Financing in Crisis?
Making humanitarian finance fit for the future

Building on the useful recommendations of the Future Humanitarian Financing initiative, the OECD Development Co-operation Working Paper “Financing in Crisis? Making humanitarian finance fit for the future” takes the view that ensuring enough quality money for humanitarian crises is not just about writing a bigger cheque. Instead, it puts forward the following key messages:

There is not enough quality money – money that arrives in the right place, in the right way, and at the right time – to fund humanitarian crises. The growing gap between demand and supply, failures to adapt the humanitarian system, and what has been called a dysfunctional and inefficient financing architecture, mean that the USD 22 billion provided for humanitarian response in 2013 was simply not enough.

Improving the predictability of funding must be part of the solution. This will likely include more systematic multi-annual funding commitments from donors, building on the good practices we have already seen from 16 OECD Development Assistance Committee members. There must also be a rethink about funding for the administration and programme support costs of operational agencies. Finally, predictability will be enhanced if there is a clearer division of labour, or at least greater communication of funding intentions, among donors.

We will also need to expand the financing pool for protracted crises. The various post-2015 processes provide good opportunities for improving coherence between humanitarian and development actors working in longer-term crises. Good ideas include: shared context analysis and priorities; shifting to multi-year planning; development support to scale up social protection mechanisms; and strengthening links with multilateral banks. The pressing challenge now is how to reconcile household and community-focused humanitarian programming with development work focused on building the state; thereby providing a more comprehensive and coherent response in protracted crisis situations. Donors also need to go beyond their funding role in protracted crises, and focus on other areas where they can add value: facilitating remittance flows, halting illicit financial flows, managing the impacts of small arms flows, and resolving conflict through support to political dialogue and state-building.
Crises in middle-income countries (MICs) pose a special financing challenge; the solution requires a paradigm shift about how to approach crises in these countries. Financing to meet crises in middle-income countries is a growing problem – 53% of all humanitarian funds requested in 2015 were for crises in these countries. Why can’t development funds help out in MICs? Because donors, and multilateral banks, invest in middle-income countries for very different reasons – and using very different tools – than in least developed countries. The middle-income country toolbox is rather ill-suited to crisis response; therefore, most crisis funding comes from humanitarian budgets. The solution will require a paradigm shift about how to approach crisis response in MICs: encouraging the use of development finance by focusing on building resilience in all parts of society; closer alignment with country priorities and using country systems; and helping development actors see crises as unique opportunities to shore up economic and social progress, allowing the full range of development instruments to come into play.

Better finance for disasters will mean thinking differently about approaches to disaster resilience, response and recovery. Good practice examples in the Pacific might help provide a model for better quality disaster funding and response in other areas of the world. Providing liquidity for disaster-affected governments is a growing trend; injecting sufficient cash flow so that partner governments can respond to the needs of their citizens when disasters strike. In addition, Pacific donors ensure that risk reduction is systematically mainstreamed into all development co-operation programming, and allow development funds to be reallocated to disaster recovery in times of need. When a disaster hits, Pacific donors favour bilateral responses – this response model provides useful lessons for responses to disasters in other areas of the world.

Other useful thinking about finance for disasters includes risk finance and transfer mechanisms – with the proviso that these tools do not work always and everywhere. Donors can also play other helpful roles in disaster-prone countries – encouraging partner country budget allocations for disaster risk programming, attracting climate finance for building disaster resilience, and using donor country civil protection mechanisms to build the capacity of response systems in partner countries.

Finally, there is a pressing need to make the money go further: increasing the value for money of humanitarian programming. Funding requested through humanitarian appeals has swelled by 660% since the Millennium Development Goals were announced in 2000; there must be opportunities to rationalise these costs. Some ideas include:

- shifting donor funding towards results, rather than activities; thus allowing operational agencies to shift programming towards more cost-effective practices as contexts evolve
- using business case models, with sound economic analysis, to help guide donors to more objective funding decisions
- reviewing the trend towards fewer, larger, grants, which offer cost savings for donors – but also create long chains where grants are passed from one organisation to another, with overhead taken off at each level, this might reduce the value of the overall grant by the time it reaches beneficiaries
- supporting the private fundraising efforts of operational partners, by systematically providing free airtime and tax breaks
- transferring donor learning from recent times of government austerity to operational agencies: on cost effective systems, approaches and staffing structures
- streamlining reporting requirements: a potential win-win for everyone, reducing waste and improving accountability at all levels.

To read the full working paper see: http://bit.ly/1T7mVG1