



Institutional donor requirements

Report on Sectoral challenges



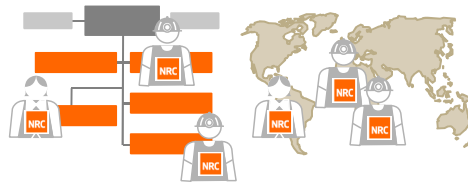
IN THE SPRING OF 2016, NRC AND BCG CONDUCTED A JOINT STUDY ON THE IMPACT OF DONOR CONDITIONALITIES ON NRC

Objective was defined...

Increase the amount of funding reaching the end beneficiaries

- Improve *internal processes* and systems in NRC
- *Identify and quantify impact of conditionalities* and provide documentation to enable internal priorities and improve NRC's position in negotiations with donors
- *Identify opportunities for NRC to spur long term improvements* of donor conditionalities in the humanitarian sector

..workshop based approach applied...



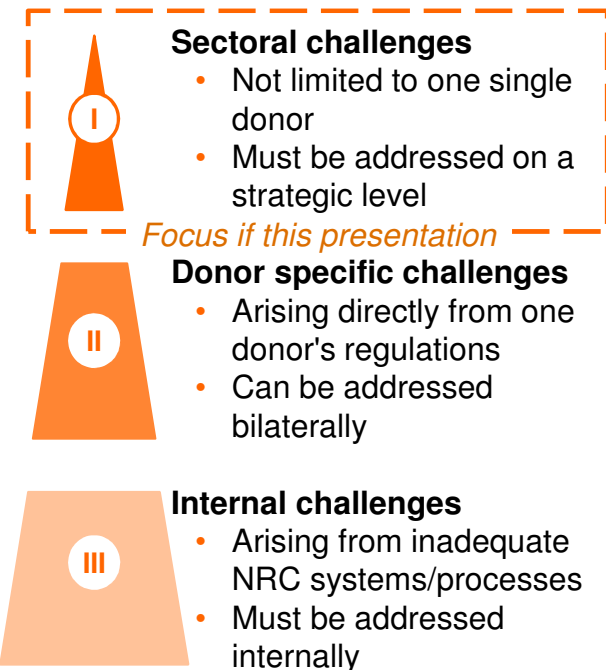
NRC staff from all over the organization gathered to

- identify challenging requirements
- provide concrete examples
- perform impact assessment

9 donor specific workshops conducted



...and three "levels" of challenges identified



FOUR CHALLENGES WERE FOUND TO HAVE SEVERE NEGATIVE CONSEQUENCES ACROSS THE ENTIRE HUMANITARIAN SECTOR

- 1 NGOs are strongly encouraged to deliver humanitarian assistance in high risk areas and at the same time expected to take on **most of the financial risk**
- 2 **Different formats for project documentation** across donors causes NGOs to spend considerable amounts of time and resources on activities that create no added value
- 3 **Some donors are reluctant to cover their share** of admin and support cost
- 4 **Inadequate internal coordination** of decentralized donors leads to delayed onset of projects, conflicting messages and large regional variations in interpretation and enforcement of requirements

DONORS ARE TRANSFERRING THE FINANCIAL RISK TO NGOS

Challenge identified in workshop

"NGOs are strongly encouraged to deliver humanitarian assistance in high risk areas and at the same time expected to take on most of the financial risk"

Donors are incentivizing NGOs to operate in lower risk areas and minimize risk exposure

Donor counterparts on the ground frequently agree verbally to risk sharing in negotiation processes

- However, in the written contract all the risk is transferred to the NGO
- NGOs receive no risk premium or compensation for taking on operational and financial risk

In the case of aid diversion, corruption or force majeure NGOs risk "double punishment"

- Funds that have already been spent are reclaimed
- Burden of proof resides with the NGOs, and investigation is extremely resource intensive

When something goes wrong, NGOs are completely at the mercy of the donor

- NGOs can hope that donor will agree to share the loss, but have no legal claim in the matter

Repayment of funds is the general rule

Example 1) NRC had to pay back funds after rebels attacked NRC office in Leer, South Sudan

- Office was looted by rebels, one staff member was killed and ~13 000 USD worth of articles were stolen
- NRC had to pay back full amount to donor

Example 2) NRC had to pay back NFI kits lost to looting in project in Lachi, Pakistan

