



FUTURE  
HUMANITARIAN  
FINANCING

Future Humanitarian Financing

# Looking Beyond the Crisis

*Executive Summary*

**CAFOD**  
Just one world



# Acknowledgements

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The FHF initiative was conceptualised, led and managed by a steering group comprised of CAFOD (Caritas England and Wales), FAO and World Vision International. The FHF report was written by Lydia Poole, an independent consultant specialising in humanitarian financing. The report was produced as a contribution to the IASC Humanitarian Financing Task Team's 2014 work plan; while care has been taken to encourage and incorporate feedback, its findings do not necessarily reflect the views of IASC members.

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Future Humanitarian Financing is an initiative to bring fresh thinking and expertise from beyond the humanitarian sector to address the growing problem of how we meet the financial costs of responding to humanitarian crises.

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Front cover image credit: FAO/Giulio Napolitano



Flooding on the road to Kot Adu district, Pakistan, 2010.  
Credit: CAFOD / Monica Vrsanska

# Introduction

The Future Humanitarian Financing (FHF) initiative was instigated by CAFOD (Caritas England and Wales), World Vision International and the UN Food and Agriculture Organization (FAO) in order to undertake a horizon scanning exercise to identify opportunities and challenges in financing humanitarian action in the future. The initiative addresses a task under the Inter-Agency Standing Committee (IASC) Task Team on Humanitarian Financing 2014 work plan and attempts to stimulate energy and commitment to resolve longstanding humanitarian financing challenges and to identify new approaches and models of engagement that will address the needs of humanitarian crises yet to come.

The FHF process included a series of cross-sectoral dialogue events in late 2014, which brought together individuals from local and international civil society, UN agencies and funds, local and international businesses, regional organisations and governments. Two dialogue events were held in London, hosted by CAFOD and King's College London, and further events were held in Amman and Bangkok, organised and hosted by the International Council of Voluntary Agencies (ICVA), and in Dakar, organised and hosted by Groupe URD. The FHF initiative was funded by the Government of Germany and by FAO.

Insights and emerging consensus from the four dialogue events inform the core content, tone and spirit of the report. Additional research and targeted interviews with experts were carried out to develop emerging discussion themes, issues and opportunities. Finally, a large expert advisory group was convened to debate and comment on an initial draft of the report, and feedback from IASC member agencies was invited.

The result of these broad consultations is a paper which presents a survey of available evidence and ideas, accompanied by a set of recommendations spanning a broad set of incremental, remodelling and transformative changes and designed to stimulate further discussion.

# Summary findings

The daunting scale of the humanitarian funding gap, and the seemingly intractable nature of many of the well documented humanitarian financing challenges, provided the backdrop to the FHF dialogue events. Yet economic growth, increasing global connectedness, new technologies, innovation in financing and business practices and emerging global norms around the need to manage risk and build resilience were repeatedly stressed as grounds for optimism. Emerging from the FHF discussions was a surprising consensus that constitutes a vision of how contexts and actors are expected to evolve and how ideally humanitarian action would be organised and financed in the near future (see Box 1).

However, this optimistic vision is a far cry from the challenges that currently exist. At present, more than two-thirds of humanitarian funding each year is spent in conflict-affected and fragile settings, where many of the positive economic and social trends that might be expected to drive a diversified and domestically led humanitarian response are less likely to take root. Demand for humanitarian assistance in these difficult environments is likely to remain significant. The cost of providing assistance appears to be increasing and the existing financing architecture is already under immense strain and is unable to supply an adequate quantity or quality of assistance to meet the needs of crisis-affected people.

The international humanitarian enterprise is out of step with the realities of the world in which it operates and is far from fit to meet the challenges of the future. A fundamental shift in the humanitarian business model is overdue – from a culture and set of practices that tend towards insularity, reactivity and competition towards an enterprise rooted in anticipation, transparency, research and experimentation, and strategic collaboration.

