Humanitarian Firms:
Commercial Business Engagement
in Emergency Response

Abby Stoddard

The current decade has seen continued marked growth in governments’ international humanitarian funding, along with an unprecedented surge of private sector involvement following the Indian Ocean tsunami. The international community has undertaken a series of far-reaching reforms in humanitarian institutions and financing architecture during this time, and donor policies and approaches to relief, recovery and development assistance have evolved in tandem, to varying degrees. Amidst these developments it is reasonable to ask what changes, if any, have occurred in the role of private, for-profit entities in humanitarian response.

As a case study, this chapter provides a comparative examination of European and the U.S. Government’s engagement with the private sector in disaster response, contrasting the practical and policy approaches, as well as the perceived incentives and risks to utilizing commercial entities for providing relief. In particular, it assesses the options and challenges faced by the U.S. humanitarian donor offices under a broader government stance that takes a permissive, even proactive approach to cultivating business engagement. The U.S. approach is compared with that of DG ECHO and individual European donor governments, which tend to be much more restrictive in engaging with the private sector in the humanitarian sphere. The study focuses on commercial engagement in disaster response; in other words, direct contracting by donors to firms whose motives in the transaction are not wholly or partly philanthropic, but strictly commercial. The analysis takes the perspective of the donor governments, as they gauge the potential risks and rewards of private sector implementers of relief aid vis-à-vis traditional humanitarian providers.

The chapter begins by attempting to quantify the extent of direct donor contracting of commercial entities in global humanitarian action, through an analysis of global humanitarian funding data. Section three examines the drivers of donor decisions, how government objectives and values define the scope for commercial engagement, and the challenges inherent in different modes of implementation. Using case examples from recent emergency responses, the report also looks at the commercial firms themselves and how their roles have evolved in humanitarian action. Section four moves from practical operational issues to issues of principle, and explores the concerns and debates of traditional humanitarian actors and stakeholders on commercial engagements. The chapter ends with conclusions about how donors might revisit and refine their thinking about commercial engagement in the future.
Methods

Global humanitarian funding data from 2002 to 2007 were compiled for the study using OCHA’s Financial Tracking Service database. Additional information on donor expenditures was obtained from donor agency annual reports, audited financial statements, and public government databases, as well as informal reports and records provided directly by donors to the researcher.

Interviews were conducted by telephone, with interviewees comprising representatives of government donor agencies, selected commercial firms, and humanitarian organizations. Annex 1 lists the individuals interviewed expressly for this study. In addition, information was drawn from prior interviews with government and humanitarian agency personnel. The interview findings were incorporated into the report on a not-for-attribution basis. However, a small number of interviewees wished to remain anonymous, and therefore their names are not listed in the Annex.

In addition to financial data and reports, the document sources included secondary literature on the issue of private sector engagement in humanitarian action official policy materials.

The Level and Reach of Commercial Business Engagement in Humanitarian Relief

In a precursor to this study, a 2007 report by researchers from the Global Public Policy Institute (GPPi) found that overall business engagement in humanitarian assistance had increased in both level and scope of activities. This increase was particularly evident in natural disaster response and in non-commercial forms of engagement and public-private partnerships. The report nonetheless determined that commercial activity remains a very small percentage of overall humanitarian resource flows. Recent perceptions to the contrary, it noted, stem mainly from the large reconstruction contracts in Iraq and Afghanistan, most of which could not be considered as falling within the realm of humanitarian response.¹

This distinction between humanitarian relief, and longer-term reconstruction and development assistance is important to make in any analysis of government donorship. The former aims to rescue lives and livelihoods in acute crises, while the latter represents a more complex proposition for the donor, entailing a wide range of objectives that include economic, political and national security interests. These interests, combined with the scale of the aid activities in reconstruction, constitute a different form of aid activity from what is traditionally considered humanitarian relief, and one which only a few traditional aid actors are willing and capable to assume. There are no bright lines between relief and reconstruction activities, of course, and some donors, organizations, and firms program within the gray area that has been called early recovery, as the report will explore.

In humanitarian assistance as narrowly defined, for-profit firms have always inhabited the margins of the operations, servicing aid providers with the logistics, transport, and packaged

commodities required for disaster response. Typically, these functions are contracted by humanitarian agencies under their grants, as part of their program expenses. This standard practice is not the main concern of this study, which looked specifically at direct contracting of the commercial firm by donors themselves. Finally, it is also necessary to distinguish direct commercial engagement from what has been termed public-private partnerships or alliances. These arrangements are not purely profit-oriented, but allow the company to burnish its public image and pursue goals of corporate social responsibility, incorporating notions of serving the public good within its overall business strategy. The key focus of this report, therefore, is the question of when and how governments decide to use a commercial provider to implement their humanitarian contributions in the place of a traditional humanitarian actor. The following section attempts to quantify this practice, identifying recent trends, and place it within the context of humanitarian funding writ large.

**The Private Sector Role in Direct Humanitarian Action: Still Small But Growing in Some Quarters**

Humanitarian response funding by the major donor governments has been on an upward trend over the past several years. When controlling for the spiking effects of the unprecedented outpouring of contributions for the tsunami response in 2004 and the initial Iraq humanitarian campaign in 2003, the past two years show “significantly higher” humanitarian aid levels than any time previously, suggesting that donors have ratcheted up the overall level of their humanitarian engagement irrespective of any specific emergencies occurring year to year. These funding increases were facilitated and encouraged by the creation of new international humanitarian joint financing mechanisms: the expanded Central Emergency Response Fund and the Common Humanitarian Funds, now extant in four crisis countries.

New funding levels and channels have not been accompanied by major changes in the composition of recipients of these funds, however. Analysis of aid flow figures suggests that while official humanitarian flows have increased markedly, they continue to be directed to the hands of UN agencies and their International Organization and NGO counterparts. The combined average annual increase of 43% in donor government contributions to humanitarian emergencies, as shown in figure 1 below, has accrued directly to these donors’ traditional partners, i.e. the UN agencies, NGOs, and the Red Cross movement. In fact, the new common funding mechanisms have effectively facilitated increased sums of direct donor money going to an even smaller number of these traditional humanitarian actors.

Although an imperfect measure (since many donors do not report their direct contracts to commercial firms in the same way they report their contributions to humanitarian agencies) the financial tracking service data on private contract money in humanitarian response point to the same conclusion. Direct donor flows to specific emergencies show that from 1999 through the first half of 2008, total reported direct flows from donor governments to for-profit actors

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4 Ibid.
engaging in specific humanitarian emergencies (as opposed to general, global or head quarters based contracts) was just under $6 million. This amounts to only 0.06 percent of total official flows for those years. In general, the data show broad fluctuations of this contracting year to year, but no significant upward trend worldwide.

