

POSITION PAPER

An NGO perspective on the drive for efficiency in the humanitarian sector

This position paper sets out views expressed by members of the **VOICE Grand Bargain Task Force** to improve the humanitarian sector and to strive for more efficiency for the 167.6 million people in need of humanitarian intervention worldwide. We urge European actors to follow up on the commitments made, and to put the people in need first by making our collective work more efficient. With this goal in mind, we recommend the following to improve the efficiency of the humanitarian sector:

RECOMMENDATION 1:

The VOICE Grand Bargain Task Force calls on Grand Bargain (GB) donor signatories to support NGOs in developing and scaling up initiatives that contribute to greater efficiency in the humanitarian sector. Money Where it Counts (MWiC), Systematic Cost Analysis (SCAN) initiatives or the Réseau Logistique Humanitaire require donors' financial support and engagement in rolling out activities and building capacity to mainstream these in their reporting and evaluation frameworks.

RECOMMENDATION 2:

The VOICE Grand Bargain Task Force calls on donors to implement their GB commitments striving for harmonised and simplified reporting (including financial reports). Limiting the number of NGO ex-ante assessments and audits – making use of the possibility to cross-rely on existing ones – would generate significant efficiency gains in the NGO community.

Background

Over the last years, efficiency has become a major area of focus for the humanitarian community. In 2016, the High-Level Panel on humanitarian financing called for a Grand Bargain to improve the efficient delivery of humanitarian aid. The initial 10 workstreams proposed a series of commitments to be implemented by donors and aid organisations. These workstreams were intended to collectively strengthen the efficiency of the delivery of aid and reinforce trust in the sector to ultimately attract new donors. While signatories of the Grand Bargain demonstrate annually their progress in implementing individual GB commitments, it remains difficult to measure efficiency gains made from these changes at global level.

Through this paper, the VOICE GB Task Force wishes to widen the current conversation about humanitarian funding and cost efficiency. The coronavirus pandemic has further highlighted the importance of making the humanitarian system more efficient in how it responds to major shocks, and how fast. While the crisis has led to renewed appreciation for the original objectives of the Grand Bargain, which remain more relevant than ever, there is also recognition that the key aid reform issues identified by the Grand Bargain remain largely unresolved and a different approach is urgently required to accelerate progress. At the height of the Covid-19 humanitarian response, we also witness the biggest donors refocus on their domestic agendas due to either internal restructuring or election cycles. Now is the time for European and EU donors, ECHO in particular, to take a leading role in driving the aid efficiency agenda forward as the Grand Bargain enters its fifth year of implementation.

Given the pressures of Covid-19, both for the people we seek to serve and the aid budgets available to provide assistance, donors and aid organisations are still looking for ways to decrease their management costs¹. The lack of a common set of tools to measure costs and efficiencies means that measured efficiency gains for one actor in the system could create inefficiencies for another. Moreover, donors tend to focus on compliance and economy at project level with an increasing number of rules and requirements – this can actually undercut efficiency and cost-effectiveness, when a race to the bottom reduces capacity to deliver meaningful assistance. Donors are pressured to protect themselves from a large number of risks (fiduciary, reputational, etc.) which equally contribute to the multiplication of requirements, increasing bureaucracy.

1. Humanitarian Outcomes, *'Efficiency and Inefficiency in Humanitarian Financing'*, December 2017, p. 9.

Although NGOs understand the reasons behind most of them, the accumulation – multiplied by the number of donors we are working with – requires ever more financial and human resources and time.

NGOs welcome the revived conversation on risks transfers and risks sharing at the last Grand Bargain Annual meeting and call on donors and the humanitarian community to accelerate the dialogue in order to make tangible progress. Efficiency gains can easily be made through a reinforced partnership between donors and humanitarian actors where risks are equally understood and shared. This is crucial to make tangible progress on the localisation agenda as well.

Although the Grand Bargain as a whole was intended to improve the efficiency of humanitarian assistance, one workstream called out the issue of efficiency more explicitly than others:

Workstream 4 'Reduce Duplication and Management costs with periodic functional reviews'

Aid organisations and donors commit to:

1. Reduce the costs and measure the gained efficiencies of delivering assistance with technology (including green) and innovation. Aid organisations will provide the detailed steps to be taken by the end of 2017.
2. Harmonise partnership agreements and share partner assessment information as well as data about affected people, after data protection safeguards have been met by the end of 2017, in order to save time and avoid duplication in operations.
3. Aid organisations commit to: Provide transparency and comparable cost structures.
4. Aid organisations commit to: Reduce duplication of management and other costs through maximising efficiencies in procurement and logistics for commonly required goods and services. Shared procurement should leverage the comparative advantage of the aid organisations and promote innovation.
5. Donors commit to: Make joint regular functional monitoring and performance reviews and reduce individual donor assessments, evaluations, verifications, risk management and oversight processes.