Humanitarian actors need to focus not only on meeting humanitarian needs today but also need to work towards a future in which, wherever possible, international humanitarian response is unnecessary or exceptional, and the majority of needs are met by local actors. Clearly this cannot be achieved with the resources, tools and influence currently at their disposal; it requires long-term vision and strategic alliances with a broad range of actors who can deliver transformative changes to vulnerability and the management of risk. Therefore, in addition to a programme of internal reforms, a radical global agenda will be needed to meet the humanitarian financing challenges of the future, engaging and enabling a far wider ecosystem of actors in meeting the costs of managing risk and of responding to post-crisis needs, as a shared responsibility and a public good (see Figure 1).

## Box 1: Vision of the future of financing for humanitarian action emerging from the FHF dialogues

In future, much of the cost of providing humanitarian assistance will be borne by local and domestic actors, including affected governments, communities, civil society groups, businesses and regional organisations.

The costs of financing supplementary international response will continue to be met by international governments and private donors, including individuals, foundations and corporations.

However, there will be far greater diversity amongst donors, including the rising middle classes in middle-income countries (MICs), who will play a major role in meeting the costs of post-disaster needs through voluntary giving. The interests and concerns of rising and emerging donors will challenge and reshape both modes of assistance and the relative influence of actors within the existing system, and will support the rise of new responding actors.

Crisis-affected individuals will receive a 'bundle' of financial and material assistance through a variety of channels, including commercial savings, loans and insurance; cash and material assistance from relatives and local collectives; government cash transfers and welfare payments; temporary access to subsidised or free goods and services provided by the domestic and international private sector; and finally cash, material relief and access to services provided by domestic civil society

organisations (CSOs) and international humanitarian actors, including the UN and international and regional NGOs.

Responses will be coordinated primarily by governments and regional intergovernmental organisations and will draw on international humanitarian standards and emerging norms around transparency. They will also use new communications technologies.

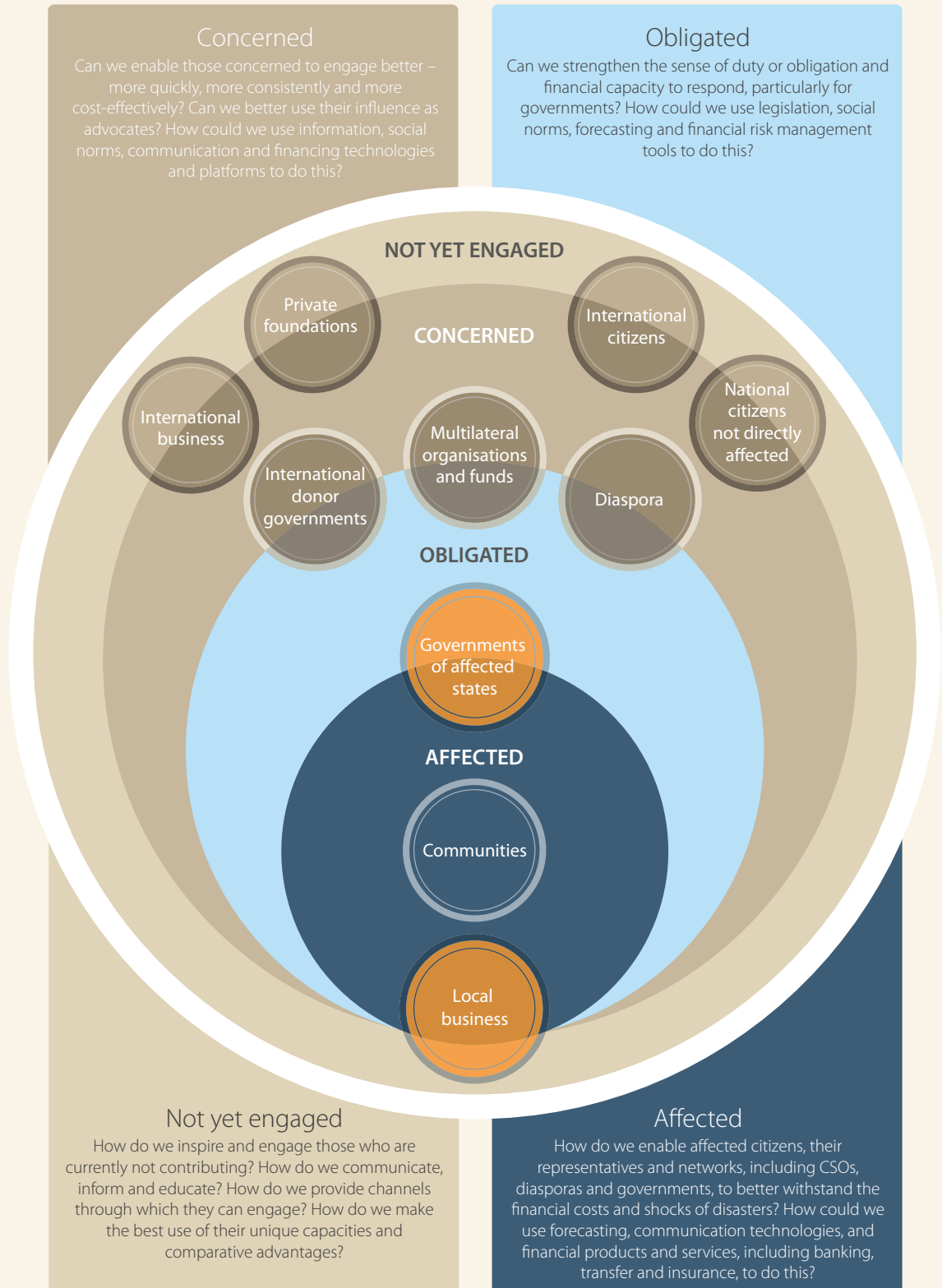
Elsewhere, international actors will continue to provide classic principled humanitarian assistance in contested settings where there is conflict, political instability or persecution of minority groups, substituting for a lack of domestic capacity or will to assist affected populations.