As mentioned above, the area that does show evidence of significant growth in donor contracting has been in the “non-humanitarian” areas of certain donors’ portfolios, such as development assistance and, in particular, reconstruction and rehabilitation efforts. A review of expenditures by the U.S. Agency for International Development (USAID), by far the largest individual government donor of relief and development aid, shows that, on average, the agency has indeed increased its private contracting over the past several years. The total amount in private sector contracts awarded by USAID went from under $480 million in 2000 to $2.4 billion in 2006, with an average annual increase of 22 percent in dollars awarded to private contractors. Although unquestionably the bulk of USAID’s budget still goes to traditional grantees as opposed to private contractors, since 2000 the percentage channeled through private sector contracts has increased by average of 15 percent per year.

USAID’s engagement with commercial business, however, has mostly been outside the traditional humanitarian sphere, and more for activities in reconstruction and development. In terms of humanitarian response, as we shall see with a closer examination of U.S. government aid channels in Section three, commercial business engagements, in the words of one official “has not exploded, but is growing as opposed to shrinking.” And contracting for-profits is cer-

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6 Global humanitarian funding data from 2002 to 2007 were compiled for the study using OCHA’s Financial Tracking Service (FTS) database. Additional information on donor expenditures was obtained from donor agency annual reports, audited financial statements, and public government databases, as well as informal reports and records provided directly by donors to the researcher.


7 Interview with USAID official, August 2008.
tainly not limited to the US and UK donors, but is practiced also in different ways by European donors, including those perceived to have clearly restrictive policies on engaging with the private sector.

Areas of Business Engagement

In direct contracts with donor governments, commercial businesses can potentially engage in humanitarian assistance in three broad areas:

- Direct humanitarian service delivery, where the firm undertakes or subcontracts the activities and programs that would normally be undertaken by an NGO, International Organization, or UN agency;
- Technical/operational support for the donor and/or the donor’s implementing partners, including such functions as recruitment and placement of specialist personnel, IT, logistics, procurement, and operational security; and
- Evaluations and audits of programs, projects, finances and policies.

Research for the study found that virtually all government donors regularly contract with businesses in areas ‘2’ and ‘3’. The U.S. and British aid agencies maintain long-standing and wide-ranging service contracts with private sector contractors who do everything from staffing back offices in headquarters to procuring armored vehicles, to managing warehouses. The crucial distinction, and the difference between the U.S. and most other European donors, is the

### Table 1. Emergency Response Contributions from 1999 to 2008 (2nd qtr)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total direct flows to humanitarian emergencies, public and private</td>
<td>$31.8 billion</td>
</tr>
<tr>
<td>Total government flows to humanitarian emergencies</td>
<td>$9.8 billion</td>
</tr>
<tr>
<td>Total flows to for-profit actors for humanitarian response</td>
<td>$11.7 million</td>
</tr>
<tr>
<td>Total government flows to for-profit actors (contracts) for humanitarian response</td>
<td>$6.0 million</td>
</tr>
</tbody>
</table>

Source: OCHA Financial Tracking Service

### Table 2. Largest USAID contractors 2002–2008

<table>
<thead>
<tr>
<th>Company name</th>
<th>Total awarded in contracts since 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Alternatives, Inc.</td>
<td>$1,794,455,248</td>
</tr>
<tr>
<td>Chemonics International Inc</td>
<td>$1,183,104,524</td>
</tr>
<tr>
<td>Management Systems International, Inc</td>
<td>$412,611,881</td>
</tr>
<tr>
<td>Infor Group Inc</td>
<td>$371,109,152</td>
</tr>
<tr>
<td>Berger Group Holdings Inc</td>
<td>$346,034,598</td>
</tr>
<tr>
<td>Bearingpoint, Inc.</td>
<td>$261,753,254</td>
</tr>
<tr>
<td>Devtech Systems, Inc.</td>
<td>$257,057,030</td>
</tr>
<tr>
<td>Juarez &amp; Associates Inc</td>
<td>$248,496,171</td>
</tr>
<tr>
<td>Academy for Educational Development</td>
<td>$225,123,908</td>
</tr>
</tbody>
</table>

Source: www.USAspending.gov
extent to which commercial firms engage in area ‘1,’ providing direct aid via government contracts. In the case of ECHO and some other European donors, their regulations technically prohibit funding for direct humanitarian response programming being channeled to a profit-making entity.

Outside of reconstruction contracts, there have been limited instances of for-profits contracted for direct service delivery within the standard humanitarian relief sectors (food aid, shelter, health, water and sanitation, non-food aid commodity distribution, refugee and internally displaced peoples camp management, and protection.) One representative of a private contractor drew clear distinctions between technical assistance and direct aid provision, noting for example, “We would never be tasked by the government to deliver food.” Although still an exceptional practice, private-sector contracting by donors for humanitarian response has occurred on average more frequently in recent years, and the cases where it is used tend to exhibit similar conditions. These are discussed below.

**Humanitarian Response Contexts**

Interviews and financial data indicate that donors are more apt to look to the private sector to take direct response roles in emergencies that feature one or more of the following conditions:

- Large-scale and sudden onset natural disasters lacking prior operational presence of aid organizations;
- Highly insecure operational environments in conflict related crises; or
- High profile post-conflict situations where political objectives demand quick and highly visible measures of aid efforts and results, namely the unique occupation/reconstruction contexts of Iraq and Afghanistan.

In the Financial Tracking Service data, of the 20 emergency country cases that show donor flows to business entities within the humanitarian response, all but three (Afghanistan, Iraq, and Sudan) were natural disasters. Similarly, a review of all private sector contracts issued by the Office of U.S. Foreign Disaster Assistance (OFDA) between 2002 and 2008 yield only 8 cases out of 32 where the contractor was operating in a complex emergency context as opposed to a natural disaster.

Most interviewees acknowledged that when a natural disaster occurs in a country where there are already traditional aid organizations present and operational, it is generally quicker and more effective to channel response funding through these entities. These actors are able to use their existing logistical infrastructures, distribution networks, and familiarity with the local environment and authorities to good effect, getting up and running quickly. When an emergency occurs in an area where there are no aid organizations yet present, however, some donors report having better experience with for-profit firms than traditional aid actors. The firms, they say, have the ability to mobilize materials and personnel much more quickly than NGOs and agencies, who may be hindered by recruitment delays and other startup difficulties.

