

**INTER-AGENCY STANDING COMMITTEE
Ad Hoc PRINCIPALS' MEETING
"Strengthening Humanitarian Response"**

12 September 2005

**10h00 – 13h00 (Rafael Salas Conference Room, 19th Floor), followed by
13h00-15h00 Principals only luncheon (Nafis Sadik Conference Room, 19th Floor)**

Venue: UNFPA Headquarters, New York

**Proposal for an Upgraded Central Emergency Response Fund (CERF)
Discussion Paper**

Circulated: 8 September 2005

Executive Summary

United Nations humanitarian organizations have a proven track record of mobilizing quickly in order to save lives in humanitarian emergencies. However, the current system of humanitarian financing puts certain limits on their ability to achieve this goal. In this context, the Secretary-General has proposed upgrading the current Central Emergency Revolving Fund (CERF) and consideration for the establishment of a common humanitarian fund. The July 2005 ECOSOC Resolution further supported the initiative to improve the CERF through the possible inclusion of a grant facility and suggested such a proposal be presented at the 60th Session of the General Assembly. This discussion paper outlines components of an upgraded Central Emergency Response Fund (CERF) for consideration by Member States, humanitarian organizations, and other interested persons. A formal proposal will be presented to the General Assembly in November for deliberation.

The Upgraded Central Emergency Response Fund (CERF)

- **Goal** – speed humanitarian response, broaden capacity to serve neglected emergencies
- **Access** - UN humanitarian organizations and IOM
- **Magnitude** - \$500 million goal; operational in January 2006
- **Governance** – advisory board with traditional donors, non-traditional donors, and countries with emergency experience
- **Targeted donors** – Member-States, Private Sector, Individuals

The new CERF will provide a much needed injection of funding to jump start life saving relief operations. The upgraded CERF would also set-aside limited funds for neglected emergencies, introducing an element of equity for people in need throughout the globe. The Under Secretary General/Emergency Relief Coordinator (USG/ERC) will manage the fund using his delegated authority from the S-G, and an Advisory Board comprised of donors and Member States with experience hosting humanitarian operations will serve as

the CERF's governing board. The management cost of the upgraded CERF will be very limited, as OCHA will primarily rely on existing resources.

Background

A number of recent examples demonstrate the need for more readily available funding for all types of emergencies, complex emergencies and natural disasters alike. In Darfur, despite significant attention of the international community, the time lag in the availability of funds limited the delivery of assistance at a time when access for humanitarian workers had been secured. In the case of slow onset crises, such as the desert locust problem in the Sahel, earlier availability of funding would have prevented the spread of the problem and, thus, would have decreased the overall cost of humanitarian operations. Even in complicated food security crises such as Niger, prompt funding for core elements of the relief operation would ensure the availability of humanitarian staff and resources to address escalating needs. Access to flexible funding is particularly critical in natural disasters, where speed is of the essence. In the case of the 2005 Guyana floods, for example, the absence of an adequate donor response to a modest Flash Appeal left the Government to cope with few resources.

Yet, the UN and its implementing partners have proven that they are able to move quickly, save lives, and alleviate suffering if timely and adequate funding is provided. For example, the rapid availability of funding offered by donors for the Tsunami response enabled UN humanitarian organizations to assist over two million beneficiaries in the first month of the relief operation. In addition, once funding was provided for Darfur, the UN mounted a massive humanitarian operation, and mortality rates subsequently dipped below emergency thresholds.

Trends in Humanitarian Financing

Trends in humanitarian financing demonstrate an increase in contributions throughout the 1990s. In 2003, OECD/DAC countries contributed \$7.8 billion in humanitarian aid, \$2 billion more than expenditures in the previous four years. A review of contributions made through the UN Consolidated Appeals Process (CAP) since 1994 indicates a trend of concentrated giving to a select number of high profile emergencies such as Afghanistan, Iraq or the Tsunami disaster. The emergencies outside the headlines (particularly those in Africa) are consistently under-funded. Furthermore, a persistent imbalance in spending among sectors remains, with some sectors (water and sanitation, health, camp management and protection, among others) being systematically under-funded.