Modes of assistance will be modernised and will make greater use of more efficient technologies and relief products and services.

Influenced by new global norms, treaties and financing tools, governments and private sector actors will invest in mitigating the risks of climate change and building resilience to disasters, offsetting some of the rising costs of responding to climate-related crises. In addition, with the technical and financing support of international development partners, including South–South cooperation, governments will invest in their own capacity to manage and respond to disasters.

**Figure 1: Creating a shared responsibility and capacity to meet the cost of crisis response**

Humanitarian actors should be advocates, brokers and catalysts in a global dialogue, provoking questions such as:



The international humanitarian community must adapt its culture and practices in order to build a more progressive enterprise that is able to seize opportunities and adapt to changing realities. In the future international humanitarian actors might be expected to play more niche roles in providing technical assistance, brokering partnerships and advocating for principled humanitarian action and operating space. In order to become fit to meet these niche requirements and to advance modes of response to take advantage of efficiency and effectiveness gains afforded by new technologies, the humanitarian enterprise will need to become more skilled and innovative, better informed and better connected. Humanitarians need to have an eye for opportunities and a willingness to develop networks with those who have technical capabilities and influence to advance new solutions and approaches to humanitarian financing and response.

Transformational changes in the humanitarian business model envisaged during the FHF dialogue process include:

### Rebalancing the division of labour

Where humanitarian financing and humanitarian modes of response are poorly equipped, or where other sources of financing may be available and appropriate, humanitarians should look to work with others to take on these financing responsibilities. This would free up limited principled humanitarian financing and response capacity.

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*Yes, the gap is growing but so is capacity to respond and funding may be under-reported. National actors are also now better able to respond.*

FHF Dialogue participant

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**Establishing and communicating clear limits to the remit and competence of humanitarian action could help to manage expectations and facilitate a more efficient and effective division of labour.** Under a narrower definition of humanitarian action, principled humanitarian funding would be reserved primarily for meeting acute needs, particularly in conflict-affected and contested settings. Having clearer expectations as to the limits of humanitarian action could, in principle, help reduce the likelihood of moral hazard and create incentives for other actors – including governments and development actors – to anticipate and make provision for responding to crises. In time, allied with practical steps to advance alternative financing solutions from beyond the humanitarian community, a sharper focus on the limits of humanitarian responsibility could help to avoid situations where humanitarian actors



Tents in Yusuf Batil refugee camp, South Sudan.  
Credit: CAFOD / Nick Harrop

are relied upon as the indefinite fall-back option in difficult and protracted situations, which currently consume a large proportion of humanitarian financing resources each year.

