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www.gsdrc.org
helpdesk@gsdrc.org

Helpdesk Research Report

Flexibility in funding mechanisms to respond to shocks

Brigitte Rohwerder
Institute of Development Studies

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Question

What lessons have been learned internationally about the use of crisis modifiers and other similar mechanisms which build flexibility into humanitarian or development funding arrangements in order to build in the ability to respond better/faster to new shocks (such as sudden-onset disasters, drought or spikes in conflict/displacement)? Is there any international best practice around these types of arrangements?

Contents

1. Overview

In order to better and more rapidly respond to shocks such as sudden onset disasters, there have been increasing efforts to build flexibility into humanitarian or development funding arrangements, as current emergency responses are often slow to arrive and/or unresponsive to forecasts of disasters (Start

Network, 2017; Rüth et al, 2017, p. 2). This rapid reviews looks at examples of such flexible funding mechanisms and lessons learned.

The evidence uncovered by this rapid review comes entirely from grey literature and is a mix of reports published by organisations implementing flexible funding mechanisms in their programmes and independent evaluations of these programmes. Often the focus of these reports has been the programme in general rather than the funding mechanism and any lessons learned from it. The rapid review did not find any collective international best practice in relation to these flexible funding arrangements.

Examples of flexible funding arrangements include crisis modifiers; contingency funding; internal risk facilities; 'no regrets' responses; the Start Fund; forecast based financing; and shock responsive social protection. Organisations designing or using flexible funding mechanisms include USAID, DFID, International Federation of Red Cross and Red Crescent, and the Start Network, amongst others. Most of the examples of flexible funding mechanisms uncovered by this rapid review have been responding to shocks such as drought or flooding. Activities supported by these flexible funding mechanisms include a mixture of preventive and responsive activities depending on when they are triggered.

Drawing from the literature on different types of flexible funding mechanisms uncovered by this rapid review**, lessons learned** include:

- Flexible funding mechanisms can lead to timely responses, often preceding typical humanitarian projects (Catley et al, 2016; Levine et al, 2017; LaGuardia & Poole, 2016).
- However if they are not triggered early enough they may have little impact (Levine et al, 2017; Venton, 2016).
- Early funding has been critical for food and nutrition procurement, but is less effective for things like water supply, which require more time to set up (Venton, 2016).
- Approval systems for some mechanisms can still take too long, while some bureaucratic systems for implementation can cause delays (NAO, 2016; Levine et al, 2017).
- Prior systems and knowledge of the situation on the ground and experience working there can aid the speed of the response (O'Brien et al, 2016; Kleiman, 2013; Fitzgibbon, 2016; Mountfield, 2014).
- The organisational capacity of implementing partners is important for the success of programmes funded by these mechanisms (Feinstein International Center & Charters, 2015).
- Early response requires not only flexible funding but political will and technical systems of analysis as well (Venton & Sida, 2017).
- Often the scale of resources the funding mechanisms offer is small relative to the needs in a major crisis and they may be more valuable in smaller, more localised events (Levine et al, 2017; Garnier, 2016).
- The amount of available funding has often been too little and run out when there were subsequent shocks (Garnier, 2016; Levine et al, 2017; Catley et al, 2016).
- Funding has sometimes been misused, for example to plug gaps in underfunded programmes (Catley et al, 2016; LaGuardia & Poole, 2016; Levine et al, 2017; DFID, 2015).

- It is useful to have a pre-agreed trigger, based on timely and accurate data, and prior plan for action (Levine et al, 2017; Venton, 2016; Rüth et al, 2017b; Fitzgibbon, 2016; NAO, 2016; LaGuardia & Poole, 2016; Mountfield, 2014).
- It is important that the programmes funded by these mechanisms are well designed, implemented efficiently, coordinated with other programmes and partners, and provide assistance to the point when they are no longer needed (Catley et al, 2016; Levine et al, 2017). Coordination with national authorities is important to ensure ownership and sustainability of some mechanisms (Rüth et al, 2017; O'Brien et al, 2016; Mountfield, 2014).
- It is useful if the flexible funding mechanisms themselves are responsive and flexible during their implementation (DFID, 2015; Rüth et al, 2017; O'Brien et al, 2016).
- In-built flexibility mechanisms in long term programmes could help forge stronger links between short-term crisis response and a broader long-term strategy (Levine et al, 2017).
- It is still unclear how these financing mechanisms can best complement long-term disaster risk reduction investments and post-disaster response efforts (Stephens et al, 2015).

2. Flexible funding mechanisms

There have been increasing efforts to put in place different mechanisms which build flexibility into humanitarian or development funding arrangements in order to build in the ability to respond to new or anticipated shocks. Such flexible funding efforts include crisis modifiers, contingency funding, internal risk facilities, 'no regrets' responses, the Start Fund, forecast based financing, and shock responsive social protection.

Characteristics of flexible funding

A research project led by the International Federation of Red Cross and Red Crescent Societies (IFRC), in partnership with Oxfam, Save the Children, the Food and Agriculture Organisation (FAO) and the World Food Programme (WFP), which looked at mechanisms for rapid decision making in early warning and early actions systems, identified a number of characteristics of flexible funding, including:

- 'agreed in advance and quick to release;
- held as close to the operational level as appropriate: decentralised to the district or community; or delegated to the implementing partner;
- linked to specific triggers, or where these cannot yet be agreed in advance, mobilised by swift and light processes on the basis of available evidence and shared analysis;
- supplementary to core programme funding;
- linked to specific activities, which themselves are contextualised rather than standardised;
- tied to people and organisations that are already on the ground with demonstrated capacity, contextual understanding, and actual programmes on which to build;
- transparent and accountable about what resources can be brought to the table in a pre-crisis phase in support of activities within the government plans, and about what surge capacities are there once the government has triggered a response, based on the mutually supported early warning system and mutually agreed triggers;
- linked to government budgets, at local and national level' (Mountfield, 2014, p. 19).

