**Grand Bargain Workstream on**

**Reducing Earmarking**

**Background Paper for Workshop**

**Geneva, 29th May 2017**

**Co-conveners: Sweden and ICRC**

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**Introduction**

This paper summarises inputs from two surveys conducted by the workstream co-convenors Sweden and ICRC of donors and humanitarian agencies that have signed the Grand Bargain. Its aim is to synthesise the issues, concerns and positions of respondents, and to present issues that require further discussion, clarity and consensus. The workshop in Geneva on 29th May is an opportunity for participants to identify ways forward on these issues.

13 of the 22 donor signatories to the Grand Bargain responded to the survey. These were Australia, Canada, ECHO, Finland, Italy, the Netherlands, Norway, Slovenia, Spain, Sweden, Switzerland, the UK, and the US. This paper also reflects the input of ICRC, six UN agencies (UNFPA, UNHCR, FAO, OCHA, UNICEF and WHO) and one NGO (Christian Aid) to the survey of humanitarian agencies. While this represents a good spread of opinions, the following analysis should be read with the qualification that a limited number of agency perspectives (particularly those of NGOs) are included at this stage.

This paper starts by discussing the need for partners involved in the workstream on reducing earmarking to agree on the purpose and advantages of flexible financing. It incorporates findings from the survey of agencies into discussions of specific issues while a table analyses the responses to the donor survey, grouping them into key themes. The paper concludes by highlighting the need to take account of links between this workstream and the other Grand Bargain commitments. Annex 1 lists other Grand Bargain commitments and the opportunities and risks that these pose for the workstream and commitments on reducing earmarking.

1. ***Mutual agreement on the properties and purpose of flexible financing***

The problem statement underpinning the Grand Bargain commitments on flexible funding suggests a wide range of benefits of un-earmarked funding, including enabling more rapid response; supporting response in challenging environments and neglected crises; increasing investments in disaster preparedness; strengthened decision making bodies (of both affected states and donors); strengthened management systems; the use of more cost-efficient tools; and a more cost-efficient grant administration process (see Annex 1). In addition to this wide array of potential advantages, the Grand Bargain acknowledges that donors provide varying degrees of flexibility. Thus, the Grand Bargain adds different dimensions to the collective understanding of what constitutes flexible financing and its benefits.

Based on the feedback gathered from donors, it appears that there are varying views about the purpose, benefits and rationale for flexible funding. In particular, the emphasis on criteria and justifications for allocating funding to particular (under-funded) crises indicates that many donors understand flexible financing as being a resource primarily intended to be allocated towards crisis response. However, some donors see that flexible funding offers other benefits. One donor expressed strongly that, for them, the rationale for core funding was to invest in the standing response capacity and global reach of partners.

Responses to the agency survey show that flexible funding enables agencies to do a wide range of things, including to:

* Respond quickly to emergency situations before other funding arrives,
* Pre-position stocks in strategic locations,
* Deploy technical experts to support country office responses to emergencies,
* Fill gaps due to insufficient levels of earmarked funding including providing continuity of funding in protracted crises and funding under-funded crises,
* Better integrate humanitarian and development funding by bridging emergency interventions and longer-term investments,
* Fund global programmes, such as for partnerships, preparedness and policy development,
* Identify innovative solutions to complex problems,
* Enable a reduction in grant-management and fundraising transaction costs,
* Compensate for shortfalls in core costs left by earmarked contributions.

These different views and uses of flexible funding highlight the need for greater clarity about its purpose and benefits. Sweden’s 2016 non-paper on the value of flexibility in humanitarian financing provides a concise summary of commonly identified characteristics and comparative advantages of flexible funding:

1. It provides organisations with the flexibility to respond rapidly to the most pressing humanitarian needs;
2. It provides organisations with the long-term stability to manage programmes and administration effectively; and
3. It ensures multilateral organisations are resourced to implement the strategic plans, objectives and priorities that have been democratically determined in relevant governance structures. This includes the capacity for principled humanitarian action.

Sweden’s definition is consistent with the practical benefits of flexible financing described by recipient organisations. However, it reflects a more traditional and narrower understanding of flexible funding centred on core contributions. The Grand Bargain considerably expands this definition by identifying different degrees of flexibility that may offer *some* but not all of the benefits envisaged in Sweden’s more classic definition. For instance (and as noted below) inclusion of the CERF in the category of un-earmarked funding is controversial since it may be un-earmarked from the perspective of the donor only, it may contribute to efficient and timely allocation of funds to crises at the global-level, but it does not provide benefits (b) and (c) to recipient organisations.

