

## Making Aid Work Better for People

# Increasing recognition of CHS verification

A Discussion Paper: June 2020

### 1. Background – two challenges, one mutual solution?

In 2015, the Core Humanitarian Standard on Quality and Accountability (CHS) was launched—the outcome of a comprehensive global consultation with people affected by crisis, NGOs, national governments and donors. It was developed as a core standard for the humanitarian sector, containing the essential elements of principled, accountable and high-quality humanitarian aid.

The following year, the Grand Bargain launched its ambitious commitments to transform the humanitarian sector and the way humanitarian aid is managed and delivered. Taken together, the Grand Bargain and the CHS share a number of principles and ambitions for improving the sector.

However, one area the Grand Bargain has struggled with progressing in is donor Partner Capacity Assessments (PCA) under commitment 4.2:

Harmonise partnership agreements and share partner assessment information as well as data about affected people, after data protection safeguards have been met in order to save time and avoid duplication in operations.<sup>1</sup>

In fact, it appears donor demands on PCAs and due diligence processes have increased since the Grand Bargain, due to more rigorous PSEA<sup>2</sup> due-diligence requirements following the 2018 safeguarding crisis and the enforcement of counter-terrorism legislation.<sup>3</sup>

Meanwhile, over the past five years, the CHS has repeatedly been endorsed by NGOs and donors as essential for setting and maintaining quality standards and assurance within the humanitarian sector. This includes recognition of the CHS as one of the essential international standards for tackling sexual exploitation and abuse by 22 OECD donors in October 2019.<sup>4</sup>

Yet, despite this recognition and the fact that it addresses several Grand Bargain related commitments, the CHS still remains an aspirational standard to many donors and NGOs, not a formal requirement to demonstrate the core elements that organisations need to ensure principled, effective humanitarian action.

In January 2020, the CHS Alliance commissioned an independent review to see if these two challenges— the need for greater uptake of the CHS verification and the need for further progress on harmonising donor Partner Capacity Assessments - could have a mutually beneficial solution by using CHS verification as part of donor due diligence requirements. This could lead to less duplication and cost saving measures by donors and NGOs, with the intent of improving the humanitarian assistance to people in crisis.

<sup>1</sup> The Grand Bargain, A Shared Commitment to Better Serve People in Need, May 2016

<sup>2</sup> PSEA: Protection from Sexual Exploitation and Abuse

<sup>3</sup> <https://www.thenewhumanitarian.org/feature/2019/11/26/balancing-act-anti-terror-efforts-and-humanitarian-principles>

<sup>4</sup> DFID, Progress report on delivering the donor commitments from the October 2018 London Safeguarding Summit, Oct 2019, p.7

## 2. The review

Thomas Lewinsky, also author of the 2015 “[Partner Capacity Assessments for Humanitarian NGOs](#),” led this review. The purpose was to **explore the potential of CHS verification to become increasingly recognised and aligned with donor PCA due diligence and compliance requirements, thereby contributing to meeting the Grand Bargain commitment 4.2.**

Thomas conducted a desk study of different donor PCAs and compliance related documents and procedures. His work was supported by a benchmarking study by an independent HQAI<sup>5</sup> auditor of three donors’ PCAs, as well as the preliminary findings from two other benchmarking studies conducted by HQAI.

Thomas produced a substantial internal report for HQAI and the CHS Alliance. The Alliance turned his report into this short discussion paper to share with members, donors and partners.

Some qualifiers in the scope

- The term **donor harmonization** is often applied to the Grand Bargain commitments. However, harmonization does not automatically lead to simplification. It may, in fact, add new requirements rather than reduce them. This study does not investigate how the CHS may be used to *harmonize* donor PCA requirements, but instead explores how it can *align* donor PCA requirements, complemented by the CHS in one form or another.
- **The term PCA** is broadly used to mean due diligence information requirements requested by a donor *before* a funding decision is made to support a humanitarian actor.
- The **Covid-19 pandemic** broke out during this consultancy, which affected the availability of informants. It also means this report is written mostly based on the policy environment and perceptions pre-Covid-19. It is highly probable that the long-term effects of Covid-19 will change the way donors operate in the coming years, including their PCA related requirements.

