# Technical Briefing Paper: The State of Humanitarian Procurement

MARCH 2025

## Executive Summary

Humanitarian procurement is a critical function handling over €20 billion annually. Despite its pivotal role in aid delivery, it remains under-recognised and under-invested. This briefing paper produced by hulo and the IAPG outlines some of the main strategic challenges in procurement which prevent enhanced efficiencies and detrimentally impact humanitarian aid delivery.

**Key Challenges**

**Compliance and Regulatory Complexity**
Complex compliance requirements from multiple funders are increasing despite Grand Bargain commitments and they present a significant barrier to operational efficiency for HOs. The lack of mutual recognition among institutional donors and amongst HOs leads to duplicated audits and due diligence processes, further reducing efficiency potential. Repetitive re-assessments even occur between the same actors for different awards. Public procurement style regulations often misalign with the realities of humanitarian operations, imposing inefficient and outdated practices. Restrictions on the eligibility of costs and pre-positioned items for preparedness limit efficiencies and increase waste, hindering the potential for collaboration, cost savings and streamlined operations and impacting sustainability. The compliance complexity is even more critical tot address in the light of the localisation agenda to ensure local humanitarian organisations can deliver and thrive in a regulatory framework which is functional and balanced.

**Structural and Resourcing Challenges**
Structural challenges persist in the way in which costs are 'packaged' in humanitarian projects, which impacts strategy, decision making and optimisation. The misclassification of procurement and broader supply chain spend as support / overheads rather than programmatic cost leads to inadequate levels of resourcing to accompany activities. In addition, the current projectised funding model disincentivises cost savings, as these savings lead to reduced indirect cost contributions essential for organisational sustainability. Procurement teams are frequently under-resourced and lack the necessary skills, focusing far more on administrative compliance than on strategic procurement activities. This resource gap, coupled with the underutilisation of procurement data for decision-making, impedes the optimisation of procurement processes.

**Barriers to collaboration**
Incompatibilities in procurement processes across organisations, combined with tendencies towards high risk aversion, prevent effective collaboration and the adoption of joint procurement initiatives. Misconceptions about compliance further hinder the implementation of innovative procurement methods, such as mutual recognition and "piggybacking" on existing contracts.

**Ineffective risk and control frameworks**
Overly complex control frameworks, which do not align with actual risk analysis, lead to inefficiencies and provide false comfort in real risk mitigation. Processes and controls aimed at reducing fraud and aid diversion end up as box-ticking exercises, creating only a smokescreen of rigour. The increasing number of audits causes significant resource drain and productivity loss without proportionate risk reduction. There is a need to convene the audit, implementer and funder communities to cocreate better solutions.

**Sustainability potential untapped**
The lack of standardisation and recognition of Environmental, Social, and Governance (ESG) criteria in procurement hinders the wider adoption of sustainable practices. While stakeholders agree that 'one size does not fit all' in relation to sustainability inclusion, knowledge gaps remain between policy makers and practitioners which further inhibits the embedding of sustainable procurement into humanitarian operations.

The HO community has significant potential to realise procurement efficiencies, be that efficiencies in process, in control frameworks and compliance, in resource pooling and collaboration, or structural evolutions. The institutional donor community is critical to unlocking those efficiencies, and to driving, and demanding the change.

## Preamble

This paper has been co-authored by hulo and the IAPG on behalf of their members which, at the time of writing, collectively constitute more than 40 international humanitarian organisations (HOs), and more than €10bn spend annually. This paper is intended as a context briefing for DG ECHO, in preparation for their forthcoming 2025 workshop series, which includes the HLGSC Procurement Workshop in May 2025.

Hulo[1] is the world's first humanitarian logistics cooperative. Hulo's 16 members bring together humanitarian organisations with the aim of optimising their collective logistics and supply chains, integrating resource pooling, market intelligence, and digital solutions as innovative approaches for the humanitarian sector.

IAPG[2] serves as a platform for heads of procurement from international non-governmental organisations (INGOs) to exchange insights and experiences aimed at enhancing efficiency, effectiveness, and value for beneficiaries. Through its coordinator, the forum unites the perspectives of its 32 member organisations on procurement issues. Recently, the group has been collaborating to investigate the effects of misaligned donor requirements. A survey has been conducted, and a position paper addressing this issue and a position paper will be published in March 2025.

