after the meeting.
- Final paper of approximately 25 pages submitted within 2 weeks following the July 2008 GHD meeting incorporating comments from the CTO and GHD donors.

## **Annex 4: Principles and Good Practice of Humanitarian Donorship**

Endorsed in Stockholm, 17 June 2003

### *Objectives and definition of humanitarian action*

The objectives of humanitarian action are to save lives, alleviate suffering and maintain human dignity during and in the aftermath of man-made crises and natural disasters, as well as to prevent and strengthen preparedness for the occurrence of such situations.

Humanitarian action should be guided by the humanitarian principles of *humanity*, meaning the centrality of saving human lives and alleviating suffering wherever it is found; *impartiality*, meaning the implementation of actions solely on the basis of need, without discrimination between or within affected populations; *neutrality*, meaning that humanitarian action must not favour any side in an armed conflict or other dispute where such action is carried out; and *independence*, meaning the autonomy of humanitarian objectives from the political, economic, military or other objectives that any actor may hold with regard to areas where humanitarian action is being implemented.

Humanitarian action includes the protection of civilians and those no longer taking part in hostilities, and the provision of food, water and sanitation, shelter, health services and other items of assistance, undertaken for the benefit of affected people and to facilitate the return to normal lives and livelihoods.

### *General principles*

Respect and promote the implementation of international humanitarian law, refugee law and human rights.

While reaffirming the primary responsibility of states for the victims of humanitarian emergencies within their own borders, strive to ensure flexible and timely funding, on the basis of the collective obligation of striving to meet humanitarian needs.

Allocate humanitarian funding in proportion to needs and on the basis of needs assessments.

Request implementing humanitarian organisations to ensure, to the greatest possible extent, adequate involvement of beneficiaries in the design, implementation, monitoring and evaluation of humanitarian response.

Strengthen the capacity of affected countries and local communities to prevent, prepare for, mitigate and respond to humanitarian crises, with the goal of ensuring that governments and local communities are better able to meet their responsibilities and co-ordinate effectively with humanitarian partners.

Provide humanitarian assistance in ways that are supportive of recovery and long-term development, striving to ensure support, where appropriate, to the maintenance and return of sustainable livelihoods and transitions from humanitarian relief to recovery and development activities.

Support and promote the central and unique role of the United Nations in providing leadership and co-ordination of international humanitarian action, the special role of the International Committee of the Red Cross, and the vital role of the United Nations, the International Red Cross and Red Crescent Movement and non-governmental organisations in implementing humanitarian action.

#### *Good practices in donor financing, management and accountability*

##### *(a) Funding*

Strive to ensure that funding of humanitarian action in new crises does not adversely affect the meeting of needs in ongoing crises.

Recognising the necessity of dynamic and flexible response to changing needs in humanitarian crises, strive to ensure predictability and flexibility in funding to United Nations agencies, funds and programmes and to other key humanitarian organisations.

While stressing the importance of transparent and strategic priority-setting and financial planning by implementing organisations, explore the possibility of reducing, or enhancing the flexibility of, earmarking, and of introducing longer-term funding arrangements.

Contribute responsibly, and on the basis of burden-sharing, to United Nations Consolidated Inter-Agency Appeals and to International Red Cross and Red Crescent Movement appeals, and actively support the formulation of Common Humanitarian Action Plans (CHAP) as the primary instrument for strategic planning, prioritisation and co-ordination in complex emergencies.

##### *(b) Promoting standards and enhancing implementation*

Request that implementing humanitarian organisations fully adhere to good practice and are committed to promoting accountability, efficiency and effectiveness in implementing humanitarian action.

Promote the use of Inter-Agency Standing Committee guidelines and principles on humanitarian activities, the Guiding Principles on Internal Displacement and the 1994 Code of Conduct for the International Red Cross and Red Crescent Movement and Non-Governmental Organisations (NGOs) in Disaster Relief.

Maintain readiness to offer support to the implementation of humanitarian action, including the facilitation of safe humanitarian access.

Support mechanisms for contingency planning by humanitarian organisations, including, as appropriate, allocation of funding, to strengthen capacities for response.

Affirm the primary position of civilian organisations in implementing humanitarian action, particularly in areas affected by armed conflict. In situations where military capacity and assets are used to support the implementation of humanitarian action, ensure that such use is in conformity with international humanitarian law and humanitarian principles, and recognises the leading role of humanitarian organisations.

Support the implementation of the 1994 Guidelines on the Use of Military and Civil Defence Assets in Disaster Relief and the 2003 Guidelines on the Use of Military and Civil Defence Assets to Support United Nations Humanitarian Activities in Complex Emergencies.

*(c) Learning and accountability*

Support learning and accountability initiatives for the effective and efficient implementation of humanitarian action.

Encourage regular evaluations of international responses to humanitarian crises, including assessments of donor performance.

Ensure a high degree of accuracy, timeliness, and transparency in donor reporting on official humanitarian assistance spending, and encourage the development of standardised formats for such reporting.

