DONOR CONDITIONS AND THEIR IMPLICATIONS FOR HUMANITARIAN RESPONSE

Executive Summary

This paper was commissioned by the Inter-Agency Standing Committee (IASC) Humanitarian Financing Task Team (HFTT) in an effort to identify and communicate to stakeholders and partners those conditions which pose the greatest challenges, as well as describe positive donor practices, affecting humanitarian financing and the delivery of humanitarian assistance. The study's observations and recommendations stem from perspectives and experiences of IASC-member funding recipients.

The Task Team supports the international call to both humanitarian actors and donors to work together in further strengthening the humanitarian system to achieve a more predictable, adequate and efficient humanitarian business model, including the recommendations of the UN Secretary-General's High Level Panel on Humanitarian Financing and the Secretary General's Report on the World Humanitarian Summit. The recommendations for improvements in this paper are intended to inform constructive dialogue with donors regarding flexible funding which will enable increased efficiencies by humanitarian organizations.

The most challenging areas identified by recipient organizations were:

1. Administrative and financial conditions including financial restrictions, earmarking and reporting

It is harder for humanitarian organizations to adapt to changing humanitarian priorities, provide timely needs-based responses, and maximise cost efficiencies when they have to internally juggle funding sources to ease the effects of funding gaps and restrictions. The challenges posed by financial restrictions were more pronounced for smaller organizations with limited flexible cash reserves. Some of the restrictions identified by the study included: inflexible scheduling of payments into multiple tranches; delayed payments; the requirement to return un-spent balances; very short expenditure eligibility windows, particularly for budgetary surpluses allocated at the end of donor fiscal years; and limited flexibility to negotiate no-cost extensions or re-allocations of funds to adapt to changed humanitarian requirements and operational circumstances.

Un-earmarked funding allows organizations to internally prioritize funding to urgent life-saving

activities in countries that are critically underfunded and receive little donor support or media attention. Earmarking of funds reduces the ability of humanitarian organizations to respond to the most urgent needs of affected people, was singled out as having a range of detrimental effects and was felt to be on the increase.

Donor reporting requirements can divert critical time, resources and focus away from humanitarian implementation. In some cases they can be fragmented, duplicative and excessive, with organizations describing examples of spending disproportionate amounts of time customizing reports to multiple donor formats and content requirements.

Recommendations
- Significantly increase un-earmarked funding.
- Build in much greater flexibility to earmarked funds to enable reallocation of funds in the case of changing needs and to enable no-cost extensions.
- Minimize the numbers of disbursements and ensure fast-track disbursements, particularly during rapid onset emergencies and for smaller organizations that may not have pre-financing options.
- For end-of-year funding allocations, establish procedures that ensure sufficient time for project implementation.
- Use standard reporting templates developed by agencies as much as possible (tailored to the specificities and strengths of each agency).
- Commit to a concrete programme of reporting harmonization when the use of agency standard reports is not possible. This includes harmonizing formats and frequency of reporting (e.g. quarterly for consolidated, joint reports; or at most 6 to 12-monthly in cases where individualized reports are needed), particularly when programmes are co-financed. Humanitarian organizations should be consulted closely in negotiations to agree optimal reporting formats and frequency.
- Adapt reporting requirements to the context and length of programs. Adapt the amount of administrative work (lighter, streamlined) for short-term and smaller grants. Consider alternative kinds of reporting, where appropriate (e.g. more verbal updates, field visits, joint review meetings, etc.)

2. Risk management approaches including counter-terrorism measures, due diligence and auditing requirements measures.

Humanitarian organizations remain committed to implementing cost-effective, needs-based operations. As both humanitarian action and counter-terrorism seek the protection of civilian populations from harm, humanitarian organizations fully respect that states have legitimate security concerns and that donor agencies need to observe national and international counter-terrorism laws, as well as international laws and principles governing humanitarian action. While humanitarian organizations acknowledge the legitimate security concerns of states, they are of the opinion that efforts to address these should be in compliance with International Humanitarian Law (IHL) and the humanitarian imperative, and also take into account potential impact on partners. Counter-terrorism measures can be in tension with humanitarian principles and present humanitarian actors with dilemmas. Challenging counter-terrorism conditions described by organizations include requests by donors to exclude certain implementing organizations or beneficiary groups from projects; lengthy reviews by the recipient' legal department; and requirements to apply partner and in some cases beneficiary vetting/screening processes against the UN Security Council Sanctions List and/or national government lists of proscribed actors, which can lead recipient organizations to become more conservative in the choice of partners. For example, selective targeting and vetting/screening processes reduce the ability of humanitarian actors to respond on the basis of needs and can foster perceptions of partiality and reduce trust, which may in turn put staff at risk and limit access.