3. (USAID) crisis modifiers in the Horn of Africa

Crisis-modifiers are 'a bureaucratic arrangement which allows a recipient agency to use a certain percentage of an overall development budget for relief' (Levine et al, 2017, p. 30). Crisis modifiers have been included in the programme documents of partners at inception, although there were cases of the crisis modifier being introduced midway through the programme (Feinstein International Center & Charters, 2015, p. 25).

USAID development assistance projects in Ethiopia have had crisis modifiers which involved a pre-arrangement with Office for Foreign Disaster Assistance (OFDA) that OFDA funds could be used for emergencies (Catley et al, 2016, p. 13; Feinstein International Center & Charters, 2015, p. 1). For example, the USAID Pastoral Resilience and Improved Market Expansion programme had a budget of USD 53 million and the crisis modifier had a cap which was set at USD 1 million per year and USD 0.5 million per crisis modifier/event (Catley et al, 2016, p. 13). The crisis modifiers had a relatively rapid approval process based on a crisis modifier concept note submitted by project implementers and an understanding that 'crisis modifiers are intended for specific and rapid early responses, and that additional and more standard OFDA proposals, and more substantial funding, may be needed e.g. if a drought becomes protracted' (Feinstein International Center & Charters, 2015, p. 1).

A 2015 evaluation[1] of USAID/OFDA earlier crisis modifiers in pastoralist areas in the Horn of Africa since 2009 found that they were 'an important mechanism for supporting rapid, early response to drought in pastoralist areas, while also enabling coordination and coherence between the long-term resilience programmes under USAID missions, and humanitarian activities under OFDA' (Feinstein International Center & Charters, 2015, p. 1). The Feinstein International Center and Charters (2015, p. 1) found that the successful use of a crisis modifier depended in 'the organisational capacities and professional experience of implementing partners – both technically and administratively', especially in relation to long-term background in African pastoral development in this context.

A review by Catley et al (2016, p. 1, 13-14) for USAID of the response to El Niño in Ethiopia in 2015-2016 found that there was widespread uses of flexible funding and crisis modifiers in development and resilience projects, supported by various donors, especially USAID, EU and DFID. They generally led to timely responses, preceding typical humanitarian projects (Catley et al, 2016, p. 1, 13-14; see also Levine et al, 2017, p. vii). In relation to the 2015-16 El Niño crisis, it was agreed that a crisis modifier might be needed if the spring rains failed in 2015, and a crisis modifier was activated in May 2015 (Catley et al, 2016, p. 13). Another crisis modifier was implemented in October 2015 but 'as the amount available under the crisis modifier had already been used, OFDA shifted funds away from another longer-term resilience program to enable this later crisis modifier' (Catley et al, 2016, p. 13). Other programmes supported by USAID in Ethiopia also activated their crisis modifiers (Catley et al, 2016, p. 14). In response to earlier experiences with the crisis modifiers in February 2016 USAID had reprogrammed USD 10 million of Feed The Future and water resources to respond to drought conditions through regular development activities; the model was similar to the OFDA crisis modifier but gave more flexibility to respond quicker and at larger scale (Catley et al, 2016, p. 14).

However, Catley et al (2016, p. 14) warn that 'the provision of funds and relatively rapid response does not necessarily translate into impact on the ground' if programmes are not also well designed, implemented efficiently, coordinated with other programmes and partners, and provide assistance to the point when they are no longer needed. In addition, a review which looked at crisis modifiers used in the Ethiopian drought by Levine et al (2017, p. vii) found that, while the willingness to integrate longer term

[1] Qualitative review based on literature review and key informant interviews.

and short term assistance is a welcome development, a 'closer analysis of the evidence shows that these mechanisms had little effect on the outcomes of crises, and their potential may be more limited than was hoped'.

Little evidence was found by the Feinstein International Center and Charters (2015, p. 1) to show that crisis modifiers had improved timeliness relative to standard proposals and awards from OFDA. Crisis modifiers have also been criticised by the USAID Center for Resilience as being 'too little too late', as they were too small for broad shock response and the crisis modifier was rapidly maxed out per event/per year in the case of Ethiopia (Garnier, 2016, p. 128, 131).

Levine et al's (2017, p. 30) review also suggests that 'crisis modifiers are not yet fulfilling their potential to deliver timely relief assistance'. They found that 'in the 2014-16 drought, the majority of the crisis modifiers available were not triggered at the early stages of the crisis, and some entailed significant bureaucratic processes that delayed the delivery of early assistance by up to several months' (Levine et al, 2017, p. vii). Approval for changes in the use of money by donors took on average three months (Levine et al, 2017, p. 30). Most of the crisis modifiers were used between July 2015 and February 2016, which Levine et al (2017, p. 30) point out is hardly early response when predictions of a severe El Niño crisis were already available in May 2015. This meant that the crisis modifiers were activated only after livestock mortality had already peaked, and a year after displacement as a result of people seeking aid as a result of drought (Levine et al, 2017, p. 30). The local business community has already been providing food aid for their own clan kin due to the severity of suffering for months before the crisis modifiers were triggered (Levine et al, 2017, p. 30). The crisis around the 2015 El Niño was not sudden, with many areas already in drought a year earlier, yet warnings were not passed to the people who were about to be affected and 'there is evidence that the aid effort was also not informed by such predictions' (Levine et al, 2017, p. vi). One positive example of a timely response was the result of prior discussion between a non-governmental organisation (NGO) and the donor as to what responses might be needed if rains failed, which resulted in action on the ground in May 2015, immediately after the failed rains (Levine et al, 2017, p. 30).

