

Quality funding: How to reach critical mass

Workstream 7&8: Enhanced Quality Funding

Co-convenors: Canada, UNICEF, ICRC, Sweden, NRC, OCHA

Introduction

Quality funding is a fundamental enabler of many aspects of the Grand Bargain, including localisation, participation, working across the nexus, and enhanced efficiency and effectiveness (ODI, 2019; ODI, 2020). The Grand Bargain has stimulated substantial change in both the provision and our collective understanding of quality humanitarian funding. However, quality funding is spread unevenly across the humanitarian system, certain sticking points and risks, while well identified, have yet to be addressed and the volumes currently provided fall well short of what would be required to drive transformative change. Unlocking a significant increase in the supply of quality funding and ensuring effective distribution and management across the delivery chain of aid organisations therefore is critical to realise the gains envisaged by the architects of the Grand Bargain.

This policy brief identifies opportunities for a radical scale-up in quality funding, including proposing a new concept of quality funding; recommending a series of good practices that should be the focus of scale-up efforts; and identifying critical risks and sticking points which must be addressed to unlock further progress.

The political and technical actions recommended are intended as next steps for Grand Bargain signatories. However, these will take time to implement, and given the centrality of quality funding to humanitarian reform, the quality funding agenda must be a key component of post-2021 successor to the Grand Bargain. This includes ensuring that there is an accountable entity to support and monitor progress against recommendations and commitments.

In this context the Quality Funding Workstream, with the support of FAO, commissioned this brief alongside a complementary catalogue of quality funding practices, to identify recommendations which support the future implementation of quality funding. This brief draws on the quality funding catalogue, carried out by Development Initiatives (Development Initiatives, 2020), and two recently completed studies from the Workstream Co-convenor agencies: an internal assessment of UNICEF's experiences of cascading quality funding to implementing partners (UNICEF, 2020), which is intended as a precedent for other UN agencies to identify opportunities to increase levels of cascaded quality funding; and a study on the added value of flexible funding to the ICRC (ICRC, 2020).

The brief also builds on a series of interviews carried out in May 2020 and a range of earlier research outputs generated by Quality Funding Workstream. Finally, the brief integrates throughout, early and emerging lessons from the humanitarian financing response to the COVID-19 pandemic (see Box 1).

Box 1: Key challenges the COVID-19 pandemic poses to financing crisis response

The COVID-19 global pandemic has layered a substantial additional burden on the humanitarian financing system. The nature of the crisis itself also has uniquely challenging features, including:

The pandemic is truly global. *It is everywhere at once, placing extreme pressure on the international system to respond, at the same time as many donor governments are under extreme pressure to respond at home. This also means that all countries are potentially in competition for key response items. Prioritisation in a global crisis is extremely challenging.*

It is a “systemic crisis”. *Risks and secondary impacts are transmitted through systems in a highly interdependent economy. Mass air travel enabled rapid transmission of the virus, while policy responses to contain and mitigate the virus are resulting in secondary impacts that reverberate across the globe. A slump in consumer demand in high-income countries has led to a dramatic drop off in manufacturing and rising unemployment in low- and middle-income countries. Lock down orders has led to falling oil prices, with huge falls in government revenues in oil exporting countries.*

The pandemic compounds existing risk and vulnerability. For countries in which humanitarian actors are often present, COVID-19 layers a public health crisis on top of existing crises and structural vulnerabilities. For instance, parts of the Horn of Africa, were recovering from floods and drought in 2019, experiencing active conflict and widespread displacement, and the worst desert locust crisis in 25 years when COVID-19 hit.

The virus and its impacts are difficult to predict. The pandemic has proved difficult to predict and design effective policy responses for even in high-income countries with advanced health and social welfare systems. In contexts where health surveillance is weak, where there is insecurity, logistical challenges, limited resources and institutional capacity, devising policy responses and mobilising resources is even more challenging. Policy responses moreover are not readily transferrable across contexts. Each setting requires a tailored response.

These features have posed serious challenges for the humanitarian financing system in the following key areas:

Providing a timely and adequate financing response to an historic peak in demand.

The humanitarian financing system was already facing high levels of demand in 2020, with requirements of \$28.8 billion in the Global Humanitarian Overview, the highest amount ever requested at the appeal launch stage. Notably, in addition to many ongoing chronic crises within the HNO, the desert locust crisis, which began in the Horn of Africa, is spreading into new regions and is expected to have major food security implications if control measures cannot contain the spread.

The latest (May 2020) update of the UN-led appeal for additional humanitarian needs created by the COVID-19 pandemic layers additional funding requirements of \$6.71 billion, bringing the total requirements for 2020 to date to a historic \$36.87 billion, a 24% increase on the total funds required in 2019¹. The International Red Cross and Red Crescent (RCRC) Movement also issued an appeal amounting to CHF 3.1 billion in its latest May revision, to

increase life-saving services and support to address the immediate impacts of the pandemic and its long-lasting social and economic repercussions.

Policy responses to contain and mitigate the spread of the virus, including closing borders and competition for essential medical equipment and supplies, have also pushed up the costs of response.