Overseas Development Institute (ODI) outlined that 2018 was marked by positive steps on workstream 4, especially on investments in technology to reduce cost² and NGO initiatives to provide transparent and comparable cost structures³. However, in 2019 there was a clear lack of progress on this workstream as a whole. While NGOs understand and actually welcomed the efforts made by the workstream to reduce management costs at UN level, ODI noted in its 2020 annual report that the failure to expand this strategy across the wider humanitarian community has led the workstream objectives to be missed⁴.

These challenges motivate the development of this NGO position paper ahead of the wider discussion on the future of the Grand Bargain initiative. It presents examples of NGO led initiatives to foster efficiency that gained traction among the NGO community and provides concrete recommendations to support progress of the aid efficiency agenda.

A joint understanding of aid efficiency

Despite the considerable technical work on efficiency carried out by the GB, the absence of a reference to a specific goal of what constitutes efficiency, and therefore the lack of focus on how to achieve it and measure gains, seems to have led actors to adopt different perspectives or interpretations on its definition⁵. As all donor agencies, including UN agencies, define 'efficiency' in different ways, the data resulting from these reporting requirements cannot be compared, undercutting the possibility for sector-wide learning.

To be able to make further progress on efficiency in the humanitarian sector, to achieve the harmonisation sought by the Grand Bargain, and consistently measure the efficiency gains from it, a common definition is needed and must be agreed by all relevant stakeholders. As a starting point for this paper, the VOICE Grand Bargain Task force uses the definition of efficiency brought forward by OECD DAC: 'A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to (positive) results.'⁶ And the OECD DAC adds to this definition: 'the cheapest intervention may not necessarily be the best option if it does not generate adequate benefits'.

2. European Parliament, '[Technological innovation for humanitarian aid and assistance](#)', May 2019 and ODI, '[Grand Bargain annual independent report 2020](#)', June 2019, p. 39.

3. Examples are the Systematic Cost Analysis (SCAN) Tool initiated by the International Rescue Committee (IRC) and the 'Money Where it Counts' initiative from the Norwegian Refugee Council (NRC).

4. ODI, '[Grand Bargain annual independent report 2020](#)', June 2020, p. 35.

5. ODI, '[Grand Bargain annual independent report 2020](#)', June 2020, p. 38.

6. OECD, '[Better Criteria for Better Evaluation](#)', p. 10.

Additionally, the Grand Bargain Task Force urges donors to put the efficiency debate in the context of the humanitarian imperative, the needs-based and principled characteristics of humanitarian aid, and the need to ensure quality of humanitarian interventions. Our collective capacity to meet the increasing humanitarian needs should be the ultimate way to measure the collective efficiency of our humanitarian eco-system. Measuring costs and efficiency at project level cannot be the only criteria by which the performance of humanitarian programs should be judged.

Recommendation 1: Progress at NGO Level

NGO signatories of the Grand Bargain have made progress on efficiency, particularly on commitment 4.2 to 'provide transparency and comparable cost structures'. Among NGOs' initiatives, the 'Money Where it Counts' (MWiC) and the 'Systematic Cost Analysis' (SCAN) tools have grown inclusive and have attracted serious attention throughout the wider NGO community. Through the MWiC initiative developed by Norwegian Refugee Council (NRC), NGO Partners and Humentum are working together to enable harmonisation of cost classification and financial reporting across the sector. The MWiC Protocol gives practical solutions to make this a reality. In 2019 and 2020, the SCAN tool, developed by five NGOs, has been rolled out in more than eight countries. The aim of the tool, co-created by Action Against Hunger Spain, CARE, Mercy Corps, Save the Children and International Rescue Committee (IRC), is to generate comparable cost-efficiency (i.e. cost per result) data to facilitate reasonable comparisons across programmes. These examples show the progress made by a variety of NGOs to deliver on their commitment to provide comparable cost structures. Another key example of an NGO initiative, in line with the commitment 4.4, is the development of a network of practitioners to create cooperation in procurement and logistics areas – aiming at making significant economies of scale (see case study below). The Réseau Logistique Humanitaire also initiated the EU Air Bridge soon after the Covid-19 pandemic heavily affected the delivery of humanitarian assistance.

