

HPG Working Paper

# Funding to local humanitarian actors

## Somalia case study

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# Acronyms

<b>CBPF</b>	Country-based pooled fund
<b>DAC</b>	Development Assistance Committee
<b>FTS</b>	Financial Tracking Service
<b>HCT</b>	Humanitarian Country Team
<b>IGAD</b>	Inter-Governmental Authority on Development
<b>INGO</b>	International non-governmental organisation
<b>MoU</b>	Memorandum of Understanding
<b>NEAR</b>	Network for Empowered Aid Response
<b>NGO</b>	Non-governmental organisation
<b>OCHA</b>	UN Office for the Coordination of Humanitarian Affairs
<b>ODA</b>	Official Development Assistance
<b>PoP</b>	Principles of Partnership
<b>RMU</b>	Risk Management Unit
<b>SHF</b>	Somalia Humanitarian Fund
<b>TFG</b>	Transitional Federal Government
<b>TPM</b>	Third Party Monitoring
<b>UNOSOM</b>	United Nations Operation in Somalia



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# Executive summary

This report was commissioned by NEAR (Network for Empowered Aid Response) and presents findings on humanitarian funding trends and dynamics in Somalia. The aims of the study were to develop a better understanding of the amount of funding that goes directly and indirectly to local/national humanitarian actors from their international counterparts, and to provide an analysis of partnership issues and dynamics between this set of actors.

The study reflects issues and progress around the subject of a fairer deal in terms of international funding for local/national actors, which led to the commitments made by the largest international donors and responding actors at the World Humanitarian Summit in 2016 under the resultant Grand Bargain.

The study utilises public sources of data, such as the United Nations' Financial Tracking Service (FTS), as well as financial data generously provided by most major international agencies operational in Somalia, much of which has not been obtained and analysed before. Twelve Somali non-governmental organisations (NGOs) also provided funding-related financial data to enable further analysis. In addition, the study team carried out interviews with representatives from donors, international and local/national agencies, and conducted a workshop in Mogadishu.

## Key findings

### **Direct funding to local actors is small but increased between 2016 and 2017, though mainly to government**

The absolute and relative amounts of money reaching local actors (state and non-state) remains very small, with increases only occurring within the last 18 months. Direct funding of local/national actors was \$46.1 million, accounting for 3.5% of overall humanitarian funding in 2017 (a near famine year). The majority of this figure went to the government.<sup>1</sup> This does, however, contrast with 2016 (and the previous several years) where those figures were – or were near – zero.

### **Local/national actors are significant implementers, indirectly receiving 9.7% of overall funding**

In terms of indirect funding, local/national actors are significant beneficiaries, and account for 9.7% of overall funding (\$128 million, excluding the value of cash and in-kind contributions), for a total of 13.2% going directly or indirectly via one intermediary to local/national actors. This has been mainly to local/national NGOs. There have been significant changes between 2016 and 2017 in this area, most notably the Somalia Humanitarian Fund (SHF) increasing its commitment and delivery to local/national NGOs. It is also the case that in the context of a significantly scaled up response, in 2017, UN agencies experienced much greater growth in income than international non-governmental organisations (INGOs), and this is reflected in proportional increases in funding for local/national agencies compared to INGOs. In fact, proportionally, INGOs lost some market share to local/national NGOs under these (2017) conditions.

### **Capacity building has not changed the power dynamics between international and national actors**

Considerable resources (including organisational development and capacity building) have gone into Somalia over the last 25 years and more. Many local agencies have benefited – directly and indirectly – from these resources. However, while they make up a significant layer as implementers, 'sub-contractors' and civil society, they remain very much at the bottom of the humanitarian finance hierarchy.

In terms of the humanitarian architecture, UN agencies and a number of larger INGOs dominate the humanitarian landscape, as they have (or are perceived to have) the systems and capacity to absorb fluctuating – and often considerable – funds and risks. A number of senior respondents to this study suggested that the business model of the larger international agencies themselves is the major hindrance to local/national NGOs receiving a greater share of resources – crowding the space for local actors; similarly, as much as local/national NGOs appreciate the different forms of resource and support (i.e. capacity building) they receive (or have received) from their international partners, they also often perceive this intermediary layer as having a 'gatekeeper' role.

That said, local/national NGOs themselves can be accused of failing to self-regulate (in the absence of

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<sup>1</sup> The government, in turn, sub-contracted an INGO to undertake most of the delivery

government) or to rise above their clan-territorial divisions. There are exceptions to this, as well as many examples of good practice, innovation, risk-taking and strong local knowledge within the local/national NGO sector, which are probably not as visible or acknowledged as they should be. Furthermore, it is likely that local actors are more quickly criticised and even written off or blacklisted than they are lauded and applauded for their successes, while the shortcomings of international actors are largely downplayed.

## **Localisation<sup>2</sup> is progressing in Somalia**

There does appear to be a changing narrative and a

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2 There is no agreed definition of 'localisation' in the literature, with the term used to refer a range of issues, see [www.local2global.info/wp-content/uploads/L2GP\\_SDC\\_Lit\\_Review\\_LocallyLed\\_June\\_2016\\_final.pdf](http://www.local2global.info/wp-content/uploads/L2GP_SDC_Lit_Review_LocallyLed_June_2016_final.pdf) ). We use the term localisation informally to refer to the process of moving towards a more locally-led response.

number of initiatives – from both international and local actors – that suggest the 'localisation' agenda is progressing. Commitments from the SHF, good Somali representation within the Humanitarian Country Team (HCT), strong Somali leadership within the Somalia NGO Consortium and the Somalia NGO Forum, and new NGO Consortia are some examples of this. A number of workshops and meetings on the subject of localisation have taken place and demonstrate improved communication and understanding among the different humanitarian actors working in Somalia. Specific follow-ups have been identified and it remains to be seen how far these will evolve into meaningful change.

The recommendations outlined at the end of this report provide suggestions on how to further support more direct funding for local/national actors, as well as increase the evidence base on the benefits and challenges of doing so.

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# 1 Introduction

Local and national actors have been advocating for a fairer deal in terms of international funding for some time. These issues became a prominent theme during the World Humanitarian Summit in 2016 and led to a number of commitments being made by the largest international donors and responding actors, under the resultant Grand Bargain. This study, commissioned by NEAR (Network for Empowered Aid Response), is a follow-up to those commitments and analyses humanitarian funding trends and dynamics in Somalia, as well as exploring of partnership dynamics. The study focuses on two main aims:

- a) to better understand the amount of funding that goes directly and indirectly to local/national humanitarian actors from their international counterparts (INGOs, UN agencies and the donor community), considering different elements (e.g. overheads and capacity development)
- b) to analyse the type of partnerships in place between international and local actors, with reference to the Principles of Partnership.

The report begins by presenting historical and more recent aid financing trends in Somalia, followed by an explanation of the complex and fluid humanitarian funding and operating landscape there. Drivers of this environment have been fluctuating (and extreme) humanitarian needs, a high-risk operating environment, competition and fragmentation across the humanitarian sector and underlying remote management practices.

The study utilises public sources of data, such as the United Nations' Financial Tracking Service (FTS), as well as financial data generously provided by individual agencies, focused on their sources of funding and the channels/partnerships through which it is passed on. Much of this data has not been obtained and analysed before and the fact that operating agencies were keen to pass it on suggests they are interested and supportive of understanding financing issues more clearly, in light of the Grand Bargain commitments. Twelve Somali NGOs have also provided finance data.

This report builds upon a number of initiatives that are already underway in Somalia, which are taking place under the localisation agenda and which overlap closely with the subject of this study.

## 1.1 Methodology

A number of different methodologies were employed. Quantitative financial data from the FTS and individual agencies was analysed and the study also drew on qualitative interviews undertaken in Nairobi and in Mogadishu by the research team (including follow-up telephone and Skype calls), as well as a half-day workshop run in Mogadishu, attended only by local/national NGOs. This workshop was followed by one-to-one interviews with the participants as well as other NGOs with representation in Mogadishu. These discussions were designed to enable local and national actors to articulate their perceptions of the issues, opportunities and obstacles to receiving more direct funding. These provide an honest and revealing set of insights, not just about issues to do with direct funding but about wider partnership issues that are instructive of their relationships with all of their international partners.

In total, 40 interviews took place, approximately half with representatives of international organisations and half with local/national NGOs. These included the three major humanitarian donors, six UN agencies, eight INGOs, 19 Somali NGOs, and four independent experts.

The financial data directly collected from international agencies used a simple reporting format, which focused on sources of funding by international and local/national actors, as well as the redistribution of these funds to partners in the implementing chain (see Annex 1).

## 1.2 The humanitarian landscape in Somalia

Somalia's long history with international aid closely tracks two factors – politics and security – and is often linked to periodic peaks in acute humanitarian needs. Notably, Official Development Assistance (ODA) to Somalia has grown substantially since the nadir of the late 1990s and early 2000s, when international actors largely disengaged from Somalia following the withdrawal of international troops, with the closure of the ill-fated United Nations Operation in Somalia (UNOSOM) mission in 1995 (for more detailed discussion of Somalia's history with aid, see Annex 2).

More recently, worsening insecurity, in combination with drought and the global food price crisis in 2008, led to a sharp deterioration in the humanitarian situation and the beginnings of a large-scale re-engagement by Western donors.

International and regional engagement in the political process in Somalia also ramped up from 2011, with international actors placing pressure on Somali politicians to end the period of transitional government and hand over power to a newly formed Federal Government in 2012, ushering in a period of new optimism and international support to the political transition and development of Somalia. ODA to Somalia has grown steadily from 2011, but humanitarian aid has proved volatile, as illustrated, with major peaks in crisis years, in 2008, 2011 and (though not reflected in the OECD DAC data) 2017.

The funding and operating environment in Somalia has been extremely fluid and volatile and is associated with the rise of the Council of Islamic Courts (in 2006) and the proscribed Islamist group, Al Shabaab. The wider counter-terrorism environment is acknowledged as bringing increased financial and reputational risk to international agencies, including the NGO sector (see Metcalfe-Hough et al., 2015, for a discussion of these issues in the UK context). The risk averse approach it generates has grave implications for humanitarian action, including funding and access; these constraints were directly associated with a delayed humanitarian response to the famine in Somalia in 2011 (Maxwell and Majid, 2016). Underlying risks and threats remain in Somalia, even if their general management has improved over the last five years.

Alongside this highly politicised environment there have been two massive humanitarian emergencies within a short space of time: the 2011 famine and pre-famine warnings in late 2016, both of which resulted in dramatic increases in humanitarian funding and operations. These surges in funding – which put severe pressure on all agencies and partnerships – have taken place while underlying humanitarian needs and population displacement have remained very high.