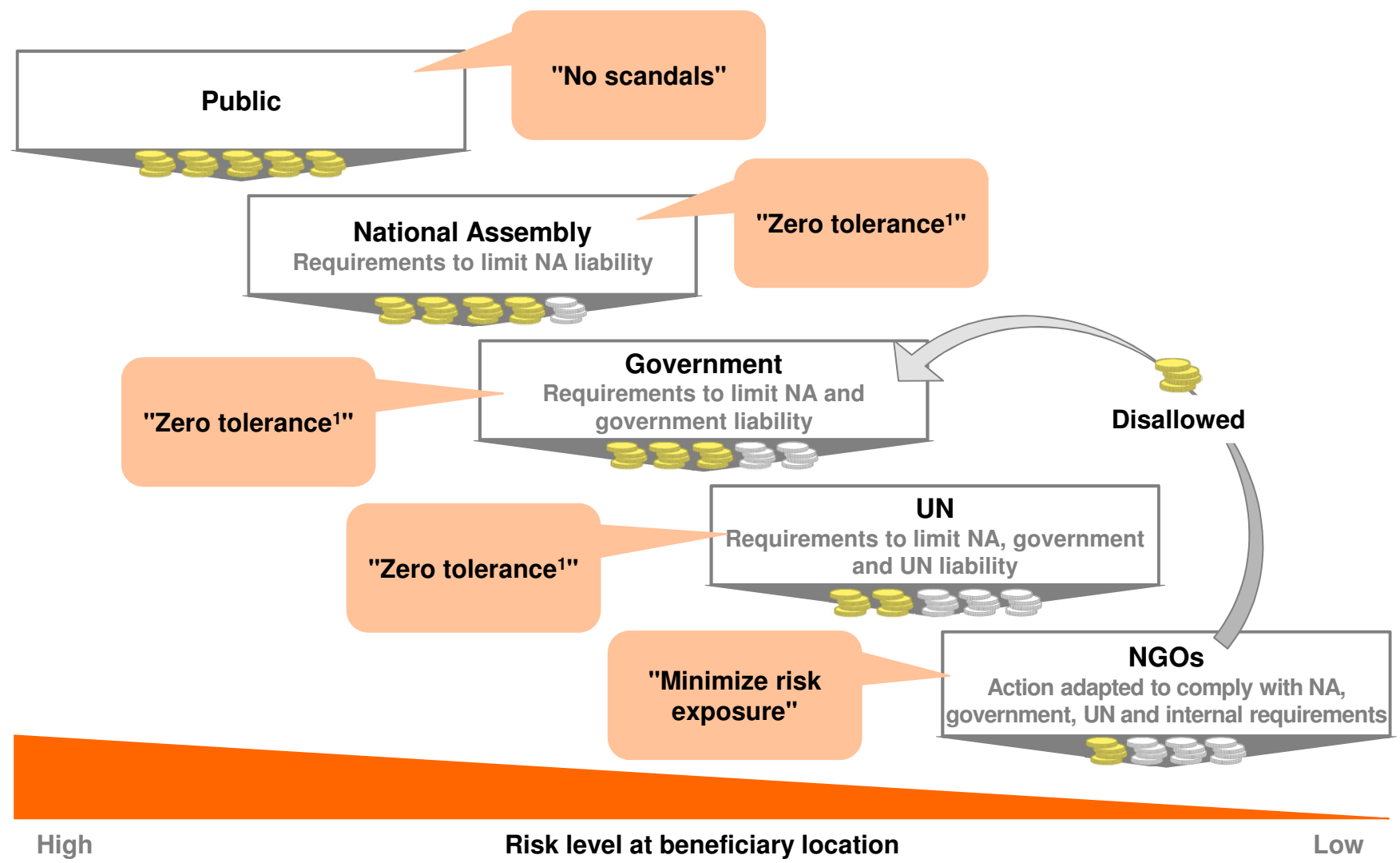
- During distribution of NFI kits, IDP group suddenly started to loot kits from a truck
- NRC staff alerted village police who managed to stop the violence and take back some of the kits except
- 165 NFI kits lost, NRC had to pay back ~8.000 USD

Ask to donors and UN agencies

Donors and UN agencies are asked to adopt a risk management approach that:

- recognize and accept the cost of risk management for the implementing agency as an essential project investment rather than admin. support
- approach risk management as an enabling process rather than a precautionary one, focusing on outcomes rather than outputs
- does not manage risk by imposing stringent and excessive administrative conditions on NGOs, which impede humanitarian action
- includes a risk sharing mechanism with NGOs