This paper recommends that signatories should unpack their understandings and expectations of the purpose and characteristics of flexible financing in order to define and agree on the theoretical and desired advantages across different degrees of flexibility and different modalities. It may be advisable to differentiate the types of financing according to the nature of the benefits that they offer. In particular, it is important to distinguish between whether flexibility gains are derived at the global or country level, and differentiate between whether benefits accrue at the crisis-level or to recipient organisations. Reaching clarity on the characteristics and purpose of different modes of flexible financing will help signatories to focus on specific policy actions and incentives to increase flexibility, and to identify mutually agreed and realistic expectations.

1. **Identification of issues of concern to donors**

Increasing the flexibility of humanitarian financing has long been a high-level policy priority and was formally asserted as an element of good policy and practice in the 2003 Good Humanitarian Donorship principles:

“GHD 13: While stressing the importance of transparent and strategic priority-setting and financial planning by implementing organisations, **explore the possibility of reducing, or enhancing the flexibility of, earmarking**, and of introducing longer-term funding arrangements.” (emphasis added)

Yet in the period following the agreement of the 2003 GHD principles, overall, multilateral ODA from donors reporting to the OECD DAC has decreased dramatically, from 74% of total humanitarian contributions to leading humanitarian multilateral organisations (UNHCR, UNRWA, WFP and UNICEF) in 2004, to just 12% of the total in 2014.[[1]](#footnote-1) This trend towards a proportional reduction in core multilateral contributions, during a period of growth in bilateral ODA to multilateral organisations, is consistent with the global trend in total ODA contributions (i.e. including both development and humanitarian funds) to multilateral organisations (Totora & Steensen, 2014).

The agencies that responded to the survey had seen this global trend reflected in their funding. For example, while UNICEF’s total funding had increased by USD 843 million, from USD 2.1 billion in 2012 to USD 2.95 billion in 2015, most of this increase was in tightly earmarked funding (while un-earmarked funding had decreased slightly from USD 1.28 billion to USD 1.17 billion). Similarly, un-earmarked funding as a share of UNHCR’s total funding decreased from 20% in 2012 to 14% in 2016 while earmarked funding increased from being 20% of UNHCR’s funding in 2012 to comprising 43% of its funding in 2016. For OCHA, un-earmarked funding has fallen from being 51% of its total income in 2012 to being 39% of total income in 2016. Most respondents mentioned that an increase in country or crisis-specific appeals might have encouraged donors to increase earmarking, thereby countering calls for more flexible funding.

Earmarking is a means by which donors can exert a greater degree of control over the allocation of funds and get greater visibility for their contributions.[[2]](#footnote-2) Donors and major recipients of core un-earmarked funding contributions mutually agreed to waive project-level reporting requirements and to accept a general annual narrative and financial report in the interests of efficiency. Therefore in choosing not to earmark, not only do donors cede control and visibility, they also agree to cede “line of sight” accounting for their individual contributions. The extent to which donors are willing and able to cede control and visibility depends on both the level of trust that they have in their partners to spend funds efficiency and effectively, and on the extent to which they are required to account for results and demonstrate how their contributions have been used. The popularity of earmarking therefore tends to shift in response to wider political factors and the changing nature of relationships between donors and their partners.

Currently, many donors face increased domestic pressure to justify their aid expenditures. In reality, for a number of donors, it is a challenge to protect existing levels of flexible financing and even more challenging to try to identify opportunities to scale-up un-earmarked funding. The Grand Bargain dialogue therefore 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.

***Issue area 1: Accounting for results, visibility and transparent decision-making***

Table 1 below presents a consolidated summary of donor issues highlighted in the responses to the survey. These focus mainly on three areas - accounting for results, visibility and transparent decision-making on the use of un-earmarked funds. More specifically, donors are concerned about difficulties in accounting for results in a timely and granular manner; the need to have some visibility or recognition for their un-earmarked contributions; and a range of questions and concerns around how un-earmarked funds are allocated. These challenges and the beginnings of practical solutions are already anticipated and reflected in the following Grand Bargain commitments:

* 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.
* 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)
* Increase the visibility of un-earmarked and softly earmarked funding, thereby recognising the contribution made by donors.