Humanitarian organizations strive to be cost-conscious, yet due diligence processes and requirements can lead to inefficiencies, particularly impacting Non-Governmental Organizations (NGOs). Poorly coordinated and duplicative partner capacity assessments place a disproportionate burden of work on partners and may, in some cases, deter organizations from seeking funding from particular donors. Exacting due diligence processes and requirements can significantly delay implementation, sometimes placing greater emphasis on financial accountability rather than programme quality to the disadvantage of local and national NGOs that may have strong local knowledge but little international exposure. In addition, incremental levels of controls linked to partner risk ratings place the greatest burden on those organizations with the least capacity.

Efficient management of humanitarian funds can also be hampered by the financial resources and time needed to comply with auditing requirements. NGOs are often subjected to multiple audits, which can be overlapping and poorly coordinated. United Nations Organizations (UNO), while benefitting from the 'single-audit principle', are often exposed to extensive 'audit-like' processes such as verification exercises, assessments and due diligence processes which are often not coordinated in neither time nor content terms.

Recommendations

- Ensure that existing and future counter terrorism measures are compatible with International Humanitarian Law (IHL), International Human Rights Law (IHRL), International Refugee Law (IRL) and humanitarian principles.
- Ensure that risk management measures, including counter terrorism measures, do not undermine the role played by national and local humanitarian actors and take into account the specificities of individual interventions and situations.
- Refrain from policies that inhibit humanitarian actors' engagement with armed groups, including those designated as terrorist, controlling territory or access to affected populations.
- Donors should rely on the UN Consolidated Sanctions List.
- In situations of extreme humanitarian need, due diligence processes should be fast-tracked and lightened.
- Graduate due diligence requirements and criteria according to capacity (e.g. due diligence processes for small local NGOs should be less exigent than those for large UNOs) and make greater use of proxy.
- Audit requirements could be made much more efficient if donors were to accept the single audit principle for all UNOs and if the number and scope of audits required of NGO partners were reduced in accordance with evidence of strong past performance and the strength of internal control frameworks.
- Donors should commit to reducing the overall number of audits by sharing planning, audit methodologies and findings of audit exercises, assessments and due diligence processes, as well as by accepting assurances at the level of organizations and not requesting them at the level of their own funding.

3. Funding predictability

Effective planning is the cornerstone of humanitarian organizations' cost efficient and effective implementations, yet limited funding predictability restricts this, leading to a short-term programming focus, start-stop operations with sub-optimal execution, and higher transaction costs. Unpredictable funding also forces organizations to lay off staff; curtail or cancel partner agreements; and, makes it difficult to attract, hire and retain the most qualified staff.

While risk mitigation actions limit the financial exposure of agencies using internal advance facilities, limited predictability exacerbates the risks. In addition, significant resources are spent preparing appeals, revising plans, re-calculating budgets, and securing new funding on a yearly basis even though the situation may require a multi-year approach.

Recommendations
- Donors are strongly encouraged to provide predictable multi-year humanitarian funding.
- Emerging donors in particular are encouraged to avoid large fluctuations in aid volumes.
- Donors are strongly discouraged from cancelling existing multi-year commitments.
- Donors are encouraged to consider measures that will protect the predictability of levels of humanitarian funding due to the volatility/fluctuations in exchange rates.

4. Disclosure requirements

Staff and partner safety is paramount, and humanitarian organizations place an enormous importance on reducing exposure to risk, yet certain transparency requirements can ultimately be detrimental to the conduct of humanitarian operations.

Recommendations
- Donors accept and allow that under certain situations, humanitarian organizations may not be able to fully disclose information (e.g. project proposals and agreements, or names of implementing partners whose security may be compromised if made public).

1. Introduction and methodology

This paper was commissioned by the Inter-Agency Standing Committee (IASC) Humanitarian Financing Task Team (HFTT) to examine internal and external constraints affecting humanitarian financing and the delivery of humanitarian assistance. The analysis of donor conditions is part of this broad effort and includes a detailed survey in which humanitarian organizations ranked the various donor conditions affecting them according to the need for improvement. For the purpose of this paper, a donor is a government entity that finances, from its multilateral development regular budget, aid activities executed by multilateral organizations. Projects executed by multilateral organizations, national and international NGOs on behalf of donor countries are classified as bilateral flows, since it is the donor country that effectively controls the use of the funds. Pooled funds from a variety of donors (including from government entities, private sector and financial institutions) are also included in this paper. Bilateral donor funds received by a UNO and passed through to a third party or NGO will be addressed under a different study.