## Introduction

Up to **65%** of humanitarian aid[3] passes through a procurement process of some kind; in the order of **€20 billion** in 2024 alone. Despite this staggering figure, it is a topic which is still largely 'invisible' in organisational strategy, viewed as a support or service function rather than key strategic linchpin, and the focus is rarely of investment even where this investment could return savings, value and impact.

There have, of course, been improvements in humanitarian procurement in recent years, but these have predominantly been individual rather than sector-wide, ad hoc rather than structural or sustainable. In reality, there remain significant structural, systemic and operational barriers to progression. These barriers impact procurement strategy for HOs, individually and collaboratively, and disincentivise the realisation of efficiencies.

This paper explores the nature of some of the main constraints, including those in the regulatory and funding environment, as well as those characterised by the multiplicity and inherent diversity of our sector.

We are almost **10 years** on from the commitments of the Grand Bargain at the World Humanitarian Summit, where donors and implementers made explicit commitments to reducing duplication, specifically *"[to] reduce individual donor assessments, evaluations, verifications, risk management and oversight processes"*.

The HPG commissioned status report on progress (2023[4]) finds that: *"…no broader coordination effort is discernible among donors or between donors and aid organisation signatories on this theme [of reducing duplication and management costs], with different signatories continuing to pursue their own activities aimed at increasing efficiencies in different areas of humanitarian operations."*.

It is for this reason in particular that we welcome DG ECHO's initiative to facilitate and stimulate greater progress on efficiencies in the area of procurement, and to reignite this topic when, arguably, efficiencies are needed more than ever.

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1 www.hulo.coop
2 www.iapg.org.uk
3 Lacourt, M., & Radosta, M. (2019). *Strength in numbers. Towards a more efficient humanitarian aid: Pooling logistics resources.* Reseau Logistique Humanitaire
4 https://interagencystandingcommittee.org/sites/default/files/migrated/2023-06/HPG_report-Grand_Bargain_2023_exec_summary.pdf

It is in this context perhaps surprising that many HOs are experiencing a reality of increasing, and more complex compliance requirements imposed by their larger range of funders, and which subsequently cascade to both implementing peers and partners. We will briefly explore how these requirements manifest in procurement, and question which add value and which truly mitigate risk.

It should be noted that the series of workshops planned by DG ECHO in 2025, and subsequent summit, will explore not only Procurement, but also the topics of **Preparedness**, **Digitalisation**, **Localisation** and **Environmental Sustainability**. In this paper we will make reference to some of the cross-cutting concerns where Procurement also touches on these other thematic areas, but we anticipate that this will warrant further examination when the other preparatory workshops have also progressed.

Investments in the digitalisation of humanitarian procurement and the broader supply chain, for example, are certainly helping HOs to meet, though not reduce, the administrative burdens of compliance. However, there is growing concern that these initial **investments are unlikely to be maintained** in the widening, and likely long-lasting, funding crisis.

There is further concern that a crisis of this scale could deepen lines of **competition amongst actors**, rather than creating the conditions for efficiency, synergy and cooperation. As a sector, the current conditions would seem, at face value, to be ripe for us to revisit our ways of working in procurement, for example to embrace innovations like the joint procurement initiative model; in this sense the crisis represents a further reinforcement for us to act as jointly as possible, and only as individually as necessary.

We must of course be mindful that we are not 'all in the same boat'; the HO community span a diversity of size, geography, mission, specialism and experience which should not be oversimplified. Specifically, it should be noted that there are significant **differences** between the regulations imposed by institutional donors on the UN community, as compared to those which are imposed by the same funders on the NGO community.

Given the representation of the IAPG and hulo communities, we recognise that there are some common constraints affecting many in the NGO community, where they are navigating the same waters, and it is primarily those commonalities which will be introduced here.

## The journey of a Euro...

In order to illustrate the efficiency '**opportunity loss'**, it is perhaps useful to consider the 'journey of a Euro' in a typical project. Leaving aside for the moment the complexity of multi-actor implementation, let us consider **how many checks**, steps, and major process steps are followed on the same euro from the point it's planned, or remitted, to an HO.

We will illustrate this, for simplicity, with a bar of soap; while procedures vary from one HO to another, as well as from one case to another, below is a description of a relatively typical process.

