



Enhancing Quality Funding
WFP Reflection Paper for the Grand Bargain Co-Convenors Group
December 2019

CONTEXT

The Grand Bargain is witnessing a renewed push to make tangible advances by donors and aid organizations towards commitments made. The emphasis is now on garnering political support, recognising the barriers to implementing the GB commitments and to accelerate performance. Workstreams 7 and 8 have been merged into one under heading of *Quality Funding*, focusing on enhanced collaborative humanitarian multi-year planning and increased levels of multi-year funding and reduced earmarking. Advancing quality funding is seen as a fundamental enabler of system-level efficiency and effectiveness within the humanitarian system. This document proposes a way to advance this agenda against the backdrop of barriers and disincentives that have been identified as holding back progress.

It is important to highlight the context in which the work to increase quality funding unfolds:

- **Unearmarked¹ funding is not growing significantly and remains a fraction of overall funding:** Despite the commitment to increase un-earmarked funding to 30 percent, there is limited evidence system-wide that donors are getting close to meeting that target.
- **Earmarked funding continues to dominate:** Earmarked funding remains the bulk of humanitarian funding and is on the rise.
- **Public support for aid is under pressure.** Public support for aid in many of the countries that bear the brunt of the humanitarian aid burden is under pressure. Austerity at home, concerns about high level of corruption, abuse of aid, questions over the conduct of aid agencies, and how this is reported in media and in the public political arena, are causing serious headwinds for the political support to aid. In some donor countries, aid provision is under pressure by governments that have adopted a more nationalist agenda. Combined, this has led to a change in donor priorities, increased calls for more directed contributions (in line with national interests), more stringent accountability measures, more detailed reporting and increased transparency.

In a recent working group meeting, barriers and disincentives to making further progress on the GB commitments were highlighted:

1. Divergent perceptions of what quality funding is

Quality funding is generally understood as increased multi-year funding (MYF) and un-earmarked or softly earmarked funding. However, the concept has never been clearly defined. The absence of a coherent definition has resulted in different perceptions and inconsistent reporting on performance. Reporting on pooled funds illustrates this problem. Contributions to pooled funds (CERF or CBPF) are, for example, considered by donors to be unearmarked, while on the recipient end, most aid organizations would qualify and record such contributions as highly earmarked. Similar variation in interpretations and practices around MYF leads to diverging perceptions on progress. Donors report strong MYF performance. This, however, is not mirrored in the perception of aid organizations which are less positive about MYF advances.

¹ For the purpose of this document 'unearmarked' resources comprise both fully and softly earmarked resources.



2. Donors have limited scope and incentive to drive further change

Across the UN, the growth in earmarked funding has outpaced increases in flexible funding, leading to an overall decline in the proportion of flexible funding against all funds received. Progress to reduce earmarking has been led by medium-sized donors such as the Nordic countries, most of whom were already good performers. More progress has been made to increase multi-year funding, which grew by 75% between 2016 and 2018 based on donor reporting, although the growth trend is declining. Making further progress on both flexible and multi-year funding requires increased and sustained efforts from a larger number of donors in order to reach critical mass and have real impact. It also requires aid organizations to hold up their end of the bargain. In particular, lack of progress on improved reporting, increased transparency on allocation of flexible funding and visibility have been highlighted by donors as a disincentive.

3. Quality funding is distributed unevenly

While the supply of quality funding has increased at the global level, a corresponding increase has not been witnessed by recipient organizations. This is mainly due to the nature of such funds which lose their flexible and multi-year identity as they cascade through the aid delivery system. Due to the nature of how agency accountability requirements are designed – and often required by governing bodies – retaining flexibility in its entirety has not been viable, given that every type of funding gets earmarked at one point or another. The supply of such funding, whether multi-year or flexible, additionally reflects that quality funding is not evenly distributed across crises. Multi-year funding appears to be more strongly concentrated in ‘high-visibility’ contexts, notably Syria, Afghanistan and Yemen.

4. Links between Multi-year Funding and Multi-year Planning are not clear

While there has been some progress in collective multi-year planning, for example multi-year HRP in Central African Republic, Sudan, and Nigeria, there is no evident and corresponding link to multi-year funding, which remains limited, concentrated on a few high-profile crises and directed mainly at individual agencies. This appears to be holding back efforts to develop coherent planning and prioritization both at the country and agency level, making it more difficult for potential nexus benefits of multi-year funding to materialise.

