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Broke or broken? A necessary discussion about the humanitarian funding gap

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Chapter 1: the financing base

This Egmont Brief proposes to further explore the main options currently proposed to fill the humanitarian aid funding gap: budgetary targets, global pooled funds, and a better engagement with the private sector. It concludes by suggesting a number of actionable items that would allow the European Union to mobilize a wider international financing base.

It is the first of a series of three Funding Gap publications that will address related questions: the global financing narrative and the multi-dimensional (or nexus) funding, throughout 2023. This series will attempt to cover the different aspects of global humanitarian financing and will build on the discussions that took place before and during EHF 2023. The findings, in addition to excerpts from roundtables and expert panels, will feed into current documented and informal debates.

INTRODUCTION

The funding gap was a key topic at EHF 2023 and has been a long-standing priority for the EU Commissioner for Crisis Management, Janez Lenarčič. At the time of writing, the EU Council is still working on issuing conclusions on this matter.

Recent emergencies have resulted in a massive increase in the number of people in need of humanitarian assistance, from 125 million (2016) to 339 million (2023). OCHA's Global Humanitarian Overview for 2023 contains some disturbing figures:

PEOPLE IN NEED	339M
PEOPLE TARGETED	230M
REQUIREMENTS (US)	$ 51.5B
APPEALS	38

The ongoing humanitarian crises on Europe's doorstep, in Ukraine and the Middle East, have highlighted the ability of the international community to collectively step up its efforts to relieve human suffering. Meanwhile, long-term solutions must be promoted in regions such as Yemen, the Horn of Africa or the Sahel, which are affected by protracted conflicts and the worsening impact of climate change.

The need for global humanitarian assistance has nearly doubled over the past decade, but the rate of growth in financing for this assistance is still not sufficient to meet the increase in humanitarian needs.[1] In 2022, less than 58% of the humanitarian appeals were funded.[2] Based on current trends, it can only be expected to increase, **hindering effective and efficient planning and action**.[3] Some projections foresee that overall financial requirements may reach USD 100 billion by 2029 or even sooner, by 2027, which would leave three persons in need out of four without support[4] and further question the relevance of the humanitarian sector in its global capacity to alleviate suffering and meet the basic needs of people most in need.

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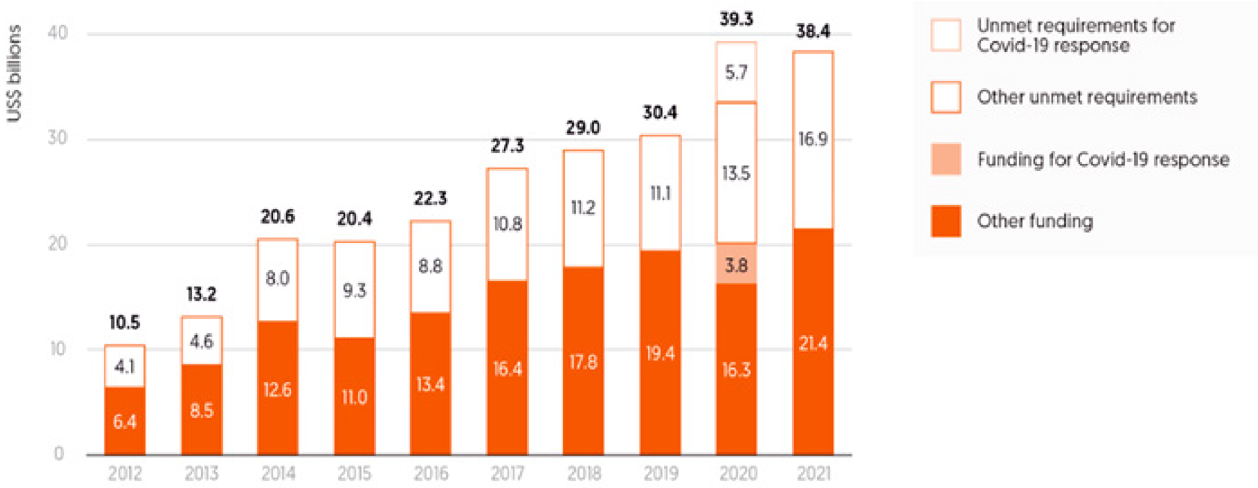
Several donor countries have recently committed to increasing their humanitarian budgets but mobilizing other governments has proven difficult.