RISK AVERSION ACROSS THE WHOLE CHAIN SKEWS ACTION AND RESULTS IN LESS FUNDING REACHING THE BENEFICIARIES

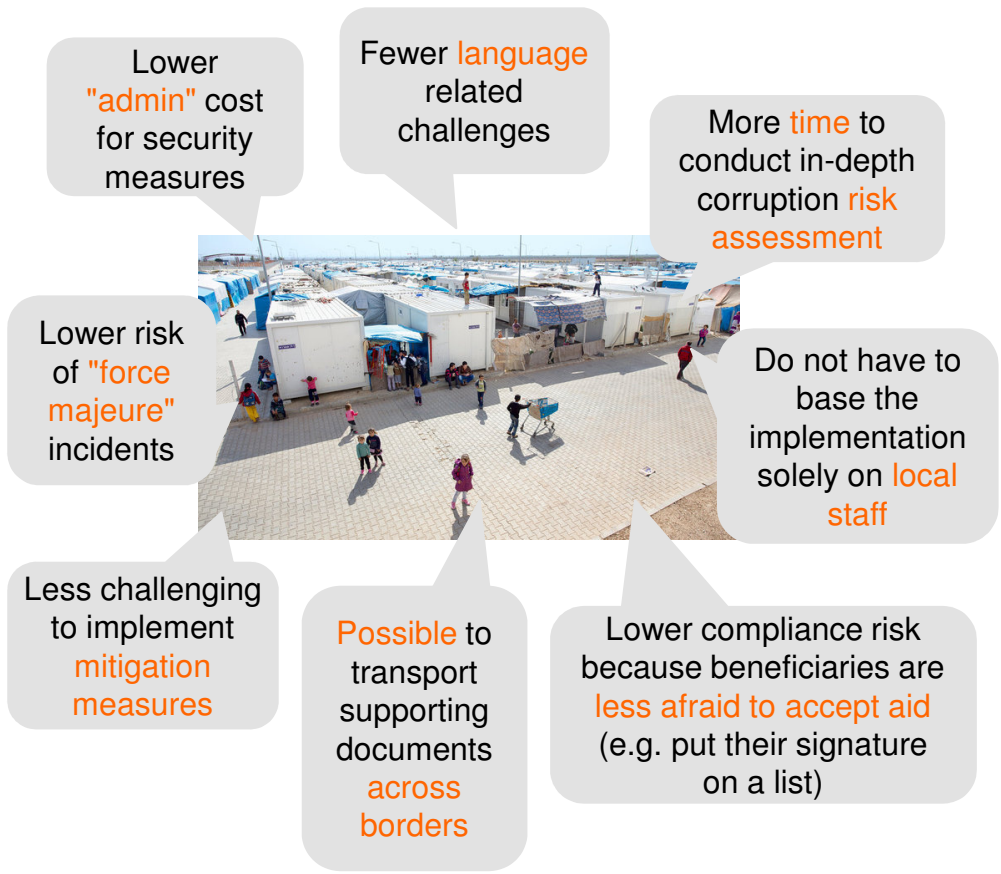


1. Zero tolerance for aid diversion, corruption, force majeure, compliance breach – regardless of context

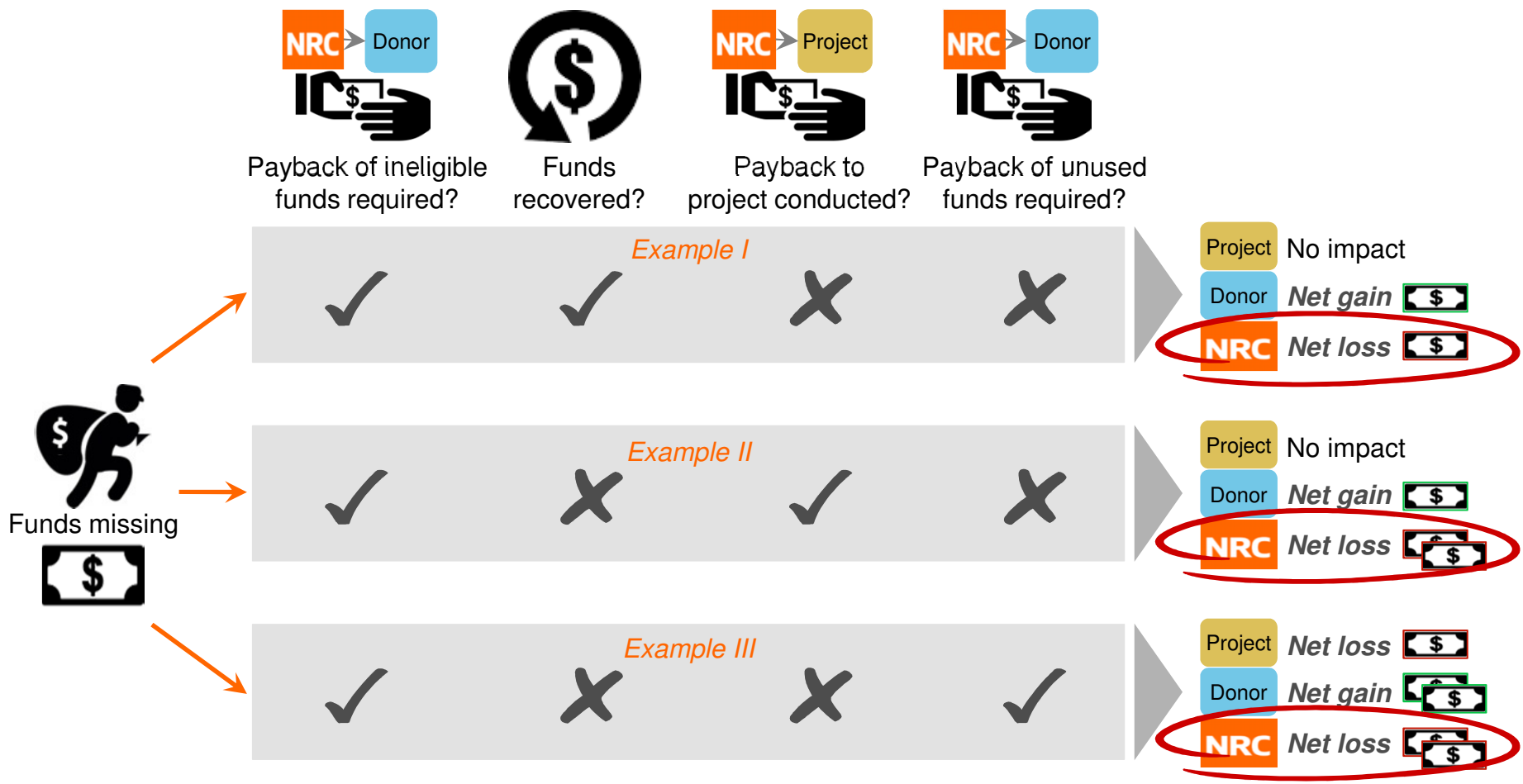
"ZERO TOLERANCE" IS A LAUDABLE VISION, BUT HAS DIRE CONSEQUENCES WHEN NOT ADAPTED TO REALITY

NGOs are incentivized to minimize risk, directing action towards "safe" areas...

...and away from the most vulnerable people in the greatest peril



3 EXAMPLES ILLUSTRATE HOW CORRUPTION ALWAYS RESULTS IN A NET LOSS FOR NGOS – AND OFTEN "DOUBLE PUNISHMENT"



SHIPPING INDUSTRY EXAMPLE: INSURANCE RISK PREMIUM SHALL BE REIMBURSED BY THE CHARTERER TO THE OWNER

21. War Risks ("Conwaritime 1993")	665			
(a) For the purpose of this Clause, the words:	666		she shall be subject, or is likely to be subject to a belligerent's right of search and/	692
(i) "Owners" shall include the shipowners, bareboat charterers, disponent owners,	667		or confiscation.	693
managers or other operators who are charged with the management of the	668	(d) (i) The Owners may effect war risks insurance in respect of the Hull and Machinery		694
Vessel, and the Master; and	669	of the Vessel and their other interests (including, but not limited to, loss of		695
(ii) "War Risks" shall include any war (whether actual or threatened), act of war,	670	earnings and detention, the crew and their Protection and Indemnity Risks),		696
civil war, hostilities, revolution, rebellion, civil commotion, warlike operations,	671	and the premiums and/or calls therefor shall be for their account.		697
the laying of mines (whether actual or reported), acts of piracy, acts of terrorists,	672	(ii) If the Underwriters of such insurance should require payment of premiums		698
acts of hostility or malicious damage, blockades (whether imposed against all	673	and/or calls because, pursuant to the Charterers' orders, the Vessel is within,		699
vessels or imposed selectively against vessels of certain flags or ownership, or	674	or is due to enter and remain within, any area or areas which are specified by		700
against certain cargoes or crews or otherwise howsoever), by any person,	675	such Underwriters as being subject to additional premiums because of War		701
body, terrorist or political group, or the Government of any state whatsoever,	676	Risks, then such premiums and/or calls shall be reimbursed by the Charterers		702
which, in the reasonable judgement of the Master and/or the Owners, may be	677	to the Owners at the same time as the next payment of hire is due.		703
dangerous or are likely to be or to become dangerous to the Vessel, her cargo,	678	(e) If the Owners become liable under the terms of employment to pay to the crew any		704
crew or other persons on board the Vessel.	679	bonus or additional wages in respect of sailing into an area which is dangerous in		705
(b) The Vessel, unless the written consent of the Owners be first obtained, shall not be	680	the manner defined by the said terms, then such bonus or additional wages shall		706
ordered to or required to continue to or through, any port, place, area or zone	681	be reimbursed to the Owners by the Charterers at the same time as the next		707
(whether of land or sea), or any waterway or canal, where it appears that the Vessel,	682	payment of hire is		708
her cargo, crew or other persons on board the Vessel, in the reasonable judgement	683			
of the Master and/or the Owners, may be, or are likely to be, exposed to War Risks.	684			
Should the Vessel be within any such place as aforesaid, which only becomes	685			
dangerous, or is likely to be or to become dangerous, after her entry into it, she	686			
shall be at liberty to leave it.	687			
(c) The Vessel shall not be required to load contraband cargo, or to pass through any	688			
blockade, whether such blockade be imposed on all vessels, or is imposed selectively	689			
in any way whatsoever against vessels of certain flags or ownership, or against	690			
certain cargoes or crews or otherwise howsoever, or to proceed to an area where	691			

