

# The state of humanitarian funding

by Peter Walker and Kevin Pepper

**Is the pot of humanitarian finance able to meet present and projected global humanitarian needs? Does money follow need? Do existing financing mechanisms promote quality, context-specific, timely and evidence-based aid? Is funding going to the right people in the right places in the most efficient way?**

For decades an increasing percentage of official development assistance (ODA) has been spent on humanitarian assistance: from around 3% in the 1970s to between 10% and 14% today. In 2005, an estimated \$18 billion was raised by the international community for humanitarian assistance. Data suggests that although humanitarian assistance is still increasing it is doing so at a slower rate. If the beginning of humanitarian reforms was in 2004, humanitarian aid is seen to have grown at a much higher average annual rate during the pre-reform period of 2000-03 (55% growth rate) than it did in the post-reform years of 2004-06 (11% growth rate).

Humanitarian assistance is highly concentrated. In 2004, six countries received an estimated half of humanitarian assistance: Iraq (16%), Sudan (11%), Palestine (8%), Ethiopia (6%), Afghanistan (6%) and DRC (4%). The remaining 53% of humanitarian assistance was shared among 148 countries. These patterns of concentration cannot be explained by relative humanitarian need alone. The system clearly has a long way to go before it approaches impartiality, both in terms of how donors allocate their funding and where and how agencies choose to operate.

Food aid commands the biggest share of humanitarian assistance, a great deal of it in the form of tied food aid. The overall value of humanitarian aid falls significantly if tied food aid is taken out. Of Consolidated Appeals Process (CAP) appeals between 2000 and 2005,

\$8.6 billion (55%) were allocated within the food sector – larger than all of the other sectors combined.

## **DAC – no longer the only donor club**

A host of new donors have added their weight to the traditional pool of wealthy, industrialised countries linked to the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). To get the whole picture of humanitarian funding it is necessary to include funds from governments that are not members of the OECD, funds channelled through military forces for humanitarian-related activities, additional diaspora remittances responding to crises, funds raised from the public by NGOs, corporate and foundation contributions and the contribution of affected states and their municipalities. Most of this data is either not collected or not collated.

'Non-traditional,' 'non-DAC' or 'emerging' humanitarian donors are starting to support the joint mechanisms and codes that have recently characterised the traditional humanitarian financing system. During the Asian tsunami and in Lebanon after the Israeli offensive new donors made significant contributions toward humanitarian efforts. Non-DAC donors now represent up to 12% of official humanitarian financing. They focus on humanitarian engagement in neighbouring countries, and maintain a strong preference for bilateral aid, including the Red Cross/Crescent, over multilateral mechanisms.

The largest seven or eight transnational NGOs deliver the lion's share of emergency assistance and in 2004 NGOs were responsible for as much as 45% of all humanitarian assistance. In 2005 approximately one-third of the \$8.4 billion state-donor funding ended up flowing to NGOs, directly or via UN agencies. In addition, NGOs received somewhere between \$2 and \$5 billion in private donations, suggesting that between 48% and 58% of all known humanitarian funding flowed through NGOs.

Foreign military involvement in emergency relief is growing. As an example, Commanders' Emergency Response Program (CERP) funding for Iraq and Afghanistan<sup>1</sup> – deployed in the hope of increasing the flow of intelligence to the US military – is set to reach \$456 million in 2007. Between 2002 and 2005 USAID's share of US ODA decreased from 50% to 39%, and the Department of Defense's increased from 6% to 22%. As standing armies adjust to fight today's wars, their use of 'hearts and minds' strategies is more likely to grow than shrink. Humanitarian agencies need to confront this reality.

## **Transaction costs**

Funding flows along a chain of varying length with varying percentages of the total being retained at each stage. It is astonishingly difficult to get accurate figures from agencies on these transaction costs. A million dollar grant from a donor may pass to a UN agency, to an international NGO, to a local partner and finally to the beneficiaries, with each actor along the chain taking out a 10% overhead. When the beneficiaries get only \$729,000, can one say that the \$271,000 in accumulated transaction cost has been money well spent?

