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Rethinking the Humanitarian Business Model

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KEY TAKEAWAYS

- **Humanitarian reform efforts in recent decades have underperformed because they have focused on enhancing coordination without realigning funding incentives.** The predominant business model in the humanitarian sector encourages UN agencies to conflate their designated normative and technical leadership functions with their own programmatic fundraising in ways that directly impede cohesive, end-user-centered humanitarian response.
- **Emerging trends in humanitarian aid—particularly around unconditional cash programming, impartial and comprehensive needs assessments, and country-based pooled funds—are disrupting these incentives.** These trends have the potential to more objectively and efficiently orient funding toward needs, rather than the global mandates of large agencies.
- **But disrupting the traditional humanitarian business model holds risks that must be managed carefully.** If this disruption proceeds in an ad hoc manner, it could harm humanitarian effectiveness. Donors should reexamine their funding practices and work closely with aid groups to ensure these changes deliver constructive outcomes for populations in need.

The humanitarian sector has embarked on three major rounds of reform since 2005. Faced with a sector that is systemically fragmented and supply- rather than demand-driven, each set of reforms has defaulted to better-coordinated fragmentation while ignoring the upstream business model that finances and shapes incentives for humanitarian response. These reforms have failed to produce fundamental change—even as they have produced reams of new coordination guidance documents and a cottage industry of meetings and conferences. The past decade makes clear that the humanitarian sector's shortcomings cannot be resolved through coordination alone.

It is time for humanitarian stakeholders to take a harder look at the financial incentives that underpin the industry. These incentives—and the symbiosis of donor and agency interests that produces them—impede rather than enable progress toward reform. The incentives baked into the humanitarian business model are far from the only major obstacle to humanitarian effectiveness (amidst rising threats to aid workers and creeping erosion of international humanitarian norms) but changing them is comparatively low-hanging fruit. Delivering on the promise of reform—a humanitarian system that is truly centered on the needs and aspirations of crisis-affected people—will require disrupting this business model.

A BRIEF THOUGHT EXPERIMENT

Suppose a humanitarian donor wants to fund a $50,000 procurement of shelter relief supplies by an aid group in South Sudan.

Donor guidelines will require that robust checks and balances are built into the process. The staff selecting the winning bidder on a tender must be different from those authorizing the payment; who in turn must be distinct from the staff monitoring the supply distribution; who must themselves be distinct from the staff evaluating the project's overall success. Each major decision point within the process rests in a different set of hands, better ensuring its overall validity. This is often called "segregation of duties"—a dry term for the simple but powerful idea that avoiding monopolies of financial and executive power improves objectivity, value for money, and accountability (this is also, when applied to politics, a foundational concept of most modern systems of government).

But now zoom out and suppose this same donor wants to support the humanitarian response in South Sudan writ large.

Picking up the UN response plan, the donor sees that food security is a major need. Invariably, a UN response plan will identify the World Food Progamme (WFP) as the primary recipient for food security funding. In proposing WFP as the lead recipient for this funding, the plan will have relied on analysis generated by a WFP-led cluster committee. That analysis will in turn be heavily based on needs-assessment data collected by WFP. More often than not, the bulk of the donor's money will go toward a cluster appeal coordinated by WFP, to finance a project that will be implemented or subcontracted by WFP, using commodities obtained by WFP. Project impact will then be monitored by WFP, or through the cluster committee chaired by WFP. And at the end of the year WFP will write up the operation's final report to the donor. At each step along the way, discrete response-wide processes—the sector's strategy, funding priorities, program delivery, oversight, and impact evaluation—effectively rest in a single organization's hands.

THE HUMANITARIAN BUSINESS MODEL

This dynamic is not unique to WFP—it is the predominant manner by which donors finance the humanitarian system. Switch this story to water and sanitation programs and things look similar—just swap in UNICEF. Switch this story to refugees and things look similar—just swap in UNHCR. The standard UN agency business model inherently blurs an agency's mandated normative and technical leadership with promotion of its own institutional programs and fundraising. The kind of structural segregation of duties that donors would insist on in a project context goes totally out the window when they make their contributions at a macro level.

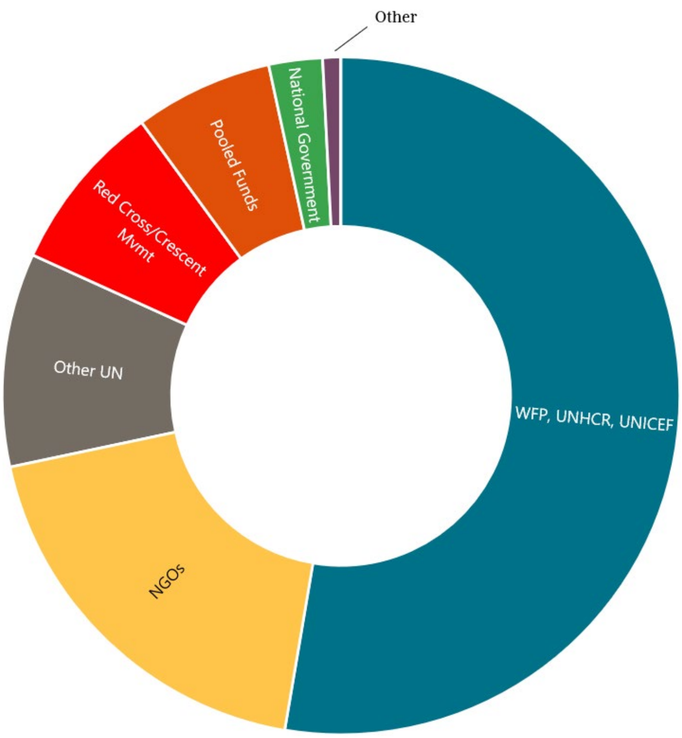
This business model means that the operational-level checks and balances required to ensure objectivity and value for money on a $50,000 commodity procurement are more robust than the strategic-level checks and balances required to ensure the same objectivity and value on a $50 million contribution toward a UN appeal. Within their mandated sectors, major UN agencies can assess needs and define the response strategy; serve simultaneously as fundraiser, intermediary donor, and project implementer; monitor and evaluate their own activities, measured against technical standards that they maintain; and serve as the final arbiter in reporting on the impact of their interventions.