There is an absence of national policies and regulations in Somalia, including banking and legal sectors and areas governing humanitarian action itself.<sup>3</sup> While some of these formal, normative processes are evolving and improving, this environment profoundly complicates the development of support to local actors. For example, there is no clear registration process for humanitarian agencies or legal process in case of malpractice.

Adding to the pressures of this climate have been many actual and alleged incidents of corruption and diversion in humanitarian aid since 2010 (Transparency International, 2016). While this is not a new phenomenon to the humanitarian sector or Somalia, the risks associated with them – for all actors – have been heightened by the counter-terrorism regulatory environment, further complicating the localisation agenda (Maxwell and Majid, 2016; Transparency International, 2016).

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3 See, for example, Orozco and Yansura (2013) on implications for the financial/remittance sector.

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# 2 Funding to local and national actors – key findings

The nature of the humanitarian operation in Somalia has faced growing insecurity since 2008, driving a widespread retreat of international actors from the country and more reliance on remotely managed operations, although this has again been changing as there has been increasing agency presence in Mogadishu.

## 2.1 Direct and indirect funding

Local and national actors therefore still undertake much of the front-line delivery of the aid response in Somalia. Yet in 2016, they received no reported direct funding from donors. In 2017, there appears to be some change, with \$6.5 million (0.5% of the total funds captured in the FTS) in direct funding captured within the Office for the Coordination of Humanitarian Affairs (OCHA) Financial Tracking System (FTS). However, the majority of funds received by local and national actors are intermediated by international recipients – primarily UN agencies (that received 49% of funds in the 2008–2017 period), INGOs, (that received 16% of funds in this period) and, increasingly, the SHF.<sup>4</sup> This study focuses on capturing the journey of these funds through the system, and quantifying just how far humanitarian actors are from reaching the Grand Bargain target of providing 25% of humanitarian funding ‘as directly as possible’ to local and national humanitarian actors in the Somali context.<sup>5</sup>

NEAR’s research captured data for 2016 and 2017 from a set of organisations that collectively received 64% and 66% of the total funds captured within the

FTS respectively (see Annex 1 for a detailed discussion of the methodology and features of the data set). These organisations provided data on the funds they received, and the funds passed on to different categories of partner organisations. With the threat of potential famine, Somalia experienced a major funding scale-up in 2017. As a result, the funding landscape looks very different in 2016 and 2017 and there are indications of potentially significant changes in funding practices in 2017, which are discussed further below. The headline figures for 2017, capturing volumes and shares of direct and funding passed through one intermediary, are summarised in Figure 1.<sup>6</sup>

Indirect funding is currently defined by the Grand Bargain localisation workstream as comprising one intermediary layer between the donor and the local/national actor; this could be through a pooled fund or a UN agency or INGO.<sup>7</sup> In addition, state and non-state actors are distinguished as recipient categories.<sup>8</sup>

In terms of *direct funding*, only two local/national NGOs that responded to this study reported having received bilateral humanitarian funds from a bilateral donor in 2017.<sup>9</sup> In total, the national government received \$39.6 million and local/national non-state actors received \$6.5 million. This contrasts with 2016 (and previous years) where these two actors received

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4 The OCHA-managed country-based pooled fund (CBPF), the Somalia Humanitarian Fund (SHF), has experienced variable fortunes, with major increases in contributions in years of high-profile large-scale crises, notably 2011/12 and 2017. At its peak in 2012, the SHF received 14.6% of total funds (\$104 million), however, the SHF’s share of the total fell to less than 5% of total contributions from 2015 to 2017.

5 The 25% target figure is a global figure and the implication is not necessarily that it will play out this way in every national context.

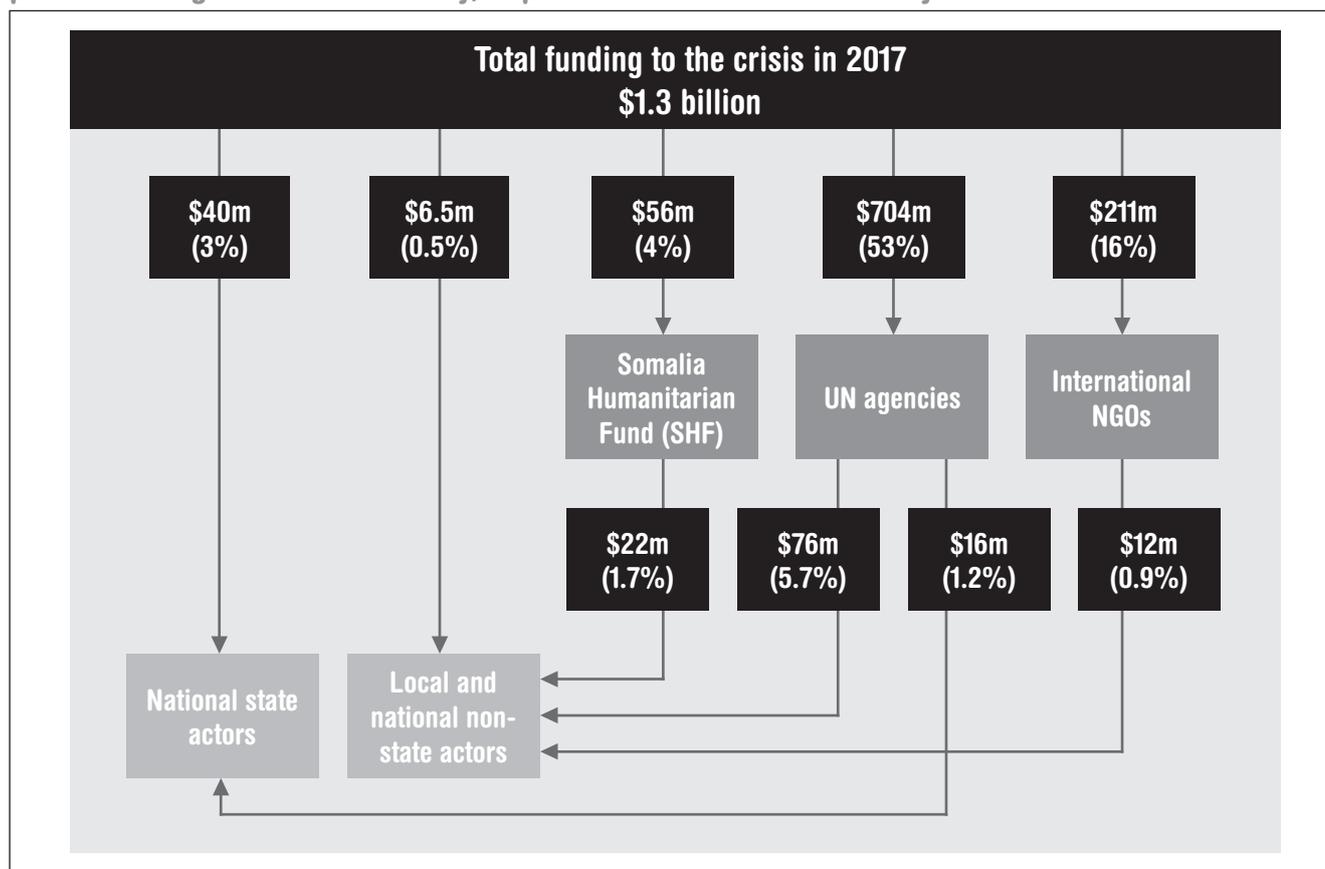
6 Based on data reported to the OCHA FTS, 2017 included not only an increase in funding overall, but a significant variation in growth patterns across different recipient groups. While it is important to bear in mind the actual volumes involved, that the FTS introduced new reporting categories in 2017/18, and that there remains a large volume of funds still unclassified by recipient type in 2017, based on the available data, there is significant variation in the growth of funding to other recipient groups in the 2017 funding scale-up.

7 There is a remaining question as to whether pooled funds change to the direct funding category, known as ‘as-direct-as-possible’.

8 See discussion paper: [https://interagencystandingcommittee.org/system/files/categories\\_for\\_tracking\\_direct\\_as\\_possible\\_funding\\_to\\_local\\_and\\_national\\_actors\\_003.pdf](https://interagencystandingcommittee.org/system/files/categories_for_tracking_direct_as_possible_funding_to_local_and_national_actors_003.pdf)

9 Others may have received direct funding but were not reached in the study.

**Figure 1: Direct funding to local and national state and non-state actors in 2017 and funds passed through one intermediary, captured within the NEAR study set**



Note: Percentages based on total funding reported to the crisis in the OCHA FTS (\$1.3 billion).

no direct funding. In 2017, direct funding to national/local state and non-state actors accounted for 3.5% of overall funding, and just 0.5% if considering only local/national non-state actors.

**Indirect funding** to local and national non-state actors, through the UN and INGOs, accounts for the vast majority of funds received, at \$111 million<sup>10</sup> or 9.7% of 2017 funds to the crisis. UN agencies were the largest provider of funds to local and national non-state actors, passing on \$76 million in 2017. UN agencies also channeled \$16 million to local and national state actors in 2017. The SHF was the second largest provider, contracting \$22 million to local and national non-state actors. INGOs within NEAR’s study set provided \$12.3 million to local and national non-state actors and \$0.8 million to state actors in 2017. However, NEAR’s sample of

local and national NGOs was relatively small, with seven respondents included in the 2017 data set, several of whom are not habitually ‘partner-based’ organisations. It is therefore likely that the full extent and variety of contributions of INGOs is significantly under-represented in these figures. To summarise, local and national non-state actors received 0.5% of the total funds to the crisis as *direct* funding in 2017. They received a further 8.4% of total funds to the crisis *through one intermediary*.

Our low estimate therefore places funds received by local and national *non-state* actors, directly and through one intermediary, as 9% of the total funds to the crisis in 2017. The total received by all local/national actors amounted to 13.2% of total funds to the crisis.

## 2.2 Funding transfers with and without cash and in-kind commodities

The analysis thus far has excluded the value of cash transfers and in-kind commodities from the total funds passed on to partners. If the value of cash

<sup>10</sup> This \$111 million passed to local and national non-state actors through one intermediary is an under-representation of the total funds received through one intermediary since the study set does not include all actors. Acknowledging this limitation, this partial figure of \$111 million received through one intermediary represents 8.4% of the total funds contributed to the crisis captured within the FTS.

