Remaking the Humanitarian Business Model

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CGD's Humanitarian Research Vision

- Addressing the links between three core components of aid practice: field delivery, the business model, and governance
- Moving beyond technical or normative fixes:
  - Grappling with imbalanced power structures
  - Addressing skewed incentives
- Emphasis on concrete, actionable recommendations

Recent Paper: Area-Based Coordination

- The clusters were an important step forward when they launched 15 years ago!

- But they have had persistent shortcomings:
  - Siloed and fragmented programming
  - Weak frontline coordination
  - Reinforced the power and resource dominance of big agencies
  - Marginalization of national and local influence

- These weaknesses are inherent to the structure of the cluster approach, and its relationship to the humanitarian busines model

Skewing the business model

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The clusters concentrate power and funding centrally:

Figure 2. Top 10 funding requests by appealing organization, 2019

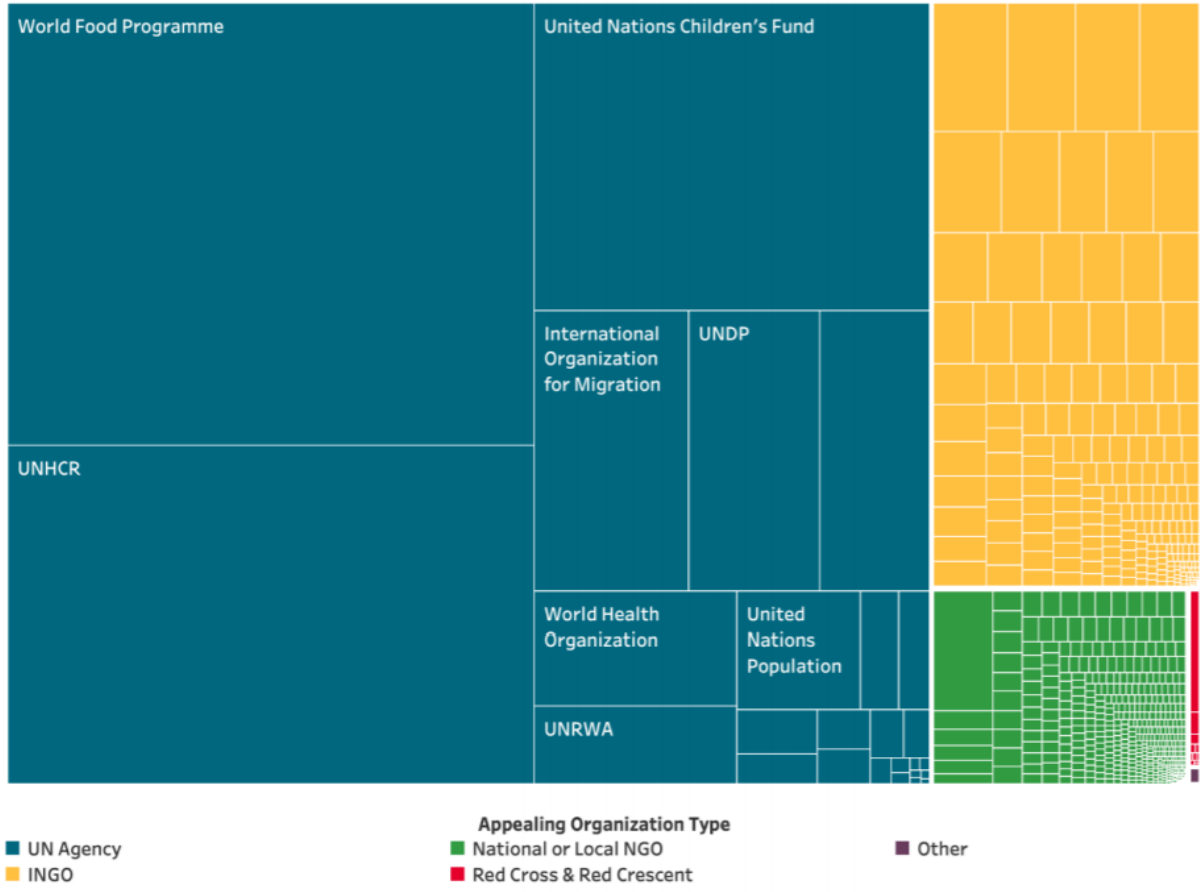
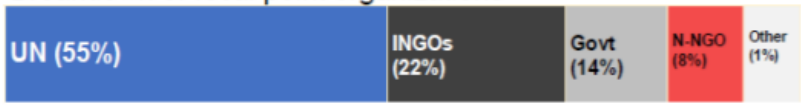


Figure 3. OCHA data on cluster lead agency and cluster composition

Cluster/sector leadership – national (total: 287)
Breakdown of lead/co-lead organizations

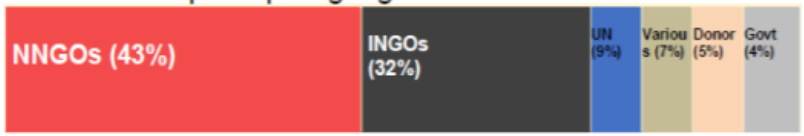
Notes: Clusters/sectors have one (57%), two (38%) or three (5%) leads/co-leads.

