

Financing the Humanitarian Public Good: Towards a More Effective Humanitarian Financing Model

Patrick Saez, Jeremy Konyndyk, and Rose Worden

Abstract

The international humanitarian system provides a global public service but is financed on a voluntary basis. The way official donor funding is mobilised and allocated is unpredictable and haphazard, reducing efficiency and effectiveness. Donors should overcome the collective action problem that is inhibiting change and reach a critical mass of finance delivered through collective mechanisms. This paper outlines the case for - and obstacles against - change. It suggests three ways to make some progress: a multi-year common replenishment model for protracted and predictable crises; rebalancing country-level pooled mechanisms; and aligning core funding to agencies with agreed core functions.

Center for Global
Development
2055 L Street NW
Fifth Floor
Washington DC 20036
202-416-4000
www.cgdev.org

This work is made available
under the terms of the Creative
Commons Attribution-
NonCommercial 4.0 license.

Financing the Humanitarian Public Good: Towards a More Effective Humanitarian Financing Model

Patrick Saez
Center for Global Development

Jeremy Konyndyk

Rose Worden
Center for Global Development

Jeremy Konyndyk co-led the research process that generated this paper until his departure from CGD in January 2021, and contributed to early drafts of the content and recommendations. The research and drafting process were completed following his departure from CGD. Patrick Saez and Rose Worden exercised final editorial control over the contents.

Patrick Saez, Jeremy Konyndyk, and Rose Worden. “Financing the Humanitarian Public Good: Towards a More Effective Humanitarian Financing Model.” CGD Policy Paper 215. Washington, DC: Center for Global Development. <https://www.cgdev.org/publication/financing-humanitarian-public-good-towards-more-effective-humanitarian-financing-model>

Center for Global Development
2055 L Street NW
Washington, DC 20036

202.416.4000
(f) 202.416.4050

www.cgdev.org

The Center for Global Development works to reduce global poverty and improve lives through innovative economic research that drives better policy and practice by the world’s top decision makers. Use and dissemination of this Policy Paper is encouraged; however, reproduced copies may not be used for commercial purposes. Further usage is permitted under the terms of the Creative Commons License.

The views expressed in CGD Policy Papers are those of the authors and should not be attributed to the board of directors, funders of the Center for Global Development, or the authors’ respective organizations.

Contents

1. Introduction.....	1
2. The case for change.....	3
2.1. Haphazard resource mobilisation.....	3
2.2. Inefficient intermediaries	11
3. Escaping the collective action trap	15
Agree to finance the humanitarian system as a global public good provider.....	16
Aim for critical mass	16
Get the governance right.....	16
Fix the information asymmetry.....	17
4. A common replenishment model for predictable needs.....	18
Critical mass	18
Multi-year cycle.....	19
Pre-arranged finance	19
Independent treasury function	20
Data-driven crisis allocations.....	21
Inclusive governance.....	21
5. Rebalancing crisis-level pooling models.....	22
6. Core funding for core functions	25
A common definition of core functions.....	25
A commitment to reducing duplication.....	26
Donor commitment to core funding	26
7. Conclusion: Rising to the challenge.....	27
Annex: Summary results from consultations with donors	28
Humanitarian budgets and allocations.....	28
Sharing information on allocations.....	30
Earmarking.....	31
Prioritization.....	33
Funding channels.....	35
Bibliography.....	38

1. Introduction

The international humanitarian ‘system’—the loosely coordinated sector composed of UN agencies, the Red Cross/Red Crescent Movement and international NGOs provides a global public good but is not resourced as such. By acting to save the lives, alleviate the suffering and preserving the dignity of the most vulnerable people in countries in crisis, the humanitarian system provides a vital safety net in the most difficult places, that can support peacebuilding and economic recovery. In contrast with the importance of this role, the system relies on unpredictable and inadequate resources, channelled in fragmented and inefficient ways which ultimately reduce their overall impact.

The longstanding argument that the system is “broke, not broken” is partially true. Humanitarian financing is inarguably still inadequate as a whole, but has nonetheless increased steadily over the past two decades, from US\$5.4 billion in 2000¹ to US\$25 billion in 2020,² far outpacing the growth of official development assistance over the same period. Yet, the financial architecture that channels that money looks much the same as it did when budgets were dramatically smaller. To maximize efficiency and impact, that architecture needs to be modernized to be in an even stronger position to argue for additional resources.

It is time for an ambitious rethink. Previous rounds of reform have improved coordination but failed to fundamentally affect the underlying business model, characterised by competition over fragmented resources and the dominance of a few large UN agencies. The Grand Bargain—the latest reform agenda—had the significant ambition to improve the humanitarian financing model, but implementation has been slow and success mixed overall.³ Power imbalance within the system and the structure of political and financial incentives favour the status quo. Though the system must respond to growing needs from the COVID-19 crisis, climate-related disasters, and protracted conflict, efforts to drive reform now must grapple with “reform fatigue” and stagnant funding. In 2019, humanitarian financing dropped for the first time since 2012; in 2020, despite the huge increase in needs as a result of the pandemic, it has plateaued.

¹ Development Initiatives, “Global Humanitarian Assistance (GHA) Programme—Humanitarian Data Exchange.”

² UN Office for the Coordination of Humanitarian Affairs, “Inter-Agency Coordinated Appeals.”<https://gho.unocha.org/inter-agency-appeals/inter-agency-coordinated-appeals-results-2020>

³ Metcalfe-Hough et al., “Grand Bargain Annual Independent Report 2020.”<https://www.odi.org/publications/17044-grand-bargain-annual-independent-report-2020>

Figure 1. Total humanitarian funding from 2012–2020



Source: OCHA Financial Tracking Service (FTS)

We have previously described⁴ how, as the international humanitarian response model was challenged by the pandemic and governments’ containment measures, international donors and operational agencies reverted to bad habits. The vast majority of crisis response funding was initially allocated to UN agencies who did not pass it on quickly enough to national and local actors. There was very limited transparency on where and how resources were being spent, and on the link between severity of need and allocation decisions. Unless the crisis financing model is modernized, it is unlikely to measure-up to the long-term humanitarian impact of this and future global crises.

A global public good provider should not be financed using a begging bowl. It should not be resourced through lumpy projectized grants. Predictable crises should receive predictable, needs-based finance. Core functions and capacities in the humanitarian system should be resourced using core funding, not overheads on programs. Resources should reach the frontline more efficiently. This paper makes the case and outlines paths for change rather than overly prescriptive solutions.

It is informed by a review of existing literature; a thematic workshop and structured interviews with humanitarian financing experts; an online survey; and structured interviews with representatives of 14 of the largest humanitarian donors (amounting for more than 80% of total official humanitarian aid in 2020) to better understand funding behaviors (see Annex).⁵ We discussed some of our initial findings and ideas in two high-level roundtables with senior leaders of donor, UN, Red Cross and non-governmental organisations in October 2020, and a workshop with civil society organisation in Indonesia in December 2020. Collectively these consultations involved over 90 representatives and independent experts. While informed by these discussions, the paper is not a reflection of any consensus and the authors take full responsibility for its content.

⁴ Konyndyk, Saez, and Worden, “Humanitarian Financing Is Failing the COVID-19 Frontlines.” <https://www.cgdev.org/blog/humanitarian-financing-failing-covid-19-frontlines>

⁵ UN Office for the Coordination of Humanitarian Affairs, “Total Reported Funding 2020 | Financial Tracking Service.” <https://fts.unocha.org/global-funding/overview/2020>

2. The case for change

Throughout the humanitarian reform processes of the past couple of decades, much has been written about the flaws built into the humanitarian business model. The following diagnostic highlights how little progress has been fundamentally made in changing the way humanitarian finance is mobilised, allocated and transferred to people in need.

2.1. Haphazard resource mobilisation

The architecture used to allocate the current volume of humanitarian finance uses remarkably outmoded fundraising and donor granting practices, yielding results that are often less than the sum of its parts. If the current plateauing trend is an indication that international humanitarian finance is a finite resource, it is vital to find ways to optimize its impact. Four areas need urgent attention:

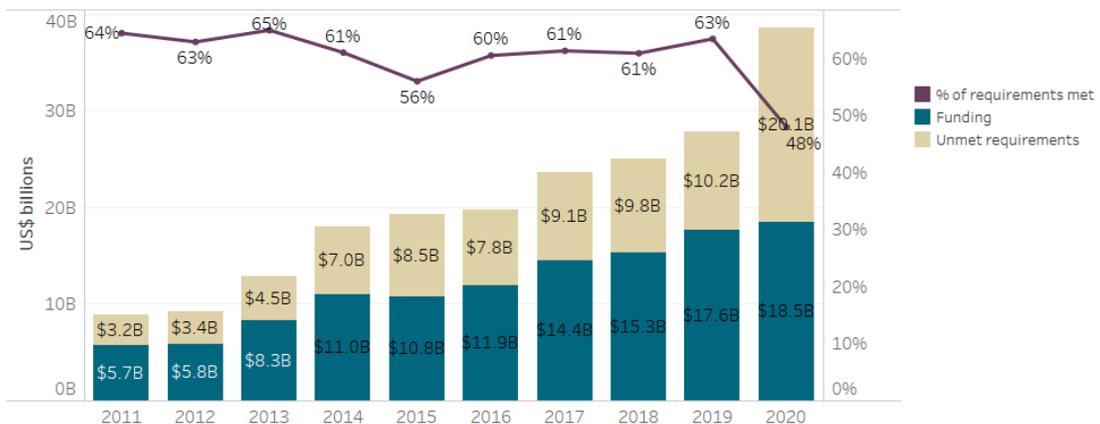
2.1.1. Skewed measures of financial requirements

In spite of their rapid growth in the past couple of decades, donor contributions leave a relatively stable gap—hovering at around 40%—when compared with requirements expressed by international humanitarian agencies. That ongoing gap is often plainly explained by the worsening global context: protracted conflict and forced displacement, an increase in the number of climate-related disasters, diseases such as Ebola and now COVID-19, all contribute to humanitarian needs growing. In a single year from 2019 from 2020, requirements jumped from \$25.8 to \$38.6 billion.

Figure 2. Humanitarian funding and unmet requirements as reported to the FTS database

Volumes to UN-coordinated appeals grow for 5th consecutive year and new funding gap opens

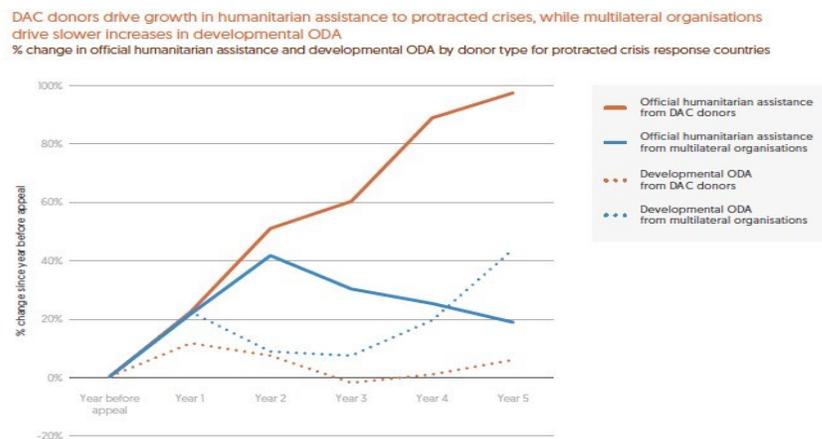
Funding and unmet requirements, UN-coordinated appeals, 2011-2020



There is a soft consensus across the sector that the overall level of humanitarian finance is insufficient compared to needs. However, that assertion cannot be confirmed because there is currently no objective way to ascertain the size of humanitarian needs and the cost of responding. The current measure of requirements comes from a process of appeals, which uses data from assessments carried-out by individual humanitarian organisations to service their own programmes. This puts the integrity of the data, as well as their reliability in describing the actual needs of people in crisis, into question. The method fuels ongoing assumptions that the system ‘inflates’ requirements because (1) agencies anticipate that donors will never fund their programmes fully; (2) most agencies finance their core functions using overheads on their programs, which provides an incentive to grow their size as much as possible and (3) agencies have an incentive to set-up duplicative systems for processes such as needs assessments, monitoring and evaluation, which could lead to duplication. There is a dearth of high-quality, comparable and independently verified data on the relative severity of risks and needs, and the cost of preparedness and response.

Moreover, humanitarian appeals calculate financing needs in isolation of other resource flows, including domestic public resources and development finance. In countries with recurring humanitarian appeals, humanitarian finance represents 8% of total resources, compared with 20% for development aid.⁶ Multilateral development banks in particular have increased the volume of loans and grants by 400% between 2012 and 2018 in a number of countries in protracted humanitarian crisis. Nevertheless, this increase has not ‘shrunk’ humanitarian needs and humanitarian finance has been growing at an even faster than development ODA, even in those countries. The drive for better coordination between humanitarian, development and peacebuilding aid has not yet resulted in a joint analysis of needs, and a common appraisal of the instrument best suited to respond.

Figure 3. Change (%) in humanitarian assistance and development ODA in years following an appeal, by type of donor



Source: Development Initiatives, 2020 Global Humanitarian Assistance Report

⁶ Development Initiatives, “Effectiveness, Efficiency and Quality.” <http://devinit.org/wp-content/uploads/2019/09/GHA-report-2019.pdf>

CGD’s analysis of donor practice reveals limited confidence in comprehensive multi-agency humanitarian response plans. It also finds widespread frustration with the inability of the humanitarian sector to generate consistent, comparable analysis and costing of needs across agencies and crises. Bilateral donors find it difficult to base their funding decisions on need alone. At a macro level, their strategic priorities in relation to a particular crisis shape the scope and nature of their humanitarian response. Internal capacity constraints may also limit donors’ ability to apply a rigorous analysis of the depth and severity of humanitarian needs. While those donors with greater capacity draw on dedicated staff at the country level, all of them rely on largely the same external information ecosystem to fill in knowledge gaps. Some donors supplement the UN Humanitarian response Plans (HRPs)—largely considered inadequate for prioritizing across crises—with third party resources, but this is inconsistent.