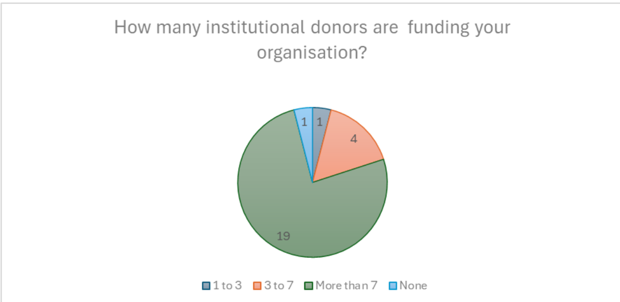
These steps are followed for each project, for each tender, by each HO, individually and inefficiently. Imagine, then, a multi-actor project and the added due diligence and procedural verification complexities. In the journey of the Euro from a project **concept** through to a result in the hands of a **beneficiary**, which of these steps do you think adds most value? Which, in reality, truly reduce risk? And, crucially, is it worth the **trade-off** for greater efficiencies?

| Illustration of the checks, controls and major process steps in a typical HO procurement | |
|---|---|
| **Step 1: Budgetary Approval** | The HO must approve the budget for the project internally, checking that the funds from the donor have been appropriately remitted or committed. Soap is listed as an item in the detailed budget. |
| **Step 2: Requisitioning** | Typically, the project team who will be delivering the soap complete an internal Requisition form, or equivalent, describing the soap which is needed, the quantity, and by when it's required. |
| **Steps 3,4,5,6: Requisition Approvals** | In reality, this can be several steps; a budget holder, a finance officer, a technical reviewer, and finally a purchaser will all usually review and sign the Requisition; layers of approvals typically increase with the estimated value of the subsequent purchase. |
| **Step 7: Tendering Process (Competitive Procurement)** | Suppliers are invited to bid, bids are reviewed, suppliers are vetted against due diligence requirements, suppliers are visited, samples examined, and selection made against agreed criteria. |
| **Step 8: Ordering** | The soap is ordered from the selected supplier(s). This stage is often re-checked by finance, and sometimes budget holders. |
| **Step 9: Receiving** | The soap is delivered to the HO's warehouse, where it's checked again. |
| **Step 10: Distribution** | The soap is dispatched and ends up in the hands of a beneficiary. |
| **Step 11: Payment** | The payment to the supplier is triggered, with several checks before funds are released. |
| **Step 12: Periodic Financial Checks** | The spend is checked against budget, usually on a monthly basis. |
| **Step 13: Project Closure Checks** | The accounts for the project are checked and inspected internally as part of project closure. |
| **Step 14: Post Project Audit** | The project is audited anytime up to 8 years after it's completed, whereupon the process and documentation for the soap is checked again. For some projects, the same euros can even be audited multiple times over a sustained period. |

## Compliance and regulations – more funders, more requirements, less value

Increasingly in recent years, HOs small and large are facing the challenge of articulating their own processes to comply with a more **diverse and changing set of institutional funding rules**. In this period, the scale of humanitarian needs has increased substantially, from around $20bn needs in 2016 to over **$56bn** at peak in **2023**, but with only **45%** of needs funded[5].

The challenge of funding availability has naturally required HOs to diversify, increasing the **number** of institutional funders and awards they manage, along with the **size** of grants. This diversification also accompanies sector trends in consortia / multi-actor implementation models and multi-sectoral awards.




*Extract from IAPG members survey on donors' requirements, March 2025*

Achieving the right **balance between process efficiency and compliance** is often compromised, with many organisations choosing to set their process to align to the most restrictive requirements, even where this does not represent a high proportion of their funding source and associated risk profile.

[5] Source : UNOCHA Financial Tracking Service - https://fts.unocha.org/plans/overview/2023

Respondents to the IAPG survey note that this approach is chosen *"to ensure a single global process which is deemed simpler than adjusting the process, manual, training, reporting for each donor".* NGOs recognise that *"In general our rules are stricter than our donors except for where they are extreme in their rules".*


*Extract from IAPG members survey on donors' requirements, March 2025*

It is an oversimplification to consider this only in terms of procurement thresholds, where in fact these regulations drive much more complexity across the procurement process, and the broader supply chain environment.