Cluster/sector leadership – subnational (total: 894)
Breakdown of focal point organizations



*Notes: * Subnational hubs are led by one (56%), two (40%) or three (4%) organizations. * 29% (or 84) clusters/sectors have no subnational presence or the information is missing.*

Cluster/sector membership (total: 12,903)
Breakdown of participating organizations



Notes: Various (7%) accounts for the International Red Cross/Red Crescent Movement (3%), academia (1%), private sector and IFIs (1%) and other organizations (2%).

Another way to frame that data:

Cluster inputs to the appeals request thousands to tens-of-thousands percent more for cluster leads agencies than for the largest national partners.

Table 1. Percent difference between the largest request for a national or local organization and the amount requested for cluster lead agency

	Food security	Health	Nutrition	Shelter
Bangladesh JRP (Rohingya)	10,670	527	No national or local	3,364
Iraq HRP	13,781	1,390	No nutrition appeal	5,124
Mozambique HRP	No food sec appeal	No national or local	No national or local	No national or local
Nigeria HRP	13,568	No national or local	19,059	1,586
Somalia HRP	9,386	192	4,592	1,912
South Sudan HRP	18,733	439	10,627	2,641
Sudan HRP	20,747	3,713	15,496	7,391
Syria HRP	9,623	2,103	12,034	6,466

Note: JRP=Joint Response Plan; HRP=Humanitarian Response Plan

A different model: Area-Based Coordination

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Area-based approaches are grounded in 3 common elements:

1. Interventions are organized by community or geography, not sector
2. Programs are explicitly integrated and multi-sectoral
3. Direct engagement of affected communities in program design and implementation.

Applying these principles to the humanitarian coordination architecture could address the clusters' weaknesses…

What would this look like in practice?

- Coordinate the humanitarian program cycle (assessment, planning, appeals, implementation) around **geography**, not sector or mandate
- Refocus the clusters on their comparative advantages: technical standards, quality assurance, last-resort gap-filling
- Devolve principal responsibility for program cycle coordination to integrated sub-national hubs and antennas
- Devolve larger share of funding to sub-national hubs/antennas
- Integrate local leaders and civil society fully into program cycle coordination - influence, not just attendance

Understanding donor behavior

Findings from CGD's donor research initiative

Donor participation in the research process

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Survey

- 14 donors
- ~60% of total 2019 humanitarian funding in FTS

Interviews

- 9 donors
- ~50% of total 2019 humanitarian funding in FTS

PREDICTABILITY: More donors could share funding projections, but don't do so consistently

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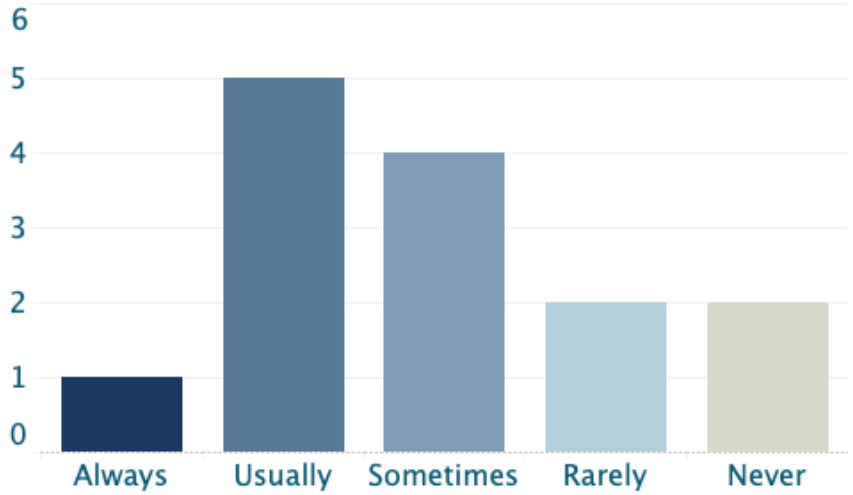
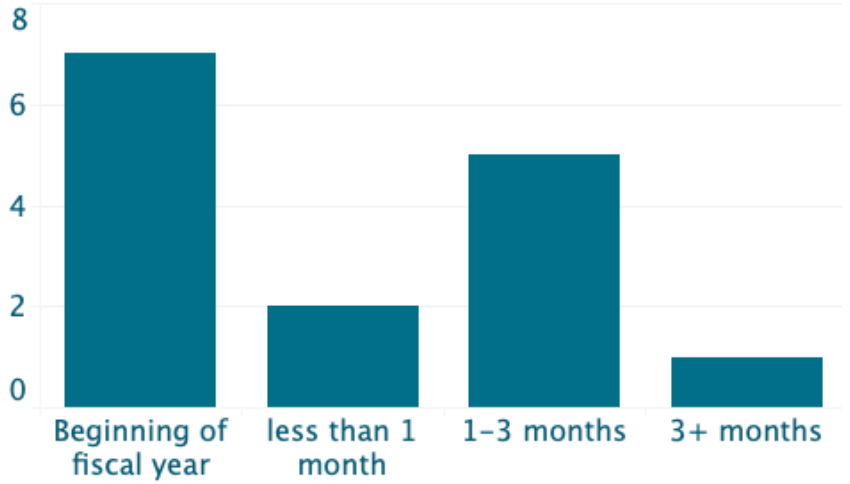
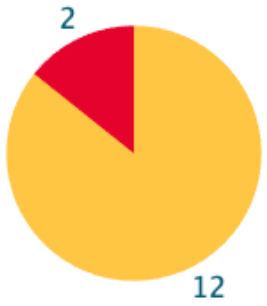
Donors share planned allocations toward crises, projects, or partners