Levine et al (2017, p. 30) also find that some of the activities reported to be funded by crisis modifiers are 'not obviously in the category of rapid early response: training (health workers, WASH committees), project start-up costs and land rehabilitation would be expected to be covered from non-humanitarian funds'. In addition, 'in-built flexibility mechanisms in long term programmes should help forge stronger links between short-term crisis response and a broader long-term strategy'[2] (Levine et al, 2017, p. 30).

Levine et al (2017, p. vii) argue that 'even if the deficiencies in implementation of the crisis modifiers are resolved, the scale of resources which they can offer will always remain small relative to the needs in a major crisis', which suggests their value may be limited to smaller, localised events. Perhaps these funding mechanisms may 'play a role in capitalising on early, short term windows of opportunity, with which a major relief effort could dovetail, (although this would require a very much earlier scale up in humanitarian response as a whole)' (Levine et al, 2017, p. vii).

[2] Levine et al (2017, p. 30) give the example of how distributing fodder for only two months when the forecasts were clearly for a much longer drought could be effective if it was part of a strategic response, whether an attempt to provide fodder for certain breeding animals until the end of the drought or as a way of enabling the marketing/destocking of weak animals. In isolation, it risks having no impact at all if animals died anyway before the end of the drought.

USAID/OFDA flexible funding options

A comparison of options for funding humanitarian drought response by USAID/OFDA can be found in the evaluation by Feinstein International Center and Charters (2015, p. 2). One option is the 10 per cent variance (flexible funding) option. In theory this seems to be an easier way to mobilize funds for early drought response relative the crisis modifier, as no MoU is needed between USAID and OFDA; no concept note is needed from the implementer; and no approval is needed by OFDA in-country or centrally (Feinstein International Center & Charters, 2015, p. 27). In addition, because it is less dependent on a formal government declaration of an emergency compared to the crisis modifier, it may be able to respond faster (Feinstein International Center & Charters, 2015, p. 27). However, issues include concerns over lack of oversight and less budget available for future activities (Feinstein International Center & Charters, 2015, p. 28).

4. Flexible funding in Ethiopia

Levine et al's (2017) review[3] for DFID and USAID looked more broadly at whether early humanitarian aid and previous resilience funding in Ethiopia had helped to avoid losses of lives and assets in the affected population. Within this they examined whether the flexibility of longer term programmes was effective in ensuring the delivery of earlier assistance. Levine et al (2017, p. 34) found that the 'name or type of funding mechanisms is in itself no guarantee of speed' and there were significant differences in 'how the same implementing agency used flexibility mechanisms from the same programme in different parts of the country'. A study looking at value for money for contingency funding provided by DFID towards the 2015/16 drought in Ethiopia also found growing evidence that while early funding in slow onset crises can both save money and mitigate losses and negative coping, funding models still struggle to genuinely release funds early at the volume required (Venton, 2016, p. 33).

If the triggers for activating the process for requesting money are set too late, quick aid does not necessarily mean early aid (Levine et al, 2017, p. 34). Levine et al (2017, p. 34) suggest that changes in the bureaucratic structures by which money is released and the triggers for decision making are needed.

Often the sums of money these flexibility mechanisms can divert to respond to an emerging crisis are quite small in relation to an emergency response (Levine et al, 2017, p. 31). Levine et al (2017, p. 31) argue that 'unless the crisis is very localised, the funds from such sources will only play a major role in meeting very particular needs, e.g. for a short window before the main response is mobilised'. Therefore in order to be effective, 'collaboration and agreement in planning an overall response strategy is essential', yet this collaboration has not yet been achieved (Levine et al, 2017, p. 31). Levine et al (2017, p. 31) suggest that 'in some of the larger programmes, the ability to spend funds earlier or to reallocate their use is more significant (e.g. multi-million dollar changes in European Union support to Productive Safety Net Programme (PSNP) and to UNICEF nutrition programming)'.

A senior manager in Mercy Corp working on the Revitalizing Agricultural/ Pastoral Incomes and New Markets (RAIN) project in Ethiopia mentioned that the programme's contingency fund was 'enormously helpful for immediate response' and that as they had been working in the area and knew the community they were better able to respond to the emergency, while not having to change focus from market development (Kleiman, 2013, p. 16). As a result of experiences such as this, multiple development and

[3] The study drew on three sources: the panel interviews which VE has been undertaking since 2014; a review of documentation; and on an additional, mixed-methods study focusing specifically on coping and the recent drought carried out in Shinille and Hadigala districts in Sitti Zone, Somali Region; and in Tulo and Anchar districts in West Hararghe Zone, Oromia Region between November 2016 and February 2017.

humanitarian agencies who gathered together collective learning on resilience in practice suggest that having contingency funding like crisis modifiers designed into resilience programmes in fragile contexts from the outset makes a rapid switch into emergency response mode, both possible and efficient (McQuistan et al, 2015, p. 12).

