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Future Humanitarian Financing

Looking Beyond the Crisis

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Future Humanitarian Financing is an initiative to bring fresh thinking and expertise from beyond the humanitarian sector to address the growing problem of how we meet the financial costs of responding to humanitarian crises.

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Future Humanitarian Financing

Looking Beyond the Crisis

Reporting the findings of the Future Humanitarian Financing (FHF) dialogue process. FHF is an initiative supporting the Inter-Agency Standing Committee (IASC) Humanitarian Financing Task Team and is led by a steering group comprising CAFOD (Caritas England and Wales), World Vision International and the UN Food and Agriculture Organization (FAO).

The FHF initiative has been generously funded by the Government of Germany and by FAO.

Foreword

In March 2015, the international community's appeals to address humanitarian crises worldwide reached USD18.7 billion to assist 74.7 million people in 33 countries; figures which are likely to rise throughout the year. The Syrian crisis alone added up to USD5.5 billion. Indeed, crises such as Syria and its neighbouring countries are complex, multifaceted in nature and whose spill-over effects can destabilise entire regions.

The changing nature of crises has resulted in a widening gap between humanitarian needs and resources available. As this gap widens, so do the challenges. Business as usual is no longer an option.

The humanitarian community is at a critical cross-roads. Progress has been made: needs assessment and analysis keep improving, and humanitarian organizations are today better able to target their limited resources. At the same time, significant efforts have been made to take more integrated and holistic approaches to address crises, which includes investments in preparedness and in community resilience as well as a vision towards long-term and sustainable solutions to protracted displacement. Yet, as needs are increasing, humanitarian organisations and their partners must continue efforts to find more effective and efficient approaches, tools and mechanisms to respond to and deliver on the needs of populations affected by crises.

The response of the international community needs to be consistent with the complexity of the problems faced. For this, we need more – and more diverse – actors on-board. The humanitarian community alone cannot address the challenges of an increasingly complex risk landscape.

The report of the Future Humanitarian Financing initiative is the result of several years of collaborative thinking on this topical issue, and is one of the products of the 2014-2015 work plan of the IASC Humanitarian Financing Task Team. The report provides a comprehensive snapshot of the state of play within the humanitarian financing sector, with evidence based analysis of what works and what does not. The report further provokes important questions that need to be addressed by the sector in order to address the crises of today and tomorrow. Importantly, it describes the future of humanitarian financing where responses and associated funding investments are calibrated according to context and where the management of risk and crises are collectively addressed by a diverse set of actors, from local, national, regional and international levels.

With the launch of the Secretary-General's *High Level Panel to Address the Growing Gap Between Humanitarian Needs and Resource*, and the consultations leading up to the World Humanitarian Summit in 2016, the FHF report provides significant evidence and ideas for in-depth discussions and innovative thinking amongst the international community on the future of humanitarian financing.



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The FHF initiative was conceptualised, led and managed by a steering group comprised of CAFOD (Caritas England and Wales), FAO and World Vision International (WVI). The FHF report was written by Lydia Poole, an independent consultant specialising in humanitarian financing. The report was produced as a contribution to the IASC Humanitarian Financing Task Team's 2014 work plan; while care has been taken to encourage and incorporate feedback, its findings do not necessarily reflect the views of IASC members.


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Flooding on the road to Kot Adu
district, Pakistan, 2010.
Credit: CAFOD/Monica Vrsanska

Executive Summary

The daunting scale of the humanitarian funding gap and the seemingly intractable nature of the many well documented humanitarian financing challenges provided the backdrop for a series of Future Humanitarian Financing (FHF) dialogues held in 2014. Those who took part in these cross-sectoral events, however, repeatedly stressed as grounds for optimism factors such as economic growth, increasing global connectedness, new technologies, innovation in financing and business practices and emerging global norms around the need to manage risk and build resilience. This report represents an effort by members of the Inter-Agency Standing Committee (IASC) Humanitarian Financing Task Team to draw on this spirit of optimism and opportunity to stimulate renewed energy and commitment to resolve longstanding humanitarian financing challenges and to identify new approaches and models of engagement to address the needs of humanitarian crises yet to come.

The international humanitarian enterprise is out of step with the realities of the world in which it operates and is far from fit to meet the challenges of the future. A fundamental shift in the humanitarian business model is overdue – from a culture and set of practices that tend towards insularity, reactivity and competition towards an enterprise rooted in anticipation, transparency, research and experimentation, and strategic collaboration.

Humanitarian actors need to focus not only on meeting humanitarian needs today but also need to work towards a future in which, wherever possible, international humanitarian response is unnecessary or exceptional, and the majority of needs are met by local actors. Clearly this cannot be achieved with the resources, tools and influence currently at their disposal; it requires long-term vision and strategic alliances with a broad range of actors who can deliver transformative changes to vulnerability and the management of risk. Therefore, in addition to a programme of internal reforms, a radical global agenda will be needed to meet the humanitarian financing challenges of the future, engaging and enabling a far wider ecosystem of actors in meeting the costs of managing risk and of responding to post-crisis needs, as a shared responsibility and a public good.

Transformational changes in the humanitarian business model envisaged during the FHF dialogue process include:

Re-balancing the division of labour

Where humanitarian financing and humanitarian modes of response are poorly equipped, or where other sources of financing may be available and appropriate, humanitarians should look to work with others to take on these financing responsibilities. This would free up limited principled humanitarian financing and response capacity.

Establishing and communicating clear limits to the remit and competence of humanitarian action could help to manage expectations and facilitate a more efficient and effective division of labour. Under a narrower definition of humanitarian action, principled humanitarian funding would be reserved primarily for meeting acute needs, particularly in conflict-affected and contested settings. Having clearer expectations as to the limits of humanitarian action could, in principle, help reduce the likelihood of moral hazard and create incentives for other actors – including governments and development actors – to anticipate and make provision for responding to crises. In time, allied with practical steps to advance alternative financing solutions from beyond the humanitarian community, a sharper focus on the limits of humanitarian responsibility could help to avoid situations where humanitarian actors are relied upon as the indefinite fall-back option in difficult and protracted situations, which currently consume a large proportion of humanitarian financing resources each year.

Humanitarian actors should play a more assertive role in demanding consideration of the needs of vulnerable and crisis-affected populations in government and development policy and in business practices. If humanitarians wish for other actors and emerging tools and sources of financing to adequately serve the needs of populations vulnerable to crisis, they need to be part of the design and build of those solutions. There are currently a number of critical opportunities – in particular, the upcoming International Conference on Financing for Development in Addis Ababa, Ethiopia in July 2015 – for humanitarians to assert the need for strong commitments from governments and their development partners to ensure provision for the basic needs of vulnerable populations during ‘transition’ and protracted crises, and to influence the design of specific mechanisms and approaches.

We need to pursue both incremental improvements and more radical game-changers in humanitarian financing.

FHF Dialogue participant

In protracted crises, new solutions to providing more predictable and sustainable financing solutions must be urgently brokered and developed. Humanitarians have, for too long, taken on responsibilities for supporting long-term displaced populations and the longer-term needs of populations affected by protracted crises. Without strong external stimulus, there are too few incentives for humanitarian, development, climate change and other concerned actors to work in a complementary way to address the longer-term needs of populations vulnerable to and affected by crises. Financing can be used, however, to create incentives for more coherent approaches built on



Migrants from Niger fleeing violence in Libya, 2011.
Credit: CAFOD/ Ryan Worms

common understanding of the need to manage risk, both as a moral imperative and as an expedient investment to protect development investments and assure sustainable development outcomes. There is an open challenge to donors, therefore, to find new ways of organising their funding investments to create these incentives.

Prioritising nationally-led response

The humanitarian community is approaching a point of consensus on the practical utility and principled case for supporting nationally led response, but this vision must become more ambitious and more concrete. Despite the strength of commitment emerging at the level of principle to ‘localise humanitarian aid’, there is a lack of precision as to what this vision comprises and a shortage of practical solutions to achieve it. The discussion on localising aid has some way to go, therefore, before reaching an achievable set of ambitions and practical next steps.

Building a sustainable domestic capacity to respond requires a commitment to sustained investment and support across humanitarian, development and climate change communities, backed by a clear set of shared objectives and delineation of responsibilities. Investing in response capacity currently falls between humanitarians, who are typically focused on response through civil society, and development actors, focused on strengthening systems at the national level. To address this gap in policy and investment, a much clearer shared understanding of existing capacities and gaps is required, alongside shared objectives, clear theories of change and strategies to build domestic financing and response capacity.

Humanitarian financing practices will need to undergo a series of reforms in order to remove barriers to access for local and national actors, and to provide flexible and enabling funding to support capacity strengthening. Improving access to international financing for front-line actors, and dis-intermediating convoluted transaction chains via international actors was a repeated refrain during the FHF

dialogues. In practice, this will require reviews of risk management procedures and adjustments to mechanisms and application processes to enable capable responding actors, who may not be well schooled in the arts of navigating international humanitarian financing systems, to access funds, as well as providing flexible funding to international organisations to invest in strategic capacity-building support to national organisations, in order to strengthen their organisational procedures and skills in accessing and managing funds.

Embracing diversity

Growing diversity in financing sources and actors provides an opportunity for international humanitarian actors to better target their limited resources and capabilities. Accepting diversity in funding as an opportunity should alleviate financing demands on the international humanitarian system and enable a more strategic focus on responding where impartial and flexible responses are most needed.

There is a clear need to reconfigure the existing humanitarian system to reflect the full diversity of financing and responding actors. In practice, however, adapting to work in complementarity with as yet unfamiliar sources of public and private humanitarian financing – sources that are likely to target and deploy funds on their own terms – is one of the most fundamental challenges now faced in international humanitarian financing. There are huge challenges, including differences in language, culture, ethics and objectives. Broadening engagement will likely require the formal humanitarian system to cede control to unfamiliar actors and, at the same time, find politically and culturally acceptable means of sharing and promoting hard-won lessons on principled, effective and efficient humanitarian financing.

System upgrades

There is a daunting array of internal challenges to the efficiency and effectiveness of financing for international humanitarian action, which require serious attention and investment. The existing humanitarian financing architecture is in need of reorganisation – in how humanitarian actors prepare for and deal with peak demand and in how provision is made for meeting recurrent costs – and there is a widely felt need for far greater, system-wide attention to efficiency.

The FHF dialogue process identified a set of practical adjustments and changes to the current modus operandi of international humanitarian financing that could help significantly in increasing the efficiency and impact of investments. Priorities and practical recommendations are summarised as follows:

Anticipation and analysis

The evidence, analysis and messages around the scale of humanitarian needs and financing requirements were frequently challenged during the FHF dialogues. Strongly felt concerns were raised that current approaches were not sufficiently inclusive of the full range of financial flows and were based on inconsistent definitions and unreliable assessments of needs. A lack of anticipation and forward planning in relation to resource planning was noted as a missed opportunity.

Flood damage at the Sacred Heart Seminary following Typhoon Haiyan in the Philippines, 2013.

Credit: CAFOD/Ben White





Baobab tree, Kitui, Kenya.
Credit: CAFOD/Annie Bungeroth

Contingency planning at the global level based on forecasting models for natural hazards and projections for protracted crises could help to anticipate the scale of financing required at times of peak need. This would, in turn, help to inform financial preparedness at the global level, including by giving more reliable indications of the scale of likely requirements and informing the design of adequate mechanisms and measures to meet anticipated demand.

The lack of confidence in the financing requirements of UN-coordinated appeals should be managed and addressed as a matter of urgency. While recent experiments with activity-based costing have proved controversial, an alternative approach to quantifying financing needs that does not rely on totting up agency funding requests has to be agreed. This will require a serious programme of research, experimentation, learning and technical support.

Current resource tracking mechanisms are not sufficiently inclusive of the full range of resource flows in crises, which is a barrier to achieving efficient coverage of needs and to inclusive planning and response. Existing tools will need to be substantially modified to permit reporting from a much broader range of actors and the adaptation of 'inter-operable' information management systems tailored to crisis-level information requirements.

Humanitarian needs assessments increasingly appear to be a blunt instrument by which to understand complex environments involving diverse actors and capacities. The reliance on an analytical paradigm, which focuses on the problems of today and yesterday, leaves humanitarians vulnerable to failing to anticipate

and prepare for major risks yet to come. This points towards the need for a more sophisticated understanding of contexts and their capacities and dynamics. Such analysis needs to be undertaken jointly with other actors concerned with managing risk and building resilience in advance of crisis events.

Upgrading the architecture

Within existing financing architecture, practices and culture, there are persistent challenges to achieving a more efficient and effective response.

Achieving a coordinated response and rational coverage of humanitarian financing needs will prove ever more challenging as the constituency of donors and sources of finance become increasingly diverse.

Donors within the Good Humanitarian Donorship (GHD) group should lead by example in developing simple planning and communication tools that provide earlier indications of their bilateral funding decisions and the rationale for decisions taken, which could enable other donors to consider where their contributions fit best. New and expanded global balancing mechanisms such as the UN's Central Emergency Response Fund (CERF) could offer a practical solution to meeting funding gaps and offsetting anticipated growth in more partial and tightly earmarked humanitarian funding.

Mobilising funding and bridging liquidity gaps in the early stages of crises remain major challenges. There are opportunities, however, for humanitarian actors

to use technical expertise and analysis from private sector actors and governments to develop objective and politically acceptable 'triggers' for the early release of funding. An added advantage of the early release of funding on the basis of pre-agreed triggers is the possibility of making low-key resource transfers without the need for high-profile humanitarian fundraising efforts, which are sometimes politically unacceptable for affected governments.

In order to manage peak demand, separate modalities and new funding reserves are required to meet large spikes in demand resulting from major crises. A global catastrophes contingency fund, significantly larger than the current CERF, could be marketed as a global public good and financed with alternative and, where possible, additional funds. These could include innovative sources of financing, comprising levies and voluntary fees on goods and services, as well as donor-financed risk transfer products to provide additional layers of financial protection against the highest levels of risk.

Removing barriers and enabling local and national actors to access international sources of humanitarian financing should be an urgent priority.

The need to programme funds at scale and to ensure accountability are hard constraints for most major donors, but they can be managed differently. There are already alternative approaches to ensuring accountability, based on informed management of risk rather than the imposition of restrictive controls, which can be replicated. There are also opportunities to develop new mechanisms specifically designed to facilitate access to international financing for national civil society actors. In order to support a serious scaling up of investments, a far more sophisticated understanding of capacity-building objectives is needed, including evidence of what works and why. A scaled-up commitment to invest in national response capacity would of course need to be backed by flexible, predictable funding capable of supporting and enabling partnerships focused on capacity-building. International humanitarian actors should look beyond linking local and national actors to the international financing architecture, and should also identify opportunities to play a catalytic role in the achievement of sustainable financing approaches for local and national actors that are independent of the international humanitarian system.

Improving efficiency

Real and perceived inefficiencies in humanitarian financing practices and business approaches have not been adequately addressed and remain a threat to both the effectiveness and credibility of the humanitarian enterprise. A major reform of business practices is long overdue in order to drive forward large-scale efficiency gains.

There is growing evidence confirming that greater predictability and flexibility of funding enable more cost-effective management of resources and improved programming outcomes. Achieving more predictable and flexible humanitarian financing should be a major focus of advocacy on funding, with a range of options

open for consideration. In return, recipient organisations will need to concede far greater transparency as to how those funds are used in a way that respects donor obligations to account for and demonstrate impact to their domestic constituencies.

Consolidation of donor portfolios into a smaller number of large partnerships is thought to have fuelled the growth of convoluted chains of pass-through funding down to front-line implementing organisations. A thorough and objective review of the scale, costs and benefits of pass-through funding is needed to move the current debate forward and to identify areas for improvement and alternative approaches.

There could be significant gains from systematically reviewing the cost-efficiency of practices, systems and approaches. A programme of objective audit and review of major cost centres – including procurement, sub-contracting and staff retention practices – could help to identify existing good practices and potential cost savings. This could also include the potential cost savings involved in contracting out some services to the private sector and the use of common procurement and services. A system-wide learning exercise should be conducted by an independent group that includes key humanitarian stakeholders, as well as independent experts from the private sector and experts in public sector and institutional reform.

Challenge the humanitarian system to consider its own efficiencies: its organisational set-up; the growth in the number of organisations operating; and how we use available resources.

FHF Dialogue participant

Cash-based programming has potentially significant untapped potential to improve both the cost-efficiency and effectiveness of response. However, the real potential for substantial cost-efficiency gains is likely to lie in a radical shift towards harmonised large-scale cash-based responses. This adaptive change will almost certainly lead to redundancy for some existing humanitarian functions and capacity. Driving forward a consolidation agenda may require bold leadership and considerable innovation and creativity on the part of humanitarian actors to shift and adapt their comparative advantages.

Excessive reporting is a common bugbear: it serves nobody's interests and is needlessly consuming resources. Many actors accept that a more useful approach to understanding what has actually been achieved would be to accept streamlined reporting against targets and outcomes determined at the crisis level, which could be strengthened by an independent monitoring and verification service.