This setup has underpinned enormous growth by the biggest aid agencies.[1] Of the $19.7 billion in specified humanitarian contributions in 2017,[2] nearly two-thirds—or

1 This research relies on figures from the UN's Financial Tracking Service. The FTS is a voluntary repository of budget information supplied by donors and recipient agencies. While it is not an exhaustive reflection of the full universe of humanitarian financing, it is a suitable proxy for assessing the flow of global humanitarian contributions.

2 This paper's figures exclude funding that lacks a designated recipient in the UN's Financial Tracking Service; these amounts average around 5-6 percent of recorded contributions each year. For 2017,

FIGURE 1 . 2017 Global Humanitarian Funding by Organization Type



$12.5 billion[3]—went to UN agencies. And $10.5 billion of that—more than half of all humanitarian funding—went to just three: WFP, UNHCR, and UNICEF.

These proportions have remained remarkably consistent for the past several decades, even as humanitarian financing has increased fourfold since 2002. The "big three" UN agencies have evolved to function as pooling agents for large-scale donor funding, while also serving as deliverers and principal evaluators of that funding.

Within their mandated sectors, they are dominant: WFP regularly receives at least three-quarters of food aid funding; UNICEF receives nearly as much water, sanitation, and hygiene (WASH) funding as the whole of the NGO sector; and UNHCR dominates refugee-related giving. Smaller UN agencies—like the United Nations Population Fund (UNFPA), the United Nations Development Programme (UNDP), and the Food and Agriculture Organization of the United Nations (FAO)—are less dominant funding-wise but nonetheless operate on a similar fundraising model.

Figures 1-4 give a sense of the big three agencies' dominance of their sectors. Tellingly, the Financial Tracking Service does not capture most UNHCR funding because it excludes most refugee appeals—a problem that in itself reflects the mandate-driven fragmentation in the humanitarian system.[4] This makes it difficult to directly quantify the scope of UNHCR's fundraising dominance on refugee aid. Nonetheless, the "multi-sector" tag in FTS is predominantly regional refugee funding, and UNHCR is by far the largest recipient of such funding.[5] It also received an additional $2.6 billion global funding[6] beyond the $1.3 billion reflected in FTS multi-sector funds.

This end-to-end business model has evolved out of a symbiosis between the "revealed preferences"[7] of both donors and UN agencies. In economics, revealed preference theory holds that the purchasing choices made by consumers reflect their underlying priorities and motives. The same principle is helpful in understanding how aid agencies promote their resource needs and how donors choose to finance them. In a typical year, 80-90 percent of recorded humanitarian funding[8] comes from governmental donors, giving these donors enormous collective influence over the direction of the industry. The shape of the system they choose to fund reflects their underlying priorities for it. And it follows that changing the shape of that system would require moving to a business model that reflects a different set of priorities.

What preferences does the current business model reveal? For many donors, working through the multilateral system is a priority in its own right; they see value in supporting shared global institutions to manage global challenges. Such an approach enables the concentration

total recorded contributions in the FTS are $21.1bn, of which $1.3bn is to unspecified recipients.

3 https://fts.unocha.org/global-funding/recipients/2017?f%5B0%5D=destinationOrganizationTypeId-Name%3A%22116%3AUN%20agency%22&order=total_funding&sort=desc

4 UNHCR considers refugee appeals to be distinct from the OCHA-led response planning process that is used for most other emergencies.

5 https://fts.unocha.org/data-search/results/incoming?usageYears=2017&globalClusters=26479&sort=amountUSD&order=desc&page=0#search-results

6 http://reporting.unhcr.org/financial#tabs-financial-contributions

7 https://en.wikipedia.org/wiki/Revealed_preference

8 http://newirin.irinnews.org/the-humanitarian-economy/

of a high degree of leadership, technical expertise, and capacity within large specialized agencies, rather than diffusing that capacity across a range of donor and NGO actors. And UN agencies can achieve economies of scale and operational reach that other humanitarian actors cannot match (such as WFP's corporate capacity in logistics and food transport). Funding the UN can also reduce the risk of aid politicization, as it distances donor states from resource prioritization decisions.

But this funding model also reveals the realities of many donors' administrative limitations. Consolidating response strategy, execution, administration, and oversight within the big UN agencies keeps most donors' own administrative overhead low. It requires far less bandwidth to write a few big block grants to fund UN agency appeals than to review, award, and manage hundreds of NGO proposals. This does not eliminate grant administration from the funding chain; it simply shifts it from a donor responsibility to a UN responsibility. It also reduces donors' compliance risks by enabling them to work through a few large trusted partners that are well versed in the donors' own accountability requirements. The ability to rely on the UN as their own

