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

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# Future Humanitarian Financing: Executive Summary

The daunting scale of the humanitarian funding gap and the seemingly intractable nature of many of the well-known and documented humanitarian financing challenges provided the backdrop to the Future Humanitarian Financing (FHF) dialogues in 2014. Yet at the same time, economic growth, rising global connectedness, new technology, innovation in financing and business practices and emerging global norms around the need to manage risk and build resilience were repeatedly stressed as a source for optimism. This report represents an effort by members of the Inter-Agency Standing Committee (IASC) Task Team on humanitarian financing to draw on this spirit of optimism and opportunity to stimulate renewed energy and commitment to resolving many long-standing humanitarian financing challenges and to identifying new approaches and models of engagement to address the needs of humanitarian crises of yet to come.

The international humanitarian enterprise is already out of step with the realities of the world in which it operates and is far from fit to meet the challenges of the future. A fundamental shift in the humanitarian business model is overdue - from a culture and set of practices that tend towards insularity, reactiveness and competition towards an enterprise rooted in anticipation, transparency and strategic collaboration. Humanitarians need to focus not only on meeting humanitarian needs today, but also to work towards a future in which wherever possible international humanitarian response is unnecessary or exceptional.

Clearly this cannot be achieved with the resources, tools and influence at the disposal of humanitarian actors and would require long-term vision and strategic alliances with a broad range of actors who can deliver transformative changes to vulnerability and the management of risk. Therefore, in addition to a programme of internal reforms, a radical global agenda for engaging and enabling a far wider ecosystem of actors in meeting the costs of managing risk and the costs of responding to post-crisis needs as a shared responsibility and public good will be needed to meet the humanitarian financing challenges of the future.

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

1. **Re-balancing the division of labour**

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

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

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

**In protracted crises, new solutions to providing more predictable and sustainable financing solutions must urgently be brokered and developed.** Humanitarians have for too long taken on responsibilities for supporting long term displaced populations and the longer-term needs of populations affected by protracted crises. Alternative approaches and success stories exist, but they are few and far between. Where these have been achieved they have been the product of strong leadership and vision, willingness to take risks and sufficient and reliable financial support.[[1]](#endnote-2) But it appears that without some strong external stimulus there are too few incentives for humanitarian, development, climate change and other concerned actors to work in complementarity to address the longer-term needs of populations vulnerable to and affected by crises. Financing can be used however to create incentives for more coherent approaches built on common understanding of the need to manage risk both as a moral imperative and as an expedient investment to protect development investments and assure sustainable development outcomes. There is an open challenge to donors therefore to find new ways or organising their funding investments to create these incentives.

1. **Prioritising nationally-led response**

**The humanitarian community is approaching a point of consensus on the practical utility and principled case for supporting nationally-led response, but this vision must become far more ambitious and concrete.** There are rising calls within the humanitarian community, which were echoed throughout the FHF dialogues to ‘localise humanitarian aid’. In contrast with the strength of commitment emerging at the level of principle, there is currently a lack of precision as to what this vision comprises and practical solutions as to how to achieve this are also lacking. The localising aid discussion has some way to go therefore before reaching an achievable set of ambitions and practical next steps.

**Humanitarians should anticipate and work towards international humanitarian financing playing a more ‘complementary’ or ‘consultative’ role alongside domestically mobilised financing** including through access to financial services including insurance, credit and savings. International investments can play a key catalytic role in enabling national and local risk financing capacity and humanitarian actors have in some important instances, played a critical role in ensuring these instruments are appropriately designed and accessible to meet the needs of crisis-vulnerable populations. Humanitarian actors have a key role to play therefore in ensuring that financial preparedness against risk is prioritised and solutions designed which meet the needs of crisis-vulnerable populations.