Recognising that donors need some visibility and recognition for their un-earmarked funding, agencies have begun developing different ways to provide this. Those responding to the agency survey noted that they publish the list of donors providing un-earmarked funding on their websites, highlight un-earmarked contributions in annual/global reports, produce an annual report on the use of un-earmarked funding and highlight the un-earmarked contributions of donors in publicity materials, official statements and social media communications.

Responses to the survey show that some agencies have also sought to ensure that donors trust them to make the right decisions about the use of un-earmarked funds by developing methodologies for the allocation of these funds. For example, UNICEF has the Allocation of Thematic Funding Guidelines to provide guidance on process, priorities, as well as floors and ceilings for the allocation of its softly earmarked Global Thematic Funding. The Allocations Advisory Committee makes recommendations for the allocation of Global Thematic Funding while the Deputy Executive Directors and UNICEF Executive Director make the decisions.[[3]](#footnote-3) In addition, several donors cited WFP as a good practice example of an agency that gives visibility to donors that contribute un-earmarked funding and is transparent about its decision-making processes for the use of un-earmarked funds. This is illustrated in Box 1 below.

Box : Good practice example: WFP’s responses to donor requests for visibility and transparency

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| ***Visibility***: WFP lists donors providing un-earmarked/multilateral funding together with their contributions separately from other donors on its website. WFP also uses social media to make multilateral contributions more visible and communicate the results achieved. Its online platforms and social media outreach (website, Facebook pages and Twitter accounts) provide regular visibility for the strategic role that multilateral funds are playing in achieving Zero Hunger. Regular information on WFP’s use of un-earmarked funding posted on its website can help donors to demonstrate the value of these contributions to various stakeholders.  ***Transparency***: WFP has a Strategic Resource Allocation Committee (SRAC) that reviews and oversees the prioritisation and allocation of all its multilateral funding. The SRAC Secretariat prioritises the use of multilateral funding according to an established set of quantitative and qualitative criteria. Based on this prioritisation and on a set of guiding principles, the Secretariat suggests possible allocations to the SRAC. The SRAC’s decisions on the use of multilateral funding and contributions to WFP’s Immediate Response Account (IRA) are available on WFP’s website on a monthly basis. WFP also produces an annual report on the use of its multilateral funding that is available to the public on its website. In addition, WFP shares the final list of the allocation of contributions with multilateral donors, if necessary. |

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 do not yet fully address their needs and requirements. Table 1 highlights the links between donor concerns and existing Grand Bargain commitments together with other potential opportunities for solutions.

Table 1: Consolidated donor responses on accounting for results, visibility and decision-making