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* Interview, private contractor representative, September 26, 2008.
In long-term complex, conflict-related emergencies, it stands to reason that donor governments overwhelmingly channel their relief money through the traditional humanitarian providers, even those donors that have no stipulations against contracting with businesses. It is not only the advantages that traditional actors possess in terms of local knowledge and networks, and (to the extent they are able to project it) political neutrality—there are simply no profit incentives for businesses to seek contracts in these long-running, typically underfunded, and difficult operating environments.

Another context where direct action by private sector entities comes up is in highly insecure environments where attacks on humanitarian operations have caused humanitarian providers to adopt a practice known as “remote management.” Often remote management refers to an agency withdrawing or evacuating its international staff leaving programming in the hands of local staff and partner organizations. In some instances, however, NGOs and agencies such as The World Food Program and UNICEF have been known in the most difficult security environments to use their private sector contractors (for instance, trucking companies) to not only transport but to deliver the aid commodities to beneficiaries to the extent possible. This practice is considered highly undesirable by all parties and is used only as a last resort, when the organization feels there is no other means of getting the aid in question to the crisis-affected populations.\(^9\)

**Private Security Contracting**

As humanitarian organizations find themselves in ever more dangerous operational environments and violent attacks against aid workers continue to rise,\(^10\) private security companies have increasingly solicited aid organizations for contracts for protective and risk management services. The private security industry ballooned with the highly lucrative experiences in Iraq and post-conflict Afghanistan, and humanitarian agencies and donors began to be aggressively courted by security firms exploring this new market. Although the balloon has deflated somewhat in recent years, research in 2008 shows evidence of the humanitarian community increasing its contracting of private security services.\(^11\) Agencies reported taking the decision to contract out security functions for reasons such as their lack of adequate in-house expertise, time, and staff capacity, and perceived savings in cost and efficiency. It is far from clear, however, that an organization sees long term cost-efficiency gains in pursuing an outsourcing strategy, and many humanitarians have complained that the products and services they are buying from private security companies do not meet their needs. Some private security companies, the humanitarian organizations allege, simply take their off-the-shelf templates from other clients and make only cosmetic changes to appeal to the humanitarian market, without any real understanding of the humanitarian operational ethos and practical approaches.

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11 Importantly, most of the contracting is for *unarmed* services such as risk assessment consulting and unarmed guarding, although 22 percent of aid organizations reported using armed services in the past year and nearly all major organizations have used armed services, at some point in their working history. (Abby Stoddard, Adele Harmer, and Victoria DiDomenico, *The Use of Private Security Providers and Services in Humanitarian Operations* (London: Overseas Development Institute), October 2008.)
Most worrying, potentially, is the finding that virtually none of the humanitarian organizations have developed policies and organizational guidelines on how to responsibly and safely identify, screen, and manage these private security personnel and services once they have taken the decision to contract out security functions. Donor governments continue to be concerned about the generally deteriorating security situation for aid work and the responses that their partner organizations are taking, but their own policies in this area are only marginally more developed. The weakness of policy and regulatory frameworks for security contractors in Iraq eventually led to a memorandum of agreement between the U.S. Department of State and the U.S. Department of Defense, on how to effectively manage these entities. USAID has used, and in some cases insisted on grantees using, contracted armed protective services in Iraq. Outside the extreme and unusual case of Iraq, donors have admittedly explored—but thus far resisted propositions—to contract out the protection of their staff and humanitarian implementing partners to private security firms. Similar debates on this highly sensitive subject have occurred within the United Nations regarding the contexts of Iraq and Somalia.

Donors and Firms: Varied Approaches toward Commercial Business Engagement in Humanitarian Response

This section looks at the comparative experiences and preferences of donors regarding their engagement with commercial firms and humanitarian response, with a particular focus on the U.S. and DG ECHO. The GPPi report cited earlier found that for most European donors, “emergency money is exclusively expended on non-profit organizations,” whereas the U.S. and UK, with “more flexible funding regulations,” contract to private firms as a “well-established practice.” This is essentially accurate, but perhaps oversimplified, as the lines are not so clear cut. As will be examined below, the majority of U.S. and UK contracting in remains limited to the secondary, support functions for humanitarian assistance such as logistics—a practice other European donors also engage in—and some European donors engage in more direct delivery contracting than is commonly thought.

Policy Approaches on Commercial Engagement in Humanitarian Action

European Commission

Although it is commonly stated that the policies of DG ECHO prohibit the contracting of any profit-making entity using humanitarian assistance money, this is not in actual fact a specific policy position of ECHO. Rather, it is a legal circumstance, deriving from Council regulations about where Commission humanitarian assistance can be directed. These regulations specify that non-profits and International Organizations exclusively may receive humanitarian funds, which cannot be used for the purpose of turning a profit. At the same time, however, DG ECHO’s overall policy line is supportive of cross-sectoral partnerships in technical areas where commercial plans have contributed expertise and technological capacity to humanitarian

efforts, for instance working with the World Food Program emergency telecommunications and logistics.

Louis Michel, the European Commissioner for Development and Humanitarian Aid, has in recent speeches seemed to place more emphasis on creating new inroads for working with the private sector in foreign development assistance.\textsuperscript{13} A review of these public statements, however, does not reveal anything suggesting a significant change of approach in humanitarian aid specifically. Within DG ECHO, officials insist there remains a strong and clear distinction between humanitarian aid and official donor assistance generally, and report no plans or proposals to change or expand the range of DG ECHO’s humanitarian provider partners: UN agencies, NGOs, and the Red Cross movement organizations. While there are no set contributions for any grantee (the donor makes decisions depending on who it believes is best placed to deliver the most effective humanitarian response), traditionally roughly 60 percent of Commission humanitarian funding has gone to NGOs, 30 percent to the UN, and 10 percent to the International Committee of the Red Cross.\textsuperscript{14}

Like the U.S. and other donors, DG ECHO does engage in commercial contracting for program support activities. Procurement, logistics, evaluations, and other non-direct programming area functions have and continue to be contracted by DG ECHO. As discussed in the previous section, most of the instances where the U.S. has engaged private sector contractors in direct humanitarian services were in natural disaster as opposed to complex emergency contexts. For its part, DG ECHO does not program a major share of its humanitarian response funds for natural disasters to begin with: 80 percent of its financing goes to complex emergencies. This is not to say that if DG ECHO spent greater sums of money in natural disasters, it would necessarily begin to use more private contractors the way the U.S. has done, but merely suggests that it may not face the same calculus as the U.S. when factoring in scale of response and the presence or absence of traditional partners.