Recommendations for incremental and remodelling change

Improving anticipation and analysis

Anticipating funding requirements

- Identify partners in the private sector and academia who could help forecast the anticipated scale and frequency of crises that will exceed current financing capacity in order to inform the design of ex-ante financial planning measures.

Quantifying and communicating requirements

- Support a realistic timetable for research, experimentation, learning and technical assistance to advance activity-based costing of humanitarian funding requirements in order to build approaches which are sufficiently transparent, politically acceptable and practically workable.
- Identify opportunities to take part in shared analysis of risks and vulnerabilities, as recommended in the IASC/UN Development Group (UNDG) Draft Guiding Principles for coordinated and coherent action for resilience, documenting and communicating experiences.

Tracking and monitoring funding

- Support the technical modification of the International Aid Transparency Initiative (IATI) standard to make it fit for humanitarian purpose and promote political support for voluntary reporting to the IATI standard through country-based pilots, tracking resources according to information requirements determined at the crisis level.

Upgrading the architecture

Enabling a more efficient donor division of labour

- Investigate the feasibility of expanding existing, or creating new, global balancing mechanisms which focus on under-funded crises and sectors to help offset existing and anticipated growth in tightly earmarked funding.
- GHD donors should develop simple planning and communication tools which provide earlier indications of their bilateral funding decisions and the rationale for decisions taken; this could enable other donors to consider where their contributions fit best.

Bridging liquidity gaps

- Investigate the feasibility of building parametric triggers developed to support the African Risk Capacity regional risk pool into existing bilateral funding arrangements on an experimental basis, as part of a learning exercise, with a view to developing a multi-donor approach to early-response funding.

Making provision for 'peak demand'

- Based on forecasting and modelling of the likely scale of peak demand, scope out the feasibility of a relatively large global contingency fund or mechanism, marketed as a global public good. This should include scoping opportunities to finance such a facility with alternative and, where possible, additional sources of financing, including donor-financed risk transfer products to provide additional layers of financial protection against the highest levels of risk.

Investing in nationally led response

- Achieve policy consensus and a set of messages to help foster growing interest in supporting nationally led response. This can be used to encourage donors and intermediary funding organisations to commit, in principle, to enabling access to financing for organisations that are best placed to respond, in accordance with the principle of subsidiarity and with reference to international commitments, including the Principles of Partnership of the Global Humanitarian Platform and relevant sections of donor, NGO and Red Cross principles and codes of conduct.
- Initiate a programme of research and consultation to identify barriers to accessing existing sources of international humanitarian financing, and develop targeted recommendations and a transparently monitored programme of procedural changes, reforms, targets and investments.
- Increase the availability of flexible financing support to organisations committed to investing in capacity-strengthening partnerships with local responding actors.

- Identify pilot contexts in which, as part of a joint systems analysis approach, an assessment of national disaster response capacity could be undertaken and a multi-donor financing plan elaborated, spanning humanitarian, development, climate change and donor communities.

Improving efficiency

Managing recurrent costs

- IASC members should advocate more strongly for increased un-earmarked funding, and for multi-year un-earmarked funding to be the benchmark for good practice.
- Recipients of multi-year multilateral official development assistance (ODA) and those agencies engaged in strategic flexible partnership agreements should collect evidence to demonstrate the added value of flexible multi-annual contributions to continue to build the case for a substantial increase in the proportion of un-earmarked contributions to multilateral humanitarian organisations.

Reducing transaction costs

- Undertake an objective study of the extent, costs and benefits of current humanitarian sub-contracting and pass-through funding practices as the first step in a process to identify more efficient practices and alternatives.

Improving business practices

- Initiate a system-wide learning exercise on efficiency conducted by an independent group under the auspices of the IASC, including IASC members and independent experts from the private sector and experts in public sector and institutional reform. This should focus on objective assessments of specific areas for improvement in efficiency and identifying and documenting reforms and innovations in business practices, including achieving greater consolidation and scale in cash- and voucher-based programming.

Streamlining reporting

- Identify opportunities and political support for standardised reporting against results and outcomes identified at the crisis level, supported by an independent monitoring and verification service.
- Review essential accountability requirements for donors from UN agencies in return for increasing core un-earmarked funding.

Conclusion

The analysis and solutions presented here are, in many respects, already familiar and well understood within the humanitarian community. What is new perhaps is the palpable appetite for change and a new direction, which came through strongly in the FHF dialogues.

Almost all of the potential solutions will be challenging to put in place, but not investing in building the adaptive capacity of the international humanitarian system is not an option, and there are currently critical political opportunities which humanitarian actors should look to seize. This is a key moment of opportunity for humanitarians to encourage and advocate for actors who are more appropriately resourced, technically capable and legitimately responsible to step up to these global challenges. Growing diversity among financing actors is a great opportunity and a necessary development that must be encouraged and managed sensitively. There are many examples of promising models, approaches and experiences to draw on, which point to far greater opportunities to drive increased cost-efficiency and responsiveness within existing systems.

Finally, it is clear that the outline of solutions presented here is a very preliminary one, and that achieving real change will require serious investments in research, experimentation, consensus and relationship building, and political commitment. It is the sincere hope of the FHF member agencies that the FHF process and outputs will help to stimulate the critical discussions necessary to continue to advance solutions to meet the financial cost of humanitarian crises.

Reducing the future humanitarian burden by addressing structural barriers to sustainable development



 CASE STUDY

The Syrian refugee crisis in the Middle East has prompted a rethink about the viability and appropriateness of using humanitarian mechanisms and instruments in middle-income settings. In such contexts, the role of scarce public resources is to catalyse, rather than substitute for, much larger levels of private capital to finance sustainable investments. This in turn will contribute towards reducing humanitarian pressures and promoting resilience. Public resources should focus on removing key structural barriers to private investment, improving the policy environment and reducing investment risk. It is critical for humanitarian assistance to partner with other actors in order to ensure that the programme choices made by humanitarian finance converge with national resilience plans.

Jordan has traditionally relied on imported fossil fuels for its electricity generation, and in 2013 its overall energy costs were likely to reach USD18 billion. This reduces the fiscal space to respond to overall social and economic development goals. Rather than humanitarian assistance increasing the country's fossil fuel-fired power

generation capacity by using diesel generators to meet the increased energy demands of hosting hundreds of thousands of Syrian refugees, the Jordan Resilience Plan envisages accelerating energy efficiency and renewable energy measures in buildings and residences across Jordan. These measures will benefit both Syrian refugees and host communities in the form of lower electricity bills, promoting private investment and job creation in clean energy, reducing fiscal expenditures and putting Jordan on a green development trajectory. It is estimated that replacing 3 million inefficient lightbulbs in residences and buildings with new compact fluorescent lamps would on its own free up 144MW of power in 2014 and 2015. To do this would cost USD14.8 million, but it would save USD50 million in energy subsidies alone and would avoid about USD300 million of investment in additional fossil fuel infrastructure. In this case, limited public resources are used to leverage the private sector through donations (Swedish furniture retailer Ikea will contribute towards the bulbs needed) and through investment (in bulbs and safe disposal).

Image: CAFOD partner Caritas Jordan distributing blankets and other NFIs to Syrian Refugees in Jordan.

Image credit: Caritas Internationalis / Patrick Nicholson

Case study researched and written by Fiona Bayat-Renoux of the Multi-Partner Trust Fund Office, UNDP

Introduction

The Future Humanitarian Financing (FHF) initiative was instigated by CAFOD (Caritas England and Wales), World Vision International and the UN Food and Agriculture Organization (FAO) to undertake a horizon scanning exercise in order to identify opportunities and challenges in financing humanitarian action in the future. The initiative addresses a task under the Inter-Agency Standing Committee (IASC) Humanitarian Financing Task Team's 2014 work plan, and was funded by the Government of Germany and by FAO.

From the outset, the FHF process was envisaged as a broad consultative exercise that would reflect the spirit of optimism and need for collaborative solutions in which the initiative was conceived. The FHF process included a series of cross-sectoral dialogue events in late 2014, which brought together individuals from local and international civil society, UN agencies and funds, local and international businesses, regional organisations and governments. Two dialogue events were held in London, hosted by CAFOD (Caritas England and Wales) and King's College London, and further events were held in Amman and Bangkok, organised and hosted by the International Council of Voluntary Agencies (ICVA), and in Dakar, organised and hosted by Groupe URD.

Dialogue participants were invited to think about, debate and propose solutions to the current challenges in financing response to humanitarian needs. Insights and emerging consensus from the five dialogue events inform the core content, tone and spirit of this report. Additional research and targeted interviews with experts were carried out to develop emerging discussion themes, issues and opportunities. Finally, a large expert advisory group was convened to debate and comment on an initial draft of the report, and feedback was invited from IASC member agencies.

The result of these broad consultations is a paper which presents a survey of available evidence and ideas, accompanied by a set of recommendations spanning a broad set of incremental, remodelling and transformative changes and designed to stimulate further discussion. The analysis of challenges and solutions emerging from the FHF dialogues is characterised by complexity, contradiction and divergent interpretations and this should not be surprising, given the diverse and ungoverned nature of the humanitarian ecosystem. Moreover, the future is often difficult to predict: few could foresee, just four years ago, the vast scale of human suffering and humanitarian needs that would cascade from what began as localised demonstrations against the government in Syria. In light of these uncertainties and complexities, therefore, the analysis presented here attempts to provide a coherent narrative that brings together many facets of a complex set of problems that exist at a variety of levels. However, this analysis will require further consideration, research, investment and prioritisation. Indeed, the purpose of the FHF initiative has been to stimulate dialogue that will contribute to enhancing the adaptive capacity of humanitarian response, and it is the sincere hope of the FHF member agencies that this dialogue will continue beyond the lifetime of the initiative.

Summaries of the dialogue discussions and background papers can be found at:
<http://futurehumanitarianfinancing.org/visioning-the-future/cross-sectoral-dialogues/dialogue-resources/>



Investing in nationally-led response

CASE STUDY

A lack of investment and commitment to supporting national and local actors has been identified as a major hindrance to effective performance. The scale of Typhoon Haiyan in the Philippines in 2013, for instance, outstripped the capacity of government and national NGOs to adequately respond, but more could have been done to build capacity in advance and to strengthen partnerships for response (Featherstone, 2014).

As a humanitarian organisation working primarily through local and national partners in emergencies, the quality and speed of CAFOD's humanitarian work depends on the strength of national organisations. Recognising a need for greater investment to develop and reinforce local capacity to prepare for and respond to emergencies, and given the lack of institutional funding available to support this investment, CAFOD has committed over GBP1 million (approximately USD1.6 million) from its own core funds to invest in partner-led long-term support between 2014 and 2016. The programme works with 18 partners in 8 countries across Africa and South East Asia.

Through the Capacity Development Programme, CAFOD works alongside organisations to identify their own capacity development needs, using its capacity-building framework to rate their current level of competence in three core areas: leadership, skills and knowledge, and systems and support sectors. This self-assessment is a fundamental means of ensuring partners' ownership of the process.

CAFOD's programme promotes opportunities such as peer-to-peer exchange, regular inter-partner meetings, buddying and exchanges. At every stage the relationship between the local organisation and CAFOD is critical to the programme, and time is taken to understand one another's objectives, expectations and challenges. This moves beyond merely a funding-type relationship and instead encourages both parties to take responsibility for the success of the project. Ultimately, a sense of ownership and the partner being able to drive their own development are crucial to building sustainable local capacity.

Image: A scene of devastation following Typhoon Haiyan.

Image credit: CAFOD / Ben White

Case study researched and written by Anthony Neal, CAFOD.

1. Current challenges

The FHF dialogues brought together a variety of people and organisations inside, on the margins of and outside the current humanitarian system. Emerging from these discussions was a surprising consensus that constitutes a vision of how contexts and actors are expected to evolve and how ideally humanitarian action will be organised and financed in the near future (see Box 1).

However, this optimistic vision is a far cry from the challenges that currently exist. At present, more than two-thirds of humanitarian funding each year is spent in conflict-affected and fragile settings, where many of the positive economic and social trends that are expected to drive a diversified and domestically led humanitarian response are less likely to take root. Demand for humanitarian assistance in these difficult environments is likely to remain significant. The cost of providing assistance appears to be increasing, and the existing financing architecture is already under immense strain and is unable to supply either an adequate quantity or quality of assistance to meet the needs of crisis-affected people.

Meanwhile, many of the changes anticipated during the dialogue events, driven by economic growth, expansion of financial services and insurance, growth in private

giving among the rising middle classes, innovations in technology and particularly communication technologies, may not on their current trajectories deliver hoped for outcomes in reducing vulnerability and assuring access to financing to meet post-disaster needs. Humanitarian actors are not sufficiently engaged to influence emerging actors, technologies, ethics or principles in favour of people vulnerable to crisis.

The following section describes these and other humanitarian financing challenges in more detail.

Box 1: Vision of the future of financing for humanitarian action emerging from the FHF dialogues

In future, much of the cost of providing humanitarian assistance will be borne by local and domestic actors, including affected governments, communities, civil society groups, businesses and regional organisations.

The costs of financing supplementary international response will continue to be met by international governments and private donors, including individuals, foundations and corporations.

However, there will be far greater diversity amongst donors, including the rising middle classes in middle-income countries (MICs), who will play a major role in meeting the costs of post-disaster needs through voluntary giving. The interests and concerns of rising and emerging donors will challenge and reshape both modes of assistance and the relative influence of actors within the existing system, and will support the rise of new responding actors.

Crisis-affected individuals will receive a 'bundle' of financial and material assistance through a variety of channels, including commercial savings, loans and insurance; cash and material assistance from relatives and local collectives; government cash transfers and welfare payments; temporary access to subsidised or free goods and services provided by the domestic and international private sector; and finally cash, material relief and access to services provided by domestic civil society organisations (CSOs) and international humanitarian actors, including the UN and international and regional NGOs.

Responses will be coordinated primarily by governments and regional intergovernmental organisations and will draw on international humanitarian standards and emerging norms around transparency. They will also use new communications technologies.

Elsewhere, international actors will continue to provide classic principled humanitarian assistance in contested settings where there is conflict, political instability or persecution of minority groups, substituting for a lack of domestic capacity or will to assist affected populations.

Modes of assistance will be modernised and will make greater use of more efficient technologies and relief products and services.

Influenced by new global norms, treaties and financing tools, governments and private sector actors will invest in mitigating the risks of climate change and building resilience to disasters, offsetting some of the rising costs of responding to climate-related crises. In addition, with the technical and financing support of international development partners, including South-South cooperation, governments will invest in their own capacity to manage and respond to disasters.

1.1 The growing gap between demand and supply

The international humanitarian response system faces an urgent and widening funding gap. A decade ago, the international response system assisted 30–40 million people annually; by 2013 this had risen to 50–70 million.¹ Financing requirements in the UN’s humanitarian funding appeals reached a record USD19.2 billion in 2014, with much of the growth in funding requirements driven by five Level 3 (L3) crises.² The costs of responding to crises also seem to have risen dramatically, driven in part by the higher costs of responding in middle-income countries (MICs), such as Jordan and Lebanon, and the challenging and costly logistics of responding in insecure and inaccessible parts of South Sudan. There is, however, little evidence or analysis to explain or justify the rising cost of humanitarian response.

‘New’ sources of funding are likely to benefit actors outside the current international conglomerate of actors. Funding from traditional donor sources, including OECD Development Assistance Committee (DAC) donors, has grown dramatically since the early 1990s and has continued to respond to growing demands for funding.³ However, this growth in funding is outstripped by the growth in financing needs (see Figure 1) and actors within the existing system will most likely have to do more with – at best – only slightly more money from traditional donor sources.

Based on current experience, government donors outside of the OECD group are likely to remain semi-detached from the traditional international system, providing ad hoc contributions at times of peak need, but preferring to pursue alternative funding models and partnerships, including in some cases providing direct support to crisis-affected governments.⁴

Funds mobilised from private sources in emerging economies are likely to benefit domestic and regional actors rather than the predominantly Western international humanitarian system. This was particularly noted in the FHF regional dialogue for Asia where, for example, private sector actors had provided a large proportion of financing to the Typhoon Haiyan response in the Philippines in 2013. Funds raised through Islamic giving may be extremely significant in volume, but they are most likely to be channelled through governments and Islamic charitable organisations.⁵

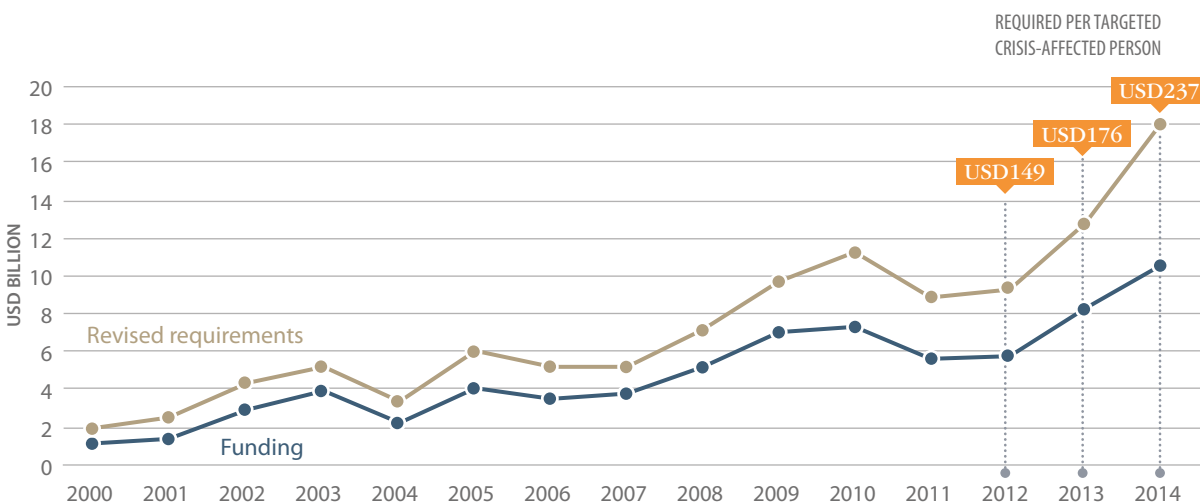
Yes, the gap is growing but so is capacity to respond and funding may be under-reported. National actors are also now better able to respond.