5. DFID Multi-Year Humanitarian Funding

DFID has embedded a greater use of contingency funding within its multi-year humanitarian funding (Venton & Sida, 2017, p. 7). 'Contingency funding is used by DFID as a form of flexible funding that can be rapidly deployed where needs are greatest' (Venton & Sida, 2017, p. 7). Certain funds are set aside as un-earmarked resources that can be used to scale up response quickly and early, although the specific arrangements for releasing this funding depend on the country (Venton & Sida, 2017, p. 7). It is anticipated that the 'flexibility afforded by contingency funding should allow partners to quickly shift their activities depending on where needs are the greatest, rather than being bound by earmarked budgets that may not be relevant under changing circumstances' (Venton & Sida, 2017, p. 17). However, the National Audit Office (NAO) found that the benefits of multiyear funding, such as flexibility, were not necessarily passed down to the partners of organisations DFID is funding, which reduces its potential benefits (NAO, 2016, p. 38).

An initial assessment[4] of the value for money case of multi-year humanitarian funding and contingency funding finds that DFID's early funding during the 2015/2016 drought in Ethiopia, by enabling timely procurement, is estimated to have resulted in an overall saving of approximately 18 per cent compared to the costs that would have occurred as a result of late procurement (Venton & Sida, 2017, p. 17; Venton, 2016, p. 6). Early funding was given for food, health and nutrition, and water, sanitation and hygiene (WASH). In addition, if the funding gap had not been filled, the longer term economic cost to those affected could have more than twice the cost of the early response (Venton, 2016, p. 7). The evaluation concludes that the experience with contingency funding in Ethiopia 'shows the necessity for funding models to respond to the first signs of a crisis' (Venton, 2016, p. 7).

DFID funding was triggered early in most cases through existing business cases and 'therefore was able to be approved relatively quickly and easily, without the design of additional business cases' (Venton, 2016, p. 12). It would have taken longer to commit the funds if these standing arrangements were not already in place (Venton, 2016, p. 12). In the case of funding for UNICEF, the development spend was pivoted to help scale up response (Venton, 2016, p. 12).

Flexible funding, such as multi-year humanitarian funding models with built-in contingency mechanisms, 'can allow shifts in funding depending on need and can help to stimulate more timely response resulting in significant cost savings' (Venton, 2016, p. 7). Venton and Sida (2017, p. 26) found that multi-year and contingency funding have a strong and consistent impact on lowering procurement costs, particularly for food, but also other commodities. While early funding has been critical for food and nutrition procurement, it has had far less of an impact on water supply, which requires more time to set up and get working properly (Venton, 2016, p. 32). 'There is also strong and consistent evidence that early procurement and pre-positioning in turn leads to earlier funding from donors' (Venton & Sida, 2017, p. 26). While contingency funding can and does lead to earlier responses which can lead to better outcomes, it is clear that contingency funding alone does not automatically result in an early response

[4] Part of the DFID Multi-Year Humanitarian Financing (MYHF) thematic evaluation looking at Sudan, Ethiopia, Democratic Republic of Congo (DRC) and Pakistan. This report draws on interim findings.

(Venton & Sida, 2017, p. 27). Agencies and donors also need 'both political will and technical systems of analysis' (Venton & Sida, 2017, p. 27).

6. DFID flexible/contingency funding

The NAO also found that some DFID programmes in protracted crises have 'developed innovative approaches by building financial flexibility into budgets which enable them to respond to sudden spikes in need' (NAO, 2016, p. 27). In Somalia, for example, DFID set aside GBP 10 million each year to fund activities ahead of a crisis maturing or to fund rapid response in the event of a sudden onset shock; while in Kenya, the Hunger Safety Net Programme can scale up in response to predictable and monitored weather shocks (such as droughts) by delivering an emergency cash transfer to additional beneficiaries when early warning triggers are activated (NAO, 2016, p. 27). 'Scaling up payments when there are weather shocks has helped to reduce short-term responses – such as selling livestock, an asset for families – which might have longer-term consequences' (NAO, 2016, p. 30).

DFID have a number of options for unbudgeted sudden onset crises, including: i) identifying available funding from existing resources such as underspends or through reprogramming; and ii) if necessary drawing on DFID's central contingency fund (GBP 446 million for 2014-15) or, in exceptional circumstances, on contingency funding held by DFID Conflict Humanitarian and Security Department (CHASE) dedicated to supporting sudden-onset crises (GBP 26 million for 2014-15) (NAO, 2016, p. 27). In addition, there is a Rapid Response Facility for large crises which, when activated by the Sectary of State, commits funding to pre-approved partners within 72 hours (NAO, 2106, p. 28).

DFID has also supported the Start Fund, a multi-donor funded, NGO managed fund that provides fast and direct funding to other NGOs for small scale, typically 'under the radar', crises within 72 hours; and is the main contributor to the United Nations (UN) Central Emergency Response Fund, whose money is set aside for immediate use at the onset of emergencies or rapidly deteriorating situations, and can be released to partners within 48 hours (NAO, 2016, p. 28).

DFID has developed early warning systems to track risks, and uses early warning indicators to inform its decisions on when to intervene to support communities ahead of an anticipated shock (NAO, 2016, p. 28). In order to establish needs on the ground in sudden onset and protracted crises, it 'uses its own people on the ground; deploys experts to assess damage and needs when necessary; takes advantage of the needs assessments carried out by UN agencies; and draws effectively upon its relationships with partners and other agencies that are assessing the situation' (NAO, 2016, p. 29).

While there are approval systems in place, the National Audit Office found that a quarter of DFID's teams who had responded to a crisis in the past three years self-reported spending too much time seeking approvals (NAO, 2016, p. 29). In addition, they found that the processes and funding arrangements for protracted crises had some problems. For example, the team in Syria found that the financial and information management systems were not flexible enough to map financial allocations across partners to the sectors they were spent in, such as food security or education (NAO, 2016, p. 29).