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| *Theme* | *Issue* | *Commentary* |
| Accounting for results | The ability to account for results is a common area of concern, though to different degrees and with different emphasis.  Donors providing core un-earmarked funding have agreed to accept common reporting, which they acknowledge is an important contribution to efficiency. At the same time however, a number of donors who have historically been strong supporters of core un-earmarked funding are facing increasing domestic political pressure to demonstrate and justify exactly how tax-payer funded contributions have been spent, often in real-time, particularly during high-profile evolving crises. The most frequently cited information need is how much core funding was spent in which crisis. These information needs are not currently supported by general annual reports.  For donors who do not currently provide core un-earmarked funding, or who provide low levels, the current level of information on results would be an obstacle to their ability to convince their parliaments and publics to scale up this type of funding.  For one donor, being able to account for who has been assisted and to receive assurances that funding has not been diverted to objectives outside of the scope of humanitarian assistance would be a precondition for their providing un-earmarked funding. | There are a range of opinions on the extent to which funding recipients should report on specific activities. For some donors this is essential, whereas for others, respecting the commitment to accept a standardised single report is important to balance commitments to reduce reporting burdens.  In reality some donors already request ad hoc reporting over and above standardised annual reports, and recipient organisations also provide additional detailed information on a voluntary basis. There is scope therefore to rationalise these ad hoc requests and to agree some common information requirements.  Respondents suggested improvements in the quality and specific content of existing standard annual reporting, including improved output and outcome-level reporting that would help to “tell the story” of core funding. ICRC annual reports were noted as an example of good practice. Independent evaluations were also noted as useful for enhancing accountability, though it was suggested these should be made more publicly accessible.  Some of the donor concerns expressed here relate to the Grand Bargain commitment to “Enhance the quality of reporting to better capture results, enable learning and increase the efficiency of reporting” under the theme of harmonised/simplified reporting requirements.  Some donors also pointed to the Grand Bargain commitments on transparency as a possible solution to increasing access to information on results and financing flows. |
| Visibility of donor contributions | Visibility is taken to mean public recognition of donor contributions. Visibility is important to many of the donors consulted, but opinions about the level of visibility required vary. Visibility is also related to reporting, which provides the raw material to justify and promote externally what a donor has supported.  Several donors already have visibility clauses requiring acknowledgement of their contributions as part of their contractual requirements. One donor stated that they expect an equivalent level of visibility and impact to be demonstrated for core funding as bilateral contributions. For one donor, opportunities for branding contributions would be necessary to enable them to engage in un-earmarked funding. However, some donors do not seek or require explicit recognition of their contributions.  Several donors noted that it was problematic when actors at country or regional level (including donors’ own embassy staff) were unaware of un-earmarked contributions. In some cases, this led to donors being excluded or deprioritised from meetings, forums and field trips. | WFP’s Model of Accountability for Multilateral Funding was cited as an example of good practice in providing visibility for donors’ un-earmarked funding.  One donor noted that the CERF was very active in providing opportunities to participate in panels and events, and to include direct acknowledgements including quotes from ministers in publications. WFP was noted to respond to requests for information products demonstrating the impact of their contributions.  One donor noted that presentations before their parliament were very useful in providing visibility and building political support for continued flexible financing.  Communicating the source of core contributions down to the country-level is a relatively straight-forward issue to resolve. One donor noted that donors also bear responsibility for ensuring visibility of their un-earmarked contributions, including informing their staff at country-level of their un-earmarked contributions. |
| Transparency in decision-making | It is worth noting that several donors acknowledged that their lack of field-presence meant that delegating prioritisation and decision-making to recipients of flexible financing is one of the key advantages from their perspective. And some donors cautioned that donors should not get involved in the details of the allocation processes or micro-manage partners.  However, most of the donors consulted emphasised the need for greater transparency around the criteria and decision-making processes that agencies use to allocate un-earmarked funding and, in particular, the criteria used to allocate funding to specific crises. Analysis of needs (including the numbers of people affected, the severity of the crisis) and capacities to respond (including domestic capacities, but also the capacities of responding actors and funding availability) were cited as key criteria donors would like to see agreed and communicated in advance, with the rationale for decisions taken referenced against these criteria.  For a couple of donors, increasing the level of un-earmarked funding is clearly related to evidence of funding allocated on the basis of joint and impartial needs assessments. | Several donors noted that progress in Grand Bargain commitments to improve needs assessments, particularly the commitment to increase the number of joint and impartial needs assessments, would contribute to increasing their confidence in partners’ processes for allocating flexible funding.  Progress on the Grand Bargain commitment on the “Traceability of donors’ funding throughout the transaction chain as far as the final responders and, where feasible, affected people” under the theme of transparency would also respond to some of the concerns expressed.  WFP is seen as a good practice example because it is transparent about the share of un-earmarked funds used for field operations vs. management costs and because the Strategic Resource Allocation Committee uses clear criteria to allocate un-earmarked funding.  One donor who is not a member of the CERF Advisory Board would like to have information detailing decision-making in order to build confidence and trust. |

There may be areas where donor expectations around what is feasible for recipient organisations to report could be managed better through dialogue and understanding of recipient organisation systems. In some cases, recipients of flexible funding recycle these funds repeatedly between activities and programmes, advancing funds when gaps arise and returning these funds to the central level when earmarked funds are secured. This is represents one of the optimal uses of flexible funds, but it does mean that results are not straight forward to attribute to these highly fungible funds. Two UN respondents noted that their flexible funds are only assigned to their final cost-centres at the end of the financial year. Reporting on results achieved at another point in the year may be challenging and in fact the same dollar may have contributed to multiple results.

There may also be opportunities to support and factor donor reporting and visibility requirements for flexible funding into organisational efforts to improve their overall management, reporting and transparency. A number of UN agencies and ICRC are already undertaking overhauls and major investments in their internal management tools and systems, often with a view to improving their ability to attribute results to inputs and to report on outcomes. Organisations are in some cases also investing in external facing transparency tools such as the UNICEF Transparency Portal. Dialogue under this Grand Bargain workstream presents a key opportunity to ensure that donor requirements are factored into these new systems and processes.