FHF Dialogue participant

Crisis-affected governments themselves are also expected to assume a far greater role in meeting the financial costs of responding to crises in many parts of the world. Participants in the FHF Asia regional dialogue, in particular, noted that economic growth and development have been accompanied by rising domestic capacity and commitment to lead humanitarian response in a number of countries in the region, to such an extent that international assistance is no longer, or very seldom, requested.

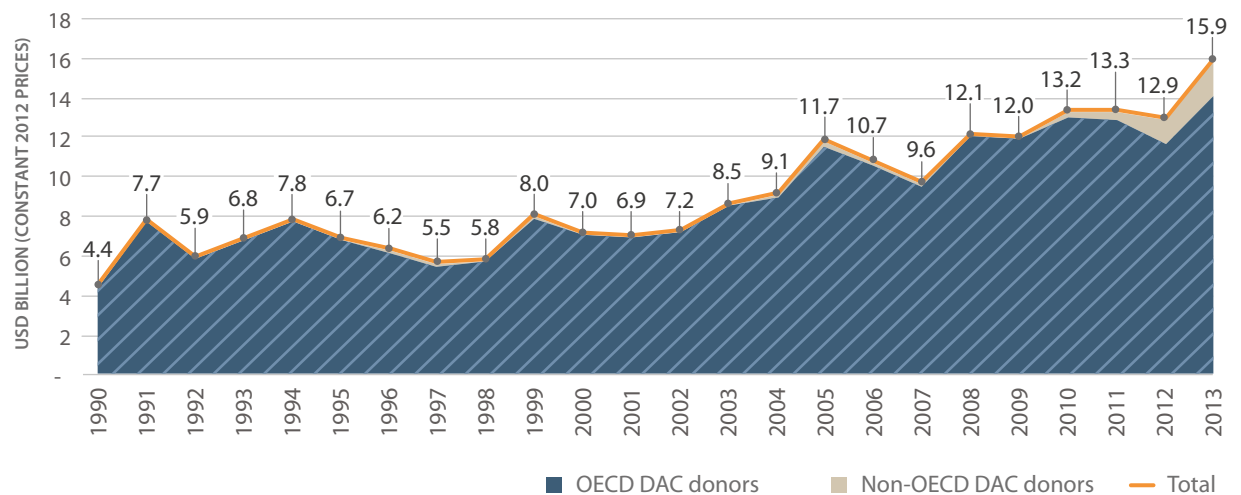
Advances in information and communications technology (ICT), growth in mobile phone connectivity and the expansion of electronic money transfer services will enable funds to flow directly

Figure 1: Humanitarian financing requirements and funding received within UN-coordinated appeals 2000–2014



Source: UN OCHA Financial Tracking Service (FTS)

Figure 2: Official humanitarian aid has grown significantly in real terms since the early 1990s



Source: Development Initiatives, based on OECD DAC and UN Central Emergency Response Fund (CERF) data

to crisis-affected communities, bypassing traditional humanitarian actors. Remittances already play a huge, though little understood, role in meeting humanitarian financing needs. Advances in communication technologies and financial products provide huge opportunities for dis-intermediating the movement of funds between private givers, crisis-affected people and local organisations responding to their needs (see Box 2). With the exception of mobile phone-based person-to-person transfers, these opportunities have yet to make a major impact on financing humanitarian response but could prove to be an important feature of humanitarian financing in the future.

Private sector investment is unlikely to bring substantial direct cash benefits but may bring indirect benefits, including investments in managing risk and delivering more efficient modes of response. Private sector financing models, such as impact investing and investing in social enterprise, are unlikely to be replicable in most humanitarian response contexts, where outcomes are often difficult to predict and guarantee and where opportunities for private investors to see a profit returned on their investment are limited.

Box 2: Collaborative financing

Collaborative finance is a term used to describe a rapidly evolving set of financial tools that allow individuals or organisations to mobilise, move and access funds and financial products using peer-to-peer online platforms without the involvement of traditional financial institutions. Cutting out traditional institutions often allows significant reductions in the cost of services and facilitates the extension of services to under-served geographical locations and communities.

Collaborative financial services currently exist in fundraising, lending, insurance, currency exchange and transfers, and offer potential applications for humanitarian action and financial risk management.

Mobilising private donations for humanitarian response: Crowdfunding platforms allow individuals and organisations to connect directly with prospective donors to market their cases and receive funds. Industry estimates indicate that the amount raised globally through crowdfunding almost doubled between 2011 and 2012 (from USD1.5 billion to USD2.7 billion), before reaching an estimated USD5.1 billion in 2013.⁶ So far, the majority of crowdfunded resources have been mobilised from the US, Canada and European countries and there has been limited use of crowdfunding for humanitarian responses.

Cutting the cost of person-to-person transfers (remittances): The reach and cost-effectiveness of mobile money may provide opportunities for poor households in remote and under-developed financial markets to manage the cost of post-disaster response and recovery. The ability to send money relatively cheaply via the M-Pesa mobile money system, for example, has led to an increased volume of remittances in Kenya, which has enabled some households to better absorb negative income shocks. One study showed that families without M-Pesa experienced a 7% fall in consumption after a major shock.⁷

Increasing access to financial services: Social lending has grown rapidly, particularly through the kiva.org platform, which links individuals and organisations in need of micro-loans that might be used for various environmental and social outcomes. Individual lenders can identify and select potential borrowers from their 'pitch', which is listed on the website and verified by local counterpart organisations. As borrowers make repayments, funds are credited to the lender's Kiva account, which they may then choose to withdraw or lend to others.

Impact investing models, such as development impact bonds, are still in the early stages of experimentation and testing within the development community, but may find applications in resilience-building programmes in stable settings. Social enterprise and investment bonds may also bring indirect benefits in, for example, bringing down the cost and increasing the quality and availability of essential relief supplies (see Box 3).

New and ‘rising’ sources of financing will fundamentally challenge the composition of existing humanitarian response systems and nodes of influence within them. Greater diversity in funding sources and responding actors will increasingly become the reality within which the traditional international humanitarian enterprise must adapt and function. In what looks set to be an increasingly diverse ecosystem of financing and responding actors, reconciling diverse ‘operating systems’ rooted in differences in language, culture, ethics, religion, experience and ways of working, along with particular interests and political preferences, poses a major set of challenges that will need to be managed in order to achieve a coherent, collective response.

Prospects for closing the widening gap are therefore limited in the short term, with continued high levels of demand for international humanitarian response set against a relatively inelastic supply of financing from traditional funding sources. Likely sources of growth in financing lie with governments, businesses and private individuals who are currently outside, or on the margins of, the international humanitarian system. However, humanitarians have yet to adapt to these new realities.

1.2 Failures to adapt

The international humanitarian system is increasingly perceived to be exclusive and out of touch with the contexts in which it operates and the changing cast of responding actors. International humanitarian action takes place in varied and dynamic contexts (see Box 4), which require responses tailored to their particular needs, capacities and characteristics. However, current financing models, priorities and practices are not configured to enable sufficiently differentiated and flexible approaches. Humanitarian approaches often default to a ‘comprehensive’ substitution for capacity that is assumed not to exist and fail to take account of contributions from unfamiliar actors.

FHF dialogue participants in the Middle East noted, for example, that Gulf state donors often felt excluded from decision-making processes, despite their financial contributions. Participants in the FHF Asia dialogue noted that the full range of financial contributions to crisis response was barely captured in existing financial tracking, distorting perceptions of the relative importance of contributions and frustrating gap analysis. In addition, decision-makers outside the international humanitarian community perceive that information is poorly adapted to meet their requirements.

Humanitarians have yet to adapt to a more networked world and thus are failing to capitalise on opportunities. Alongside nation states, networks including diasporas and faith and business organisations are playing a growing role in meeting the financial costs of responding to crises. International humanitarian actors are not currently engaged with these, however.

Box 3: Innovative financing for development

Innovative financing usually refers to financial solutions to development challenges that remain insufficiently addressed by traditional aid flows. There are two sub-categories of innovative financing: (1) innovative sources that help generate new financial flows for sustainable development that may come from various economic sectors; (2) innovative mechanisms that help maximise the efficiency, impact and leverage of existing resources (as defined by the Leading Group for Innovative Financing).

Advance Market Commitments (AMC), for example, have been used successfully to enable investment in vaccine development and production. In an AMC, governments borrow against future official development assistance (ODA), packaging and selling on multi-year ODA commitments as bonds to raise larger volumes of funds upfront, which they can then use to negotiate advantageous terms with pharmaceutical companies. For example, price guarantees may be offered for vaccines yet to be developed: this would encourage the development of vaccines that might not otherwise attract investment, but which might have substantial social advantages for developing countries. Front-loading may in addition provide a stronger position from

which to negotiate cost reductions. Supporting social goods may also be an attractive ‘return’ for potential investors.

The International Finance Facility for Immunisation (IFFIm) has sold vaccine bonds, with administrative support from the World Bank, on international capital markets to raise large volumes of funds for early investment in vaccine development and to support the immunisation programmes of Gavi, the Vaccine Alliance.⁸

Social enterprise development usually refers to the process of creating and nurturing micro, small, and medium-sized businesses that aim for positive social or environmental outcomes while generating financial returns (UN Global Compact). Social enterprises bring technical expertise and investment from the private sector, which may in turn bring innovation and drive efficiency in humanitarian delivery. For example, US design start-up Reaction has leveraged USD1.5 million in private investment to develop its prefabricated rigid transitional shelter units, and in 2014 raised USD50,000 through crowdfunding to trial 10 Exo units with UNHCR for Syrian refugees.⁹

Box 4: Four models of humanitarian response

Ramalingam and Mitchell (2014) have identified four models of international humanitarian action, which have evolved over the last 50 years:

The **comprehensive** model informs much of the culture and practices of the international humanitarian system and is often the default mode of operation. In the comprehensive model, international actors mobilise funds and capacities to set up aid channels, coordinate assistance and deliver goods and services directly to affected populations. Needs are great and local capacities are overwhelmed, such that international humanitarian agencies typically take the lead in response management and oversight. This model is common in low-income countries, where the potential for state or domestic assistance is either limited or overwhelmed by the sheer scale of the disaster.

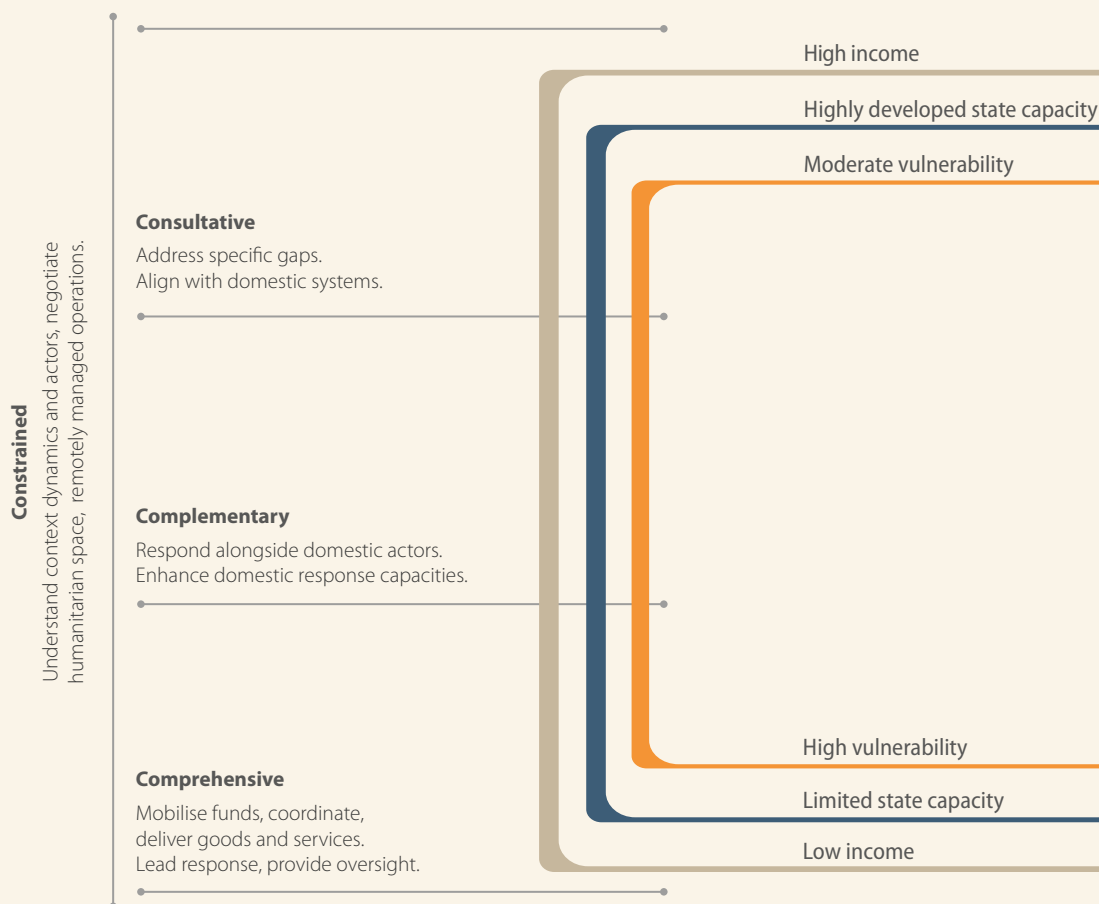
The **constrained** model describes situations where humanitarian space is limited by the actions of different parties, either because of violations creating crises and/or deliberate limitations of access. Impartial response relying on direct delivery is often seen in the constrained model. An in-depth understanding of the dynamics of the context and actors and the ability to negotiate humanitarian space are important to

enabling humanitarian operations. In many cases response is, in practice, delivered through remotely managed operations relying on local responding actors.

The **complementary** model is typically found in newly emerging middle- and low-middle-income countries where there are already some capacity and resources for domestic response, and where national and local actors may be unwilling to hand over leadership wholesale to international actors. In the complementary model, the role of international response should be to support, enhance and work alongside these existing domestic response capacities.

The **consultative** model is generally called for when crises occur in established middle- and high-income countries, where the national government and civil society typically have sufficient capacity to respond to large-scale disasters but where international humanitarian assistance may be requested to meet specific gaps and niches. In this scenario, international responses must be carefully aligned with domestic requests, systems and capacities.

Source: Ramalingam and Mitchell, 2014.



Source: Lawry-White, adapted from Ramalingam and Mitchell, 2014



IDPs sheltering outside a cathedral, CAR, 2013.
Credit: Caritas Internationalis/Matthieu Alexandre

Indeed, international humanitarian actors tend to be insular and struggle to find common cause or work collaboratively with others, often due to a perceived need for a 'principled firewall'. Cultural differences and a lack of detailed technical knowledge outside of one's own particular field also play a part in the difficulties that humanitarians face in reaching beyond their current sphere of engagement. The net effect is to limit opportunities to leverage innovation, skills, resources and synergies.

During the FHF dialogues, many examples were cited of businesses helping to improve humanitarian systems and processes in areas such as planning, forecasting, rapid scale-up and scale-down of operations, supply chain management, market analysis and communications. The private sector may also be a strategic ally in fostering innovation. Businesses may be more accustomed, for example, to tolerating an unpredictable rate of return on investments in pursuit of developing new approaches and may already have invested in developing research and development expertise and capacity. Currently, humanitarian actors are often unclear about what specific 'asks' they could address to the private sector, and they are potentially naïve about the interests, priorities and approaches of private sector actors. Other areas of international engagement meanwhile, notably in risk and resilience, are much more advanced than the humanitarian community in establishing networks for sustained dialogue and engagement with private sector actors.

Despite growing acceptance of the need to manage risk, synergies and complementarity have yet to be achieved by governments and humanitarian, development and climate change actors. Among development actors and governments of states vulnerable to crisis, there is a growing awareness of the need to invest in risk-informed development, including the need

to anticipate and prepare for shocks that may disrupt development and political stability. Indeed, an array of actors and financing instruments are emerging which ultimately hope to reduce the human costs of crises and disasters and to build domestic capacities to manage crisis response. However, with the exception of a limited number of 'resilience'-framed projects, humanitarian actors often have little operational or policy engagement with these actors and initiatives. Furthermore, there has been little progress in achieving coordinated sequencing and synergies between financing mechanisms and investments.