**Table 1: Comparison of funding transfers to partners with and without the value of cash transfers and in-kind commodities in 2017 based on the NEAR data set**

Partner type	With cash and commodities		Without cash and commodities	
	\$ million	% of total income	\$ million	% of total income
Multilateral Organisations	2.8	0.2%	2.8	0.2%
INGOs	117.7	10.2%	147.8	12.8%
International Red Cross and Red Crescent movement	–	0.0%	–	0.0%
International private sector	–	0.0%	181.3	15.6%
Local and national non-state actors (total)	110.7	9.5%	172.6	14.9%
– Red Cross/Red Crescent National Societies	1.2	0.1%	1.2	0.1%
– Local and national NGOs	109.5	9.4%	170.5	14.7%
– Local and national private sector	–	0.0%	–	0.0%
National and sub-national state actors	22.1	1.9%	29.8	2.6%
Internationally affiliated organisations	3.9	0.3%	3.9	0.3%
Other (not specified)	0.1	0.0%	0.1	0.0%
Total funds disbursed to implementing partners	257.4	22.2%	388.6	33.5%

**Table 2: Total ‘humanitarian’ income reported by study set organisations in 2016 and 2017**

	2016 (\$ million)	2017 (\$ million)	% change 2016/17
UN agency 1	21.8	150.2	589%
UN agency 2	144.8	403.4	179%
UN agency 3	37.0	113.2	206%
UN agency 4	66.7	56.2	-16%
UN agency 5	33.9	60.8	79%
SHF	26.1	54.6	109%
INGO 1	0.4	0.6	56%
INGO 2	33.2	42.9	29%
INGO 3	23.0	50.0	117%
INGO 4	26.2	98.1	274%
INGO 5	59.7	71.8	20%
INGO 6	10.2	26.3	158%
INGO 7	28.7	30.8	7%

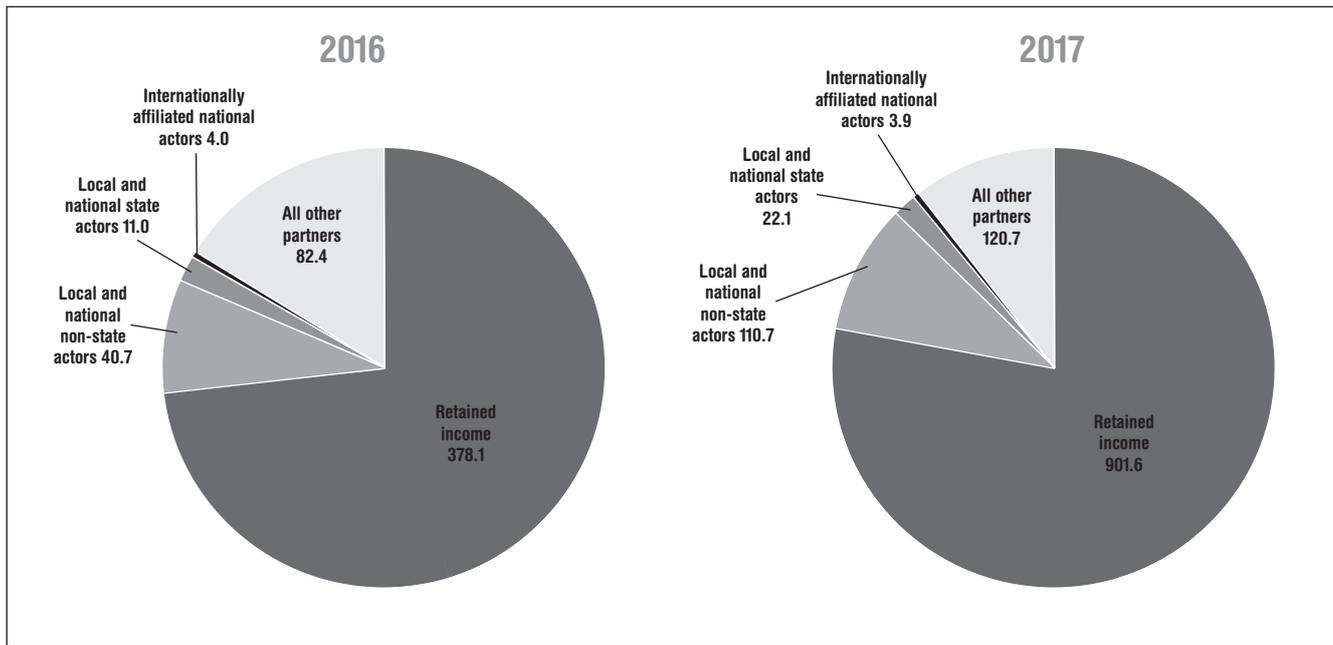
*\*Note that the total excludes funds received from other actors within the data set, i.e. income received by UN agencies and INGOs from the SHF, other UN agencies and other INGOs, in order to avoid double-counting.*

transfers and commodities are included in the total funds transferred to partners, a rather different picture emerges (see Table 1): in 2017 33.5% of total income was passed on to partners (compared with 22.2% if in-kind and commodities are excluded). For national non-state partners, funds received represents 15% of total income in the study set if cash transfers and commodities are included (compared with 9.5% if cash and commodities are discounted).

## 2.3 The 2017 funding scale up

There was a significant scale up in the international funding response to the humanitarian crisis in Somalia between 2016 and 2017. Within the organisations in the NEAR study set, funding increased overall by 156% – from \$465 million in 2016 to \$1.2 billion in 2017. However, growth was highly variable across these organisations (see Table 2).

**Figure 2: Total funds within the NEAR Somalia study set retained and passed on to implementing partners in 2016 and 2017 (in \$)**



Source: NEAR data set

During the 2017 funding scale up, organisations scaled up their funding response to partners in different ways. Across the study set, 73% of total reported income was *retained* in 2016, with 27% passed on to partners, while in 2017, 78% of reported income was retained, while 22% was passed on to partners (see Figure 2). Therefore, while overall funding to first-level recipient organisations increased significantly in 2017, funds passed on to partners did not increase at the same rate. Across the study set, 8% (\$41 million) of the total reported income was passed on to local and national non-state partners (including local and national NGOs and national Red Crescent societies) in 2016, and 10% (\$111 million) in 2017. Local and national actors therefore appear to be clear ‘winners’ in the 2017 funding scale-up, receiving not only an increased overall volume of funds, but an increased share of the total funds passed through one intermediary.

INGOs, meanwhile, received 13% of total reported income to the study set in 2016 (\$68 million) and 10% (\$118 million) of the total funds in 2017, therefore experiencing a drop in their share of the total funds passed on through one intermediary in 2017. Notably, the SHF bucked the overall trend by reducing its share of retained income, from 6.2% in 2016 to 2.8% in 2017 (see Figure 3), while at the same time increasing the share of funds provided to local and national non-

state actors by a substantial margin, from 14% in 2016 to 41% in 2017.<sup>10</sup>

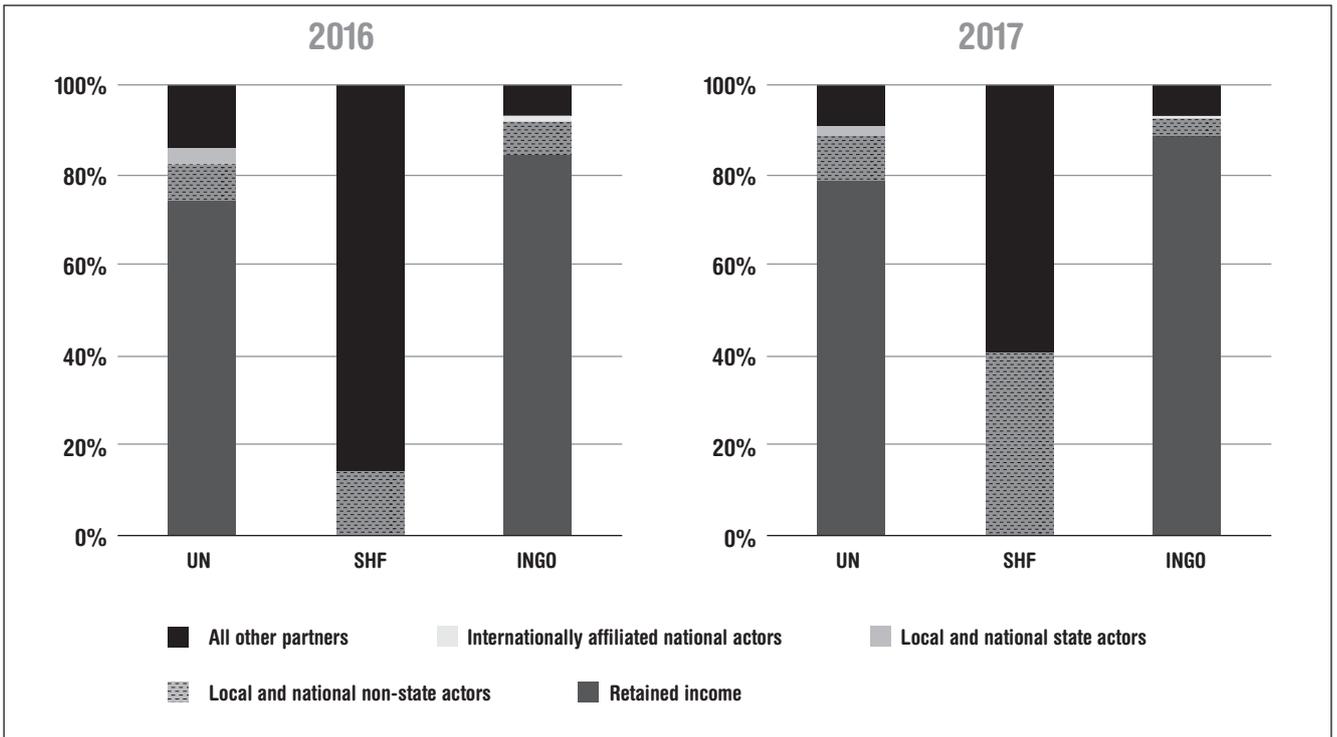
There is significant variation among the study set of organisations in terms of operational models, programming focus and approaches to working with partners. This is reflected in the variable levels of funding passed on to different types of partners. At the lowest end of the spectrum, some organisations did not pass on any funds to partners at all.

It is interesting to note, however, that while the proportions of funds passed on to local and national partners remained relatively stable across the

funding scale-up in 2017, there was significant variation within the study set, with some organisations scaling up their funding to partners at a far slower rate than their income grew, thereby retaining a greater proportion of funds. Others saw rates of funding growth to local and national non-state actors outstrip the growth in their overall funding significantly (see Figure 4). The operational models of some funding recipients therefore appear to be better suited than others to rapidly scale up funding to partners.