Institutional donors have historically struggled to mobilise sufficient additional funding to meet major peaks in demandⁱⁱ. Some donors have mobilised additional funding for the COVID-19 response and \$1.2 billion has been contributed against appeal requirements^{iiiiv}. However, only 17% of overall UN-led response plans and appeal requirements (including the COVID-19 Global Humanitarian Response Plan) had been met by 7th June.^v

Private funding often helps to make up a substantial part of the shortfall^{vi}. While there have been significant contributions from the private corporate sector and philanthropists, for example the COVID-19 Solidarity Response Fund for WHO had raised \$214 million in private donations by 22nd May this year^{vii}, many humanitarian organisations which can typically expect to mobilise funding from private individuals, have seen donations drop off dramatically as fundraising events, revenue generating businesses are interrupted by lock downs and as individual donors tighten their belts in response to economic uncertainty^{viii}.

Mobilising, allocating and managing resources in the context of uncertainty.

Humanitarian actors are responding in contexts already experiencing crises, or which are facing serious challenges in their national capacity to respond. And needs are constantly changing. The UN appeal process has had to rapidly adapt approaches to costing and prioritisation. The appeal currently focuses on health needs and the immediate impacts of the pandemic but needs are expected to change as the pandemic progresses and the secondary and tertiary impacts manifest. The appeal process has had to embrace this uncertainty and expects to revisit and revise requirements on a periodic basis^{ix}.

While some donors have responded with additional funding, and in some cases with unusual levels of flexibility, overall the funding response has not been adequate or sufficiently timely to allow partners to front-load their responses and mobilise early preventive actions. The majority of funding to the COVID-19 GHRP has benefitted multilateral partners, with 83% channelled to UN agencies^x. UN agencies in some cases used these early allocations to procure PPE and other essential supplies. Little of the funds channelled to UN agencies and funds have reached NGO partners.

Grant agreements which already had in-built flexibility in their conditions have permitted far more rapid adaptation of programme activities without the need for recourse to time consuming formal modifications. Elsewhere, the crisis offered an opportunity to accelerate ongoing processes to promote flexibility and simplification. Notably, urgent efforts have been led by the Inter Agency Standing Committee (IASC) Results Group 5 (RG 5) on Humanitarian Financing to identify specific changes needed to enhance the flexibility of existing funding agreements to allow aid organisations to adapt to rapidly changing priorities and operational constraints associated with the pandemic.

1. Rethink the concept and approach to achieve quality funding

There is no clear definition of what constitutes quality funding (ODI, 2019). In the original framing of the Grand Bargain, predictable and flexible funding were presented separately across two different commitment areas. In the intervening years, humanitarian organisations have repeatedly made the point that predictability needs to go hand in hand with flexibility (NRC, 2017; DI & NRC, 2019; UNICEF, 2018; SIDA, 2018). In recognition of the intrinsic link between predictability and flexibility, workstreams 7 and 8 were merged to become the Quality Funding workstream in 2018^{xi}. However, commitments, indicators, and definitions of quality funding remain geared towards and incentivise addressing predictability and flexibility separately and focus on specific and separate funding instruments and arrangements^{xii}.

Efforts to increase predictable funding have focussed on the duration of agreements in the first instance (DI, 2019)^{xiii}. There are wide variations in the flexibility and predictability contained within multi-year agreements however, and earmarking, annual negotiations on funding levels and activities, and 18 month durations are all common practices, reducing the scope for responding organisations to derive and pass on the benefits of quality funding (Quality Funding Workstream, 2019a).

Different types of flexible funding have very different properties and benefit different actors or levels of the response system (Quality Funding Workstream, 2019a). The Grand Bargain definition of flexible funding however proposes many different types of flexible funding as desirable, with no analysis or guidance on the benefits of each or where signatories should target their efforts.

Increasingly, signatories have expressed a more holistic understanding of predictability and flexibility that focusses less on specific instruments, and more how these instruments are used and implemented, and how a range of practices can deliver the properties of predictability and flexibility. Notably, in recognition that the majority of funding is likely to remain earmarked and short-term, there is appetite among both donors and agencies to explore opportunities to derive greater flexibility and predictability from earmarked funding (Quality Funding Workstream, 2019b).

In addition, the financing response to the COVID-19 pandemic gives cause for reflection on whether the definition of quality funding should also include timeliness. Where donors and their partners have invested in structuring in flexibility to their funding agreements, responding organisations have been able to reprioritise and adapt programming quickly, enabling timely responses (see Box 2). However, the wider system has struggled to mobilise and disburse adequate funding quickly enough to enable responding organisations to mobilise early preventive action at scale^{xiv}. It is worth noting that the revision of the OECD DAC peer review process in 2019 combines all three qualities in their criteria: “The member improves the predictability, timeliness and flexibility of humanitarian funding” (ODI, 2020).

The Quality Funding Workstream proposes the outline of a new concept of quality funding, which shifts the focus of attention from specific instruments and agreements and towards a concept that tailors instruments and approaches to deliver the properties of predictability, flexibility and timeliness (see Box 3).