Figure 4. Information sources mentioned in survey and interviews

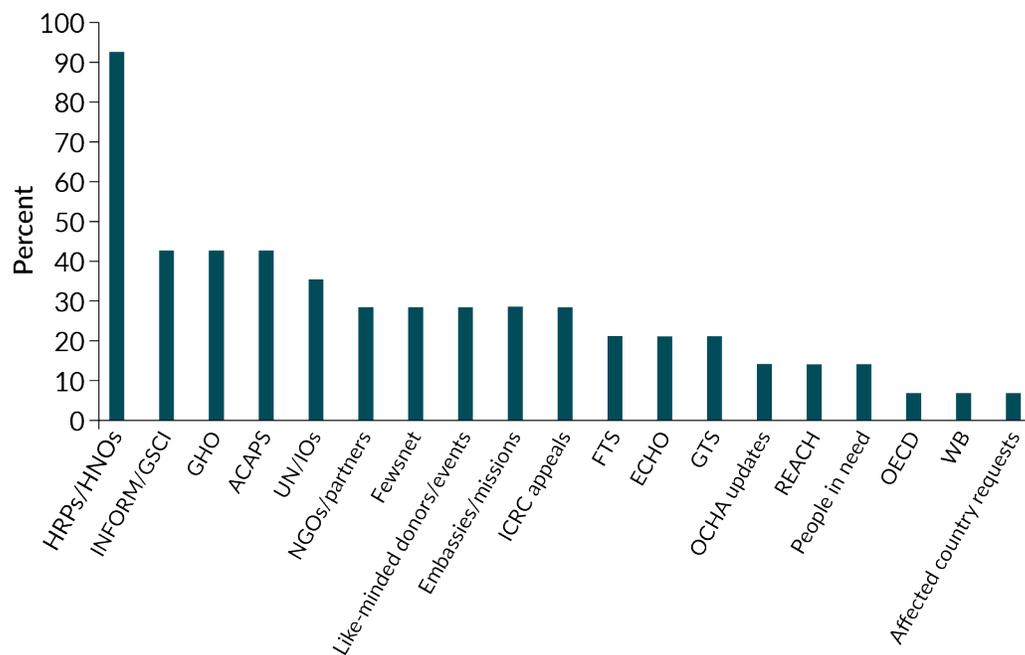
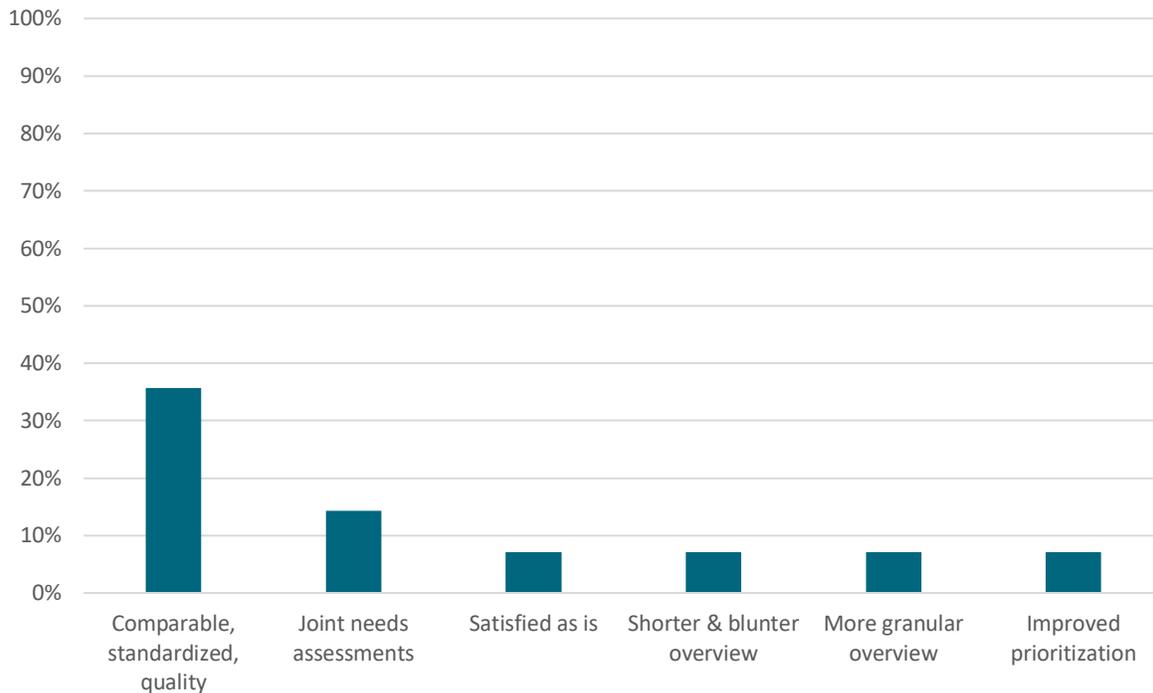


Figure 5. Would other type of information resources on global needs be helpful to your decision-making on funding allocations?



While progress is being made through the Grand Bargain process and initiatives such as INFORM,⁷ the underlying model has been left untouched and still falls short of the sort of independence required to radically improve confidence.

A suggestion by the 2016 High-Level Panel on Humanitarian Financing⁸ to devise a universal proxy measure of need by applying the threshold of extreme poverty to the population of countries in humanitarian crisis was not taken-up by donors and agencies. Instead, financial requirements continue to be calculated on an annual basis by each individual humanitarian organisation, then coordinated at the country level by the UN, even though each agency also maintains a distinct appeal.

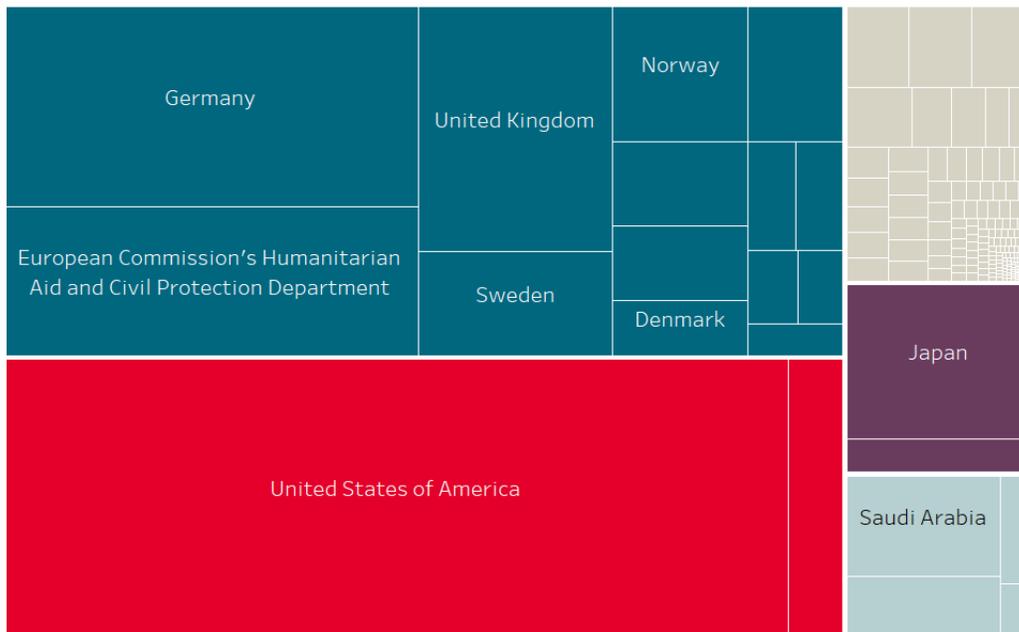
2.1.2. Fragmented donorship

89% of humanitarian grants come from just 20 donors and 62% from just four—the US, Germany, EU institutions and the UK.

⁷ European Common Disaster Risk Management Knowledge Centre, INFORM, “INFORM—Global, Open-Source Risk Assessment for Humanitarian Crises and Disasters.” <https://drmkc.jrc.ec.europa.eu/inform-index>

⁸ World Humanitarian Summit, “High-Level Panel on Humanitarian Financing Report to the Secretary-General.” <https://reliefweb.int/sites/reliefweb.int/files/resources/%5BHLF%20Report%5D%20Too%20important%20to%20fail—addressing%20the%20humanitarian%20financing%20gap.pdf>

Figure 6. Largest humanitarian donors, 2020



Source: OCHA FTS

Yet, there is little inter-donor alignment toward a coherent allocation of resources to the humanitarian system beyond broad commitments to principles of good humanitarian donorship.⁹ Each donor continues to have distinct allocation processes, with varying timings, timeframes and prioritization rationales. While total pooled funding more than doubled between 2013 and 2019, the proportion of funding it represents only grew from 5.1% to 8.1%.¹⁰ As a result, existing pooled funds have mainly a contingency and gap-filling function and do not leverage a common strategic orientation.

Unlike multilateral development finance, which is mostly channelled through the International Financing Institutions and their regular replenishment processes, the humanitarian sector has no system-wide mechanism for aligning political will, policy objectives and financial commitments beyond individual UN agency executive boards and donor support groups. The latter prioritize the parochial concerns of individual agencies. The political will for meaningful, sector-wide change is difficult to generate, in part, because no forum exists for convening it.

⁹ Good Humanitarian Donorship Initiative, “GHD Principles and Good Practice.”<https://www.ghdinitiative.org/ghd/gns/principles-good-practice-of-ghd/principles-good-practice-ghd.html>

¹⁰ Development Initiatives, “Global Humanitarian Assistance Report 2020.”GHA 2020

Fragmentation also occurs on the recipients' side. 90% of governmental humanitarian finance is in the form of discretionary grants from donor governments to individual UN, NGO or Red Cross organisations. Humanitarian organisations rely heavily on these grants, for which they compete: only 1–5% of contributions to the budget of UN humanitarian agencies comes from the UN's regular budget (funded through assessed contributions) and private donor contributions range from less than 1% to 22% depending on the agency.¹¹ Although the UN's common appeals process is meant to give an indication of priority needs in each country, each agency has an incentive to present their mandated area of work as the 'best buy' to maintain a competitive edge.

The majority of donor grants allocations are largely organized by agency rather than the coordinated planning process, underpinned by historical relationships of co-dependence between donors and individual agencies. Each international organization develops a separate appeal based on its mandate or mission. This creates coordination challenges at the crisis level. In the words of one senior Humanitarian Coordinator interviewed by CGD, these 'lumpy' funding flows mean that Humanitarian Country Teams (HCTs) managing the response to a long-term crisis do not know in advance how much funding will be collectively available for which planning priorities, at which point in the year. This makes viable operational planning impossible beyond a few months at a time.

Instead, HCT planning efforts must reactively cobble together different donor contributions to different agencies for different priorities at different times of the year—and hope that this can be spun into some semblance of coherent, comprehensive coverage of humanitarian needs. This dynamic undermines the quality of humanitarian response plans, since the financing model does not incentivize or enable humanitarian agencies to treat them as serious operational documents. That in turn undermines donor confidence in the plans, creating a self-reinforcing 'response planning doom loop' that undermines coherent country-level planning.

2.1.3. Emergency funding for predictable costs

Most humanitarian grants come with conditions on which activities can be undertaken, where and in which timeframe, that limit the ability to anticipate and adapt to risks. Evidence shows that acting ahead of disasters—using anticipatory techniques and pre-arranged finance released on the basis of objective triggers—can help save lives, reduce suffering, and significantly lower the cost of humanitarian response.¹² Some donors have provisions in place to allow their development partners to pivot to crisis response when a crisis can be anticipated. Those who fund multi-year humanitarian programmes sometimes include mechanisms—such as 'internal risk facilities'—to allow their partners to act early, with a 'no regrets' approach, in the face of a known risk, but this is the exception rather than the rule.

¹¹ Drawn from published budget information from WFP, UNHCR, UNICEF, OCHA.

¹² Weingartner, Pforr, and Wilkinson, "Saving Lives, Changing Lives: The Evidence Base on Anticipatory Action." <https://reliefweb.int/sites/reliefweb.int/files/resources/WFP-0000110236.pdf>

In recent years, regional risk pools insurance schemes have started to show their value in providing sovereign parametric insurance to countries at risk of disasters, particularly those related to the climate.¹³ Similar approaches have begun to emerge in the humanitarian sector. In addition to some agencies using contingency funds, the START Fund and the IFRC Disaster Relief Emergency Fund (DREF) have established ‘anticipation’ windows. The CERF is scoping out how to fund early action. However, anticipatory humanitarian finance mechanisms are so small in scale that they have not had an overall effect on the business model yet.

Similarly, the response to long-term crises is financed through short-term grants. The ten largest 2020 humanitarian appeals and all but the Venezuela and Bangladesh/Rohingya appeals are for refugee crises that have been underway for at least five years—up to 70 years in the case of the Occupied Palestinian Territories. Yet humanitarian aid flows remain predominantly short term and reactive in nature, leaving aid providers trapped within inadequate planning cycles. Multi-year humanitarian finance (MYHF) is also hailed as ‘quality funding’ by humanitarian agencies, because it increases financial predictability and flexibility, particularly in countries prone to recurrent shocks or in protracted crisis.

Half of donors surveyed by CGD reported increasing multiyear funding agreements (typically 3–5 years) with major multilateral agencies and international NGOs as a means to bolster predictability and transparency and lessen the need to earmark. This is confirmed by their reports to OCHA’s Financial Tracking Service, which show US\$2 billion in multi-annual funding in 2019, compared with US\$300 million in 2016. With longer funding timeframes comes an expectation that cost-efficiency and programming quality—including better preparedness and early action—would improve.

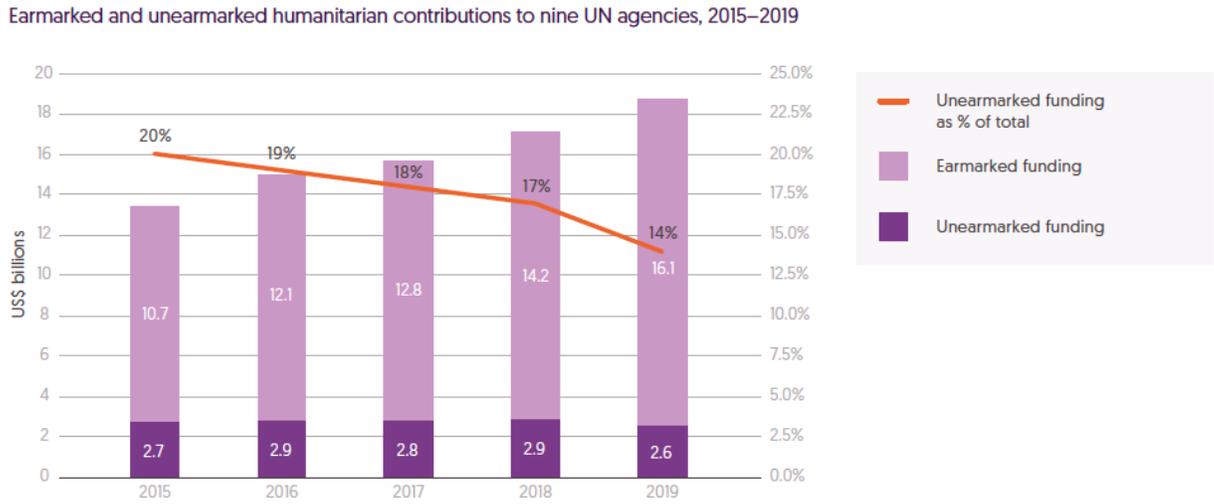
However, MYHF has not reached a sufficient critical mass to alter the way aid agencies plan and execute crisis response. While administrative flexibility has improved, this has not widely translated into multi-year programming on the frontlines. Multi-year finance is still too often used to plug gaps rather than to enhance agility and adaptiveness.