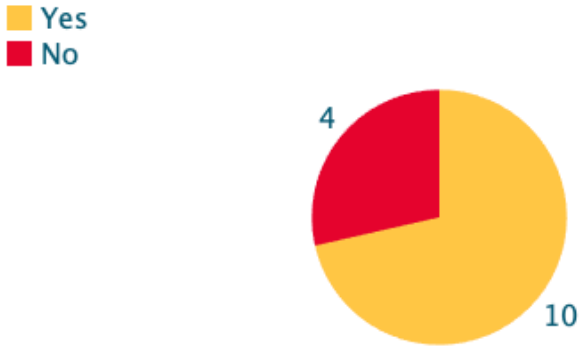
Donors share allocations information this far in advance



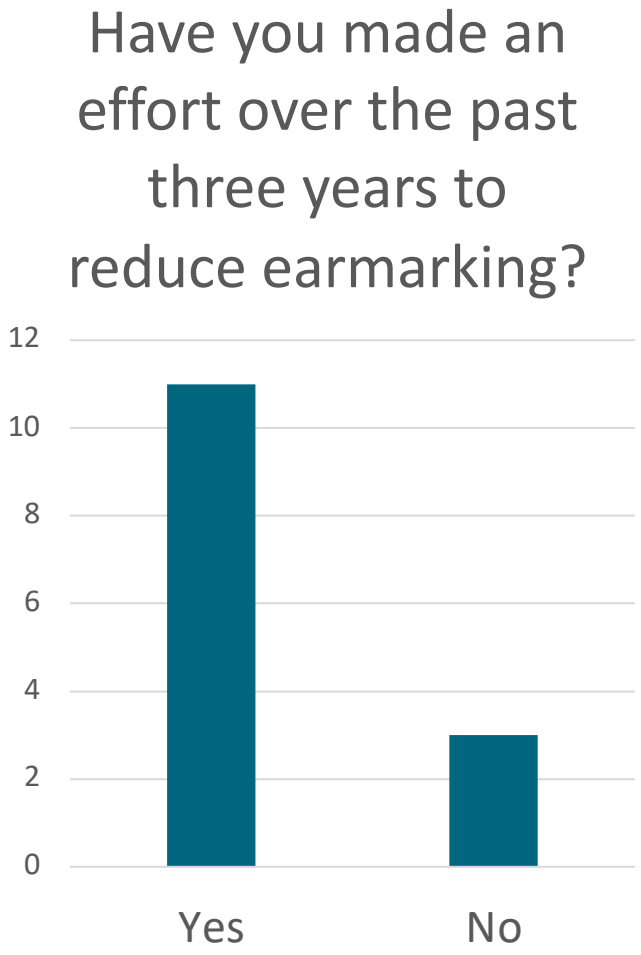
Planned allocation levels are established at the beginning of the financial planning cycle (e.g. fiscal year)