The multilayered nature of the humanitarian system makes it extraordinarily difficult to gauge

An American C-130 airdrops relief supplies including plastic sheets, blankets and mosquito nets to the Dadaab camps, Kenya.



UNHCR/B. Bannion

overall efficiency, and raises a fundamental question. In a complex system owned by multiple parties, who has final accountability for safeguarding overall standards of efficiency and effectiveness? Concerns for sovereignty, mandate protection, independence and inclusiveness seem to cause donors and agencies to shy away from tackling system-side issues. The donor, UN and NGO reforms of the past decade may have improved individual components of the system but its overall architecture is still inherently inefficient.

Financial managers in the field point to the practical accounting and regulation hindrances which make it difficult to move funds between UN agencies, to administer one rather than multiple auditing systems or to have common standards for financial reporting. In many instances, the barriers to effective reform are administrative rather than conceptual or political.

### Recent reforms

Around 10% of official humanitarian aid is now delivered by new mechanisms. Their roll-out has illustrated the complications, and the gains made, in improving the quality of the overall system.

- The Central Emergency Revolving Fund (CERF)<sup>2</sup> was expanded tenfold in 2005 to provide grant funding, empower UN agencies to respond more rapidly to emergencies and address under-funded crises. The CERF has committed more than \$426 million for more than 510 projects in 44 countries. The CERF could be a mechanism for funding forgotten emergencies and crises too small or insignificant to hit the radar screens of bilateral donors and larger NGOs. Yet, so long as only 3% of funds flow through the CERF, its impact will be limited.
- The Common Humanitarian Fund (CHF) – piloted in Sudan<sup>3</sup> and DRC in 2006 – is designed

to address a critical flaw in the Consolidated Appeal Process (CAP). The CHFs were set up to quickly and flexibly provide funds against the CAP and allow the UN Humanitarian Coordinator to determine resource allocation, working closely with cluster/sectoral leads.

- OCHA-managed Emergency Response Funds (ERFs)<sup>4</sup> seek to offer rapidly available small grants (up to \$130,000) to in-country organisations (both NGOs and UN agencies). ERFs have created a more favourable relationship between participating UN agencies and NGOs. ERF advisory boards comprise both UN and NGO representatives. However, disbursement delays have caused frustrations.

Funding according to identified need and in proportion to priority needs is a core principle of humanitarianism, and at the top of the Good Humanitarian Donorship<sup>5</sup> commitments list. Donors, recipient agencies, beneficiaries and humanitarian personnel have flagged a number of key concerns regarding the state of humanitarian needs assessment. There is a critical dearth of hard data, particularly in the early stages of rapid onset disasters, to support dynamic needs assessment. Lack of data creates a self-defeating cycle where needs assessments are under-resourced by donors, agencies are therefore unable to invest in them and they lose visibility for donors. Donors frequently make decisions without consulting each other, and collective efforts to pool funding and make joint decisions regarding needs assessment are viewed as inefficient and inimical to rapid service delivery.

The evidence is not conclusive as to whether new UN financing reform mechanisms will effectively pool funding in an impartial and rapid manner and direct them into priority needs. There is a concern that these new instruments could introduce another layer of bureaucracy and transaction costs without resulting in a clear improvement in strategic needs assessment.

Once again, this takes us back to that fundamental question of agreeing the legitimate response

of the international community to a humanitarian crisis: a band-aid on the symptoms or redress for the causes of those symptoms coupled with a prescription for reform? These are not just issues of definition but intensely political ones and it is by no means clear that the 'humanitarian community' can or should come to a consensus on the answers. With the proliferation of military, commercial, state and humanitarian interests in crisis management this conundrum is growing, rather than decreasing, in importance.

### Critical questions

Below are what we believe to be the more critical questions to ask about the humanitarian funding system. For each question we provide what we think the answer is today plus a brief analysis – but not the way forward.

**Question 1:** Is global humanitarian funding commensurate with global humanitarian needs and do we have an effective methodology for determining humanitarian needs in any one crisis?