Reform of the Humanitarian System

The Secretary-General's Report 'In larger freedom' recognized that the humanitarian system has been performing well in most emergencies given the means at its disposal. However, it also recognized the need to improve the response capacity of the humanitarian system. While being a key aspect, reform of humanitarian financing is only one of three components in the overall reform agenda. In this regard, the UN's on-going humanitarian reform efforts aim to strengthen the following interrelated elements: (a) humanitarian response capacity; (b) humanitarian coordination, and; (c) humanitarian

financing.¹ In sum, improving access to predictable funding for humanitarian response is an integral component of the Secretary-General's humanitarian reform agenda and a necessary condition to achieve progress on the entire humanitarian reform package.

Limitations of Existing Mechanisms

General Assembly Resolution 46/182 of December 1991 established the Central Emergency Revolving Fund (CERF) as one of the central pillars of improved humanitarian response to ensure rapid disbursement of funds for emergencies. The CERF enjoys the broad support of Member States and a diversified donor base, including contributions from over forty Member States. The CERF has disbursed some \$337 million in loans over the last 14 years and works best as a cash flow mechanism for Agencies while they are waiting for donors to turn pledges or commitments into actual transfers.

However, given the current CERF's requirement for reimbursement within six months, UN humanitarian organizations are often hesitant to use it unless there are indications that donor funding is forthcoming. As such, the CERF's conditions do not lend themselves to assuring rapid humanitarian response. The CERF's requirements are even more constraining when it comes to addressing neglected and chronically under-funded emergencies. As such, use of the CERF has fluctuated, and it is most frequently used in high profile crises (Afghanistan, Iraq, Kosovo), where quick reimbursement is guaranteed by readily available donor funding.

Since the creation of the CERF, UN humanitarian organizations have also taken steps to strengthen their own stand-by emergency accounts to allow them to respond to emergencies before donor commitments are received. UNICEF has its Emergency Programme Fund, UNHCR has an Emergency Fund, and WFP has two accounts: the International Emergency Food Reserve and the Immediate Response Account. The respective agency funds are used to finance the initial needs of emergency operations as per the mandate of each agency. These funds provide an important source of liquidity, but they do not allow the UN to mount an integrated, comprehensive response. In addition, existing Agency stand-by funding mechanisms may be rapidly depleted should a major crisis (e.g. Darfur) require significant funds.

¹ ECOSOC Resolution (E/2005/L.19) further underscored that improved humanitarian financing mechanisms are a necessary element of the overall humanitarian reform agenda, recommending that the General Assembly "improve the Central Emergency Revolving Fund, inter alia, through the possible inclusion of a grant facility component based on voluntary contributions."

The Upgraded Central Emergency Response Fund (CERF)

A source of predictable humanitarian funding is needed to ensure timely response to sudden onset humanitarian emergencies and a more equitable distribution of assistance. Flexible funds would provide UN humanitarian organizations with the immediate liquidity needed to launch operations, and in turn save lives. A common fund would also allow the UN to provide coverage of minimum life-saving humanitarian requirements for select neglected emergencies. As such, the present Central Emergency Revolving Fund (CERF) should be upgraded to a modernized Central Emergency Response Fund to provide funds for rapid response and neglected/chronically under-funded emergencies.

Goals of the upgraded CERF

- Predictable source of funding for rapid response
- Equity for neglected emergencies in the humanitarian system

Recognizing the value in retaining the revolving portion of the CERF as it receives broad-based support from donors and Member States, it is proposed that the current revolving component of the CERF be maintained. At the same time, the CERF will be modernized and expanded with a grant-making facility to address some of its present limitations.

The upgraded CERF would have an overall volume of \$500 million comprised of the current revolving facility of \$60 million and a grant facility of \$440 million. The new CERF would become operational in January 2006, once a critical mass of new commitments to the grant-making facility have been received. CERF grant funds would be gradually built-up over time to the goal of \$440 million. Separate criteria will be established for accessing CERF loans vs. grants. However, the loan and grant facilities may also work in concert, with a borrowing agency repaying a portion of its grant should funds be raised from donors.