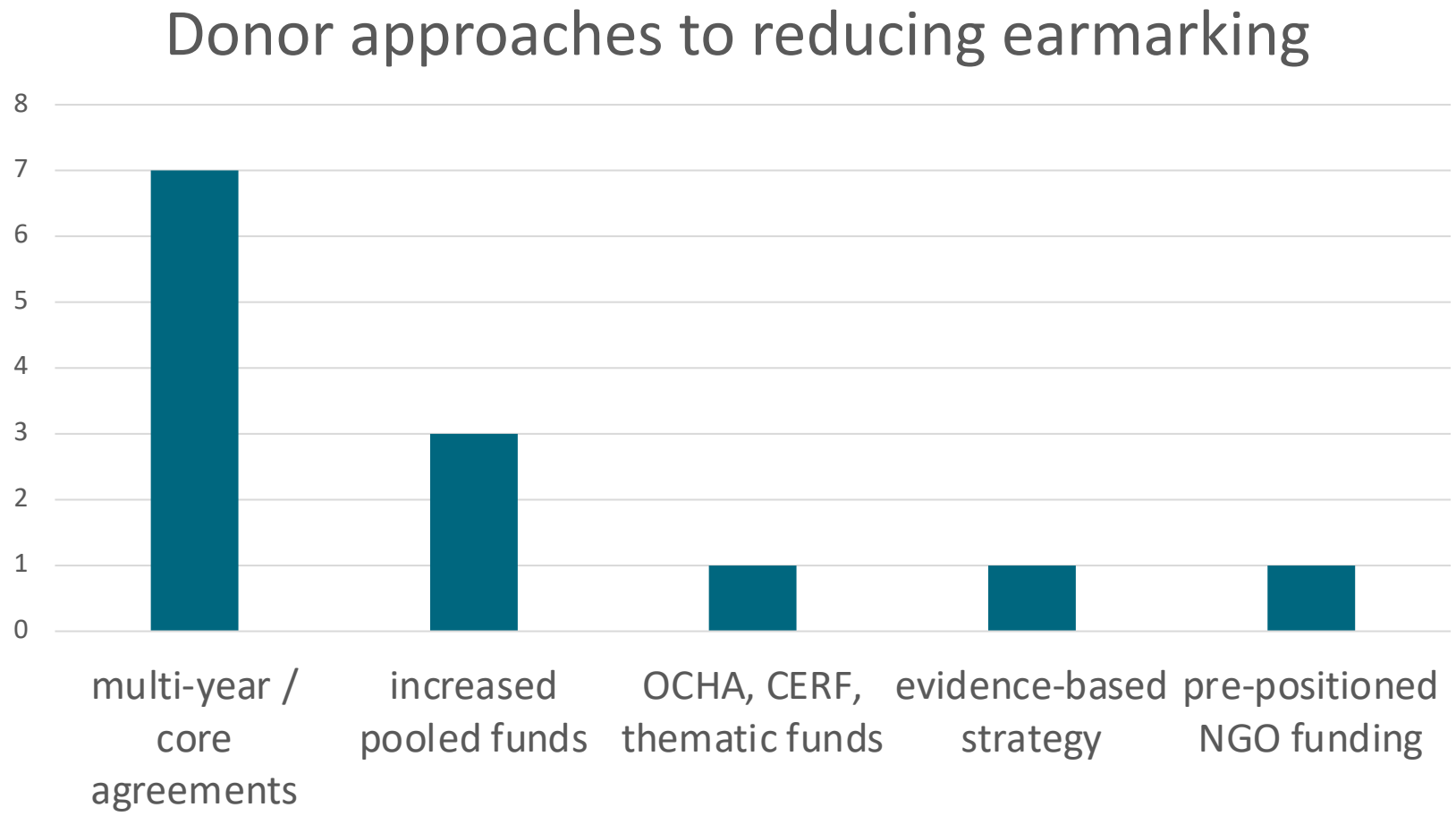


It would be feasible to share planned allocations in advance

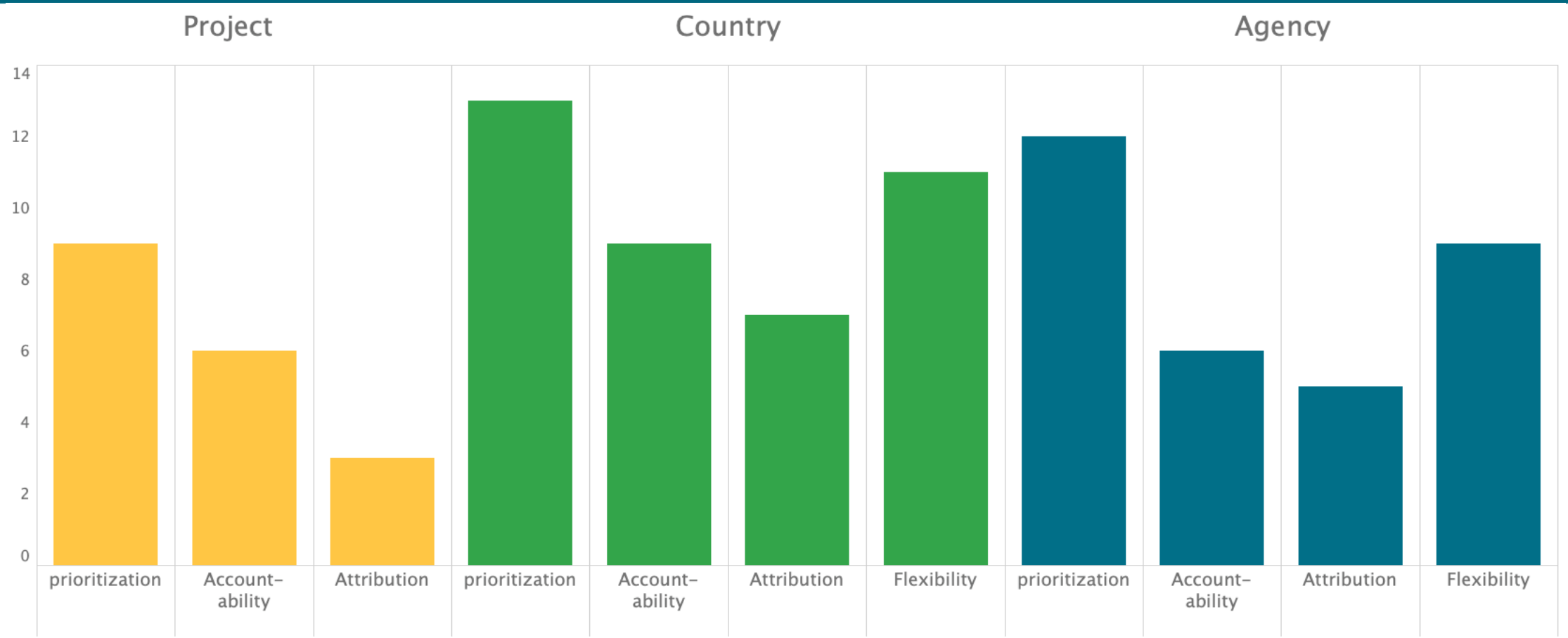


Earmarks: Donors feel they are reducing them!