In addition to the donor issues summarised in Table 1 above, there were a number of donor concerns implicit in the responses to the survey. These are discussed below.

***Issue area 2: Trust, performance and cost-efficiency***

One donor noted that: “*The primary condition for core funding is trust in the organisation; if we do not have it, or not enough, as a rule we will use tighter earmarking*.” For some donors, greater transparency around how funds are allocated and the results achieved would help to build trust. Several donors would simply like more information in order to understand and better make the case for the efficiency and effectiveness gains of flexible financing. In particular, evidence of the results achieved on the ground with un-earmarked funding and how un-earmarked funding is more cost-effective than earmarked funding would help donors to make the case to political decision-makers to continue prioritising un-earmarked funding. One donor noted WFP as an example of good practice in providing information on the percentage of funds allocated to field operations and the percentage allocated to management costs. Though not cited by donors, UNHCR also provides a breakdown of the percentage of un-earmarked funds allocated by region, by global programme and by headquarters costs in its annual report on the uses of un-earmarked funding (UNHCR, 2016).

For other donors, however, the issues run deeper and include questions and concerns around the performance and cost-efficiency of recipient agencies. In short, not all donors currently have confidence in the argument that flexible funding results in efficiency and effectiveness gains. For example, some donors referenced the need to link discussions on flexible financing with commitments to reduce management costs. In the agency survey, one UN organisation noted that its core funding is, in fact, used to cover almost all its indirect costs because these are inadequately covered by earmarked contributions. In effect, un-earmarked funding subsidises earmarked funding. Using un-earmarked contributions to cover routine (perhaps also primarily head-quarters) costs limits their potential to contribute to wider organisational and programmatic gains and confirms concerns expressed by some donors. Reporting and transparency are insufficient to satisfy these donors’ questions and concerns because they seek more robust evidence that core funding results in more effective assistance and enables agencies to reach more people in need. These concerns have already led two donors to introduce performance management frameworks against which they calibrate degrees of flexibility in their funding.[[4]](#footnote-4)

The use of core contributions for routine costs also raises critical questions for the Grand Bargain workstream on reducing management costs. The question for this workstream perhaps should be expanded from examining how flexible funding can lead to efficiency savings to considering whether current funding arrangements cover costs in a fair and rational way.

The donor survey did not pursue the discussion area on cost-efficiency, evidence of performance and building trust in detail. However, discussions under this workstream could explore donor appetite for performance management tools and frameworks as well as potential links to Grand Bargain commitments to reduce management costs and duplication and particularly to the commitment to “Make joint regular functional monitoring and performance reviews and reduce individual donor assessments, evaluations, verifications, risk management and oversight processes.” Donors should closely monitor progress on the commitment to joint performance reviews to confirm whether these could provide the performance related evidence that they require to provide more flexible funding.

***Issue area 3: Strategies to achieve the collective target***

Donors vary widely in their commitment and ability to provide flexible financing. Some donors already meet and others significantly exceed the 30% target agreed in the Grand Bargain, but these are not necessarily the largest donors.[[5]](#footnote-5) Some donors are concerned about fair burden sharing in achieving the 30% target. This is because there is a risk that, as donors face growing pressures to demonstrate results and visibility, some are likely to continue or even increase earmarking. In this scenario, more principled and flexible donors will be left to shoulder the burden of covering headquarters administrative costs and other less ‘attractive’ costs. Therefore, in addition to negotiating with recipient organisations on how to address the pressures that donors face in trying to maintain or increase levels of flexible funding, donors will need to negotiate amongst themselves as to where to target their efforts along the spectrum of flexible financing, and who should focus on what, in order to achieve fair and rational burden-sharing in flexible financing.