Although these three initiatives have generated a great deal of interest among NGOs and clearly represent instances of best practice, the humanitarian community should not only stick to these three examples and should encourage for more initiatives and activities to be developed. However, for such initiatives to come to fruition, donors should step in to support, develop and enable such practices to grow further.

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Recommendation 2: Progress at Donor Level

As mentioned above, the focus of the workstream on introducing measures to reduce costs within the UN group and to use the UN Reform as an opportunity is understandable since scale of efficiencies can be achieved there. However, more should be done to achieve greater efficiency gains particularly in relation to harmonisation for reducing the administrative burden on implementing agencies.

A number of donors have introduced measures to make a comparative review among partners' proposals in relation to cost efficiency. For example, the Directorate-General for European Civil Protection and Humanitarian Aid Operations (DG ECHO) introduced specific questions in the Single Form in relation to support costs. Similarly, a Value for Money question exists in the harmonised '8+3' reporting format produced by workstream 9.

However, there is a lack of agreement between partners and donors on how to measure this. No guidance is provided on how implementers should understand, quantify or even calculate Value for Money. The NGO initiatives discussed above provide

concrete possible solutions to these challenges, in the form of a harmonised cost reporting method and a consistent tool to measure 'Value for Money' for donor reporting.

On the basis of the initial statement of workstream 4 that '*reducing management costs depends upon reducing donors' and aid organisations' individual reporting requirements, compliance and oversight mechanisms*', NGOs propose identifying the main moments in the project cycle where this reduction can be put in place on the basis of existing frameworks. This then leads to the recommendation 2.

- Ex-ante assessments: reducing the number of ex-ante assessments (or due diligence processes) would provide significant efficiency gains both for donors and aid organisations. Cross-relying on existing donor assessments should be the way forward. Reflection at EU level would be welcome, as would the adoption of existing standards (e.g. Core Humanitarian Standards, Good Financial Grant Partnership) instead of individual assessments. EU donors should rely on the new certification to be awarded to NGOs by DG ECHO on the basis of in-depth ex-ante assessments when engaging with NGOs at national level.
- Proposal & reporting – NGOs applaud the progress made by workstream 9 and the development of the harmonised template for narrative reporting ('8+3' template). Moving forward with the intention of reducing the administrative burden further, NGOs call for harmonisation of proposal templates (to be developed in line with the reporting one) and a similar approach to budgeting and financial reporting. Frequency, timeline and number of reporting should also be aligned between donors.
- Harmonised and simplified rules and requirements: a single set of rules – applicable for all donors would bring substantial efficiency gains and offer humanitarian aid operators the possibility to shift resources and capacity from compliance to operations.
- Efficiency, Value for Money assessments and monitoring: as mentioned above, different approaches to those concepts have led to confusion and inefficiency. The humanitarian community should build on the progress of the '8+3' template, to move towards a consistent way of asking for efficiency assessments, both qualitatively and quantitatively.
- Quality funding: NGOs welcome the progress made by the workstream 7 and 8 for reduced earmarked and multi-year funding. Predictable, timely, flexible and longer-term funding are essential not only for a needs-based and quality response but quality funding proves to provide significant efficient gains throughout the whole humanitarian funding chain. NGOs remain committed to supporting the work of this workstream further as it equally contributes to greater efficiency of the system.
- Audit: Considering audit companies are independent and use the same internationally agreed norms, it should be feasible to reduce the number of audits on the basis of cross-reliance on existing ones.

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Annexes :

Three examples of NGOs Best Practices for increasing the efficiency of humanitarian aid

Annex 1

NGOs Best Practices: Money Where it Counts

Starting in 2015, with the Boston Consulting Group estimating a potential gain of 2.3 million hours annually if harmonised and simplified solutions are implemented across the humanitarian sector, NRC became a strong advocate for the harmonisation of such systems and launched the Money Where it Counts Initiative (MWiC).

The MWiC initiative responds to clear commitments made by signatories within the Grand Bargain agreement to increase transparency (workstream 1), reduce management costs (workstream 4), and harmonise reporting (workstream 9). The simplification and harmonisation of UN contracts and the implementation of the MWiC are also a deliverable included in the Inter-Agency Standing Committee (IASC) Humanitarian Financing Results Group (HFRG) for 2019-2020.