Box 2: Quality funding practice – layering flexible and timely funding

Both Sida and the Norwegian Ministry of Foreign Affairs (NMFA) began providing programme-based funding within multi-year framework partnership agreements, to a small number of NGO partners in 2017.

Programme Based Approach (PBA) funding is earmarked only to the country programme level to support the delivery of integrated packages of activities across a variety of sectors and themes, and to support the use of existing partner systems, tools and approaches.

PBA funding partners flexibility to allocate funds according to their own priorities and to report at the level of programme results and budgets. This has led to many efficiency and effectiveness gains, including significant increases in responsiveness to new and emerging needs.

PBA recipients were able to rapidly adapt their programming to the altered operating contexts and priorities of the COVID-19 pandemic, without needing to request formal amendments. In Syria, ACF used PBA funds to initiate water trucking and begin procuring medical equipment and hygiene supplies. Their other donors meanwhile were far slower to negotiate and agree programmatic changes. In DRC, NRC rapidly reprogrammed Sida PBA funds in Ituri to decongest overcrowded IDP camps. And in light of school suspensions, shifted part of their NMFA PBA funds which had been planned to support Safer Schools programming in Tanganyika towards emergency shelter and WASH activities in IDP camps.

Both the Sida and NMFA PBAs have inbuilt or linked access to additional contingent funding for unforeseen emergencies and escalations in needs, which require additional injections of funds. Sida's strategic partners (including PBA recipients) may apply for release of additional funding through Sida's Rapid Response Mechanism (RRM). NMFA framework agreements reserve 20% of the total value of the budget annually, referred to as "Flex Funds", which can be drawn down on when unforeseen new crises or escalations occur (NRC, 2020; Development Initiatives, 2020).

Box 3: A new concept of quality funding

Quality funding includes the core properties of predictability, flexibility and timeliness.

The measure of quality funding should not be on inputs but judged on its outcomes: whether it enabled the delivery of a timely, effective and efficient response that met the needs of affected people and of responding organisations.

In practical terms, achieving the properties of predictability, flexibility and timeliness requires a varied toolbox of instruments *and* practices to ensure the right types of funding reach the right parts of the system at the right times and for the right duration.

Predictability, flexibility and timeliness should be calibrated to the level in the system they target (project, programme, regional, organisation level, system level) and to the programming, context, or system investment in question. What constitutes quality funding

differs for a rapid onset crisis, a protracted crisis, or to maintain the standing responsive capacity of the humanitarian system.

2. Accelerate what works

Substantial progress has been made in increasing the provision of multi-year and flexible funding. However, we may have reached the limits of growth in the specific areas of flexible funding envisaged by the Grand Bargain. Notably, aid organisations reported no increase in the volumes of unearmarked funding they received in 2019 (ODI, 2020). Increasingly, our understanding of how to achieve flexibility and predictability points towards alternative approaches to achieving these goals. There are key areas of emerging quality funding practice which could be scaled up in order to move closer to achieving a critical mass of quality funding.

Increase flexibility across all funding instruments and agreements. Flexible funding is a key enabler of principled and effective humanitarian action. The Grand Bargain set a target of 30% of humanitarian funding provided as unearmarked or softly earmarked funding by 2020. It is not possible to assess whether that target has been reached, yet despite notable increases from some donors, aid organisations report a different story, with many large UN organisations reporting well below the 30% target (UNICEF, 7% unearmarked in humanitarian funding 2019; WFP 5%; UNHCR 15%) (ODI, 2020), and increases in the volume of flexible funding being outstripped by increases in the volume and proportion of earmarked funding. Even 30% might not be enough. ICRC for example, estimates that they would require 40% of their funding to be flexible to enable them to ensure operational flexibility (ICRC, 2020).

However, flexible funding does not stop at the list of flexible instruments and agreements listed in the Grand Bargain. The flexibility of all funding can be enhanced, including tightly earmarked funding. Many conditions could be modified that would allow substantial flexibility gains. For example, reducing procurement restrictions, visibility marking requirements, and geographical restrictions (WFP, 2019). Flexibility can also be achieved at portfolio level. The ICRC describes “next-best alternatives” to flexible funding, such as negotiating with donors to target country earmarked funding to under-funded crises, freeing up flexible funding for other priorities (ICRC, 2020). The flexibility of development funding in contexts at risk of crises can also be substantially enhanced to enable implementing organisations to rapidly adapt programming to changing circumstances, without recourse to protracted grant modifications.

Recent changes made to the conditions of UN partner agreements in response to the COVID-19 pandemic demonstrates there are substantial opportunities for change. There are key lessons to be drawn from the Inter Agency Standing Committee (IASC) Results Group 5 (RG 5) on Humanitarian Financing led initiative to increase flexibility in the context of the COVID-19 pandemic. Notably, the IASC RG 5 worked simultaneously at political and technical levels and maintained active dialogue throughout. They also produced a clear and specific list of conditions partners identified for modification and provided regular and transparent monitoring of progress against these (see Box 4). The Quality Funding Workstream could look to replicate a similar approach and build on the momentum already generated by IASC RG 5, advocating for high-

level political commitment to increase flexibility across all types of funding agreements, and working at a technical level to identify specific key conditions to be modified.

