
IASC Results Group 5 - Humanitarian Financing

8 June 2021

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Summary Record

IASC Results Group 5 on Humanitarian Financing met on 8 June 2021 to discuss (i) review of action points of the last meeting; (ii) debrief on 27 May OPAG meeting including next steps on **funding flexibility and cascading of overheads/ indirect costs**; (iii) debrief on 2 June OPAG meeting including next steps on **Nexus financing**; (iv) update on [Money Where It Counts](#)/ cost classification RG5 deliverable; (v) update on Grand Bargain quality funding initiatives.

Action points:

1. RG5 co-chairs, with support of IASC secretariat, to create a separate public key messages document on the funding flexibility advocacy messages; **[ACTIONED]**
2. RG5 co-chairs to share consolidated RG5 feedback on funding flexibility measures;
3. RG5 nexus financing sub-group to update *nexus financing advocacy messages in line with OPAG action point, i.e. 'Update advocacy and key messages based on feedback received at the meeting, considering; prevention, building on capacity of local actors, and tailoring of language to development actors and IFIs [RG5]'*
4. NRC/UNHCR to provide a substantive update to RG5 on the RG5 Money Where It Counts protocol;
5. Co-leads of cascading of overheads (UNICEF/Oxfam) and MWIC (NRC/UNHCR) RG5 deliverables to agree on how to ensure synergies and linkages between the two bodies of work. **[IN PROGRESS]**
6. RG5 members encouraged to reach out to RG5 co-chairs if interested in leading on the 27 May OPAG deliverable around innovative financing.

Review of May Action points:

1. RG5 members who are also GB signatories encouraged to ensure that their agencies submit responses to the quality funding survey available [at this link](#) to be completed **before May 19, 2021**. **[ACTIONED]**
2. RG5 co-chairs to solicit comments on the OPAG background paper on funding flexibility by COB 18 May, and a questionnaire on funding flexibility to feed into OPAG background paper for completion by COB Friday, 21 May. **[ACTIONED]**
3. Cascading overheads sub-group co-leads to share a concept note with RG5 for information. **[ACTIONED – see attached]**
4. UN RG5 members to share agency reports on cascading overheads with **[CONTINUOUS]**
5. IASC secretariat to circulate draft nexus financing advocacy messages for comments by **COB Tue, 19 May [ACTIONED]**

Debrief on 27 May OPAG meeting: Next steps on funding flexibility and cascading of overheads/ indirect costs

Final [27 May OPAG action points](#) as published

- 1) *Approve the extension of the current funding flexibility measures until end of the year and consider options to institutionalize beyond that point [OPAG members and RG5] [ACTIONED]*
- 2) *Strengthen advocacy with donors around flexible funding and ensure that these efforts are streamlined and complementary to Grand Bargain efforts [OPAG members]*
- 3) *Accelerate the mapping and development of guidance on cascading of overhead costs, including a consideration of the option to standardize such costs and cost recovery options [RG5]*
- 4) *Deliver guidance on cost classification measures and report back to OPAG by Q4 [RG5]*
- 5) *Continue close collaboration with the Grand Bargain and the GHD with the objective to streamline efforts on quality funding. [RG5]*
- 6) *Reflect on innovative ways to generate more resources and close the funding gap and advise on the most appropriate platform to take this issue forward [RG5]*

Funding flexibility

- The RG5 co-chairs noted the overall OPAG support expressed for RG5 to carry forward the the funding flexibility work to term regarding **standardization beyond COVID-19**, taking into account IASC members' ongoing internal reviews on funding flexibility measures. Even if all flexibility measures were standardized, some of the formulations will need to be adapted to represent standard practice as opposed to the COVID response. The current IASC guidance on **funding flexibility measures was extended through 31 December 2021** as opposed to an extension for the duration of the COVID period.
- The accompanying **funding flexibility advocacy messages** with a focus on quality funding were received well, especially the objective to ensure consistent messaging with donors, such as donors' Grand Bargain (GB) commitment of 30% of quality funding. RG5 participants discussed the **discrepancy in messaging** from the donor and IASC constituency on flexible funding, i.e. that as per the donors' self-reporting mechanism in the [Grand Bargain's five-year report](#) issued by ODI, most already provided 30% or more flexible funding (p. 105), while OPAG members tended to underscore that much less than 30% of funding was received as flexible funding. RG5 members explained that part of the reason for the discrepancy is that for donors, CERF and CBPF funding is considered flexible, while in reality, funds are not fully flexible as they are transferred downstream. Donors also considered slightly earmarked funding as fully unearmarked funding.

Cascading of overheads/ indirect support costs

- On cascading of overheads, UNICEF as sub-group co-chair affirmed OPAG's expression of support for this deliverable. While the OPAG's suggestion for the need to establish definitions may be beyond the work of the sub-group, the latter could recommend the development of definitions as a future deliverable. UNICEF emphasized the sub-group's objective of compiling field-oriented best practices, including via local actor representation in the sub-group.

Debrief on 2 June OPAG meeting: Next steps on nexus financing

- In terms of key takaways from the 2 June OPAG meeting, RG5 members highlighted that the OPAG first confirmed the importance of the financing aspects of the nexus and respective engagement with donors, while it remained to be clarified which IASC body may be best placed to do so. Second, the OPAG acknowledged the ongoing pieces of work on nexus financing, including by non-IASC

members, such as the RG4-led RC/HC survey, and OECD/INCAF's research on financing across the nexus. Third, it recognized the importance of maintaining a link the operational and financing aspects of nexus work, which have to date been taken forward by RG4 and RG5 separately. Fourth, some OPAG members underscored the importance of unlocking additional funding via the work on nexus financing, beyond the focus of quality funding, which would imply clarifying the role of RG5. Fifth, the OPAG had highlighted the need to engage with development actors, including international finance institutions (IFI); to influence donor behavior; and to invest in local actors.