For example, one challenge which persists relates to the **eligibility of costs** incurred or initiated outside award dates. Imagine three organisations who project they will be buying large volumes of hygiene kits in a given calendar year. For optimal efficiencies and costs, they would do a **joint tender** together, leveraging their collective expertise, market knowledge and volumes, and simplifying the engagement from the vendors' perspectives too. But now imagine their individual award dates fall at different times during that year. Many institutional funders will not recognise the eligibility of a procurement process which has happened before the award dates, even if it is still valid and has followed the required standards of robustness and competition.

The same challenge persists in **pre-positioned items** for humanitarian preparedness, and restricts HOs from repurposing, exchanging and selling surplus to reduce waste, redundancy and cost. Controls and regulations of this nature **greatly inhibit** HOs from realising efficiencies.

Another example to illustrate this is in the varying acceptance of **negotiation** as a pre-contracting approach. Though widely acceptable in commercial and public sectors, the practise remains inconsistently accepted amongst humanitarian donors despite resulting in significant financial and non-financial benefits.

**Public procurement regulations**

Institutional funding is fundamentally public money and is therefore often subject to state defined procurement regulations, at source, and sometimes at geography of spend. In many cases, these regulations have been developed with large scale, domestic contracts in mind, in **mature markets**, and do not align well to the procurement environments and markets in which HOs are operating.

Public procurement rules have also sometimes failed to evolve in pace with procurement industry best practice, for instance in still requiring buyers to select the '**cheapest** bid' rather than that which delivers the best overall **value** for money, which delivers the most sustainable solution, and value for the beneficiary. Even where **waivers** can be sought, this is a **time consuming** and inefficient process which detracts and distracts from other value-adding activities.

**Supplier due diligence and screening**

In a similar vein, the requirement to screen potential suppliers, in some cases from the **first €/$,** against anti-terrorism and money laundering watchlists **chokes the procurement process**. Far and above any other compliance requirement, the consequences for non-adherence to these requirements are extreme and binary. As we will explore later, there is currently **no mutual recognition** amongst the institutional donor and HO community of each other's screening and vetting requirements or activities, resulting in unnecessary and inefficient duplication of due diligence on the same suppliers. In operational realities, the requirement to screen even the **smallest roadside suppliers** from the first € when they are fixing your damaged motorcycle tyre, is counter-productive and extreme. Together with other heavy due diligence, this drives humanitarian spend away from smaller vendors and markets, **contrary to localisation** and missing the opportunity for local **economic multiplier effects**. There is inconsistency as to what value transaction, or potential transaction should trigger the screening action, as well as what specifically should be screened and when. **Rationalising** this **unnecessary complexity** will unlock obvious efficiencies and other benefits.

## Mutual recognition across funders: a pipe(line) dream?

This regulatory diversity exists even within EU member states, where there is, to date, a lack of mutual recognition of standards, of audit, inspection and compliance mechanisms. There is also, at times, **revalidation of HOs by the same funder** across multiple awards, even within a short period of time. It is unclear what risks these repetitions mitigate.

As discussed, negotiation, and **derogations** of rules and regulations on a **case-by-case** basis are sometimes possible but are often not pursued by HOs, due to the **time needed** to do this, due to lack of knowledge / skills about how to do it, due to the perception that it will not be successful, and further compounded by **siloed and multi-layered structures** within HOs in the design, negotiation and implementation of awards.

To date, there has also been relatively little collective engagement between the HO procurement and the institutional donor communities on points of concern. There exists no specific 'forum'[6] for these discussions, in order to raise concerns, recommendations, and to candidly **explore the necessary evolution of regulations**.

## Procurement on the front lines: the human factor

This diversity of requirements also **negatively impacts** on procurement activity, and **quality**. It too often manifests, for the purchasing community, as a significant increase in compliance complexity and process adherence.

Where funding complexity has been seen to result in the proportional increase in human resourcing for awards management teams of HOs, this has **not always been accompanied** by proportional increase or **skills upgrade** for the **operationalisation** of the awards in the procurement field teams at the level necessary to implement effective procurement strategies.

The result is often **under-resourced** and **under-qualified** procurement field teams spending more and more of their time on compliance and audit activities, and less time on procurement itself, on supplier engagement, on quality, on market intelligence, on optimisation, on resource pooling, and on strategy.

In a similar vein, HOs often have a wealth of **procurement and market data** aggregated over many years, but are not leveraging this to produce **procurement intelligence**, and to improve procurement **decision making** where it's needed most.