Like the present CERF, the upgraded CERF should be used as a mechanism to gather broad-based support for humanitarian action Member States and other donors. Member States (including traditional and non-traditional donors), the private sector, and individuals will all be encouraged to participate. The participation of non-traditional donors will be particularly important to help ensure that the upgraded CERF adds new funds to the humanitarian system. It is envisaged that some traditional donors may also make additional (i.e. new) budgetary resources available for the CERF, while others may find the upgraded CERF to be a structured mechanism for channelling existing untied contributions.

It is proposed that the same UN humanitarian organizations that have access to the current CERF be eligible for grants and loans from the upgraded CERF. In other words, the UN and its Funds, Programmes, and Specialized Agencies as well as IOM may apply. OCHA, as the designated fund manager, will not be eligible for grant funds.² It should be

² OCHA will, however, continue to be eligible for loans under the current eligibility criteria for the Central Emergency Revolving Fund.

noted, however, that NGOs will benefit indirectly through their partnership arrangements with UN Agencies. In addition, UN humanitarian organizations chosen as sectoral leads may be able to apply for CERF funds on behalf of an NGO partner.

Criteria for Use of CERF Funds

(a) Rapid Response

Up to two-thirds of the total CERF grant facility will be devoted to fund life-saving rapid response initiatives. In general, the CERF rapid response window will fund programmes of no more than three months, and a maximum of \$30 million will be applied to any one crisis.

CERF Rapid Response Window

- Goal: ensure predictable funds for rapid onset emergencies and sudden deteriorations of existing emergencies
- Funding cap per emergency: \$30 million
- Time period: Funds to be used within three months

The CERF rapid response funding window will provide financial liquidity for life-saving operations to UN humanitarian organizations within a maximum of three-four days. Based on the recommendation of the Humanitarian Coordinator/Resident Coordinator (HC/RC) and with information from IASC partners, the ERC will decide on allocation of emergency funding within 48-72 hours upon receiving a request. Applications will be based on Flash/Consolidated Appeals, available assessments, or other demonstrated needs. The CERF will thus provide a much needed injection of immediate funding to jump start life saving relief operations. The majority of needs, as reflected in Flash/Consolidated Appeals, will still have to come from traditional donor sources as is the case today.

OCHA, which will continue to serve as the Secretariat for the upgraded CERF, will not use CERF funds for its own operations. Using its existing desk officer structures, OCHA will support the efforts of HCs/RCs to identify critical needs and priorities. The ERC may also request an immediate needs assessment to determine the magnitude of the situation if data is not available.

The CERF may also be used to enable UN humanitarian organizations to prepare and pre-deploy in anticipation of emergencies.

(b) Neglected/Chronically Under-funded Emergencies

The overall increase in global humanitarian funding has not ensured equitable humanitarian response across the globe, since funding continues to be concentrated on a number of high profile humanitarian emergencies. In line with the Good Humanitarian Donorship Initiative's goal of promoting more equity in humanitarian financing, it is proposed that up to one-third of the CERF grant facility may be allocated to neglected/chronically under funded emergencies.

The intention is that CERF funding for neglected emergencies be allocated to cover critical needs and functions, not the entire breadth of humanitarian activities. It is suggested that CAP countries, countries identified by the IASC as requiring humanitarian

assistance, as well as other countries/regions suggested by the ERC be eligible for funds under this window. Eligible countries will be selected using common criteria approved by the Advisory Board. Although such criteria are still to be finalized, indicative elements may include³:

- A protracted trend of under-funding
- An inventory of critical unmet needs⁴
- Deterioration of health and nutritional indicators
- Displacement figures

The relevant HCs/RCs will identify priority life-saving needs based on inputs from sectoral lead agencies. Generally, a larger portion of the annual disbursements under this funding window would be made in the second half of the year to take into consideration real-time developments on the ground.

Management

A CERF **Advisory Board** will be created as the Fund's primary governance structure. The board will provide broad guidance in the management of the fund and contribute to visibility and transparency. The board will meet on an annual basis and will receive administrative support from a small Secretariat in OCHA. The Advisory Board will:

- Provide strategic guidance on the use of the CERF to maximize impact;
- Establish funding priorities, criteria for use, and review the annual allocation of funds;
- Advise the Secretary General on an annual fund raising strategy and a replenishment target;
- Review requests greater than \$30 million per emergency under the rapid response window (through correspondence);
- Promote greater support for the CERF among the international community, including Member States, the private sector, and individuals;
- Consider internal and external audit reports

The Board will be an independent body comprised of seven experts serving in their personal capacities. They should represent a wide array of geographical and sectoral experience and interests. Each expert will be nominated by his or her Government and should have expertise in humanitarian response. Members will serve for a term of two years, with new members coming in on a rotational basis. All nominees will be reviewed and appointed by the Secretary General. Advisory Board membership will be honorary and will not entail remuneration, except for payment, in accordance with UN regulations, for travel expenses incurred for participation in activities of the Board.