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

**Humanitarian financing practices will need to undergo a series of reforms to remove barriers to access for local and national actors and to provide flexible and enabling funding to support capacity strengthening. I**mproving access to international financing for front-line actors and dis-intermediating convoluted transaction chains via international actors was a repeated refrain during the FHF dialogues. In practice this will require reviewing risk management procedures and making adjustments to mechanisms and application processes to enable capable responding actors not well schooled in the arts of navigating international humanitarian financing systems to access funds as well as providing flexible funding to international organisations to invest in strategic capacity building support to national organisations to strengthen their organisational procedures and skills in accessing and managing funds.

1. **Embracing diversity**

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

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

1. **Building a progressive humanitarian enterprise**

**In order to remain relevant and accepted, humanitarian actors will need to become far more externally engaged, more adept at managing numerous and diverse partnerships, more confident and assertive in engaging in technical and political policy dialogues.** In the future we might expect international humanitarian actors to play more niche roles in providing technical assistance, brokering partnerships and advocating for principled humanitarian action and operating space. In order to become fit to meet these niche requirements and to advance modes of response to take advantage of efficiency and effectiveness gains afforded by new technologies, the humanitarian enterprise will need to become far more skilled, innovative and well-informed. A wholesale cultural shift towards becoming an enterprise that values research and experimentation will be needed in order to drive forward major advances in the efficiency and effectiveness of humanitarian action, and this will inevitably require flexible and predictable financial support.

1. **System upgrades**

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

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

* 1. **Anticipation and analysis**

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

Anticipating funding requirements: Contingency planning at the global level based on forecasting models for natural hazards and projections for protracted crises could help to anticipate the scale of financing required at times of peak needs which would in turn help to inform financial preparedness at the global-level that might include contingency funding and risk-transfer measures.

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

Quantifying and communicating requirements: A lack of confidence in the financing requirements in the UN coordinated appeals should be managed and addressed as a matter of urgency. In addition, humanitarian-needs assessments increasingly appear a blunt instrument with which to understand complex environments with diverse actors and capacities.

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

Tracking and monitoring funding:Current resource tracking mechanisms are not sufficiently inclusive of the full range of resource flows in crises, which is a barrier to achieving and efficient coverage of needs and to inclusive planning and response.

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

Within the existing financing architecture, practices and culture, there are a persistent challenges to achieving a more efficient and effective response. Notably, mobilising funds on a reactive ex-post basis drives large-scale avoidable inefficiency; the system struggles to cope with periods of peak demand; there are insufficient incentives to mobilise funding against early indicators of need and risk; front-line responding actors are often unable to access funding; and there is insufficient effort to achieve an efficient division of labour and rational coverage of financing needs among donors.

Enable a more efficient donor division of labour: Achieving a coordinated response and rational coverage of humanitarian financing needs is already found wanting in the international response, but as the constituency of donors and sources of finance becomes increasingly diverse will prove ever more challenging. If as current trends indicate, the funding landscape is set to become a more complex kaleidoscope of earmarking, the ability to target funding gaps will become even more important and there will be a good case for increasing the size and scope of existing and new balancing mechanisms, which offer a practical solution to re-balancing earmarking.

* Donors within the GHD group should lead by example in developing simple planning and communication tools which provide earlier indications of their bilateral funding decisions and the rationale for decisions taken which could enable other donors to consider where their contributions best fit.
* Investigate the feasibility of expanding existing or creating new ‘global balancing mechanisms’ focusing on under-funded crises and sectors to help to off-set existing and anticipated growth in tightly earmarked funding.

Bridging liquidity gaps: Mobilising funding in the early stages of crises remains a major challenge. There are opportunities however for humanitarian actors to use technical expertise and analysis from private sector actors and governments to develop objective and politically acceptable ‘triggers’ for early-release of funding.

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

Making provision for ‘peak demand’: In order to manage peak demand, separate modalities and ‘new’ funding reserves would be required to meet large spikes in demand resulting from major crises. In addition, the political and practical feasibility of ‘innovative’ approaches to securing additional and predictable financing for key recurrent humanitarian costs is a clear opportunity which has not yet been sufficiently explored by humanitarian actors.