We have illustrated that humanitarian procurement is a **€20 billion a year industry**. In comparable commercial, and even public sector industries, we would expect to see a maturity in the structure and resourcing of procurement teams appropriate for the associated volumes.

[6] The hulo and IAPG networks, as well as a previous Procurement Working Group under the Global Logistics Cluster have, at varying times, taken forward topics of concern on an ad hoc, subject driven basis. The HLCM-PN serves as a forum for UN agencies. It is made up of the Chiefs of Procurement from member organizations. The network focuses on ensuring that the UN system continues to improve its performance in the area of procurement through better leveraging the combined purchasing power of the system and through joint negotiation of long-term agreements with vendors, particularly in large duty stations. While the need for coordination amongst donors has been recognised amongst the community as a key-enabler for greater efficiency, no formal group of institutional donors has been created to date on supply chain topics.

We would expect to see a Category approach to procurement, where buyers can develop specialist expertise, knowledge and experience to deliver greater value, and we would reasonably expect to see the experience, qualifications and remuneration of procurement staff aligned to their volume and complexity of portfolio.

In the humanitarian sector, we rarely see this, with often a 'one size fits all' **generic purchaser role**, often **lower graded** in structures than their public / commercial counterparts, and with responsibilities to purchase extremely high value, complexity and volume goods and services. The roles, and therefore competencies, tend to be focused more on the **administrative compliance tasks** for the procurement function, rather than those of strategic purchasing.

The **decentralisation** of procurement activity in IHOs has further challenged the category model, with a majority of INGOs tending to do more than **80% of procurement at a country level or lower**[7]. This is of course as it should be, when we consider the potential for humanitarian funding to deliver **economic recovery**, but there are still opportunities to think, and resource, procurement teams differently and to better manage the substantial risks.

Is it time for us to **restructure procurement resourcing** in the humanitarian sector, to be able to better **develop, align and deploy competency** where it can deliver value? Is it even opportune now to **divide and conquer**, for HOs to develop one or two category specialisms and **leverage** those of others?

## Barriers to HO collaboration

Collaborative procurement has been shown to deliver significant value, both within the UN system[8] and the NGO community[9], with up to **15% average savings** achieved in just some of the first joint tenders facilitated by the hulo cooperative.

Despite this, there remain both perceived and very real barriers to greater collaboration which are preventing us from tapping into these efficiencies at scale.

### HO process incompatibility

As discussed, HOs tend to set their global standard processes to comply with their most restrictive requirements, and these standards are often slow to change. This inherently leads to an **inconsistency of processes** across HOs and inhibits our ability to collaborate and combine procurement to achieve efficiencies. Even where there is willingness to rationalise processes and collaborate, we observe a **risk aversion at field level** to innovate and deviate from HQ defined standards, for fear of non-compliance. The introduction of any innovative procurement methods thus necessitates multiple approvals, risk evaluations and waivers, which together serve as a **significant deterrent**.

Amongst the UN agencies, the development and expanded application of the **UN Mutual Recognition Statement**[10] has enabled significant volumes of purchasing without the need for duplicated procurement process. This 'piggybacking' of contracts has similar efficiency potential within the NGO community but, to date, no similar principle has been established. For many NGOs, there persists a **perception** that **'piggybacking'** on others' contracts will **not be compliant**, even where a sufficiently robust process has been followed. There is a need to map and analyse this further to examine the risks, obstacles and benefits of mutual recognition and to differentiate this practice further between different procurement methods.

In summary, our procurement process incompatibility is **not value-adding**, and does not contribute to our organisational identities or uniqueness, but is rather the product of both an **overly complex compliance**

[7] In the IAPG March 2025 survey, 16/26 respondents reported >80% spend at the local level
[8] https://www.ungm.org/Shared/KnowledgeCenter/Document?widgetId=4547&documentId=1687927
[9] Hulo Annual Impact Report - https://hulo.coop/wp-content/uploads/2024/03/AIR-2024-1.pdf
[10] The UN Principle of Mutual Recognition Statement was formalised in 2018 and now has 23 UN entities as signatories

**landscape**, and **misplaced perceptions of risk** mitigation as we will explore later.

Process incompatibility is, unfortunately, not simply an International HO problem. Local HOs in fact often suffer compound compliance flow-downs from their international partners. The structure of a '**prime**' and '**subs**' in multi actor awards dictates an element of risk transference which is often interpreted as imposing procedural level compliance. There is a need for **collective**, and **equitable dialogue** on this topic between LHOs, IHOs and donors, to find, together, the right approach to risk management in multi-actor awards which does not further compound this **compliance inefficiency**.