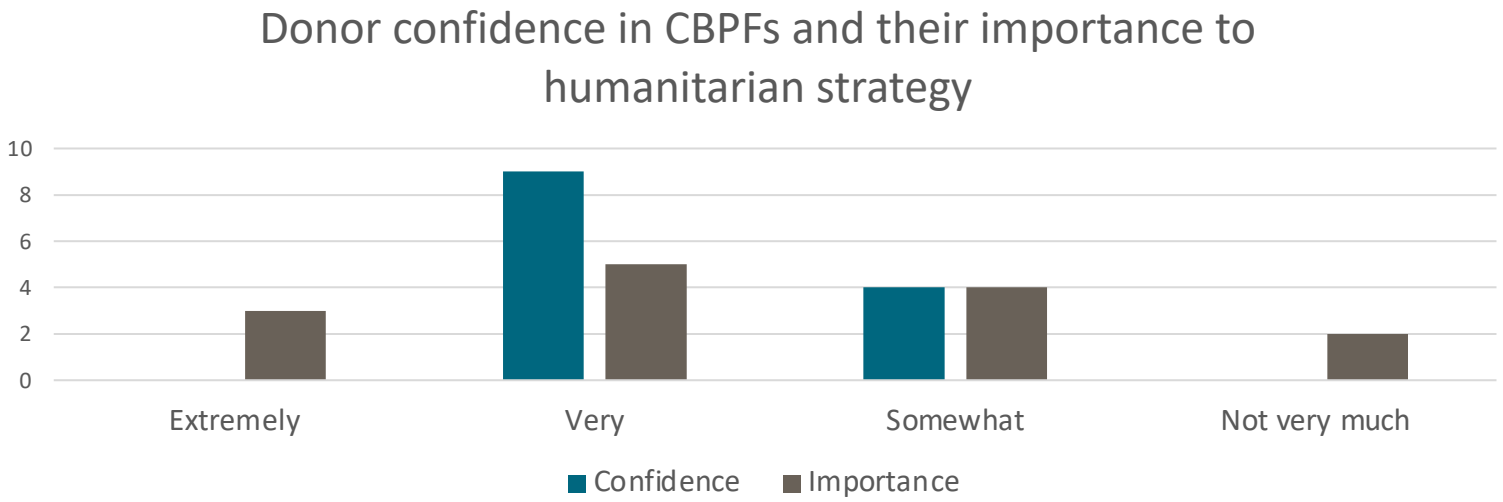
BUT most report seeing usefulness in earmarks - as a way to influence prioritization



Definitions

Prioritization – ensuring that a specific priority activity is financed
Accountability – tracing specific funding toward specific activity
Attribution – ability to publicize support for a specific project
Flexibility – enabling country-level partners to allocate funds flexibly toward priorities