Apart from the issue of private security company contracting, which an official reports that DG ECHO is watching with interest,\textsuperscript{15} commercial engagement in humanitarian response does not hold a great deal of currency as a question for exploration or debate. It is simply held as a fundamental principle, even a given, that donor funding is best allocated as grants to traditional actors embodying the principles of humanitarian altruism and political independence.

\textit{U.S. Government}

The U.S. Government is the largest single donor of international humanitarian assistance, and together with ECHO comprises a top tier of donors that accounts for nearly 50 percent of total combined official contributions to humanitarian emergency response efforts.\textsuperscript{16} Its human-


\textsuperscript{14} Interview, ECHO official, 11 September 2008.

\textsuperscript{15} Ibid.

itarian aid flows, however, are split between a few different funding channels in the U.S. Government, which adopt differing approaches to commercial business engagement in aid. U.S. humanitarian response funding is programmed through two main government bodies: USAID’s Bureau for Democracy Conflict and Humanitarian Assistance and the State Department’s Bureau for Population, Refugees and Migration. The Bureau for Population, Refugees and Migration’s roughly $740 million budget is allocated in grant to a regular slate of mandated partners: UN agencies and the Red Cross, with small amounts going to NGOs, and none through private contractors. Within USAID the most important humanitarian funding channel is the Office of the US Foreign Disaster Assistance (OFDA), with an average annual expenditure over the last three years of $591 million.

It has long been the general policy of USAID that private sector participation in foreign assistance is something to be actively encouraged, and the agency highlights its efforts in this area to the public as a selling point. USAID currently contracts out roughly $4 billion worth of business each year, and has taken a proactive approach to engaging the private sector, not only with a program for public-private alliances, but also in its long history of contracting out development and reconstruction projects to commercial entities. The USAID Administrator recently called for a tripling of the private sector actors engaged in the Agency’s aid work. As one official explained, “For the most part USAID believes in working with businesses in a way that allows businesses to make a profit, as we tend to think that sustained economic growth is through entrepreneurship and building economies, not primarily through ODA/wealth redistribution.” However, USAID interviewees acknowledged that this approach is more applicable to development than to emergency humanitarian response, and indeed, in OFDA programming this principle is much less evident.

For the purposes of this study, it is OFDA’s funding over the past several the past years that is most relevant in terms of commercial business engagement in U.S. humanitarian response. OFDA currently maintains two large and long running institutional contracts with for-profit companies. Both contracts have been ongoing for 10 years, roughly since the USAID was radically pared down in a government efficiency movement during the Clinton administration. One provides communications technology and networks, and the other supplies personnel to fill the ranks. For instance, information officers to write reports and do research, contracting support and grants management, and training. Although provided by a contractor, these functions are thought of as in-house, and the individuals treated as core staff. In terms of actual emergency response contracts, interviewees reported that the vast majority of contracting was for technical and operational support, in other words, secondary to direct aid programming. The contractors tend to be chosen from a fairly small pool of companies that have done business with USAID for many years. Some, like the International Resources Group (IRG), appear almost as private sector offshoots of the government agency, and operate nearly exclusively as a U.S. Government contractor with USAID as the main client.

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20 Interview with USAID informant.
OFDA staff interviewed report that they perceive that the office’s use of private sector contractors has increased somewhat in recent years, and a review of all OFDA contracts awarded to for-profit firms since 1992 bears out this perception. From 2002–2008, the annual number of commercial contracts awarded by OFDA has grown by 27 percent, and the amount of money awarded has risen by 89 percent. Averaged out over the seven years, the data show an average of 18 percent annual percent growth in contract dollars. Slightly over 30 percent of this money was awarded in contracts for actual program/service, while roughly 70 percent went to support services such as transport and logistics. Where OFDA contracts were given for direct services, none were in conflict-related crises in Africa, which see the majority share of OFDA funding. Between 2002 and 2007, OFDA awarded a total of 27 contracts to for-profits in the sectors of agriculture and food security, capacity building, disaster support, health, shelter and settlements and water and sanitation. All but three of these contracts were for natural disaster contexts, with the lion’s share going to the International Resources Group for regional risk reduction programs in Latin America and Caribbean. 2008 total spending is unknown, but for the years 2002–2007 the percentage of OFDA funding that went as commercial contracts (all types) remained under 4 percent.

In sum, similar to the overall findings, OFDA direct commercial contracting has been seen to rise to a small, but measurable degree. According to interviewees, this is due to the combination of an emphasis on the private sector in the Administration’s approach to foreign aid, a smaller USAID with less field capacity to manage numerous grants, and two major post-conflict reconstruction campaigns (Iraq and Afghanistan) taking place under a new strategic approach that links relief and reconstruction aid to national security goals. Additionally the findings show that contracting in U.S. humanitarian assistance is concentrated on support services as opposed to direct aid programming, and used mainly in natural disaster relief and prevention contexts.

OFDA interviewees assert the modest increase in contracting has not amounted to any change to their core approach to humanitarian response. Aside from the three health contracts, they point out, OFDA did not engage in the large-scale reconstruction contracting in Iraq. That was done by the development side of USAID. In the face of the massive private sector

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**Table 3. OFDA Commercial Contracts 2002–2008**

<table>
<thead>
<tr>
<th>Year</th>
<th># of commercial contracts</th>
<th>Average size $</th>
<th>Total amount $</th>
<th>% of overall budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>22</td>
<td>$454,867</td>
<td>$10,007,071</td>
<td>NA</td>
</tr>
<tr>
<td>2003</td>
<td>23</td>
<td>$615,501</td>
<td>$14,163,415</td>
<td>3.6%</td>
</tr>
<tr>
<td>2004</td>
<td>26</td>
<td>$593,546</td>
<td>$15,432,198</td>
<td>3.9%</td>
</tr>
<tr>
<td>2005</td>
<td>21</td>
<td>$1,222,412</td>
<td>$25,670,661</td>
<td>2.3%</td>
</tr>
<tr>
<td>2006</td>
<td>21</td>
<td>$699,675</td>
<td>$14,693,181</td>
<td>2.4%</td>
</tr>
<tr>
<td>2007</td>
<td>26</td>
<td>$499,487</td>
<td>$12,986,656</td>
<td>2.5%</td>
</tr>
<tr>
<td>2008</td>
<td>28</td>
<td>$673,877</td>
<td>$18,868,567</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: OFDA Finance Unit (raw data provided to the study)

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contracts for health and education in Iraq and Afghanistan, some NGOs argued that they would have been more appropriate recipients of the U.S. funding, having more emergency health intervention expertise and more experience forging community ties than the private sector contractors. Some U.S. officials agree that the substance of some of the health and education programs that USAID contracted out could have been accomplished by NGOs, but they were “going for scale.” It was expedient both practically and politically, they argue, to contract out to a single entity, and for them to farm out the work to NGOs and other partners, and be accountable for an entire countrywide program. In Afghanistan, for example, USAID did not have adequate staff capacity to manage dozens or hundreds of individual NGO projects, and security restrictions made it difficult for U.S. Government personnel to monitor progress firsthand at any rate. It was also deemed critical for political/security objectives to show the populace across the whole country that progress was being made, quality of life was improving, and all provinces were being treated equally in this effort.