7. DFID Internal Risk Facility

LaGuardia & Poole (2016) carried out a review[5] of the Internal Risk Facility (IRF) in Somalia on behalf of DFID. The IRF provides early and predictable funding for early response, and accounts for 24 per cent (GBP 36 million) of DFID's four year Humanitarian Programme in Somalia (LaGuardia & Poole, 2016, p. 4). Funding decisions are made based on the Early Response Trigger, as well as other data and information available (LaGuardia & Poole, 2016, p. 4). This Early Response Trigger has 15 indicators that include food security (rainfall, normalised vegetation index, prices of common staples), displacements, disease outbreaks, and trade and labour indicators, but was not yet fully operational at the time of the review (LaGuardia & Poole, 2016, p. 4). Respondents feel that the trigger mechanism will reach its expected potential if: i) the Humanitarian Country Team use the trigger as a spur for action and avoid complicated and, reportedly, political decision making that many see as having plagued other humanitarian financing mechanisms; and ii) there is timely, complete, and multi-variant quantitative and qualitative data which is often elusive in the context of Somalia (LaGuardia & Poole, 2016, p. 4).

LaGuardia & Poole (2016, p. 4) consider the IRF a successful rapid response bi-lateral financing mechanism, with 'clear evidence that the IRF has been effective in addressing key humanitarian needs at the output level' and as well as indications of longer-term positive outcomes and impact. The process from proposal to fund disbursement takes less than a few weeks in most cases, which is considered 'far more efficient than other comparable financing mechanisms' (LaGuardia & Poole, 2016, p. 4). Respondents feel that 'IRF decision-making is not only less cumbersome and quicker [than other mechanisms] but that the focus on early, mitigating actions is highly appropriate in the context of Somalia where there are cyclical climatic shocks and where conflict related shocks often have predictable consequences' (LaGuardia & Poole, 2016, p. 5). This allows DFID partners to take actions to prevent the worst aspects of emergencies by decreasing the detrimental effects of low-to-mid level shocks (LaGuardia & Poole, 2016, p. 5). In the cases where the IRF was used in existing programme areas, respondents' statements and supporting evidence demonstrate that these programmes did not suffer setbacks or other delays, with the IRF enabling them to 'preserve programme integrity' (LaGuardia & Poole, 2016, p. 5). Partners also appreciated the level of flexibility within the programme once funds were initially disbursed, as changes in access, sudden onset of rains and political/military events meant elements of the IRF proposals needed to be adapted (DFID, 2015, p. 9).

However it is not yet clear whether such preventative action leads to demonstratively better overall results and impact in relation to the humanitarian emergency, or indeed what constitutes preventative action (LaGuardia & Poole, 2016, p. 5, 18). As many urgent needs remain unmet in a context like Somalia, it can be 'problematic to prioritise needs that have not yet escalated to crisis-levels over those that already have and yet remain un-addressed' (LaGuardia & Poole, 2016, p. 20). DFID (2015, p. 9) found that it took time for some partners to understand what the IRF fund was for and to 'differentiate between early warnings based on factors in Somalia and the underfunding of their regular programme'. There was also criticism in relation to the six month term of IRF financing (LaGuardia & Poole, 2016, p. 18). A review by DFID (2015, p. 8) found that 'some DFID partners see the IRF as a gap filling mechanism, not a resource to address spikes in need due to shocks'.

Other donors in Somalia

The IRF enables DFID to provide funds to enable early and rapid response to crises to which other donors are unable to respond and has acted as a catalyst for attracting subsequent funds from other sources (LaGuardia & Poole, 2016, p. 20). Other bi-lateral donors in Somalia have attempted to achieve greater

[5] Based on analysis of documentary evidence and qualitative evidence that focused on perspectives and insights from respondents about the relevance, effectiveness, efficiency, impact, and sustainability of the IRF as a viable humanitarian funding mechanism (LaGuardia & Poole, 2016, p. 9).

responsiveness to emerging crises (LaGuardia & Poole, 2016, p. 19). Both the US and European Commission, who are the largest humanitarian donors to Somalia, have some freedom around a set of fixed rules, which allows a certain amount of programmatic flexibility without recourse to new or modified funding agreements (LaGuardia & Poole, 2016, p. 19). For example, partners to US aided programmes can 'switch geographical areas and sectors on the basis of an email approval from OFDA staff at the country-level, provided the situation justifies the change and grant agreements do not restrict partners to specific locations and activities in their original wording', with the EC also allowing a permissible budget variance of up to 10 per cent between major budget lines (LaGuardia & Poole, 2016, p. 19). The Danish government is a strong supporter of minimal or zero earmarking of funds to partners within the parameters of country and thematic priorities (LaGuardia & Poole, 2016, p. 19).

LaGuardia & Poole (2016, p. 19) found that while bi-lateral donors have 'gained a degree of timeliness and flexibility within existing agreements… in each of these cases no 'new' money is released to partners to respond to new emerging needs and there are additional opportunity costs associated with diverting funds from existing planned activities'. Mobilising additional funds was often a lengthy, frustrating and uncertain process, and very unlikely to be successful when it came to securing additional funds for small-scale crises or early indicators of a deteriorating situation (LaGuardia & Poole, 2016, p. 19).

8. 'No regrets response'

'No regrets response' involves 'well-targeted early-warning information and resilience plans with flexible funding available before the crisis strikes' (IFRC, 2016, p. 109). The idea is that even if a prediction for a crisis is wrong, in the long run, early warning usually gets it right more times than wrong, and such investments will result in net positive effects in the long term (IFRC, 2016, p. 109; ALNAP, 2016, p. 22).