FIGURE 2 . 2017 Food Security Funding

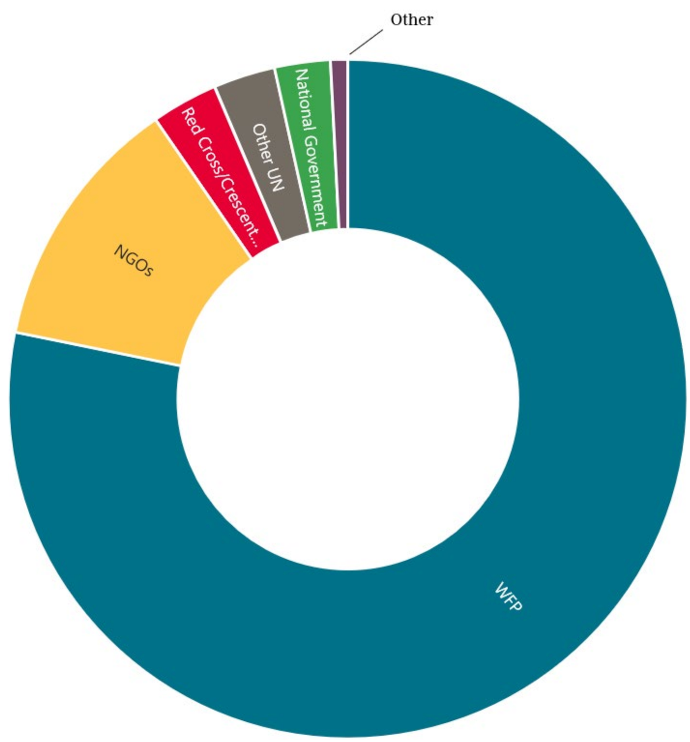


FIGURE 3. 2017 WASH Sector Funding

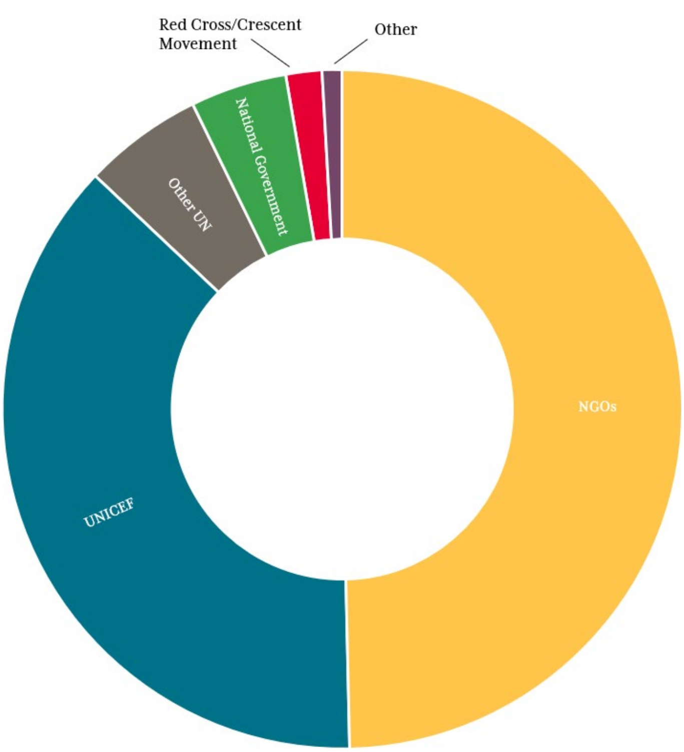
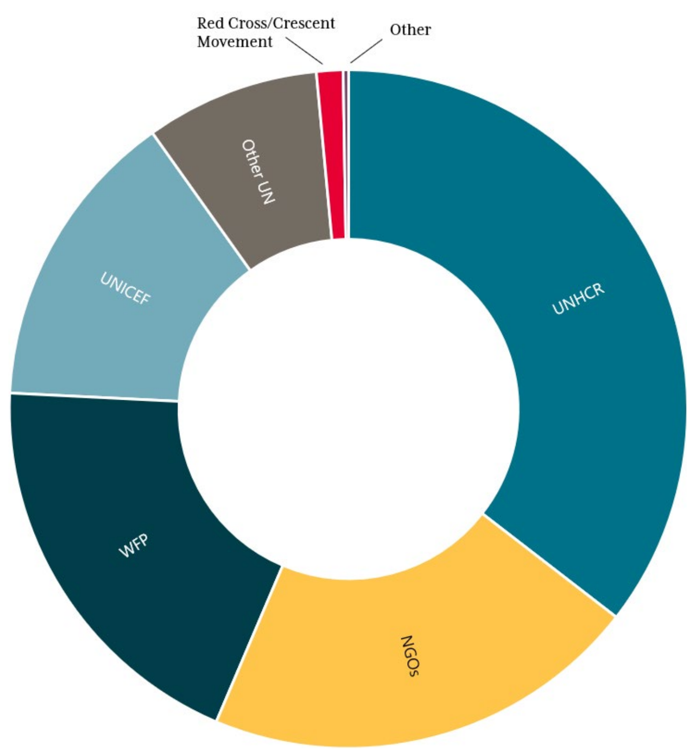


FIGURE 4. 2017 Multi-Sector/Refugee Funding



proxies in the field also enables donors to maintain a smaller overseas footprint themselves. The practice by many donors of giving highly flexible, lightly earmarked contributions to UN agencies is a further extension of this dynamic. Flexible funding further shifts responsibility for strategy and priority-setting to the UN agencies, while reducing administrative demands upon donors.

Neither UN agencies nor donors are being nefarious in this; the traditional business model simply reflects the longstanding convergence of their respective institutional preferences. But structural incentives matter to institutional behavior. If separation of powers in macro-level national governance is such a priority that countries design constitutions around it—and segregation of duties in micro-level supply procurement is so important that donor regulations universally demand it—then the concentrations of power baked into the core business model for funding and operating humanitarian response deserves fresh scrutiny.

THE FLAWS INHERENT IN THE MODEL

Such scrutiny is overdue because this business model comes with real downsides. The end-to-end nature of the big UN agencies' roles, and particularly the conflation of their normative leadership, coordination, resource administration, program implementation, and evaluation roles, skews incentives away from objective, needs-driven aid delivery. Problems that have plagued the humanitarian industry for years—weak coordination, fragmented aid delivery, high transaction costs, exclusion of affected populations from meaningful involvement in decision-making—are inherent by-products of the current business model.

The model ensures **fragmented aid delivery** because it shapes interventions to conform to agencies' mandates regardless of the priorities of crisis-affected populations. An agency's incentive is to visibly demonstrate to donors that the scope of its mission is being covered. In practice, this often works against delivering aid that is holistic and coherent from an end user's perspective. Those garish logo-covered signs that invariably mark the entrance to any displacement camp? They reflect a segmentation of services that diminishes assistance quality but aligns with donor-created financial incentives.