Another, smaller office within USAID, the Office of Transition Initiatives, is worthy of mention here because it operates largely in the gray area between humanitarian relief and longer-term reconstruction assistance. The office has been in existence since 1994, and has a specific mandate to assist post-crisis countries with reconstruction, emphasizing good governance and civil society strengthening. It programs much less money each year than OFDA does and its projects are longer-term, usually a few years in duration. It also works almost exclusively through private-firms—seven firms on standby contract that are prequalified to bid on projects—and exerts much more direct steerage and control of the assistance activities.

United Kingdom

The UK is the third largest humanitarian donor, and arguably falls closer to the U.S. side of the spectrum in its approach the private sector engagement than to DG ECHO’s. Like DG ECHO, the UK’s Department for International Development (DFID) and its office for Conflict Humanitarian Assistance and Security do not have a specific policy on commercial business engagement in humanitarian aid. Nonetheless, it is generally seen to be more permissive of such engagement than many of its fellow European donors. Similar to OFDA, DFID maintains a long-running contractual arrangement with a private contractor that might be thought of as “inside-outsourcing”—in DFID’s case with Crown Agents. Since the early 1990s, Crown Agents has supplied DFID with personnel resources, currently providing a full-time staff complement of 25, with additional people brought on at any given time through contracts and consultancies. These individuals are co-located with DFID and are treated as (and feel themselves to be) DFID staff. Crown Agents also provides technical expert consultancy and evaluation services, and procurement and logistics backup. Crown Agents describes its work with DFID as essentially “to provide continuity in the delivery of programs.” Their remit can expand to meet the current demand of the Department.

23 Interview, OFDA official, August 25, 2008.
24 In the first 10 years of its existence, OTI oversaw 24 interventions and spent $754 million.
25 Interview with UK DFID official, September 2008.
While Crown Agents is DFID’s primary contractor for humanitarian and stabilization activities, DFID also maintains a roster of specialist companies that are pre-qualified to bid on call-down contracts. Also like OFDA, contractors are mainly used for support and technical assistance, but in rare cases will be used for direct interventions in sudden onset crises where traditional partners are not present or lack capacity. For example in the recent Lebanon crisis, Crown Agents was tasked with building bridges. In the 1999 Kosovo emergency, the company did a much larger hands-on operation to rehabilitate the power grid. Crown Agents says it maintains the capability for direct relief activities, but it is seldom called on for this today.

Where DFID differs from USAID is in exhibiting the reverse trend in terms of outsourcing. For the past couple of years, it has intended to bring in house as much work as possible, for instance absorbing some adviser positions that used to be provided by Crown Agents. The in-house Crown Agents humanitarian team has also shrunk. Nevertheless, in times of rapid-onset crisis, such as Burma and Georgia recently, DFID like USAID often finds that the only way to come up with sufficient numbers of professionals necessary to staff the donor’s field presence and management capacity is to bring them in from outside. The Crown Agents arrangement, officials say, gives DFID ready-made access to a personnel source which can move quickly and flexibly to meet the needs.

Norway

Although Norway has been cited, along with some other European governments, as a donor that expressly does not provide humanitarian funding to for-profit entities, it in fact maintains a unique arrangement for the contracting of for-profit firms in emergency response. The Norwegian Government allocates its humanitarian assistance through the Ministry of Foreign Affairs, and does not have a separate operational donor agency to play a hands-on role in programming in the manner of DFID, SIDA, or USAID. As a technical matter, therefore, they do not engage in contracting for direct humanitarian services or support, but rather allocate all their funding in the form of grants to UN agencies, the Red Cross entities and NGOs. However, in the early 1990s the Ministry created a consortium of firms engaged in humanitarian assistance support functions to be at the disposal of Norway’s grantees. This consortium, the Norwegian Preparedness Emergency System, was initiated by Jan Egeland in part as a response to the weak and untimely initial performance of humanitarian relief efforts in the Rwandan refugee crisis in Goma.

The Norwegian companies in the consortium provide commodities, transport functions, and personnel for humanitarian actors and programs. The logic behind the consortium is that these companies are well placed to enable the humanitarian actors to launch a more rapid and efficient response. Norway’s grantees are not obliged to make use of these companies, but arrangements are made upon request. When requested it has been found at times to be more cost-effective and efficient for Norway to pay the private sector purveyor directly, while still counting this expenditure towards the traditional humanitarian actor’s grant. In this way indi-

Binder and Witte, op. cit., p. 19.
rect costs (overheads) are avoided, and it is also deemed to be a quicker method of transaction.\textsuperscript{27} The process is very quick, with no tender needed, and convenient from an agency perspective.

Once again, most of these contracts are in the secondary, support role for humanitarian assistance, and not direct aid delivery, but there are occasional exceptions. A private firm was contracted to establish the identification center in Phuket, Thailand after the tsunami. In addition, like its fellow donors, Norway will also contract private firms to undertake evaluations and consultancies.

\textbf{Advantages}

As a practical matter, representatives of donors, firms, and traditional actors alike seem to share an understanding of the perceived advantages and risks of using contracted companies as opposed to traditional aid actors in humanitarian response. In terms of the advantages to contracting private firms, interviewees cited the following most often:

- \textit{Speed and flexibility}—Depending on the activity, private sector firms often have the capacity for shorter start-up times when there was no prior operational presence. Hands on supervision by the donor also allows for the project to change objectives to suit changing conditions on the ground.

- \textit{Scale}—Most NGOs do not have the capacity to sub-contract and manage numerous projects in large-scale, country-wide program.

- \textit{Direct control}—A contract enables donors to set specific objectives and be more substantively involved in management and direction. Grants to traditional actors, by contrast, offer the donor very little substantive control and direct oversight of activities.