**Humanitarian actors should play a more assertive role in demanding consideration of the needs of vulnerable and crisis-affected populations in government and development policy and in business practices.** If humanitarians wish for other actors and emerging tools and sources of financing to adequately serve the needs of populations vulnerable to crisis, they need to be part of the design and build of those solutions. There are currently a number of critical opportunities – in particular, the upcoming International Conference on Financing for Development in Addis Ababa, Ethiopia in July 2015 – for humanitarians to assert the need for strong commitments from governments and their development partners to ensure provision for the basic needs of vulnerable populations during ‘transition’ and protracted crises, and to influence the design of specific mechanisms and approaches.

**In protracted crises, new solutions to providing more predictable and sustainable financing solutions must be urgently brokered and developed.** Humanitarians have, for too long, taken on responsibilities for supporting long-term displaced populations and the longer-term needs of populations affected by protracted crises. Without strong external stimulus, there are too few incentives for humanitarian, development, climate change and other concerned actors to work in a

complementary way to address the longer-term needs of populations vulnerable to and affected by crises. Financing can be used, however, to create incentives for more coherent approaches built on common understanding of the need to manage risk, both as a moral imperative and as an expedient investment to protect development investments and assure sustainable development outcomes. There is an open challenge to donors, therefore, to find new ways of organising their funding investments to create these incentives.

### Prioritising nationally led response

**The humanitarian community is approaching a point of consensus on the practical utility and principled case for supporting nationally led response, but this vision must become more ambitious and more concrete.** Despite the strength of commitment emerging at the level of principle to 'localise humanitarian aid', there is a lack of precision as to what this vision

Credit: IFRC



comprises and a shortage of practical solutions to achieve it. The discussion on localising aid has some way to go, therefore, before reaching an achievable set of ambitions and practical next steps.

**Building a sustainable domestic capacity to respond requires a commitment to sustained investment and support across humanitarian, development and climate change communities, backed by a clear set of shared objectives and delineation of responsibilities.** Investing

in response capacity currently falls between humanitarians, who are typically focused on response through civil society, and development actors, focused on strengthening systems at the national level. To address this gap in policy and investment, a much clearer shared understanding of existing capacities and gaps is required, alongside shared objectives, clear theories of change and strategies to build domestic financing and response capacity.

**Humanitarian financing practices will need to undergo a series of reforms in order to remove barriers to access for local and national actors, and to provide flexible and enabling funding to support capacity strengthening.** Improving access to international financing for front-line actors, and dis-intermediating convoluted transaction chains via international actors was a repeated refrain during the FHF dialogues. In practice, this will require reviews of risk management procedures and adjustments to mechanisms and application processes to enable capable responding actors, who may not be well schooled in the arts of navigating international humanitarian financing systems, to access funds, as well as providing flexible funding to international organisations to invest in strategic capacity-building support to national organisations, in order to strengthen their organisational procedures and skills in accessing and managing funds.

### Embracing diversity

**Growing diversity in financing sources and actors provides an opportunity for international humanitarian actors to better target their limited resources and capabilities.** Accepting diversity in funding as an opportunity should alleviate financing demands on the international humanitarian system and enable a more strategic focus on responding where impartial and flexible responses are most needed.

**There is a clear need to reconfigure the existing humanitarian system to reflect the full diversity of financing and responding actors.** In practice, however, adapting to work in complementarity with as yet unfamiliar sources of public and private humanitarian financing – sources that are likely to target and deploy funds on their own terms – is one of the most fundamental challenges now faced in international humanitarian financing. There are huge challenges, including differences in language, culture, ethics and objectives. Broadening engagement will likely require the formal humanitarian system to cede control to unfamiliar actors and, at the same time, find politically and culturally acceptable means of sharing and promoting hard-won lessons on principled, effective and efficient humanitarian financing.

### System upgrades

There is a daunting array of internal challenges to the efficiency and effectiveness of financing for international humanitarian action, which require serious attention and investment. The existing humanitarian financing architecture is in need of reorganisation – in how

humanitarian actors prepare for and deal with peak demand and in how provision is made for meeting recurrent costs – and there is a widely felt need for far greater, system-wide attention to efficiency.