In Lebanon this famously produced an explosion of cash transfer programs delivered by 30 different organizations pursuing 14 distinct objectives.[9] Donors ultimately sought to rationalize this in Lebanon (over vocal opposition from aid groups[10]), but the problem remains common across other sectors and settings. Health programming, to take but one example, is fragmented across numerous different agencies. In many displacement camps, each agency will establish its own differently focused and heavily branded clinic.[11] This artificial segmentation of services is needlessly complicated for internally displaced people (IDPs) to navigate, certainly, but is rational for the service providers, given the fundraising environment.

The **turf battles** spawned by this business model are the stuff of aid community legend. These battles are not merely a petty distraction; they materially affect response quality. In the early months of the 2014 Ebola outbreak, the World Health Organization (WHO) resisted characterizing the situation as a humanitarian crisis rather than a public health emergency, which would have shifted leadership beyond its own remit. This prevented much earlier engagement by other UN actors, despite WHO's well-documented limitations managing such a large-scale crisis.[12] And the early response to the influx of Rohingya into Bangladesh was likewise slowed by "friction" and "food fight[s]" over the Bangladesh government's unorthodox decision to place the International Organization for Migration (IOM) rather than UNHCR in charge of humanitarian coordination.[13]

A degree of competition can actually be a healthy thing if it is driving innovation, efficiency, or better aid quality. This is not what happens in practice. Former UN humanitarian chief Valerie Amos described the problem aptly, upon her departure from the UN, as "mandate-driven

9 https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9828.pdf

10 https://www.irinnews.org/investigations/2017/02/20/unconventional-cash-project-challenges-aid-status-quo-lebanon

11 http://www.who.int/about/who_reform/emergency-capacities/oversight-committee/nigeria-mission-report.pdf

12 Subsequent reforms at WHO have changed the organization's posture on this question, as evidenced by its early and robust collaboration with WFP and NGO partners during the 2018 Congo Ebola outbreak.

13 https://www.irinnews.org/news/2017/10/23/bangladesh-resists-greater-unhcr-role-rohingya-crisis

concerns standing in the way of more effective coordination and cooperation."[14] When needs analysis, fundraising, and programming are siloed by mandated sector or population type, competition centers on whose mandate is most important, not on who is best placed to deliver, or which needs are objectively most urgent.

Because it incentivizes agencies to compete on mandate importance rather than the quality and cost of their aid delivery, the current model also duplicates—and obscures—**transaction and overhead costs** across the industry. Each large agency maintains its own distinct assessment and monitoring capacity, despite the fact that under existing reforms they have committed to joint assessments and response plans. The large UN agencies each act as de facto pooled funds for their sectors, often sub-granting to the same sets of NGO partners, yet each does so with different grant-making processes, cost allowances, and (often highly onerous) reporting and accounting guidelines. And the amount of each agency's funding that goes to internal overhead, versus direct implementation, versus grants to partners has long been extremely opaque, making it nearly impossible to clearly assess their value for money relative to other aid providers. Even if the agencies were highly efficient—as they would no doubt argue—current funding practices and transparency standards make it difficult to tell.

Meanwhile there is **little evidence that it is efficient to pass donor funding through large UN agencies**. Recently published research by Humanitarian Outcomes[15] notes that donor reliance on UN agencies (and occasionally NGOs) as middlemen for large-scale financing may keep the donors' own transaction costs down, but does not generally net out to greater overall efficiency. And rarely, if ever, do donors seek—nor do funding intermediaries provide—a clear business case to demonstrate that the added intermediary layers provide commensurate added value. In theory, passing funding through these additional layers could improve aid quality if it resulted in improved coordination—but in practice that is hard to demonstrate and at best inconsistent. And as this brief argues, the practice of consolidating such funding through large multifunction agencies actually undermines responsive and well-coordinated aid delivery.

The heavy donor reliance on UN agency intermediaries undermines responsiveness because it means that **aid is not allocated objectively toward the greatest need, but rather toward those agencies that are most effective in promoting their mandate**. This might be more defensible if those mandates aligned well with contemporary humanitarian structures, and with each other. But instead they are wildly inconsistent, most dating back to the middle of the last century and only tenuously aligned with the sectors around which the humanitarian industry is now organized. Some agencies are population-focused—like UNHCR (refugees) and UNICEF (mothers and children). Others are sector-focused—like WFP (food security) or WHO (health). Others are thematic—like UNDP (development) or IOM (migration). Under the current business model, this misalignment of mandates with roles and funding can yield perverse outcomes.

To take one example: refugees, who have an agency dedicated to their welfare, often receive dramatically more support per capita than comparably needy IDPs or host populations. In Syria, the world's largest crisis, the UN consolidated appeal for 2017 sought $3.4 billion to support the estimated 13.5 million people (including 6.3 million internally displaced) who required aid inside the country.[16] Meanwhile the UNHCR-led regional refugee plan sought $5.6 billion—nearly two-thirds more—for 5.2 million Syrian refugees around the region—a population nearly two-thirds smaller. And donor giving mirrored this, providing $1.77 billion[17] for the inside-Syria appeal while allocating $3 billion toward refugee support across the region,[18] a per capita discrepancy of 440 percent. This kind of discrepancy is not unique: it is common to find that refugees, IDP populations, and conflict-affected host populations living in close proximity to each other and facing broadly similar needs receive dramatically different levels of aid.[19]

14 http://www.unocha.org/story/new-era-valerie-amos-reflects-her-five-years-un-humanitarian-chief

15 Stoddard, Poole, Taylor, Willits-King, "Efficiency and Inefficiency in Humanitarian Financing," December 2017. https://www.humanitarianoutcomes.org/publications/efficiency-and-inefficiency-humanitarian-financing

