

The background of the entire page is a dense, overlapping pattern of red coins. The coins are semi-transparent and have a slightly darker red hue than the overall background, creating a textured, metallic effect. The text is centered and overlaid on this pattern.

Working Paper

**Innovative Funding  
Modalities**

to Local Actors  
working across the  
Humanitarian-  
Development-Peace  
Nexus

# Introduction

With the Agenda for Humanity, the international community has collectively committed to move more power, money, and resources into the hands of local actors, to meet growing needs more effectively, cost efficiently, equitably, and sustainably. New approaches to partnerships, flexible funding, and coordination have been widely discussed but little if any incremental change has occurred. Conversely, of the record \$46.9 billion provided to humanitarian funding globally in 2022, a scant 1.2% was provided directly to local and national actors,<sup>1</sup> while direct and trackable indirect funding to local actors has more than halved since 2017.<sup>2</sup>

Despite some willingness to prioritize localisation, the humanitarian system is still proving slow to embrace the transformation needed to ensure that the Grand Bargain commitments will be met. While many localisation initiatives focus on strengthening the capacities of local actors to improve their systems and policies to meet growing compliance demands, they seldom address the structural barriers that often perpetuate a cycle of mutual dependency and power imbalance.

One feasible, cost-efficient, and sustainable pathway to pursuing meaningful localisation is through equipping local actors financially to lead and support community-led actions, and thus resilience-building, through innovative and flexible funding mechanisms.

Funding modalities which channel financial inputs more directly to local response actors, not only offer clear, equitable and context-appropriate outcomes, but they also present a pragmatic business model for enhanced cost efficiency. A recent report outlines that shifting 25% of funding to local actors – or local intermediaries – directly, and more equitably, could result in increased cost efficiency of 32%, and if applied to the 2021 ODA budget of \$54 billion USD, could have resulted in savings of \$4.6 billion USD – the cost of the entire humanitarian appeal for Ukraine in 2022.<sup>3</sup>

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1 ) Development Initiatives, [Global Humanitarian Assistance Report 2023](#), 2023.

2 ) Ibid, see [Fig 3.2](#)

3 ) The Share Trust, [Passing the Buck: The Economics of Localizing International Assistance](#), November 2022, p.6.

# Innovative Approaches of Danish Civil Society

Danish Civil Society Organisations (CSOs) together with the global South CSOs they work with, have successfully implemented innovative funding modalities for local actors across a range of diverse contexts. These modalities demonstrably support locally-driven solutions to locally-understood needs and dynamics, empower decision-making at the local level, facilitate timely and rapid responses to early onset crises and support advocacy and agile anticipatory action while drawing on the trust and access local actors enjoy, across affected populations. Furthermore, the modalities allow for a more inclusive and broad-based engagement with small organisations, women rights organisations, refugee-, child and youth-led organisations and community groups, which are often excluded from or marginalised in other localisation modalities.

These innovative funding modalities include:

- 1. Group Cash Transfers (GCT)**
- 2. Locally led innovative Funding Modalities**

These modalities promote dialogue, capacity sharing, and co-creation between local, national and international actors as well as affected populations, to determine the best response approaches. They further span multiple sectors, supporting peoples' short-term and long-term needs, and can be scaled up to complement other types of humanitarian interventions.

## Group Cash Transfers

### Modality Outline

Group Cash Transfer (GCT) is a modality that seeks to transfer power to crisis-affected populations by providing cash transfers to groups to implement community-led initiatives. In this approach, local actors distribute grants valued between \$200 - \$10,000 to groups for community-led crisis response initiatives. The GCT modality enables local actors to directly support crisis affected peoples' collective efforts to survive, protect, recover, and reduce vulnerabilities and prepare for shocks and to design and implement their own response approaches in doing so. The aim of the modality is both to enable rapid and contextually driven responses to crisis, as well as to empower and enhance the role of local stakeholders and decision makers as agents of change within their respective communities. In addition to enabling local and contextually driven responses, the modality supports efficiency through channeling money directly to first responders in initiating and/or maintaining community-led actions and responses to rapid onset or protracted crisis.<sup>4</sup>

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4) See DCA and CALP, [Group Cash Transfers: Guidance and Tools](#), 2021.

**How it works:**

GCTs are distributed to groups based on simple project proposals, and can be one-off payments, or provided in multiple instalments. They may be provided to one or several groups within the target area(s) and are used for responding to priorities established by members of affected populations, typically based on a Vulnerability and Capacity Assessment (VCA) or more rapid community-led, participatory assessments. The GCT projects may support the group members or their community more widely.

The approach engages in localisation at two levels, both through working with local partners<sup>5</sup> as well as grassroots, community groups. The groups supported with GCTs can be either existing groups (e.g., women's or youth groups or livelihoods groups) or newly formed self-help groups. GCTs may be implemented through existing community committees or structures (e.g., disaster risk reduction committees, parent teacher associations or peer health groups), and facilitated by community volunteers.