- **More than bridging the gap: better sharing humanitarian efforts?**

Half of international humanitarian assistance originated from just five donors in 2021 (83% from the top ten contributors). The European Union's contribution follows the same pattern, representing 36% of the global financing.[5] The bulk of it comes from only a handful of EU Member States and the European Commission itself.

The United States and the European Union have called for greater burden sharing, while critics urge them to lead by example and ensure that the richest countries contribute their fair share first.

Figure 1. Evolution of global ODA figures from 1960 to 2020



Source: Development Initiatives (2022)

Divergent ideas and innovative proposals have emerged around this situation: from setting mandatory funding targets to implementing global humanitarian pooled funds, from better mobilizing the private sector to finding a new consensus around the narrative, leading donors and humanitarian practitioners all agree on the need to explore new options.

- **Is there a consensus on the funding issue?**

Yes… and no.

Over the past decades, political, development and aid officials have kept promoting the universality of humanitarian principles. Humanitarian assistance has been at the forefront of values and priorities: a position recently confirmed by UNSC Resolution 2664, which decided that humanitarian exemptions would apply to all UN sanctions regimes.

Similarly, traditional aid system analysts seem to agree on the urgent need to increase global humanitarian funding. However, if this question were posed to the broader non-DAC community, it might receive a fuzzier answer.

'The [aid] system might not be broken but the architecture used to mobilize and channel resources is outdated'[6]: This statement from the Center for Global Development paraphrases many views on current financial governance. However, few states, donor agencies, or aid officials have called for a thorough review of the current underperforming status quo.

THE SETTING OF INSTITUTIONAL GLOBAL FUNDING TARGETS

• A brief review of practices

Since 1970, when DAC countries agreed on a 0.7% ODA/GNI target, it has been repeatedly reaffirmed at the highest level in international conferences on aid and development.

However, DAC member countries' commitment to ODA funding targets remains variable. Since 2015, global trends in ODA levels have been driven primarily by a steady increase in disbursements from the United States, Japan, Germany, and France, while contributions from EU institutions and the United Kingdom have plateaued. Globally, ODA disbursements to GNI ratio have averaged between 0.27% and 0.33% since 2015, hiding substantial discrepancies from one donor country to another, and from one year to another within that period. In 2021, only five donors out of 30 DAC country members met or exceeded the ODA target of 0.7% GNI (Figure 2) – with only one of them (Germany) being part of the top 5 donors in terms of actual contributions.

4 of the 5 target-abiding countries are EU members, which also means that 85% of EU member states have not met the 0,7% ODA/GNI target, despite 15 of them having agreed in 2004 to reach this target by 2015. This commitment was renewed by the European Council in 2015 with a target for 2030. Three major EU economies – currently not meeting the target – have recently taken legislative action to meet it: France (2021–objective 2025), Italy (2022–objective 2026) and Spain (2022–objective 2030). Several other countries are likely to take similar steps in the coming years, but current trends show that the risk of a two-tier system dividing EU members is growing.