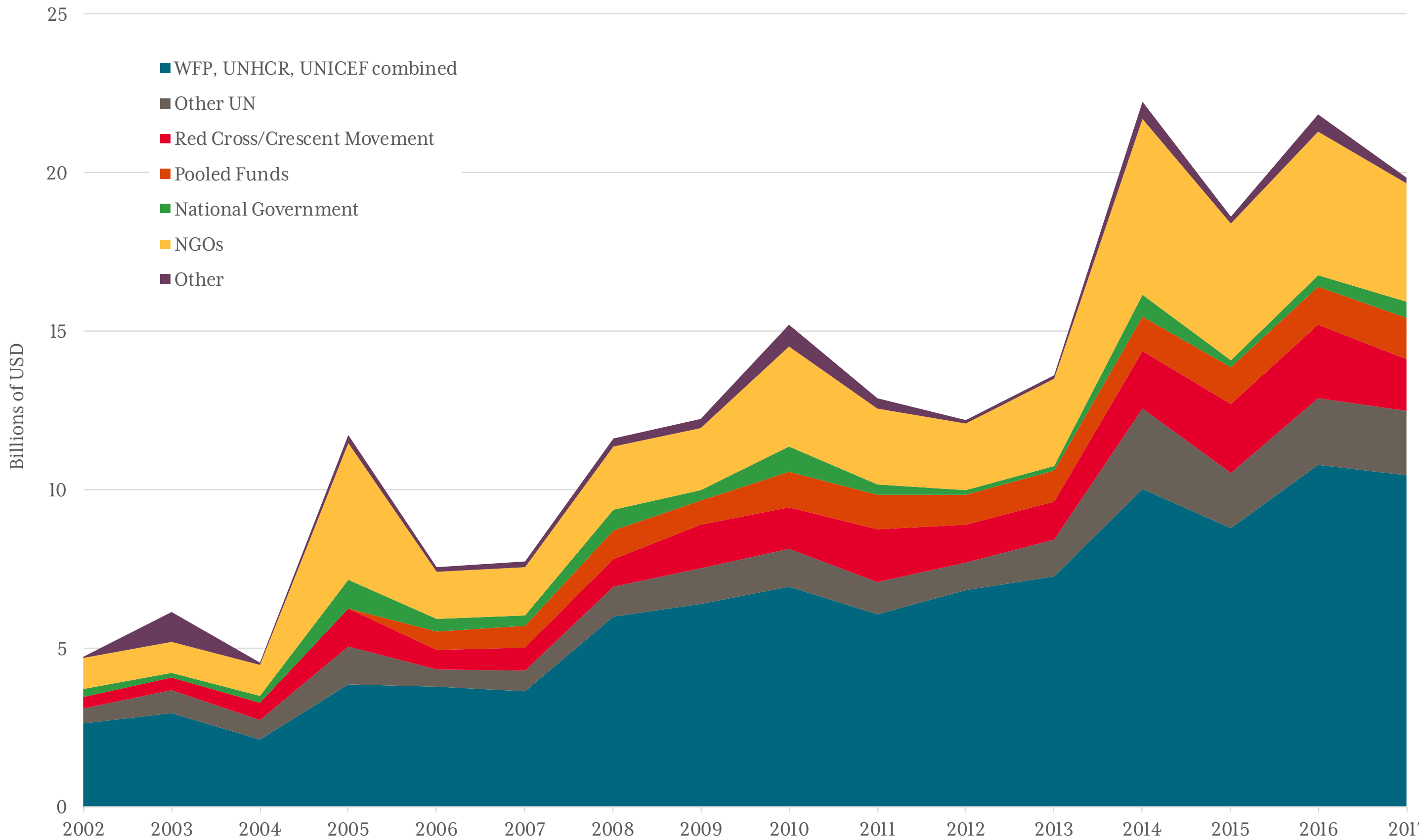
16 https://reliefweb.int/sites/reliefweb.int/files/resources/syr_wos_operational_plan_hrp_2017.pdf

17 https://fts.unocha.org/appeals/526/summary

18 https://fts.unocha.org/appeals/552/summary

19 Per capita funding comparisons are a useful but imperfect tool. Access to refugees is often easier than access to IDPs due to conflict and government obstruction, which can in turn affect funding levels. Nonetheless the discrepancy in Syria is so extreme that it goes well beyond what can be plausibly explained by such variables.

FIGURE 5. Total Humanitarian Funding, 2002-2017



Most importantly, this model **obscures the voices and prerogatives of those the aid industry seeks to serve**. By relying so heavily on the judgment of the large UN agencies to guide funding priorities, donors risk insulating themselves from the perspectives of the actual end users of their aid. This business model creates a circular logic that incentivizes major agencies to identify and address only the predefined population or subset of needs within their mandate. This segments end users by mandate rather than engaging them as whole individuals, and overlooks needs that do not fit neatly within existing categories. No wonder, then, that studies of end-user feedback consistently show significant dissatisfaction with how the aid system engages with affected populations.[20] No wonder that local aid groups in emergency settings are increasingly vocal in attacking the biases baked into the current system.[21] And no wonder, either, that "accountability to affected populations" initiatives across the sector have consistently shown lackluster results.[22]

"REFORM," BUT NOT CHANGE

Since 2005 the humanitarian industry has undertaken three major rounds of reform to grapple with these problems—and mostly failed to resolve them. The initial Humanitarian Reform Agenda launched in 2005,[23] following shortcomings in the Indian Ocean tsunami and Darfur responses, with the aims of improving coordination, leadership, and needs-based financing across the system. The follow-on Transformative Agenda was initiated in 2011,