- In response to a query on the **nexus financing advocacy messages**, participants suggested that the key messages could be posted on the IASC website once updated in line with the feedback received at OPAG. As an entry point, IASC members could also amplify the messages at the forthcoming GB annual meeting (15 – 17 June), as well as at a DAC/UN dialogue group meeting on 22 July. Use of advocacy messaging should be coordinated with RG4 to ensure consistency and appropriate links between operational and financial advocacy points.
- Regarding a query on the **synergies between the GB and the IASC**, RG5 members agreed that collaboration with the GB in its future iteration will be dependent on the degree to which quality funding is a key focus within the GB. The objective will be to continue to ensure that IASC initiatives remain complementary to those of the GB, bearing in mind the absence of donors in RG5. Within the GB 2.0, quality funding will be an “enabling priority”, with a focus on addressing blockages at a political level rather than specific technical details. To date, RG5 has addressed the more technical components of quality funding, such as the work on overheads and the work on funding flexibility within partnership agreements.

Update on [Money Where It Counts](#)/ cost classification RG5 deliverable

- NRC informed that this deliverable co-led with UNHCR was formulated as follows: *Advocate with UN agencies to adopt a cost classification protocol and establish a pilot project with donors and implementing organisations to test the protocols.* In line with the [RG5 progress report](#), the co-leads had agreed that the main action will focus on the first component of the deliverable, notably on *expanding the adoption of common cost classifications by IASC members.*
- NRC clarified that the RG5 deliverable is focused on the first of the three elements of the Money Where It Counts (MWIC) protocol, which were: **harmonization of cost classification**, harmonized eligibility and accounting of expenses based on classifications, and harmonized financial reporting. Within the [MWIC protocol](#) itself, RG5 will therefore focus on the first of 7 Protocol conventions (*Cost classification by function: all costs are classified as direct costs, indirect costs or ineligible costs. Direct and indirect costs are classified in accordance with the functions that they resource. Both are required and legitimate costs of programme or project activities.*)
- In terms of way forward, NRC and UNHCR are drafting a guidance that will be shared for consultation with RG5, and eventually submitted to OPAG by mid-November. UNHCR has also communicated this approach with other UN agencies in the margins of other meetings.
- The main benefits of harmonized cost classification is to enable the **comparison of budget line items across organizations**, e.g. the components composing overheads are harmonized and can then be compared across organizations, rather than the current system which allows comparison of

overhead percentages that are not calculated in a common way. Participants referenced **related processes**, such as RG5's cascading overheads sub-group, with whom the cost classification deliverable co-leads should closely coordinate to avoid an overlap; the discussion between activity vs. project-based costing of Humanitarian Response Plans (HRPs), where there is an implied risk that donors use average activity costs as reference to allocate budgets to partners although the cost to undertake an activity varied across contexts; and UN-wide discussions on cost classifications (e.g. the UN Data Cube).

- RG5 members further discussed how HRPs are often focused on fundraising, rather than accurate accounting, and ideal rather than realistic availability of funding, which may influence the size, including life-saving components of HRPs, and have implications for development actors framing their (non-)engagement in the nexus space.
- RG5 members further noted that in the past, engagement from RG5 members in support of the cost-classification deliverable has been a challenge, even though harmonized cost classification does necessarily require radical change from an accounting perspective.

Update on Grand Bargain quality funding initiatives

- UNICEF briefed on the outcomes of the 2 June senior officials meeting on quality funding ahead of the GB annual meeting. The meeting highlighted recommendations proposed by ODI which built on the findings of the 37 survey responses obtained by GB workstream 7/8. In terms of barriers, donors underscored their lack of capacity to manage a high number of grant contracts, as well as concerns around lack of transparency and visibility on how quality funding is allocated. Aid organizations highlighted the lack of sufficient amounts of quality funding to enable meaningful cascading to frontline responders, and commented that they themselves served as frontline responders in some contexts.
- Based on the survey, ODI proposed a set of recommendations, including donors to set a flexible funding target of 50%, and overhead costs to be set a minimum 4%. While all participants had expressed general support for the quality funding agenda, none were able to fully support the recommendations.
- In terms of a plan B, the GB workstream co-convenors subsequently asked participants for alternative language on these recommendations to be reflected in an outcome document, which in turn was to inform the way forward for GB 2.0.
- In the ensuing discussion, RG5 members placed emphasis on the relative alignment among IASC members and the challenges between IASC members and donors on a common understanding of quality funding. Accordingly, follow-up options may include pushing for semi-earmarked funding in the absence of earmarked funding; reaching out to the incoming GHD co-chairs to see how they will position themselves vis-à-vis quality funding; and encouraging the new GB Eminent Person to undertake bilateral outreach and garner commitment for one or two quality funding reforms.

AOB

- As for the 27 May OPAG action point **regarding adding innovative financing** to the RG5 workplan, the RG5 co-chairs noted that when RG5 previously had a deliverable in the workplan it was difficult to address given the absence of donors in RG5, and the challenge of agreeing on a specific achievable

deliverable. If an addition is made to the RG5 workplan, focus areas could include adding new money into the system, e.g. via Islamic social financing, which may imply a donor engagement challenge; or reducing the needs by shifting some burden from the humanitarian system, e.g. via anticipatory action,

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