The methodology included the following steps:
- Identification and grouping of key conditions.
- Discussion of conditions' basic guiding principles.
- Mapping of guiding principles according to identified conditions.
- Listing of top 10 and key emerging donors of each organization.
- Designing and administering a survey of participating HFTT members.
- Refining an average impact of conditions into three quartiles.
- Analysing a set of 14 broader thematic restrictions affecting UN agencies and NGOs (a further breakdown gives a total of 39 detailed conditions).
- Identifying top conditions ranked by scope for improvement.

This paper focuses on the top donor conditions identified in the survey.

The primary aim of this paper is to serve as the basis for future discussions with donors building on the Principles of Partnership[1]. It classifies donor conditions hampering humanitarian efforts into the following groups:

---

[1] Equality, Transparency, Results-Oriented Approach, Responsibility and Complementarity

- administrative and financial conditions including financial restrictions, earmarking and reporting;
- risk management approaches;
- funding predictability; and
- disclosure requirements.

For each group and sub-group, the paper proposes: a definition; implications for funding recipients and their programming; positive examples and best practices; and recommendations to donors for improved practices.

2. Administrative and financial conditions

HFTT members identified earmarking and financial restrictions, followed by heavy reporting, as the most challenging administrative and financial donor conditions with the greatest effect on their humanitarian operations.

2.1. Financial restrictions

Definition:

Financial restrictions were defined by recipients as comprising the following elements:
- Disbursement is delayed, split up into tranches, or provided after expenditure.
- Tight spending deadlines are imposed with limited or no possibility of a no-cost extension.
- Unspent balances to be returned rather than re-programmed.

Implications for recipients

Restrictions on the scheduling of payments and eligibility of expenditure have a variety of negative consequences for the timely implementation of humanitarian programmes and efficient management of resources.

In some cases, donors link the disbursement of funds to performance indicators, such as timeliness of reporting. They may also link the performance of a specific project to disbursements for all other projects they fund. Disbursements that are delayed or split into

multiple tranches tend to negatively affect organizations which do not have independent or un-earmarked funds against which expenditures can be offset or advanced, therefore creating delays in implementation.

Short spending deadlines and inflexible cost components can generate inefficiencies, as longer-term capacity building activities cannot be carried out and implementation is slowed down. This is particularly the case when contributions and end-of-year surpluses are received, and even more so when funds are received towards the end of a project's life-time. End-of-year contributions are a very welcome source of additional funding, yet they are often awarded on the condition they are spent within a short timeframe or the same financial year, posing problems for the timely execution of programmes. Furthermore, tight deadlines may push the receiving organization to prioritize spending of restricted grants while postponing spending of flexible funding, hence risking the creation of unspent balances for more flexible grants.

Some donors require funds to be utilized within their financial year with no (or a very limited) possibility of no-cost extensions or carry-over into the following year. One large humanitarian donor, for example, funds multi-year projects, but with the caveat that any funding unutilised in any of the budgeted years, cannot be carried over to the subsequent years. This does not facilitate flexible programming and results in additional transaction costs and suboptimal utilization of funds. Other donors simply cannot fund multi-year projects which results in missed opportunities for longer-term, capacity building activities.

In some instances, donors ask for the return of unspent balances rather than allow to use them for similar activities or grant a no-cost extension. These sometimes lengthy processes for both donor and recipient can add to the uncertainty of funding flows, especially if the approval or denial process of the donor is time-consuming.

Positive examples and best practices
- The Common Humanitarian Fund (CHF) in one country allowed a UNO to use unspent balances for similar activities and made the revision of proposals simple and straightforward.
- Some donors such as Switzerland and the Netherlands have demonstrated flexibility with unspent balances and have agreed for unspent balances to be re-allocated to other activities and/or countries.

- Upon request, Canada has accepted to re-programme unspent balances to similar activities (e.g. regional offices).
- Upon request, Germany has accepted to extend by two months deadlines for the use of funds.
- One UNO reported that USAID regularly accepts a 3-month no-cost extension for funds granted under its annual funding agreement.

Recommendations

- Significantly increase un-earmarked funding.
- Build in much greater flexibility to earmarked funds to enable reallocation of funds in the case of changing needs and to enable no-cost extensions.
- Minimize numbers of disbursements to one or two depending on the project's lifespan, particularly during rapid onset emergencies.
- Ensure fast-track disbursements for humanitarian projects, or at least organizations that may not have pre-financing options.
- Extend pre-financing options to recipient organizations at large.
- Establish administrative procedures for end-of-year funding allocations (including flexibility on the eligibility of expenditure) that will allow the humanitarian organization sufficient time and flexibility to implement.
- Involve partners in mutually satisfactory exchanges to improve understanding and inform of any updating of contractual rules and regulations.
- To the extent possible, allow flexibility in the reallocation of funding to similar activities or geographic areas.
- Avoid the conditionality of financial disbursements on one humanitarian project to the performance of another project with a different context and timeframe.
- Establish fast-track processing of no-cost extension requests in humanitarian situations.