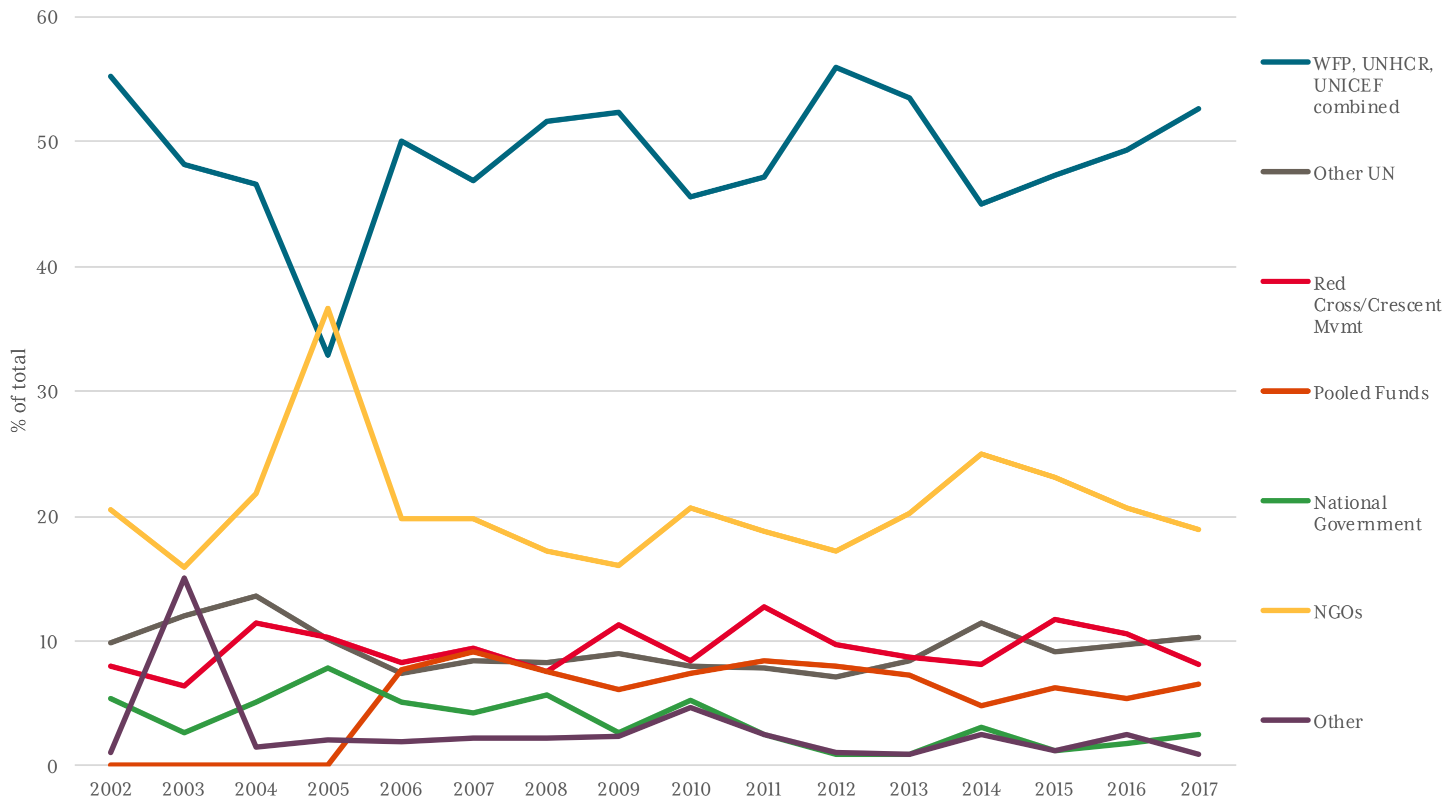
20 Anderson, Mary B., Dayna Brown, and Isabella Jean. *Time to Listen: Hearing People on the Receiving End of International Aid.* Cambridge, MA: CDA Collaborative Learning Projects, 2012. http://cdacollaborative.org/wordpress/wp-content/uploads/2016/01/Time-to-Listen-Hearing-People-on-the-Receiving-End-of-International-Aid.pdf

21 https://www.theguardian.com/global-development-professionals-network/2016/mar/21/degan-ali-somali-woman-taking-on-the-humanitarian-system

22 http://www.gppi.net/publications/humanitarian-action/article/iasc-transformative-agenda-a-review-of-reviews-and-their-follow-up/

23 http://www.fmreview.org/sites/fmr/files/FMRdownloads/en/FMRpdfs/FMR24/IDP%20Supplement/01.pdf

FIGURE 6. Proportional Allocation of Humanitarian Funding, 2002-2017



after shortcomings in Haiti[24] and elsewhere prompted UN leadership to acknowledge that earlier reforms were not delivering as intended. And the recent "Grand Bargain" that launched in 2016 was in turn motivated in part by recognition of the humanitarian industry's failure to make good on the aims of the two prior rounds of reform.

Each of these reform efforts has attempted to deliver changed outcomes while effectively doubling down on the existing business model. Financial support to the humanitarian industry has increased dramatically over the past 15 years—but as the funding has increased, the proportional allocation across agencies has remained remarkably consistent (figure 5).

A CGD review of humanitarian flows from 2002–2017—a period encompassing each of the past three major system reform initiatives—shows that those initiatives have had no discernible impact on proportional resource allocations across the industry (figure 6). The only year in which these proportions shifted dramatically is 2005, when direct private-donor contributions to NGOs spiked following the Indian Ocean tsunami. Resource proportions shifted back to form the following year.

From 2002 to today, the big three UN agencies—WFP, UNHCR, and UNICEF—have continued to receive nearly half of all recorded humanitarian contributions, even as the overall volume of humanitarian financing has quadrupled. The wider UN's share (including the big three) has consistently averaged nearly 60 percent of specified contributions, with only modest variance and no long-term shifts in trend. Direct UN funding is triple the 20 percent that has gone directly to NGOs and sixfold greater than the nearly 10 percent that has on average gone to the Red Cross Movement (table 1).