2.1.4. A ‘bilateralized’ international system

Humanitarian agencies have long argued that fully unearmarked grants provide the flexibility for rapid response, longer-term planning, adaptability and financial stability to support core capacities. Donors interviewed by CGD stated that they value the multilateral agencies’ normative functions, and their standing capacities to lead and coordinate the international response to crises predictably and at scale. However, this is not translating into more reliable finance for these core capacities and functions. Although unearmarked funding has increased in volume in recent years, it has reduced as a percentage of total funding from 20% in 2015 to 14% in 2019.

¹³ Martinez-Diaz, Sidner, and Mcclamrock, “The Future of Disaster Risk Pooling for Developing Countries: Where Do We Go From Here?” <https://files.wri.org/s3fs-public/future-disaster-risk-pooling-developing-countries.pdf>

Figure 7. Unearmarked funding to nine UN agencies fell by volume in 2019, and continues to fall as a proportion of total assistance



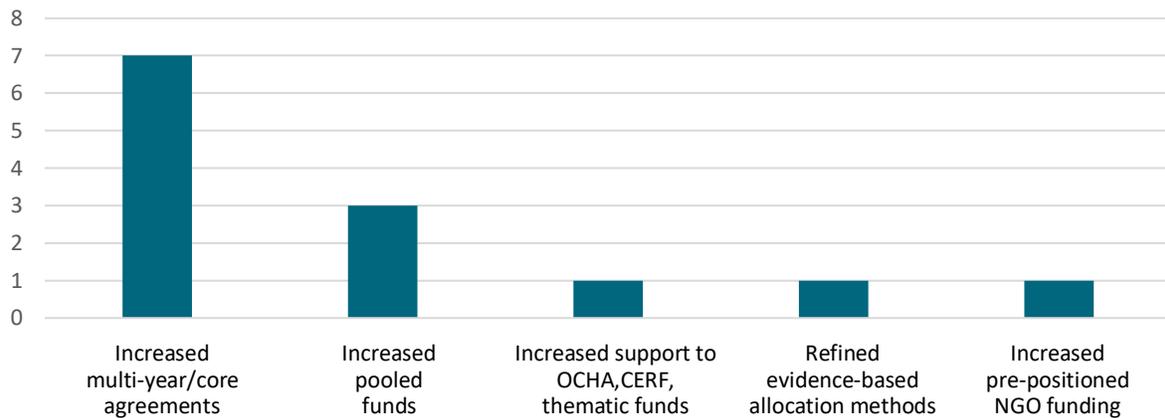
Source: Development Initiatives, Global Humanitarian Assistance Report 2020

With the exception of WHO and FAO which, as specialized agencies, are able to receive assessed contributions, multilateral agencies—and all international NGOs—are primarily financed through discretionary bilateral grants that are for the majority earmarked towards country projects or programmes. This is because most donors have traditionally been reluctant to directly fund ‘back office’ or normative functions, preferring to control the allocation of their funding in line with their priorities, and to link it to frontline delivery, which is perceived to be more acceptable to taxpayers and legislators at home.

The international humanitarian system is in effect almost completely ‘bilateralized,’ its organizations acting as contractors or sub-contractors of bilateral donors. As a result, core capacities—for instance the cost of maintaining staff, offices, stockpiles of predictable inputs and delivery chains—are largely resourced by overheads charged to the bilateral grants, which are unpredictable. The same applies to mandated normative functions—developing and monitoring international law, norms and standards, system-level or sectoral leadership, including analyzing needs, targeting resources and monitoring impact. Each agency has therefore an incentive to propose large delivery programs to donors, and to maintain proprietary systems to compete with their peers. This in turn creates conflicted interests as the same agency that delivers is also in charge of assessing needs and monitoring and evaluating results in their respective sector.

Increased domestic pressure to justify overseas aid is used as an argument by donors to earmark funding to specific countries, programmes and projects, as a means to show greater control over the allocation of funds, results, and visibility of their contributions. CGD analysis reveals that all major donors earmark at the country or crisis level, of which two thirds justify doing so in order to trace funding to a specific activity, and half in order to publicize support for a specific crisis or country. Still, a significant majority (78%) of donors surveyed declared they had made an effort over the past three years to reduce earmarking.

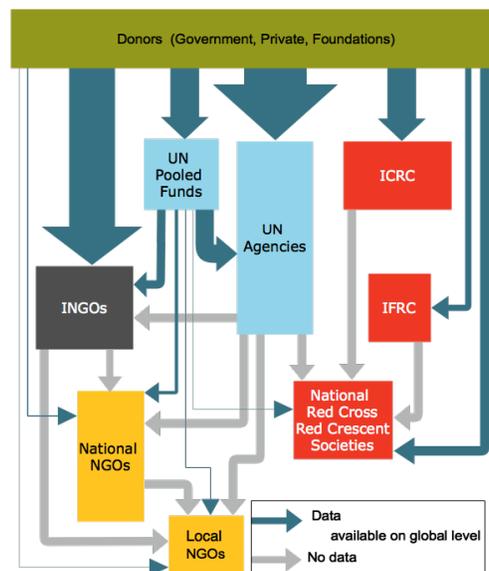
Figure 8. Donor approaches to reducing earmarking



2.2. Inefficient intermediaries

Donors pooling their resources is inevitable. Individual donor agencies have limited capacity to deliver humanitarian assistance themselves, and insufficient country presence, technical expertise and risk appetite to finance frontline aid organisations directly—a phenomenon exacerbated by the pandemic.¹⁴ They require an intermediate layer to accountably absorb and manage their funds and determine on their behalf how to prioritize, allocate, and administer the funds onward to implementers. However, if the existence of intermediaries is inevitable, their nature and function are not.

Figure 9. How money flows through the system, and lack of transparency¹⁵



¹⁴ Konyndyk, Saez, and Worden, “Humanitarian Financing Is Failing the COVID-19 Frontlines.” <https://www.cgdev.org/blog/humanitarian-financing-failing-covid-19-frontlines>

¹⁵ Els and Cartenson, “The Humanitarian Economy.” <http://newirin.irinnews.org/the-humanitarian-economy/>

In the current model, the intermediary role is principally performed by large multilateral agencies. Donors relayed in interviews with CGD that the multilateral agencies' ability to absorb and allocate funding on a large scale is a major reason that they fund them extensively. All donors interviewed said they lacked the administrative bandwidth to increase their provision of small grants. It is much more straightforward and less risky for a donor to make a limited number of large grants to a few large multilateral organizations than to make a large number of smaller bilateral grants to fund one-off frontline projects.

Figure 10. Primary advantage capacities of organization types

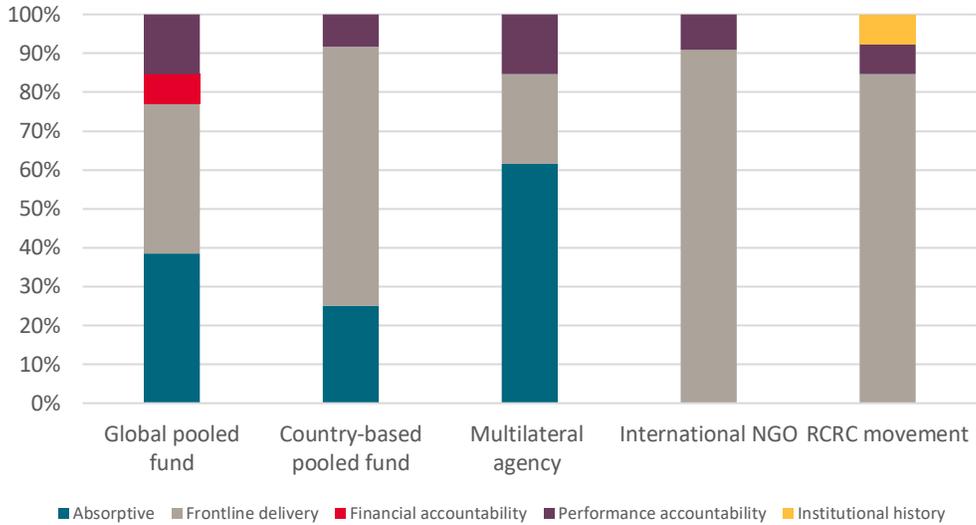
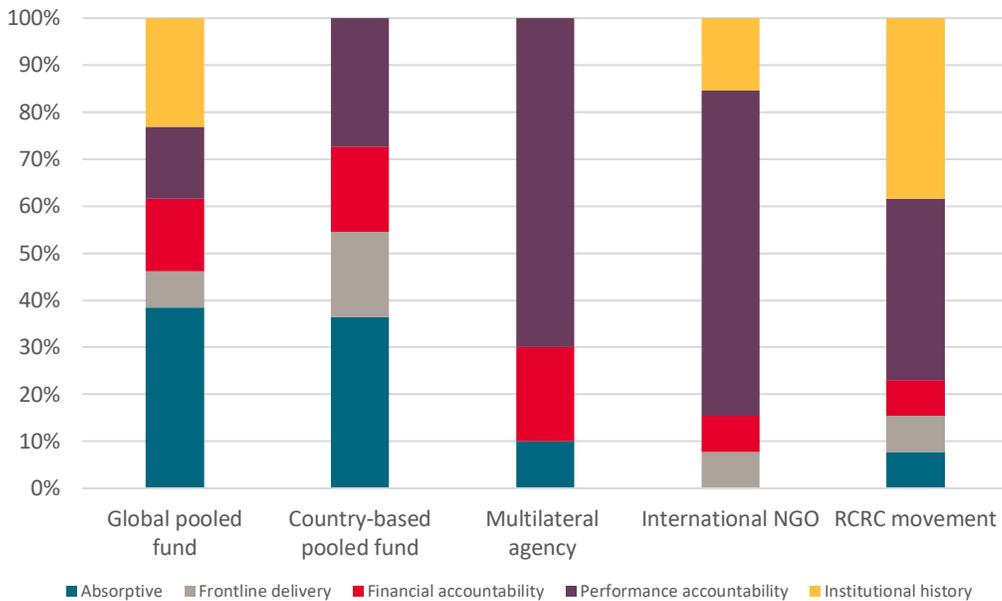
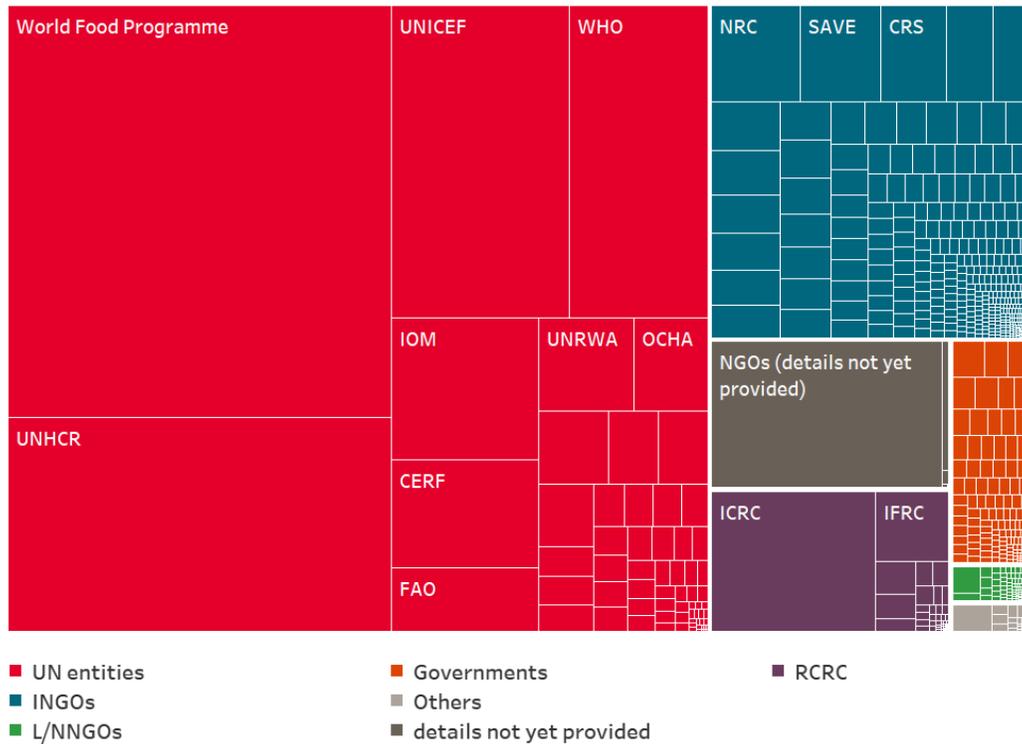


Figure 11. Secondary advantage capacities of organization types



As a result, the majority of donor funding goes to a small number of first recipients. In 2019, 76% of donor funding was channelled through the UN and the international Red Cross agencies. 86% of donor funding to the UN is earmarked to a specific agency. Three UN agencies (WFP, UNICEF, UNHCR), captured 50% of funding reported to OCHA’s FTS.

Figure 12. Total funding by agency and category, 2020



Source: OCHA FTS database

The ‘bilateralization’ of humanitarian finance described above provides an incentive for UN agencies to act as intermediaries between donors and international and local NGOs, and governments. A substantial share of funding to multilateral agencies is indeed passed through to frontline implementing partners. For instance, UNHCR’s Grand Bargain self-report for 2020¹⁶ reports spending 25% of its program expenditure—\$1.1 billion—the previous year through local and national partners—an amount nearly 3 times the volume of money disbursed by the CBPFs to national partners in that same year.¹⁷

¹⁶ UNHCR, “Grand Bargain in 2020 Annual Self Report Narrative Summary.” https://interagencystandingcommittee.org/system/files/2020-04/UNHCR%20Self-report%202020%20-%20Narrative_0.pdf

¹⁷ UN Office for the Coordination of Humanitarian Affairs, “Welcome to Country Based Pooled Funds Data Hub.” https://cbpf.data.unocha.org/#allocation_heading

However, our interviews with donors indicate that they rate the performance of UN agencies in performing this intermediary function poorly. They are frustrated by the lack of transparency and accountability for how funds are passed through to downstream partners, and at what cost. Long delivery chains create delays and multiple layers of overhead costs—of at least 7% in the case of most UN agencies and international NGOs—with no systematic measure of the value added by each intermediary. A lack of transparency makes it impossible to easily quantify the cost the intermediary function of these agencies, and what proportion of the resources contributed by donors end-up with local organizations, let alone final beneficiaries.