Humentum led the development of the MWiC Protocol over the course of a year through consultations with a group of nine international non-governmental organisations (INGOs), namely: Action Against Hunger – Spain (ACF Spain), CARE, Danish Refugee Council (DRC), Humanity & Inclusion (HI), Save the Children UK and Save the Children International, Oxfam GB, Welthungerhilfe, and NRC itself.

The resulting Protocol is an intensely practical solution that was effectively co-created and agreed upon by a group of nine INGOs and which will enable harmonisation of cost classification and project financial reporting across the sector.

In summary, the Protocol conventions are as follows:

1. Cost classification by function: all costs are classified as direct costs, indirect costs or ineligible costs. Direct and indirect costs are classified in accordance with the functions that they resource. Both are required and legitimate costs of programme or project activities.
2. Fully costed proposal budgets: proposal budgets transparently show the full estimated direct and indirect costs required to deliver the proposal activities. Any co-financing or unrestricted funds assigned to the proposal by the applicant agency are also shown transparently in calculating the funding request to the donor.
3. Charging full, actual direct costs: the full actual direct costs of the activities are charged to the funding arrangement once it is in place. This can be on the basis of two methods: direct charging of costs in accordance with use or consumption by the funded activities; and apportionment of pooled direct costs.
4. Direct cost pooling for efficiency, transparency and value for money: agencies strive to adopt the most cost-efficient approach to delivering the funded activities. Where it is most cost-efficient, the resources necessary to deliver the funded activities are maintained through continuing in-country structures, or shared in other ways between different projects or programmes. In these instances, the direct costs are transparently pooled and apportioned between the funding arrangements which they benefit, using a consistent, objective, and fair apportionment method.
5. Charging indirect costs: agencies incur a range of costs for functions that enable their activities to be delivered globally. These include the overarching policies, frameworks and processes required to manage and oversee projects in programmes in any location. These costs, which are legitimate indirect costs of funded activities, are charged in full, in accordance with an annual rate calculated transparently from the agency's audited annual accounts, and verified periodically.
6. Budgets and financial reporting: budgets and financial reports are in accordance with a standard and simplified template. Optional annexes showing detailed financial information transparently are also available and can be requested by the donor. Pooled direct costs and indirect costs are shown clearly on the template, as are co-financing or unrestricted funds utilised.
7. Full transparency: under this Protocol, agencies prepare a Cost Classification and Cost Charging Statement setting out their approach under MWiC, and the rationale.

NGOs Best Practices: SCAN

Humanitarian agencies are not able to meaningfully understand which programme activities make the most progress towards key outcomes per euro spent, within constrained budgets. This is because existing methods to calculate 'cost efficiency' are inconsistent, time consuming, and create opportunity for error. Data currently available cannot be meaningfully compared, missing opportunities to learn about how programme design, context, and target population affect the cost of delivering services.

Five NGOs (Action Against Hunger Spain, CARE, Mercy Corps, Save the Children, and IRC) have jointly designed the Systematic Cost Analysis (SCAN) tool to generate comparable cost-efficiency data, facilitate reasonable comparisons across programmes, and learn the approaches and activities that provide the greatest value to the most people per euro. SCAN is a web application which pulls data from implementer's existing accounting systems, walks field staff through the process of identifying the full costs of one particular activity, then calculates the cost-per-output and shows comparisons to other similar programmes. The web interface allows SCAN to highlight evidence on why the costs of delivering that kind of assistance vary, helping people to understand whether higher-than-usual costs are likely driven by their context, or whether there is room to deliver more with their resources.

DF203 - Somalia long term cash grant (until 9 Jan)
Unconditional Cash Transfer

Cost Efficiency

- \$0.21** Cost per Cash Transferred (Direct Project Costs only)
- \$0.37** Cost per Cash Transferred (including Direct Project Costs, Direct Shared Costs, Indirect Costs)

Comparison to Similar Programs

Country	Cost per Cash Transferred (Direct Project Costs only)	Cost per Cash Transferred (including Direct Project Costs, Direct Shared Costs, Indirect Costs)	Cash Transferred
Philippines	\$0.14	\$0.24	ES035 - Cash Transferred: 225,676.00
Iraq	\$0.16	\$0.28	EC351, DF105 - Cash Transferred: 570,111.00
This Program	\$0.21	\$0.37	DF203 - Cash Transferred: 483,860.00
Jordan	\$0.28	\$0.41	DF090 - Cash Transferred: 844,357.00
Iraq	\$0.40	\$0.62	TR388 - Cash Transferred: 109,978.00
Lebanon	\$0.55	\$0.86	DF115 - Cash Transferred: 500,000.00
Mali	\$0.61	\$0.86	GA304 - Cash Transferred: 929,915.00
Chad	\$1.05	\$1.99	ES038 - Cash Transferred: 42,630.00
Niger	\$1.32	\$2.01	ES038, GA295 - Cash Transferred: 162,500.00