Figure 2: Gross National Income (GNI) ODA percentage

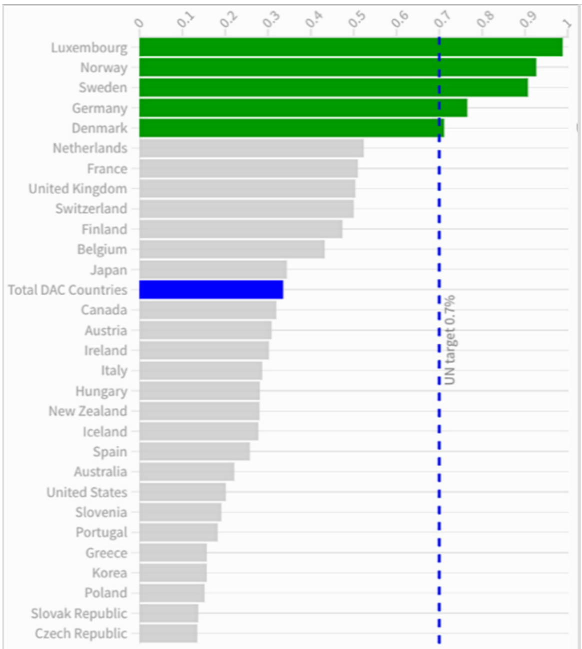
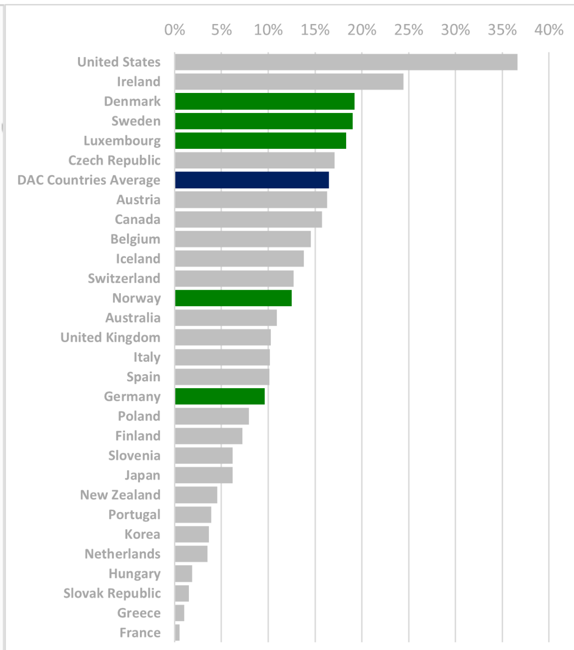


Figure 3: Total ODA Humanitarian aid percentage



Source: OECD Development finance data – accessed 10 March 2023

The humanitarian component of the ODA shows an even more heterogeneous picture (cf figure 3): while the average OECD countries HA/ODA ratio reaches 16%, it is skewed by an increasing and outsized share of the United States' ODA budget dedicated to humanitarian activities funding (16% in 2012 - 37% in 2021). It would fall to 9% if the United States were not included, thus below the generally promoted target of 10%. The discrepancy between EU members is even more striking and demonstrates a total heterogeneity in ODA spending approaches.

Better understanding the drivers behind these figures requires to go beyond the common argument that peer pressure (naming and shaming, or praising champions of the humanitarian funding cause) would be enough to trigger change. Some argue that sharing experiences and good practices could have a more substantial impact on humanitarian financing levels than simply promoting targets.

Non-OECD/DAC members, however, are generally reluctant to set targets. Their relief strategy often largely bypasses international humanitarian structures, varies greatly from one year to another, and aligns more explicitly with their regional geopolitical agenda.

Large emerging economies tend to articulate humanitarian assistance with foreign policy objectives, particularly in their geographic region, for instance:

- **India** is often referred to as the 'neighbourhood's first responder' as it provides large-scale humanitarian assistance on a bilateral basis in the region and makes only limited contributions to multilateral institutions or through UN-led appeals. As an example, India was the single largest donor for the 2015 Nepal earthquake response.[7]

- **China**'s ODA disbursements – an estimated 4.4 billion USD in 2018[8] – mainly revolve around its Belt and Roads Initiative, focusing on bilateral assistance with its economic partners overseas. They will most likely grow following the publication of the CCP's 2021 White Paper on Cooperation and Development.[9] Its humanitarian spending (128 million USD in 2018) is primarily focused on disaster response, through its recently established international development and cooperation Agency (CIDCA).[10] China pledged an estimated 150 million USD to the UN-led humanitarian system in 2020, and while this figure pales in comparison to the leading donors' contributions, it does represent the peak of Chinese contributions.[11]

- **Six Southeast Asian** countries (Indonesia, Malaysia, the Philippines, Thailand, Vietnam and Singapore) have steadily increased their contributions to the UN in recent years through triangular cooperation projects reflecting ASEAN members' priorities such as disaster risks reduction.[12] Consequently, most of ODA disbursements in the region focus on assisting neighbour countries.

- In **Latin America**, ODA spending has followed a similar path, largely focusing on assisting neighbouring countries, with a few exceptions (Palestine, or Spanish and Portuguese-speaking African countries).[13] It revolves around a strong localization agenda, non-Western interference and humanitarian/development nexus narratives.[14]

- **Gulf Countries**' contributions have fluctuated a lot - notably those of the United Arab Emirates (UAE) and Saudi Arabia in 2021 -, with volumes jumping up to US$745 million for the UAE (up 74%) and to US$553 million (up 87%) for Saudi Arabia, reversing two years of decline.[15] Their ODA humanitarian component is generally focused on neighbouring crises.