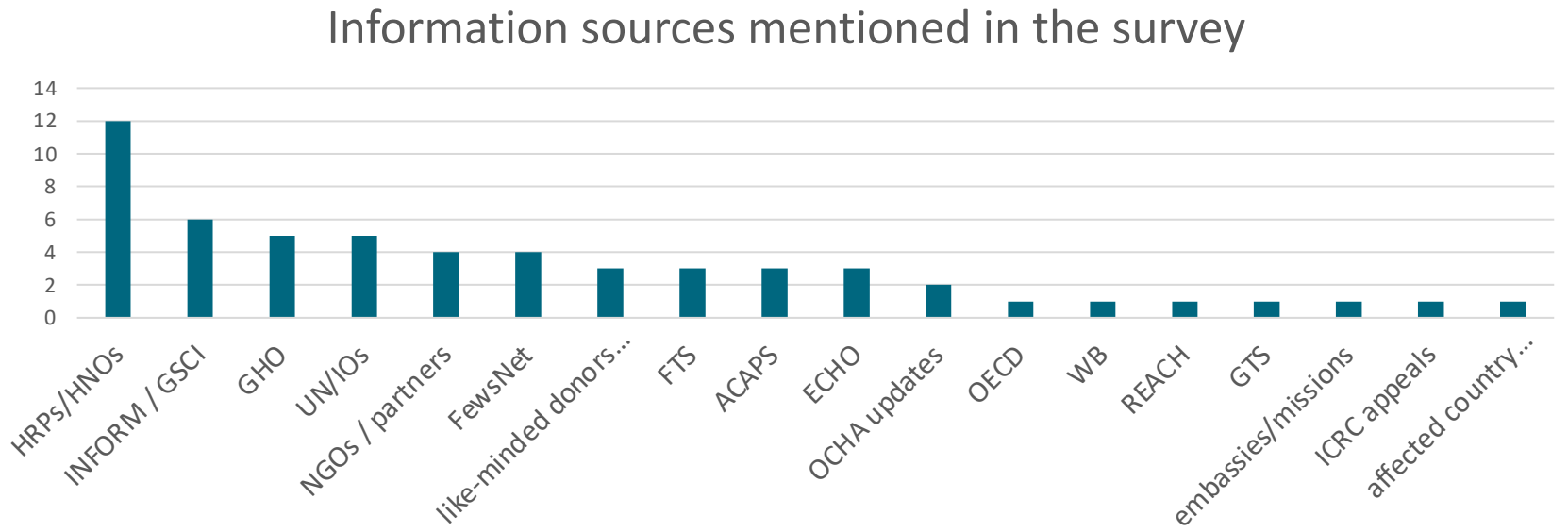
Country-based Pooled Funds

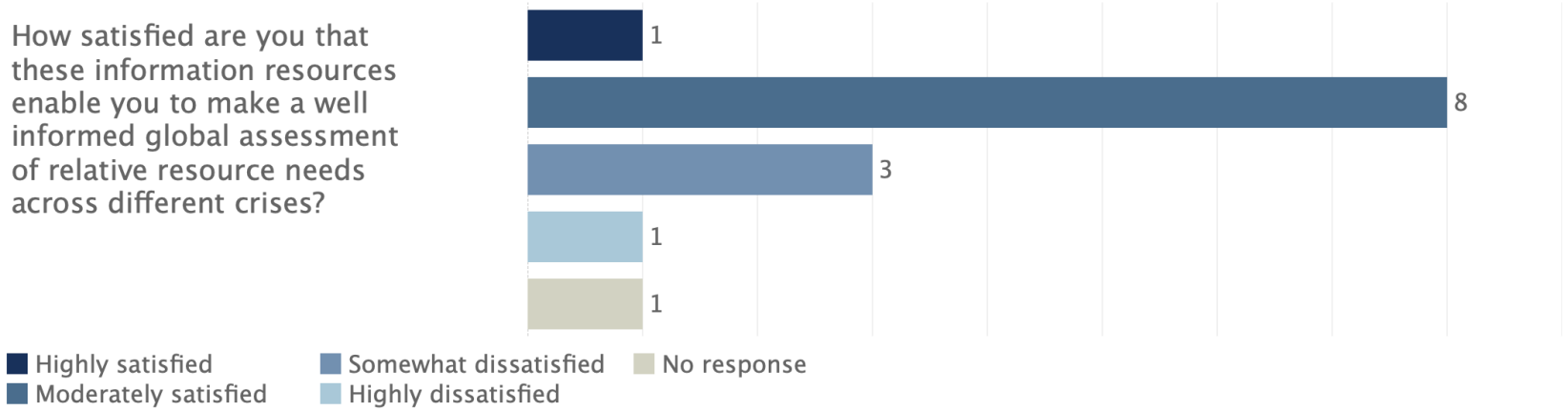


CBPF Primary and Secondary Advantage Capacities

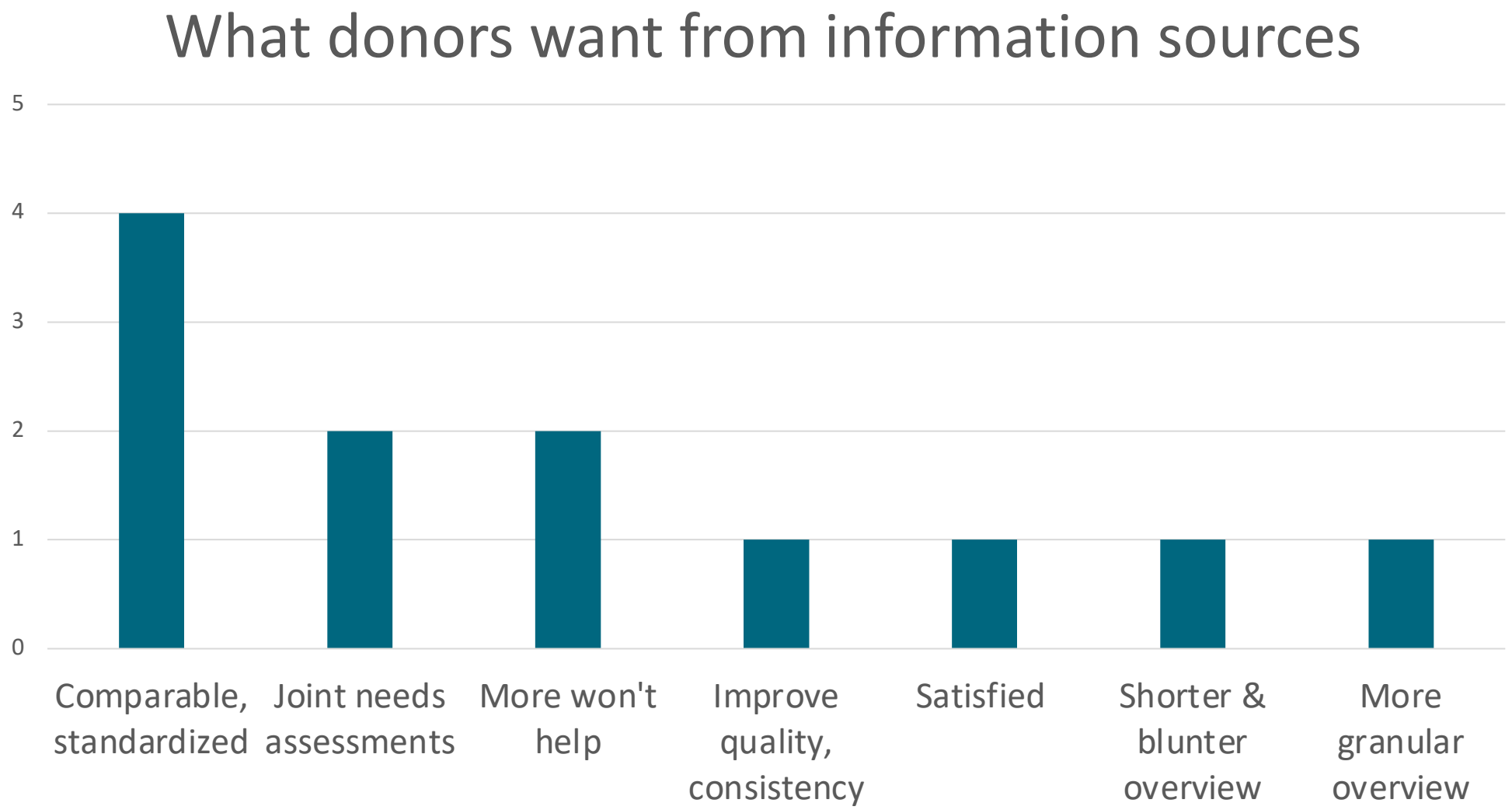
	Primary	Secondary	
Front line capacity	64%	Absorptive capacity	29%
Absorptive capacity	21%	Performance accountability	21%