## 3. Progress on CHS verification

To date, the uptake of the CHS has been steady, but modest, compared to the initial ambitions. More than 150 organisations have signed up as members of the CHSA as per April 2020, with more than 90 having undergone structured verifications.

The review considered the challenges preventing increased uptake of the CHS verification. These can be summarised as:

- There is **no sense of external urgency** to comply with the CHS, it remains an open-ended commitment to all. Changing this would need pressure from the NGO community itself to make CHS become a requirement, including lobbying donors for formal recognition.
- Increased need for the **demonstration of impact of verification**, backed up by consistent fact-based messages that show a demonstrable difference for people affected by crisis.
- Need for a **greater, concerted advocacy effort for the CHS**. This will require more investment by the CHS Alliance together with CHS champions by NGOs and others.
- Need for **more support to NGOs** to help them mainstream CHS, particularly for small and national NGOs.

<sup>5</sup> HQAI – the Humanitarian Quality Assurance Initiative is currently the only independent and accredited Conformity Assessment Body offering independent verification and certification services.

- Need for a better **investment cost justification** for a scheme that is often considered heavy and expensive for medium and smaller NGOs.
- Need a **clearer business proposition** for NGOs to show how the investment in CHS verification pays off.

#### 4. Current Donors recognising CHS verification as part of their due diligence

##### Governments

- **DANIDA** currently only accepts applications for humanitarian funding by Danish NGOs audited against the CHS. It is currently the only governmental donor to do so.
- **The German Federal Foreign Office** recognises CHS verification to complement their own due diligence procedures. This means that verified NGOs applying for German funding may undergo a quicker government PCA process.

##### NGO Funding bodies

- The **Dutch Relief Alliance (DRA)** decided in 2019 to apply the CHS to all its members, choosing the CHS self-assessment as their criteria. There are currently discussions about whether DRA over time would go for full external verification.
- **UK's DEC, Disaster Emergency Committee** has since 2017 adopted the CHS as an integral part of its own accountability framework. This assures that the CHS is being applied across the organisation. DEC expects its partners to demonstrate assurance through an independent process against the CHS, and it is expected that this will be completed by all partners during 2020.
- **The Danish Emergency Relief Fund (DERF)**. In order to promote better quality and greater accountability, DERF decided to integrate the CHS throughout the DERF funding cycle, similar to the DEC. DERF is currently exploring with HQAI and CHS Alliance the development of a CHS pool fund verification mechanism.

#### 5. Benchmarking CHS against other donors PCA

To explore the technical prospects of having CHS verification complement, or even replace, the majority of donor PCA requirements, this review considered the findings of five benchmarking studies of donor PCA requirements against the CHS.

- **ECHO Ex Ante** – HQAI compared the ECHO ex-ante requirements for NGOs to the CHS audit, in an effort to position HQAI to lobby for ECHO to recognise HQAI as a suitable audit organisation for FPAs audits. This would also increase the prospects of the CHS complementing ECHO's PCA compliance demands leading towards FPA approval<sup>6</sup>. The benchmarking study revealed that the CHS Audit by HQAI found a 80% coverage compared to ECHO's own due diligence questions. With some additional investigation during an initial CHS audit, this could bring the coverage to the mid 90% range.
- **DFID** – HQAI also benchmarked their CHS audit against DFID's due diligence requirements. The numbers are comparable to the ECHO study - a very high coverage rate, which from a technical point of view could justify an alignment of their PCA compliance indicators against the CHS audit.
- **Luxembourg** – As part of this study, an HQAI auditor compared their PCA coverage against the CHS. It resulted in similar coverage rates of around 80%.