The FHF dialogue process identified a set of practical adjustments and changes to the current modus operandi of international humanitarian financing that could help significantly in increasing the efficiency and impact of investments. Priorities and practical recommendations are summarised as follows:

### **Improving anticipation and analysis**

The evidence, analysis and messages around the scale of humanitarian needs and financing requirements were frequently challenged during the FHF dialogues. Strongly felt concerns were raised that current approaches were not sufficiently inclusive of the full range of financial flows and were based on inconsistent definitions and unreliable assessments of needs. A lack of anticipation and forward planning in relation to resource planning was noted as a missed opportunity.

**Contingency planning at the global level based on forecasting models for natural hazards and projections for protracted crises could help to anticipate the scale of financing required at times of peak need.** This would, in turn, help to inform financial preparedness at the global level, including by giving more reliable indications of the scale of likely requirements and informing the design of adequate mechanisms and measures to meet anticipated demand.

**The lack of confidence in the financing requirements of UN-coordinated appeals should be managed and addressed as a matter of urgency.**

While recent experiments with activity-based costing have proved controversial, an alternative approach to quantifying financing needs that does not rely on totting up agency funding requests has to be agreed. This will require a serious programme of research, experimentation, learning and technical support.

**Current resource tracking mechanisms are not sufficiently inclusive of the full range of resource flows in crises, which is a barrier to achieving efficient coverage of needs and to inclusive planning and response.** Existing tools will need to be substantially modified to permit reporting from a much broader range of actors and the adaptation of ‘inter-operable’ information management systems tailored to crisis-level information requirements.

**Humanitarian needs assessments increasingly appear to be a blunt instrument by which to understand complex environments involving diverse actors and capacities.** The reliance on an analytical paradigm, which focuses on the problems of today and yesterday, leaves humanitarians vulnerable to failing to anticipate and prepare for major risks yet to come. This points towards the need for a more sophisticated understanding of contexts and their capacities and dynamics. Such analysis needs to be undertaken jointly

with other actors concerned with managing risk and building resilience in advance of crisis events.

### **Upgrading the architecture**

Within existing financing architecture, practices and culture, there are persistent challenges to achieving a more efficient and effective response.

Achieving a coordinated response and rational coverage of humanitarian financing needs will prove ever more challenging as the constituency of donors and sources of finance become increasingly diverse. Donors within the Good Humanitarian Donorship (GHD) group should lead by example in developing simple planning and communication tools that provide earlier indications of their bilateral funding decisions and the rationale for decisions taken, which could enable other donors to consider where their contributions fit best. New and expanded global balancing mechanisms such as the UN’s Central Emergency Response Fund (CERF) could offer a practical solution to meeting funding gaps and offsetting anticipated growth in more partial and tightly earmarked humanitarian funding.

**Mobilising funding and bridging liquidity gaps in the early stages of crises remain major challenges.** There are opportunities, however, for humanitarian actors to use technical expertise and analysis from private sector actors and governments to develop objective and politically acceptable ‘triggers’ for the early release of funding. An added advantage of the early release of funding on the basis of pre-agreed triggers is the possibility of making low-key resource transfers without

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*We need to focus as much on making better use of the funds we have as on generating new funds.*

FHF Dialogue participant

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the need for high-profile humanitarian fundraising efforts, which are sometimes politically unacceptable for affected governments.

**In order to manage peak demand, separate modalities and new funding reserves are required to meet large spikes in demand resulting from major crises.** A global catastrophes contingency fund, significantly larger than the current CERF, could be marketed as a global public good and financed with alternative and, where possible, additional funds. These could include innovative sources of financing, comprising levies and voluntary fees for goods and services, as well as donor-financed risk transfer products to provide additional layers of financial protection against the highest levels of risk.