If sailing in the area ordered by the Charterer increases the insurance price due to increased risk exposure, then the Charterer is to reimburse the risk premium to the Owner of the vessel

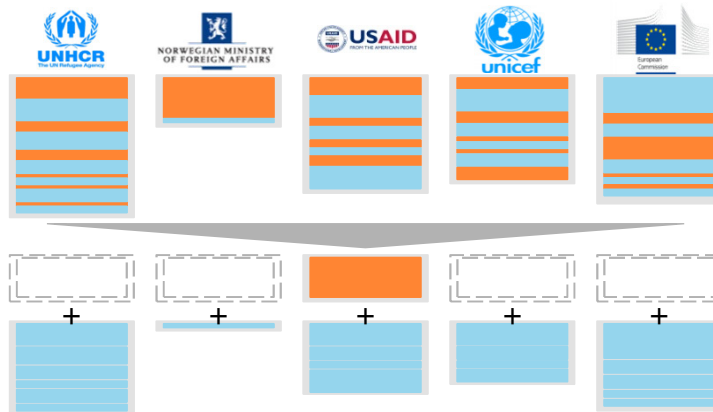
Source: The baltic and international maritime council (bimco)
General time charter party

NRC COULD SAVE >11 000 HOURS/YEAR ON FINANCIAL REPORTING ALONE IF REPORTING FORMAT WAS HARMONIZED

Challenge identified in workshop

"Different donor formats for project documentation causes NRC to spend considerable amounts of time and resources on activities that create no added value"

Project documentation consist of generic and donor specific information



- Considerable overlap in information required by most donors
- Dividing documentation into generic section and donor specific annex could improve efficiency

=Generic financial information
 =Donor specific financial information

Note: Calculation can be found in appendix

Example: Savings potential between -260 and 11 000 hours estimated for financial reports

Donors require financial reports provided on a donor specific format

- Input from same source regardless of donor (Agresso), but detailed and manual work required to adapt information to correct format

Potential for saving >11 000 hours per year...

- If all donors agreed to use only generic format (→ no donor specific annex required) NRC could automate internal systems and save >11 000 h/yr

...but in worst case scenario new arrangement could result in 260 extra hours spent on fin. reporting

- If donors still required same detail level in the annex in addition to the generic report

Ask to donors and UN agencies

Donors and UN agencies are asked to

- commit to harmonizing proposal, narrative and financial reporting templates and operational partnership agreements
- reduce the volume of reporting, agree on common terminology, identify core reporting requirements, and develop a common report structure

>11 000 HOURS / YEAR COULD BE SAVED ON HARMONIZATION

BUT RISK~260H/YR INCREASE IF NEW TEMPLATE IS JUST ACCEPTED IN ADDITION

Donor	Original report	Generic report	Donor specific annex	Saving per report (h)	Reports per project	Projects per year	Potential per donor (h)
Donor 1	 ~24 hours	 0,5 hours	 ~0-24 hours	= -0,5 to 24	X 3	X 35	= -52,5 to 2520
Donor 2	 ~4 hours	 0,5 hours	 ~0-4 hours	= -0,5 to 4	X 3	X 7	= -10,5 to 84
Donor 3	 0 hours	 0,5 hours	 0 hours	= -0,5 to 0	X 1	X 41	= -20,5 to 0
Donor 4	 ~40 hours	 0,5 hours	 ~0-40 hours	= -0,5 to 40	X 1	X 35	= -17,5 to 1400
Donor 5	 ~24 hours	 0,5 hours	 ~0-24 hours	= -0,5 to 24	X 3	X 9	= -13,5 to 648
Donor 6	 ~28 hours	 0,5 hours	 ~0-28 hours	= -0,5 to 28	X 3	X 25	= -37,5 to 1800
Donor 7	 0 hours	 0,5 hours	 0 hours	= -0,5 to 0	X 1	X 41	= -20,5 to 0
Donor 8	 ~24 hours	 0,5 hours	 ~0-24 hours	= -0,5 to 24	X 3	X 9	= -13,5 to 648
Donor 9	 ~24 hours	 0,5 hours	 ~0-24 hours	= -0,5 to 24	X 3	X 25	= -37,5 to 1800