No regrets responses were successfully implemented by two NGO resilience consortia operating in Somalia, the Somalia Resilience Programme (SomReP) and the Building Resilient Communities in Somalia (BRCiS) during the 2015 El Niño season when early warning indicators pointed to large-scale flooding across parts of southern Somalia (IFRC, 2016, p. 109). Jennifer Jalovec (in IFRC, 2016, p. 109) argues that for no regrets response to be successful in Somalia, there needed to be: i) accurate and context-relevant, early-warning information available to communities; ii) early action on early warning information from resilience actors and communities; and iii) flexible funding from donors. Learning from SomReP and BRCiS found that 'community-led early actions based on early warning information saved flood-vulnerable communities from crop losses and were more cost effective than a humanitarian response after the floods occurred' (IFRC, 2016, p. 109). Humanitarian donors in high vulnerability contexts are able to 'reduce humanitarian costs by pre-allocating crisis modifiers and flexible funds that allow for anticipating shocks and empowering communities to manage risks for a long-term impact' (IFRC, 2016, p. 110).

Chloe Parrish (in ALNAP, 2016, p. 23) feels that no regrets investments have lost momentum partly due to 'the challenges associated with incentivising early action' as there are reputational and financial risks associated with acting on uncertainty, while the limited visibility that comes with successful prevention and preparedness can also undermine incentives.

9. Start Fund

The Start Fund is a global contingency fund which pools resources from 42 national and international aid agencies to provide small-scale grants to NGOs for small to medium scale emergencies within 72 hours of an alert rather than the average 17 days other grants in rapid onset crises take to reach an NGO, making it 'the fastest, collectively-owned, early response mechanism in the world'[6]. In order to encourage local decision making on project selection, 12 standing decision-making groups in crisis prone countries and regions have been established, trained in project selection, and can be quickly mobilised to select projects when an alert is raised locally (Start Network, 2017, p. 28-29, 43-48). The Fund is flexible, allowing most member agencies to adjust their projects in response to additional needs which arose during implementation (Start Network, 2017, p. 33). The Fund has noted that its allocation decision making system has struggled to be consistent around chronic crises (Start Network, 2017, p. 40).

The Start Fund's Anticipation Window enables members to anticipate both human made and natural crises, as a result of forecasts of extreme weather, an upcoming highly contested election, or disease outbreak modelling, for example, and act early to minimise their impact (Start Network, 2017, p. 22). In Mali, for example, fears of floods and resulting food insecurity led the Start Network members to activate the Start Fund to help communities mitigate the expected impact (Start Network, 2017, p. 23). Cash was paid to people to improve villages' flood defences, strengthen early warning group communications and establish flood warning posts (Start Network, 2017, p. 23). Seeds and WASH kits were distributed and communities advised how to protect their home and health (Start Network, 2017, p. 23). When the floods arrived, the defences were able to protect some villages, farm production, and transport routes, while cash earned working on flood defences helped people protect their own livelihoods (Start Network, 2017, p. 23). Even in areas where flooding was less than expected, the anticipatory actions taken have enabled communities to prepare better next time they face a crisis (Start Network, 2017, p. 23).

The Start Fund has found that cash transfers, including cash for work schemes, provided 'exceptional flexibility' by allowing 'affected populations to buy the goods and support that best meet their needs and, when circumstances change, cash can quickly be reassigned to other activities' (Start Network, 2017, p. 36-37).

10. Forecast based financing

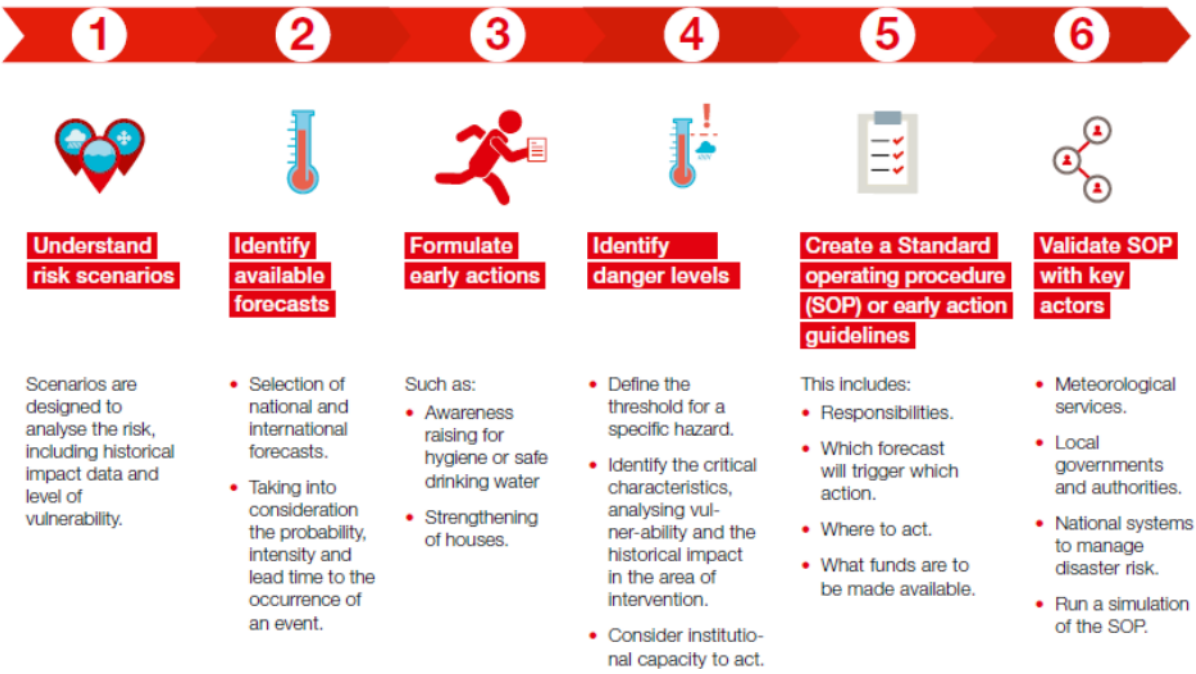
In response to recognition that many of the most recent devastating natural disasters were forecast before they occurred, yet little was done to reduce their impact, the German Red Cross (GRC), with partners such as WFP, the Red Cross/Red Crescent Climate Centre, the International Federation of Red Cross and Red Crescent Societies, United Nations Office for the Coordination of Humanitarian Affairs (OCHA), Welthungerhilfe and research institutes, have developed and tested an new methodology, 'Forecast-based Financing' (FbF) (Rüth et al, 2017, p. 2). FbF is a mechanism that enables access to funding for pre-agreed activities for early action and preparedness for response based on in-depth forecast and risk analysis (Rüth et al, 2017b, p. 2). FbF provides a link between humanitarian response and development activities (Stephens et al, 2015, p. 18).