Using agencies with very different mandates as intermediaries contributes to a fragmented system. Funds channelled through them are in effect pre-emptively earmarked towards the specific sector or population group these agencies have responsibility for. This might make sense to support the agencies' own operations, but it reduces the flexibility to adapt the overall response to needs and capacities present in different contexts. It sometimes also leads to duplication as different agencies end-up channelling resources to the same international or local NGOs.

In spite of these challenges, UN agencies continue to be the intermediaries of choice for donors because—in their own words—they see few other choices. In the COVID-19 response, donors have retrenched even further into this practice, providing the vast majority of response funding through the UN, who in the early days of the response were not passing it on to frontline actors, despite their essential role in pandemic preparedness and response.¹⁸

While a majority of donors are frustrated with the performance of agencies as intermediaries, many are increasingly satisfied with the performance of humanitarian pooled funds, in particular UN-managed Country-Based Pooled Funds (CBPFs). This is supported by evidence of continuous improvement in grant management systems to improve speed, risk management, transparency and accountability.¹⁹ Pooled funds allow bilateral donors to reduce the number of grants and associated management costs. They contribute to strengthening the system-wide leadership functions of the Emergency Relief Coordinator (in the case of the CERF) and country-level Humanitarian Coordinators (HCs).

Rather than pre-judging which sector or agency should receive funding as a priority, they are aligned with the inter-agency Humanitarian Response Plans developed by the humanitarian country teams and allocate funding based on 'who is best placed'. CBPFs in particular, have combined this principle with the ability to fund national and local organizations

¹⁸ Konyndyk, Saez, and Worden, "Humanitarian Financing Is Failing the COVID-19 Frontlines." <https://www.cgdev.org/blog/humanitarian-financing-failing-covid-19-frontlines>

¹⁹ Featherstone et al., "OCHA Evaluation of Country-Based Pooled Funds." <https://www.unocha.org/sites/unocha/files/2019%20OCHA%20Evaluation%20of%20CBPFs%20-%20Synthesis%20Report.pdf>

directly, thereby reducing delivery chains. Donors are able to participate in the governance of CBPFs by sitting on their advisory boards.

Despite these benefits, pooled funds remain a marginal component of the humanitarian financing landscape. Contributions to the CBPFs have grown in real terms in the past few years and their donor base has broadened—from \$578 million from 19 donors in 2015 to \$863 million from 36 donors in 2020. Still, this only represents 3.5% of total official humanitarian finance, limiting their utility as strategic allocative tools.²⁰

3. Escaping the collective action trap

We might be in the midst of a ‘make or break’ moment²¹ when it comes to humanitarian financing. The truly global scale of the pandemic has placed new constraints on an international humanitarian business model accustomed to responding to localized crises by surging international personnel and other resources to affected countries. It has revealed entrenched weaknesses in managing global preparedness and business continuity risks. The chronic difficulty to partner with and directly support national and local actors does not sit well with a crisis where response leadership has mainly come from national governments and civil society. The system needs to urgently adapt to face the compounding risks of pandemics, climate change and unresolved conflict, at the same time as donor contributions are plateauing.

As previous reform efforts have shown, agreeing and implementing radical changes to the humanitarian financing model is arduous. The international system is stuck in a collective action trap²² that reduces the opportunity for collective reform. Both donors and humanitarian agencies make individual decisions that are rational in light of the current incentives structure. However, those incentives, conflicting interests and co-dependencies discourage more collective action to achieve better outcomes. While donors express some dissatisfaction with how international humanitarian agencies prepare, plan and channel resources to the frontline and report on results, they are heavily reliant those same agencies to discharge a very visible component of their bilateral foreign policy objectives. With budgets replenished on an annual basis and pressure to account for the use of funds, this has led donors to exert greater control through projectized grants. This, in turn, provides one of the main perverse incentives.

Our consultations with humanitarian donors clearly show that their funding practices are largely discretionary. There are no intractable legislative, institutional or policy impediments to changing them. However, neither individual donors nor individual agencies have a unilateral incentive to deviate. Their individual strategies are the best they can do given what

²⁰ UN Office for the Coordination of Humanitarian Affairs, “Welcome to Country Based Pooled Funds Data Hub.”<https://cbpf.data.unocha.org/#anchor-4>

²¹ The Norwegian Refugee Council, “Make or Break—the Implications of Covid-19 for Crisis Financing.” <https://www.nrc.no/resources/reports/make-or-break--the-implications-of-covid-19-for-crisis-financing/>

²² See Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*.

others in the system are doing, at the same time as they all accept that a collective change would be likely to deliver better outcomes. The system itself is built on the imperfect co-dependent relationships described above, mitigated by imperfect patches such as the CERF and CBPFs. There is a rational concern that tampering with one element of the system without addressing the implications for others could make the whole edifice collapse. Reforms of various elements of the system need to be taken forward concurrently to for the anticipated benefits of change to outweigh the perceived risks.

We find that there are four overarching conditions for effective reform:

Agree to finance the humanitarian system as a global public good provider

Donors and agencies alike are concerned about the optics of additional reforms of the humanitarian system having unintended consequences, in the context of domestic and global challenges to multilateralism and overseas aid. Such concerns should not be underestimated, but neither should they be used to justify the status quo. Instead of questioning the value of the international humanitarian system, we suggest identifying the core functions of the system that that should be treated as global public goods.

Aim for critical mass

Change will start with donors. A coalition of willing donors should collectively commit to financing collective mechanisms to address the current fragmentation driven by different foreign policy priorities. Reaching critical mass²³ is essential to the success humanitarian reforms. There are precedents: the acceleration of the use of cash only occurred in the past few years, under the impetus of a few donors and operational agencies who built the evidence-base and significantly scaled-up the levels of resources directed towards cash and voucher programmes. Critical mass could be achieved when a proportion contributions equivalent to the largest bilateral donor—currently 30%—supports a collective mechanism, either globally or at crisis level.

Get the governance right

Simply shifting the critical mass of financing from a ‘bilateralized’ system to a more multilateral model runs the risk of replicating the current power imbalance while adding a layer in the delivery chain, or of creating new concentrations of disproportionate power. To mitigate this, any change in financing models should be accompanied by governance arrangements that ensure appropriate representation of relevant stakeholders and robust checks and balances. For many bilateral donors, the ability to participate in shaping policy and allocative decisions and to maintain visibility is a prerequisite for engaging in multilateral models. There is also an opportunity to design inclusive governance models where all stakeholders—including affected countries and communities—are represented. Thankfully the system does not start from scratch: both the CERF and CBPFs have shown that even

²³ In nuclear physics, a chain reaction becomes self-sustaining when there is some minimum amount—or critical mass—of fissionable material compacted to keep the reaction from petering out.

within UN rules, accountability, visibility and inclusion can be concurrently achieved to some extent. Essential templates also exist for development, global health and education finance that can be learned from.

Fix the information asymmetry

Better quality of data on costs, funding flows and results would both improve efficiency in the system and enable changes in donor practice. Better information-sharing by donors of their funding plans and risk and performance assessments would help increase predictability and reduce transactional costs linked to donors exerting control through excessive earmarking and reporting requirements. Comparable measures of the cost of core functions performed by agencies and funds, including the cost of the intermediary function, will be key.

Bearing these conditions in mind, we propose three ways to improve the humanitarian financing model. A caveat: these proposals only relate to humanitarian aid—mainly to predictable and/or protracted crises—and do not capture all types of financial flows to countries in crisis. They are only one component of broader crisis financing reform. However, we hope they offer opportunities to break some of the unhelpful silos between various aid flows.

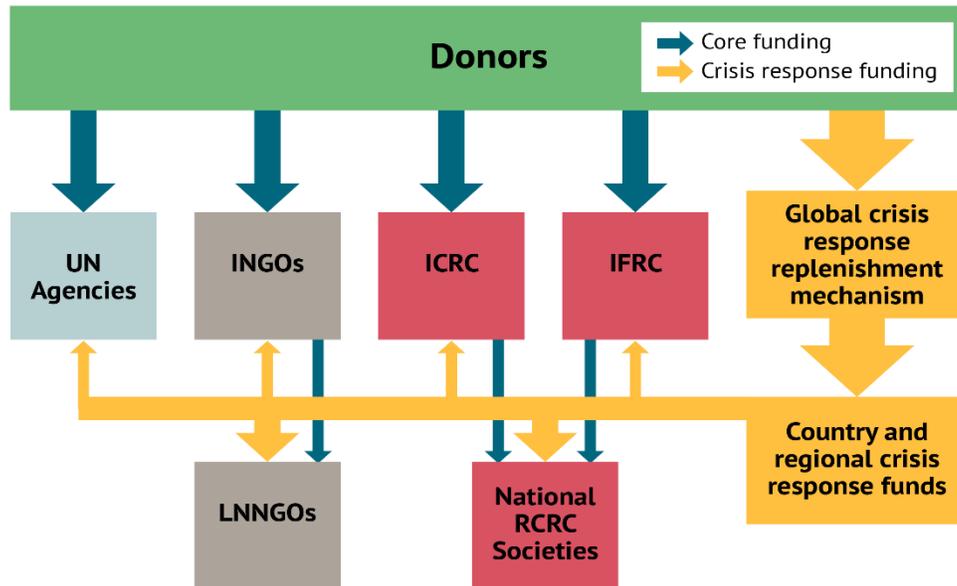
First, resource mobilization needs to reflect the predictable nature of the majority of humanitarian aid requirements. Rather than using a peripheral instrument to retrofit bilateral grants, donors could decide to pool a predictable portion of their humanitarian budgets towards predictable needs. The main function of this pool would be to make block allocations to various crises based on objective data.

Second, the intermediary function should be consolidated at the country level. Instead of the dominant delivery chains running through UN agencies, it would be useful to separate out the intermediary function from program delivery, and attribute it to a dedicated fund manager. Enhanced country-level pooled funds channeling a critical mass of donor finance would increase support to frontline responders and enable longer-term planning.

Third, the core functions of the multilateral humanitarian agencies should be resourced through predictable core funding, rather than overheads on programs. Donors and agencies should agree what constitutes core humanitarian functions and capacities and how much they reasonably cost. Donors should agree to resource them through core funding.

Implemented concurrently, these changes have the potential to structurally reorganize the majority of humanitarian aid flows:

Figure 13. Proposed changes would increase transparency and fund responses more directly



In the following sections, we review the main features and benefits of a new replenishment model for predictable needs; a rebalanced crisis-level pooled funding ecosystem and a core funding compact should display and outline their main benefits in more detail. These are not meant to be prescriptive recommendations for new instruments, but a set of ideas which could feed into discussions on the future of humanitarian reform.

4. A common replenishment model for predictable needs

The sector is in dire need of a truly multilateral model to mobilise and allocate finance towards predictable humanitarian financial requirements, one that aligns policy, planning and financing in a coherent way, with a longer-term horizon. Although they are not replicable blueprints, elements of good practice run through other replenishments models, such as the World Bank’s IDA replenishment or vertical funds such as GAVI. These models share the following features, that could be adapted for the humanitarian sector:

Critical mass

Each replenishment process mobilizes major funding commitments over the duration of the replenishment period. In the case of GAVI, for example, the recent replenishment conference for its 2021–2025 cycle yielded \$8.8 billion, helping GAVI to support the vaccination of half of the world’s children. The World Bank’s most recent IDA

replenishment mobilized \$82 billion for a three-year cycle.²⁴ IDA is the single largest source of donor funding for basic social services in the world's poorest countries.

As with the humanitarian donor landscape, a few donors provide the lion's share of funding.^{25, 26} As mentioned above, donors turning part of their bilateral contributions into a common pool reaching reach circa. 30% of total funding, would turn the mechanism into the largest channel for allocating humanitarian finance to different crises, making it a strategic prioritization instrument. Bilateral grants earmarked to specific countries could still be used, but as a complement to the multilateral mechanism rather than the other way around.

Multi-year cycle

In many fragile contexts, humanitarian aid is likely to remain an instrument of first resort for some time. Multi-year humanitarian finance needs to reached the critical mass required to change the humanitarian programming in protracted crises, which remains annual. By comparison, the IDA replenishment has a three-year horizon.

Humanitarian aid needs a more predictable and coherent approach that aligns resource availability and program planning with the timelines on which crises actually evolve, rather than donors' annual funding cycles. A common multi-year replenishment process has the potential to accelerate the much-needed shift towards longer-term, fit for purpose programmes to build resilience to predictable shocks and develop durable solutions to protracted crises.

Pre-arranged finance

The unreliable model of voluntary bilateral grants perpetuates the focus on reactive response and hinders preparedness and resilience building. A system that continues to exclusively rely on ex-post emergency declarations and the decisions of individual donors will always struggle to be efficient. Much focus has been placed in recent years on the possibility of accessing private capital through parametric insurance products, be it for sovereign governments or humanitarian agencies and pooled funds.

²⁴ Worley, *Gavi smashes target*, 2020 <https://www.devex.com/news/gavi-smashes-replenishment-target-at-virtual-summit-97409>; The Global Fund, "US\$14 Billion to Step Up the Fight Against the Epidemics—The Global Fund to Fight AIDS, Tuberculosis and Malaria." <https://www.theglobalfund.org/en/specials/2019-10-09-global-fund-sixth-replenishment-conference/>

²⁵ The Global Fund, "Partners—The Global Fund Data Explorer." <https://data.theglobalfund.org/donors/partners/-/2017-2019>

²⁶ World Bank, "World Bank IDA 2018 Contributions." <https://ida.worldbank.org/sites/default/files/pdfs/ida18-donor-contributions.pdf>

Lessons from regional insurance pools²⁷ to the World Bank’s Pandemic Emergency Facility (PEF) make it increasingly clear that expectations need to be managed. While insurance products have worked for a certain type of disasters, premiums often need to be subsidised by donors and the unreliability of pay-outs—in part due to the restrictive use of parametric triggers—may in some cases render these products less desirable than traditional bilateral donor grants.

