Reduced earmarking – make the case how un-earmarked is saving more lives while unpacking flexibility along the “transaction chain”

Flexible financing and less earmarking is key to saving lives and alleviating suffering, as emphasized in the Good Humanitarian Donorship (GHD) Principles (2003) and in the Grand Bargain – A shared commitment to better serve people in need (2016). Despite this insight, the trend is rather towards increased levels of earmarking. This trend relates to a number of, often inter-linked factors: control and accountability to donor countries’ tax payers, donor visibility, transparency and trust.

Sweden and ICRC, as co-conveners of the Grand Bargain work stream number 8 “To reduce the earmarking of donor contributions” have in this first year of the Grand Bargain sought to:

1. Deepen the understanding for the rationale on “both sides of the fence” and
2. Identify concrete policy options on how to progress towards less earmarking and more flexible funding.

The point of departure is based on views, practices and policy considerations from both donors and agencies based on a fresh survey carried out in the spring 2017, compiled and aggregated in a draft policy options paper (see annexe). One general caveat isthe fact that agency participation has been limited, particularly on the side of INGOs. This can be construed as an illustration that the issue is perceived as a technical/financial matter, or that INGOs do not feel they have a real possibility of influencing the matter. It is also important to mention that, in any case, the level at which a donor's contributions are earmarked will depend greatly on changing-political will. The policy paper was discussed at a workshop 29th of May, hosted by ICRC and Sweden. Representatives from bilateral donors, UN agencies and INGOs participated; Synergies between GHD and Grand Bargain were possible as Sweden co-leads work streams on reduced ear-marking in both spheres. Three main aspects were highlighted in order to advance this issue forward.

1. **There is a need to make the case for how un-earmarked funding is saving more lives.**

   - Burden-sharing of the Grand Bargain’s 30% target is necessary to avoid that principled and flexible donors are left to cover the less ‘attractive’ costs and/or “subsidizing” the agenda of those donors that provide earmarked funding.
   - An open dialogue on donor needs and best practice on reporting, providing additional visibility are essential in order to advance what remains ultimately a political decision. We need to move to the “next level” and better show-case the risks and benefits of non-earmarked contributions.
   - There needs to be better evidence of how un-earmarked funding is more cost-effective to gather political will for less earmarking.
   - A clear and transparent allocation process contributes to trust.

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1 https://www.ghdinitiative.org/ghd/gns/home-page.html; http://www.agendaforhumanity.org/initiatives/3861
- Reporting on results & visibility is not enough to build the necessary trust from donors and address their needs and requirements, namely towards their constituencies. Establishing clearer link between un-earmarked contributions and humanitarian results would help build confidence.
- Increasing data collection on un-earmarked contributions – using Financial Tracking System (FTS) and/or the annual GHA report- would facilitate a more evidence-based approach.
- Above all, donors noted that to increase un-earmarked contributions it was important for them to have trust in:
  1. the needs assessments that are leading to the development of humanitarian programmes and budgets.
  2. the agencies’ management response capacity when dealing with fraud and risk issues.

2. Flexibility should be unpacked along the transaction chain.

- It is important to recognise that the “donor” is a transferrable identity; a recipient of aid can, in turn, become a donor to another partner. Therefore, the issue of flexible funding needs to be taken beyond a bilateral relation between donor states and international/multilateral agencies.
- In addition to the focus on increasing un-earmarked, it is also necessary to measure progress on reducing tightly earmarked.
- The 30 % target needs to be clarified and could possibly benefit from minimum rules/guidelines for cascading flexibility
- While understanding the rationale for fixing one target (30%), this needs to be nuanced depending on the mandate and footprint of the recipient organisation.

3. Deepen understanding of links with other work stream accelerators or tensions and processes beyond the Grand Bargain?

- All work streams in the Grand Bargain are inter-linked and have the potential to accelerate - or block - progress.
- The enablers for the reduced earmarking work stream are primarily “Harmonize and simplify reporting requirements”, “Greater Transparency”, “Needs Assessments” and “Reduce duplication & management costs” while “Localisation” and “multi-year planning and funding” may create tensions with the ambition of more flexible funding.
- The discussions and advances brought about in the reduced earmarking work stream of the Grand Bargain can be leveraged through a strong link with the GHD and IASC.

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3 Reference here to the table of earmarking definitions of the Grand Bargain report. Completely unearmarked was shown in green.
Conclusions and next steps

Among the key components of flexible funding are:

- Political interest
- Trust
- Transparency of processes, systems, compliance, monitoring and reporting.
- Legislation and regulation

It is important to distinguish between the need to ensure reduced earmarking through better story telling on the effectiveness and efficiency of un-earmarked funds from government donors and the way un-earmarked funding is then cascaded down to the next levels, notably through pooled funds at global and country level (CERF; CBPF; DREF), which are considered are major achievements of the last decade. There is also a need to look at how flexibility is transferred further down the transaction chain.

Objectives of the work stream the coming year:

- Gather and disseminate best practice on results reporting on flexible funding modalities (core support / pooled funds)
- Gather and disseminate best practice among donors providing un-earmarked funding
- Document and share best practices on flexible funding approaches to INGO consortia etc, e.g through rules for reallocation and through Rapid Response Mechanisms.
- Explore synergies with work streams on “Harmonize and simplify reporting requirements”, “Localisation” and “Multi-year planning and funding”.
- Establish a communication / advocacy plan on how to make the case how un-earmarked is saving more lives within and beyond the Grand Bargain circle of donors.