## **Annex 5: In brief - comparative assessment of funding instruments/modalities**

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

### **Bilateral programmatic funding (direct grants to agencies for specific emergencies or activities)**

#### **Advantages:**

- Allows for donor input and oversight, and provider<sup>24</sup> accountability for results
- Funding decisions and commitments can be made quickly in response to emergent crises
- Collaborative and iterative partnership between donor and provider agency can promote flexibility and help foster innovative programming

#### **Drawbacks:**

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

#### **Why it is an important tool:**

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

#### **When it is most effective to use:**

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<sup>24</sup> The terms provider and agency used here refers to UN agencies, international organizations, and NGOs engaged in humanitarian response.

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

**How it relates to other parts of the financing system:**

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

**Areas for improvement:**

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

**Bilateral core funding (un-earmarked or loosely earmarked funding to agencies' core budgets)**<sup>25</sup>

**Advantages:**

- Allows agencies to build and improve institutional capacities
- Can fill budget gaps and fund under-resourced priorities such as assessments, human resources development, applied research and M&E, and local capacity building

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<sup>25</sup> Sometimes referred to, confusingly, as multilateral funding or funding to multilateral agencies. This category also encompass funding to agencies' multilateral emergency response instruments such as the IFRC's DREF



- Can be used toward interagency coordination initiatives and responsibilities, as well as seed funding for innovative approaches that become mainstreamed as capacity building inputs

**Drawbacks:**

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

**Why it is an important tool:**

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

**When it is most effective to use:**

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

**How it relates to other parts of the financing system:**

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

**Areas for improvement:**

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

**CERF (global pooled funding)**

**Advantages:**

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

**Drawbacks:**

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

**Why it is an important tool:**

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

**When it is most effective to use:**

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

**How it relates to other parts of the financing system:**

- Because of the relatively quick disbursement process, approved grants from the CERF funds can provide agencies with the necessary confidence for immediate drawdowns from their emergency reserves for rapid response
- Although its disbursements are relatively advanced in terms of timeliness, in true sudden onset emergencies where life-saving activities must take place in the first few days, CERF money will still arrive too late to be relied upon as the first or

only funding source. Rather, the CERF is more sensibly seen as a complement to internal reserve funds, and small-scale rapid response funds at the country level

- Has the potential to be used to advance funds CHF in advance of donor disbursements

#### **Areas for improvement**

- Some improvements are already underway in terms of administrative burdens related to cash transfer. Evaluations of the CERF have also called for clearer definitions, criteria, and parameters for eligible projects, as well as more clarity on minimum and maximum allocation thresholds.
- All GHD donors should be encouraged to participate each year. Even if the donor chooses not to contribute large amounts to the CERF, a token level of support is justified to signal support for multilateral humanitarian coordination and encouragement of wider donor participation.
- Questions of transparency and fairness of allocation decisions have been addressed by encouraging the secondments of technical staff from humanitarian agencies to sit on the advisory committee and assist in vetting projects. Such secondments should be encouraged and expanded

#### **CHFs (country-level pooled funding)**

##### **Advantages:**

- Strengthens and incentivizes field level coordination and strategic planning
- Can create opportunities for more direct participation and potential funding streams for local NGOs

##### **Drawbacks:**

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

##### **Why it is an important tool:**

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

##### **When it is most effective to use:**

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

##### **How it relates to other parts of the financing system:**

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

#### **Areas for improvement**

- These are many, and detailed in two major evaluations of the CHFs. Evolutions and adaptations to the systems and processes of the CHF are ongoing. Where concerns are deepest and the CHF risks losing credibility have to do with 1) conflict of interest issues, where one or two allocation decision makers (cluster lead agencies) have been seen to reap a windfall of increased allocations that may not be commensurate to their capacities; and 2) continued weak monitoring and reporting of performance and results

#### **Country-level functional/thematic pooled funding (e.g. ERFs, cluster-based funding)**

##### **Advantages:**

- ERFs have been found to be effective in rapidly responding to small-scale, sudden onset needs
- Cluster-based funding can strengthen coordination and foster a sectoral approach, transcending agency interests
- Allows for direct access by NGOs

##### **Drawbacks:**

- Can lead to real or apparent conflicts of interest when an agency coordinating the fund or cluster is also a recipient of funding
- Still limited in numbers/application having existed in only six countries to date

##### **Why it is an important tool:**

- Can be effective in smaller scale humanitarian crisis contexts, where there is no CHF for rapid response and unplanned needs
- Can be used to aid in local capacity building

##### **When it is most effective to use:**

- Sudden onset of small-scale emergencies such as flood or other natural disaster within the larger humanitarian context

##### **How it relates to other parts of the financing system:**

- As a smaller and more proximate instrument to localized sudden onset needs, it has been proven effective at mobilizing and enabling a quick response.
- Some have criticized the CERF as weak in responding to one of the main humanitarian challenges - the proliferation of small to medium scale natural disasters resulting from climate change. This is more appropriately the area of

- ERF funding., but they need to be present in a country in order to respond, meaning their numbers would have to be increased dramatically
- Funds potentially can be advanced for replenished by CERF or CHFs

**Areas for improvement**

- Participants in ERFs have largely quite favorable in their assessment of these instruments, but less than a handful of countries currently have them. A sharp rise in small-scale, natural disasters in recent years would appear to argue for more such upfront, discretionary funding for disaster prone countries.