GCTs can be utilized across the spectrum of development, disaster risk reduction, resilience, and humanitarian programming, including at the onset of a crisis, and in conflict and post-conflict contexts to complement broader humanitarian and development programming.



**Impact:** The observed beneficial impact of this mechanism has included the transfer of decision-making power to local communities; the strengthening of horizontal accountability structures within communities; enhancing social cohesion, trust-building, dignity, self-reliance, and resilience which in turn has had psychosocial benefits; speed and agility in crisis response, and cost-efficiency.



**Challenges:** Challenges encountered through the implementation of this approach include: the need for international actors (NGOs and donors) to pivot away from traditional frameworks of international intermediaries, and in doing so relinquishing control over leadership and decision-making; flexibility in expected outputs and outcomes within fundraising and coordination structures; decreasing funding; linking community-led initiatives to humanitarian coordination structures; and understanding and meeting donor compliance and reporting requirements.

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5) Such as Civil Society Organisations, Local NGOs, and national Red Cross and Red Crescent societies.

## Locally Led **Innovative Funding Modalities for Local Response**

*Danish CSOs are supporting a number of locally led funding modalities for local actors, which vary depending on the intended response type; context, the local actors targeted, and the level of (co-) ownership of these local actors over the funding mechanism itself. The supported mechanisms allow for the participation of a wide range of local actors, many of whom are not eligible or able to access other funding mechanisms aimed at local actors.*

### **Modality Outline**

Locally led funding modalities for locally led response efforts allow donors to provide their contributions into a single pool fund to support local humanitarian and anticipatory action efforts. This allows local civil society actors (CSAs) including NGOs in crisis-affected locations to apply for funding from a centralized pool fund, to respond directly to emerging humanitarian crises, and to strengthen their systems' capacity to continue improving their response capabilities, funding absorption, coordination, and management capacities.

This locally led process is adaptive to the needs of the affected populations and to the humanitarian landscape of the country, is flexible and innovative and supports response capacity strengthening of local CSAs.

Insofar as the modality involves a partnership with an INGO, the latter supports the network with fundraising, institutional support, program, financial, and other technical support, including staff secondment and capacity strengthening. Furthermore, the INGO facilitates spaces for direct engagement with donors and opportunities for public speaking to elevate the voices and visibility of local and national actors.

When necessary, local NGOs can also utilize associated INGO systems to fill gaps in their grants management until their own systems have been developed or strengthened. When additional support is needed from the associated INGO, the fund is structured in a way that supports local leadership in decision-making on the use of funds, while the INGO acts as a facilitator absorbing the compliance burden during an interim period and supporting capacity strengthening, to enable transition of full autonomy over the funding mechanism to local actors at a specified time. It is envisaged that fund ownership evolves over time, as ownership is initially shared, and eventually transferred fully to the local CSAs.

The recipient CSAs of the funding mechanisms work with communities to solve the humanitarian and development challenges they face through an inclusive, participatory process. The funds provide direct and flexible funding through a simplified grant-making framework, rapid in-kind, procurement and matchmaking with individual and institutional donors. It is facilitated from a user-centered and community-rooted design process with detailed standard operating procedures that are relevant and replicable for other contexts, keeping agility and nimble structures with diverse funding modalities as a key strength of the funding mechanism.

One such local network currently supported by a Danish CSO has now developed its capacities to such an extent that it comprises a local Steering Committee and a Secretariat hosted by a local CSO that leads the daily coordination and takes decisions on project resource allocations. Each of the local and national CSO members of the network leads in the project design of the specific interventions. A Women's Caucus was also established to strengthen gender-sensitivity and inclusivity of the response as well as the support the role of Women Rights Organisation members within the network.

### Anticipatory Action:

When engaging in anticipatory action, the approach builds on existing local structures, capacities, knowledge, and practices, by connecting flexible funding directly to local actors and communities and adding technical expertise and support via community structures. This includes facilitating and connecting local actors, communities, and youth-led initiatives via networks to leverage voice and engagement in coordination mechanism, preparedness, and response efforts. Funding modalities to support community led action are developed together with the communities and local actors, enabling funding pipelines for local actors and communities based on their priorities, access to technical and non-technical resources and capacities.



**Scale:** Danish CSOs and the local and national actors they work with are implementing locally led funding modalities in South Sudan, Kenya, Somalia, and the Sahel region. Scoping of this approach is ongoing in Yemen as well. A local response network in Kenya has 30 local and national NGO members that reached over 175,000 people with a budget of nearly EUR 10 million across drought-affected countries during 2021/22. The network continues to adapt and grow, and there is a large interest in working across the triple nexus, which several members already do, including on interventions related to climate change. Support to community-led action also covers countries such as Nepal, Mali, Malawi, Zimbabwe, Niger and Kenya, and the some of these have developed protocols on both rapid onset disasters such as floodings, we well as for slow onset disasters like droughts.