³ Common criteria for evaluating access to the rapid response and neglected emergencies CERF funding windows will be developed and approved by the Advisory Board. Indicative elements are provided for discussion.

⁴ Needs as outlined in a Flash/Consolidated Appeal, assessments, or other demonstrated needs.

Advisory Board members will be chosen from the following three groups. The first three members will be selected from the UN's traditional humanitarian donors (DAC members). Another two seats will be reserved for non-traditional donors (non-DAC members). Finally, two members will be selected from Member States hosting disaster/emergency operations (including both natural disasters and complex emergencies). The Advisory Board will have at least one formal meeting each year. In addition, members will take decisions as needed via e-mail, teleconferencing, etc. The Secretary-General will select members of the Advisory Board taking into consideration the magnitude of contributions provided to the CERF as well as other relevant factors.

Proposed Advisory Board Members

* Members serve as experts in their personal capacity and are confirmed by the Secretary General

- Three traditional donors (DAC countries)
- Two non-traditional donors
- Two members with experience in emergency/disaster management

IASC. The ERC will maintain direct consultations with the IASC on the use of CERF funds, holding a dedicated discussion with the IASC on the CERF on an annual basis. IASC members will, then, discuss and advise on priorities and use of CERF funds.

Administration. The USG/ERC will play a similar role in the administration and management of the upgraded CERF as per the current CERF arrangements. That is, in his capacity as USG/ERC, he will continue to manage the CERF at the operational level under the overall authority and direction of the Secretary-General and according to the proposed governance structure. The USG/ERC will approve all CERF grants in accordance with the overall priorities and criteria suggested by the Advisory Board. Users of the upgraded CERF will complete their own audits for individual projects funded by the CERF. In addition, UN internal and external auditors will be requested to audit the use and management of the CERF on an annual basis, and their reports will be submitted to the Advisory Board for examination. Transparency and accountability will be enhanced by public reporting on donations and expenditures through OCHA's Financial Tracking Service (FTS).

Staffing implications. The upgraded CERF will not have major staffing implications for OCHA because (1) CERF users (UN humanitarian organizations) will maintain their own accountability requirements for project funds and (2) OCHA will rely on existing staff for the substantive analysis needed to support the allocation of funds. As such, the USG will only require three additional staff (two professionals and one general services) funded by extra-budgetary sources. This small CERF secretariat will process funding requests, ensure compliance with rules and regulations, solicit and receive project reports from recipient organizations, and provide secretariat services to the Advisory Board. The upgraded CERF secretariat will continue to process requests swiftly, building on OCHA's successful track record of making commitments from the current CERF within 24-48 hours without any additional dedicated staff. Existing OCHA staff (e.g. the Coordination and Response Division and the CAP Section), working in close consultation with UN humanitarian organizations, will provide the in-house capacity to manage the substantive aspects of the CERF, monitoring developments in the field, collecting data,

and providing analysis to assist the ERC in his role of indicating priorities for CERF funding. The ERC will be further supported by the HCs/RCs, who will be responsible for providing assessment data.

Administrative overhead. It is proposed that extra-budgetary resources be allocated to OCHA to fund three additional CERF secretariat staff so that the UN will be able to waive administrative overhead on contributions (programme support costs) or charge a minimal amount (e.g. 3%).

Financial Management/Replenishment. It is not foreseen that funds will be completely depleted annually, but rather, a balance will be rolled-over each year. In addition, a portion of grant funds may be reclaimed by the upgraded CERF, should adequate donor resources be raised in due time to cover project costs. Finally, the Advisory Board will suggest a replenishment target for the CERF on an annual basis, taking into consideration existing priorities and forecasted needs.