2.2. Earmarking

Definition:

Earmarking was defined as any condition applied by a donor to restrict a contribution or part of a contribution to a specific project activity/purpose and/or geographic area.

Implications for recipients

Un-earmarked funding in principle allows organizations to internally allocate funding to urgent life-saving activities in countries that are critically underfunded and receive little donor support or media attention. While some donors provide un-earmarked funds for humanitarian interventions, most humanitarian organizations have indicated that the largest humanitarian donors prefer to earmark their contributions. Moreover, humanitarian organizations report that the trend over the past few years has been for donors to provide less and less un-earmarked (or lightly earmarked) funds.[2]

The low availability of un-earmarked funds is one of the key factors that impedes the speed of response at the onset of a crisis and even rapid disbursement funds, such as CERF, take several days to be released.

Earmarking affects cost effectiveness by inhibiting the equitable distribution of resources – increasing the risk of over/under funding certain beneficiary groups and influencing programme decisions. The earmarking of contributions prevents humanitarian organizations from reallocating funds to programme areas where greater needs may exist. In one example, a donor not only earmarked funding to a sector but also requested that a percentage of transportation costs be used for a specific type of transport (e.g. river boats).

Earmarking limits the efficiency and effectiveness of the use of funds. Even organizations that are able to access internal 'pre-financing' or 'lending' facilities spend considerable amounts of time in aligning received earmarked funds to expended corporate resources that were based on forecasted revenues. If revenues are tightly earmarked or provided as a commodity, the advance cannot be (fully) repaid, a situation that in turn creates shortfalls and surpluses at the activity level. Furthermore, the experience of humanitarian organizations shows that the allocation of a large contribution to a single project results in under-spending of other donors' grants that may be more flexible.

Earmarking is also at odds with programme and needs-based budgets, because it requires frequent revisions to accommodate donor preferences. The significant investment involved in

---

[2] It should be noted however, that one UNO indicated the reduced availability of un-earmarked funds has not affected their speed of response.

results-based and needs-based budgeting with the participation of donors and beneficiaries will be undermined by such revisions to accommodate earmarked contributions from donors.

When compared with single-donor earmarked projects, pooled funds are generally thought to be more efficient, as well as more conducive to best practices, such as enhanced engagement of stakeholders, better coordinated planning processes and identification of response gaps. However, one UNO noted that reconciling large-scale UN operations with the project funding model of pooled funds remains challenging.

Positive examples and best practices
- UNOs noted that several donors, including Australia, Canada, Estonia, Finland, Kuwait, Norway, Republic of Korea, and Thailand provide lightly earmarked or un-earmarked contributions. This allows for the quick reallocation of funds to match evolving needs or compensate for other funding that is tightly earmarked. For example, in Syria where the security situation and needs of beneficiaries change very frequently and rapidly, un-earmarked (or lightly earmarked) funds have allowed humanitarian organizations to cover emerging needs and fill gaps as they arise, without needing to engage in lengthy negotiations on amending agreements.
- One Gulf donor (Kuwait), for example, provided high quality and flexible funding to a UNO for its humanitarian operations for the Syria crisis. This allowed the UNO to sustain and scale up its humanitarian operations in Syria and across neighbouring countries.
- One UNO noted that contributions to its thematic humanitarian funds by Nordic donors in particular, constituted a best practice as they resulted in less earmarking and a greater flexibility in reporting.
- One UNO also noted that a large donor that usually fully earmarks its contributions, compensates for the earmarking by demonstrating greater flexibility in implementation modalities.

Recommendations
- Make available to humanitarian organizations un-earmarked funding that would allow them to start responding in the first hours of a crisis.
- Consider providing thematic humanitarian funds at appeal/country level and avoid multiple projects for a single emergency operation.

- Facilitate the re-programming of earmarked funds based on the evolving financial needs of projects.

2.3. Reporting

> **Definition:**
> Heavy reporting requirements are defined as excessively frequent, detailed or lengthy compared with standard reporting timelines and templates/formats used by humanitarian organizations.

Implications for recipients

For many humanitarian organizations, the amount of time spent customizing reports to multiple donors' requirements (format, content, variable definitions of categories such as expenditures, varying timeframes and frequencies) is disproportionate. Some donors do not accept standardized or harmonized reports from humanitarian organizations. They may have specific requirements on customized narrative reporting, including photos or captions, or require complex reporting (indicator log-frames) which may need input from multiple staff across different agencies. Conversely, other donors may have reporting requirements that are not clearly specified and are thus difficult to anticipate.

One large donor was cited as being particularly exacting in terms of reporting in remotely managed operations, requiring detailed information on number of monitoring visits, number of staff, type of staff, etc.