A six stage process has been tested in pilot projects in Uganda, Togo, Peru, Bangladesh, Ethiopia and Mozambique (Rüth et al, 2017, p. 3-4; Stephens et al, 2015, p. ii). Based on detailed risk analysis of relevant natural hazards, impact assessments of past events, and vulnerability data, both a "danger level" and a forecast trigger to give advance notice before the "danger level" is reached, are identified (Rüth et al, 2017b, p. 2). A pre-agreed package of support to reduce the humanitarian impact of the event is provided when the forecast trigger is reached, and an ex-ante financing instrument automatically allocates funding once the forecast reaches the pre-agreed danger level (Rüth et al, 2017b, p. 2). Standard Operation Procedures, agreed by a technical committee that includes scientists, humanitarian

[6] https://startnetwork.org/start-fund Accessed 21/7/17

actors and local authorities, delineate roles and responsibilities for quick action when a trigger is reached (Rüth et al, 2017b, p. 2). 'In many cases these preparedness actions are low or zero-cost and may include simple actions such as information and awareness raising, prepositioning of relief items, and precautionary digging of drainage ditches' (LaGuardia & Poole, 2016, p. 37). The aim is to establish an international financing mechanism that can make funds available quickly (Rüth et al, 2017, p. 5). Figure 1 shows the sequential phases of FbF.

Figure 1: Phases of Forecast-based Financing



Source: Rüth et al, 2017, p. 3

The pilot projects focused primarily on floods, as floods are the most common global natural disaster, although FbF is applicable to any predictable hazards where loss avoiding action is possible (Stephens et al, 2015, p. 22-24). Stephens et al (2015, p. ii), as a result of their examination of the first two FbF pilot studies, suggest that probability, magnitude, hazard, action, cost, effect and organisation need to be addressed when implementing FbF and defining the standard operating procedures.

The GRC considers the main lessons learned so far to include (Rüth et al, 2017, p. 4):

- FbF mechanisms need to be closely coordinated with the national authorities to ensure ownership and sustainability.
- FbF mechanisms need to be dynamic and require an iterative process to understand risks, forecast skills, evidence of the effectiveness of early actions, among other elements.

Stephens et al (2015, p. 25) conclude that there are 'unanswered questions regarding how this financing technique can best complement long-term disaster risk reduction investments and post-disaster response efforts'.

11. Shock responsive social protection

O'Brien et al (2016, p. iv) conducted a review[7] into shock-responsive social protection systems and found that there is clear evidence of the potential benefit of social assistance in response to shocks, especially social transfers in the form of cash or in-kind transfers. They identified that the important determinants of effectiveness of shock-responsive social protection in the literature include: ‘flexibility, timeliness, adaptability and adequacy of resources; links to an established early warning system; central registries for targeting, verification and disbursement; coordination through a single central agency; secure financing to enable governments to invest and build systems; and innovative partnership arrangements including public, private and non-state actors’ (O’Brien et al, 2016, ii-iii).

Social protection systems can respond to a shock by (O’Brien et al, 2016, p. iii):

‘1. *Vertical expansion*: increasing the benefit value or duration for existing beneficiaries.

2. *Horizontal expansion*: adding new beneficiaries to an existing programme.

3. *Piggybackin*g: using a social protection programmes administrative framework to deliver assistance, but running the shock-response programme separately.

4. *Shadow alignment*: running a parallel humanitarian system that aligns as best as possible with a current or possible future social protection programme.

5. *Refocusing*: in case of budget cuts, adjusting the social protection programme to refocus assistance on groups within the caseload that are most vulnerable to the shock. One might consider this to be an 'austerity strategy'.’

Providing assistance during crises through social protection systems is considered appealing because it ‘allows national governments to take responsibility for meeting needs within their territory and a medium-term exit strategy for humanitarian aid’ (O’Brien et al, 2016, p. ii). However, in ‘the context of low-income (and some middle-income) countries and fragile states, the high degree of informality in the labour market and limited development of formal policies and systems are likely to limit the use of social insurance and active labour market policies for shock response’ (O’Brien et al, 2016, p. iii).