In cases where donors are unable to provide completely un-earmarked funding, they identified ways in which they seek to provide partners with flexibility to achieve benefits such as rapid response to crises and adapt programming to changing needs. These included the following:

* **Rapid response funds for partners:** Donors have arrangements either with individual partners or consortia (often NGOs) to provide funds in advance that the organisations can draw down in the event of a crisis, usually with quick agreement from the donor. Two donors cited their contribution to IFRC’s Disaster Relief Emergency Fund (DREF). This was the most commonly cited form of flexible funding for partners outside un-earmarked contributions to multilateral partners.
* **Soft earmarking at country/crisis level:** Where donors earmark funds to a specific country or crisis, they can still allow partners flexibility to allocate funding to the most needed sector/activity/geographical area within the country or crisis. This fits with the Grand Bargain category G of earmarked funding. One donor gave the example of earmarking funding to UNHCR by population of concern, which gives the agency the flexibility to respond to the population’s needs across geographical areas.
* **Crisis modifiers:** One donor has developed a mechanism to quickly inject emergency funds into existing programmes during crises to enable partners to respond quickly. The donor can also quickly modify a grant to enable partners to respond quickly to changing priorities and needs or allow partners to adapt programmes without the need for a modification to the grant if the activities still contribute to the original objective.

The responses to the agency survey showed that three agencies received over 30% of their income as un-earmarked funding in 2016 (OCHA had 39% of its core programme budget (i.e., excluding the CERF and country-based pooled funds) un-earmarked, UNHCR was at 34% and ICRC was at 33%). UNFPA does not receive un-earmarked humanitarian funding, particularly as the CERF is its largest humanitarian donor. The one NGO that responded to the survey had 48% of its total income in 2016 as un-earmarked funding but this came primarily from individuals. All its income from donor governments or agencies was earmarked.

What is included in the 30% target, and the priority given to the various degrees of earmarking, will influence the level of effort and division of labour required. There may be a variety of approaches to achieving the overall aspiration of more flexible funding. Recipient organisations can create incentives for donors to contribute flexible funds by establishing internal instruments and thematic windows where it is much clearer to donors what they are buying. FAO, for example, set up its Special Fund for Emergency and Rehabilitation Activities (SFERA) in 2004, which enhances FAO’s ability to respond to crises. With the support of Belgium, it created an Agricultural Input Response Capacity (AIRC) window that has enabled it to preposition stocks in strategic locations for rapid distribution. In addition to core contributions to its regular resources budget, UNICEF has successfully attracted softly earmarked contributions to its global thematic funds. OCHA has grouped together costs for crises that cut across multiple countries (such as the Syria crisis). When donors softly earmark to the crisis as a whole, OCHA has greater flexibility in allocating funds to individual countries. Meanwhile, UNFPA noted that its lack of an internal facility to attract flexible contributions has probably contributed to its lack of success in attracting more flexible funds.

There is a significant difference of opinion among donors as to whether contributions to pooled funds should be classified as un-earmarked or flexible funding. Inputs to the donor survey tend to equate contributions to the CERF with un-earmarked funding. This may be because, from the donor perspective, the basic act of pre-allocating funds to allow swift allocations to prioritised needs is the same (Sweden’s 2016 non-paper on the value of flexibility in humanitarian financing). However, from the perspective of a humanitarian agency receiving pooled funds (whether from the CERF or a country based pooled fund (CBPF)), this money is earmarked to a specific programme in a specific context and the agency requires permission to re-programme it to meet changing needs. Thus, as highlighted by the agency survey, it provides very little flexibility for implementing agencies. Nevertheless, as Sweden’s non-paper points out, pooled funding plays other critical roles in the humanitarian architecture. These include: A) Empowering humanitarian leadership, B) Channelling funding to Humanitarian Response Plans strategically and holistically; and C) Facilitating funding to local partners (which is often a key reason why donors value country based pooled funds). Reaching clarity on where pooled funds fit within the spectrum of earmarking will be critical to measuring progress towards the 30% target.

***Issue area 4: Where in the transaction chain do we want to confer flexibility?***

The commitments are not explicit in stating where in the response system flexible financing is most needed and adds greatest value. The default position is to focus on core contributions to UN agencies and the ICRC, though the Grand Bargain also introduces the CERF and CBPFs as forms of flexible funding. The language of respondents to both the donor and recipient surveys confirms this sense that the biggest actors who already receive flexible financing will benefit from increases. The lack of engagement in the recipient survey seems to indicate that international NGOs do not feel this commitment area applies to them. However, since NGOs (particularly at the local level) are the main mechanism for delivering assistance to affected populations, this raises questions about how to ensure that they also have greater flexibility to respond appropriately in emergencies. As noted above, some donors have taken steps in this direction, including introducing rapid response funds and providing softly earmarked funding to key NGO partners, although these tend to be the large international NGOs. It is also worth noting that the UN agencies responding to the survey have very different experiences of flexible financing. Some receive very little flexible funding, while others routinely receive more than 30% as un-earmarked or softly earmarked funding. Current commitments do not reflect on this inequality among existing recipients. Therefore, in considering strategies to achieve the commitments and targets, signatories should have a practical debate on where in the funding chain there should be greater flexibility, in order to add value, and also which organisations should benefit.