5. Evidence of efficiency/effectiveness is still work in progress

The evidence to demonstrate gains in efficiency and effectiveness as a result of quality funding is patchy, but there are some self evident benefits generated through such funding. It enables us to enhance trust with our implementing partners, provide greater job security and tenure for staff in the field and reduce reliance on annual fundraising exercises. Ultimately, the reduced transaction costs that come with longer term multi year funding mean that we are able to ensure more resources are used to reach those in need.

OVERCOMING BARRIERS TO IMPROVING THE QUALITY OF FUNDING

Given the nature of the barriers and the general context within which the existing commitments are being pursued, it would be important to also identify **where quality funding can be advanced through alternate means not captured in the commitments**. In relation to flexibility, the GB commitments focus on increasing the amount of un-earmarked funding. Against a back-drop of limited progress and a general tendency to earmark funding, making significant progress on quality funding would need to focus across the entire spectrum of donor funding. This would help:

- Recognize that earmarked funding is often earmarked due to donors’ legal requirements but is contributed in a timely manner in relation to humanitarian planning and responding to system-wide and/or agency humanitarian priorities.



- Recognize that much earmarked funding is associated with a high level of flexibility and predictability.
- Provide donors with an enhanced scope and incentive (beyond providing further fully/softly unearmarked funding) to increase the quality of funding by improving the flexibility of earmarked funding and making it more predictable.
- Allow for a more strategic allocation of truly un-earmarked/softly earmarked funding.

FLEXIBILITY BENCHMARKS

A continued push towards meeting the existing commitments, but also establishing clear and realistic benchmarks that seek to increase flexibility and predictability for earmarked funding, will in WFP's view be a practical approach to advancing the objectives of the GB commitments of achieving greater efficiency and effectiveness.

The following section suggests a framework of existing and additional benchmarks that aims to enhance quality funding across the entire spectrum of donor funding. It also explores the potential benefit in value terms of marked improvements against these KPIs as seen against the baseline of WFP's 2018 donor income. Reaching 30 percent of un/softly earmarked funding target: If WFP's current **unearmarked funding doubled**, the amount of flexible resources would reach **USD 1 bn** but this would still constitute only 12 percent of overall resources. While 30 percent may be desirable, it is not a realistic target for completely flexible funding. WFP is therefore pursuing an approach to calibrate, or benchmark the levels of flexibility in order to set more meaningful targets.

1. Benchmarks to improve the quality of earmarked funding:

- Contribute earmarked funding at the highest possible level (country) at agency/UNHCT level.** *Currently, roughly 80 percent of resources to WFP are contributed at activity level². Increasing the amount of resources contributed above activity level by 100 percent, would provide WFP country offices with **an additional USD 1.3 bn earmarked resources with enhanced flexibility**.*
- Optimizing internal strategic financing mechanisms:** *A 50 percent increase in the amount of donor resources that can be used retroactively and be made available for advance financing, would allow WFP to **anticipate an additional USD 1.5 bn ahead of actual contributions**. This would increase the use of advance financing facilities and leverage the use of early action financing instruments such as the WFP Immediate Response Account. In turn, this would significantly boost WFP's ability to plan and provide more predictable financing for partners, ultimately leading to better outcomes for affected populations.*

² WFP's financial framework allows donors to contribution to WFP's programme at various levels: activity, strategic objective, strategic result and country level, with country level being the most flexible and activity level the least flexible.



- c. Ease restrictions and conditions such as transfer modality, procurement restrictions, visibility markings on relief items, and geographical restrictions in order to optimize flexibility.** *For example, halving the amount of earmarked resources that are associated with procurement restrictions would result in **an additional USD 1 bn** of opportunity for WFP to better source commodities and supplies at the right time and at the most competitive price leveraging the expertise and experience gained over the last six decades of delivering relief to some of the most insecure and remote regions.*
- d. Improve the link between multi-year planning and multi-year financing to improve predictability of funding:** *There is scope to enhance and set targets for multi-year financing within the context of multi-year strategic and operational planning frameworks. Doubling multi-year funding from the current USD1bn WFP receives to **USD 2 bn** would lead to better investments over time. Strategic partnership agreements and financing dialogues earlier in the planning cycle and with more detail also lead to enhanced predictability and ability for agencies to take financial risks.*

WFP recognises that these reflections and benchmarks are agency specific. However, they indicate a pathway that other agencies could consider recognising that the current impasse between donor and agency Grand Bargain signatories needs a more nuanced understanding of the realities, barriers and opportunities to improve the funding of the humanitarian system.