<sup>6</sup> To note – the ECHO ex-ante document formally recognizes that the CHS has informed the specific benchmarks established for the minimum capacity required to be an ECHO partner and recommends auditors to rely on HQAI audits to answer ECHO's relevant questions, provided they are satisfied with the quality of HQAI's work.

- **Canada and France** – the same process was undertaken reviewing France and Canada’s PCA processes. Here the numbers were found to be significantly lower, at around 50-60%. The reasons for the lower coverage rates is partly related to the fact that Canada and France's requirements were mainly project specific, and include programmatic and thematic areas that are not part of the CHS.

Overall, these benchmarking studies show that **CHS indicators appear suitable to general framework assessment processes of donors such as ECHO and DFID. However, they are less suitable for project related donor PCA due diligence which require more programmatic and thematic detail.** An area where the CHS is currently not suitable is in covering donor’s detailed financial due diligence requirements.

## 6. What level of Verification?

The potential of using the CHS to complement the majority of donor PCA requirements largely depends on the trust by donors in CHS Alliance's verification system. Donors were therefore hypothetically asked what level of verification (self-assessment, independent verification or certification) they would require in order to recognise the CHS to form part of their PCA process.

**All donors responded that at least independent verification** would be required, and some preferred certification which they saw as the gold standard.

## 7. Potential to align CHS with donor PCA requirements

Informants of the review were asked to reflect on the opportunities and challenges associated with application of the CHS to complement or align donor PCA due diligence requirements.

Opportunities	Challenges
<p>a) CHS Alliance should map the relevance and coverage of the CHS against the main donor PCA requirements, to continue to make the case to donors that it is possible to make such a conversion.</p> <p>b) Several, especially smaller donors, already accept ECHO's FPA assessment audits in lieu of applying their own full due diligence requirements. This “passporting approach” would represent a major opportunity to CHS Alliance</p> <p>c) CHS Alliance should engage in conversations with the NGO compliance staff – the donor liaisons, internal audit and due diligence departments, as opposed to just the programme staff.</p> <p>d) An advantage of CHS third-party assessments compared to ECHO ex-ante assessments is that CHS auditors go to the field and conduct physical verification on-site, as opposed to just desk-based reviews. The advantage of on-site verification must be translated into</p>	<p>a) The CHS is not conceived as a PCA compliance tool, so caution is needed that CHS Alliance is not trying to make too many concessions to accommodate donors.</p> <p>b) CHS is conceived as a voluntary standard, making it into a compliance mechanism for donors may result in NGOs turning their back on the standard, rather than more NGOs signing up to it.</p> <p>c) Donor PCA is not only a technical management tool, but also an important due diligence and policy instrument for parliament accountability. This creates a limit as to how much donors are willing to transfer accountability externally.</p> <p>d) Internal disconnect between departments in INGO and donors programme and compliance departments. For most donors, due diligence decisions are made by internal audit or risk management departments CHS Alliance engage with.</p> <p>e) Several donors have built robust internal systems and invested heavily in those over the years. CHS Alliance needs to</p>

<p>increased impact and quality assurance to the donor.</p> <p>e) For the Grand Bargain, there are good prospects to link alignment of donor PCA requirements with the CHS relevant to the Grand Bargain under workstream 4.2. Progress under workstream 4 has concentrated on UN alignment reforms, so there is an opportunity for a strong NGO voice as we reach the GB five-year anniversary.</p> <p>f) CHS does not cover the financial risk due diligence aspects. However, there could be a closer alignment between finance and management aspects of the standard, which could also be complemented by another recognised financial due diligence standard.</p>	<p>be clear on how a formal recognition of the CHS to complement donor PCA requirements would make it easier for donors, ideally removing a burden, not adding another.</p> <p>f) For CHS Alliance to play a credible role in aligning donor PCA due diligence requirements around the standard, the initiative must lead to a clear reduction in other donor due diligence requirements for NGOs. Otherwise, CHS becomes just another added compliance burden.</p> <p>g) For donors already accepting ECHO's ex-ante assessments, there is little incentive to use the CHS, unless the CHS Alliance? makes the case that it can offer something different that is beneficial to the donors.</p>
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**Conclusion:** The potential is there for the CHS to have far more impact to raise the standard of humanitarian work by aligning with donor due diligence process and this would be an enabling factor to meet commitment 4.2 of the Grand Bargain. However, this will take considering this alongside other mechanisms to keep building the momentum for change.