O’Brien et al (2016, p. iv) gather together lessons from countries have implemented shock-responsive social protection initiatives following a covariate shock, with the evidence mainly coming from countries affected by the food, fuel and financial crisis of 2008-9 and countries facing rapid and slow onset weather-related shocks. The need for timely and rapid response presents a major challenge for social protection provision in the event of a shock, as does the provision of adequate levels of support (O’Brien et al, 2016, p. iv). ‘The feasibility of expansion will depend on timely and accurate data; a functioning management information system; strong targeting and delivery systems; and institutional capacity to manage the increase’ (O’Brien et al, 2016, p. iv). O’Brien et al (2016, p. iv) found that a ‘key element of success involved having systems in place upon which to add the crisis response initiative’. However, scaling up to areas which are not served by the programme can be a challenge and ‘reaching a new caseload in existing programme areas can overburden the administrative capacity of staff to support additional households’ (O’Brien et al, 2016, p. iv). Scaling down such programmes post crisis is a major concern and highlights the need for exit processes (O’Brien et al, 2016, p. iv).

[7] Review of over 400 papers including peer-reviewed journal papers and open-access documents issued by donor agencies and research organisations (O’Brien et al, 2016, p. ii).

Kenya: Hunger Safety Net Programme

In Kenya, for example, the Hunger Safety Net Programme (HSNP) is implemented by the National Drought Management Authority (NDMA) and aims to build resilience and reduce household vulnerability in four of the poorest and most drought-prone arid counties in northern Kenya: Turkana, Marsabit, Mandera and Wajir (Fitzgibbon, 2016). It has been designed to be able to act as a scalable safety net in times of crisis, such as during droughts or floods by expanding the provision of cash assistance to greater proportions of the registered population as needs dictate (Fitzgibbon, 2016). Prior to implementation there was mass registration and bank account opening for all households in the area, which means that the marginal cost of all additional transfers is now negligible, whereas other drought responses can incur significant logistic costs for each distribution (Fitzgibbon, 2016). During 2015, HSNP scaled up four times to provide emergency cash transfers in response to drought and as a crisis preparedness payment in advance of anticipated El Niño rains and possible flooding (Fitzgibbon, 2016). Scaled up payments are currently only paid to beneficiaries not already receiving routine payments, while routine HSNP households simply continue to receive regular payments (Fitzgibbon, 2016).

The four key principles that guide decisions to scale up in response to shocks include (Fitzgibbon, 2016):

- '*No Regrets' early responses*: Cash to be transferred to any or all HSNP households via their bank accounts within approximately 2 weeks of a decision being made - a far quicker large scale response than any other humanitarian distribution mechanism currently in place on the continent.
- *Objective triggers*: Decisions to scale up (or down) in response to drought are triggered automatically using objective, pre-agreed, quantitative and auditable indicators for which reliable, time series data exists.
- *Scale up to pre-defined sets of households on the basis of poorest first*: Households in the drought affected sub-counties are selected from the HSNP register in wealth order, avoiding delays due to re-targeting and ensuring the poorest get resources first.
- *Independent monitoring*: Independent monitoring examines the impact of the swift payments and how the process can be improved in recognition that early responses based on pre-targeting and objective triggers may not be perfectly correlated to local impacts.

Guaranteed long term financing is needed for the system to work, especially as there was likely to be the need for relatively frequent payouts, as it is likely that on average at least four (out of 22) Sub-Counties in the HSNP area will hit severe drought threshold each year (Fitzgibbon, 2016). However, Fitzgibbon (2016) points out that 'an adequate financial instrument guaranteeing pre-defined payments is yet to be established'.

Ethiopia: Productive Safety Net Programme

In Ethiopia, the Productive Safety Net Programme (PSNP)'s contingency arrangements also initially provided timely assistance relative to typical humanitarian projects, although the contingency transfers under the PSNP were not sustained into late 2015, and regular transfers from 2016 were delayed (Catley et al, 2016, p. 1, 17-19). There were also major coordination problems between the PSNP and UN humanitarian system, perhaps due to concerns that it was expanding its sphere of influence to include the provision of humanitarian assistance (Catley et al, 2016, p. 15).

PSNP's contingency fund amounted to 20 per cent of the PSNP's base programme cost and was 'intended to respond rapidly to low-level and unexpected transitory food insecurity among both PSNP and non-PSNP households by providing temporary additional employment/resources through the Public Works and Direct Support to institutional structures' (Catley et al, 2016, p. 17; see also Feinstein International Center & Charters, 2015, p. 19-20). If the crisis was too big for the contingency fund to deal with the Risk Financing Mechanism (RFM) was to be used once four pre-conditions were in place (Catley et al, 2016, p. 17). They included having effective early warning systems in place; and contingency plans and financing (for example through emergency grants from the World Bank and other donors); and adequate institutional arrangements and capacity to allow the pre-prepared plans to be implemented (Catley et al, 2016, p. 17-18).

The contingency fund and RFM were used in highland areas to a greater extent than in lowland pastoralist areas (Catley et al, 2016, p. 18). This was as a result of a number of problems including, the delayed release of contingency funds from federal to regional levels; the use of the contingency fund to correct PSNP targeting exclusion errors, leaving little money to deal with emergencies should they arise; and a slow response to emergencies (Catley et al, 2016, p. 18). The budget shortfall in late 2014 was dealt with by shifting of contingency funds into the main programme to protect core transfers, and there was no RFM in 2015 (Catley et al, 2016, p. 18).

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Key websites

- Start Network – Start Fund: https://startnetwork.org/start-fund
- German Red Cross – Forecast Based Financing: https://www.drk.de/en/forecast-based-financing/
- Oxford Policy Management (OPM) – Shock-Responsive Social Protection Systems: http://www.opml.co.uk/projects/shock-responsive-social-protection-systems

Expert contributors

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- Courtenay Cabot Venton, Independent consultant
- Lewis Sida, Independent consultant
- Clare O'Brien, OPM
- Catalina Jaime, Red Cross Red Crescent Climate Centre
- André Mershon, USAID
- Chris Berry, DFID

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