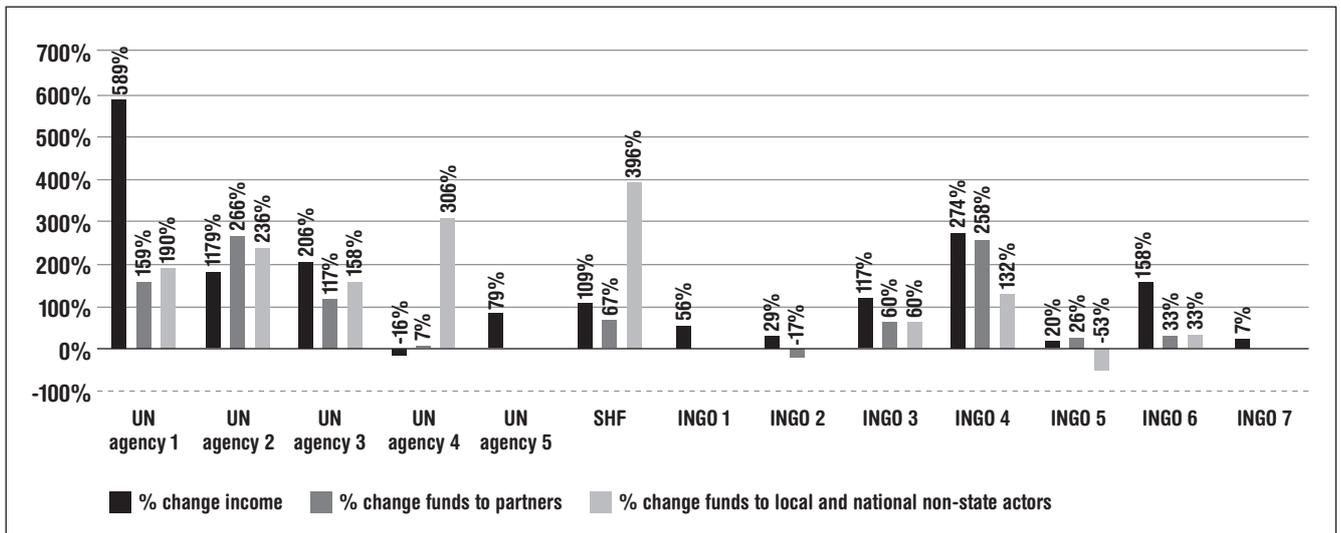
<sup>10</sup> This is because the SHF does not increase its management fee in proportion with changes in funding.

**Figure 3: Proportions of total income passed on to partners within NEAR Study set in 2016 and 2017**



Note that funds passed on to partners by SHF exceeded income in 2016 and 2017 as contributions received in earlier years were rolled over. The share of income passed to local and national actors is based on the total funds allocated to partners in 2016 plus OCHA's costs. Source: NEAR data set

**Figure 4: Growth in total income and growth in funds passed on to partners between 2016 and 2017**



Source: NEAR data set



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# 3 Barriers and opportunities in the Somali aid financing landscape

## 3.1 The financial realities of Somali NGOs

One of the major differences in the financing of international and national partners is the different treatment they receive with respect to unrestricted funding and the financial flexibility it provides. International agencies commonly receive around 7% income on top of their total direct and indirect grant costs, and this contributes towards their corporate overhead costs, while local agencies must employ other strategies to fund operating costs. Overhead costs cover HQ operating costs (including various support functions to country offices) and provide a source of core financial capital, which can be used for borrowing, pre-financing, fundraising, and covering financial difficulties at country level.<sup>11</sup> As well as providing a financial buffer, this money can be used to invest in further revenue generation. One respondent from an INGO with a strong humanitarian focus suggested that half of the 7% went on HQ operating costs and the other half on financial reserves.

The importance of this core or unrestricted funding is highlighted in an INTRAC briefing paper: ‘The balance between restricted and unrestricted funds is at the heart of any debate about the financial sustainability of any NGO or civil society organisation. An overdependence on restricted funds is an indicator of potential unsustainability’ (Hailey, 2014). Furthermore, a recent NEAR briefing paper claims that ensuring due diligence, programme quality and systems strengthening all

require unrestricted investment, and that INGOs have been able to invest in these areas by receiving such funding (NEAR, 2017).

Local NGOs raised several issues concerning the realities of the Somali operating environment and the implications for their financial management. Gaining access to and operating in the Somali context typically requires a certain amount of financial flexibility, as described by an interviewee:

*What you also have to understand is in reality if you want to work in Somalia you have to smooth out a lot of things and pay many people out of the project budget; road blocks, elders, government officials, different officers of the security organs, etc.*

This reality and the costs required of operating in Somalia are incurred by *both* international and national actors alike, but despite being well documented they are not reported officially by either group (Jackson and Aynte, 2013; Haver and Carter, 2016; Transparency International, 2016). These types of unreported costs should not be considered particular to Somalia, as they are common in many conflict and post-conflict environments, but are extremely sensitive in the Somalia context where there is a focus on anti-corruption measures and where counter-terrorism regulations may be enforced.

Somali NGOs report facing other financial difficulties, including the fluctuating funding cycles associated with humanitarian emergencies and delayed payments from their international partners. Some local NGOs were able to raise money to pre-finance some of their projects by various means including loans from commercial organisations in Somalia. However, this may require a 10% upfront commitment, which can be challenging and puts additional pressure on agencies.

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<sup>11</sup> See, for example, the French NGO Acted’s ability to raise finance through social bonds that, reportedly, depend in part on its financial reserves, generated by corporate overhead receipts: [www.acted.org/en/french-ngo-acted-undertakes-innovative-fundraising-activities-dedicated-to-humanitarian-actions-and-development/](http://www.acted.org/en/french-ngo-acted-undertakes-innovative-fundraising-activities-dedicated-to-humanitarian-actions-and-development/)

Local agencies have developed a variety of financial strategies to manage Somalia's volatile financial environment. Some local NGOs have established separate business arms that can provide financial support when needed, while others receive membership fees or are supported by diaspora populations. Local agencies also report that they may be able to borrow money from private businesses to meet funding shortfalls or request to defer rental payments to the landlords of their office building. However, borrowing from a prominent businessman may require directing contracts his way in the future, raising other questions around bias or fair competition.

Local agencies also report that they sometimes ask staff to work voluntarily or on reduced pay, and that staff are aware that this may happen from time to time. However, this clearly undermines capacity that may have been built.

'Double-dipping' is another financial strategy reported by both national and international actors; this involves drawing on a budget line (for a salary or other cost) for the same person or role in different projects i.e. claiming twice for the same activity. Although not uncommon, some respondents from international agencies report tensions with their local partners regarding such strategies, as there are clearly implications for the performance of a project. Larger international agencies, with numerous local partners, report that it is not easy for them to identify whether their partner is double-dipping.

Local agencies' financial strategies may have benign intentions and simply be proactive adaptations to the local realities and funding dynamics, but these actions may also be part of profit-making and corruption strategies at times. Moreover, the lack of financial flexibility to invest in stronger financial, monitoring, reporting and other systems, may, paradoxically, be increasing the risks of corruption faced by international agencies and donors that are themselves attempting to reduce those risks (and are investing in doing so).

In summary, local/national NGOs operate in a highly unregulated, volatile and dangerous environment in which they are under many pressures, including competing for scarce resources. They are provided with little unrestricted funding to stabilise their financial situation let alone build their capacity in significant ways. In contrast, the availability of such funding to INGOs may well account for their increasing growth and capacity. Several of the more prominent local/national NGOs that have evolved organisationally in this environment and are recognised for their maturity and leadership – at least by their peers and

knowledgeable observers – have benefited from such funding and partnerships in previous years.

## 3.2 The challenges of direct funding

From the perspective of recipient organisations, having a direct relationship with a donor has a number of important advantages. Local and national actors consulted for this study noted opportunities for negotiating more favourable salary levels and benefits, and more realistic project costs compared with those obtained through partnerships with intermediary international agencies.<sup>12</sup> Direct funding relationships also supplied more generous overhead contributions, which provide some stability and flexibility in an environment of significant financial uncertainty, fluctuation and undocumented costs.

Many other non-financial benefits of a more direct relationship with donors were mentioned and are perhaps under-recognised across the humanitarian community.<sup>13</sup> An important dimension that local agencies associated with greater access to donors was being able to 'showcase' their work. This was also mentioned by agencies that have not had direct donor access but see their international partners and intermediaries as claiming the credit for their work. For example, a respondent explained, comparing INGO and SHF funding sources and relationships, that:

*On top of this INGOs take the credit for the good work we do simply because the funds have come through with them while we take the full credit for SHF-funded projects. So, if we were receiving more direct funding, we will be more visible.*

There are very few examples of direct relationships between donors and local and national actors, as envisaged under Grand Bargain commitments, and in

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12 A respondent working for a UN agency suggested that local agencies are often 'squeezed' to minimise their costs, and local agency respondents reported that their international partners are often unrealistic (or do not know better) about suitable prices or salary levels in order to guarantee reasonable quality.

13 Local agencies also suggest their opportunities for training are less when implementing with INGOs, as the latter prioritise their own staff. A local agency that was able to compare direct and indirect funding also noted that the reporting requirements were easier to manage in a direct relationship, as an intermediary agency may request monthly reports long before the time required to submit them to donors, in order that it has time to prepare the report.

fact only two direct funding relationships with local and national NGOs were identified during the study.

Donors cited a number of practical challenges in scaling up their direct funding to local and national actors, including legal and mandate-related constraints – notably ECHO can only directly fund European-based NGOs and multilateral agencies. Administrative load is another significant factor for many donors, with a major humanitarian donor in Somalia claiming this to be as important as risk/compliance, and that staff were under constant pressure to reduce the administrative burden of managing multiple contracts. This partly explains the rise of the (international) NGO consortia evident in Somalia in recent years. Smaller donor countries, with small country offices and few staff, face the same burden and therefore have a strong incentive to direct funds to multilateral agencies or large INGOs.

Managing the administrative load also relates to the surge of funding that takes place during major humanitarian emergencies, and the ability of the humanitarian system to absorb relatively sudden and significant increases in resources and activities. UN agencies and larger INGOs have built capacities to absorb these surges over time, including through the use of unrestricted funding, but surges nevertheless still put them under considerable strain (see section 3.5 and Box 2 below).<sup>14</sup>

Finally, and most importantly, is the underlying risk and compliance environment that constrains many bilateral donors and their implementing agencies. International and national counter-terrorism and anti-money laundering regulations are putting increasing pressure on the political and humanitarian arms of Western donors. This is perhaps due to the growing polarisation of politics in many major Western countries, and the potential negative publicity that can be generated around allegations or actual corruption of diversion of funds.