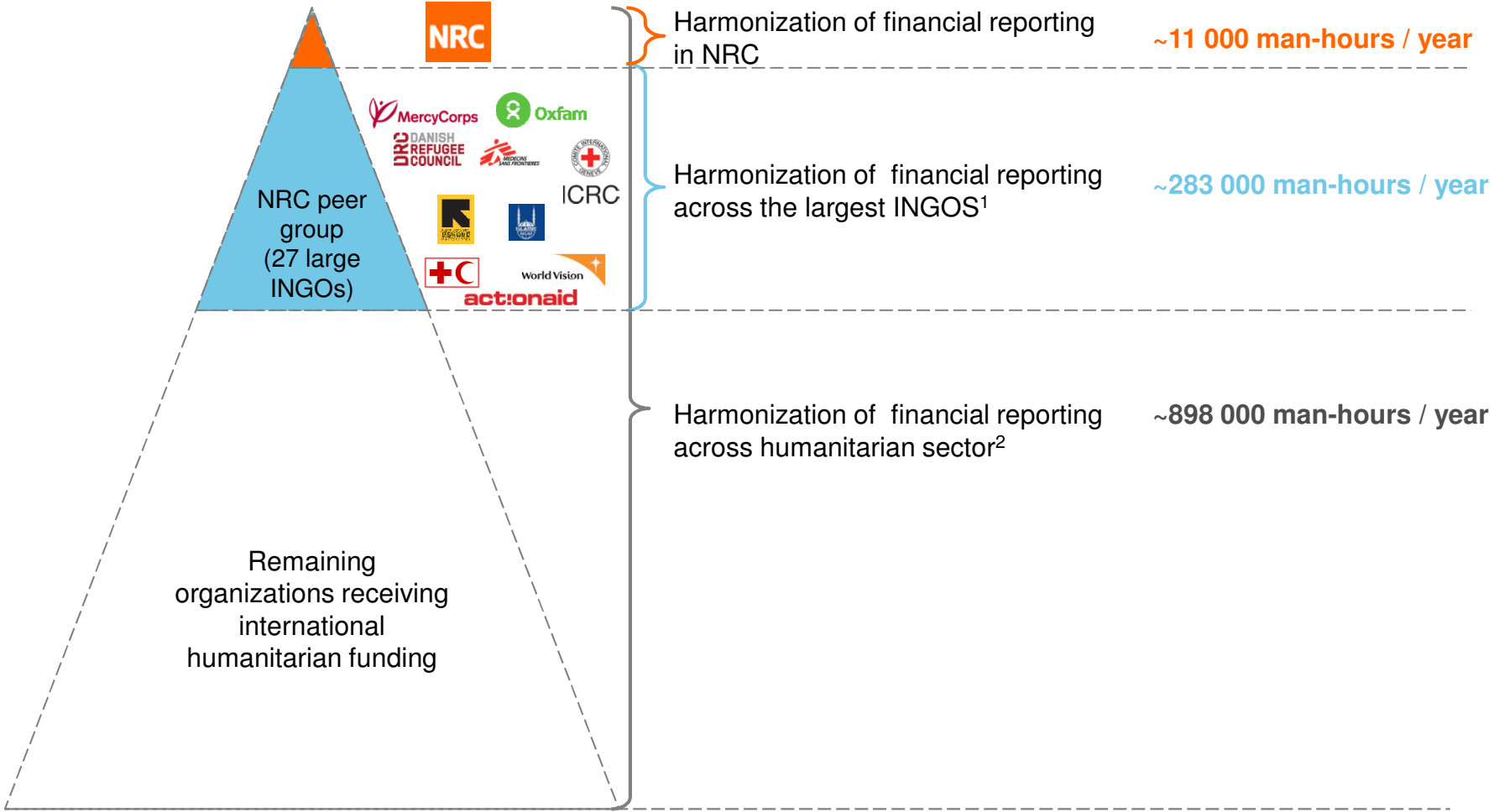
Worst case: net increase in time used if donor require new generic report in addition to current report

Best case: Donor ask only for the generic report and makes due without a donor specific annex

Tot savings = -261 to 11 060 hours

FINANCIAL REPORTING IN NRC IS ONLY THE TIP OF THE ICEBERG

~900 000 HOURS COULD BE SAVED ACROSS SECTOR ON HARMONIZATION ALONE



1. Based on INGO sample in GHA report excluding UN agencies and not counting subsidiaries, adjusted for size using average income for peer group in Mango report
2. Based on total international humanitarian funding in GHA report
Source: Global Humanitarian Assistance Report 2015, Mango report 2016

SOME DONORS ARE RELUCTANT TO COVER THEIR ACTUAL SHARE OF ADMIN AND SUPPORT COSTS

Challenge identified in workshops

"Some donors are reluctant to cover their share of admin and support cost"

Differing donor approaches make support cost coverage a struggle for NRC

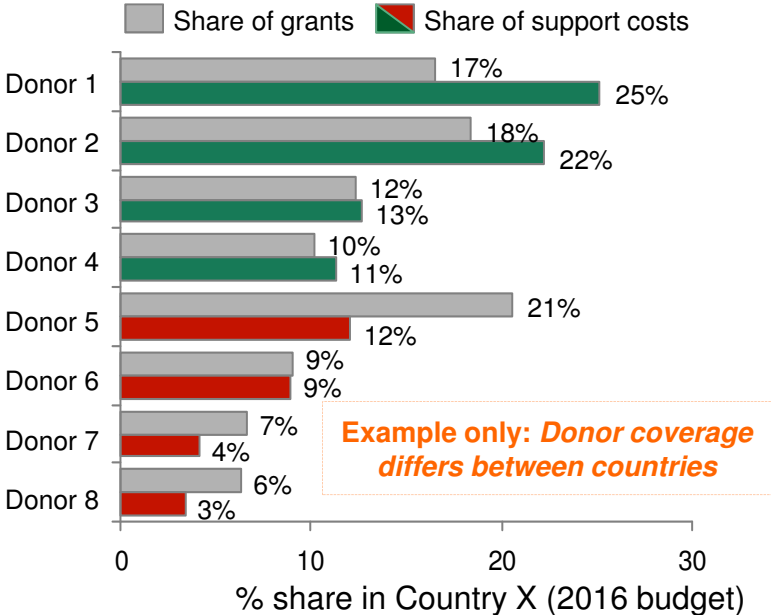
Donors have different approaches to support cost coverage...