While there is near universal recognition that the current collective approach to supporting communities and countries in crisis is not optimal, this has not yet led to a comprehensive shift, and instead [has] resulted in a proliferation of unconsolidated projects, programmes and frameworks labelled resilience, which often reinforce the very institutional barriers they are meant to overcome.

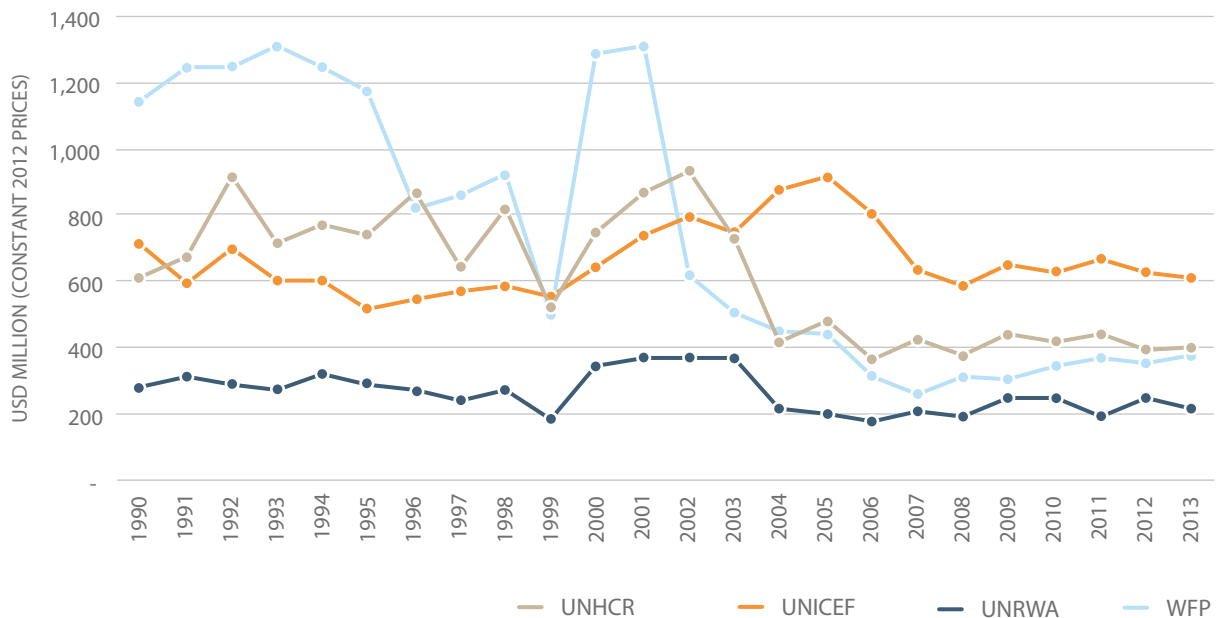
Outcomes of Panel of Experts' Discussion, 87th IASC Working Group Meeting, October 2014

1.3 A dysfunctional and inefficient financing architecture

Within the existing financing architecture, practices and culture, there are persistent challenges to achieving a more efficient and effective humanitarian response. Some of these problems are driven by the configuration and practice of the architecture itself, others by organisational incentives and characteristics. The net effect is that the existing international financing response falls well short of meeting the needs of responding actors and crisis-affected people.

Mobilising funds on a reactive ex-post basis drives large-scale avoidable inefficiency.¹⁰ The majority of humanitarian financing flows to relatively predictable crises and predictable recurrent operational costs. Protracted crises, which consume the bulk of humanitarian financing resources each year, often have similar levels of financing requirements over many years. Recurrent organisational costs, including bulk procurement of goods and services and staffing, are also easily predicted. The likely frequency, intensity, distribution and impact of natural disasters can be anticipated with some confidence using scientific forecasting and modelling. Yet funds are predominantly mobilised on an annual basis, as if it were not possible to foresee demand.

Figure 3: Multilateral or un-earmarked contributions to primarily humanitarian UN agencies, 1990–2013



Source: OECD DAC. Note that 'multilateral ODA' is a specific term used by the OECD to refer to completely un-earmarked contributions to multilateral organisations. These contributions are voluntary and are not to be confused with assessed contributions to the UN. Of the agencies listed here, only UNHCR receives assessed contributions from the general UN budget.

Reliance on unpredictable annual funding, and having to regularly scale up and down in response to modulating funding fortunes, loads avoidable cost inefficiencies into operations such as procurement and transport at sub-optimal market conditions, additional transport and warehousing costs, and additional recruitment and severance costs. There is a clear case for radically improving the predictability of funding and developing more efficient business models based on the anticipation of predictable demand, market and transport conditions.

Multi-annual funding has been demonstrated to have many potential benefits. These include lower operational costs by enabling more efficient procurement, reduced administrative transaction costs, reduced staff turnover costs and improved opportunities for management of currency gains and losses. Greater flexibility has been observed to enable earlier response, and increased predictability can enable the development of more strategic partnerships and better planning, including preparedness and cost savings from longer-term investments (Cabot Venton, 2013a). Multi-annual funding remains marginal within humanitarian financing, however, and there are indications that in some areas access to flexible funding has diminished.

UN agencies have seen substantial reductions in the share of their financing resources provided through core un-earmarked funding (see Figure 3), which limits their ability to take advantage of more forward-looking business processes.¹¹ In 2014, just 9% of the World Food Programme (WFP)'s USD5.5 billion funding was un-earmarked.¹²

UN agencies have experienced an increase in the proportion of earmarked funding, which has reduced flexibility and efficiency and has contributed to a growing reporting burden. NGOs similarly complain of a disproportionate reporting burden, driven in part by a growth in sub-contracting. There are few indications that donors or intermediary organisations have the capacity to critically engage with the information reported, or that it is requested or produced in an efficient or meaningful way. Current reporting practices appear therefore to be a dead weight, consuming time and resources with little discernible practical benefit for anyone concerned.

The system struggles to cope with periods of peak demand. At times of peak demand, in a competitive global funding environment, funding may be diverted to meet the most visible and acute needs. Funding for chronic crises is particularly vulnerable to 'funding flight' in competition with acute needs. In 2010, for example,

many chronic crises experienced a marked reduction in the proportion of appeal funding requirements met as donors committed large volumes of funds to the response to the Haiti earthquake early in the year.¹³ Many humanitarian organisations anecdotally describe a ‘Syria effect’ depressing funding available for other crises. Figure 4 illustrates the effect of major high-profile crises on levels of funding for other crises.

While it is considered good practice for governments, businesses and indeed households to put in place financial risk management measures, such as insurance and contingency funds, in anticipation of large-scale risks, the global humanitarian response system has no such contingency capabilities fit to meet the financing needs of major additional crises.

Often funding is not sufficiently timely to arrest a deteriorating situation. Responses to crises without clear and highly visible trigger events often struggle to mobilise funds in the earlier stages, when suffering and loss of life, property and productive resources could be averted. Late responses to crises are costly, not only in terms of avoidable human suffering and damage to livelihoods but also in needless expenditure. In contrast, early responses to crises have been demonstrated, in a multi-country study, to have a mean cost saving of 40% compared with late response (Cabot Venton, 2013b).

The principled commitment to fund on the basis of assessed needs creates incentives for donors to prioritise responding to late indicators of need. When faced with huge unmet needs and limited resources, a commitment to needs-based prioritisation means that donors should prioritise existing acute needs, rather than anticipated and preventable needs, or indeed chronic needs. Funding reforms have focused on improving the speed

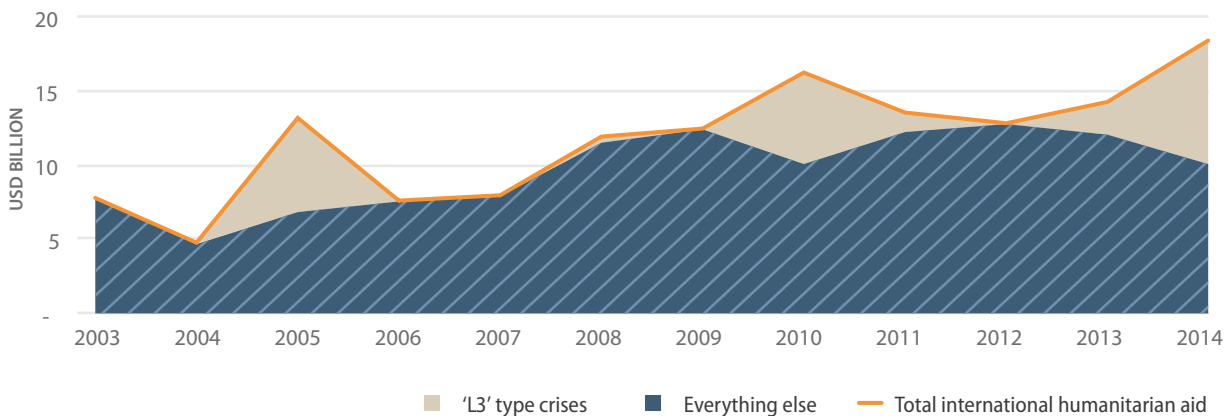
of financing flows. Individual donors have put in place rapid drawdown mechanisms with pre-approved partners to speed the disbursement of funds, and the UN CERF Rapid Response window has significantly improved the speed of funding at the global level. But these mechanisms are relatively modest in scale and do not resolve the disincentives to providing funding to early indicators of crisis.

Increased concentration of funding among large first-level funding recipients has contributed to fragmentation and the growth of convoluted and inefficient transaction chains further down the line.

The growth in humanitarian financing since the early 1990s has been accompanied by increasingly stringent requirements to demonstrate adequate financial controls and an ability to demonstrate results.¹⁴ UN agencies, international NGOs and the Red Cross and Red Crescent Movement have been the primary beneficiaries of this funding and have become adept at responding to donor control and accountability requirements.¹⁵ In the past 10 years, donor funds have continued to grow but, in the context of fiscal austerity measures, many donors have faced heavy staff cuts and increased scrutiny from parliaments and their tax-paying publics. These factors have contributed to a growing donor preference for entrusting larger volumes of funds to a small number of trusted partners who can absorb relatively large volumes of funds and navigate donor requirements for accountability and results.

There are, of course, advantages to consolidation and the growth of strategic partnership funding models. These include potential economies of scale and more strategic and flexible funding relationships for first-level recipients. However, opportunities for new and emerging actors to access humanitarian funding directly

Figure 4: Major crises drive peaks in financing demand and may divert funds from other crises



Source: Author's calculations based on UN OCHA FTS data

from traditional donors are extremely limited, and the best-quality funding appears to be concentrated amongst some of the largest traditional responding actors.¹⁶ This runs counter to the growing policy rhetoric that seeks to enable a greater diversity of responding actors. It also introduces a major check on the evolutionary dynamics of the humanitarian enterprise, which could starve the wider ecosystem of innovation. In addition, the potential advantages of consolidation may be more than offset by added transaction costs and by a loss of timeliness and flexibility of funding for front-line responding agencies.

A consequence of the consolidation of donor portfolios is that a greater proportion of funds is now sub-contracted to front-line responding agencies through intermediary organisations and funds. This practice adds additional layers of cost and can reduce the timeliness of response. For example, in 2013 funds channelled via the CERF took, on average, 55 days from receipt by the first-level recipient to funds being disbursed to front-line implementing sub-grantees (UN CERF, 2014).¹⁷

The growth in sub-contracting is also thought to have fuelled a proliferation of reporting and controls, with intermediary organisations in some cases applying higher levels of controls and lower levels of flexibility than the donor of origin.¹⁸ There is a lack of transparency around the terms on which funds are sub-contracted. There is also a lack of evidence as to the cost implications and operational impacts of widespread sub-contracting and the downward transfer of risk management and controls.

Across the humanitarian and development communities, there are inadequate resources and tools to meet the longer-term needs of populations vulnerable to and immersed in protracted crises.

Humanitarian funding often provides a fall-back approach to providing safety-nets for people affected by protracted conflict and displacement, and this consumes the majority of humanitarian funding each year. In addition, the scope of ambition of humanitarian actors has expanded considerably, particularly into activities which seek to transform the drivers of vulnerability and to build resilience to risk. Humanitarian funding and the short-term responses it promotes are poorly equipped to address the longer-term needs of people living in protracted crises or to effectively support programmes addressing underlying vulnerability.

Despite recognition at the policy level of a need for development actors to invest in the early stages of recovery, contiguous with humanitarian-financed responses, all too often there is simply nowhere for humanitarian actors to refer chronic needs and no possibility of a responsible exit. In reality, development financing is often still far too slow to materialise in fragile and conflict-affected states and, in practice, development actors lack programming tools, including an adequate tolerance for fiduciary risk.¹⁹




Credit: CAFOD/Annie Bungeroth

Achieving greater synergies will be dependent on improving development financing, which is currently fragmented, slow and poorly configured to 'pick-up' where humanitarian financing ends.

FHF London Dialogue

Humanitarians have a strongly held sense of duty to respond that is part of their ethical DNA. However, governments, and their development counterparts, may not share this same sense of priority and responsibility. In shifting from a needs-based humanitarian approach towards mobilising development resources behind government-identified priorities, the basic needs of the most vulnerable, and indeed the need to build resilience, may fall by the wayside in the rush towards state-building, peace-building and infrastructure.²⁰ Humanitarians feel duty-bound to step in to tackle this 'responsibility deficit', despite having inadequate resources and programming tools to address longer-term needs.



Accessing, sequencing
and combining different
sources of finance to build
resilience in Mali

 CASE STUDY

Incorporation of recovery efforts into a broader resilience strategy can help access, combine and sequence different sources of finance for resilience. The Government of Mali has developed a five-year costed strategy to support the emergence of a green economy that will be more resilient to climate change, decrease the risk of conflicts over natural resources and reduce poverty. The Green Economy and Climate Resilient Strategy stems from a growing understanding that the issues of poverty, crisis, conflict and capacity to respond to climate change are intertwined.

In January 2014, the government began implementing the first year of the results framework with USD50 million drawn from a combination of domestic resources, funds from two national funds (the National Fund for Economic and Social Stabilisation and the Mali Climate Fund), two global vertical funds for adaptation (the

Adaptation Fund and the Least Developed Countries Fund) and one global bilateral fund (Germany's International Climate Initiative). The Mali Climate Fund is expected to grow and support coordinated, integrated implementation of the Green Economy and Climate Resilient Strategy, ensuring that a common platform is available for national and international actors to share views on building national resilience.

The government established the National Fund for Economic and Social Stabilisation within a month, at the peak of the country's political and security crisis in 2013. The fund is government-led and nationally owned, and fully uses and strengthens country systems. It secured donor commitments of more than USD30 million within three months by providing donors with a low transaction cost, risk-sharing funding mechanism to channel their support in a harmonised and transparent manner.

Image: Mali, farmers examining the quality of seeds and looking for pests in a sorghum field.

Image credit: FAO / Swiatoslaw Wojtkowiak

Case study researched and written by Fiona Bayat-Renoux of the Multi-Partner Trust Fund Office, UNDP

2. Transformational changes to recast the humanitarian business model

A radical global agenda is called for to engage and enable a far wider variety of actors in meeting the costs of managing risk and of responding to post-crisis needs, as a shared responsibility and a public good. As well as focusing on delivering to their core competence – i.e. to save lives, alleviate suffering and protect human dignity during and in the aftermath of crises²¹ – humanitarian actors have also committed to ‘strive to reduce future vulnerabilities to disaster as well as meeting basic needs’.²² In order to achieve these dual and expansive commitments, humanitarians need to focus on meeting humanitarian needs today but also need to work towards a future in which, wherever possible, international humanitarian response is unnecessary or exceptional, and the majority of needs are met by local actors. Clearly this cannot be achieved with the resources, tools and influence currently at their disposal. It requires long-term vision and strategic alliances with a broad range of actors who can deliver transformative changes to vulnerability and the management of risk.

The international humanitarian community must adapt its culture and practices in order to build a more progressive enterprise fit to seize opportunities and adapt to changing realities. In the future, international humanitarian actors might be expected to play more niche roles in providing technical assistance, brokering partnerships and advocating for principled humanitarian action and operating space. In order to become fit to meet these niche requirements and to advance modes of response to take advantage of efficiency and effectiveness gains afforded by new technologies, the humanitarian enterprise will need to become more skilled and innovative and better informed and better connected. Humanitarians need to have an eye for opportunities and a willingness to develop networks with those who have technical capabilities and influence to advance new solutions and approaches to humanitarian financing and response.²³

This section presents a set of higher-level transformational aspirations to reform the scope of ambition and the culture, constituency and principles that guide and characterise the international humanitarian system. Practical adjustments to humanitarian architecture and practice, which should support these transformational changes, are described in Section 3.