Heavy reporting requirements, especially in rapid onset emergencies, can generate unnecessary transaction costs, absorbing human and other resources that could be better spent on implementation. For example, WHO has submitted more than 300 reports (a variety of narrative and financial reports) to donors since the beginning of the Syria humanitarian crisis..

Positive examples and best practices
- A number of donors have agreed to common reporting requirements and accept general reports (e.g. UNHCR Global Report, WFP Standard Project Reports, OCHA Annual Report, WHO Syria Quarterly Donor Updates), eliminating the need for separate donor reports.

- One UNO reported that Sweden accepted reports produced for another donor for jointly financed projects.

- OFDA and BPRM are good examples of straightforward reporting requirements. Additionally these two donors have a sliding scale of reporting requirements based on a partner's 'risk rating' which can be reviewed and adjusted on an annual basis.

- According to a VOICE Study on Humanitarian Aid[3], the majority of French and Czech NGOs stressed how simple their governments' administrative requirements were.

- Some organizations noted ECHO's efforts to decrease its reporting requirements on partners, only requiring a final report for actions shorter than 9 months, thus abolishing interim reports. In another positive example, ECHO encouraged a UNO to develop a single annual log-frame for one country, to be shared with different donors, and allowed the UNO to show mutual complementarity in the achievement of specific objectives.

- Humanitarian organizations also noted a positive step towards donor harmonization made by Belgium, which is the first European Union Member State to adopt the use of ECHO project application and reporting formats. Humanitarian organizations appreciate the improved predictability and reduction in transaction costs this harmonization entails, though for some, concerns remain with respect to the relatively onerous requirements of the ECHO single form.

- SIDA reporting requirements were also noted as a best practice as they involve interim reports only for projects longer than 12 months in duration, with financials only required for the project completion report (due 6 months after the project's conclusion for some organizations, or 18 months for final certified statements of some UNOs).

- A number of UNOs and NGOs valued their Humanitarian Partnership Framework (HPF) with Denmark as a best practice due to its flexible and standard conditions on reporting and audit. These conditions are aligned with their rules, policies and timetables which increases the efficiency of the response. However, some NGOs regret that HPF are limited to a restricted number of organizations.

Recommendations:
- Use standard reporting templates developed by agencies as much as possible (tailored to the specificities and strengths of each agency).
- Donors to harmonize definitions on what constitutes an 'expenditure'.

---

[3] 'The European Consensus on Humanitarian Aid – An NGO perspective', VOICE, May 2014

- Commit to a concrete programme of reporting harmonization when the use of agency standard reports is not possible. This includes harmonizing formats, timeframes (e.g. 18 months post grant expiry for some UNOs) and frequency (e.g. quarterly for consolidated, joint reports; or at most 6 to 12-monthly in cases where individualized reports are needed) of reporting, particularly when programmes are co-financed. Humanitarian organizations should be closely consulted during negotiations on optimal reporting formats and frequency.
- Adapt reporting requirements to the context and length of programs. Adapt the amount of administrative work (lighter, streamlined) for short-term and smaller grants.
- Consider alternative kinds of reporting, where appropriate (e.g. more verbal updates, field visits, joint review meetings, etc.)

3. Risk management approaches

Definition:

Donor conditions related to risk management were defined by recipient organizations as requirements by donors to undertake actions to reduce the risk involved in managing funds. These comprise the following areas:

- General risk management
- Due diligence[4] and auditing
- Counter terrorism
- Anti-corruption

Implications for recipients:

Humanitarian organizations fully recognize the rationale and benefits of constructively engaging in risk management measures. However, in many cases risk management pushes organizations towards a more risk-averse mode of operation rather than one governed by needs on the ground. Exigent risk management approaches will mean that organizations, in order to be compliant, will lengthen 'clearance' processes with the donor and will delay implementation on the ground.

---

[4] For NGOs this term is often associated with compliance with donor anti-terrorism policies.

Furthermore, some requirements from donors with regard to risk management (e.g. providing quarterly updates of risk management plans based on performance information assessment) place undue burden on recipients.

Finally, humanitarian organizations have observed that delivery of humanitarian assistance in high-risk environments often entails higher operating costs which are not always willingly covered by donors and often cannot be subsidized by regular resources.

Recommendations:
- Donors should accept the recovery of direct costs in high-risk environments in accordance with approved cost recovery policies.
- Donors should approve risk reserves which will allow organizations to set off possible financial losses in high-risk environments when needed.