• The value of setting targets

After a period of reduced scrutiny, the 0,7% ODA/GNI and 10% HA/ODA targets have regained interest as valuable tools for broadening the donor base. Top aid leaders promoted them during the recent EHF, including Janez Lenarčič, EU Commissioner for Crisis management,[16] and Jan Egeland, Secretary General of the Norwegian Refugee Council (NRC).[17] The prospect is indeed appealing as such targets – if met by high-income countries – would cover the full humanitarian bill.

Critics however argue that very few of the countries that committed to the 0.7% ODA target 50 years ago have met it. Some suggested that was never their intention in the first place, and that this target was really a lobbying tool for rich countries to increase their aid budgets.[18] Moreover, there is no indication today that a resolution to adopt a legally binding approach at the UN General Assembly would be passed and subsequently respected. Moreover, normative targets could also be counterproductive and cause current generous donor countries that have so far exceeded these targets to scale back their commitments.

It's worth noting that increased budgetary commitments do not mean improved quality of humanitarian funding. In the UK, for example, an eight-year study by the Independent Commission for Aid Impact (ICAI)[19] found that the increase in ODA was spread across different departments, resulting in a decline in aid financing quality. Target setting must be therefore be accompanied by sound and appropriate budgeting.[20]

Moreover, it is likely that several non-OECD countries would likely **push back against any attempt to impose financing targets** - including for humanitarian purposes – for various reasons:

- A relative scepticism towards a global development and humanitarian system seen as cumbersome, bureaucratic, and not very permeable.
- Disenchantment with a humanitarian approach perceived as Western and disconnected from other solidarity mechanisms rooted in other traditions and values.
- The impression that 'the train has already left the station'; meaning that that their financial contributions would be insignificant in comparison to the amounts disbursed by top donors.
- A reluctance to formally commit to programmed disbursements in an uncertain geopolitical and economic context, particularly for middle-income countries.

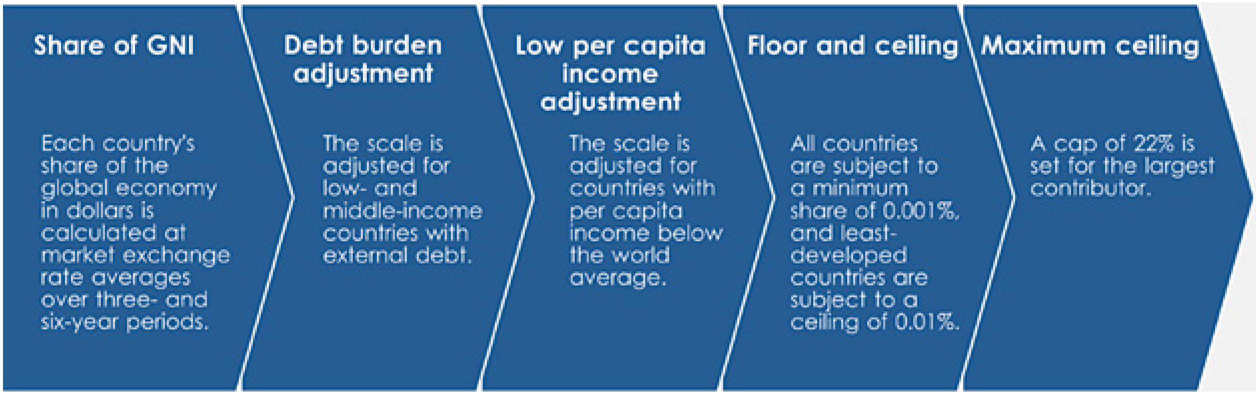
Many of these reluctances seem to have less to do with strictly budgetary considerations than with the current governance and financing of the aid system, and call for further discussions on the funding channelling system and its architecture.

THE IMPLEMENTATION OF POOLED FUNDS

• A few examples

The financing model of **UN Peacekeeping operations** is based on funding targets and channels. It faces a dilemma similar to that of the humanitarian system, with few donors contributing substantially to the budget. The ceiling for the largest contributor has decreased as the UN membership expanded and other countries were able to take on a greater share. After two decades of debate, the UN General Assembly agreed in 1973 on a methodology for financing peacekeeping. This was revised in 2000 and has remained unchanged since then.