Box 4: Quality funding practice – Enhancing the flexibility of earmarked funding in response to the COVID-19 pandemic

Donors and their partners have rapidly adapted their planned programming in 2020 to accommodate changing needs, access and supply chain constraints, and a high degree of uncertainty. The RG 5 was tasked by the IASC Principals to identify specific changes needed to enhance the flexibility of existing funding agreements to enable partners to adapt, and to propose a harmonised approach to achieving these changes.

RG 5 identified four specific areas for change: no-cost extensions, budget flexibility, the ability to reprogramme funds, and due diligence and risk management. RG 5 has worked at both technical and political level with UN agencies and donors to lobby for change. Currently a range of UN agencies (IOM, FAO, OCHA, UNICEF, UNHCR, UNFPA and WFP) have endorsed the forthcoming “Proposal for a Harmonized Approach to Funding Flexibility in the Context of COVID-19” drafted by RG 5.

Key modifications to conditions include increased flexibility in variance within budget lines; allowing recovery of expense for activities not completed or undertaken due to the pandemic, additional staff costs incurred during suspensions, and the purchase of unforeseen supplies such as personal protective equipment (PPE); increased flexibility in agreeing reprogramming of activities, avoiding the need where possible to undertake formal amendments; increased flexibility in monitoring taking into account reduced opportunities for in-person monitoring and verification; increased flexibility in negotiating project extensions; and allowing submission of electronic rather than hard copy signatures and documents^{xv xvi xvii}.

In addition to the role of the IASC RG 5 in lobbying for change, what is notable about these three examples, is that they were possible in part due to backing at the highest levels of the institutions, and because they accelerated changes which were already agreed in principle as part of ongoing longer-term institutional reforms. UNHCR for example was already undergoing a major transformation process to adapt their systems and programming to deliver the Global Compact on Refugees, which involved a planned shift from a compliance-based relationship with implementing partners to a more flexible relationship focused on delivery of results. OCHA meanwhile was already in consultation with their Country Based Pooled Fund (CBPFs) managers, and partners through the OCHA-NGO Platform Dialogue, and had already planned to introduce some of the new measures, including allowing 15% variance on personnel budget lines. UNICEF already had the ability to switch to emergency flexible procedures when a crisis is declared *force majeure*, additional strong commitment at leadership level allowed rapid introduction of further flexible conditions.

There is scope therefore for some of these new measures to be retained and implemented widely. Others are currently considered exceptional.

Provide a critical mass of quality predictable funding. The scale up of multi-year funding has been a significant area of success for the Grand Bargain. However, far more predictable funding is needed to tip the balance of incentives towards longer-term planning and

programming. Moreover, many multi-year agreements, do not in fact provide the level of predictability required to enable programmatic and efficiency gains, or to pass on multi-year funding to partners, as funding remains negotiated annually (ODI, 2020). Multi-year funding is often tightly earmarked and may not therefore provide adequate flexibility to deliver the wider benefits of quality funding. Not all multi-year funding is created equal therefore and in addition to increasing the quantity of multi-year funding, the predictability and flexibility of multi-year funding also needs to be enhanced.

At a technical-level, the Workstream should work with signatories to identify a list of conditions and practices that enable predictability, flexibility and timeliness. These need not only be restricted to multi-year funding agreements. For example, scheduled partner dialogues can provide a degree of confidence around future funding, and clarity around the timing of funding disbursements can significantly enhance predictability and flexibility (ICRC, 2020).

Simultaneous political dialogue is also needed to ensure buy-in at the highest levels to ensure implementation of the identified list of conditions and practices.

Scale up proven effective quality funding models and approaches. There are instruments outside of the scope of funding instruments envisaged in the commitments, which could provide opportunities to substantially scale up quality funding. Programme-based funding stands out among these as a means of providing predictability and flexibility at response level, whilst also providing donors with visibility of decision-making processes and results (see Box 2 above). Internal flexible thematic and crisis response funding mechanisms also significantly enhance the timeliness, needs-based targeting and efficiency of response (see Box 5).

Particular attention should be paid to scaling up and further developing instruments and approaches which are proven to enable access and provide quality funding to local and national actors, who are disproportionately disadvantaged in accessing quality funding (see Box 6). This is particularly important in the context of the COVID-19 pandemic when local and national actors will continue to play a major role in humanitarian response, including local and national women's organizations. Identifying and prioritising these instruments and tools should be carried out jointly, encompassing a gender lens, with the Localisation Workstream.

Box 5: Quality funding practice – flexible internal funding mechanisms

UNICEF's Global Humanitarian Thematic Funding (GHTF) is a source of pooled, flexible multi-year funds supporting UNICEF Strategic Plan, 2018–2021. Funding is earmarked only against UNICEF's annual humanitarian appeal and after regular resources, it is the most flexible form of funding UNICEF receives and enables needs-based response to sudden onset crises and under-funded emergencies, as well as investments in preparedness. Funding may be awarded to country offices within 24 hours and grants range from \$50,000 up to \$1 million.