Other successful models to pre-arrange finance, such as the International Finance Facility for Immunization (IFFIm—see box below) could be explored more systematically for the humanitarian sector. The economic case for global humanitarian preparedness has some similarities with vaccines: investing up-front in the ability to act early demonstrably reduces the humanitarian impact of disasters and related costs. The cost-effectiveness and impact of preparedness and early action activities compared with humanitarian response can be measured. Legally binding commitments by bilateral donors to a global mechanism for predictable needs would open the possibility, for instance through the issuance of bonds, to leverage higher levels of frontloaded investments than currently possible, and to link country allocations to a common assessment of risks and system-wide preparedness plans, in addition to the current short-term response plans.

Part of GAVI, the Global Alliance for Vaccines and Immunizations, IFFIm was created to leverage the large, front-loaded investment required for vaccine production, but difficult to be mobilized directly from donors who are short on disposable capital. With the World Bank acting as treasurer, nine governments have made legal commitments to pay an agreed amount into the fund over a specified period of time. The fund manager can issue bonds on the private market backed by the promise of these payments. Investors buy those bonds knowing that the promised stream of funding from sovereign governments will guarantee a steady income with limited risk. This low risk and having the World Bank acting as the treasurer has also helped keep interests low, currently 0.375% per annum on a \$500 million three-year bond (2020–2023). IFFIm has disbursed around \$3 billion toward Gavi’s vaccination programs since its inception.²⁸

Independent treasury function

Pooling donor resources for predictable humanitarian needs would require its own treasury function. At the moment that function is fragmented between each operational agency and contingency fund. Consolidating this function for the allocation of resources to protracted and predictable crises offers the opportunity to make it independent of individual stakeholders, reporting instead to the governance of the pool.

²⁷ Ramachandran and Masood, “Are the Pacific Islands Insurable? Challenges and Opportunities for Disaster Risk Finance.” https://www.cgdev.org/sites/default/files/WP516-Ramachandran-Are-The-Pacific-Islands-Insurable_0.pdf

²⁸ The Vaccine Alliance, “Disbursements | Supporting Gavi, The Vaccine Alliance.” <https://iffim.org/funding-immunisation/disbursements>

Models already exist that could be replicated or adapted. The World Bank acts as the treasurer of GAVI and the Global Fund, providing a set of agreed services relating to the management of incoming contributions and outgoing country allocations, based on instructions from the governing bodies. In the case of GAVI, it also develops market-based strategies, intermediation in hedge transactions, liquidity and investment management, risk monitoring and asset-liability management, accounting and reporting.²⁹ An independent treasury function could also help concentrate expertise in innovative finance, which is currently scattered across the various agencies.

Data-driven crisis allocations

IDA and the vertical funds for global health have defined analytical processes that provide a consistent logic to their allocation decisions. Because of their relative size, those processes drive prioritization across the international system. For instance, GAVI uses an Independent Review Committee to evaluate recipient country proposals to the fund and ensure that they are technically sound and aligned with the replenishment cycle's strategic objectives.³⁰ The Global Fund centres its allocation decisions around each country's "Country Coordinating Mechanism", a multi-stakeholder body that prepares country plans and negotiates for funding with Fund leadership. IDA allocates resources among eligible countries using an index measuring their policy performance with regards to economic growth and poverty reduction, complemented since 2019 with allocations based on the risk of fragility, conflict and violence.³¹

Adopting objective criteria to allocate a critical mass of global humanitarian finance to countries in protracted crisis, or facing predictable risks, would help move away from priorities being determined by the fragmented, often politicized, decisions from individual donors. Global indices of need and risk severity are increasingly robust and could serve as the basis for such an allocation model.³² These could be complemented by other measures, such as the capacity of the humanitarian teams to operate in a given country and their past performance in achieving outcomes. An independent panel of experts could help review both the allocation criteria and the allocations themselves against the policy objectives of the multi-year replenishment. This would bring greater predictability, consistency and transparency than currently exists.

Inclusive governance

The governance of the international humanitarian system misses a locus where resources can be aligned with policy priorities across the system. While donors are members the UN, they are not included in humanitarian coordination mechanisms such as the Inter-Agency Standing Committee and Humanitarian Country Teams. Neither are national and local

²⁹ <https://iffim.org/treasury-management-world-bank/treasury-management-world-bank>

³⁰ The Vaccine Alliance, "Independent Review Committee." <https://www.gavi.org/our-support/irc>

³¹ World Bank, "IDA Resource Allocation Index." <https://ida.worldbank.org/financing/resource-management/ida-resource-allocation-index>

³² European Common Disaster Risk Management Knowledge Centre, INFORM, "INFORM—Global, Open-Source Risk Assessment for Humanitarian Crises and Disasters." <https://drmkc.jrc.ec.europa.eu/inform-index>

actors. By contrast, development and global health replenishment mechanisms provide a focal point for high level policy engagement by their stakeholders, supported by significant analytical work, advance planning and policy review.

This combination of advance deliberation and coalescing of political will enables meaningful reorientation of policy when necessary—such as the World Bank’s shift under the IDA18 replenishment (2016) toward a greatly expanded focus on crisis and refugee programs. In 2020, GAVI served as an instrument of international cooperation on COVID-19 vaccines, setting-up the COVAX facility for low-income countries and providing catalyst funding, later complemented by pledges from the G7.³³ The link between these policy shifts and simultaneous donor contributions provides a strong momentum behind the new directions.

A similar process applied to the management of predictable humanitarian needs has the potential to significantly improve policy coherence and effectiveness. Governance arrangements would need to be inclusive of various constituencies to enhance ownership and accountability. As the financiers, donors should hold a significant share of any new governance structure, based on their financial contributions. International humanitarian agencies should also be represented, on an equal footing with national and local actors from countries affected by crises.

5. Rebalancing crisis-level pooling models

A global replenishment mechanism for predictable needs will only be effective if there is a robust country-level mechanism to manage large block grants. Earlier in this paper we outlined issues of coherence, timeliness, efficiency and cost-effectiveness linked to the transferring the bulk of humanitarian finance through multilateral agencies. Getting the right resources to the right frontline organization at the right time is an essential function that should be managed and financed as a dedicated multilateral activity, at the right cost. It is time to shift this intermediary function more firmly to pooled funds.

UN-managed country-based pooled funds have become more efficient and transparent, but lack the critical mass and flexibility required to become strategic allocative instruments. A next generation of pooled funds could serve to allocate the majority of funds going to frontline delivery organizations, complemented by flows through agencies to resource specific mandated functions and fill gaps. Channelling a third of crisis-level funding through a pooling mechanism would make them de facto the largest country-level donor and give substantial weight to the fund’s associated operational planning and monitoring mechanisms. Depending on the context, non-UN pooling mechanisms could also be pursued. International and national NGO networks such as START and NEAR are already piloting civil-society pooled funds in some countries, albeit still on a projectized basis.

³³ The Vaccine Alliance, “G7 Backs Gavi’s COVAX Advance Market Commitment to Boost COVID-19 Vaccines in World’s Poorest Countries.” <https://www.gavi.org/news/media-room/g7-backs-gavis-covax-amc-boost-covid-19-vaccines-worlds-poorest-countries>

Such a move would give donors the visibility of comparative depth and severity of needs that they demand. A crisis-level pool could be linked to more holistic assessments of needs, rather than through sectoral siloes. It would be better positioned to weigh trade-offs and establish priorities than the presently dominant approach of each multilateral agency pleading its case separately to donor agencies.

Management costs and allocations decisions would be more transparent. Donor funding to multilateral agencies currently flows into disparate budget structures that are difficult to compare and can be internally opaque. This makes it difficult for donors to assess value for money across different intermediaries. The external opacity of internal allocation processes also makes it difficult to assess the true cost of the pass-through function performed by different international organisations, since that function is usually conflated with others.

Timeliness and cost-effectiveness would improve. The country-based pooled funds currently administered by OCHA have an average management cost of less than 2% of total allocations,³⁴ far lower than the minimum 7% overheads agencies apply to their own program portfolios. While this is not entirely comparable because agency overheads finance other functions than the pass-through, that lack of comparability is a problem in its own right. The move would also speed-up the time it takes to reach frontline recipients: for instance, CBPF allocations are twice as fast as bilateral grants to agencies.

Part of the reluctance to radically scale-up existing pooled funds stems from the fact that they were not originally designed to be the main financing mechanism at crisis level, which in turn reduced their utility. As a result, they might not be equipped to manage a significant increase in contributions and, more importantly, allocation requests without compromising on speed and efficiency. Moreover, by using the HRP as the planning instrument, CBPFs tend to replicate power imbalances between the large cluster lead agencies and other organizations, particularly local actors. The funds should be re-engineered to address these concerns.

For instance, a group of donors to the CBPFs could agree with OCHA to pilot an enhanced country-level pooled fund in one country. Larger, multi-year donor block grants would allow the fund to reach a critical mass of approximately 30% of the total crisis response. The fund would allocate sub-grants on a multi-year basis to outcomes-based programmes rather than projects. As we suggested in an earlier paper, these programmes could be prioritized on an area rather than sectoral basis and be undertaken by any actor or group of actors best positioned to deliver those outcomes, rather than the projects of pre-selected agencies.³⁵

³⁴ UN Office for the Coordination of Humanitarian Affairs, “A Year in Review.”https://www.unocha.org/sites/unocha/files/CBPFs%202019%20in%20review_0.pdf

³⁵ Konyndyk, Saez, and Worden, “Inclusive Coordination.”<https://www.cgdev.org/publication/inclusive-coordination-building-area-based-humanitarian-coordination-model>

Design improvements could include:

- **Area-based, multi-sector allocations.** As outlined in CGD’s recent paper on area-based coordination,³⁶ moving away from funding projects based on sectoral mandates and clusters would reduce the current bias towards cluster lead agencies, while maintaining the key technical oversight role of the clusters. This approach is to some extent already applied by the DRC and Nigeria CBPFs, where the fund allocates block grants to sub-national hubs to be prioritised locally. Humanitarian Coordinators and Country Teams could use funding priorities on a geographical rather than sectoral basis to drive operational alignment, rather than trying to cobble together disparate projectized funding streams into a coherent whole.
- **Greater levels of more direct funding to local actors, based on comparative advantage:** shifting more donor funds to crisis-level pools would further reduce the number of steps in the humanitarian delivery chain. CBPFs have proven somewhat effective at financing national and local aid agencies, and donors have relayed to CGD that they see CBPFs as an important tool to meet their commitments to increase localization of humanitarian aid. However, international organizations still receive the lion share of CBPF allocations, because the funds are aligned with HRPs where other actors remain underrepresented. The allocation process would need to provide a level playing field. The analysis of ‘best placed’ implementers should be based on a wider ecosystem of actors at the country level, including government agents, civil society organizations and the private sector.
- **Flexible, multi-year grants.** Most existing pooled funds, while they reduce transaction costs on the donor side, still allocate funding through short-term, projectized grants to a narrow set of single recipient organizations based on their participation in an HRP organized by sectoral clusters. Providing multi-year grants would allow greater local and regional flexibility in resources to support sustainable solutions to protracted and recurring risks. Larger country-level pools resourced on a multi-year basis could provide larger grants to multi-year programmes focused on area-based outcomes. Such grants would offer incentives for more strategic and adaptive planning, while maintaining low transaction costs and the ability to pool risks. Rather than pre-selecting partners, they could flexibly include those local and international partners with the greatest comparative advantage and adapt to changes in the context.³⁷ This would allow stronger partnerships with governments, civil society, the private sector and development and peacebuilding actors as appropriate.

³⁶ Konyndyk, Saez, and Worden. <https://www.cgdev.org/sites/default/files/inclusive-coordination-konyndyk-saez-worden.pdf>

³⁷ ALNAP, “Shifting Mindsets | Section 5.” <https://www.alnap.org/help-library/shifting-mindsets-section-5-funding>

Upscaling existing country-based pooled funds, for instance those managed by OCHA, would have a cost. Fund management functions would need to be significantly expanded and upskilled to match the scale and complexity required. Governance arrangements would also need to be strengthened. However, these costs should be offset by the reduction in transaction costs currently incurred by donors when channeling resources via agencies or allocating individual project grants themselves.

6. Core funding for core functions

To mitigate their reliance on project overheads to fund core functions and capacities, international humanitarian organizations have individually developed creative solutions to increase levels of financial flexibility. WFP, for instance, uses working capital financing to authorise spending through a Forward Purchase Facility against forecast donor contributions rather than confirmed ones. This has led to improved procurement through its Global Commodity Management Facility and a 60% reduction in food delivery lead times. While this type of solution provides clear benefits for large organisations with either a strong proportion of private donations or relative certainty regarding the prospect of bilateral donor grants, smaller organisations struggle to establish anything similar.

As mentioned above, efforts to generate greater levels of unearmarked funding through the Grand Bargain process have so far failed. There is a tug of war between organizations requesting completely unearmarked funding and donors demanding transparency of allocation to programs. Instead, donors and agencies should focus on an alternate model that aligns voluntary core funding with defined core functions.

When the World Health Organization stood up its new Health Emergencies Programme (known as WHE) in 2016,³⁸ it chose to budget for its emergency operations separately from its emergency core services—central management, financial, communications and fundraising services, the agency’s normative, technical assistance and information management role in emergencies, and its Contingency Fund for Emergencies. This makes the price tag for the agency’s core functions more transparent. A system-wide approach to core funding, following the same logic, is needed.

This would require three things:

A common definition of core functions

In 2016, the High-Level Panel on Humanitarian Financing expressed “concern about the lack of a shared definition between aid organizations on what constitutes ‘overhead’ as opposed to direct program costs. Without harmonization of cost structures and adherence to common definitions, comparability is impossible. Making progress toward this is a

³⁸ World Health Organization, “WHO | Programme Budget Web Portal.”<http://open.who.int/2018-19/our-work/category/12/about/key-figures>

prerequisite for achieving the goals of financial transparency.”³⁹ (HLPHF, 2016). Disappointingly, such harmonization was not agreed under the Grand Bargain.

To make progress towards more predictable core funding, it is essential to come to a common definition of what type of activities should be counted as ‘core’, and which ones should be counted as ‘delivery’ across the system. Because of the different nature and legal basis of various agencies involved in humanitarian action, what is deemed a core cost as opposed to program delivery can vary significantly. Within what may currently count as programme delivery costs, it would be useful for instance to distinguish between normative, leadership and coordination functions, pure financial intermediary functions (passing resources through to implementers); program enabling functions such as data collection, management and analysis, monitoring and evaluation; predictable inputs (e.g. supplies of food and essential medicines) and cost of delivery as such.