- EU and US donors accept fair share of support costs concept, but requirements for documentation are cumbersome and confusing
- UN agencies do not consider themselves donors and therefore expect NRC to cover parts of admin and support costs with own funds
- Nordic donors generally flexible

...leading to inefficient and unfair allocation process

- Challenging and time consuming to retrieve sufficient funds to cover the actual incurred costs
- Time and resources wasted on cumbersome and complicated budgeting/reporting processes
- Risk that some donors end up covering more than their actual fair share of the costs

NRC Country Program X: some donors pay more than their share in support costs, others too little



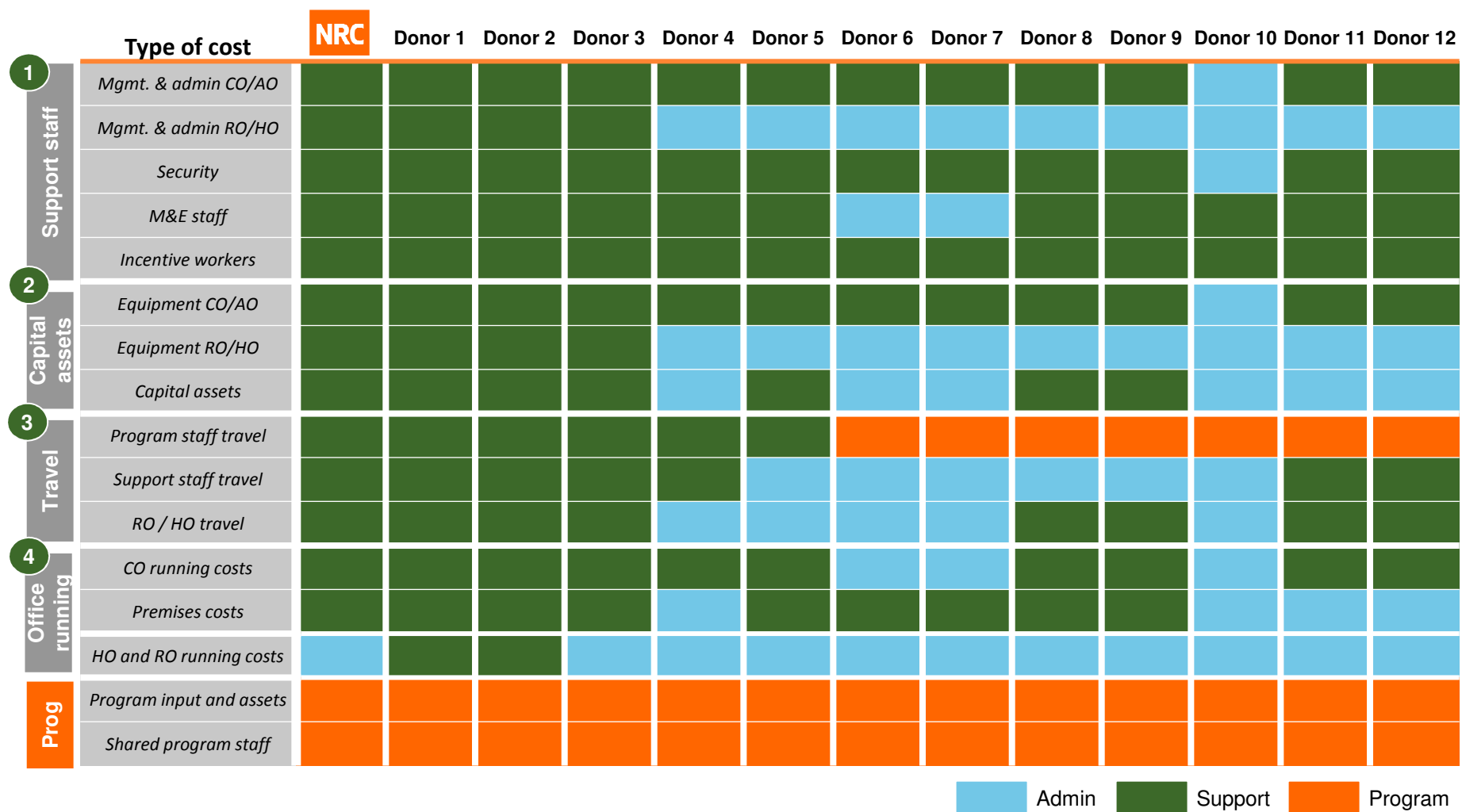
Ask to donors and UN agencies
Donors and UN agencies are asked to

- agree to a transparent cost structure and common terminology and definitions
- accept their fair share of administrative and support costs

Note: Snap shot example from Country X budgets in March 2016; Coverage by donors differ depending on area, country and region