Donor are moderately satisfied with information on needs….





…and cite areas for improvement:



Different advantages in different recipients

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Top responses to what donors see as the primary and secondary comparative advantages of different funding recipients:

	Global pooled fund		Country-based Pooled Fund		Multilaterals		INGOs		Red Cross / Red Crescent	
Primary Advantage	Absorptive capacity	38%	Front line delivery	67%	Absorptive capacity	62%	Front line delivery	91%	Front line delivery	85%
	Front line delivery	38%	Absorptive capacity	25%	Front line delivery	23%	Performance accountability	9%	Front line delivery, Institutional history	8% (tied)
Secondary Advantage	Absorptive capacity	38%	Absorptive capacity	36%	Performance accountability	70%	Performance accountability	69%	Performance accountability	38%
	Institutional history	23%	Performance accountability	27%	Financial accountability	20%	Institutional history	15%	Institutional history	38%

Donor confidence in organization types

	Extremely confident	Very confident	Somewhat confident	Not so confident	No response
Country Based Pooled Fund		64%	29%		7%
Global Pooled Fund		64%	21%	7%	7%
International NGO	7%	57%	29%		7%
Multilateral agency	7%	36%	50%		7%
Red Cross / Red Crescent	14%	79%			7%

Localization faces structural challenges

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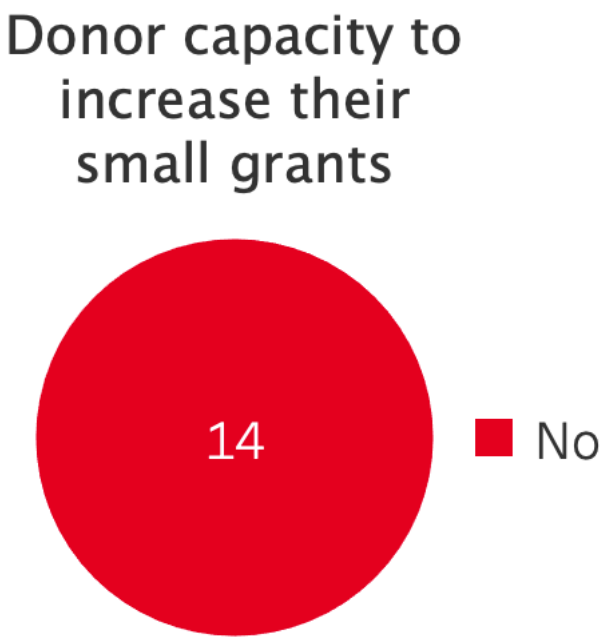