As illustrated in the DG ECHO supported PARCEL project[11], perhaps the key to unlocking process efficiency in these relationships is in **elevating due diligence** and mutual recognition to the level of **standards**, **not procedures**, and tolerating a level of process variation as a part of doing business.

In a study conducted ahead of PARCEL 2.0: *"nearly 1/3 of Local & National Humanitarian Actors (LNHAs) reported different rules, compliance and reporting requirements as the* ***top challenge*** *when partnering with international actors. More importantly* ***30%*** *of LNHA reported that the challenges working with international actors hindered the efficiency and effectiveness of supply chain and* ***delayed implementation of timely humanitarian response****"*[12].

Several institutional donors have certainly taken steps towards tolerance of procedural variation, though principally for their larger HO partners and with some exceptions remaining. There is still much more to be done, and this work is critical to unlocking HO collaboration, efficiencies and **meaningful localisation**.

## Overheads and the limits of the projectised funding model

There remain some **structural challenges** in Project design and funding which negatively impact our potential to achieve procurement efficiencies.

For example, one challenge is the percentage volume tracking of indirect costs by direct cost volume. As long as HOs' indirect cost contribution is a percentage function of their direct costs, this creates an **unhealthy coupling** between achieving efficiencies in 'programmatic' spend and the negative impact on overheads and the indirect.

Many HOs can only thrive within a projectised model by **leveraging** these valuable indirect contributions towards organisational growth, development and investments, especially since unrestricted funding to HOs has significantly declined since 2021.

There persists, therefore, a **structural disincentive** to achieving efficiencies and cost savings in the 'direct' costs when this will need to result in a downward adjustment of the indirect accordingly.

Even where savings are made, they then **cannot be repurposed, pooled or used for reinvestment**, and in real terms they simply result in a loss for the implementing HOs. We must revisit this model in order to better **incentivise and reward** cost savings and ensure that we **protect** the critical minimum indirect volumes **required** for **organisational growth** and **sustainability**.

## Cost classification: what really is support?

The challenges continue when we think more fundamentally about the classification of costs as "**programmatic**" or "**overheads**". It is not simply a question of language, whether we call them support or overhead costs, these should be those costs which do not relate to the delivery of a project activity. But in reality, we see logistics, procurement and supply chain costs mis-classified as support and overhead,

[11] In September 2024, PARCEL Project 2.0 started. Funded by ECHO, the project aims at updating Parcel toolbox & trainings as well as the approach. More information: https://parcelproject.org/

[12] Oxfam Research Report (Unpublished for the moment) Local Capacity Strengthening Needs in Logistics: A snapshot study, March 2024

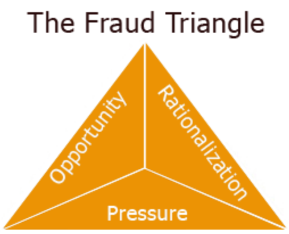
when they represent the direct operationalisation of delivery.

This results in projects with funds to purchase goods and services, but inadequate funds to staff the purchasing. This **structural misclassification** must be **redressed** and **standardised** across institutional funders.

## Procurement risk management: are controls effective?

Fraud, corruption, misappropriation and diversion in humanitarian aid are valid risks which need to be effectively mitigated. One area of prevention is via controls, which can be **transactional** (a step or check followed every time) or **periodic** (spot checks and audits for example, scheduled or at random).

An effective control framework should be designed and reviewed based on **detailed risk analysis**, and in particular understanding holistically the different contributory components of fraud risk:




*[W.S. Albrecht et al. Fraud examination (2006)]*

Fraud theory suggests that individuals are motivated to commit fraud when these three elements come together: **opportunity** - the ability to commit fraud without being caught; a **pressure** of some kind (financial, for example), and some way to **rationalise** the action to overcome the moral compass. Opportunity can, arguably, be effectively mitigated with controls to **reduce** the opportunities themselves or their **ease** of access. Pressure, or Motivation, as it can sometimes be framed, can be perceived or actual, but is rarely effectively mitigated with procedural controls. Rationalisation, equally, is personal and highly dependent on circumstances; it is also **rarely effectively managed** with procedural controls.