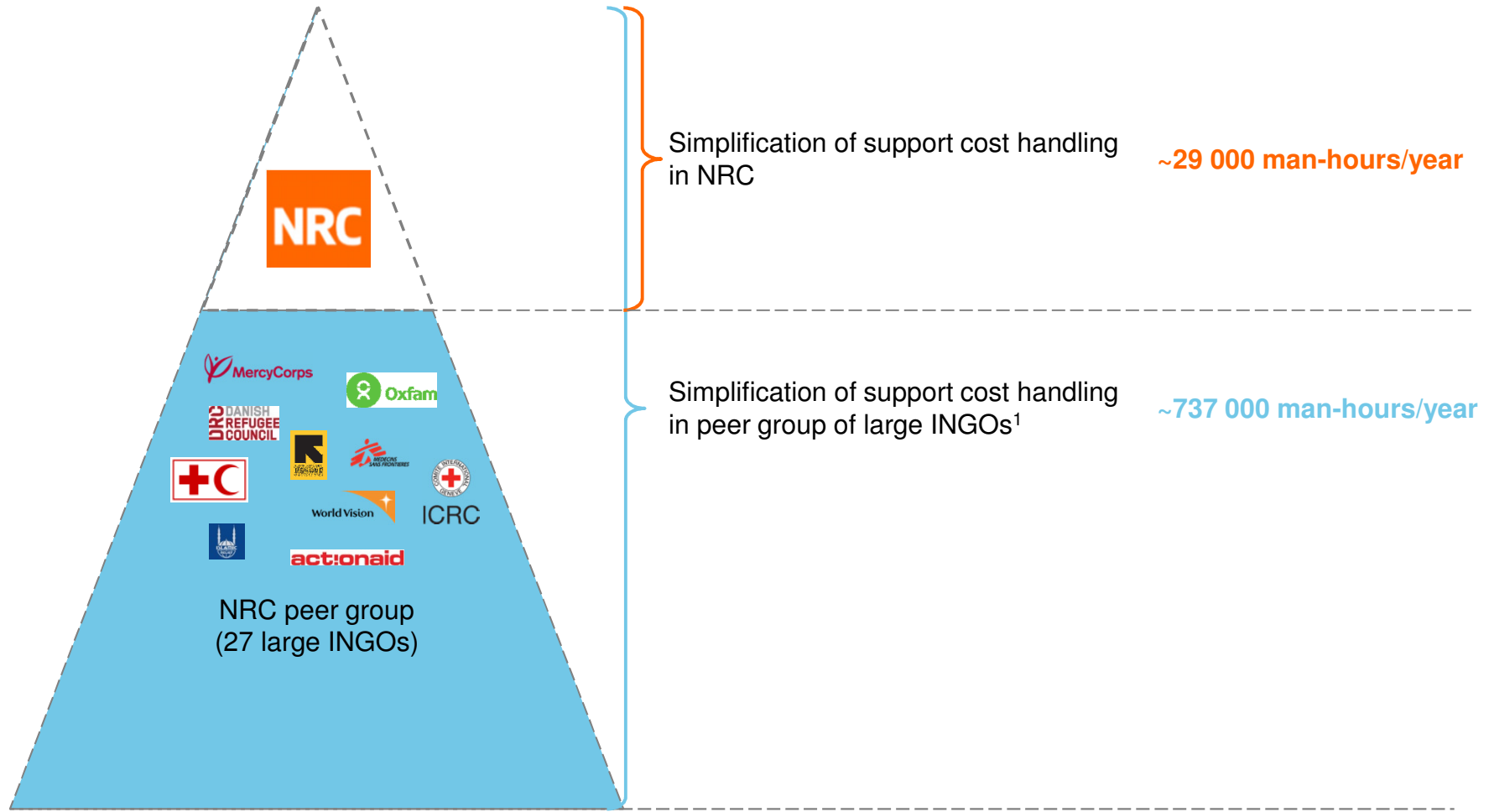
3 Admin / support

DIFFERENCES IN COST DEFINITIONS ACROSS DONORS MAKE ADMIN/SUPPORT COST HANDLING CHALLENGING FOR NGOS...



Note: Types of costs are based on NRC definition in Budgeting instructions Annex 6; individual donor color coding mapped according to Annex 7 in Budgeting Instructions and interviews with controllers
 Source: Budgeting Instructions Annex 6 and 7; Global Finance Controllers

POTENTIAL TO REDUCE TIME SPENT ON SUPPORT COST HANDLING WITH ~740 000 HOURS/YEAR FOR LARGE INGOs ONLY



1. Based on INGO sample in GHA report excluding UN agencies and not counting subsidiaries, adjusted for size using average income for peer group in Mango report
Note: Mango report highlights higher share of support cost, and higher share of private funds than NRC for most (I)NGOs; these effects therefore assumed to cancel each other out
Source: Global Humanitarian Assistance Report 2015, Mango report 2016

INADEQUATE INTERNAL COORDINATION OF DECENTRALIZED DONORS LEADS TO DELAYS AND INEFFICIENCY

Challenge identified in workshops

"Inadequate internal coordination of decentralized donors leads to delayed onset of projects, conflicting messages and large regional variations in interpretations and enforcement of requirements"

Field staff frequently experience negative effects of donor decentralization

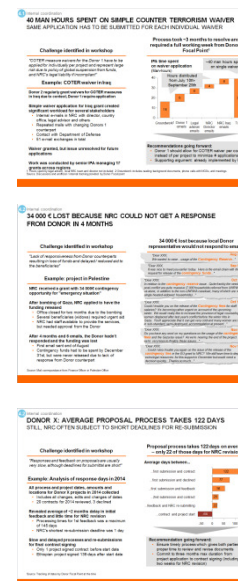
Many donors have decentralized their organizations to increase field presence

- Field presence is beneficial in direct practical discussions
- Enables true partnership when it comes to policy development, practical and political assistance etc

However, decentralization frequently leads to communication issues and power struggles

- Mandate and decision power of donor representatives in the field not always clear
- Rules can be changed or waived by one part of organization and re-adjusted by another
- Field representatives provide verbal promises that are not followed up on centrally

Several examples of poor internal coordination directly impacting beneficiaries



COTER waiver

- Process required 40+ IPA man-hours due to lack of coordination in donor organization

Contingency funds

- NRC was not able to access emergency funds after Gaza bombing due to donor lack of responsiveness "

Delays in proposal process

- Aid delivery delayed for several months due to proposal process stuck "in pipeline" with donor

Ask to donors and UN agencies

Donors and UN agencies are asked to ensure that

- internal systems and training are in place to enable equal understanding and communication of donor/ UN agency procedures
- mandate, roles and responsibilities of donor staff is clearly defined and communicated externally

40 MAN HOURS SPENT ON SIMPLE COUNTER TERRORISM WAIVER

SAME APPLICATION HAS TO BE SUBMITTED FOR EACH INDIVIDUAL WAIVER

Challenge identified in workshop

"COTER measure waivers for the Donor 1 have to be applied for individually per project and represent large risk due to policy of global suspension from funds, and NRC's legal liability if noncompliant"

Example: COTER waiver in Iraq

Donor 2 regularly grant waivers for COTER measures in Iraq due to context, Donor 1 require application

Simple waiver application for Iraq grant created significant workload for several stakeholders

- Internal e-mails in NRC with director, country office, legal advisor and others
- Repeated mails with changing Donors 1 counterpart
- Contact with Department of Defense
- 51 e-mail exchanges in total