The agency survey included questions on the extent to which organisations earmark funding to other humanitarian actors. This reflects the sub-clause in the following commitment: “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**.” With the exception of FAO, for whom the question was not applicable, all the UN agencies responding to the agency survey stated that they tightly earmark funds to partners (in the case of OCHA, this applied to the CERF and country-based pooled funds since it is not an operational agency). It is clearly standard practice to issue partners with fixed-term agreements to achieve the delivery of specific results, which are in line with the agency’s country programme priorities and strategy. Given donor emphasis accounting for results, there are currently strong incentives for organisations receiving un-earmarked or flexible funding to continue to have earmarked funding agreements with their partners. As one agency pointed out in response to the survey, “No, it is not possible for us to pass on “un-earmarked” grants to our partners. In general un-earmarked funding demonstrates the special relationship with our key donors, who engage strategically with our mission and mandate, and not just specific activities that we perform.”

Clearly there is a need to clarify expectations on this issue. The rationale and incentives for recipient organisations to offer flexible funding to their partners are currently unclear and movement on this part of the commitment is unlikely to happen without further clarity about how agencies can change their current arrangements and emphasis on the need to provide implement partners with greater flexibility.

***Final considerations***

A reduction in earmarking is likely to be linked to achievements in other Grand Bargain commitments. While synergies are possible in some cases, there are also risks that actions in one workstream will be in tension with or contradict commitments elsewhere. The sequencing of outputs from different commitment workstreams will also inform the possibility of deriving synergies. Annex 1 highlights some of the areas that signatories may want to keep in mind during future discussions on flexible financing.

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**Annex 1. Links with Grand Bargain Commitment Areas**