**Impact:** This approach once again transfers decision-making power to local response actors, offering the required financial inputs as directly and cost-efficiently as possible, thus investing in sustainability and community resilience. It provides an opportunity for locally led action to prepare for, mitigate and reduce the impact of predicted crises through locally led early warning and observations systems, networks, and coordination, and to translate warnings into anticipatory actions through access to flexible funding, resources and capacities based on locally led Anticipatory Action Plans.



**Challenges:** Challenges encountered throughout the implementation of this approach include structural barriers to direct funding;<sup>6</sup> increased transaction costs causing delays while issuing banking transfers to certain countries through multiple intermediary banks; and weak national identification programme, which can constrain the verification of individuals, requiring additional due diligence measures to be put in place. These mechanisms take time to build on gradual transfers of responsibilities, capacity sharing, and the building of inclusive and accountable governance structures.

6) See Tufts, Localisation: A Landscape Report, 2021, p. 25.

At: <https://fic.tufts.edu/wp-content/uploads/Localisation-FINAL-12.30.21.pdf>

# Recommendations

## To Governments/Donors and Multilateral Bodies

1. Strengthen incentives that support innovative funding modalities for community-led actions, such as integration of GCT and locally led pool funds into humanitarian proposals at various stages of a crisis.
2. Establish ambitious but achievable percentage targets towards increasing direct and indirect flexible and multi-year funding to reaching national/local actors and community-led responses across both rapid onset emergency funding and protracted crises.
3. Increase share of funding for local actors from OCHA-led Country Based Pool Funds and incorporate appropriate capacity strengthening initiatives led by local actors.
4. Ensure that climate financing is equally supportive of local leadership and funding pipelines for local actors, and benefits particularly vulnerable populations in countries disproportionately affected by climate crisis.
5. Incentivise more equitable partnerships, including through requiring evaluation of localisation-specific project objectives and the articulation of clear exit strategies
6. Encourage consortia or networks of mixed national and international actors that can jointly develop and consolidate strong locally led response modalities which provide access to inclusive, flexible funding for local actors, including pool funds and GCT approaches.
7. Hold intermediary agencies accountable for tracking and reporting on cascading of funding to national/local actors with particular attention to resourcing institutional capacity strengthening, support to overhead costs and flexible, multi-year funding.
8. Recognise the role of informal networks, including local social and diaspora movements and Women's Rights Organisations (WROs), child-, youth- and refugee-led organisations as valid local responders and/or organisations, and ensure that pool funds and other localisation modalities are inclusive and donor requirements are proportionate and appropriate to the capacities of those actors.
9. Support financial access through endorsing the credibility of informal groups and networks, which often face de-risking by financial institutions. This should also entail that national policies on money laundering and terrorist financing do not hinder financial access of legitimate organisations and actors.
11. Systematically engage in feedback loops with local and national actors to ensure that donor priorities, policies and plans are directly informed by local and national actor priorities, and to strengthen accountability on donors' local leadership commitments.
10. Fund more global South-based organisations directly and invest in internal capacities at donor level to manage an increasing number of smaller grants.

## To NGOs

1. Building from successes of initiatives such as NEAR's Change Fund and the START Network, collectively push to take increasingly bolder steps towards shifting power balances, decision-making and transitioning ownership over funding-mechanisms to local CSA in a meaningful way.
2. Commit to funding community-led actions that are inclusive and which allow for strong participation and engagement of networks, WROs, people with special needs, child, youth and refugee-led organisations and groups. This includes working with finance departments to strengthen more flexible compliance structures that support community-led initiatives (locally led funds and GCT) allowing greater local leadership, accountability and decision-making before, during and in the aftermath of a crisis.
3. Support locally led advocacy fora and networks to advocate for their own priorities.
4. Support the growth of locally led and inclusive anticipation, response, and coordination platforms, including with a view to enhancing their future funding absorption capacities as potential local intermediaries, where relevant and appropriate.

## Conclusion

This paper demonstrates how innovative and flexible approaches to funding community-led initiatives and locally led funding modalities can address peoples' acute and longer term needs at speed while shifting power and accountability into the hands of local actors to complement traditional humanitarian response approaches. Transitioning to these approaches is well within the operational capacity of organisations but requires a change of mindset to allow for and support more flexible and truly locally led responses.

In a world of skyrocketing needs and an increasing funding gap the new norm for donors and international agencies should be to support the empowerment of diverse and locally rooted CSAs including youth and women-led groups, organisations and networks; and constituency led organisations including refugee led actors, to address immediate needs and build longer-term resilience in a more cost-efficient, timely and sustainably manner.



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