Strategies

Economies of scale

- Efficiency Driver:** Increasing the number of dollars distributed--by targeting more households, or giving more months of transfers--makes programs more cost-efficient, because "fixed" costs like program management and community assessments get spread over more transfers. [More info.](#)
- Strategy to Improve Cost-Efficiency:** If your program serves 300 or fewer households, increase that number to get "economies of scale." Make best use of investments in community-level assessments and travel by serving all eligible households in that area before targeting new areas.

In 2018, five NGOs in Iraq test whether the SCAN approach facilitated comparable efficiency data across their cash programmes, and whether this data helped them improve delivery to displaced families. The proof-of-concept was a success: all agencies' staff were quickly trained on the tool, and used it to conduct a rigorous analysis using an identical methodology. Comparing among the five agencies implementing cash transfer programming helped them to identify efficiency improvements that allowed more than £80,000 to be re-allocated directly to cash delivery.

The tool has already been used at small scale to quantify gains from some of the reform efforts in the Grand Bargain. A June 2020 report titled 'WIN-WIN: Multi-year flexible funding is better for people and better value for donors' showed that a longer-term cash transfer programme in Somalia cost nearly 44% less to deliver than a comparable short-term programme. With more such analyses, humanitarian actors could capture the efficiency gains of the Grand Bargain more widely.

NGO Best Practices: the RLH

Supply Chain: a strategic level towards a more efficient humanitarian aid

INGOs have empirically demonstrated that across all activities an average of 50% of the annual revenue is spent through supply chains and up to 80% in emergency response. With such facts, optimization, cost reduction, and opportunities to reach lives become a duty.

Aware of the potential of supply chain to increase efficiency in aid, the Réseau Logistique Humanitaire (RHL) brings together together 11 international humanitarian organisations¹, and seeks to optimise humanitarian logistics and improve operational efficiency by developing a common strategy of resource sharing, advocacy, and information sharing. The latest report published by the RLH 'strength in numbers' considers progresses in the private sector to suggest new supply chain practices moving towards the outsourcing and pooling of logistics services with the double objective of reducing operational costs and increasing end customer satisfaction levels.

The RLH has been spontaneously supporting common supply chain projects to increase efficiency with clear results that need to be scale up to the entire INGO sector. However, it's time now to structure the pooling of resources with clear tools, processes and data to allow the empirical demonstration of resource pooling to reach a new level. With an improved business model and a buy-in from the donors, the INGOs could deliver greater outcome while reducing their logistics costs; they could also demonstrate their innovation and development capacities while honouring the commitments of the Grand Bargain.

Action Contre la Faim, Solidarités International and Humanity & Inclusion joined forces in June 2019 to work on a common call for tender regarding the acquisition of laptops. All 3 NGOs had different laptop providers. Even though they agreed to choose the same provider, each NGO had specific demands in terms of insurance, guaranties and accessories. There were 2 objectives attached to the call for tender: 1/ save money in obtaining the best conditions and 2/ save administrative time in the tender process. The above NGOs had hardware IT contracts expiring pretty much at the same time, making the negotiation process easier.

Each NGO generated savings ranging from 6% (ACF) to 10% (Solidarités International), with an average saving of 8%. In gross terms, the cumulated savings reached 55000 euro, of which 24000 for ACF, 26000 for Solidarités International and 5000 for Humanity & Inclusion. The administrative time required for the common call for tender was not different from a traditional one. This means that the time spent by each NGO on the tender was divided by 3, enabling staff to free-up time for other tasks. Following the tender, each NGO had the possibility to negotiate personalised features. Humanity & Inclusion decided to skip all type of guaranties (no insurance signed-in), explaining why their final price was lower than the one of the other NGOs. On the other hand, Solidarités International asked for a laptop kit including a special mouse and ad hoc accessories, also explaining why their price is higher than the one of ACF. The call for tender enabled the NGOs to reinforce links between themselves, providing upside in the future for similar initiatives.

1. The organisations that are part of RLH are: ACTED, Action Contre La Faim, La Chaîne de l'espoir, Croix-Rouge française, Humanity & Inclusion, Medair, Médecins du Monde, Oxfam Intermón, Première Urgence Internationale, Solidarités International, and Terre des Hommes.