FAO's Special Fund for Emergency and Rehabilitation Activities (SFERA) provides FAO with flexible rapid response funding through:

- a working capital component to advance funds once a donor's commitment is secured, allowing FAO to initiate activities and procurement fast;

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- a revolving fund/ capacity component FAO to conduct needs assessments and programme development, to strengthen emergency country team capacities, and to support Level 3 emergency preparedness and response activities;
- and a programme component, supporting responses to large-scale emergencies, early actions the Agricultural Inputs Response Capacity (AIRC) window.

UNFPA set up its Humanitarian Action Thematic Fund (HTF) in 2018 prompted by Grand Bargain discussions on flexible funding to help UNFPA bridge gaps in funding for responding to unforeseen and underfunded emergencies, preparedness and nexus activities. Donor contributions are typically multi-year, and funds disbursed to country offices rapidly through an administratively light process. The HTF has recently been used to PPE globally in response to the COVID-19 pandemic.

Box 6: Quality funding practice – investing in instruments and approaches providing quality funding to local and national actors

The National Society Investment Alliance (NSIA) is a joint venture between the International Federation of Red Cross and Red Crescent Societies (IFRC) and the International Committee of the Red Cross (ICRC) and was created in response to commitments made through the 2016 World Humanitarian Summit and Grand Bargain to provide at least 25 per cent of global humanitarian funding to local and national responders.

The NSIA channels funding to National Societies to support the development of their humanitarian services and organisational capacities. The NSIA is a pooled fund that receives unearmarked contributions and provides smaller earmarked grants to support the development of organisational investment strategies, and larger, multi-year “accelerator” funding for up to five years to invest in organisational development, supporting national societies to become more self-sufficient and with diversified and more sustainable income streams (Development Initiatives, 2020).

Pooled funds, including UN Country Based Pooled Funds (CBPFs), the START Fund, the IFRC Disaster Response Emergency Fund (DREF), and local funds such as the locally-led SAFER fund in the Philippines are noted as being important sources of quality funding for local and national actor (IASC, 2020) s. Flexibility of these funds can be further enhanced to provide a higher quality of funding including through providing greater budget flexibility around allowable staff costs to support organisational sustainability, and allowing adequate overhead support costs (Grand Bargain Localisation Workstream, 2020).

3. Broker practical solutions to remaining sticking points

Certain linked sticking points identified in the Grand Bargain commitments have yet to be addressed. These must be resolved if signatories are to achieve a substantial scale up in the supply of quality funding, and to avoid a potential reversal in gains in flexibility negotiated in response to the COVID-19 pandemic.

Address donor accountability and visibility concerns and work together to build the case for quality funding. Little progress has been reported against commitments 8.1 (improved reporting), 8.3 (increased transparency on allocation), and 8.4 (increased visibility) of unearmarked or softly earmarked funding (ODI, 2019). Efforts to harmonise reporting under Workstream 9 meanwhile, appear to have stalled at the pilot of the “8+3” reporting template (ODI, 2020). These sticking points centre of the sensitive issues of trust and affect donor willingness to increase the supply of quality funding, and particularly flexibility^{xviii}. Where donors do not have sufficient trust and assurances from their partners, they moderate potential risks by adding controls including earmarking, short-term allocations, and tighter reporting requirements (DI, 2019).

Limited progress has also been reported against commitment 7.1b (document impacts of multi-year funding and planning on programme efficiency and effectiveness) (ODI, 2019; DI, 2019; ODI, 2020)^{xix}. While some contributions have been made by individual signatories, these do not appear to have been collated to support donor decision-making processes and advocacy efforts (ODI, 2020). In the 2019 workstream convened Progress Acceleration workshop, a number of donors expressly requested agencies help them to tell a compelling story to convince their institutions, parliaments and public of the added value of quality funding (Quality Funding Workstream, 2019b).

Some aid organisations have already responded with their own initiatives to meet donor accountability requirements for flexible funding (see Box 7), but others are unclear what donors actually needs (ODI, 2020). The Workstream meanwhile recognises the need to address these sticking points (SIDA, 2018), but has yet to find a clear path forward.

This lack of progress in addressing donor concerns and disincentives to increase flexible and multi-year funding should also be seen in context with the increasingly difficult domestic political conditions in a number of donor countries, where aid budgets are under regular challenge and critique (GB Workstream 7&8, 2019; Quality Funding Workstream, 2019b), and in what looks set to be a more constrained aid environment in 2021, where donors may struggle to protect gains in providing quality funding.

The Grand Bargain is a unique forum for convening dialogue and brokering practical solutions across donor and agency constituencies. It provides a historic opportunity therefore to clarify what exactly donors require to meet their accountability, reporting and visibility requirements, what would help them to defend the case for quality funding, and what agencies can realistically offer, whilst respecting the spirit of Grand Bargain commitments to reduce the reporting burden. The Workstream can also work together with signatories to develop a stronger, more cohesive narrative on quality funding, as committed to in the recent May 2020 Grand Bargain co-convenor workshop.

