**Grand Bargain Workstream on Reducing Earmarking: Issues for Discussion**

The Grand Bargain dialogue provides an important opportunity for donors to articulate transparently the challenges and disincentives they face in meeting their policy commitments to provide more flexible un-earmarked funding, and to look for mutually satisfactory solutions with their partners, which will help them to navigate these tensions. Sweden and the ICRC, as co-convenors for this workstream, conducted two surveys with donors and humanitarian agencies that have signed up to the Grand Bargain. The accompanying discussion paper presents the key findings from the surveys, which have highlighted a number of issues that require further debate in order to identify potential solutions and concrete ways forward. These are outlined below, organised under the commitments made for this workstream.

|  |
| --- |
| “Progressively reduce the earmarking of their humanitarian contributions. The aim is to aspire to achieve a global target of 30 per cent of humanitarian contributions that is non-earmarked or softly earmarked by 2020.” *The Grand Bargain commitment provided definitions of different levels of flexible funding, from un-earmarked to tightly earmarked funding and colour-coded from green to red. While discussions have tended to focus on the ‘green’ un-earmarked funding category, this only applies to UN and international organisations, not NGOs. There are also different interpretations of what counts as flexible and where flexibility occurs in the funding chain. Therefore, in addition to the ‘green-zone’ it is important to examine ways to increase levels of soft earmarking and progress away from tightly earmarked funds.*  |
| * Grand Bargain signatories need to clarify and agree on the purpose and characteristics of the proposed different types of flexible funding and where the benefits of flexibility are felt. For example, does flexibility support the rational allocation of funds across crises and time and/or does flexibility enable fund recipients to fill gaps in operational and organisational costs?
* Once there is agreement on the properties of flexible funding and who benefits from this, what actions and targets on flexible funding types outside of the ‘green zone’ do we need to prioritise and sequence? For example, making flexible contributions to programme-budgets at the country-level, building adaptive terms (such as crisis-modifiers) into grant agreements, and establishing framework agreements with INGOs.
* How critical is the target of 30% (what if we are already at or near the target?)? And does the target match with the priorities on when and where flexible funding adds value (for example, does including funding to the CERF in the target on un-earmarked funding give the system the flexibility that it needs to respond effectively)?
 |
| “Reduce the degree of earmarking of funds contributed by governments and regional groups who currently provide low levels of flexible finance. Aid organisations in turn commit to do the same with their funding when channelling it through partners.” *Some donors are concerned about fair burden sharing in achieving the 30% target. There is a risk that, as donors face growing pressures to demonstrate results and visibility, some will continue or even increase earmarking. In this scenario, more principled and flexible donors will be left to shoulder the burden of covering administrative and other less ‘attractive’ costs.* *Also while donors provide un-earmarked funding to pooled funds and UN agencies, they expect these recipients to use the funds accountably. This leads to (often tight) earmarking. Therefore, signatories need to consider the implications of this commitment carefully.*  |
| * How can donors target their efforts along the spectrum of flexible financing and who should focus on what, in order to achieve rational burden-sharing in providing flexible financing?
* Is it practical and desirable to ask funding recipients to provide flexible funding to their partners?
* In what ways can we achieve greater flexibility for implementing partners?
 |
| “Be transparent and regularly share information with donors outlining the criteria for how core and un-earmarked funding is allocated (for example, urgent needs, emergency preparedness, forgotten contexts, improved management).” *Despite improvements in the tools and content of reporting on results and the ways in which recipients provided visibility for donor contributions, feedback from donors indicate that these efforts only go so far in building trust* *and do not yet fully address their needs and requirements. Evidence of the results achieved on the ground with un-earmarked funding and how un-earmarked funding is more cost-effective would help donors to make the case to political decision-makers to continue prioritising un-earmarked funding. Thematic funds and windows with a clearer link between contributions and results also appear to help build confidence.* *An open dialogue on what exactly donors need and what recipients are currently doing well will help to advance practical solutions.*  |
| * What are donors’ real concerns about the use of un-earmarked funding? What evidence (of results, use of funds) do they require most critically?
* In what ways can recipient organisations provide evidence and analysis to demonstrate that they are using funds efficiently that work for them and donors?
* To what extent, and in what timeframe, will commitments to increase transparency through the upgraded FTS and IATI meet donor information requirements?
* How can recipient organisations integrate donor information requirements into the reviews/ revisions of their management and reporting systems?
* Are there opportunities to invest in the evidence base on the efficiency and effectiveness gains of flexible funding? Could this be linked to commitments on multi-year financing?
 |
| “Increase the visibility of un-earmarked and softly earmarked funding, thereby recognising the contribution made by donors.” |
| * What are the most critical visibility requirements of donors? What approaches to providing visibility work for both donors and recipients?
 |
| “Jointly determine, on an annual basis, the most effective and efficient way of reporting on un-earmarked and softly earmarked funding and to initiate this reporting by the end of 2017.” *What is possible to report will depend on the outcomes of discussions about what counts as flexible funding.* |
| * Core contributions to the UN and contributions to the CERF can already be captured in OECD DAC, OCHA FTS and CERF data. How far do signatories want to go beyond this into reporting on softly earmarked funding?
* Currently, the proposed categories of flexible financing (between the ‘green’ and ‘red’ zones) do not map onto recipient organisations’ internal reporting. If agencies and donors are to report directly on other categories of flexible financing, what definitions do they need to use and what do they need to prioritise?
* Are there other ways to capture progress on the provision of flexible funding? Who could report this data and provide analysis and where would this be scrutinised?
* Would it be useful to have a forum for dialogue on qualitative issues alongside data analysis?
 |

***Additional questions:***

* There is some evidence that recipients use core contributions for routine costs. This workstream should perhaps move from considering whether flexible funding can help recipient organisations to make efficiency savings to considering whether current funding arrangements cover costs in a fair and rational way. This issue also raises critical questions for the Grand Bargain workstream on reducing management costs.
* The agency survey highlights that, sometimes, the ways in which recipient organisations request funding (e.g., country level appeals) leads to greater earmarking. What actions can recipients take to reduce donor earmarking?