## 8. Other initiatives to increase the recognition of the CHS

Based on the findings from the donor PCA considerations, the review also considered other and partnership opportunities that may be used as vehicles for increasing the recognition of CHS verification within the sector.

### 8.1. Grand Bargain's 8+3 initiative

The 8+3 reporting template was explored to assess the potential relevance of applying a similar approach for donor PCA due diligence alignment through the CHS. The 8+3 reporting analysed 21 reporting templates from 19 donors, which led to a set of standardized questions that donors commonly ask in their narrative reports.

Donors have reported that the 8+3 reporting template appear to have delivered equally good or better reports than before. To become more impactful, 8+3 would require scaling up, consistent communication, resources and advocacy to mainstream this approach.

Some critics claim that important elements related to donor reporting were not included, such as frequency of reporting, financial reporting, PCA requirements, level of detail of audits. To this can be added a substantial amount of informal reporting like donor visits etc., which may in the end take up much more effort than formal narrative reporting.

While recognising there are important differences between PCA due diligence alignment and 8+3, the 8+3 initiative does appear as a potential model for CHS Alliance to consider as a way to align donor PCA compliance requirements. Several key informants confirmed this perspective as an intelligent way to get into the positive slipstream of 8+3, which has opened several doors to donors and NGOs alike.

To take advantage of this, the CHS Alliance would need to develop a CHS/PCA+ template to create an aligned set of donors PCA requirements. That would entail that the 9 CHS

commitments, or a lighter version thereof, would formally become as part of donor PCA due diligence towards NGOs.

Donors would get to choose between a limited number of additional areas that NGOs should comply with to help meet most domestic donor accountability, hence the "+". In the case of ECHO, for instance, the HQAI's benchmarking study found that by adding 4 specific finance indicators to those of their CHS audit, practically all ex-ante requirements would be covered, making the CHS audit a comparable alternative to the ex-ante assessment.

## 8.2. Other NGO Platform based due diligence / standards

Two interesting examples of other NGO approaches to financial due diligence / standards based on a tiered model to differentiate capacity variations among applicants are summarized below. They are both build for embedment on digital platforms, to show current information, to be accessed by NGOs and donors alike.

### 8.2.1. *START network*

The START Network has chosen to pilot a global tiered due diligence framework to help inform future granting decisions for its members. It reviewed more than 20 international funder requirements' existing due diligence processes, principles and standards, and requested feedback from its members. It developed 9 streams of due diligence criteria, several of which are partly inspired by the CHS. The long-term ambition is to unite around a common standard for humanitarian funding of NGOs. START has the ambition to develop a platform to make this a fully digitised experience, accessible to donors and NGOs alike.

START intends to apply a structured due diligence process only one time per applicant, which would result in a "passporting feature" recognised by other donors as well. This would eliminate the need for multiple due diligence procedures for the same NGO. Another ambition of the initiative is to have this passporting replace the need for INGO downstream due diligence of national and local actors.

The due diligence process is currently not as rigorous as the CHS, it is desk study based, and it does not include onsite verification. START indicated their openness to further conversations with CHS Alliance about the potentials for a strategic partnership which seems beneficial with the mutual ambitions and membership.

### 8.2.2. *The Good Financial Grant Practice (GFGP)*

GFGP is another digital platform-based initiative, which offers donors and foundations financial due diligence services for potential NGO grantees. At the heart of the GFGP is the international Standard for Good Financial Grant Practice. The standard contains a number of requirements that major funders expect when making grant and funding decisions.