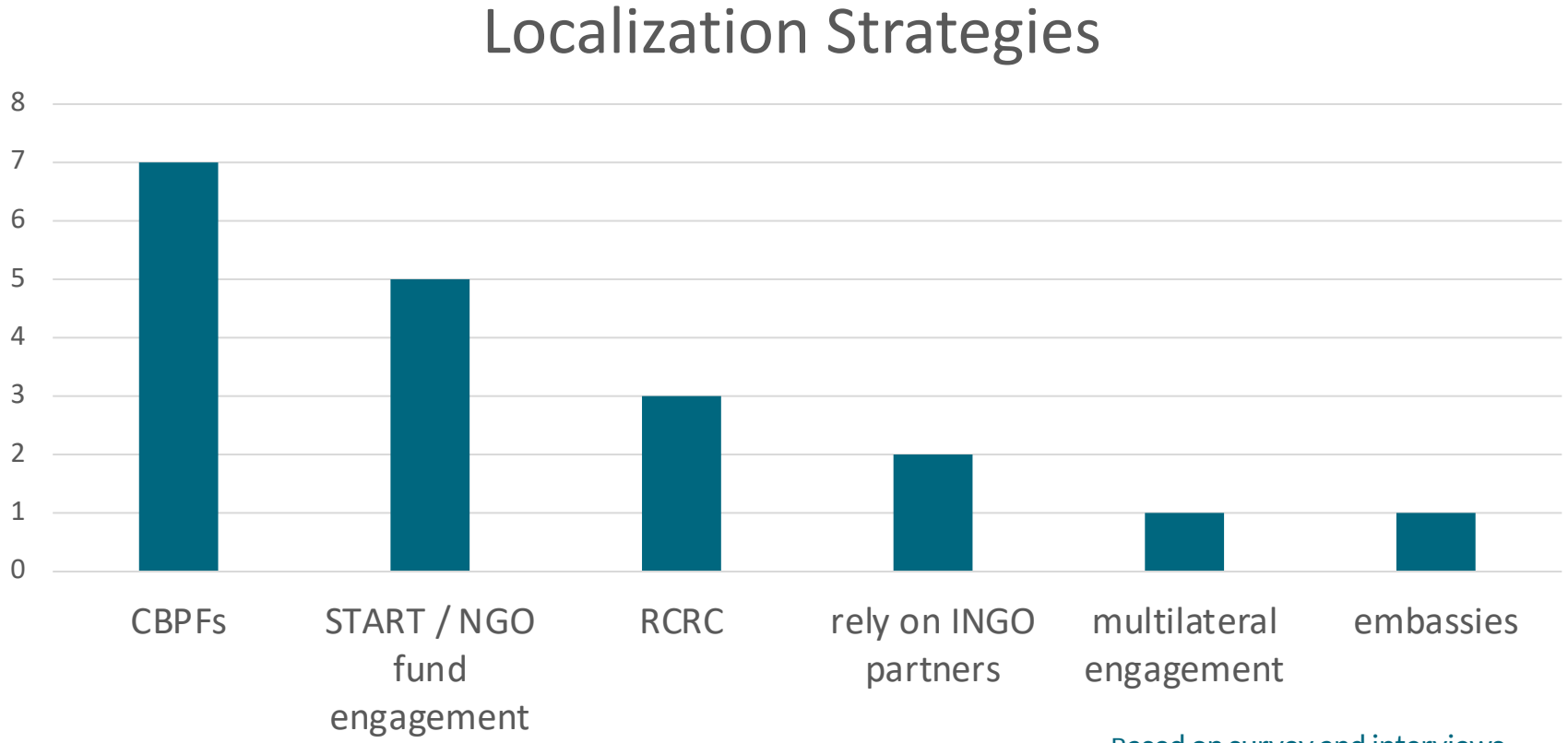

Based on survey and interviews

Other takeaways from donor research

- General frustration with the existing business model, but perceived lack of an alternative
- Donors will remain heavily reliant on intermediary absorptive capacity (agencies or pooled funds)
  - But look to others for frontline delivery
- Donors have ability to shift practices and priorities
  - Political will & collective action are bigger obstacles than legislative barriers
- Informal relationships and institutional history matter

Building a New Business Model

"End-to-end mandate ≠ end-to-end delivery"…but that's what the current business model incentivizes.

Three big ideas to change that:

- Create a global replenishment mechanism
- Invert the pooling ecosystem
- Financing-by-Function for multilateral agencies

Create a Global Replenishment Mechanism

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Funding flows to crises are:

- Lumpy (arrive at inconsistent times via numerous redundant channels)
- Unpredictable
- Short term/single-year
- Rigid: heavily earmarked by agency or project
- Lack clear priorities

A Global-Fund-style Replenishment Mechanism:

- Streamline and rationalize funding flows
- Data-driven, needs-driven allocations across crises
- Prioritized and coherent
- True pre-arranged multi-year crisis finance; possible bond instrument
- Greater predictability

Invert the Pooling Ecosystem

- Pooling is inevitable; the current pooling model is not
- 60%+ of response financing is via UN agencies, acting as de facto pooled funds
- Actual pooled funds are ~6% of system funding –mostly fill gaps
- Agency pooling is:
  - earmarked by mandate
  - less efficient, transparent
  - more duplicative, fragmented

An alternate model:

- Core response funding via crisis-level pooled block grants
- Agency-level funding refocused on core activities, not pass-thru
- Streamline funding flows: fewer layers & transaction costs
- Integrated multi-year, multi-sector programmes
- Greater accessibility to frontline & local actors

Financing by Function

Traditional UN agency financing creates skewed incentives:

- Donors prefer to fund program delivery, not mandated functions
- Strong incentive to conflate core & discretionary costs
  - In turn capturing most sectoral program funding
  - Financing core roles as de facto overhead
- Core donors subsidize projectized donors

A Finance by Function Model:

- Mandated costs shared more consistently across members
- Reliable core $$ reduces pressure to capture sectoral program $$
- Program funding supports agency delivery, not pass-through
- Separate funding for assessment, targeting and M&E reduces conflicts of interest
- Comparable cost-structures across agencies

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