The UN system's dominant position in humanitarian fundraising relative to other stakeholders reflects that despite multiple attempts at reform, the underlying business model has proved highly resistant to change. As these funding data show, donor behavior has been a rela-

24 http://foreignpolicy.com/2010/02/17/top-u-n-aid-official-critiques-haiti-aid-efforts-in-confidential-email/

TABLE 1. Net Allocations of Humanitarian Funding, 2002-2017

Organization Type	Average 2002-2017
WFP, UNHCR, UNICEF combined	48.7%
Other UN	9.4%
Red Cross/Crescent Mvmt	9.4%
Pooled Funds	5.3%
National Government	3.6%
NGOs	20.8%
Other	2.8%

tively static variable over the past decade and half. Rather than using funding practices as a lever for reforms, donors have continued to fund the same institutions for the same missions in the same proportions—but in ever increasing amounts. The donors' revealed preferences, in other words, have not materially changed. Given this durability of traditional funding allocations, the failure of past reform efforts to deliver fundamental change in system performance is unsurprising. For any donor-reliant organization, funding is the most direct incentive for institutional change: when funding practices shift, organizations either adapt or wither.

This dynamic suggests that achieving fundamental change in the humanitarian industry will require a disruption of the tradition business model. If donor behavior continues to perpetuate the logic and incentives inherent to that model, there is little to drive the agencies benefitting from that model to change.

So—might such a disruption be on the horizon?

SIGNS OF CHANGE

Donors are beginning to grapple more directly with questions of how their own funding practices affect the performance of the industry writ large, and are playing an increasingly direct role in reform efforts. Donors were not a direct party to the commitments under the 2005 and 2011 reforms,[25] and attempts at intra-donor reform through the "Good Humanitarian Donorship" initiative proved inconsistent. The 2016 Grand Bargain reform agenda did at last include the major donors as signatories and commit them to pursue changes to their own practices—an important development.

Enhanced donor engagement can open a door to more meaningful changes, but only partially. Several Grand Bargain commitments (discussed below) begin to challenge the traditional humanitarian business model. But the fundamental logic of that agreement remains rooted in the presumption of end-to-end responsibility and mandate-driven operations around which the UN agencies have evolved. The core "bargain" was that donors would reduce earmarking and reporting while granting greater flexibility and discretion for aid agencies, in exchange for enhanced transparency and efficiency. This represents a further refinement of the traditional business model, not a fundamental disruption to the industry's underlying incentives. And with no tangible enforcement mechanism, those basic incentives remain unchanged, and there is little recourse should either donors or aid agencies fail to deliver the promised changes.

The Grand Bargain on its own is unlikely to overhaul the longstanding donor-agency business model. But it does reflect, and help to accelerate, several wider trends and structural evolutions within the humanitarian sector that could disrupt the current equilibrium. How far this disruption goes will depend in large measure on whether, and how far, donors decide to push the envelope.

CASH

The first major disruptor is cash. The increasing use of unconditional cash assistance poses an existential challenge to the humanitarian industry's business model because it doesn't just blur the lines between the major agencies' mandates—it transcends and obliterates them. It shifts decision making and priority setting radically, away from a mandate-centered debate between large agencies and toward individual determinations by aid's end users based on their own needs. This effectively inverts the funding logic on which the current business model rests. Rather than forcing end users to segment their needs within what the industry is predisposed to provide, cash assistance asks the industry to conform its delivery systems to needs as defined by end users.

This comes with challenges. By separating funding streams from the predefined mandates and sectoral tar-

25 Both rounds of reform were housed within the Inter-Agency Standing Committee process, which does not include donor participants. Donors engaged, albeit remotely, through agency governing boards and ad hoc meetings.

gets of any particular organization, cash programming undermines the industry's traditional impact evaluation and accountability mechanisms. Is an unconditional cash program a food intervention (WFP's domain), a livelihoods recovery intervention (UNDP's domain, or FAO's if the focus is agriculture), an education intervention (UNICEF's domain), or a refugee-support program (UNHCR's domain)? If it is all of these things—which cash inherently is—who should manage it? And how should its impact be measured? If it boosts school participation rates but not food security, is it a success or a failure?

The big UN agencies are struggling to answer such questions within the traditional confines of their roles. Prominent donors have pushed them to streamline cash delivery into consolidated multipurpose transfers in Lebanon and Turkey—better for end users but uncomfortable for aid deliverers. But this has faced resistance from these agencies, who have sought to segment cash programs based on their own existing mandates, just as they would with more traditional interventions.

This impulse by the UN agencies is concerning. Segmenting cash interventions to conform to agency mandates subverts a core benefit of such programming: devolving decision making about needs and priorities to the crisis-affected households themselves. Already donors are questioning whether this function should sit with UN agencies at all—or whether consolidated cash programs could be operated through a contractor or other third party. If the UN agencies cannot find a way to adapt to multipurpose cash programs, they may find themselves cut out of future program funding.

IMPARTIAL NEEDS ASSESSMENT

Cash programming holds immense potential to shift power to aid's end users and transcend sector and mandate limitations. But realizing this potential depends on needs analysis and response planning that is similarly unbound by these parameters. Needs analysis frames how a humanitarian response is built. Separating the framing of needs from traditional sector siloes opens the door to response options (cash or otherwise) that are similarly untethered by those silos.

The disruptive potential of separating needs analysis from agency mandates is controversial; debates around this issue proved to be the most controversial element of the Grand Bargain negotiations. While the final outcome stopped short of calling for fully independent needs assessments, the Grand Bargain commitment called for independent analysis within the process and production of fully joint and impartial needs overviews. This signaled a move away from needs assessments mediated by the mandates of implementing agencies, and toward a more holistic and impartial understanding of needs.

If this move succeeds, the implications could be profound. UN-led response plans have long been built as an aggregation of siloed budget requests—an industry-wide wish list—rather than a coherent plan of action. Rarely are hard trade-offs across agencies prioritized in the final product. With needs analysis traditionally bounded from the outset by sector and agency demarcations, it has been nearly impossible to establish meaningfully comprehensive response priorities. When UN humanitarian coordinators have tried—usually at the behest of frustrated donors—to impose true prioritization upon the appeals process, they have encountered stiff pushback from the agencies. This has left the agencies to advocate bilaterally for their own respective resources priorities (which donors have regrettably tolerated), and so perpetuated traditional siloes and operational fragmentation.