A commitment to reducing duplication

Some progress towards the consolidation of core costs is being made, linked to broader UN reforms in particular. For example, the UN collaborates with NGOs and the private sector in Geneva to reduce its costs there. The UN Business Innovation Group is rolling out a new strategy to expand collaborative activities, joint actions and cost savings. Around 20% of UN agencies now share premises in-country and have started to share some back-office functions. However, progress is very limited overall. While the majority of Grand Bargain signatories view the reduction of duplication and management costs as essential to the success of humanitarian reforms, collective efforts invested in this endeavor have been too little to result in any significant change. A new commitment to look for opportunities to consolidate core functions between agencies, based on the agreed definitions mentioned above, is critical.

As an incentive, donors could unbundle their funding of different functions currently packaged as a single agency program. Concretely, this would mean that an organisation would be funded to carry-out key processes such as needs analysis, targeting and monitoring while another would be funded for the delivery of goods or services. In recent years, some donors have started to fund large cash transfer programs in this way.⁴⁰ Deliberately separating some core functions—which are often challenging, under-resourced and, as a result, not always well executed—from delivery could help elicit their true value and cost. Adequately resourcing these functions as separate services could improve accountability and, ultimately, effectiveness.

Donor commitment to core funding

Donors we interviewed stressed time and time again the value they place on the capacity of the multilateral system to respond effectively to conflict, disasters, displacement and diseases. That core capacity does not only provide benefits for the individual it immediately serves. It is

³⁹ World Humanitarian Summit, “High-Level Panel on Humanitarian Financing Report to the Secretary-General.”

⁴⁰ Hans, “Cash Transfers.”https://ec.europa.eu/echo/sites/echo-site/files/eu_cash_compendium_2019.pdf

a global public good that helps achieve others such as peacebuilding and sustainable development. To repeat the title of the HILPHF report, it is ‘too important to fail’.

Donors should collectively acknowledge that the reliance on project overheads to finance core functions undermines the efficiency and effectiveness of the humanitarian system. As an incentive for the consolidation mentioned above, donors should commit to financing core functions in a predictable and adequate way, sharing the burden equitably through assessed contributions or adequate levels of voluntary contributions.

7. Conclusion: Rising to the challenge

The international humanitarian system needs a structural change in the way it is financed. Its haphazard and fragmented resource mobilization and allocation model is outdated. Its overreliance on emergency project grants to resource global public good functions is unhealthy. More finance is needed, but it will not in itself deliver greater efficiency and effectiveness as long as it is allocated using the same channels. As the COVID-19 crisis response has shown, technical fixes haven’t resolved engrained difficulties in pre-arranging resources for predictable risks and efficiently channeling them to the frontlines.

As humanitarian donors and agencies consider future humanitarian reforms in the context of greater increasing risks of conflict, climate-related disasters and pandemics, they have an opportunity to escape the collective action trap that has characterized previous change agendas. The three recommendations in this paper are both modest and ambitious. Setting aside a third of funding to predictable crises, shifting the critical mass of resource allocation at country level towards pooled funds and providing adequate core funding for core functions are not in themselves radically new or revolutionary ideas. Our consultations with donors indicate that there are no structural impediments to implementing those changes.

However, past experience has shown that for such changes to be transformational, collective will and action is required. There needs to be a commitment to resource the international humanitarian system as a global public good provider, backed-up by a critical mass of funding mobilized and channelled in new ways. Governance arrangements need to be adapted to satisfy the need for inclusiveness, accountability, and visibility. A concerted effort to improve the quality and transparency of data underpinning decisions will also be critical.

The question is now one of political leadership: will those who wield power in the humanitarian system convene this collective change and lead by example? Or will they favour maintaining their individual influence?

Annex. Summary results from consultations with donors

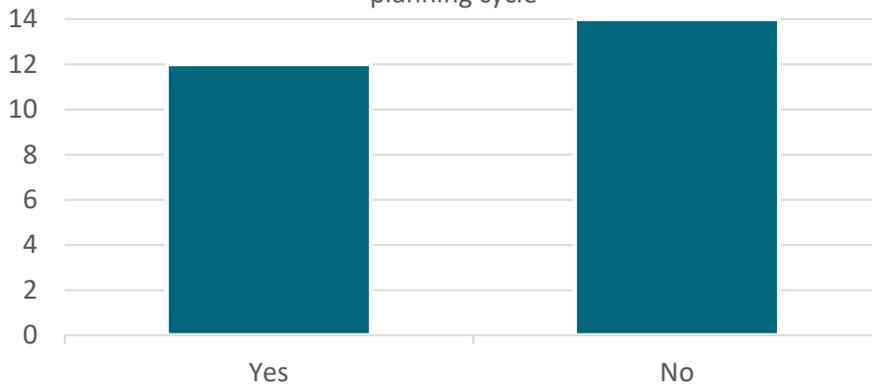
We explored factors and constraints that shape humanitarian donor practices. We surveyed fourteen donor institutions (accounting for more than 80% of total official humanitarian aid in 2020) and conducted in depth follow-up interviews with representatives from nine of them. The survey was designed to collect information on how donor institutions establish and implement priorities for humanitarian funding, and what constraints and challenges they encounter in that process. The follow-up interviews provided additional detail and context to donors' priorities and constraints. Both the survey and interviews were conducted on a not-for-attribution basis to anonymize participants and encourage candid discussion of sensitive issues to yield meaningful insights.

Humanitarian budgets and allocations

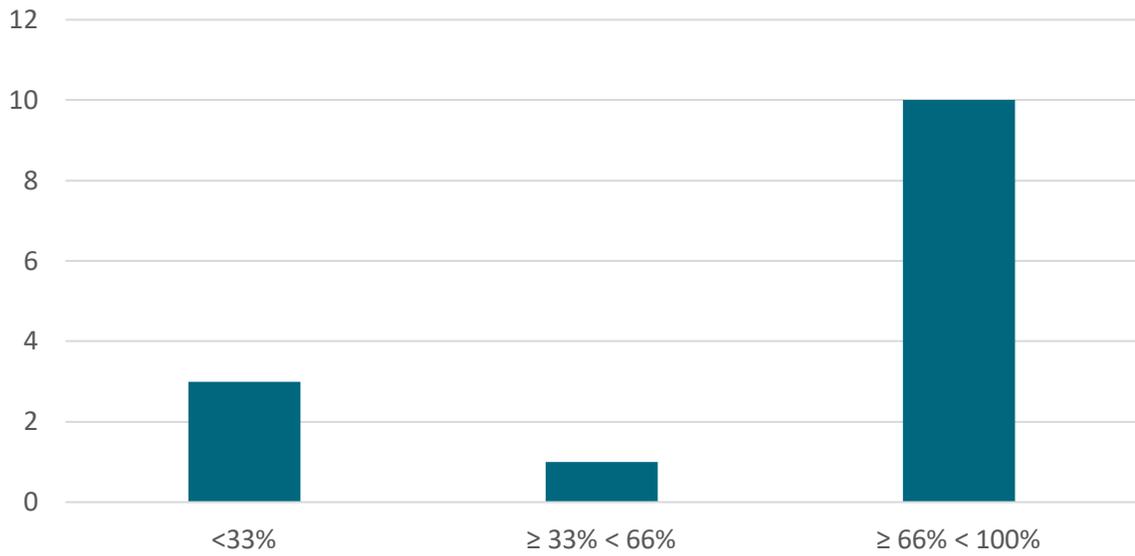
Questions in the survey and interviews were designed to assess high level donor processes and constraints that can contribute to fragmentation in how aid is eventually distributed. Donors followed schedules with fiscal years beginning at different points in the calendar year. Similar procedural and structural barriers related to parliamentary oversight and governmental processes shaped the control donors had to plan and make allocations. In interviews, donors were mixed in their budget allocation cycles. Some reported mostly allocating core funding to UN partners in the first quarter of the calendar year, in line with the humanitarian program cycle (HPC), for instance disbursing 90% of the annual budget in the 1st quarter. Others' budget cycles did not align with the HPC. One donor whose fiscal year began in April worked to disburse funds over a relatively short period throughout May, drawing from current and prior fiscal year budgets in the same calendar year. Donors' lack of internal visibility over the budget process also hindered planning in some cases. One donor whose fiscal calendar began in July reported not having a clear picture of available funding until then.

Donors also reported having different levels of flexibility over the allocations process. Well-resourced donors engaged in complex, continuous situational monitoring; as a result, even 'pre-set' allocations at the beginning of the year were notional and altered throughout the year according to budgetary and situational changes on the ground. Other donors reported taking a designated end-of-year period to determine how to allocate funds or used matrices that took into consideration past funding and other factors. One donor on a calendar fiscal year cycle reported sometimes securing additional funding after reviewing the situation in the summer. In some cases, donors also aligned allocations policies with broader regional strategies, for instance following additional ministerial-level procedures.

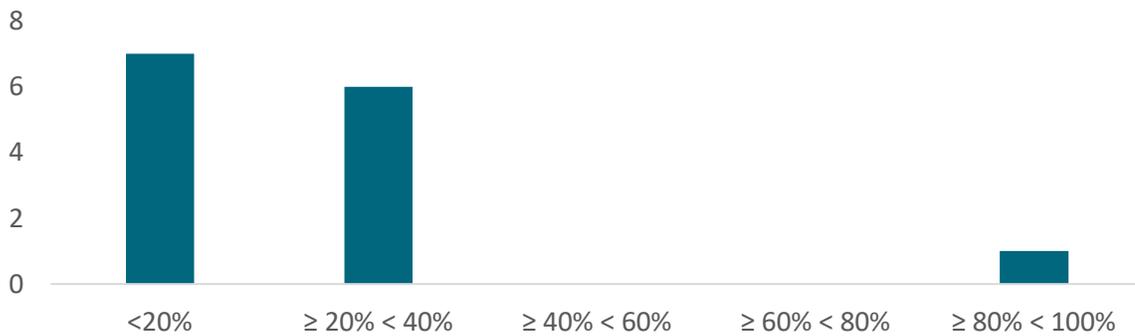
Donor establishes planned allocation levels at the beginning of financial planning cycle



Proportion of humanitarian budget planned at the beginning of a fiscal year



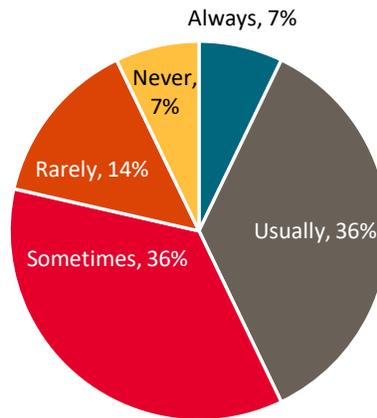
Proportion of humanitarian budget held in reserve



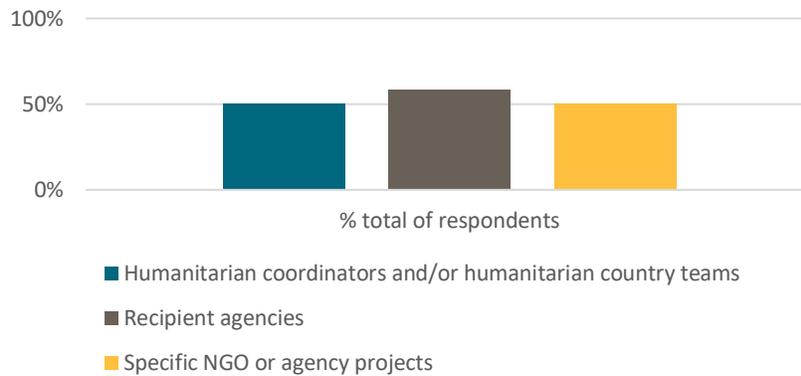
Sharing information on allocations

Allocations planning processes impacted how donors shared relevant information with partners and others. Some who predetermined funding targets by the end of the previous year were able to share the figures regularly with their partners. Some operating on separate fiscal calendars reported uncertainty during the latter half of the year prevented them having a clear picture of the funding outlook to report. Parliamentary approval processes also constrained donors' ability to share the information in some cases. Several donors reported signing multiyear agreements in part to increase predictability for partners. Some constraints to information sharing with partners also applied to coordination among donors, specific barriers to coordination included funding cycles, decision-making processes, and the lack of approval to share information.

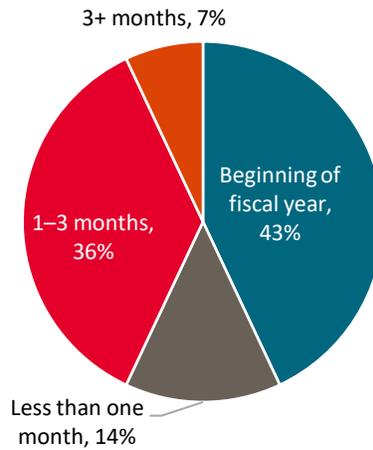
Do you share planned allocations toward crises, projects, or partners in advance?



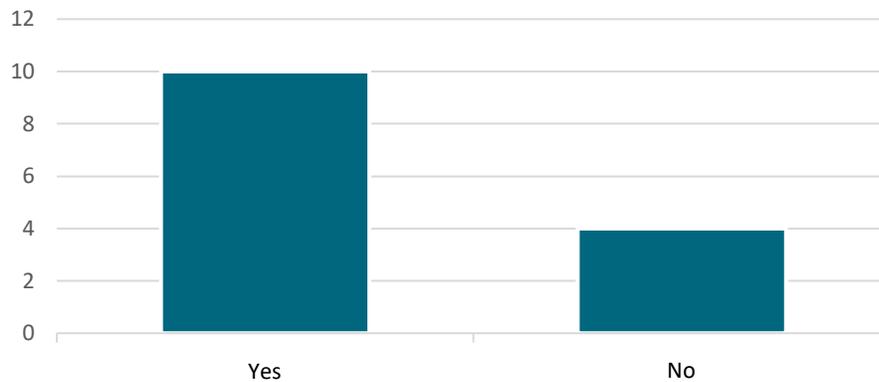
Donors share planned information with



How far in advance respondents share info about planned allocations



Would it be feasible for you to share planned allocations in advance?