**Answer:** Not really.

In reality, we have no idea what global humanitarian needs are. There are just not enough trained and skilled people in the right places to collect and analyse data. We only know what we can measure, so crises that are unnoticed or contained within a nation state go unrecorded. In addition, what we do measure, we do in a very imprecise way. Our definitions of what constitutes need are based on models where crises are unexpected, time-limited phenomena. An increasing number of crises are open-ended and recurrent, involve previously marginalised communities and constitute a new, if unacceptable, normality. The impact of climate change, migration patterns and the proliferation of small arms will only add to this load. In addition, crises often left off the 'humanitarian table' – most notably Israel/Palestine and Iraq – have not yet been fully addressed by the humanitarian community.

**Question 2:** Is there enough humanitarian funding available?

**Answer:** Probably not.

Funding from the DAC donors is well-tracked, as is funding through the UN system. Funding from private donations and foundations into

NGOs (large and small) is poorly tracked outside of each individual agency. Diaspora funding to affected communities and funding from local NGOs and governments of conflict/disaster-affected nations are largely unknown. We may not know how much funding is really available but we do know that in many crises there is not yet enough to allow agencies to reach even the minimum agreed standards.

**Question 3:** How well do we address the volatility of humanitarian aid flows?

**Answer:** Sporadically.

We can predict a great deal of the humanitarian load but, unfortunately, most funding is still reactive. As disasters happen, appeals are written and funds allocated. There are exceptions. The US State Department's Bureau of Population, Refugees and Migration makes large annual largely un-earmarked contributions to ICRC's and UNHCR's relief work. Many other donors also make un-earmarked allocations. NGOs are concerned, however, that the reform mechanisms – CERF, Common Funds and ERFs – put them at a greater distance from the funding source, adding another layer of decision making and unpredictability.

**Question 4:** Is humanitarian funding timely?

**Answer:** No.

The reactive nature of funding systems combined with the increased attention paid to financial accountability ensures that funds flow more slowly through the system than we would like. Funding can take up to 40 days to be released.

**Question 5:** Is humanitarian funding flexible enough?

**Answer:** No.

The push for greater accountability has resulted in substantial funding being allocated against RFPs (requests for proposals) and in agencies having to work against detailed line item budgets which form part of their contractual agreement with donors. There is some evidence that leading donors are starting to back away from this heavy management approach. The reality is that humanitarian operations, like military campaigns,

deviate from their plans from the day they start. Agencies report that their staff feel constrained to programme along the grant-defined deliverables even if these – on implementation – prove inappropriate.

**Question 6:** Do funding mechanisms sufficiently serve the differing needs of the various humanitarian assistance agencies?

**Answer:** Unsure.

Agencies as diverse as ICRC, UNICEF and CARE work to different objectives, timetables and modus operandi. In the search for funding reform and consolidation, donors need to ensure that they retain the ability to fund agencies according to their principles and specific strengths.

**Question 7:** Are funding mechanisms sufficiently transparent and accountable to their stakeholders, including beneficiary groups and their nation states?

**Answer:** Getting better.

OCHA's Financial Tracking System has greatly increased the transparency of aid flows. Transparency of decision making involving what is essentially a 'public good' (global humanitarian funding) is less well-developed, although the growing commitment to beneficiary accountability is a welcome move.

We hope that FMR readers will take the next step and suggest practical actions to move forward on each of these issues.

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1. [www.dtic.mil/doctrine/jel/jfq\\_pubs/0937.pdf](http://www.dtic.mil/doctrine/jel/jfq_pubs/0937.pdf)

2. <http://ochaonline.un.org/FundingFinance/CERF/tabid/1109/Default.aspx>

3. [www.unsudanig.org/workplan/chf](http://www.unsudanig.org/workplan/chf)

4. [www.goodhumanitariananddonorship.org/emergency%20response%20funds%20final%20review%20report%20jan%202007.pdf](http://www.goodhumanitariananddonorship.org/emergency%20response%20funds%20final%20review%20report%20jan%202007.pdf)

5. [www.goodhumanitariananddonorship.org](http://www.goodhumanitariananddonorship.org)