2.1 Re-balancing the division of labour

Where humanitarian financing and humanitarian modes of response are poorly equipped or where other sources of financing may be available and appropriate, humanitarians should look to work with others to take on these financing responsibilities, freeing up limited principled humanitarian financing and response capacity.

Establishing and communicating clear limits to the remit and competence of humanitarian action could help to manage expectations and facilitate the negotiation of a more efficient and effective division of labour. Having clearer expectations as to the limits of humanitarian action could, in principle, help to reduce the likelihood of moral hazard and thereby create incentives for other actors – including governments and development actors – to anticipate and make provision for responding to crises. In time, allied with practical steps to advance alternative financing solutions from beyond the humanitarian community, a sharper focus on the limits of humanitarian responsibility could help to avoid situations where humanitarian actors are relied upon as the indefinite fall-back option in difficult and protracted situations.

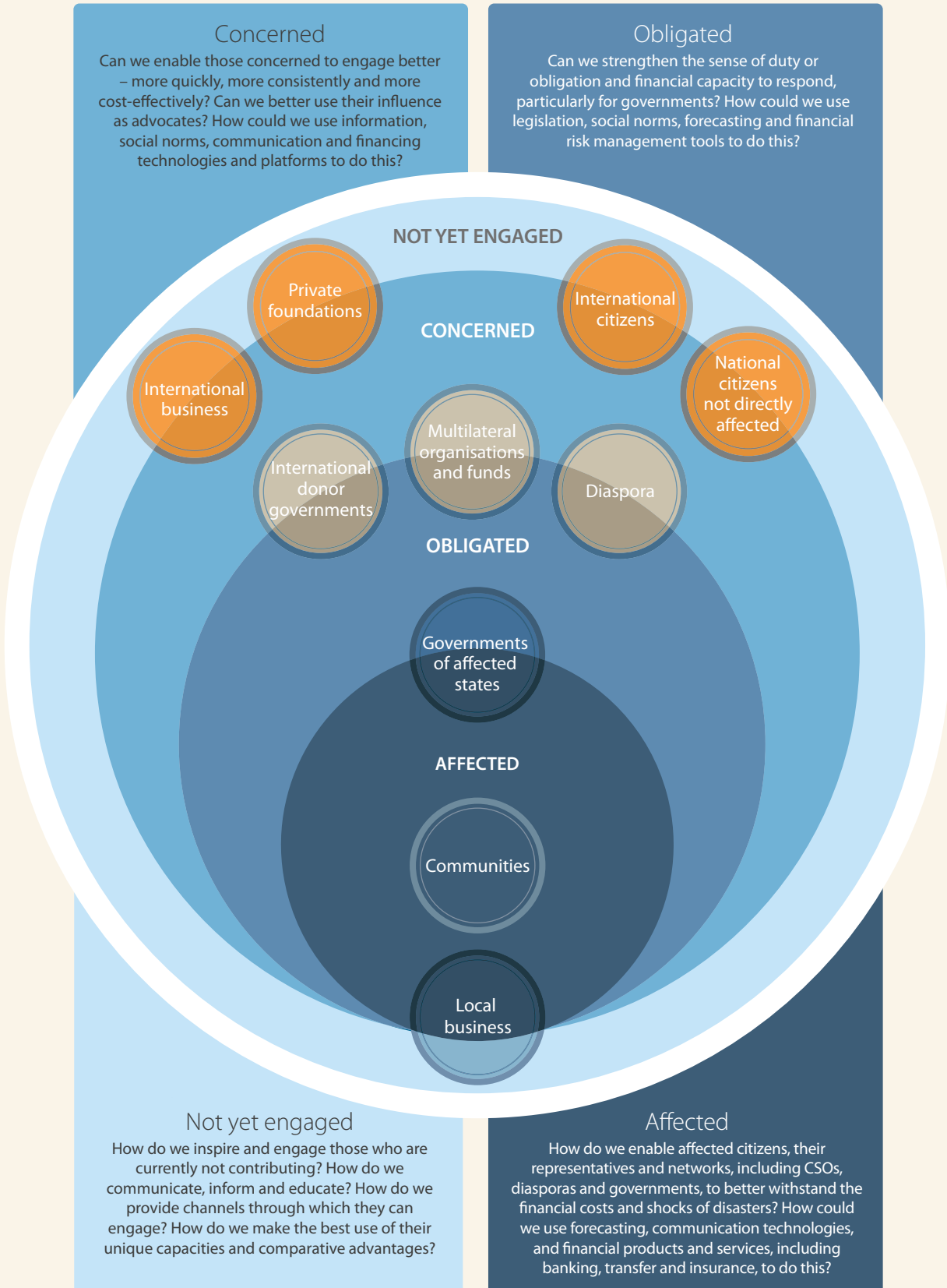
Be clear on what only humanitarians can do and why. What is ‘mission critical’?

FHF Dialogue participant

Under a narrower definition of humanitarian action, principled humanitarian funding would be reserved primarily for meeting acute needs, particularly in conflict-affected and contested settings (see Box 5). That is not to say that humanitarian actors (and particularly multi-mandate organisations) should not engage in longer-term programming with transformative objectives, or that humanitarians should withdraw when there is no alternative means of supporting vulnerable populations – rather that these activities should ultimately be financed with other types of funding.

Figure 5: Creating a shared responsibility and capacity to meet the cost of crisis response

Humanitarian actors should be advocates, brokers and catalysts in a global dialogue, provoking questions such as:



Humanitarian actors should play a much more assertive role in demanding consideration of the needs of vulnerable and crisis-affected populations in government and development policy and in business practices. If humanitarians wish for other actors, and emerging financing sources and tools, to adequately serve the needs of populations vulnerable to crisis, they will need to be part of the design and build of these solutions. In particular, there may be an historic moment of opportunity for humanitarian actors to engage with and influence the design of new approaches within the development community to enable the scaling up of their engagement in protracted crises and fragile situations. A number of development actors are considering how they can scale up their investments in fragile situations within the wider context of a fundamental review of financing for sustainable development.²⁴ There are currently some critical political opportunities for humanitarians to assert the need for strong commitments from governments and their development partners to ensure that the basic needs of vulnerable populations are considered during ‘transition’ and protracted crises. Most notable among these is the upcoming International Conference on Financing for Development in Addis Ababa, Ethiopia in July 2015, where humanitarian actors should seek to influence and shape the political commitments that will inform development investment priorities, approaches and mechanisms in the coming years.

In protracted crises, new solutions to providing more predictable and sustainable financing solutions must be urgently brokered and developed. Humanitarians have, for too long, taken on responsibilities for supporting long-term displaced populations and the longer-term needs of populations affected by protracted crises. Alternative approaches and success stories exist, but they are few and far between. Where these have been achieved, they have been the product of strong leadership and vision, willingness to take risks and sufficient and reliable financial support.²⁵

The prospect of supporting refugees in the Middle East, displaced by the crises in Syria and Iraq over a protracted period, has impelled a more critical rethink of the viability and appropriateness of using humanitarian

The task ahead goes well beyond the resources, expertise, capacities, and mandates of humanitarian organizations. Longer-term – and scaled-up – assistance by development actors, bilateral partners, international financial institutions and the private sector is being brought in to address the massive structural impact of the crisis. The response requires a new aid architecture.

Foreword to the Regional Refugee and Resilience Plan 2015–2016, In Response to the Syria Crisis

funds and humanitarian programming approaches in situations of protracted displacement, particularly in upper-middle-income settings.

‘The Regional Refugee and Resilience Plan (3RP) for the Syria regional crisis is an attempt to find alternatives to a humanitarian approach and to move towards more appropriate and sustainable financial solutions for what is expected to be a protracted displacement crisis for Syrian refugees. However, despite expressions of solidarity with states hosting refugees, international donor governments have been less forthcoming with actual commitments of financial support. In addition, the development community may not currently have the right tools or approaches to support this type of operation. The World Bank, for example, with its current suite of tools, can only offer loans or offer to manage trust funds in middle-income countries.

It appears that, without some strong external stimulus, there are too few incentives for humanitarian, development, climate change and other concerned actors to work in complementary ways to address the longer-

Box 5: Principled humanitarian funding

Principled humanitarian funding, at its core, enables impartial humanitarian action. Donors allocate funding on the basis of needs to recipients who have a demonstrated commitment to delivering principled humanitarian action and do not seek to influence targeting or prioritisation. Funding quality is also an important facet of principled humanitarian funding, and funding flexibility in particular is widely accepted to enable impartial and responsive humanitarian action.

These basic principles are encoded in the Good Humanitarian Donorship Principles (2003) and the EU Consensus on

Humanitarian Aid (2008). However, private donors are also a major source of principled humanitarian funding; MSF, for example, credits its private funding (typically USD1 billion annually) with enabling its independent and impartial humanitarian response.

Donors may use their influence to advocate for respect for international humanitarian law and to enable principled humanitarian action, including access to affected populations.

term needs of populations vulnerable to and affected by crises. However, financing can be used to create incentives for more coherent approaches, built around a shared understanding of the need to manage risk and the human consequences of crises, which is justifiable both as a shared moral imperative and as an expedient investment to protect development investments. There is an open challenge to donors, therefore, to find new ways of organising their funding investments to create these incentives.

This is very much a live political debate, and as these conversations advance and solutions are proposed and ultimately developed, humanitarians must ensure that they are adequately represented and prepared to advocate strongly for legitimate, competent and appropriately resourced actors to share the burden of addressing the long-term needs of crisis-affected populations.

2.2 Prioritising nationally-led response

The humanitarian community is approaching a point of consensus on the practical utility and principled case for supporting nationally led response, but this vision must become far more ambitious and more concrete. There are growing calls within the humanitarian community, echoed throughout the FHF dialogues, to ‘localise humanitarian aid’. In contrast with the strength of commitment emerging in principle, however, practical solutions to achieve this are lacking. There is also currently a lack of precision with respect to the choice of local actors whom humanitarians have ambitions to support and to what ends. Indeed, it is by no means clear that humanitarians themselves have the competence or capacity to realise these emerging ambitions. The discussion on localising aid clearly has some way to go before reaching an achievable set of ambitions and practical next steps to realise them.

Humanitarians should anticipate, and work towards, international humanitarian financing playing a more ‘complementary’ or ‘consultative’ role alongside domestically mobilised financing. The past 10 years have seen the emergence of technical innovations and growing interest within the development community, which indicates real concrete opportunities for communities, governments, civil society and the private sector to anticipate and make provision for post-disaster financing needs. The global insurance and reinsurance industries have developed products tailored to low-income clients that insure against disaster risks, and these have seen rapid take-up in low- and middle-income countries. Development actors, most notably the World Bank, have developed technical expertise, tools and mechanisms to support investments in risk reduction and risk management and to enable governments to better prepare to meet the financial costs of disasters, and demand for these instruments is growing amongst governments and communities in countries vulnerable to crisis.²⁶ Climate financing has grown rapidly at the global level and represents a significant and growing

resource flow available, at least in part, for mitigating and adapting to risk.²⁷

International investments can play a key catalytic role in enabling national and local risk financing capacity, and humanitarian actors have in some important instances played a critical role in ensuring that these instruments are appropriately designed and accessible to meet the needs of vulnerable populations. For example, Oxfam America’s persistence in pioneering disaster insurance targeting the ‘poorest of the poor’ at scale in its Horn of Africa Risk Transfer for Adaptation (HARITA) project in Ethiopia – contrary to policy orthodoxy at the time – effectively shifted accepted wisdom on the possibility of designing affordable disaster insurance for poor people. The HARITA model has subsequently become the prototype for planned large-scale provision of insurance alongside WFP food- and cash-for-work programmes.²⁸ Humanitarian actors may have a key role to play, therefore, in ensuring that financial preparedness against risk is prioritised and that solutions are designed that meet the needs of crisis-vulnerable populations.

The added value and credibility of international humanitarian actors in the region is changing rapidly in relation to growing domestic capacity and there is a pressing need to adapt modes of assistance to work more effectively as technical partners supporting domestically-led response.

FHF Asia Dialogue

Building a sustainable domestic capacity to respond requires a commitment to sustained investment and support across humanitarian, development and climate change communities, backed by a clear set of shared objectives and delineation of responsibilities. Investing in response capacity currently falls between humanitarian actors, who are focused on response through civil society, and development actors, who are focused on strengthening systems at the national level, with little or no correspondence between these approaches. There is also no clear, shared understanding of what might constitute effective approaches to investing in domestic response capacity that could inform a scaling up of investments. In order to address this gap in policy and investment, a much clearer shared understanding of existing capacities and gaps is required, as well as shared objectives, clear theories of change and strategies to build domestic financing and response capacity.

Humanitarian financing practices will need to undergo a series of reforms to remove barriers to access for local and national actors and to provide flexible and enabling funding to support capacity strengthening. Improving access to international financing for front-line

actors and dis-intermediating convoluted transaction chains via international actors were repeated refrains during the FHF dialogues. In practice, this will require developing more flexible risk management procedures and making adjustments to mechanisms and application processes to enable capable responding actors who may not be well schooled in the arts of navigating international humanitarian financing systems to compete on a fair basis in accessing funds. Increased flexible funding will also be needed to enable international organisations to invest in strategic capacity-building support to national partners, to strengthen their organisational procedures and skills in accessing and managing funds (these issues are discussed in more practical detail in section 3.2). International donors will also need to revise their strong preferences towards funding their own national NGOs and shift towards a more globally competitive model where access to funding depends on who is best placed to respond, not where organisations are headquartered.

2.3 Embracing diversity

Growing diversity in financing sources and actors provides an opportunity for international humanitarian actors to better target their limited resources and capabilities. The relative importance of traditional sources of humanitarian funding is likely to wane in many parts of the world as new sources of financing, particularly

Credit: CAFOD / Eleanor Church



Collaborate beyond the humanitarian sector to take a more holistic, inclusive, trusting and disruptive approach. Stop only talking to the church of the converted. Opportunity lies 'outside'.

FHF Dialogue participant

domestic ones, grow. Accepting diversity in funding as an opportunity should alleviate financing demands on the international humanitarian enterprise and enable a more strategic focus on responding where impartial and flexible responses are most needed.

There is a clear need to reconfigure the existing humanitarian system to reflect the full diversity of financing and responding actors. In practice, however, adapting to work in complementarity with as yet unfamiliar sources of public and private humanitarian financing – which are likely to target and deploy funds on their own terms – is one of the most fundamental challenges faced by existing international humanitarian financing. There are huge challenges to engaging, including differences in language, culture, ethics and objectives; a lack of understanding around each other's information requirements and capabilities; and a lack of channels for engagement and dialogue. Moreover, the rise of new financing actors, who may not support the existing international system, may be seen by some as an existential threat. Indeed, broadening participation will likely require the formal humanitarian system to cede control to as yet unfamiliar actors, while simultaneously finding politically and culturally acceptable means of sharing and promoting hard-won lessons in principled, effective and efficient humanitarian financing.

In practical terms, working in complementarity with more diverse sources of financing will require building new tools for data collection, gap analysis, coordination, accountability and communication.

A commitment to transparency and creative use of open data sharing platforms are likely to underpin the development of 'inter-operable' tools and systems which can serve the needs of varied actors and contexts and, where the role of international humanitarian actors will help broker standards, develop exchange platforms and assist with information curation.

Information and data are important, but they are no substitute for relationships and sustained dialogue in building mutual understanding. In the future, humanitarian coordination may rely less on creating and maintaining internationally led structures in response and more on sustaining long-term liaison functions with, for example, regional organisations, private sector platforms and civil society networks, which are capable of navigating cultural and linguistic differences.

Financial preparedness against predictable disaster risks



CASE STUDY

The African Risk Capacity (ARC), a specialised agency of the African Union (AU), was established in 2014 in order to help member states shift from ad hoc ex-post financing responses to natural disasters that result in avoidable loss of life, asset depletion and reversal of development gains.

Pooling risk across the continent diversifies the overall profile of risks insured and provides a more cost-effective insurance solution than coverage negotiated individually. ARC offers insurance against severe drought events with a frequency of one in five years, to a maximum level of coverage of USD30 million per country per season. Pay-outs are triggered and estimated by the Africa RiskView satellite weather surveillance and software system, developed by WFP. International donors have provided strategic financial support to the design and initial capitalisation of the facility.

Pay-outs are triggered when rainfall deviation and estimated response costs cross pre-defined thresholds,

and are made within 2–4 weeks of the end of a rainfall season to enable early intervention. Analysis by the Boston Consulting Group of the potential benefit of ARC indicates that every USD1 spent on early intervention through ARC saves USD4.50 that would need to be spent after a crisis is allowed to develop.

In January 2015, the ARC Insurance Company Limited paid USD25 million in drought insurance claims to Mauritania, Niger and Senegal to finance early drought interventions agreed in pre-approved contingency plans. The UN's Strategic Response Plan (SRP) funding appeal meanwhile was launched after ARC had made these pay-outs, on 12 February 2015.

Coverage for tropical cyclones and floods is expected to be added to ARC's services in 2016, and in the wake of the Ebola crisis AU member states have also requested that ARC develop insurance for outbreaks and epidemics of disease.