GFGP consists of two main elements: a due diligence process and a capacity building tool to help grantees meet financial due diligence requirements of donors, which is what funders as well as grantees particularly like about it.

Grantees are able to self-assess, using the portal, and make this information available to potential donors by uploading it. There is also a certification scheme which defines the principles of the standard and resembles HQAI's path.

The GFGP operate a 4-tier level of compliance: bronze, silver, gold, and platinum. The bronze tier would be appropriate for a CSO working in a single region or city, to platinum for global INGOs and international Institutes conducting multiple grants in multiple countries.

What also makes GFGP interesting is its business model where donors are paying subscribers in order to get access to grantee due diligence information. Without the portal, GFGP does

not believe it would be able to offer its services to such a broad audience, and the platform is a cornerstone of its business model.

The standard also contains elements for a passporting assessment like the START Network, which could avoid due diligence duplication for NGOs with several funders. Also here there is the potential for CHSA to complement this initiative. It could, for instance, programme part of its verification services onto the GFGP platform making them publicly available to donors for a subscription fee. GFGP could possibly combine their financial due diligence standard with the CHS, making that a winning combination for both parties.

## 9. What can we do next?

The conclusion of the review is that while there appears to be substantial alignment between CHS and donor's due diligence, only considering the technical aspects of alignment will not win the battle. Real change will be driven by:

- a) Donors being willing and able to outsource parts of their reputational risk
- b) NGOs engagement for a strong advocacy lobby with the donors to formally recognize the CHS to complement own PCA due diligence
- c) CHS Alliance building a strong policy and advocacy push with its members and partners
- d) Looking for opportunities to connect CHS verification with other NGO initiatives.

### For donors

- **Critical mass of willing donors** to support concrete pilot policy initiatives to explore how the CHS could be used to align donor PCA due diligence requirements.
- Alternatively, get the support of **one major donor** to complement their internal due diligence system to demonstrate the potential leading to a snowballing effect.
- Convince donors to require CHS verification in **exchange for fast tracking access to humanitarian funding** building on the approach taken by Germany
- Work with the donors to **identify the appropriate people that are working with due diligence**, such as compliance and auditor departments, controllers, as they are closest to influencing decisions concerning changes to due diligence procedures.
- Donors and CHS Alliance work together to build a **clear financial business case** of how CHS could, de facto, offer substantial savings. (HQAI is currently making some calculations of the potential savings for ECHO if they would open up part of their ex-ante verification process to HQAI).
- Consider the potential for donors to recognise CHS verification **as part of their own regular annual quality assurance**. This may make it possible to have donors accept annual verification audits as a fixed percentage part of regular budget line items.

### For NGOS

- a) Need a **coalition of NGO partners** who could engage with their donors around this initiative, while they help demonstrate quality and accountability coming out of CHS verification processes that they have already observed.
- b) Create a **clear evidence base that CHS verification leads to greater impact, particularly for accountability for affected populations, as a moral imperative**. That would take a CHS/PCA+ initiative beyond donor compliance and risk management and make it more digestible for NGOs as a broader proposition.

### For policy influence

- a) **Change the perception of CHS** as a soft, aspirational standard of good NGO practice into a recognised verifiable standard that could also meet donor due diligence requirements.
- b) Push the idea of the **CHS/PCA+ into the goodwill slipstream of 8+3** to get the attention of several donors and NGOs alike. Create the direct hook to the Grand Bargain. If the interest can be generated, CHS Alliance would need to produce an aligned PCA template to be used by donors and NGOs for the testing as a concrete proposition.
- c) Consider a **tiered due diligence approach** to the verification scheme to reflect variations in capacities of humanitarian actors
- d) Develop a **clear business offer** to the donors demonstrating how a formal recognition of the CHS verification process around donor PCA due diligence requirements would lead to a simplification for their own internal processes.