In addition, humanitarian access in large areas of southern and central parts of Somalia remains highly constrained and is limited to urban and near-urban areas, with only some rural areas easily accessible. Remote management techniques are prevalent. The reality of this arms-length management is fundamental to understanding the risk and partnership environment in Somalia.

Remote management raises serious ethical questions around the transfer of risk to local and national

<sup>14</sup> Many of these issues are discussed in the following report on surge capacity. See [www.chsalliance.org/files/files/Resources/Articles-and-Research/Surge-Humanitarian-Report-Final.pdf](http://www.chsalliance.org/files/files/Resources/Articles-and-Research/Surge-Humanitarian-Report-Final.pdf)

## Box 1: Remote management arrangements\*

There are a variety of practices that fall under the umbrella of remote management. These include: regular or occasional field visits by senior management, who direct programming and staff from a distance, to delegation of decision-making to national, field-based staff, to handing over projects to partner entities (e.g. government, community, or local NGOs). There are also various monitoring and evaluation processes associated with remote arrangements, including the use of third-party monitoring firms or telephone-based monitoring. This approach is also associated with the transfer of risk to field staff and/or partner organisations (see section 3.5).

\*Drawn from Stoddard, Harmer and Renouf (2010).

partners, which are often poorly resourced and supported to manage the risks they face. But it may also lead to compromises in quality and increases the risk of diversion and corruption of funds (Maxwell and Donini, 2014),<sup>15</sup> particularly when senior staff and donors rarely visit and monitor partners in the most insecure areas (Jackson and Aynte, 2013: 9).<sup>16</sup>

These underlying risks, difficulties and practices, while perhaps not as extreme as in 2011/12, are still evident and were referred to by respondents to this study. However, considerable efforts have been made to improve risk management and due diligence

<sup>15</sup> Maxwell and Donini (2014) point out that remote management 'raises serious ethical questions regarding the transfer of security risks from international personnel to national actors and local communities who often become more vulnerable and have fewer security resources, less training and scant alternatives for other gainful employment', and furthermore is associated with 'increasing the pressure and risk on/to local staff of international implementing agencies and/or partner agencies.'

<sup>16</sup> These tensions and risks have clearly been part of the operating environment in Somalia, most notably during the 2011 famine response, where Al Shabaab was a prominent presence and where 'aid workers on the ground appeared willing to frankly discuss the terms of access (albeit on condition of anonymity), the majority of senior aid agency representatives in Nairobi and elsewhere strongly rejected the claim that they provided money or material goods to Al-Shabaab in exchange for access. As one aid agency official lamented, "From Nairobi, it was easy to say no, and all of the pressure was on your staff, the suppliers, contractors ... who were then having to organise themselves". This disconnect was compounded by the lack of visits by senior staff or funding agencies to, and monitoring of, agency operations in Al-Shabaab territory' (Jackson and Aynte, 2013: 9).

processes and include agency-specific as well as systemic developments, from the Risk Management Unit (RMU) of the UN, to internal (agency-specific) monitoring, learning and risk management units, and the increased use of Third Party Monitoring firms (TPMs), call centres and satellite imagery (Haver and Carter, 2016; Transparency International, 2016).

Despite serious efforts and investments, effective monitoring and accountability remain challenging, with many opportunities for bypassing possible (Haver and Carter, 2016; Transparency International, 2016). At all levels of the response chain, there are powerful incentives to minimise bad news, and to present a positive story.<sup>17</sup> A donor responding to the study suggested that learning from past mistakes, particularly by local partners, remained problematic and was not generally a strong part of the aid environment in Somalia.

In practice, international agencies continue to provide a firewall and act as an intermediary between donor and local agency, where trust in the latter has been eroded, and where the due diligence requirements of working with local partners are considerable and require significant time and capacity (including by donors).

Participants in the study workshop organised in Mogadishu identified a number of risks associated with direct funding. For instance, any cases of misappropriated funds bring problems for all local NGOs, where they are already seen as being high risk and where trust is already strained between donors and local NGOs. They also highlighted the high degree of competition and rivalry between Somali NGOs, particularly those in the same geographic area; increased funding to some may lead to being targeted by others, for example in the form of letters of complaint or even violence.

There were additional concerns about the increased funding of Somali NGOs from workshop participants. For example, the local NGOs may be perceived as receiving more money than the government, leading to increased pressure in the form of taxation. Local NGOs may also be seen as a business opportunity, leading to the creation of more of them in an already

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17 In terms of the focus of this study, on partnerships, a senior manager of an INGO pointed out that the quality of evaluations (a modality of accountability between agencies) is often questionable and that his own agency is more likely to absorb criticism, including from a local partner, internally, in order to address it, rather than allow it to come out in a report for its donor. The respondent suggested that the donor is also concerned with critical evaluations as they are trying to maintain funding and projects.

crowded field. Finally, participants also recognised that the lack of government policy and capacity was itself a critical factor limiting the potential of increased direct funding of Somali NGOs.

### 3.3 ‘As directly as possible?’ The Somalia Humanitarian Fund

The definition of ‘as directly as possible’ remains under discussion. However, there is consensus from many Grand Bargain signatories that CBPFs provide many of the hoped-for advantages of direct funding from the perspective of local and national actors. Indeed, the OCHA-managed CBPF, the SHF, does appear to be popular among Somali NGOs, compared to the two other main sources of financing they have (from UN agencies and INGOs). One of the reasons for this is clearly financial, as the SHF provides a 7% overhead contribution to all recipients, national or international. This is much appreciated and provides financial flexibility; allowing local and national actors to recover overhead costs is not common practice between UN agencies or INGOs and their local partners. Applying for funds from the SHF also requires the development of a project proposal and going through the full process of project design, application and implementation, which is different from many forms of indirect funding and partnerships. Respondents report that this process can generate a strong or better sense of ownership than being incorporated into a larger project as a sub-contractor.

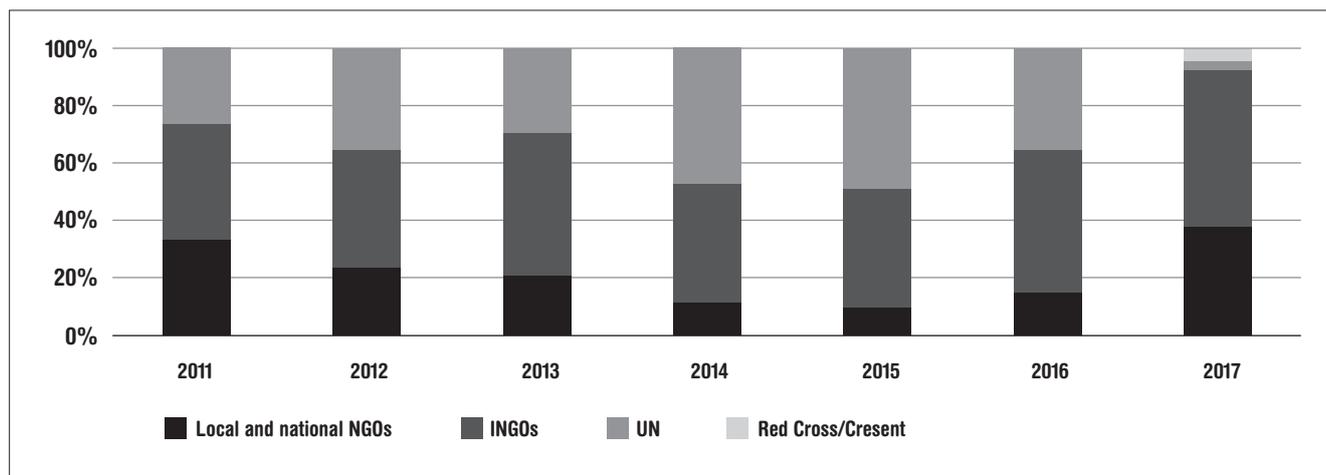
The SHF has experienced variable fortunes, with major increases in contributions in years of high-profile large-scale crises, notably in 2011/12 and 2017. They received 14.6% of total funds for the crisis (\$104 million) at its peak in 2012 and this share fell to less than 5% of total contributions from 2015 to 2017. Yet, despite the modest relative size of the SHF, its impact among local and national actors is significant and in recent years it has made a number of commitments to increase its funding to local actors. In its 2017 guidance for allocation, for example, the SHF commits to:<sup>18</sup>

- ‘Support for local partners by striving to reach the global target of at least 25% of available funding to be channelled directly through national partners (if, when and where feasible)’.
- ‘Prioritization of direct implementation through international and national non-governmental

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18 See ‘Principles Guiding 2017 Allocations’, endorsed by advisory board, SHF, 2017.

**Figure 5: Funds allocated by the Somalia Humanitarian Fund by implementing partner type 2011–2017**



Source: UN OCHA (2017)

partners, accounting for at least 70% of available annual SHF funding’.<sup>19</sup>

Following a reduction in the share of its funds allocated to local and national NGOs after 2011, which reached a low of 10% of the total funds in 2015, the SHF has significantly increased the proportion of funds allocated to local and national NGOs to 15% in 2016 and 38% in 2017 (see Figure 5). The share of the total funds allocated to INGOs has also increased over the last two years (from 41% in 2015, to 50% in 2016, and 55% in 2017), while UN agencies experienced a sharp contraction in their share of funds allocated through the SHF (from 39% in 2015, to 35% in 2016, falling to just 3% in 2017) (UN OCHA, 2017).

### 3.4 Partnership dynamics in Somalia

The variety of partnership approaches in Somalia is a result of the diversity of organisational mandates, cultures, principles and contracting modalities of the numerous international agencies engaged in the country, as well as of the prevalence of remote management.

There is also a high degree of heterogeneity among agencies within the humanitarian sector, at the local *and* international levels, where examples of good and bad practice, strong and weak leadership, innovation and risk-taking, corruption and collusion are all evident. This diversity is important when considering

organisations’ risk management and analyses of partnership dynamics and in assessing their potential effectiveness, where there is often a tendency to downplay the shortcomings of international actors while being overly critical of national actors.

Some respondents to this study – including senior humanitarian leaders – have asked whether Somalia ‘isn’t the last place [it makes sense] to explore localisation and increased funding of local partners’, given the risk, fluidity and fragmentation that exist there, while others point to the much improved risk management environment, the structural changes that have been made within some agencies and systemically (in terms of risk management), and the fundamental importance of supporting local and national actors (as a layer of civil society). These opposing perspectives reflect current conversations within the Somalia humanitarian environment and are explored further below.