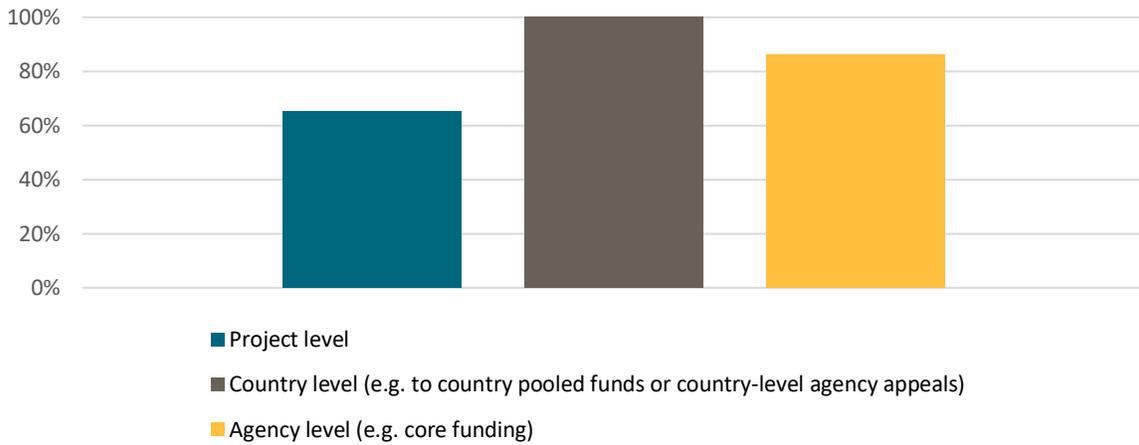
Earmarking

Earmarking has implications for the predictability and flexibility of resources flowing into the humanitarian system. Donors can use earmarking to exert control over how funds are spent, meanwhile agencies may prefer the freedom to allocate based on their identified needs. One donor reported being lobbied by the same agency for less earmarking (at headquarters level) and more earmarking (at the country office level). In interviews, donors reported facing similar constraints to updating their earmarking practices and took different approaches to reduce earmarking. Some increased the use of multiyear agreements for core funding (typically 3–5 years) with major multilateral agencies, to bolster predictability and transparency.

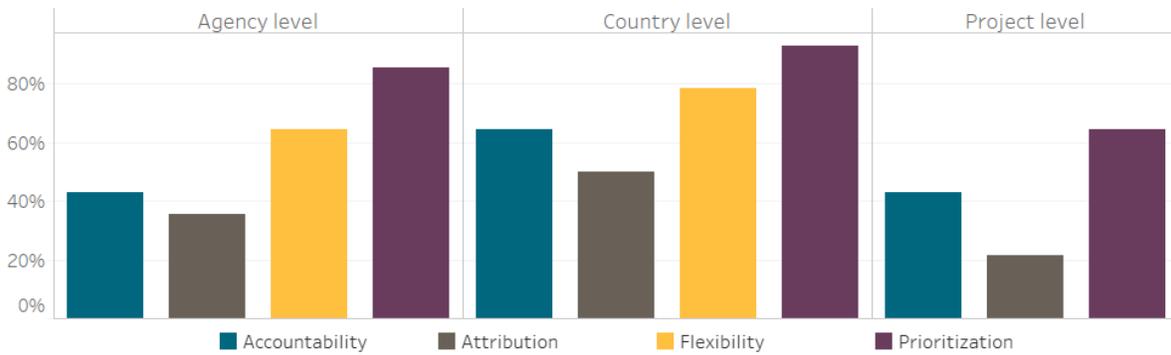
Most donors surveyed earmarked at broad levels such as agency or country to prioritize a particular mandate or crisis. Donors also earmarked some funding for thematic areas such as maternal health, SGBV or psychosocial support. At the project level, donors found value in

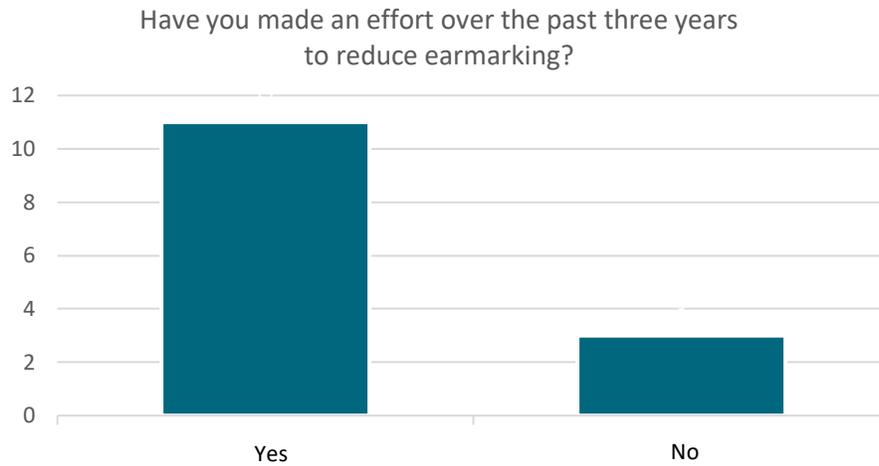
earmarking as a tool for accountability and visibility. In interviews, some donors thought it important that agency partners have flexibility to allocate funding. Several donors noted providing flexible funding at the program level ensured accountability and allowed the partner flexibility to seek context specific modifications. Rather than earmark to specific crises, some explained that unearmarked funding to the CERF, UN agencies, and the Red Cross allowed them to capitalize on the capacity of those institutions to provide resources across crises. One donor reported shifting from country-level earmarking toward making allocations against INFORM’s severity index.

Donor institutions earmark humanitarian funding at the following levels



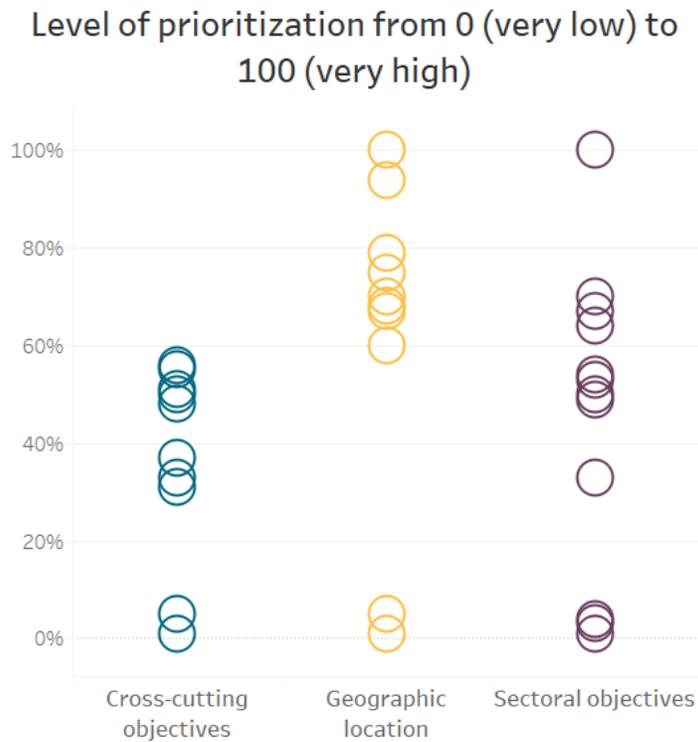
Why donors earmark at different levels





Prioritization

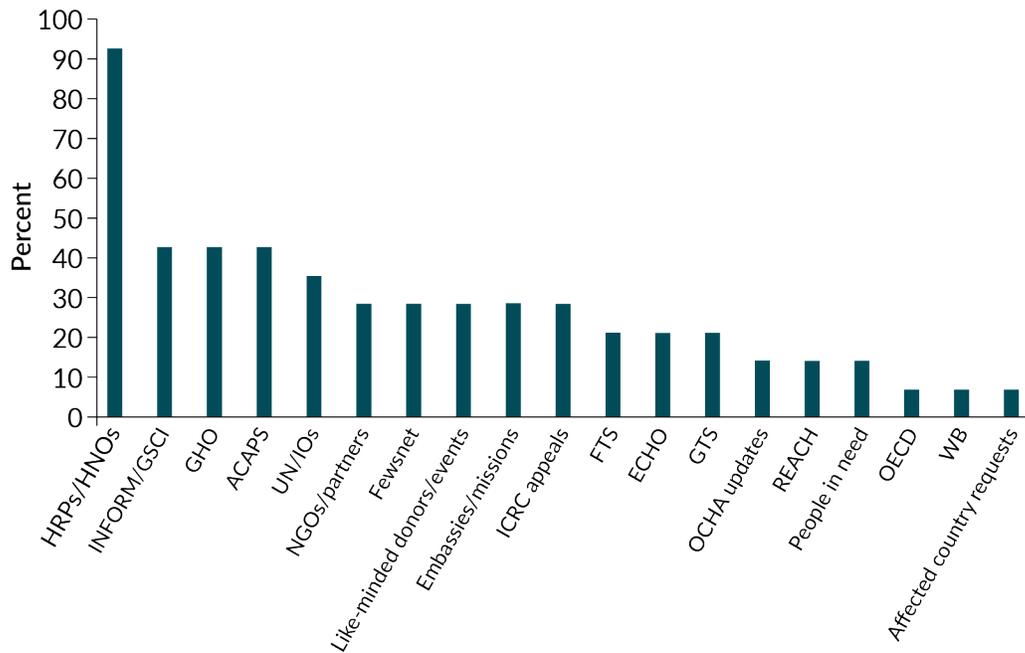
The survey revealed geographic, followed by sectoral considerations and finally cross-cutting objectives as important factors in making allocations decisions. In interviews, donors described various approaches to prioritization, such as focusing on a specific region in line with broader foreign policy strategies, or particular types of crises such as protracted or “forgotten” crises.



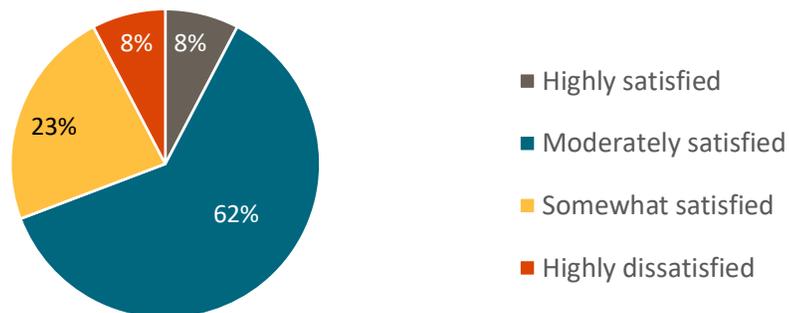
Donors relied on a variety of information sources and capacities for assessing crisis situations and had similar critiques of existing information sources. In general, HRPs, RRP and HNOs provided a starting point. They agreed these documents were incomparable, varied in terms of detail and quality, and were insufficient overall to assess urgency of need.

Donor capacity varied greatly within the group, with large donors drawing on large, widely dispersed staff presence to report on changing conditions. Smaller donors drew upon assessments from larger donors, and both groups relied on and trusted UN agency assessments despite frustrations with a lack of transparency around how funds were spent.

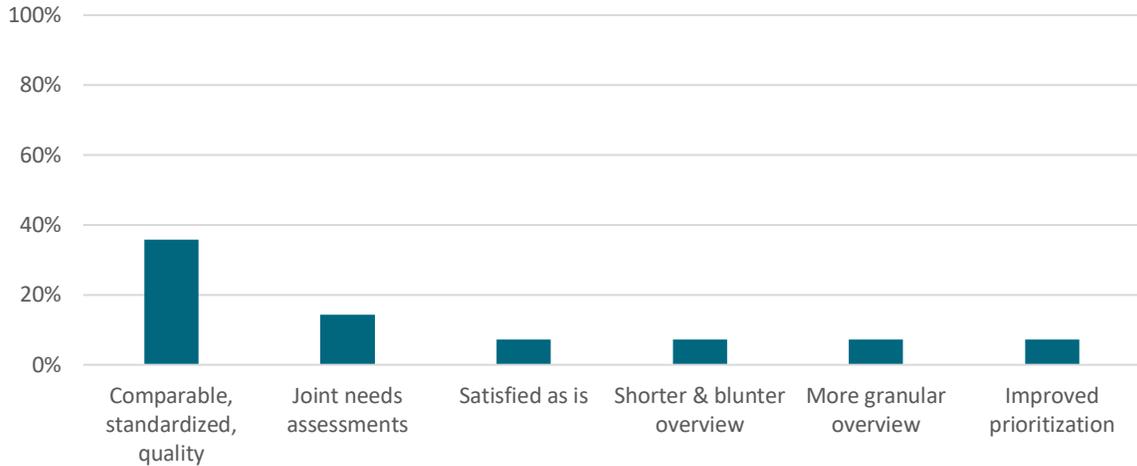
Information sources mentioned in survey and interviews



How satisfied are you that these information resources enable you to make a well-informed global assessment of relative resource needs across different crises?



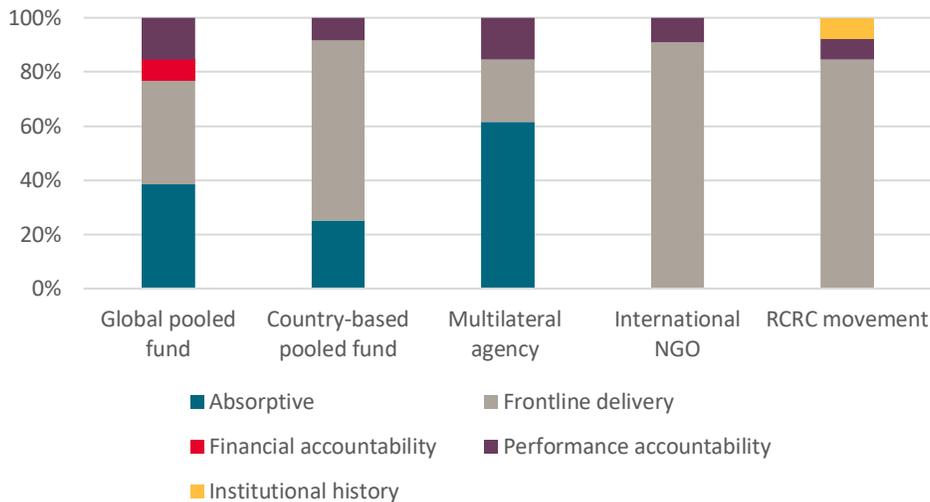
Would other type of information resources on global needs be helpful to your decision-making on funding allocations?