3.1. Auditing requirements

Auditing requirements typically affect NGOs more than UNOs, as UNOs apply (and donors generally accept) the single-audit principle, which does not hold true for many NGOs. Increasing audit and compliance requirements require more headquarters and field resources, including significant financial costs and diverting staff attention from field implementation. This is further exacerbated by the multiplication and variation of compliance requirements amongst donors (e.g. different procurement rules for different donors) and can result in multiple audits. In addition, auditors may have insufficient and inconsistent knowledge about how a particular organization, or the humanitarian sector as a whole, works, resulting in inadequate or duplicative recommendations and an increase in transaction costs.

Recommendations
- Given that member state donors represented on the executive boards of UNOs, and these bodies establish accountability requirements, all donors should accept the single-audit principle for UNOs, without imposing additional requirements for financial accountability. Other (non-executive board member) contributing donors are also strongly encouraged to support the single audit principle.

- For NGOs, donors should encourage the use of one audit firm per donor for all (or the majority of) audits.
- Donors should commit to share planning, methodologies and, when relevant, findings of audit exercises, in order to reduce the overall number of audits. Existing audit exercises could be used as learning opportunities. Assurances should be accepted at the level of organizations and not requested at the level of funding provided by donors.
- Donors to reduce the number of audits and adjust audit scope based on an organization's previous audit results (e.g. fewer and less frequent audits for NGOs that have already shown good financial and procurement management).

3.2. Due diligence

Due diligence processes carried out by donors comprise various assessments, reviews, verifications or other types of checks that are typically carried out at country-level and usually complement organization-wide due diligence activities that may have already been undertaken at headquarters level.

For more established organizations, due diligence processes are usually already completed in 'high-frequency' countries with a larger number of projects. They are therefore more likely to adversely affect organizations in countries where sudden onset crises occur with little prior experience, and may put at a disadvantage local NGOs that may have strong local knowledge but little international exposure.

Partner capacity assessment requirements are seldom harmonised among different donors and can impose a burden that is disproportionate to the amount of funding that is being allocated. NGOs are particularly affected by due diligence requirements, in part because donors or UNOs often carry out similar capacity assessments, compliance verifications and audits of the same NGOs, creating duplication and draining resources.

The imposition of complex due diligence processes can significantly affect and delay (4-6 weeks) the implementation of humanitarian operations and exclude otherwise important partners due to the amount of time and resources needed to complete them.

Due diligence processes are closely linked with other conditions. For example, a high-risk rating can have repercussions on an organization's reporting requirements, therefore placing a greater burden on those with less capacity.

Finally, because of their prevalence, due diligence processes can drive agencies to place greater focus on financial accountability rather than programmatic quality.

Positive examples and best practices
- The Financial Enablers initiative, a pilot Pooled Fund for national NGOs funded by DFID under the START network, applies a light-touch due diligence stakeholder and partnership mapping exercise in order to stimulate humanitarian collaboration among national actors. A national consortium will shortly be set up to define the application and selection process to receive funding to support humanitarian capacity development.
- Some UNOs (e.g. UNICEF, UNFPA and UNHCR) issue calls for proposals without a substantial pre-qualification process, beyond registration and legal verification. Instead, the specific assessment criteria of the partner are defined for the individual call in question and are integrated into one overall assessment.
- UNICEF, UNFPA and OCHA staff have highlighted that they regularly refer to other assessments to inform their own assessment process.
- UNICEF and UNFPA provide small-scale capacity-building support to national NGOs considered not yet fully capable of qualifying as long-term partners. Many international NGOs providing grants to national NGOs generally recognize the need, and provide funding, for organizational capacity developmental support.
- Most UNOs clearly define project and programme risk analysis and the mitigation measures required by partners.

Recommendations
- Harmonize requirements on due diligence processes. This should include donors agreeing to use each other's processes and materials where relevant and possible (e.g. using ECHO's Pillar Assessments, MOPAN evaluations).
- Fast-track or curtail due diligence checks in situations of extreme humanitarian need.

- Ensure better-coordinated, more accessible and transparent (Partner Capacity Assessment - PCA) processes reflecting the principle of proportionality[5].

- Encourage donors to centralize due diligence processes that can be periodically renewed (e.g. every three years); and in case of requirements for local due diligence processes, ensure they are standardized, evenly applied, predictable, with sufficient lead time for partners to prepare and comply.

- Graduate due diligence requirements and criteria according to capacity (e.g. due diligence processes for small local NGOs should be less exigent than those for large UNOs) and make greater use of proxy.

3.3. Counter-terrorism measures

As both humanitarian action and counter-terrorism seek the protection of civilian populations from harm, humanitarian organizations fully respect that states have legitimate security concerns and that donor agencies need to observe national and international counter-terrorism laws, as well as international laws and principles governing humanitarian action. While humanitarian organizations acknowledge the legitimate security concerns of states, they are of the opinion that efforts to address these should be in compliance with International Humanitarian Law (IHL) and the humanitarian imperative, and also take into account potential impact on partners. Counter-terrorism measures can be in tension with humanitarian principles and present humanitarian actors with dilemmas. Challenging counter-terrorism conditions described by organizations include requests by donors to exclude certain implementing organizations or beneficiary groups from projects; lengthy reviews by the recipient' legal department; and requirements to apply partner and in some cases beneficiary vetting/screening processes against the UN Security Council Sanctions List and/or national government lists of proscribed actors.