Figure 4. Methodology for determining regular budget scale of assessments



Source: Financing UN Peacekeeping : avoiding another crisis – International Peace Institute - Wasim Mir (2019)

Unfortunately, few Member States pay their contributions on time, which creates a cash-flow problem for the UN Secretariat. Additionally, there is no single peacekeeping budget: each peacekeeping mission has its own dedicated account, which allows Member States to earmark their contributions.[21]

WHO made a similar revision to its pledging system in 2022, increasing the mandatory and fixed contributions of its Member States from 16% to 50% of its overall budget, based on a ratio of each country's GNI. This reform was seen as an opportunity to secure a large part of the WHO budget in a predictable way.[22] It was also intended to free the organization from contributions earmarked for specific programs, geographic locations or time periods. In the end, there are serious concerns about the extent to which each state will meet its financial commitment.[23]

The United Nations' CERF, directly administered by the Emergency Relief Coordinator (ERC), aims at funding humanitarian emergencies and forgotten crises. Sixty donor countries and regional organizations contribute to its 638 million USD budget (2021)[24] but the main contributors remain the traditional top 10 global donors. Moreover, UN agencies remain the main beneficiaries of these funds, sometimes disregarding the UN's response capacity compared to that of INGOs. As useful as it is for the UN-led humanitarian ecosystem, for UN agency budgets, and for emergency response funding, the CERF does not challenge the big donors/big operators' status quo.

UN-administered Country-Based Pooled Funds (CBPFs) have benefited from growing donor interest by providing an adapted response to critical challenges related to funding flexibility and strengthening local partnerships.[25] However, their impact remains limited as they depend on voluntary contributions and mobilize relatively modest budgets, operating essentially on an annual basis. The very nature of their earmarked financing also prevents them from addressing the disturbing trend that crises are increasingly being overlooked.

• The debate: would a single global mechanism to channel humanitarian financing provide an incentive to broaden the funding base?

Such a mechanism has promising advantages, as it would:

- Allow for prioritization of funding streams based on need rather than media or geopolitics.
- Neutralize the funding source and thus limit the neo-colonialist perception of aid.
- Optimize transactional costs by enabling a one-stop-shop method for funding streams.
- Reduce the "entry ticket" for new donor countries.

Several voices have been calling for the creation of such a global humanitarian fund to launch a long overdue reform of the sector. Among them, Pierre Micheletti, President of ACF France and Harpinder Collacott, Executive Director of Mercy Corps Europe argue that this would not only close the funding gap but also increase the impact of the funding – if managed by a governance body representative of the sector.[26]

Behind closed doors, critics expressed concern that major donor countries would ultimately be reluctant to implement such a single window mechanism, as it would be tantamount to ceding much of their influence to a third actor, especially in a context where multilateral diplomacy is increasingly questioned. Neutralizing the funding source would also deprive public institutional donors of the visibility of their work to their national audience.

Others advocate the creation of a vertical funding mechanism fed by a top-up system based on a fixed percentage of each donor state's humanitarian budget. This would allow the system to secure predictable resources – towards forgotten and underfunded crises for example.[27] Such a fund would build to some extent on the current CERF experience, but extend its funding allocations to all humanitarian actors (not only UN agencies).

However, it is likely that this new multilateral financing tool will not be welcomed by non-aligned countries. They may fear that their contributions will be diluted in a mechanism that primarily serves the priorities set by a club of major contributors or by weak consensus leadership. They could also give preference to more relevant and familiar mechanisms at regional level.

Answering the following questions - difficult as they are - would begin to remove some of the barriers to more substantial contributions from new donors: How would such a fund be administered? Under what leadership? And under what accountability system?

THE PRIVATE SECTOR - HUMANITARIAN ASSISTANCE AS AN INVESTMENT?

While the private sector has allegedly been playing an increasingly significant role in humanitarian assistance, direct contributions from private companies and foundations were estimated to account for 15 percent of all private funding in 2021 and 1 percent of global humanitarian funding streams.[28]

Beyond corporate and foundation contributions to the donor effort, the real potential of the private sector to contribute to the relief effort lies in its "**investor**" capabilities.