Considering all three parts of this triangle in the design of procurement risk control frameworks will mean that they are **aligned** to the greatest areas of risk, have controls in place where they will have the most **impact**, and will also take into account any **negative outcomes** such as **reduced efficiencies** (the 'trade-off).

Why is it, then, that HOs' control frameworks are rarely reviewed, and controls almost never reduced? Where an incident happens, the normal response is to add in another layer into the control framework, often regardless of whether this will actually reduce the risk of the incident reoccurring. It is often a form of **false comfort**, of short-sighted but nonetheless reassuring '**box ticking**' with little evidence that the **root causes** have been identified, analysed and confronted. Put simply, every control costs HOs time, money, and productivity, but the extent to which they are really reducing loss is grossly **under-examined**[13].

We still place most of our controls in the process areas where money is converted into goods or services (procurement, predominantly, alongside cash-based interventions), and we **rely heavily** on repetitive, heavy **transactional controls**. Further, our control frameworks are designed on the assumption that risk increases with the financial size (volume) of a transaction, without any real evidence to support this assertion. Impact is certainly more visible in high value transactions, but the assumption that the overall proportion of risk and loss in this threshold of procurement is higher is not evidenced.

Let us also consider again 'who' is doing the procurement. If we reflect again on the **insufficient profile**, and resourcing level of procurement teams, it is not surprising that the motivation and rationalisation aspects of the fraud triangle are not adequately addressed. As a sector, if we truly want to mitigate the risks of fraud and misappropriation in our procurement, we must also consider the structural

[13] The study: Donors want it faster, humanitarian organisations get it cheaper has identified, and measured, the time HOs sacrifice on bureaucratic procedures that may not generate the corresponding value-adding savings when balancing risk and process efficiency.

improvements needed, and the need for a significant '**upgrade**' in the **strategic recognition** of procurement as a function in the eyes of our management and leadership teams.

So how did we all get to having so many controls? Sometimes controls are imposed by funders, peer HOs, or partners; sometimes they are designed in house, often by teams somewhat removed from field practitioner realities. Most HOs restrict the extent to which individual business units, staff, country teams can *reduce* controls without specific authorisation but have no restrictions on what can be *added*. Hence, a concerned and well-meaning Financial Controller in a country office where a fraud has recently been identified can unilaterally decide to add in additional layers of controls without challenge. Procurement **process inefficiency** often goes **unchallenged** when 'dressed' as reducing risk or aiding compliance.

## The role of the auditor: objective eyes or subjective interpreter?

Regardless of how the frameworks have been designed, or imposed, the periodic controls will include assessment and **independent inspection** by auditors. Auditors play a critical role in providing this **independent oversight** to the sector, yet there is remarkably no forum in which practitioners, funders and auditors can convene.

During a typical audit, finance and procurement teams have no choice but to effectively '**close shop**' to tasks outside audit activities; with multiple audits for multiple grants taking place each year, this represents a significant **resource drain** and **productivity loss**. Far from the commitments to reduce inspection and duplication made in the Grand Bargain, we see that the volume of audits and assessments is instead increasing, with an independent review of several HOs and their partners in 2020 reporting: *"…data showed that the **number of formal donor assessments** has **more than doubled** between 2016 and 2019, with numbers increasing every year."*[14]

However, little is understood outside the auditing community about their practices, and the substantial **learning** they must have accumulated over decades of auditing humanitarian programmes. As practitioners, we receive, at best, siloed reports each examining a single project / award, perhaps with some recommendations, perhaps with an opportunity for management response. Those recommendations are observed to once again **feed the controls factory**, with well-intentioned teams implementing recommendations to the letter without consideration of efficiency loss.

There is surely a **richness** untapped in this auditing **history** which could greatly inform and **enhance** our risk management strategies in humanitarian supply chains. There is further an opportunity missed to ensure practitioner **perspectives, experience and realities** inform the design and implementation of the audit approach, and moreover the policies underpinning these actions. Lastly, the potential for lasting efficiency in inspections can only be progressed via a combination of dialogue, mutual recognition and commitments to standardisation, not subjectivity and interpretation.

## Risk vs reward: time for a rethink?

Risk exists in any procurement transaction, anywhere in the world, and will never be eliminated entirely. Our current approaches are not effective enough in mitigating fraud risk, as illustrated by the level of price variation observed in joint procurement data analysis[15].