Box 7: Quality funding practice – working with donors to build the case for quality funding

The International Committee of the Red Cross (ICRC) has long received a high proportion of their funding with relatively low levels of earmarking and a high degree of flexibility, allowing them to allocate funds according to their own thematic and global priorities, maintaining a principled, needs-based approach.

ICRC has a number of unique comparative advantages in their mandate, programming, and access, and they have established relationships of trust with their donors, which enable them to negotiate flexible terms. However, they also work with their donors to help them to navigate the challenges they face in making the case and accounting for flexible funding. This includes formal measures, such as increasing the accessibility and transparency of their results reporting and since 2017, ICRC has provided a report on unearmarked funding to its Donor Support Group and in 2020 produced a report documenting the added value of flexible funding for ICRC's operations (ICRC, 2020).

In its annual report on unearmarked funding, ICRC provides data on the ranking of members' contributions, with the aim to increase the visibility of "good donorship" and incentivise good practices. ICRC also pursues a variety of approaches to supporting their donors to provide flexible funding. For instance, their senior leaders offer to talk directly to donor parliaments, which might have concerns about flexible funding. And they develop concrete examples to help communicate the added value of flexible funding – providing practical examples of where they have used flexible funding to engage on thematic issues often under-prioritised in earmarked funding, such as humanitarian diplomacy and preventive work, and to maintain operational presence and relationships, to for example engage with warring parties and weapons bearers behind the scenes to promote International Humanitarian Law, or rapidly scale up assistance. ICRC has been present in Syria since 1967, with a small office funded with 82% flexible funding prior to the outbreak of conflict in 2011. This established presence enabled ICRC to rapidly scale up to a programme that provided food to 3.5 million people by 2013 (ibid.)

Identify and address barriers to cascading quality funding to front-line responders.

Quality funding is not reaching front-line responders through intermediary funding recipients in meaningful amounts (ODI, 2019; ODI, 2020). A survey carried out by the NEAR Network of local and national NGOs in 2019 indicated that 89% had seen no increase in unearmarked funds and 73% no increase in multi-year funding in 2019 (ODI, 2020). International NGOs also note that while UN partners might have seen increases in multi-year funding, this has not been passed on to them (ibid.). Perceptions vary however and the real picture of where quality funding reaches and where it is blocked in the transaction chain is somewhat unclear^{xx}.

Moreover, "cascading" funding is a complex issue and we do not yet fully understand the motivations, considerations and constraints of funding intermediaries. First level recipients note for example that the principal barrier to them passing on the benefits of quality funding are the low levels they themselves receive (ODI, 2019; ODI, 2019; ODI, 2020; UNICEF, 2020).

There are also practical reasons why it might not always make sense to pass on multi-year or flexible funding. For example, UNICEF's recent study of the internal barriers they face to cascading quality funding to their partners notes that some country programme offices retain at least part of the multi-year funding they receive to enable business continuity and efficiencies: country offices use multi-year funding as a buffer to smooth cash-flow and funding gaps, and to pre-finance contracts, procurement of equipment and supplies, and cash transfers to partners, which may be later reimbursed with short-term funding contributions (UNICEF, 2020).

In some cases, first-level recipient organisations partnership tools and procedures may not yet be designed to support cascading of multi-year and flexible funding (see Box 7). Restrictive conditions placed on upstream grant agreements, including the annual negotiation and release of funding within many multi-year funding agreements (ODI, 2020), and limited absorptive capacity in downstream implementing partners are also noted as factors inhibiting cascading of quality funding (DI & NRC, 2019). There are also very few requirements from the donor side for their partners to pass on the benefits of multi-year and flexible funding to partners (DI & NRC, 2019)^{xxi}.

Greater clarity is required on expectations and challenges around cascading including when it makes sense; where practical impediments lie in the funding ecosystem; and what needs to change in order to make an optimal distribution of quality funding possible. The Workstream has already made progress on this issue, identifying cascading as a key priority and building evidence on barriers and opportunities through UNICEF's recent internal assessment of cascading funding. This should now be intensified with clear outputs identified to provide signatories with realistic targets and actions.

Box 8: Key lessons and recommendations from UNICEF's internal assessment of cascading funding to implementing partners

UNICEF passed on 30% of its multi-year funding to implementing partners in 2019, including 15% as multiyear funding (ODI, 2020)^{xxii}. However, UNICEF notes that the limited volumes of multi-year and flexible funding they receive and restrictive conditions and earmarking on some donor agreements also limit what UNICEF can in practice cascade to partners.

Country offices typically receive less than 25% of their humanitarian funding as multi-year funding. UNICEF requires at least some of this funding to support their own implementation, business continuity and efficiency. And in practice much of this funding is subject to conditions which limit the scope of cascading – for example much of the multi-year funding received by UNICEF in Lebanon is tightly earmarked to be transferred to a single government partner.

In the same way that donors provide quality funding to partners where they have established relationships and trust, UNICEF also notes that they are more likely to sign multi-year agreements where they have a long history of collaboration and the partner has demonstrated their ability to deliver results. This naturally limits the number of potential partners, and particularly reduces the likelihood of new partners accessing multi-year funding.