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

Investing in nationally-led response: There are quick-wins to be had in supporting local and national NGOs to access international funds, including providing practical guidance and advice on how to establish minimum criteria to meet international donor funding eligibility criteria as well as coaching in how to navigate funding application processes. In addition, removing barriers and enabling local and national actors to access international sources of humanitarian financing should be an urgent priority. Longer-term capacity building needs are much more challenging for humanitarian actors and there is currently limited evidence and understanding of what might constitute effective approaches to investing in domestic response capacity that could inform a scaling up of investments.

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

Real and perceived inefficiencies in humanitarian financing practices and business approaches remain insufficiently addressed and are a threat both to the effectiveness and the credibility of the humanitarian enterprise. A major reform of business practices is long-overdue in order to drive forward large-scale efficiency gains.

Managing recurrent costs: There is growing evidence confirming that greater predictability and flexibility of funding enables much more cost-effective management of resources and improved programming outcomes. Achieving more predictable and flexible financing humanitarian financing should be a major focus of funding advocacy with a range of options open for consideration.

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

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

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

Improving business practices:There could be significant gains from systematically reviewing the cost-efficiency of key practices, systems and approaches within the international humanitarian enterprise. A programme of objective audit and review of major cost-centres, including procurement, sub-contracting and staff-retention practices in the sector could help to identify potential cost-savings and identify existing good-practices which could be replicated by other agencies. Such a system-wide learning exercise should be conducted by an independent group including key humanitarian stakeholders, as well as independent experts from the private sector and experts in public sector and institutional reform.

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

Streamlining reporting: Excessive reporting is a common bug-bear, which is serving nobody’s interests and is needlessly consuming resources. At the same time, there is a need to trade smarter reporting, greater transparency and a commitment to ensure efficiency and impact in return for greater flexibility of funding.

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

**Conclusion**

This discussion paper attempts to provide an expansive survey of current humanitarian financing challenges and to present a balance of opinions as to how these might be overcome. The analysis and solutions presented here are in many respects already familiar and well understood within the humanitarian community. What is new perhaps is the palpable appetite for change and a new direction which came through so strongly throughout the FHF dialogues. This analysis will require further consideration, research, investment and prioritization however. Indeed the purpose of the FHF has been to stimulate dialogue that will contribute to enhancing the adaptive capacity of humanitarian response and it is the sincere hope of the FHF member agencies that this dialogue will continue beyond the life-time of the initiative. Almost all of the potential solutions will be challenging to embark upon, but not investing in building the adaptive capacity of the international humanitarian enterprise is not an option.

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| About the Future Humanitarian Financing Initiative FHF is an initiative convened on behalf of the Inter-Agency Standing Committee (IASC) Task Team on humanitarian financing and is led by a steering group comprising CAFOD, the UN Food and Agriculture Organisation (FAO) and World Vision and funded by the Government of Germany and FAO.The purpose of the FHF initiative is to discuss the potential of new and emerging approaches to financing and investigate how these might support both a more open and adaptive humanitarian endeavour as well as new business models fit to meet the changing nature and scope of humanitarian crises. The FHF initiative followed a multi-stakeholder exploration of the potential and implications of financing approaches used outside, and at the margins of, the humanitarian sector – including the opportunities and risks these pose to the key actors and current modes of humanitarian response. Dialogue events were held in London and key centres of regional humanitarian coordination including Amman, Dakar and Bangkok, with a final synthesis to review emerging findings held in Geneva in January 2015 with an expert Advisory Group.  |

**Endnotes**

1. The most well know example is the development of the Productive Safety Nets Programme (PSNP) in Ethiopia where strong leadership and commitment from the government with support from the donor community enabled a shift from ad hoc humanitarian responses to a large-scale chronic long-term food insecurity towards a government-led system responsive to meeting basic needs but which also seeks to transform underlying vulnerability. Notably, in the case of the PSNP, humanitarian and development actors have worked jointly to support the technical realisation of the programme as well as providing coordinated financial support. For discussion of the political and practical processes of achieving the PSNP in Ethiopia, see Brown et. al. 2007 [↑](#endnote-ref-2)