The Principles of Partnership (PoP) (agreed in 2007 under the Global Humanitarian Platform) provide a useful reference point for this study and for policy and practice in this area. These principles are based around equality, transparency, a results-oriented approach, responsibility and complementarity. However, they remain a voluntary code, and have been recognised for their limitations in terms of further elaboration, development and implementation.<sup>20</sup>

#### 3.4.1 The spectrum from transactional arrangements to partnerships

An important and simple distinction, arising out of the feedback to this study, concerns the difference between

19 Direct implementation in the case of the SHF implies directly through international *and* national NGOs, rather than through UN intermediaries.

20 For more on this subject, see: <https://odihpn.org/magazine/partnership-in-principle-partnership-in-practice/>

transactional, sub-contracting partnership relationships and those based on a greater sense of equality, trust and common principles. Lack of trust is one of the most common complaints raised by local NGOs and is also referred to widely by respondents working for international agencies.<sup>21</sup> While some international agencies overtly seek to acknowledge and address (lack of) trust, power hierarchies and imbalances in their relationships, others are more defined by transactional relationships and ‘project-based’ arrangements. Organisations such as Oxfam and CAFOD, for example, have strong partnership principles, evident in their global policies and publications, which highlight issues such as ‘shared vision and values, complementarity of purpose and value added, autonomy and independence, transparency and mutual accountability, clarity on roles and responsibilities, commitment to joint learning’ (Oxfam, 2012; see also Street, 2011). Some of these international agencies only (or primarily) implement through local partners, rather than directly, and apply these principles in humanitarian *and* development contexts.

The underlying approach to partnership working, at least in principle, is based on mutual trust and a sense of joint ownership where partners work together through all elements of a programme/project and equally acknowledge their successes and failures. This would typically be a medium- to long-term relationship where the international partner is interested in supporting the overall organisational development of the local partner. An illustration of this perspective comes from a diaspora-founded Somali NGO that works in Jubbaland in southern Somalia:

*Of all our partners [INGO X] has been the most beneficial to us as they have trained our staff and built our capacity to deliver good quality programmes. We have strategic partnership with them and share values. The rest are just implementing partners that give us contracts to deliver some programmes. Partnerships should be about working together and not just about contracts to implement some programmes.*

The distinctions in the above quote between transaction-based and partnership-based relationships may be somewhat simplistic, as there are clearly many underlying issues including the type of personal and institutional relations involved and the level of trust and frankness of dialogue that can take place between partners. The nature of partnerships varies enormously

along a spectrum from a close, long-term partnership model at one end of the scale, to a short-term, contract-based model at the other. The position along this spectrum is mediated by many factors, such as the nature of personal relations (the individuals involved at headquarter and field levels), organisational leadership, knowledge of the context, recent organisation experience, and indeed can vary within the same organisation over time and by location.

The importance of partnerships cannot be underestimated when field staff operate in such volatile and dangerous environments, and where, for example, risks and rewards of working in the same environment may be perceived as highly unequal. Senior management staff of some INGOs stressed the personal and professional relationships they try to develop with the field staff of their own and their partner organisations, in order to improve their understanding of the local environment and demonstrate their support and understanding of the difficulties faced by field-based colleagues.<sup>22</sup>

### 3.4.2 Different types of partnership in practice

In terms of what happens in practice, respondents to this study reflected upon their partnerships in very different ways. Many respondents, particularly from large international agencies, tended to refer to ‘partnerships’ with local partners in terms of the field level contracting Memoranda of Understanding (MoUs) and agreements they use, rather than in relation to broader policy, principles or objectives. These arrangements are typically project-based, and many are associated with competitive tendering processes. Contracts are usually relatively short-term although there may be some continuity in relationships as contracts are often recurrent, with international agencies often working with the same Somali NGOs several times, with funding breaks taking place between projects.

It is notable that larger agencies often have different departments and individuals administering and (technically) supporting their partners, which can complicate the nature of partnerships, as many people – and therefore relationships – are involved, each with different roles and perspectives. A number of respondents from the UN sector acknowledged that these field-level contracting arrangements can limit the development of more meaningful partnerships, with one commenting that they were ‘far from a partnership’, and suggested they are

21 This is also reflected in the RVI workshop reports on aid localisation (2017a, 2017b).

22 These are documented in Haver and Carter (2016); Transparency International (2016); the RVI aid localisation workshops (2017a, 2017b).

financial instruments used for contracting and specifying activities, as well as for providing a framework for negotiating costs.

It was also pointed out that UN agencies are constrained by guidelines and procedures such as the HACT (Harmonised Approach to Cash Transfers) (UNDG, 2014), which, according to a UN staff member, was designed for stable, middle income contexts where capacities, systems, legal and financial regulations are all stronger (than in Somalia).

An important difference between UN agencies and INGOs is that the former have a national mandate and are therefore obliged to have a wide (national) coverage and to address humanitarian needs wherever they occur (or where there are gaps). This mandate means that partnership arrangements can be more fluid and short-term, as they respond to fluctuating needs, but also that the larger UN agencies have many partners to manage.

While many INGOs work on the short-term, transactional basis described above, others have more scope, flexibility and interest in challenging this model and articulating and developing relationships based on stronger partnership principles and broader transformational objectives. Two INGOs provided written examples for this study in this respect. World Vision International (WVI) has recently articulated its approach to capacity building, where it specifically aims to move from ‘transactional relationships with partners to implement specific time-bound projects (sub-contracting) to a longer-term capacity development approach with an emphasis on closer technical support and mentorship’ (WVI, 2017: 1). This approach has been developed with particular reference to the 25% Grand Bargain commitment, and specifically tailored to the Somalia context, and notably uses the expression ‘transformational’. While this is not articulated as a policy or principle, it represents both as part of its new approach and direction.

Concern Worldwide Somalia produced a partnership manual (developed in consultation with its Somali partners) in 2016 that emphasises the contextual characteristics of Somalia, and outlines its policy, principles and practical guidelines for working with local partners. The manual states that relationships with partners are currently governed by a Project Agreement, specific to each project and grant, but that Concern and its partners are working to develop overarching Partnership Agreements that clarify their longer-term relationships. The manual refers to a number of partnership principles, including: compatibility, mutual respect and negotiation;

## Box 2: Oxfam

The size, capacity and credibility of local NGOs in Somalia varies enormously. A number of prominent Somali NGOs have grown and evolved over the last two decades from small beginnings; Hijira, Wasda and Adeso are three such examples that represent best practice, innovation and risk-taking, and have all taken on leadership roles within the humanitarian sector at various times. They work beyond Somalia, collectively also having worked in South Sudan, Uganda and Kenya and, importantly, have grown through their own leadership and initiative as well as through multi-year partnership arrangements with, in this case, Oxfam Novib and Oxfam GB. Organisational development support, such as that provided by Oxfam, has been far less available in Somalia in recent years.

interdependence; accountability; transparency, integrity and ownership; openness; and responsiveness.

These two examples and agencies are not presented here as examples of best practice, given the limited scope of this study; however, these initiatives do point to a number of issues. First, they are relatively recent developments and specifically tailored to the Somali context, suggesting that more (re)thinking around changes to partnership modalities are currently being developed, and also that other agencies may benefit from some of this work. For example, some respondents to this study recognised the value of thinking more deeply about partnership issues but did not have the time to do so. It is not clear to what extent these issues are discussed within the wider Somalia aid environment. Second, these initiatives appear to recognise the limitations of transaction-based relationships and the need to move towards broader and deeper relationships, acknowledging local NGOs more explicitly as a layer of civil society. Transaction-based relationships certainly serve a purpose, but in the Somalia context the balance appears to have shifted too far in this direction with problematic consequences.

## 3.5 Competition and fragmentation

Another important aspect of the humanitarian landscape in Somalia is its highly competitive and fragmented nature. This influences risks and opportunities for all actors and is evident at different levels. At the international level, UN agencies and INGOs are in competition for resources, with private

contractors adding to the congestion (Goodman and Majid, 2017).

Adding to this picture is the high level of competition and fragmentation within the national/local NGO sector. This dynamic mirrors the wider clan-territorial and political divisions within the country, which is evident within many Somali NGOs as well as the field offices of many international agencies (UN and INGOs) (Goodman and Majid, 2017).

Competition between local NGOs, as well as the existence of corrupt agencies, contributes to perceptions of bad practice for the entire Somali NGO sector. For example, a respondent from a local agency explains that when they attempt to negotiate on a contract it is difficult because ‘there is always a long line of other [local] NGOs waiting to take your place’. This tension was also pointed out by a UN agency, that noted their local partners sometimes ‘shoot themselves in the foot’ as they attempt to win a bid for a contract by under-bidding, and consequently bringing financial pressures upon themselves from the inception of a project. In addition, many international agencies are expansionist by nature (some more explicitly than others), raising further questions as to the relative role of – and therefore space for – national actors.

The rise in credibility and international support for the Somalia Government, as expressed through the New Deal and the Somali Compact,<sup>23</sup> adds to the competition for resources, with the government at different levels (central, state and district) aiming to claim, control and/or influence resources currently directed to both international and national actors.

This high level of competition and fragmentation raises questions about the pros and cons of minimising competition and supporting more collaborative mechanisms and processes. In this light the issue of ‘decongestion’ of international actors working in Somalia has been raised.<sup>24</sup>

### 3.6 Capacity building

Capacity building approaches and methods vary within Somalia. This ranges from specific activities, such as trainings in the use of different systems and programmatic areas (e.g. finance, HR, monitoring

and evaluation), to the entire programme cycle and to mentoring and on-the-job support, which is part of the normal working relationship between international agencies and their local partners. The effectiveness of capacity building can vary enormously, as stated in an Oxfam report on the humanitarian system in Somalia:

*International actors’ rhetoric of building humanitarian local capacity are in many cases empty of real content and reduced to a set of trainings and instrumentalisation of local NGOs which are subcontracted as implementers particularly in the most risky areas* (Almansa, 2015: 38).

INGOs are concerned with their own organisational development and capacity building (particularly where they are also implementers) as much as with that of their partners. Given the prevalence of remote management arrangements, as highlighted earlier, INGOs are under pressure to ensure their field implementation capacity and quality reflects project aims and objectives. A senior INGO manager participating in this study was quick (and honest) to explain its own failings in terms of capacity building: after a recent review of financial reporting, they were ‘shocked’ that standards were still not at the required level and viewed this as a failure on their part as much as on their partner agency’s. Donors and INGO consortium leaders also acknowledged significant differences between the capacities and qualities of individual international agencies.