Examples of challenging counter-terrorism measures are selective targeting and vetting/screening processes. In particular, donor assistance targeted to specific areas under the control of parties to a conflict, or donor requests to vet lists of beneficiaries, can risk strengthening perceptions of humanitarian bias, foster perceptions of partiality and reduce trust,

---

[5] Recommendations from ICVA Partner Capacity Assessment of Humanitarian NGO study, https://icvanetwork.org/system/files/versions/150610_Partner_Capacity_Assessment_0.pdf

which may in turn have a negative impact on access and staff safety. Furthermore, these measures reduce the ability of humanitarian actors to respond on the basis of needs, make reaching areas in need more difficult, and can ultimately limit the ability of humanitarian organization to operate safely.

Challenging counter-terrorism conditions described by organizations also include lengthy reviews by the recipient's legal department. Many counter terrorism clauses recently introduced by donors are the result of a transfer from donor agencies of risk posed by newly introduced counter-terrorism legislation. This manifests itself in requests from the donor to vet potential partners and recipients of aid according to either generally accepted lists (e.g. Consolidated United Nations Security Council Sanctions List[6]) or specific national terrorist lists, or to exclude certain implementing organizations or beneficiary groups from projects. Consequently, recipient organizations may become more conservative in their choice of partners, which is particularly an issue in countries in the Middle East experiencing major humanitarian crises (e.g. Iraq, Syria, Yemen, etc.).

Financial restrictions whose goal is to reduce the risk of inadvertently supporting proscribed groups or actors can have major implications for a needs-based response. In one recent example, a UNO had a portion of assigned pledge withheld by a large donor government due to suspicion of activities in countries where foreign assistance was prohibited by the donor's legislation. While the UNO in question provided financial proof that no funds were used in such a way, an amount of the grant was nevertheless ultimately reprogrammed. Counter terrorism conditions can also affect the ability of pooled funds to prioritise on the basis of assessed needs when donors impose conditions on their contributions to pooled funds (i.e. to guarantee that no funding will end up benefitting organizations listed or defined as terrorist).

---

[6] Includes but is not limited to the persons and entities included in the list maintained pursuant to Security Council resolution 1267 (1999) and 1989 (2011) concerning Al-Qaida, or in the United Nations list of vendors.

Recommendations

- Ensure that existing and future counter terrorism measures are compatible with International Humanitarian Law (IHL), International Human Rights Law (IHRL), International Refugee Law (IRL) and humanitarian principles.
- Donors should rely on the UN Consolidated Sanctions List.
- Donors should take steps to ensure that counter terrorism measures do not undermine the role played by national and local humanitarian actors and take into account the specificities of individual interventions and situations.
- Adopt clauses exempting humanitarian actors from compliance with measures impeding principled humanitarian action.
- Refrain from policies that inhibit humanitarian actors' engagement with armed groups, including those designated as terrorist, controlling territory or access to affected populations.
- Engage in sustained and open policy dialogue between and across the IASC community and UN Member States to better reconcile counter terrorism measures and principled humanitarian action.

3.4. Anti-corruption

New anti-corruption requirements imposed by donors have transferred risk to the recipient. Anti-corruption measures can be very difficult to put in place in countries with weak governance systems, insufficient human resource capacity in governmental institutions and access issues, such as geographically remote areas, security concerns and/or logistical challenges.

Positive examples and best practices

- Most UNOs have agreements with donors stipulating the need to take necessary precautions to avoid corrupt practices.

Recommendations

- Anti-corruption and anti-fraud measures that are put in place for donors should be adapted to specific contexts and take into account risk management assessments.

4. Predictability

Definition:

Limited predictability was identified by recipient organizations as limited visibility and uncertainty around the likelihood and/or timing of funding contributions. In particular, the lack of multi-year funding hinders the development of resilience and government capacity-building programmes

Implications for recipients

For voluntarily funded organizations, predictable funding is essential to operate more efficiently and effectively. Multi-year funding agreements facilitate the planning process and enable strategic advance actions such as prepositioning of food/inputs and increased focus on prioritization of activities as well improved outcomes especially for health and education sectors.

Limited predictability prevents effective planning, leading to a short-term programming focus, start-stop operations with sub-optimal execution, and higher transaction costs. Unpredictable funding contributes to reduced cost efficiency in a number of areas.