3. System upgrades

The scale of the humanitarian funding gap in 2014, and the seemingly intractable nature of many of the well documented financing challenges outlined above are certainly cause for concern. But at the same time, economic growth, increasing global connectedness, new technologies and emerging global norms around the need to manage risk and build resilience mean that this is also a time of great opportunity to address longstanding humanitarian financing challenges. This section identifies a set of practical adjustments and changes to the current modus operandi of humanitarian financing that could help to significantly increase the efficiency and impact of international humanitarian financing investments.

3.1 Improving anticipation and analysis

Evidence, analysis and messages around the scale of humanitarian needs and financing requirements were frequently challenged during the FHF dialogues. Strongly felt concerns were raised that current approaches were not sufficiently inclusive of the full range of financial flows and were based on inconsistent definitions and unreliable assessments of need. A lack of anticipation and forward planning in relation to resource planning was noted as a missed opportunity.

Moving away from reactive funding approaches to predictable needs will need to be built on better anticipation and analysis of crises. Waiting for UN funding appeals to provide an indication of funding requirements for the following year seems an outmoded approach. Contingency planning at the global level based on forecasting models for natural hazards and projections for protracted crises could help to anticipate the scale of financing required at times of peak need. This would, in turn, help to inform financial preparedness at the global level, including giving more reliable indications of the scale of likely requirements and informing the design of adequate mechanisms and measures to meet anticipated demand.

The lack of confidence in the financing requirements of UN-coordinated appeals should be managed and addressed as a matter of urgency. It is important to acknowledge the work that the UN Office for the Coordination of Humanitarian Affairs (OCHA) has already put into improving the evidence base and objectivity of analysis in UN-coordinated appeals and, to an extent, more effective communication of these changes should alleviate some of these concerns.²⁹ Ultimately though, as OCHA is already keenly aware, an alternative approach to quantifying financing needs that does not rely on totting up agency funding requests has to be agreed.

Activity-based costing has been trialled in UN-coordinated appeals and, while considered controversial by a number of agencies at this stage, it is anticipated to be the subject of further research in the medium-term future (see Box 6). To develop alternative costing approaches, however, a serious programme of research, experimentation, learning and technical support is required in order to build approaches that are sufficiently transparent, politically acceptable and practically workable. A realistic timeframe might be in the order of 3–4 years of experimentation, testing and capacity-building.

Box 6: Activity-based costing

Activity-based costing presents a broad picture of the total resources needed to fulfil the strategic objectives of the humanitarian response plan (expressed in the UN's Strategic Response Plan (SRP)), which is informed by a shared analysis of humanitarian needs (presented in the Humanitarian Needs Overview (HNO)). In the activity-based costing approach, there is a clear and direct link between analysis of needs, response strategy and resources requested. In contrast, the project-based approach often in practice retro-fits and crowds projects under strategic objectives so that the relationship between funding requests and strategic objectives is less clear.

Activity-based costing is a form of 'parametric' cost estimate for particular activities, calculated based on parameters including previous known costs (costs per beneficiary per sector, for

example) and taking into consideration context-specific influences, including logistical, geographical, market and security conditions. Activity-based costs, therefore, provide indicative estimates rather than actual costings, but do provide donors with a guide as to what the overall cost of a response is expected to be.

In the six countries which have trialled activity-based costing, positive benefits reported include a recognition that it represents an advance in coordinated planning that will serve strategic goals in the future and appreciation of the time saved in not having to produce project sheets in the early stages of the planning process, which allows more time to develop a better strategy.

Source: adapted from Stoddard and Willitts-King (2014)

Humanitarian needs assessments increasingly appear to be a blunt instrument by which to understand complex environments involving diverse actors and capacities. The inadequacy of existing analytical tools to understand humanitarian needs was a common theme of discussion in the FHF dialogues, with participants noting that analysis often completely overlooks capacities, resource transfers and assistance outside of humanitarians' own narrow frame of reference. Remittances and domestic responses from the private sector were frequently flagged as being overlooked in the analysis of financing gaps. Critically, reliance on an analytical paradigm, which focuses on the problems of today and yesterday, leaves humanitarians vulnerable to failing to anticipate and prepare for major risks yet to come. This points towards the need for a more sophisticated understanding of contexts and their capacities and dynamics. Such analysis needs to be undertaken jointly with other actors concerned with managing risk and building resilience in advance of crisis events.

Tools to track and monitor funds are critical to ensuring coordination and effective coverage of needs, but existing tools must now be adapted to a much more diverse funding landscape. Growing calls for resource tracking, tailored to crisis contexts, were heard throughout the FHF dialogues, pointing towards a need to modify and upgrade the OCHA Financial Tracking Service (FTS).³⁰ OCHA is currently undertaking a consultation with service users, which includes considering uses and expectations of the FTS, and it expects to implement a variety of 'system upgrades' in the near future, which will improve user experience. Expectations should be realistic and should bear in mind that the FTS aggregates information reported on a voluntary basis and cannot oblige anyone to report.

One clear opportunity lies in OCHA putting its weight behind making the existing International Aid Transparency Initiative (IATI) standard fit for humanitarian purpose (see Box 7). The humanitarian community should support IATI, not least because it already exists and has major political support from leading donors and many developing country governments. IATI could, with some

well considered technical modifications and additions of standard fields, enable any actor to report their contributions. It could in principle therefore be used at country level, with the support of affected governments, to develop 'inter-operable' information management systems that capture a far more inclusive sweep of financing contributions from actors that the FTS might never have the influence to persuade to report.

Recommendations

Anticipating funding requirements

- Identify partners in the private sector and academia who could help forecast the anticipated scale and frequency of crises that will exceed current financing capacity, in order to inform the design of ex-ante financial planning measures.

Quantifying and communicating requirements

- Support a realistic timetable for research, experimentation, learning and technical assistance to advance activity-based costing of humanitarian funding requirements in order to build approaches that are sufficiently transparent, politically acceptable and practically workable.
- Identify opportunities to take part in shared analysis of risks and vulnerabilities, as recommended in the IASC/UNDG Draft Guiding Principles for coordinated and coherent action for resilience, documenting and communicating experiences.

Tracking and monitoring funding

- Support the technical modification of the IATI standard to make it 'fit for humanitarian purpose' and promote political support for voluntary reporting to the IATI standard through country-based pilots, tracking resources according to information requirements determined at the crisis level.

Box 7: Making the International Aid Transparency Initiative (IATI) standard 'fit for humanitarian purpose'

The idea of 'inter-operable' systems and information that can serve the purposes of a variety of actors has recently gained currency in international humanitarian policy debates. OCHA has pioneered an operational data sharing platform and language which fit within this concept of serving the information needs of multiple stakeholders through its Humanitarian Data Exchange (HDX) platform and HXL data exchange language.

An equivalent technical publishing framework allowing data to be compared also exists to collect data on development

financing – the IATI standard. Reporting to the IATI standard would theoretically enable anyone to report humanitarian contributions, and extracting and collating data reported to the standard could be used to populate crisis-level funding analysis platforms and tools. However, there is much reticence among humanitarian actors around the IATI standard, and little progress appears to have been made in refining it for humanitarian purposes.³¹

3.2 Upgrading the architecture

This section proposes a range of solutions to manage peak demand and mobilise timely funding. It draws on emerging models and practices from outside the sector, including parametric triggers and consumer levies, as well as a renewed emphasis on existing commitments to financing best practices.

Achieving a coordinated response and rational coverage of humanitarian financing needs will prove ever more challenging as the constituency of donors and sources of finance become increasingly diverse.

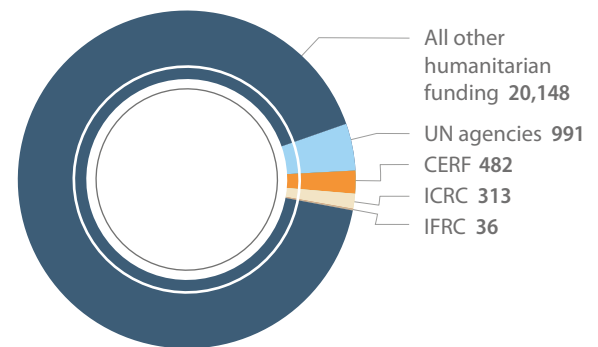
There is no forum for the coordination of financing response. In practice, decisions are taken largely in isolation and are not transparently communicated, and donors are not held to account for a lack of coordination.³²

Donors within the GHD group should lead by example in developing simple planning and communication tools which provide earlier indications of their bilateral funding decisions and the rationale for decisions taken, which could enable other donors to consider where their contributions fit best. An early indication of UN appeal requirements through activity-based costing analysis could provide a galvanising moment in annual planning cycles to communicate and coordinate indicative funding commitments.³³

Global balancing mechanisms offer a practical solution to meeting funding gaps and rebalancing earmarking. Donors often struggle to provide financing on an impartial basis, without influence from their political interests and particular preferences. This is not exclusive to traditional donors; indeed, many participants in the dialogues remarked on the highly selective funding practices of newer donors, including private individuals and organisations. It may be the case, therefore, that growth should be expected in more partial and tightly earmarked humanitarian funding.

In order to mitigate their own selection bias, many donors typically contribute to what might be termed 'global balancing mechanisms', which allocate funds on their behalf on an impartial basis (see Box 8). The CERF is the clearest example of a global balancing mechanism, but un-earmarked funding to international

Figure 6: Un-earmarked contributions to 'global balancing' agencies and funds in 2013 (USD million)



Sources: Multilateral ODA contributions to UNHCR, WFP and UNRWA from all governments reporting to the OECD DAC plus the EU institutions; UN CERF; IFRC Disaster Relief Emergency Fund (DREF) financial report for 2013; ICRC annual report for 2013; and total international humanitarian aid from governments (based on partial and preliminary estimates) and private donors, as calculated by Development Initiatives

organisations with global humanitarian mandates, such as the International Committee of the Red Cross (ICRC), International Federation of Red Cross and Red Crescent Societies (IFRC) and UN humanitarian agencies, also serves a similar, if less transparent, impartial balancing function. If the funding landscape is indeed set to become a more complex kaleidoscope of earmarking, the ability to target funding gaps will become even more important and there will be a good case for increasing the size and scope of existing and new balancing mechanisms.

Mobilising funding and bridging liquidity gaps in the early stages of crises remain major challenges.

Release of funding based on pre-agreed triggers was mooted in the wake of the slow donor response to the Horn of Africa famine and food security crisis of 2011.³⁴ Little progress has been made on this issue by humanitarian actors, owing in part to difficulties in agreeing common indicators and thresholds.

Box 8: Channelling funds via global balancing mechanisms

Many donors channel a proportion of their funding as un-earmarked, or lightly earmarked, contributions to organisations and mechanisms to which they entrust responsibility for impartial needs-based funding decisions. In 2013, 8% of the total funds recorded from institutional and private donors were provided as un-earmarked contributions to organisations and funds that provided a global 'balancing function', including UN agencies, the UN CERF, ICRC and IFRC (see Figure 6).

The CERF explicitly targets under-funded emergencies through an Underfunded Emergencies (UFE) window. This window channelled USD174 million (36% of total funds allocated) to under-funded crises in 2013.

There are opportunities, however, for humanitarian actors to use technical expertise and analysis from private sector actors and governments to develop objective and politically acceptable 'triggers' for the early release of funding. The global insurance industry is of particular relevance, having developed and marketed parametric indices for a variety of natural disaster risks, which provide timely and objective triggers for pay-outs on disaster insurance and risk transfer products.

The Africa RiskView system (see Box 9), which draws on analysis by humanitarian actors of the likely cost of response combined with objective evidence on climatic and food production data, provides a widely accepted metric which could be used to trigger financing responses. Donors could design a range of potential financing approaches, including building triggers into existing bilateral funding arrangements on an experimental basis, as part of a learning exercise with a view to developing a multi-donor approach to early-response funding. An added advantage of the early release of funding on the basis of pre-agreed triggers is the possibility of making low-key resource transfers without the need to resort to high-profile humanitarian fundraising efforts, which are sometimes politically unacceptable for affected governments.

In order to manage peak demand, separate modalities and new funding reserves are required to meet large spikes in demand resulting from major crises. Large-scale crises place huge pressure on existing financial capacities and often displace funding from ongoing crises. Partitioning funding for major crises would, in principle, reduce the risk of diverting funding from existing emergencies; global balancing mechanisms, including the UFE window of the CERF, could then work in complementarity with a global catastrophes fund to ensure continuity of funding to other, lower-profile crises.

A global catastrophes contingency fund, significantly larger than the current CERF, could be marketed as a global public good and financed with alternative and,

where possible, *additional* funds. These could include innovative sources of financing, comprising levies and voluntary fees for goods and services, as well as donor-financed risk transfer products to provide additional layers of financial protection against the highest levels of risk.

Such a facility could be accessible to crisis-affected states as well as to international organisations, and may serve to complement contingent credit facilities offered to crisis-affected governments by the World Bank and regional development banks, but with funds provided on a grant basis. Meeting access criteria to the fund could also prove a useful incentive to encourage government investment in risk reduction and risk management.

The political and practical feasibility of 'innovative' approaches to securing additional and predictable financing for key recurrent humanitarian costs is a clear opportunity which has not yet been sufficiently explored by humanitarian actors. There are a growing number of innovative and alternative approaches to financing development and climate change mitigation.³⁵ Perhaps of most relevance for humanitarian action are those which leverage new sources of financing and which could help to expand a customary sense of responsibility to support the cost of humanitarian response to include actors who are currently marginally, or not actively, engaged.³⁶

Humanitarian action is already at an advantage from a marketing perspective and can identify marketable elements of core recurrent costs, such as procurement inputs including nutritional products and food commodities, which might appeal to global consumers. The mobile phone industry, where many companies and the GSMA network are already strongly committed to providing technical, material and financial support to humanitarian response, would seem a logical partner to explore the feasibility of a consumer levy similar to the air tax levy which has raised billions of dollars for UNITAID (see Box 10).

Box 9: Africa RiskView

ARV is a risk analysis tool which combines weather and crop data with data on vulnerable populations and historic analysis of the costs of response, in order to generate information for decision-makers to anticipate emerging crises and initiate preparedness and early response to drought.

ARV provides estimates of the number and location of people likely to be affected by food insecurity and the probable maximum costs of drought-related responses for every first-level administrative unit in sub-Saharan Africa, before an agricultural season begins and as it progresses.

ARV is a core component of the Africa Risk Capacity (ARC) sovereign risk pool and operates as a parametric trigger for

cash pay-outs from the pool, which enable early response to emerging food security crises. Understanding the expected cost of response also assists members of the ARC to determine the level of cover they would like to purchase.

The existence of an objective and widely accepted early warning tool, which both identifies and indicates the risk and its likely cost, could be used by a range of actors to trigger early action, including assessments, preventive activities and the early allocation of financial resources.

Adapted from: www.africanriskcapacity.org/africa-risk-view



An illegal checkpoint in Bossembele, on the main road from Bangui to Cameroon, 2013.

Credit: Caritas Internationalis / Matthieu Alexandre

Removing barriers and enabling local and national actors to access international sources of humanitarian financing should be an urgent priority.

Simply advocating to bilateral donors to increase their appetite for risk and to channel more funds to local actors is unlikely to succeed, given the hard constraints that many donors face in their own capacity (many have only a handful of staff and simply cannot handle large numbers of small grants) and accountability requirements, which are often outside the control of donor agencies. The need to programme funds at scale and to ensure accountability are hard constraints for most major donors, but they can be managed differently.

The most likely scenario in the medium term is that international actors will remain intermediaries and guarantors of funds, and reforms will need to focus on the efficiency and accessibility of existing mechanisms at this level.

One of the major barriers is mediating donor risk control measures. There are already alternative approaches to ensuring accountability, based on informed management of risk rather than the imposition of restrictive controls, which can be replicated. These include crisis-level partner capacity assessments, risk ratings and linked control measures, such as those developed by OCHA for Common Humanitarian Fund (CHF) applicants.

Box 10: Taxes and levies as a potential source of predictable financing

Taxes on financial transactions (including the purchase of shares, bonds, traded funds and derivatives) and currency exchange have been mooted since the 1970s as a mechanism to redistribute finance from private sources towards social and global goods. The political feasibility, costs and benefits of a financial transaction tax (FTT) are still the subject of much debate, although some European countries have agreed to begin implementing a version of this.³⁷

Some climate finance funds are financed in part or wholly through innovative mechanisms. The Adaptation Fund, for example, is funded by a levy on international carbon market transactions and Germany's International Climate Initiative (ICI) is funded, in part, through the sale of national tradable emission certificates. Additional sources of climate finance, mooted to

help reach the USD100 billion commitment, include market levies and taxes and the FTT.

An air tax levy initiated by the governments of Brazil, Chile, France, Norway and the UK in 2006 has successfully leveraged substantial new funds for development. The levy is paid by passengers at the point of purchase in nine countries: Cameroon, Chile, the Republic of Congo, France, Madagascar, Mali, Mauritius, Niger and the Republic of Korea. This provides 70% of UNITAID funding and some additional funding to the International Finance Facility for Immunisation (IFFIm). Taxes are calibrated according to the type of flight and country context (i.e. income level). The air tax has generated more than EUR2.5 billion since its inception.