#### Partnership with other standards and due diligence platforms

- a) **Combine the CHS with a recognized financial due diligence standard** to make it more relevant to PCA due diligence. CHS Alliance and HQAI could provide a credible alternative to the more expensive ECHOs ex-ante assessment as a passporting verification procedure that may be recognized by other donors.
- b) **Combine CHS with an already existing platform-based compliance services** of another non-profit service provider, such as GFPG, would enable donors web-based access to due diligence compliance environments. This would directly bridge the CHS with financial due diligence modules and create several donor subscriptions.

### 10. Three Strategic Options for moving ahead

Out of this review three strategic options have been formulated. These are presented as potential "game changers" rather than incremental improvements that may force a departure from the status quo. Each of these options may be considered individually or in combination, lending elements from other options, depending on the estimated feasibility.

Option 1) A one-stop integrated portal for quality assurance of NGOs

<i>Expected outcomes</i>	<i>Core requirements</i>
A web-based subscription business model for real time transparent data financed through donor subscriptions	Identify potential strategic partners with existing or plans to prepare for portal based standard and "passporting" aspirations
Increased donor recognition of CHS through reaching the last 15% financial due diligence that is currently "missing" supported by external verification	Conduct structured feasibility study to concretise the proposition, including costing and timelines and verification requirements
CHS becomes part of an auditable integrated passporting initiative which could take PCA assessments to scale	Repackage aspects of CHS verification scheme to ensure proper fit with strategic partners
CHS Alliance and HQAI join other due diligence initiatives with an existing outreach	Get formal support from a major donor willing to invest in this strategic shift towards a portal-based application, or a tech company working with big data for portal module development
Could become impact flagship of CHSA through HAR for the donors to see in action	Develop a new business model which marries business model of strategic partner like GFPG
	Explore options for portal-based inclusion of HAR for interactive impact studies around CHS



Option 2. CHS verification to become an integral part of a donor due diligence system by adoption by a major donor

<i>Expected outcomes</i>	<i>Core requirements</i>
<p>Create major sector wide traction for elements of CHS through the recognition of CHS audits</p> <p>A unique testing ground for the CHS in a major donor environment for several PCA related due diligence requirements</p> <p>Possible snowballing effect on other donors who would follow suit and recognize CHS as verifiable passporting scheme</p> <p>Could become sector wide business model to help finance CHS audits and create passporting mechanism at scale</p> <p>Could boost resources and staffing of CHS Alliance to become able to meet growing demand for services by other donors as well</p>	<p>Likely demands to adjust part of CHS verification for increased alignment with donor PCA</p> <p>Create solid business model to demonstrate economies of scale</p> <p>Design process must involve due diligence and compliance staff from the start to work and for ownership</p> <p>Access to expanded pool of accredited CHS auditors, possibly adding some of the big auditing companies for early credibility and traction at scale</p>

Option 3. "CHS/PCA+" initiative, inspired by 8+3 template and GB workstream 4.2

<i>Expected outcomes</i>	<i>Core requirements</i>
<p>Significant contribution to GB WS 4.2, currently underperforming and with little or no NGO leadership thus far</p> <p>Creates global recognition of CHS as a practical solution focused standard helpful to donors and NGOs alike</p> <p>Could be first step towards sector transformation related to donor PCA requirements in a lighter, aligned version</p> <p>Passporting potentials, i.e. if checked once, NGOs fast tracks other donor checks tool</p> <p>PCA duplication reduced for NGOs, limiting wriggle space for donors to add new PCA demands at will</p>	<p>Create concrete "light" PCA template or tool for donors to align common domestic PCA requirements, like 8+3</p> <p>Definition of optional menu for donors to choose from to accommodate donor specific requirements, i.e. the +</p> <p>Need formal support from 1-2 major donors for traction and funding on pilot basis in geographical area</p> <p>Requires a solid business case to demonstrate how donors and NGOs would be better off if joining</p>

## 11. Next Steps

CHSA will establish a series of discussions with its members, donors and partners to explore these three options. If you have any comments you would like to share with the CHS Alliance, please contact Tanya Wood at [twood@chsalliance.org](mailto:twood@chsalliance.org)