Truly objective needs analysis could instead enable a prioritization of needs that does not ultimately default to a turf battle between competing mandates. Impartial, independently validated needs analysis would enable more holistic determination of priorities than has traditionally been possible. This could in turn meaningfully reduce operational fragmentation and create a clearer entry point for the voices of affected populations.

But this will only work if donors shift their own practices to reinforce it. Moving toward impartial needs analysis will be an easier sell if donors jointly make it a requirement for funding eligibility. And if prioritized appeals were to attract higher funding levels, or a greater share of funding were shifted into appeal-linked pooled funds (more on this below), it could force a reorientation toward a more serious, end-user-centered, and objective response planning process. It would enable humanitarian actors to more explicitly tie budgeting and fundraising to specific operational priorities and integrate the affected population into decision making.

COUNTRY-BASED POOLED FUNDS

A third major disruptor is the growth of country-based pooled funds (CBPFs). Traditionally, donor practices have incentivized agencies to promote their own respective mandated sectors: the fact that WFP is advocating for food needs and UNICEF is advocating for WASH needs says little about which need is actually a higher priority. In a CBPF model, the humanitarian coordinator and an advisory board that includes donor and agency representatives decide funding allocations independent of agency mandates. This realigns incentives by forcing field-level trade-offs and priority setting—across agencies and sectors—based on a comprehensive view of needs, priorities, and gaps.

Putting money into a CBPF forces agencies (UN or NGO) to make the case for funding based not on global mandates or sector prerogatives, but based on ground-level determinations of priorities and delivery capacity. Done right, this promises donors greater confidence that their resources will be spent on the highest and most urgent priorities, delivered by the most well-positioned actor. These determinations are best made in the field, rather than Geneva or New York. It also creates more accessible opportunities to amplify the voices of affected populations into resource allocation decisions and helps to open funding opportunities to a wider set of actors, particularly local NGOs.

Donors appear to be recognizing this potential. The independent report on Grand Bargain implementation published in 2017 notes that numerous donors are increasing their contributions to these funds.[26] For donors who have traditionally used UN agencies as de facto sector pooled funds, the CBPFs present a tempting alternative. These funds give donors many of the same advantages—a way to program large volumes of money, in an accountable and better-coordinated way, without incurring major overhead for the donor. And unlike direct funding to the big agencies, the CBPFs can also promise a more holistic and objective, rather than sector- or mandate-siloed, plan for allocating the money.

But the CBPFs also appeal to larger donors who aren't inherently reliant on pooled funding mechanisms. USAID's Office of Foreign Disaster Assistance has not traditionally utilized UN agencies as pooled funding tools, but began making contributions to UN pooled funds in 2016 because it saw their potential to incentivize improvements in response planning and coordination.

STUMBLING TOWARD A NEW MODEL?

There is no inherent reason why technical and normative leadership of a sector must be accompanied by dominance of that sector's fundraising. The fact that a given agency has a global mandate for technical and normative leadership of a sector doesn't inherently make it the best positioned operational actor in every setting—nor does it mean its sector lens is the best way to interpret every given set of needs.

Where traditionally the big UN agencies were the only viable large-scale actor who could assess and define needs, articulate response strategy, absorb large volumes of funding, and then implement that funding directly or through partners, viable alternate options are emerging on all fronts. Taken together, the shifts toward pooled funds, cash programming, impartial needs analysis, and prioritized response planning point toward a potential reimagining of the role and value-add of the big UN agencies.[27] These dynamics—if they persist—could begin to decouple UN agencies' leadership, coordination, and normative functions from their program delivery functions.

Given the problems that arise when these functions are bundled together, these trends open exciting prospects for attaining long-sought improvements to the coherence and responsiveness of humanitarian action. But they also pose risks that must be carefully managed. At the moment these changes are emerging in an ad hoc and disjointed manner, rather than as part of an intentional and shared vision for changing the industry's business model. The big UN agencies' financial conflation of their leadership and program delivery roles is done in part out of necessity: donors tend to like funding programs and dislike funding "soft" but vitally important costs like management, leadership, advocacy, and coordination (witness the UN Office for the Coordination of Humanitarian Affairs' chronic fundraising struggles). These

26 https://interagencystandingcommittee.org/system/files/nn_-_grand_bargain_report_final.pdf

27 There are other potential disruptors on the horizon as well—such as the growing role of the World Bank in humanitarian financing—but the impact on core system incentives is less clear.

roles are critical, and UN agencies are the only global actors with the requisite credibility and capacity to play them. Decoupling program funding from these soft costs could harm response if donors prove unwilling to continue supporting coordination, leadership, and technical quality expenses in their own right.

Which underscores a crucial final point: none of these dynamics—for good or for ill—will dramatically shift unless donors begin to modernize their funding practices as well. It is easy to critique the large agencies for perpetuating a business model with such major flaws. But it is equally easy to understand why they do so: it advances their mandates and supports their bottom lines. It is rational institutional behavior. Expecting a bureaucracy to abandon a financial model that is serving it well is a tall ask. Yet every major reform effort to date has sought to do just that: press the system's biggest players to change their behavior, without simultaneously altering the financing practices that incentivize that behavior.

So at the end of the day, much will hinge on the donors' individual and collective willingness to deploy their considerable leverage—both in how aggressively they want to drive toward change, and in how carefully they will manage the disruptions this could cause for the industry. Can major aid agencies adapt to such disruption without compromising response quality? And will donors prove willing to reconsider their own institutional preference in order to drive toward deeper reform? These are big questions, and CGD will continue exploring them in greater detail through new research efforts in the years ahead.

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