As well as training, capacity building support is provided to local partners through mentoring and embedding experienced Somali staff from INGOs in local partners; several INGOs noted that capacity building is often not recorded in its own budget line but takes place through the mentoring and exchange of staff, which involves significant amounts of time. Several INGOs interviewed employ full- or part-time staff who are responsible for the development of their local partners.

Capacity building is viewed in different ways by local partners, which may in fact be a function of the type of support they have been exposed to over time. For example, a local agency respondent provides the following perspective:

*We benefit from partnerships greatly because we owe our existence to their projects and funding. We benefit from them in terms of capacity building though they don’t build our capacity directly. They assess our capacity, they monitor*

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23 See Manuel et al. (2017) for an independent review of the Compact.

24 See Goodman and Majid (2017).

*us and they audit our work. All this improves our capacity.*

This quote illustrates a specific type of capacity building that may be described as ‘learning by doing’, where a local/national agency responds to feedback and requirements for improvement, rather than working on broader organisational development, for example to improve in core systems and structures.

A more organisational development approach does exist in Somalia, and has previously, as another recipient explained:

*The organisations well known in supporting their partners better are [INGO X, Y and Z]. As these organisations don’t implement directly everything goes through you including the money. So in general those who don’t implement give [a] better deal as they are working through you and they take great interest in your development. They are with you from proposal to implementation of project.*

The same respondent pointed out that in some cases, ‘We write the proposal together and we go to the embassy together to make the application. They give us 100% of the proposed project’s cost and 10% on top that they add themselves’.

The following quote captures some of these dynamics, with a smaller Somali NGO asking the question of how a more prominent Somali NGO has grown over time:

*It [partnership] should be about shared vision and working towards that vision together. The only benefits we have from our partnership now*

*is implementing those projects ... Having income that is totally based on projects only is a problem because you can’t retain your good employees when there are gaps. Unrestricted fund[s] of only \$20,000 could make a big difference in staff retention. For example, [LNGO X] used to be local organisation but now they are international organisation. What makes them different is what we need to know. Someone should look into as many Somali organisations as possible and see how they changed over the years and what makes them different?*

Respondents to this study, from different INGOs, suggested that there is limited multi-year and/or unrestricted funding available for capacity development and questioned whether donors are willing to fund this to any significant extent, although there are some current examples available.

In summary, this section has briefly highlighted issues around capacity building, noting that there have historically been important processes in Somalia that have led to the growth of a small group of Somali NGOs that have gone on to play important roles outside of the Somalia context, and which are seen as potential role models for others. It also serves to remind us that there is much more heterogeneity of both local and international agencies than is often acknowledged and that, arguably, *the shortcomings of international agencies are often downplayed, whereas local agencies are overly criticised*. In fact, the successful evolution of Somali NGOs – beyond sub-contractors – has taken place, in part, as a result of meaningful partnerships with international agencies. This, however, has not translated into significant increases in direct funding for these same Somali NGOs.



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# 4 Conclusions and recommendations

The following section highlights key conclusions and a number of recommendations aimed at improving the evidence base in support of increasing direct funding to local/national partners.

## **Direct funding to local actors is small but increasing over the study period, though mainly to government**

The absolute and relative amounts of money reaching local actors (state and non-state) remains very small, with increases only occurring within the last 18 months. Direct funding of local/national actors was \$46.5 million, accounting for 3.5% of overall humanitarian funding to Somalia in 2017. The majority of this figure went to the government (that then subcontracted an INGO for most of the work). This contrasts with 2016 (and the previous several years) where those figures were – or were near – zero.

## **Though local/national agencies are significant implementers, they indirectly receive 9.7% of overall funding**

In terms of indirect funding, local/national agencies (rather than government) are beneficiaries, and account for 9.7% of overall funding (excluding the value of cash and in-kind contributions), for a total of 13.2% going directly or indirectly via one intermediary to local/national agencies. Again, there were significant changes between 2016 and 2017, with the SHF most notably increasing its commitment and delivery to local/national actors. It is also the case that in the context of a significantly scaled-up response, in 2017 UN agencies experienced much greater growth in income than INGOs, and this is reflected in proportional increases in funding for local/national agencies more than for INGOs. In fact, proportionally, INGOs lost some market share to local/national NGOs under these (2017) conditions.

## **Capacity building has not changed the power dynamics between international and national actors**

Considerable resources (including organisational development and capacity building) have gone into Somalia over the last 25 years and more and many local agencies have benefited – directly and indirectly. However, while they make up a significant layer as implementers, ‘sub-contractors’ and civil society,

national and local actors remain very much at the bottom of the humanitarian finance hierarchy.

In terms of the humanitarian architecture, UN agencies and a number of larger INGOs dominate the humanitarian landscape, as they have (or are perceived to have) the systems and capacity to absorb the fluctuating – and often considerable – funds and risks. A number of senior respondents to this study suggested that the business model of the larger international agencies is the major hindrance to local/national NGOs receiving a greater share of resources as they are crowding out the space for local actors. Similarly, as much as local/national NGOs appreciate the resources and support they receive from their international partners, they often perceive this intermediary layer as having a ‘gatekeeper’ role, while also recognising that positive relationships with some of these actors has led to the development and growth of Somali NGOs.

That said, local/national NGOs themselves can be accused of failing to self-regulate (in the absence of government) or to rise above their clan-territorial divisions. There are exceptions to this, as well as many examples of good practice, innovation, risk-taking and strong local knowledge within the local/national NGO sector, and these are probably not as visible or acknowledged as they should be. Furthermore, it is likely that local actors are more quickly criticised and even written off or blacklisted than they are lauded and applauded for their successes, while the shortcomings of international actors are largely downplayed.

## **Localisation is progressing in Somalia**

There does, however, appear to be a changing narrative and a number of initiatives – from both international and local actors – that suggest the ‘localisation’ agenda is progressing. Some examples of this are: commitments from the SHF; good Somali representation within the HCT; strong Somali leadership within the Somalia NGO Consortium and the Somalia NGO Forum; and new consortia. There have been a number of workshops, meetings and initiatives over the last 12 months that have informed this study, and from which this study aims to build. These include:

- Two workshops focused on aid localisation, supported by DFID, the Rift Valley Institute and the Somalia NGO Consortium:<sup>25</sup>
  - ‘Dialogue for action on aid localisation in Somalia’ (May, 2017)
  - ‘Improving aid delivery through localisation in Somalia’ (September, 2017).
- The HCT’s commitments to developing a strategic partnership(s) framework between INGOs and national NGOs.
- A meeting between donors and local NGOs (January/February 2018).
- A commitment by the SHF to increase the proportion of funding to local/national NGOs.

These various workshops and meetings demonstrate improved communication and understanding among the different humanitarian actors working in Somalia, in relation to aid localisation and increased support to local actors, as well as identifying specific follow-ups. Inevitably, follow-ups and meaningful change takes time, and it remains to be seen how far these will evolve.

## The study makes the following recommendations:

### 1. Identify, document and disseminate examples of direct funding

While still uncommon, there are current as well as historical examples of direct funding in Somalia, as well as a process underway to enable access to direct funding. It would be useful to identify and document these examples in order to learn from them, to help understand the pathways to such funding as well as to gain an appreciation of their advantages as part of providing incentives for local agencies to develop further.

### 2. Explore and pursue unrestricted/core funding sources for organisational development

Several Somali NGOs have grown and expanded through multi-year organisational partnership programmes and funding. Such financing was more available historically than currently and many senior humanitarian staff (including donors) are unaware of past arrangements. While new initiatives in relation to localisation are in their nascent stages it would be useful to review the successes and limitations of such programmes.

<sup>25</sup> See workshop reports at: <http://riftvalley.net/publication/improving-aid-delivery-through-localisation-somalia#WuG6a0xFzIU>; [www.humanitarianleadershipacademy.org/wp-content/uploads/2017/06/RVI-2017.06.08-Dialogue-for-action-on-aid-localization-in-Somalia-copy.pdf](http://www.humanitarianleadershipacademy.org/wp-content/uploads/2017/06/RVI-2017.06.08-Dialogue-for-action-on-aid-localization-in-Somalia-copy.pdf).

The SHF is a widely accessed and important source of unrestricted funding for local actors. An in-depth review of the SHF could explore its value from a financial perspective, as well as in terms of the value of project ownership that it embodies. The SHF provides a fixed overhead budget to all recipients and an element of unrestricted funding should be encouraged in all partnerships with local organisations.

### 3. Create new structures/consortia/platforms for funding and representation

Local/national agencies could form their own national consortia, with only national NGO members, to receive funds. Alternatively, consortia could be formed where the national NGOs are in the majority, but where funds are received/managed by an international agency (discussions on this approach are underway in Nairobi).

Local/national NGOs could explore forming their own platform for analysing and representing humanitarian issues to international actors, particularly to senior levels within the humanitarian sector, including donors.

### 4. Conduct further research on the relative merits of promoting a competitive vs stable environment

The current local/national NGO environment is highly fragmented and competitive. This is seen as advantageous in some circles and problematic in others. The issue of ‘decongestion’ of humanitarian space has been raised (Goodman and Majid, 2017). A review of this sector in terms of the advantages and disadvantages of competition might be revealing.

### 5. Increase humanitarian funding through pooled fund mechanisms

The SHF provides a very small component of humanitarian funding for local agencies, which offers the opportunity for local agencies to go through the project cycle, from proposal development to implementation. It has the potential to engender a greater sense of ownership and is appreciated by local NGOs.

An initiative to increase pooled funds should be accompanied by a strong learning component so that such funds are associated with increased quality and not seen merely as a business opportunity.

### 6. Encourage local/national agencies to review their roles and positions as members of Somali civil society

Many, if not most, local/national actors are recognised more for their fragmented and competitive position, as representatives of family/clan interests and as sub-contractors, rather than for their position as members of civil society and for a vision of a Somali future. Many such actors, however, have considerable

experience and knowledge of the humanitarian/ aid system as well as the wider political and social environment in Somalia. Demonstrating and

articulating these perspectives for the public good would increase the voice and influence of Somalis beyond the current narrow horizons.



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# Annex 1

## Methodology

NEAR's quantitative data collection approach in both the Somalia and South Sudan studies sought to establish the volumes of funds reaching local and national humanitarian actors directly, and through one transaction layer. In addition, the research sought to collect additional data on investments in capacity strengthening and funding terms with respect to overheads.

Data was collected using the following methods:

1. **Direct funding.** Top line figures on volumes of direct funding reaching local and national NGOs was established through an analysis of funds captured in the OCHA FTS data for 2016 and 2017. It should be noted that large volumes of funds are incorrectly coded or not coded within the FTS data so it is not sufficient to rely on the FTS coding of organisation types. Therefore, a manual data cleaning exercise was undertaken where the status of recipient organisations thought to be wrongly coded or not coded were checked with a Google search on the organisation name to establish whether they are national or international, and their categories assigned or re-assigned accordingly.