In U.S. government humanitarian assistance, the contracting of for-profit firms for disaster response, although the exception, has been practiced at least since the major crises of the early 1990s. The Rwandan refugee crisis in Goma, as mentioned above, found traditional humanitarian actors under-prepared and, at first, sparsely present in the crisis area. To address this preparedness gap, OFDA initiated the Indefinite Quantities Contract which entailed pre-selected partners to receive contracts for aid programming after an emergency struck. These contracts were awarded to both NGOs (CARE and the International Rescue Committee) and private firms (including Camp Dresser McKee), but ended up being underutilized, and seldom activated for disaster response beyond mobilizing joint assessment missions.

The early recovery and reconstruction assistance programmed by the U.S. Office of Transition Initiatives, which, as previously mentioned, employs private contractors almost exclusively, also uses an Indefinite Quantity Contracts vehicle. Their major contractors, Chemonics, Development Alternatives Inc., Creative Associates and International Resources Group, among others. The Office’s contracts vehicle is known as SWIFT III, as it is in its third con-
secutive five-year run. Through this mechanism, officials say, the relatively small office is able to move a great deal of resources for reconstruction—for instance with the International Resources Group in post-tsunami Aceh, Indonesia—and design projects which the firms execute for the office. The office prefers contractors to traditional partners like NGOs, staffers report, because its overall mission is a political one in complex and shifting political environments. Conditions and objectives change rapidly, and the office’s programming must therefore be able “to be extremely directive, project by project, and turn on a dime.” Unlike traditional independent humanitarian actors, they say, contractors quite simply “do what we tell them to do.” Also unlike with grantees, the donor is able to direct all aspects of the program, including vetting the CVs of potential project management staff provided by the contractor.

The openly political nature of the office’s aid objectives set it apart from other donors engaging in emergency and immediate post-crisis contexts. Even if its specific reconstruction aid objectives are similar to that of the humanitarian community, most traditional providers are reluctant to deal with U.S. political strategies designed to advance U.S. policy. Finally, contracting rather than granting can make things easier for a donor by transferring the administrative and fiscal accountability burdens to the firm. With one contract a donor can avoid having to track and manage a multitude of sub-contracts and grants for the ground level delivery (indeed, the firm often makes project arrangements with NGOs, supplanting the traditional role of the donor.) Moreover, a contract means that the contractor, not the donor holds financial responsibility for the disposition of funds, and this provides a buffer for the donor against any potential waste or misdeeds.

Risks

While the advantages of using private entities have much to do with the nature of the contract vehicles, the risks pertain more to the nature of the contractors themselves, and their perceived deficits compared with traditional humanitarian actors. Interviewees and written materials tended to highlight three main points:

- Lack of long-term experience in the local context.
- Less expertise in certain aspects of humanitarian relief programming.
- “Legitimacy” problem stemming from negative public perceptions of contractors and lack of a principled foundation for their presence.

Donor interviewees were loath to name specific firms who had performed badly in their contracts, but the biggest problems that were mentioned had to do with a lack of context-based knowledge and experience, either in the field of humanitarian or recovery assistance. One firm contracted by USAID in Afghanistan early on in the recovery efforts reportedly was known for its engineering capabilities, but viewed its task solely from an engineering perspective, without “getting the ‘why’ and ‘how’ of what we were doing.” In some communities, for example, it might be equally important to have rival factions come together on an aid project

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29 Interview with US OTI official, September 2008.
as it is to accomplish the project itself. The lack of cooperative ties with local communities, enjoyed by many NGOs, is a particular shortcoming of some private contractors who may be working in the locale for the very first time. A much repeated anecdote involves a contractor building a new school in a village only to see it destroyed by the villagers who were not included or consulted in any part of the plan, design, or implementation of the project, and were unhappy with the result.

The political agenda inherent in U.S. recovery assistance in contexts such as Iraq and Afghanistan, such as is advanced by the Office for Transition Initiatives demands quick, measurable, and highly visible results of aid, counted in concrete outputs such as houses built or miles of road repaired. NGOs often argue that such metrics are often meaningless in terms of ultimate outcomes on the ground, and serve merely to for governments to tick the necessary boxes for the benefit of public relations and legislative overseers.

Some multilateral agencies and the larger NGOs have already worked jointly with for-profit entities in partnerships, and some key private sector participants have been brought into the global cluster coordination system for humanitarian assistance (such as Ericsson and Vodafone in the Emergency Telecommunications cluster). Moreover, a few U.S.-based NGOs, it should be noted, have been accused of acting like government contractors themselves, accepting very large contracts in Iraq in operational roles that they had not assumed at any time prior. In 2007 the Inter Agency Standing Committee and the World Economic Forum drafted “Guiding Principles” on private sector involvement in humanitarian response. The principles, oriented more toward public-private partnerships than direct contracting by donors, hold firms to standards for working in humanitarian relief, including maintaining coordination with traditional actors, drawing clear lines between their commercial activities and their philanthropic ones, and ensuring truth and transparency in their reporting and publicity.30

In addition, the direct, substantive management entails time intensive involvement on the part of the donor which may be onerous. An NGO critique of public-private partnerships serves as a cautionary note for business engagement in aid generally. Even if bringing a comparative advantage in some areas (such as scale and speed), the for-profits may lack the “legitimacy, legality and an understanding of critical cross-cultural issues”31 of some traditional international aid actors. The legitimacy argument will be examined more closely in the next section’s discussion of humanitarian principles, but it is important to point out that the rationale that stakeholders give for why it is more efficacious to use NGOs is a largely practical one. As NGO representatives have insisted, and some donor representatives have acknowledged, “You cannot contract for the presence that the humanitarian organizations possess and their existing relationships and knowledge in country. You can’t contract for that real strength of the NGO community.” When an emergency occurs in an area where NGOs have been operational in development work for years and already have a logistical infrastructure in place, there is no other international actor, they say—not even the military—that can get a disaster response up and running faster. As a former U.S. Government official and NGO worker put it, contractors

can provide expertise in the form of technical assistance, but actual mobilization of humanitarian response needs to be done by the traditional actors for both quality and legitimacy reasons.