Not all partner projects require multi-year or flexible funding. For example, a response providing immediate relief and assistance to a drought-affected population, would not need to be multi-year.

UNICEF's systems and procedures also present some practical challenges. For example, currently funding must be available for the whole duration of a partner Programme Document – without upstream multi-year funding therefore, UNICEF cannot contract multi-year funding with partners. UNICEF's partner framework agreements are linked to their five-year strategic cycles, therefore, agreements signed towards the end of this cycle will be

limited in duration. UNICEF's CSO quality assurance and risk management procedures require a high level of specificity in description of activities. Providing unearmarked or softly earmarked funding would require UNICEF to design alternative quality assurance and risk management procedures. The bureaucratic burden of modifications to activities and budgets, is also a disincentive to multi-year agreements, where circumstances are highly likely to change in later years.

UNICEF is now considering a range of practical measures to enhance their ability to cascade multi-year and flexible funding, including:

- Revising the UNICEF CSO Procedure to allow the transfer of softly earmarked funds to partners, whenever the country context, risk level and donor conditions allow;
- Enabling multi-year CSO agreements to respond more flexibly to changing needs;
- Reviewing financial rules and regulations to allow Country Offices to sign multi-year programme documents without the full amount available for future years, by marking that the deficit can be met with core funding;
- And working with a small group of Country Offices to pilot the provision of flexible funding at outcome or sector level.

The final endorsement of key recommendations and start of implementation is expected in June/July 2020.

(UNICEF, 2020).

Conclusion and recommendations

Reaching a critical mass of quality funding is fundamental to achieving the efficiency and effectiveness gains envisaged by the architects of the Grand Bargain. Getting there will require high level commitment to a radical scale up in quality funding, as well as concerted efforts at both political and technical levels to address the opportunities and challenges described here. These include commitments and actions to:

- 1. Rethink the concept and approach to achieving quality funding** A more holistic and nuanced concept of quality funding is required to guide an accelerated scale up. This expands the scope of ambitions beyond the types of flexible and multi-year funding envisaged in the Grand Bargain, to enhance the predictability, flexibility and timeliness of the full spectrum of funding, including tightly earmarked funding. Support from signatories and political-level decision-makers will be needed to rapidly agree this new concept, including the new proposed inclusion of timeliness.
- 2. Accelerate what works**
 - **Increase flexibility across all funding instruments and agreements.** The Quality Funding Workstream should advocate for high-level political commitment

to increase flexibility across all types of funding agreements, and work at a technical level to identify specific key conditions to be modified.

- **Provide a critical mass of quality predictable funding.** The scale up of multi-year funding has been a major success of the Grand Bargain and a further substantial push should now be made to further increase the supply of predictable funding. The Workstream should also however work with signatories to increase the funding predictability beyond multi-year funding, and to enhance the predictability and flexibility of multi-year funding. This could include identifying a list of conditions and practices that enable predictability and flexibility and identify opportunities to negotiate further concessions. Signatories also need to harness political level buy-in to implement these conditions in practice.
- **Scale up a targeted list of quality funding tools and approaches that are proven to be effective.** These include programme-based approaches which are flexible by design and earmark only country programme level, and have proven benefits in enabling timely, needs-based, accountable responses with a range of cost-efficiency gains; internal flexible thematic and crisis response funding mechanisms also significantly enhance the timeliness, needs-based targeting and efficiency of response; and instruments and approaches that are proven to enable access and provide quality funding to local and national actors. Identification and prioritisation should be carried out jointly, encompassing a gender lens, with the Localisation Workstream.

3. Broker practical solutions to the remaining sticking points and risks

- **Address donor accountability and visibility concerns and work together to build the case for quality funding.** The Grand Bargain is a unique forum for convening dialogue and brokering practical solutions across donor and agency constituencies. It provides a historic opportunity therefore to clarify what exactly donors require to meet their accountability, reporting and visibility requirements, what would help them to defend the case for quality funding, and what agencies can realistically offer, whilst respecting the spirit of Grand Bargain commitments to reduce the reporting burden. This requires both dialogue at the technical level, to determine the specific needs of both donors and agencies, and at the political level, to achieve senior-level buy-in and agreement on the concerns outlined and proposed solutions.
- **Identify and address barriers to cascading quality funding to front-line responders.** Greater clarity is required on expectations around cascading and what needs to change in order to make an optimal distribution of quality funding possible. The Workstream and signatories should intensify their work to clarify expectations, identify barriers and define realistic targets and actions.

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Endnotes

ⁱ Based on the latest revision of requirements to \$29.75 billion <https://hum-insight.info/home/2019>

ⁱⁱ At moments of peak demand, chronic crises may experience “funding flight” towards large-scale and higher profile crises as reportedly occurred in the response to the 2010 Haiti earthquake and early stages of the Syria crisis (CAFOD, FAO, World Vision, 2015).

ⁱⁱⁱ Based on contributions reported to OCHA FTS at 7th June 2020.