In addition, a complementary direct data collection exercise was undertaken, which targeted local and national NGOs to collect data on funding from the recipient perspective. A simple Excel data collection form was circulated among local and national NGOs requesting information on volumes of funding received by donor source in 2016 and 2017.

2. **Indirect funding through one transaction layer.** A direct data collection exercise targeting funding intermediary organisations was undertaken with a simple Excel data collection form designed to capture volume of funds received by donor source in 2016 and 2017, plus volumes of funds passed on to various types of implementing partner. Data on overheads, the duration of funding, and investments in capacity-strengthening were also requested.

The data collection form was adapted from one designed for the Grand Bargain localisation workstream in 2017 and included definitions of organisations agreed within the workstream. Retained from the Grand Bargain form, the NEAR data collection form also included the option to separate out the value of cash transfers and in-kind commodities from the total amount of funds transferred to partners. See a sample of the form below.

**Figure A: Data collection form**

Q1. Organisation name:					
Q2. What currency would you like to report your data in?					
Q3. What is the starting date of your reporting or accounting period?					
What is the end date of your reporting or accounting period?					
Q4. What was your humanitarian income by source in 2016?		Notes			
Bilateral government donors and the EU					
UN agencies					
CERF					
OCHA-managed country-based pooled funds					
Other pooled funds (pls specify)					
Other pooled funds (pls specify)					
Consortia where you are a subsidiary					
Private donors					
National affiliates / national fundraising offices					
Other sources (pls specify)					
Other sources (pls specify)					
Other sources (pls specify)					
<b>Total</b>					
Additional points to note on how you calculate your humanitarian income:					
Q5. One transaction layer: How much of your total humanitarian expenditure was channeled to partners in 2016?					
<b>Partner type</b>	<b>Total contract value</b>	<b>Value of overheads</b>	<b>Value of cash/voucher elements</b>	<b>Value of in-kind goods</b>	
Multilateral organisations					
International NGOs					
International Red Cross and Red Crescent movement					
International private sector					
Local and national non-state actors (total)					
- Red Cross/Red Crescent National Societies					
- Local and national NGOs					
- Local and national private sector					
National and sub-national state actors					
Internationally affiliated organisations					
Other (please specify/suggest category name)					
Other (please specify/suggest category name)					
Other (please specify/suggest category name)					
<b>Total funds disbursed to implementing partners</b>					
If your systems do not allow you to disaggregate this data, please provide a brief description of your reporting challenges:					
Q6. Overheads: How does your organisation determine allowable overhead charge rates for local and national partners?					
Q7. Partnership terms: Does your organisation hold multi-year funding agreements with local and national partners? If not, why not?					
Q8. Capacity strengthening: Can you quantify your investments in capacity strengthening of local and national partners?					
Transfer of funding for capacity strengthening					
In-kind contributions to capacity strengthening (workshops, etc.)					
Other (please specify/suggest category name)					
Other (please specify/suggest category name)					
Other (please specify/suggest category name)					
If your systems do not allow you to disaggregate this data, or you would like to add further details, including describing non-financial support provided to partners, please describe below:					

A sample set of target organisations were selected to include:

- CBPFs.
- UN agencies (excluding UN OCHA, which does not sub-grant to NGOs).
- Red Cross/Crescent organisations.
- INGOs in receipt of donor funds greater than \$1 million in 2016.

Agencies providing data for the Somalia study collectively received 64% and 66% of the total funds

reported to the FTS in 2016 and 2017 respectively and therefore controlled the majority of funds directed to the response (see Table A below). In practice these agencies in many cases were in receipt of more funds overall than captured within the FTS, including internal funds, private funds and funding from non-humanitarian donor sources. The overall total income captured within the study set (excluding potential double-counting of funds passed from UN agencies and the SHF to other actors in the study set) is overall higher than that captured in the FTS, at \$1.2 billion in 2017 – the equivalent of 90% of the total \$1.32 billion captured in the FTS that year.

**Table A: NEAR study set as a share of total funds received by first-level funding recipients**

	<b>2016</b>	<b>2017</b>
FAO	3.5%	8.3%
WFP	24.0%	27.1%
UNICEF	6.3%	8.6%
UNHCR	13.2%	6.0%
IOM	3.1%	1.6%
SHF	4.7%	4.0%
Arche Nova	0.1%	0.0%
DRC	1.2%	1.1%
NRC	2.8%	2.7%
Save the Children	1.9%	2.9%
World Vision	1.2%	1.2%
Concern	0.7%	1.3%
Care Somalia	1.2%	1.0%
ACTED	0.4%	
<b>Total</b>	<b>64.4%</b>	<b>65.9%</b>

Source: Proportions based on FTS data



# Annex 2

## Somalia's complex history with aid

Somalia's long history with international aid closely tracks two factors: the domestic political and security situation, including the modes and levels of engagement of international actors; and the scale and severity of humanitarian needs – though these two factors are inevitably closely linked.

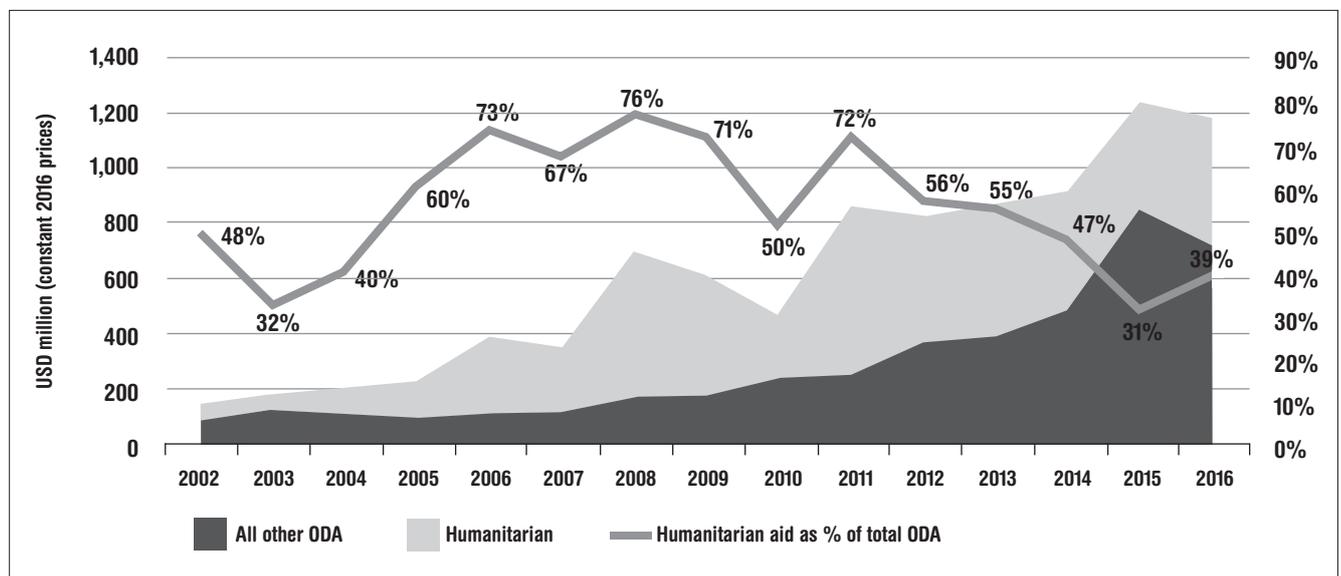
ODA to Somalia has grown substantially since the nadir of the late 1990s and early 2000s, when international actors largely disengaged from the country following the withdrawal of international troops, with the closure of the ill-fated UNOSOM mission in 1995. In the early 2000s, however, regional political actors helped to broker a new political process that ultimately enabled international re-engagement and unlocked growing levels of ODA support. In 2002 the Inter-Governmental Authority on Development (IGAD) became diplomatically involved in efforts to reconcile opposing political groups, which resulted in the creation the Transitional Federal Government (TFG), in November 2004. The TFG relied heavily on financial support from international donors as well as security assistance from Ethiopia and the African Union.

The levels and focus of international engagement have subsequently been influenced by the rise of Islamist groups opposing the TFG, which have proved a continued and substantial threat to domestic and international security. The rise of piracy in the Gulf of Aden in the late 2000s also influenced international engagement as it proved extremely costly and disruptive to international shipping, including efforts to supply humanitarian aid to Somalia. Worsening insecurity, in combination with drought and the global food price crisis in 2008, led to a sharp deterioration in the humanitarian situation and the beginnings of a large-scale re-engagement by Western donors.

At the same time, regional and international military engagement in Somalia has significantly increased since 2011 with Ethiopia and Kenya sending thousands to join the AMISOM mission and the US conducting covert counter-insurgency operations.

International and regional engagement in the political process in Somalia also ramped up from 2011, with international actors placing pressure on Somali politicians to end the period of transitional government and hand over power to a newly formed Federal

**Figure B: Total official humanitarian aid and all other official development assistance (ODA) to Somalia from all donors reporting to the OECD Development Assistance Committee (DAC) 2000–2016**



Source: OECD DAC

Government in 2012. Presidential elections and the establishment of a new constitution in 2012, followed by the agreement of the Somali Compact in 2013, which set out development priorities and principles for cooperation between the Federal Government of Somalia and the international community for the period 2014–16, ushered in a period of new optimism and international support for the political transition and development of Somalia. ODA support to Somalia has continued to grow steadily from 2011.

In February 2017 the election of President Mohamed Abdullahi Mohamed allowed the government to proceed with establishing its development and security agenda. At an international conference in May 2017, the New Partnership for Somalia was agreed with international partners, establishing mutual

expectations and accountability requirements in support of Somalia's National Development Plan, as well as a new Somali Security Pact.

Meanwhile, as development aid has experienced steady growth since 2011, humanitarian aid to Somalia has proved volatile, as illustrated in Figure B (above), with major peaks in crisis years, in 2008, 2011 and (though not reflected in the OECD DAC data) 2017. The nature of the humanitarian operation in Somalia has also altered during the past ten years, with growing insecurity from 2008 driving a widespread retreat of international actors from Somalia and a growing reliance on remotely managed operations, although this has again been changing as there has been increasing agency presence in Mogadishu (although under heavily fortified conditions).



# HPG

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Cover photo: A man sits next to his herd of goats at Bakara Animal Market in Mogadishu, Somalia, which was once a notorious al-Shabaab stronghold.

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