Donor representatives who had experience with private contractors were asked to what extent they have attempted to assess and mitigate these risks. Some said the contextual knowledge deficit was addressed by ensuring that the firm had prior operational experience in the setting, or could at least provide staff with this expertise. Many firms, donors point out, have personnel with NGO backgrounds who fill this role. The Office for Transition Initiatives cited examples of using this strategy successfully, for instance with a Chemonics team in Nepal, and with a Dutch-contracted firm in Yemen with a large number of ex-NGO staff leading the program. When the firm lacks experience, one interviewee said, they will tend to focus more on in-kind assistance and simple transfer of items, such as construction materials. On the whole, beyond the sometimes extensive government regulations on contracting, donors did not report having specific policies, guidelines or criteria and regulations for determining whether and how to contract private sector actors. Regulations exist to prevent waste and corruption, but do not address any specific objectives and criteria for operating in a humanitarian crisis or conflict situation. Nor do they provide guidance or criteria for donors on choosing appropriate partners. In the specific tender invitations donors have sometimes included criteria such as demonstrated experience in working in the location, but this is an ad hoc practice, decided case by case by individuals overseeing the bidding process.

**Costs**

The issue of cost was also, though less frequently, raised as a pitfall of contracting. NGOs have claimed that the “Beltway Bandits,” as the large U.S. Government contractors are disparagingly labeled, tend to be awarded exorbitant amounts for what traditional actors could accomplish for much less. One U.S. official roughly estimated that their private contractors tended to take 30 percent as overhead, while 70 percent went to direct costs, and then said this was roughly comparable to NGOs’ cost ratios. In actual fact, the indirect cost recovery rates negotiated by NGOs with the U.S. Government, particularly the largest ones such as CARE and World Vision, tend to be a good deal lower.

Conversely, although it was not emphasized by donors interviewed, one representative of a private firm interviewed for this study proposed that contractors tended to be more cost-efficient than grantees.\(^\text{32}\) If a contractor goes over budget on its operating costs, the argument went, it must come out of its profits, because the government has agreed to a set amount for the contractor’s costs, plus the fee for service on top. With grantees, it followed, there is no profit margin, hence less incentive for cost control and more potential for waste. Again, most NGOs would dispute this, however, insisting that precisely because they have no margin, their costs are usually cut to the bone. The alternative—scaling back on program activities—they claim as their least desirable outcome.

To date, there has been no side-by-side cost comparison (known to this researcher) to confirm or rebut the competing claims made by some contractors and NGOs on cost efficiency. A

\(^{32}\) Interview, private contractor representative, December 3, 2008.
rigorous comparison would be exceedingly difficult and time-consuming, because it would require identifying projects of comparable objectives and inputs in comparable scenarios and then comparing the expenditures. In humanitarian assistance, as discussed above, it is rare that private contractors and NGOs would conduct similar program activities in cases where both are present in the same country. Rather, the scale and type of activities sought from a contractor in a humanitarian setting will usually differ from NGO grant activities, along with the materials and other inputs required, which will affect total cost.

Bearing these caveats in mind, a superficial cost comparison of contractor vs. NGO projects can be made by surveying the USAID contracts and grants over the past five years. If one looks at overall dollar costs in similar project sectors, it does appear as though private contractors come with a heftier price tag overall. This is illustrated by the below table, providing a snapshot of project costs for contractors and grantees undertaking USAID-funded projects classified as humanitarian disaster response, when calculated by the crude measure of dollars per beneficiary served. Again, however, without a detailed and extensive cost comparison vis-à-vis objectives and inputs, this finding is of limited usefulness.

### Monitoring, Evaluation, and Impact Assessment

When asked the difference between how NGO grants and private sector contracts are monitored and evaluated, U.S. Government representatives largely agreed that there was more transparency and closer scrutiny with contracts. NGOs tend to balk at heavy reporting requirements, as the administrative burden detracts from their direct programming capacity. Humanitarian assistance grants usually do not require much more than a midterm and final narrative report, and statements of expenditure against budgets. Contracts typically come with more detailed budgets, more frequent progress updates, more intense auditing, and hence, say some U.S. officials, greater accountability. The reporting for contracts, however, can often be limited to financials and outputs, as opposed to detailed evaluation and impact measurement against the assistance objectives in the long and short term. (Although it should be mentioned that the Office for Transition Initiatives has developed more nuanced monitoring and evaluating procedures and is trying to look at the broader impact of their projects. Their project officers have undertaken attitudinal studies and focus groups to assess impact.)

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Interestingly, the pressure for more and closer reporting on progress is one of the motivations for the U.S. donor offices to use private contractors. In insecure environments when donor agency staff members have severe restrictions on their movements, it is often not possible for them to get out to the field and do the kind of first hand monitoring of NGO project activities that they would like. A private sector contractor has no such restrictions.

**The Humanitarian Perspective: Principles and Traditions**

Whether donors and their commercial contractors consider the principles of humanitarianism in their work, and if so, how they might seek to ensure the principles are upheld is one of the core questions regarding private sector involvement in this field. Broadly speaking, the idea of commercial engagement in humanitarian response does not sit well with most traditional humanitarian practitioners: They view profit-seeking as incompatible with the humanitarian principles of providing aid in a neutral, independent, and impartial manner on the basis of needs alone, free of any motives or objectives other than the “humanitarian imperative.”

In direct contracting, however, as we have seen, donors do not maintain policies or guidance notes that explicitly address the issues of for-profit engagement in humanitarian response. Many European donors such as Norway, the Netherlands and DG ECHO appear to treat the humanitarian principles and the preference for using traditional humanitarian actors as a given principle and their de facto way of operating save in exceptional circumstances. Conversely, the U.S. donor agency has only in recent years adopted the language of the humanitarian principles, and does not have the same tradition of maintaining the “purity” of humanitarian action, untarnished by political or profit drivers. In fact, the U.S. has always couched its “assistance policies in terms of both recipient country needs and its own foreign policy objectives.”

Differences between U.S. and European donorship in this regard derive in part from the different historical cultures of aid. Traditionally the U.S. has viewed international humanitarian assistance as an extension of government policy and an expression of national values: A Wilsonian vision of international action where the Government, aid organizations and other potential providers work together in a team effort. The European perspective, in contrast, emerges from the Dunantist tradition of separate, deliberately apolitical assistance in the tradition of the International Red Cross. As a result the U.S. humanitarian donors and their partners were slower to adopt the language and conceptual framework of the humanitarian principles espoused by their European counterparts. Nevertheless, OFDA has moved closer to a transatlantic consensus. The special status of OFDA and the ethos of its staff have managed to carve out a separate humanitarian space within the U.S. government that is somewhat shielded from politics and commercial interests. By public law, OFDA maintains “notwithstanding authority” which allows it to circumvent many of the standard government regulations such as tied aid, and “Buy America” stipulations on food aid and pharmaceuticals etc, which means its projects can be faster and more cost-efficient. OFDA can also deliver assistance anywhere in the world regardless of the state of diplomatic relations or sanctions regimes. This, says OFDA

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staff, allows the office to focus on humanitarian need. They are feeling pressure from the agency, however, for increasing public-private partnerships and other forms of commercial engagements.