Limited predictability has been particularly observed in protracted crises such as Iraq, Somalia, DRC, CAR and South Sudan, even though they are specifically in need of longer-term predictable support and require treatment that is different from sudden onset emergencies[7]. One UNO's operation for CAR for example, was funded at 80% in 2014, whilst as of July 2015, funding for 2015 was at 8%.

Lack of predictability negatively affects partner agreements and staffing in particular, often resulting in organizations having to lay off staff and curtail or cancel partner agreements. Furthermore, short-term humanitarian funding makes it difficult for humanitarian organizations to attract, hire and retain the most qualified staff with highly specialized backgrounds. Low predictability disproportionately affects humanitarian organizations that have a higher degree of service provision in their operations and thus rely on staff to a greater degree (as opposed to those that focus on goods provision).

---

[7] See recommendation from WHS paper.

Limited predictability increases financial exposure of agencies using internal advance facilities as they have to put in place risk mitigating actions (i.e. dealing with cases where anticipated income doesn't materialize or materializes later than expected). As a result of the lack of predictability, significant resources are spent preparing appeals, revising plans, re-calculating budgets, and securing new funding on a yearly basis, even though the situation may require a multi-year approach. Limited predictability can also affect the ability of organizations to attract more diversified funding. For example, a very large donor contribution for one country appeal in 2015 was delayed for several months. The lack of certainty meant that other donors did not step forward to provide funding for several months while negotiations were taking place on disbursement and other modalities. In the meantime, UNOs were not able to provide assistance.

Recent fluctuations and volatility in exchange rates have had negative effects on the predictability of levels of funding received by humanitarian organizations.

Finally, limited predictability and short-term funding makes it more difficult for humanitarian organizations to adopt a longer-term approach, including in planning and allocating funding for different phases of an emergency (preparedness, acute response and early recovery). It also affects the ability of organizations to bridge the humanitarian-development divide and shift their focus to national implementation and capacity development, which require longer-term funding.

Positive examples and best practices
- The UK multiyear agreement for a UNO voucher project allowed the rapid scale up of emergency vouchers. The predictability of funding also enabled the UNO to improve the voucher system over the years by shifting from paper to electronic vouchers, enhance accountability and scalability and support other humanitarian actors with non-food interventions. In addition, it provided the ground to launch an innovative partnership for preparedness with another UNO, strengthening the voucher platform to ensure food, water and NFIs could be distributed through the same electronic card.
- Generous multi-year contributions under a Strategic Partnership Agreement with Australia in Bangladesh, Bhutan, Cambodia, Myanmar and Lao PDR enabled one UNO to be a strong partner of choice for local and national governments, fellow UN agencies and NGOs. Predictable and stable funding meant that the UNO could be a credible and reliable partner in the education sector, as the agency was able to plan forward and build

credibility with national governments in all five countries. Steady funding meant more than uninterrupted assistance, it enabled the UNO to make long-term commitments to national governments in the formulation of their country priorities.

- In DRC, Germany started to provide multi-year (3 year) predictable humanitarian funding for a UNO project to strengthen the Health Cluster.

Recommendations

- Donors are strongly encouraged to provide predictable multi-year humanitarian funding.
- Emerging donors in particular are encouraged to produce steady and predictable humanitarian funding from year to year and avoid large fluctuations in volumes.
- Donors are strongly discouraged from cancelling already made multi-year commitments.
- Donors are encouraged to consider measures which will protect the predictability of levels of humanitarian funding due to the volatility/fluctuations in exchange rates.

5. Disclosure

Definition:
Disclosure/transparency conditions were defined by recipient organizations as donor requests to disclose agreements, financial details and other contents that could be inappropriate for reasons of confidentiality, or that could jeopardize the safety and security of individuals, or run the risk of violating the due process rights of individuals.

Implications for recipients

While humanitarian organizations are firmly committed to transparency, certain requirements can pose challenges in humanitarian context and be ultimately detrimental to the conduct of humanitarian operations, in particular, exposing implementing partners and staff to increased risk.

Recommendations

- Donors allow that under certain situations, humanitarian organizations may not be able to fully disclose information (e.g. project proposals and agreements, or names of implementing partners whose security may be compromised if made public).

ANNEX 1

Acronyms

BPRM	Bureau of Population, Refugees and Migration
CAR	Central African Republic
CERF	Central Emergency Response Fund
CHF	Common Humanitarian Fund
DFID	Department for International Development
DRC	Democratic Republic of Congo
ECHO	European Commission's Humanitarian Aid and Civil Protection Department
GHD	Good Humanitarian Donorship
HFTT	Humanitarian Financing Task Team
HPF	Humanitarian Partnership Framework
IASC	Inter-Agency Standing Committee
IHL	International Humanitarian Law
IHRL	International Human Rights Law