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| **Commitment** | **Opportunity/risk** |
| ***Transparency***  Publish timely, transparent, harmonised and open high-quality data on humanitarian funding within two years of the World Humanitarian Summit in Istanbul. We consider IATI to provide a basis for the purpose of a common standard.  Improve the digital platform and engage with the open-data standard community to help ensure:   * Accountability of donors and responders with open data for retrieval and analysis; improvements in decision-making, based upon the best possible information; * A reduced workload over time as a result of donors accepting common standard data for some reporting purposes; and * Traceability of donors’ funding throughout the transaction chain as far as the final responders and, where feasible, affected people.   *(Workstream leads: Netherlands/World Bank)* | With the newly engineered Financial Tracking Service, it is already possible to track onward transactions from recipient organisations to implementing partners. This may provide greater transparency on funding flows through the transaction chain and greater traceability of core funding down to the project-level. However, recipient organisations are not yet reporting this data.  IATI provides opportunities for partners to publish results reporting alongside financial reporting, in real or near real-time, which could satisfy some donor information requirements.  These are both downstream solutions however and will not deliver significant volumes of financing data or results information within the near future. |
| ***Front-line responders***  Increase and support multi-year investment in the institutional capacities of local and national responders, including preparedness, response and coordination capacities, especially in fragile contexts and where communities are vulnerable to armed conflicts, disasters, recurrent outbreaks and the effects of climate change. We should achieve this through collaboration with development partners and incorporate capacity strengthening in partnership agreements.  Achieve by 2020 a global, aggregated target of at least 25 per cent of humanitarian funding to local and national responders as directly as possible to improve outcomes for affected people and reduce transactional costs.  *(Switzerland/IFRC)* | Donors currently have little visibility of whether core funding is used to support multi-year investments in the institutional capacities of local and national responders.  The global target of 25% of funding as directly as possible to local and national responders plus the target of 30% of funds provided as flexible funds together accounts for a large proportion of donor resources. Whether this represents a rational portfolio is not yet known.  If country-based pooled funds are ultimately included in the category of “as directly as possible” *and* “flexible” this provides a “quick-win” for donors in reaching their targets. |
| ***Reduce duplication and management costs with periodic functional reviews***  Reduce the costs and measure the gained efficiencies of delivering assistance with technology (including green) and innovation.  Provide transparent and comparable cost structures by the end of 2017. We acknowledge that operational management of the Grand Bargain signatories - the United Nations, International Organization for Migration (IOM), the Red Cross and Red Crescent Movement and the NGO sector may require different approaches.  Make joint regular functional monitoring and performance reviews and reduce individual donor assessments, evaluations, verifications, risk management and oversight processes. | Donors pointed to hopes that progress in this work area would help to build confidence in partner cost-efficiency.  The proposed joint functional performance reviews should be followed closely as there may be opportunities to influence their design and content to provide relevant partner performance-related evidence. |
| ***More joint and impartial needs assessments***  Provide a single, comprehensive, cross-sectoral, methodologically sound and impartial overall assessment of needs for each crisis to inform strategic decisions on how to respond and fund thereby reducing the number of assessments and appeals produced by individual organisations.  *(ECHO/OCHA)* | Several donors noted the anticipated connections between improved needs assessments and discussions on increased transparency around the criteria for allocating flexible financing to crisis response. The pace of progress and anticipated outcomes of this workstream should be monitored to assess whether these expectations will in fact be met and with an acceptable timeframe. |
| ***More multi-year humanitarian funding***  Increase multi-year, collaborative and flexible planning and multi-year funding instruments and document the impacts on programme efficiency and effectiveness, ensuring that recipients apply the same funding arrangements with their implementing partners.  *(Canada/UNICEF)* | For a growing number of donors, their flexible funding commitments are also multi-year. Discussions on these two workstream areas are clearly inter-linked. Advocates for increasing flexible financing should engage with actors seeking to document the impacts of multi-year financing on effectiveness and efficiency as findings will be mutually beneficial. |
| ***Harmonise and simplify reporting requirements***  Simplify and harmonise reporting requirements by the end of 2018 by reducing its volume, jointly deciding on common terminology, identifying core requirements and developing a common report structure.  Invest in technology and reporting systems to enable better access to information.  Enhance the quality of reporting to better capture results, enable learning and increase the efficiency of reporting.  *(ICVA/Germany)* | The current dialogue process should provide a good opportunity to identify harmonised core requirements, reducing the need for ad hoc requests. Actors working under this workstream should liaise closely with the reporting workstream leads to ensure that information requirements identified for flexible financing feed into the commitment to enhancing the quality of reporting.  There is a significant risk that the proposed information requirements outlined above will overall add to the burden of reporting if not managed carefully. |

1. Completely un-earmarked voluntary contributions to UN agencies are also known as multilateral Official Development Assistance (ODA) or ‘core’ contributions to multilateral agencies. Bilateral humanitarian contributions to these UN agencies have grown sharply during this period (from USD 245 million in 2004, to USD 7 billion in 2014), but the volume of multilateral ODA they received remained relatively static in comparison, only growing by 39% in real terms across the period, from USD 710 million in 2004, to USD 988 in 2014. [↑](#footnote-ref-1)
2. A 2014 OECD DAC survey of OECD donors found for example “In their responses to the Survey, the reason for using earmarked funding most cited (mentioned by 14 out of 22 members) is the additional influence it allows in shaping a multilateral organisation’s development agenda. In particular, DAC members report that earmarked contributions provide a means to align an organisation’s agenda to their own priorities, to address priorities that are not adequately covered by core funding, and to design more innovative programmes…..The second most cited reason for using earmarked funding (mentioned by 8 out of 22 members) is that it provides greater visibility to donor resources.” (Totora & Steensen, 2014) [↑](#footnote-ref-2)
3. See <https://www.unicef.org/publicpartnerships/66662_66851.html> [↑](#footnote-ref-3)
4. The UK government’s latest Multilateral Aid Review states for example that: “From now on, up to 30% of DFID’s core funding to UN humanitarian and development agencies will be set aside and allocated according to performance. Funds will only be disbursed to agencies that meet pre-agreed performance targets. Some of these targets will be joint, to encourage collaboration or where success depends on the combined actions of different agencies, for example on nutrition.” (DFID, 2016) [↑](#footnote-ref-4)
5. 11 donors provide 100% of their funding to OCHA as un-earmarked contributions. However, these are relatively small donors such as Denmark, Finland, New Zealand, Monaco, etc. The UK, which is by far the largest donor to OCHA, provided 74% of its contribution of USD 31.5 million as un-earmarked funding. [↑](#footnote-ref-5)