Neither the U.S. nor European donors expressed the feeling that commercial engagement in humanitarian response was one of the more pressing issues facing the international humanitarian system, either because it is still a very limited practice or because the risks and dilemmas it poses to humanitarian action are not perceived to be dire. The main forum for transatlantic donor dialogue, the Good Humanitarian Donorship Initiative, has not dealt with the issue on any of its agenda or workplan in the five years of its existence. One European donor representative made the point that although national donor policies don’t address the issue, and there is nothing explicitly enshrined in the humanitarian principles that would preclude using government aid funds for private sector contracting, good humanitarian donorship does promote the principle of using resources to the maximum efficiency. In one way of looking at commercial business engagement, therefore, the large profits reaped by these contractors implies an inefficient use of these aid funds by definition.

Conclusions and Recommendations

In summary, despite significant increases in international humanitarian funding flows, financial data show that the role of the private sector role in humanitarian assistance remains quite small relative to the amounts channeled to non-profit organizations that handle the bulk of direct humanitarian service delivery. Overall, direct donor contracting of corporate actors has increased slightly over the past five years, and this modest increase is most evident in U.S. contracting. Donors tend to contract for-profits more in sudden-onset emergencies such as natural disasters—typically to fill gaps in presence or capacity of the traditional actors—and in politically important contexts of early recovery and reconstruction.

Contrary to common assumptions, the United States does not engage in a large amount of private-sector contracting for its humanitarian operations. Rather, this practice is more common in U.S. reconstruction efforts and particularly in longer term development aid, where the U.S. donor actively encourages greater private sector involvement. DG ECHO, which concentrates most of its funding on chronic, conflict-driven emergencies, takes as a fundamental principle, as well as a financial regulation, that for-profit entities are not eligible recipients for any of its activities. In general the U.S. and UK donor agencies are more open to contracting and rely more heavily on long-term contractors to bolster their in-house capacity to manage aid projects as well as to provide procurement services and logistical platforms. Other European donors are also accustomed to contracting for secondary support services.

From the donor perspective, the advantages of using a private sector contractor lie in the direct control of objectives and activities, perceived gains in speed, scale and flexibility, and a lighter administrative burden as compared to overseeing numerous grants to non-profit providers. The tradeoffs include a potential lack of local knowledge and networks, lack of expertise in humanitarian programming and community liaison, potentially negative public perceptions, and a lesser degree of legitimacy with the local population. Monitoring and evaluation of contractors tends to be more frequent and rigorous, but assesses performance at a superficial
level—counting concrete outputs in terms of materials delivered or houses built, as opposed to assessing outcomes and evaluating the impact on the lives and livelihoods of beneficiaries.

The comprehensive regulatory frameworks most donors possess governing the use of private contractors (rules and procedures for procurement and contracting, for instance) are not matched by policies and guidance for what types of entities are appropriate for which settings, what criteria should be met that are specific to humanitarian contexts, principles, and goals. Humanitarian principles seem to be taken as a given by DG ECHO and some other European donors, but not codified in policies relating to the private sector. Neither has the Good Humanitarian Donorship Initiative taken up the question. As for the U.S., its key humanitarian donor agency, OFDA, has endeavored to create a principled space to enable needs-driven humanitarian action, but is under pressure by a USAID-wide effort to increase both commercial and non-commercial business engagement, and the confluence of greater demand with smaller in-house capacity as compared to decades prior.

The growth trends in commercial business engagement in humanitarian response have not been sufficiently dramatic, nor the negative experiences sufficiently calamitous, to spur serious debate or action within the donor community on the issue. Even accounting for the Iraq and Afghanistan reconstruction bonanza, firms do not seem poised to offer major competition to traditional humanitarian actors in their core business.

Firstly, even if the practice is exceptional, it would still seem to behoove donors to think through their calculus for using private sector actors in aid implementation. In the same way the OCHA/World Economic Forum principles for public-private partnerships outlined the responsibilities of firms when engaging in humanitarian response, a consensus position among donors regarding whether and when to use private sector firms in humanitarian response could be useful for future decision making. The Good Humanitarian Donorship Initiative and the European Consensus on Humanitarian Aid represent significant accomplishments in what has been a multi-year process of donor governments increasingly stepping up their interaction and aligning their policies and objectives. A set of shared standards and criteria for private sector contracting stands to be a small but useful brick within the growing edifice.

**Recommendation:** Use the Good Humanitarian Donorship platform to open discussion on developing shared standards and criteria for when, whether, and how to utilize private sector actors in humanitarian response.

Secondly, it would be important to undertake a detailed cost comparison between private sector contracts and grants, to impartially assess the quality and value achieved per aid money spent. Taking a practical perspective on this would be preferable, the better to avoid unproductive, esoteric debates on humanitarian principles and ethics that can in fact obscure the very concrete and practical comparative advantages of traditional humanitarian providers in many settings.

**Recommendation:** Undertake a comparative cost-to-results analysis of non-profit grants and for-profit contracts in comparable contexts.

Finally, it would be worthwhile for donors to explore possible options beyond contracting in situations that do not seem amenable to responses by traditional actors. Often, the crux of the
matter is in the issue of preparedness and capacity for rapid start-up. Indefinite Quantity Contracts and standby contracts can apply to NGOs as well as for-profits, and donors might explore whether it would be more effective in the long-run to invest in preparedness resources and rapid response capacity on the part of agencies and NGOs, rather than reaching for the private sector which may or may not posses the right profile and expertise. The Central Emergency Response Fund and the Common Humanitarian Funds are an important step forward in this regard, providing liquidity to the international humanitarian system and quick allocation capacity. Beyond their contributions to these multilateral mechanisms however, donors will continue to have an interest in bilateral project implementation through direct arrangements with providers. Some donors have begun to look into such alternatives. The Netherlands for instance this year launched an experimental standby grant arrangement with the International Federation of the Red Cross for natural disaster response. For a fixed annual contribution amount over a four-year period, the Red Cross needs only to make a phone call to get approval from the Dutch Government to draw down funds to respond to emergent crises as needed. In this way the provider has the upfront resources to respond immediately and the donor has a trusted partner and an alleviated transaction cost burden.

Recommendation: Continue efforts to develop advance funding sources and standby arrangements with traditional humanitarian partners, to make them a stronger and more viable first option for channeling humanitarian response funding.