Source: OECD (2014) and <http://www.leadinggroup.org>

In addition, there are opportunities to develop new mechanisms specifically designed to facilitate access to international financing for national civil society actors. There are several examples of umbrella grants and NGO-managed funds (see Box 11) that have successfully improved access to funding for national actors. These could be usefully studied and replicated.

A major review should be prioritised of the ways in which humanitarians invest in local and national response capacity. There is limited evidence and understanding of what might constitute effective approaches to investing in domestic response capacity that could inform a scaling up of investments; currently it is more often the case that, within the humanitarian community, ‘partnership’ relationships are primarily sub-contractual and ‘capacity-building’ is ad hoc, short-term and often self-serving from the perspective of the dominant partner.³⁸

There are quick wins to be had in supporting local and national NGOs to access international funds, including providing practical guidance on achieving donor funding eligibility criteria and coaching in navigating funding application processes. Addressing longer-term capacity-building needs is much more challenging for humanitarian actors, though a growing number of organisations are establishing high-level organisational commitments to invest in building local response capacity, including with their own funds (see case study example on page 12). But in order to support a serious scaling up of investments, a far more sophisticated understanding of capacity-building objectives is needed, including evidence of what works and why. A scaled-up commitment to invest in national response capacity would of course need to be backed by flexible, predictable funding capable of supporting and enabling partnerships focused on capacity-building.

Innovative approaches to financing civil society organisations have emerged across the region and often involve partnership with and approaches from the private sector. There is much that civil society in other regions could learn from these approaches to sustainable financing.

FHF Asia Dialogue

Moreover, international humanitarian actors should look beyond linking local and national actors to the international financing architecture. Indeed, during the course of the FHF dialogues many national NGOs described examples of creative approaches to achieving sustainable financing that are entirely independent of the international humanitarian system. There may be significant opportunities for international actors to play a catalytic role in the achievement of sustainable financing approaches, such as supporting peer learning exercises among national civil society actors and supporting strategic investments in organisational capacities. For example, one FHF dialogue participant, Beehive, is supporting local and national NGOs responding to the Syria regional refugee crisis to generate crowdfunding appeals.³⁹

Box 11: Mechanisms enabling local and national actors to access international funding

The Rapid Fund for Pakistan is an umbrella grant from USAID’s Office for Foreign Disaster Assistance managed by the international NGO Concern to provide rapid access to funding for NGOs to address gaps and overlooked needs. The first phase (August 2009 to September 2013) channelled funds to assist three million displaced and disaster-affected people in Pakistan in 125 projects, managed primarily by national NGOs.

The Rapid Fund also has a major emphasis on providing practical support to implementing partners through on-the-job capacity-building. This support aims to enable partners to develop their ability to manage and account for funds.

The South Sudan Recovery Fund (SSRF), managed by the UNDP Multi-Partner Trust Fund Office (MPTFO), was established in 2008 to provide financing for recovery needs. A Small Grants Mechanism was established to enable local NGOs and community-based organisations (CBOs) to access funding and this provided USD2.7 million in grants to 69 organisations via BRAC, which served as grants coordinator. In addition to funding

for NGOs and CBOs to implement projects in agriculture, education, health and WASH, capacity-building training was provided to 183 staff members of the 69 organisations in financial management, monitoring and reporting.

The Darfur Community Peace and Stability Fund (DCPSF), managed by UNDP’s MPTFO, was established in late 2007 to finance community-based approaches to stabilisation that would complement progress at the political level.

In 2011 the DCPSF established a Small Grants Scheme which aims to strengthen the capacities of CSOs in Darfur and was implemented by Catholic Relief Services (CRS), World Vision International and the Sudanese Development Association, which jointly administered a grant of USD1.5 million. Grant activities included providing training for CSOs to complete proposals.

Source: based on Poole (2013) and (2014a)

Recommendations

Enabling a more efficient donor division of labour

- Investigate the feasibility of expanding existing or creating new global balancing mechanisms which focus on under-funded crises and sectors to help offset existing and anticipated growth in tightly earmarked funding.
- GHD donors should develop simple planning and communication tools which provide earlier indications of their bilateral funding decisions and the rationale for decisions taken; this could enable other donors to consider where their contributions fit best.

Bridging liquidity gaps

- Investigate the feasibility of building parametric triggers, developed to support the African Risk Capacity regional risk pool, into existing bilateral funding arrangements on an experimental basis as part of a learning exercise, with a view to developing a multi-donor approach to early response funding.

Making provision for 'peak demand'

- Based on forecasting and modeling of the likely scale of peak demand, scope out the feasibility of a relatively large global contingency fund or mechanism, marketed as a global public good. This should include scoping opportunities to finance such a facility with alternative and, where possible, additional sources of financing, including donor-financed risk transfer products to provide additional layers of financial protection against the highest levels of risk.

Investing in nationally led response

- Achieve policy consensus and a set of messages to help foster growing interest in supporting nationally led response. This can be used to encourage donors and intermediary funding organisations to commit in principle to enabling access to financing for organisations best placed to respond, in accordance with the principle of subsidiarity and with reference to international commitments, including the Global Humanitarian Platform Principles of Partnership and relevant sections of donor, NGO and Red Cross principles and codes of conduct.
- Initiate a programme of research and consultation to identify barriers to accessing existing sources of international humanitarian financing and develop targeted recommendations and a transparently monitored programme of procedural changes, reforms, targets and investments.
- Increase the availability of flexible financing support to organisations committed to investing in capacity-strengthening partnerships with local responding actors.
- Identify pilot contexts in which, as part of a joint systems analysis approach, an assessment of national disaster response capacity could be undertaken and a multi-donor financing plan elaborated, spanning humanitarian, development, climate change and donor communities.
- Identify and document examples and key ingredients of successful investments in building domestic non-governmental capacity and identify opportunities to facilitate the development of sustainable domestic financing models, such as peer knowledge transfer opportunities.



The aftermath of the 2010 floods in Pakistan.

Credit: CAFOD / Monkia Vrsanska

3.3 Improving efficiency

Real and perceived inefficiencies in humanitarian financing practices and business approaches have not been sufficiently addressed and remain a threat to both the effectiveness and the credibility of the humanitarian enterprise. Fortunately, however, there is a growing number of examples and experiences to draw on which indicate the potential for significant improvements in the efficiency of humanitarian business practices.

There is growing evidence confirming that greater predictability and flexibility of funding enable significantly improved cost-efficiency and improved programming outcomes. There are already existing models demonstrating impressive efficiency gains, building on a more creative deployment of funding to smooth the effects of unpredictable financing, which can be further scaled up and replicated elsewhere. WFP's advance procurement mechanism (see Box 12), WVI's internal funding reserve to retain staff between grant-funded contracts, and the procurement of vaccines using AMCs in the development community are all examples of the cost savings possible with more predictable funding and improved business models.

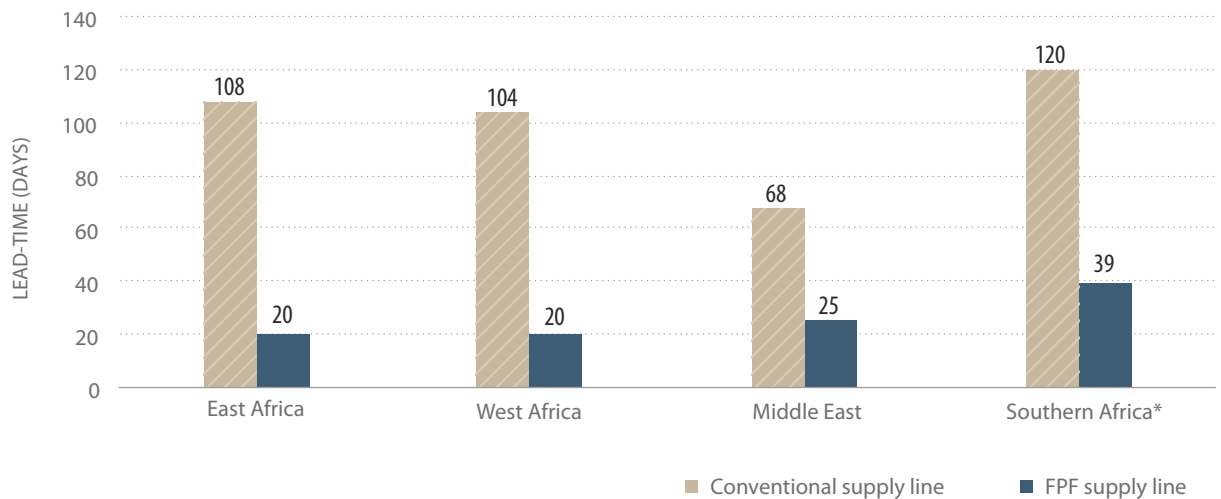
Achieving more predictable and flexible humanitarian financing should be a major focus of funding advocacy. Multi-year commitments of flexible core funds should be promoted as the benchmark for effective multilateral ODA and indeed for support to strategic NGO

partners. In fact there has already been growth in these types of funding commitments. WFP, for example, has signed multi-year multilateral ODA agreements with the UK, Canada, Australia, the Russian Federation, Norway and the Netherlands and in 2013 signed new agreements with Nepal, Ireland, Germany and New Zealand (WFP, 2014b). A number of European donors have introduced multi-annual flexible partnerships with a limited number of international NGO partners, which offer far greater flexibility and predictability of funding. Recipients of multi-year, multilateral and other un-earmarked funding could usefully collect evidence to demonstrate the added value of these contributions to build the case for a substantial increase in the proportion of un-earmarked contributions to humanitarian organisations.

In cases where donors are restricted by legislation and rules that preclude multi-annual commitments, creative alternatives should be investigated, such as allowing greater flexibility around expenditure eligibility beyond the financial year in which funds were committed.

In return for greater predictability and flexibility of funding, however, recipient organisations will need to concede far greater transparency as to how those funds are used, in a way that respects donor obligations to account for and demonstrate impact to their domestic constituencies.

Figure 7: Comparison of regular WFP procurement lead times and the Forward Purchase Facility in 2013



*Based on data from July 2013. Supply lead time is the time between the start of the corporate purchase process and release by the country office of the purchase request. Source: WFP (2014a)

Consolidation of donor portfolios into a smaller number of large partnerships is thought to have fuelled growth in convoluted chains of pass-through funding. In fact, the extent and cost of pass-through funding has not been systematically reviewed for some years, despite changes in terms of partnership agreements from some UN agencies and growth in the practice of remotely managing operations in highly insecure settings. Discussions around transaction costs are therefore typically based on perception and conjecture rather than evidence. Therefore, it is difficult to assess the real costs to timeliness, flexibility for partners and indeed the financial costs, as well as the potential benefits, including management of risk, technical assistance and coordination. A thorough and objective review of the scale, costs and

benefits of pass-through funding – through UN agencies, funds and international NGOs – is needed in order to move the current debate forward and to identify areas for improvement.

Irrespective of any review of transaction costs, far greater transparency in sub-contracting and pass-through funding arrangements is long overdue.

We need to focus as much on making better use of the funds we have as on generating new funds.

FHF Dialogue participant

Box 12: Improved business practices – the WFP Forward Purchase Facility

The Forward Purchase Facility (FPF) has transformed WFP's approach to food procurement, creatively redeploying funds within the organisation to enable procurement of food at optimal market conditions and a more streamlined and efficient supply of commodities to meet demand.

The FPF was developed as a pilot in 2008, operating as a window within WFP's Working Capital Financing Fund (WCFF). The FPF is currently authorised to operate to a value of USD350 million.

Commodities purchased through the FPF are typically sold to projects while the food is in transit to ports. When the

transaction is complete, funding is revolved to enable another purchase. The FPF also enables WFP to stockpile nutritional products that often face supply bottlenecks when procured direct from suppliers at times of peak demand.

WFP estimates that the use of the FPF in combination with advance financing has reduced the standard 106-day lead time for food procurement by 85% (see Figure 7).

Source: based on WFP (2014a)

There could be significant gains from systematically reviewing the cost-efficiency of practices, systems and approaches. A programme of objective audit and review of major cost centres – including procurement, sub-contracting and staff retention practices – could help to identify existing good practices and potential cost savings. This could also include the potential cost savings involved in contracting out some services to the private sector and the use of common procurement and services. A system-wide learning exercise should be conducted by an independent group that includes key humanitarian stakeholders, as well as independent experts from the private sector and experts in public sector and institutional reform.

Cash-based programming has potentially significant untapped potential to improve both the cost-efficiency and effectiveness of response. Cash- and voucher-based programming has grown in scale and acceptance and can achieve considerable cost savings on the supply side, with a recent study finding evidence to indicate that cash can be 25–30% cheaper to deliver than in-kind aid (Cabot Venton *et al.*, 2015). However,



Credit: CAFOD/Tony Karumba

Box 13: Improved business practices – the transformative potential of cash

The use of cash- and voucher-based modes of humanitarian assistance has progressed from ‘proof of concept’ towards a widely accepted legitimate and effective programming approach over the past 15 years. In 2011, cash-based assistance was used ‘at scale’ in the response to the food security crisis and famine in Somalia (Humanitarian Futures, 2013).

However, reaching this level of acceptance has at times been an uphill challenge. Acceptance of the use of cash assistance in Somalia in 2011 was reached only after concerted evidence gathering, risk assurance and advocacy from responding agencies, and in the context of a lack of any other viable alternative following the suspension of WFP operations, combined with growing political pressure to respond following the declaration of famine (Ali, 2012).

Reticence around the use of cash has often centred on concerns about diversion and inflationary effects. But cash-based programming also challenges the fundamental business practices and conceptual organising paradigms on which the international humanitarian system currently relies – notably the segmentation of needs and responses according to sector or cluster. Cash- and voucher-based responses may pose existential challenges to agencies whose mandates are built around specific sectoral responses and could ultimately profoundly challenge the need for traditional international humanitarian responding agencies, where governments and private sector service providers could provide equivalent services.

The comparative programmatic advantages, efficiency and cost-effectiveness of cash- and voucher-based approaches vary according to context, but such approaches are likely, overall, to

offer greater cost-efficiency from the perspective of donors and implementing organisations. Cash is not a panacea, of course, and while there may be gains for supply-side actors, the same may not be the case for recipients. In Ethiopia, for example, many beneficiaries of the Productive Safety Net Programme (PSNP) preferred in-kind assistance, as local inflation rendered transfer amounts of little value. In some instances too international procurement of in-kind relief supplies at advantageous market rates may beat local market prices, particularly at times of seasonal price rises (Cabot Venton *et al.*, 2015).

While many individual organisations have shifted towards cash- and voucher-based programming, approaches currently remain piecemeal and fragmented – multiple organisations implementing slightly different projects in different localities, with different intended outcomes within a single context. Substantial gains in cost-efficiency could be realised with a second generation of cash-centred reforms that sees agencies consolidating programmes, streamlining multiple sectoral in-kind responses into coherent cash-centred responses and working collaboratively to negotiate more cost-efficient deals with service providers at the country and global levels, as part of their emergency preparedness measures (Cabot Venton *et al.*, 2015). This second generation of cash-related reforms – a shift towards consolidation and scale – is likely to have a profoundly transformative influence on the international humanitarian enterprise, including eroding the value of cluster-based approaches, radically improving opportunities for accountability and significantly cutting the cost of delivering assistance.

the real potential for substantial cost-efficiency gains is likely to lie in a radical shift towards harmonised, large-scale cash-based responses (see Box 13). This adaptive change will almost certainly lead to the redundancy of some existing humanitarian functions and capacity; therefore institutional incentives will be weighted towards maintaining the status quo. Driving forward a consolidation agenda may require bold leadership and considerable innovation and creativity among humanitarian actors to shift and adapt their comparative advantages.

Excessive reporting is a common bugbear: it serves nobody's interests and is needlessly consuming resources. Reporting is widely perceived to have become more onerous, linked to growing demands from donors to demonstrate results and ensure adequate controls. Yet few donors have the capacity to meaningfully process

this information. Many actors accept that a more useful approach to understanding what has actually been achieved would be to accept streamlined reporting against targets and outcomes determined at the crisis level, which could be strengthened by an independent monitoring and verification service. This could also reinforce accountability for the collective response rather than simply feeding upward accountability to donors.

There is a need to trade smarter reporting, greater transparency and a commitment to ensure efficiency and impact in return for greater flexibility of funding. To this end, there may be a particular need for donors to collectively review their essential accountability requirements and to renegotiate reporting expectations with UN partners.

Recommendations

Managing recurrent costs

- IASC members should advocate more strongly for increased un-earmarked funding, and for multi-year un-earmarked funding as the benchmark for good practice.
- Recipients of multi-year multilateral ODA and those engaged in strategic flexible partnership agreements should collect evidence to demonstrate the added value of flexible multi-annual contributions, to continue to build the case for a substantial increase in the proportion of un-earmarked contributions to multilateral humanitarian organisations.

Reducing transaction costs

- Undertake an objective study of the extent, costs and benefits of current humanitarian sub-contracting and pass-through funding practices as the first step in a process to identify more efficient practices and alternatives.