**Removing barriers and enabling local and national actors to access international sources of humanitarian financing should be an urgent**





In Darfur hundreds of thousands of people who fled violence now live in camps for displaced people.  
Credit: Caritas Internationalis / Laura Sheahen

**priority.** The need to programme funds at scale and to ensure accountability are hard constraints for most major donors, but they can be managed differently. There are already alternative approaches to ensuring accountability, based on informed management of risk rather than the imposition of restrictive controls, which can be replicated. There are also opportunities to develop new mechanisms specifically designed to facilitate access to international financing for national civil society actors. In order to support a serious scaling up of investments, a far more sophisticated understanding of capacity-building objectives is needed, including evidence of what works and why. A scaled-up commitment to invest in national response capacity would of course need to be backed by flexible, predictable funding capable of supporting and enabling partnerships focused on capacity-building. International humanitarian actors should look beyond linking local and national actors to the international financing architecture, and should also identify opportunities to play a catalytic role in the achievement of sustainable financing approaches for local and national actors that are independent of the international humanitarian system.

### Improving efficiency

Real and perceived inefficiencies in humanitarian financing practices and business approaches have not been adequately addressed and remain a threat to both the effectiveness and credibility of the humanitarian enterprise. A major reform of business practices is long overdue in order to drive forward large-scale efficiency gains.

**There is growing evidence confirming that greater predictability and flexibility of funding enable more cost-effective management of resources and improved programming outcomes.** Achieving more predictable and flexible humanitarian financing should be a major focus of advocacy on funding, with a range of options open for consideration. In return, recipient organisations will need to concede far greater transparency as to how those funds are used in a way that respects donor obligations to account for and demonstrate impact to their domestic constituencies.

**Consolidation of donor portfolios into a smaller number of large partnerships is thought to have fuelled the growth of convoluted chains of pass-through funding down to front-line implementing organisations.** A thorough and objective review of the scale, costs and benefits of pass-through funding is needed to move the current debate forward and to identify areas for improvement and alternative approaches.

**There could be significant gains from systematically reviewing the cost-efficiency of practices, systems and approaches.** A programme of objective audit and review of major cost centres – including procurement, sub-contracting and staff retention practices – could help to identify existing good practices and potential cost savings. This could also include the potential cost savings involved in contracting out some services to the private sector and the use of common procurement and services. A system-wide learning exercise should be conducted by an independent group that includes key humanitarian stakeholders, as well as independent experts from the private sector and experts in public sector and institutional reform.

**Cash-based programming has potentially significant untapped potential to improve both the cost-efficiency and effectiveness of response.** However, the real potential for substantial cost-efficiency gains is likely to lie in a radical shift towards harmonised large-scale cash-based responses. This adaptive change will almost certainly lead to redundancy for some existing humanitarian functions and capacity. Driving forward a consolidation agenda may require bold leadership and considerable innovation and creativity on the part of humanitarian actors to shift and adapt their comparative advantages.

**Excessive reporting is a common bugbear: it serves nobody's interests and is needlessly consuming resources.** Many actors accept that a more useful approach to understanding what has actually been achieved would be to accept streamlined reporting against targets and outcomes determined at the crisis level, which could be strengthened by an independent monitoring and verification service.

## Recommendations for incremental and remodeling change

### Improving anticipation and analysis

#### Anticipating funding requirements

- Identify partners in the private sector and academia who could help forecast the anticipated scale and frequency of crises that will exceed current financing capacity in order to inform the design of ex-ante financial planning measures.

#### Quantifying and communicating requirements

- Support a realistic timetable for research, experimentation, learning and technical assistance to advance activity-based costing of humanitarian funding requirements in order to build approaches which are sufficiently transparent, politically acceptable and practically workable.
- Identify opportunities to take part in shared analysis of risks and vulnerabilities, as recommended in the IASC/UN Development Group (UNDG) Draft Guiding Principles for coordinated and coherent action for resilience, documenting and communicating experiences.

#### Tracking and monitoring funding

- Support the technical modification of the International Aid Transparency Initiative (IATI) standard to make it fit for humanitarian purpose and promote political support for voluntary reporting to the IATI standard through country-based pilots, tracking resources according to information requirements determined at the crisis level.

### Upgrading the architecture

#### Enabling a more efficient donor division of labour

- Investigate the feasibility of expanding existing, or creating new, global balancing mechanisms which focus on under-funded crises and sectors to help offset existing and anticipated growth in tightly earmarked funding.
- GHD donors should develop simple planning and communication tools which provide earlier indications of their bilateral funding decisions and the rationale for decisions taken; this could enable other donors to consider where their contributions fit best.