- **Structural partnerships** between aid actors and private entities remain the most common. They allow crosscutting organizational support and have two decades of experience. Nonetheless, they barely cover the financing gap: they generally either address the organizations' own internal needs (digitization, organizational improvements) or generate innovative deliverables that, as innovative as they may be, do not cover the bill.

- **Pooled funds inviting private investors to invest in the aid business**. Among them, blended financing aims to bring together private and institutional capital in economically sustainable projects. For instance, the Humanitarian and Resilience Initiative (HRI) promotes investments in ways that benefit communities and strengthen economies in humanitarian and fragile contexts, while creating a financial return.[29] While there are plenty of such investment funds in the development sector,[30] they remain rare in the humanitarian space. As for the social sector,[31] many people have expressed scepticism about humanitarian action's ability to generate tangible returns on investment, even beyond the traditional 'first loss' capital. Others are concerned that such instruments ignore highly unstable areas and leave out the most vulnerable segment of a target population.[32]

- **Humanitarian Impact Bonds** are result-based mechanisms in which private actors invest capital to finance humanitarian deliverables through a special purpose vehicle. The investor is progressively reimbursed by the institutional donors according to the results. This modality does not fundamentally differ from the final financing scheme proposed by traditional institutional donors. However, it does offer an immediate liquidity option which can be attractive for large-scale or innovative humanitarian projects, bypassing institutional donors' immediate budget constraints. Initial results raise mixed feedback, with observers expressing concerns about the additional administrative setup costs (up to 10% of the overall investment), their unsuitability for acute crisis situations, and the ethical risks they pose.[33]

Other initiatives have gradually emerged (e.g., risk financing insurance), but they often prove difficult to adapt to the nature of humanitarian interventions-and their inherently non-transformative agenda. That said, the existing literature on the adaptability of development/private sector-driven collaborations to the humanitarian sector is still relatively poor and a stronger research base is needed.

CONCLUSION

There is no magic formula for accelerating the expansion of the humanitarian donor base.

In its 2021 conclusions on the EU Communication on Humanitarian Aid,[34] the Council *underlines the urgent need to enhance global efforts to significantly increase the resource base for humanitarian action, […] calls on potential and emerging donors to contribute in a principled way and welcomes work […] to leverage additional principled funding from international financial institutions and the private sector*. The EU has indeed the capacity to mobilize its Members States, reach out to donors (institutional or private) and champion a more coherent humanitarian ecosystem, adapted to new realities and challenges notably by:

- **Supporting the debate**: potential solutions and ideas are slowly emerging and there is currently a favourable political momentum that should be exploited to test new ideas and make new proposals. Despite the real but limited successes of the Great Bargain funding initiatives, global humanitarian architecture and leadership have so far been unable to initiate profound change, while global figures show the risk of the sector losing relevance in its ability to respond to large-scale needs. It is clear that the EU needs to play a bolder role as an institutional facilitator, drawing on its institutional and financial legitimacy and its willingness to support such a process.

- **Expanding the institutional donors' horizon** to new contributors will require more than normative measures and targets. The humanitarian financing system's current discourse and de facto governance is increasingly disconnected from the reality of needs. Convincing new donors to participate and existing donors to adjust their contributions requires significant work and commitment, but also strategic conclusions about how the system could be improved.

- **Walking the talk**: while Member States have committed to accrued and target-compliant budgets, the divide between traditional Western donors and other EU Member States has remained, and even widened. The conflict in Ukraine is often seen as the linchpin for meaningful humanitarian engagement in eastern member states. This could be an opportunity for the EU to show the world how a consensus on humanitarian funding can be implemented.

- **Considering the end game**: an independent governance system supported by a global humanitarian fund would be at the expense of the traditional practice of top institutional donors, who use humanitarian funds as a soft power instrument. Any major reform project requiring states to abandon their traditional approaches will require an extensive lobbying effort at the global and national levels, supported by all possible champions.

- **Greater engagement with the private sector** will similarly require a shared, evidence-based appreciation of what outcomes are achievable and what are not. This technical conversation is too often polluted either by positivist approaches or by (partly) unfounded fears about the risks of ethical drift. A more thorough analysis of how humanitarians can learn from the experiences of the development sector, recognizing practices that are simply not appropriate in humanitarian contexts, will also be essential in the coming years.

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