Perhaps it is time for us to be **bold** enough to **think beyond** the idealistic 'zero-tolerance' control frameworks in order to examine what strategies will really be fit for purpose and to determine an **effective trade-off** between risk controls and aid efficiency. However, it should be noted that an effective trade-off

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[14] https://interagencystandingcommittee.org/sites/default/files/migrated/2020-12/GPPi%20Independent%20Review%20of%20Donor%20Assessments%20-%20December%202020%20-%20Full%20report.pdf

[15] Hulo annual impact report - https://hulo.coop/wp-content/uploads/2024/03/AIR-2024-1.pdf

model equally requires HOs to be able to articulate and finance a level of risk appetite for loss on commitments which many are not in a position to do. To embrace greater equity and localisation, should these risks not also be shared across the donor and implementer community?

## Pharmaceutical procurement: can our approach to quality be standardised?

This paper will not explore the nuances of each procurement category, and several warrant further examination. For pharmaceutical procurement, there are a number of aspects which inhibit efficiencies.

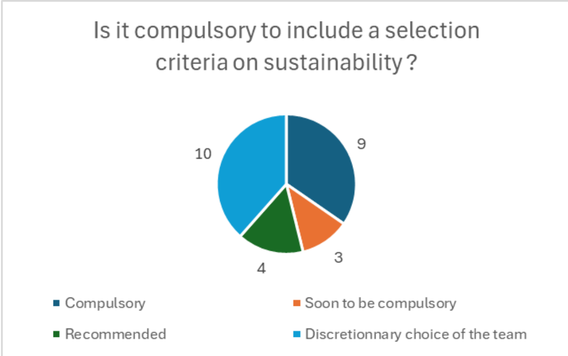
Compliance specific to this category ranges from additional requirements on the procurement process to those of **quality assurance**, with variation across funders. Interpretation by HOs also contributes again to unnecessary complexity and non-standardisation. Overall, there is a **lack of analysis** on these differences, where alignment and standardisation is possible, and where this can drive efficiencies and collaboration.

## Sustainable procurement: the potential untapped

We have spoken already of the importance of sustainable procurement in delivering greater quality, and value to beneficiaries, their communities and economies. It is then surprising that there persists a **lack of recognition** amongst practitioners and funders of the **value of ESG**[16] in procurement; for example, price remains the main selection criterion in most competitive processes.

This is often due to a reticence to spend more for sustainable alternatives, and the difficulty in justifying the additional cost in resource-constrained environments. Addressing the **cost vs value** differences between traditional and sustainable options, analysis of non-monetised **negative outcomes** and **coherence** of donor positions on this issue is crucial for overcoming these barriers.

The development of sustainability, and broader ESG, criteria for operational use in procurement has come some way in recent years. However, there is further a need to standardise the broadening of 'sustainability' beyond environmental only considerations, ensuring that social and governance aspects are also fully integrated.




*Extract from IAPG survey on donors' requirements, March 2025*

There also remains a **knowledge and skills gap** between policy writers and field practitioners which inhibits impactful adoption.

Equally, there remains inconsistency in HO leadership commitments on environmental standards, and a lack of commitment to implementation. This means that, as of the moment, sustainable procurement remains, more often than not, an add-on, an option, rather than being **operationally embedded**.

Resources are undoubtedly stretched for the foreseeable future; there is a need to better understand and **adapt** our approaches to **different markets**. One size fits all solutions will not work, but we need further analysis to make informed decisions about where to focus efforts and resources, to have the most **collective impact**.

The importance of **preventative investments** cannot be overstated, as every euro invested in prevention helps avoid significantly higher costs in the future. Addressing some of the current cost challenges through **pooling** opportunities is also an effective, and proven strategy to **innovate, refine** and **replicate**

[16] ESG = Environmental, Sustainability and Governance

sustainable practices in procurement and make them more cost-effective and accessible to the sector for the long term.

Sustainable procurement, done well, has the potential to raise markets up and leave them better than we found them, to **work with suppliers** and markets, rather than exclude them in a binary way, and to contribute to wider developmental objectives. Engagement with retailers and manufacturers to identify local solutions could help reduce the environmental footprint of humanitarian action.

In this sense, the **strategic potential** for procurement in the humanitarian sector to deliver greater, what could be termed **'programmatic' impact** is underrecognized, and goes **untapped**.

**End**

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