^{iv} The leading five bilateral donors to the COVID-19 GHRP at 7th June 2020 were the US (\$223 million), Germany (\$138 million), the UK (127 million), Japan (\$107 million), and the European Commission Humanitarian Office (ECHO) (\$44 million).

^v Based on <https://fts.unocha.org/appeals/overview/2020> accessed 7th June 2020.

^{vi} In the five years period 2013-2017, private international humanitarian assistance is estimated to have contributed \$27.3 billion, with 69% of the total provided by private individuals (Development Initiatives, 2019).

^{vii} See: <https://covid19responsefund.org/en/>

^{viii} Oxfam announced a major downsizing in May 2020, which they describe as planned, but accelerated by fundraising challenges in the context of the pandemic, noting “Like many charities and businesses, the pandemic has hit our finances hard. We’ve had to close shops, cancel fundraising events, and absorb rising costs. Fundraising conditions in many countries are really tough. We need to make significant savings and so we have had to accelerate our change.” <https://www.devex.com/news/opinion-in-the-face-of-covid-19-a-new-direction-for-oxfam-97287>

^{ix} The next scheduled update is 16th July 2020, with one subsequent update expected, before the COVID-19 GHRP is rolled into the GHO.

^x Based on contributions reported to the COVID-19 GHRP at 7th June 2020 and includes contributions of 22% of the total to WHO, 19% to WFP, 18% to UNHCR and 16% to UNICEF.

^{xi} Grand Bargain Workstreams 7 (multi-year funding and planning) and 8 (flexible funding) were merged in 2018 following recommendations made in the 2017 Independent Monitoring Report to become the “Enhanced quality funding” workstream (ODI, 2018).

^{xii} The Quality Funding Workstream issued new guidance in March 2020 on definitions of multi-year and flexible funding to support reporting for the Annual Independent Report (Quality Funding Workstream, 2020).

^{xiii} The Grand Bargain suggests using the OECD definition for multi-year funding as follows: “Multi-year funding is the funding given over two or more years for humanitarian assistance”

^{xiv} Responding organisations consulted noted that even when new funding has been publicly pledged, protracted negotiations on targeting have hampered their ability to procure essential supplies and contract downstream partners.

^{xv} UNHCR for example introduced a range of measures to increase flexibility including increasing the limit for budget line transfers within an output from 20% to 30%; waiving or deferring the need for formal amendments where possible; allowing recovery of expense for activities not completed or undertaken due to the pandemic; allowing overtime and the costs of personal protective equipment (PPE) to be charged; releasing payments before submission and clearance of financial reports; allowing submission of documents in electronic rather than hard copy format (UNHCR, 2020).

^{xvi} OCHA introduced a range of modifications to their partner agreements through the CBPFs including adapting to remote project monitoring and financial spot check; allowing reprogramming of existing activities; electronic signature of documents; cost extensions to allow scale up critical COVID-19 response activities; allowing cost eligibility to be backdated to the date of budget approval and eligibility of costs incurred for activities not completed or undertaken due to the pandemic, unforeseen expenses such as purchase of PPE, and staff costs during periods of suspension of activities; the creation of new budget lines for COVID-19 response activities without the need for formal amendment provided they remain within the 15% variance rule; the inclusion of a contingency budget line for new projects of up to 4% of the project value; and the opportunity for CBPFs to request blanket no-cost extensions for all projects (UN OCHA, 2020)

^{xvii} UNICEF introduced a range of existing measures including allowing modification of activity level budgets by up to 20% without the need for formal approval; reprogramming, suspension or termination of activities; and additional new measures including allowing costs for activities which can no longer be conducted, and unforeseen staff related expenses; adaptation to allow remote monitoring and verification; and acceptance of digital signatures (UNICEF, 2020).

^{xviii} The US, for example, the largest donor by a significant order of magnitude, stated in the 2018 Independent Annual reporting process that further reductions in earmarking are contingent on “significant advancements’ by aid organisations in relation to joint needs assessments, reducing management costs, greater transparency and multi-year planning.” These concerns are shared by other donors, who also note with concern the lack of progress against commitments 8.3 and 8.4 (Quality Funding Workstream, 2019a).

^{xix} In a 2017 workshop convened by former Workstream 7 it was noted that: “Many of the donors present indicated that they had increased the levels of multi-year funding in recent years. These donors will soon need to report on the benefits of this approach, and what has been achieved in greater efficiency and improved results. Therefore, greater effort in developing an evidence base that supports multi-year humanitarian funding by multi-year planning and programming is required.” (GB Workstream 7, 2017)

^{xx} In contrast, Development Initiatives’ 2019 global survey indicates there is progress in passing on multi-year funding. Among 11 aid organisations responding to Development Initiatives’ survey, the volumes of multi-year funding passed on to second-level recipients increased more than six-fold between 2016 and 2018, from US\$92.4 million to US\$573.6 million in 2018 (DI, 2019).

^{xxi} Development Initiatives found only one donor in Jordan and Lebanon for example who required partners to pass on multi-year funding to partners (DI & NRC, 2019)

^{xxii} Note implementing partners includes NGOs and government partners.