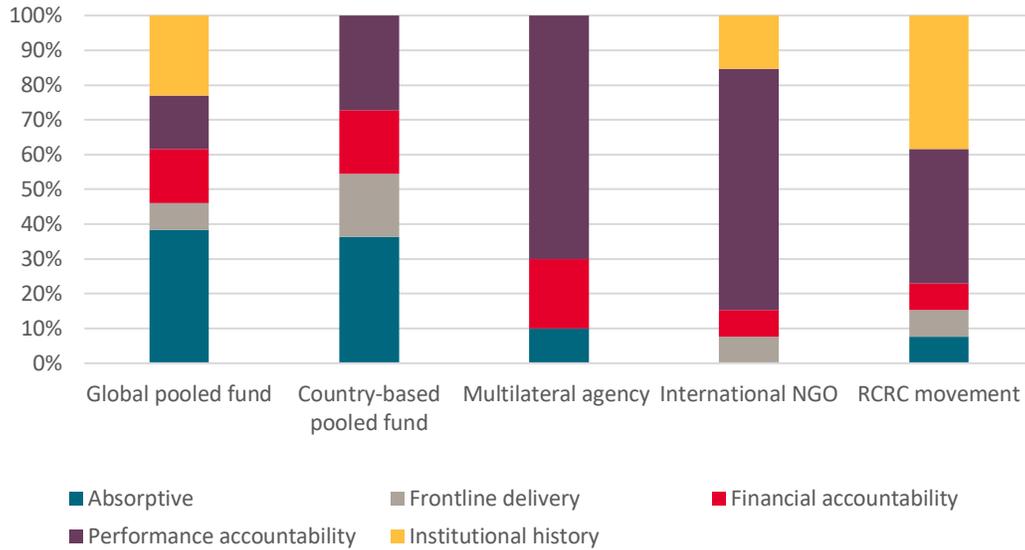
Funding channels

Most donors found the multilateral system instrumental in absorbing resources and managing risk. None had the administrative capacity to increase small grants, which partly explains their increasing focus on pooled funds as a means to absorb funding and better reach local organizations. One exception included a large donor which funds mainly on a project basis and lacked confidence in CBPFs to deliver humanitarian outcomes. Still, others were reassured by the ability to participate on CBPF advisory boards. Some donors also reported contributing to the START Fund. Donors had very high confidence in the Red Cross/Red Crescent movement to deliver humanitarian outcomes and mainly relied on the movement for its frontline delivery capacity.

Primary advantage capacities of organization types



Secondary advantage capacities of organization types



Level of confidence in funding modalities to deliver humanitarian outcomes

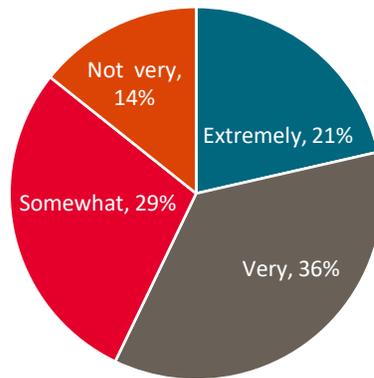


Most donors expressed high confidence in country-based pooled funds and reported including CBPFs in their localization strategies. Even donors for which localization was less of a priority found CBPFs offered an advantage to reach local organizations. In interviews conducted after the onset of the COVID-19 pandemic, donors remarked positively on the role of pooled funds in the context of the pandemic response.

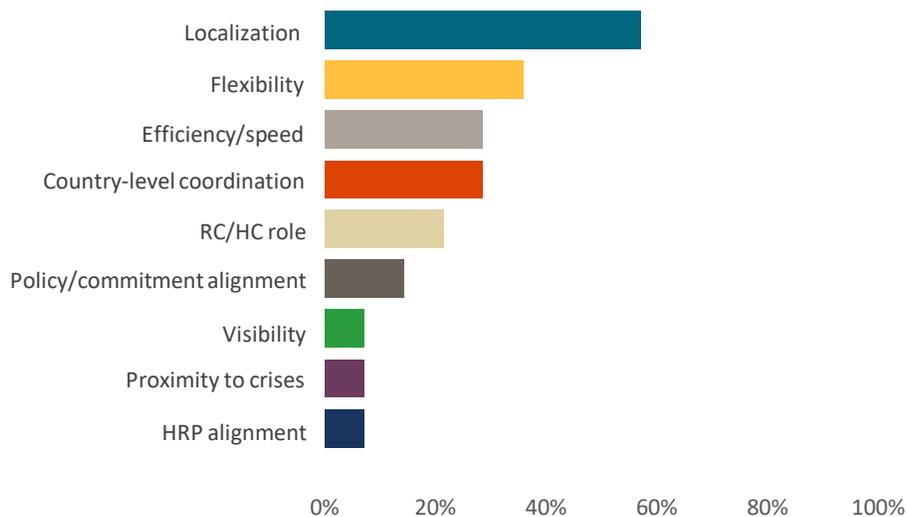
Donors found different comparative advantages in CBPFs. One small donor found pooled funds important to enhance donor coordination where the donor had a limited footprint. Other positive benefits mentioned included bolstering support to the UN, enhancing the authority of the HC and HCT, and delivering even in difficult circumstances where access can be challenging.

The increasing use of CBPFs was an area of active policy focus for donors. Several had increased their CBPF allocations within the previous year and one reported planning to begin funding CBPFs on a multiannual basis. That donor relayed concerns from NGOs that despite increased capacity, CBPFs functioned largely as a stop-gap measure. Donors also referred positively to ongoing policy coordination in the pooled funds working group.

How important do you consider contributing to country-based pooled funds to be to your humanitarian strategy?



Donor objectives for CBPFs



Bibliography

- ALNAP. “Shifting Mindsets | Section 5: Funding | ALNAP.” Accessed May 11, 2021. <https://www.alnap.org/help-library/shifting-mindsets-section-5-funding>.
- CAFOD, FAO, and World Vision. “Future Humanitarian Financing: Looking Beyond the Crisis—World.” Accessed May 13, 2021. <https://reliefweb.int/report/world/future-humanitarian-financing-looking-beyond-crisis>.
- Clarke, Daniel J, and Stefan Dercon. “Dull Disasters? How Planning Ahead Will Make a Difference,” n.d., 154.
- Development Initiatives. “Effectiveness, Efficiency and Quality.” Global Humanitarian Assistance Report. Development Initiatives. Accessed May 6, 2021. <https://devinit.org/resources/global-humanitarian-assistance-report-2019/effectiveness-efficiency-and-quality/>.
- . “Global Humanitarian Assistance (GHA) Programme—Humanitarian Data Exchange.” Accessed May 13, 2021. <https://data.humdata.org/organization/global-humanitarian-assistance-gha-programme>.
- . “Global Humanitarian Assistance Report 2020.” Development Initiatives. Accessed May 6, 2021. <https://devinit.org/resources/global-humanitarian-assistance-report-2020/>.
- Els, Christian, and Nils Cartenson. “The Humanitarian Economy.” IRIN. Accessed May 11, 2021. <http://newirin.irinnews.org/the-humanitarian-economy>.
- European Common Disaster Risk Management Knowledge Centre, INFORM. “INFORM—Global, Open-Source Risk Assessment for Humanitarian Crises and Disasters.” Disaster Risk Management Knowledge Centre INFORM. Accessed May 10, 2021. <https://drmkc.jrc.ec.europa.eu/inform-index>.
- Featherstone, Andy, Tasneem Mowjee, Charlotte Lattimer, and Lydia Poole. “OCHA Evaluation of Country-Based Pooled Funds.” Inception Report, New York: OCHA, 2019.
- Good Humanitarian Donorship Initiative. “GHD Principles and Good Practice.” GHD Initiative, 2016. <https://www.ghdinitiative.org/ghd/gns/principles-good-practice-of-ghd/principles-good-practice-ghd.html>.
- Hans. “Cash Transfers.” Text. European Civil Protection and Humanitarian Aid Operations—European Commission, January 3, 2019. https://ec.europa.eu/echo/what/humanitarian-aid/cash-transfers_en.
- Inter-Agency Standing Committee. “Quality Funding: How to Reach Critical Mass.” Inter-Agency Standing Committee, n.d. <https://interagencystandingcommittee.org/system/files/2020-06/Quality%20funding%20-%20How%20to%20reach%20critical%20mass%20-%20June%202020.pdf>.
- . “Quality Funding Workstream 7&8 Workshop Background Paper.” Inter-Agency Standing Committee, September 2019. https://interagencystandingcommittee.org/system/files/grand_bargain_workstream_78_-_sept_workshop_-_final_think_piece_-_sept_19_2019.pdf.
- Inter-Agency Standing Committee. “Reduce Duplication and Management Costs with Periodic Functional Reviews | IASC.” Accessed May 13, 2021. <https://interagencystandingcommittee.org/reduce-duplication-and-management-costs-with-periodic-functional-reviews>.

- Konyndyk, Jeremy, Patrick Saez, and Rose Worden. “Humanitarian Financing Is Failing the COVID-19 Frontlines.” *Center For Global Development* (blog). Accessed May 10, 2021. <https://www.cgdev.org/blog/humanitarian-financing-failing-covid-19-frontlines>.
- . “Inclusive Coordination: Building an Area-Based Humanitarian Coordination Model.” Policy Paper. Washington, DC: Center for Global Development, October 13, 2020. <https://www.cgdev.org/publication/inclusive-coordination-building-area-based-humanitarian-coordination-model>.
- Kreidler, Corinna. “The Added Value of Flexible Funding to the ICRC.” ICRC, 2020. <https://interagencystandingcommittee.org/system/files/2020-06/The%20Added%20Value%20of%20Flexible%20Funding%20to%20the%20ICRC%20-%20June%202020.pdf>.
- Manis, Athanasios. “Cost-Effectiveness in Humanitarian Aid: Localisation Programming,” n.d., 20.
- Martinez-Diaz, Leonardo, Lauren Sidner, and Jack Mcclamrock. “The Future of Disaster Risk Pooling for Developing Countries: Where Do We Go From Here?,” n.d., 64.
- Metcalf-Hough, Victoria, Wendy Fenton, Barnaby Willitts-King, and Alexandra Spencer. “Grand Bargain Annual Independent Report 2020.” Overseas Development Institute. Accessed May 6, 2021. <https://odi.org/en/publications/grand-bargain-annual-independent-report-2020/>.
- Ramachandran, Vijaya, and Junaid Sadiq Masood. “Are the Pacific Islands Insurable? Challenges and Opportunities for Disaster Risk Finance,” n.d., 41.
- Reddy, Srikanth K., Sumaira Mazhar, and Raphael Lencucha. “The Financial Sustainability of the World Health Organization and the Political Economy of Global Health Governance: A Review of Funding Proposals.” *Globalization and Health* 14, no. 1 (December 2018): 119. <https://doi.org/10.1186/s12992-018-0436-8>.
- Scott, Rachel. “Financing in Crisis?: Making Humanitarian Finance Fit for the Future.” OECD Development Co-operation Working Papers. Vol. 22. OECD Development Co-operation Working Papers, June 18, 2015. <https://doi.org/10.1787/5js04dl2pms1-en>.
- Stoddard, Abby, Lydia Poole, Barnaby Willitts-King, Shoab Jillani, and Alan Potter. “Publications | Humanitarian Outcomes.” Accessed May 13, 2021. <https://www.humanitarianoutcomes.org/publications?project=8>.
- The Global Fund. “Partners—The Global Fund Data Explorer.” Pledges and Contributions. Accessed May 10, 2021. <https://data.theglobalfund.org/donors/partners/-/2017-2019>.
- . “US\$14 Billion to Step Up the Fight Against the Epidemics—The Global Fund to Fight AIDS, Tuberculosis and Malaria.” The Global Fund. Accessed May 10, 2021. <https://www.theglobalfund.org/en/specials/2019-10-09-global-fund-sixth-replenishment-conference/>.
- The Norwegian Refugee Council. “Make or Break—the Implications of Covid-19 for Crisis Financing.” NRC. Accessed May 13, 2021. <https://www.nrc.no/resources/reports/make-or-break--the-implications-of-covid-19-for-crisis-financing/>.
- The Vaccine Alliance. “Disbursements | Supporting Gavi, The Vaccine Alliance.” Disbursements. Accessed May 11, 2021. <https://iffim.org/funding-immunisation/disbursements>.

- . “G7 Backs Gavi’s COVAX Advance Market Commitment to Boost COVID-19 Vaccines in World’s Poorest Countries.” Accessed May 13, 2021. <https://www.gavi.org/news/media-room/g7-backs-gavis-covax-amc-boost-covid-19-vaccines-worlds-poorest-countries>.
- . “Independent Review Committee.” Independent Review Committee. Accessed May 11, 2021. <https://www.gavi.org/our-support/irc>.
- UN Office for the Coordination of Humanitarian Affairs. “A Year in Review: CBPF-Funded Humanitarian Action in 2019.” OCHA, June 5, 2020. <https://www.unocha.org/story/year-review-cbpf-funded-humanitarian-action-2019>.
- . “Inter-Agency Coordinated Appeals: Results from 2020 | Global Humanitarian Overview.” Inter-Agency Coordinated Appeals: Results from 2020. Accessed May 10, 2021. <https://gho.unocha.org/inter-agency-appeals/inter-agency-coordinated-appeals-results-2020>.
- . “Total Reported Funding 2020 | Financial Tracking Service.” Accessed May 10, 2021. <https://fts.unocha.org/global-funding/overview/2020>.
- . “Welcome to Country Based Pooled Funds Data Hub.” Country based Pooled Funds DATA HUB. Accessed May 11, 2021. https://cbpf.data.unocha.org/#allocation_heading.
- UNHCR. “Grand Bargain in 2020 Annual Self Report Narrative Summary.” Narrative Summary, 2020. <https://interagencystandingcommittee.org/system/files/2021-03/UNHCR%20Self-report%202021%20-%20Narrative.pdf>.
- Weingartner, Lena, Tobias Pforr, and Emily Wilkinson. “Saving Lives, Changing Lives: The Evidence Base on Anticipatory Action.” World Food Programme, 2020.
- World Bank. “IDA Resource Allocation Index.” International Development Association—World Bank, January 29, 2016. <https://ida.worldbank.org/financing/resource-management/ida-resource-allocation-index>.
- . “World Bank IDA 2018 Contributions.” Accessed May 10, 2021. <https://ida.worldbank.org/sites/default/files/pdfs/ida18-donor-contributions.pdf>.
- World Food Programme. “How the World Food Programme Has Cut Its Delivery Times by More than 60 Percent | World Food Programme,” April 3, 2017. <https://www.wfp.org/stories/how-world-food-programme-has-cut-its-delivery-times-more-60-percent>.
- World Health Organization. “WHO | Programme Budget Web Portal.” Figures by Programme. Accessed May 6, 2021. <http://open.who.int/2018-19/our-work/category/12/about/key-figures>.
- World Humanitarian Summit. “High-Level Panel on Humanitarian Financing Report to the Secretary-General: Too Important to Fail—Addressing the Humanitarian Financing Gap—World.” Accessed May 10, 2021. <https://reliefweb.int/report/world/high-level-panel-humanitarian-financing-report-secretary-general-too-important-fail>.
- Worley, William. “Gavi Smashes Replenishment Target at Virtual Summit.” *Devex*, June 4, 2020, June 2020 edition. <https://www.devex.com/news/sponsored/gavi-smashes-replenishment-target-at-virtual-summit-97409>.