#### Bridging liquidity gaps

- Investigate the feasibility of building parametric triggers developed to support the African Risk Capacity regional risk pool into existing bilateral funding arrangements on an experimental basis, as part of a learning exercise, with a view to developing a multi-donor approach to early-response funding.

#### Making provision for 'peak demand'

- Based on forecasting and modelling of the likely scale of peak demand, scope out the feasibility of a relatively large global contingency fund or mechanism, marketed as a global public good. This should include scoping opportunities to finance such a facility with alternative and, where possible, additional sources of financing, including donor-financed risk transfer products to provide additional layers of financial protection against the highest levels of risk.

#### Investing in nationally led response

- Achieve policy consensus and a set of messages to help foster growing interest in supporting nationally led response. This can be used to encourage donors and intermediary funding organisations to commit, in principle, to enabling access to financing for organisations that are best placed to respond, in accordance with the principle of subsidiarity and with reference to international commitments, including the Principles of Partnership of the Global Humanitarian Platform and relevant sections of donor, NGO and Red Cross principles and codes of conduct.
- Initiate a programme of research and consultation to identify barriers to accessing existing sources of international humanitarian financing, and develop targeted recommendations and a transparently monitored programme of procedural changes, reforms, targets and investments.
- Increase the availability of flexible financing support to organisations committed to investing in capacity-strengthening partnerships with local responding actors.

- Identify pilot contexts in which, as part of a joint systems analysis approach, an assessment of national disaster response capacity could be undertaken and a multi-donor financing plan elaborated, spanning humanitarian, development, climate change and donor communities.

## Improving efficiency

### Managing recurrent costs

- IASC members should advocate more strongly for increased un-earmarked funding, and for multi-year un-earmarked funding to be the benchmark for good practice.
- Recipients of multi-year multilateral official development assistance (ODA) and those agencies engaged in strategic flexible partnership agreements should collect evidence to demonstrate the added value of flexible multi-annual contributions to continue to build the case for a substantial increase in the proportion of un-earmarked contributions to multilateral humanitarian organisations.

### Reducing transaction costs

- Undertake an objective study of the extent, costs and benefits of current humanitarian sub-contracting and pass-through funding practices as the first step in a process to identify more efficient practices and alternatives.

### Improving business practices

- Initiate a system-wide learning exercise on efficiency conducted by an independent group under the auspices of the IASC, including IASC members and independent experts from the private sector and experts in public sector and institutional reform. This should focus on objective assessments of specific areas for improvement in efficiency and identifying and documenting reforms and innovations in business practices, including achieving greater consolidation and scale in cash- and voucher-based programming.

### Streamlining reporting

- Identify opportunities and political support for standardised reporting against results and outcomes identified at the crisis level, supported by an independent monitoring and verification service.
- Review essential accountability requirements for donors from UN agencies in return for increasing core un-earmarked funding.

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## Conclusion

The analysis and solutions presented here are, in many respects, already familiar and well understood within the humanitarian community. What is new perhaps is the palpable appetite for change and a new direction, which came through strongly in the FHF dialogues.

Almost all of the potential solutions will be challenging to put in place, but not investing in building the adaptive capacity of the international humanitarian system is not an option, and there are currently critical political opportunities which humanitarian actors should look to seize. This is a key moment of opportunity for humanitarians to encourage and advocate for actors who are more appropriately resourced, technically capable and legitimately responsible to step up to these global challenges. Growing diversity among financing actors is a great opportunity and a necessary development that must be encouraged and managed sensitively. There are many examples of promising models, approaches and experiences to draw on, which point to far greater opportunities to drive increased cost-efficiency and responsiveness within existing systems.

Finally, it is clear that the outline of solutions presented here is a very preliminary one, and that achieving real change will require serious investments in research, experimentation, consensus and relationship building, and political commitment. It is the sincere hope of the FHF member agencies that the FHF process and outputs will help to stimulate the critical discussions necessary to continue to advance solutions to meet the financial cost of humanitarian crises.