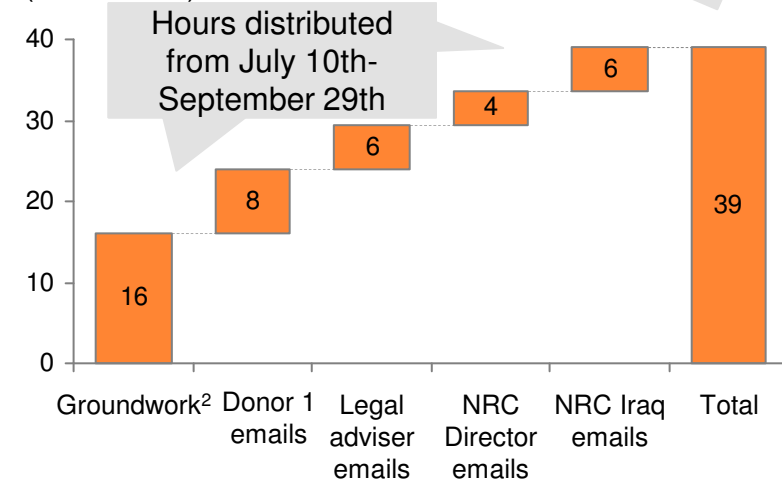
Waiver granted, but issue unresolved for future applications

Work was conducted by senior IPA managing 17 grants across regions

1. Hours spent by legal advisor, local NRC team and director not included 2. Groundwork includes reading background documents, phone calls with NGOs, and meetings
Source: Discussions and unofficial / internal tracking provided by Donor Focal point

Process took ~3 months to resolve and required a full working week from Donors Focal Point¹

IPA time spent on waiver application (Man-hours)



Recommendations going forward:

- Donor 1 should allow for COTER waiver per country instead of per project to minimize # applications
- Supporting argument: already implemented by PRM

34 000 € LOST BECAUSE NRC COULD NOT GET A RESPONSE FROM DONOR IN 4 MONTHS

Challenge identified in workshop

"Lack of responsiveness from Donor counterparts resulting in loss of funds and delayed / reduced aid to the beneficiaries"

Example: project in Palestine

NRC received a grant with 34 000€ contingency opportunity for "emergency situation"

After bombing of Gaza, NRC applied to have the funding released

- Office closed for two months due to the bombing
- Several beneficiaries (widows) required urgent aid
- NRC had staff available to provide the services, but needed approval from the Donor

After 4 months and 6 emails, the Donor hadn't responded and the funding was lost

- First email sent end of August
- Contingency funds had to be spent by December 31st, but were never released due to lack of response from Donor counterpart

34 000 € lost because local Donor representative would not respond to emails

"Dear XXX, Aug 27th
We wanted to raise... usage of the **Contingency Reserve...**"

"Dear XXX, Sep 15th
It was nice to meet you earlier today. Here is the email chain with the request for release of the **contingency funds...**"

"Dear XXX, Oct 1st
In relation to the **contingency reserve** issue... Quite frankly the needs post-conflict are quite massive (7,000 households referred from UNRWA to us alone, in addition to the non-UNRWA caseload, many of which are now single headed-widowed households)..."

"Dear XXX, Oct 12th
Could I trouble you on the release of the **Contingency fees** for staff salaries? It's becoming rather urgent on account of the upcoming winter. We would really like to increase the provision of legal counseling to women displaced after last year's conflict before the winter hits in Gaza. You'll appreciate that it can get very cold and many women are living in sub-standard, semi-destroyed, accommodation at present..."

"Dear XXX, Nov 4th
Do you have any word on my questions on the usage of the **contingency fees** and the Gaza tax issue? As we're nearing the end of the project we're very keen to finalize these issues..."

"Dear XXX, Nov 18th
...Could I also trouble you again on the issue of the release of the **contingency line** in the grant to NRC? We still have time to deploy extra legal resources for this support in December but would need a decision quickly. Thanks so much..."

DONOR X: AVERAGE PROPOSAL PROCESS TAKES 122 DAYS

STILL, NRC OFTEN SUBJECT TO SHORT DEADLINES FOR RE-SUBMISSION

Challenge identified in workshop

"Responses and feedback on proposals are usually very slow, although deadlines for submittal are short"

Example: Analysis of response days in 2014

All process and project dates, amounts and locations for Donor X projects in 2014 collected

- Includes all changes, edits and changes of dates
- 20 contracts for 2014 reviewed, 3 declined

Revealed average of ~2 months delay in initial feedback and little time for NRC revision

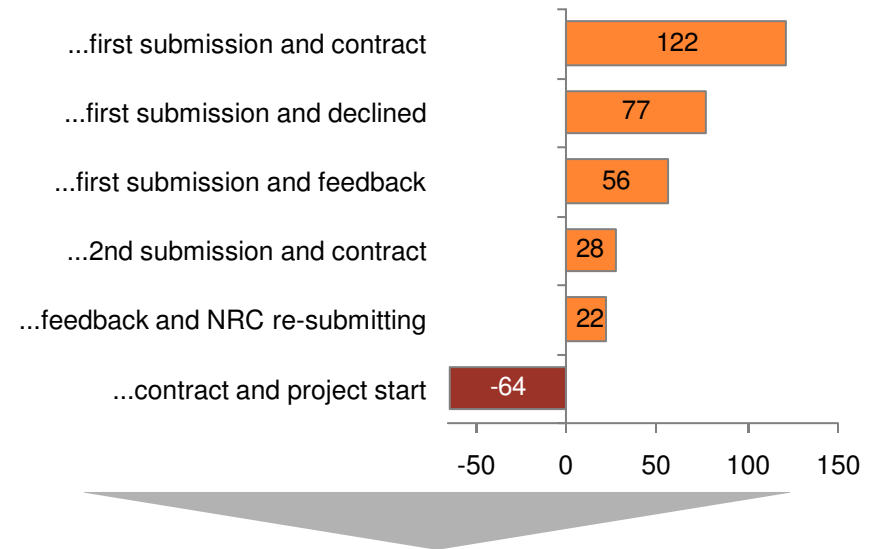
- Processing times for 1st feedback was a maximum of 145 days
- NRC's shortest re-submission deadline was 1 day

Slow and delayed processes and re-submissions for final contract signing

- Only 1 project signed contract before start date
- Ethiopian project signed 139 days after start date

Proposal process takes 122 days on average – only 22 of those days for NRC revision

Average days between...



Recommendation going forward:

- Ensure timely process which gives both parties proper time to review and revise documents
- Commit to three months max duration from project application to contract signing (including two weeks for NRC revision)