Improving business practices

- Initiate a system-wide learning exercise on efficiency conducted by an independent group under the auspices of the IASC, including IASC members and independent experts from the private sector and experts in public sector and institutional reform. This should focus on objective assessments of specific areas for improvement in efficiency and identifying and documenting reforms and innovations in business practices, including achieving greater consolidation and scale in cash- and voucher-based programming.

Streamlining reporting

- Identify opportunities and political support for standardised reporting against results and outcomes identified at the crisis level, supported by an independent monitoring and verification service.
- Review essential accountability requirements for donors from UN agencies in return for increasing core un-earmarked funding.

Flexible financing approaches for early action

CASE STUDY

The challenge of early action has been a priority for humanitarian actors since the 2011 East Africa food crisis. The Somalia Resilience Program (SomReP) – a consortium of seven international NGOs including Action Against Hunger (ACF), Adventist Development and Relief Agency (ADRA), Cooperazione Internazionale (COOPI), CARE International, the Danish Refugee Council (DRC), Oxfam and World Vision Somalia – has developed a Crisis Modifier tool which uses objective evidence reflecting changing climatic and humanitarian conditions to help trigger and mobilise early action. This includes increased monitoring, preparedness planning, communication and advocacy, as well as helping to unlock funding prior to a crisis emerging.

As thresholds were met in 2014, agencies reprogrammed planned activities and funds and donors were approached to fund early action gaps. The consortium

raised USD770,000 after below-normal levels of rainfall in the Gu rainy season raised concerns that post-famine gains could be lost. The system was also able to justify the redirection of USD2.5 million of allocated donor funds to early action.

A central learning point of the consortium's expertise was that SomReP itself financed the bulk of early action and that external funding was the product of pre-positioned relationships with key donors who had internally prepared contingency funding reserves. These pre-positioned relationships with traditional donors, the private sector and others could be enhanced in the future by creating a contingency fund managed by SomReP that would allow donors to contribute when funds are available, instead of issuing requests when funds are needed.

Image: Woman receiving unconditional cash distribution in Badhan district, Somalia, as part of CARE's emergency response fund

Image credit: CARE / Musawi @ 3digit

Conclusion

This report has attempted to provide a wide-ranging survey of current humanitarian financing challenges and to present a balance of opinions as to how these might be overcome. The analysis and solutions presented here are, in many respects, already familiar and well understood within the humanitarian community. What is new perhaps is the palpable appetite for change and a new direction, which came through so strongly throughout the FHF dialogues.

Almost all of the potential solutions will be challenging to put in place, but not investing in building the adaptive capacity of the international humanitarian system is not an option, and there are currently critical political opportunities that humanitarian actors should look to seize. Most notably, facing up to the realities of living in a changing climate and the unprecedented refugee crisis currently taking place in the Middle East are impelling a fundamental rethink of how governments, the private sector and communities take responsibility for, meet the cost of and reduce the risk of shocks to stability and well-being. This is a key moment of opportunity for humanitarians to encourage and advocate for actors who are more appropriately resourced, technically capable and legitimately responsible to step up to these global challenges.

Growing diversity among financing actors is a great opportunity and a necessary development that must be managed sensitively. In order to break down perceptions of an exclusive and closed humanitarian system, a different set of coordination, planning and monitoring tools is needed that can be adapted to the context and reality of financing and of responding actors. Investments in sustained liaison, and engagement with governments and private sector actors, are particularly necessary. In addition, as the funding landscape becomes more diverse, we can expect the emergence of a more complex kaleidoscope of earmarking. Far greater flexibility will be required from more traditional funding sources in order to offset growth in new and more tightly earmarked funding.

There is a daunting array of internal challenges to the efficiency and effectiveness of financing for international humanitarian action, which require serious attention and investment, but there is also cause for optimism since there are a growing number of potential solutions. The existing humanitarian financing architecture is in need of reorganisation – in how to prepare for and deal with peak demand and how to make provision for meeting recurrent costs – and there is a widely felt need for far greater system-wide attention to efficiency. Addressing these problems will, in some cases, require donors to cede considerably greater decision-making responsibilities to actors, mechanisms and funds with global mandates and reach. For humanitarian organisations, changing their business practices is likely to prove painful in the short term, but will ultimately be fundamental to ensuring their longer-term credibility and effectiveness.

Fortunately, there are many examples of promising models, approaches and experiences to draw on. Innovative sources of financing, risk transfer products and growing global acceptance of the need to put in place financial preparedness against risk could provide a range of opportunities to develop a large-scale global catastrophe contingency financing mechanism. Growing sophistication and acceptance of parametric triggers could provide opportunities to build mechanisms that are more responsive to early indicators of deteriorating situations. And there are many emerging innovations and good practices which point to far greater opportunities to drive greater cost-efficiency and responsiveness within existing systems.

Finally, it is clear that the outline of solutions presented here is a very preliminary one, and that achieving real change will require serious investments in research, experimentation, consensus and relationship-building, and political commitment. It is the sincere hope of the FHF member agencies, however, that the FHF process and outputs will help to stimulate the critical discussions necessary to continue to advance solutions for meeting the financial cost of humanitarian crises.

Abbreviations

3RP	Regional Refugee and Resilience Plan	JIU	UN Joint Inspection Unit
AMC	Advance Market Commitment	L3	Level 3 crisis
ARC	African Risk Capacity	MIC	Middle-income country
ARV	Africa RiskView	MPTFO	Multi-Partner Trust Fund Office
AU	African Union	NGO	Non-governmental organisation
CERF	Central Emergency Response Fund	OCHA	UN Office for the Coordination of Humanitarian Affairs
CBO	Community-based organisation	ODA	Official development assistance
CHF	Common Humanitarian Fund	OECD	Organisation for Economic Co-operation and Development
CRS	Catholic Relief Services	PSNP	Productive Safety Net Programme
CSO	Civil Society organisation	SDGs	Sustainable Development Goals
DAC	Development Assistance Committee	SomReP	Somalia Resilience Program
DCPSF	Darfur Community Peace and Stability Fund	SSRF	South Sudan Recovery Fund
DFID	Department for International Development	SRP	Strategic Response Plan
DREF	Disaster Relief Emergency Fund	UFE	Underfunded Emergencies
FAO	UN Food and Agriculture Organization	UNDG	United Nations Development Group
FHF	Future Humanitarian Financing	UNDP	United Nations Development Programme
FPF	Forward Purchase Facility	UNHCR	UN High Commissioner for Refugees
FTS	Financial Tracking Service	UNRWA	UN Relief and Works Agency for Palestinian Refugees in the Near East
FTT	Financial transaction tax	WFP	World Food Programme
GHD	Good Humanitarian Donorship	WVI	World Vision International
HARITA	Horn of Africa Risk Transfer for Adaptation project (Oxfam America)		
HDX	Humanitarian Data Exchange		
HNO	Humanitarian Needs Overview		
IASC	Inter-Agency Steering Committee		
IATI	International Aid Transparency Initiative		
ICAI	Independent Commission for Aid Impact		
ICI	International Climate Initiative		
ICRC	International Committee of the Red Cross		
ICT	Information and communications technology		
ICVA	International Council for Voluntary Agencies		
IFAD	International Fund for Agricultural Development		
IFFIm	International Finance Facility for Immunisation		
IFRC	International Federation of Red Cross and Red Crescent Societies		

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Endnotes

1. United Nations Office for the Coordination of Humanitarian Affairs, *World Humanitarian Data and Trends 2013*, UN OCHA, New York (2013).
2. Typhoon Haiyan in the Philippines and conflicts in Syria, the Central African Republic (CAR), South Sudan and, most recently, Iraq, were declared Level 3 (L3) emergencies by the UN's Emergency Relief Coordinator. L3 emergencies are those of such scale and complexity that they require 'system-wide mobilisation' by the UN and partners.
3. The OECD DAC had 29 members in 2014: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, the European Union, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the UK and the US.
4. OECD DAC donors provided more than two-thirds of the total humanitarian funding reported to the OCHA FTS between 2009 and 2013, while non-OECD DAC member governments provided just 5%. In contrast, non-OECD DAC governments provided 50% of bilateral humanitarian contributions to affected governments between 2009 and 2013, and five of the top 10 donors of humanitarian funds to crisis-affected states were non-OECD DAC donors.
5. See dialogue outcome note on Amman dialogue at: <http://futurehumanitarianfinancing.org/visioning-the-future/cross-sectoral-dialogues/dialogue-reports/>
6. Based on Massolution (2013), as cited in OECD (2014).
7. Jack and Suri in Cull *et al.* (2014).
8. Adapted from The I-8 Group (2009).
9. See: <http://www.reactionhousing.com/>
10. WFP notes, for example, that 'the inherent uncertainty of the model can also lead to poor value for money' (WFP, 2014a).
11. The UN's 2012 Quadrennial Comprehensive Policy Review, '[...]stresses that core resources, because of their untied nature, continue to be the bedrock of the operational activities for development of the United Nations system, in this regard it notes, with concern, that the share of core contributions to United Nations funds and programmes has declined in recent years, and recognizes the need for organizations to address, on a continuous basis, the imbalance between core and noncore resources'.
12. See: <http://documents.wfp.org/stellent/groups/public/documents/research/wfp269792.pdf>
13. See Development Initiatives, *GHA Report 2013*, Figure 3.7, p.46.
14. Mitchell (2003) relates, for example: 'Andrew Natsios, head of the US Agency for International Development (USAID), told an audience of NGO representatives: "Doing good is no longer enough. We have to show results. If you cannot measure aid empirically, then USAID will have to find other partners to fund".'
15. International NGOs and the Red Cross and Red Crescent Movement also began to immerse themselves in an 'accountability revolution' from the early 1990s, introducing principles and standards aimed at strengthening the principled character, quality and accountability of their work. One strand of these accountability measures includes tools and standards focused on results – including the Sphere Humanitarian Charter and Minimum Standards in Humanitarian Response, quality standards such as ISO 9000 and performance frameworks (Mitchell, 2003).
16. Poole (2014a) writes: 'The 10 NGOs and NGO networks with the largest annual budgets, for example, have a total of 33 partnership agreements, and pre-negotiated agreements, to access emergency response draw-down facilities with Australia, the UK, Denmark, Ireland, Norway and Sweden, compared with 13 agreements across the next 10 largest NGOs.'
17. The CERF itself has applied considerable pressure to agencies to improve disbursement times. It should also be noted that implementation often starts before receipt of funds, and the average time between disbursement of funds from the CERF and the commencement of activities was 44 days in 2013 (UN CERF, 2014).
18. An IASC-commissioned review of donor conditionalities describes restrictions on staffing and office costs applied by UN agencies but not by OECD donors.
19. Bayat and Glemarec (2014), for example, note that whereas development-financed multi-partner trust funds could moderate risk to contributing donors and provide a means to channel development funds to priority recovery needs in fragile and conflict-affected settings, in practice, where development-financed funds for recovery do exist, they have usually been established long after the crisis. Of the 23 country-based recovery pooled funds in 21 crisis-affected countries administered by the UNDP Multi-Partner Trust Fund Office (MPTFO), only two funds, (the UNDG Iraq Trust Fund and the UNDG Haiti Reconstruction Fund) were established and operationalised quickly following the crisis concerned. In addition, funds are often under-capitalised.
20. The OECD DAC (2013) notes the current policy conflict whereby development donors have committed to align their assistance to partner country objectives and as such, if resilience is not a priority for partner country governments, it will not be a priority for donors.
21. Based on the Good Humanitarian Donorship 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.'
22. 'Code of Conduct: Principles of Conduct for the International Red Cross and Red Crescent Movement and NGOs in Disaster Response Programmes'. <http://www.ifrc.org/en/publications-and-reports/code-of-conduct/#sthash.WQJCC9Nr.dpuf>
23. The Start Fund is illustrative in this respect, having a diverse group of advisors including private sector investment, management consultancy and marketing specialists.

- 24.** The World Bank expects to double its spending in fragile states under IDA17, for example. The UN's International Fund for Agricultural Development (IFAD) expects to review its policy and tools to enable greater investment in protracted crises in 2015.
- 25.** The best-known example is the development of the Productive Safety Net Programme (PSNP) in Ethiopia, where strong leadership and commitment from the government, with support from the donor community, have enabled a shift from ad hoc humanitarian responses to large-scale and chronic long-term food insecurity towards a government-led system that is responsive to meeting basic needs but which also seeks to transform underlying vulnerability. Notably, in the case of the PSNP, humanitarian and development actors have worked jointly to support technical realisation of the programme, as well as providing coordinated financial support. For a discussion of the political and practical processes of realising the PSNP in Ethiopia, see Brown *et al.* (2007).
- 26.** See, for example, the World Bank's Disaster Risk Financing and Insurance (DRFI) programme: <http://go.worldbank.org/J7Q2X62090>
- 27.** Climate finance refers to local, national or transnational financing, which may be drawn from public, private and alternative sources of funding and is used to finance projects and initiatives that reduce emissions or help countries to adapt and respond to the impacts of climate change. At the Copenhagen Climate Change Conference in 2009, governments committed to increase climate finance to USD100 billion per year from public and private sources by 2020. The current value of climate finance investments may be in the region of USD350 billion annually. See FHF background paper on climate finance at: <http://futurehumanitarianfinancing.org/visioning-the-future/cross-sectoral-dialogues/dialogue-reports/>
- 28.** Described in more detail in Poole (2014b).
- 29.** Most notably, changes to UN-coordinated appeals have improved the quality of analysis and objectivity of funding needs analysis. Sequentially separating the analysis of needs from financing requirements since 2013, for example, means that the 'needs' expressed in Strategic Response Plans are no longer the sum of a shopping-list of funding requests, but are instead based on an analysis of humanitarian needs, in the first instance, followed by a costed response plan to address those needs. The quality of needs analysis, including the use of comparable data within UN coordinated appeals, has also improved significantly within the last five years, particularly with the introduction of the Humanitarian Needs Overview.
- 30.** The UN Joint Inspection Unit (JIU) review of humanitarian financing within the UN system, for example, notes: 'The existing fund-tracking system does not provide an accurate holistic picture of all the financing received. The Inspector found that there is scope for the development of common humanitarian databases at the field level.' (Inomata, 2013)
- 31.** OCHA and the Global Humanitarian Assistance (GHA) programme hosted a workshop in January 2014 to initiate a process of making the IATI standard 'fit for humanitarian purpose', but there appears to have been little progress since then, with the addition of a 'humanitarian marker' noted as part of the IATI Technical Advisory Group's work plan for 2015.
- 32.** A review of GHD donor performance against GHD principles notes that 'funding allocation decisions are currently being made in isolation – there is no forum to discuss donor funding intentions and there are no discussions between donors about division of labour' (Scott, 2013). Similarly, a UN JIU review of humanitarian financing in the UN notes that 'the current financing system is handicapped by the absence of an intergovernmental support body for system-wide coordination, reflective of the collective will of Member States' (Inomata, 2013).
- 33.** Scott (2013) also notes in her review of GHD donor performance that there is scope for the group to be the forum for 'co-ordinating donor funding intentions, perhaps in response to the annual CAP launch, and for major new crises'.
- 34.** For instance, in the UK the Independent Commission for Aid Impact (ICAI) recommended that 'DFID should work towards a cohesive early-warning system, with triggers for action pre-agreed with other key organisations and governments. It should engage with key organisations on this issue within six months' (ICAI, 2012). The influential joint NGO report *A Dangerous Delay* similarly recommended: 'All actors and early warning specialists need to develop a common approach to triggers for early action, to be used by both humanitarian and development actors' (Hillier and Dempsey, 2012).
- 35.** See, for example, OECD (2014) *Development Co-operation Report* and Citigroup (2014).
- 36.** Mechanisms that allow for profits to accrue to the private sector come at a greater cost than traditional grant funding. If they can guarantee better results, provide liquidity and foster innovation that has benefits beyond the individual intervention, the additional costs may be worth it. But without these gains, and particularly where traditional approaches have been tried and tested with more or less predictable positive outcomes, traditional grant funding may still be a logical and cheaper option. In general, returns on investments in crisis-affected contexts may be much more difficult to reliably ensure and may therefore not be feasible or may demand a higher return on investments to compensate for higher levels of risk.
- 37.** The OECD (2014) notes: 'Eleven countries (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, the Slovak Republic, Slovenia and Spain) have decided to implement – through enhanced co-operation – a European directive on the taxation of financial transactions. A recent meeting of the Economic and Financial Affairs Council (May 2014) reached agreement on the modalities of the future tax, which will exclude derivative products. However, there is no consensus yet on the allocation of the future revenues of the tax (Council of the European Union, 2014)'.
- 38.** Tsitrinbaum (2012), for example, notes that rising insecurity and increased humanitarian funding since 2008 have created a market for sub-contracting funds to Somali national NGOs. Large volumes of funds have been channelled to Somali NGOs with little flexibility to invest in developing sustainable organisational structures. The majority of funding relationships in 2011/12 were considered by Somali national NGOs to be pure sub-contracting or at best implementing partnerships rather than strategic partnerships in which they have influence.
- 39.** See: <http://www.beehivecrowdfund.org/>



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